TOURISM CENTER

MINNESOTA EXTENSION SERVICE
UNIVERSITY OF MINNESOTA

Itasca County Tourism Business Retention & Expansion Program - 1995

EXECUTIVE SUMMARY

State Sponsors
Minnesota Department of Trade & Economic Development
Minnesota Extension Service - University of Minnesota

Local Sponsors
Economic Development Authority
Grand Rapids Area Chamber of Commerce
Itasca Development Corporation

GOALS & PROGRAM LEADERSHIP

Overview and Goals of the BR&E Program: In the summer of 1994, Itasca County leaders began preliminary discussions about their desire to undertake a tourism business retention and expansion (BR&E) program in the county. By the beginning of 1995, the program was underway with the recruitment of a task force. Volunteer visitors were also recruited and trained to begin the on-site visitation and survey of 94 identified lodging and attractions businesses in Itasca County. In total, seventy-three firms responded by accepting an invitation to be visited and complete a survey.

This report summarizes the results of those visitations and presents strategies and actions that have been adopted towards meeting the objective of the program: to explore ways that the existing tourism and travel businesses in the county could be helped to survive and grow. The specific objectives of the project were to:

- illustrate the economic importance of the travel and tourism industry to Itasca County;
- demonstrate the area's appreciation of county tourism businesses for their contributions to the local economy; and
- develop action plans to remove obstacles for continued and balanced growth of the county's travel and tourism industry.

BR&E Leadership Team: The following team coordinated the project:

John Licke, Coordinator, Blandin Paper Company
Bill Reynolds, Willow Lake Hideaway Resort
Mike Iaizzo, KOZY/KMFY Radio
Frank Allen, Itasca Development Corporation
Lee Jess, Jess Dental Office
Carl Wegner, Itasca County Extension
Sandy Layman, Grand Rapids Area Chamber of Commerce

Tourism Review Team: Survey information was reviewed and suggested recommendations were offered by the following team:

Frank Allen, Itasca Development Corporation
Randal Baker, St. Cloud State University
Tim Campbell, Minnesota Office of Tourism
Dan Erkkila, University of Minnesota Tourism Center
Steve Markuson, Minnesota Office of Tourism
Cynthia Messer, University of Minnesota Tourism Center
George Morse, University of Minnesota Applied Economics

Itasca BR&E Task Force: The following task force of community leaders was involved in recruiting volunteer survey visitors, reviewing research results, and selecting the recommendations that appear in this summary. The task force included:

Frank Allen, Itasca Development Corporation
Steve Arbour, Norwest Bank
Fred Bobich, Ruttger's Sugar Lake Lodge
Jay Braford, Itasca County Commissioner
Paula Davidson, Visitor & Convention Bureau
Skip Drake, Forest History Center
Todd Driscoll, Blandin Foundation
John Fredrickson, Forest Lake Restaurant
Bill & Gail Heig, Bowen Lodge
Sue Helmbrecht, Country Inn
Mike Iaizzo, KOZY/KMFY Radio
Lee Jess, Jess Dental Office
Mike Johnson, Itasca Community College
Dan Koenig, North Star Lake Resort
Sandy Layman, Grand Rapids Area Chamber of Commerce
Anne Lewis, Westmoreland, Larson, & Webster
John Licke, Blandin Paper Company
Carol Moore, Independent School District #318
Les Ollila, Minnesota Dept. of Natural Resources
Jeff Ortman, North Itasca Electric
Bill Reynolds, Willow Lake Hideaway Resort
Carl Wegner, Itasca County Extension
Howard Zeman, Chippewa National Forest

Volunteer Visitors: In addition to the task force, the following community leaders also visited several businesses:

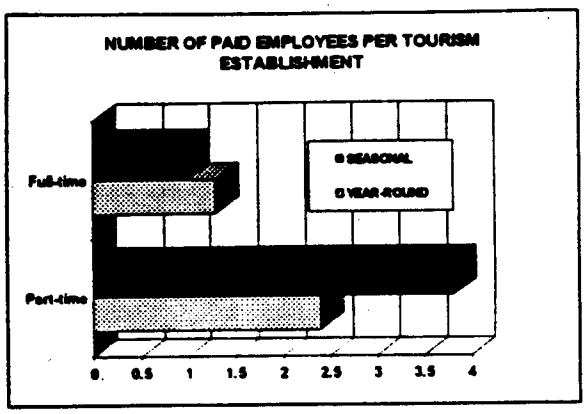
Ruby Braford	Dave Broberg
Fred Callahan	Ben Hawkins
Len Hedman	Jim Heitzman
Marilyn Isaac	Ann Jackson
Ernie Jacobson	Jerry Kleven
Lori Lopac	Sue Marchel
Paul Maurer	Marsha Miller
Wanda Moeller	Alden Olson
Rob Peterson	Mike Przytarski
John Rothstein	Tom Saxhaug
Terry Schmitz	Jeff Skelley
Vicki Wilcox	

SURVEY RESULTS

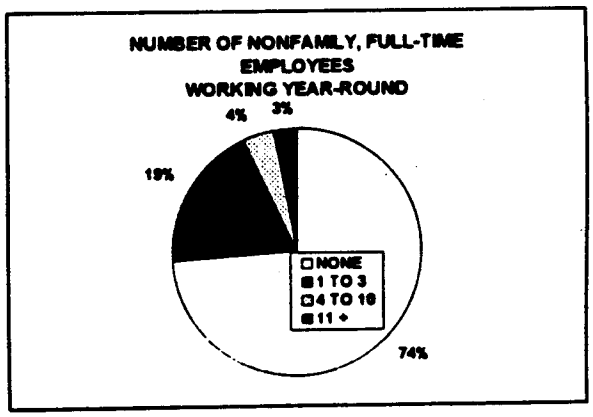
Response Rate: Seventy-three out of 94 identified accommodations and attractions firms accepted an invitation to be interviewed, yielding a 78 percent response rate.

Business Sales: The majority of sales of visited firms came from lodging (54 percent), followed by a distant 14 percent of sales from recreation (e.g., golf, boat/motor rentals, etc.). For firms with lodging operations, resorts dominated (64 percent), followed by hotel/motels (21 percent). In all, 71 percent of the firms visited had some sales from lodging.

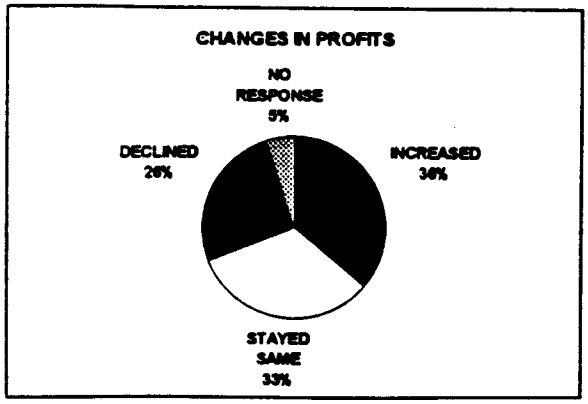
Size of Operation: As characterized by much of the rural tourism industry in northern Minnesota, Itasca County's surveyed firms were relatively small. For those firms whose business included sales in lodging, for example, the average number of bedrooms was 23. Seventy percent of lodging firms offered no

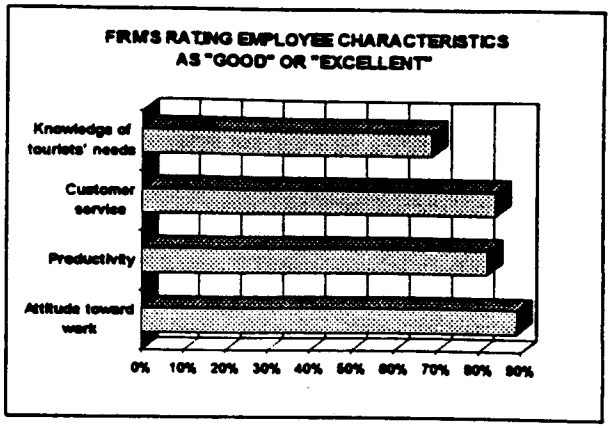


camping. For those offering camping (including tents and RV's), nearly half (48 percent) had 2-4 campsites and 52 percent had 20 or more. Only 19 firms reported any year-round, full-time employees (including only one resort). Those at convention resorts and hotel/motels earned an average wage of $6.88/hour; attractions employees averaged $12.26/hour.



Economic Health of Businesses: With the exception of profits, the percentage of firms that more than doubled the various business factors was nearly twice those that declined in the last





two years. For profits, 36 percent saw an increase, one third said profits stayed about the same, and 26 percent saw a decline. For those firms responding, a sizable increase in the number of employees was reported when compared to those reporting a decline (e.g., 16 percent saw an increase in full-time staff compared to 3 percent reporting a decline). A majority, however, reported no change in employees over the two-year period.

Respondents had an optimistic outlook on the future for the next two years (1995-1997). Seventy percent expected their number of customers to increase, three-quarters expected total revenues to be on the upswing, and nearly two thirds saw their profits going up. Most expected the number of employees, both full and part-time, to remain the same.

SURVEY RESULTS FOR STRATEGY ONE: Enhance The Operational Efficiency Of Travel And Tourism Businesses

Firm survival depends on total income from sales exceeding total expenditures. The greater the difference (profit), the more efficient and healthy the business. This section presents some actions that may be taken that could enhance revenues for tourism firms and reduce operating expenses.

Research Results Related to Strategy One

Employee productivity and training -- Tourism is a service industry that is becoming more and more dependent on service quality to ensure repeat business. Itasca's surveyed firms rated their employees high in customer service, with 84 percent saying their employees rated either "good" or "excellent." As the tourism industry experiences high turn-over rates, this employee characteristic must receive constant attention in the firm's employee training plan. Itasca's firms were less comfortable with their employees knowledge of tourists' needs and desires (69 percent rating good or excellent).

Constraints on renovation or expansion -- Seventy-one percent of the tourism businesses said they were considering expanding their existing buildings or facilities in the future. Fifty-five percent said this would not change the number of employees they hired, while 45 percent mostly saw an increase of either one (24 percent), two (38 percent) or three (29 percent) jobs from the expansion. In the process, firms said they saw constraints to their renovation and expansion plans that could inhibit job creation for some. Planning and zoning guidelines were listed most frequently (36 percent) as a barrier to expansion, followed by government regulations (33 percent), environmental and pollution controls (23 percent), and an inadequate return on improvements (18 percent).

Information needs -- There were more than 190 requests for information by the 73 firms surveyed in Itasca County, averaging 2.6

CONSTRAINTS TO RENOVATION OR EXPANSION OF TRAVEL & TOURISM BUSINESSES

Types of Constraints	Percent Reporting
Planning and zoning guidelines	36
Government regulations	33
Environmental/pollution control	23
Inadequate return on improvements	18
Insufficient space available for expansion	15
Inability to get loan	12
Lack of knowledge in identifying resources & assistance	11
Insufficient time to arrange	8

requests per firm. Marketing planning, tourism loan program, and business/finance topics were highly sought after by one quarter to one third of the firms.

INFORMATION NEEDS FOR TRAVEL & TOURISM FIRMS

Type of Information	Percent Reporting
Marketing planning	51
Tourism loan program	41
Financing programs	34
Computer management	33
Business plan development	26
Financial management	23
Chamber programs	23
Customer service training	19
American Disabilities Act	14

Task Force Recommendations:

1 ***Develop ongoing training programs for computer, marketing, finance, customer service, and management skills expertise*** -- Survey results suggest that tourism firms have a great degree of interest and need for these skills. The highly competitive nature of the industry implies that firms will need to have solid business skills to stay in the game. As information and technologies are constantly changing, a sustainable program of ongoing training is highly desirable. As mentioned earlier, on-going customer service training for front-line staff and management is critical to repeat business.

2 ***Sponsor an industry Tourism Development Day*** -- Introducing tourism business owners to a variety of sources of information that could help improve the operation of their businesses could be scheduled. Tourism Development Day would be staged as a special event to offer information on marketing planning, financial and computer management, loan and financing programs, customer service training, and other needs. Each program could include: (a) a motivational speaker on the benefits of improved use of these tools; (b) a firm that has improved its net income through the adoption of one of these tools; and (c) information on alternative programs for helping firms to learn these new skills and management techniques.

3 ***Develop a business packet of information and assistance resources*** -- Business owners are more likely to use resources if they know where information and assistance can be found. Compiling sources of information and assistance into one packet and making it available to all tourism and travel businesses would minimize a firm's initial hurdle of identifying the best source of business help.

SURVEY RESULTS FOR STRATEGY TWO: Improve The Government Services And Regulatory Climate For Tourism Industry

Regulatory policy is one of the more visible types of public policy we see in everyday life. Whether created and/or administered at the federal, state, or local level, regulatory action is usually taken, for example, to control trade, safety, communication, and environmental action. Regulations increase the cost of doing business. Similarly, government services are critical to our society, but add to business costs. The net result is that they may decrease efficiency and profit.

Sometimes regulations can have adverse effects on people and businesses that were not intended. Understanding the regulations and services in operation, and insuring that the practical effects of the policy or service are both known and desired, are critical.

Research Results Related to Strategy Two

Community services -- Surveyed tourism firms rated all of the basic public safety services as excellent or good: ambulance (85 percent); police (81 percent, fire (79 percent), and; health/hospital care (72 percent). On the bottom (poor or very poor), however, were traffic issues (18 percent); building code (21 percent); zoning and land use planning issues (31 percent), and road maintenance (34 percent).

Quality of related businesses -- Tourists come for a variety of reasons and have a variety of needs when they arrive. From the standpoint of community economics, all businesses are benefited by these visitors the longer they stay and buy locally. Tourism firms interviewed were asked to rate businesses they viewed as peers or related to their own business as either a strength or weakness. Related recreation service businesses were clearly viewed as a strength by visited firms (71

RATINGS OF COMMUNITY SERVICES BY TRAVEL & TOURISM FIRMS

Community Service	Percent of Firms	
	Excellent/ Good	Poor/ Very Poor
Community college	93	0
Ambulance services	85	7
Police protection	81	5
Fire protection	79	13
Recreational facilities	79	4
Elementary/secondary schools	72	3
Health care/hospitals	72	6
Day care	53	9
Traffic flow	49	18
Building code	47	21
Zoning/land use planning	35	31
Road maintenance	32	34

percent), while roughly half saw lodging, eating and drinking, and retail stores as a strength. Even though the nearest casino is almost a one hour drive from most areas in the county, 40 percent of the firms felt that casinos were a weakness and only 7 percent saw them as a strength.

Legislative Issues -- Frequently, problems in regulatory policy or government services arise as legislative issues. Revision of workers' compensation laws and protection of the post-Labor Day school opening tied as the number one issue of visited firms, with limits to casinos entering the restaurant and lodging market as the number two legislative priority. Recreational tort reform received the highest "in favor" rating at 86 percent.

Task Force Recommendations:

4 ***Identify specific regulatory issues that may limit the retention and expansion of existing tourism businesses*** -- Surveyed firms were clear that a number of regulatory areas inhibit or have the perceived potential to inhibit their ability to expand or enhance business operations. A process should be undertaken to identify which regulatory policies do cause problems and assemble additional information (e.g., administering body/agency, contact person, etc.) that could assist the business owner as they try to evaluate their individual situation relative to the regulation in question. Assembled information would be put into the business resource packet (Recommendation 3).

5 ***Develop and pursue a county-wide legislative agenda to include those issues that are viewed as critical to the success of the tourism industry in the county*** -- Issues like recreational tort reform and workers' compensation can be crucial to firms, as both affect the cost of doing business.

SURVEY RESULTS FOR STRATEGY THREE: Enhance The Overall Marketing Efforts Of Itasca County Tourism

Marketing is more important than ever for successful tourism products and services. Increasing sales is one means to higher profits. Steps to increase sales can include: (a) identifying new products and services that bring in new customers (or old customers doing new things), and (b) promotional efforts to attract customers for current goods and services.

Research Results Related to Strategy Three

Business Environment -- Eighty-three percent of all visited firms felt that Itasca County was a good or excellent place to do business. On the contrary, 17 percent thought the county could do better.

Trends providing opportunities -- National and regional tourism trends provide a source of opportunity for new market niches where future growth may be found. The responsiveness of Itasca County's tourism industry to such trends could place it in a position to capture greater economic gains. Factoring in the natural endowments of the area may delineate a competitive advantage for the region -- if the industry responds to trends and brings the customer to the product.

More environmentally aware visitors was viewed by 67 percent of the firms as the top tourism trend offering opportunity. This was followed by two-income families (65 percent), retention of old-growth (56 percent), and an expanding civic center (50 percent). Strong threats included year-round school proposals and increasing promotion of other regions (77 percent), growth in gaming casinos (67 percent), and aging facilities (66 percent.)

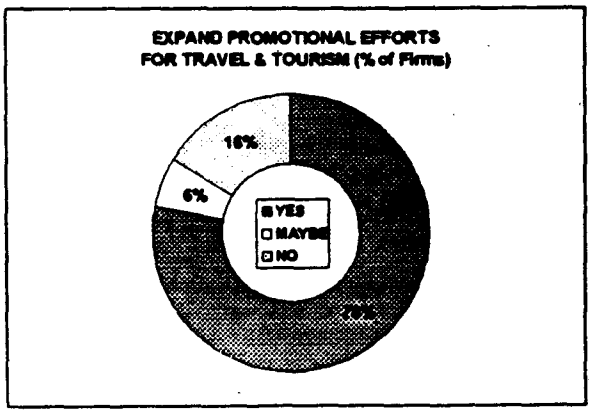
MAJOR TRENDS PROVIDING OPPORTUNITIES	% Responding
More environmentally aware visitors	67
Two-income families	65
Retention of old-growth forests	56
Expanding civic center	50
Aging of U.S. population	49
Declining number of resorts	40

MAJOR TRENDS PROVIDING THREATS	% Responding
Year-round school proposals	77
Increasing promotion of other regions	77
Growth of gaming casinos	67
Aging of facilities	66
More single-parent families	60
Shorter vacations	57

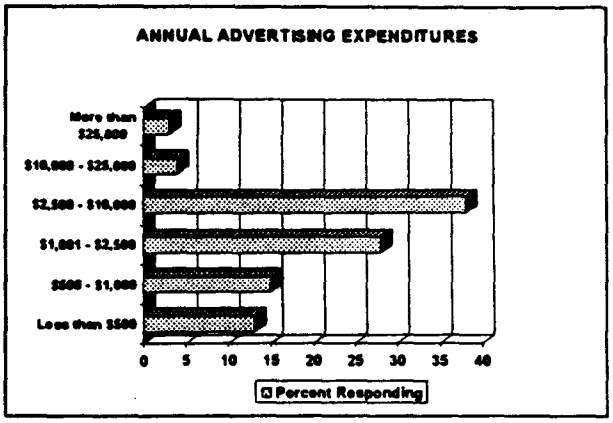
Promotion -- Seventy-eight percent of the firms felt that the county needs to expand its promotional efforts for travel and tourism. Leading the list of ideas to be studied more closely for increased promotion was the use of booths at sports and travel shows (77 percent), buying print media ads in surrounding states (74 percent), and special events for specific groups or activities, like seniors, golf, etc. (67 percent).

The primary promotional images firms felt most strongly about included access to lakes and rivers, unpolluted natural environment, and fishing as the top three.

Current Advertising -- The primary advertising method that firms used within the past year was the Grand Rapids Vacation Guide (31 percent), followed by nonlocal newspapers (13 percent) and a weekly shopper paper (8 percent). Forty-two percent of the interviewed firms were currently putting their marketing efforts in locally-produced pieces, while 24 percent were



hitting the Twin Cities market. Over half of all the firms spent $2,500 or less per year on advertising, while 7 percent spent $10,000 or more every year. The average advertising budget for firms fell in the $1,001 to $2,500 category.



Sharing of Advertising Expenses -- Sixty-three percent of the firms said they did not currently share advertising expenses with other tourism businesses or organizations. Of these, 93 percent further indicated they were not interested in exploring this option. For the 37 percent that currently share expenses, the Grand Rapids Area Vacation Guide (66 percent supported) was on the top at twice as popular as the second-most popular advertising effort -- promotions and special events (37 percent).

Task Force Recommendations:

6 ***Consider increased efforts for further-away and/or activity-oriented markets (especially winter)*** -- Experience has shown that people who come from a longer distance tend to stay longer and spend more money. Additionally, people who travel for very specific activities (vertical markets) tend to have a willingness to travel more and spend more money in order to engage in that activity. A concentrated marketing effort could be made to bring in visitors to Itasca County, once the vertical/activity-oriented markets are identified.

7 ***Conduct a competitive analysis to identify marketing opportunities or product development needs*** -- Itasca County competes in regional, state, and national marketplaces, as well as internationally. Today's vacationers weigh diverse travel options. In order to understand regional marketing strategies, Itasca County may first be

aided by understanding its current competitors and clients. Where are visitors coming from? When? Why? Objectives of such an investigation could include: (a) Evaluation of customer preferences for tourism products and services in Itasca County; (b) Comparison of preferences to other similar markets where growth is known to be occurring; (c) Investigating and identifying reasons for identified shifts in customer destination preferences; and (d) Identifying actions that could be taken to increase the county's market share and improve overall products and services.

8 ***Focus marketing efforts on specific niches that may be particularly well suited to the region or have been ignored (e.g., single-parent, ecotourism)*** -- Special niche marketing means going after client groups who are looking for something very specific in their touristic experience. Single-parent families, people with disabilities, and kiyakers are all examples of special niche markets that offer potential. Communities interested in moving in this direction need to identify potential niche markets and understand their needs.

9 ***Identify and explore product development opportunities that will maximize exiting natural resources attributes*** -- Paying closer attention to the natural resources and attributes of Itasca County may suggest that opportunities exist that haven't been developed as fully as they could. For example, the county has a well developed trail system for cross-country skiing and snowmobiling. With the explosive growth in demand for these winter activities, the county could significantly capitalize on the area's existing resource. Additional development work and heavily marketing the trails could bring in new visitors. Taking an "inventory" and carefully assessing all existing resources and attributes may uncover other "sleeping" market opportunities.

SURVEY RESULTS RELATED TO STRATEGY FOUR: Enhance The Organizational Structure And Execution Of Tourism Development And Promotion In Itasca County

Itasca County can enlarge the opportunities for area tourism businesses and capture the economic opportunities that can spin-off to communities and non-tourism businesses. This effort, however, will require an organization capable of addressing the collective needs of all players. Further, successful implementation of any or all of the described recommendations will likely require the coordinated efforts of tourism and non-tourism businesses, as well as local governments. With greater local collaboration, Itasca County will be better positioned to work with state and other organizations to enhance the county's image as a year-round destination area.

Research Results Related to Strategy Four

As mentioned earlier, 78 percent of the surveyed firms believed that county promotional efforts should be expanded, while 6 percent responded "maybe." When asked their opinions about possible options for funding a county-wide tourism promotion, the mechanism receiving the highest acceptable vote was a membership fee in a tourism organization (59 percent). Firms reacted most strongly (i.e., unacceptable) against raising county property taxes (64 percent), voluntary assessments (44 percent), and room taxes on lodging guests (43 percent). A majority, however, found the room tax option either acceptable or worth further study (58 percent).

When firms were asked what the response should be to a significant decrease in county funding for tourism promotion, the highest response went to a county sales tax (34 percent). A minority, 11 percent, suggested absorbing the loss and doing nothing about it.

Task Force Recommendations:

10 ***Investigate alternative funding mechanisms*** -- The funding issue is

POSSIBLE FUNDING OPTIONS FOR COUNTY-WIDE TOURISM PROMOTION

	ACCEPTABLE (%)	NEEDS STUDY (%)
Room tax on lodging guests	36	22
Membership fee in tourism organization	59	20
Fund-raising events	48	26
County sales tax	35	24
County property tax	19	17
Voluntary assessment	21	35

large and significant enough on its own to warrant separate treatment. Growth will not come without marketing, and marketing requires capital. Included in this option would be an investigation of a county-wide lodging tax ("local option lodging tax") with joint powers agreements among county communities authorized under Minnesota statute 477A.018.

11 ***Study the feasibility of a regional tourism organization*** -- The current structure fragments the county in a variety of ways. Initiating a process that evaluates the feasibility of a "regional" (e.g., county-wide) organization would bring all pertinent information, organizations, and individuals together to investigate mission, goals, leadership, situational analysis, funding options, and evaluation. A first step would be to convene a group with good representation across the county and across tourism segments (e.g., lodging, attractions, etc.)

12 ***Develop a long-range strategic plan for tourism in Itasca County, reviewing current and desired market position, current/desired products, services, and infrastructure*** -- Marshaling the resources necessary to be successful in the tourism arena requires a vision that portrays where an organization sees itself in the future. Whatever that vision is, a strategic plan is a crucial element of a successful business. Pulling all acquired information together (e.g., vision statement, goals, objectives, timelines, etc.) puts focus to actions that will bring desired results. For a concerted county-wide effort, a strategic plan will help in ensuring that the inevitable variety of involved organizations and businesses will be moving in the same direction and will see their roles in the process.

Authors: Dr. Daniel L. Erkkila is a tourism & travel specialist with the Tourism Center of the Minnesota Extension Service, University of Minnesota. Dr. George W. Morse is an extension economist with the Department of Applied Economics, University of Minnesota. Both wrote the initial report, *Preliminary Action Strategies Planning Report* and this summary. The tourism review team, listed earlier, developed suggested recommendations and the Itasca County BR&E Task Force developed the recommendations that appear in this summary.

November, 1995

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