

# OXFORD ECONOMICS

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## **Destination Promotion: An Engine of Economic Development**

**How investments in the visitor economy  
drive broader economic growth**

**November 2014**



**OXFORD  
ECONOMICS**

Oxford Economics would like to thank the following organizations for their support of this research—both financially and in providing details of real world experiences regarding the synergies between destination promotion and economic development. We would also like to thank the counterpart economic development organizations that provided extensive background on their activities and connectedness with the visitor economy. Although the analysis and conclusions presented in this report were independently developed, they would not be possible without the support of these organizations.



## Contents

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<b>Introduction .....</b>	<b>4</b>
<b>1 Key Findings.....</b>	<b>5</b>
<b>2 The Increasing Value of the Visitor Economy .....</b>	<b>6</b>
2.1 Long term trends .....	6
2.2 Recent performance .....	7
2.3 Visitor economy gains relative to other traded clusters .....	7
2.4 The simple case for destination promotion .....	10
<b>3 Catalytic Impacts: How Does Destination Promotion Drive Economic Growth?.....</b>	<b>14</b>
3.1 Building transportation networks and connecting to new markets.....	15
3.2 Raising the destination profile.....	19
3.3 Targeted economic development through conventions and trade shows .....	26
3.4 Raising the quality of life .....	31
<b>4 The Economic Track Record of Cities that Prioritize Destination Promotion .....</b>	<b>37</b>
4.1 Correlation.....	38
4.2 Causality analysis: Does growth in the visitor economy lead to growth in other sectors? .....	40
4.2.1 Approach.....	41
4.2.2 Overview of three tested models .....	41
4.2.3 Model results.....	43
4.3 Other empirical research.....	46
<b>5 Conclusions.....</b>	<b>47</b>
<b>6 About Oxford Economics .....</b>	<b>49</b>
<b>Appendix.....</b>	<b>50</b>

## Introduction



States and cities across the US recognize the importance of the visitor economy and collectively invested nearly \$2 billion in destination promotion last year.

The massive value and growth trends of the US visitor economy warrant these investments, which enable destinations to compete effectively in both leisure and group meetings

markets. Indeed, destination promotion has been consistently proven to yield significant returns in the form of incremental visitor spending driven by sales and marketing campaigns.

However, the dividends of destination promotion extend far beyond the benefits accruing to visitor-related industries and their suppliers. This study, based on a combination of case studies, interviews, literature review, and statistical analysis, finds that destination promotion fuels development across the entire economic spectrum.

The reason is that in addition to attracting visitors, destination marketing drives broader economic growth by sustaining air service, creating familiarity, attracting decision makers, and improving the quality of life in a place.

As a result, cities and states that prioritize destination marketing and coordinate these efforts with economic development initiatives have experienced significant site relocations and new investments as a direct result.

Statistical analysis covering more than 200 cities over the past 23 years confirms broadly what case studies indicate individually: destinations with substantial and growing visitor economies tend to outperform their peers.

It is on this fundamental level that destination promotion has been found to be an engine of economic development.

***The dividends of destination promotion extend far beyond visitor-related industries and include significant site relocations and new investments in unrelated sectors.***

## 1 Key Findings

### The visitor economy warrants investments in destination promotion

- As incomes rise, consumer spending on travel has grown at an even faster rate and employment in the travel economy has led growth during the recent economic recovery.
- Hospitality and tourism has outperformed the aggregate of all other traded cluster export sectors since 1998, with employment expanding nearly 10% while all others shrank 1%.
- As incomes rise and globalization continues, US destinations are poised to continue to capitalize through targeted promotional investments.
- Destination marketing plays an integral and indispensable role in the competitiveness of the visitor economy by pooling resources to provide the scale and marketing infrastructure to promote a place to national and international markets.

### Destination promotion drives economic development through several channels

- Building transportation networks and connecting to new markets
- Raising the destination profile
- Targeted economic development through conventions and trade shows
- Raising the quality of life

### Growth in the visitor economy drives growth in other areas of the economy

- Destinations with a higher concentration of visitor-related industries tend to grow faster than average over the past decade.
- Econometric tests show that employment shifts in the visitor economy are followed in subsequent years by sustained changes in growth in other parts of the economy.
- A 10% increase in a destination's visitor-related employment relative to the US average tends to be followed by a 1.5% rise in broader employment in the short-run.

### Economic development can be more effective through coordination with destination promotion

- Air service development initiatives can be more effective with destination marketing organizations (DMOs) at the table.
- The building and adoption of a brand should be coordinated between DMOs and economic development organizations (EDOs).
- EDOs and DMOs should maintain a platform for regular communication.
- For important new investment bids, EDOs coordination with DMOs results in the best possible pitch.
- EDOs and DMOs can jointly leverage strategic conferences, trade shows.

## 2 The Increasing Value of the Visitor Economy

### Key Findings:

- As incomes have risen over the past three decades, consumer spending on travel has grown at an even faster rate.
- Through the most recent economic downturn and recovery, employment in travel-related sectors has outperformed the rest of the economy.
- Hospitality and tourism as a traded cluster of services has outperformed the aggregate of all other trade cluster export sectors since 1998, with employment expanding nearly 10% while all others shrank 1%.
- As incomes rise and globalization continues, US destinations are poised to continue to capitalize within a favorable growth environment through targeted promotional investments.
- Destination marketing plays an integral and indispensable role in the competitiveness of the visitor economy by pooling resources to provide the scale and marketing infrastructure to promote a place to national and international markets.

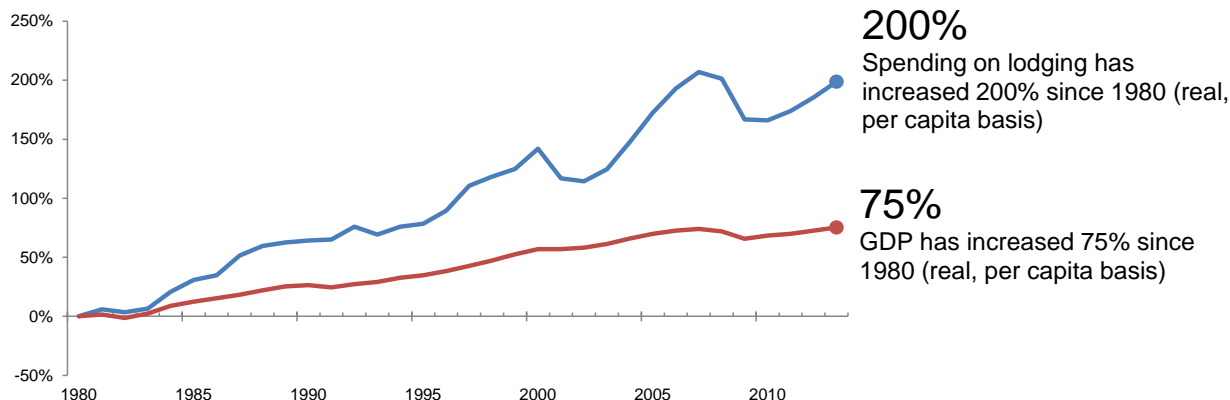
### 2.1 Long term trends

Across the US, favorable tail winds have supported above average growth in the visitor economy. As income levels rise, consumers are dedicating a greater share of spending to travel and tourism. For example, in the span of slightly more than a generation, per capita consumer spending on hotel stays in the US has increased 200% since 1980, even as per capita GDP – as a measure of income levels – has increased only 75%.

#### Spending on lodging

Real, per capita GDP and spending on lodging

Percentage change since 1980



Source: Bureau of Economic Analysis; Tourism Economics

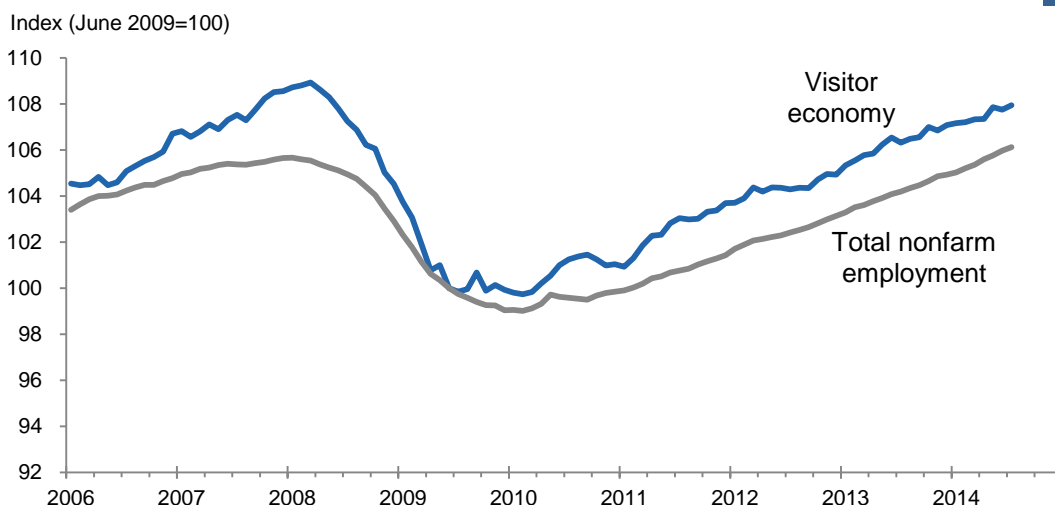
## 2.2 Recent performance

Travel has proven its resilience, with a strong recovery from the most recent economic downturn. As the visitor economy has recovered, it has contributed job growth since the end of the recession at a faster rate than the US average. As of July 2014, employment in key sectors of the visitor economy<sup>1</sup> was 7.9% ahead of its June 2009 level, compared to a 6.1% gain for the broader economy.

*The visitor economy has grown faster than the US average since the end of the recession.*

### Visitor economy employment trends

Compared to total nonfarm employment



Source: Bureau of Labor Statistics; Tourism Economics

## 2.3 Visitor economy gains relative to other traded clusters

The visitor economy represents a valuable locally-produced export for many regional economies. The resulting visitor spending supports jobs, incomes, tax revenues and local business sales that represent part of the region's economic base, critically important in providing demand for local supporting sectors. In this

<sup>1</sup> For this analysis of national employment trends, we used the leisure and hospitality sector, consisting of NAICS 71 Arts, entertainment and recreation, and NAICS 72 Accommodations and food service, to represent the visitor economy.



sense, whether referred to as an “export” or a set of “traded” goods and services, the visitor economy plays an important role in the “base” economy of many regions.<sup>2</sup>

The importance of such exports, or trade, for regional economies has been long recognized.<sup>3</sup> In recent decades, economists have added to this concept with research on the importance of “clusters”, referring to the collection of local elements and characteristics that differentiate a particular region’s capability at producing particular types of goods and services.<sup>4</sup> Michael Porter, who is widely credited with popularizing the term, defines a cluster as “geographic concentrations of interconnected companies and institutions in a particular field.”<sup>5</sup> Porter has further advanced this concept through further research to identify the importance of “traded clusters”, considering the important role of traded industries, and the role of clusters with such sectors to assert that “regional economic performance is strongly influenced by the traded clusters which appear to shape wages in local industries”.<sup>6</sup> This research has been extended to define traded clusters on the basis of more recent information on US employment by sector and by geographic region.<sup>7</sup>

***“Regional economic performance is strongly influenced by the traded clusters which appear to shape wages in local industries.”***

Michael Porter

This course of research recognizes the importance of travel and tourism, specifically defining “hospitality and tourism” as one of 51 traded clusters.<sup>8</sup> <sup>9</sup> Indeed, the hospitality and tourism traded cluster is one of the largest in the US behind only

<sup>2</sup> Further background on the concept of traded goods and services is provided in the Appendix. In brief, traded industries sell products and services across regions and often to other countries, while local industries provide goods and services to primarily local markets.

<sup>3</sup> Robin M. Leichenko, “Exports, Employment, and Production: A Causal Assessment of US States and Regions\*,” *Economic Geography* 76, no. 4 (2000): 303–25; Michael Porter, “The Economic Performance of Regions,” *Regional Studies* 37, no. 6–7 (2003): 545–46.

<sup>4</sup> Joseph Cortright, *Making Sense of Clusters: Regional Competitiveness and Economic Development* (The Brookings Institution, March 2006), [http://www.brookings.edu/~media/research/files/reports/2006/3/cities%20cortright/20060313\\_clusters.pdf](http://www.brookings.edu/~media/research/files/reports/2006/3/cities%20cortright/20060313_clusters.pdf).

<sup>5</sup> Michael E. Porter, *Clusters and the New Economics of Competition*, vol. 76 (Harvard Business Review Boston, 1998).

<sup>6</sup> Porter, “The Economic Performance of Regions.”

<sup>7</sup> Delgado, M., M.E. Porter, and S. Stern (2014), “Defining Clusters of Related Industries.” NBER Working Paper Series, National Bureau of Economic Research.

<sup>8</sup> The US Cluster Mapping Project defines the hospitality and tourism cluster with a set of 31 sub-sectors, or industries, including hotels and other accommodations, as well as sightseeing transportation, sport venues, casinos, museums, skiing facilities, marinas theme parks, and other attractions. This definition is based on analysis of the similarity of individual industries based on patterns of intra-industry linkages, such as is evident when industries are commonly found in the same locations, and using similar inputs

<sup>9</sup> Further discussion of the application of cluster-based strategies to tourism is available in the following article. Mark M. Miller and L. J. Gibson, “Cluster-Based Development in the Tourism Industry: Putting Practice into Theory,” *Applied Research in Economic Development*, 2005, 47–64.



business services, and distribution and electronic commerce. There were a total of 2.5 million jobs in the sub-sectors that make up the hospitality and tourism traded cluster in 2012, representing 7.2% of total employment in traded clusters in the US. On a national basis, 1- in-14 jobs in traded clusters are in the hospitality and tourism sector.

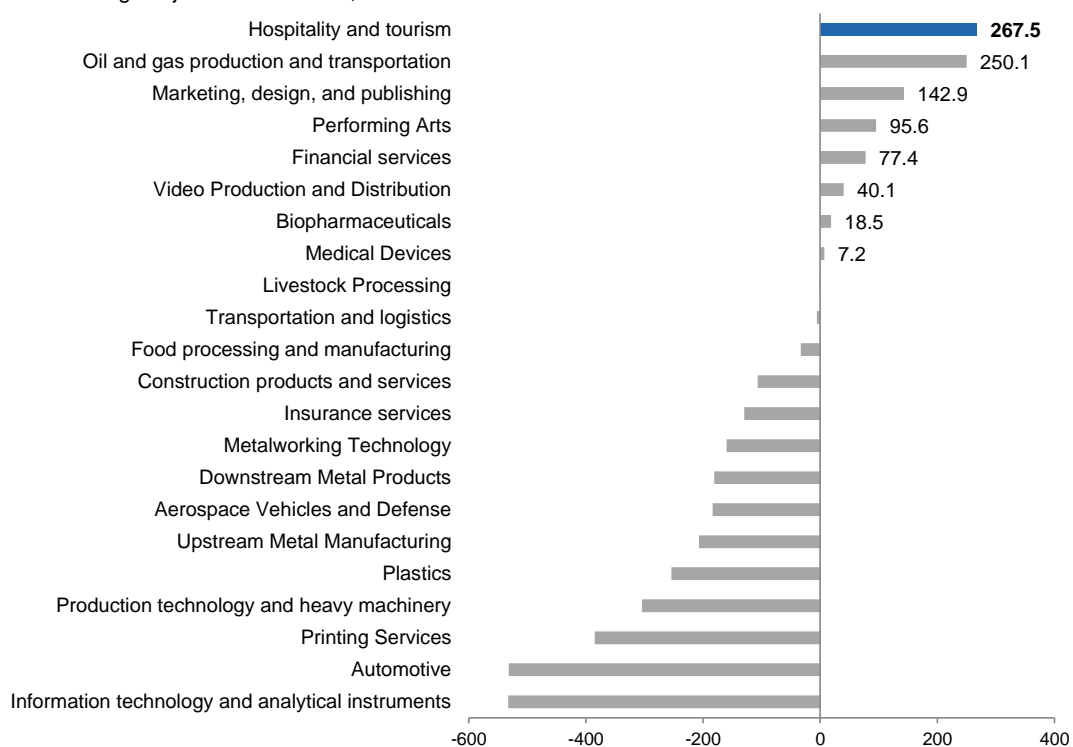
The US Cluster Mapping Project analysis also provides a valuable way to look at job creation relative to other traded clusters. Based on this analysis, we find that hospitality and tourism has generated more jobs over the past 14 years than any other major traded cluster of its size.

As shown in the following chart, the 267,500 jobs created in the hospitality and tourism sector since 1998 exceeds gains in sectors such as oil and gas production; marketing, design and publishing; and financial services. From the perspective of local economic development strategies designed to expand the traded base of a region, growth in the hospitality and tourism sector stands out relative to contraction in more traditional traded goods sectors, such as plastics; production technology and heavy machinery; and automotive.

*Hospitality and tourism has generated more jobs over the past 14 years than any other major traded cluster of its size.*

### Job creation in traded clusters

Net change in jobs 1998 to 2012, in thousands



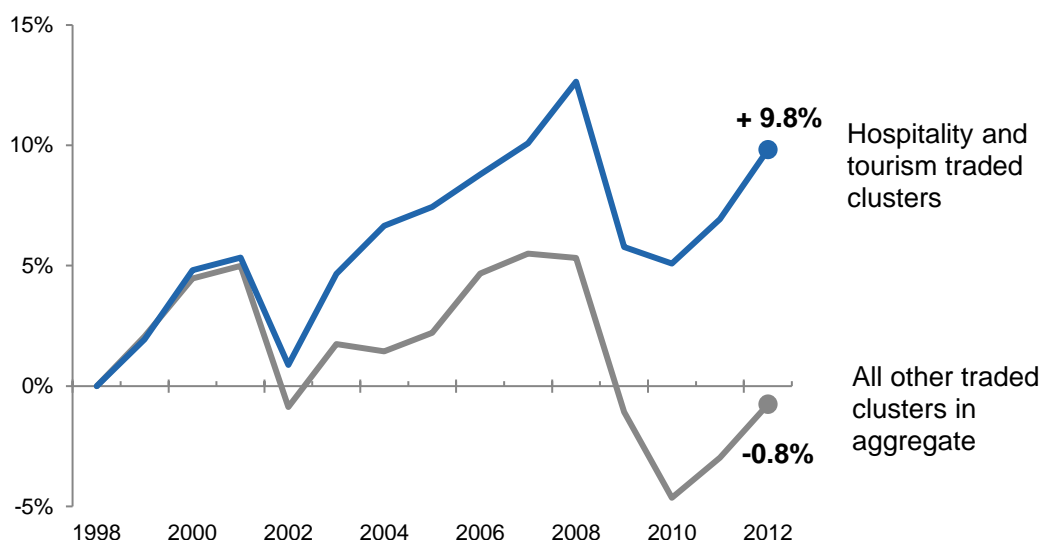
Note: Graph shows selected traded clusters. Excludes the largest and smallest clusters, such as business services, education, and distribution and electronic commerce, which each have greater than 2.0 million jobs and are on a different scale than the selected clusters.

Source: US Cluster Mapping Project; Census Bureau; Tourism Economics

This record of job creation also stands in contrast to traded clusters in aggregate. Overall, since 1998, the hospitality and tourism as a traded cluster has expanded employment by 9.8%, compared to an actual decline in traded clusters in aggregate of -0.8%.

### Traded cluster employment gains over time

Index, cumulative percentage points of employment growth since 1998



Source: US Cluster Mapping Project; Census Bureau; Tourism Economics

## 2.4 The simple case for destination promotion

The above average performance of the visitor economy and its outperformance of other traded clusters confirm the merits of destination promotion in its own right. As incomes rise and globalization continues, US destinations are poised to continue to capitalize within a favorable growth environment. And as a traded cluster, visitor spending represents an export as money flows into the local economy.

The diversity and quality of the US product, both for leisure and meetings travel markets, positions US destinations to drive further growth through targeted promotional investments.

Destination marketing plays an integral and indispensable role in the competitiveness of the visitor economy by addressing three challenges.

*Destination marketing plays an integral and indispensable role in the competitiveness of the visitor economy by addressing its unique challenges.*

### Challenge #1: the visitor economy is fragmented

The visitor economy is diverse with benefits accruing across various industries (e.g. hotels, restaurants, retail stores, transportation, performance venues and other attractions), and in many cases, these establishments are operated as small businesses that lack the capacity to conduct certain types of marketing. Moreover, certain benefits accrue across the economy rather than to just an individual business.

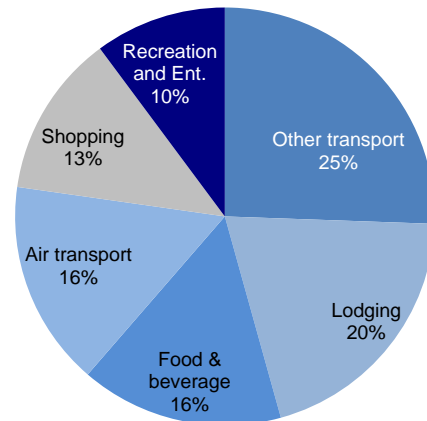
Because a visitor's spending is spread across businesses, any single business may not capture sufficient share of a visitor's spending to justify marketing to attract visitors to a destination. For example, an individual hotel could market the attractiveness of a destination, but it would only benefit from those additional visitors who not only choose the destination, but also choose that particular hotel; and the hotel would only benefit directly from the visitor's spending at the hotel. In other words, at the level of an individual business, the returns on independent marketing to attract visitors to a destination can be less compelling. However, when viewed at the level of the destination, there is a more direct connection. The destination captures a substantial dollar amount per visitor, and in aggregate there are compelling returns on effective destination marketing.

### *Solution: destination promotion provides the scope and strategic vision supporting a wide array of individual businesses*

Destination promotion organizations also play a role furthering the strategic potential of the visitor economy. Destination marketing organizations (DMOs) can take a long term view of the development of the destination, and pursue tactics to help develop a visitor economy that better fits the goals of local residents and businesses. For example, many destinations have a mix of peak, shoulder, and low season periods. DMOs take steps to build shoulder season and low season demand, and help fill slower days of the week, supporting a more stable base of employment and helping ongoing operations achieve a "break even" level of profitability. Similarly, DMOs can play a role helping to find solutions that balance the development of the visitor economy with the constraints and goals of a given destination, such as fostering the development of geographic areas with greater capacity for growth.

The importance of overarching destination marketing is also evident within the group meetings business. Meeting planners, especially for larger events, require support and incentives that go well beyond what a single business can offer. However, the benefits are spread across the entire spectrum of the visitor economy.

**Distribution of tourism spending in the US**  
2012, Share of total spending



Source: BEA Travel & Tourism Satellite Account

**Challenge #2: the primary motivator of a trip is usually the experience of a destination, extending beyond the offerings marketed by a single business**

The fundamental motivation driving a visit to a given destination is frequently not the offerings of a single business—instead it is the destination, including a range of attractions and the overall experience of a place. This experience is comprised of a visitor's interaction with, and patronage of, numerous businesses and local experiences: hotels and other accommodations; restaurants; shopping and galleries; conferences; performances and other events; family activities; sports and other recreation; and cultural sites and attractions.

Marketing efforts that focus on only one sub-sector of the visitor market, such as communicating the offering of a specific hotel or other business, do not also adequately address the core motivation for potential visitors. Through coordinated destination promotion, local businesses are able to represent the destination collectively, and in doing so drive demand for all segments of the visitor economy. Stand-alone marketing efforts would almost certainly be less effective than a collective destination marketing campaign.

*The fundamental motivation driving a visit is not usually the offerings of a single business—instead it is the destination.*

**Solution: destination promotion articulates the brand message that is consistent with consumer motivations**

The same holds true in the case of group travel, such as corporate meetings and trade conventions, in which an event sponsor seeks a destination that meets multiple success criteria. While the offerings of an individual headquarter hotel or convention facility are critically important, in many cases the merits of a destination overall are being considered relative to other potential options. In such situations, a coordinated strategy from initial marketing and touch points that build familiarity, to the dedicated sales team that lines up the destination's best offer of facilities, amenities and services, augments and rises beyond the message of a single operation.

**Challenge #3: effective marketing requires scale to reach potential visitors across multiple markets**

Effective destination marketing requires significant and consistent funding with the aim of gaining a sufficient "share of voice" to be heard and make an impact. Whether in the form of advertising, public relation efforts, or group sales, scale produces efficiencies that maximize the share of funding that goes to actual marketing and advertising, drives down per unit advertising costs, and enables higher impact, more specialized efforts. As a result, the larger scale of collaborative destination marketing is more effective than what individual businesses could accomplish. Simply put, the whole of destination marketing is greater than the sum of individual parts.

*The scale of collaborative destination marketing is more effective than what individual businesses could accomplish.*

**Solution: destination promotion pools resources to provide the economies of scale and marketing infrastructure required to generate impact**

One of the benefits of coordinated marketing facilitated by a DMO is the ability to have a stable organization and funding base to support destination marketing. As a result, DMO's are able to efficiently leverage the brand, infrastructure and relationships that have been built over time. For example, DMOs:

- Conduct marketing that leverages a base level of awareness of the destination has already been established with some target customers, allowing annual marketing spend to be more effective at activating and reinforcing key messages;
- Use existing infrastructure, such as websites and publications, that are updated on a recurring basis;
- Employ a staff with established relationships with local tourism-sector businesses and marketing service providers; and,
- Support market research, such as visitor profile studies, that help individual businesses better target market opportunities, but which would likely not be economical for individual businesses to support independently.

*DMO's are able to efficiently leverage the brand, infrastructure and relationships that have been built over time.*

Through these economic factors, destination promotion helps expand the visitor economy in ways that are consistent with local priorities, building the types of opportunities that are a critical part of economic development.

### 3 Catalytic Impacts: How Does Destination Promotion Drive Economic Growth?

The first section of this report has defined the importance of destination promotion in its own right, enabling stakeholders in the visitor economy to benefit from concerted marketing of a place. However, the dividends of destination promotion extend far beyond the benefits that accrue to visitor-related industries and their suppliers.

This second section explores the ways in which destination promotion acts as a catalyst, or engine, of economic development in a broader sense. These findings represent the result of our interviews with economic development and destination marketing executives, along with our review of relevant literature to better understand the specific channels through which destination marketing fuels economic development across the entire economic spectrum.

The research has also yielded a series of best practices for the coordination of destination promotion and economic development, leading to site relocations and new investments.

In summary, there are four primary channels through which destination promotion drives economic development and growth. These are illustrated in the following diagram.

*The dividends of destination promotion extend far beyond the benefits that accrue to visitor-related industries.*

#### The Catalytic Impacts of Destination Promotion



**Key Findings: The Catalytic Impacts of Destination Promotion**

Channel	Impact
<b>Building transportation networks and connecting to new markets</b>	By supporting travel and tourism, destination promotion supports development of transportation infrastructure, helping support greater accessibility and supply logistics that are, in turn, important in attracting investment in other sectors.
<b>Raising the destination profile</b>	Destination promotion builds awareness, familiarity, and relationships in commercial sectors (institutional, companies, individuals) that are critical in attracting investment. Similarly, destination promotion raises the destination profile among potential new residents, supporting skilled workforce growth that is critical to economic development.
<b>Targeted economic development through conventions and trade shows</b>	By securing meetings, conventions and trade shows for local facilities, destination management organizations attract the very prospects that economic development organizations (EDOs) target. Not only do such visits create valuable exposure among business decision makers, they create direct opportunities for EDOs to deepen valuable connections with attendees.
<b>Raising the quality of life</b>	The visitor economy that is fueled by destination promotion supports amenities and standards of living that are valued by residents and that are important in attracting investment in other sectors.

**3.1 Building transportation networks and connecting to new markets**

***Channel of impact: By developing the visitor economy, destination promotion supports development of transportation infrastructure, providing greater accessibility and supply logistics that are, in turn, important in attracting investment in other sectors.***

Connectivity to other cities, historically by canal and railways, and more recently by road and air, has been long appreciated for its importance to economic growth. Indeed, face-to-face interactions are as important as ever.

How can a region best support the expansion of its transportation infrastructure, including airports? While public investment certainly has a role, as leading cities have long recognized, airlines ultimately choose to expand service to markets that demonstrate passenger demand. Destination promotion efforts build inbound travel volumes that support expanded service, with greater frequency of connections to a greater number of destinations. Inbound business, leisure and group segments each play a role providing the base of demand that supports airlift. Indeed airline cost structures are such that a route with insufficient inbound leisure demand, and

***Destination promotion efforts build inbound travel volumes that support expanded air service.***



therefore lulls in travel around holidays and off-peak periods, is less profitable, or even unprofitable.

As a result, successful destinations experience greater levels of air service. For example, roughly half of all passenger demand for Cleveland is generated by visitors, according to OAG bookings data for 2013. Frontier Airlines, a low-cost carrier which recently entered Cleveland, has continued to expand its schedule from the city, building on leisure business but offering direct flights on routes that are key for business travelers, such as Dallas Ft. Worth.<sup>10</sup>

In turn, improved air connectivity becomes a marketing point that supports economic development. So it is not surprising that collaboration between DMOs and economic development organizations can be successful. For example:

- Visit Denver and the Metro Denver Economic Development Corporation teamed up to secure direct flights from Tokyo in 2013. This was a multi-year effort involving marketing both to consumers and the airline industry. The flights between Tokyo and Denver are now operating with a 91% load factor.
- Phoenix touts its connectivity as one of its key economic development assets. This includes extensive service to Mexico and Latin America. Connectivity to Canada is also a major selling point for economic development and exists almost entirely because of the visitor market. Only 20 direct flights to Canada existed five years and Phoenix now has over 100 scheduled flights. The Greater Phoenix CVB and the Community and Economic Development office are seeking increased international service. These routes are needed to dually support the convention and investor markets. While air service development is led by the airport, the Community and Economic Development office and the Greater Phoenix CVB support marketing to airlines with market information. Overall, 60% of current Phoenix airlift is supported by visitors.
- Similarly, New Orleans' extensive airlift benefits economic development in the broader region. Air service is "profoundly important to corporate investment and location decisions", says Stephen Moret of Louisiana Economic Development

***"Air service is profoundly important to corporate investment and location decisions... This is one of tourism's most significant contributions since the levels of air service at New Orleans far exceed what local demand could support."***

Stephen Moret, Secretary,  
Louisiana Economic  
Development

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<sup>10</sup> "Frontier Exec: CVG Will 'See More' Flights," accessed October 9, 2014, <http://www.cincinnati.com/story/money/2014/08/28/frontier-exec-cvg-will-see-flights/14761353/>.

(LED), adding, “This is one of tourism’s most significant contributions since the levels of air service at New Orleans far exceeds what local demand could support.” The Louisiana Office of Tourism (LOT) contributes to this indirectly by promoting travel to the state. However, LOT also contributes directly to air service development by collaborating on route development with the New Orleans CVB. The two destination marketing organizations have joined forces to promote international routes with London and Toronto, and are now working on service out of Brazil and Frankfurt.

### Connecting to new markets

Access to global markets is critical for cities. With seventy percent of global GDP growth between now and 2025 expected to occur in emerging markets, the Brookings Institute points out that reaching “global fluency” is not just the result of inherited characteristics, but also “intentional actions”.<sup>11</sup> Leading regions are using destination promotion as one such intentional action, better positioning their region for success in coming decades.

### Supporting research

Recent studies have aimed at quantifying the long-term impacts of improved air transport, with the following findings highlighted.

- A study on the role of airline traffic in urban economic development analyzed 91 metro areas in the US and estimated that a 10% increase in passenger enplanements leads to a 1% increase in employment in service-related industries, after controlling for a set of factors.<sup>12</sup>

***A 10% increase in passenger enplanements leads to a 1% increase in employment in service-related industries.***

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<sup>11</sup> Brad McDearman, Greg Clark, and Joseph Parilla, *The 10 Traits of Globally Fluent Metro Areas* (The Brookings Institution, October 2013), [http://www.brookings.edu/~media/research/files/reports/2013/06/26%20global%20metro%20traits/the\\_10\\_traits\\_of\\_globally\\_fluent\\_metro\\_areas.pdf](http://www.brookings.edu/~media/research/files/reports/2013/06/26%20global%20metro%20traits/the_10_traits_of_globally_fluent_metro_areas.pdf).

<sup>12</sup> Jan Brueckner, “Airline Traffic and Urban Economic Development,” *Urban Studies* 40, no. 8 (July 2003): 1455–69.

- At the metro level, other studies have also found that air passenger volumes and access are a strong predictor of future population and employment growth.<sup>13 14 15</sup>
- Research by International Air Transport Association (IATA) analyzed the relationship between air transport connectivity and labor productivity during a 10-year period across 48 countries, controlling for other factors expected to impact productivity, such as capital investment.<sup>16</sup> In this research, connectivity measured the access available from a country's major airports to the global air transport network, representing a qualitative measure of a country's air transport services, from the point of view of its businesses. The research found a positive link between connectivity and productivity, in other words, countries with greater connectivity also tend to have faster growth in labor productivity. In brief, the study reports a 10% rise in connectivity, relative to a country's GDP, is estimated to boost labor productivity levels by 0.07% per year, with strong impacts evident for developing economies.
- A report by the Air Transport Action Group states: "Arguably, the largest economic benefit of increased connectivity comes through its impact on the long-term performance of the wider economy through enhancing the overall level of productivity."<sup>17</sup>

***"Arguably, the largest economic benefit of increased connectivity comes through its impact on the long-term performance of the wider economy through enhancing the overall level of productivity."***

Air Transport Action Group

***Observed best practice: top economic development strategies recognize the foundational value of the visitor economy in sustaining and developing air service. Airports and economic development organizations seek the support of DMOs in efforts to add new service.***

<sup>13</sup> Richard K. Green, "Airports and Economic Development," *Real Estate Economics* 35, no. 1 (2007): 91–112.

<sup>14</sup> Michael D. Irwin and John D. Kasarda, "Air Passenger Linkages and Employment Growth in US Metropolitan Areas," *American Sociological Review*, 1991, 524–37.

<sup>15</sup> Kenneth Button, Rui Neiva, and Junyang Yuan, "Economic Development and the Impact of the EU–US Transatlantic Open Skies Air Transport Agreement," *Applied Economics Letters* 21, no. 11 (2014): 767–70.

<sup>16</sup> IATA, *Measuring the Economic Rate of Return on Investment in the Aviation Industry*, Aviation Economic Benefits, July 2007, [http://www.iata.org/whatwedo/Documents/economics/aviation\\_economic\\_benefits.pdf](http://www.iata.org/whatwedo/Documents/economics/aviation_economic_benefits.pdf).

<sup>17</sup> Air Transport Action Group, *Aviation Benefits Beyond Borders*, April 2014, [http://aviationbenefits.org/media/26786/ATAG\\_\\_AviationBenefits2014\\_FULL\\_LowRes.pdf](http://aviationbenefits.org/media/26786/ATAG__AviationBenefits2014_FULL_LowRes.pdf).

### 3.2 Raising the destination profile

***Channel of impact: Destination promotion builds awareness, familiarity, and relationships in commercial networks (institutional, companies, individuals) that are critical in attracting investment. Similarly, destination promotion raises the destination profile among potential new residents, supporting skilled workforce growth that is critical to economic development.***

Destination promotion activities support understanding of a destination's distinct positioning and raise awareness of the destination. Most importantly, by increasing visits, destination promotion activities provide firsthand experience with a destination, resulting in familiarity with a destination that is critically important for economic development. These three components – building a brand, raising awareness, and increasing familiarity – make up the effect which we've labeled "raising the destination profile". As is emphasized in the following sections, these inter-related concepts have the collective impact of supporting economic development efforts to attract investment and build a skilled workforce.

***"Community and Economic Development and the Phoenix CVB are highly complementary organizations"***

Hank Marshall, Economic Development Executive Officer, City of Phoenix  
Community and Economic Development Department

#### **Building a brand**

A destination brand represents both the identity and characteristics of a destination, as well as the activities and messaging undertaken to communicate and reinforce that brand. DMOs build the brand of a place by defining and communicating its uniqueness and attractiveness to potential visitors and investors.

The result has an impact on business decision makers. Indeed, in many cases, brand elements developed by DMOs serve to directly support economic development efforts. For example:

- The Metro Denver Economic Development Corporation (Metro Denver EDC) tagline, "Energetic Bodies. Energetic Minds", promotes the attractiveness of Denver as a place for both business and recreation, accenting the city's active outdoor lifestyle. This tagline was informed by Visit Denver research. In concert with the Metro Denver EDC message, Visit Denver focuses on outdoor recreation as well as urban lifestyle, complementing and reinforcing the brand being promoted by economic development. Indeed, both Visit Denver and Metro Denver EDC target some of the same markets, including California, Chicago, Dallas, and Houston.

***DMOs build the brand of a place by defining and communicating its uniqueness and attractiveness to potential visitors and investors.***

- Asheville, NC recently attracted New Belgium, the Colorado-based brewer of Fat Tire and other craft beers, including a \$175 million local investment.<sup>18 19</sup> The development win, was in part, because New Belgium's leadership saw benefits of associating its brand with a destination with clear recognition for its year-round activities and familiarity among visitors. In its specific site criteria, New Belgium sought a location with a "vital lifestyle", a "progressive climate – culturally, environmentally, politically, culinarily", such as a "progressive tourism destination".<sup>20</sup> So even though Asheville had constraints, including a relatively small local market and a lack of a direct flights to Denver (the headquarters location for New Belgium), its characteristics and brand as a destination helped it stand apart and win the investment, becoming the first expansion for New Belgium since the company started over 20 years ago in Fort Collins, Colorado.
  
- "Pure Michigan" started in 2006 as a brand used in a destination promotion ad campaign.<sup>21</sup> The message resonated widely, and after being recognized for boosting tourism spending it has now been used across multiple lines of government to promote state objectives. For example, in 2011, as a collaborative effort of the State of Michigan's Workforce Development Agency and the Michigan Economic Development Corporation, the state launched the Pure Michigan Talent Connect website as a central hub for talent, employers and educators.<sup>22</sup>

*New Belgium's leadership saw benefits of associating its brand with a destination with clear recognition for its year-round activities and familiarity among visitors*

<sup>18</sup> "Asheville Image Attracts New Belgium Brewery," *The Asheville Citizen-Times*, accessed September 30, 2014, <http://archive.citizen-times.com/article/20120405/NEWS01/120405014/Asheville-image-attracts-New-Belgium-brewery>.

<sup>19</sup> Emily Badger, "Asheville: The New Craft Beer Capital Of America?," *Fast Company*, accessed September 30, 2014, <http://www.fastcompany.com/3000850/asheville-new-craft-beer-capital-america>.

<sup>20</sup> Atlas Advertising, "The Anatomy of Competition: Competing Communities Discuss the Same Deal.," n.d.

<sup>21</sup> Sven Gustafson, "Award-Winning 'Pure Michigan' Travel Ads Pay off," *Business Review*, July 3, 2008, [http://www.mlive.com/rebrandingmichigan/index.ssf/2008/07/pure\\_michigan\\_ads\\_pay\\_off.html](http://www.mlive.com/rebrandingmichigan/index.ssf/2008/07/pure_michigan_ads_pay_off.html).

<sup>22</sup> "State Rolls Out New Web Site, Pure Michigan Talent Connect," *CBS Detroit*, December 1, 2011, <http://detroit.cbslocal.com/2011/12/01/state-rolls-out-new-web-site-pure-michigan-talent-connect/>.

- Influencing perceptions is essential to brand-building and this requires a concerted effort by all stakeholders. In Cleveland, the Department of Economic Development's website is RethinkCleveland.org while the CVB's website is ThisIsCleveland.com. While they focus on different assets, both sites reference the history of the city and its progress. For economic development, this translates into the slogan, "Built by Industry. Inspired by Innovation." The CVB highlights the quality of Cleveland's activities, events, hotels, and restaurants while acknowledging the industrial, blue-collar, rock and roll, roots of the city. In both cases, the objective is the development of a brand that embraces the city's past and its current offerings. These messages reinforce one another.
- The Phoenix Community and Economic Development Department is actively developing its brand message. According to its Executive Officer, Hank Marshall, this process must be coordinated with the CVB as its involvement is "integral". The Greater Phoenix CVB is currently running a campaign that, while leading with the traditional iconic attractions of the Grand Canyon and prevalent sunshine, seeks to convey the experiential and emotional benefits of the destination. In addition, the CVB is positioning Phoenix as "America's Greatest Meeting Destination" given the city's proximity to the airport and resort infrastructure. Should the brand message be the same for visitors and investors? Marshall succinctly states, "If we do it right, the ideal brand will transcend the visitor market and support all economic development."
- "Pick Your Passion" was chosen as tagline to express the diverse tourism assets found in Louisiana. But the slogan's benefits are broader. According to Jay Dardenne, Lieutenant Governor of the State of Louisiana, "It was intended to market Louisiana as a destination but it can also apply to the many incentives that make our state one of the best places to do business."

***"If we do it right, the ideal brand will transcend the visitor market and support all economic development."***

Hank Marshall, Economic Development Executive Officer, City of Phoenix Community and Economic Development Department

***Observed best practice: DMOs and EDOs work together in the building and adoption of a brand. The best brands appeal to both visitor and investor markets. This involves both the creation of the brand message and the communication of that brand through all channels of sales and marketing. Consistency between DMO and EDO messaging will, over time, produce the strongest results.***

For example:

- Cleveland's Department of Economic Development hired a qualified out-of-town website developer. Initially, the vendor missed the mark on the image and brand of Cleveland. So the Department of Economic Development requested that they meet with Destination Cleveland to inform their understanding of the City. The end result (RethinkCleveland.org) reflects the history and assets of the city and includes links to Destination Cleveland's website, ThisIsCleveland.com. In the words of Tracy Nichols, Director of Economic Development, "While we have different target audiences, we share the same objective with Destination Cleveland. Cleveland is a great place to live and we need to get investors and visitors to see it."
- World Business Chicago is convinced that Choose Chicago's marketing supports brand development for investors. The overlap is so considerable that WBC estimates that it utilizes Choose Chicago marketing media for 7 out of 10 of its needs.
- California recently brought Visit California and the Governor's Office of Business and Economic Development (GO-Biz) closer together. This reflected the prioritization of tourism development as well as the recognition that Visit California's marketing and branding expertise would be critical elements of the state's economic development strategy. GO-Biz leverages what Brook Taylor, Deputy Director, calls Visit California's "very sophisticated marketing and branding engine that is only getting better." Mr. Taylor believes this collaboration is a model for how to brand a state destination, adding, "We are learning a lot from Visit California by how they brand California and learning how to take their model and apply it to economic development." One such area is in how to market California globally. The state once had trade offices around the world that were state-funded and lacked accountability. These offices were shut down in 2003 as it became clear that these state-funded offices were not being effective. Visit California has employed a public-private partnership model for overseas offices that is now the model for all future trade offices. For example, when GO-Biz opened a Shanghai office, it partnered with the Bay Area Council and funded the office through the private sector.

***"...we share the same objective with Destination Cleveland. Cleveland is a great place to live and we need to get investors and visitors to see it."***

Tracy Nichols, Director of Economic Development, City of Cleveland

***"We are learning a lot from Visit California by how they brand California and how to take their model and apply it to economic development."***

Brook Taylor, Deputy Director, Governor's Office of Business and Economic Development (GO-Biz)



### Raising awareness and increasing familiarity

In addition to helping convey distinct characteristics and offerings through a brand, destination promotion also raises awareness and ultimately attracts visitors who become familiar with a destination through first-hand experience. The following examples emphasize how familiarity with a destination through a visit represents a key stepping stone in economic development efforts to attract investment and new jobs.

- Executives with site selection responsibilities frequently report their assessments are influenced by leisure and business travel. In a 2014 survey by Development Counsellors International, 13% of executives with site selection responsibilities state that their perceptions of an area's business climate were influenced by leisure travel and 37% reported influence by business travel.<sup>23</sup>
- Tourism and destination promotion is similarly important in attracting new residents. Survey results have found almost one-third of the new residents in an area had first visited their present community as tourists.<sup>24</sup>
- Destinations lacking familiarity among potential investors stand to benefit from destination promotion. According to Cleveland's director of economic development, "As Destination Cleveland runs its ad campaigns, people get the message that Cleveland is cool. And as people visit, they experience the reality."
- In Cleveland, investments in the hotel sector are a strategic priority for the Department of Economic Development which provides special financing and incentives for new hotels. Tracey Nichols, the department's Director explains that the six new properties that have been supported under these programs are essential to the overall objective of establishing

***13% of executives with site selection responsibilities state that their perceptions of an area's business climate were influenced by leisure travel and 37% reported influence by business travel.***

Development Counsellors  
International

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<sup>23</sup> *Winning Strategies in Economic Development Marketing* (Development Counsellors International, 2014), <http://www.aboutdci.com/winning-strategies/>.

<sup>24</sup> Based on an online survey of adult Canadian residents by Twist Marketing and Zinc Research in July 2011. Of the 69% of respondents who were not born in the community in which they reside, 30% had first visited their present community of residence as tourists. Of these tourists, 32% referenced tourism experiences as major drivers in the decision to move and live in their current community.

Cleveland as a quality host of both groups and independent travelers. This will continue to expose both visitors and investors to the strengths of the city as a place to “work, live, and play.”

- Asheville is a predominately leisure destination. The Economic Development Coalition for Asheville-Buncombe County has consistently found that its efforts are most successful when someone has already visited as a tourist. “As we talk to prospects, they mention past visits and good experiences. This is our open door”, states Executive Director Ben Teague.
- “You can never expose people enough. Once they come, we’ve got them,” observes Jeff Malehorn of World Business Chicago (WBC). WBC believes strongly in the importance of familiarity and sees large conventions, such as the 2012 NATO Summit, as a key means of presenting Chicago to the economic development market. Though one of the most diverse and attractive cities in the country, Chicago lacks the familiarity of other top cities. “Any time Chicago shows up in a positive way in the media, it helps. Tourists are familiar with New York, San Francisco, and Los Angeles, but not as familiar with Chicago”, says Mr. Malehorn. “Every tourist that comes through here is a potential business lead.”
- World Business Chicago credits the work of Choose Chicago in helping lift the city’s TripAdvisor users rank to number two among top US destinations in 2014.<sup>25</sup>
- Louisiana tourism and economic development both benefit from New Orleans as a well-known destination with significant leisure and convention activity. The Louisiana Department of Economic Development (LED) values the high profile of New Orleans in both national and international markets. However, a significant portion of LED’s efforts are focused on other parts of the state. This is where the Louisiana Office of Tourism

***“As we talk to prospects, they mention past visits and good experiences. This is our open door”***

Ben Teague, Executive Director, Economic Development Coalition for Asheville-Buncombe County

***“Every tourist that comes through here is a potential business lead.”***

Jeff Malehorn, President & CEO, World Business Chicago

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<sup>25</sup> Choose Chicago, “TripAdvisor Users Rank Chicago Number Two for Top U.S. Destination in the Sixth Annual Traveler’s Choice Destination Awards,” April 10, 2014, <http://www.choosechicago.com/articles/view/TripAdvisor-Users-Rank-Chicago-Number-Two-for-Top-U-S-Destination-in-the-Sixth-Annual-Traveler-s-Choice-Destination-Awards-/1264/>.

complements LED in a particular way. Kyle Edmiston, Assistant Secretary of the Louisiana Office of Tourism explains, “Louisiana is an incredibly diverse place. Our job is to get visitors to see all of the state. This generates exposure to the parts of the state that have been most ripe for economic development and indeed have been where LED’s most significant wins have been located.”

***Observed best practice: Coordination between economic development organizations and DMOs supports initiatives that impact both visitor and economic development markets. EDOs and DMOs should maintain a platform for regular communication. In some cases, this involves regular meetings to discuss key issues and opportunities. In others, organizational relationships exist to formalize communication.***

The relationship between World Business Chicago and Choose Chicago provides a useful case study of effective cooperation. Coordinated marketing has extended the reach of both organizations. For example, the two organizations shared a large booth at Austin’s South by Southwest festival, toured with the Chicago Symphony Orchestra jointly promoting the merits of Chicago, and are teaming on a new brand campaign that is being designed with the understanding that Choose Chicago will be a primary stakeholder in the brand. Additionally, the World Business Chicago and Choose Chicago partner on trade initiatives. The organizations maintain a permanent trade development office in Mexico, and have signed a joint economic agreement with Mexico that includes tourism development initiatives. The agreement is credited with fueling a substantial increase in travel from Chicago to Mexico and gained recent exposure for the city when 50 business leaders visited from Mexico in the spring of 2014. Collaboration in Chinese markets has also produced results. An economic agreement was signed in 2013 between Chicago and eight Chinese cities that included various areas of focus, including tourism.

Although World Business Chicago and Choose Chicago are independent non-profit institutions, they collaborate voluntarily and extensively. WBC’s economic strategy includes 10 areas including tourism. “I can’t imagine running World Business Chicago without support from Choose Chicago,” summarizes Jeff Malehorn, President & CEO, World Business Chicago.

***“I can’t imagine running World Business Chicago without support from Choose Chicago.”***

Jeff Malehorn, President &  
CEO, World Business  
Chicago

### 3.3 Targeted economic development through conventions and trade shows

***Channel of impact: By securing meetings, conventions and trade shows for local facilities, DMOs attract the very prospects that economic development organizations target. Not only do such visits create valuable exposure among business decision makers, they create direct opportunities for economic development organizations to deepen connections with attendees.***

DMOs are typically on the front lines of selling their destinations to meeting and event planners. These conventions and trade shows often attract the very prospects that EDOs target. As Steve Moore, CEO of the Greater Phoenix CVB states, “Our EDO doesn’t have to fly to DC or China. The low hanging fruit is coming here for events.” EDOs, such as Cleveland’s Department of Economic Development, regularly host special events, tours, and receptions for attendees of key events. Our research, including discussions with both DMOs and EDOs yielded many such examples of this channel at work. But the discussions also pointed to the further opportunities that exist in many areas for collaborative targeting. For example:

- Asheville targets the outdoor sporting goods industry as an economic development priority. Hosting the Outdoor Industry Association’s annual conference became a strategic priority led by the CVB and supported by Economic Development which courted C-level executives who attended the 2010 event. This has already yielded dividends: Legacy Paddlesports chose to relocate to Asheville in 2012, investing \$20 million in a facility and employing more than 120 workers. Asheville will host the conference again in 2014.
- Visit Denver sought to understand the extent to which meetings produced changes in perceptions. When the city hosted the 2002 annual meeting of the American Society of Association Executives Visit Denver surveyed attendees about the influence of their experience of Denver. This was particularly important since an estimated 20 percent of the more than 5,000 executives attending the annual meeting of the ASAE will book their own meetings in the host city over the five years that follow, according to ASAE statistics. The survey documented a perception lift and \$100 million in bookings over the next three years as a result of hosting the event.
- In Denver, “Economic clusters and conventions have become synergistic,” according to Tom Clark of the Metro Denver EDC. In particular, conventions have provided Denver with a platform for targeting development within the bio-science sector. As an example, the World Conference on Lung Cancer

***“Our EDO doesn’t have to fly to DC or China. The low hanging fruit is coming here for events.”***

Steve Moore, CEO, Greater Phoenix CVB

***“Economic clusters and conventions have become synergistic”***

Tom Clark, Metro Denver Economic Development Corporation

(WCLC) is holding its 16th World Congress on Lung Cancer in Denver in September 2015, which is expected to attract more than 7,000 delegates from more than 100 countries.

- World Business Chicago views conventions and trade shows as a strategic priority within its overall mission. WBC has an assigned staff member who focuses on trade shows and conventions, recognizing that each visiting delegate presents the potential of a new headquarters or distribution center investment. Choose Chicago provides a list of groups to WBC which uses this to target the most promising events. WBC touches all of the events through its presence at McCormick Place, but 10 to 12 shows per year are identified for special focus. WBC considers attendees at major events to be a “captive audience” and their visit to Chicago provides an opportunity to showcase the city. For example, the Advanced Medical Technology Association is holding its 2014 conference (AdvaMed2014) in Chicago, bringing high level representatives from more than 1,000 medical technology companies. The conference itself is considered to be a “medical technology incubator”. For the Water Environment Federation Technical Exhibition & Conference (WEFTEC Expo) in 2013, WBC sat with the board of trustees before kickoff of show. The mayor gave the keynote address and WBC hosted a private reception with top executives.
- Stephen Moret, Secretary of Louisiana Economic Development shares this view of the value of conventions—especially industry events and corporate meetings that attract executives. “Anything that brings the decision makers within the auto, aerospace, IT or other industries into contact with our state is a good thing.”
- In California, the 2014 BIO International Convention drew more than 15,000 industry leaders to San Diego in June 2014, including nearly 2,500 CEO’s, from 50 states and 70 countries. GoBiz saw this as a major economic development opportunity and set up the “California Pavilion” as a partnership among various organizations to promote the state for investing, visiting, and living. Visit California materials were provided to delegates throughout the event.

***World Business Chicago has an assigned staff member who focuses on trade shows and conventions, recognizing that each visiting delegate presents the potential of a new headquarters or distribution center.***

***“Getting in front of executives while they’re here is easier than going around the country to meet with them.”***

Stephen Moret, Secretary of  
Louisiana Economic  
Development Corporation

Future untapped opportunities were also noted. For example, Louisiana Economic Development (LED) acknowledges that given the large number of events that come to Louisiana, there remains an untapped opportunity to collaborate more. In particular, Secretary Moret believes that the opportunity could be cultivated by

building more visibility for LED during major events and working to gain an audience with decision makers during their visit to the state. “Getting in front of executives while they’re here is easier than going around the country to meet with them.” Jay Dardenne, Lieutenant Governor of the State of Louisiana agrees, “Convention facilities and hotels throughout the state draw conventioners to Louisiana and our authentic culture creates a lasting impression. We need to take advantage of selling Louisiana as a great place to do business and live while decision makers are here enjoying everything we have to offer.”

*Observed best practice: EDOs and DMOs can jointly leverage strategic conferences, trade shows. By targeting events in key industry clusters or with a high profile in certain areas, events can be used to develop strategically important sectors of the economy. In addition, once key events have been secured, EDOs and DMOs should work together to establish a presence at these events and gain an audience with executives and other decision makers. EDOs can further leverage high profile events by connecting with media representatives and hosting hospitality events.*

***“We need to take advantage of selling Louisiana as a great place to do business and live while decision makers are here.”***

Jay Dardenne, Lieutenant Governor of the State of Louisiana

Our research revealed strong recognition of the valuable benefits regions can realize by securing certain conventions, trade shows and other events, and then appropriately leveraging the impact of those events to achieve specific goals. What type of event works best? The “best fit” is dependent on local strategies, with events offering the potential to add momentum to tactics already underway. Case studies in Cleveland, Denver and Phoenix help demonstrate this best practice in action.

- Destination Cleveland specifically looks to build its medical and bio-science sector by attracting targeted industry trade shows and conventions. The strategy leverages the Global Center for Health Innovation, which is adjacent to the Cleveland Convention Center and provides state-of-the-art spaces, programs and virtual offerings that differentiate Cleveland in its ability to attract medical and bio-science events. Once an event has been secured, Cleveland looks to maximize the impact. For example, when the CleanMed Conference & Exposition was held in June 2014, attracting more than 1,000 attendees from health care networks, Cleveland’s Department of Economic Development presented on a panel and provided a tour presenting the Cleveland story to prospective investors. Such strategies build locally-based expertise and exposes potential investors to the strength and momentum in Cleveland’s biomedical sector.

***“Targeting events that serve sectors of your local economy is a holistic approach to economic development.”***

David Gilbert, President and CEO, Destination Cleveland



- “Targeting meetings and tradeshow that serve sectors of your local economy is a holistic approach to economic development,” said David Gilbert, President and CEO of Destination Cleveland. “On one hand, you’re able to leverage local industry expertise in a given sector, providing enhanced programming, sponsorship and even unique off-site venue assets to the meeting planner – all of which help drive attendance to your city. At the same time, you’re growing the destination’s perception as a hot bed for creativity and innovations within these sectors, helping your EDO attract talent and generate jobs.”
- Destination Cleveland has had similar success targeting other key sectors to further specific economic development goals. For example, Team NEO (a non-profit economic development organization promoting Northeast Ohio) worked in partnership with Destination Cleveland to secure the Industrial Asset Management Council (IAMC) professional forum in 2015. The event will bring five hundred corporate real estate executives, site location consultants, and economic developers to Cleveland. “The attendees of the IAMC forum are the very business location decision makers we target every day,” said Jay Foran, Team NEO’s Senior Vice President for Business Attraction. “We will leverage this opportunity to give these senior-level decision makers a first-hand look at the assets of Northeast Ohio.”
- In some cases, the brand exposure of a major event represents an important platform for a city. Visit Denver and the Metro Denver Economic Development Corporation (EDC) collaborated to win the bid for the Democratic National Convention in 2008. This collaboration extended beyond the bid process to maximize Denver’s brand promotion during the event. EDC and Visit Denver organized an opening reception at a theme park and created a central space for media hospitality. The media editorial was very positive, citing the hospitality of the city and key economic development messages.
- Similarly, in Phoenix, the bid for the 2015 Super Bowl and Pro Bowl was led by a consortium, including regional CVBs and Economic Development. The NFL initially reached out to the Greater Phoenix CVB, which coordinated with area CVBs to assemble the necessary room block.

***“The attendees of the IAMC forum are the very business location decision makers we target every day.”***

Jay Foran, Team NEO’s  
Senior Vice President for  
Business Attraction



### Hosting Events builds knowledge and fostering innovation

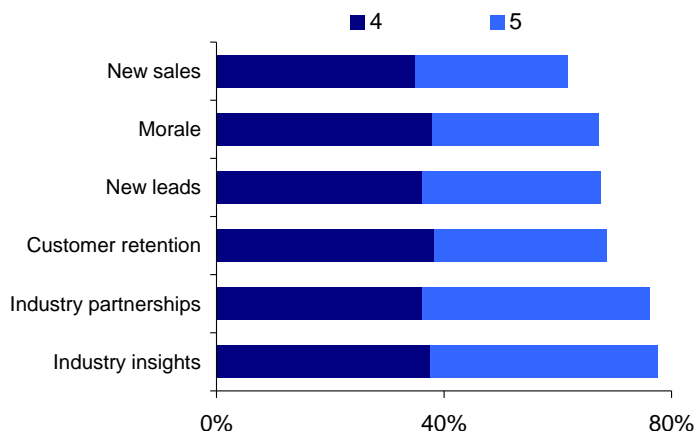
Today's "knowledge-based" and innovation-driven economies benefit from face-to-face connections, and relationships. In this context, industry conventions position an economy to acquire knowledge, innovate, and grow. Knowledge-based workers benefit from greater potential to access and encounter specialized knowledge and sustain social connections, and connections to other markets provide access to a wider base of suppliers and access to new production techniques. This makes existing firms more productive, serves to help attract additional investment, and fuels innovation.

As economists have studied the knowledge transfer that is enabled by connections, the findings have helped improve our understanding the importance of travel in building knowledge, fostering innovation and supporting economic growth. Oxford Economics conducted a national survey of 300 business travelers in 2012 and asked them to score the impact of conferences and conventions across a number of potential benefits.

Nearly 80% of respondents rated "industry insights" as an area of high impact, scoring this benefit as a four or five on a one-to-five scale. Industry insights were cited more consistently as a high impact return on conferences and conventions than any other potential benefit.

### Impact of conferences and conventions

% of respondents indicating high impact on 1 to 5 scale



### 3.4 Raising the quality of life

***Channel of impact: The visitor economy that is fueled by destination promotion supports amenities and a quality of life that are integral to attracting investment in other sectors.***

Parks and public areas, dining and nightlife in walkable districts, services and transportation along waterfront areas, creative arts and cultural institutions - these are just some of the local facilities and services that benefit from the visitor economy but are also valued by residents and—by extension—site locators, investors, and business executives. Recognizing this clear link, we sought to explore what role these visitor-supported amenities play in supporting economic development efforts.

Based on this research, we summarized three key findings:

- Visitors provide substantial demand for amenities and generate returns in terms of quality of life improvements for residents, helping raise the quality of life.
- Economic research and real-world business location decisions demonstrate that such amenities and lifestyle characteristics are important in driving economic growth.
- Leading practices in economic development leverage these visitor-supported quality of life assets.

#### **The visitor economy helps support amenities and quality of life**

In destination markets, the visitor economy supports amenities and quality of life in two primary ways: ongoing spending and new investment.

- Visitor spending helps support a broader and higher quality set of local amenities than an area could otherwise sustain. For many businesses, whether on the smaller scale of a restaurant or on the larger scale of a theater or sports facility, the difference between breaking even or running at a loss can be thin. As an incremental source of business above and beyond what can be supported locally, visitors provide demand for businesses as well as many not-for-profit institutions, such as museums.
- The visitor economy also helps support new investment in local attractions. For example, urban renewal projects such as Faneuil Hall Marketplace in Boston which was restored in 1976, the Inner Harbor in Baltimore, or more recent examples such as the growth that Nashville has experienced with the 2001 opening of the new facility for the Country Music Hall of

***Visitor spending helps support a broader and higher quality set of local amenities than an area could otherwise sustain.***

Fame and subsequent development of Music City Center, which opened in 2013. In such situations, the development of visitor markets is a critical element in redevelopment success.

Such factors point to the importance of the visitor economy not only as a source of traditional economic benefits such as jobs and tax revenues, but also as a driver supporting local amenities and quality of life. In the following section, we look at the role of such amenities and lifestyle characteristics in supporting economic growth – tracing the linkages through which destination promotion and the visitor economy play a broader role.

***The visitor market can be a critical driver of redevelopment and investments in new attractions.***

## Importance of amenities and lifestyle characteristics in driving economic growth

Economists increasingly recognize not only the important connection between an area's human capital and its economic growth, but also the role that amenities and lifestyle characteristics play in attracting human capital.

Richard Florida, an urban theorist and author of several popular books, provides an introduction to these concepts, noting that economists and geographers have long looked at the role that the availability of talent has played in the location decisions of firms, but have only more recently turned to the factors that attract talent.<sup>26</sup>

As Richard Florida writes:<sup>27</sup>

“A growing stream of research suggests that amenities, entertainment, and lifestyle considerations are important elements of the ability of cities to attract both firms and people.”

...the “traditional view offered by economists is that places attract people by matching them to jobs and economic opportunity. More recent research suggests that places attract people by providing a range of lifestyle amenities (see Gottlieb 1995).”<sup>28</sup> “Kotkin (2000)<sup>29</sup> argues that high-

***“A growing stream of research suggests that amenities... are important elements of the ability of cities to attract both firms and people.”***

Richard Florida

<sup>26</sup> Richard Florida, “The Economic Geography of Talent,” *Annals of the Association of American Geographers* 92, no. 4 (2002): 743–55.

<sup>27</sup> Ibid.

<sup>28</sup> Paul D. Gottlieb, “Residential Amenities, Firm Location and Economic Development,” *Urban Studies* 32, no. 9 (1995): 1413–36.

<sup>29</sup> Joel Kotkin, *The New Geography: How the Digital Revolution Is Reshaping the American Landscape* (Random House LLC, 2002).

technology industries are attracted to a range of lifestyle amenities. Glaeser, Kolko and Siaz (2001, 48)<sup>30</sup> found a significant relationship between amenities and city growth....

“If cities are to remain strong, they must attract workers on the basis of quality of life as well as on the basis of higher wages.”<sup>31</sup>

Interest in the role of lifestyle amenities and quality has resulted in highly relevant research, including a recent study by two economists in Philadelphia that provides an in-depth analysis that is particularly relevant to the role of the visitor economy. In this analysis, titled “Beautiful City: Leisure Amenities and Urban Growth”, the researchers use several approaches to address the question: “Did cities that are perceived as attractive places for leisure activities grow at a relatively faster pace in recent periods?”<sup>31</sup> A core aspect of the analysis uses the volume of leisure trips to each metropolitan statistical area (MSA) as a measure of local leisure-oriented amenities, proposing that the types of amenities that attract leisure travelers, such as “...scenic views, historic districts, architectural beauty, and cultural and recreational opportunities... [are] some of the very characteristics that attract households to cities when they choose these places as their permanent homes.”<sup>32</sup>

***Analysis of 150 cities shows that those destinations that attract more leisure visitors grew on average 2% faster over a ten year period in terms of population and employment.***

The research reaches several affirmative conclusions, summarized as follows.<sup>33</sup>

- Population and employment growth was about 2.0 percent higher over a ten year period in an MSA with twice as many leisure visits at the start of the period as another MSA. The analysis considers the period from 1990 to 2000, and controls for other economic and geographic factors typically considered in such research.<sup>34</sup>

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<sup>30</sup> Edward L. Glaeser, Jed Kolko, and Albert Saiz, “Consumer City,” *Journal of Economic Geography* 1, no. 1 (2001): 27–50.

<sup>31</sup> Gerald A. Carlino and Albert Saiz, *Beautiful City: Leisure Amenities and Urban Growth*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, December 6, 2008), <http://papers.ssrn.com/abstract=1280157>.

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Examples of economic factors include the share of workers in manufacturing, while geographic variables included factors such as proximity to an ocean or Great Lakes coast and climate. Indeed among such variables, leisure visits stood out as the third most important predictor of population growth over the 10 year period, only rating below factors measuring immigration, tax levels, and climate. Based on an evaluation of growth from 2000 to 2006, leisure visits are also found to be a good predictor of growth beyond the base sample period.

- MSAs that attracted greater numbers of leisure visitors also attracted a greater share of college educated residents, consistent with the expectation that leisure amenities can contribute to attracting high-skilled individuals to a city.
- Leisure trip volumes are more powerful as a variable to explain population growth than previous measures of city amenities used by other researchers, such as the number of restaurants, movie theaters, and museums.
- Neighborhoods that are “central recreational districts”, defined as proximate to recreational and leisure-oriented amenities<sup>35</sup> grew faster than other comparable areas, flourishing even as other central city areas lagged. Similarly, access to central recreational districts was found to be even more important than proximity to the central business district in explaining residential rental price growth.

***Cities that attract greater numbers of leisure visitors also attracted a greater share of college educated residents.***

***Boeing’s decision to relocate its headquarters to Chicago was heavily influenced by the cultural assets and vibrancy of the city.***

Such research points to the importance of quality of life in attracting human capital that helps foster valuable economic growth. Looking ahead, as the importance of knowledge, and skills, increases further, attracting human capital is anticipated to become even more important.

The importance of quality of life plays out in everyday business decisions being made by firms that are choosing new locations for expansions or to relocate. For example, Boeing’s decision to relocate its headquarters to Chicago was heavily influenced by the cultural assets and vibrancy of the city. This relationship is self-evident to Jeff Malehorn of World Business Chicago, who states:

“Every deck I present to a CEO, we build in the cultural assets. If the family isn’t happy, it’s a harder sell. [The location] has to be a cool place with activities and culture. Traveler attractions are the same reason that CEOs choose a place.”

***“Traveler attractions are the same reason that CEOs choose a place.”***

Jeff Malehorn, President &  
CEO, World Business  
Chicago

Of course, quality of life factors have different levels of importance depending on the type of business and the company leadership making the ultimate decision. In some situations, it makes a tremendous difference. Even if certain operating costs are higher in a given location, they may not represent the most important factor for a company’s location decision. It may be more important for an area to demonstrate the quality of life characteristics that make the area attractive to the company’s

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<sup>35</sup> Factors used to define central recreational districts included proximity to the city’s tourism center, historical sites, and other recreational places such as museums, local attractions, major theaters, parks and zoos.

executives and other relocating employees. Similarly, quality of life has an indirect impact on location decisions by helping a region attract and retain a talented workforce. Availability of skilled labor is frequently one of the top criteria in business location decisions, and areas with high quality of life are better able to attract and retain such workers.

*Observed best practice: For important new investment bids, EDOs will coordinate with DMOs for the best possible pitch. Given the importance of destination characteristics in the decisions of investors and site locators, DMOs can provide the marketing content and experiences to visitors to strengthen the bid*

All of the economic development organizations we studied reported collaboration and contact with the local DMO, including the use of collateral and media originally developed by DMOs. For example, the Cleveland Department of Economic Development has an entire section its website called “Living Here” that focuses on amenities and attractions including arts, culture, and entertainment.

Denver provides several examples of the collective impact of tourism on resident quality of life and, in turn, on economic development:

- The Denver Economic Development Corporation (EDC) works with Visit Denver to develop attractions in the metro area including urban packaging, destination amenities (including Coors Field), a convention center, and urban activities. “Denver is a small market so we need everybody. Collaboration is normal and required,” observes Tom Clark, Metro Denver EDC.
- The reasons that people visit Denver, including a vibrant entertainment and arts sector, are the same reasons that people want to live in Denver. The airport, EDC, Visit Denver, state tourism and state EDC all work together and meet on a regular basis.
- The Metro Denver EDC led the effort for funding of major funding requirements for a Major League Baseball team and stadium. The stadium has been catalytic in lower downtown, driving the development of entertainment and restaurants with the convention center, Coors Stadium, and the Pepsi Center as anchors. This has been a significant draw for tourism but has also led to the relocation of 20,000 people in lower downtown Denver.

*The development of leisure attractions in lower downtown Denver has been instrumental in the relocation of 20,000 residents to the area.*

In Cleveland, the CVB has taken the lead on destination development by creating a department solely focused on enhancing visitor experiences. For example, Destination Cleveland has spearheaded the creation of a new city-wide way-finding project. David Gilbert, President and CEO of Destination Cleveland, explains, “The visitor experience is affected by a wide range of destination attractions. With the new way-finding initiative we are facilitating city-wide experiences for both visitors and residents.”

Asheville recognized the importance of visitor attractions and amenities in 2001 by dedicating one percentage point of the occupancy tax to a Tourism Product Development Fund. The DMO awards grants to capital projects that generate overnight visitation. Almost \$20 million in funding has been provided for projects including sports facilities, conference center renovations, and new attractions. Since the inception of the fund, visitor spending in the county increased 98%, compared to 68% statewide.

The Asheville CVB directly supported economic development in pitching the city’s lifestyle to New Belgium Brewery. Ben Teague, Executive Director of the Economic Development Coalition for Asheville-Buncombe County, states, “A trending item for economic development is lifestyle, culture and community awareness. Our CVB is the expert in promoting this.” Stephanie Brown, Executive Director of the Asheville CVB summarized the point: “Nine million visitors came to Asheville last year. They support an amenity base—which provides a desirable lifestyle—that is larger than our population will support.”

***“Nine million visitors came to Asheville last year. They support an amenity base—which provides a desirable lifestyle—that is larger than our population will support.”***

Stephanie Brown, Executive  
Director of the Asheville CVB

This was evident in Asheville’s recent win of a \$125 million investment from GE Aviation. The selection of Asheville was heavily influenced by its quality of life scores related to both outdoor activities and a vibrant downtown. As companies seek to attract and retain talent, these location factors have become more central to investment decisions.

According to Development Counsellors International 2014 survey, 40% of corporate executives cite “quality of life” information as one of the most useful features of an Economic Development Organization’s website.<sup>36</sup>

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<sup>36</sup> *Winning Strategies in Economic Development Marketing* (Development Counsellors International, 2014), <http://www.aboutdci.com/winning-strategies/>.



## 4 The Economic Track Record of Cities that Prioritize Destination Promotion

### Key Findings:

- Cities with a higher concentration of visitor-related industries tend to grow faster than average.
- Recent research has found higher-levels of leisure visits positively affect population growth and employment growth at the city level.
- Econometric tests show that structural shifts in the visitor economy are followed in subsequent years by sustained changes in growth in other parts of the economy. A 10% increase in a destination's visitor-related employment that is achieved through an increase in that destination's share of total US visitor-related employment (i.e. a market share gain), tends to be followed by a 1.5% increase in employment in other sectors in that city in the short run (approximately two years).

Having observed the various ways in which destination promotion supports broader economic development efforts, the question remains whether a factual relationship can be determined. That is, do cities (and states) that are succeeding as visitor destinations tend to succeed in economic development?

While some researchers have previously investigated the causal relationship between tourism and economic growth at the national US level, few studies have analyzed the relationship between tourism and economic growth at the regional level.<sup>37 38</sup> Therefore, an important step in the path forward is to use the wide range of experiences that is found at the regional level in the US as a base for further analysis.<sup>39</sup> This analysis attempts to do just that.

As a starting point, we provide context by summarizing the correlation between visitor economy intensity at the city level and economic growth over the next ten years. Next, we discuss the results of a detailed causality analysis that we conducted to assess whether growth in the visitor economy leads to growth in other

*Those metros which have experienced stronger performance in visitor-related sectors have also tended to perform better in other industries.*

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<sup>37</sup> Chun-Hung Hugo Tang and SooCheong Shawn Jang, "The Tourism–economy Causality in the United States: A Sub-Industry Level Examination," *Tourism Management* 30, no. 4 (2009): 553–58.

<sup>38</sup> María del P Pablo-Romero and José A. Molina, "Tourism and Economic Growth: A Review of Empirical Literature," *Tourism Management Perspectives* 8 (2013): 28–41.

<sup>39</sup> Ibid.

sectors. This is the crux of entire study. We follow this with a brief summary of results from a recent research paper that examined the influence of leisure amenities, quantified by the number of leisure visits a region attracts, and economic growth over the next ten years, controlling for a host of factors.

## 4.1 Correlation

The visitor economy is one of many factors that influence regional economic growth. As shown in the following figure, a simple correlation analysis between the importance of a metro area's visitor economy and subsequent job growth shows a positive relationship, but many other factors are also at work. In this graph, the importance of the visitor economy is shown on the horizontal axis as measured based on the share of jobs accounted for by selected hospitality and tourism sectors in 2004.<sup>40</sup> Growth in total employment over the period from 2004 to 2013 is shown on the vertical axis. Each city is measured on the basis of the metropolitan statistical area (MSA), which represents specifically defined set of economically-connected counties. In total, measures for 96 cities are shown.<sup>41</sup>

Based on this correlation, each 1.0 percentage point increase in the share of visitor economy jobs corresponds to total job growth over a nine year period that is 3.0 percentage points stronger. Considering San Francisco as an example, 3.0% of jobs in the economy were visitor economy jobs in 2004. This is 1.1 percentage points greater than the 1.9% share for the 96 MSAs on average. San Francisco total job growth was 2.4 percentage points faster than average of the selected MSAs. (This is a slightly slower pace of incremental job growth than implied by the correlation for the MSAs overall.)

***Each 1.0 percentage point increase in the share of visitor economy jobs corresponds to total job growth over a nine year period that is 3.0 percentage points stronger.***

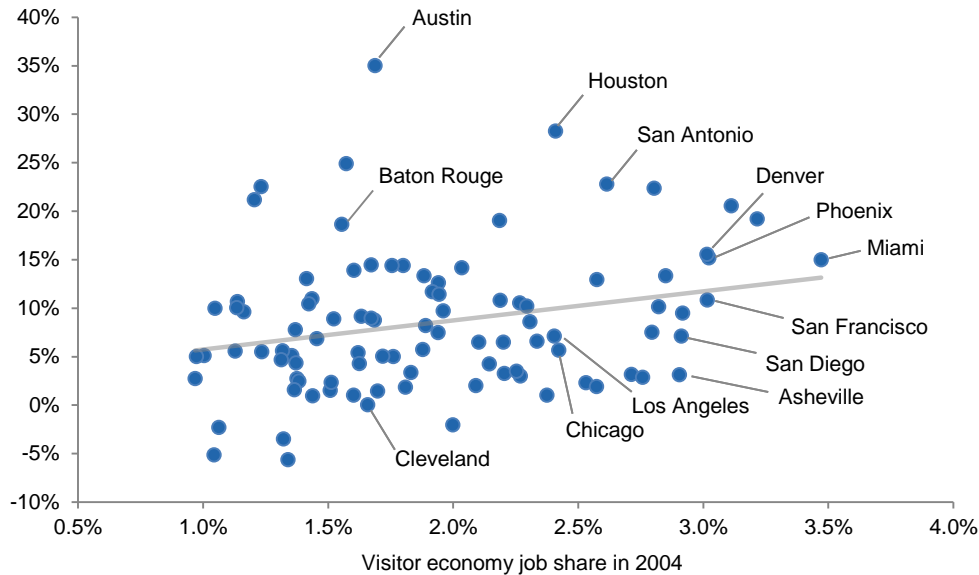
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<sup>40</sup> In this analysis, visitor economy employment includes the hospitality and tourism traded cluster sectors as well as air transportation sub-sectors.

<sup>41</sup> Asheville, NC is included in the set for illustrative purposes. Three MSAs are excluded due to the dominant role of the visitor economy (Las Vegas, Orlando, and Honolulu), one is excluded due to the size of its non-visitor-related air transport sector, which obscures measurement of the visitor economy as defined (Memphis), and New Orleans is excluded because the Hurricane Katrina recovery effects impact both measures.

## Visitor economy and total employment growth

Growth in total employment  
2004 to 2013



Source: Bureau of Labor Statistics; EMSI; Tourism Economics

*Those destinations with a higher concentration of visitor-related activities and employment have historically grown faster.*

This presents a compelling hypothesis that the dynamics described in the previous sectors are evident in the actual performance of cities. However, for the theory to be validated, causation must be substantiated.

## 4.2 Causality analysis: Does growth in the visitor economy lead to growth in other sectors?

Determining the causal relationship between changes in the visitor economy and the broader economy represents the most important (and most detailed) part of our analysis. In this step, we developed a set of econometric models to discern whether causality flows from growth in the visitor economy to growth in other industries. The models use a set of panel data that consists of annual employment by industry sector, and wage information, for more than two hundred US cities over more than two decades.<sup>42</sup>

Similar to the basic correlation analysis, preliminary analysis of the panel data shows a clear correspondence between the visitor economy and wider economic activity across the US. Those cities which have experienced stronger performance in visitor-related sectors have also tended to perform better in terms of growth in other industries. However, it is not enough to look at just correlations to identify the underlying relationship and dynamics at work. Causality must be specifically assessed.

That is, does destination performance and intensity directly influence activity in other parts of the local economy? Or is destination performance itself a consequence of booming activity elsewhere in the local economy?

The simple answer from our results is that visitor activity is both a consequence of other economic activity (correlation) as well as an important predictive factor (causation) in wider economic development. Over this extended period of time and across hundreds of cities, developments in visitor-related sectors are typically followed by gains in other parts of the economy. This statistical observation follows the theory that structural changes in the visitor economy, such as can be achieved as investments in destination promotion, lead to improvements in transport connectivity, familiarity, brand, attractions, amenities and infrastructure. And these improvements create an environment where other industries grow in response.

In this way, the impact of the visitor economy goes beyond the standard economic impact analysis, with this causality analysis indicating that larger “catalytic” benefits tend to follow growth in the visitor economy.

*The impact of the visitor economy goes beyond the standard economic impact analysis, with causality analysis indicating that larger “catalytic” benefits are generated by growth in the visitor economy.*

*Econometric tests show that employment shifts in the visitor economy are followed in subsequent years by sustained changes in growth in other parts of the economy.*

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<sup>42</sup> As with the correlation analysis, cities in this analysis are measured using metropolitan statistical areas (MSAs).

#### 4.2.1 Approach

The specific approach that we used to assess causality was a form of econometric analysis referred to as “Granger causality tests”. These tests measure the deterministic nature of the relationship between multiple variables, in this case employment in visitor-related sectors and employment and wages in other parts of the economy. To apply this approach, we developed a set of econometric models based on panel data consisting of employment by industry sector, and wage levels, covering a 23 year period (1990-2012) for 237 cities. In these models, we used an aggregate of the hotels, restaurants, and recreation sectors as a proxy for the visitor-related economy.<sup>43</sup>

In determining the specification of the economic models and corresponding tests, we sought to capture the long-run structural properties of activity by city rather than temporary movement over the business cycle.

In addition to the steps described above, we also performed selected tests to inform our analysis. For example, we carried out necessary tests for unit roots and co-integration to determine that trend relationships are indeed valid for estimation. The most statistically relevant equation formats for regression were also informed by these tests. Modeling details can be found in the Appendix.

#### 4.2.2 Overview of three tested models

Results of the Granger causality tests show that the relationship does indeed run in both directions. Changes in economic activity in sectors not associated with visitors often coincide with some immediate response in visitor-related sectors. This would be expected as business travel, at least, is influenced by economic activity in the destination. More importantly, the tests show that employment shifts in the visitor economy are followed in subsequent years by sustained changes in activity in other parts of the economy.

Specifically, we tested three different specifications, as outlined in the following paragraphs. Overall, the strongest results were evident for the second of these specifications. We focused the analysis on the largest 200 cities. Tests were also carried out for different size-based groups of cities, with the cities grouped according to the level of total employment.

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<sup>43</sup> Specifically, we used the leisure and hospitality sector, consisting of NAICS 71 Arts, entertainment and recreation, and NAICS 72 Accommodations and food service, to represent visitor-related employment.

**Model #1: Changes in employment levels: causality confirmed with low confidence**

In this framework, we tested the causal relationship between the *level* of visitor-related employment for a given city and the *level* of other, non-visitor-related, employment in that city. Here the hypothesis was that cities that invest more heavily in the visitor economy, indicated by more rapid development in visitor-related jobs, subsequently experience faster growth in other sectors.

Based on the results, this relationship is statistically valid and visitor-related employment does indeed “Granger-cause” employment in other sectors with a short lag period. However, there are other causal factors and omitted indicators may mean that relationships are not as robust as other methods.

**Model #2: Changes in employment shares: causality confirmed with strong confidence**

In this framework, we tested the causal relationship between changes in visitor-related employment in a given city as a *share* of total US visitor-related employment and changes in other employment in that city as a *share* of the US total. Here the hypothesis is similar to the first framework, but the analysis is structured to look at a city's share of the US total. Since such shares follow patterns that are largely stable, competitive changes, such as advances in key sectors that result in significant shifts in a market's share, are more discernable.

Using this equation format, visitor-related employment is observed to cause employment in other industries. Test statistics are stronger than in the first framework, giving greater confidence that results are valid. Relationships are more strongly identified when testing for the group of smaller cities than for the largest cities.

The results indicate that a 10% increase in visitor-related employment that is achieved through an increase in that city's share of total US visitor-related employment (i.e. a market share gain), typically causes a 1.5% increase in employment in other sectors in that city in the short run (approximately two years)

The analysis of impacts for a typical city is a useful reference point. The average city in the top 200 US MSAs had 532,000 total jobs in 2013, of which 57,000, or 10.7%, were in the hospitality and leisure sector being used to represent the visitor-related economy and 475,000 were in other sectors. For such a city, an improvement the city's share of total US visitor-related employment, such as through an improved competitive position, that increases visitor-related employment by 10% is a gain of 5,700 jobs, and the implied gain in other jobs represents another 7,100 jobs (1.5% increase on 475,000 jobs). Thus, the full gain is 12,800 jobs, representing a 2.4% increase in total employment in the short run (approximately two years).

**Model #3: Changes in employment shares relative to total employment and wages: causality confirmed with reasonable confidence**

In this third specification, we tested the causal relationship between changes in visitor-related employment in a given city as a *share* of total employment in that city and wages in other sectors in that city *relative* to the US average. Here the hypothesis is that those cities with a higher, and rising, proportion of employment in visitor-related sectors experience more rapid wage growth in the wider economy.

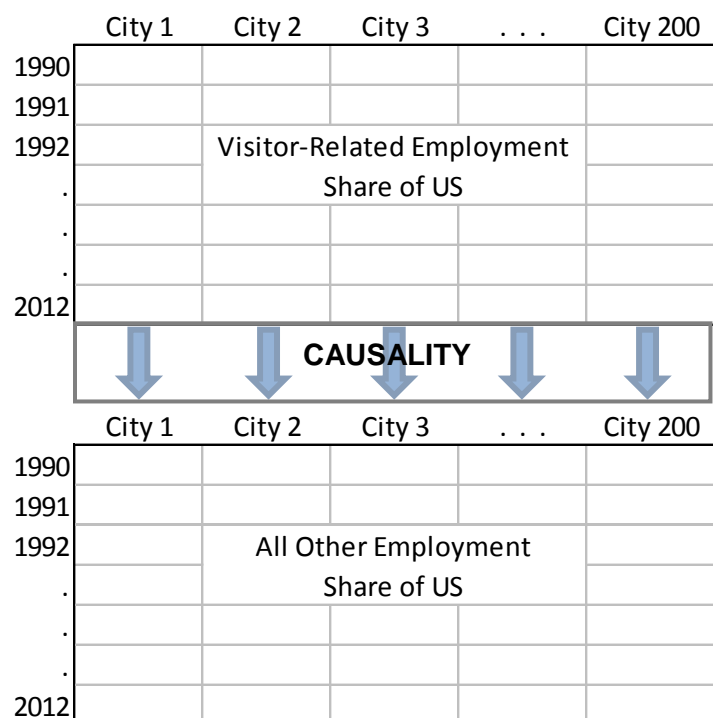
The results suggest this is a valid effect: that average incomes rise in the broader economy as visitor activity increases. These results point to an income effect from visitor activity as well as an employment effect.

#### 4.2.3 Model results

We carried out the causality analysis for the three specifications since each equation passed the initial validity tests. However, the clearest causal relationships are evident in the second model, which is set up to measure visitor-related employment and other employment in a city as a share of the US in total. This specification analyzes changes in the competitive position of each city relative to the rest of the country. Further background on this approach, as well as a more detailed discussion of results is provided as follows.

The second specification is simple, but it picks up key information regarding the visitor economy and broader economy in relation to the US in aggregate. By using employment shares it is implicit that travel demand for each city follows a similar path as total US travel demand. This specification factors in major demand shifts for the city as well as the overall growth trend. Analysis of the data shows that shares are typically stable over time. For example, economic cycles broadly impact the visitor economy in most cities in ways that are consistent with the national cycle. Hence, any significant deviations are attributable to structural factors, such as a change in the competitive position of the city.

Similarly, broader economic activity is assumed to evolve in line with demand trends at the national level. Deviations in terms of changes in market share stand out, and have the potential to be attributable to





structural changes, including the catalytic impact of the visitor economy.

Across the panel of cities analyzed, when a city gains market share, as measured by an increase in that city's share of US visitor employment, a pattern of subsequent increases in broader employment within that destination is evident. The model yields a high degree of confidence that the structural relationship between the visitor and the broader economy has been identified. Specifically, the relationship that is observed is that a 10% increase in visitor-related employment in a city that is achieved through an increase in that city's share of total US visitor-related employment (i.e. a market share gain), tends to result in a 1.5% increase in broader employment in that city over the short-run (approximately two years). Such dynamics can be seen in examples over time and across the various cities considered. There are additional positive effects over multiple years beyond the short-run impacts, but we have conservatively focused on the short-run impact.

There are several important aspects to note. First, while travel is a growth sector, and creates new jobs on an ongoing basis, the specific type of gain we've quantified in this analysis requires a city to grow faster than the national average, thereby growing its market share. Rather than measuring the impact of trend growth of the visitor-economy, the impact of recessions, we're measuring specific market share gains or losses.

Second, while we have communicated the estimated results in terms of employment impacts, this is a broader analysis than traditional economic impact analysis. Traditional economic impact analysis relates a level of visitor spending to a corresponding level of visitor-related employment and employment in other sectors of the economy through linkages such as supply chain effects. In this causality analysis, such multiplier effects are assumed to be part of what contributes to the impact on other sectors, and the econometric analysis is open to capture the potential for broader effects as well.

Factors that contribute to the shift in competitive position and increased visitor-related market share achieved by a city have the potential to impact other sectors as well. Whether it's increased awareness and familiarity of a city, a strategic investment that not only boosts the visitor economy but also yields quality of life benefits that help attract new residents, or success building convention demand that forges new connections for local businesses, the model identifies benefits beyond direct visitor spending. By tracking the extent to which initial changes in visitor-related market share leads to changes in other employment, this causality analysis helps capture that broader picture.

Third, we observed that the benefits, while evident across the full set of cities, were more robust for the largest or smallest cities. Similar coefficients were found for each city group but the explanatory power of the equations was strongest for the group of smaller cities, followed by the group of top 50 cities. The explanatory power was weakest for the group of the second 50 largest cities.

*When visitor-related employment increases relative to total US visitor employment, then a subsequent increase in broader employment within that destination is evident.*

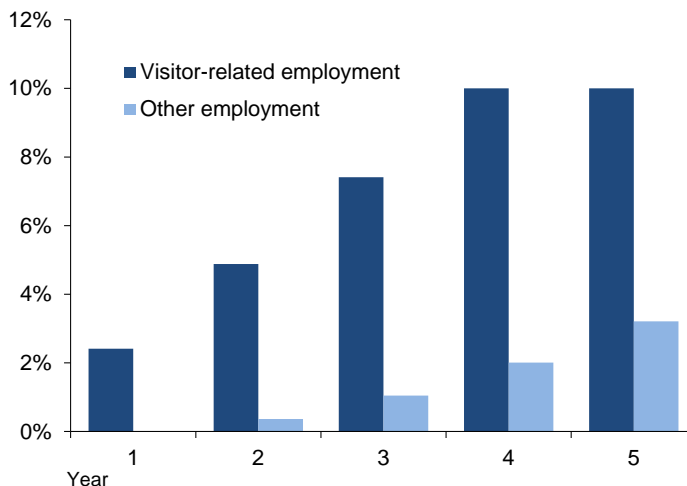
*Whether increased familiarity, improved amenities, or conventions that forge new connections for local businesses, the model identifies benefits beyond direct visitor spending.*

To provide further background, the accompanying figure illustrates the dynamics at work in the causality analysis. For the purposes of the example, we have modeled the impact of a change in visitor-related employment over a four-year period, ultimately reaching a 10% increase above the baseline. For example, this could be thought of as the result of an improvement in the competitiveness of the destination that gradually leads to gains such as stronger awareness and greater levels of visitation.

Over time, this structural change in the destination yields gains in other employment. Part of this impact is represented by the short-run effects that occur within two years of changes in visitor-related employment. For example, in year-two, the year after visitor-related employment initially increased to 2.4% ahead of the baseline, we see less than a 1% increase in other employment. Another part of the gain in this example, particularly in later years, reflects the additional positive impacts captured by the econometric analysis as being incremental to the short-run effects. As a result, by the fifth year, the impact to other employment exceeds 2%.

### Modeled increase in visitor activity

% increase over baseline



### 4.3 Other empirical research

A third party study<sup>44</sup> identified a similar explanatory link between a successful visitor economy and broader economic growth while controlling for other factors that help explain economic growth across MSAs. This recent study was designed to independently predict, or explain, differences in economic growth.

The Carlino and Saiz analysis looks closely at the relationship between leisure amenities, quantified by the number of leisure visitors a region attracts, and economic growth over the next ten years, after controlling to a host of factors. The study is discussed more completely in the section of this report titled “Raising the quality of life”, but it is helpful to repeat one of the key findings here as follows.

Population and employment growth was about 2.0 percent higher over a ten year period in an MSA with twice as many leisure visits at the start of the period as another MSA. The analysis considers 305 MSAs over the period from 1990 to 2000, and controls for other economic and geographic factors typically considered in such research.<sup>45</sup>

Carlino and Saiz focus on leisure visits as a primary variable explaining population and employment growth. However, the research also shows a similar effect for tourism employment growth, with a doubling of tourism employment in a representative MSA relative to another estimated to increase population and employment growth by approximately 3.0 percentage points over a ten-year period, after controlling for other factors. This estimate reflects a direct effect that is smaller than the basic correlation, as it calls for a doubling of tourism employment to reach a 3.0 percentage point boost in total employment growth.

***Cities with a higher concentration of visitor-related activities and employment have historically grown faster over the past decade.***

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<sup>44</sup> Carlino and Saiz, *Beautiful City*.

<sup>45</sup> Examples of economic factors include the share of workers in manufacturing, while geographic variables included factors such as proximity to an ocean or Great Lakes coast and climate. Indeed among such variables, leisure visits stood out as the third most important predictor of population growth over the 10 year period, only rating below factors measuring immigration, tax levels, and climate. Based on an evaluation of growth from 2000 to 2006, leisure visits are also found to be a good predictor of growth beyond the base sample period.

## 5 Conclusions

By the very nature of the topic, the forgoing research and analysis is complex. However, what it shows is relatively simple: that prioritizing destination promotion makes good economic sense, not only for developing the travel economy but for driving broader economic growth.

The implications are two-fold.

### **Implication #1: Prioritize destination promotion**

The funding for destination marketing and promotion should be prioritized in light of the substantial dividends that it is capable of producing. Indeed, there may be few other investments which are capable of yielding such a broad set of impacts. Given the size, growth, and catalytic benefits of destination promotion, the development of both meetings and leisure tourism markets should be a priority when evaluating the allocation of industry assessments or general fund tax dollars.

### **Implication #2: Coordinate economic development and destination promotion**

Economic development organizations (EDOs) and destination marketing organizations (DMOs) are both in the business of marketing a place. The decisions that they aim to influence are different; EDOs seek to influence investment decisions while DMOs are focused on travel decisions. However, the audience they market to and the products they promote have significant overlap. As a result, EDOs often look to DMOs for support of important investment bids and in general promotional activities. Our interviews with EDO and DMO executives identified key categories of cooperation, revealing powerful synergies and recognition that there is even more to gain through cooperation. “We don’t work with the DMO to the extent that we could,” observed one economic development director. Similarly, Ben Teague, Executive Director, Economic Development Coalition for Asheville-Buncombe County noted that twice monthly meetings between the EDO, DMO and Chamber of Commerce were valuable and that “Ideally, Economic Development and our DMO would collaborate even more.”

*“Ideally, Economic Development and our DMO would collaborate even more.”*

Ben Teague, Executive  
Director, Economic  
Development Coalition for  
Asheville-Buncombe County

Our review of best practices has revealed many areas where coordination between economic development and destination promotion has been effective. By combining efforts and collaborating on key opportunities, EDOs and DMOs have been able to produce major wins for their cities and states in the areas of air service, high profile events, site relocations, new investments, and brand awareness. We have identified five potential areas for EDO-DMO coordination.

1. Air service development initiatives can be more effective with DMOs at the table. DMOs can provide strong support in discussions with airlines with a unique understanding of visitor markets and the associated demand for new routes.

2. The building and adoption of a brand should be coordinated between DMOs and EDOs. Our research has found that the best city and state brands appeal to both visitor and investor markets. This involves both the creation of the brand message and the communication of that brand through all channels of sales and marketing. Consistency between DMO and EDO messaging will, over time, produce the strongest results.
3. EDOs and DMOs should maintain a platform for regular communication. In some cases, this involves regular meetings to discuss key issues and opportunities. In others, organizational relationships exist to formalize communication.
4. For important new investment bids, EDOs coordination with DMOs results in the best possible pitch. Given the importance of destination characteristics in the decisions of investors and site locators, DMOs can provide the marketing content and experiences to visitors to strengthen the bid.
5. EDOs and DMOs can jointly leverage strategic conferences, trade shows. By targeting events in key industry clusters or with a high profile in certain areas, events can be used to develop strategically important sectors of the economy. In addition, once key events have been secured, EDOs and DMOs should work together to establish a presence at these events and gain an audience with executives and other decision makers. EDOs can further leverage high profile events by connecting with media representatives and hosting hospitality events.

## 6 About Oxford Economics

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## Appendix

### Further background on traded goods and services

Economic development efforts frequently target industries that will augment a region's economic base, bringing jobs that are supported by sales to markets outside of the local area. By producing exports, also referred to as traded goods and services, such sectors represent the local area's economic base, generating jobs and incomes that help create demand for local goods and services.

It's useful to consider two examples. The first is a manufacturing plant that produces equipment that is sold to a national market of customers. Sales of the firm's outputs to national distributors draw new dollars into the regional economy. This is in contrast to a business serving a primarily local market, such as a grocery store. The grocery store is selling to households within the region. While the presence of the grocery store is important, adding an additional store would not expand the region's economic base because it does not increase the income that is already available in the region to spend on local goods and services.

In the example of an export, or traded good and service, economists refer to a multiplier effect because the expansion of a sector not only represents a gain of jobs within the sector, but also creates additional jobs in the regional economy. Whether it is an equipment manufacturer serving a national market, as in the example above, or a sports venue that draws out of town visitors, such a facility will purchase some local inputs, such as the service of local building maintenance firms, and the employees of the plant are anticipated to spend a portion of their wages and salaries on local goods and services.

In the case of the visitor economy, sales of local goods and services to travelers outside the region represent exports, or traded goods and services, and the visitor economy represents part of a region's economic base.



### Additional information on causality analysis

Data were analyzed for the years 1990-2012 for 237 MSAs. Tests have been run for all 237 MSAs as well as the sub-set of the 100 largest MSAs.

Tests have considered three relationships focusing on levels or shares of US activity. This adds confidence that true relationships are being observed and that the causal relationship affects the long-run structural properties of the MSA; rather than any spurious correlation over a business cycle, i.e. a long-run levels shift in tourism activity leads to a long-run levels shift in non-tourism activity:

1. The **level** of employment in tourism-related sectors and the **level** of employment in the broader economy. The hypothesis is that MSAs with more rapid development in tourism-related jobs following investment in those sectors, experience faster growth in other sectors relative to the US total.
2. The **share** of total US employment in tourism-related sectors and the **share** of US employment in the broader economy. This follows the same logic as #1 but adds further explanatory factors into the equation; MSA sector output develops in line with the US total, with a relatively constant share of US activity over time. Increased investment in tourism would result in that MSA gaining a higher share of US tourism demand with higher employment. It is tested whether this leads to higher non-tourism activity.
3. Employment in tourism-related sectors as a share of total MSA employment and relative wages. The hypothesis is that those MSAs with a higher, and rising, proportion of employment in tourism-related sectors experience more rapid wage growth in the wider economy.

Econometric testing offers some support for methodologies #1 and #2. #3 is unclear. #2 seems to be the best formulation:

- Evidence that unit roots exists and valid equations are being estimated
- Causality testing suggests this run in both directions but points to a lag between developments in the tourism employment share and non-tourism development.
- As unit root tests show that all series are stationary the risk of spurious correlation is diminished and co-integration tests are not essential. However, these tests show that indicators follow the same deterministic trend (with no trend or intercept factor). Hence regression should not include any constant or trend factors.
- Overall tests suggests some stronger relationships for the smaller MSAs

Preferred regression output is for a relatively simple equation format, that non-tourism employment in each MSA relative to that for the US as a whole is related to its value in the previous year plus any changes in the share of tourism employment. This is a simple formula by design but picks up a lot of information and supports the theorized relationship, and notably for smaller cities.

$$\text{EMP\_NT, MSA/EMP\_NT, USA} = 0.85 * (\text{EMP\_NT, MSA}(-1)/\text{EMP\_NT, USA}(-1)) \\ + 0.15 * (\text{EMP\_TOUR, MSA}(-1)/\text{EMP\_TOUR, USA}(-1))$$

Equation estimation gives robust test statistics, but indicates a stronger relationship for some smaller MSAs. Larger cities likely have a lot of other explanatory factors that are being missed in this admittedly simple formulation. Above equation includes coefficients for the smaller cities.

Dynamics of this formula show that an increase in the level of tourism activity relative to the rest of the country (from new investment) is followed by a more gradual increase in non-tourism activity. Shares of tourism and non-tourism activity are closely aligned over time and across cities.

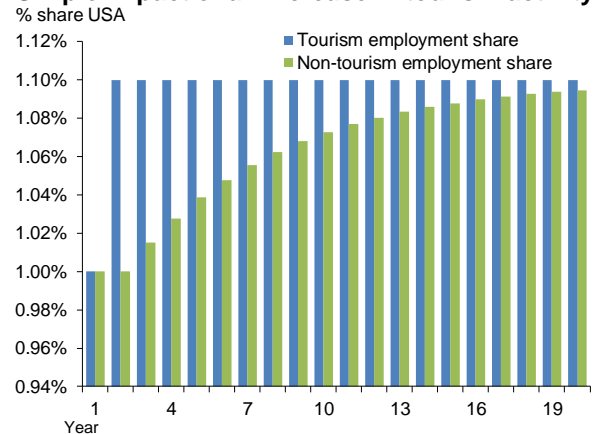
The adjacent charts illustrate the dynamics of this equation. In the first instance the simple impact supposes that in year one both tourism and non-tourism employment within a city constitute 1% of US activity. Then in year two tourism demand jumps such that employment rises by 10% to comprise 1.10% of US tourism employment and then remains stable. Non-tourism employment remains stable in year 2 but then rises by 1.5% in year 3 (0.15 \* 10%). This is followed by more gradual increases in non-tourism activity.

A more phased increase in tourism activity is likely following new investment and the second example chart shows the effect of a more gradual improvement in tourism activity: the share of US employment rises from 1.0% to 1.1% over the space of ten years rather than in one year as in the simple case. In this example, equation dynamics show that non-tourism activity would also increase with a lag.

It should be noted that this sort of impact is also broadly consistent with the estimation results from the employment levels regression. However, the dynamics of the share equation better follow observed relationships and crucially offer stronger test statistics in econometric analysis.

Estimation of relative wages, as a function of the share of employment in tourism, also offers some support to this sort of relationship. Economic activity and prosperity in other sectors follows growth in investment and activity in tourism.

**Simple impact of an increase in tourism activity**



**Phased impact of an increase in tourism activity**



## Summary of statistical tests

### *Unit root tests*

Before running regressions and assessing causality, co-integration and unit root tests must be run. This is essential to confirm whether the data series under consideration have the correct statistical properties, and whether there is evidence that the assumed relationships exist.

For estimation to be valid, both the dependent and explanatory variables under consideration need to share the same order of integration.

#### Unit root tests summary

- 6 series were tested for each MSA: tourism employment level and share of US total, non-tourism employment level and share of US total, tourism employment share of total employment, average wage relative to US average
- Tourism employment and non-tourism employment need to share a unit root for valid causal estimation and regression. Similarly the same employment series as a share of US totals need to share a level of integration. And relative wage in non-tourism sectors and tourism share of employment also need to share a unit root for that estimation.
- There is evidence that all series are stationary and valid for estimation. However, in applying various tests there is some uncertainty, especially in relation to the statistical properties for the largest MSAs
  - Tourism employment – is stationary in testing across all MSAs. But when isolating the 50 and 100 largest MSAs we cannot accept the null hypothesis that there is a unit root. Hence estimation for these largest MSAs is less certain. Test results look most valid for the second 100 largest MSAs
  - Non-tourism employment – we are able to accept the null hypothesis that the series is stationary in testing for all MSAs as well as in groupings of the largest and smaller MSAs
  - Tourism employment share of US tourism employment – contrary to the levels series we can accept the null hypothesis of a single unit root for even the larger MSAs
  - Non-tourism employment share of US non-tourism employment – in testing for all MSAs combined there is strong evidence of a single unit root, but some uncertainty for the largest 50 MSAs
  - Tourism share of total MSA employment – the null hypothesis of a single unit root can be accepted in most tests for all MSA groupings. But there is some uncertainty, especially for larger MSAs
  - Relative wage in non-tourism sectors – evidence is most mixed for this indicator as some tests point to a single unit root, while a significant proportion do not allow us to accept that null hypothesis

- Estimation involving the MSA sector employment shares of total US sector employment would be less likely to be picking up spurious relationships and will give greater confidence in true relationships. But there is sufficient evidence to explore the other suspected relationships
- Statistical tests suggest any estimated relationships may need to be treated with some caution for larger MSAs.

## ***Co-integration tests***

Co-integration tests add further reassurance that the estimation is valid. Co-integration tests are an extension of unit root tests to jointly determine whether dependent and explanatory variables follow a consistent trend over time. Specifically these test whether the differences between trend growth rates in dependent and explanatory variables have remained constant.

These tests also confirm that the estimation is valid and estimated relationships are not spurious removing some of the uncertainty from the unit root tests.

These test results also suggest the preferred equation specification with regards to time trend or constant term.

- Employment levels equations should include constant terms but no time trend
- Employment share equations should not include constant or time trend
- Similarly relative wage and employment shares should not include constant or time trend

## ***Cross correlations***

These are not strict tests but indicate correlations over lag and lead times to complement causality tests and help to inform the lag structure

- Employment levels show a high level of correlation between lagged and lead indicators suggesting causality runs in both directions. But the correlation between historic tourism employment and non-tourism employment fades over time suggesting a short lag time
- Employment shares follow a similar pattern with a diminishing importance of tourism employment on non-tourism share over a period of less than five years. For the largest markets correlation is unclear and appears to take an intuitively incorrect sign. Relationships may be stronger for the smaller MSAs.
- Lagged correlation is less for relative wage and employment share and suggests that the relationship is actually stronger for the larger MSAs

## ***Granger causality***

Granger causality tests point to a causal relationship that runs in both directions between theorized explanatory and dependent variables. Along with some of the

cross correlations this raises the possibility of autocorrelation and final regression test statistics (notably the Durbin Watson statistic) will need to be reviewed.

- The level of tourism employment can be seen to Granger cause future levels of non-tourism employment. And in turn non-tourism employment can be seen to Granger cause future levels of tourism employment. There is sufficient evidence to reject the null hypothesis that there is no causation.
- The share of tourism employment can be seen to Granger cause the future share of non-tourism employment. And in turn non-tourism employment can be seen to Granger cause future shares of tourism employment. There is generally sufficient evidence to reject the null hypothesis that there is no causation. The exception is when isolating the top 100 MSAs the null hypothesis that tourism employment does not influence non-tourism employment can be accepted with 80% confidence. This is not overwhelming but further reason to check final test statistics closely.
- The share of MSA employment in tourism can be seen to Granger cause relative wage rates in non-tourism sectors. And in turn relative non-tourism wage rates can be seen to Granger cause the share of employment in tourism. There is sufficient evidence to reject the null hypothesis that there is no causation.

### ***Regressions***

Estimation has been run for the three theorized relationships since there is sufficient evidence to believe these specifications are all valid. The specific equations estimated are as below. These are somewhat simple by design and may not be ideal equation specifications for producing a forecast but should provide indicative reaction functions for the influence of tourism development on non-tourism activity:

1.  $\text{LOG}(\text{EMP\_NT}_{i,t}) = \alpha_1 * \text{LOG}(\text{EMP\_NT}_{i,t-1}) + \beta_1 * \text{LOG}(\text{EMP\_T}_{i,t}) + c$
2.  $\text{EMPSH\_NT}_{i,t} = \alpha_2 * \text{EMPSH\_NT}_{i,t-1} + \beta_2 * \text{EMPSH\_T}_{i,t-1}$
3.  $\text{RW\_NT}_{i,t} = \alpha_3 * \text{RW\_NT}_{i,t-1} + \beta_3 * \text{EMPSHT\_TOT}_{i,t-1}$

Where

$i$  – signifier of MSA

$t$  – signifies of year

$\text{EMP\_NT}_i$  = employment in non-tourism sector by MSA

$\text{EMP\_T}_i$  = employment in tourism sector by MSA

$\text{EMPSH\_NT}_i$  = employment in non-tourism sector by MSA as a share of total US non-tourism employment

$\text{EMPSH\_T}_i$  = employment in tourism sector by MSA as a share of total US tourism employment

$\text{RW\_NT}$  = average wage in non-tourism sector by MSA to US average wage

$\text{EMPSHT\_TOT}$  = tourism employment as a share of total employment by MSA

Estimation has been carried out for different groupings of MSAs ranked by size (number in total employment):

- 200 largest MSAs (from the full list of 237 for which comprehensive data were available)
- 50 largest MSAs
- The second 50 largest MSAs (ie those ranked 51-100 in employment size)
- 100 largest MSAs
- The second 100 largest MSAs (i.e. those ranked 101-200 in employment size)

Regression results are strongest for specification #2, consistent with some stronger statistics when testing the specification. R-squareds suggest this better fits actual trends while Durbin Watson statistics are close to or higher than the critical value of 2 giving greater confidence in actual results. Coefficient t-statistics are also valid. This is notably true for smaller cities.

This fits with theory as the relatively simple share equation format still includes a lot of information about macro trends by considering MSA activity relative to the overall US trend; many determinant factors for US total sectoral activity will influence MSA demand.

Equations for relative wage as a function of the share of employment in tourism sectors offers a further perspective on the impact of tourism on wider economic development. R-squared statistics are not as reliable as the employment estimation, providing a weaker fit to the historic data. But with Durbin–Watson statistics above 2 and high t-statistics these still provide significant information regarding the benefit of tourism to the wider economy.

## Regression results

### Employment levels

Level of employment in non-tourism sector as a function of the level of employment in tourism

$$\text{LOG}(\text{EMP\_NT}_{i,t}) = \alpha_1 * \text{LOG}(\text{EMP\_NT}_{i,t-1}) + \beta_1 * \text{LOG}(\text{EMP\_T}_{i,t}) + c$$

MSA sample	Coefficients		R-squared	Durbin-Watson
	$\alpha$ (t-stat)	$\beta$ (t-stat)		
Largest 200	0.722 (71.86)	0.11 (20.96)	0.895	1.09
Largest 50	0.715 (34.63)	0.1 (10.32)	0.854	1.22
Second 50	0.745 (38.97)	0.122 (8.9)	0.947	0.87
Largest 100	0.728 (51.06)	0.1 (14.15)	0.875	1.15
Second 100	0.615 (42.37)	0.238 (21.49)	0.974	0.89

### Employment shares

Share of US employment in non-tourism sector as a function of the share of US employment in tourism

$$\text{EMPSH\_NT}_{i,t} = \alpha_2 * \text{EMPSH\_NT}_{i,t-1} + \beta_2 * \text{EMPSH\_T}_{i,t-1}$$

MSA sample	Coefficients		R-squared	Durbin-Watson
	$\alpha$ (t-stat)	$\beta$ (t-stat)		
Largest 200	0.801 (81.06)	0.199 (20.14)	0.559	1.42
Largest 50	0.86 (84.16)	0.141 (13.57)	0.687	2.15
Second 50	0.877 (85)	0.122 (12.14)	0.058	2.39
Largest 100	0.842 (114.69)	0.16 (21.49)	0.86	1.8
Second 100	0.845 (124.89)	0.149 (23.86)	0.911	1.92

### Relative wages & employment share

Average wage in the non-tourism sector relative to the US average as a function of the share of local employment in tourism

$$\text{RW\_NT}_{i,t} = \alpha_3 * \text{RW\_NT}_{i,t-1} + \beta_3 * \text{EMPSHT\_TOT}_{i,t-1}$$

MSA sample	Coefficients		R-squared	Durbin-Watson
	$\alpha$ (t-stat)	$\beta$ (t-stat)		
Largest 200	0.965 (288.25)	0.272 (10)	0.545	2.42
Largest 50	1.012 (294.38)	-0.108 (-3.3)	0.346	2.47
Second 50	0.98 (139.52)	0.144 (2.46)	0.732	2.61
Largest 100	0.993 (262.3)	0.049 (1.47)	0.395	2.61
Second 100	0.927 (164.03)	0.522 (12.5)	0.64	2.28



**PHILADELPHIA**

303 Lancaster Avenue, Suite 2E  
Wayne PA 19087, USA  
Tel: +1 610 995 9600

**OXFORD**

Abbey House, 121 St Aldates  
Oxford, OX1 1HB, UK  
Tel: +44 1865 268900

**LONDON**

Broadwall House, 21 Broadwall  
London, SE1 9PL, UK  
Tel: +44 207 803 1400

**BELFAST**

Lagan House, Sackville Street  
Lisburn, BT27 4AB, UK  
Tel: +44 28 9266 0669

**NEW YORK**

5 Hanover Square, 19th Floor  
New York, NY 10004, USA  
Tel: +1 (646) 786 1879

**SINGAPORE**

No.1 North Bridge Road  
High Street Centre #22-07  
Singapore 179094  
Tel: +65 6338 1235

**PARIS**

9 rue Huysmans  
75006 Paris, France  
Tel: + 33 6 79 900 846

**email:** [info@tourismeconomics.com](mailto:info@tourismeconomics.com)

**[www.oxfordeconomics.com](http://www.oxfordeconomics.com)**



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