

Presentation at Michigan Event Industry Day Meeting  
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State of the Economy and Tourism as It Relates to the Events Industry

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Introduction

- I'm an economist by training.
- Economists don't rank high on most people's list of popular speakers. We aren't known for being the life of the party. I have been called Dr. Doom on occasion; I'll try to focus on the good news as well as the bad. However, this is a real challenge given all the bad news there is out there today about the Michigan economy.

Since my time with you is short, I'll summarize my main points and embellish them with more detail in the time remaining. I've identified seven trends that are of critical importance to the Events Industry and Tourism.

1. The national economy has been growing for several years, performed well last year, and is expected to grow again in 2007, but at a slower pace.
2. The State of the Michigan economy is a totally different story. It has yet to recover since the last recession in 2000-2001, wasn't strong in 2006, and is expected to stay weak for at least the next couple of years.
3. It took about three years for the US tourism industry to recover from the twin blows of an economic recession and the tragic events of 9/11. But, it has fully recovered and has experienced solid, but not spectacular growth, for the last 2-3 years. The lodging sector has been especially strong, but 2006 looks weak, up only about 1%. The major airlines are all operating under bankruptcy protection. Even they are showing signs of returning to profitability.
4. Michigan's tourism industry has been in a "funk" since 2001, but has outperformed the overall Michigan economy. The lodging sector in Michigan has been weak relative to the rest of the nation, slipping to the very bottom tier of all states in terms of occupancy. It looks like Michigan's lodging sector may have ended the year 2006 slightly ahead of the

national average. Still, it has a long way to go to make up for years of sub-average performance.

5. The near-term prospects for Michigan's tourism industry are challenging primarily because of our auto industry troubles. No one expects these to go away any time soon. An additional challenge is that population growth in Michigan and its traditional regional market is slower than in the rest of the nation. We face a scenario with fewer people with less money to spend than most other states don't.
6. But, there is some good news. Tourism is the world's largest industry and largest employer. It is a growth industry. The aging US population is healthier, wealthier and has a higher propensity to travel than preceding generations. The "pie" is getting bigger.
7. I am also optimistic about a bright future for Michigan's tourism industry because it is, for the first time, beginning to come together to control its destiny and has had some successes – Post-Labor-Day School Opening legislation, and a \$15 million increase in Travel Michigan's promotion budget. And, it is creating the first ever strategic development plan to insure its future. I'll talk about this effort more later if time allows.

#### What this all means for the Event Industry?

The next couple of years are going to be challenging!

I have identified ten opportunities and coping strategies to consider:

1. Reach out beyond Michigan and traditional markets where the population is growing and the economy is stronger. 70% of our tourists are Michigan residents. Most of the rest are from other states in the region and Ontario.
2. Tap new market segments, e.g., minorities. Population growth is greatest among Hispanics and Blacks.
3. Trip planning horizons are becoming shorter – don't give up on events too soon, keep promoting to capture the last-minute deciders.
  - 7-30 days out is becoming the norm for getaway trips
  - The Internet is a factor here, no waiting for the mail.
  - We've trained consumers to wait for prices to fall *and* they usually do.
4. The "empty nester" population is growing. Include accompanying spouses in your event planning. My wife and I took five out-of-state trips last year – four were to events.

5. People have more choices of events and less time. They choose those which offer the most amenities – nice places, and lots to do. And, don't forget the most popular activities on trips – shopping and fine dining.
6. People are increasingly value oriented. Yes, they are price sensitive but will pay more for perceived value. A big turn off out there today is the “bait and switch” practice common in the lodging industry. You publish an event special room price of \$125 for a property with a rack rate of \$200. Great price, let's go! At checkout, you see a \$20/person resort fee, \$5/day to re-stock your mini-bar, \$10 for high-speed Internet, \$2 for room safe, and, of course, taxes of \$30. Total bill: \$197. You think “Some Discount!!”
7. Time-pressed families are increasingly seeking “get away” options for family travel. Event participants often choose those which provide for their families. Two spouses work. Boy in soccer, music lessons, etc. Girl in basketball, ballet.
8. “Been there – Done that” is a challenge. Strive to keep your event fresh, new, exciting. That is why there is always something new at Cedar Point!
9. Collaboration and partnering is always important, more so when demand is soft and promotion budgets are tight. You probably can't afford to represent your property/event at every travel show around the country or run ads in every high potential media. Pool resources with partners to leverage what they buy!
10. Travel experiences are produced by multiple providers. It is critical for all of them to work together to meet and exceed customer's expectations. Don't just be concerned with “putting heads in beds.” Your product is the total visitor experience.

### The Statewide Comprehensive Michigan Tourism Development Plan

- An industry project supported by MSU and Travel Michigan
- Formed a Planning Council (PC) with about 75 leaders from across the state industry
- The PC identified nine issues to address in *their* plan
- These group under three broader objectives
  1. Organizing the System – Leadership structure, communications network, partnerships, lobbying
  2. Product Delivery – Hospitality training/service quality, marketing research, promotion, product enhancement

3. Funding the System – Increased state investment in promotion, tapping other funding sources, developing new funding partners

The final plan will be presented at the Michigan Lodging and Tourism Conference in Traverse City on March 27, 2007.