

Schedule 13
Funding Request for the 2013-14 Budget Cycle

Department: Governor's Office Economic Development Programs
 Request Title: Colorado Tourism Office Promotion and Branding
 Priority Number: R-4

Dept. Approval by: *Alvin [Signature]* 10-17-12
 Date

OSPB Approval by: *Erin M. [Signature]* 10/19/12
 Date

- Decision Item FY 2013-14
- Base Reduction Item FY 2013-14
- Supplemental FY 2012-13
- Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	6
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
Total of All Line Items	Total	12,980,321	-	16,400,000	2,000,000	2,000,000
	FTE	4.0	-	4.0	-	-
	GF	3,700,000	-	3,700,000	2,000,000	2,000,000
	GFE	-	-	-	-	-
	CF	9,280,321	-	12,700,000	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(4) Economic Development Programs- Colorado Promotions- Other Program Costs	Total	12,980,321	-	16,400,000	2,000,000	2,000,000
	FTE	4.0	-	4.0	-	-
	GF	3,700,000	-	3,700,000	2,000,000	2,000,000
	GFE	-	-	-	-	-
	CF	9,280,321	-	12,700,000	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number: Not Required

Reappropriated Funds Source, by Department and Line Item Name: Not Required

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments: Not Required

Other Information: Not Required



GOVERNOR'S OFFICE
ECONOMIC DEVELOPMENT PROGRAMS

John W. Hickenlooper
Governor

Kenneth W. Lund
Executive Director

FY 2013-14 Funding Request
November 1, 2012

Kenneth W. Lund 10/23/12
Signature Date

*Department Priority: R-4
Colorado Tourism Office Funding Increase*

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
Colorado Tourism Office Promotion and Branding	\$2,000,000	\$2,000,000	0.0

Request Summary:

The Office of Economic Development and International Trade (OEDIT) is requesting an increase in its annual General Fund appropriation from \$3.7 million to \$5.7 million, an increase of \$2.0 million to support an increase in tourism promotional activities and the development of a fully integrated branding platform for the state as a whole in FY 2013-14. This funding will produce a \$3.60/\$1.00 return on investment (ROI) for tourism promotional activities.

Problem or Opportunity:

The opportunity is to make funding available to increase the Colorado Tourism Office's (CTO's) promotional opportunities and develop a fully integrated branding platform for the state as a whole, thus making Colorado more competitive in attracting tourists, talent, businesses, and capital to the state with resulting increases in state revenues and other economic impacts across the state.

Brief Background:

The CTO was restructured to its current form in 2000. Tourism is a key industry in the state and requires long-term investments for the planning, promotion, coordination, and development of

Colorado as a quality national and international tourist and travel destination.

The CTO receives an annual appropriation for promotion from the Gaming Fund, which varies based on the level of Gaming revenues available in each year, with \$9.3 million made available for use during FY 2012-13 (and \$500,000 for Colorado Welcome Centers). Additionally, the CTO received an annual appropriation of \$3.7 million in General Fund for promotion initiatives for use in FY 2012-13.

During the recession, the state's revenues decreased and department budgets dropped. The CTO budget fell from a high of nearly \$20 million in 2007 to \$12 million in FY 2011-12 and increased slightly to \$13.3 million in FY 2013-14. Exhibit A demonstrates the relationship between expenditures and ROI.

The requested amount of additional funding would be spent on activities to promote tourism in the state (\$1.5 million) and develop statewide comprehensive branding activities (\$500,000).

Promotional Opportunities

The additional increase will allow for the CTO to use \$200,000 to support new international direct flights. After several decades of negotiations for a direct flight from Japan, a direct flight will begin service from Tokyo to Denver in March 2013. Also in May of 2012, direct service into DIA on Iceland Air began four days a week and will expand to six days a week in 2013. These direct flights represent an unparalleled opportunity to promote Colorado in Scandinavia and Western Europe as well as across Japan. The CTO was able to provide funding of \$100,000 and \$20,000, from several appropriation years, to incent these flights and plans to become more aggressive in offering such incentives to drive additional direct flights from DIA. Such CTO incentives will be specifically targeted to pay for in country marketing to encourage international use of these flights to Denver.

In addition, after consulting with its vendor and building on its current advertising strategies, CTO will use \$1.3 million of the new funds to increase its advertising efforts as follows:

- 1) 75% or \$975,000 will be used for spring/summer campaigns.
 - a. With these funds, CTO will allocate \$900,000 to TV advertising as follows:
 - o Add spot TV in two *new* Tier 2 markets to be selected from previously identified markets, e.g., Houston, Minneapolis, Austin, Kansas City, or Albuquerque.
 - o Increase dollars spent on national interactive cable/satellite TV.
 - b. Allocate \$75,000 to Pay per Click (PPC). PPC is an Internet advertising model (Google paid search in this case) used to direct traffic to websites, where advertisers pay the publisher when the ad is clicked.

- 2) 25% or \$325,000 used for winter campaigns.
 - a. Strengthen TV in current Tier 1 markets (Chicago, Dallas, Minneapolis) by doing one or more of the following:
 - o Add broadcast TV (in addition to cable), add more weeks on-air, add more spots/Target Rating Points (TRP) in existing markets for greater impact. The TRP is an audience measurement criterion of rating points that indicates the popularity of a TV channel. The TRP measure helps advertisers decide which TV channels and programs to place their advertising in.
 - b. Add TV in two *new* out-of-state markets
 - o Select from Tier 2 markets, e.g., Albuquerque, Kansas City, Austin, Houston, or Phoenix.

Rationale for the targeted funding is that:

- Television advertising will generate guide requests/web site visits and increase media reach/frequency and advertising awareness. Although TV advertising is more expensive than other types of advertisement, it also allows the CTO to broaden its reach.
- Additional spending in PPC will send more consumers searching for travel information directly to Colorado.com.

Guide Requests: In FY 2011-12, interactive TV *directly* generated over 129,000 orders to date for the Colorado Official State Vacation Guide, or 70% of the total spring/summer guide requests. Past research has shown that people who order vacation guides are significantly more likely to visit the state, so more guide requests equate to more overnight visitors and more dollars spent in Colorado.

Reach/Frequency: Adding TV will significantly improve advertising reach and effective frequency in more of Colorado's key visitor markets. Higher frequency increases the likelihood that people will recall Colorado's message and take action (order a guide, visit Colorado.com, plan a trip, and visit the state).

Ad Awareness: For Colorado's FY 2012-13 spring/summer campaign, TV created a higher ad awareness than any other medium according to the 2012 Ad Effectiveness Study conducted by Strategic Marketing & Research, Inc. (28% TV, 21% Online, 18% Print, 8% Outdoor). In markets where spot TV was used, overall awareness of Colorado's advertising was 11% higher compared to non-TV markets (50% versus 45%).

Branding

In August, the new role of Chief Marketing Officer (CMO) was established and filled by Aaron Kennedy (founder of Noodles & Company and former brand manager at Pepsi-Cola Company). The purpose of the position is to strengthen the brand power of the state. In this context, the new CMO has created the following goal for the State of Colorado: "Become the most powerful place-brand in the world." This mission will involve the development of a brand identity platform that is a distinctively appealing and authentic expression of what we stand for...as a people, a government, a business community and a place. A well crafted brand identity helps the state differentiate itself and stand out nationally and internationally. It isn't advertising, but it clarifies how advertising should look and feel and helps the state maintain a unified, cohesive, consistent aesthetic and message platform throughout all marketing activities. Think about how Starbucks extends its logo, color scheme and design consistently in every coffee shop and bag of coffee at grocery stores. It builds confidence and loyalty, and ultimately, long term sales growth. As the Colorado brand becomes more powerful, more companies based in the state will want to broadcast their loyalty to it the way Arrow Electronics does through its television

advertising: *Arrow Electronics...a Colorado Company.*

Input to define the brand identity will be gathered from all corners of the state and around the globe using an innovative, inclusive research process that will allow every citizen to participate and share their views. The cost of development and research will be borne by private contributions.

The new Colorado brand identity platform will be developed so that each agency will have its own coordinating brand elements that speak in a more focused manner to their constituents and customers. All state departments will be responsible for launching and implementing the specifically focused brand throughout their marketing and outreach efforts. The requested \$500,000 will be used for launch expenses for a new statewide brand that is designed to broadly create awareness of and attraction to Colorado, including specific expenses for social media, outdoor advertising (billboards/bus backs), and event signage. The cost estimates are based on Aaron Kennedy's extensive experience in this area. A separate budget request, for the Global Business Development line item within the Colorado Office of Economic Development and International Trade, has been submitted that will be used to incorporate the statewide brand into OEDIT's specific business marketing programs.

Deploying a unified brand identity for our state will give greater power and credibility to each of the State's programs and initiatives. This broadly appealing brand will be used to attract VISITORS, TALENT (students, professors, young professionals, and entrepreneurs), BUSINESSES, and CAPITAL to Colorado through all state departments and outreach vehicles. In addition to becoming Colorado's unifying rally cry, the aspirational brand will also encourage our citizens and leaders to rise up to fulfill and embody the brand promise.

Around the world, Colorado is currently known primarily as a ski destination. While it is beneficial to have some international awareness,

this singular perception (skiing) is limiting and often dissuades prospective businesses from pursuing relocation or investment here. This brand will portray a more complete picture of Colorado's unique place in the world and embody its assets such as the fact that Colorado is a hotbed for innovation/entrepreneurship and that it's the healthiest state in the nation. It will help foster a larger-than-life persona that will attract the best and brightest from around the globe.

Measures of success will include improved scores in satisfaction, desire to move to/stay in Colorado (brand preference), and top-of-mind awareness, as well as economic impact on employment (jobs/tax revenue), tourism (market share of overnight stays) and net relocation rates (population).

By achieving these outcomes, this brand will also elevate citizen trust and respect for its government, thus making serving our state government a more attractive professional option.

Proposed Solution:

The proposed solution is to increase the funding for CTO's promotional opportunities and to develop a branding platform for the state as a whole, thus making Colorado more competitive in attracting visitors, talent, businesses, and capital to the state.

Alternatives:

Increased promotional and new branding initiatives, are necessary to reach a larger market share. Consequently, other alternatives are not available.

Anticipated Outcomes:

Estimated ROI:

Based on representative campaign initiatives currently underway and associated results demonstrated in CTO's most recent annual study completed by Longwoods International (Longwoods), the CTO expects a state return of \$3.60 state return for every incremental \$1.00 spent. Additionally, the CTO expects to increase Colorado's national share of overnight lodging

from 2.7% to 3.5% by 2015 with this additional funding. For the branding effort, the Department will implement a continuous tracking study, for items such as "satisfaction" and "top-of-mind awareness and will develop appropriate incremental outcomes from this study. The outcomes for "attracting talented students/young professionals/residents and job creation will be "performing at a higher level than the national average or our region".

Output measurements projected include:

- Adding incremental dollars targeted to TV as outlined will:
 - Generate an additional 25,000-45,000 trackable guide requests.
 - Increase from 40% to 60-70% the percentage of consumers in key markets who are exposed to Colorado's message a minimum of 6 times.
 - Deliver higher advertising awareness in more key visitor markets, thereby increasing overall visitor conversion.
- The increased spending in PPC (paid search) will:
 - Direct up to 75,000 incremental clicks/visits to Colorado.com.
 - Bring Colorado's investment in online marketing closer to levels at which competitive states are spending on similar search engine optimization programs.

Assumptions and Calculations:

Longwoods International is a respected leader in marketing, advertising, and public opinion research. For over 30 years, Longwoods has assisted leading corporate and public sector clients with studies conducted across the Americas, Europe, and Asia. The CTO generally contracts with Longwoods every two years to produce a benchmarking/return on investment study for Colorado. Longwoods completes an in-depth survey in markets Colorado is trying to attract, with the survey including questions on

who viewed Colorado promotional activities, were they persuaded by them to visit Colorado (conversion rate) and if so, how much was spent. The ROI is then extrapolated from the total market survey. This request contains Colorado's ROI from this independent source.

Consequences if not Funded:

If this request is not funded, the potential to increase state sales and use tax collections, as well as city and county tax collections will not be realized. CTO will not be able to compete as effectively for increased market share and revenues against states with higher levels of funding for these types of initiatives.

Impact to Other State Government Agency:

N/A

Cash Fund Projections:

N/A as this funding request is for General Fund.

Relation to Performance Measures: This request is consistent with OEDIT's performance measures, including the percentage of market share and return to the state.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

N/A.

Current Statutory Authority or Needed Statutory Change:

CTO's statutory authorization is C.R.S. 24-49.7-101 through 24-49.7-108. No statutory changes are needed.

The statute establishes the Colorado Tourism Board and responsibilities, requires the CTO to annually gather and disseminate statistical information on the travel and tourism marketing effort along with other specified information, and directs the CTO to plan for the promotion and development of the travel and tourism industries, to cooperate with other public and private agencies and organizations to promote Colorado, and to operate state visitors' centers for the purpose of disseminating information along with other specified authorizations.

Exhibit A

Return on CTO Investment						
Longwoods Study	FY07 CTO APPR	2008 ROI	FY10 CTO APPR	2011 ROI	FY14 Budget Request	2015 Est. ROI
Private Sector		\$193/\$1		\$113/\$1		\$153/\$1
Total Public Sector (City, County and State)		\$12.96/\$1		\$7.60/\$1		\$10.28/\$1
City/County		\$7.15/\$1		\$4.20/\$1		\$6.17/\$1
State	\$20M	\$5.81/\$1	\$13M	\$3.40/\$1	\$15.7M	\$4.11/\$1