

Lessons learned from three dozen economic impact studies

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Abstract 218**

Economic impact studies are a common tool that provide information to event owners, facility operators, local governments, and host committees or sports commissions. There have been publications explaining the basic steps of conducting an economic impact study and common errors that can occur (see Howard & Crompton, 2006, and Crompton, Lee, and Shuster, 2001). However, there are still many processes that can be improved upon as well as other knowledge that has been created, but not necessarily published.

This research will provide a look at a number of issues that often arise in conducting EI studies through a meta-analysis. It will also provide some new and interesting findings related to capture rates, local residents vacationing at home, the Alchian-Allen Theorem, and other knowledge.

The purpose of this study and presentation is to move the frontier of knowledge on conducting effective economic impact studies a bit further by (1) looking deeper into practical measurement issues related to economic impact analysis, and (2) providing general findings from three dozen studies on issues such as capture rates, whether and how to count local residents' spending, and the Alchian-Allen Theorem. A tourism research interpretation of the Alchian-Allen Theorem is that the further people travel on a sports tourism vacation, the more money they will spend upon arriving.

Areas focused on will include:

1. A disaggregation of the number of attendees into unique attendees, visitors, time-switchers, casual visitors, and incremental visitors.
2. Where are the direct spending dollars spent? How much in hotels versus restaurants, etc?
3. What is relationship between spending inside of an event and outside of the event? Can something be learned about economic impact by simply understanding inside spending?
4. How much spending occurs far away from the event location? Is there a way to determine this?
5. How often, and to what extent, are there capacity constraints (opportunity costs) at local hotels or at the even facility that crowd out would-be tourists and other events from taking place?
6. The practical issue of how to handle blank responses for some survey questions. Stanton (1998) shows numerous methods that are tested using these three dozen studies.
7. Tests of the Alchian-Allen Theorem that the further people travel, the more they spend upon arriving at their destination.
8. Five sources of impact that are not from spectators: the portion of team/artist, media, corporate/sponsor, vendor, and event organizer expenditures that are truly "incremental".
9. How to handle "reverse time switchers" and locals who "vacation at home". My economic impact studies show that some spending by local residents is incremental. This is consistent with recent research by Steven Cobb and Douglas Olberding (2007) showing that local residents spent incremental dollars associated with a marathon event.
10. How to handle the expenditures inside of a facility compared with expenditures by the facility operators related to the event or team.
11. Fiscal impact: (a) not all spending is taxed, (b) indirect spending is not taxed at the marginal rate, and (c) how to account for beverage or alcohol taxes.
12. What percentage of spending by a local sports team (whose budget may exceed \$100 million) is spent locally instead of outside of the area of impact?
13. Who are the people who attend these events in terms of demographics, psychographics, geographics, etc?
14. Is there a way to measure future tourism that might occur because of an event?

The methods used will be a meta-analysis of over three dozen economic impact studies that I have conducted over the past decade. Different techniques will be used for each of the fourteen categories listed in the Purpose section. For instance, a summary of the breakdown of the number of attendees to an event into unique attendees, visitors, time-switchers, and casual visitors will be created and contingency tables that break it down by event type (spectator, participant, indoor, outdoor, etc.). Using regression analysis, the price paid for a ticket will be modeled based on the demographics, geographics, psychographics, event types, and other expenditures (if econometrically appropriate) of spectators at the events. Similarly, regression analysis of different spending amounts on distance traveled, per capita income, and other demographics will be modeled to test the Alchian Allen Theorem. A model will be developed of direct spending to see if it can be estimated from spending inside of an event or facility.

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There are many lessons I have learned in how to conduct more accurate economic impact studies. There is also knowledge that relates to marketing an event that can be learned from further analysis of economic impact data. For instance, certain types of tickets can be marketed to certain types of spectators based on where they are traveling from. Conversely, hotels might be able to market to certain individuals based on the types of tickets purchased. Overall marketing of higher end hotels and restaurants should occur to people likely to travel from further away, since they will typically spend more money on hotels and related services (outcomes of the Alchian-Allen Theorem).

There are many practical findings that will come from the research. If a city builds a new sports facility, what types of capture rates can it expect from its tenants? If it hosts an event with expected attendance of 25,000, what will be the likely percentage who are incremental visitors? Will there be significant impacts from the media covering the event or producing the event? What about sponsors activating their sponsorships locally - how much will they spend?