

OXFORD ECONOMICS

The Return on Investment of Brand USA Marketing

2013 Fiscal Year Analysis

February 2014



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Executive Summary

Destination marketing is a proven driver of economic development and is particularly important due to the unique characteristics of the tourism sector and the global travel market.

Oxford Economics, in coordination with its Tourism Economics subsidiary company, conducted a detailed analysis of the return on investment of Brand USA's marketing in its 2013 fiscal year (October 1, 2012-September 30, 2013). This analysis is based on an econometric model of how the eight markets in which Brand USA was fully active would have performed without its investments in marketing compared with actual performance. These markets include Canada, Mexico, Japan, South Korea, the United Kingdom, Germany, Brazil and Australia.

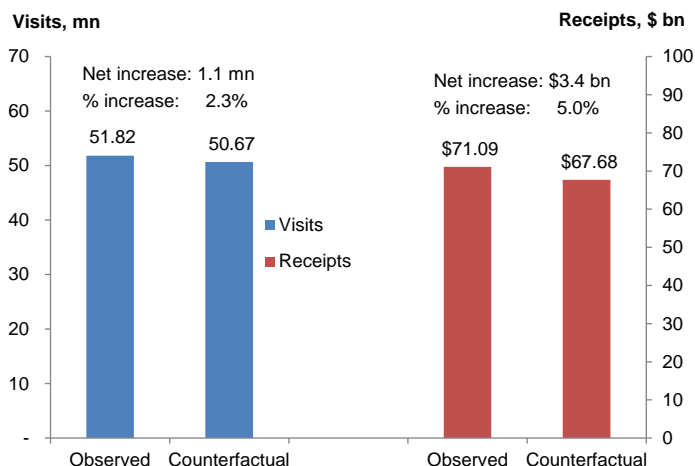
The model indicates that Brand USA marketing generated 1.1 million incremental trips to the United States—a 2.3% increase over the growth that would have occurred without Brand USA's activities.

These incremental visitors spent \$3.4 billion in the U.S., including both travel and U.S. carrier airfare receipts. The results equate to a Marketing ROI of 47:1 based on Brand USA's marketing expenses of \$72 million. The Total Budget ROI, including overhead (\$9.6 million), startup expenses (e.g. new website development), and expenses from partially deployed markets is estimated at 34:1.

A parallel analysis was conducted to validate the model results based on advertising tracking surveys conducted by Ipsos in Brazil and Mexico in 2013. These surveys confirm the range of impact indicated by the econometric analysis with an average ROI of 49:1.

A secondary validation was conducted based on an analysis of U.S. market share for each of the eight markets where Brand USA's marketing was fully deployed. During fiscal year 2013, U.S. market

8-Market Performance in FY 2013

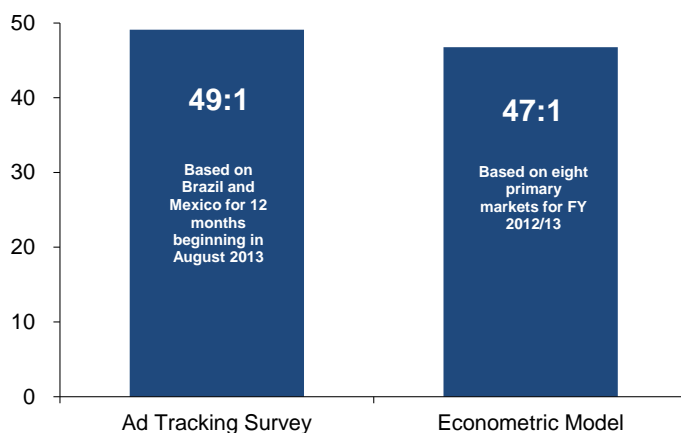


ROI estimates

Net Revenue Generated:	\$ 3,401,951,199
Total Marketing Expenses:	\$ 72,740,306
Total Budget, Including Start-Up Costs & Overhead:	\$ 99,022,800
Estimated Marketing ROI:	47:1
Total Budget ROI:	34:1

Impact of Brand USA Marketing

visitor spending per \$ marketing



Source: Tourism Economics

share of the key origin markets increased 0.5 percentage points over FY 2012 against a competitive set of destinations.

Across the markets, a consistent trend of either an increase in share or a slowdown in the rate of share losses is evident. This indicates a strengthening of competitiveness that coincided with Brand USA's marketing investments, providing a confirmation of the returns indicated by the econometric model.

Total Brand USA Economic Impact, FY 2013				
	Total sales (\$mils)	Value added (\$mils)	Income (\$mils)	Jobs
Direct	3,402	1,523	886	27,895
Indirect	1,699	932	543	9,657
Induced	2,294	1,342	750	15,628
Total	7,395	3,797	2,179	53,181

The \$3.4 billion in additional international visitor spending produced by Brand USA marketing is estimated to have generated the following U.S. economic impacts:

- \$7.4 billion in business sales (Output)
- \$3.8 billion in value added (GDP)
- \$2.2 billion in personal income
- 53,181 jobs created, including 27,895 directly in industries serving visitors
- \$512 million in Federal taxes
- \$460 million in state & local taxes

1 The Need for Destination Marketing

Destination marketing plays an important part in economic development strategy for countries around the world as they seek to increase exports generated by international tourists. For the United States, Brand USA was established as the sole organization with the mandate to promote the country globally in order to increase international visitation and spending in the United States.

The case for destination marketing is broad and compelling. This chapter briefly outlines the rationale for destination marketing and the particular importance of this function for the United States at this point in time.

The importance of destination marketing is connected to the characteristics of the tourism sector, the dynamics of international travel markets, and proven economic returns of effective marketing.

In summary, destination marketing is vital because:

- The tourism sector is fragmented across various industries and is made up of smaller companies without the capacity to market globally
- Scale produces substantial marketing efficiencies which are required in global marketing campaigns
- The tourism product is strongly linked to the destination, particularly in the United States where international visitors tend to visit more than one place upon arrival
- Competing international destinations are actively marketing and a failure to engage with travel markets results in lost market share
- The global market opportunity is vast and represents better growth prospects than domestic markets
- Destination marketing has been proven to be historically effective, producing returns in excess of investments and greater than many other sectors

1.1 Fragmentation of the tourism sector

The tourism sector faces two natural disadvantages when it comes to global marketing. The first is that tourism is not represented by a single industry. In fact, international visitors are customers to businesses across dozens of industries, including hotels, restaurants, shops, rental car companies, taxi services, museums, and theaters. As a result, a visitor to the United States benefits multiple segments of the U.S. economy. Destination marketing represents all of these disparate businesses to the global market in a way that no single business or industry segment could.

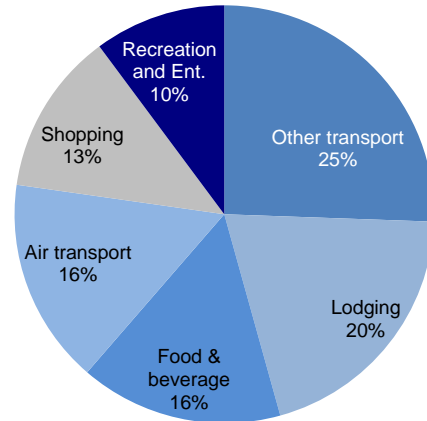
The second is that these businesses tend to be smaller than in other sectors, such as manufacturing or finance.

The adjacent chart shows the relative concentration of small and medium size company employment within the arts, entertainment, & recreation and the accommodation & food services sectors. A massive 95% of all accommodation and food service employment is found within small and medium-size businesses. The share is 82% for the arts, entertainment, & recreation sector. This implies that very few, if any, of these organizations would have the resources needed for concerted investments in global marketing.

Only 5% of accommodation & food services employment and 18% of arts, entertainment, & recreation employment is within large establishments which would have the scale for international marketing. In contrast, large companies have a more significant footprint in manufacturing (representing 27% of industry employment) and finance & insurance (representing 24% of industry employment).

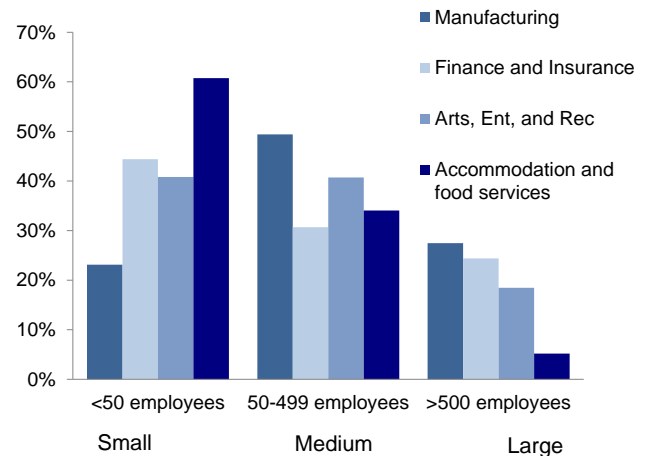
Given these realities, the U.S. tourism industry faces a massive challenge given the scale that international marketing requires. Collaborative destination marketing effectively deals with this challenge by representing a fragmented tourism industry as a single product to a common customer.

Distribution of tourism spending in the US
2012, Share of total spending



Source: BEA Travel & Tourism Satellite Account

Tourism-related businesses tend to be smaller
% of total employment by establishment size, January 2013



1.2 The efficiencies of scale

Effective international marketing requires significant and consistent funding with the aim of gaining a sufficient “share of voice” to be heard and make an impact. While the cost of media purchases is expensive, per unit advertising costs go down as the volume of purchases goes up. Further, scale produces efficiencies that reduce overhead and maximize the share of funding that goes to actual marketing and advertising. As a result, the larger scale of collaborative destination marketing is more effective than what individual businesses could accomplish. Simply put, the whole of destination marketing is greater than what the sum of individual parts would be.

1.3 The essence of the tourism product

In the vast majority of cases, a visit to the United States is not motivated by a single company. In other words, the decision of an international tourist to visit the United States is not typically driven by a hotel, restaurant, a single attraction, or even a single destination within the United States. (The average overseas tourist to the United States visits two destinations.). The United States of America as a destination, including a wide range of experiences, products, and services, is behind the decision to visit.

As a result, it is most effective to market the destination as a whole to be consistent with the customer mindset. Marketing efforts that focus on only one segment of the tourism market, a specific hotel or attraction, will not address the core motivation for potential visitors. Destination marketing recognizes this fact. Collective marketing represents the United States as a set of diverse offerings to a single customer and, in doing so, is uniquely able to create demand for all segments of the tourism industry.

This relates to the significant importance of a destination’s brand. The most successful destinations are those that develop a strong and distinct brand identity, maintain awareness among its key target markets, and provide a compelling call to action. This is only an achievable task if approached at the destination level since company-level efforts will inevitably fail to create consistent and representative brand awareness among global travelers.

1.4 Competition demands destination marketing

Global competition for international travelers is steep with tourism offices around the world devoting significant resources to destination marketing. Oxford Economics estimates that \$4.3 billion was spent on national level tourism promotion in 2012. The majority was spent by European destinations (\$1.2 billion) and Asia Pacific destinations (\$1.2 billion).

Nearly \$600 million was spent in the Americas region, with significant competition from Canada, Mexico, and the Caribbean.

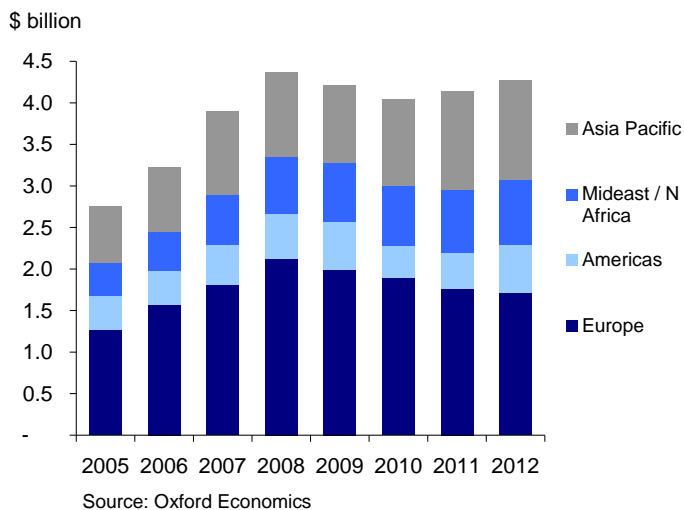
The absence of destination marketing can lead to a lack of competitiveness and declines in market share. Tourism Economics, Oxford's subsidiary company, works with national tourism offices around the world and regularly observes the positive effects of their tourism campaigns. Implicitly, this results in lost market share among destinations that are not investing in destination promotion. And this is one of the reasons that the United States has lost global market share over the past fifteen years.

The United States received 25% of all European long haul travel in 1997; and this share fell to 16% by 2012.

The United States received 20% of all Asian long haul travel in 1997; and this share fell to 10% by 2012.

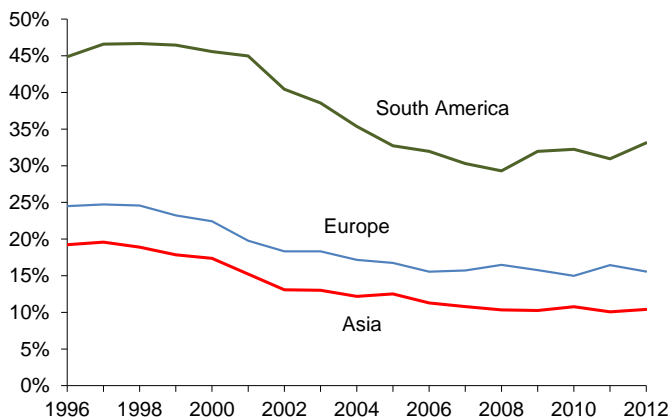
The United States received 47% of all South American long haul travel in 1997. This

Global Spend on National Tourism Promotion



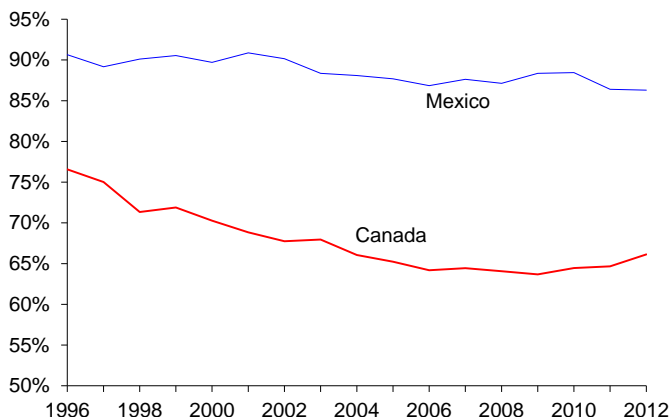
US Share of Long Haul Outbound Travel

% out-of-region travel by source



US Share of North American Outbound

% out-of-region travel by source



share fell as low as 29% in 2008 and, despite some recovery, remained at 33% in 2012.

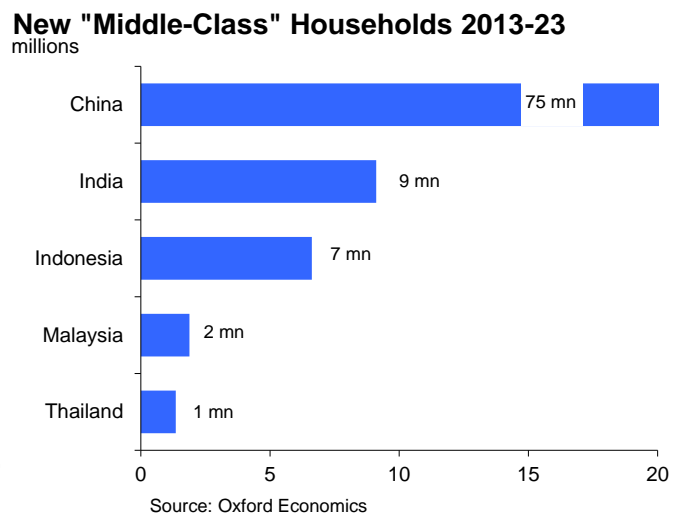
The trends within North America are not as stark, but tell the same story of subpar competitiveness. The United States received 77% of all Canadian outbound travel in 1996. This share fell as low as 64% in 2006 and, despite some recovery, remained at 66% in 2012. For Mexican travelers, the trend has been a steady decline in U.S. market share. The United States received 91% of all Mexican outbound travel in 1996; and this share fell to 86% by 2012. The loss of share within North America is remarkable given the proximity, lower transportation costs, and direct access that are associated with these two markets.

Although the United States remains a top destination among worldwide travelers, during this fifteen year period, beginning in 1996 and 1997 (depending on the market), the United States lost market share to destinations with consistently funded destination marketing programs. Without action, the share loss would continue, if not worsen.

1.5 The global market opportunity

The sheer size of the global travel market also makes a compelling case for destination marketing. In 2013, international tourist arrivals reached 1.1 billion. Since 1990, growth in international travel has averaged 4% per annum and has expanded a cumulative 62% since 2000.

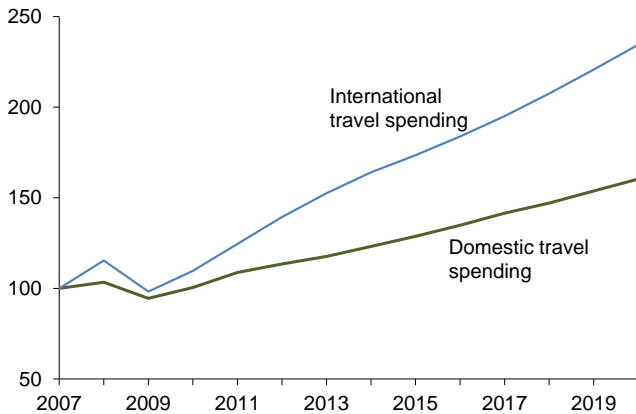
This rate of global travel growth is expected to persist as the global middle class continues to expand. By 2020, the global market for international travel will reach 1.5 billion tourist arrivals.



The growth of the U.S. tourism industry, in all of its parts, depends largely on its success in attracting international visitors. International markets represent the highest growth area of business for the tourism sector in the United States. In 2007, international visitor spending on U.S. trips represented 16% of all travel spending in the United States. In 2013, this is estimated to have reached 20% and will continue to rise based on Oxford Economics latest econometric forecasts.

US visitor spending by type

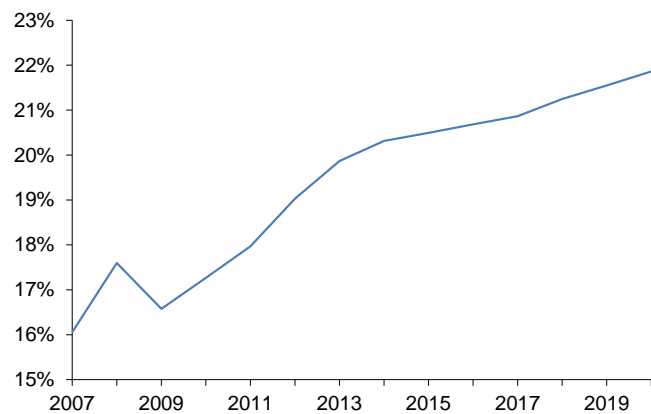
2007=100



Source: U.S. Travel Association, BEA, Tourism Economics

International visitor spending

Share of total visitor spending (including domestic and international)



Source: U.S. Travel Association, BEA, Tourism Economics

It follows that a concerted investment in destination marketing is an essential part of the U.S. tourism industry's strategy in realizing this global market opportunity.

1.6 The historic effectiveness of destination marketing

Destination marketing has also been shown to be effective by many U.S. competitors. Across the globe, destinations have found investments in destination promotion yield significant returns. For example:

- Australia's 'A Different Light' campaign in 2005 yielded a return of \$64 per \$1 spent in marketing
- VisitBritain's FY2012/13 marketing yielded a 8:1 visitor spending ROI
- Canada calculates visitor spending returns on its investment in various markets:
 - 13:1 ROI for the UK
 - 24:1 ROI for Germany

- 23:1 ROI for the United States. (Spring and summer campaign)
- 35:1 ROI for domestic Canada

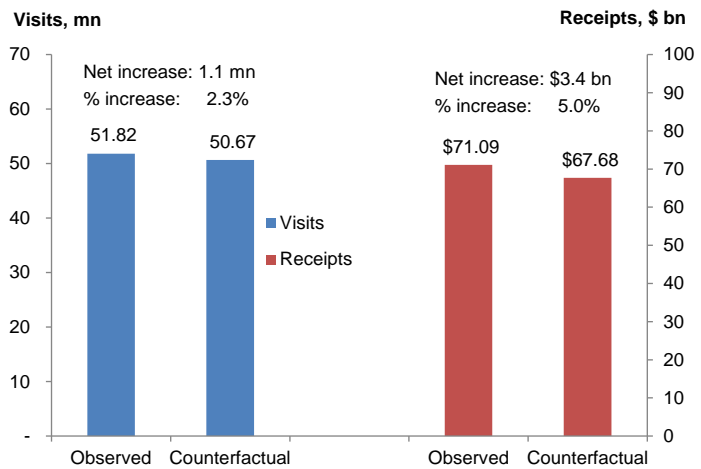
2 Estimating the ROI of Brand USA marketing

2.1 Summary

Growth in U.S. international arrivals exceeded expectations in both 2012 and 2013. Specifically, growth was faster than would have been predicted by Oxford Economics' global tourism model based on known global economic conditions and tourism trends.

For the 2013 fiscal year of Brand USA operations (October 2012 to September 2013) U.S. tourism arrivals grew faster than would have otherwise been expected in the eight countries in which Brand USA conducted significant marketing activity. A counterfactual¹ growth estimate was calculated according to known travel trends in origin markets and also according to the fundamental economic environment. The observed strength above the counterfactual can be attributed to the promotional activities carried out by Brand USA.

8-Market Performance in FY 2013



Brand USA executed full marketing deployment in eight markets in its 2013 fiscal year. Full deployment reflects activity that encompasses Brand USA's three main marketing activities – consumer brand, travel trade, and cooperative marketing. Brand USA had engaged in some portion of these activities in other markets (including China, India and France). Partially deployed markets are excluded from this analysis, which is intended to provide a robust, conservative calculation of Brand USA's marketing results.

For the eight markets in which Brand USA fully deployed its marketing efforts, total arrivals during the fiscal year exceeded the counterfactual by 2.3% (1.1 million). By applying average spending by country incremental tourism receipts are estimated to be 5.0% (\$3.4 billion) higher than the counterfactual for these same eight markets. The differential is higher for spending than for visits due to the mix of visitor impacts, which was weighted toward higher spend markets.

¹ The counterfactual scenario is defined as the expected growth given economic conditions in each market based on the Oxford Economics global forecast model

Estimated relationships form the basis of Oxford Economics' global model of tourism flows, including bilateral tourism flows. These equations typically track actual performance well, especially once aggregated across the eight markets of interest. Counterfactual growth performance has been estimated for travel to the United States by origin market according to these equations. Known travel trends have been used as inputs to these equations for origin markets, including all available data for 2013, while the latest economic data have also been used.

**Fiscal year 2013 US inbound performance
(October 2012-September 2013)**

	Visits		Receipts (US\$ mn)	
	Observed	Counterfactual	Observed	Counterfactual
Australia	1,212,067	1,099,671	\$ 5,057	\$ 4,514
Brazil	1,979,339	1,895,855	\$ 7,180	\$ 6,746
Germany	1,888,161	1,850,665	\$ 5,398	\$ 5,260
UK	3,752,735	3,670,188	\$ 9,458	\$ 9,181
South Korea	1,301,369	1,256,445	\$ 4,179	\$ 4,030
Japan	3,784,152	3,497,426	\$ 11,570	\$ 10,289
Mexico	14,591,786	14,639,069	\$ 7,045	\$ 7,078
Canada	23,306,770	22,763,876	\$ 21,198	\$ 20,587
Aggregate	51,816,379	50,673,193	\$ 71,086	\$ 67,684
Net increase	1,143,186		\$ 3,402	
% increase	2.3%		5.0%	

Assuming that all of the difference between observed growth and counterfactual is due to marketing activity arguably provides an upper estimate of Marketing Return on Investment (ROI). Specifically, the incremental tourism receipts can be compared to Brand USA marketing spend to determine an MROI value of 47:1. As FY 2013 was Brand USA's second full year of operation, it incurred substantial start-up costs such as website development and translation as it fully deployed in five new markets. These costs are not included in the MROI so that the figure can be

ROI estimates

Net Revenue Generated:	\$ 3,401,951,199
Total Marketing Expenses:	\$ 72,740,306
Total Budget, Including Start-Up Costs & Overhead:	\$ 99,022,800
Estimated Marketing ROI:	47:1
Total Budget ROI:	34:1

reasonably compared to observed ROI values for campaigns carried out by other destination marketing organizations in the United States and globally. The Total Budget ROI, including overhead (\$9.6 million), start-up costs, and expenses from partially deployed markets (such as China and France), is estimated at 34:1.

The ROI calculations are presented for the eight markets in aggregate as there is greater uncertainty on an individual market basis. Model accuracy checks show that the forecast error is significantly smaller when considering the group of eight markets as a whole rather than considering them individually.

2.2 U.S. tourist arrivals performance

U.S. tourist arrivals grew 6.1% in 2012 followed by estimated growth of 4.5% in 2013. This is faster growth than would ordinarily have been expected according to the estimated relationship between economic and travel trends in origin markets.

For the period October 2012 to September 2013, Brand USA's FY13 fiscal year, it is estimated that U.S. tourism arrivals grew 4.8%. This was the first fiscal year that Brand USA was in operation, and part of the strength in arrivals can be attributed to the additional marketing activity.

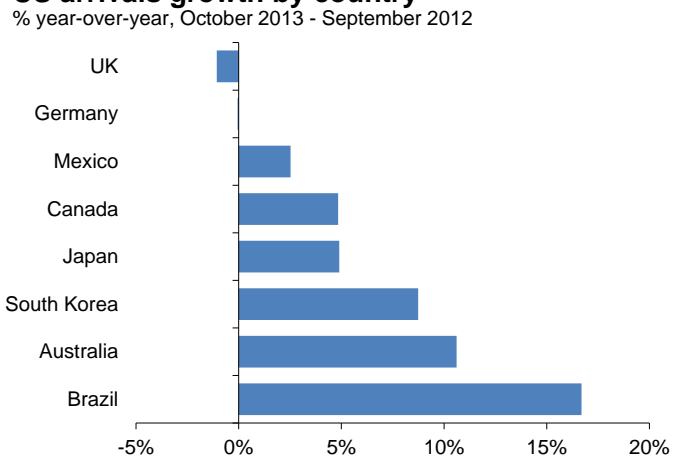
Actual reported data are currently only available for U.S. arrivals data for the months to April but arrivals can be estimated for subsequent months based on I-92/APIS data which track non-resident arrivals by airport of origin and destination. U.S. arrivals from Canada and Mexico are sourced to Statistics Canada and Banco de Mexico, with data available at the time of writing for all months until October 2013. For overseas markets, APIS monthly data for air arrivals are used. APIS data by country have been compared with final NTTO (formerly OTTI) I-94 monthly arrivals data for previous months and show very close correlation in most instances so can be used as a reliable proxy.

US arrivals growth: eight market total



Source: NTTO, APIS, Tourism Economics

US arrivals growth by country



Source: NTTO, APIS, Tourism Economics

U.S. arrivals grew by 4.2% from the eight markets in which Brand USA conducted significant marketing activities within the recent fiscal year. Growth was evident in most months of the year, but included some spikes as well as some offsetting lower months, likely due to changes in seasonal patterns. For example, lower arrivals in April may have been affected by the timing of Easter, with some offsetting stronger growth in March. However, growth for the entire fiscal year was not reliant on just one or two extraordinarily strong months and is indicative of a sustained growth trend. This is supportive of a benefit from marketing effort over this period rather than from one-off events.

Growth was evident for most of the eight markets, but, somewhat unsurprisingly, the strongest growth was evident from emerging origin markets such Brazil and South Korea, with more moderate growth from some developed markets. Indeed, UK arrivals were lower than a year earlier during this period, while arrivals from Germany were unchanged.

This different growth performance by country cannot be attributed to marketing performance and counterfactual analysis shows that much of this cross-country disparity can be attributed to underlying economic conditions. In fact, the estimated counterfactual growth rates suggest that UK arrivals would ordinarily have fallen further. With weak economic performance throughout in Europe and some falls in long-haul outbound travel demand, counterfactual analysis shows that travel from both Germany and France would have ordinarily been expected to fall over this period.

2.3 Counterfactual analysis

Oxford Economics' model of global tourism flows was used to calculate the counterfactual projections that serve as the baseline for this study. This model first considers outbound tourism demand from all global source markets, which is linked to expected economic trends. The model utilizes reported data collected mainly from government sources for historic periods and projected forward using estimated equations.

Tourism demand by origin market is used within the model, and specifically for this counterfactual case, as the starting point. Inbound tourism demand is then projected by mapping origin demand to individual destination markets. Historic travel patterns are used as well as any expected changes in market share.

Specifically, the model equations have been used to determine an expected outcome for inbound U.S. tourism activity over the time period according with some key input assumptions

- Known data for travel trends from all countries except the USA have been used as inputs. Outbound travel demand from all origin markets is included.

- All known macroeconomic trends have been incorporated for all countries including the USA. The counterfactual is therefore informed by known developments in relative purchasing power -- including changes in prices and exchange rates as well as in GDP, income, and consumer confidence.

The counterfactual suggests that demand for travel to the United States would have been expected to slow in the years 2012 and 2013. International travel demand from key origin markets slowed over this period, while the U.S. dollar also strengthened against some key currencies. This implied some loss of market share, especially moving into 2013 as exchange rate effects have been observed to operate with some lag period.

The model also takes into account longer-run relationships such that any unusually strong performance in one year is followed by a year of expected slower growth, as has been observed in historic data. As such, the counterfactual is derived from the one-year outlook for each year. Counterfactual growth for 2012 is derived from all available information up to 2011, while counterfactual growth for 2013 is based upon all known data to 2012. In this way, the over-performance in 2012 is important information that is used in deriving the counterfactual growth rate for 2013.

The following chart shows that U.S. inbound tourism receipts from international visitors grew faster than weighted average growth of outbound spend (denominated in US\$) for origin markets. Weights are according to the importance of each origin market for U.S. arrivals.



Source: Tourism Economics

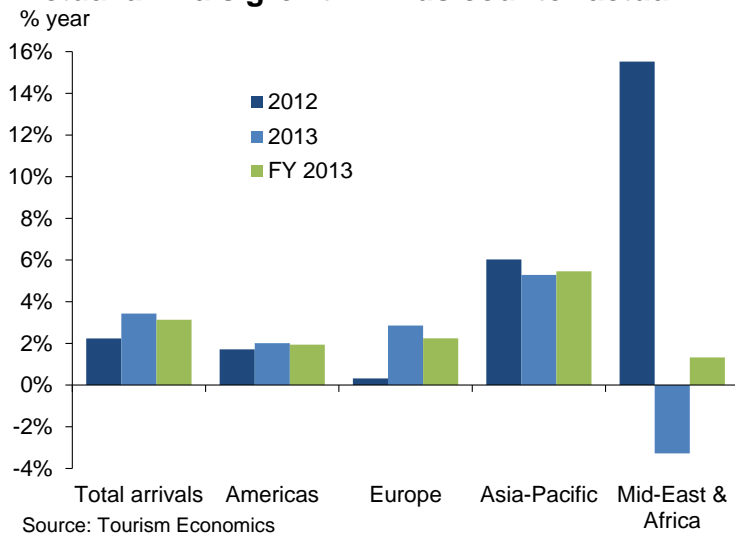
The model-generated counterfactual receipts growth is slower than the observed rate and closer to the growth of outbound tourism by origin markets, especially in 2013. Counterfactual growth is higher than the weighted average spending growth from origin markets implying some gain in U.S. market share, although two offsetting effects are included within this calculation. Modelled longer-run dynamics

suggest that some gain in market share reflect an offset of losses in earlier years. However, the strengthening U.S. dollar will challenge market share gains and may deter travelers from some markets as the United States becomes less affordable. Nevertheless, the impact of exchange rate fluctuation tends to lag as travel is often booked in advance. U.S. arrivals in 2012 still benefitted from some relative U.S. dollar weakness in 2011 and the dollar appreciation throughout 2013 will have some impact on travel decisions for trips being made in 2014.

The counterfactual analysis suggests that growth in tourism receipts was higher than would ordinarily be expected in 2012 and 2013, by 1% and 6% respectively. Such growth, notably in 2013, is outside the expected model forecast error and can be explained by the increased marketing effort.

Arrivals data also point to stronger growth in both 2012 and 2013 than would ordinarily be expected. Performance in 2013 was particularly strong with growth almost 3.5% stronger than the counterfactual scenario.

Actual arrivals growth minus counterfactual



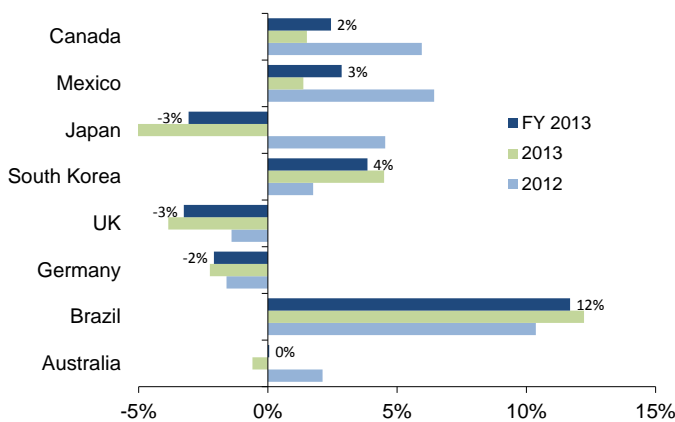
This is true for arrivals from most world regions, including Europe and the Americas which account for around 85% of all travel to the United States. Travel from Asia-Pacific markets also exceeded counterfactual growth in both years. Arrivals from Middle East and Africa are typically more volatile and greater divergence between observed growth and counterfactual is to be expected and cannot be easily ascribed to any particular events or activities. By taking a weighted average of growth rates for 2012 and 2013 to reflect the fiscal year ending September 2013, a clear performance premium can be seen for the period during which Brand USA fully deployed its marketing efforts.

The counterfactual scenario was also used to calculate growth in arrivals from the eight markets in which Brand USA marketing efforts were fully deployed: Canada, Mexico, Japan, South Korea, the United Kingdom, Germany, Brazil and Australia.

Arrivals from these eight markets in total would ordinarily have been expected to have grown 1.9% during the fiscal year to September 2013, according to the counterfactual analysis. Within this, arrivals from four of the eight markets would have been expected to have been lower than a year earlier (France, Japan, UK and Germany).

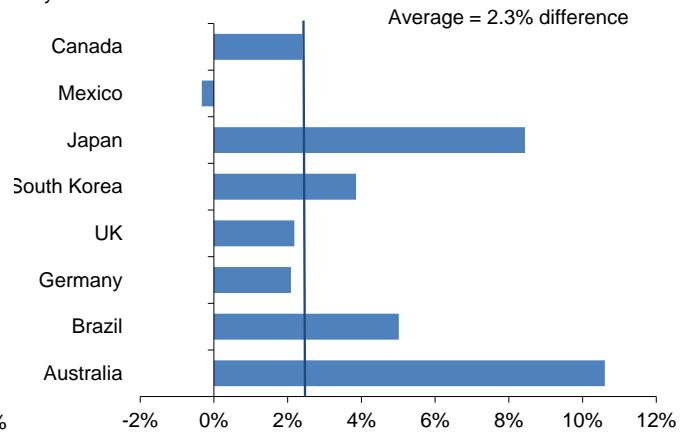
Reported monthly data shows that total arrivals from these eight markets actually rose by 4.2%: a 2.3% premium. Growth was evident in seven out of the eight markets, accounting for a clear majority of the estimated over-performance in U.S. receipts and arrivals.

Estimated counterfactual arrivals growth
% year



Source: Tourism Economics

Actual arrivals growth minus counterfactual
% year



Source: Tourism Economics

Growth performance relative to counterfactual has been particularly strong for Japan, Brazil and Australia. Growth in travel from Japan was especially strong in 2012 as a rebound from low growth in 2011 in the immediate aftermath of the tsunami. However, strong performance continued into 2013 despite the considerably depreciation in the Yen and the general slower outbound travel demand.

Mexico registered a slightly negative counterfactual result relative to actual. However, this is within the standard error of the model.

In aggregate, the model results for the eight markets are more robust than for the individual markets. Therefore, the average return across all markets provides a clearer and reliable estimate of Brand USA’s marketing investments.

It is estimated that tourist arrivals from the eight key markets as a whole were 1.1 million higher than under the counterfactual scenario. Incremental tourism receipts

are determined by applying average spending per visit by tourists from each origin market.

**Fiscal year 2013 US inbound incremental visits and receipts
(October 2012-September 2013)**

	Incremental Visits	Average spend per visit (\$)		Receipts (\$ mn)		
		Travel	Fares	Total	Travel	Fares
Australia	112,397	\$ 4,173	\$ 664	\$ 544	\$ 469	\$ 75
Brazil	83,484	\$ 3,627	\$ 1,567	\$ 434	\$ 303	\$ 131
Germany	37,496	\$ 2,859	\$ 840	\$ 139	\$ 107	\$ 31
UK	82,547	\$ 2,520	\$ 839	\$ 277	\$ 208	\$ 69
South Korea	44,925	\$ 3,211	\$ 108	\$ 149	\$ 144	\$ 5
Japan	286,726	\$ 3,057	\$ 1,411	\$ 1,281	\$ 877	\$ 405
Mexico	- 47,283	\$ 483	\$ 204	\$ -32	\$ -23	\$ -10
Canada	542,893	\$ 910	\$ 216	\$ 611	\$ 494	\$ 117
Net increase	1,143,186			\$ 3,402	\$ 2,579	\$ 823

Note: Fares include U.S. carriers only

Sources: Oxford Economics, BEA

2.4 Model accuracy

Oxford Economics' model of global tourism flows relies on its Global Macroeconomic Model, which is fully linked to expected developments in all source markets. The relationships between macroeconomic indicators and tourism flows have been estimated using data beginning 2005. By design, the estimated equations track the observed data and equations fit data for all travel flows as closely as possible. There are of course differences between the equation output and actual performance for given years, but over time the equations deliver growth rates that closely fit data. This is helped by the inclusion of both long-run and short-run factors, which ensures that short-term volatility is balanced against long term growth trajectory.

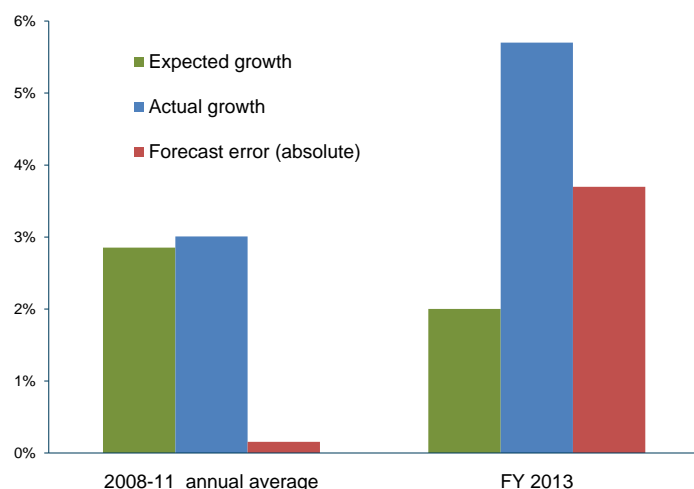
On average, Oxford Economics' projections for U.S. tourist arrivals have been within 3% of observed growth for the period 2007-2011, calculated in absolute terms. That is looking at the average difference between equation output and observed data regardless of the whether the error is positive or negative. This calculation uses forecasts that were made at the end of each calendar year regarding the year ahead to determine the forecast accuracy with a one-year horizon.

Given that global economic trends reflected recession in certain markets and heightened uncertainty in general, the strength of arrivals growth is striking. The global marketplace context confirms the view that the variance above this normal benchmark can be attributed to extraordinary factors. The historical period used as the baseline for comparison also included some changes in visa waiver status for some markets which boosted historical arrivals performance (South Korea and Mexico indirectly due to Canada's implementation of a visa). In contrast, the FY13 period did not contain visa waiver-related stimulus and the model was not adjusted for this factor. Therefore, the comparison between FY13 and historical results is inherently conservative.

Taking the error as a simple average difference over the same period (2008-2011) gives a much lower value of 0.2%. For example, arrivals in 2009 were much weaker than anticipated, but this was followed by a stronger than expected rebound in 2010, and the forecast errors for these years largely offset each other. This pattern is often seen and it is striking that the strong U.S. inbound performance in 2012 has been followed by another year of such robust growth.

Forecast accuracy has improved slightly over

Expected vs actual growth in tourist arrivals



time as equations have been revised to better account for the more recent available data, while economic uncertainty and volatility has also diminished.

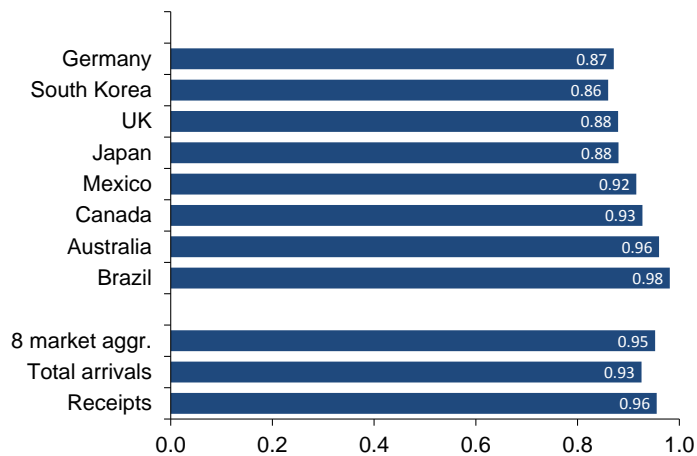
Similar forecast accuracy has historically been identified for the aggregate of the eight markets in which Brand USA conducted its FY 2013 campaigns. This similarity is unsurprising given that these eight markets represent a large proportion of arrivals. In addition, forecast accuracy for the combined eight markets is lower than for all arrivals and the difference between the counterfactual scenario and observed growth can be seen to be outside of usual volatility.

It is also noteworthy that the forecast error is linked to errors in the macroeconomic forecast and that the historic equation fit is stronger than the forecast performance. This is important in assessing the validity of the counterfactual scenario which is constructed for specific U.S. indicators according to known global economic trends and tourism performance data for origin markets.

R-squared calculations have been carried out to look at the fit of the forecast equations to data based on known economic trends. Calculation shows that the within sample accuracy is lower in some cases for bilateral flows than for total inbound performance. In general travel from larger more developed markets is more stable with some higher forecast accuracy. And in some cases model equation accuracy for bilateral flows is better than for total arrivals.

Equation fit for US inbound travel

Model R-squared statistics: 2005-2012



Source: Tourism Economics

The accompanying chart compares R-squared statistics for model equations for total inbound performance as well as for travel from some specific origin markets. This comparison of core model equations is over the period 1995-2012 and is shown both including and not including country specific dummy variables. Dummies account for specific events such as SARS or changes to visa waiver status and have been used in estimation to derive more reliable model coefficients and a better

fit. R-squared without these factors have also been shown to demonstrate the impact of events within years.

R-squared statistic has also been calculated for the aggregate arrivals from the eight markets in which Brand USA have been significantly investing. The value of 0.95 implies that the model accuracy for the combined eight markets is stronger than for many of the individual markets. This justifies the calculation of ROI for the combined eight markets rather than for each market.

3 Model Validation

In order to validate the results of the econometric modeling, Oxford Economics conducted two parallel analyses. These provide an independent view of market performance in order to confirm or contradict the findings of the predictive model described in Section 2.

The first validation was conducted using the results of advertising tracking surveys conducted by Ipsos, a market research company, in Brazil and Mexico. These surveys tracked the awareness of Brand USA's marketing campaigns and their influence on travel behavior. The goal of this analysis was to determine if the survey yielded results for these two countries that are consistent with the results of the econometric model.

The second validation was based on a market share analysis for each of the eight markets where Brand USA invested significantly in the 2013 fiscal year. The hypothesis was that a shift in U.S. market share should be evident based on the estimated ROI of Brand USA marketing.

3.1 Advertising tracking analysis

Ipsos, a global market research company conducted surveys of international travelers in Brazil and Mexico in August 2013 with a sample size of more than 1,200 in each country. The survey was designed to assess the effectiveness of Brand USA advertising in terms of recall, awareness, and intent to visit the United States.

Oxford Economics used the results of these two surveys to project the number of incremental visitors and associated spending generated by the campaigns in Brazil and Mexico.

Answers for two survey questions defined the analysis.

- Have you seen this advertisement on television recently? (after showing clip)
- When, if ever, do you intend to visit the following destinations for an overnight trip?

For the second question, the results were segmented between those who had seen the ad and those who had not. And the share of those who intended to visit the United States in the next 12 months was identified. The difference in travel intention among those who had seen the ad and those who had not seen the ad can be considered the incremental impact of the campaign.

The following table shows the results for both Brazil and Mexico. The share of respondents who had seen the ad was similar in Brazil and Mexico at 20% and 26%, respectively. However, the influence on intent to visit was quite different. In Brazil, intent to visit the United States in the next 12 months jumped 8 percentage points among those who had seen the ad. While in Mexico, there was no observable effect with a slight decline in intent to visit the United States among those who had seen the ad. This is within the margin for error so should not be interpreted as an actual negative effect of the ad.

Ipsos Ad Tracking Survey Results

	Brazil	Mexico
Seen Ad (A)	20%	26%
Intent to Visit USA in next 12 months		
Seen Ad	66%	70%
Didn't See Ad	58%	71%
Difference (B)	8%	-1%
Market Size ('000 travelers, C)	8,386	15,937
Incremental visits to US, '000 (A * B * C)	102	(41)
Average spending per visitor*	3,628	493
Incremental spending impact	369,947,435	(10,222,557)

* Source: Bureau of Economic Analysis, 2012

The market size is measured as the number of international outbound leisure trips from each country in 2012. This equates (approximately) to the base of respondents: those who have taken at least one overnight leisure international trip in the last two years. The assumption is that some respondents may have taken more than one trip in 2012 and some may have traveled just once in 2011 but that these balance each other out.

The incremental impact on visits to the United States is calculated as the share of respondents seeing the ad X the increase in intent to visit the United States in the next 12 months X the market size. Incremental spending is then calculated based on BEA average spending per visitor for each market. The calculation indicates that the Brazil campaign will generate 102,000 visits and \$370 million in spending. The Mexico campaign is calculated to have a slightly negative effect, although this is within the survey's margin of error and does not indicate that the ad reduced visitation.

The next step in the comparative analysis is to estimate the implicit ROI of the campaigns in these two countries and compare these to the econometric analysis.

The following table presents the implicit ROI based on the increase in intent to visit the United States in the next 12 months due to Brand USA’s advertising. For Brazil, the ROI is projected to be significant at 96:1 in visitor spending per dollar of advertising. The ROI is calculated as slightly negative in Mexico, although as mentioned this is within the survey’s statistical margin of error. However, it is interesting to note that the econometric analysis also yielded a slightly negative result for Mexico.

Return on Investment Analysis Based on Ipsos Ad Tracking Surveys

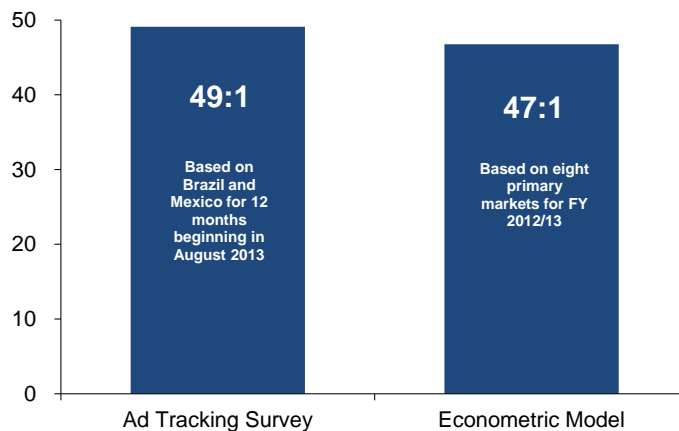
	Marketing Investment	Incremental Spending	ROI
Brazil	\$ 3,841,411	\$ 369,947,435	96
Mexico	\$ 3,485,002	\$ (10,222,557)	(3)
Combined	\$ 7,326,413	\$ 359,724,878	49

The average of the two campaigns yields an ROI of 49:1 in visitor spending per dollar of advertising. This compares closely with the econometric analysis across all eight countries which yielded 47:1.

Given that the surveys were conducted in August of 2013, some of the impact of these campaigns has yet to be realized so the econometric analysis (which focuses exclusively on the 2013 fiscal year) cannot be directly compared. However, the survey analysis for these two countries confirms the magnitude of the econometric findings.

Impact of Brand USA Marketing

visitor spending per \$ marketing



Source: Tourism Economics

3.2 Market share tracking

Another way to view the effectiveness of Brand USA's marketing is to look at the evolution U.S. market share against a set of competing destinations (these destinations are detailed below). During fiscal year 2013, U.S. market share of the key origin markets against increased 0.5 percentage points over FY 2012 against a competitive set of destinations. Market share increased for five of the eight key origin markets. When compared to the counterfactual model, the U.S. market share was 0.6 percentage points higher than the market share implied by the counterfactual model. Actual market share was noticeably higher than the implied counterfactual market share for all markets except Mexico (which was only fractionally higher than the counterfactual).

For this analysis, destinations considered to compete with the United States among the key origin markets are Canada, Mexico, the Caribbean, Western Europe and Australia. For a given origin market, the competitive set is defined as long haul destinations from the origin market. For example, the competitive set (of destinations) for the UK market excludes Western Europe as Western Europe is considered a short haul destination for UK residents. Additionally, the competitive set is calculated based on data availability of the destinations. In the case of Mexico, for example, the Caribbean and Western Europe would be considered as competitive destinations for the Mexican market. However, high frequency data of Mexican arrivals to these destinations is unavailable and therefore excluded from the market share analysis.

Competitive Set of Destinations

Origin Market	Canada	Mexico	Brazil	UK	France	Germany	China	Japan	S Korea	Australia
Destination	US	US	US	US	US	US	US	US	US	US
		Canada	Canada	Canada	Canada	Canada	Canada	Canada	Canada	Canada
	Mexico		Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico	Mexico
	Australia		Australia	Australia	Australia	Australia	Australia	Australia	Australia	Australia
	W Europe		W Europe				W Europe	W Europe	W Europe	W Europe
	Caribbean			Caribbean	Caribbean	Caribbean				

Among the key markets, market share gains were realized in five markets during FY 2013 (Canada, Mexico, Brazil, Germany and Japan). Market share fell fractionally in two markets (UK and Australia) and fell by nearly 2 percentage points in one (South Korea). South Korea's historical trend is an exceptional due to its entry into the visa waiver program in 2008, which stimulated dramatic growth rates at a time when many markets were in decline. After such a strong positive disruption, the U.S. market share of South Korean travelers has reflected an above-average level of volatility in recent years, particularly in amid heightened competition from other destinations such as Australia. Results in each market are summarized below.

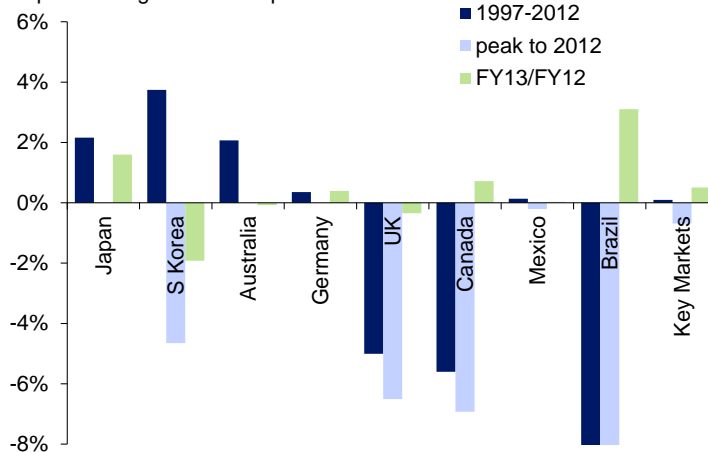
US Market Share of Key Origin Markets

	% point change in market share		
	1997 - 2012*	Peak - 2012*	FY 2013
Japan	0.1%	-	1.6%
S Korea	0.2%	-0.3%	-1.9%
Australia	0.1%	-	-0.1%
Germany	0.0%	-	0.4%
UK	-0.3%	-0.5%	-0.3%
Canada	-0.4%	-0.4%	0.7%
Mexico	0.0%	0.0%	0.0%
Brazil	-0.6%	-0.5%	3.1%
Key Markets	0.0%	0.0%	0.5%

* Average annual % point change

US Market Share of Key Origin Markets

%-point change within competitive set

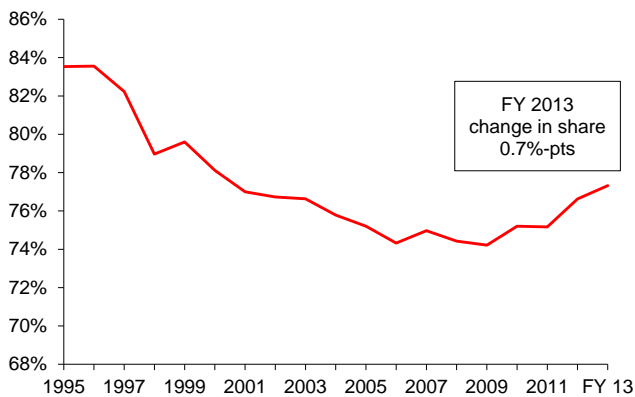


Source : Tourism Economics

The following charts show both the trend of U.S. market share since 1995 (based on calendar year data) and the most recent shift in U.S. market share for the 2013 fiscal year for each of the eight markets in which Brand USA was most active.

US Market Share: Canada

% of competitive set



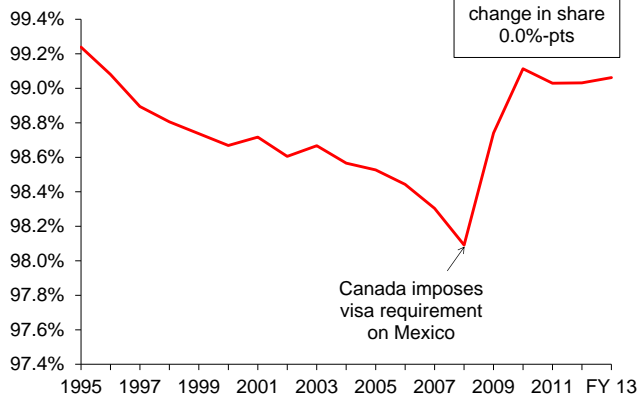
Source: Tourism Economics

U.S. market share of the Canadian market increased 0.7 percentage points in FY 2013.

Prior to FY 2013, U.S. market share had increased 0.6 percentage points per year on average from 2010-2012.

US Market Share: Mexico

% of competitive set



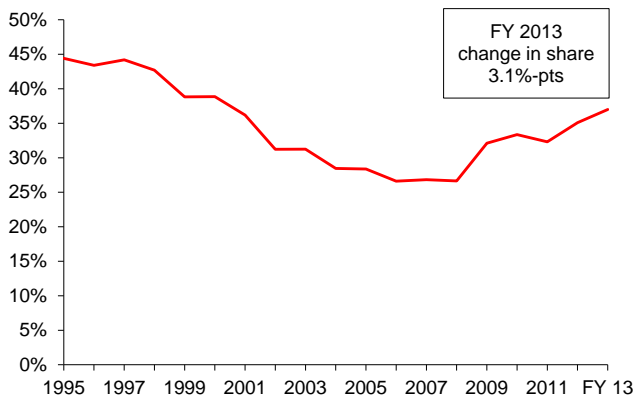
Source: Tourism Economics

U.S. market share of the Mexican market held steady for FY 2013.

U.S. market share gave way to Canada from 1995 through 2008 before Canada imposed visa requirements on Mexican residents beginning in 2009.

US Market Share: Brazil

% of competitive set

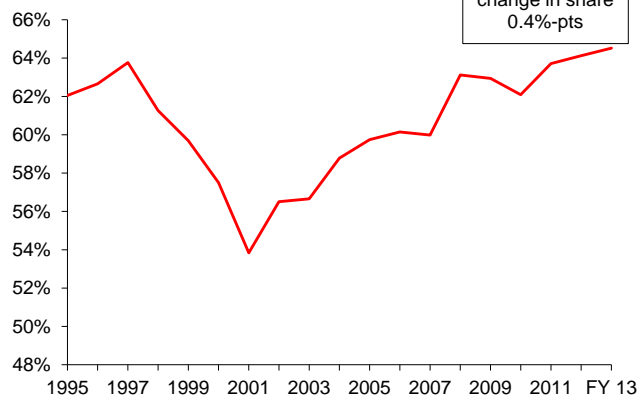


Source: Tourism Economics

The United States continued gaining share of the Brazilian market against competitors, increasing 3.1 percentage points.

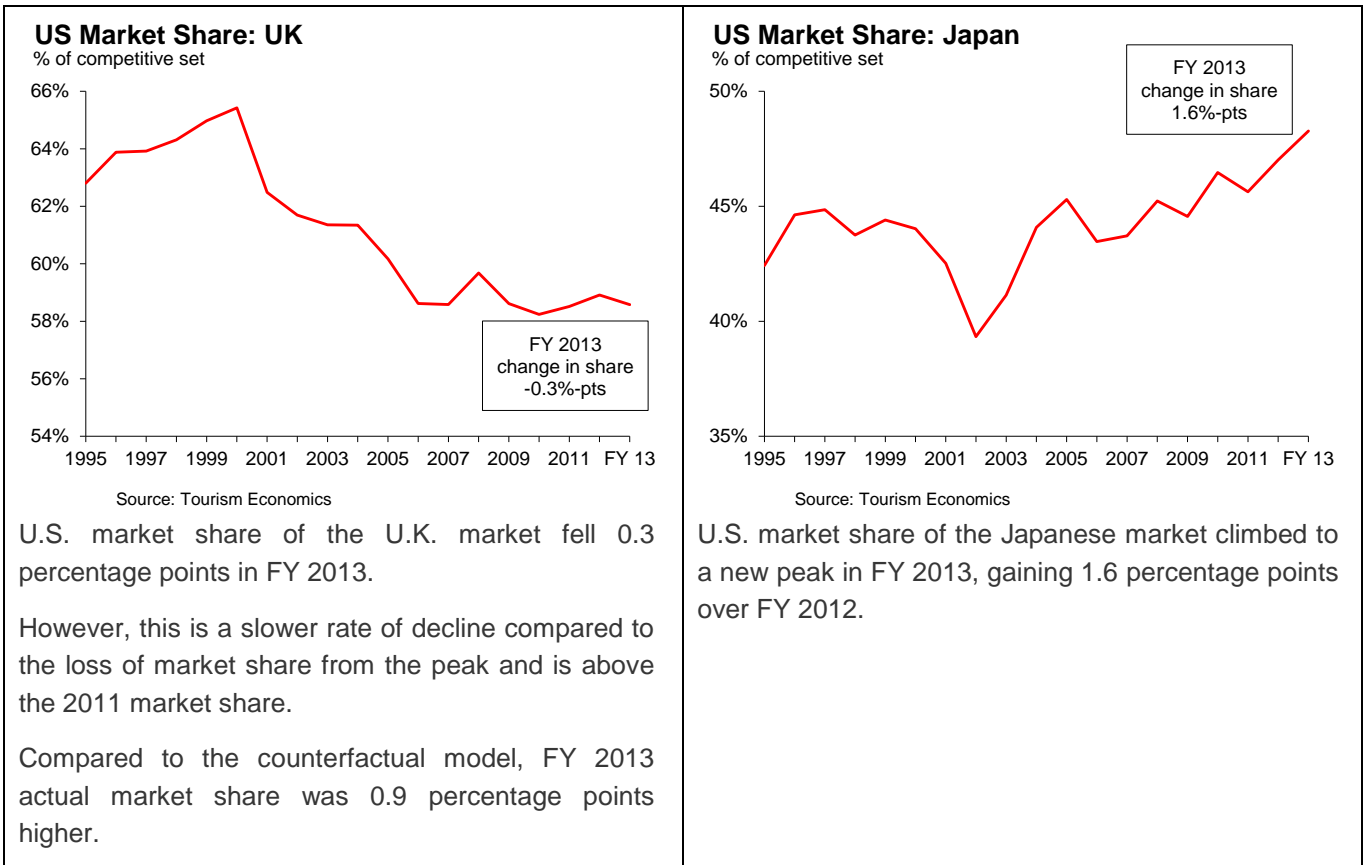
US Market Share: Germany

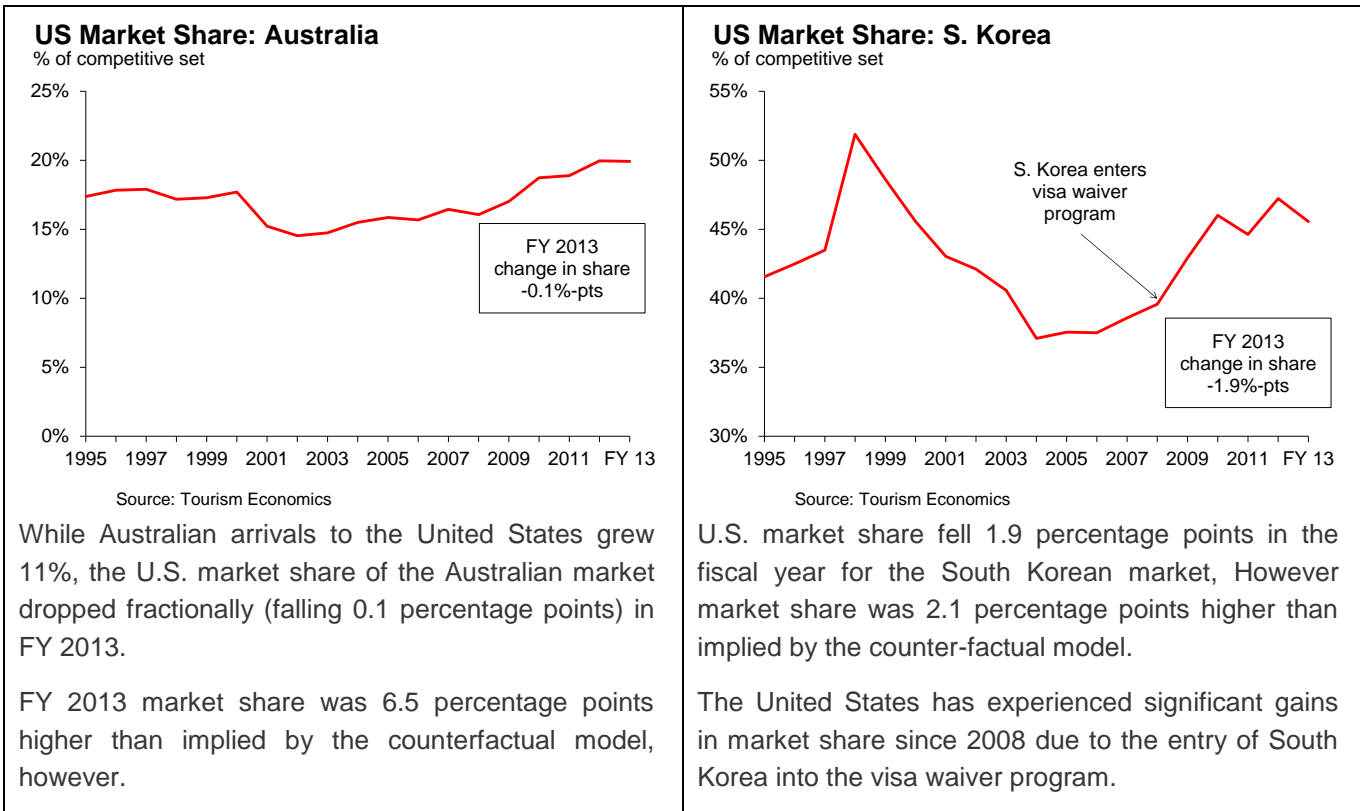
% of competitive set



Source: Tourism Economics

The United States set a new peak on market share of the German market in FY 2013, gaining 0.4 percentage points in share.

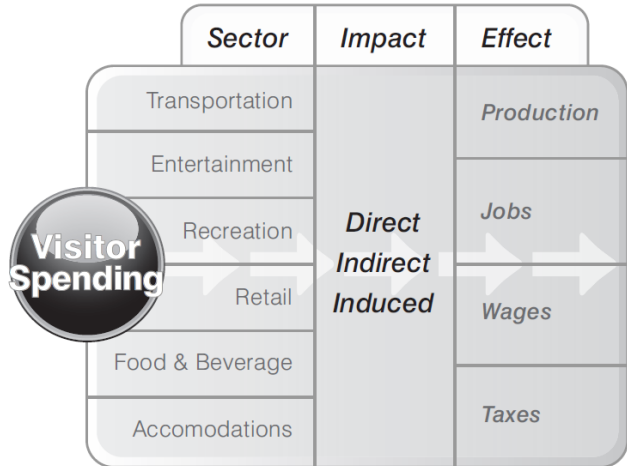




Across these eight markets, a consistent trend of either an increase in share or a slowdown in the rate of share losses can be observed for the most recent Brand USA fiscal year ended September 30, 2013. This indicates an overall strengthening of competitiveness that coincided with Brand USA’s marketing investments, providing a general confirmation of the returns indicated by the econometric model.

4 The Economic Impact of Brand USA Marketing

The incremental travel spending generated by Brand USA's global marketing produces benefits that extend beyond the direct spending in travel-related industries. These secondary effects are calculated in two categories: First, indirect impacts result from the supply chain impact when new spending generates additional demand in supply chain industries. For example, direct spending on food and beverages would result in additional demand in industries that supply the restaurants, such as the food inputs, energy, capital equipment, and professional services such as legal and accounting services. Second, induced impacts are produced as the incomes earned through visitor spending are spent in the U.S. economy. The direct impact plus the indirect and induced impacts combined make up the total economic impact.



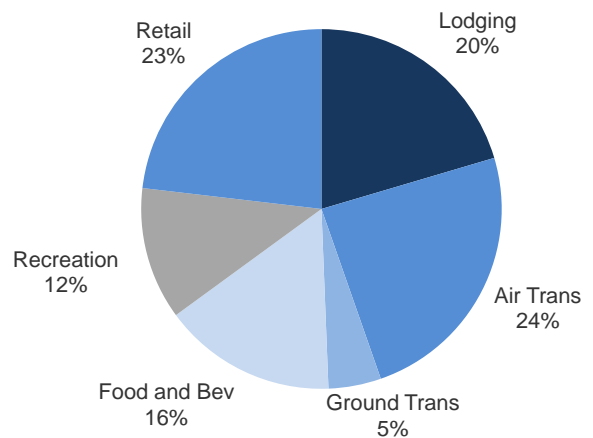
Each of these levels of impact generates economic output, employment, wages, and taxes.

Impact modelling was conducted at the U.S. national level using the IMPLAN modelling system. The visitor spending of \$3.4 billion generated by Brand USA marketing in the 2013 fiscal year was distributed to the appropriate industries based on the Office of Travel & Tourism Industries Survey of International Air Travelers along with BEA data on passenger fares per visitor for each of the eight relevant source markets.

The IMPLAN input-output model for the United States, which is based on BEA national income accounts, is then used to quantify the economic impacts on economic output (also called business sales), employment, wages, and taxes.

Brand USA-Generated Visitor Spending by Industry

Total = \$3.4 billion



The \$3.4 billion in additional international visitor spending is estimated to have generated the following economic impacts:

- \$7.4 billion in business sales (Output)
- \$3.8 billion in value added (GDP)
- \$2.2 billion in personal income
- 53,181 jobs

It is important to note that jobs impacts in economic impact modeling represent the number of jobs sustained by a given level of economic output. Therefore, the 53,181 jobs are a combination of new jobs and existing jobs which were sustained by the Brand USA-generated international visitor spending. This is because, unlike taxes or GDP, employment does not respond to increases in business activity on a linear basis.

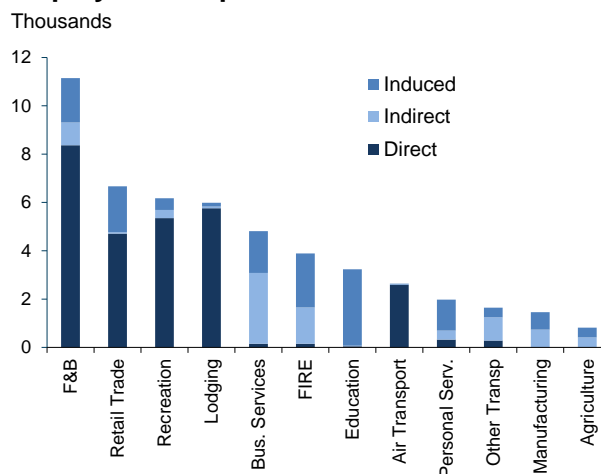
Direct employment impacts with the industries directly serving international visitors tally 27,895.

It is noteworthy, however, that significant employment impacts are evident in the business surveys and FIRE (finance, insurance, and real estate) sectors as dollars flow through the U.S. economy.

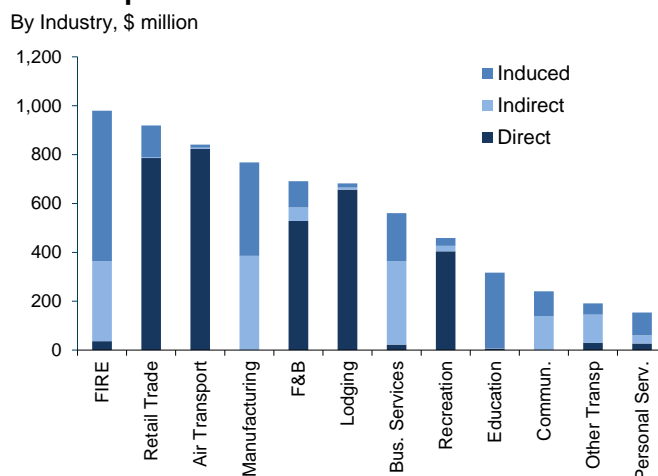
A total impact of \$7.4 billion in business sales spans all sectors of the U.S. economy, as reflected in the chart to the right. Again, the finance, insurance, and real estate sector is a beneficiary of international visitor spending as a supplier to tourism industries and as a provider of services to employees who earn income through visitor spending with an economic impact of almost \$1 billion. Similarly, the manufacturing sector realized a benefit of \$800 million in economic output as a result of Brand USA marketing.

Total Brand USA Economic Impact, FY 2013				
	Total sales (\$mils)	Value added (\$mils)	Income (\$mils)	Jobs
Direct	3,402	1,523	886	27,895
Indirect	1,699	932	543	9,657
Induced	2,294	1,342	750	15,628
Total	7,395	3,797	2,179	53,181

Employment Impacts



Sales Impacts



Finally, Brand USA-generated international visitor spending is estimated to have produced Federal taxes of \$512 million, including direct impacts of \$214 million and indirect/induced impacts of \$298 million.

Another \$460 million in state and local taxes were generated by Brand USA marketing in the 2013 fiscal year including direct, indirect, and induced impacts.

Brand USA Tax Impacts			
(US\$ Million)			
Tax Type	Direct	Indirect/ Induced	Total
Federal Taxes Subtotal	<u>214.5</u>	<u>297.9</u>	<u>512.4</u>
Corporate	26.7	56.4	83.1
Indirect Business	33.7	23.7	57.3
Personal Income	55.6	81.8	137.5
Social Security	98.5	136.1	234.5
State and Local Taxes Subtotal	<u>254.9</u>	<u>205.2</u>	<u>460.2</u>
Corporate	4.9	10.3	15.2
Personal Income	16.6	24.4	40.9
Sales	98.3	69.1	167.4
Property	97.0	68.6	165.6
Excise and Fees	36.0	30.0	66.0
State Unemployment	2.2	2.9	5.1
TOTAL	469.4	503.2	972.6

5 About Oxford Economics

Oxford Economics is one of the world's leading providers of economic analysis, forecasts and consulting advice. Founded in 1981 as a joint venture with Oxford University's business college, Oxford Economics enjoys a reputation for high quality, quantitative analysis and evidence-based advice. For this, it draws on its own staff of 80 highly-experienced professional economists; a dedicated data analysis team; global modeling tools, and a range of partner institutions in Europe, the US and in the United Nations Project Link. Oxford Economics has offices in New York, Philadelphia, London, Oxford, Dubai, and Singapore.



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Hundreds of destinations and companies have trusted our staff to help them make better marketing, investment, and policy decisions based on credible fact-based, quantitative analysis.

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