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THE TWENTY-FOURTH LEGISLATURE  
REGULAR SESSION OF 2008

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NOTICE OF INFORMATIONAL BRIEFING

DATE: Friday, February 1, 2008  
TIME: 1:30 PM  
PLACE: Conference Room 308  
State Capitol  
415 South Beretania Street

A G E N D A

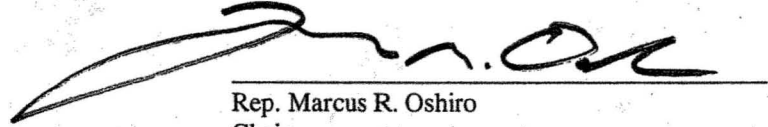
The Council on Revenues recently reduced its revenue projection for the State of Hawaii from 5.7% to 4.9% in fiscal year 2008, and increased its revenue projection from 3.8% to 4.1% in fiscal year 2009. In order to gain a better understanding of what is happening in one of the largest components of the economy, the following individuals will provide background information and data for the current and future outlook of the tourism industry in Hawaii:

- Rex Johnson, President & CEO of the Hawaii Tourism Authority
- David Uchiyama, Vice President of Marketing for the Hawaii Tourism Authority
- John Monahan, President and & CEO of the Hawaii Visitors and Convention Bureau
- Joe Davis, General Manager of the Hawaii Convention Center (with SMG)

If you require special assistance or auxiliary aids and/or services to participate in the House public hearing process (i.e., sign or foreign language interpreter or wheelchair accessibility), please contact the Committee staff at 586-6200 at least 24 hours prior to the hearing for arrangements. Prompt requests submitted help to ensure the availability of qualified individuals and appropriate accommodations.

For further information, please call the Committee staff at 586-6200.

Selected meetings are broadcast live. Check the current legislative broadcast schedule on the "Capitol TV" Web site at [www.capitoltv.org](http://www.capitoltv.org) OR call 550-8074.

A handwritten signature in black ink, appearing to read 'M. R. Oshiro', is positioned above a horizontal line.

Rep. Marcus R. Oshiro  
Chair

## Presentation to House Finance Committee State of Hawai'i's Visitor Industry

February 1, 2008

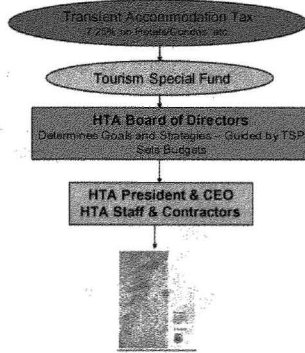


## Agenda

- Background on HTA
- 2007 Visitor Industry Performance
- Detailed look at Hawai'i's Visitor Industry
- Market Updates
- Wrap up



## How HTA Works



## TSP Strategic Initiatives

- Access
- Communications and Outreach
- Hawaiian Culture
- Marketing
- Natural Resources
- Research and Planning
- Safety and Security
- Tourism Product Development
- Workforce Development



## 2007 Visitor Industry Performance (visitors arrived by air)

	Visitor Arrivals (million)		Per Person Per Day Spending (\$)		Visitor Expenditures (\$ billion)	
	2007p	% Chge	2007p	% Chge	2007p	% Chge
<b>2007 Preliminary</b>						
Total	7.37	-1.2%	\$181.6	2.5%	\$12.24	0.9%
U.S. West	3.20	0.1%	\$158.4	1.2%	\$4.76	1.1%
U.S. East	1.87	-3.3%	\$186.3	2.9%	\$3.59	-0.3%
Japan	1.31	-3.5%	\$269.2	1.0%	\$2.01	-1.2%
Canada	0.29	5.3%	\$150.8	5.5%	\$0.55	10.7%
All Others	0.70	-0.1%	\$190.7	9.2%	\$1.33	2.6%

Department of Business, Economic Development & Tourism

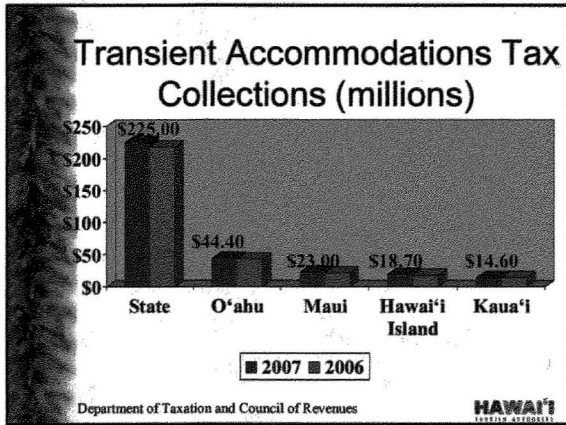
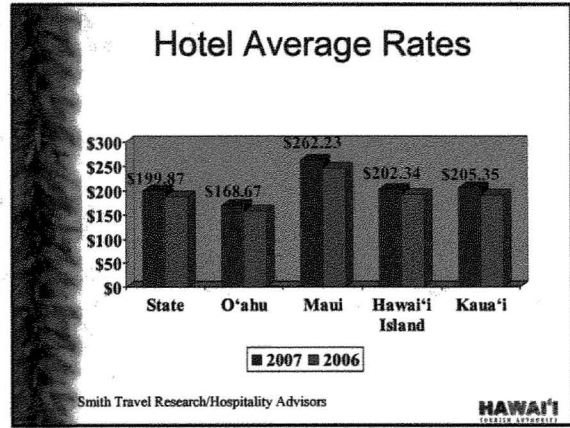
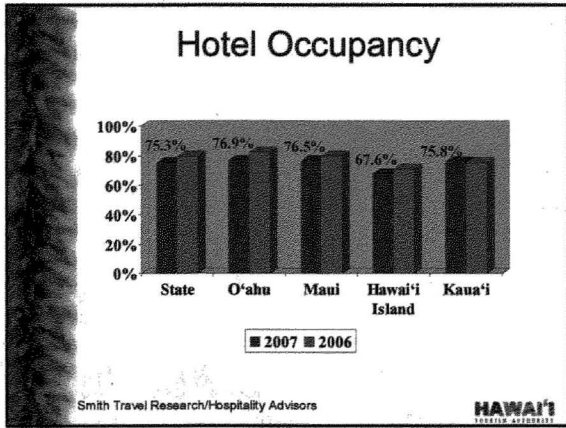


## 2007 Scheduled Air Seats

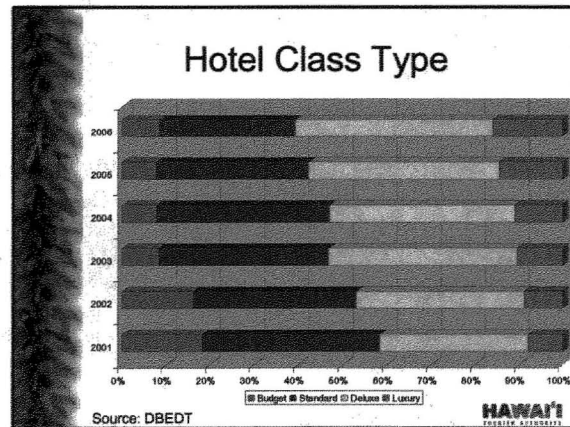
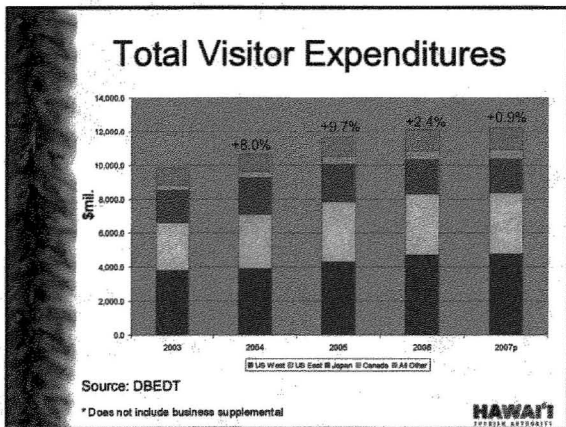
	2007	%Chge from 2006
Total Seats	10,198,556	-1.6%
US TOTAL	7,407,930	-2.1%
US West	6,309,064	-0.2%
US East	1,098,866	-11.6%
INTL TOTAL	2,790,626	-0.2%
Japan	1,851,850	1.9%
Canada	304,393	-17.7%
Other Asia	140,551	7.9%
Oceania	259,968	6.5%
Other	233,864	0.1%

Department of Business, Economic Development & Tourism

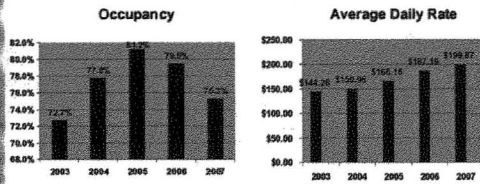




## Hawai'i's Visitor Industry – A Detailed Look



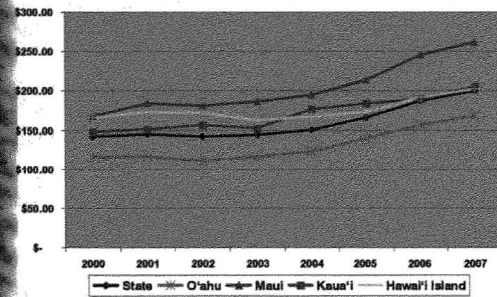
## Occupancy vs Average Daily Rate



Source: DBEDT

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## Average Daily Rates



Source: DBEDT

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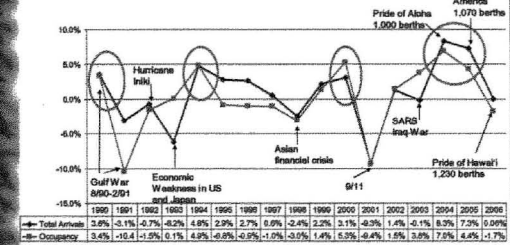
## 1st Time vs Repeat Visitors

	2003	2004	2005	2006	2007p
First-Time	37%	38%	37%	36%	36%
Repeat	63%	62%	63%	64%	64%

Source: DBEDT

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## Visitor Arrivals vs. Occupancy 1990-2006



Source: DBEDT

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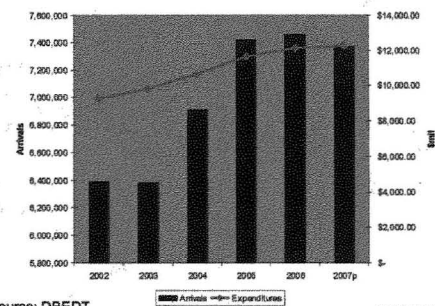
## Convention Center – Measures

Annual Consumed Goal = 700,000 Room Nights

	DEFINITES			FORECASTS	
	Events	Delegates	Rm Nts	Rm Nts	Subtotal
2002	28	69,200	439,280		
2003	40	112,196	654,683		
2004	39	152,015	579,731		
2005	46	196,130	706,486		
2006	37	97,170	566,433		
2007	39	91,765	545,208		
2008	24	65,958	377,776	77,551	455,327
2009	17	97,285	771,361	173,388	944,749
2010	10	66,780	476,671	221,350	698,021

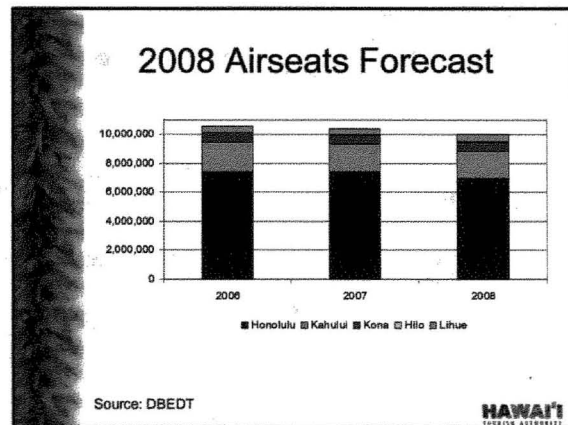
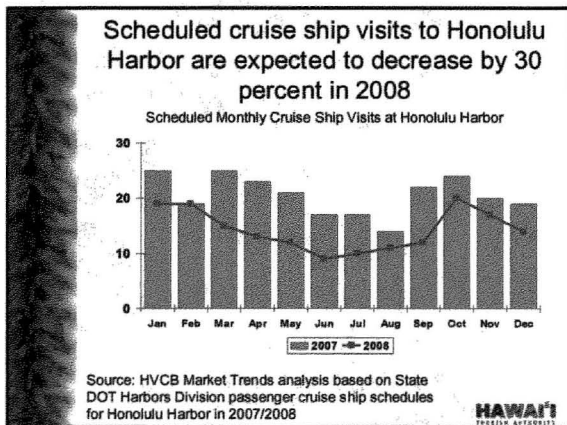
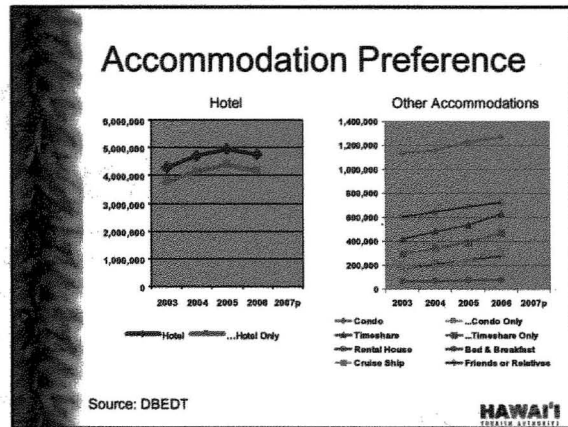
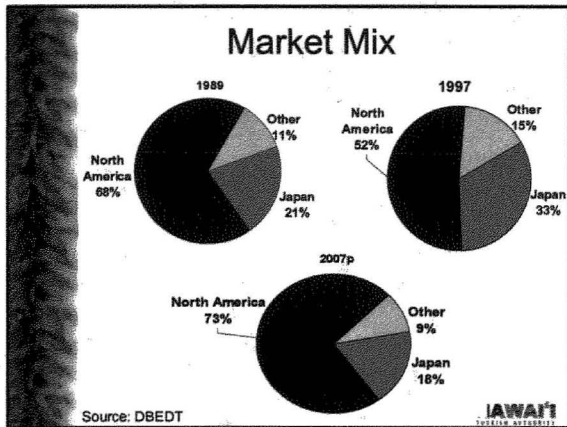
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## Arrivals vs. Expenditures



Source: DBEDT

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- ### Uncontrollables
- Economic Variables (mortgage crisis, stock market, international economies, fuel prices)
  - Fuel Surcharge
  - Competitive Product Offerings
  - Time value
  - Available Lift
  - Changing Workforce
  - Refreshing our destination
  - Maturing Destination
  - Foreign Currency Strength
- Source: DBEDT

### Market Updates

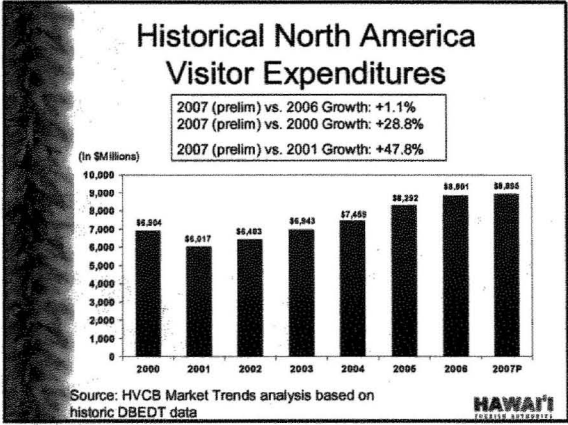
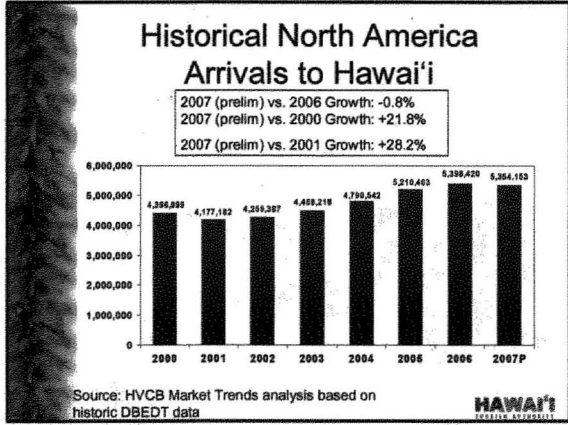
Source: DBEDT

## Market Update: North America Market Situation



## HTA Measures

- Brand Hawai'i as a unique, diverse destination that has much more to offer beyond *sun, sand, and surf*
- Targeted growth of visitor expenditures
  - Specific customer segments
  - Shoulder seasons



### Preferred Destination for "Opportunities for New Discoveries"

U.S. West		U.S. East	
Alaska	64%	Europe	61%
Australia	60%	<b>Hawai'i</b>	<b>50%</b>
<b>Hawai'i</b>	<b>52%</b>	Caribbean	47%
Mexico	45%	California	31%
Caribbean	44%	Florida	29%

Source: TNS Hawai'i Marketing Effectiveness Study, YTD through 2007 Q3 Results



### Preferred Destination for "Has a Variety of Unique Experiences and Activities"

U.S. West		U.S. East	
Australia	62%	Europe	66%
Alaska	60%	<b>Hawai'i</b>	<b>55%</b>
<b>Hawai'i</b>	<b>59%</b>	Caribbean	52%
Caribbean	51%	California	39%
Mexico	44%	Florida	40%

Source: TNS Hawai'i Marketing Effectiveness Study, YTD through 2007 Q3 Results



### Preferred Destination for "Variety of Cultural Activities to Engage in"

U.S. West		U.S. East	
Hawai'i	59%	Europe	67%
Australia	54%	Hawai'i	47%
Mexico	52%	Caribbean	41%
Caribbean	43%	California	30%
Alaska	40%	Florida	25%

Source: TNS Hawai'i Marketing Effectiveness Study,  
YTD through 2007 Q3 Results



### Preferred Destination for "Good Value for the Money"

U.S. West		U.S. East	
Mexico	54%	Florida	49%
Caribbean	29%	Caribbean	40%
Hawai'i	25%	California	22%
Alaska	25%	Europe	20%
Australia	15%	Hawai'i	17%

Source: TNS Hawai'i Marketing Effectiveness Study,  
YTD through 2007 Q3 Results



### Hawai'i Travel Outlook

- US long-haul travelers' Hawai'i travel considerations remain strong heading into 2008, but travel intentions closer to the point of conversion are running lower, particularly among US East consumers

U.S. West	2003	2004	2005	2006	2007*
%Considering Hawai'i for Next Leisure Trip	36%	36%	35%	37%	37%
%Extremely/Very Likely to Take a Leisure or Vacation Trip to Hawai'i in Next 24 Months	27%	26%	25%	29%	29%
U.S. East	2003	2004	2005	2006	2007*
%Considering Hawai'i for Next Leisure Trip	17%	16%	17%	18%	18%
%Extremely/Very Likely to Take a Leisure or Vacation Trip to Hawai'i in Next 24 Months	13%	13%	14%	14%	12%

\*Source: TNS Hawai'i Marketing Effectiveness Study.  
Note: 2007 data are YTD Qtr1-Qtr3, 2007.



### Hawai'i Domestic Air Service Near-term Outlook Promising

- DBEDT's latest three-month air capacity forecast projects a notable +5.0 percent increase in scheduled nonstop domestic seats to Hawai'i for the first quarter of 2008 (compared Q1 2007).
- The rise in air seats is fueled by a +5.8 percent expansion in U.S. West air seats, and a stable U.S. East capacity outlook (+0.3%).



### Hawai'i Cruise Capacity Reduction Ahead

- A 30 percent reduction in Hawai'i cruise capacity is expected to slow growth in cruise travel to the state in 2008, with scheduled reductions ahead from both Norwegian Cruise Lines and the foreign-flagged ships.
- In CY2006, cruise visitors (including those who arrived by air and /or cruise ship) accounted for 5.5 percent of the state's total visitor arrivals.



### Market Update: Travel Marketplace Conditions





## National Travel Outlook

- U.S. travel interest in general and interest in travel to Hawai'i in particular remain strong heading into 2008.
- However, the barriers to converting this demand into actual Hawai'i vacations (especially for US East travelers) are "higher" than they have been in recent years

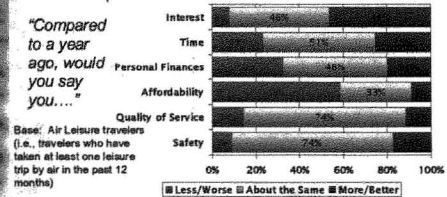


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## Affordability, Personal Financial Concerns & Time Poverty on Minds of U.S. Travelers

- Travel affordability, personal financial concerns, and time constraints are the greatest barriers in converting strong U.S. consumer travel interest into actual trips.

"Compared to a year ago, would you say you...."



Base: Air Leisure travelers (i.e., travelers who have taken at least one leisure trip by air in the past 12 months)

Source: Travel Industry Association/Partnership travelhorizons Survey – December 2007

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## Personal Financial Concerns Impact U.S. Consumers' Travel Habits

- Rising personal financial concerns are causing nearly half of air leisure travelers to change their future travel plans.
  - 44% surveyed in October 2007 intended to make changes to their leisure travel plans in the next six months.
  - While very few (4%) intended to cancel their travel plans altogether:
    - > 25% would take fewer trips
    - > 18% would select less expensive hotels/resorts
    - > 12% would drive rather than fly
    - > 9% would stay fewer nights
    - > 6% would change their vacation destination

Source: Travel Industry Association/Partnership travelhorizons Survey – December 2007

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## Financial Concerns Impact on Potential Hawai'i Travelers Even Greater

- These changes in travel plans are even more pronounced among travelers who expressed a strong likelihood in visiting Hawai'i in the next two years, with:
  - > 21% of such travelers planning to select less expensive hotels/resorts
  - > 19% opting to drive rather than fly
  - > 14% changing their vacation destination
  - > 11% staying fewer nights

Source: Travel Industry Association/Partnership travelhorizons Survey – December 2007

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## U.S. Economy: Year of Slower Growth Ahead

- Economic consultant Global Insight predicts real U.S. GDP will rise +1.9% in 2008 – the weakest increase since 2002.
- A weakened housing market is expected to trim one percentage point off U.S. real GDP.
- Consumer spending growth is expected to slow from +2.8% in 2007, to +1.7% in 2008.

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## Travel Prices Rising, Expected to Climb Higher

- Rising travel prices continue to outpace the overall consumer price index, according to the Travel Industry Association of America's Travel Price Index (TPI).
  - Fuel prices kicked off 2008 by surging to a \$100 per barrel on January 2, 2008, and have receded to hover at a level in the mid-\$90's as the month progressed.
  - Seeking to combat rising fuel prices, airlines have attempted to increase airfares at least seven times since September 2007.
  - Hotel average daily rates (ADRs) across the country have risen faster than overall consumer goods. Smith Travel Research predicts that U.S. nationwide hotel ADRs will rise +5.2% in 2008.

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## Strong Winter Outlook for Canadian Travelers

- The number of Canadians planning to take a winter trip has risen slightly; and notably more (compared to the previous year) intend to travel outside Canada.
  - Boosted by strong economic conditions in Western Canada and the relative strength of the Canadian dollar, the Conference Board of Canada predicts Winter '07/'08 travel to Hawai'i will increase +5.2% to an all-time high.
  - However, deep discounting of travel to Mexico and the Caribbean, and Canada-Hawai'i air service constraints could slow growth in winter travel to the state.
  - Weakening Canadian consumer confidence due to a slow down in exports to the U.S. is also a concern.

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## The Bottom Line

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- As travel barriers of economic/personal financial concerns and travel prices rise, people will continue to travel, but they will likely make changes to the way they travel and the types of trips that they take.

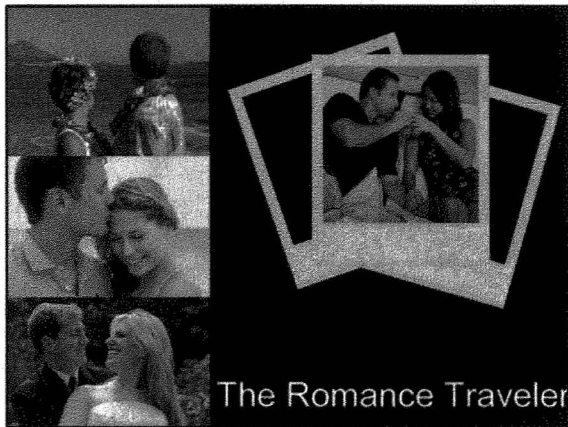
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The Avid Traveler

The Culture & Arts Traveler

The Golf Plus Traveler

The Outdoor / Recreational Traveler



## 2008 Marketing Plan Adjustments

- Moved up all elements of Spring 2008 promotion to begin in January.
- Further enhanced our award-winning Travel Agent training materials.
- Developing programs to drive U.S. East visitors who may have been considering Europe to Hawaii.
- Developed the Hawaii target traveler universe

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## North America – Summary

- Strong demand for Hawai'i but barriers to travel are higher. Thus, converting demand to Hawai'i will be a challenge.
- Marketing programs and activities are targeted to the most productive specific lifestyle segments through integrated platforms. Adjustments have been made to marketing plans to address softness.
- Travel Trade programs designed to develop more co-op opportunities and cultivate relationships to leverage funds as well as educate and train the travel trade on Hawai'i's depth and range of products, experiences & services.

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## Market Update: Japan

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## Japan -- Trends

- Travel to "closer" destinations within Asia
- Leisure travel soft compared to business and MICE travel because of recovering Japanese economy
- Aging population

	2007	2008	yr. %	Change - \$
Total	1,201,107	1,244,752	-3.5%	-43,045
Leisure	1,073,185	1,006,850	-2.3%	-25,683
MICE	57,310	77,987	-26.5%	-20,677

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## Japan -- Opportunities

- Japanese inclination to travel to Hawai'i remains high
- JTB predicts outbound travel to grow +1.0% in 2008

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## Japan – Preferred Destination

*Variety of Cultural Activities*		*Variety of Unique Experiences & Activities*	
Hawai'i	31.0%	Australia	49.6%
Australia	26.2%	Thailand	38.5%
Thailand	13.5%	Hawai'i	35.0%
China	9.8%	China	27.7%
Guam/Saipan	12.3%	Guam/Saipan	24.4%

*Good Value for the Money*		*Opportunities for New Discoveries*	
Australia	48.1%	Australia	44.6%
Hawai'i	46.3%	China	33.1%
Thailand	30.8%	Thailand	34.4%
Guam/Saipan	26.9%	Hawai'i	23.5%
China	18.5%	Guam/Saipan	15.6%

Source: TNS, 2007 Q2

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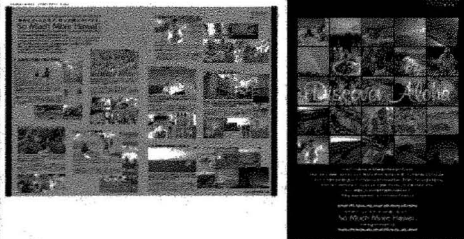
## Discover Aloha



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## So Much More Hawai'i

www.gohawaii.jp



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## Japan – Other Activities to Influence the Marketplace

- Website renewal
- More PR efforts
- Japan Hawai'i Tourism Council



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## Japan -- Summary

- Challenging year ahead
- Working closely with airlines and travel trade to increase airlift
- Marketing and PR programs and activities aimed at 3 specific markets with messages to convey all there is to experience in Hawai'i
- Expansion of Travel Trade Programs
- Japan Hawai'i Tourism Council

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## Market Update: Other Asia

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## Korea -- Trends

- Steady increase in the FIT market across all age demographics.
- Market is relatively young and heavily dependent on travel agents
- Package tour purchases have increased by 30%, whereas Honeymoons increased by 62.5%, golf by 103.8% and FIT travel by 109.1%.
- Strong won vs. US dollar continue to trigger travel to dollar-based destination

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## Korea -- Opportunity

- US Visa Waiver Status expected by early 2009
- Arrivals from Korea to Hawai'i are projected to rise conservatively as follows:
  - 2006: 39,000 pax (DBEDT) / 43,000 pax per KAL
  - 2007: 59,000 pax (projected)
  - 2008 : 70,000 pax (projected)
  - 2009: 120,000 pax (projected)

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## Korea -- Programs to Influence the Market Place

- More programs with travel trade
- Aggressive PR and marketing activities
- Aloha Honeymoon Visa Program
- Aloha Incentive Group Visa Program
- Upgrading of website
- Targeting: FIT Travel, Family Travel, Golf Travel, Honeymoon Travel, Luxury/Well-being Travel and MICE Travel

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## China -- Approved Memorandum of Understanding (MOU) Status for US

- Landmark agreement signed last month (December 11, 2007) between the governments of China and the US
- For the first time, open advertising/ promotion of group leisure tours from China to Hawai'i becomes possible

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## China Trends

- Majority of Chinese purchases travel packages via travel agents
- Strong use of internet as a planning tool but minimal use of websites as a booking vehicle
- Fly & Drive and MICE tour are increasing at 10% - 25% per year in the last two years.
- Airlift: no direct service from China to Hawai'i
- Agent Start-up Programs: Require wide variety of tools, training, experience, and co-op funds

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## China -- Increase in Arrivals with MOU

- With The Memorandum of Understanding from China just secured last month (December 2007), arrivals from China to Hawaii are projected to rise conservatively as follows:
  - 2006: 54,318 pax (per DBEDT)
  - 2007: 62,000 pax (projected)
  - 2008 : 85,000 pax (projected)
  - 2009: 130,000 pax (projected)

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## China Issues

- U.S. Visa barrier: Chinese visitors to the US still must obtain a US visa despite the brand new Approved Destination Status between the US and China

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## Asia Summary

- Projected growth in 2008 arrivals from Korea and China
- Within 2 years, double total arrivals to Hawai'i
- Aggressive marketing and promotional activities to take place in Korea and China in preparation for the Visa Waiver and MOU
- On-going discussion with airlines to increase routes

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## Market Update: Oceania

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## Australia -- Trends

- Consumers predominantly continue to make their international travel purchases via a travel consultant
- However, strong propensity towards purchasing travel online – which will change the way travel to Hawai'i is purchased in the short & medium term
- Cruising is the fastest growing segment of the travel industry

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## Australia -- Opportunities

- 11 direct services to Honolulu from Sydney
- Increase in airlift from Australia by Qantas – additional flight beginning in April
- Increased MICE market presence
- Strength of their currency against the Dollar
- Developing strong branded presence online
- Highlight "Green Hawai'i"

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## Australia – Programs to Influence the Marketplace

- The Biggest Loser TV show
- Aloha Down Under
- Educational program Kuhina to build selling efforts of frontline retail agents
- Participation with Flight Centre annual event, exposing 2000 agents to Hawai'i in July
- Strategic marketing co-op opportunities with retailers, wholesalers and airlines

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## Australia -- Summary

- Increased growth in outbound tourism overall
- Anticipate moderate increase in visitor numbers over 2007
- Expected increase visitation to neighbor islands
- Continued demand for cruising vacations
- Increased online purchases. Movement away from traditional booking methods

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## Market Update: Europe

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## Europe -- Trends

- Travel agencies are the primary booking source for long-haul travel and a significant product information and counseling source
- Travel agencies/tour operators and the internet are the main information sources
- Air services to Asia and Oceania have seen the largest growth in services since 1996

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## Europe Opportunities

- Strength of Pound and Euro over the Dollar
- Outbound travel from UK and Germany forecasted to increase
- 2008 EU-US 'open skies' agreement = more route developments
- Growing demand for Europeans to find their dream vacation

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## Europe -- Programs to Influence the Market Place

- Brand message: Hawaiian islands offer "the dream" destination
- Target audience: Avid Traveller -- Romance, Culture, Health & Wellness
- Aloha Up N Over
- Stronger focus on marketing Hawai'i to the trade:
  - coop trade efforts, trainings, tactical campaigns and PR, new trade supplements

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## Europe -- Summary

- Tour operators report increase in bookings for 2008
- Projecting arrivals to increase
- Working with airlines to develop routes

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## Market Update: Convention Center

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## Issues

- Softening Economy / Consumer Confidence
- Non Business Image – “Boondoggle”
- Distance / Time Out of Office
- Cost (air/fuel surcharge, cost to ship exhibits)
- Travel Issues (Visa Issues / Homeland Security)
- Meeting and Fulfilling Guest Expectations
- Highly Competitive Marketplace & More Meeting Space

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## Opportunities

- U.S. Associations Going “Global”
- Building the Business Brand
- International Conferences
- Opening of New Markets (Korea & China)
- Repeat Bookings with Core Groups
- Japan – Landmark Years of the Corporation (Anniversary Years)

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## Opportunities

- New Business Development
  - Sub-specialty Organizations
  - New Growth Industries and Corporations
  - Hawai'i's Unique Industries

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## Trends

- “Greening” of Meetings
- Growing Use of Marketing Incentive Funds
- Partnerships, e.g. PCMA Strategic Alliance
- Broader Use of Technology
- Globalization of U.S. Meetings
- Japan Incentive Business

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## Programs to Affect the Marketplace

- 10th Anniversary of the Hawai'i Convention Center (Asia and North America)
- PCMA Special Promotion
- Peer-to-Peer Marketing
- Global Attendance Program
- New Print & Electronic Collateral (Convene-Global Focus)
- Nikkei Business Magazine Profile
- Building the Hawai'i Business Brand

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## Summary

- 2008 has been forecasted as a challenging year
- The first half of 2008 (January – June) will be very strong but the second half will be slow
- 2009 will be one of the busiest years ever since opening

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## Market Update: Corporate Meetings & Incentives

## Meetings and Incentives

- In 2007, MCI visitors accounted for 6.5% (483,000) of arrivals to the state, and account for an even larger share of visitor spending (from the top three markets).

### • 2006 Per Person Per Day Expenditures\* – MCI vs. Leisure

Major Market Area	MCI	Leisure	%
U.S. West	\$195.8	\$156.3	+25%
U.S. East	\$234.2	\$185.5	+26%
Japan	\$267.1	\$248.9	+ 7%

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## Meetings & Conventions 2008 and on-going Issues



- Economic slowdown
- Travel Distance
- Increased Competition
- Rising Cost of Travel
- Price Perception
- Procurement and Boondoggle

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## 2007 Lead Generation Results

- Leads- 1,171  
2% increase to 2006
- Lead Room Nights- 897,363  
3% increase to 2006

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## 2008 Sales and Marketing Enhancements

- Continue the co-branding efforts with the Hawaii Convention Center- **"Where Business and Aloha Meet."**
- **"No Passport Required"** promotion
- Incentive opportunities
- New Hawaii Speakers Bureau
- Accelerated Familiarization Tours
- New staff member focusing on Japan and Asia

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## Meetings & Conventions Marketing

Collaborative Partnership and Increased Cross Selling (International Contractors)

### Referral Program

- Cross Selling
- Support Program in Hawaii

### Japan

- Promo/Training Event
- Sales/Media Blitz

### Korea

- Sales/Media Blitz

### China

- ASEAN MICE
- China Invt Business & Incentive Travel Mart (CIBTM)
- Media Events



### Taiwan

- Sales/Media Blitz

### S.E. Asia

- ITCMA - Tradeshow

### Europe

- MICE FAM
- IMEX - The Worldwide Exhibition

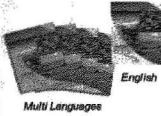
### Oceania

- Asia Pacific Incentives & Meeting Expo & Sales Calls
- New Zealand FAM
- Australia FAM
- PAICE - New Zealand

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## New Sales and Marketing Tools

### International Meeting Planner Book



English

Multi Languages

### Business Bridge Video (Multiple Languages)



### International Attendance Builder



### High Impact Sales Power Points



### Multi Language Press Kits



(e-postcards)

Korean/Chinese Versions

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## Moving Forward

- 2008 - challenges and opportunities
- In market programs and offices to address issues and respond to opportunities
- Stay the course

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