



Steering the meetings industry in Kraków:

assessment and monitoring of the economic effect of the meetings industry on the economy of Kraków with the use of good practices from Switzerland

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Tourism contribution on regional development - The importance of MICE tourism and its impacts on the region

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Importance of MICE Industry

- The MICE industry is regarded as an important contributor to regional and national economies.
- Mainly because it has impacts on multi-sectors of hospitality service including
 - Lodging
 - Food and beverage, catering
 - Convention service, convention facility supply
 - Transportation
 - Tourism
 - Retail
 - Entertainment

Tourism economic impacts

- Tourism's economic impacts are important for:
 - state, regional and community planning
 - economic development (policy making)
 - marketing and management decisions
- Communities therefore need to understand the relative importance of tourism to their region, including tourism's contribution to economic activity in the area.

Importance of MICE Industry

- For example, to support and finance new projects in MICE sector or establish a sustainable tourism strategy mainly based on MICE sector governments and policy makers need to know

what are the impacts of MICE tourism on the region, city or country ?

- To know those impacts, it is necessary to make ***an economic/tourism impact study***

Economic Impact studies

- Economic impacts studies evaluate the effects of policies and actions which affect tourism activity either directly or indirectly.
- Economic impact studies provide information to help decision makers better understand the consequences of various actions on the tourism industry as well as on other sectors of the economy.
- Economic impacts studies help better understand the size and structure of the tourism industry in a given region and its linkages to other sectors of the economy.
- Such understandings are helpful in targeting industries as part of regional economic development strategies.

Tourism economic impacts

- A variety of methods, ranging from pure guesswork to complex mathematical models, are used to estimate tourism's economic impacts.
- Studies vary extensively in quality and accuracy, as well as which aspects of tourism are included.
- Technical reports often are filled with economic terms and methods that non-economists do not understand.

Main questions

1. What is an economic impact analysis?
2. What questions does an economic impact answer?
3. What economic impacts does tourism have?
4. What are multiplier effects?
5. How are tourism's economic impacts measured?

What is an economic impact analysis ?

- An economic impact analysis answers to this question : What is the contribution of tourism activity to the economy of the region?
- It traces the flows of spending associated with tourism activity in a region to identify changes in sales, tax revenues, income, and jobs due to tourism activity.
- The principal methods are :
 - visitor spending surveys,
 - analysis of data from government economic statistics,
 - economic base models,
 - input-output models and multipliers. (Frechtling 1994)

What questions does a tourism economic impact study answer?

- An economic impact analysis will assess the contribution of tourism activity to a region's economy.

The basic questions an economic impact study usually addresses are:

- How much do tourists spend in the area?
- What portion of sales by local businesses is due to tourism?
- How much income does tourism generate for households and businesses in the area?
- How many jobs in the area does tourism support?
- How much tax revenue is generated from tourism?

What economic impacts does tourism have?

- Tourism has a variety of economic impacts.
- Tourists contribute to sales, profits, jobs, tax revenues, and income in an area.
- The most direct effects occur within the primary tourism sectors -- lodging, restaurants, transportation, amusements, and retail trade.
- Through secondary effects, tourism affects most sectors of the economy.
- An economic impact analysis of tourism activity normally focuses on changes in sales, income, and employment in a region resulting from tourism activity.

An example

- Let's say a region attracts an additional 100 tourists, each spending \$100 per day. That's \$10,000 in new spending per day in the area.
- If sustained over a 100 day season, the region would accumulate a million dollars in new sales.
- The million dollars in spending would be distributed to lodging, restaurant, amusement and retail trade sectors in proportion to how the visitor spends the \$100.
- Perhaps 30% of the million dollars would leak out of the region immediately to cover the costs of goods purchased by tourists that are not made in the local area.
- The remaining \$700,000 in direct sales might yield \$350,000 in income within tourism industries and support 20 direct tourism jobs.

An example

- The tourism industry, in turn, buys goods and services from other businesses in the area, and pays out most of the \$350,000 in income as wages and salaries to its employees.
- This creates secondary economic effects in the region.
- The study might use a sales multiplier of 2.0 to indicate that each dollar of direct sales generates another dollar in secondary sales in this region.
- Through multiplier effects, the \$700,000 in direct sales produces \$1.4 million in total sales.
- These secondary sales create additional income and employment, resulting in a total impact on the region of \$1.4 million in sales, \$650,000 in income and 35 jobs.

An example

- Conclusion :

1 million dollars produces globally 1,4 million dollars in sales in the economy of the region due to

Direct, indirect and induced effects

It also creates 35 jobs and distributes 650,000 dollars in income

Direct, indirect and induced effects

A standard economic impact analysis traces flows of money from tourism spending,

- first to tourism businesses where tourists spend their money and then to :
- businesses -- supplying goods and services to tourist businesses,
- households – earning income by working in tourism or supporting industries,
- government -- through various taxes and charges on tourists, businesses and households

Direct effects

Direct effects are production changes associated with the immediate effects of changes in tourism expenditures.

For example, an increase in the number of tourists staying overnight in hotels would directly yield increased sales in the hotel sector.

The additional hotel sales and associated changes in hotel payments for wages and salaries, taxes, and supplies and services are direct effects of the tourist spending.

Indirect effects

Indirect effects are the production changes resulting from various rounds of re-spending of the hotel industry's receipts in other backward-linked industries (i.e., industries supplying products and services to hotels).

Changes in sales, jobs, and income in the linen supply industry, for example, represent indirect effects of changes in hotel sales.

Businesses supplying products and services to the linen supply industry (other economic sector in the region) represent another round of indirect effects.

Induced effects

Induced effects are the changes in economic activity resulting from household spending of income earned directly or indirectly as a result of tourism spending.

For example, hotel and linen supply employees, supported directly or indirectly by tourism, spend their income in the local region for housing, food, transportation, and the usual array of household product and service needs.

The sales, income, and jobs that result from household spending of added wage, salary, or proprietor's income are induced effects.

Total economic effects

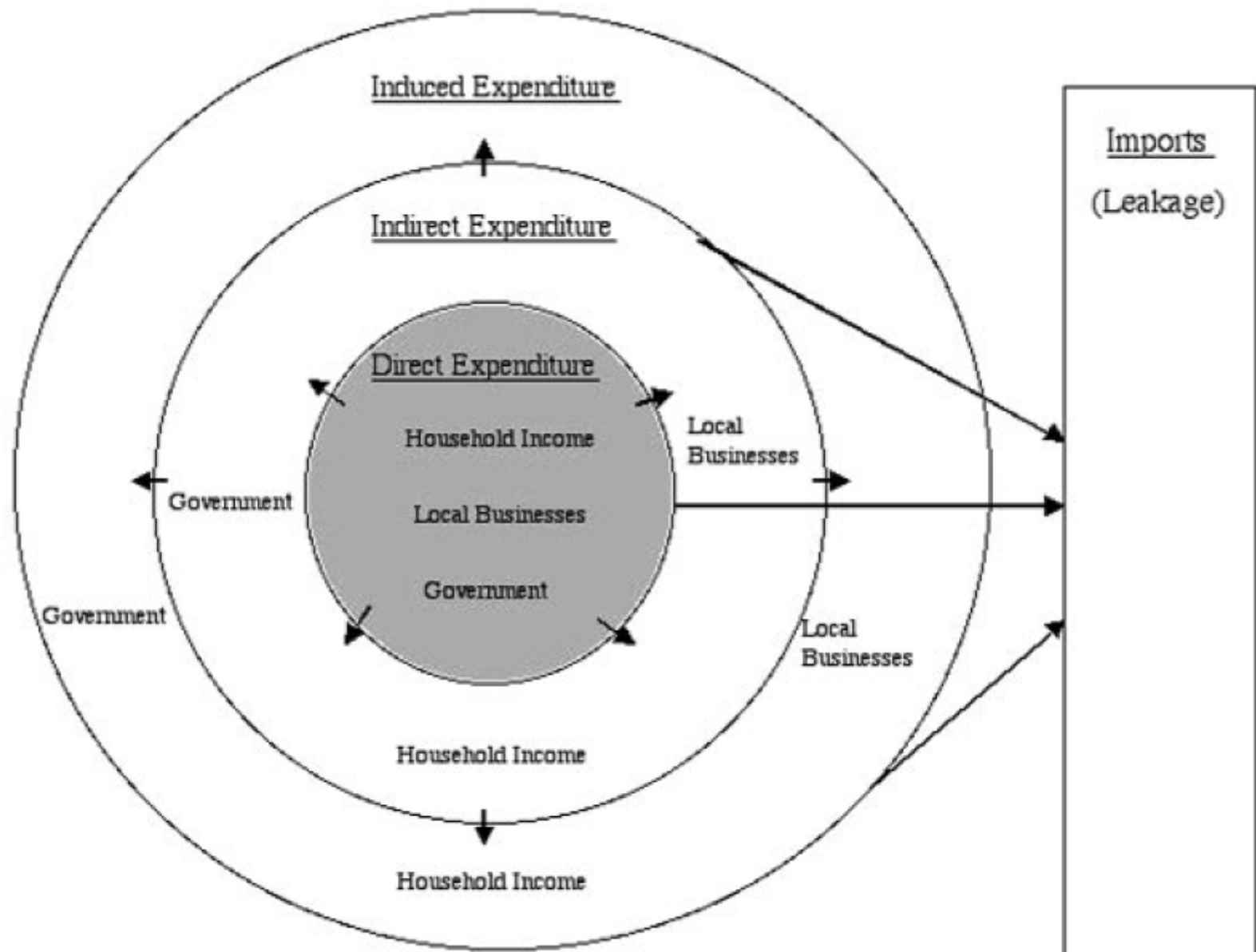
The direct effects are also called *primary* effects.

The indirect and induced effects jointly constitute what are commonly called the *secondary* effects.

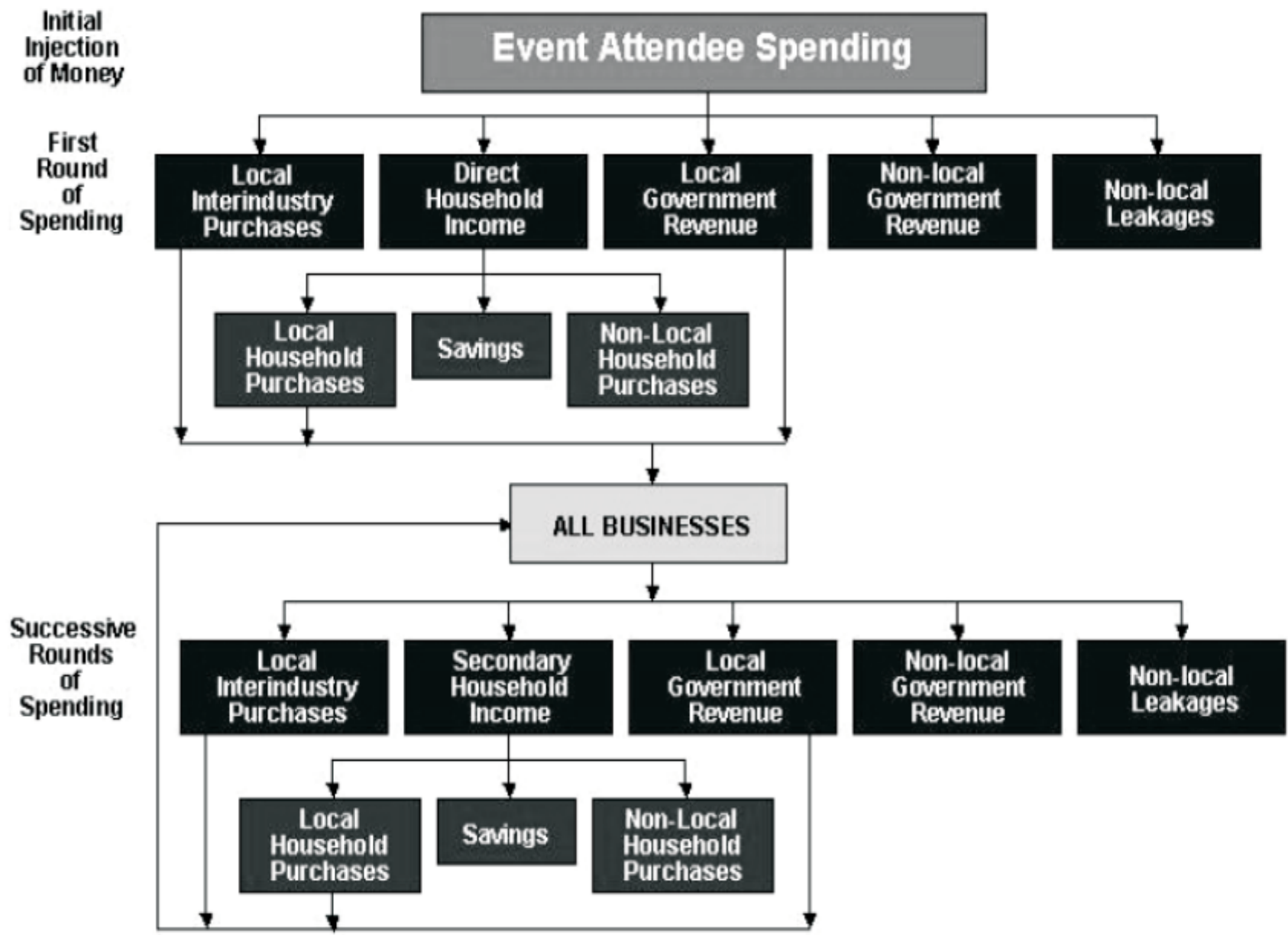
The *total economic effects* (also called impact) of tourism are the sum of direct, indirect, and induced effects within a region:

Primary + secondary effects = total economic effects

Any of these impacts may be measured as sales, income or employment.



= Primary Impacts
 = Secondary Impacts



Multiplier effects of tourism

- Multipliers capture the secondary economic effects (indirect and induced) of tourism activity.
- Multipliers represent the economic interdependencies between sectors within a particular region's economy.
- They vary considerably from region to region and sector to sector.
- There are many different kinds of multipliers reflecting which secondary effects are included and which measure of economic activity is used (sales, income, or employment).

Concrete example

Aruba island is a 33-kilometer-long island of the Lesser Antilles in the southern Caribbean Sea, located 27 km north of the coast of Venezuela and approximately 130 km east of the Guajira Peninsula, Colombia :



Table 4.5 | Output, income and employment multipliers 1999 for the sector hotels & restaurants

	Aruba	Netherlands Antilles	Aruba	Netherlands Antilles	Aruba	Netherlands Antilles
Components	Output	Output	Income	Income	Employment	Employment
Direct	1.00	1.00	0.39	0.25	19.1	16.8
Indirect	0.73	0.80	0.13	0.12	5.4	4.2
Induced	0.71	0.57	0.17	0.11	4.4	3.7
Total	2.44	2.37	0.69	0.48	28.9	24.7

Source: calculated on the basis of the national accounts of CBS Aruba and the Netherlands Antilles

How are tourism's economic impacts measured?

The economic impacts of tourism are typically estimated by some variation of the following simple formula:

$$\begin{aligned} & \textit{Economic Impact of Tourism} = \\ & \textit{Number of Tourists} * \textit{Average Spending per Visitor} \\ & \quad * \textit{Multiplier} \end{aligned}$$

Three distinct steps :

Three steps to measure the impact

(1) Estimate the change in the number and types of tourists to the region due to the proposed policy or action.

Economic impact estimates will rest heavily on good estimates of the numbers and types of visitors.

(2) Estimate average levels of spending (often within specific market segments) of tourists in the local area.

We have to estimate the average spending for a set of key tourist of the segment analyses (MICE Tourists) based on samples of visitors within the tourism segment.

Then we have to multiply the number of tourists by the average spending per visitor to obtain an estimate of total tourist spending in the area.

Three steps to measure the impact

(3) Apply the change in spending to a regional multiplier to determine secondary effects.

In many cases multipliers are borrowed or adjusted from published multipliers or other studies. Multipliers can also be used to convert estimates of spending or sales to employment (how many jobs are generated per dollar of sales).

Main methods to collect data

The two main methods of data or information collection are :

(1) Business sector surveys

- The surveying of businesses is one method of gathering expenditure data that is often considered.
- Businesses are often reluctant to release financial information, especially sales data.
- Researchers must assure businesses absolute confidentiality to improve business survey response rates and to gain access to accurate data.

(2) Consumer/participant surveys

- It consists to ask visitors about their spending and behaviour patterns :

Consumer/participant surveys

How much did you spend on:

Package Tour (by nights)	\$
Accommodation (not part of package tour)	\$
Food and Drink	\$
Transport (petrol, taxis, buses, car hire)	\$
Festival entry fees	\$
Shopping	\$
Entertainment (gambling, clubs, cinema, etc.)	\$
Other expenditure (medical, hair, personal)	\$

Reasons why studies on the economic impact of MICE are not popular

1. It is difficult to track categories of MICE spending by delegates, sponsors, or exhibitors.
2. It is difficult to disaggregate industries affected by the MICE industry because the convention industry is linked with a variety of other industries.
3. Types of MICE are various according to the nature of the convention including the type of sponsor (e.g., corporate or association), the number of delegates, the length of a convention, a convention with/without exhibition or other types of events, scale of budget, and a convention with or without pre- or post-convention tour program.

Reasons why studies on the economic impact of MICE are however necessary

1. Because business fairs and conventions have steadily grown since World War II and rocketed in recent times as the dual result of falling transport prices and growing demand
=> important to better know our own forces, weaknesses, and effective competitiveness
2. Because MICE industry produces great economic impact
=> it should be known by the policy makers and government
3. If we face new MICE investments (ex. a new Convention Center) and need public finance support
=> it may convinced public authorities to support those new investment projects

Conclusion

- The principal motivation for a business or region to serve tourists are generally economic.
- An individual business is interested primarily in its own revenues and costs, while a community or region is concerned with tourism's overall contribution to the economy, as well as its social, fiscal and environmental impacts.
- A good understanding of economic impacts of MICE tourism industry is therefore important for the tourism industry, government officials, and the community as a whole.

Thank you for your attention.

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