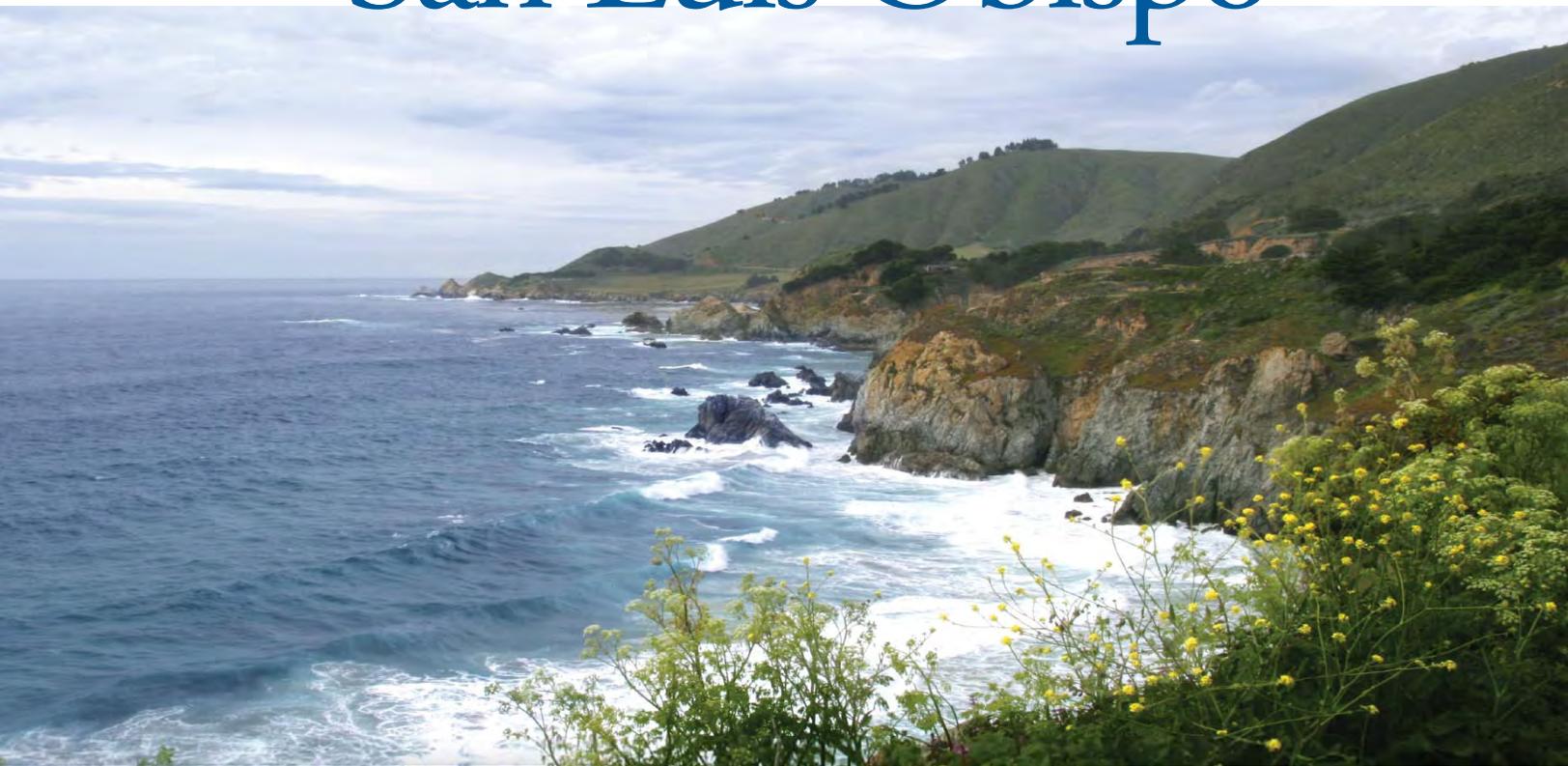


San Luis Obispo County Tourism Analysis Report 2008

September 2008

Tourism San Luis Obispo



By:



Dean Runyan Associates

Study Commissioned by
Economic Vitality Corporation
www.sloevc.org





Economic Vitality Corporation
P.O. Box 5257, San Luis Obispo, CA 93403
805.788.2012 PH 805.781.6193 FAX
www.sloevc.org

Keeping SLO County business vital.

September 24, 2008

The **Economic Vitality Corporation** is pleased to have commissioned the enclosed study that evaluates the tourism industry of San Luis Obispo County.

This first-ever study and the accompanying report provides you with research never seen before, thanks to **Strategic Marketing Group** and **Dean Runyan Associates**, as well as the supporters of this project.

As a countywide economic development organization, the EVC commissioned this independent study in order to provide an analysis of one of the largest business sectors in San Luis Obispo County. The primary purpose of the study is to develop data and offer recommendations useful to government and businesses leaders in order to address the strengths and weaknesses of this economic engine of the county.

The research for this project lasted several months as SMG focused on key topics: tourism opportunities for SLO County and individual cities; factors influencing maximum tourism promotion; potential short and long-term challenges facing the industry; competitive dynamics; and visitor attitudes and interests. Among the key findings are economic impacts on the tourism industry, our competitive advantage compared to neighboring counties, and strategic recommendations to improve our competitive position.

The Board of Directors of the EVC and the supporters of this project believe that business and government leaders will find great value in the results of this study and that it will be used to help improve our competitiveness in this economic engine of our local economy.

We wish to thank the supporters of this project.

Sincerely,

A handwritten signature in blue ink that reads "Dave Christy".

Dave Christy, Ph.D.
Chair, Board of Directors

A handwritten signature in blue ink that reads "Michael E. Manchak".

Michael E. Manchak
President/CEO

We wish to thank the following project sponsors...



EVC
ECONOMIC VITALITY CORP.

PROJECT SPONSORS

San Luis Obispo County Tourism Analysis 2008



Pacific Gas and Electric Company™



San Luis Obispo County
VISITORS & CONFERENCE BUREAU



Rabobank



city of
san luis obispo



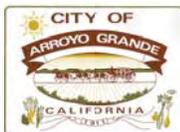
County of San Luis Obispo



Central Coast of California
Hospitality Consulting Services



City of Atascadero



distinct. different.
PASO ROBLES
WINE COUNTRY ALLIANCE



City of Grover Beach



City of Morro Bay



Table of Contents

Executive Summary	3
Project Overview	6
Elements of Tourism	12
California Trend Analysis	13
Economic Analysis	21
Lodging Analysis	30
SLOC Product Experience	39
SLOC Tourism Promotion	42
Direct Competition	43
BIDs & the Changing Competitive Environment	49
Meeting Facilities and the Future	53
SWOT	56
Key Issues	58
Recommendations	66

Executive Summary

Without doubt, San Luis Obispo County (SLOC) has all the necessary elements to be a more competitive player within the California tourism market. The area has natural attractions, history, culture, and numerous elements that make it a unique destination. With the information and recommendations contained in this report, local private and public sector leaders can bring about the necessary changes to make the region more competitive.

Economic Analysis

- **Travel spending has increased in SLOC.**
 - Travel spending in 2007 equaled \$1.121 billion, a 3.4% increase from 2006.
 - Since the economic slowdown in 2001-2002, travel spending increased by an average of 3.8% annually.
 - Although increased gasoline prices and room rates account for a substantial share of this increase, travel-generated earnings and employment also grew.

- **Travel Impacts within SLOC.** Analysis revealed the travel impact by sub-county areas:

<i>South Inland</i> , including the City of San Luis Obispo:	\$254 Million
<i>The North Coast</i> , including Cambria and San Simeon:	\$151 Million
<i>South Coast</i> , including Pismo Beach and Arroyo Grande:	\$359 Million
<i>Mid Coast</i> , including Morro Bay and Cayucos:	\$160 Million
<i>North Inland</i> , including Paso Robles and Atascadero:	\$195 Million

- Travel spending between 2001 and 2007:
 - Increased in the North Coast and North Inland areas by 7.6% and 11%, respectively.
 - Decreased in the Mid Coast area by 9%, in the South Inland by 3.5%, and in the South Coast by 3.5%.

✓ Lodging Analysis

- **Branded vs. Unbranded Lodging**

About 32% of the lodging inventory in SLOC is branded chain, compared with 41% in Santa Barbara County and 50% in Monterey County.

- The significantly smaller share in SLOC is important because branded chains typically have distribution systems that allow access to a much greater customer base.

- **Room Mix**

Both Monterey and Santa Barbara Counties have a significantly higher percentage of rooms in the properties with 100 or more units category, suggesting more resort-type lodging inventory.

- These properties typically have significant sales efforts to generate lodging occupancy.
- By lacking this resource, SLOC faces a greater challenge to generate occupancy.

- **Fair Share and Occupancy**

Among San Luis Obispo, Monterey and Santa Barbara Counties, San Luis Obispo has 32% of the rooms, yet only 24% of the room revenue.

- San Luis Obispo underperforms both Monterey and Santa Barbara Counties in occupancy, average daily revenue and revenue per available room.

✓ Tourism Promotion

- Six tourism promotion organizations exist in SLOC.

- Organizations may be geographically-based, such as the Pismo Beach Conference and Visitors Bureau, or functionally-based, like the area vintner associations.
 - The combined budget for these organizations is approximately \$2.1M.
- ✓ **Competition**
- SLOC's two most direct competitors are Monterey and Santa Barbara Counties.
 - From 1992 to 2005, travel spending in SLOC averaged 3.8% annual growth, below the state average (4.2%), and below both Santa Barbara (4.2%) and Monterey (4%).
 - SLOC could have accumulated an additional \$500 million in travel spending if it had grown at the state average (4.2% since 1992) instead of 3.8%.
- ✓ **Business Improvement Districts¹ (BID's) and the Changing Competitive Environment**
- Tourism promotion within SLOC is concentrated in five separate agencies each with their own budget and promotional programs.
 - The combined spending impact of those agencies is approximately \$2.1million.
 - Based on these funds the average spent per available room is approximately \$211.
 - In contrast Santa Barbara spends approximately \$287 per available room (Note, Santa Barbara is in the process of developing a BID that generates an additional \$2million) and Monterey spends approximately \$456 per available room.
 - The need for additional Funding via BID's is important for San Luis Obispo to keep pace with its direct competitors.
- ✓ **Meeting Facilities**
- Although SLOC needs more true conference capacity, it is difficult to achieve a focused conference supply that would benefit all the room supply across the county. Further consideration of new conference supply development will require a dedicated study of supply and demand.
 - Two options exist for developing a regional conference facility: a free-standing, city-owned conference facility, or a destination resort-based facility.
 - Although both present significant challenges, the latter would likely offer the better option and may deserve further study.

Key Issues

After thorough review and analysis, SMG has identified a number of key issues that should be considered and addressed to maximize tourism within the county. SMG has identified four core areas of concern:

- ✓ The economic environment
 - ✓ The competitive environment
 - ✓ Infrastructure issues
 - ✓ Tourism promotion
- Infrastructure issues are controllable and need to be aggressively handled.
 - The single most important area of concern may be tourism promotion, which has created significant intra-county competition.
 - This report identifies specific steps to improve overall tourism promotion efforts by uniting the county and focusing competitive marketing efforts on areas outside the county.

¹ Business Improvement Districts are formed by the lodging industry to self assess and generate funds for tourism promotion.

Recommendations:

To improve competitiveness, the Strategic Marketing Group recommends the following actions:

Recommendation 1: SLOC Airport

As a proactive measure to SLOC's reduction in air service, SMG supports the recent formation of an airport taskforce comprised of key county stakeholders from both the public and private sectors. The purpose of this organization is to aid airport management in maintaining and increasing air service into SLOC.

Recommendation 2: Resort Brand Lodging Attraction

Attracting a major brand lodging property similar to those in competitive destinations would help establish the region in a class similar to its major competitors.

SMG recommends using a coordinated approach with the Economic Vitality Corporation of SLOC and other city economic development representatives to attract a major brand resort property.

Recommendation 3: Focus on Growing Revenue

Developing a cohesive mindset focused on growing travel spending for the entire county is a crucial step for the county's tourism industry. As the county grows, so will each of its regions.

Recommendation 4: Tourism Promotion

The issue of tourism promotion within SLOC is vital. An enormous need exists for an integrated and consistent tourism promotion effort throughout the county.

It is critical that the issues limiting tourism promotion must be resolved. SMG recommends:

- Improved tourism promotion agency relationships;
- Support for a newly-revitalized county tourism promotion agency that supports core programs for the whole county as well as sub-regions within the county;
- Programs that will enable brand building, website and internet strategies, public relations, airline attraction and research.
- A detailed approach to how the various tourism agencies can more effectively work together.

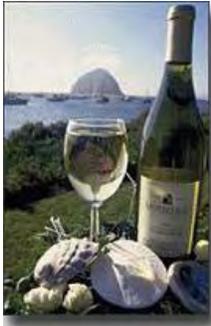
Recommendation 5: Conference Center Follow-up

- An opportunity to develop a conference center within the county may exist. Both the City of San Luis Obispo and Paso Robles are potential priority locations, given the lodging mix.
- Convention centers are often difficult to operate profitably, even when co-located with a hotel. Accordingly, SMG recommends completing a detailed market study and project feasibility study to understand the potential demand for a convention center.

Recommendation 6: Meeting with County Planners

- Given the rapid growth of rural tourism, tourism officials should meet with appropriate county planning personnel to develop a common vision for tourism development in rural areas.
- The county must develop an approach that leverages the high demand for the major cities with that of the rural areas. It is critical to plan for the rural areas so tourism development does not occur in a haphazard way.

Project Overview



The Economic Vitality Corporation of San Luis Obispo County (EVC) provides economic development services and business resources throughout San Luis Obispo County (SLOC). The EVC stimulates the local economy by helping generate jobs, increase investment in the community and promote the start-up, growth, and attraction of businesses. The EVC recently completed a countywide wine industry study to understand its economic dynamics and to maximize SLOC's economic benefits. In the same vein, the EVC also sought to develop a similar analysis for the tourism industry within SLOC. Consequently, the EVC commissioned the Strategic Marketing Group to implement a study of the County's tourism industry.

This project reviewed SLOC's competitive position within the tourism industry in order to understand its strengths, weaknesses, opportunities, and threats compared with competitors. This strategic analysis was conducted to develop a countywide economic development strategic plan.

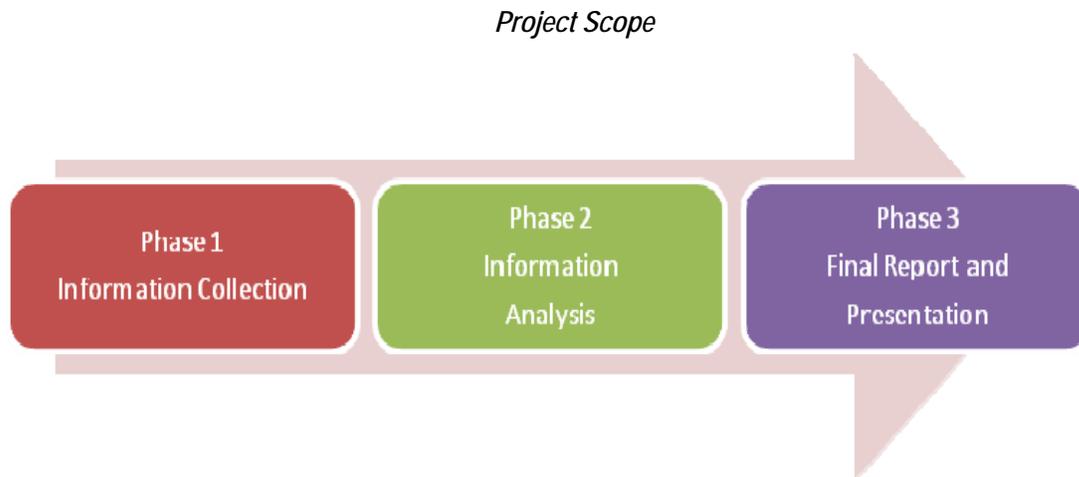
Project Objectives

1. Assess the economic impacts of tourism in SLOC, including an appropriate economic multiplier analysis, census of jobs created and tax revenue created.
2. Provide a number of tourism assets by category.
3. Determine the number and demographic characteristics of visitors.
4. Conduct a systematic assessment of SLOC's Strengths, Weaknesses, Opportunities and Threats (SWOT), including underserved segments, ancillary businesses, tourism promotions and infrastructure that offer the greatest economic benefits.
5. Identify key emerging trends, evaluate how they relate to the SLOC's tourism SWOT, and determine how marketing efforts should respond. Review SLOC demand generators² versus other Central Coast regions.
6. Establish best practices for assessment and use of transient occupancy tax (TOT).
7. Evaluate the feasibility and potential benefits of a regional conference center.
8. Determine the impact of business improvement districts (BIDs) on tourism in comparable destinations.
9. Develop strategic recommendations to improve SLOC competitive position.

² Demand generators are attractions that generate visitor demand for the region.

Scope of Work

The project scope included three distinct phases: data and information collection, information analysis, and the development of a final report.



Phase 1: Information Collection

The first phase assessed competitive tourism in SLOC.

I. Economic Impact of Tourism

- ✓ Understand the current and long-term economic impact of tourism on SLOC.
- ✓ Compare economic impact trends with SLOC competitors.
- ✓ Identify and evaluate tourism market trends in California, the Central Coast and SLOC.



II. SWOT Analysis

A. Lodging Analysis

- ✓ Review current information on lodging supply hotel (mix) occupancy rates, Average Daily Rate and RevPar.³
- ✓ Compare SLOC accommodations with other Central Coast competitors.

B. Tourism Asset Analysis

- ✓ Review tourism "Revenue Generators" within SLOC and the competitive set and identify differences in tourism assets.

C. Tourism Promotion Systems Analysis

- ✓ Review tourism promotion and marketing organizations and materials in SLOC and the competitive set to understand resources levels and marketing approaches from the consumer perspective.

D. Consumer Information

- ✓ Implement consumer research in order to understand SLOC's strengths and weaknesses versus the competitive set.

E. Stakeholder Information

- ✓ Interview key stakeholders to gather perceptions of SLOC's competitive position.
- ✓ Conduct an email survey within the tourism industry to obtain their perspective of SLOC's competitive position.

³ Revenue per available room

Phase 2: Information & Data Review and Analysis

In Phase 2, SMG reviewed information collected in Phase I, and analyzed it to answer the following key questions:

1. What is the current situation?
2. Do changes need to be made?
3. If so, how can
4. What is the cost?

Phase 3: Final Report and Presentation

The final phase includes this final report.

Methodology

The key to this project was an understanding of SLOC's competitive position when compared to its competitive set. This was achieved through the following analysis:

I. Historical Review and Analysis of the County's Tourism Industry

This section reviewed:

- ✓ Tourism economic impact trends, including business receipts, employment, and wages
- ✓ Current tourism promotion structures
- ✓ Funding levels and marketing activities

II. Economic Impact of Tourism

- ✓ This section includes a detailed description of travel-generated sales, employment, earnings and tax receipts, based in part on Dean Runyan Associate's data and methodology and updated with the most recent data available for 2007.
 - Breakouts are provided by type of visitor and by visitor industry business category.
- ✓ An IMPLAN⁴ model:
 - Identified secondary (indirect and induced) earnings and employment generated by travel and tourism, which illustrated the nature and magnitude of secondary impacts on the SLOC's economy.
 - This model also projected beneficial economic impacts of recommended growth in SLOC's travel and leisure industry, in particular, the potential for additional sales, employment, earnings, and tax receipts.

III. SWOT Analysis

Methodology for developing the comprehensive SWOT, analysis included:

A. Tourism Product Analysis

An analysis of county hotels, attractions and tourism assets.

⁴ IMPLAN is an economic planning model.

B. Consumer Information

An online research panel of frequent California travelers helped determine:

- ✓ Perceptions of SLOC strengths and weaknesses.
- ✓ Comparisons on perception vs. performance of county tourism elements.
- ✓ Comparative analysis of tourism experiences in SLOC vs. competitors.
- ✓ Visitor characteristics of tourist segments.

C. Tourism Trend Analysis

To identify areas of opportunity or competitive advantage, SMG performed a complete review of current and pertinent tourism trends:

- ✓ Current and projected tourism trends
- ✓ Statewide economic trends
- ✓ Current and projected social and cultural trends that impact tourism
- ✓ Market potential as it relates to the SLOC SWOT analysis and potential market response

IV. Best Practices

A general review and assessment of TOT for sales and promotions efforts for SLOC included:

- ✓ Current total collections and allocations
- ✓ Tourism promotional budgets for individual communities and aggregated.
- ✓ Review of current county and sub-city promotional efforts and their mutual support
- ✓ Overall impact of current approach
- ✓ Comparatives with competitive set promotional efforts

V. Regional Conference Center

To evaluate the market for a Regional Conference Center, a supply- and demand-level analysis determined:

- ✓ The scope and nature of a facility (if further study is recommended),
- ✓ The potential target convention and conference market for such a facility,
- ✓ Potential financing for a facility.

VI. Review of Business Improvement Districts (BIDs)⁵

A review of BID case studies on tourism development in comparable destinations evaluated:

- ✓ The type of BID
- ✓ The organizational structure
- ✓ BID funds use
- ✓ Tourism Impact

VII. Benchmark Comparisons**1. Develop a SLOC Fair Share Analysis**

A quantitative analysis of SLOC's fair share business level evaluated the county's current and potential tourism business levels, and compared its capacity performance to its competitive set. The analysis included:

- ✓ A review of SLOC room supply, hotel occupancy, and ADR
- ✓ A review of the comp set room supply, hotel occupancy, and ADR
- ✓ The development of a Fair Share Analysis

⁵ Ibid 1

2. Competitive Tourism Asset Analysis

This analysis compared SLOC's demand generators (natural resources, attractions, events, etc.); to its destination competitive set. For example; SLOC could be compared to its competitors using the following matrix.

Analysis steps included the following:

- ✓ Review and assess SLOC attractions and tourist events.
- ✓ Review and assess SLOC accommodations and retail facilities.
- ✓ Review and assess competitive set attractions, tourist events, accommodations and retail facilities.
- ✓ Develop comparative between SLOC and Competitive Set

SMG then ranked how SLOC ranks on pre-determined criteria for each comparative area. Rankings included:

- Dominant
- Competitive
- Below Competitive levels

3. Comparison of T.O.T rates and amounts

- ✓ Compare competitive set T.O.T rates and funds as well as percent that goes to budget

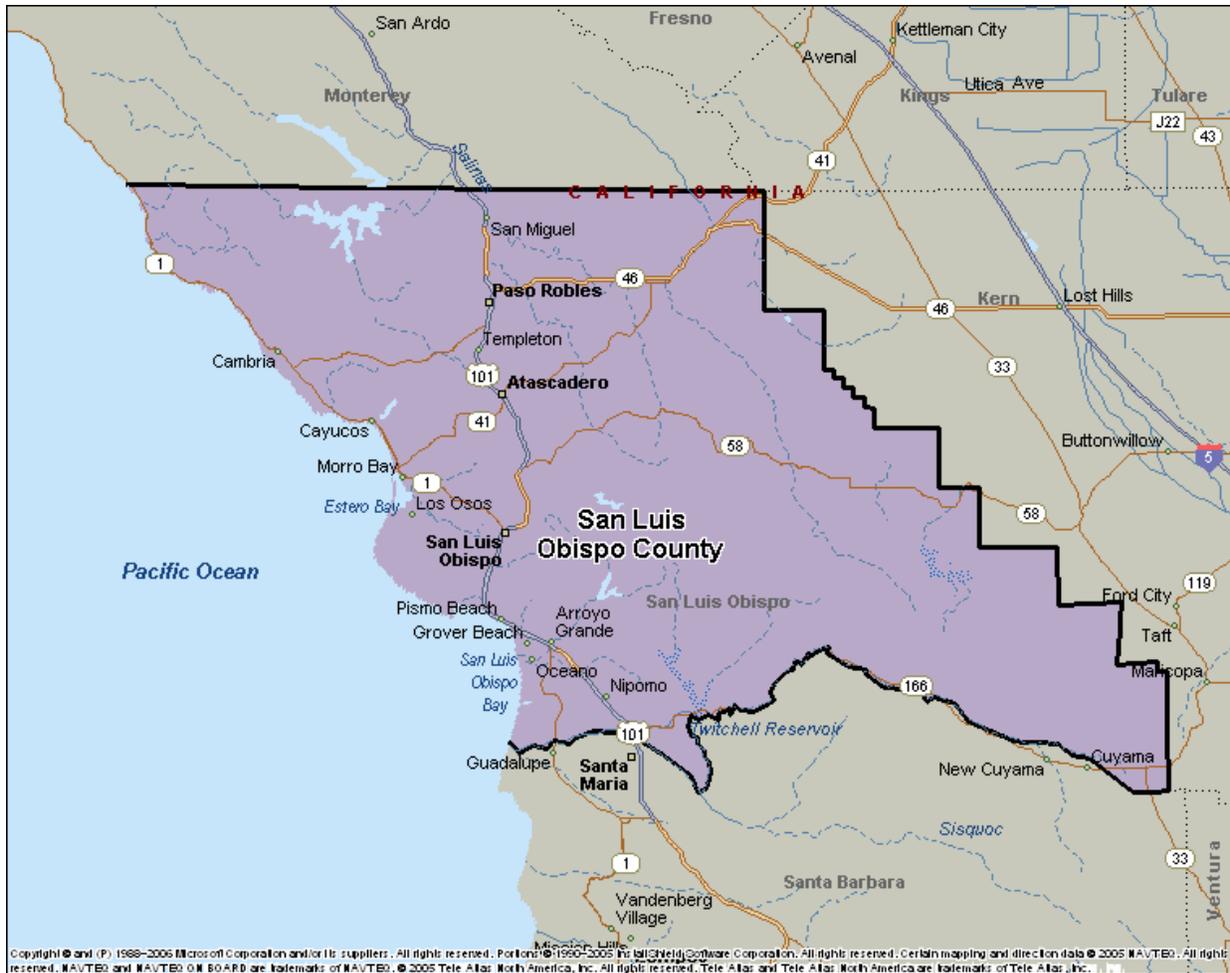
VIII. Recommendations

Based upon the collected information, SMG made strategic recommendations in the following areas:

- ✓ Economic Impact of Tourism
- ✓ Tourism Product Analysis
- ✓ SLO County Consumer Segments
- ✓ Tourism Trend Analysis
- ✓ Assessment and use of Transient occupancy Tax (TOT)
- ✓ Regional Conference Center
- ✓ Review of BID

IX. Area of Study

The area of study includes all of SLOC:



Elements of Tourism

When considering tourism in general and San Luis Obispo County (SLOC) specifically, understanding the elements that comprise the tourism experience is vital. These elements are outlined by McIntosh, Goeldner and Ritchie⁶:

Tourism Element	Characteristics
1. Natural Resources	Natural assets unique to the region.
2. Infrastructure	Air access, roads, utilities, etc. All elements that help support the visitor's experience.
3. Hospitality	Human elements that interact and serve the visitor.
4. Visitor Services	Hotels, food and beverage, and retail services designed to assist the tourist.
5. Attractions	Natural and built facilities, events, and local residents that provide visitors with experiences.
6. Organizational	Organization and processes that work to attract visitors to the destination using a variety of promotional techniques.

SLOC clearly offers significant natural resources and attractions, and the remaining elements—including infrastructure, hospitality and visitor services—are competitive. Yet SLOC is mixed, with respect to organizational efforts designed to attract visitors.

However, recognizing that these elements are not enough is also important. In order to truly maximize SLOC's efforts, the following support is needed:

- **A market-focused and market-driven strategy:**
Too often organizations and regions can lose focus on marketing efforts and become concerned with political matters.
- **Funding**
An organization must allocate the necessary funds to achieve its identified goals.
- **Cooperation and Unity of Purpose**
The area's tourism industry must foster cooperation among all of its tourism promotion agencies as well as the greater local government.
- **Vision**
The area's tourism industry must provide a vision for the greater community.

⁶ Tourism, Principles, Practices and Philosophies, and the Strategic Marketing Group

Community Benefits

If all of these components work in unison, the tourism community, local government, and local residents should benefit from:

- **Enhanced quality of life**
Recognition of the importance of protecting natural elements, which add to visitor satisfaction as well as local quality of life.
- **Improved infrastructure and local services**
Tourism-generated tax dollars can play an important role in municipal and county funding for local services.
- **Jobs and business improvement**
Tourism often adds to the revenues that, in turn, increase employment and strengthen local businesses.

Enhanced image and economic development value help attract and retain businesses.

- **Positive Return on Investment (ROI)**
The combined benefits of a countywide tourism promotion effort can provide a positive ROI over the long term for the entire community.

California Trend Analysis

Within the national and state travel and tourism industries, significant changes in the macro environment are affecting tourism destinations like SLOC. The following summary of the key tourism, economic and demographic trends will provide a comprehensive context for the development of SLOC's strategic direction.

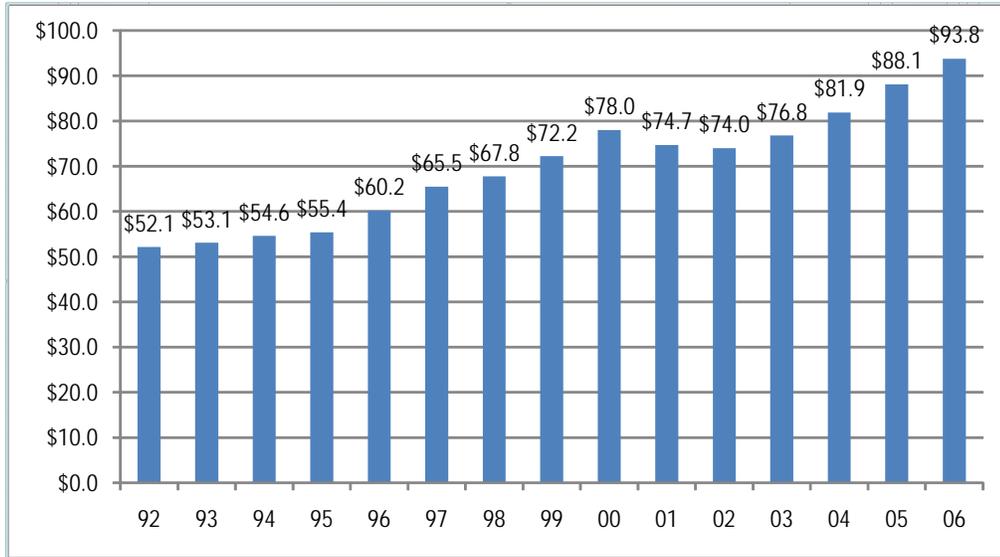
I. California Macro Environment Trends

A. Tourism in California

Each year, millions of California visitors and residents travel within the state to experience its wide variety of attractions, scenic beauty, and local culture.

- According to the State of California, travel spending generated \$93.8 billion in 2006, a 6% increase over the preceding year.
- The long-term trend shows that travel spending has increased about 4% annually, unadjusted for inflation, since 1992. Additionally, this travel spending translated into 928,000 jobs.

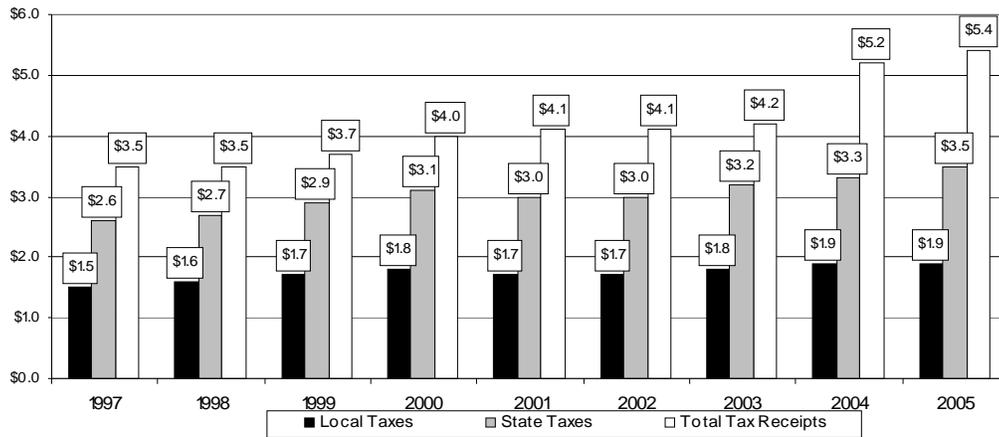
Figure 1
California Travel Spending
1992-2006
(\$ Billions)



Source: Dean Runyan Associates

- As a tax generator, tourism generated approximately \$5.6 billion in revenues for state and local governments in 2006. Figure 2 outlines tax revenues generated by travel spending within the state since 1997.

Figure 2
California Tax Revenues Generated by Travel Spending
(\$ Billions)



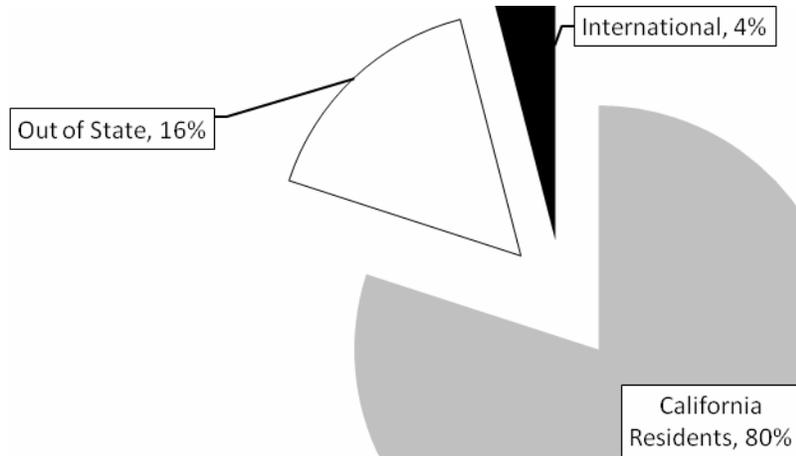
Source: Dean Runyan Associates

- However, local taxes throughout California have not grown significantly since 1997, compared with the steady growth in state taxes.

B. Total California Travel

Visitor volumes within California have remained fairly consistent over the past several years, with Californians representing the majority of the state's travel and tourism industry. In 2005, the state of California received an estimated 349.7 million "person trips" to and within the state. Of this, Californians accounted for 279.8 million (80%), U.S.-resident out-of-state visitors accounted for 55.5 million (16%), international travelers accounted for 14.4 million (4%).

*Figure 3
2005 Total California Travel Visitor Volume (Millions)*



Source: California Travel & Tourism Commission

- Approximately 75% of individual "person trips" are for leisure purposes and 25% are for business.

II. California Economic Trends

Despite the recent slowdown, the California economy can best be characterized by its size and strength. As indicated by the key economic indicators listed in Table 1, the total taxable sales in 2004 was an estimated \$486 billion and is projected to grow to \$566 billion by 2007.

*Table 1
Key California Economic Indicators*

	2000	2001	2002	2003	2004	2005	2006	2007
GDP (% Change)	1.4%	1.5%	1.2%	1.9%	2.2%	2.2%	2.5%	N/A
Unemployment %	4.9%	5.4%	6.7%	6.8%	6.2%	5.4%	4.9%	5.4%
Personal Income Growth	7.8%	.7%	-.03%	1.4%	3.9%	3.55	3.7%	3.1%
Consumer Price Index	3.7%	3.9%	2.4%	2.3%	2.65	3.7%	3.9%	3.3%

Source: State of California, Department of Commerce

- It should be noted that rapidly rising fuel costs will increase inflation and its impacts will be much more significant.

As demonstrated in Table 1, the California economic picture has changed significantly over time. Most recently, unemployment has risen and personal income growth has slowed at the same time inflation pressure has seen an increase over the earlier part of the decade. Furthermore, it is expected that the slowdown in personal income combined with a gradual increase in inflation should have an impact on the SLOC tourism market.

III. California Demographic Trends

California's population has increased steadily since the late 1990s, and its population and personal income levels are expected to change significantly between 2003 and 2012 (see Table 2).

*Table 2
California Growth Indicators
2003-2012*

	2003	Projected 2012	% Change
Population (Millions)	34	40.8	20%
Households (Millions)	12	13.7	14%
Total Personal Income (Billions 1997\$)	\$1,192	\$1,746	47%
Per Capita Personal Income (1997\$)	\$33,326	\$42,700	29%
Avg. House Hold Income (1997\$)	\$100,923	\$126,000	25%

Source: Center for Continuing Study of the California Population

A. Household Income

- Between 2003 and 2012, California's income levels are projected to increase by 47% (personal income) 25% (household income).
- In 2003, the average household income in selected California counties was significant, averaging over \$100,000 (see Table 2). Household income in both the Los Angeles Basin and the San Francisco Bay Area averaged over \$100,000, while the Sacramento region averaged \$89,000 (see Table 3).
 - Income is projected to grow between 2.2% and 2.6% annually through 2012 for these three major California regions.
 - The anticipated growth in the Central Valley could have a positive impact on tourism within the Central Coast area

*Table 3
Selected California Counties
2003-2012 & Per Capita Income Growth Rates*

	Average 2003 Household Income	Projected Annual Avg. Change 2003-2012
Los Angeles Basin	\$100,087	2.6%
San Francisco Bay Area	\$123,503	2.5%
Sacramento Region	\$88,945	2.2%

Source: Center for Continuing Study of the California Population

B. Population Increase:

- Between 2003 and 2012, California's population is projected to increase from 34 million to 41 million (20%).
- Additionally, population increases are projected for each of the major regions within the state (see Table 4). The Sacramento region is projected to grow the fastest at 19%, followed by San Diego at 17%.

Table 4
California Population Growth by Selected Regions
2003-2012

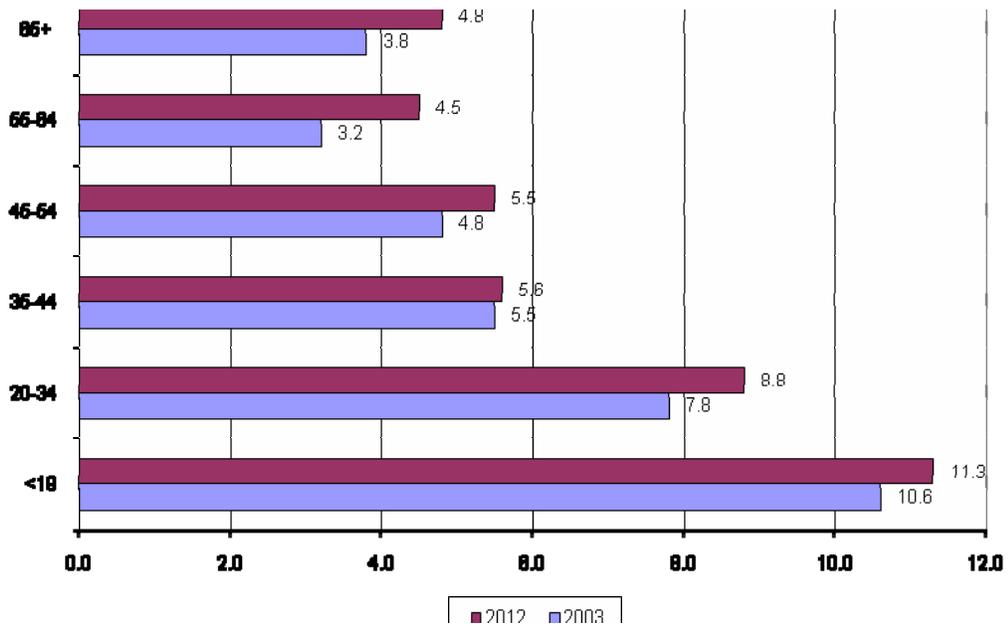
	2003	Projected 2012	Projected Growth 2003-2012
Sacramento Area	2,100,000	2,500,000	19%
Bay Area	6,900,000	7,600,000	10%
Los Angeles Basin	17,629,000	19,910,000	13%
San Diego	2,900,000	3,400,000	17%

Source: Center for Continuing Study of the California Population

C. Aging Population

Much has been written about the Baby Boomers, and as a target segment, they continue to offer significant opportunity. By 2012, 50% of the California population is projected to be 35 years or older (see Figure 4).

Figure 4
Projected Population Changes: 2003-2012
(Millions)



Source: Center for Continuing Study of the California Population

D. Changes in Ethnicity

- Another dynamic changing the demographic picture is California's growth in various racial and ethnic groups, most notably within the Hispanic segment, which is projected to be the largest ethnic segment in California by 2012, and the Asian segment (see Table 5).

*Table 5
Projected California Population Change by Race/Ethnic Groups
2003-2012
(000's omitted)*

	2003	Projected 2012	% Change
Caucasian	16,048	15,533	-3.2%
Hispanic	11,083	16,123	46%
Asian	3,700	4,900	32%
Black	2,200	2,700	23%
Multi-race/American Indian	831	1,200	44%
Pacific Islander	111	160	44%
Total	33,973	40,616	19.6%

Source: Center for Continuing Study of the California Population

- Recent increases in the Hispanic and Asian populations have also changed the composition of the California labor force. Among the Asian population, the composition of these segments may not be fully understood. For example, this demographic represents both recent immigrants and fifth-generation Japanese citizens. These segments and their relationship to the travel industry need to be better understood.

IV. Travel, Social and Cultural Trends

In addition to the changing economic and demographic characteristics, travel and tourism throughout the county are also affected by travel, cultural and social changes.

- The Travel Industry Association (TIA) has identified several important trends that are occurring nationwide, which are also important to SLOC.
- SMG has divided these into primary and secondary trends, with primary trends having the most significant strategic impact on SLOC tourism.

*Figure 5
Primary Trends*



Primary Trends:

- **Generational segmentation**
Significant differences exist among key generational segments that are important to tourism destinations:
 - **Baby Boomers:** Those born between 1946 and 1964, aged between 42 and 60 (baby boomers typically generate the highest travel volume).
 - **Gen X:** Those born between 1965 and 1978, whose ages range from 28-41.
 - **Millennial:** Those born between 1979-1994, who are currently between 12 and 27.

- **Internet savvy**
 - Travelers tend to be quite computer savvy; two thirds (65%) of the 98.3 million travelers who are online (63.8 million) used the Internet to make travel plans in 2004.
 - Among frequent travelers who were online, 70 percent used the Internet for travel planning.
 - Online travel booking continues to increase; 45 percent of all online travelers have made travel reservations online in the past year. This translates to 44.6 million online travel bookers.
 - The majority (83%) of online bookers use the Internet for at least half of their travel booking. The percentage that does all their travel booking online has grown to 40% from 29% in 2003.
 - 82% of online travel bookers bought airline tickets for a trip taken in the past year, 67% booked overnight lodging accommodations, and 40% made rental car reservations.

- **Environmental issues are priority**
 - Americans are increasingly interested in the environment, which affects their destination selection as well as the activities they participate in during their vacation.
 - Destinations that strongly emphasize the environment have a competitive advantage over those that do not.
 - Correspondingly, travelers are becoming more involved in rural activities, which give more significance to rural atmospheres.

- **Hectic lives equal shorter trips – Time Poverty**
 - People are increasingly pressed for time due to the hectic nature of their lives, which impacts vacation and travel. Vacations have become significantly shorter, and consumers are looking for hassle-free experiences, which places greater importance on booking and travel methods.

Secondary Trends

- **Children make great travel companions**
 - One in four (26%) household trips in the U.S. include children under 18 (170.1 million trips in 2003).
 - Most (91%) trips with children are for leisure, nearly half of which are taken to visit friends or relatives.
 - Four in ten (44%) overnight trips with children include a stay in a hotel, motel, or bed and breakfast establishment.
 - Popular activities on trips with children include shopping (32%), attending a social/family event (31%), engaging in an outdoor activity (14%), going to the beach (12%), and going to a theme/amusement park (12%).
 - More than half (55%) of trips with children are taken by households headed by Baby Boomers (age 35-54).

- **Family reunions**
 - 34% (72 million) of U.S. adults have traveled to a family reunion in the past three years, and 22% have attended a family reunion in the past year.
 - More than half of reunions are held in someone's home (52%), though city or town parks (12%) and national/state parks or forests (6%) are also popular.
 - Family reunions occur at least once a year for half of family reunion travelers.

- **Fitness while traveling**
 - More than a quarter of U.S. travelers (24.7 million adults) used a fitness center or gym while traveling in the past three years.
 - These travelers are more likely to be male (55%), younger (with an average age of 39), college graduates (56%), have a professional or managerial occupation (36%), have children at home (55%), and have a higher annual household income (\$87,000 average annual household income).

- **Weekend travel is more popular than ever,**
 - Half of all U.S. adults (nearly 103 million) take at least one weekend trip per year.
 - Almost 30% have taken five or more weekend trips in the past year, and 35% of all weekend travelers have taken their children on at least one weekend trip.
 - Compared with five years ago, day trips and weekend trips are more popular now than longer trips.
 - 40% of weekend travelers report they are taking more day trips and/or weekend trips (38%) now than five years ago.
 - Interest in longer trips (one week or more) is apparently declining—43% of weekend travelers take fewer long trips than they did five years ago.
 - Many weekend travelers (42%) make last-minute plans and select their destination within two weeks of their trip.
 - 30% of weekend travelers have taken advantage of discounts, coupons, or special offers while planning or during their most recent weekend trip.
 - Weekend travelers favor cities (33%) and small towns (26%), followed by beaches (16%), mountain areas (10%), lake areas (4%), state or national parks (3%), and theme or amusement parks (3%).

- **Beaches are one of the most popular travel activities**
 - 10% of U.S. person-trips (or 109.5 million) in 2003 included going to a beach.
 - Longer trips are popular with beach-goers—36% beach person-trips last a week or longer.
 - 41% of household beach trips, included children.

- **Educational travel is important**
 - About one-fifth (30.2 million) of U.S. travelers have taken an educational trip to learn or improve a skill, sport, or hobby in the past three years.
 - 18% of travelers in the past year said that taking such a trip was the main purpose of their trip.
 - Overall, educational travelers are more likely to be male (56%), younger (39 years average age), a college graduate (49%), have a professional or managerial occupation (38%), have children at home (51%), and have a higher annual household income (\$75,000 average annual household income). They are less likely to be married.

- **Historical Places/Museums are popular attractions**
 - A majority (58%, or 84.7 million) of U.S. adult travelers included a historic activity or event on a trip during the past year.
 - In 2002, 143.5 million person-trips included a visit to historical places or museums.
 - 41% of those who traveled in the past year visited a designated historic site, such as a building, landmark, home, or monument during their trip, and 28% visited a designated historic community or town.
- **Cultural Events/Festivals** are very popular among travelers.
 - Most (75% or 109.8 million) U.S. adult travelers attended a cultural activity or event while on a trip in the past year.
 - In 2002, 97.7 million person-trips included a cultural event or festival.
 - Those who have traveled within the past year most often attended performing arts events (48%) and/or visited art museums or antique establishments (47%).
- **Increased Value**
 - People consistently look for increased value. Destinations must continually look for ways to provide additional value and benefits to increase visitation.

Economic Analysis

This section documents the economic significance of the travel industry in SLOC, including estimates on travel-generated impacts from 2001 through 2007 (preliminary) for SLOC, secondary impacts generated through travel-related businesses (sometimes referred to as indirect impacts), as well as more detailed breakouts for each of the primary visitor regions within the county.

The 2007 estimates published in this report are preliminary and subject to revision.

1. Measurement of Travel Impacts

- SMG measured impact estimates of traveler spending in SLOC with the Regional Travel Impact Model (RTIM) developed by Dean Runyan Associates. For a description of the RTIM, see Appendix A.
- Impact estimates are partly based on the economic impact analysis prepared for *California Tourism*, a joint marketing venture of the California Travel and Tourism Commission (CTTC) and the Business, Transportation and Housing Agency's (BTH's) Division of Tourism.
- The detailed breakouts of travel impacts for areas within SLOC are based primarily on the distribution of sales and hotel/motel tax receipts, which provides a reasonable estimate of the distribution of travel impacts within SLOC.
 - However, such small area estimates are necessarily less reliable than countywide estimates and, accordingly, only total impacts (e.g., total travel spending and employment) are provided at the sub-county level.

A. Interpretation of Impact Estimates

Other issues regarding the interpretation of reported impact estimates:

- All estimates contained in this report supersede those previously published.
- The estimates in this report are expressed in current dollars and are not adjusted for inflation.

- Employment estimates provide the total number of full and part-time jobs directly generated by travel spending, rather than the number of individuals employed, and include both payroll and self-employment estimates. They must be used with caution when comparing them with other employment data.

B. Recent Travel Trends in SLOC

Travel spending in SLOC in 2007 was \$1.121 billion, a 3.4% increase from 2006. Since the economic slowdown in 2001-2002, travel spending in SLOC has increased by 3.8% on average annually. Although increased gasoline prices and room rates account for a substantial portion of this increase, travel-generated earnings and employment have also grown.

Table 6
SLOC Direct Travel Impacts, 1991-2007p

	Spending	Earnings	Employment	Tax Receipts (\$ Million)	
	(\$ Million)	(\$ Million)	(Jobs)	Local	State
2001	896.7	299.3	16,639	21.0	34.2
2002	902.3	308.8	16,253	21.5	35.3
2003	926.4	322.0	16,342	21.3	36.3
2004	970.0	333.8	16,218	21.3	38.2
2005	1,025.3	346.2	16,458	22.3	40.3
2006	1,084.5	369.1	16,612	24.3	42.0
2007p	1,121.2	383.3	16,824	25.5	43.1
Annual Percentage Change					
06-07p	3.4	3.8	1.3	4.9	2.6
01-07p	3.8	4.2	0.2	3.3	4.0

Source: Dean Runyan Associates
Estimates for 2007 are preliminary. These estimates supersede all previous reports.

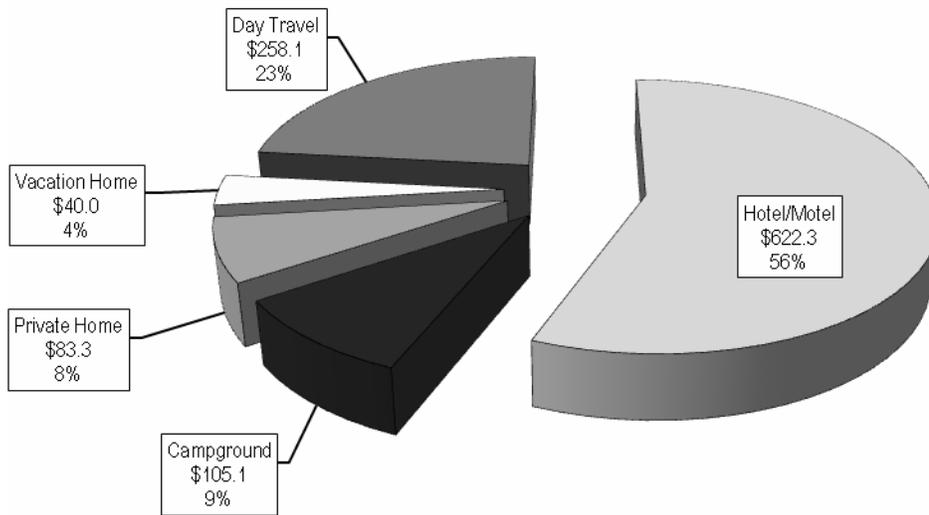
I. Visitor Spending by Accommodation Type

Overnight SLOC travelers may stay in resorts, hotels, motels, bed & breakfast establishments, campgrounds, vacation homes, or the homes of friends and relatives. Travel impacts reported by accommodation type reveal the relative contribution of each traveler type.

SLOC visitors who stay in commercial accommodations (hotels, motels, and bed & breakfasts) account for the largest portion of total travel expenditures (see Figure 6). In 2007, these travelers spent over \$622 million—more than half of all visitor spending in SLOC.

- In 2007, SLOC day visitors (including those passing through while traveling to other destinations) spent \$258 million.
- Day visitor spending benefited both downtown and unincorporated areas.
- Urban centers draw visitors because of shopping, restaurants, and cultural events.
- Unincorporated areas draw visitors with natural scenery, outdoor recreation activities, wineries and vineyards, and public attractions such as Hearst Castle.

Figure 6
Visitor Spending by Type of Accommodation San Luis Obispo, 2007p



Source: Dean Runyan Associates

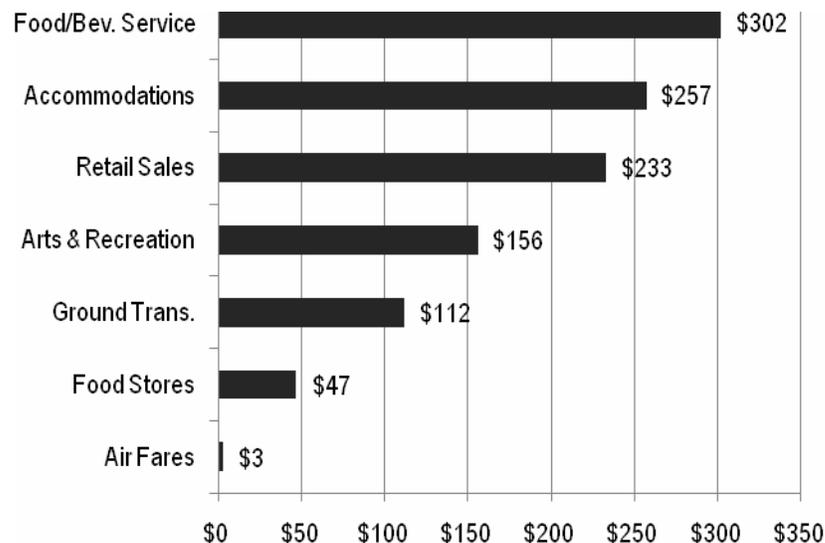
Note: Spending estimates include one-way airfares for those visitors who traveled by air to San Luis Obispo.

II. Visitor Spending by Type of Commodity Purchased

SLOC's travel industry is composed primarily of retail and service firms representing a variety of businesses, ranging from hotels, restaurants, gift shops and wineries to gasoline service stations, public transportation services, museums, and grocery stores. Travel impacts, broken out by the type of business in which the expenditures occur, demonstrate the types of expenditures visitors make.

- Eating and drinking establishments (ranging from expensive restaurants to fast food outlets) account for the largest share of SLOC visitor travel expenditures (\$302 million in 2007), followed by accommodations (\$257 million) and shopping (\$233 million), including purchases made at wineries.
- SLOC visitors also spent over \$112 million on ground transportation (mostly gasoline), and \$155 million on recreation, including outdoor activities, performing arts, and cultural events.

Figure 7
Visitor Spending by Commodity Purchased
San Luis Obispo, 2007p



Source: Dean Runyan Associates

Note: Airfares refer to one-way fare of those visitors who traveled to SLOC by air.

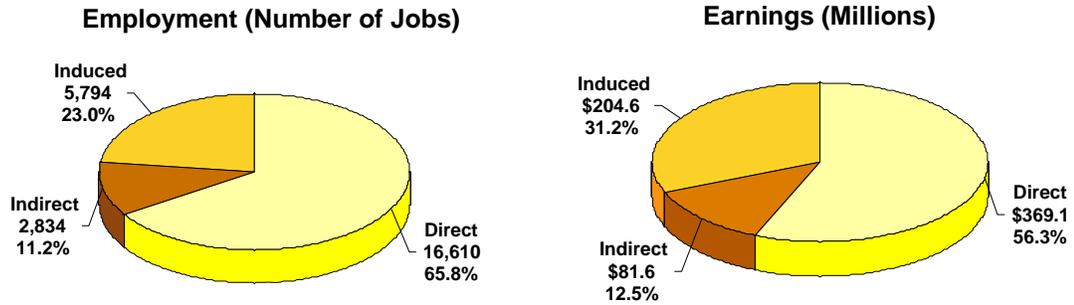
III. Secondary Impacts

The most comprehensive way to describe the economic benefits of an industry is to also include a measure of the secondary impacts⁷ that accrue from additional purchases made by visitor-related businesses and the employees who work in those businesses. This re-spending of direct travel-related revenues creates secondary benefits known as “indirect” and “induced” impacts:

- **Direct** impacts represent the employment and earnings attributable to travel expenditures made directly by travelers at businesses in the area.
- **Indirect** impacts represent the employment and earnings associated with industries that supply goods and services to the direct businesses (i.e., those that receive money directly from travelers).
- **Induced** impacts represent the employment and earnings that result from purchases for food, housing, transportation, recreation, and other goods and services made by travel industry employees, and the employees of the indirectly-affected industries.

⁷ Secondary impacts are sometimes referred to indirect impacts or as the “multiplier” effect. The multiplier refers to the ratio of the total impacts to the direct impacts. Secondary impacts or multiplier effects will vary substantially among different economic areas or regions. In general, larger and more diverse economic regions will have larger secondary impacts or multipliers distributed more widely among different industries – in other words, less “leakage” occurs as more secondary purchases are made within the area of impact.

*Figure 8
Total Employment and Earnings Generated by
Travel Spending in San Luis Obispo, 2006*



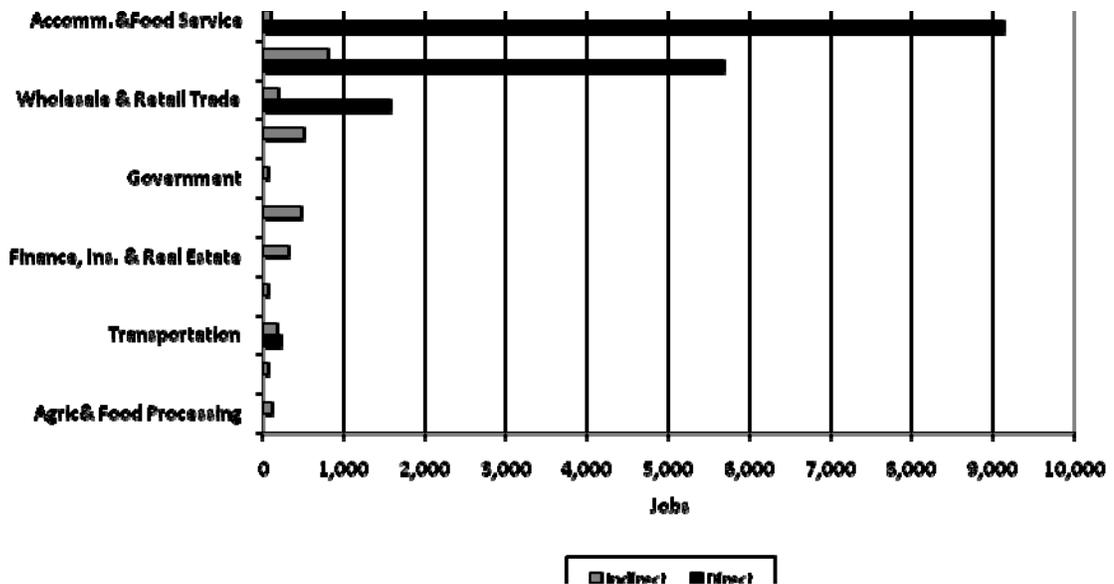
Source: Dean Runyan Associates

Note: Indirect and induced impacts estimated by Dean Runyan Associates with Minnesota IMPLAN model. Percentages may not add to 100% due to rounding.

IV. Businesses that Benefit from Secondary Impacts

Secondary impacts also provide a picture of the diversity of business activity generated by travel spending, which spread throughout SLOC's economy. Figures 9-10 and Tables 7-8 show the employment and earnings for major industry groups.

*Figure 9
Direct and Secondary Travel Generated Employment
SLOC, 2006*



Source: Dean Runyan Associates

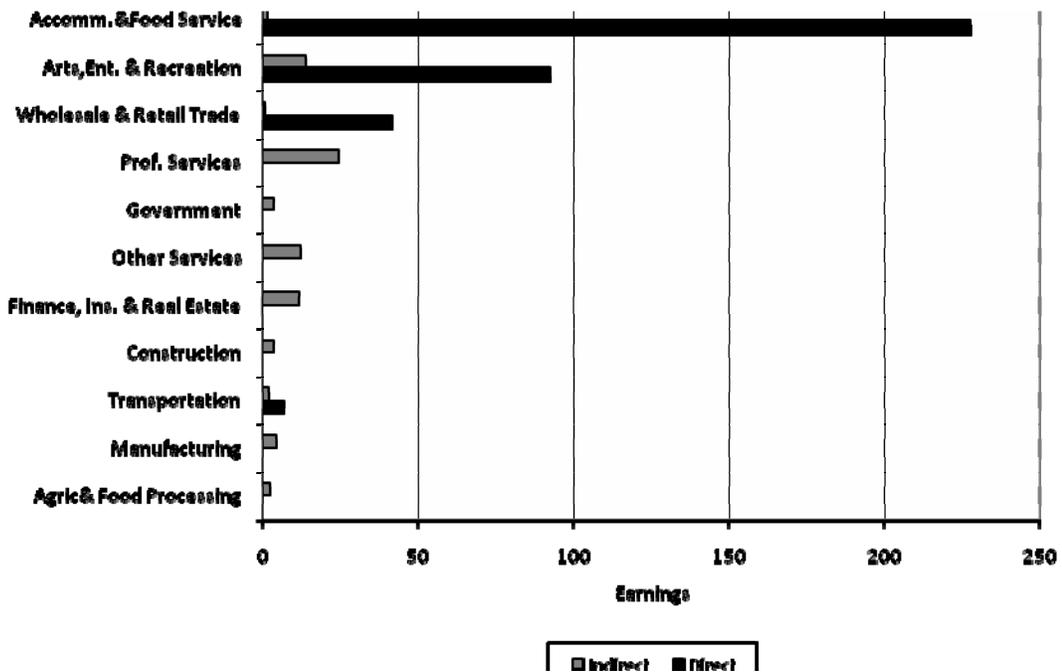
Note: Secondary Impacts include Indirect and Induced effects.

Table 7
Direct and Secondary Travel-Generated Employment
SLOC, 2006
(jobs)

Industry Group	Secondary			Total	Grand Total
	Direct	Indirect	Induced		
Accommodation & Food Services	9,137	94	487	580	9,717
Arts, Entertainment & Recreation	5,687	806	118	924	6,611
Wholesale & Retail Trade	1,568	182	1,078	1,260	2,828
Professional Services	0	495	1,380	1,874	1,874
Government	0	64	1,102	1,166	1,166
Other Services	0	468	461	929	929
Finance, Ins., & Real Estate	0	315	352	667	667
Construction	0	65	512	577	577
Transportation	218	177	160	337	555
Manufacturing	0	56	104	160	160
Agriculture & Food Processing	0	113	40	153	153
All Industries	16,610	2,834	5,794	8,628	25,239

Source: Dean Runyan Associates and Minnesota Implan Group.

Figure 10
Direct & Secondary Travel Generated Earnings



Source: Dean Runyan Associates

Table 8
Direct & Secondary Travel Generated Earnings in SLOC, 2006

Industry Group	(\$ Million)			Total	Grand Total
	Direct	Indirect	Secondary Induced		
Accommodation & Food Services	227.9	1.6	8.2	9.8	237.7
Arts, Entertainment & Recreation	92.5	13.8	1.7	15.5	108.0
Professional Services	0.0	24.6	57.8	82.4	82.4
Government	0.0	3.7	65.5	69.2	69.2
Wholesale & Retail Trade	41.9	0.7	6.9	7.6	49.5
Construction	0.0	3.7	29.6	33.3	33.3
Finance, Ins., & Real Estate	0.0	11.9	14.7	26.6	26.6
Other Services	0.0	12.3	9.8	22.1	22.1
Mining & Manufacturing	0.0	4.7	7.8	12.6	12.6
Transportation	6.8	2.2	1.2	3.4	10.2
Agriculture & Food Processing	0.0	2.4	1.3	3.7	3.7
All Industries	369.1	81.6	204.6	286.2	655.3

Source: Dean Runyan Associates and Minnesota Implan Group.

1. Travel Impacts within SLOC

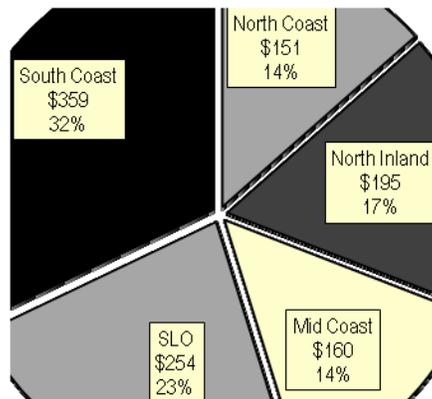
To understand the travel impacts within the county, SMG sub-divided the county into five distinct areas:

- **North Coast:** Includes Cambria and San Simeon. The North Coast is home to Hearst Castle and offers incredible coastal scenery.
- **South Coast:** Includes Pismo Beach, Arroyo Grande, Avila Beach, and Grover Beach. Near the southern portion of the county, Pismo Beach is home to the Oceano Dunes State Vehicular Recreation Area and 20 miles of white, sandy beaches. Visitors to this area account for nearly one-third of all travel spending within the county (see Figure 12).
- **Mid Coast:** Includes Morro Bay and Cayucos, which overlook the Pacific Ocean on Highway 1. The Mid Coast features spectacular Montana de Oro State Park, a National Bird Estuary, and the famous Morro Rock.
- **North Inland:** Includes Paso Robles and Atascadero, located on the east side of the county. The North Inland is home to wineries and vineyards, golf courses and the California Mid-State Fair.
- **South Inland:** Includes the City of San Luis Obispo, Templeton, and San Miguel. The City of San Luis Obispo is home to Cal Poly San Luis Obispo University, a performing arts center, the historic California Mission, and a unique downtown shopping area.

Figure 11
SLOC
Sub Regions



Figure 12
SLOC Regional Travel Impacts



Source: Dean Runyan Associates

Table 9
Travel Impacts within SLOC, 2001-2007p

	2001	2002	2003	2004	2005	2006	2007p
North Coast (Cambria, San Simeon)							
Travel Spending (\$M)	112.5	118.8	124.8	129.7	136.1	147.2	150.6
Earnings (\$M)	39.0	42.2	44.8	46.3	47.4	51.5	52.8
Employment (jobs)	2,130	2,180	2,230	2,200	2,210	2,270	2,280
Local Taxes (\$M)	3.5	3.8	3.8	3.8	4.0	4.4	4.5
State Taxes (\$M)	4.0	4.3	4.5	4.7	4.9	5.3	5.4
North Inland (Paso Robles, Atascadero)							
Travel Spending (\$M)	141.0	142.7	150.1	158.8	170.7	182.0	195.7
Earnings (\$M)	45.9	47.9	51.2	54.0	57.1	61.5	66.7
Employment (jobs)	2,640	2,600	2,680	2,700	2,800	2,850	3,010
Local Taxes (\$M)	2.5	2.6	2.7	2.7	3.0	3.3	3.8
State Taxes (\$M)	5.8	6.1	6.4	6.8	7.3	7.6	8.1
Mid Coast (Morro Bay, Cayucos)							
Travel Spending (\$M)	140.8	139.6	142.5	143.7	149.2	155.7	160.1
Earnings (\$M)	46.0	46.7	48.2	48.1	48.9	51.4	53.0
Employment (jobs)	2,550	2,450	2,440	2,330	2,330	2,320	2,340
Local Taxes (\$M)	3.1	3.1	3.1	2.9	2.9	3.1	3.3
State Taxes (\$M)	5.4	5.5	5.6	5.7	5.9	6.1	6.2
South Inland (San Luis Obispo)							
Travel Spending (\$M)	211.4	209.6	210.9	219.2	235.8	249.4	254.9
Earnings (\$M)	72.6	73.6	74.7	77.3	82.4	87.9	90.2
Employment (jobs)	4,050	3,880	3,810	3,790	3,900	3,930	3,930
Local Taxes (\$M)	5.1	5.2	4.9	4.9	5.2	5.6	5.7
State Taxes (\$M)	8.0	8.2	8.2	8.7	9.2	9.6	9.7
South Coast (Pismo Beach, Arroyo Grande)							
Travel Spending (\$M)	291.0	291.6	302.1	318.6	333.4	350.2	359.9
Earnings (\$M)	95.7	98.4	103.0	108.0	110.5	116.8	120.5
Employment (jobs)	5,270	5,140	5,180	5,200	5,220	5,240	5,270
Local Taxes (\$M)	6.8	6.9	6.9	7.0	7.3	7.9	8.2
State Taxes (\$M)	11.0	11.3	11.7	12.4	13.0	13.4	13.7

Source: Dean Runyan Associates.

Key points regarding trends among these sub-county regions:

- The North Inland and the North Coast areas experienced accelerated growth (38% and 33%, respectively) during 2001-2007, likely due to the advent of the wine industry in the North Inland.
- The North Inland has taken market share from Mid Coast, South Inland and South Coast over last 6 years.
- Meanwhile, the Mid Coast continues to show revenue growth but is missing the overall growth surge.

Table 10
SLOC
Travel Spending 2001-2007P

	2001 \$m	2007p \$m	6 year growth rate	2001 Rev Share	2007p Rev Share	Share Change
North Coast	\$112.5	\$150.6	33.87%	12.55%	13.43%	7.06%
North Inland	\$141.0	\$195.7	38.79%	15.72%	17.45%	11.00%
Mid Coast	\$140.8	\$160.1	13.71%	15.70%	14.28%	-9.06%
South Inland	\$211.4	\$254.9	20.58%	23.58%	22.73%	-3.57%
South Coast	\$291.0	\$359.9	23.68%	32.45%	32.10%	-1.09%
Total	\$896.7	\$1,121.2	25.04%			

Source: Dean Runyan Associates/SMG

Lodging Analysis

I. Lodging Capacity

Overall, SLOC has approximately 8,500 rooms, with the majority located in Pismo Beach, the unincorporated county, and the City of San Luis Obispo. See Table 11 for a list of lodging by area.

Table 11
SLOC
Intra-Regional Lodging Share

	Rooms	Pct.
San Luis Obispo	1935	22.72%
Paso Robles	950	11.15%
Morro Bay	872	10.24%
Atascadero	320	3.76%
Arroyo Grande	307	3.60%
Grover Beach	156	1.83%
Pismo Beach	1944	22.82%
Unincorporated County	2034	23.88%
Total	8518	100.00%

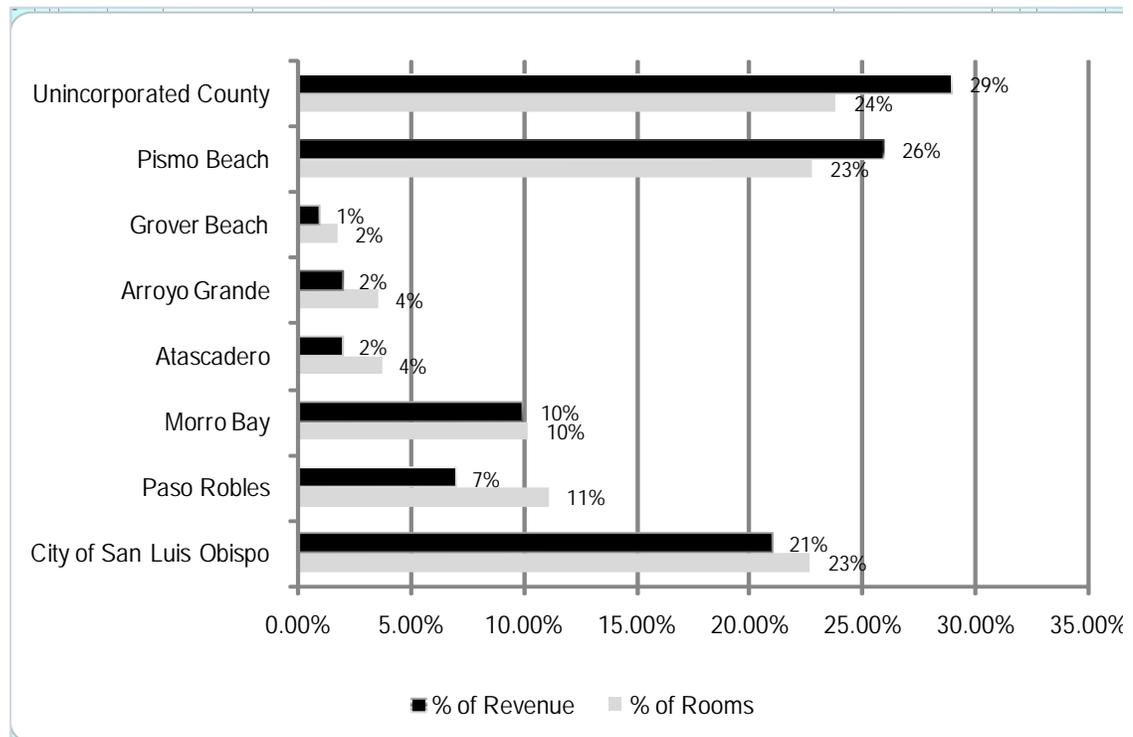
Source: SLOC CVB

II. Lodging Product vs. Performance

When evaluating each area's fair share (rooms versus revenue), the unincorporated County and Pismo Beach appear to exceed their fair share, while Grover Beach, Arroyo Grande, Atascadero, Paso Robles, and the City of San Luis Obispo do not achieve a level of performance proportionate to their lodging supply. However, the differences are often very slight.

- As can be seen on the following page the unincorporated area of the County includes 23.8% of the rooms and generates 29% of total lodging revenue.
- Paso Robles has 11% of the room inventory and generates 7% of the lodging revenue.
- Morro Bay has 10.2% of the rooms and generates 10% of lodging revenue.
- Pismo Beach has 23% of the rooms and generates 26% of lodging revenue.
- San Luis Obispo has 23% of the rooms and generates 21% of the lodging revenue

Figure 13
SLOC Intra Regional Fair Share Analysis
Rooms versus Revenue



Source: SLOC Visitors and Convention Bureau

III. Branded Chain versus Independent Lodging Mix

Within SLOC, approximately 33% of the lodging inventory is branded chain vs. 66% being operated as independent properties (See Table 12). Although independent properties help differentiate SLOC, these properties lack the distribution of branded chain properties, which has a market impact. As a result, an appropriate mix of branded and independent properties is desirable.

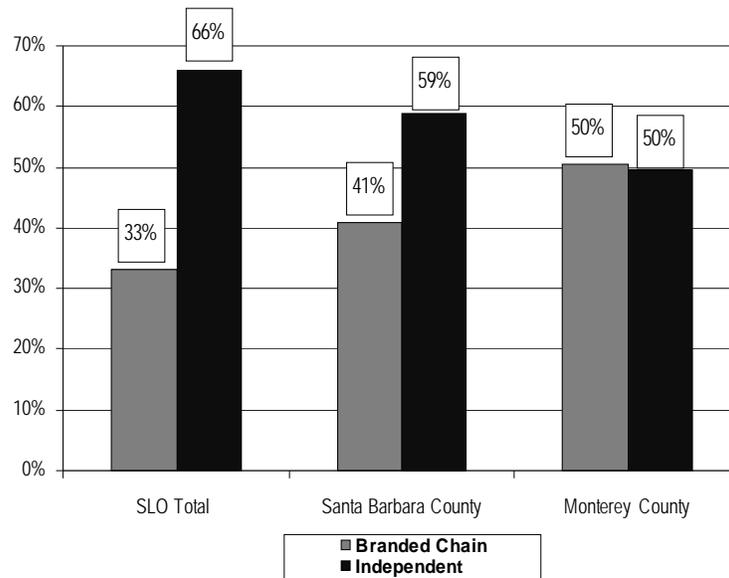
*Table 12
SLOC Lodging Sector
Branded Chain vs. Independent*

City	Total Rooms	Branded Chain	Independent
<i>Arroyo Grande</i>	411	259	152
mix		63.02%	36.98%
<i>Atascadero</i>	399	298	101
mix		74.69%	25.31%
<i>Grover Beach</i>	156	78	78
mix		50.00%	50.00%
<i>Morro Bay</i>	872	255	617
mix		29.24%	70.76%
<i>Paso Robles</i>	950	393	557
mix		41.37%	58.63%
<i>Pismo Beach</i>	2064	321	1743
mix		15.55%	84.45%
<i>San Luis Obispo</i>	2035	1104	931
mix		54.25%	45.75%
<i>County of SLO</i>	2034	297	1737
mix		14.60%	85.40%
Total County	8921	3005	5916
		33.68%	66.32%

Source: Strategic Marketing Group

- When comparing its percentages of branded-chain and independently-owned lodging, SLOC differs significantly from Santa Barbara and Monterey Counties (see Figure 14).
- SLOC has a significantly smaller share of branded chain lodging inventory than its competitors.
- A significant portion of SLOC's lodging inventory lacks the access to major distribution channels, and the resulting greater customer base, that are provided by nationally-branded chain lodging.

Figure 14
San Luis Obispo/Santa Barbara/ Monterey County Lodging Sector
Branded Chain vs. Independent



Source: Strategic Marketing Group

IV. Property Size

SLOC's room supply includes three lodging room counts segments: < 50 rooms, 50-99 rooms, and 100+ rooms. Only Pismo Beach, San Luis Obispo, and Paso Robles have strong inventories of larger properties.

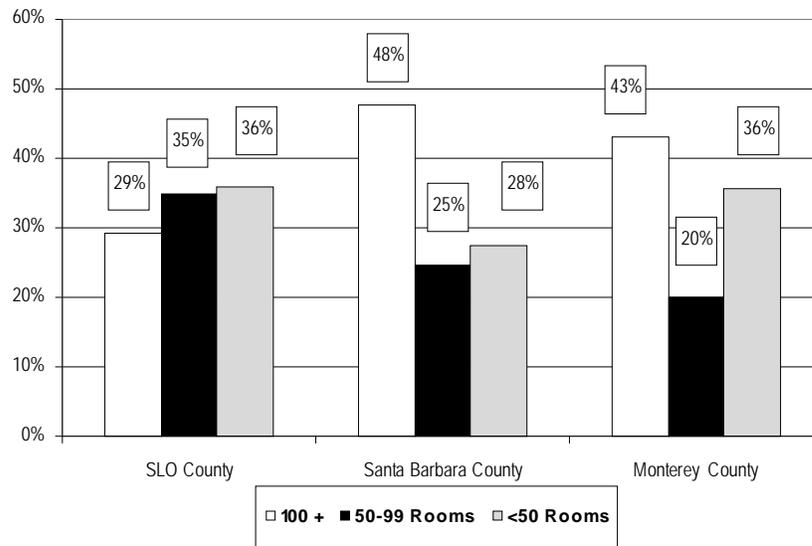
Table 13
SLOC # of Rooms in Lodging Segments

	100 Rooms & More	50 to 99 Rooms	Under 50 Rooms
Arroyo Grande	213	0	94
mix	69.38%	0.00%	30.62%
Atascadero	117	127	76
mix	36.56%	39.69%	23.75%
Grover Beach		78	78
mix		50.00%	50.00%
Morro Bay		232	640
mix		26.61%	73.39%
Paso Robles	440	274	236
mix	46.32%	28.84%	24.84%
Pismo Beach	814	835	295
mix	41.87%	42.95%	15.17%
San Luis Obispo	660	785	490
mix	34.11%	40.57%	25.32%
County of SLO	252	637	1145
mix	12.39%	31.32%	56.29%
Total County	2496	2968	3054
	29.30%	34.84%	35.85%

Source: Strategic Marketing Group

- Due to the high concentration of properties with fewer than 100 units, meeting conference segment potential is likely limited.
- Both Santa Barbara and Monterey Counties have a significantly higher percentage of rooms in the 100+ category than SLOC, which suggests more resort-type lodging inventory. This is important because resort-type properties have significant sales efforts for generating lodging occupancy. Given that SLOC lacks these resources, it has a greater challenge to generate occupancy.

*Figure 15
San Luis Obispo/Santa Barbara/Monterey County
of Rooms in Lodging Segment*



Source: Strategic Marketing Group

- 36% of SLOC's lodging properties have less than 50 rooms, which can present a major marketing weakness.
 - These properties typically have limited marketing funds and, in some cases, limited expertise. They typically have no direct selling personnel, which leaves marketing and sales functions to ownership.
 - Because most of SLOC's lack of branded properties, no large property currently exists to support a free-standing convention facility within the county.
- Table 14 shows the number of properties in each category and by jurisdiction within the county. Pismo Beach has the largest number properties with 100 + rooms, followed by San Luis Obispo, Paso Robles and Morro Bay.
- The unincorporated area of the county has the largest number of properties under 50 units. This may be by county design, to allow a better fit between lodging and the rural environment.

Table 14
SLOC
Lodging Properties by Room Inventory

	100 Rooms & More	50 to 99 Rooms	Under 50 Rooms	Total Properties
Arroyo Grande	2	0	7	9
mix	22.22%	0.00%	77.78%	
Atascadero	1	2	4	7
mix	14.29%	28.57%	57.14%	
Grover Beach		1	3	4
mix	0.00%	25.00%	75.00%	
Morro Bay	3	0	30	33
mix	9.09%	0.00%	90.91%	
Paso Robles	4	4	13	21
mix	19.05%	19.05%	61.90%	
Pismo Beach	6	11	15	32
mix	18.75%	34.38%	46.88%	
San Luis Obispo	5	11	20	36
mix	13.89%	30.56%	55.56%	
County of SLO	2	10	92	104
mix	1.92%	9.62%	88.46%	
Total County	23	39	184	246
	9.35%	15.85%	74.80%	

Source: Strategic Marketing Group

V. New Lodging Supply

SLOC has added approximately 9% (740 additional units) in new lodging capacity in the past three years. Table 15 outlines this new inventory for the county.

- The majority of the new capacity was added in Paso Robles (32%) and Pismo Beach (26%), the county's two best performing areas.
- Of the 11 new properties added during this time, four were 100 units or more, four were 50-99 units and three were under 50 units. None of the new properties are part of a major meeting/conference resort project.
- The total number of lodging rooms available for SLOC is approximately 8,921.

Table 15
New Lodging Inventory by Jurisdiction-City Locations
2205-2008
(Note hotels in bold have not been built)

Total Existing Rooms	8305						
	Total	2005	2006	2007	2008	Total	
Paso Robles						2005-2008	Pending
Adelaide Motor Inn	42	42					42
La Bellasera	61		61				61
La Quinta	101		101				101
Holiday Inn Express	32			32			32
Total Paso Robles	236	42	162	32		236	0
Grover Beach							
State Park Hotel	180						180
Hilton Hotels	137						137
Total Grover Beach	317	0	0	0		0	
Arroyo Grande							
Hampton Inn	104				104	104	104
Total Arroyo Grande	104	0	104	0		104	
Atascadero							
Holiday Inn Express	79				79	79	
El Camino Real	80						80
Total Atascadero	159	0	0	0		79	
Morro Bay							
Downtown Conf. Hotel	TBD						
Hwy 41 and Hwy 1	31	0		31			31
Pismo Beach	31	0	0	31			0
Mission Inn	120				120	120	
Dolphin Bay Resort	70				70	70	
Total Pismo Beach	190	0	190	0		190	
San Luis Obispo							
Hampton Inn	150			150			150
Marriott Courtyard	100			100	100	100	
Westpac Hotel	70			70			70
Rossi's Warden Bldg	30			30			30
Motel Inn	46			46			46
Apple Farm Inn	55						55
Total San Luis Obispo	451	0	0	396		100	55
San Luis Obispo Unincorporated							
Mueller's Property Cambria	0		0				34
Hearst San Simeon	0					0	100
Total SLO Unincorporated	0	0	0	0		0	
Grand Total	2577	42	522	776		740	501
		0.51%	6.29%	9.34%		8.86%	6.03%

Source: SLOC Visitors and Conference Bureau

VI. Lodging Performance

When comparing performance:

- SLOC experienced more demand growth (7%) than Santa Barbara or Monterey Counties. Yet SLOC remains the weakest performer, averaging \$30.80 less in rates compared with Santa Barbara County and \$52.27 less than Monterey County.

- Monterey County is clearly the strongest financial performer in Rate and Average Daily Revenue (ADR) but is showing slower growth rates.
- Both Santa Barbara and Monterey Counties have been able to increase rates while holding demand and exhibiting little resistance to growth.
- Monterey County has the largest supply and revenue (see Figures 16 & 17).
- SLOC experienced the largest supply growth at 5.1%.

Table 16
Lodging Analysis
San Luis Obispo/Santa Barbara/Monterey

Operating Performance - December - Year to Date												
Segment	Occupancy Percent			Average Room Rate			RevPAR			Revenue	Supply	Demand
	2007	2006	% Chg	2007	2006	% Chg	2007	2006	% Chg	% Chg	% Chg	% Chg
Santa Barbara/Santa Maria MSA	68.6	68.3	0.4	143.61	129.28	11.1	98.51	88.34	11.5	11.7	0.2	0.5
San Luis Obispo County, CA	63.7	62.6	1.8	112.81	109.00	3.5	71.89	68.18	5.4	10.8	5.1	7.0
Monterey County, CA	64.2	63.2	1.6	165.08	159.85	3.3	105.96	101.09	4.8	5.4	0.6	2.1

Source: Smith Travel

Figure 16
of Rooms
Santa Barbara/Monterey/San Luis Obispo Counties



Source: SLOC, Santa Barbara County, Monterey County

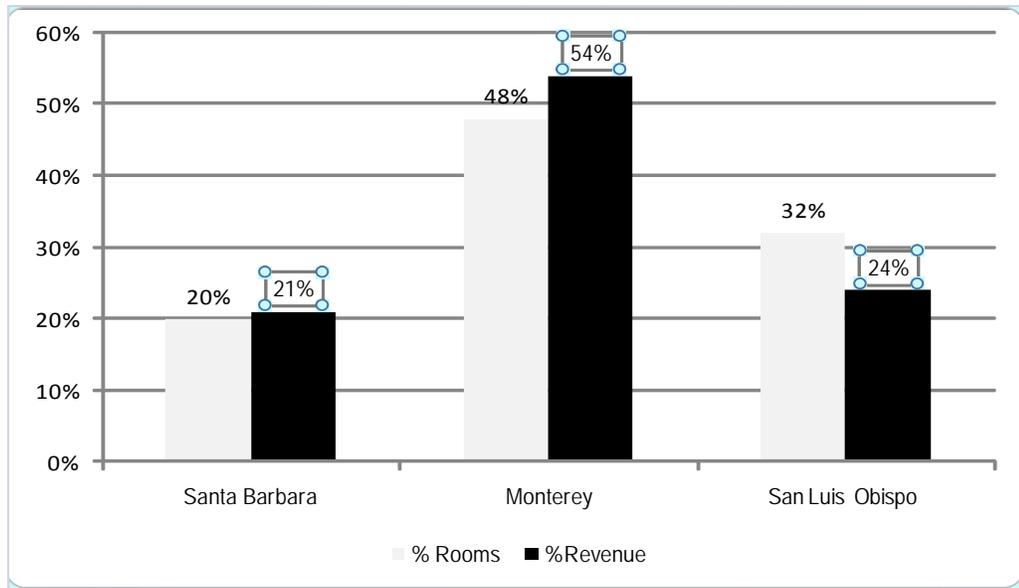
Figure 17
Room Revenue Comparison (\$Millions)
 Santa Barbara/Monterey/SLOC



Source: SLOC, Santa Barbara County, Monterey County

- In terms of fair share, SLOC under-performs both Monterey and Santa Barbara Counties. Among the three counties, SLOC has 32% of the rooms, yet only 24% of the room revenue (see Figure 18).

Figure 18
Fair Share Analysis
 Rooms vs. Revenue
 Santa Barbara/Monterey/San Luis Obispo



Source: Strategic Marketing Group

SLOC Product Experience

SLOC is located 190 miles north of the greater Los Angeles area, and north of Ventura and Santa Barbara County on the Pacific Ocean. The region is located within proximity to both Southern and Northern California.

The county is rich in diversity and reasons to travel to the region. Major trip generators include Cal Poly San Luis Obispo, historical, art and culture, access to recreation and the coast, and the budding wine industry. Yet, from a number of perspectives, SLOC receives less notoriety than Santa Barbara to the south and Monterey to the north.

SLOC consists of five separate areas, each with its own unique attributes that *together* provide the visitor with a wide range of activities. All of the areas together, as well as the activities that are unique to each, provide compelling reasons for potential visitors to consider visiting SLOC.

SLOC must be viewed in the context of the whole county as opposed to any one specific region, which is often the case. This puts the county in its best competitive light.

Figure 18
SLOC Product/Experience Matrix



As noted before, when defining the SLOC vacation experience, understanding the key tourism components that define a tourism area is vital (see "Elements of Tourism, above).

The SLOC product/experience mix is built around seasonal and year-round activities, which motivate people to visit the area. These include special events, recreation, weather, shopping, cultural activities, and sightseeing. By having a county focus instead of an individual regional focus, the VCB can use this mix to fulfill visitor needs.

The product mix in Table 17 shows both the depth and width of the products/experiences offered to SLOC visitors.

Table 17
SLOC Product/Experience Line Width

Beaches	Attractions	Wine Country	Arts & Museums	Family	Outdoor/ Wildlife	Downtown Experience	Golf	Dining	Shopping	Agriculture
Moonstone	Hearst Castle	Paso Robles	Mission San Luis	Kids Museum	Mtn. Biking	San Luis Obispo	Avila Beach	Fine Dining	Boutique	Farmers Market
Cayucos	Oceano Dunes	San Luis Obispo	Museums	Zoo	Hiking	Paso Robles	Chalk Mtn.	Casual Dining	Specialty	Tastings
Morro Strand	Botanical Gardens		Performing Arts	Climbing Center	kayaking	Arroyo Grande	Dairy Creek		Outlet Malls	Farm Stays
Montana de Oro			Mission San Miguel	Melodrama	Horseback	Morro Bay	Blacklake			U-Picks
Avila			Mission San Antonio	Hot Springs	Climbing	Atascadero	Cypress Ridge			
Pismo				Farms	ATV Tours		Eagle Creek			
Nipomo/Oceano				Water Slides	Fishing		Hunter Ranch			
Grover Beach				Tide Pooling	Surfing		Morro Bay			
San Simeon				Water Skiing	Sea Otters		Sea Pines			
Montana de Oro					Seals		Links			
Cambria					Whales		River Oaks			
					Eagles		Laguna Lakes			
					Butterflies		Paso Robles			
					Bird Watching		Pismo State Beach			
					Deer		Monarch Dunes			

Source: SLOC Visitor Guide & Meeting Planner

Table 17 illustrates the wide variety of tourism activities and experiences that SLOC offers for visitors to enjoy. Additionally, the area is in close proximity to a number of regional attractions not located in SLOC, but accessible SLOC's lodging supply. These attractions serve as major demand drivers and provide an important opportunity to leverage SLOC's price/location differential.

Figure 19
Regional Demand Drivers



SLOC Tourism Promotion

Tourism promotion is integral to the regional tourism industry. Making the marketplace aware of SLOC and stimulating demand to visit is critical in generating visitor spending and the resulting tax revenues. Competition in the marketplace is—and will continue to be—intense. As local communities continue to have budget pressures due to the ailing California state budget, the tax revenues generated by tourism become increasingly important.

Those responsible for tourism promotion efforts must be as efficient as possible in their attempt to leverage and maximize limited promotion dollars.

1. Tourism Agencies

Several organizations in SLOC are involved in tourism promotion. These may be geographically-based, such as the Pismo Beach Conference and Visitors Bureau, or functionally-based like the area vintner associations.

1. SLOC Visitors and Conference Bureau

The SLOC VCB is charged with countywide promotion, including advertising, website, and visitor's guide, and has a tourism committee responsible for developing promotional programs its behalf.

2. City of San Luis Obispo

The city effort includes an advisory committee that recommends promotional activities. The city contracts with the chamber of commerce to implement these marketing programs. Activities include advertising, internet, visitor information, and public relations. The city has recently started collections for a Business Improvement District (BID) that will increase funding by approximately \$1 million.

3. Pismo Beach Conference & Visitors Bureau

The bureau is funded by the City of Pismo Beach and provides a variety of promotions activities, including advertising, internet, visitor information and public relations.

4. Morro Bay Promotions Committee

The City of Morro Bay has an advisory committee that recommends promotional activities. The City contracts with an advertising agency to implement advertising programs. Activities include advertising, internet, visitor information and public relations.

5. Paso Robles Promotions Committee

The City of Paso Robles has an advisory committee that recommends promotional activities. Often activities include advertising, internet, visitor information and public relations.

6. Atascadero Promotions Committee

The City of Atascadero's advisory committee recommends promotional activities. Other activities include advertising, internet, visitor information and public relations.

Jurisdictions may allocate greater funds to a variety of organizations within their communities, but the below (page 43) are specific amounts allocated for tourism promotion.

Table 18
SLO County Tourism Promotion Organizations

Area	Promotion Organization	Market Positioning	Budget	Source of Funds
SLO County	SLO County Visitors & Conference Bureau	Discover the colors of SLOC	\$800,000	SLO County City of Morro Bay City of San Luis Obispo City of Atascadero City of Grover Beach City of Arroyo Grande
Paso Robles	Tourism Promotion Committee	Authentic California	\$190,000	City of Paso Robles
Morro Bay	Tourism Promotion Committee	Discover your better nature	\$110,000	City of Morro Bay
San Luis Obispo	Tourism Promotion Committee	Experience the SLO life	\$432,000	City of SLO
Pismo Beach	Pismo Beach Conference & Visitors Bureau	Classic California	\$525,000	City of Pismo Beach
Atascadero	Tourism promotion Committee		\$50,000	City of Atascadero
Total			\$2,107,000	

Source: Strategic Marketing Group

Direct Competition

I. Competitor Asset Comparison

Clearly the two most direct competitors facing SLOC are Monterey and Santa Barbara Counties. As such, this section includes a competitive summary of these two destination areas.

A. Monterey County

Monterey County is a well diversified destination with high name recognition, top level events, attractions and golfing. The destination has excellent access from northern California, its primary market, as well as visitation from Southern California and nationally. The agency has recently undertaken a national campaign to promote the region.

Table 19
Monterey County Summary Information

<p>Monterey County Convention & Visitors Bureau (MCCVB)</p> <ul style="list-style-type: none"> o 37-member board of directors o 615 members o Operates 2 Visitor Centers o Budget: \$2,167,185 <ul style="list-style-type: none"> - Convention Sales & Marketing: \$260,062 (12% of total budget) - Tourism Sales & Marketing: \$975,233 (45% of total budget) 			
<p>Lodging Supply</p> <ul style="list-style-type: none"> o 100 Hotels/Motels/Inns; 4,492 rooms (67% of total properties; 50% of total rooms) o 23 Full Service Hotels and Resorts; 3,960 rooms (15% of total properties; 44% of total rooms) o 20 Bed & Breakfasts; 281 rooms (13% of total properties; 3% of total rooms) o 6 Vacation Rentals; 363 rooms (4% of total properties; 4% of total rooms) o Campgrounds: 5 locations; 389 campsites 			
<p>Convention and Meeting Supply</p> <ul style="list-style-type: none"> o 345 meeting rooms o 315,183 square feet of meeting space o Monterey Conference Center: 87 meeting rooms with 103,730 square feet of meeting space 			
<p>Primary Attractions</p> <table style="width: 100%; border: none;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> o Monterey Bay Aquarium o Monterey Bay National Marine Sanctuary o Cannery Row o National Steinbeck Center o The Path of History o Fisherman's Wharf o Carmel-by-the-Sea o Pacific Grove o Big Sur and Highway 1 </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> o Julia Pfeiffer Burns State Park o Pebble Beach Golf Course o 17-Mile Drive in Pebble Beach o Monterey Museum of Art o Point Lobos Nature Reserve o Lovers Point, Pacific Grove o Point Sur Light station o Point Pinos Lighthouse </td> </tr> </table>		<ul style="list-style-type: none"> o Monterey Bay Aquarium o Monterey Bay National Marine Sanctuary o Cannery Row o National Steinbeck Center o The Path of History o Fisherman's Wharf o Carmel-by-the-Sea o Pacific Grove o Big Sur and Highway 1 	<ul style="list-style-type: none"> o Julia Pfeiffer Burns State Park o Pebble Beach Golf Course o 17-Mile Drive in Pebble Beach o Monterey Museum of Art o Point Lobos Nature Reserve o Lovers Point, Pacific Grove o Point Sur Light station o Point Pinos Lighthouse
<ul style="list-style-type: none"> o Monterey Bay Aquarium o Monterey Bay National Marine Sanctuary o Cannery Row o National Steinbeck Center o The Path of History o Fisherman's Wharf o Carmel-by-the-Sea o Pacific Grove o Big Sur and Highway 1 	<ul style="list-style-type: none"> o Julia Pfeiffer Burns State Park o Pebble Beach Golf Course o 17-Mile Drive in Pebble Beach o Monterey Museum of Art o Point Lobos Nature Reserve o Lovers Point, Pacific Grove o Point Sur Light station o Point Pinos Lighthouse 		
<p>Recreation</p> <ul style="list-style-type: none"> o Bicycling o Watching sea life – whales, sea otters o Sports fishing o Walking o Kite flying o Beach play o Golf - 11 Courses 			
<p>Wineries: Approximately 200 Wineries and 45,000 acres</p> <p>Wine Regions:</p> <ul style="list-style-type: none"> o Monterey o Carmel Valley o Santa Lucia Highlands o Arroyo Seco o Shalome o San Lucas o Hames Valley 			
<p>Festivals and Events</p> <ul style="list-style-type: none"> o Monterey Jazz Festival o Monterey Bay Blues Festival o Monterey Wine Festival o Carmel Bach Festival o Sea Otter Classic o Seafood & Music Festival o Great Wine Escape Weekend o Castroville Artichoke Festival 			

B. Santa Barbara County

Santa Barbara is one of California's oldest destinations. The area offers visitors easy access to beaches shopping and special events and is in the process of developing a BID that is anticipated to increase their funding by \$2m.

*Table 20
Santa Barbara County Summary Information*

<p>Santa Barbara Conference & Visitors Bureau and Film Commission (SBCVB)</p> <ul style="list-style-type: none"> ○ 200 members ○ Budget: \$1,500,000 (anticipated to be \$3.5-\$4M) <ul style="list-style-type: none"> - Convention Sales & Marketing: \$150,000 (10% of total budget) - Tourism Sales & Marketing: \$150,000 (10% of total budget) 	
<p>Lodging Supply</p> <ul style="list-style-type: none"> ○ 87 Hotels/Motels/Resorts; 6,366 rooms (80% of total properties; 89% of total rooms) ○ 11 Bed & Breakfasts; 136 rooms (10% of total properties; 2% of total rooms) ○ 3 Special Accommodations; 189 rooms (3% of total properties; 3% of total rooms) ○ 8 Vacation Rentals/Extended Stay; 228 rooms (7% of total properties; 4% of total rooms) ○ Campgrounds: 6 locations; 1,104 campsites 	
<p>Convention and Meeting Supply</p> <ul style="list-style-type: none"> ○ 412 meeting rooms ○ 702,440 square feet of meeting space ○ No Convention Center 	
<p>Primary Attractions</p> <ul style="list-style-type: none"> ● Arts & Culture <ul style="list-style-type: none"> ○ Downtown Historic Arts District ○ Santa Barbara Symphony ○ Santa Barbara Museum of Art ○ Santa Barbara Historical Museum ○ Santa Barbara Arts & Crafts Shows – 250 local artisans 	<ul style="list-style-type: none"> ○ Santa Barbara Ballet ○ Santa Barbara International Film Festival ○ Music, opera, dance and theatre performances ○ 100 museums and art galleries ● Historical Architecture – Spanish, Mediterranean and Moorish influences
<ul style="list-style-type: none"> ● Historical Buildings: <ul style="list-style-type: none"> ○ Arlington Center for the Performing Arts ○ Grand Theatre ○ Santa Barbara County Courthouse ○ Santa Barbara Missions ○ Lobero Theatre ○ Hill-Carrillo Adobe ○ Casa de la Guerra 	<ul style="list-style-type: none"> ● Santa Barbara Harbor ● Santa Barbara Maritime Museum ● Santa Barbara Zoo ● University of California, Santa Barbara ● Channel Islands National Park and Marine Sanctuary ● Solvang
<p>Wineries – over 70 wineries and 24,000 acres of vineyards</p> <ul style="list-style-type: none"> ● Wine Country Tour <i>Sideways</i> Map – self-guided tour of 18 locations ● Wine Trails: <ul style="list-style-type: none"> ○ Santa Ynez & Los Olivos ○ Foxen Canyon & Alisos Canyon Roads ○ Solvang Loop ○ Santa Rita Hills Loop ○ Santa Maria 	
<p>Recreation</p> <ul style="list-style-type: none"> ○ Whale watching ○ Channel Islands ○ Beaches – 18 beaches ○ Hiking, backpacking, camping ○ Birding ○ Water sports and boating, Kayaking, sport Fishing ○ Aerial sports ○ Biking ○ Golf – 6 championship golf courses along the coast 	

*Table 20
Santa Barbara County Summary Information (continued)*

Festivals and Events
o Red Tile Walking Tour
o County Fair
o Old Spanish Days Fiesta
o Annual Brushes and Blues Festival
o Solvang Danish Days Celebration
o Avocado Festival
o Art & Jazz Festival
o Bicycle Events
o Horse Events

II. Regional Analysis

This section assesses how SLOC compares with its key competitors. Table 21 shows the share of travel spending among SLOC, Monterey County, and Santa Barbara County.

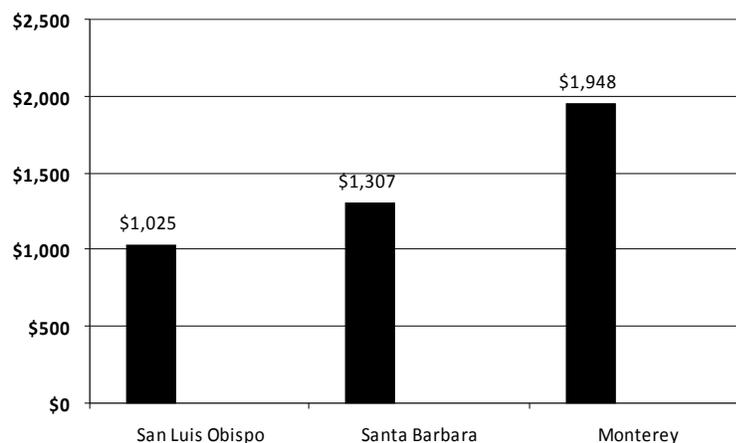
*Table 21
1995 vs. 2005 Travel Spending*

County	1995		2000		2005	
	Spending (\$ Millions)	%	Spending (\$ Millions)	%	Spending (\$ Millions)	%
San Luis Obispo	\$635.0	22.55%	\$909.0	22.93%	\$1,025.3	23.62%
Santa Barbara	\$855	30.36%	\$1,169	29.48%	\$1,367	31.50%
Monterey	\$1,326	47.09%	\$1,887	47.59%	\$1,948	44.88%
Total	\$2,816.0	100.00%	\$3,965.0	100.00%	\$4,340.5	100.00%

Source: California Travel Impacts by County, March 2006

- When compared with neighboring counties, SLOC ranks third behind Santa Barbara and Monterey Counties.

*Figure 20
Travel Spending By Selected County (\$ Millions)*

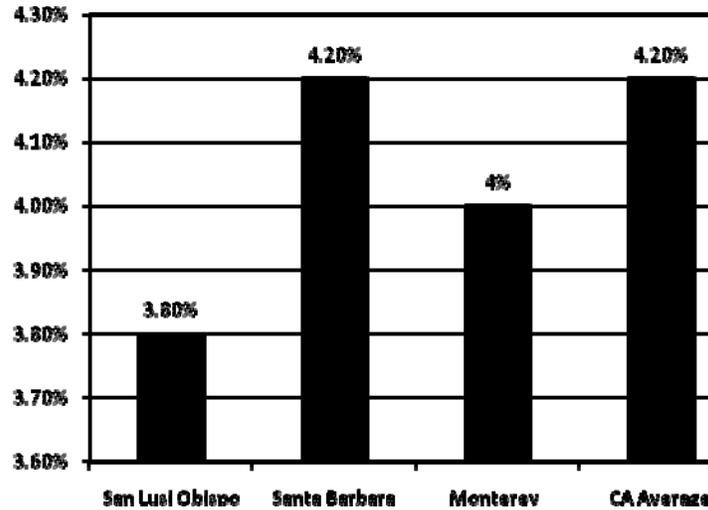


Source: California Travel Impacts by County, March 2006

III. Travel Spending Growth Rates

SLOC increases in visitor spending have averaged approximately 3.8% annually between 1992 and 2005, below the 4.2% average within the State of California.

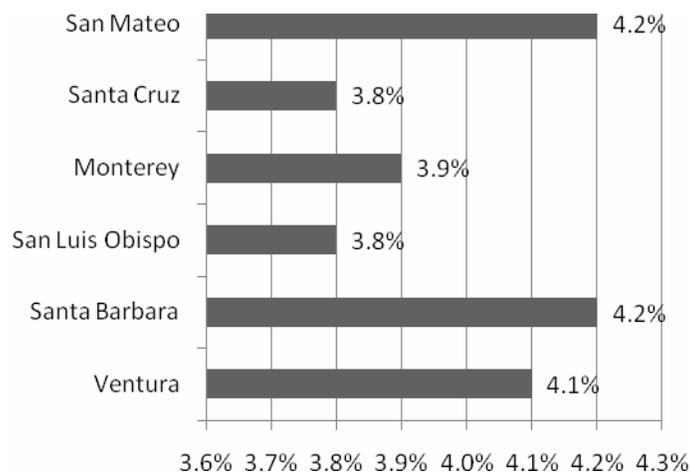
*Figure 21
1992-2005 Average Annual Travel Spending Growth Rate
by SLOC, Competitors & State of California⁸*



Source: California Travel Impacts by County, March 2006

- When compared to other counties throughout California coastal areas, SLOC's performance is mixed.

*Figure 22
Comparative Average Annual Travel Spending Growth
by California Coastal County's with travel spending under \$100m⁹
1992-2005*



Source: California Travel Impacts by County, March 2006

⁸ California Travel Impacts by County 1992-2005

⁹ SMG estimates based on California Travel Impacts by County, 1992-2005

- Given that other coastal California counties have experienced growth rates that exceed SLOC, a clear opportunity to improve tourism revenues within the county exists. If travel spending in SLOC had increased by one half a percent per year and grew at approximately 4.2% (the state average) instead of 3.8% since 1992, an extra \$500 million in travel spending would have accumulated.

Table 22 compares SLOC, Santa Barbara County, and Monterey County on important destination elements.

Table 22
Competitive Summary
Ratings Comparison of SLOC, Monterey and Santa Barbara

	SLOC	Monterey County	Santa Barbara County
Proximity to Markets	Weaker access to Southern California markets Access to Central California markets	Significant proximity to major Northern California markets	Proximity to Southern California markets
Rating	↔	↑	↑
Lodging Supply and Structure	High concentration of small and unbranded lodging	Strong mix of lodging Strong mix of branded vs. non branded	Strong mix of lodging Strong mix of branded vs. non branded
Rating	↔	↑	↑
Air Access	181,000 Deplanements US Airways United Express 4 Non-Stop markets	222,781 Deplanements United Airlines American Eagle Allegiant United Express 8 Non-Stop Markets	404,367 Deplanements Alaska Air Delta Allegiant Express Jet American Horizon Air United Express US Airways 12 non-stop markets
Rating	↓	↔	↑
Convention Hotels	Embassy Suites Alex Madonna Expo Center	Monterey Conference Center Hyatt	Bacara Doubletree
Rating	↓	↑	↔
Recreation	Outdoor recreation	Outdoor Recreation Pebble Beach	Outdoor Recreation
Rating	↔	↑	↔
Attractions	Hearst Castle Oceano Dunes	Monterey Bay Aquarium 1.8M Visitors National Steinbeck Center Pebble Beach	Channel Islands Santa Barbara Zoo
Rating	↔	↑	↔
Wineries	Emerging Wine Region with Visibility	Wine industry overshadowed by other tourism elements	Significant wine awareness due to Sideways Film
Rating	↑	↔	↑
Festival & Events	Farmers Market	Monterey Jazz Festival Laguna Seca	
Rating	↔	↑	↔
Tourism Promotion and Budget	Multi organizational approach Underfunded compared with competition	Unified approach Large budget	Unified approach Good budget with BID in progress
Rating	↓	↑	↔

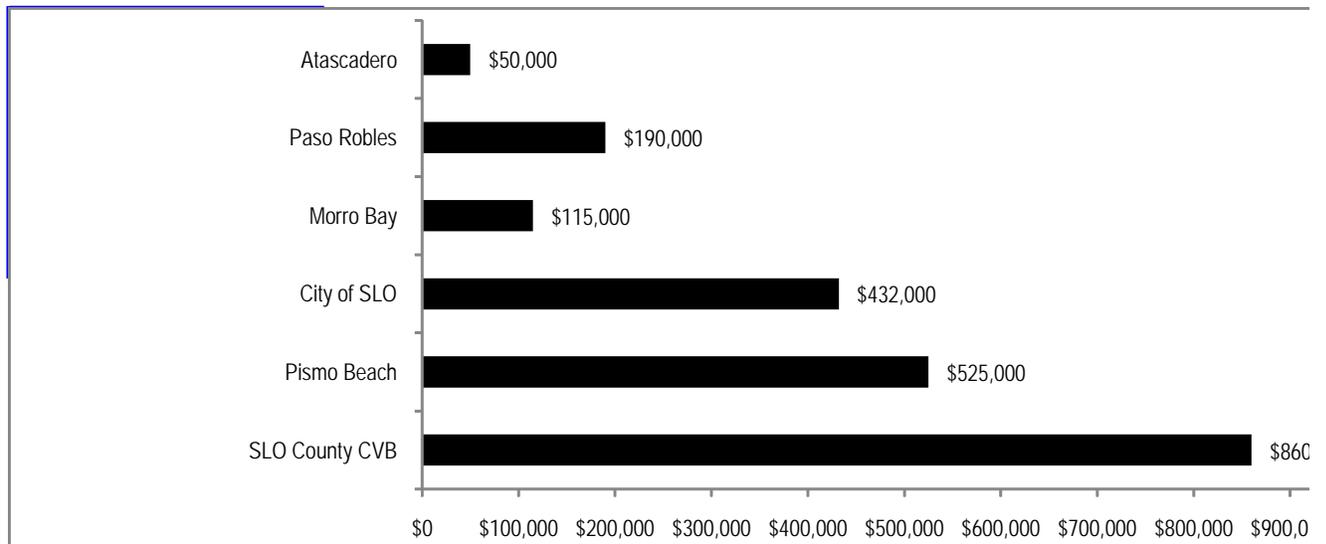
Legend: Weak ↓, Dominant, ↑, Competitive ↔

BIDs & the Changing Competitive Environment

I. Overview

As noted in the SLOC Tourism Promotion section, SLOC has five different tourism promotion agencies, each with their own budget and promotional programs. The approximate combined spending impact of these agencies is \$2.1million.

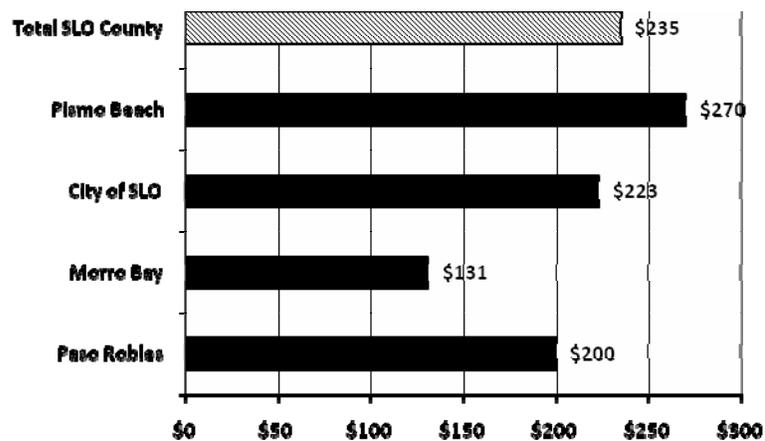
Figure 23
SLO County Tourism Promotion Organization Budgets



Source: SLOC CVB

- Based on these funds, the average spent per available room for the entire county is approximately \$235. The funds are generally spent separately for the benefit of each specific region. Based on regional analysis, Pismo Beach spends the most per available room (\$270) and Morro Bay spends the least (\$131).

Figure 24
SLO County Tourism Promotion Spending Per Room



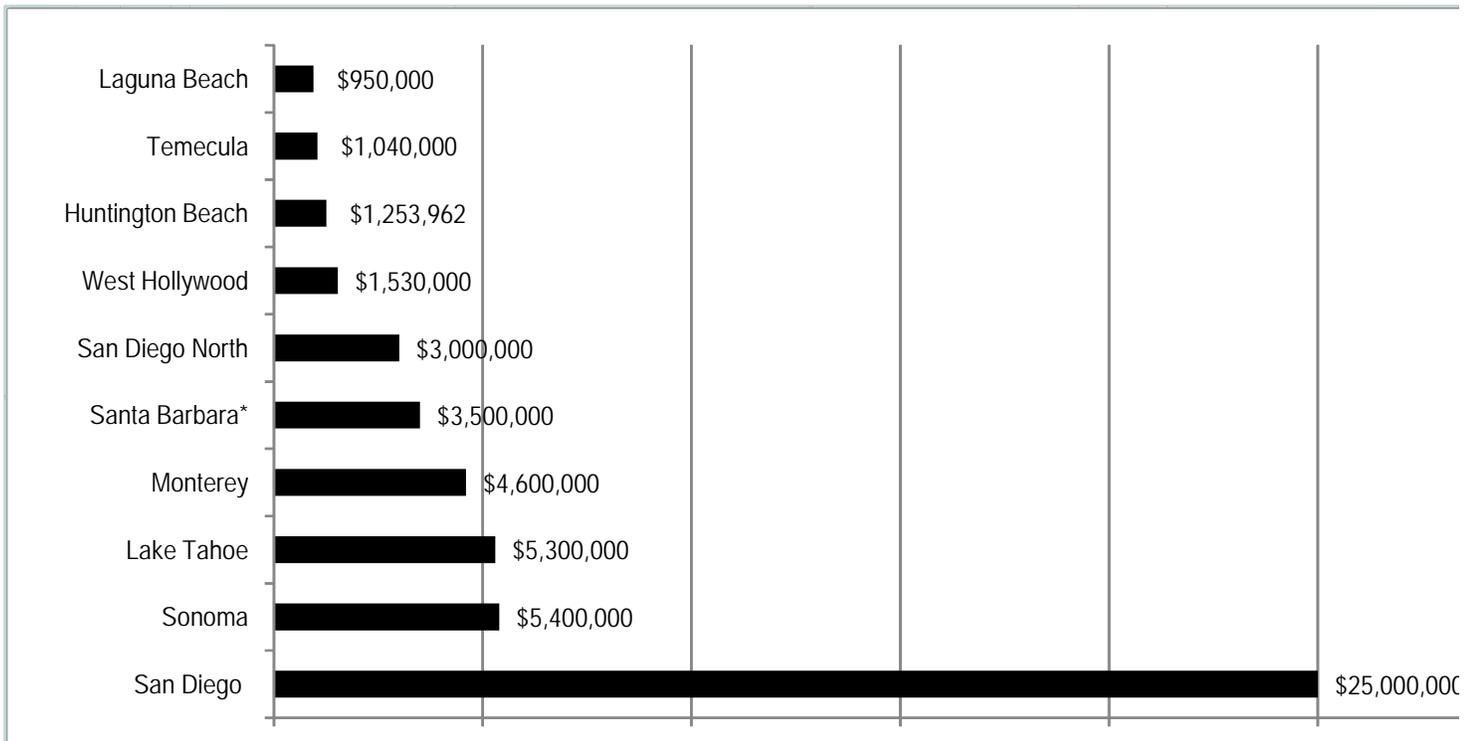
Source: Strategic Marketing Group

II. The Competitive Environment: The Impact of BIDs

The development and implementation of Business Improvement Districts (BIDs) as a source of tourism funding has significantly changed the competitive playing field for tourism marketing and promotional efforts.

- Major destinations now have significantly more dollars for promotion. Many that compete for visitors with SLOC, including San Diego, San Diego North, Sonoma, Monterey and Lake Tahoe, have dramatically increased the available funds to market their destinations.
 - Santa Barbara, which is currently not included, is noteworthy because it is seeking to develop a BID to augment marketing efforts.
- Figure 25 compiles destinations that have implemented BIDS within the past few years. (West Hollywood, which has had a BID in place for several years, is the exception.) Destinations like San Diego North, Monterey, Lake Tahoe, and Sonoma County are similar to SLOC in size and offerings, while San Diego is one of the top three destinations in California.

*Figure 25
Bureau Budget
Competitor Destinations with a BID in Place*



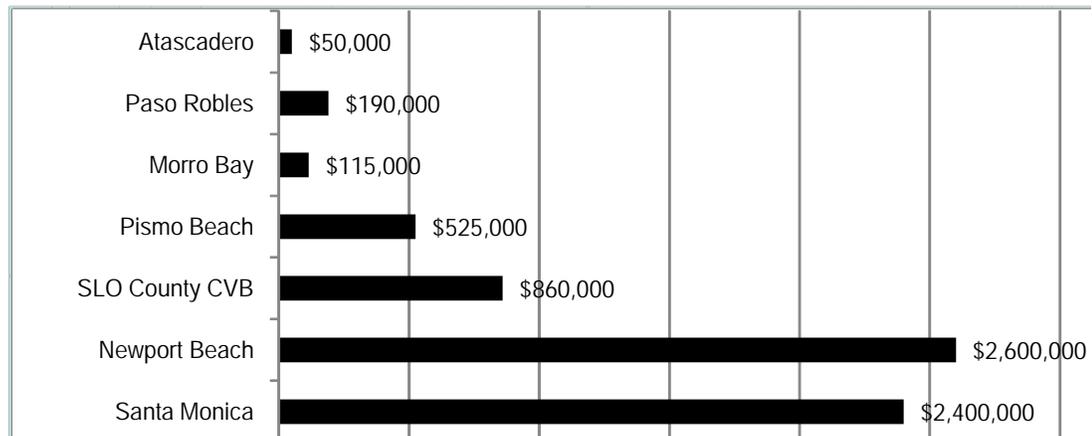
Source: Strategic Marketing Group

Notes: Temecula is not considered a direct competitor, though may compete on the wine experience.

* Santa Barbara is in the process of implementing a BID and the budget is projected.

- In addition to these destinations, SLOC faces competition from other beach communities that, although not funded by BIDs, have larger budgets. Figure 26 illustrates the budget differences between SLOC's combined budgets and those of its key beach competitors.

*Figure 26
NON BID Beach Competitors*

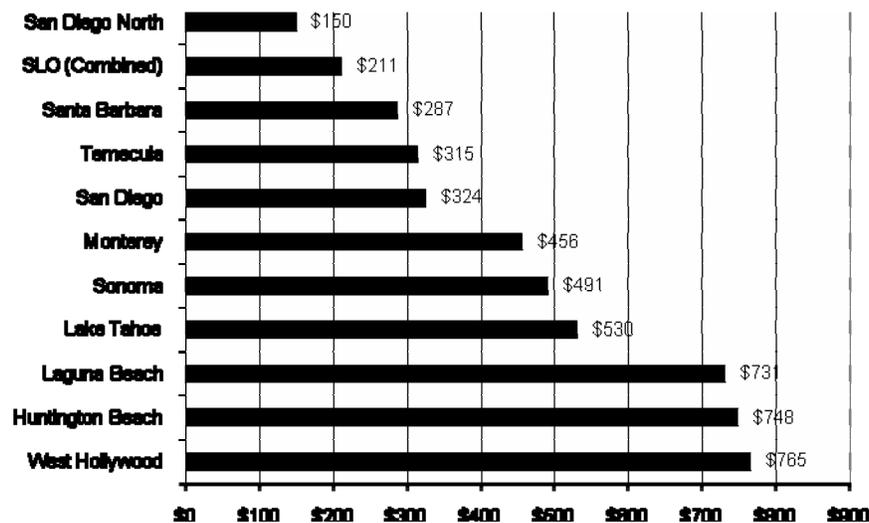


Source: Strategic Marketing Group

- When measured in total budget and on a per-room basis, SLOC's combined budgets rank almost last.

Figure 27 ranks each destination by revenue per available room in order to provide a relative measure for comparing each of the destinations. When measured by its total, SLOC ranks well below other competitors. When measured by individual, SLOC ranks even lower.

*Figure 27
Bureau Budget per Destination Room*



Source: Strategic Marketing Group

Note: San Luis Obispo Combined includes tourism promotion organizations within the county. Calculation bureau budget/ # of rooms available in the marketplace=Bureau Budget per Destination Room

III. BID Case Studies

To better understand how BIDs have transformed tourism promotion within the California tourism industry, SMG developed two case studies including Monterey and Sonoma Counties. These two destinations were selected

because they have several factors in common with SLOC. These factors include similar product offering (e.g., the wine industry and recreation). Additionally, they have implemented countywide BIDs with multiple jurisdictions within their counties, similar to the recently failed attempt in SLOC.

A. The Monterey County BID

Prior to the formation of the Monterey County Convention & Visitors Bureau, three different organizations promoted tourism in the county, each with a different view of their roles and efforts. Several years ago, these three entities merged into the current organization, with a new President and CEO to direct it.

Tourism indicators showed that the area stalled in terms of occupancy and Average Daily Rate (ADR) during this time. The organization realized that it needed to be more competitive within the marketplace and, as such, local tourism leaders considered the need for a Business Improvement District (BID). (During this time, a number of tourism-based communities throughout California had developed BIDs as a source of funding for tourism efforts.)

- To present the BID concept to county communities, the bureau developed a marketing plan that detailed how the BID funds would be used, and implemented a significant outreach and education effort.
- The bureau implemented a BID that included Carmel by the Sea, Del Ray Oaks, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside, Soledad, Pebble Beach, Moss Landing, Carmel Valley, Big Sur, and Salinas Valley.
 - These areas all work as sub-brands under the Monterey brand, with the goal of increasing awareness of Monterey, then educating consumers on the county's diverse areas and activities.
- With the BID funding, the organization has a \$4.5 million budget, and a market focus that includes the new brand "Alive is the Air," which has received national attention in major publications such as *Vanity Fair*. Additionally, it has increased focus on meetings and conventions and support for air markets that serve the local Monterey airport.

B. The Sonoma County BID

With an annual economic impact of over a billion dollars, Sonoma County's tourism industry is a vital component of the local economy. Accordingly, the County initiated a public/private collaborative process to develop a structure to support and increase the vitality of this industry sector. This created the Sonoma County Tourism Bureau as the destination's marketing organization.

- In March 2001, tourism industry leaders and the public sector formulated ideas and investigated ways to create a funding structure to support a comprehensive tourism marketing program. During these discussions, the idea of a special countywide tourism business improvement area emerged.
- The Sonoma County Lodging Association (SCLA) became the lead organization advocating the development of the new business improvement area, and promoted it to its members, community leaders, public officials, and tourism-related organizations in 2004. In November 2004, the Sonoma County Board of Supervisors established the Sonoma County Tourism Business Improvement Area (SCTBIA).
- Following SCTBIA's establishment, the Sonoma County Tourism Bureau's (SCTB's) organizational framework was developed, including articles of incorporation and by-laws. The five-member SCTBIA Advisory Board began acting as liaison between the Board of Supervisors and the new SCTB.

- On Jan. 1, 2005, the SCTBIA went into effect, beginning a new era in funding Sonoma County tourism marketing.
- In February 2005, the new SCTB took a significant step forward when its 22-member board of directors formed and had its inaugural meeting.
- In June 2005, the Board of Supervisors ratified a contract with the SCTB to market Sonoma County and promote overnight visitors.
- On July 1, 2005, the SCTB officially became the destination marketing organization for Sonoma County.

The BID currently collects approximately \$4 million annually for tourism promotion, which is augmented by another \$800,000 from the county, for now. This enabled the bureau to implement branding efforts, including advertising, website development, public relations efforts, and extensive out-of market-sales programs, all focused from one organization.

C. BID Case Study Relevance

As the Monterey and Sonoma County case studies demonstrate, some significant similarities with SLOC exist, including:

1. Like SLOC, Monterey and Sonoma Counties have a wide variety of communities, destinations, and attractions within the county that at times has caused, or can cause, intra-regional competition.
2. Both Monterey and Sonoma Counties moved forward with countywide BIDs to make their destinations more competitive and, in so doing, consolidated tourism promotion into a single entity. Although the other areas in the counties still promote tourism, the major BID funding targeted the two promotional organizations, while local government contributions, T.O.T., or general funds are spent by local chambers and groups to promote tourism underneath the banner of the bureau.
3. In Sonoma County, the cities of Sonoma and Healdsburg chose not to participate in the BID during its inception. Despite this, the BID moved forward and is implementing its programs.
4. SLOC's current situation, which includes a number of different communities considering the development of their own BIDs, is similar to both Monterey and Sonoma Counties before they consolidated their organizations and developed major funding. As such, SLOC should take a similar approach to developing a BID.

Meeting Facilities and the Future

I. Overview

Compared with Monterey and Santa Barbara Counties, SLOC’s hotel industry has limited supply of true meeting locations.

Key issues that surround this limited supply include:

- Limited properties with true dedicated space for conference use that includes all necessary professional audio visual services.
- Small square foot configurations.
- Limited properties with dual-purpose rooms that support banquets and events as well as meetings
- Lack of sophisticated meeting space.
- Limited regional and national direct air access.
- Lack of major industry players in segment (e.g., Hyatt, Four Seasons, Marriot, Starwood).
- Lack of major destination meeting resorts that present a national image.

Current space is primarily within existing properties in the cities of San Luis Obispo and Paso Robles, and in some coastal properties. The geographic separation between these communities potentially precludes a countywide approach to sales and marketing as found in Monterey County. The facility with the largest square footage is primarily a free-standing event center with limited acceptability to the true meetings markets.

*Table 23
SLOC Meeting Space*

Meeting Space Capacities		
	SQ Fet	Pct.
Arroyo Grande	0	
mix		0.00%
Atascadero	3,744	
mix		5.01%
Grover Beach	644	
mix		0.86%
Morro Bay	3,700	
mix		4.95%
Paso Robles	9,794	
mix		13.10%
Pismo Beach	9,390	
mix		12.56%
San Luis Obispo	40,604	
mix		54.30%
County of SLO	6,900	
(combine areas) mix		9.23%
Total County	74,776	

Source: Strategic Marketing Group

- Although SLOC certainly has meeting space, it serves more local and close-proximity regional demand and is not a strong competitor for destination meeting demand.

II. Potential of a New Facility

Meetings generate tremendous hotel room demand when proper supply and aggressive sophisticated sales management are present. These are currently lacking in SLOC. After evaluating the proposition of developing new and better meeting space, SMG recommends two strategic directions. Both require an in-depth feasibility study.

A. Model 1: Free Standing City Convention Center

This city-based model offers San Luis Obispo or Paso Robles as possible locations.

- Currently, SLO is the only city with significant hotel room supply that might have the capacity to support freestanding space, and has the largest hotel-based meeting space (the Embassy Suites, with 20,000 square feet, followed by a mere 3,000 feet at the Courtyard by Marriott).
- The cross-impacts of freestanding supply against hotel-based supply presents critical demand generation issues against existing room supply. In one case, it economically conflicts room supply at these meeting properties. In the other, significant new supply likely lacks adequate quality room supply to maintain demand.
 - Demand generators within SLO would likely center more on business and academic issues associated with the university community.
 - Demand generators in Paso Robles would likely center more on a destination resort area based on the wine country. In this case, Paso lacks adequate current room supply to support any such free standing facility.

B. Model 2: Destination Resort based Meeting and Convention Facility

- This model would rely on development of at least one, if not several, major destination resort hotels in the 400 to 600 room configuration that could support resort-based meeting and conference space of significant scope.
- It would also require a national brand well situated in the meetings market, such as Hyatt, Hilton, or Marriott, to make the development commitment.
- Independent freestanding properties such as Pebble Beach Company with Spanish Bay and Lodge at Pebble Beach are far less likely to emerge as new developments due to the enormous capital requirements to develop.
- Location of such a resort meeting property has tremendous development issues along the coast and would likely need to be proximate to the existing primary cities of SLO or Paso Robles. Current demand performance along the Central Coast places Monterey or Santa Barbara Counties as more viable from a risk standpoint.

III. Conclusions

An arguable need for more true meeting supply exists. But, focused supply that benefits all county room supply is very difficult to achieve given geography and diversity of interests. Any community desire to further consider new and improved meeting supply must be matched with a dedicated study of the segment demand and the cost of supply development and infrastructure development to market and sell it.

Model 1 currently presents the more likely approach. However, if publicly-funded in any fashion, the conundrum of dedicated convention/conference facility versus community center needs must be clearly delineated before deciding to go forward. Such a facility must be developed to primarily support destination travel for meetings, rather than serve the interests of local community groups.

This model is almost certain to require location in either the City of SLO or Paso Robles. In both communities, adequate quality room supply of at least 500 to 750 rooms is likely necessary. Additionally, a strong commitment of room supply to a consolidated sales management effort is necessary to successfully approach the market.

Model 2 presents tremendous land use and capitalization issues along the Central Coast. Historically weaker demand compared with Santa Barbara and Monterey Counties limit interest, as SLOC currently underperforms both, in occupancy and rate achievement.

A well-branded player is necessary to develop such a meeting “face” to the county sales proposition.

SWOT

Strengths, Weakness, Opportunities, Threat Analysis

A review of SLOC's strengths and weaknesses, and the opportunities and threats that will affect its future success is important for building a sustainable competitive advantage.

Figure 28
SLOC SWOT Analysis



Strengths

- ✓ Tourism Experience: As identified in "SLOC Product Experience" above, SLOC possess a critical mass of tourism components including geographical variety, recreation, and historic, arts and cultural activities.
 - Geographic variety: SLOC has a variety of distinct areas, from coastal areas to wine-growing regions, and has the culture of the different communities within the county.
 - Recreational Opportunities: SLOC possesses a significant amount of recreational opportunities.
 - Arts/Culture/Special Events: Every area within SLOC offers a wide variety of arts, culture, and special events, supported by both public and private funding, that provide activities for both locals and visitors
 - Attractions- SLOC hosts a number of attractions, including Hearst Castle and area wineries.

- Family Environment: The previously-mentioned SLOC activities and ambiance provide a quality family atmosphere. This is critical to the tourism experience as many other competitor segments are vying for this important market segment.
- ✓ Tourism Promotion Infrastructure: SLOC has a strong tourism promotion infrastructure that includes an umbrella County VCB, as well as tourism promotion efforts via its chambers of commerce and visitor bureaus.
- ✓ Proximity to Consumer Markets: Because SLOC is equidistant to Los Angeles and San Francisco (about 190 miles), it has superb proximity to major population bases.
- ✓ Established Airport Access: Currently, air access is possible through the SLOC Regional Airport, which offers commuter-level aircraft service on a number of carriers including United Airlines and U.S. Airways. However, it has lost approximately 15% of its air service with the elimination of service from Delta and American Airlines.

Weaknesses

- ✓ Intra Region Competition: SLOC's areas have had mixed success in cooperating to develop a countywide tourism promotion program. This can create unnecessary and detrimental intra-county competition.
- ✓ Traffic/Crowding: Traffic and crowding within SLOC is visible and frequently mentioned concerns.
- ✓ Weekend Orientation: SLOC's equidistant location between Southern and Northern California markets creates a significant weekend-only business. This visitor base tends to compound traffic and crowding problems. Additionally, day visitors contribute to the congestion problem with a comparatively small economic impact.
- ✓ Funding Limitations: Collectively, SLOC's tourism promotion organizations compete against destinations with significantly larger budgets. Because competition within the primary Southern California market is intense, the effectiveness of its limited funds is questionable.

Opportunities

- ✓ Increased Interest in the Rural Tourism Experience: Consumer interest in rural tourism has never been greater. SLOC offers a variety of related experiences, from bicycling, to Hearst Castle, to wine tasting.
- ✓ Improved California Tourism Efforts: The recent restoration of the State of California Office of Tourism's budget should result in an aggressive national program to create additional visitation at the statewide level.
- ✓ BID Funding: This is a new key opportunity since the last VCB Strategic Marketing Plan brings the emergence of a BID as a sustained funding tool for tourism communities.

Threats

- ✓ Competition: SLOC faces stiff competition from areas throughout the central coast as well as from those that compete for the Southern California market. The destination already faces increased tourism efforts from areas along the California Coast including Ventura, Santa Barbara, Santa Monica, Newport Beach, and SLOC. Almost every county in the state has identified tourism as an economic development tool. As such, the level of resources allocated to tourism promotion has increased significantly.

- ✓ Weak Economy- In the short term, concern exists about the California economy and its potential impact on tourism.
- ✓ Lack of a Unified Approach to Tourism: A much more cohesive effort for tourism promotion is necessary. The current system minimizes the county's competitiveness and continually subjects the area to a loss of market share to its competitors.
- ✓ Tourism Backlash: As tourism increases throughout the SLOC, the resulting traffic and crowding could lead to a greater backlash against tourism support. When possible, tourism promotion agencies must support programs generated to preserve the environment as well as downtown areas.
- ✓ Continued Weakness in the Airline Industry- The potential for more air service losses is a certainty if that industry continues to weaken. To date, the local community has lost approximately 15% of available seats into the SLOC Regional Airport.

Key Issues

A. Issues Overview

After thorough review and analysis, SMG identified a number of key issues to consider and address in order to maximize tourism within the county. These are organized into four core areas of concern:

- The economic environment
- The competitive environment
- Infrastructure issues
- Issues related to tourism promotion

Two of the core areas are external to SLOC and not controllable, and two are internal and much more controllable. However, all of them do affect tourism and tourism promotion within SLOC. Combined, each core area has played a role in SLOC's inability to maximize its efforts.

*Figure 29
SLOC Issues*



➔ The Economic Environment

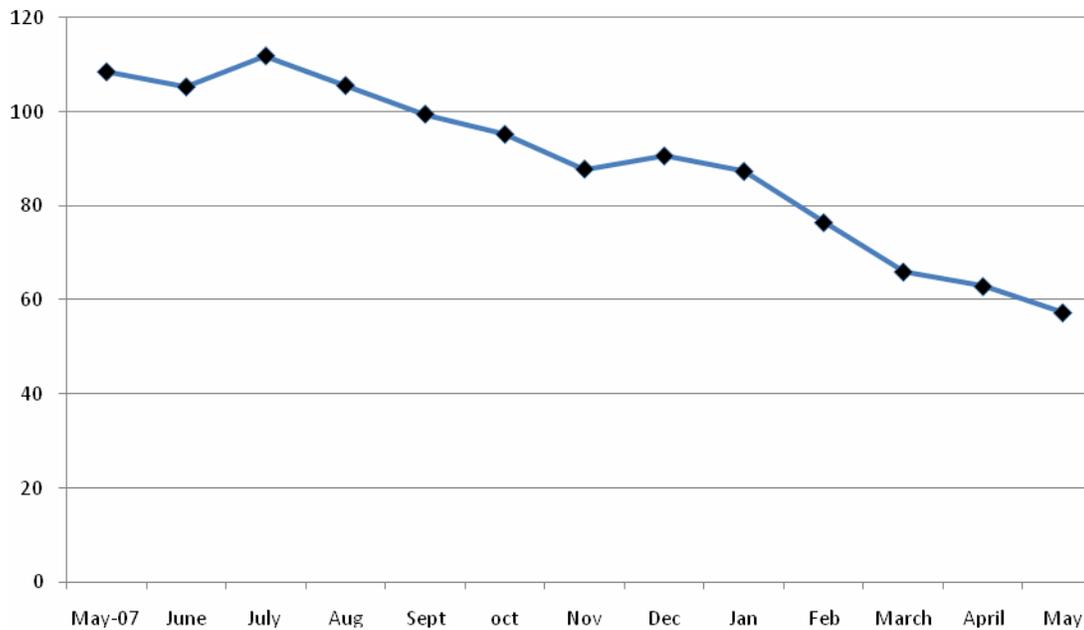
For the purposes of this report, the economy is considered from a macro (state) perspective as well as micro (local) perspective.

Macro Economy

Significant concerns exist in both the national and state economy (a significant source of visitors for SLOC). Inflation, rising unemployment, the sub-prime crisis, and rising fuel prices are all driving to create an environment of concern.

Consumer confidence has fallen to its lowest level in years. Within the past year alone, consumer confidence has fallen from an index of 108 to 57.

*Figure 30
US Consumer Confidence*



Source: The Conference Board

The impact of oil prices is significant to both air and auto access. As such, its impact is significant from a core market and destination market view.

Significant challenges face California tourism that could interfere with consumer ability and desire to travel.

Three of the major issues to watch in 2008/09 include:

1. State Budget Deficit

The state of California has projected a budget shortfall of approximately \$18 billion for FY 2008/09. The impact could include both budget cuts and increased taxes, creating a double-whammy for both the overall California economy and the tourism economy.

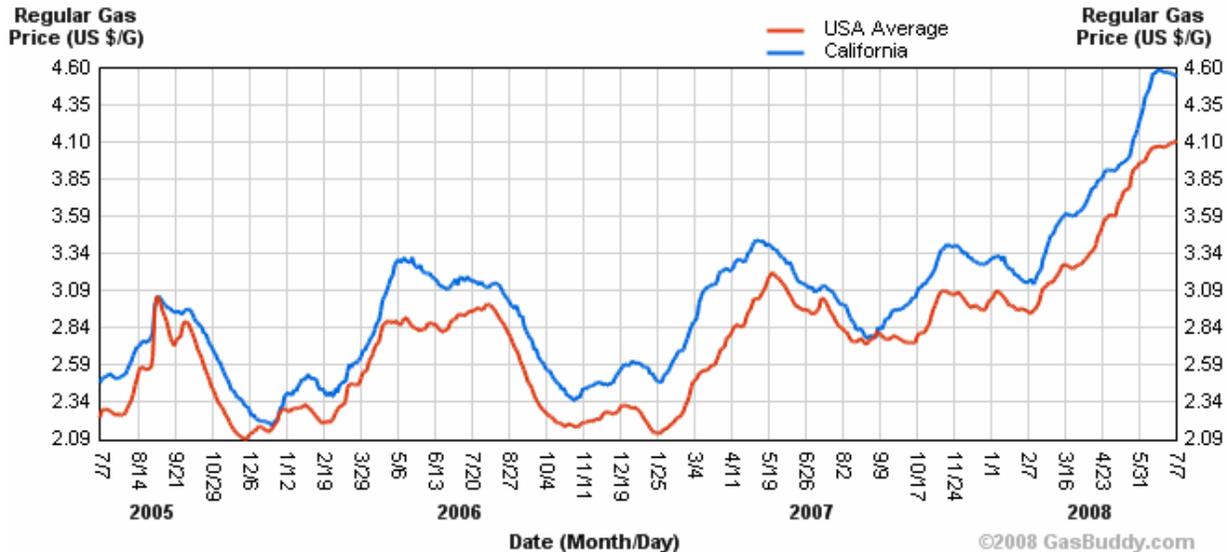
2. Sub-prime Mortgage Collapse

The sub-prime mortgage collapse has hit California particularly hard. In turn, this will have repercussions on the overall economy.

3. Gas Prices

Gas prices have continued to rise. Although no significant drop-off in tourism has resulted from rising prices, additional price increases could begin to impact traveler decisions. California gas prices have outpaced the national average (see Figure 31).

Figure 31
Average Gas Prices: Us and California
36 Month Average Retail Price Chart



Source: California Gas Prices.com

The escalation in fuel prices and the impact they may have on both auto and air travel is the most significant issue to tourism.

- For the drive market: SLOC receives a significant portion of its visitor base from drive markets in Southern and Northern California as well as the Central Valley. As such, it could be vulnerable to other destinations closer in proximity and convenience.
- For air travel: The SLOC Regional Airport has lost approximately 15% of its seats into the airport.

Local Economy

One of SLOC's major issues is the economic impact on local government budgets.

- Although current data is not available, local businesses have indicated business levels have slowed.
- The impact this will have on local municipalities and budgets remains to be seen, though typically budgets and spending have been conservative or reduced in similar situations.

Locally, SLOC has experienced uneven growth in different areas of the county.

- Both Pismo Beach and Paso Robles have grown at rates higher than those within the rest of the county.
- As such, parts of the county compete against other areas.
- Although this dynamic could work in a win/win dynamic, it often becomes a zero-sum and a win/lose situation when one area of the county gains at the expense of another.

➤ The Competitive Environment

SLOC faces significant competition from Santa Barbara County to the south and Monterey County to the north. Although these two destinations represent major geographic competitors, they are hardly the only competition for the county.

- Several other competitors interact directly with each of SLOC's core attributes of wine country, beach and downtown experiences (see Table 24).

Table 24
SLOC Competitors by Attribute

Wine Country	Beach	Downtown Experience
Temecula	Ventura	Ventura
Napa	Carlsbad	Santa Monica
Sonoma	Huntington Beach	Huntington Beach
Sierra Foothills	Newport Beach	Newport Beach
Mendocino County	Santa Cruz	Santa Cruz
Santa Barbara	Santa Barbara	Santa Barbara
Monterey	Monterey	Monterey

In addition to the added competition to SLOC's core attributes from these areas, their continued improvement in destination experience, tourism funding and marketing expertise, create a significant level of competition for SLOC. This emphasizes the need to maximize SLOC's resources and effectiveness in tourism promotion.

➤ Infrastructure

Infrastructure is a concern to SLOC's lodging and attractions.

Lodging

A significant difference exists between SLOC's lodging mix and that of its competitors; namely, SLOC has a significantly higher mix of non-branded properties.

- SLOC's properties do not benefit from national distribution.
- Smaller properties also tend to lack sophisticated marketing and advertising efforts, which places a bigger burden on local marketing agencies.

The flip side of this issue is SLOC's lack of name brands that signal the destination's quality.

- This is a key differentiating factor between SLOC and its competitors
- Brands like Hyatt in Pebble Beach and Bacara and Four Seasons in Santa Barbara have significant brand strength, and strong sales and marketing efforts to support group and convention meeting segments.

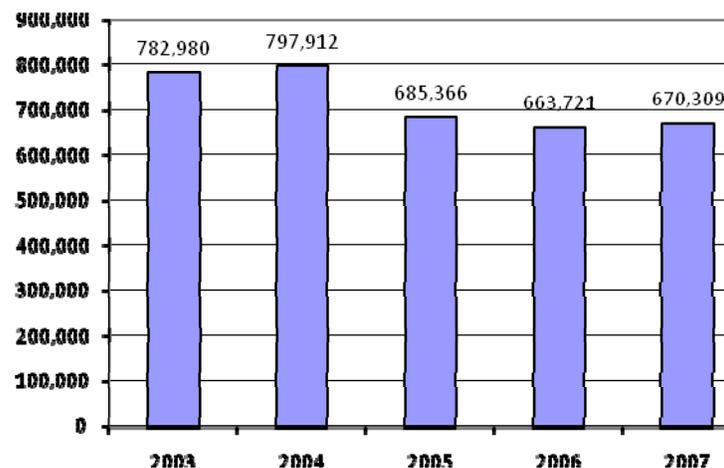
Attractions

SLOC's two major attractions—Oceano Dunes and Hearst Castle—have both been in place for many years.

The Oceano Dunes facility, which provides economic impact to the southern part of SLOC, offers unique beach access and many recreation activities. However, it has limited weekend growth potential because it is located in an environmentally sensitive area and park access is capped on high demand weekends.

Hearst Castle has been a centerpiece of the central coast for decades and, at one time, hosted over a million visitors annually. Although it is still a significant driver, visitation numbers have fallen in recent years (see Figure 30).

Figure 32
Hearst Castle Attendance



Source: California State Parks

This decline is likely partly due to the competitiveness of the Monterey Bay Aquarium, which attracts about 1.2 million visitors annually. Additionally, Hearst Castle's exhibits and facilities must be continuously upgraded as it has a limited number and type of attractions.

To stay competitive for the next generation, tourism industry professionals may need to consider developing one or more new attractions. One possibility is the full development of the San Luis Obispo botanical gardens, which will provide a major environmental attraction and a unique differentiation point to the region.

Convention Center

Without a convention center, SLOC is reliant on the Non-Group Free Individual Traveler (FIT) segment. Adding a properly-conceived and financed convention center, and air and highway access to support it, would allow for the growth of meetings and conventions... a key travel industry segment.

Wine Industry/Rural Locations

Although most of SLOC's tourism occurs within three major city areas (Paso Robles, San Luis Obispo, and Pismo Beach), appropriate and relevant tourism in the rural areas of the county is critical for the overall county. Further development of agricultural tourism is a key component to developing this tourism.

Both city and county planners need to consider the wine industry's growth and the region's other agricultural offerings in order to facilitate growth in agricultural tourism, and investigate how to locate lodging and restaurants at the wineries, as SLOC's competitors have done.

☛ Tourism Promotion Systems

1. Competitive Perspective

SMG has identified two distinct views of competitive dynamics within SLOC. The first is **intra-regional**, in which several areas within the county see other county areas as their competition.

The second view is **inter-regional**, in which SLOC as a whole views areas outside of the county (specifically Santa Barbara and Monterey Counties) as competition. Depending on how one sees the competitive playing field dictates how one makes tourism promotion decisions.

*Table 25
Competitive Perspectives*

Intra-Regional (Internal) Perspective	Inter-Regional (External) Perspective
<p>The primary tourism competition is within the county.</p> <ul style="list-style-type: none"> • Believes that each area must seek competitive advantage over other areas of the county, • Less supportive of cooperative approaches and, as a result, misses out on the financial leverage available to cooperative approaches. • Has a win/lose dynamic. • Focuses on stealing market share from within the county as opposed to outside of the county. 	<p>The competition is external to the county. By working together and growing the pie, each area within the county will benefit from independent and overall efforts.</p> <ul style="list-style-type: none"> • Believes that SLOC is more effective competing as a whole against external competition. • This perspective is more supportive of cooperative marketing approaches and as a result takes advantage of the financial leverage available to cooperative approaches. • This perspective holds a win/win dynamic. • This perspective is focused on stealing market share from outside the county as opposed to inside of the county, and as a result unites the efforts within the region.

SLOC lacks agreement on how to define its competitive playing field and, consequently, lacks agreement on how to promote the region.

2. Differing Perspective on Tourism Promotion

As often happens in counties with a number of successful cities or attractions, SLOC lacks an overall countywide perspective. As such, cities focus on growing business for their specific city, which can be a win/lose situation.

Conversely, a properly implemented countywide “grow the pie” approach has a greater chance to create a win/win situation for SLOC and the individual areas within it.

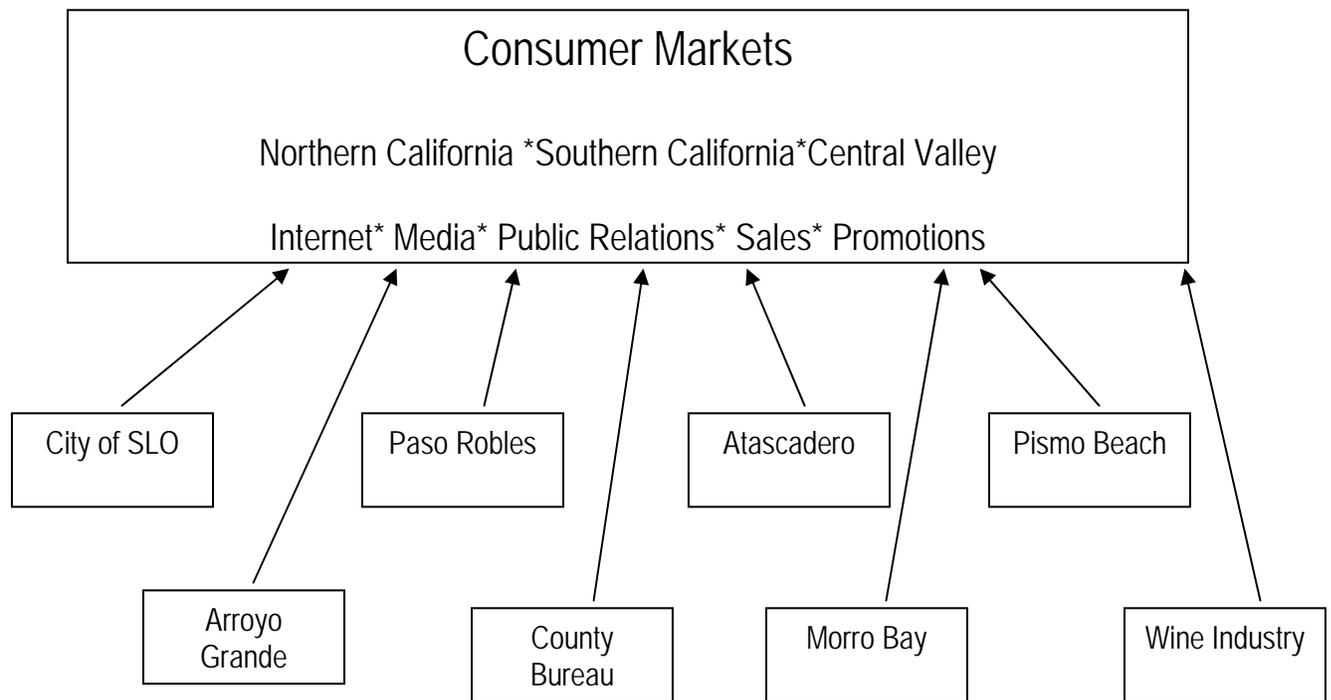
With SLOC’s variety of tourism promotion organizations, the potential for fragmented efforts and for turf protection are higher. Consequently, understanding the need for a unified tourism approach is vital.

In rural communities, the most effective unit of competition is not the city or attraction, but the county as a whole. Visitors are often attracted by the appeal of the whole region’s attributes. Viewing the county in its entirety first instead of a single area’s attributes yields the most benefit for all within it.

A review of SLOC’s tourism promotion organizations indicates significant fragmentation in tourism promotional efforts. Each organization’s promotional efforts often start with their specific needs (organization-centered), not the consumer’s (consumer-centered). This “inside out” thinking can limit the effectiveness of overall tourism promotional efforts especially when competitor destinations are sending a unified message to this marketplace.

Figure 33 illustrates how an individual organization may believe it is presenting a clear message, while the consumer is receiving a variety of messages, each competing for their attention.

Figure 33
 Organization-Centered Promotional Efforts and Consumer Confusion



An uncoordinated intra-county approach can have a significant impact:

- *Inconsistent target market selection*
 Different organizations target different market segments. Some organizations are interested in day visitation, while others are more interested in overnight visitation. Some prefer the Central Valley market, while others prefer Southern California. Without a truly coordinated strategy that benefits each organization, success cannot be maximized. Additionally, markets may change based on the short- and long-term priorities of each agency.
- *Duplication of effort/lack of efficiency*
 With so many organizations promoting tourism within the region, a considerable duplication of efforts exists, specifically for fulfillment materials, websites, postage, etc. For a region with a relatively small budget, these inefficiencies can waste time and valuable promotional dollars.
- *Inconsistent message*
 With so many organizations promoting tourism within the region, the marketplace receives a considerable number of positioning messages. Many of these position SLOC as a wine region, a beach region, an urban experience, a recreation region, and a boutique shopping region. These messages all promote individual activities but fail to capture consumer awareness at an emotional level that is often necessary to break through the competitive clutter of other destinations.

Both Monterey and Santa Barbara Counties have a consistent brand message and significant funds to promote that message. For example, Monterey County's VCB provides an umbrella brand that allows its areas, such as Pacific Grove and Carmel, to operate underneath its brand in a coordinated way. In comparison, SLOC appears fragmented. This is not to say these messages cannot be used by individual areas, but they lack coordination for their use. The current county VCB budget cannot provide a strong umbrella brand.

Overall, intra county competition does not capitalize on the total (and limited) tourism promotion resources available within SLOC.

➤ **Funding Levels**

SLOC is significantly underfunded when compared with Monterey and Santa Barbara Counties, and is significantly disadvantaged by its more distant location from both Northern and Southern California population centers. Combined, the tourism promotion agencies currently spend \$211 per available room. In comparison, Monterey County spends \$456 per room. To reach parity with Monterey, San Luis Obispo would need to increase tourism promotion revenues by \$2 million and, more importantly, coordinate those dollars to gain maximum leverage.

➤ **The Rise of the BIDs**

One of SLOC's most controversial issues is the county VCB's attempt to develop a countywide Business Improvement District (BID). Despite significant time and effort, the VCB has not developed the countywide support necessary to implement a BID.

In fact, some areas in the county, including Paso Robles and the City of San Luis Obispo, are developing competing BIDs. It would be anticipated that at some point Pismo Beach would have to consider a BID in an effort to keep pace with the other areas. The result of this move to BIDs is a further reinforcement of the fragmentation in tourism promotion suggested previously.

Currently the county VCB is funded by SLOC, the City of San Luis Obispo and, to a lesser degree, Morro Bay and Grover Beach. Pismo Beach, the largest generator of tourism spending in the County, does not currently support funding for the county VCB.

This funding is year to year. The county VCB attempted to develop a countywide BID to increase overall funding for tourism under the agency.

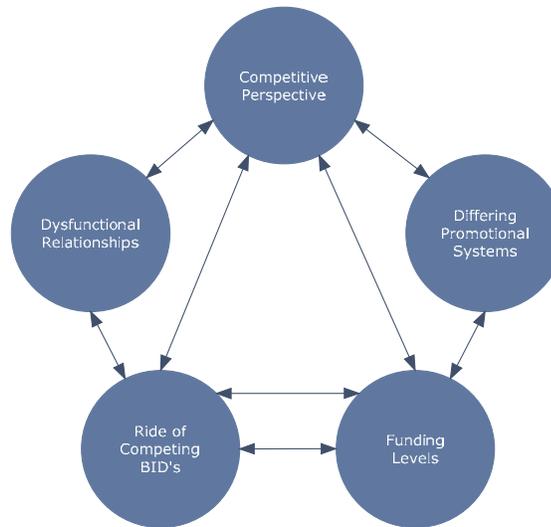
This has created a stressed relationship within parts of the SLOC tourism industry and the county VCB and, consequently, an unwillingness to support and complete the countywide BID. This problematic relationship (and the recognized need for more tourism promotion dollars and the intra-county competitive environment) may have provided the impetus for the individual community BIDs.

The failure to deal with this stressed relationship is creating a dynamic that will significantly increase intra-county competition. Rather than an integrated and leveraged approach to developing tourism funding resources and promotional approaches within the county, the level of competition among Paso Robles, San Luis Obispo, Pismo Beach and the unincorporated county will increase substantially.

Issues Interrelationships

For the most part, the identified issues are interrelated and have a cause and effect impact on each other. A "systems approach" to improve the tourism efforts within the county has not existed before. Figure 34 identifies the issues and illustrates the impacts they have on one another.

Figure 34
INTERRELATIONSHIP DIAGRAM



Recommendations

Recommendation 1: SLOC Airport

The impact of gas prices on the airlines is significant. SLOC's air service has already declined. As a proactive measure, SMG supports the recent formation of an airport task force comprised of key county stakeholders from both the public and private sectors. The purpose of this organization is to aid airport management in working to maintain and increase air service into and out of SLOC.

The task of this committee could include the following:

1. Review monthly airport statistics.
2. Develop strategies and approaches that encourage carriers to maintain air service.
3. Identify weak routes and develop programs to strengthen those routes.
4. Develop viable and continuous contact with carrier route planning departments including periodic visits.
5. Inform the greater SLOC about the economic benefit and need of the airport as integral to the county.
6. Develop a marketing fund and airport incentives to assist carriers in maintaining and/or expanding service.
7. Attract new airline service and routes

Recommendation 2: Resort Brand Lodging Attraction

One of the weaknesses identified in this report is that SLOC's lodging mix is heavily weighted to unbranded facilities with under 50 units. The attraction of a major brand lodging property, similar to what other competitive destinations offer, would benefit the entire region.

SMG recommends a coordinated approach with the Economic Vitality Corporation of SLOC in conjunction with other city economic development representatives working together to attract a major brand resort property.

The attraction of this type of property would help establish the region in a class similar to Santa Barbara and Monterey Counties. The brand alignment of SLOC with a major resort brand would solidify the region as a major player in the tourism industry.

1. Develop a target list of lodging brands (i.e. Hyatt, Sheraton etc).
2. Develop specific contacts with the target lodging brands.
3. Understand key issues that would facilitate development in SLOC.
4. Provide assistance in making the decision to develop a resort property in the county.

Recommendation 3: Focus on Growing Revenue

It is vital that the SLOC's tourism industry develop a cohesive mindset that focuses on growing travel spending for the entire county, given that, as the county grows, so too will each of its regions. Table 26 shows the potential travel spending within the county at a number of different growth rates. It would benefit the industry as a whole if growth can occur at 4.5% per year instead of the current 3.8% rate.

Table 26
SLOC Travel Impact Projections, 2008-2014

		2008	2009	2010	2011	2012	2013	2014	Cumulative Growth
Spirited Rise (travel spending growth at 4.5% per year)									
Travel Spending (\$M)		1,172	1,224	1,279	1,337	1,397	1,460	1,526	9,396
Earnings (\$M)		402	422	443	464	487	511	536	3,266
Employment (jobs)		16,965	17,121	17,268	17,416	17,565	17,716	17,868	904
Local Taxes (\$M)		26.5	27.6	28.7	29.9	31.1	32.3	33.6	210
State Taxes (\$M)		45.1	47.3	49.5	51.8	54.2	56.7	59.4	364
Building Strength (travel spending growth at 4.2% per year)									
Travel Spending (\$M)		1,168	1,217	1,268	1,322	1,377	1,435	1,495	9,284
Earnings (\$M)		401	419	439	459	480	502	526	3,227
Employment (jobs)		16,916	17,022	17,119	17,217	17,315	17,413	17,512	596
Local Taxes (\$M)		26.5	27.4	28.5	29.5	30.6	31.8	33.0	207
State Taxes (\$M)		45.0	47.0	49.0	51.2	53.4	55.8	58.2	360
Status Quo (travel spending growth at 3.8% per year)									
Travel Spending (\$M)		1,164	1,208	1,254	1,301	1,351	1,402	1,455	9,134
Earnings (\$M)		399	416	434	452	471	491	511	3,175
Employment (jobs)		16,850	16,890	16,920	16,950	16,980	17,010	17,040	190
Local Taxes (\$M)		26.4	27.2	28.1	29.1	30.0	31.0	32.1	204
State Taxes (\$M)		44.8	46.6	48.5	50.4	52.4	54.5	56.6	354
Losing Ground (travel spending growth at 3.4% per year)									
Travel Spending (\$M)		1,159	1,199	1,239	1,282	1,325	1,370	1,417	8,992
Earnings (\$M)		398	413	429	445	462	480	498	3,125
Employment (jobs)		16,786	16,762	16,728	16,694	16,660	16,626	16,592	(194)
Local Taxes (\$M)		26.3	27.0	27.8	28.6	29.5	30.3	31.2	201
State Taxes (\$M)		44.7	46.3	47.9	49.6	51.4	53.2	55.1	348
Source: Dean Runyan Associates									

SMG believes that the region's best scenario is to work together to maximize travel spending in SLOC as a whole, which would result in positive growth for each of the regions within the county.

Recommendation 4: Tourism Promotion

It is vital that tourism promotion within SLOC improve. SLOC has an enormous need for an integrated and consistent tourism promotion effort throughout the county. The key issues include:

- Differing competitive perspective
- Differing perspectives on tourism promotions
- Funding levels
- The increase in competing BIDs.

SMG believes that resolving the tourism promotion issues is critical for maximizing SLOC's tourism promotion efforts. Our recommendations include:

1. Improve Relationships

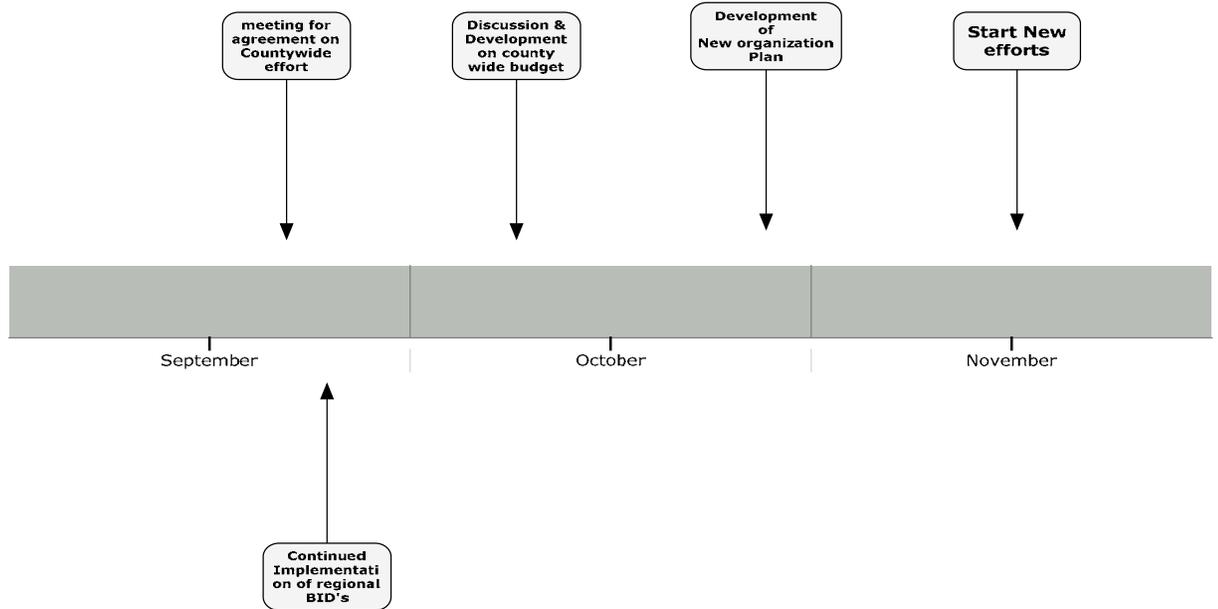
The attempt by the county VCB to implement a BID failed in part because elements of the county were unwilling to support a funding program that would enhance the current bureau. In fact, this has fueled the development of competing BIDs, which increases the likelihood of increased intra-county competition.

With the current change in leadership at the VCB, the bureau and the tourism promotion industry have a unique opportunity to build on the past and improve tourism promotion efforts by developing a more unified and leveraged tourism promotion effort.

As such, SMG recommends the Economic Vitality Corporation of SLOC convene meetings that would include key members of the tourism community in order to develop a plan to further unite the SLOC tourism promotion industry. SMG recommends professionally facilitating this meeting, and considering the following issues:

- Agreement on the need for a countywide tourism promotion organization and approach.
- Identification of funding sources and development of a budget for the organization, including funding from municipalities, the county BID, as well as support from the areas within the county including Paso Robles, Atascadero, Morro Bay, San Luis Obispo, the unincorporated county area, Pismo Beach, Grover Beach and Arroyo Grande.
- Timeline for next steps. Figure 35 shows a suggested preliminary timeline.

Figure 34
Suggested Preliminary Timeline



The objective is to develop an approach very similar to what the California Travel and Tourism Commission (CTTC) does at a statewide level. The CTTC promotes the California brand and, under that brand, facilitates the opportunity for destinations throughout the state to be involved in a variety of marketing programs, including online efforts and public relations. Additionally, the CTTC provides useful research for organizations throughout the state.

The key to the CTTC's success is that it complements the efforts of tourism promotion organizations throughout the state by doing what they cannot do themselves—namely brand building, website and internet, public relations, and research.

2. Brand Development for SLOC

SMG strongly recommends that SLOC develop a countywide brand as well as separate destination brands (including Paso Robles, City of San Luis Obispo, Pismo Beach, Morro Bay, Unincorporated County, Atascadero, Arroyo Grande and Grover Beach). Brand development should focus on agreed-upon target markets, including air markets that serve SLOC. The process could include the following:

- Coordinating, assisting and encouraging cooperation among public and private entities in tourism-promoting activities within SLOC,
- Promoting special events and attractions that draw visitors to SLOC,
- Developing and operating a marketing and advertising program for all domestic and international markets to attract more visitors and lengthen their stay

3. Website and Online Marketing Development

SMG suggests that SLOC implement and manage tightly-focused internet marketing programs designed to pass visitors to all regions within the county.

- Develop aggressive Search Engine Optimization (SEO) programs designed to get the organization's website higher on search engine listings.

4. Public Relations

Implement public relations programs designed to position the county and the sub regions in a way that tells a compelling story about visiting SLOC by integrating and working with the different areas of SLOC

5. Airline Attraction

Develop and implement marketing programs designed to support and expand air service into the region.

6. Research

Implement countywide research that will benefit not only the organization itself but also the different organizations within SLOC. Studies for consideration include:

- Countywide visitor profile study.
- Out-of-market potential studies - Southern and Northern California .
- Perceptual studies, including California perceptions of SLOC and competitive destinations.
- Compile and disseminate statistics and other marketing information relevant to SLOC and its regions.

7. Agreement of Competitive Focus/Collaborative Approach to Marketing

A countywide agreement on competition is vital to maximize tourism promotion. Realizing that the major competitive threats come from areas outside—not inside--the county is critical for areas within SLOC. The best chance for future success is by growing tourism revenues that benefit the whole county (and as a result all its areas), not stealing market share from destinations within the county.

This requires a more unified and collaborative approach to tourism promotion. SMG recommends that the county organization develop a program of work outlined in a previous section and work as a catalyst to leverage the area's destinations in an effort to get critical mass in advertising and branding. Below these efforts, include those of the individual areas in order to educate potential visitors to those specific areas so the sale can be made at the local level.

Integrated County/Sub Region Tourism Promotional Effort



8. Funding Levels/BIDs

SLOC's combined funding levels are approximately \$2.1M million, which lags behind most of its competitors. As such, SMG recommends additional funding to close the competitive gap. This funding could come in the form of a BID or additional city/county funding.

SLOC has tourism promotion revenues of \$211 per room, compared with \$456 per available room in Monterey County. The addition of the City of San Luis Obispo BID funds would only bring the overall competitive funding levels to \$375 per available room, well below Monterey's levels. Consequently, SMG recommends:

- Paso Robles continue efforts to develop a tourism promotion BID
- The City of San Luis Obispo continue to develop a tourism promotion BID
- The unincorporated area of the county continue to develop a tourism promotion BID
- At some point, Pismo Beach and others may consider developing a BID

SMG recommends that the region generate as much tourism promotion funding as possible to place the county efforts in a more comparative light with its competition.

Recommendation 5: Conference Center Follow-up

An opportunity to develop a conference center within the county may exist. Given the lodging mix, SMG identified both the City of San Luis Obispo and Paso Robles as potential priority locations. However, even when co-located with a hotel, convention centers are very difficult to operate profitably and, as such, SMG recommends performing a detailed market study and project feasibility study to understand the potential demand for a center.

As a result, this facility may satisfy current- and medium-term demand. SMG recommends that this project be brought to market and then, at some point, assess the need beyond this facility. Of course, this development does not preclude other jurisdictions for considering a facility.

SMG also strongly recommends that any jurisdiction that does pursue a facility examine the countywide supply and demand as part of their analysis, and not just restrict their analysis to their own community.

Recommendation 6: Meeting with County Planners

Given the rapid growth of rural tourism, SMG recommends that tourism officials meet with appropriate county planning personnel to develop a common vision for tourism development in the rural areas. The county must develop an approach that leverages the high demand for the major cities with that of the rural areas. It must also plan for the rural areas so that tourism development does not occur in a haphazard way.

Summary

Without doubt, SLOC has all the necessary elements to be a more competitive player within the California tourism market. The area has natural attractions, history, culture, and numerous elements that make it a unique destination. With the information and recommendations contained in this report, local private and public sector leaders can bring about the necessary changes to make the region more competitive.