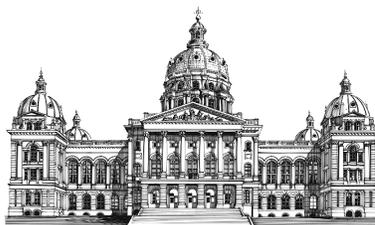

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State Capitol
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January 20, 2000

Tourism Advertising

ISSUE

This *Issue Review* provides an analysis of Department of Economic Development tourism advertising survey results and methodology.

AFFECTED AGENCIES

Department of Economic Development

CODE AUTHORITY

Sections 15.108(5) and 15.271(1)(c), Code of Iowa

BACKGROUND

The Department of Economic Development annually conducts a Spring advertising campaign to promote Iowa as a travel destination.¹ The Department purchases a multi-media advertising campaign focused on Iowa and several large metropolitan areas in surrounding states. The campaign is financed by a General Fund appropriation. The advertising campaign offers free travel information for those making a request. The Department continually monitors the number of requests received. The following Fall, the Department completes a survey of approximately 750 persons who requested and received Iowa promotional materials.

The Department uses the survey responses to complete a cost-benefit analysis of the return-on-investment for the Spring advertising dollars. Surveys have been conducted eight times between 1989 and 1999.

DED'S SURVEY METHODOLOGY

In the Spring of 1999, the Department of Economic Development expended \$1.3 million on tourism advertising.² The target markets were Iowa, Chicago, Milwaukee, Minneapolis/St. Paul, Omaha, Kansas City, and St. Louis. During April, May, and June, the Department received 94,617 requests for tourism information. To determine the effectiveness of the

¹ Due to budget and other considerations, the Spring promotion was not in 1992, 1993, and 1995.

² Includes television, newspaper, magazine, and billboard production and placement, as well as the cost of fulfilling requests for travel packets.

advertising campaign, the Department telephoned 5,211 persons who requested information. Of those contact attempts, 1,227 persons (23.6%) agreed to be interviewed.³ Of the interviewed persons, 719 (58.6%) reported taking a trip in Iowa.⁴ Of those, 581 (80.8%) reported that the tourism information impacted their decision to travel in Iowa. The Department used the responses from the 1,227 interviews to extrapolate to the entire 94,617 requestors of information.

1999 Department of Economic Development Tourism Survey Results

	Sample	Population
A Total Persons Contacted	5,211	94,617
B Total Persons Responding (A times 23.6%)	1,227	94,617
C Total reporting trips in Iowa (B times 58.6%)	719	55,446
D Reported ad campaign impacted Iowa trip decision (C times 80.8%)	581	44,800
E Average number of trips reported	2.3	2.3
F Average reported amount expended per trip by entire party ⁵	\$ 387	\$ 387
G Direct travel impact on State economy in millions (D times E times F)	\$ 0.5	\$ 39.9
H State and local tax revenue per dollar of travel expenditure ⁶		\$ 0.078
I State and local tax revenues in millions (G times H)		\$ 3.1
J Cost to Department of Spring advertising campaign in millions		\$ 1.3
K Average return-on-investment for State economy (G divided by J) ⁷		\$ 32
L Average return-on-investment for Iowa taxpayer (I divided by J)		\$ 2.47

The following table provides the same information for the past five surveys. The information shows several notable trends:

- The dollars expended on the Spring campaign have remained fairly constant since 1994.
- The number of persons requesting travel packets has decreased by more than 48%, while the percentage of those receiving packets who then take trips in Iowa has increased.
- The percentage of persons taking trips in Iowa who report the travel packet information impacted their decision has significantly increased.
- The average number of trips taken has increased.

³ This means 3,984 persons declined to answer, hung up, or for another reason were not interviewed. Under the methodology applied by the Department (and most other surveys of this type), those persons are assumed to be statistically similar to the rest of the population, that is to say, those who declined to answer or hung up are assumed to have taken just as many trips and spent just as much money in Iowa as those who completed the interviews.

⁴ The term "trip" is defined as 50 miles or more. The interviewer asks "Did you take a vacation or short trip in Iowa of 50 miles or more?"

⁵ Due to a typographical error, this number was incorrectly reported in the 1999 Survey as \$397.

⁶ State and local tax revenues are estimated by using figures from The Economic Impact of Travel on Iowa Counties annual study completed by the U.S. Travel Data Center for the Department of Economic Development. That study reports State tax revenues of 6.5 cents per direct travel dollar expenditure and local tax revenues of 1.3 cents. This calculation is not part of the Department's survey report.

⁷ The Department reports an economic multiplier for travel expenditures of approximately 2.7, which results in a return-on-investment, including indirect economic activity, of \$85 per dollar invested in Spring advertising.

- The return-on-investment for the Iowa economy and the Iowa taxpayer has generally increased over the time period, with a dramatic jump in 1999. The jump is due to the increase in average trip expenditures and percentage of persons reporting advertising impacted their decision to travel in Iowa.

Department of Economic Development Tourism Survey Comparisons

	1994	1996	1997	1998	1999
Total Persons requesting travel packets	182,818	113,705	96,139	90,437	94,617
Percentage reporting a trip in Iowa	48.2%	58.4%	61.5%	63.3%	58.6%
Total reporting trips in Iowa	88,118	66,404	59,125	57,247	55,446
Percentage reporting travel packet impacted decision	34.3%	64.9%	61.5%	59.3%	80.8%
Reported ad campaign impacted Iowa trip decision	30,225	43,096	36,362	33,947	44,800
Average number of trips reported	1.6	2.0	2.4	2.1	2.3
Average reported amount expended per trip	\$ 391	\$ 362	\$ 275	\$ 291	\$ 387
Direct travel impact on State economy in millions	\$ 18.9	\$ 31.2	\$ 24.0	\$ 20.7	\$ 39.9
State/local tax revenue per dollar of expenditure	\$ 0.073	\$ 0.073	\$ 0.077	\$ 0.078	\$ 0.078
State and local tax revenues in millions	\$ 1.4	\$ 2.3	\$ 1.8	\$ 1.6	\$ 3.1
Cost to Department of Spring advertising in millions	\$ 1.2	\$ 1.3	\$ 1.0	\$ 1.0	\$ 1.3
Average return-on-investment for state economy	\$ 16	\$ 24	\$ 23	\$ 20	\$ 32
Average return-on-investment for Iowa taxpayer	\$ 1.18	\$ 1.75	\$ 1.78	\$ 1.58	\$ 2.47

RETURN-ON-INVESTMENT

The return-on-investment calculations show the Spring advertising campaign has a positive impact on Iowa tax revenue and a significant positive impact on the Iowa economy. However, the numbers should be interpreted with some caution:

- As stated in footnote four, the sample size was reduced. Those that decline to participate in the survey are treated no different statistically than those that do participate. It is possible that those that decline the interview have taken fewer trips and expended less money in Iowa.
- The expenditures of Iowans traveling in Iowa are counted as part of the return-on-investment, even though a substantial portion of the money may have been expended in Iowa, with or without the trip.
- Conversely, the numbers do not include persons who travel in Iowa because of the Spring advertising campaign, but who do not request a travel packet from the Department of Economic Development.

The returns-on-investment listed in the previous table for 1994, 1996, 1997 and 1998 are not the same as found in Department of Economic Development reports for those years. In 1999, the Department changed the methodology for computing the economic impact of travel for this report. In reports prior to 1999, the Department had not factored into the computations persons who

reported that they did not take a trip in Iowa. This resulted in a significantly higher reported return-on-investment for the earlier years.⁸

The annual reports calculate an average return-on-investment. The total dollar amount returned to the Iowa economy as a result of the total amount expended on the Spring advertising campaign. The key decision making tool in determining if more or less money should be expended on tourism advertising would be the marginal return-on-investment, that is, the return the State economy would realize if the advertising budget was increased by \$100,000. An average return-on-investment calculation can help in that decision, but it does not provide an exact answer because the first \$1.0 million in expenditures could be producing most of the return.

CONCLUSION

The Spring tourism advertising campaign has a positive impact on Iowa's economy, and a positive impact on State and local tax revenues. However, the statistics used to determine the return-on-investment are very dependent on the measurement methodology. Although it is unlikely that methodology issues could lower the return-on-investment for the Iowa economy to a level low enough to make the investment unwise, it is possible that methodology issues could lower the return to the taxpayer enough to show a return in tax dollars less than the amount spent to advertise.

The return-on-investment reported is the average for all expenditures. The return-on-investment for the last dollar expended on advertising (marginal return) could be significantly different than the average return.

The study evaluates the return-on-investment for only the \$1.3 million spent on the Spring tourism campaign. The figures should not be applied to the Department of Economic Development's entire tourism budget (\$5.0 million in FY 1999) and the results from the annual studies should not be used to draw conclusions about the return-on-investment for all advertising dollars.

Returns-on-investment reported by the Department prior to 1999 were overstated in comparison to the methodology used for 1999. The Department has not updated the information for prior years to get the historical data on the same basis.

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⁸ For instance, the return-on-investment reported for 1994 was \$41. When adjusted for persons reporting they did not travel in Iowa, the return-on-investment falls to \$24.

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