

# **State of Alaska FY2004 Governor's Operating Budget**

## **Department of Community & Economic Development Qualified Trade Association Contract BRU/Component Budget Summary**

## BRU/Component: Qualified Trade Association Contract

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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### Component Mission

The mission of the state tourism marketing program is to increase jobs and income to Alaska residents through the promotion of Alaska as a visitor destination and the resulting visitor expenditures.

### Component Services Provided

Continue to provide funding for the state's statewide tourism marketing contract with a qualified trade association.

### Component Goals and Strategies

#### INCREASE BENEFITS FROM VISITORS COMING TO OR TRAVELING WITHIN THE STATE

- Increase interest in Alaska as a visitor destination.
- Maintain or increase the average length of stay in Alaska.
- Increase employment of Alaskans in the visitor industry throughout the state.
- Increase awareness and participation of businesses in the marketing program.
- Increase private sector funding of state tourism marketing programs.
- Endeavor to position Alaska as a year-round destination.
- Increase visitation to all regions of the state including non-urban areas.
- Attract a diverse mixture of visitors who travel to and within Alaska by a variety of travel modes.
- Increase total visitor expenditures statewide; endeavor to maintain or increase per trip expenditures.

### Key Component Issues for FY2003 – 2004

**Overall growth rate in the visitor industry is decreasing:** The recent Alaska Visitors Statistics Program IV (AVSP) indicates the rate of visitor growth between 1999-2001 declined to less than one-half of one percent. Specifically hard hit were the non-cruise segments of the industry, including highway travel. The Alcan/Taylor highways saw a 10 percent decrease in traffic in 2002 as compared to 2001. Although the cruise industry experienced growth in 2002, it was due to heavy discounting and repositioning of ships. Cruise passenger spending was down, which greatly impacted those businesses that are dependent on cruise passengers to purchase their tours, visit their attractions or shop in their stores. Looking forward to 2003, there is no guarantee that the repositioned ships will stay in Alaska. Therefore, Alaska will see a decrease in overall visitor numbers in the next year unless the number of independent travelers can be increased.

**Need to Stimulate Vacation/Pleasure Travel:** Although travel nationwide has rebounded to some degree since the September 11 terrorist attacks, the industry is far from recovered. Many visitors are still wary of traveling. Destinations that were able to supplement their marketing effort have been more successful in restoring the traveling public's confidence and have been able to alleviate the impact to their destinations. It is essential that Alaska's visitor industry find ways to minimize long-term impacts and encourage travel to the state.

**Obtain sufficient private sector funding to meet requisite match and improve program:** Beginning in FY03 and thereafter, state law required the qualified trade association contractor to increase its contribution to the marketing program from 30 to 60 percent. This will be exceedingly difficult given the impact September 11 and the decline the national economy has had on many of the state's smaller businesses. Significant effort is being made to generate additional funds from private sector companies in order to meet the required state match; however, the Alaska Travel Industry Association's (ATIA) 2002 Business Status Survey shows 50 percent of all visitor businesses statewide experienced a decline in business in 2002, leaving many businesses strapped for cash.

**Increased competition from other tourism destinations continues to threaten Alaska's tourism industry:**

Alaska's public funding for tourism marketing has declined by over 60 percent since the early 1990's. While the average of all state tourism budgets has increased by 32 percent in the past five years, Alaska has slipped from 7th to 39th place in terms of the amount of state funds allocated to tourism marketing. This decline in state funding greatly impedes Alaska's ability to compete at a national level. Consistent with the industry's Millennium Plan, the FY03 and beyond funding goal for tourism marketing is a budget of \$10 million, with the industry contributing \$6 million and the state contributing \$4 million. The industry strongly feels, however, that a minimum of \$20 million is needed for tourism marketing in order to compete effectively with other states and destinations for Alaska's share of the traveling public.

**Major Component Accomplishments in 2002**

Exceeded the mandatory industry match, with the private sector contributing an additional \$1.2 million over what was required by the contract with the state.

Increased business participation in the state tourism marketing program by 35% percent since the inception of ATIA. Membership in FY02 totaled 1,032 compared to 800 members in FY00.

The number of requests for Alaska trip-planning information generated in FY02 exceeded 550,000. This is significant given the events of September 11 and the stock market, both of which had devastating effects on worldwide travel.

Increased traffic to the Official State Travel website ([www.travelalaska.com](http://www.travelalaska.com)) by over 50 percent from the prior year. ATIA generated more than 29.3 million hits to the site in FY02 and close to 1 million unique, or separate individual, visitors.

Increased national cable television ad placement schedule by 20 percent over the previous year.

Generated national broadcast exposure for the state by coordinating Alaska segments on Good Morning America and Live! With Regis and Kelli.

Successfully launched a major nationwide travel agent training program by partnering with the Institute of Certified Travel Agents (ICTA) in the production of the Alaska Destination Specialist Course. The Alaska Course has become the fastest selling course in ICTA's history.

Made significant progress toward branding the state by developing a branding statement that will guide all future marketing efforts: Alaska – A part of America where there are more mountains than buildings, more wildlife than people, more glaciers than stop lights, yet within your reach.

Launched Japanese and German-language websites that mirror the English-version site of [www.travelalaska.com](http://www.travelalaska.com).

**Statutory and Regulatory Authority**

AS 44.33.119-125      Tourism Marketing Contracts

**Key Performance Measures for FY2004**

**Measure:**

**Increase visitation from domestic and foreign markets.**

**Alaska's Target & Progress:**

Target: increase overall visitation by 3% in Summer and 3% in Fall/Winter

Summer 2001: The Alaska Visitor Statistics Program IV (AVSP) Summer 2001 report was released by the Department in January 2002 and shows summer growth in the tourism industry between 1999-2001 slowed to just one-half of one percent, the lowest rate of growth ever experienced by the state.

Fall/Winter 2001: The AVSP Report for Fall/Winter 2000-01 contains more positive information. The total number of visitors during fall/winter increased by 17 percent over 1998-99 (the last year for which information is available), or 8.5 percent increase per year.

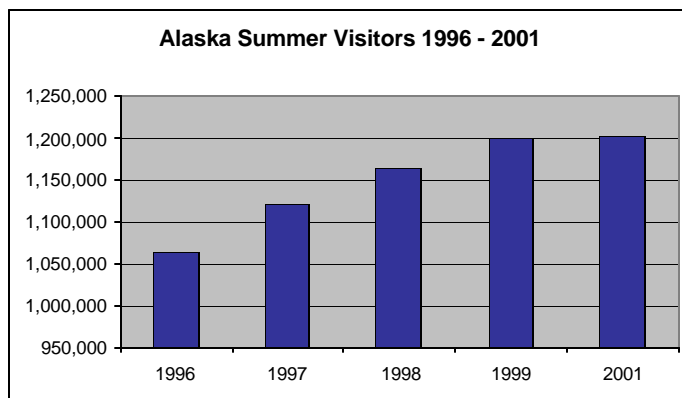
2002 Tourism: The tragic events of September 2001 altered the course of Alaska's 2002 summer season and will likely impact the industry for the foreseeable future. A research study commissioned by the Alaska Travel Industry Association (ATIA) in September 2002 indicates one-half of the Alaska visitor industry experienced a decline in visitor business volume in 2002. In addition, bookings for 2003 are starting out slow, a clear indicator that visitation to Alaska will continue to be down in 2003. This study also reinforces the finding in the AVSP that for the first time, Alaska's visitor industry growth is at a standstill. Further impacting the state's economy, roughly one-quarter of Alaska's tourism-related businesses reported they reduced staff size due to the decrease in business, leaving many Alaskans out of work.

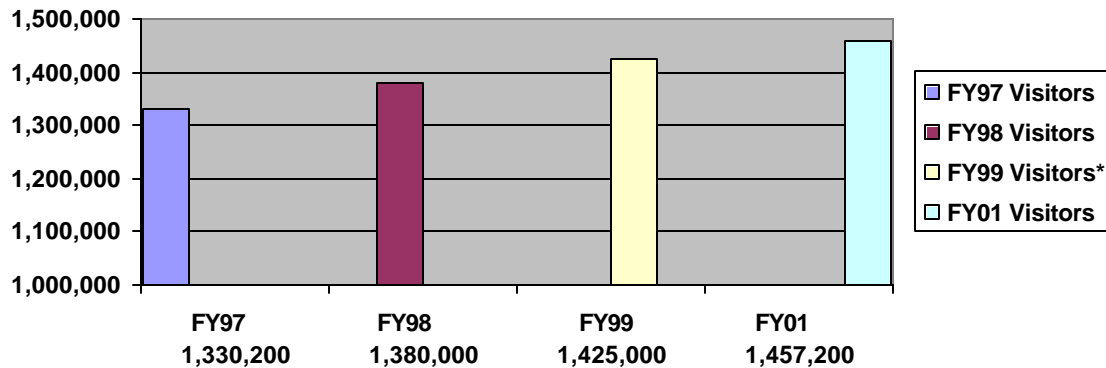
Travel and tourism was one of the hardest hit sectors of the economy due to 9/11 and the stock market decline, and is one of the areas where consumer confidence will take the longest time to return. Massive layoffs and bankruptcies erupted throughout the industry over the past year, and a number of cities and states began emergency marketing campaigns to attract consumers who were willing to travel. In Alaska, the most dramatic decline was seen in the winter Japanese market. Travel security issues and the strong US dollar discouraged many international travelers. Because Alaska's primary mode of travel is by air, the state was particularly hard hit due to the reluctance of some consumers to fly and the tendency to travel closer to home and take trips of shorter duration.

The Alaska Visitor Statistics Program IV (AVSP) was completed this year and provides critical data on Alaska visitors. This information will be used as a benchmark for tracking actual visitation patterns for future years and benchmark information regarding repeat visitors.

The AVSP IV Summer Arrivals study shows that summer visitor growth has slowed over the past several years. In 1996, summer visitor volume grew by 10%, 5% in 1997, 4% in 1998, and 3% in 1999. In FY01, growth declined to less than 0.5%.

Sources: Alaska Visitor Statistics Program IV and Alaska Summer Visitor Arrival Studies 1996, 1997, 1998, and 1999.



YEAR-ROUND ALASKA VISITATION

\*No AVSP Fall/Winter arrivals data was collected for 1999/2000 so 1998/1999 figures were used for comparison.

**Benchmark Comparisons:**

According to the Travel Industry Association (TIA), recovery for the travel and tourism industry will be a long and arduous uphill journey. Dr. Suzanne Cook, senior vice president of research and technology planning for TIA, indicated during a speech at the 2002 TIA Marketing Outlook Forum that “travel demands, patterns and expectations may have changed for the long-term. And despite continued slow growth in the leisure travel market, this recovery is fragile and could be choked off by any number of new developments.” Cook said that, after falling nearly six percent last year, domestic and international travel spending continues to be soft and is not expected to recover to 2000 levels until sometime in 2004.

**Background and Strategies:**

Alaska needs to become more competitive in the marketplace and, given current funding levels, this is very difficult to do. In comparison to other states, Alaska ranks 28 out of 50 in terms of total marketing expenditures for 2002. This greatly diminishes the state's ability to compete for visitors. The average state tourism marketing budget for 2002 was \$13.13 million compared to Alaska's \$7.8 million budget.

Another important point of reference is that 35 of 48 states responding to a Travel Industry Association survey receive 100% of their funding from the public sector. The average budget of these 35 states is \$12.5 million.

Marketing strategies being implemented by ATIA to compete for visitors include:

- (1) Increase national cable television ad placement
- (2) Redesign and promote the Official Alaska State Travel Website ([www.travelalaska.com](http://www.travelalaska.com)) in order to increase the average of 80,000 visitor sessions to the site each month.
- (3) Bolster Public Relations efforts to include aggressive outreach to travel writers, editors and producers in order to increase national media exposure for Alaska
- (4) Increase the level of knowledge regarding Alaska with travel trade and tour operators
- (5) Expand promotion of niche markets including winter, adventure/ecotourism, sportfishing, cultural, bed & breakfasts and highway/ferry travel.

For the first time, ATIA will conduct international research in FY03 to obtain information on the United Kingdom, German-speaking Europe, Australia and Japanese markets. The goal of the research project is to identify high potential visitors to Alaska from each market.

**Measure:**

**Increase economic and other benefits provided by the visitor industry.**

**Alaska's Target & Progress:**

Target:

- Increase statewide visitor expenditures from \$949 million and overall impact of \$2.6 billion
- Enhance the quality of life for Alaskans
- Increase year-round employment of Alaskans in the visitor industry above the current 30,700

Number of Jobs: One in eight private sector workers are now employed in the visitor industry in Alaska. Alaska's visitor industry directly and indirectly accounts for approximately 30,700 jobs (20,300 direct employment; 10,400 indirect employment).

Average Visitor Expenditure: According to the newly released AVSP IV, fall/winter visitors spend an average \$903 per person, per-trip while summer visitors spend an average \$1,199 per-person, per-trip while visiting Alaska. As the number of visitors to Alaska grows, the overall economic impact to the state will increase.

Total Visitor Expenditure: The AVSP IV indicates that total visitor spending in Summer 2001 was \$1.4 billion, and Fall/Winter 2001 visitor spending totaled \$220 million.

**Benchmark Comparisons:**

Length of Trip: The Travel Industry of America (TIA) reports the national average trip duration in 2001 was 3.4 nights compared to 4.1 nights in 2000. Although travelers to Alaska typically out-perform the national average, this trend toward a decrease in the length of stay could negatively impact travel to Alaska.

**Background and Strategies:**

Through implementation of the statewide tourism marketing effort, ATIA strives to increase visitor expenditures by bringing more visitors to Alaska and encouraging these visitors to stay longer and spend more. By targeting a diverse mix of visitors, we are able to expand the range of businesses that benefit, provide a quality experience and bring income to all regions of the state.

Expansion of niche promotional efforts encourages a more diverse mix of businesses to participate in the statewide marketing effort and spreads the benefit of the program to more regions and sectors of the industry.

As Alaska's tourism industry grows, residents will benefit both directly and indirectly through increased employment and quality of life improvements such as jet air service, local attractions, hotels, restaurants, etc. More importantly, as other industries face decline – such as commercial fishing, mining and timber – more residents are turning to Alaska's visitor industry for employment.

**Measure:**

**Increase participation of businesses in the tourism marketing program.**

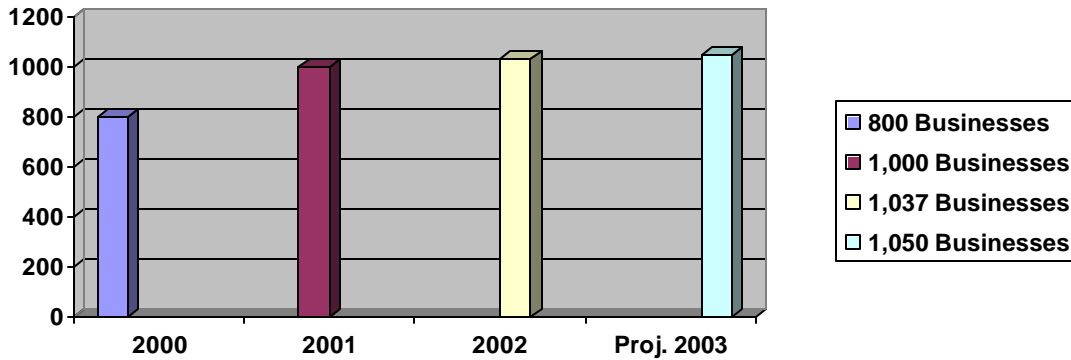
**Alaska's Target & Progress:**

**Targets:**

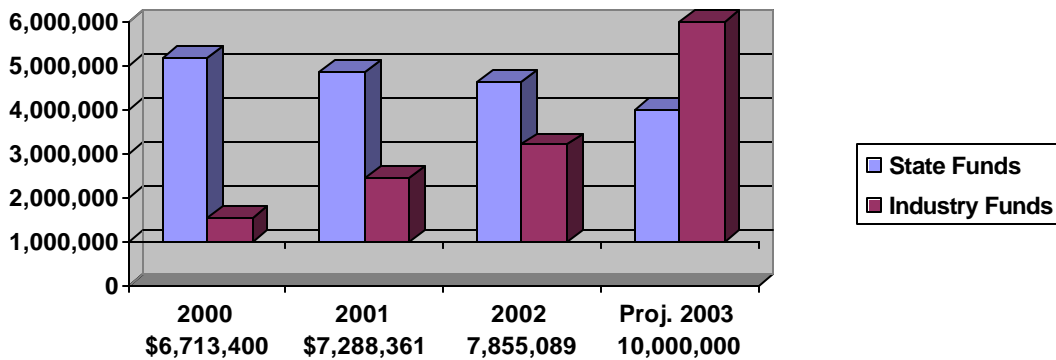
- Raise a minimum of 60% of the funding for marketing from the private sector: In the first two years of operation, ATIA exceeded the required 30% match. It will be a difficult challenge to meet the 60% match and it is unlikely this target will be exceeded. The events of September 11 negatively impacted many of Alaska's tourism businesses' ability to meet their revenue projections. Loss of revenue means businesses will have less money to allocate to marketing programs, thereby diminishing ATIA's ability to raise revenue from the industry.
- Increase business participation in the state tourism marketing program: Participation has increased by 35 percent since FY2000.
- Increase the selection of marketing services to businesses: New programs include cooperative magazine advertising campaigns; expanded cooperative newspaper advertising campaigns; advertising on specialty websites catering to adventure/ecotourism, sportfishing, cultural and winter travelers; redesigned consumer website with features such as My Alaska trip-planning section, digital postcards, online Travel Specials section to allow businesses to promote short-term special offers; and electronic newsletter sent directly to potential travelers.

The private sector was required to match state funds by 30% in 2001 and 2002. For both years, additional funds were raised outside of the contract and spent on marketing. In 2001 the required match was \$2,078,571 with an additional \$359,790 raised for a total of \$2,438,361; this amount increased to \$3,199,889 in 2002 with \$1,995,085 representing the required match and \$1,204,804 additional funding of marketing raised by the private sector. In 2000 the industry was restricted by program receipt authority in terms of how much could be contributed to the marketing program.

**PARTICIPATION IN MARKETING PROGRAM**



**INDUSTRY FUNDING OF TOURISM MARKETING EFFORTS**



**Background and Strategies:**

The tourism marketing program is developed by a broad-based group of more than 50 individuals representing businesses throughout the state. Specific focus is placed on year-round marketing and the needs of small businesses, which make up 92 percent of ATIA's membership. New programs added since the inception of ATIA include: representation in Australia, cooperative magazine advertising campaign, expanded internet programs, individual adventure/eco-tourism websites, sportfishing, cultural and winter niches, an increase in national television advertising, a new logo/tagline for use in creating a distinctive identity for Alaska, and a redesigned consumer website.

Outreach to businesses and organizations include regular delivery of an electronic newsletter sent to all ATIA members and prospective members throughout the state for a total distribution of 1,700 each month. ATIA's annual Convention and meeting of the industry has also seen continued growth, with 550 to 660 delegates attending each year. An industry website, [www.alaskatia.org](http://www.alaskatia.org), also serves as a clearinghouse for important information on Alaska's visitor industry, national tourism industry and the statewide marketing program.

ATIA also reaches out to civic and industry groups to increase awareness and participation in the statewide marketing program. Some of these groups include: Convention & Visitors Bureaus, Chambers of Commerce, member organizations such as the Statewide Association of Bed & Breakfasts, Museums Alaska, Campground Association and Community Economic Development Forums.

This year, the ATIA produced a new 9.5 minute video that concisely tells the ATIA story, explains the importance of tourism marketing and how Alaska businesses can become more involved in the organization. This video will be used extensively during the year to educate Alaska residents and business leaders of the importance of tourism to the state's economy and how Alaska is being promoted to consumers throughout the world. A new ATIA sales packet is also being produced that will detail ATIA programs and opportunities available to members who participate.

**Measure:**

**Increase interest in Alaska as a visitor destination.**

**Alaska's Target & Progress:**



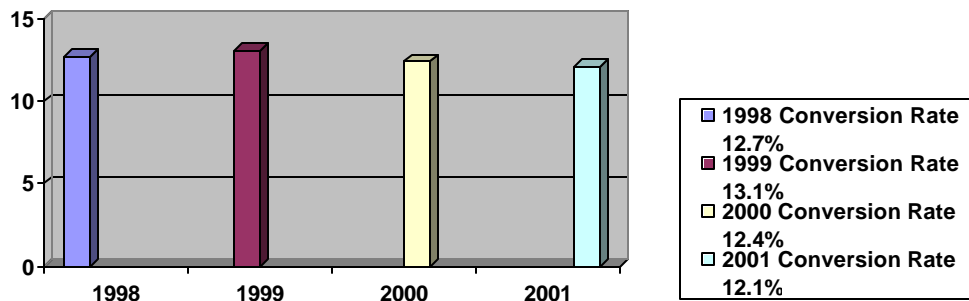
**Targets:**

- Establish a benchmark to track consumer interest in Alaska as a travel destination: The Images of Alaska 2000 research study tracks the behavior and attitudes of visitors to Alaska as well as non-visitors. This study establishes a benchmark to chart further growth and provides valuable information that can be used to refine Alaska’s marketing messages and the vehicles used to deliver this message.
- Maintain the 12% rate at which interested parties convert to visitors: In FY02, the “visit Alaska” message was delivered to an estimated 72.8 million individuals, resulting in more than 550,000 individual consumers requesting Alaska trip-planning information. The conversion rate for the 2002 program year was 12.1%; meaning 12.1% of those requesting Alaska trip-planning information actually visited the state. Looking over a two-year period – meaning those who request travel information one year, but wait an additional year before actually traveling – the conversion rate increases to 17.4%.
- Conduct a pre-season modified Conversion Study to measure the projected/expected conversion rate among respondents who have inquired but have not yet visited. This information will be used to drive marketing decisions to ensure the greatest number of visitors to Alaska in 2003.
- Determine reasons why consumers requesting Alaska travel information do not visit and utilize this information to introduce new programs or marketing approaches.

Individual media is tracked for effectiveness. The annual Conversion Study is used to guide future marketing efforts and refine the effectiveness of the program as a whole. Comparisons may be made year-to-year; however, numbers vary based on different types of media used.

In FY03, ATIA is conducting an internet research study that will determine what kind of information consumers want from a travel-related website and what features are most important to learn about a destination and when planning a trip. This information will be valuable in refining the travelalaska.com website.

**CONVERSION RATE**



**Benchmark Comparisons:**

Not applicable.

**Background and Strategies:**

Images 2000 study was completed and we found that the size of the potential Alaska visitor market in the U.S. has grown by 4.3 million during the last four years. 34.8 million U.S. adults meet the profile of a typical Alaska visitor.

Other highlights of the study include:

- Repeat visitors tend to return to the state an average of 3.6 times and stay longer than 1st time visitors.
- Use of the Internet as a trip-planning tool increased substantially, growing from 5% in 1996 to 44% in 2000.
- Alaska ranked third in terms of the next destination visitors are most likely to travel to in the next five years.

Implemented domestic marketing programs to increase interest in travel to Alaska, including magazine, direct mail, newspaper, public relations efforts and internet marketing. New in FY03 is the addition of a 10-second response television ad to be aired on national cable networks and a magazine cooperative advertising campaign.

International marketing efforts will continue to be primarily targeted at Japan, German-speaking Europe, United Kingdom and Australia with secondary markets of Taiwan and Korea.

ATIA assisted more than 1,000 individual travel writers in FY02 by assisting with the development and placement of Alaska travel stories. An online media center was maintained throughout the year, allowing media to access Alaska travel information and photography continuously – anywhere and anytime around the world.

Just one month after September 11, ATIA sent a team to New York City to meet one-on-one with travel writers and editors of publications such as the New York Times, New York Post, Travel & Leisure, Travel Weekly, the Association Press and others.

The ATIA introduced the Alaska Media Road Show in FY03, bringing Alaska businesses and nationally recognized travel writers and editors together for three days for one-on-one networking and promotion of Alaska travel. ATIA also developed an electronic (pdf) press kit combining detailed information about Alaska's culture, history and visitor opportunities that can be easily updated and sent to the travel media.

Alaska is frequently considered a challenging travel destination because of the perceived time, distance and cost issues. Therefore, a concerted effort is being made to reach travel agents and tour operators by directly sending Alaska trip-planning information to them and developing a comprehensive Alaska Destination Specialist training course in partnership with the Institute of Certified Travel Agents (ICTA). The Alaska Destination Specialist course has become ICTA's fastest growing training course in the organization's history.

**Measure:**

**Attract a diverse mix of visitors who travel to and within Alaska.**

**Alaska's Target & Progress:**

Target:

- Endeavor to position Alaska as a year-round destination
- Increase travel by all modes
- Increase travel to all areas of the state

Target is being met by implementing programs that focus on the following niche markets: winter, highway/ferry, adventure/ecotourism, sportfishing, cultural, and Bed & Breakfasts.

**Benchmark Comparisons:**

Alaska is positioned to offer many of the activities that are popular with visitors on a national basis.

TOP NATIONAL ACTIVITIES FOR U.S. TRAVELERS

Shopping	33%
Outdoor	17%
Historical/Museums	14%
Beach	10%
Cultural Events/Festivals	10%
National/State Parks	10%

**Background and Strategies:**

Promotion of specialty travel will be accomplished via a wide variety of marketing programs in FY03.

Internet: A complete integration of niche websites into the main consumer site was completed in FY02. These niches will continue to be featured prominently on the homepage of the website redesign being implemented in FY03. This will elevate awareness and interest in the diverse travel options available throughout the state. Content on all niche websites will also be reviewed and enhanced in FY03.

Vacation Planner: The Official State Vacation Planner underwent a partial redesign this year to focus on information that assists consumers in planning their Alaska trips and highlights what differentiates Alaska from other destinations. Specialty travel is addressed throughout the book to help consumers understand travel options available to them and what area of the state - and times of the year - are best for the specific type of travel they are interested in.

Direct Mail: Direct mail lists exist for virtually every type of traveler. This allows ATIA to send custom messages to consumers most likely to be interested in sportfishing, adventure travel, winter activities or cultural attractions. Over the years, the program has proven to be extremely cost efficient and effective. In FY03, ATIA will continue to utilize targeted direct mail lists to deliver information to potential visitors – both electronically and in print form.

Public Relations: ATIA communicates with travel writers and editors throughout the year via an electronic newsletter highlighting what is happening in Alaska. The newsletter focuses on what is new and different and what sets Alaska apart from other destinations. All niche segments are well represented throughout the year in the e-bulletins, resulting in national exposure for the state detailing the diversity of vacation experiences and options for visitors. ATIA also sponsors annual press trips that allow travel writers to experience Alaska's sportfishing, winter activities, cultural attractions, highway travel and adventure travel opportunities first-hand.

Magazine Advertising: ATIA will place ads in 39 national publications in FY03, with ad being customized to reflect the publications' editorial content. For example, an ad placed in Trailer Life will feature a motorhome traveling in Alaska, whereas an ad in North American Fisherman will feature a fisherman fishing Alaska's waterways. In addition, ATIA will place cooperative magazine ads for the first time, allowing businesses to place their individual sales message alongside the state's message.

Tourism North Participation: The Tourism North consortium brings Alaska and its Canadian neighbors together to market highway and ferry travel cooperatively. In FY03, ATIA became the managing partner, thus overseeing all aspects of the program. Program components include a dedicated public relations program, collateral materials and direct mail and research programs specifically focused on highway and ferry travel.

**Qualified Trade Association Contract**  
**Component Financial Summary**

*All dollars in thousands*

	<b>FY2002 Actuals</b>	<b>FY2003 Authorized</b>	<b>FY2004 Governor</b>
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Contractual	4,605.1	4,005.1	4,005.1
74000 Supplies	0.0	0.0	0.0
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>4,605.1</b>	<b>4,005.1</b>	<b>4,005.1</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	4,605.1	4,005.1	4,005.1
<b>Funding Totals</b>	<b>4,605.1</b>	<b>4,005.1</b>	<b>4,005.1</b>

**Qualified Trade Association Contract**  
**Proposed Changes in Levels of Service for FY2004**

None.

**Summary of Component Budget Changes**  
**From FY2003 Authorized to FY2004 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2003 Authorized</b>	4,005.1	0.0	0.0	4,005.1
<b>FY2004 Governor</b>	4,005.1	0.0	0.0	4,005.1