



MICHIGAN TOURISM: A \$16 BILLION BUSINESS WITHOUT A BUSINESS PLAN

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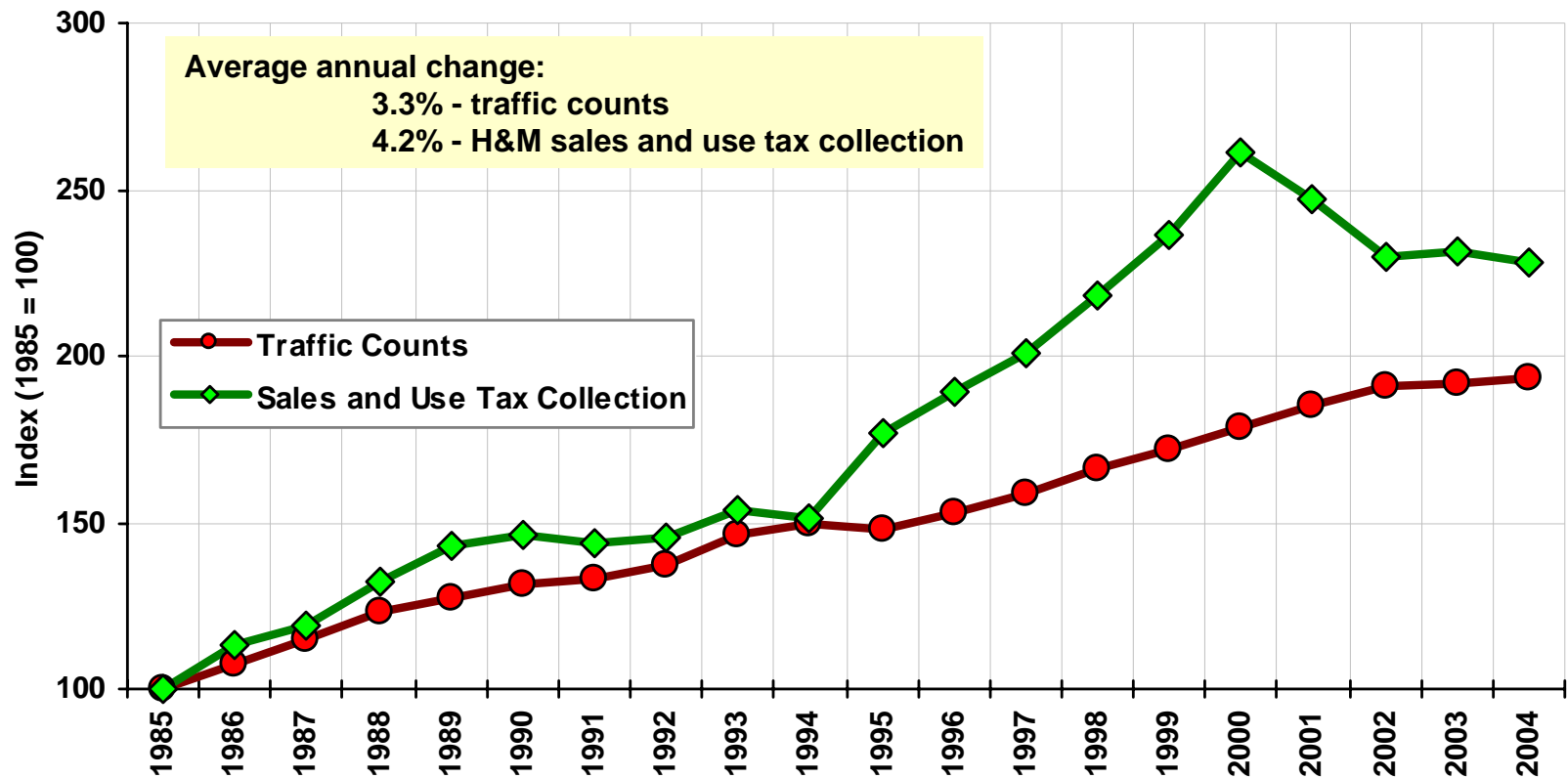


October 4, 2005



- The Michigan Travel, Tourism and Recreation Resource Center was established at MSU in 1985. It is now a unit within the newly formed Department of Community, Agriculture, Recreation and Resource Studies.
- The Center is funded in part by the Michigan Agricultural Experiment Station (MAES) and MSU Extension. Our mission is to support the sustainable economic development of Michigan's tourism industry.
- I have served as the director of the Center since the beginning, and my goal today is to encapsulate what I've learned over 20 years in about 30 minutes.

Tax Collection and Traffic Count Trend in Michigan



Source: Michigan Department of Transportation and Michigan Department of Treasury.

Michigan's Rank in Capturing Travelers' Expenditures



Year	Rank in captured expenditures	
	Domestic*	International*
1985	8	12
1995	13	14
1999	13	16
2002	13	16

* Balanced trade in travel (i.e., dollars in versus dollars out) is achieved when the rank in captured expenditures is about equal to the state's population rank. Michigan is the eighth most populated state in the U.S.)

Source: Travel Industry Association of America; U.S. Census Bureau.

Michigan's Ranking in State Tourism Office Budget



Year	Rank
1990	7
1995	12
2000	20
2004	27
2005	31

Year 2005	Rank
Illinois	2
Michigan	31
Minnesota	26
Ohio	34
Wisconsin	15

Source: Travel Industry Association of America.

Distribution of Domestic Travel to Michigan by Visitor Origin (Household Trips)



State of origin	Number of household trips* (in thousands)	Percent of total household trips
Michigan	13,561	61.9
Illinois	1,388	6.3
Indiana	1,043	4.8
Ohio	1,297	5.9
Wisconsin	748	3.4
Florida	388	1.8
California	377	1.7
New York	284	1.3
Minnesota	253	1.2
Kentucky	238	1.1
Pennsylvania	227	1.0
Other states	2,136	9.6

*) Source: Bureau of Transportation Statistics, U.S. Department of Transportation 1997.

Primary Destinations of Respondents' Most Recent Pleasure Trips, 1996-1998



Destinations	Origins (in %)						
	IL	IN	MI	MN	OH	WI	ON
Michigan	8.2	8.6	<u>44.0</u>	2.7	6.9	6.1	5.2
Florida	9.9	12.9	8.4	4.7	11.0	6.5	7.7
Illinois	<u>14.1</u>	5.6	4.2	2.5	3.2	6.8	0.6
Ohio	2.0	6.7	3.9	0.5	<u>19.4</u>	0.9	1.8
Nevada	3.1	2.7	3.0	2.7	3.1	2.9	0.9
Tennessee	1.8	6.5	2.9	0.7	5.2	0.5	0.3
Indiana	3.7	<u>19.4</u>	1.8	0.7	3.7	1.5	0.2
Wisconsin	10.0	2.1	1.4	9.6	0.4	<u>37.7</u>	0.2
Missouri	7.3	2.7	0.9	1.3	0.7	1.6	0.3
Minnesota	2.0	1.1	0.8	<u>37.7</u>	0.4	7.9	0.5
Other States	28.8	26.5	19.9	29.0	37.2	20.5	15.6
Other Destinations	9.1	5.2	8.8	7.9	8.8	7.1	66.7

Primary Destinations of Respondents' Most Recent Pleasure Trips, 2001-2002



Destinations	Origins (in %)					
	IL	IN	MI	OH	WI	ON
Michigan	9.6	12.6	<u>56.2</u>	10.4	9.4	5.5
Florida	7.8	9.5	5.4	9.0	5.8	6.1
Illinois	<u>14.9</u>	7.7	3.8	2.6	7.0	0.7
Ohio	1.8	5.5	3.7	<u>24.6</u>	1.3	0.8
Ontario	0.8	0.8	3.6	2.9	0.9	<u>46.7</u>
Indiana	5.5	<u>19.1</u>	2.6	3.7	1.1	0.6
Nevada	3.0	2.3	2.3	2.4	2.5	0.7
Wisconsin	11.1	0.9	1.8	1.1	<u>39.3</u>	0.2
Minnesota	2.7	1.2	0.3	0.3	7.0	0.5
Other States	37.4	35.7	15.6	37.9	22.4	12.6
Foreign Countries	5.5	4.7	4.5	5.1	3.3	25.8

Estimated Michigan Pleasure Trip Market Share by County, 1996-2001



County*	Est. market share (%)
Wayne	9.48
Grand Traverse	6.16
Saginaw	4.66
Oakland	4.43
Mackinac	3.95
Kent	3.53
Chippewa	3.07
Ingham	2.98
Berrien	2.82
Isabella	2.77

*) Top ten counties.

Calculating Direct Spending of Tourists by County



- Direct spending by Michigan travelers (traveling at least 50 miles one-way from home) in 2003 was about \$16 billion.
- Of that amount, \$11.5 billion was spend by leisure travelers

$$\frac{\text{County market share \%}}{\text{x \$16 billion}} \\ = \text{direct travel spending} \\ \text{in county}$$

$$\frac{\text{County market share \%}}{\text{\$11.5 billion}} \\ = \text{direct leisure travel spending} \\ \text{in county}$$

Example: Mackinac County

3.95% x \$16.0 billion = \$632 million in overall direct travel spending

3.95% x \$11.5 billion = \$454 million in direct leisure travel spending



Direct Domestic and International Travel Expenditures, 1999



State	Population (in millions)		Direct travel expenditures (domestic/int'l in \$ millions)		Direct travel expenditures (per resident in \$)	
Hawaii	1.2		14,223.6		11,755.0	
Nevada	1.9		21,034.2		11,070.6	
Florida	16.0		55,784.9		3,490.9	
California	33.8		71,369.9		2,110.9	
New York	19.0		36,315.2		1,913.3	
Illinois	12.4		22,147.2		1,783.2	
Minnesota	4.9		6,918.5		1,406.2	
Wisconsin	5.4		6,253.3		1,166.7	
Michigan	9.9	# 8	11,511.6	# 14	1,158.1	# 44
Ohio	11.4		12,748.3		1,123.2	
Indiana	6.1		6,057.5		996.3	

Source: Travel Industry Association of America.



- Industry sales have declined markedly from their peak in 2000.
- Residents of Michigan annually spend nearly \$3 billion more on out-of-state trips than our industry captures from non-residents traveling in Michigan.
- Despite the recent set-back, the industry achieved an average annual growth rate in sales equal to 4.2%



Hotel Sector Performance (1st Quarter)



	Occupancy Rate		ADR*	
	2004	2005	2004	2005
Michigan	49.3%	48.4%	\$71.27	\$71.93
U.S.	62.6%	64.0%	\$88.48	\$91.96
Michigan's Rank		47		26

* ADR – average daily rate.

Source: Smith Travel Research.

Mackinac Bridge Traffic Counts Year-to-Year Change



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓	↑	↓
2001	↓	↓	↑	↑	↓	↓	↑	↑	↓	↓	↑	↑
2002	↓	↑	↓	↓	↑	↑	↑	↑	↑	↑	↓	↑
2003	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
2004	↓	↑	↓	↓	↓	↓	↓	↓	↑	↓	↓	↓
2005	↑	↓	↑	↓	↓	↓	↓	↓				

Note: There are 47 down year-to-year counts from the same month in the prior year.

Source: Mackinac Bridge Authority.

Michigan Highway Traffic Counts Year-to-Year Change



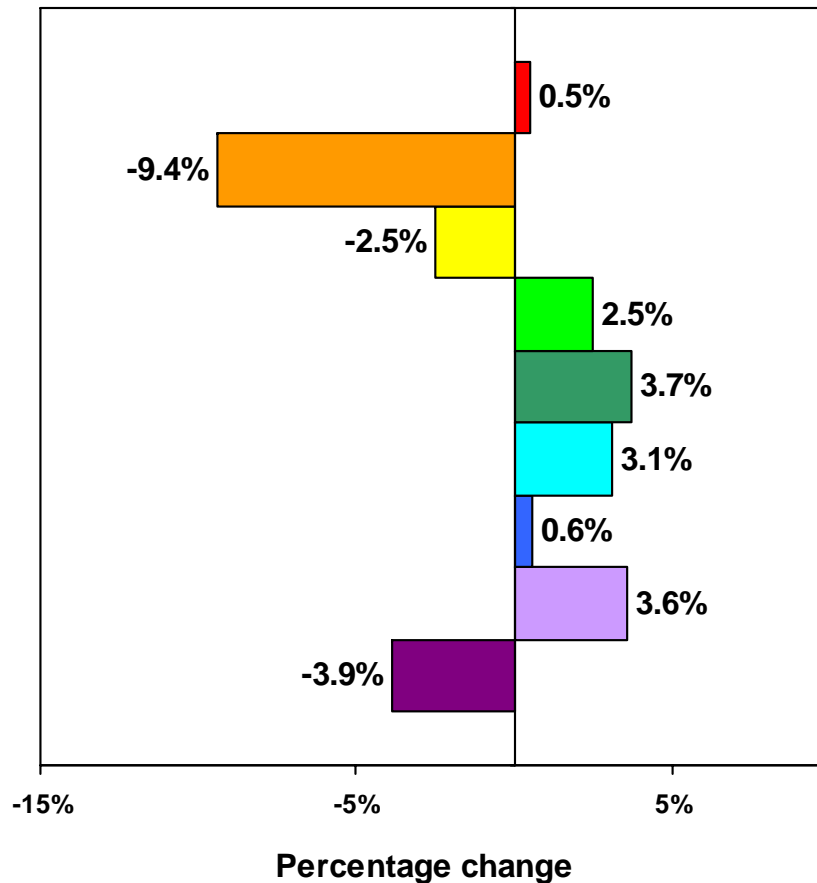
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓
2001	↑	↑	↑	↓	↓	↑	↑	↓	↓	↓	↑	↑
2002	↑	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑
2003	↑	↑	↑	↑	↑	↓	↓	↑	↓	↑	↑	↑
2004	↓	↑	↑	↑	↓	↓	↑	↓	↑	↓	↓	↓
2005	↑	↓	↓	↓	↓	↓	↓					

Note: There are 23 down year-to-year counts from the same month in the prior year.

Note: Only the major tourist routes, not all highways, are included in the formulation of these directional indicators.

Source: Michigan Department of Transportation.

Michigan Travel Industry Indicators, 2004 vs. 2003, Travel Activity Indicators



Highway Traffic Counts (All Available Rural Stations)

State Park Overnight Stays (All Parks)

CVB Room Assessments, U.P. (8 CVBs)

CVB Room Assessments, N.L.P. (11 CVBs)

CVB Room Assessments, S.L.P. (13 CVBs)

CVB Room Assessments, Statewide (32 CVBs)

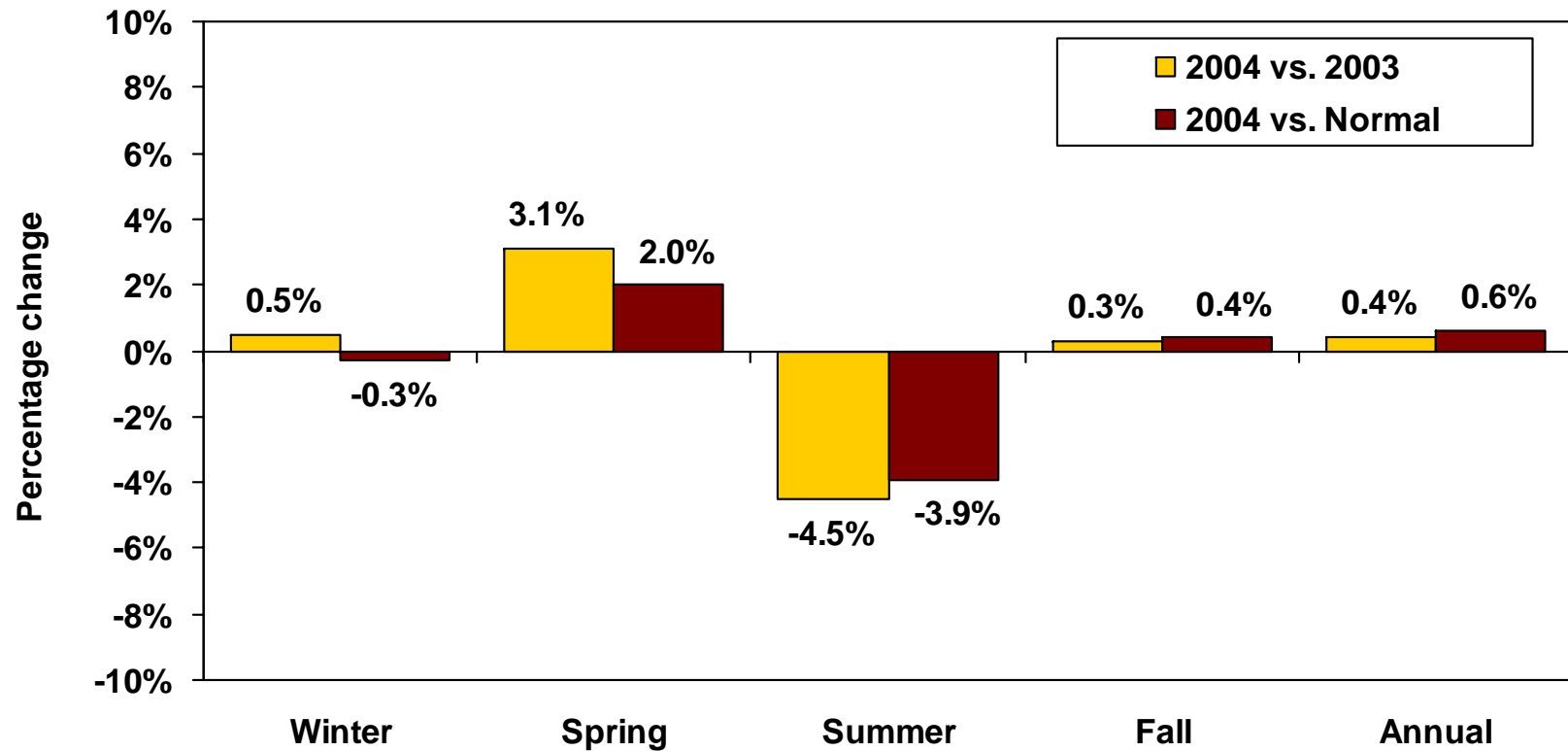
SIC 701 Hotel & Motel Sales + Use Taxes

SIC 701 H&M Use Taxes

SIC 701 H&M Sales Taxes

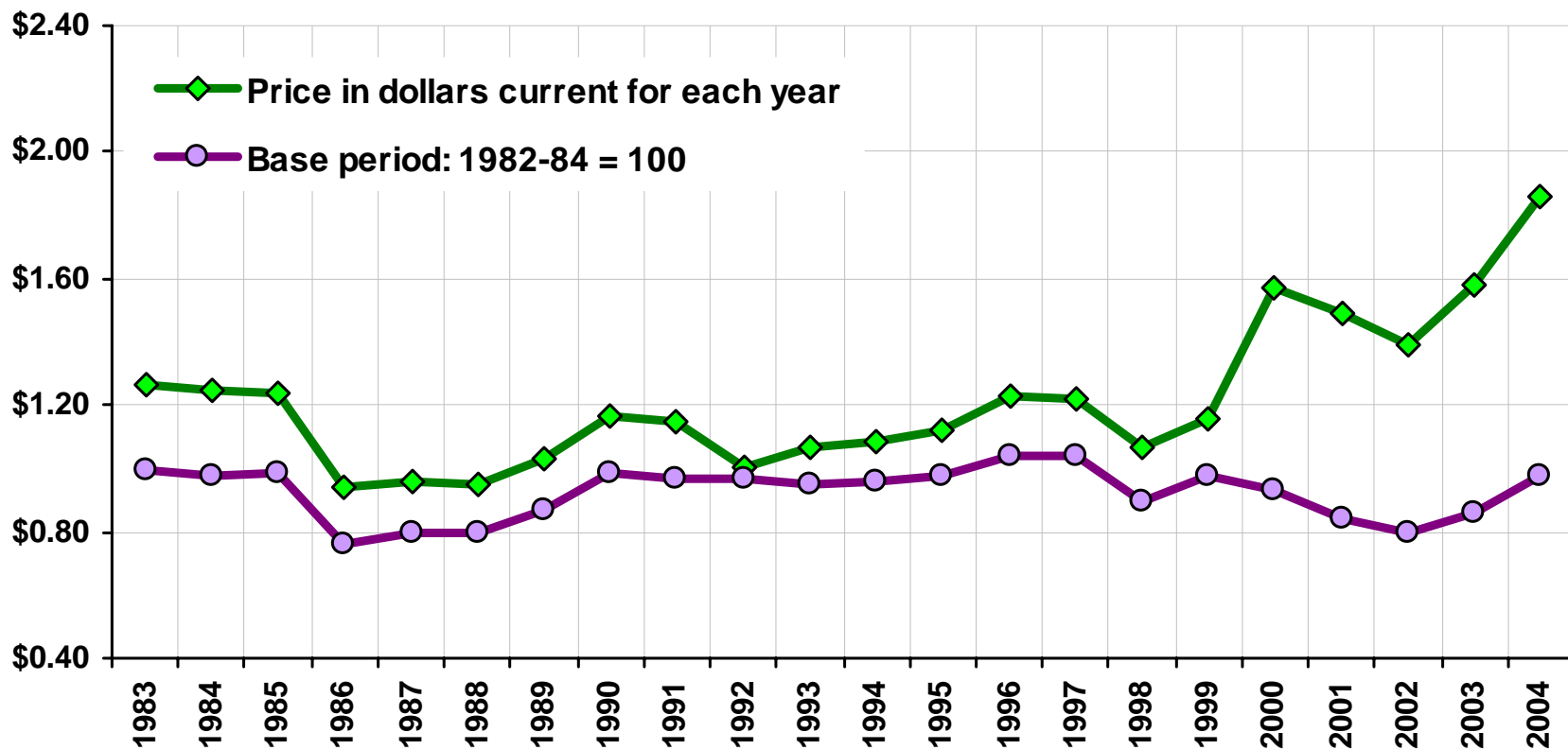
Source: Michigan Dept. of Transportation; Michigan Dept. of Natural Resources, Bureau of Parks and Recreation; CARRS Tourism Resource Center, MSU; Michigan Dept of Treasury, Office of Revenue & Tax Analysis.

Michigan Travel Industry Indicators: Average Maximum Temperatures



Source: Data for 12 weather stations obtained from the Midwestern Climate Center

Gas Prices



Source: AAA Michigan; Federal Reserve Bank of Minneapolis.





Printed in Lansing State Journal on May 2, 2005.

Forecast for U.S. Travel in 2005



Travel volume

3.6% Business travel
2.0% Leisure travel

Travel spending

5.0%

Travel prices

2.7%

Source: Travel Industry Association of America.

TTRRC / MSU Projections for Michigan Tourism in 2005



Travel volume

Traffic counts

2-3%

Travel spending

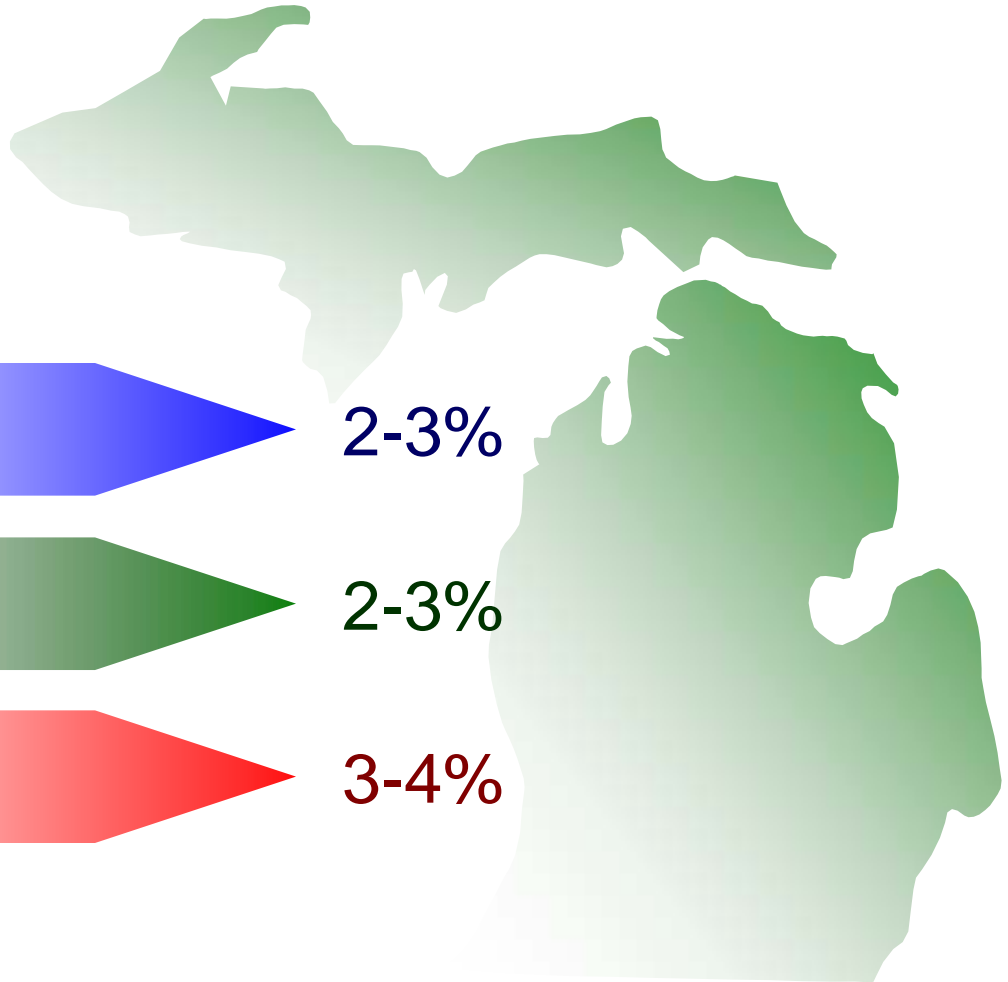
Use and sales lodging tax

2-3%

Travel prices

Lodging and restaurant price changes / 2

3-4%



TTRRC / MSU Projections for Michigan Tourism in 2005 by Region



Upper Peninsula

3-4%

Northern Lower P.

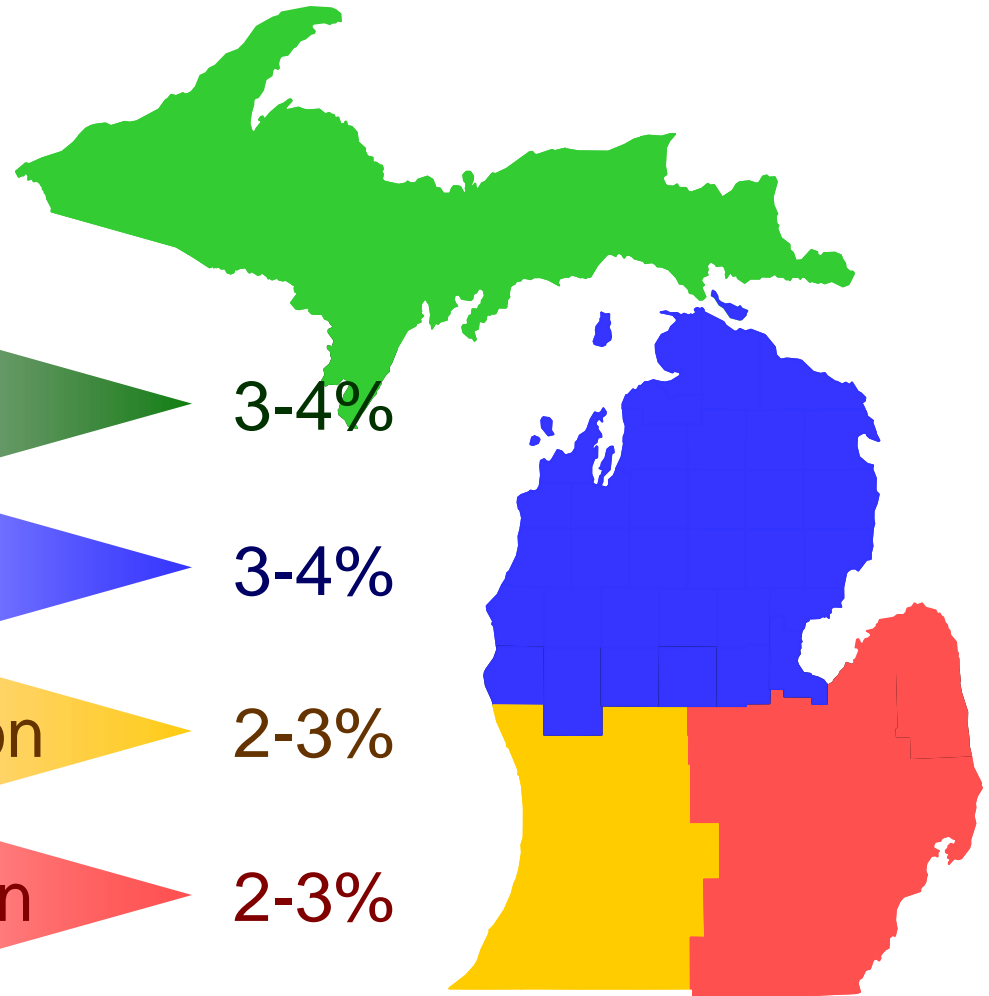
3-4%

Southwestern region

2-3%

Southeastern region

2-3%



Michigan Ranking – Selected Major Assets



Category	Rank
Number of hotel and motel rooms	13
Length of fresh water shoreline	1
Number of registered boats	2
Number of public golf courses	1
State land available for recreation (acreage)	5

Source: Smith Travel Research; The Office of Ocean and Coastal Resource Management; Michigan Boating Industries Assoc.; National Golf Foundation; "Travel and Tourism in Michigan: A Statistical Profile", Michigan State university, 1991, 2nd Edition.

Michigan's Potential – Major Opportunities



- Michigan has an excellent endowment of natural resources.
- Globally, tourism is a major growth industry
 - Growing population of older people with leisure time, discretionary income and a taste for travel;
 - Major new growth markets – there are about 2 million people in China with wealth over \$40 million.
- While business travel in Michigan has been volatile, leisure travel has grown steady over the last 20 years, even after 9/11 and several economic slowdowns.



Michigan Potential – Major Challenges



- Michigan’s travel industry is a \$16 billion industry without a business plan; we need a plan.
- Michigan’s primary market is regional; this region is growing relatively slowly; we need to tap growth markets outside this region.
- Michigan’s tourists are dominantly white; other segments are growing faster; we need to target these rapidly growing “minorities”.
- Relative to the competition, Michigan’s travel product is “dated”; we need to invest in new product and upgrades to existing product.
- Tourism is not a high economic development priority in Michigan; this must change, if we are to remain competitive and increase market share of the growing global tourism market.

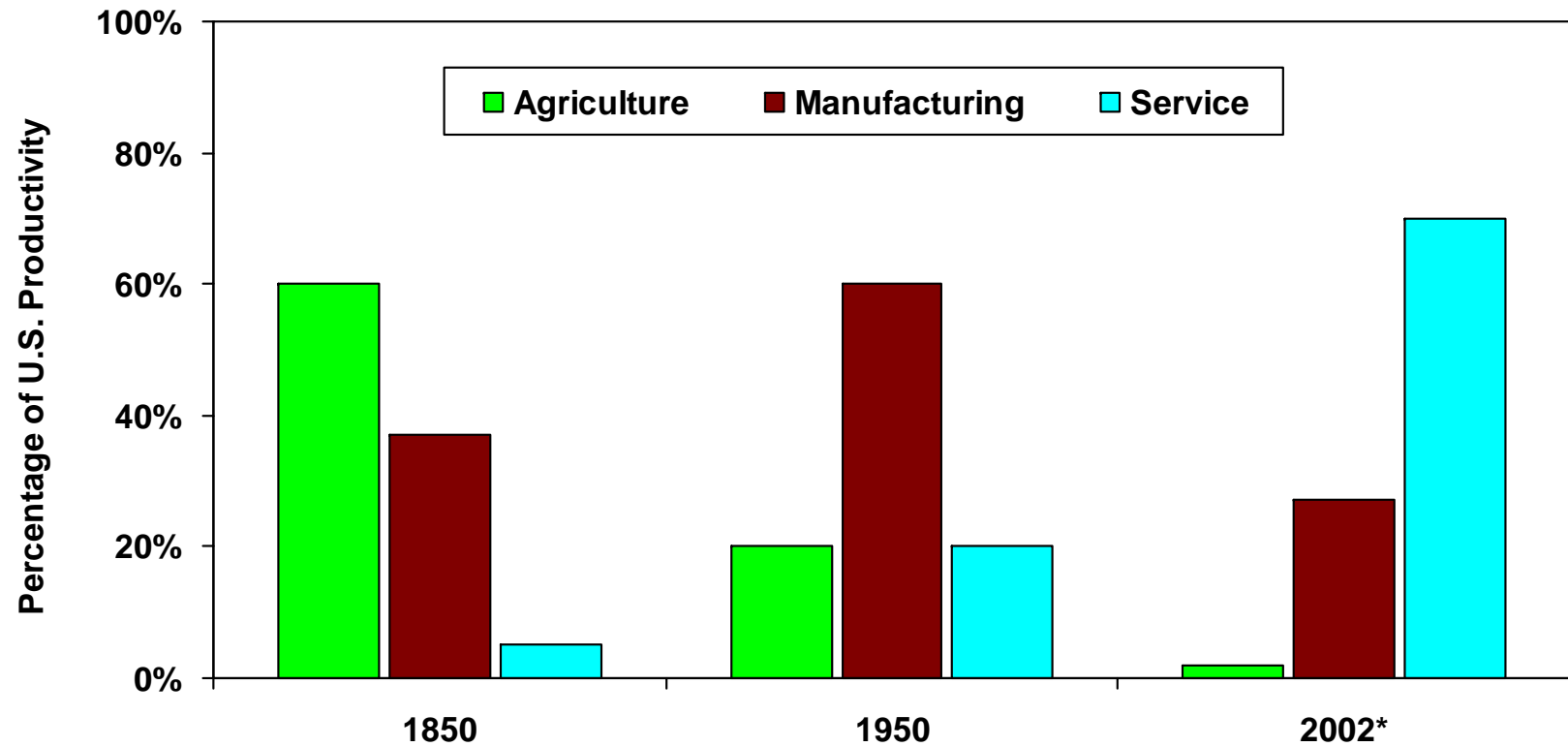
Rank by Population Growth Projected for 1995 - 2025



State	Rank
California	1
New Mexico	2
Hawaii	3
Arizona	4
Nevada	5

State	Rank
Wisconsin	38
Illinois	42
Indiana	43
Michigan	47
Ohio	48

Changing Economies



Source: J.C. Williams Group and * World Bank, 2002.

Looking Ahead



- Michigan's tourism industry has fared exceptionally well over the last 20 – 25 years despite the lack of a plan / vision and attention as an economic development priority at state level.
- It owes its economic success due to proximity to what has been a dynamic and profitable auto industry whose employees have earned exceptionally high wages with enviable benefit packages, including relatively rich early retirement benefits. But, this time around the auto industry won't be the Michigan tourism industry's salvation. Employment in the auto industry is shrinking; GM and Ford bonds are now junk-rated; their retirement programs are under-funded; and auto industry retiree benefits are threatened.
- I see no demographic, economic, or other driver of Michigan tourism industry's growth on the horizon. So, the industry must come together to save itself.

What the industry can and should do to insure its future



1. The industry needs a comprehensive development plan.
2. The industry needs to disconnect from its dependence on the state's general fund for monies to pursue its interests.
3. The industry needs to marshal enough promotion dollars to pursue more distant markets that are experiencing population and economic growth.
4. We need to become much better organized – across state agencies, local destination marketing organizations (DMOs), and private businesses including yours.
5. We need to invest more in new product development, market research, education and training.
6. We need to insure that tourism receives the economic development priority it deserves as the world's largest industry and employer with exceptionally solid growth prospects.





“... Granholm agrees [that the state’s promotion budget is too low] citing plans to nearly triple spending on tourism to \$15 million, if she has her way... And I’m not satisfied that even that is all it should be ... tourism needs a dedicated source of revenue, perhaps some sort of bed tax or fee on car rentals...”

Source: Bay City Times 09/26/05



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