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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

November 28, 2017

The Honorable Steven Johnson
Michigan House of Representatives
House Office Building, Room N1091
Lansing, Michigan
and
The Honorable Martin Howrylak, CPA
Michigan House of Representatives
House Office Building, Room N0890
Lansing, Michigan

Dear Representatives Johnson and Howrylak:

Enclosed is the information that you requested in your letter dated April 27, 2017 regarding the Pure Michigan program and advertising campaign, specifically, the return on investment (ROI) calculation.

We appreciate the opportunity to assist you. If you have further questions, please do not hesitate to contact us.

Sincerely,

Doug Ringler
Auditor General

Enclosure



Background:

Section 125.2009(6) of the *Michigan Compiled Laws* requires the Michigan Strategic Fund (MSF) to annually report the ROI for tourism promotion efforts. MSF contracted for the Michigan 2016 Tourism Advertising Evaluation and Image Study issued by Longwoods International, the Economic Impact of the 2016 Tourism Ad Campaign in Michigan study issued by Tourism Economics, and the Economic Impact of Travel in Michigan study (not yet issued by Tourism Economics).

Questions:

- 1. One look at Longwoods winning bid and it appears that another group, Tourism Economics, makes a contribution to the overall ROI calculation. We would like to know exactly what that is.**

A: Tourism Economics data is not utilized in the ROI calculation presented in the Longwoods study. The ROI reported by Longwoods International is based solely on direct spending* as a result of the Pure Michigan advertising campaign.

The Tourism Economics study incorporates data from the Longwoods study and identifies direct, indirect*, and induced* spending as a result of the Pure Michigan advertising campaign; however, it does not calculate an overall ROI.

- 2. Is Tourism Economics methodology proprietary, too? Does Tourism Economics employ off-the-shelf models like IMPLAN or REMI to measure direct or induced impacts of the campaign, or is it a model of their own creation?**

A: The Tourism Economics study indicated that it utilized the IMPLAN model for measuring the direct, indirect, and induced impacts of the Pure Michigan advertising campaign.

- 3. We would appreciate if your office would look at the effectiveness of the Pure Michigan program, whether by an investigation of the methodology used by Longwoods International (and by extension Tourism Economics), or through an original study conducted by your office.**

A: We did not conduct our own study of the effectiveness of the Pure Michigan program. We do not have the economic forecasting resources, expertise, or timetable to obtain the necessary current and historical economic and tourism spending data, including indirect and induced spending data.

However, we reviewed Longwoods International's methodology to determine the ROI of the Pure Michigan advertising campaign and provide the following:

Longwoods International's Michigan 2016 Tourism Advertising Evaluation and Image Study included the following ROI summary:

	In Millions				
	Advertising Investment	Trips Generated	New Visitor Spending	State Taxes Generated	ROI
2006	\$ 6.2	0.7	\$ 188.0	\$ 13.1	\$ 2.11
2007	6.8	1.3	287.4	20.1	\$ 2.94
2008	6.4	1.1	270.3	18.9	\$ 2.97
2009*	12.7	2.1	624.0	43.7	\$ 3.44
2010*	9.9	2.0	605.9	42.4	\$ 4.30
2011*	14.3	3.2	997.4	69.8	\$ 4.90
2012*	13.7	3.8	1,129.7	79.1	\$ 5.76
2013*	13.0	4.1	1,237.1	86.6	\$ 6.66
2014*	12.4	4.1	1,219.4	85.4	\$ 6.87
2015*	12.7	4.6	1,396.6	97.8	\$ 7.67
2016*	12.9	5.0	1,532.3	107.3	\$ 8.33
Pure Michigan Total	<u>\$ 121.0</u>	<u>32.0</u>	<u>\$ 9,488.2</u>	<u>\$ 664.1</u>	\$ 5.49

* Regional and National

Our review of the Longwoods International and Tourism Economics studies identified the following issues:

1. The ROI calculation reported in the Longwoods study included:

- Trips generated, new visitor spending, and State taxes generated based on all three advertising campaigns (spring/summer, fall, and winter).
- Media placement costs (advertising investment) for the spring/summer advertising campaign.

It did not include other tourism promotion efforts, such as:

- Media placement costs for the fall and winter advertising campaigns (\$3.0 million for 2016). Hence, the ROI calculation included a year of trips and taxes generated, but only a portion of the year's media placement costs.
- Media production costs (\$4.3 million for 2016).
- Costs to monitor all aspects of production through placement (\$2.3 million for 2016).
- Advertising costs associated with pay-per-click Internet searches (\$500,000 for 2016).
- Public relations costs associated with building relationships and costs associated with the maintenance of the social media aspects of Pure Michigan (\$581,000 for 2016).
- Partner contributions (\$6.2 million for 2016). The Michigan Economic Development Corporation (MEDC) has a partnership program intended to extend the marketing reach of Pure Michigan by leveraging private sector dollars to

promote Michigan and participating communities and businesses. MEDC matches media placement cost partnership investments dollar-for-dollar. However, the Longwoods study does not include the partner contributions in the media placement costs (advertising investment).

Potential impact on ROI: Inclusion of these other costs would have decreased the ROI.

2. Several inconsistencies existed throughout the Longwoods study, including:
 - a. The study narrative indicated that the purpose of the research was to provide State and local taxes generated via traveler spending in Michigan. However, the ROI Summary identified only State taxes generated. MEDC confirmed that it provided Longwoods International with an estimated percentage of State taxes generated for every dollar spent. MEDC agreed that no local taxes were included and that the study narrative is incorrect.

Potential impact on ROI: Inclusion of local taxes generated, e.g. hotel/motel tax, would have increased the ROI.

- b. The study narrative indicated that the survey was conducted among a representative sample of adult travelers residing in the United States. However, we determined that some of the survey recipients resided in Canada. Longwoods International agreed that the study narrative should also identify that the survey included adult travelers residing in Canada.

Potential impact on ROI: None

- c. The study states that the 2016 average spending estimates were provided by Travel Michigan*. However, MEDC informed us that Longwoods International used its own Travel USA®* database. Our follow-up with Longwoods indicated that it used the 2013 data provided by Travel Michigan, as adjusted based on 2014 Travel USA® information.

Potential impact on ROI: None



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Glossary of Abbreviations and Terms

direct spending	The amount directly spent by a tourist (hotel, food, local transportation, entertainment, etc.).
indirect spending	Occurs when a business that is providing goods and/or services to a tourist uses its proceeds to purchase goods and/or services from other businesses.
induced spending	The increased consumer spending resulting from the additional personal income generated by the direct and indirect spending.
MEDC	Michigan Economic Development Corporation.
MSF	Michigan Strategic Fund.
ROI	return on investment.
Travel Michigan	MEDC's business unit that serves as the State's tourism promotion office.
Travel USA®	Longwoods International's ongoing study of the nation's business and leisure travel, conducted quarterly since 1990.