

**Strategic Marketing  
Analysis and Planning  
for Alaska Tourism**

**November 2000**

# TABLE OF CONTENTS

SECTION	PAGE
EXECUTIVE SUMMARY .....	i
1.0 INTRODUCTION .....	1
2.0 REPORT FORMAT AND SUMMARY OF KEY FINDINGS .....	3
3.0 IMPORTANCE OF CRUISE AND NON-CRUISE RELATED BUSINESS .....	7
4.0 IMPENDING CHALLENGES FACING ALASKA TOURISM .....	11
5.0 COMPETING FOR ALASKA'S TARGETED VISITOR SEGMENTS .....	19
6.0 FUTURE PLANNING NEEDS.....	37

## EXECUTIVE SUMMARY

Nichols Gilstrap Inc. (NGI) was hired in the year 2000 to conduct an analysis of a variety of marketing functions previously operated with the assistance of funding provided by the State of Alaska. The project was designed to coincide with a transition that resulted in the execution of Alaska tourism marketing functions shifting from state government organizations to a contract with a qualified trade association (QTA).

While a variety of individual conclusions were reached as part of the review, several factors affected all issues. They are as follows:

- ◆ Alaska features differentiated high quality visitor experiences that give the destination a form of competitive advantage.
- ◆ Resident rebellion against many forms of tourism must be kept to a minimum if the industry is to be appropriately managed and developed.
- ◆ The impact of escalating competition cannot be ignored if tourism is to provide economic and quality of life enhancements for the resident population.
- ◆ Product development is necessary to ensure Alaska manages its tourism and does not allow its tourism to manage it.

Key individual conclusions featured in this document include the following:

### **Cooperative tourism marketing plans should address strategic goals**

A more consistent commitment to identifying and articulating strategic goals in advance of the development of marketing plans is recommended in the future to ensure that public dollars invested in Alaska tourism marketing and development efforts are met with the desired returns.

### **Internet emphasis should be increased**

It makes sense for the State of Alaska to ensure that a significant portion of the dollars it contributes to the qualified trade association go towards ensuring that Alaska boasts an Internet site that serves as an economic engine. Such an engine should drive potential customers to the site and then present them with the wide range of experiences and related operations available in the destination.

### **Direct mail programs should continue to evolve**

Despite the fact that Alaska has clearly established itself as a leader in an area (use of mailings) that is worthy of significant marketing attention, it can be argued that such efforts have increased the too frequently adversarial division between non-cruise and cruise-dependent factions. If the contract with a QTA is to bring the industry together, then the QTA will need to continue to manage and monitor the program to ensure that it evolves appropriately.

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### **Additional advertising should be aimed at increasingly narrow targets**

A narrowing of Alaska's advertising targets to focus greater attention on highly productive geographic markets and customer segments should produce a host of additional benefits for the destination.

### **International and domestic travel trade promotions should continue**

The international and domestic travel trade promotions that were previously operated by the State of Alaska were among the most frequently praised programs during NGL's interviews with industry leaders. With travel trade promotions now shifting to the contract with a qualified trade association, efforts should be made to ensure a smooth transition.

### **Product development emphasis should increase**

Product development will be a wise investment of resources in the future and should create synergy by operating in sync with other traditional economic development programs featured within Alaska's Department of Community and Economic Development. It also makes sense to keep Alaska's overall product development programs in state government, as the private sector (or a qualified trade marketing association) should not be expected--or trusted in some cases--to manage non-biased, non self-serving approaches to the development and management of an entire industry.

### **Internal relations should increase**

Often times, destination marketing organization forget the "Public Relations 101" adage "No external public relations program can be expected to be fully successful without a fully developed internal relations effort." Without successful internal relations, the Alaska tourism industry might win several marketing battles, but it will likely lose the war to develop the necessary level of internal support.

### **Focus must be placed on external competition**

A popular phrase that has been adopted by many successful tourism management organizations is "cooperate internally, compete externally." In the increasingly competitive tourism environment outlined in this report, such a philosophy has become even more important.

### **Role of a qualified trade association**

It is critical for the continued success of the State of Alaska tourism marketing program that state funds and marketing opportunities be used to market travel to Alaska and not to market the QTA itself.

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### **Future planning needs**

While Alaska is on the forefront of a number of research efforts, a variety of new activities should be considered which could further enhance effectiveness in the future. Much of current "conversion" analysis focuses on what is frequently characterized as "gross conversion" factors. In essence, it identifies what percentage of individuals receiving promotional materials actually traveled to Alaska. While this "gross conversion" factor is important to understand, an increasing number of destinations are focusing on "net conversion" factors, identifying not only if the travel party came, but also how the fulfillment or marketing materials influenced key travel and spending decisions.

A final major issue featured in the full report is the impact of non-competitive levels of funding being provided by the State of Alaska for the purposes of marketing and managing the state's tourism industry. Alaska's inability to devote a competitive level of public sector funding to tourism marketing and development should continue to be a concern because an ability to continue to attract high value customer segments appears consistent with residents' desire to maintain a pristine environment. Those who view marketing as a management tool often focus on using marketing to direct visitor flows in such a way that additional customers are not pursued at times when individual communities lack the capacity to adequately handle additional business.

It must be noted that part of the reason other destinations have made a commitment to tourism marketing and development is they are able to do so. The vast majority of U.S. states, for example, have a tax structure that allows them to tax visitors and then reinvest such funds into efforts to continue to market, manage and develop appropriately. Alaska's lack of taxes and its current economy may make it difficult to come up with a competitive level of funding until a well-thought-out visitor industry taxing or self-assessment program is established. One suggestion has been made that travel and tourism should study the Alaska fishing industry's self-assessment program for its potential applicability.

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**Where to find** information highlighted in this Executive Summary:

- Factors affecting all issues (pages 3-6)
- Major individual conclusions (pages 21-36)
- Challenges related to low funding (pages 16-18 and page 36)
- Future research recommendations (pages 37-38)

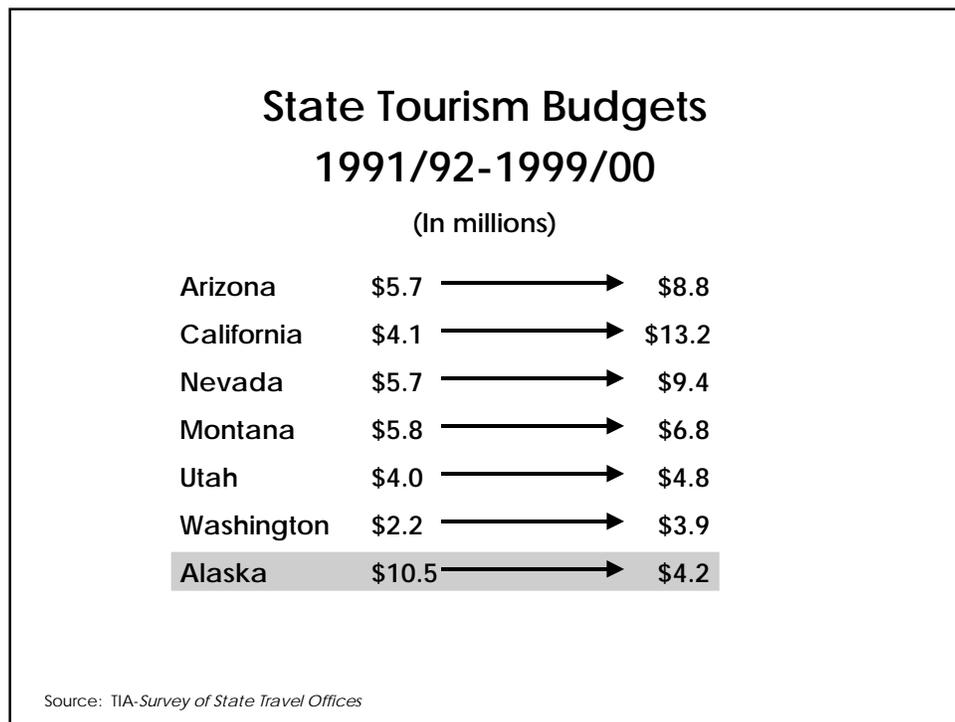
# 1.0 INTRODUCTION

The following document was completed as part of the Alaska Department of Community and Economic Development's ongoing commitment towards planning and managing the future of the Alaska economy. The review was designed to coincide with the implementation of what has come to be known as the New Millennium Plan for Alaska Tourism.

## New Millennium Plan and Legislation

The Alaska Visitors Association (AVA), the Alaska Department of Community and Economic Development's Alaska Division of Tourism (ADOT) and the Alaska Tourism Marketing Council (ATMC) initiated work on this plan in 1997 as part of an effort to consolidate a variety of tourism industry marketing functions and to increase private sector cooperative funding of such efforts in light of decreasing state contributions. Much of the broad-based marketing functions were conducted, at the time, by ADOT and the ATMC.

FIGURE 1 – COMPETITIVE BUDGET TRENDS



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The Division of Tourism was primarily responsible for statewide tourism planning and development, travel trade marketing, international market development, highway travel promotion, international and domestic government-to-government relations, research and responding to requests for travel planning assistance. The ATMC primarily conducted a variety of activities associated with advertising and direct consumer marketing in the United States and Canada.

New state legislation, effective July 1, 2000, is designed to consolidate tourism marketing functions into a single contract with a QTA. The contract is to be administered by the Department of Community and Economic Development's (DCED) office of tourism. The contract has been awarded to what is now known as the Alaska Travel Industry Association (ATIA). The establishment of the new legislation, combined with the formation of the ATIA, has essentially resulted in dissolution of both the AVA and the ATMC. Meanwhile, it has also resulted in the elimination of ADOT's in-house marketing functions, while refocusing the planning and development activities of what is now being called DCED's office of tourism. The legislation prohibits the state from conducting any additional marketing efforts, either in-house or by contract, while the QTA contractual relationship is in effect.

### **Purpose of Marketing and Programs Review**

While prohibited from performing marketing functions, DCED is charged with a variety of responsibilities associated with the new legislation including:

- ◆ Execution of the marketing contract
- ◆ Review and approval of marketing plans
- ◆ QTA contract administration

ADOT's stated objectives, at the start of the review process, included the delivery of:

- ◆ An evaluation of recent Alaska tourism marketing programs
- ◆ The setting of strategic, effective and reasonable objectives for the marketing programs and activities conducted via a contract with the QTA

Such objectives are met with this analysis. It is important to note that as the project unfolded, however, recognition of competitive forces resulted in an enhanced emphasis on the future needs of the Alaska travel and tourism industry.

## 2.0 REPORT FORMAT AND SUMMARY OF KEY FINDINGS

The following report is presented in four major sections:

1. Section 3.0 discusses the implication of on-going, unproductive debates between tourism related businesses that rely on revenues from cruise ships/customers and those operations that have little or no perceived dependence on such spending.
2. Section 4.0 considers a variety of impending challenges that threaten recent levels of prosperity experienced by a variety of Alaska tourism industry businesses and professionals.
3. Section 5.0 presents a variety of recommendations relative to ensuring a sustainable ability for Alaska to compete for the type of customer segments that fit with the state's economic and quality-of-life goals.
4. Section 6.0 offers recommendations relative to future Alaska research planning needs.

### KEY FINDINGS AFFECTING ALL DISCUSSIONS FEATURED IN THIS REPORT

#### **Alaska Features Differentiated, High Quality Visitor Experiences**

Most tourism experts agree that the development of a profitable and sustainable competitive advantage should be the goal of strategic planning. When it comes to actual products, it is clear that Alaska has competitive advantage on a number of fronts including:

- ◆ The unique natural environment provides visitors with one of the most spectacular natural settings in the world.
- ◆ The cruise ship infrastructure and associated products are well established in key travel distribution channels.
- ◆ Many of the visitor segments drawn to the state are willing to pay price premiums for a variety of experiences.

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## Alaska's Visitor Distribution Challenges Affect Industry Management

While a number of aspects of Alaska's visitor industry offer forms of competitive advantage, the state is frequently at a competitive *disadvantage* relative to the ways in which visitors can access the state's tourism products.

FIGURE 2 – PRICE/VALUE PERCEPTION

**“Alaska is an  
expensive place to  
get to, to get around  
in and to stay in.”**

Source: *Frommer's 2000 Alaska*

It is frequently a challenge for customers to get to most parts of Alaska, whether they are coming from another country, state or somewhere else in Alaska. The popular perception is that it is often either time consuming or expensive, in comparison to most competing destinations, to get to most Alaska communities or locations.

Access issues frequently limit the state's ability to attract the variety of customer segments that are targeted by the typical U.S. destination. While this is often considered a weakness, it can also be a strength in that the type of customer that can visit Alaska tends to be the segment that can afford to spend more time and/or money in the destination. The threat with such an opportunity is higher-spending customer segments are increasingly targeted by competing destinations that possess far greater public sector commitments to destination marketing and management.

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## Resident Rebellion Must be Avoided

It is obvious that the range of trails, restaurants, employment opportunities, art galleries, unique shopping and many other similar assets found in Alaska would not exist without an active tourism economy. The local population base is simply not large enough to support the size and scope of the state's current amenity infrastructure.

Despite such positive contributions, a number of vocal residents and organizations have aggressively fought significant efforts aimed at improving the state's tourism-related economy. It can be argued that, in some cases, the resident rebellion may have been justified based on proposals that may have been developed at a significant cost to the environment, natural setting or infrastructure. In other incidences, however, the resident rebellion may have occurred simply because the people involved in efforts to keep Alaska competitive failed to adequately articulate the range of positive benefits that were targeted. In later sections of this document, a more comprehensive description of what can happen to communities that tend to oppose all forms of tourism will be presented.

FIGURE 3 – USA TODAY TRAVEL DESTINATIONS



The image shows a snippet of a USA Today article. At the top left is the USA Today logo. The main title is "Travel Destinations". Below the title is a photograph of two reindeer in a snowy, mountainous landscape. To the right of the photo is the text: "Published June 22, 2000", a purple box containing the headline "Chilly reception", and a sub-headline "Going north to Alaska? Expect to cruise into fears that if tourism thrives, the wild won't survive." At the bottom is a URL: <http://www.usatoday.com/life/travel/leisure/2000/ltl308.htm>

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## **Alaska Cannot Afford to Ignore the Impact of Competition**

As is illustrated in Figure 3, internal battles over the viability of tourism have served to give Alaska another form of competitive disadvantage. Negative publicity, combined with uncompetitive levels of public sector support of marketing efforts, have made it increasingly difficult for many smaller communities and businesses to thrive in Alaska. For example, between 1995 and 1999, the non-cruise related segments of Alaska's visitor industry grew at a rate 45 percent below United States tourism industry growth averages.

## **Product Development and Destination Management Foster Appropriate Growth**

If one of the ultimate goals for Alaska tourism is a sustainable reliance on visitor spending for boosting the Alaska economy and supporting desirable amenities, then an accompanying goal should be to manage visitor flows in such a manner that they do not destroy the overall natural setting or Alaskans' quality of life. As will be described in this document, strategic marketing can often play an important role in *managing* visitor flows. The development and management of appropriate products or amenities is generally required as well. These two points are supported in the state's new approach to tourism, as a QTA will be responsible for implementing marketing activities, and DCED's office of tourism will be responsible for administering the marketing contract and implementing the product development and planning activities.

If customer segments that do not spend money while in Alaska and/or do not respect the environment and local culture are attracted through marketing efforts or amenities that are developed, resident rebellion will likely grow. However, if visitor flows are managed and result in economic, amenity and environmental enhancements, then a better understanding of tourism's benefits has a chance of being fostered. The need for strategic product development and destination management should be considered in relation to virtually every issue discussed in this document.

## 3.0 IMPORTANCE OF CRUISE AND NON-CRUISE RELATED BUSINESS

As part of this analysis process, NGI conducted individual interviews with nearly 50 different Alaska tourism industry leaders. Input was gained from representatives of the following organizations:

- ◆ Alaska Division of Tourism
- ◆ Department of Community and Economic Development
- ◆ Alaska Visitors Association
- ◆ Alaska Tourism Marketing Council
- ◆ Alaska Travel Industry Association
- ◆ The lodging sector
- ◆ Large cruise ship operators
- ◆ Smaller excursion boat operations
- ◆ Alaska Bed and Breakfast Association
- ◆ Alaska Wilderness Recreation Tourism Association
- ◆ Native corporations
- ◆ Fishing lodges
- ◆ Advertising agencies
- ◆ Convention and Visitor Bureaus
- ◆ Air tour operators

Among the most frequent comments, in these SWOT (strengths, weaknesses, opportunities and threats) style interviews, were opinions related to a debate of whether cruise related/dependent businesses were more or less important to Alaska than non-cruise type operations.

Cruise related/dependent is a term that loosely refers to:

- ◆ The larger cruise ships themselves
- ◆ Hotels, tours, recreational activities or other amenities owned and/or operated by the cruise companies
- ◆ Businesses that receive a significant share of their revenues from either the cruise lines or their customers

Non-cruise tends to refer to those operations that receive little or no direct revenue from cruise operations or from passengers on an itinerary featuring cruise ship transportation.

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While it may prove beneficial to more closely examine this debate at some point in the future, NGI concluded that this issue, at this point in time, serves to undermine, to a degree, Alaska's ability to compete and to develop industry unity. A number of industry leaders expressed opinions during the interviews that a struggle over leadership and control was the primary reason for the internal debate. This occurs primarily because the cruise-dependent and the non-cruise businesses often have different marketing needs, capabilities and philosophies. The people who expressed such opinions speculated that, because of these differences, the arguments frequently shift to which segments are more important. The theory that emerged is that if one segment can prove it is more important, then perhaps its voice would be heard more frequently in relationship to marketing decisions/programs that utilize public dollars.

Regardless of the reasons for such discussions, the topic continually places what NGI perceives to be an unwise share of focus on internal--over external--competition. The dangers associated with an over emphasis on internal competition will be discussed in greater detail in following sections of this report.

In reality, both sectors (cruise and non-cruise), if properly managed, offer tremendous potential to boost Alaska's economy and create important resident-valued amenities.

**FIGURE 4 – ALASKA'S CRUISE ECONOMICS**

### **1997 Southeast Alaska Cruise-Related Spending and Tax Revenue**

<b>Cruise Ship Taxable Passenger Spending</b>	<b>\$120 million</b>
<b>Cruise Ship Taxable Crew Spending</b>	<b>\$10 million</b>
<b>Taxable Spending Supporting Cruise Operations</b>	<b>\$10 million</b>
<b>Sales Tax Revenue Generation</b>	<b>\$7 million</b>
<b>Port Fees</b>	<b>\$3.2 million</b>

Source: Cruise Industry Impacts on Local Governments in Southeast Alaska

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In addition to the benefits featured in Figure 4, positive cruise industry contributions (identified in the interview process and through examining relevant tourism research) to the Alaska tourism industry include the following:

- ◆ Cruise related business was responsible for the major portion of visitor spending growth in the 1990s
- ◆ Many cruise lines have traditionally attracted and introduced high value customer segments to Alaska
- ◆ Many Alaska businesses (both traditional tourism and non-traditional) would not exist without significant cruise-related expenditures
- ◆ Because of dwindling state commitments to marketing, the cruise ships have essentially become the primary sources of Alaska “image” advertising by spending millions of dollars marketing the destination
- ◆ It is believed that many people who are introduced to Alaska while on a cruise choose to be repeat visitors, often coming back as land-based leisure travelers

Major contributions often associated with non-cruise or non-cruise-dependent businesses include the following:

- ◆ Many of the non-cruise offerings are viewed as the types of experiences that are central to showcasing the “real” Alaska
- ◆ Many of these experiences are helping Alaska to better penetrate growing adventure and cultural heritage travel segments (see Figure 5 on the following page)
- ◆ Visitor spending with these types of operations often import dollars for employers, employees and areas that are in need of new spending (this is why tourism is often referred to as an export industry)
- ◆ As the cruising market matures and escalating competition impacts such business, land-based operations offer solid potential to fill important revenue stream gaps that might occur

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**FIGURE 5 – CULTURAL TOURISM ESTIMATES**

	<u>Cultural/Heritage Tourists</u>	<u>Average Tourist</u>
Length of Stay/Days	13	3.5
Amount Spent during Stay	\$1,534	\$389
Propensity to Shop	59%	39%

Source: National Trust for Historic Preservation

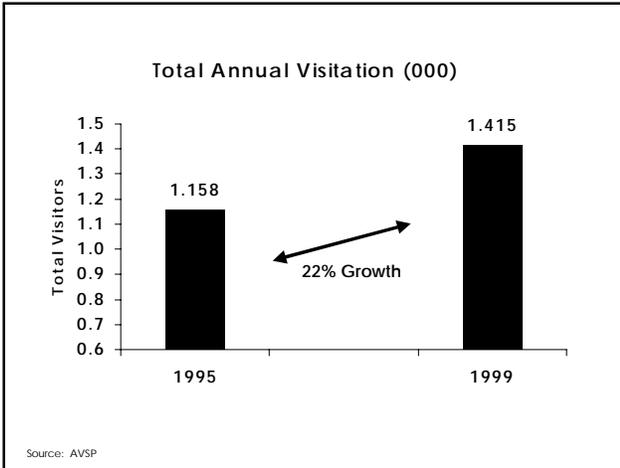
As Figure 6 illustrates below, market realities should be taken into consideration when “Who Is More Important?” debates arise in Alaska. More importantly, as Sections 4.0 and 5.0 will illustrate, a growing emphasis should be placed on understanding the impact that competitive forces will likely have on the Alaska economy in the future.

**FIGURE 6 – MARKET REALITIES**

- ◆ Non-cruise segment possesses limited marketing dollars (it is more cruise-dependent than many realize)
- ◆ Cruise industry acts as an important catalyst similar to theme parks and casinos in other destinations
- ◆ Cruise industry becoming increasingly competitive
- ◆ Limited “visitor taxing” mechanisms limit marketing revenue generation capabilities
- ◆ Many non-cruise businesses offer the greatest potential for enhancing economic growth in rural areas that possess the intrinsic characteristics of viable tourism destinations

## 4.0 IMPENDING CHALLENGES FACING ALASKA TOURISM

### FIGURES 7 & 8 – STRONG HISTORIC GROWTH



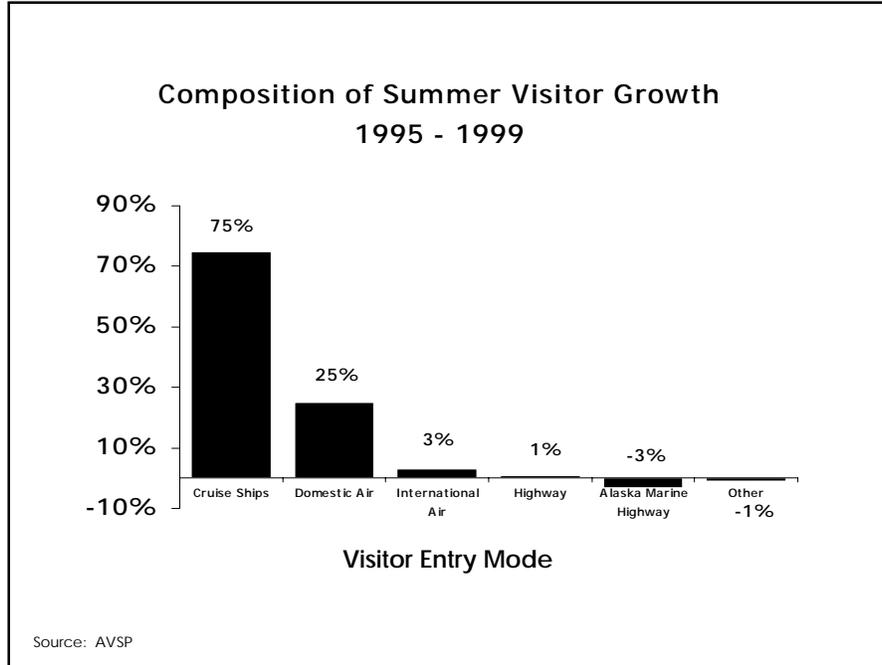
<u>Total Visitation</u>	<u>1995 - 1999</u>
Alaska Average Annual Visitor Volume Increase	5.5%
U.S. Average Annual Travel Volume Increase	3.75%

Source: AVSP & TIA

As is indicated above, the Alaska tourism industry appears to be riding an impressive wave of success into the New Millennium. Increases in total visitor volume have outpaced that experienced by the average U.S. destination, and this has occurred during what has been categorized as a phenomenal travel growth period. The danger in analyzing broad statistics such as these, however, is that Alaska may acquire a false sense of security. Dwelling on overall averages and past growth rates can undermine an understanding of sectors and even regions that may be facing increasing future challenges. For example, as is mentioned earlier in this report, statistics derived from the Alaska Visitor Statistics Program (AVSP) and the Cruise Line Industry Association (CLIA) indicate that non-cruise related business in Alaska grew only 2.1 percent between 1995 and 1999. This growth rate was approximately 45 percent below the U.S. average.

As Figures 9 and 10 illustrate on the following page, major cruise industry advances have largely driven Alaska's phenomenal overall growth rate.

**FIGURE 9 – CRUISE INDUSTRY DRIVES GROWTH**



**FIGURE 10 – ALASKA CRUISE VISITOR GROWTH**

**Exceeds North American Averages**

<u>Cruise Visitation</u>	<u>1995 - 1999</u>
Alaska Average Annual Summer Visitor Growth	15.3%
North American Cruise Average Annual Passenger Growth	8.6%

Source: AVSP & CLIA

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While growth rates may have been impressive in the 1990s, a number of indicators suggest that Alaska will experience an increasing number of challenges in sustaining and managing future visitor volumes. Among the factors pointing to increasing difficulties are:

- ◆ Growth rates are slowing at a dramatic pace
- ◆ The cruise industry is facing a dramatic increase in competition
- ◆ Supply growth is outpacing demand in Alaska's lodging sector, and this may be occurring for adventure outfitter guides, as well
- ◆ Marketing resources are not competitive, making it increasingly difficult to compete for key customer segments and manage visitor flows

### Slowing Growth Rates

Year	Total Summer Visitor Growth Rate	Summer Cruise Visitor Growth Rate
1996	10.1%	18.7%
1997	5.3%	16.5%
1998	3.8%	10.0%
1999	3.0%	6.0%

Source: AVSP and CLIA

As is illustrated above, growth rates have steadily declined since the mid-1990s. Many industry insiders have predicted that this trend will continue through this year. Part of the key to reversing such a trend will be the performance of the cruise industry, a sector that will be facing escalating competition in the foreseeable future.

### Cruise Industry Competition

The cruise industry, overall, has experienced a fairly dramatic increase in popularity in recent years. Between 1995 and 1999, CLIA statistics indicate that passenger growth (demand) increased at 5.9 percent annually. At the same time, however, new ship berths (supply) increased at an average annual rate of 7.7 percent. This supply/demand imbalance has made it increasingly difficult for a number of ships to increase the rates that they charge and the percent of beds they fill.

**FIGURE 11 – NEW CAPACITY CAPTURE**

**Bed Days**

<u>Region</u>	<u>Market Share 1999</u>	<u>Share of Growth 95 – 99</u>	<u>Share of Growth in 2000</u>
Caribbean	36%	13%	64%
Mediterranean	13%	23%	5%
Alaska	9%	10%	1%
Europe	8%	18%	4%
Bahamas	7%	3%	2%
Trans Canal	7%	7%	-6%
Mexico West	<u>5%</u>	<u>7%</u>	<u>2%</u>
	84%	81%	72%

Source: Derived from 2000 CLIA Destination Analysis

As Figure 11 illustrates, the market share of supply growth captured by the major cruise industry players has eroded from 81 percent in 1995, to 72 percent in 2000. Much of the new capacity in 2000, for example, is going to ships servicing markets such as Canada/New England, Africa and U.S. Coastal East. These destinations offer dramatically different products than Alaska and it remains to be seen if they have the appeal to pull from Alaska's major suppliers. Many cruise industry experts believe that Alaska offers such a unique product that it tends to be somewhat buffered from the effects of cruise competition and increased supply. While that is the hope for many for the future, declining growth rates may suggest otherwise. As a result, this is an issue that will need to be closely monitored in the months and years ahead.

#### **Additional Supply and Demand Issues**

In 1995, the average rate that a hotel customer paid for a room in an Alaska lodging facility was 40 percent higher than what was paid for an average priced room elsewhere in the United States. Since that time, average daily hotel rates (ADR) grew only 5.6 percent in Alaska and 22.7 percent on the average in the United States overall. The price differential, as a result, was reduced to 20 percent by 1999.

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Several Alaska tourism industry leaders have suggested that a reduction in the Alaska price gap may not necessarily be a bad thing based on an increasing volume of complaints regarding Alaska's prices. At the same time, this situation needs to be monitored as the slowing price growth coincides with an overall slowing in visitor volume growth as well. It also comes at a time when annual hotel occupancy has declined as new hotel supply has consistently outpaced new demand.

**FIGURE 12 – ALASKA LODGING MARKET TRENDS**

	<u>Supply</u>	<u>Demand</u>	<u>Occupancy</u>
1997	+4.0%	-2.1%	62.90%
1998	+5.7%	+5.5%	62.70%
1999	+3.0	+2.5%	62.50%

Source: Smith Travel Research

Although empirical documentation is not available, there is a perception among many Alaska Wilderness Recreation Tourism Association members that a similar imbalance in supply and demand growth is occurring in that sector. While the availability of additional recreation options might create new opportunities for visitors, there is a concern that many of the new products are run by so-called "hobby" operators. The risk with "hobby" operations is that Alaska's quality reputation in this area could suffer and the increased internal competition could drive down rates and thus threaten the viability of long-standing "professional" recreation companies. These are the types of operations that have traditionally seen a great deal of their revenues stay in Alaska.

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## Uncompetitive Marketing Resources

Tourism truly became a global business in the 1990s. Many countries that previously had no significant tourism business began to focus an increasing share of their economic efforts on stimulating visitation to their regions. Examples include Vietnam, Cuba, China and Albania. To illustrate, after decades of civil war ended in December of 1996, one of the first steps taken by Guatemala was to open its boundaries to tourists. Since the vast majority of Alaska's tourism business comes from residents of other states and countries, it is important to note that many countries that previously ignored tourism are now targeting out-of-state and out-of-country travelers in their marketing efforts. In predicting future trends for Alaska, NGI believes a major concern is that many states, as well, have been increasing their ability to compete while the state of Alaska has reduced its funding of such efforts (see Figure 1). It is important to note that industry leaders report that Alaska has traditionally competed with a mix of "natural wonder" Western States and exotic country destinations, including Western Canada.

The importance of an effective and adequately funded marketing campaign was recognized by Colorado when the extension of a tax to fund its state tourism budget was rejected by voters in 1992. Since then, Longwoods International has reported that tourism-related expenditures in Colorado have *declined* by 15 percent while the *number* of visitors has basically remained the same. The Colorado example is important to consider. It is one of many case studies that demonstrate destinations who fail to market competitively often host approximately the same number of visitors, yet they fail to get as great a share of *higher spending* leisure tourists.

Alaska must pay attention to what happened in Colorado because it offers evidence to support a popular theory that the greatest impact in destination marketing may be related to defining and attracting specific or desirable visitor segments, rather than just convincing more people to visit. Without adequate competitive resources, many destinations have found that well-funded competitors are enjoying increased success in luring the less-committed destinations' best customer segments.

Consider the impact on Sausalito, California when it elected not to develop competitive approaches to destination management and marketing. The following was written by John Poimiroo, the former California Director of Tourism.

In the early 1980s, Sausalito was a highly-regarded tourist destination known for its natural beauty, quaint business district and thriving arts community. Then, after several years of growing anti-business, anti-visitor sentiments, political powers chose not to reinvest its Transient Occupancy Tax (TOT) collections back into tourism promotion or development.

The results have been devastating. Sausalito is just as busy as it used to be in terms of foot traffic and visitors. It just isn't as successful economically. Why? Established destinations can rarely shut off the flow of visitors automatically. As a result, such places end up getting whomever decides to visit. Often, this is the wrong kind of visitor, one who continues to fuel congestion but doesn't spend money.

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Sausalito is also a good illustration of the indirect, economic development benefits of tourism -- only in reverse. The community is now struggling with commercial flight (not just tourism businesses but also other commercial businesses), a growing vacancy rate, reduced city revenues and retail establishments that sell lower-priced goods. One city resident complained about the change in visitors from people who used to buy high-end products (art, fashion and goods and services also appreciated by local residents) to those who buy day-visit goods, such as inexpensive souvenirs and ice cream cones. By failing to attract high value customers, Sausalito residents now have fewer quality retail opportunities and, as a result of diminished sales, have to assume a larger portion of the local tax burden.

While travel spending and tourism tax receipts increased 6.8% in Marin County, they declined 16% in Sausalito. In contrast, in nearby Tiburon, a community that launched an effective tourism development program, receipts were up 15%.

Area tourism officials predict it may take years to get Sausalito back to where it was, and then only if Sausalito makes a huge investment in repositioning the destination through marketing and economic development. To be effective, the repositioning will undoubtedly be more costly than if the community had maintained and continually promoted the appropriate image for Sausalito. The problem is compounded by the fact that the community is now so dependent on TOT that to competitively reposition Sausalito will require great sacrifice on the part of its residents.

Sausalito once used to be the pride of the San Francisco Bay Area. But, by not planning for tourism, managing it, reinvesting in tourism promotion to attract the right customers and by strangling it with punitive regulations (prohibitive parking meter fees and uncaring traffic control enforcement), the city is now in decline. This should serve as a strong warning to communities looking to fund more and more local services with tourism taxes.

It is important to note that when California established the TOT in 1963, it was intended to underwrite the costs of destination marketing. Over the years, however, TOTs have too frequently become a vital source of local non-tourism funding, causing local governments to overlook the importance of reinvesting in tourism promotion so that the benefits of tourism (including tax generation) can be sustained.

Government services that benefit all residents of a community should be paid for by all residents. A single industry should not be required to carry those costs alone, simply because it is successful, or ultimately, it will be less successful.

Communities that invest wisely in promoting tourism and directing resources toward attracting the kinds of visitors the city needs, benefit. And those, like Sausalito, that do not promote wisely (they didn't at all) or who strangle tourism or burden its industry with excessive taxation, end up becoming the victims of the type of tourism they really don't want.

Destinations compete for market share. Few, if any, businesses possess the financial resources or competitive positioning needed to increase the number of people who actually travel. As a result, it is increasingly important for communities to strategically target specific types of visitors and aggressively compete for their expenditures. If they

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don't define and target customers that fit with their local positioning and strategy, they will simply get whoever decides to come.

Quality tourism doesn't just happen. It is developed. And, in an increasingly competitive market situation, communities have to be actively involved in sustaining tourism and directing its acceptable growth, or they will simply become a victim of it.

The lesson for Alaska in this story is that established destinations are going to receive visitors regardless of their marketing efforts. Places like Sausalito and Alaska have been featured in far too many guidebooks, advertisements and travel articles. The key is whether destinations are going to make a commitment to manage their visitor flows, and whether they will recognize that effective marketing--and even development--can be an important part of that process. Without effective marketing and development management, there is ample evidence to support the belief that attractive destinations will continue to get visitors but the well-funded competition that markets effectively will "steal" those destination's best (i.e., higher spending) customer targets.

Alaska's inability to devote a competitive level of public sector funding to tourism marketing and development should continue to be a concern because an ability to continue to attract high value customer segments appears consistent with residents' desire to maintain a pristine environment. Those who view marketing as a management tool often focus on using marketing to direct distribution flows in such a way that additional customers are not pursued at times when individual communities lack the capacity to adequately handle additional business.

It must be noted that part of the reason other destinations have made a commitment to tourism marketing and development is they are able to so. The vast majority of U.S. states, for example, have a tax structure that allows them to tax visitors and then reinvest such funds into efforts to continue to market, manage and develop appropriately. Alaska's lack of taxes and its current economy may make it difficult to come up with a competitive level of funding until a well-thought-out visitor industry taxing, or self-assessment, program is established. One suggestion has been made that travel and tourism should study the Alaska fishing industry's self-assessment program for its potential applicability.

## 5.0 COMPETING FOR ALASKA'S TARGETED VISITOR SEGMENTS

In producing recommendations for the future use of public marketing dollars the State of Alaska dedicates to tourism marketing and development, NGI conducted a study that featured the following elements:

- ◆ Research into competitive conditions (and best practices) was conducted
- ◆ In the previously referenced Alaska travel industry leader interview process, potential future marketing priorities were considered
- ◆ Results of an Alaska travel industry survey were analyzed
- ◆ A database of past marketing respondents and targets was analyzed
- ◆ Key ATIA organizational meetings and market planning sessions were monitored
- ◆ Potential target customer segments were considered

It is important to note that while all of the above offered valuable insights, the individual steps produced what can best be described as "anecdotal" results. This was expected, as a focus on future activities tends to be prescriptive in nature. An analysis of past trends and performance, meanwhile, tends to be more descriptive. NGI is confident that the thoroughness of this process, combined with the impressive number of "expert" opinions that were considered, provided a sufficient level of clarity to deliver dependable recommendations for increasing Alaska's ability to compete and manage the future of its visitor industry.

### Past Marketing Activities

NGI's review of previous state of Alaska marketing and advertising efforts that preceded the ATIA contract (primarily conducted by ADOT and ATMC) revealed what can, for the most part, be described as the implementation of standard destination marketing organization programs and practices. Such activities included:

- ◆ Advertising
- ◆ Public/media relations
- ◆ Domestic and international travel trade promotions
- ◆ Travel guide development
- ◆ Toll-free telephone travel planning assistance
- ◆ Travel information response mailings
- ◆ Direct mail advertising
- ◆ Internet site development and promotion
- ◆ Cooperative marketing with surrounding regions
- ◆ Highway and ferry user marketing

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## Program Satisfaction Ratings

As mentioned on the previous page, a survey of individuals and businesses involved in the Alaska travel industry was conducted in conjunction with the drafting of this analysis. The survey was designed to capture thoughts and opinions in relation to state-funded or cooperative tourism marketing efforts. The analysis demonstrated a striking satisfaction rating differential between those who have used state funded programs in the past and those who had not. One of the greatest challenges in improving Alaska tourism marketing programs, that are funded with state dollars, may be in getting greater participation from non-users.

The ratings featured in the survey closely mirrored comments and opinions delivered in the interview process. The programs that were either wholly or partially funded with state dollars tended to be appreciated the most by those who took advantage of such efforts. Both processes clearly point to the need for the QTA to aggressively communicate the variety of ways that Alaska travel industry businesses can take advantage of programs that are at least partially funded by the state.

## Accountability

As will be further referenced in Section 6.0, both aggressive market research and program monitoring should continue in the future. That's because elected officials and government agencies tend to be held accountable if public sector dollars are misused, either by perception or in reality. Kent Stewart, Director, Western Management Consultants (WMC), has validated this point. WMC has been involved in delivering formation and monitoring recommendations for two separate efforts to create greater private sector management roles relative to Alberta's tourism marketing expenditures. Stewart told NGI that he believed that strict accountability is needed whenever private and public sector dollars are mixed, whether it occurs in the United States or in Canada.

"There are aspects that government needs to be involved in because it also involves citizens in addition to industry," Stewart said. "If you throw away accountability, governments will eventually pull the rug out from the privatized organizations. This can be particularly true when there is an administration or key government leadership transition."

NGI recommends that contract programs administered by Alaska's qualified trade association should be measured for their ability to:

- ◆ Create an impressive return on the state dollars that are invested (ROI)
- ◆ Create a significant level of satisfied users

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Measuring a program's ROI should include a mixture of quantitative and qualitative measures. From a quantitative standpoint, ROI considerations should identify the amount of new spending created with state dollars along with the number of Alaskans positively impacted through such spending (jobs, taxes, amenity creation, etc.). From a qualitative standpoint, consideration should also be given to rewarding those programs that "make a difference" in communities or areas that are in need of economic or quality of life stimulation.

This does not mean that dollars should be invested into areas that have little or no tourism potential. The benefits to Alaska would likely be minimal if the major portion of economic development dollars were simply dedicated to supporting businesses or communities looking for a market. It should be recognized, however, that \$1 million, for example, in new spending or new product development does not necessarily have the same impact in two different communities. The creation of 100 new jobs in a large community may have minimal statistical impact, while it may produce tremendous proportional results in another. Most modern economic development programs generally strive to invest public sector dollars into a mix of programs that offer both "maximization" and "fertilization" potential. The amount of investment in such areas is rarely equal and often needs to be adjusted or updated based on emerging challenges and opportunities.

### **Future Marketing and Development Efforts**

NGI's recommendations for future use of Alaska's public sector tourism marketing dollars were tested in two separate summer 2000 meetings with ATIA's Board of Directors. Both meetings were monitored by ADOT and a variety of additional Alaska travel industry leaders.

A May presentation in Juneau featured an 87-slide PowerPoint discussion. This was followed by a 56-slide July presentation in Anchorage. The following major points were highlighted in these discussions and are summarized on the following pages.

- ◆ Cooperative tourism marketing plans should address strategic goals
- ◆ Internet emphasis should be increased
- ◆ Mail programs should continue to evolve
- ◆ Additional advertising should be aimed at increasingly narrow targets
- ◆ International and domestic travel trade promotions should continue
- ◆ Product development emphasis should increase
- ◆ Internal relations should increase
- ◆ Focus must be placed on external competition

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## Cooperative Tourism Marketing Plans Should Address Strategic Goals

One of the major mandates for the qualified trade organization, relative to its use of public dollars, should be that such expenditures must be aimed at strategic goals. This may sound like a simple, easy-to-understand mandate. Unfortunately, many destination marketing organizations in the United States often fail to orient their programs in this way. Instead, such operations tend to place their first focus on implementing a sampling of traditional activities (advertising, trade marketing, international promotions, etc.) employed by peer organizations. Others tend to primarily state their goals in terms of measurements such as advertising responses, conversion rates or number of group leads. While many traditional programs and solid measurements can lead to improvement, they often fall short of meeting optimal results.

To illustrate, consider the destination that concludes that seasonality and infrastructure capacity constraints are strategic issues that need to be addressed. That destination might conclude that it would be wise to attempt to use advertising as a tool to attract customers when sufficient capacity to host additional visitors exists. Meanwhile, another destination with identical strategic issues might meet with less than optimal results if it is simply focused on *just* advertising and meeting response/conversion goals. While it may accomplish such goals, it might also attract a host of visitors at a time when the infrastructure could not handle additional numbers. The end result would likely be a reduced experience for all visitors and greater resident rebellion.

This study was not designed to produce a new “strategy” for Alaska tourism. A review of previous marketing programs supported at least in part by public dollars did, however, lead to the conclusion that frequently such efforts failed to be *consciously* aimed at strategic goals and objectives. A more consistent commitment to identifying and articulating strategic goals in advance of the development of marketing plans is recommended in the future to ensure that public dollars invested in Alaska tourism marketing and development efforts are met with the desired returns. Likewise, every effort should be made to separate the need for the QTA to grow its membership from its contracted mandate to grow the level of visitor spending in Alaska. When it comes to the use of state dollars, the trade association will likely face pressure to demonstrate that it is using the money appropriately. For the purposes of this report, “appropriate” refers to being both in line with accepted uses of government funds and aimed at strategic goals and objectives.

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The strategic issues most frequently referenced in this analysis are listed below:

- ◆ Competition
  - ◆ Including the need to enhance Alaska’s ability to compete externally
  - ◆ Including the need to minimize internal conflict
  - ◆ Including the need to maximize Alaska’s powerful differentiation
- ◆ The need to manage/mitigate resident rebellion by ensuring the protection of Alaska residents’ quality of life
- ◆ The need to ensure protection of the natural resource base
- ◆ The need to develop new products to further capture appropriate forms of tourism-related economic development
- ◆ The need to develop products and/or services to help communities and regions that have tourism potential but lack the technical expertise to maximize critical assets
- ◆ The need to lessen the effects of seasonality and capacity constraints
- ◆ The need for planning to ensure that the Alaska tourism industry is always supported by an adequate infrastructure

#### Internet Emphasis Should Be Increased

**FIGURE 13 – MEDIA USED IN TRAVEL PLANNING**

<b>Newspaper travel sections</b>	<b>28%</b>
<b>Internet sites</b>	<b>21%</b>
<b>Travel shows (television)</b>	<b>21%</b>
<b>Motor club magazines (AAA, etc.)</b>	<b>18%</b>
<b>Consumer lifestyle magazines</b>	<b>17%</b>

Source: Travel Industry Association of America, Travel Poll – June 2000

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As illustrated in Figure 13, the Internet is emerging as one of the most frequently utilized sources for travel planning. Within the last decade, it has vaulted from virtually no utilization to the second most “turned to” tool for Americans planning a trip or vacation. Although it was the second most utilized source according to the Travel Industry Association of America (TIA) in June of 2000, travelers indicated it was the single most *useful* tool. Based on its usefulness ratings and rapid acceptance, it is reasonable to assume that the Internet will soon be ranked as both the most useful and the most utilized travel planning source.

This prospect appears to hold great promise on a number of fronts for the Alaska travel industry. Perhaps the most important factors are that it is a reasonably affordable marketing tool and it has already emerged as an important distribution source for many small Alaska tourism-related businesses.

In particular, the Internet has proven to be an excellent vehicle for linking Alaska wilderness and adventure operators with prospective and eventual customers. Ken Leghorn, president of Alaska Discovery Wilderness Adventures, the state’s oldest wilderness tour operation, indicated that a single international Internet tourism portal connected his company with approximately half of its customers in 1999.

In reality, an effective State of Alaska Internet site could serve a similar function for many aspects of the state’s visitor industry. Most tourism research today, including the TIA study, indicates that people who go to a destination’s Internet site do so because they already have an interest in that destination. Such sites then play a role in convincing prospective visitors to act on that interest by featuring the wide range of activities and amenities available in the destination. This finding has been proven in recent research studies conducted for the State of California and State of Montana tourism programs.

Effective sites present information and links in such a way that eventually leads to extended visitor stays, increased expenditure levels and even encourages repeat visitations. For those reasons, it makes sense for the State of Alaska to ensure that a significant portion of the dollars it contributes to the qualified trade association go towards ensuring that Alaska boasts an Internet site that serves as an economic engine. Such an engine should drive potential customers to the site and then present them with the wide range of experiences and related operations available in the destination.

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There has been considerable debate as to the real function of Alaska's Internet site. Should it be a vehicle that serves and stimulates potential customers or should it serve as a tool for raising additional funds for the qualified trade association? NGI believes it would place Alaska at a major competitive disadvantage if the latter alternative becomes the focus. If the Internet pricing is set at a level that discourages too many communities, attractions and operators from being a part of the site in a meaningful way, visitors will not be adequately served and the potential of making this a powerful economic engine for the major segments of Alaska's visitor industry will be sharply reduced.

### **Mail Programs Should Continue To Evolve**

Earlier in this section, the fact that many destination marketing organizations (such as state tourism offices and convention and visitor bureaus) tend to operate a similar potpourri of programs was referenced. Many of those efforts are aimed at generating qualified leads, or people who express an interest in visiting.

Many marketing professionals outside of the tourism industry are quick to express disbelief when they learn that once an individual traveler lead is generated, destinations rarely do more than send the requestor a packet of travel information. NGI estimates that 95 percent of United States destination marketing organizations do not spend significant time either studying their database trends or working their leads in the future. Smart businesses that generate leads and build databases, on the other hand, rarely view their follow-up(s) to a lead as a "one time" effort. Alaska, primarily through the ATMC in recent years, has proven to be an exception among organizations that use public sector tourism marketing dollars. For several years now, it has been a leader in developing direct mail programs to target visitors. It also has generated target customer mailing labels that Alaska tourism marketers can purchase.

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**"Alaska, primarily through the ATMC in recent years, has proved to be an exception among organizations that use public sector tourism marketing dollars. For several years now, it has been a leader in developing direct mail programs to target visitors. "**

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Many who have used or benefited from these efforts have reported a high level of confidence in them. With the ATMC's elimination, the ATIA has been working to make the direct mail and label programs part of its efforts.

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Evidence of why the mail programs have secured a significant level of repeat participation is featured in Figure 14 below.

**FIGURE 14 – DIRECT MAIL EFFECTIVENESS**

<b>High Response Rates</b>	
<b>All Past Direct Mail Inquiries</b>	<b>32.5%</b>
	Response Rate
<b>Overall Average for Other Advertising</b>	<b>2.6%</b>
	Response Rate
<b>Low Cost Per Inquiry</b>	
<b>All Past Direct Mail Inquiries</b>	<b>\$2.25</b>
<b>Overall Average for Advertising</b>	<b>\$4.50</b>
Source: 1998 Alaska Conversion Study	

Despite the fact that Alaska has clearly established itself as a leader in an area (use of mailings) that is worthy of significant marketing attention, it can be argued that such efforts have increased the too frequently adversarial division between non-cruise and cruise-dependent factions. Theories on why this divide has occurred were continually communicated in interviews with industry leaders. Among the most frequently mentioned rationales offered were:

- ◆ It is expensive for individual entities to participate; therefore, the label program is primarily used by and benefits the well-funded cruise industry and the businesses that depend on them for revenue
- ◆ The label program is not used by as many Alaska owned-and-operated tourism businesses as is desired
- ◆ Many community-level tourism organizations do not find direct mail efforts and the selling of advertising generated labels to be their best investment
- ◆ The share of time and money invested in such efforts has become disproportionate to other worthwhile efforts

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It is important to remember that the above comments were delivered as opinions, but each of the issues mentioned occurred with surprising frequency in NGI's discussions with travel industry leaders.

Although the direct mail and label programs have provided sparks and controversy, NGI recommends that they be continued. Both have an impressive list of satisfied users who pay to participate and then report that they produce visitors to Alaska. They also help an industry (cruise) that reportedly spends millions of dollars advertising Alaska as a destination at a time when the state is in need of such marketing. Additionally, it must be recognized that this industry will be facing increasing challenges in maintaining market share in the years ahead. At the same time, many past participants say they have not enjoyed the type of results featured in Figure 14 and they cannot afford current participation costs.

If ATIA is to be a leader that brings the industry together, then it will need to continue to manage and monitor the mail-related programs to ensure that they evolve appropriately. The original concept for the label program was that it would generate high-quality leads that would create opportunities for either well-funded individual entities or a consortium of entities with limited marketing dollars (fishing lodges, wilderness adventures operations, smaller funded regions or communities, bed and breakfasts, etc.) The idea was that the limited marketing dollar entities could create cooperative response pieces, thus allowing them to share printing, mailing and other costs. This is a solid concept, but it has not been maximized.

Opinions offered as to why the program has not met with the desired level of success for the smaller entities have ranged from a poor level of communication of the program's vision, to an inability to limit the costs that still are attached to participation. Regardless, mail programs will likely need to evolve to address concerns or face pressure to reduce the share of public funding that is currently dedicated to such efforts.

NGI recommends that the evolution choices for the QTA, relative to the portions of the mail programs that are linked with public dollars, should include the following:

1. Gain a greater understanding of why many smaller entities and communities feel as if the mail and label programs do not work for them.
2. Adapt the programs as needed, based on the reasonable and strategic input that is delivered.
3. Contribute the technical and financial assistance needed to ensure that the original vision for broader participation is implemented.
4. Set the price for participation at a level that ensures a desirable percent of the major CVBs and consortium of smaller entities can participate.
5. Be committed to continually changing and adapting the programs as needed, based on changing market conditions and the changing needs of the program's users and targeted future users.

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If any of the above cannot be accomplished, the level of public funding made available for aspects directly associated with only the mail programs (media placements to generate leads that are sold to users, printing of solicitation and response pieces, mailing, etc.) should be reduced. This does not mean that the mail programs would need to be eliminated, but they may need to evolve into cooperative efforts funded solely by satisfied users.

### **Additional Advertising Should Be Aimed At Increasingly Narrow Targets**

Earlier this year, what the *New York Times* called the "largest assignment in the history of Madison Avenue" occurred when General Motors, the nation's largest advertiser, consolidated responsibilities for media planning. The result was a \$2.9 billion annual budget to promote all GM brands (except for Saturn and Saab) sold in the United States.

What was the purpose of the creation of this gigantic market budget? To reach larger, broader markets? No. It was done so the automotive powerhouse could do a better job of reaching smaller, narrower targets. The following comes from the *Times* July 26, 2000 coverage of this transition:

Media Planning is taking on additional strategic importance as marketers seek to increase the long odds that a potential customer – busy with life and bored by most ads – will pay attention to a sales pitch, particularly when many products are aimed at narrow demographic groups rather than mass audiences... "If we do our job well, the effectiveness of our advertising will be improved by putting ads in better places at better times, Michael A. Browner, executive director for media and marketing operations at GM in Detroit, said, "making sure we can reach more of the target audience more effectively."

The "narrowing of targets" approach is also being incorporated into the efforts of a growing number of destinations. Montana, which operates one of the United States' most respected state tourism programs, addressed this opportunity in its *1999/2000 Montana Marketing Plan* with the following statement:

All advertising is targeted toward consumers shown by market research and experience to be most likely to visit Montana: people who either live within a certain geographic area and fit a certain demographic profile, or have special interests that draw them to Montana, or both. Consumers who have responded to past advertising campaigns are also identified and targeted. Database marketing methods are used to capitalize on previous consumer inquiries through direct marketing campaigns. The fragmentation of our once "mass audience" into narrowing segments based on consumer demographics and lifestyles necessitates a fresh look at how best and most cost efficiently to reach Montana's target audiences.

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Therefore, magazines are now being utilized as the lead in our advertising efforts. Magazine advertising will maintain a significant national presence with our traditional audience, while targeting more specific audience segments. These other segments include active mature, family, photography, western history and culture, outdoor enthusiasts (including golf) and RV/camping. Segmenting is addressed through variations in the creative message and by using vertically targeted magazines. Placement targets the western and west north central U.S., except where national placement is more efficient.

It is important to note that national placement is rarely more efficient for destinations. While it is often easier and more profitable for those charged with placing media, it can result in an irresponsible amount of money being spent on reaching customers that are not likely candidates for visitation. Opponents of this theory will argue that often times the cost per reach is less expensive with a national media buy. That is true, but it is also irrelevant if dollars are wasted on reaching certain markets (geographic, demographic, lifestyle, etc.) that are not productive visitation targets.

The direct mail programs that Alaska has operated in the past are in line with both GM's and Montana's stated philosophies. Ideally, the state and participants have responded to targets (leads) that have either expressed an interest in visiting the destination or who match the profile of likely visitors. While those efforts have been in line with the emerging need for advertisers to speak directly to audiences that have the potential to be interested in their offerings (and possess an ability to make such a purchase), an evolution in the media placement schedule that generates leads could lead to enhanced results.

The previous media placement schedule operated by the ATMC helped the state do a good job of creating a presence in logical niche travel publications. The quality of the creative presentation has been frequently praised. The philosophy of almost exclusively buying publications on a national basis, however, inhibited the state's ability to place advertisements more frequently in geographic markets that possess the greatest potential for housing residents, and repeat customers, who are likely to be motivated by Alaska travel advertising.

A narrowing of Alaska's advertising targets to focus greater attention on highly productive geographic markets and on customer segments that are more likely to spend aggressively in Alaska could produce a host of benefits for the destination. If geographic and demographic advertising targets are articulated, campaigns can then be measured for their effectiveness in increasing the number of leads from target markets and increasing the penetration of such targets.

In previous PowerPoint presentations, NGI explained the need for such a transition based on an analysis of the ATMC's Fiscal Year 1999 database. Examples from those presentations are featured on the following two pages.

**FIGURE 15 – EXPLANATION OF LEAD PENETRATION**

- ◆ A performance measure that takes into account the associated population base
- ◆ Equates to leads per 1,000 persons
- ◆ U.S. average 2.40
- ◆ Highest state penetration, Minnesota at 5.59
- ◆ # of leads does not necessarily equal strong penetration
  - ◆ California 2.20
  - ◆ Texas 2.07
  - ◆ Florida 2.61

Source: Nichols Gilstrap, Inc.

**FIGURE 16 – LEAD/PENETRATION COMPARISON**

**Top States by  
# of Leads**

- 1 - California
- 2 - Texas
- 3 - Florida
- 4 - New York
- 5 - Michigan
- 6 - Pennsylvania
- 7 - Minnesota
- 8 - Washington
- 9 - Illinois
- 10- Ohio
- 11- Arizona
- 12- Wisconsin
- 13- Oregon
- 14- Colorado
- 15- New Jersey

**Top States by  
Penetration**

- 1 - Minnesota
- 2 - Oregon
- 3 - Montana
- 4 - Wyoming
- 5 - Idaho
- 6 - Colorado
- 7 - Washington
- 8 - Arizona
- 9 - Vermont
- 10- New Hampshire
- 11- Maine
- 12- North Dakota
- 13- Nevada
- 14- Wisconsin
- 15- Michigan

**FIGURE 17 – TARGETED LEAD DEVELOPMENT**

- ◆ Identify key MSAs
- ◆ Track overall penetration of MSAs
- ◆ Outline penetration by strong income ZIPs
- ◆ Identify ZIPs with strong opportunity/niche profiles
- ◆ Monitor how target marketing campaigns influence performance over time
- ◆ Institute varying response activities based on performance

Source: Nichols Gilstrap, Inc.

**FIGURE 18 – PENETRATION OPPORTUNITIES**

<u>&lt;1.5</u>	<u>1.5 – 2.5</u>	<u>2.5+</u>
Los Angeles, CA New York, NY	Chicago, IL Washington, D.C. Philadelphia, PA Atlanta, GA Houston, TX Riverside-San Bernardino, CA Dallas, TX Nassau-Suffolk, NY St. Louis, MO-IL	Minneapolis, MN Detroit, MI Boston, MA Phoenix-Mesa, AZ Seattle Bellevue-Everett, WA Portland-Vancouver, OR-WA Denver, CO Tampa-St. Petersburg-Clearwater, FL

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## International And Domestic Travel Trade Promotions Should Continue

The international and domestic travel trade promotions that were operated by the former ADOT were among the most frequently praised programs during NGI's interviews with industry leaders. Examples of the successes associated with such efforts include the following:

- ◆ Following an aggressive commitment to German-speaking Europe (GSE) travel trade promotions, 89 GSE tour operators now produce and promote Alaska packages – a growth of four times the number that did so in 1990.
- ◆ The state's United Kingdom contractor began promoting the state for ADOT in 1993. At that time, UK visitation to Alaska was listed at 8,500 annual visitors. By 1998, the market had grown by nearly 65 percent to 14,225. Projections for year 2000 UK visitation now stand at 20,000.
- ◆ Of the UK tour operators (approximately 40) that featured Alaska in 1997, more than 60 percent featured cruise only. In the year 2000, the number of operators grew to 55, but just 15 percent of them featured cruise only. The UK representative for ADOT has been given much of the credit for helping UK operators understand that there are many different ways to experience Alaska.
- ◆ ADOT's creation and coordination of "Destination Alaska," the umbrella for numerous trade co-op promotions has been credited with numerous advances. For example, projects that tied into the National Tour Association's meetings and marketplaces helped secure NTA's Spring Meet for Alaska in 2001, a meeting that will hopefully expose the state to more than 200 NTA tour operators.

With ADOT's travel trade promotions now shifting to the contract with a qualified trade association, efforts should be made to ensure a smooth transition. The planning cycle for tours and packages can often take several years. As a result, Alaska cannot afford a disruption in the progress that has been recorded in recent years.

Additionally, this is another area where a qualified trade association needs to make sure that efforts to raise money or membership do not conflict with the goal of increasing visitor spending in Alaska. It is advisable to insist that Alaska's QTA ensure that the money it receives from the state for travel trade promotions goes directly towards efforts completely dedicated to bringing buyers of Alaska product together with Alaska communities and amenities. If an adequate number of Alaska vendors and communities -- all types, all sizes, are not represented or cannot afford to participate, then the use of state dollars for such activities is likely to face intense scrutiny. Again, this is another area where it is critical that QTA efforts funded with state dollars be directed at increasing visitation to Alaska and not at increasing its membership.

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## Product Development Emphasis Should Increase

Alaska is not alone in its struggles to adjust to the impacts of increasing competition. In addition to the earlier referenced dramatic increase in cruise ships in the 1990s, the past decade was also marked by what many believe to be unprecedented global growth in a variety of hospitality related areas including limited-service hotels, cultural tourism, aquariums, casino gaming and even convention center development and expansion.

Many destinations are finding that they must become increasingly strategic to compensate for the above referenced growth. For many, this has resulted in an increasing emphasis on encouraging and managing product development.

**FIGURE 19 – STRATEGIC PRODUCT DEVELOPMENT**

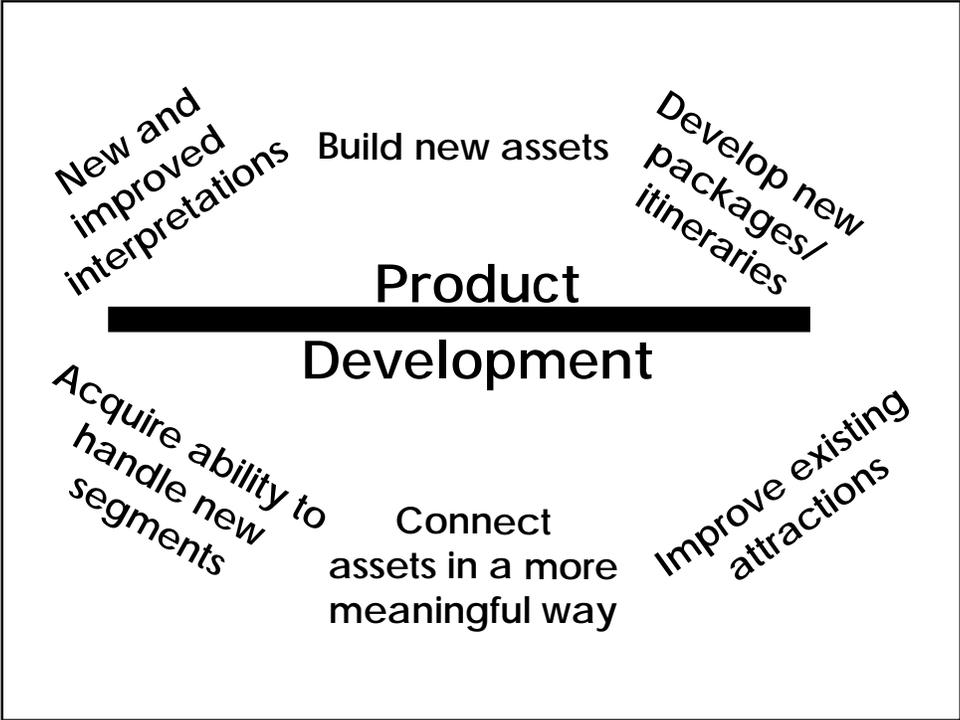


As Figure 19 indicates, strategic product development often starts with target customer segments. This makes particular sense in Alaska, where there is an expressed desire to attract the type of customers that both respect the environment and contribute money to the state's economy. There is also a growing interest in attracting customers who may travel in shoulder and off seasons and are interested in traveling to less visited parts of the state.

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Product development also makes sense in that many parts of the state have products that, if properly developed, could be managed to generate increasing economic benefits for businesses and communities in need of new sources of revenue. The challenge in Alaska is that many of these *potential* travel industry players often lack the technical skills to develop approaches that are competitive and geared towards fully capturing the economic benefits of their efforts.

**FIGURE 20 – WHAT IS PRODUCT DEVELOPMENT?**



With the transfer of marketing funds and activities to a qualified trade association, the Alaska Department of Community and Economic Development and former ADOT staff are now focusing their efforts on building enhanced Alaska product development approaches. In addition to the elements featured in Figure 20, the department will be focusing on offering much needed planning expertise to communities and governmental organizations.

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This appears to be a wise investment of resources, and it should create synergy by operating it in sync with the other traditional economic development programs featured within Community and Economic Development. It also makes sense to keep Alaska's overall product development programs in state government, as the private sector (or a qualified trade marketing association) should not be expected--or trusted in some cases--to manage non-biased, non self-serving approaches to the development of an entire industry. Private sector involvement and input should be continually sought, but it should not be allowed to set direction in areas where it does not have Alaska's residents as its ultimate customer segment.

### **Internal Relations Should Increase**

For several years, the organizations charged with marketing Alaska tourism (primarily ADOT and the ATMC) have done an admirable job of promoting the destination through public or media relations. Such efforts have primarily focused on working with travel journalists from around the globe and have essentially resulted in millions of dollars worth of coverage in a wide variety of publications and other media.

While the state is encouraged to continue such activities through its contract with a qualified trade association, a new emphasis should be placed on having the QTA take an active role in "internal relations." Why? Often times, destination marketing organization forget the "Public Relations 101" adage "No external public relations program can be expected to be fully successful without a fully developed internal relations effort." Without successful internal relations, the Alaska tourism industry might win several marketing battles, but it will likely lose the war to develop the necessary level of internal support.

NGI recommends that Alaska's internal relations effort be focused on the following tactics:

1. Continually communicate the industry's quantitative and qualitative impact on the Alaska economy and on resident quality of life.
2. Continually communicate the ways that marketing efforts are being managed to develop the type of tourism, and related benefits, that can be supported by the majority of residents and government leaders.
3. Continually communicate to the tourism industry the ways in which a wide range of individual communities, businesses and professionals can leverage the state of Alaska's programs that are operated by a qualified trade association.
4. Continually track and communicate, to the industry and government leaders, the measurable and impactful results directly associated with the qualified trade association's programs.

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It is important to note that state dollars dedicated to internal relations will likely need to focus on resident and government leader education, in addition to informing the tourism industry about ways that they can take advantage of tourism promotion efforts that involve the use of state dollars. To protect the viability of the state's contract with a QTA, efforts will also need to be taken by the State of Alaska to ensure that its dollars are not used to promote the QTA itself.

### **Focus Must Be Placed On External Competition**

Those states that tend to have the most success in managing their destinations today are often those who record success in getting the vast majority of their destination management organizations and key tourism entities operating in unison. A popular phrase that has been adopted by many successful tourism management organizations is "cooperate internally, compete externally."

In the increasingly competitive environment outlined in this report, this philosophy has become even more important. This is particularly true for those destinations like Alaska that are operating with non-competitive budget levels and undersized staffs. Despite such a need, and as has been referenced in this document, Alaska's tourism industry has tended to be fragmented and desired levels of cooperation have failed to materialize in a number of key efforts.

The impending challenges referenced in Section 4.0 of this report should lead Alaska's tourism industry's leaders to embrace and foster a transfer of focus onto external competition.

**FIGURE 21 – MANDATORY ALASKA TOURISM INDUSTRY PHILOSOPHY**

**"Cooperate  
Internally,  
Compete  
Externally."**

## 6.0 FUTURE PLANNING NEEDS

As noted throughout this report, marketing research related efforts conducted through the former ATMC and the state generally meets or exceeds those undertaken by many state Destination Management Organizations. These efforts have allowed for a detailed understanding of conversion by individual marketing vehicles (media, direct mail, etc.) thus allowing the state a strong understanding of which approaches are generating the most effective responses. Additionally, the testing of messages in survey or focus group settings allows for refinement or enhancements to a wide range of marketing efforts. While Alaska is on the forefront of a number of these research efforts, a variety of new activities should be considered which could further enhance effectiveness in the future. These include:

### **Gross Versus Net Conversion Analysis**

Much of the current conversion analysis efforts focus on what is frequently characterized as “gross conversion” factors. In essence, it identifies what percentage of individuals receiving promotional materials actually traveled to Alaska. While this “gross conversion” factor is important to understand, an increasing number of destinations are attempting to more fully understand the motivational role of the fulfillment materials. They probe more deeply and question if the decision to travel to the destination had occurred prior to calling the DMO (i.e., did the DMO efforts influence the actual travel decision?). Additionally, they question if the materials influenced the length of stay, amount of money spent or where they traveled once arriving at the destination. They thus focus on “net conversion” factors, identifying not only if the travel party came, but also how the fulfillment or marketing materials influenced key travel and spending decisions. Incorporating this type of “net conversion” components in survey efforts could help Alaska better understand and direct its marketing efforts in the future.

### **Lead Penetration Analysis**

Beyond conversion studies, more destinations are attempting to target and evaluate their marketing efforts considering those niches and geographic areas which hold the greatest return potential. In order to measure the effectiveness of these specific campaigns, the leads generated by these efforts are integrated in geographic information systems (GIS) which allow for measures of penetration to be evaluated. These penetration measures consider the number of leads generated, in relation to the size of population base of the targeted area or other demographic/psychographic information. Once baseline penetration measures have been established, the destination can continue to track penetration performance and thus possess a tool to better evaluate the effectiveness of new campaigns, marketing messages or media selection. This penetration analysis also provides a tool to help in developing new targets or goals for marketing related efforts.

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## Marketing Maximization Versus Fertilization

In tracking the performance and effectiveness of future marketing efforts, increased clarity in Alaska's marketing goals will be important. In some instances, goals can be focused on "maximization" or the effectiveness/return on investment of marketing expenditures. In these instances, goals can be as direct as "increase the number of leads that result in high levels of visitor spending in Alaska," or "minimize the cost per conversion." In other instances, "fertilization" or developing tourism in regions or areas of the state which are in the early stages of development is a key goal. Fertilization goals are typically related to efforts to enhance the economy or quality of life in areas that possess unfulfilled potential. While the strict short-term economic impact in "fertilization" projects may not be as great as with "maximization" efforts, the long-term effects should be substantial. As a result, "fertilization" and "maximization" efforts need to have different return on investment measurements and expectations. In the case of Alaska, a clear understanding of the marketing goals, considering maximization versus fertilization, should be developed. Allocation of resources and performance measures, given the varying goals, can then be established.