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**LAS VEGAS
CONVENTION
AND VISITORS
AUTHORITY**

2018

RETURN ON INVESTMENT ANALYSIS ACTIVITIES AND ADVERTISING

EXECUTIVE SUMMARY

Applied Analysis was retained by the Las Vegas Convention and Visitors Authority (the “LVCVA”) to review and analyze the economic impacts associated with its various operations and southern Nevada’s tourism industry more generally. This brief is specific to measures of effectiveness and various returns on investment related to LVCVA activities and advertising. The resulting analysis estimates the incremental visitor spending and economic impact generated for each dollar of investment by the LVCVA. Metrics used in this report generally cover fiscal year 2016.

- **LVCVA operations, marketing, sales and digital programs directly facilitated an estimated 7.6 million booked room nights in 2016, or more than one in seven occupied room nights in southern Nevada.** LVCVA-attributable room nights contributed nearly 13 percentage points to the region’s occupancy rate, theoretically increasing that rate from 73.8 percent to 86.7 percent during 2016. For comparison, the national hotel/motel occupancy rate during that timeframe was 65.4 percent.
- **Direct visitor spending associated with room nights attributed to the LVCVA is estimated at \$4.2 billion; when indirect impacts are included, benefits to the region total \$7.1 billion.** After conservatively discounting room nights attributed to the LVCVA under the assumption that one in five of those occupied room nights would have been filled regardless as visitors found other means to facilitate their trips, an estimated 11.9 percent of southern Nevada visitor trips were attributed to LVCVA activities. That share was applied to the region’s \$35.5 billion in direct visitor spending and \$59.6 billion in total economic impacts to produce LVCVA-attributable visitor impacts of \$4.2 billion in direct spending, \$7.1 billion in total economic impacts, 48,400 jobs and \$2.0 billion in wages and salary.
- **Return on Investment: LVCVA Activities.** If the entirety of southern Nevada’s visitor spending impacts were considered to calculate return on investment, the result would approach \$117 for each dollar spent by the LVCVA. While this may be the methodology used in other jurisdictions, it does not account for the marketing and advertising efforts of resorts, attractions, special events and other entities that influence visitation. Using the more conservative spending impacts of LVCVA-attributable visitors, the direct return on investment was nearly \$14 to \$1; when including the indirect impacts, the return increases to \$23 to \$1. Break-even occurs when total visitor spending equals total LVCVA spending; break-even for direct spending is reached at 367,100 visitors, or 0.80 percent of visitation.
- **Return on Investment: LVCVA Advertising.** Advertising campaigns are a key element in fulfilling the LVCVA’s primary mission to fill hotel rooms. In 2016, LVCVA ads attracted an estimated 2.6 million incremental visitors to southern Nevada. Spending by those visitors totaled \$2.2 billion, with overall economic impact of \$3.7 billion. Based on the LVCVA’s \$95.0 million advertising budget during that period, the direct advertising return on investment is estimated at \$23 to \$1; including indirect impacts, this ratio rises to \$39 to \$1. Break-even occurs when spending by visitors influenced by LVCVA ad campaigns equals the advertising budget. For direct spending, break-even is reached at 0.25 percent of visitation, or 114,900 visitor trips.

COMMUNITY INVESTMENT IN THE LVCVA

The LVCVA is funded primarily by room tax revenue and gaming fees (81.0 percent), with facility charges accounting for the majority of the remaining revenue (18.8 percent). The LVCVA uses these revenues to fund a range of activities, including operating the Las Vegas Convention Center (“LVCC”), running marketing programs, advertising the destination in the United States and around the globe, supporting general government activities and making debt payments on capital projects. These uses represent the first element (i.e., costs) in calculating the LVCVA’s return on investment. The second element involves calculating the benefits derived from LVCVA operations and programs, which are considered in the pages that follow.

LVCVA General Fund Sources and Uses FY 2016¹

Sources

Room taxes and gaming fees	\$261,613,917
Charges for services	60,835,567
Interest and investment earnings	195,706
Other (including transfers and sales)	170,748
Total Sources	\$322,815,938

Uses

General government	\$16,146,746
Marketing	36,537,160
Advertising	95,012,365
Operations	41,415,858
Special events grants	11,665,284
Other community support	26,161,392
Other (including transfers)	76,510,457
Total Uses	\$303,449,262

This analysis relies on two cost scenarios in determining various returns on investment, as defined below.

LVCVA Activities: Includes all annual expenses, such as marketing, facility operations, advertising, special events, capital expenses, debt service and more. In fiscal year 2016, this amount totaled \$303.4 million.

LVCVA Advertising: Consists solely of the amount spent on advertising. In fiscal year 2016, this totaled \$95.0 million.

¹ See, LVCVA FY2016 Comprehensive Annual Financial Report, page 16. Excess of revenues over expenditures is reflected in ending fund balance.

ROOM NIGHTS ATTRIBUTABLE TO LVCVA ACTIVITIES

A conservative measure of the LVCVA's effectiveness indicates that 14.9 percent of all room nights occupied in southern Nevada are directly attributable to LVCVA activities. The primary mission of the LVCVA is to fill hotel rooms in southern Nevada. The organization fulfills that mission by providing and funding a number of specific services, programs and activities, many of which can be monitored and used to quantify the organization's effectiveness. While working closely with southern Nevada resort hotels, the LVCVA generates room nights by hosting conventions at the LVCC, supporting special events and facilitating hotel room bookings through its 15 international offices on five continents that work directly with local travel agents. Additional programs include call center and web booking services, leisure wholesaler package sales, for which the LVCVA typically funds 50 percent of the program cost, and smaller program contributions such as the LVCVA's travel agent familiarization services. These programs combined to generate 7.6 million occupied room nights in fiscal year 2016.

Analysis of Southern Nevada (Las Vegas, Mesquite and Laughlin) Room Nights Occupied Attributable to the LVCVA's Activities²

LVCVA Activity/Program	Room Nights	Percent of Total
LVCC Conventions	3,414,061	6.7%
Facilitated International Visitation (15% of international visitors from countries with LVCVA offices)	1,788,800	3.5%
LVCVA Leisure Sales Wholesaler Programs (50% of incremental sales)	1,025,034	2.0%
Confirmed Leads (excluding those related to LVCC and special events)	744,874	1.5%
LVCVA Funded Special Events (incremental visitors only)	469,300	0.9%
Other LVCVA Programs (including LVCVA website referrals and LVCVA travel agent familiarization programs)	136,752	0.3%
Total Room Nights Occupied Attributable to the LVCVA	7,578,821	14.9%
Total Room Nights Occupied - Southern Nevada	50,955,389	100%

² Source: The LVCVA Customer Relationship Management (CRM) computerized system tracks LVCC attendance, incremental visitors generated by LVCVA-supported special events and LVCVA-produced leads. Leisure wholesaler packages tracked by the LVCVA are typically funded 50 percent by the LVCVA (and 50 percent by the wholesaler). International visitors are estimated using in-flight survey data collected by the U.S. Department of Commerce; baseline, moderate, and less conservative scenarios attribute varying percentages of these visitors to LVCVA efforts. Other data is sourced to various LVCVA tracking systems.

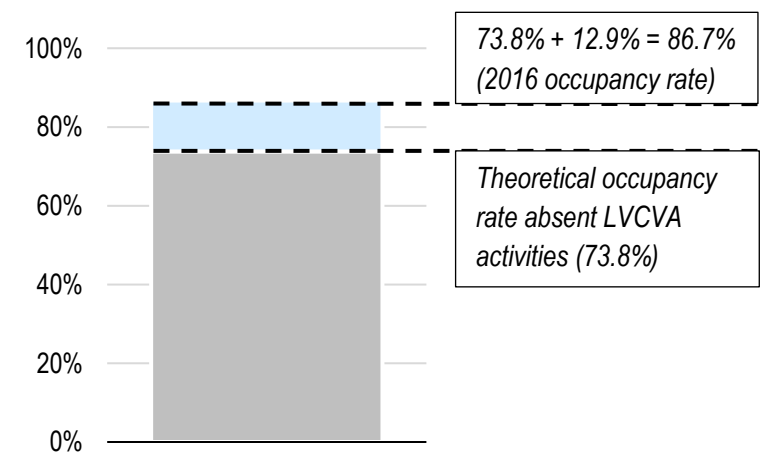
THEORETICAL OCCUPANCY RATE ABSENT THE LVCVA'S EFFORTS

Based on an analysis of room nights directly attributable to LVCVA activities, the LVCVA's efforts increased the region's occupancy rate from 73.8 percent to 86.7 percent. By comparison, the national hotel/motel occupancy rate during the same period was 65.4 percent. The share of room nights occupied attributable to LVCVA activities suggests that the organization's efforts contribute significantly to the overall occupancy rate in southern Nevada. While it is unlikely that occupancy would immediately decline by this magnitude in the absence of the LVCVA's efforts, this analysis is intended to illustrate the impact of those LVCVA efforts that can be reasonably quantified. However, the drop in occupancy shown below is perhaps understated, as memorable and effective LVCVA advertising campaigns contribute to long-term brand awareness and loyalty that help drive additional visitation. The impact of advertising is addressed later in this report, however, its incremental visitor impacts were not included in calculating occupancy rate due to the possibility of double counting.

Impact of LVCVA Activities on Hotel Occupancy Rates³

Total Room Nights Available	58,766,000
Actual Room Nights Occupied	50,955,389
Actual Annual Occupancy	86.7%
Room Nights Attributable to LVCVA	7,578,821
Room Nights Occupied without LVCVA Efforts	43,376,568
Occupancy (Less LVCVA-Attributable Room Nights)	73.8%
Difference in Occupancy Rate Without LVCVA-Attributable Room Nights	12.9%

Total Available Room Nights



³ Total room nights and occupied room nights for 2016 are per the monthly Executive Summary visitor statistics reports published by the LVCVA.

IMPACT OF VISITORS ATTRIBUTABLE TO LVCVA ACTIVITIES

The direct economic impact of the LVCVA's activities is an estimated \$4.2 billion. When including indirect impacts,⁴ benefits to the region are estimated at \$7.1 billion. These economic impacts are derived from the occupied room nights generated by LVCVA activities. To determine the impacts, the share of occupied room nights attributed to LVCVA activities is applied to the total visitor spending and economic impacts associated with Las Vegas visitation.⁵ First, that share is discounted by 20 percent as this analysis assumes that one in five occupied room nights attributable to LVCVA activities would have been filled regardless as visitors found other means to facilitate their trips. This adjustment is intentionally conservative, reducing the share of LVCVA-attributable room nights from 14.9 percent to 11.9 percent. The table below depicts the total economic impacts of visitor spending as well as the share sourced to LVCVA activities.

Economic Impact Assumptions

	Total Visitor Spending	Attributable to LVCVA (11.9% of Total)
Total Visitor Spending (Direct Spending)	\$35.5 billion	\$4.2 billion
<i>Average Direct Spending Per Visitor Per Trip</i>	\$827	\$827
Economic Activity Attributable to Visitor Spending (<i>Direct + Indirect</i>)	\$59.6 billion	\$7.1 billion
<i>Average Economic Impact Per Visitor Per Trip</i>	\$1,388	\$1,388
Estimated Employment Impacts (<i>Direct + Indirect</i>)	406,974	48,425
Estimated Wage and Salary Impacts (<i>Direct + Indirect</i>)	\$16.9 billion	\$2.0 billion

⁴ Throughout this report, the term "indirect" is inclusive of all impacts other than direct impacts; these are commonly referred to as indirect and induced impacts. Refer to the March 2017 brief in this Economic Impact Series, *The Economic Impact of Southern Nevada's Tourism Industry and Convention Sector* for further detail.

⁵ Total economic impact estimates (and by default, the share attributable to the LVCVA) are conservatively limited to Las Vegas (i.e., no estimate of spending is included for visitors to Laughlin and Mesquite). Note that the portion of room nights directly attributable to LVCVA activities specifically pertaining to Las Vegas was 15.6 percent (if discounted 20 percent, this would equal 12.5 percent of visitors); however, the region-wide percentage of 11.9 percent, which is more conservative, was utilized.

THE LVCVA'S RETURN ON INVESTMENT – ACTIVITIES

If the entire \$35.5 billion in direct spending by southern Nevada visitors were considered to calculate the return on investment, the result would approach \$117 for each dollar spent by the LVCVA. This may be the methodology used in other jurisdictions, but it doesn't account for the marketing and advertising efforts of resorts, attractions, special events and other entities that influence visitation. The adjustments in visitor spending made on the prior page provide a reasonable baseline for LVCVA-attributable visitor impacts, which are the second element (i.e., the benefits) for calculating the return on investment shown below.

When considering all expenses for the LVCVA, the direct return on investment is estimated at nearly \$14 to \$1, while the return when including indirect impacts is estimated at more than \$23 to \$1. The LVCVA's expenses totaled \$303.4 million in fiscal year 2016 and included all aspects of the organization's operation, such as marketing, facility operations, advertising, special events, capital expenses, debt service and more. The total impact of visitors attributable to LVCVA activities (\$4.2 billion in direct spending and \$7.1 billion in direct and indirect impacts) is divided by the organization's cost to derive the return on investment. The direct spending return on investment is \$13.92 per \$1, while the return on investment when including indirect impacts rises to \$23.37 for each dollar spent. The break-even point (i.e., when visitor spending equals total LVCVA costs) is reached with the addition of 367,100 visitors for direct impacts and 218,600 for combined direct and indirect economic impacts, or 0.80 percent or 0.48 percent of 2016 visitor totals, respectively.

Return on Investment: LVCVA Activities

	Direct	Direct + Indirect
Total Benefit	\$4.2 billion	\$7.1 billion
Total Cost	\$303.4 million	\$303.4 million
Return on Investment	\$13.92 to \$1	\$23.37 to \$1
Break-even Visitation	367,096	218,619
Break-even Visitation as a Percent of Total	0.80%	0.48%

MEASURING THE EFFECT OF ADVERTISING

The LVCVA's unique advertising campaigns consistently report strong levels of recall in marketing surveys (41 percent), receive strong favorable impressions from viewers (92 percent), and produce a notable 17 percentage-point increase in ad viewers' intent to travel to southern Nevada. The LVCVA's primary function is to promote tourism in southern Nevada to fill hotel rooms; advertising campaigns are a key element of this responsibility. Advertising awareness, including the favorableness of the viewers' impressions, whether the advertisement had an impact on viewers' impression of Las Vegas' favorability, and whether the advertisement had an impact on viewers' likelihood of visiting Las Vegas is measured regularly by the LVCVA's marketing partners.⁶

Nearly 41 percent of all individuals surveyed by the LVCVA's marketing partners recalled seeing an advertisement for the Las Vegas destination in the past 30 days for the 12-month period covering January 2016 through December 2016. The share of respondents in the study that reported having a favorable impression of Las Vegas advertising averaged 92 percent. Notably, 33 percent of respondents who recalled seeing an LVCVA advertisement reported they were likely to visit Las Vegas in the near future, compared to 16 percent for respondents who had not seen an ad.

This 17 percentage-point increase in the likelihood to travel to southern Nevada suggests that advertising plays an important factor in traveler

decision-making. However, it is difficult to measure the success of advertising campaigns with a great degree of precision. There are limited empirical analyses, case studies or benchmarks that can be applied particularly as it relates to destination marketing.⁷ However, the available literature provides some meaningful insights; notable recent releases are summarized below.

- In 2013, the San Diego Tourism Authority severely cut back staff and marketing efforts because of funding reductions tied to legal challenges of a hotel room surcharge dedicated to tourism marketing. The funding reductions equated to 39 percent in the second half of fiscal year 2013 and 84 percent in fiscal year 2014, equating to a \$30 million decline in marketing activities. Without its typical advertising and marketing campaigns, the San Diego region lost 2.1 million occupied room nights in 2013 and 2014, resulting in an estimated \$560.4 million in lost visitor spending and \$1.3 billion in unrealized economic impact.⁸ This would equate to a return on investment of nearly \$19 to \$1.
- In recent years, state-supported tourism funding in Pennsylvania has been cut from \$29.8 million in fiscal year 2009 to \$7.3 million in fiscal year 2015, a decline of 76 percent. Over that period, Pennsylvania's share of marketable overnight trips within a nine-state competitive region dropped from 18.4

⁶ All Las Vegas advertisement recall/favorability metrics cited herein were prepared by a LVCVA marketing partner and obtained by AA from the LVCVA.

⁷ See, A.G. Woodside, "Measuring Advertising Effectiveness in Destination Marketing Strategies," *Journal of Travel Research*, Fall 1990. See also, "Public Tourism Promotion ROI:

Cutting the Promotional Budget is Tempting; Is It Worth It?" Prepared by HIS Global Insight & D.K. Shifflet & Associates, Ltd., February 2009.

⁸ See, Tourism Economics, "The Impact of Reduced Marketing Funding in San Diego," November 2013.

percent to 14.7 percent, while the state lost an estimated 37.3 million visitors, \$7.7 billion in visitor spending and \$449.2 million in state tax revenue.⁹

- Colorado is commonly mentioned in contemporary studies as a textbook example of what happens when a state cuts tourism promotion funding.¹⁰ When Colorado stopped its travel promotion from 1993 to 1997, leisure visitors declined by 7.7 percent, which was twice the decline of any other state during the period. According to a 2009 study by Longwoods International that analyzed nearly 20 years of data, Colorado eventually lost more than 30 percent of its share of domestic visitors and more than \$2 billion annually in visitor spending. With funding for Colorado's marketing program now restored, visitor trips have reached record levels for six straight years.¹¹
- A 2013 academic study on the impact of destination advertising surveyed nearly 18,000 U.S. travelers who requested information from 20 domestic destination marketing organizations. The survey was designed to determine how much advertising influenced their decision to travel to a specific destination. The survey found that 7.2 percent of visitors reported that they would not have visited a particular destination had they not been exposed to that destination's

marketing program.¹²

- According to a report released in 2016 by Visit California, the public-private organization's advertising campaigns for the state of California generated a \$369 to \$1 return on investment in fiscal year 2016, yielding 2.7 million incremental visits, \$10.5 billion in incremental spending, and \$658 million in tax revenue.¹³
- A 2016 report for Destination DC found that the advertising campaign to promote tourism in the nation's capital generated \$180.2 million in incremental visitor spending that year, with a return on investment of \$39 in new spending for each ad dollar.
- In its most recent report, the Michigan Economic Development Corporation found that the Pure Michigan national advertising campaign generated 2.5 million new visitor trips and \$870.6 million in incremental spending in 2016, providing a return on investment of \$97 per \$1 in ad spending.¹⁴

These and other analyses suggest that destination marketing efforts tend to be effective; and more importantly, that halting destination marketing efforts would be expected to have negative impacts on visitation and in-market spending, especially when competing destinations are ramping up their own efforts.

⁹ See, Tourism Economics, "Competitive Analysis of Pennsylvania's Tourism Budget," December 2015.

¹⁰ See, *Public Tourism Promotion ROI: Cutting the Promotional Budget is Tempting; Is It Worth It?* Prepared by IHS Global Insight & D.K. Shifflet & Associates, Ltd., February 2009.

¹¹ See, Longwood International, http://www.longwoods-intl.com/wp-content/uploads/2010/11/The_Rise_and_Fall_of_Colorado_Tourism.pdf, and <https://www.colorado.com/news/colorado-tourism-sets-all-time-records-sixth-consecutive-year>

¹² See Jason L. Steinmetz, Joel G. Maxcy and Daniel R. Fesenmaier, "Evaluating Destination Advertising," *Journal of Travel Research*, January 2015.

¹³ See, Visit California, "Domestic Fiscal Year 2015-2016 Advertising ROI Report," prepared by Insights Strategic Marketing and Research, November 2016.

¹⁴ See, Michigan Economic Development Corporation, "Michigan 2016 Tourism Advertising Evaluation and Image Study," prepared by Longwoods International, March 2017.

THE LVCVA'S RETURN ON INVESTMENT – ADVERTISING PROGRAMS

The LVCVA's direct advertising return on investment is conservatively estimated at nearly \$23 to \$1; when indirect impacts are included, this ratio increases to \$39 to \$1. For this analysis, it was assumed that 5.8 percent of southern Nevada visitors chose the destination based on exposure to LVCVA advertising.¹⁵ This equates to 2.6 million incremental visitors in 2016. Assuming average spending per visitor of \$827 per trip, the LVCVA's advertising campaign generated an estimated \$2.2 billion in direct visitor spending. With total LVCVA advertising expenditures of \$95.0 million, the direct return on investment was \$22.97 for each ad dollar. When indirect and induced visitor impacts are considered, the total benefit increases to \$3.7 billion and the return on investment rises to \$38.56 per \$1 in ad spending.

- Recent academic work suggests that destination advertising influences 7.2 percent of visitors in choosing a particular location.¹⁶ For this analysis, that number was reduced to a more conservative 5.8 percent under the assumption that one in five of those visitors would have traveled to southern Nevada for reasons other than LVCVA advertising.
- If 114,900 visitors, or 0.25 percent of visitation, came to Las Vegas because of the LVCVA's advertising efforts, their combined spending would equal the LVCVA's annual advertising budget. If including indirect impacts, the LVCVA's advertising program breaks even at just 68,500 incremental visits, or 0.15 percent of total southern Nevada visitation.
- With 41 percent of respondents surveyed over a 12-month period having seen LVCVA advertising in the past 30 days, and a third of them citing a higher likelihood to visit Las Vegas, it seems reasonable that these break-even thresholds are well passed.

Return on Investment: LVCVA Advertising

	Direct	Direct + Indirect
Total Benefit	\$2.2 billion	\$3.7 billion
Total Cost	\$95.0 million	\$95.0 million
Return on Investment	\$22.97 to \$1	\$38.56 to \$1
Break-Even Visitation	114,941	68,451
Break-Even Visitation as a Percent of Total	0.25%	0.15%

¹⁵ See Jason L. Steinmetz, Joel G. Maxcy and Daniel R. Fesenmaier, "Evaluating Destination Advertising," *Journal of Travel Research*, January 2015. This analysis discounts the study's 7.2 percent conversion rate by 20 percent under the assumption that one-fifth of ad-influenced visitors would have traveled to the destination for reasons other than LVCVA advertising.

¹⁶ Ibid.

METHODOLOGY

Financial data pertaining to the LVCVA's operations, advertising, and general fund revenue and expense information was obtained from the LVCVA's Fiscal Year 2016 Comprehensive Annual Financial Report. Visitor profile statistics were gathered from the Visitor Profile Studies prepared by GLS Research for the LVCVA. The economic impacts of visitor spending relied upon herein are based on a previously-published report in this Economic Impact Series, *The Economic Impact of Southern Nevada's Tourism Industry and Convention Sector* (March 2017). Information specific to LVCVA-attributed room nights was obtained from an analysis conducted by LVCVA representatives, which relied on data from the LVCVA's Customer Relationship Management system as well as data gathered from different departments (e.g., call center and web bookings).

ANALYSIS LIMITATIONS

This analysis used the best available data to estimate the return on investment of the LVCVA's activities and advertising programs. It relies on data reported by the LVCVA, only some of which was audited by public accounting firms. Although we have no reason to doubt the accuracy of these data, they have not been subjected to any auditing or review procedures by AA.

The factors quantified in this analysis are compelling, but it is important to note that there is no readily available way to determine the extent of the overlap between the LVCVA's direct activities and the reach of its advertising campaigns (e.g., the extent to which a person attending a meeting at the Las Vegas Convention Center is more likely to do so because of the LVCVA's out-of-market advertising). This analysis assumes that there is no overlap, respecting that a great many visitors that come to Las Vegas after being exposed to the LVCVA's advertisements have no direct interaction with the LVCVA. In addition, this analysis focuses on impacts that can be measured or benchmarked to comparative analyses. Not included in this analysis is the inherent value of the Las Vegas brand, the effectiveness of selected media campaigns, or the ability to broaden the visitor base resulting from cooperative efforts of the industry, the community and the LVCVA, which may add incremental value not included in the impacts herein. Assumptions in this analysis were intentionally conservative; this is not intended to suggest that other factors not considered here would not also generate significant positive returns for the community.

Finally, it is important to note that this is a preliminary undertaking that will be supplemented by on-going and future analyses. This report is not intended to be comprehensive and may not be appropriate for all purposes.