Festivals, Special Events, and the ‘Rising Tide’

Stephen Litvin, College of Charleston, USA. <litvins@cofc.edu>
Bing Pan, College of Charleston, USA. <bingpan@gmail.com>
Wayne Smith, College of Charleston, USA. <smithww@cofc.edu>

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About the authors

Stephen W. Litvin is a professor, Bing Pan is Associate Professor, Wayne Smith is Assistant Professor, in the Department of Hospitality and Tourism Management, School of Business, College of Charleston, USA. Dr. Litvin can be reached at: litvins@cofc.edu.
Abstract

Purpose: The accurate measure of the economic contribution of festivals and special events is a challenge. This paper uses a case study to demonstrate a previously un-captured economic contribution from increased hotel rates during the period of festival or event, the ‘rising tide’ effect.

Design/methodology/approach: This study uses a case study on Charleston's hotel occupancy changes, and how the changes coincide with the occurrence of festivals and events in the community, to demonstrate the increased tourism income due to rising accommodation prices during festival and events.

Findings: The study validates the increased tourism income due to rising accommodation prices during festival and events, which can provide a significant boost to the economy of a local community.

Practical implications: Festival organizations, as well as hoteliers and other beneficiaries of tourist spending during festivals and events, should note that how this additional contribution benefits them and their communities.

Originality/Value: Many economic contributions of festivals/events overstate their values. The current study first demonstrates a previously un-captured economic contribution using a case study approach.

Keywords: Economic Impact, Community Development, Tourism Promotion

Paper type Case Study
Introduction

The measurement of the economic contribution of festival and special events is far from an exact science. The intent of the following discussion is not to instruct on nor critique the methods used in many economic impact studies for festivals and events. An extensive body of literature is related to the topic. Instead, the intent of this paper is to suggest a new variable to those who conduct such studies.

In an article poignantly entitled “Economic Impact Studies: Instruments for Political Shenanigans?”, John Crompton (2006) discusses potential errors incumbent in economic impact calculations that often result in an overstatement of festival economic impact. Crompton does not instruct how one should conduct his/her study; instead, he notes that festivals had the tendency to overstate the economic contribution of their events, regardless of the approaches taken. Per Crompton, the overlooking of contra-factors in the calculation is the common cause for such overstatement. His examples include: “time-switchers” - those tourists who would have visited without the festival or event, but changed their schedule to coincide their travel with it. They should not be credited to the festival; “casuals” - those attending tourists whose main purpose is not for the festival, and thus should be excluded from the calculation of benefit; the inclusion of local visitor expenditures which is a redirection of local funds from other alternative expenditures; the failure to account for incremental municipal costs related to the event; and the loss of revenue from displaced visitors (Litvin, 2007). Failure to consider these negatives in reported benefits results in overstate an event’s true economic contribution to the community (Crompton, 2006). Crompton (2006, p, 67) notes, “Most economic impact studies are commissioned to legitimize a political position rather than to search
for economic truth. Often, this results in the use of mischievous procedures that produce large numbers that study sponsors seek to support a predetermined position.”

Such errors are not generally the results of shenanigans, and are likely a function of the complexity of calculating economic impacts for festivals and events. However, the resultant inaccuracies often overstate economic benefit. The balance of this paper discusses an opposite issue: a previously unidentified effect that captures a positive economic impact. A festival or special event can have this impact upon its host community given the right circumstances. The new concept is termed the “Rising Tide” effect, referring to the increased tourism income due to rising accommodation prices during festival and events. Festival managers, hoteliers and other tourism providers who benefit from successful festivals and special events will be interested in the concept and find it valuable.

The Rising Tide Effect

This research is based upon a dataset on tourism activities in Charleston, South Carolina. Charleston is a tourist metropolitan area with a population of approximately 600,000. The area is blessed with Civil War era plantations and forts, lovely parks and gardens, nearby beaches, a temperate climate, the largest preserved historic district in the USA, and an extensive festival and special events calendar. These assets have earned Charleston accolades as one of Condé Nast Traveler’s ‘Top 10 Travel Destinations in North America,’ a National Geographic Traveler’s ‘Top 50 Places of a Lifetime America’ designation, and recognition by Southern Living as both a ‘Favorite Historic Destination’ and ‘Favorite Dream Getaway.’
Per the College of Charleston’s Office of Tourism Analysis, Charleston County has approximately 15,000 hotel rooms and hosted just under four million overnight visitors during 2009 (Byrd 2010). Figures 1 and 2 reflect hotel occupancy and Average Daily hotel Rates (ADR) on a week-by-week basis for both Downtown Charleston and Charleston County in 2009.

The numbers in the two graphs reflect weekly fluctuation and Charleston's seasonality. Certainly a perfectly smooth demand curve is not possible. What is interesting is the number of significant weekly upticks tied directly to a major festival or special event held during those weeks. Some of these events created a positive phenomenon we refer to as the rising tide effect (from the JFK idiom, “a rising tide lifts all boats”). This rising tide likely enhanced the events’ economic contributions significantly in a manner not captured by their organizers’ economic impact studies.

The festivals and special events in Figures 1 and 2 have the power to influence the area’s entire hotel sector. They not only increased county-wide hotel occupancy levels as a result of the visitors they attracted, they also likely provided a measurable boost to the county’s ADR. The result was not just the increased number of visitors recorded in Charleston than those expected from a ‘normal’ non-festival week; collectively all visitors that week – whether festival/special event attendees or not – paid incrementally
higher hotel rates as reflected in the higher ADR. This across-the-board higher ADR is the rising tide effect.

Consider a couple of examples. Charleston’s first major event of the year is Southeastern Wildlife Exhibition (SEWE), a very successful wildlife art festival. Held each February, local tourism sector strategically scheduled SEWE to jump-start the local tourism season. Per SEWE’s 2010 Application for Accommodations Funding (a grant request submitted to Charleston County in 2009 and a public record), SEWE 2009 attracted around 23,000 visitors, 85% of whom stayed in paid accommodations for an average of 2.3 nights. Assuming an average party size of 2.2 (Charleston average), one can approximate that SEWE visitors occupied approximately 20,000 hotel room nights during the festival period. As a whole, the County sold approximately 70,000 hotel room nights during that time period.

Festival goers account for the significant uptick in occupancy (Figure 1); county-wide ADR also shows a significant increase during the festival week (Figure 2). As depicted in the graph, the increase in ADR from the prior week was $8. Similarly, data from 2008 also found an increase of $9. Thus, factors such as bad weather in 2009 could have skewed the data; they were not in play in 2009. Arguably, the strength of SEWE bookings is that it allowed other hoteliers to raise their rates. SEWE attendees paid more to visit Charleston specifically because they wished to attend the festival. The vast majority of visitors also paid a higher rate than one would expect to pay in early February in Charleston, simply because their visiting week coincided with the event. As a result, non-SEWE visitors occupied the other 50,000 room nights, and collectively contributed approximately $400,000 in additional funds to the county’s hotel revenue. It is calculated
as 50,000 rooms sold to non-SEWE visitors x $8 incremental ADR = $400,000 additional revenue.

After application of the area’s tourism multiplier of 1.66 (OTA 2010), this created a gross incremental economic contribution of $650,000. Though a relatively small percentage of the $67 million contribution reported by the organizers, it is a number worthy of inclusion in the festival’s impact calculation. Please note that the methods utilized by festival management to calculate the $67 million is not germane. What is important is the fact that the reported number does not consider the macro-effect of the festival upon the general lodging sector.

A similar scenario occurs for the Charleston Food + Wine Festival (F+W), a non-profit festival founded and championed by the city’s hotel and food and beverage industries. F+W week generated an ADR bump of $7 for both 2009 and 2008 compared to the festivals’ prior week. Per the F+W accommodation tax grant application (a public record of Charleston County, 2009), the 2009 festival generated approximately 9,000 hotel room nights. During that week, 60,000 other room nights were filled by non-attendees. IF we apply the same logic used above for SEWE, the most recent F+W festival thus contributed an additional $420,000 direct impact and $700,000 total impact after applying the local tourism multiplier, due to raised county-wide ADR. This is a very significant unaccounted contribution when considered in conjunction with the $2.4 million economic impact reported by F+W festival organizers (McMillan 2009).

Charleston area festivals with such impact occur throughout the year. These included Charleston Fashion Week and the Citadel’s (Military College of South Carolina)
Parents and Homecoming weekends. Each of these events not only raises County-wide hotel occupancy levels, but also creates an environment enabling Charleston hoteliers to command higher room rates from their guests, attendees and non-attendees alike.

Comments

What is the main lesson to take from the above outcomes? First, when calculating the economic contribution of a festival or special event, we need to consider Crompton’s warnings. However, we should also consider the broader macro-issue: well-publicized events will attract visitors who likely book early and are willing to pay higher prices. Those events can dramatically and positively impact local economies in a manner not previously captured. While the examples herein are Charleston-based, the lessons would seem to apply universally.

Not all festivals and special events are likely to have such impact. The ones we identified attracted guests willing to pay premium rates at premium properties. This in turn created a cascade, empowering lower priced and geographically peripheral hotels to raise their rates to take advantage of a pricing concept economists refer to as the "umbrella effect", that is, “the tendency for the prices of all goods and services to rise once a few do” (Weiner 2007, p.1).

Return to SEWE as an example. SEWE attracts an affluent clientele, most of whom would wish to stay in downtown hotels to be within close proximity to the event. During the 2009 festival, downtown ADR during festival week rose significantly. An ADR of $145 from $132 the prior week resulted in an increase of 10%. As SEWE visitors filled city center rooms, others not coming to Charleston for the festival
undoubtedly elected to move to the periphery for more affordable lodging options. In response to this uptick in demand, non-downtown hotel revenue managers similarly raised their rates above what they would charge during an otherwise relatively slow off-season time of year. As a result, they collected 8% more than they were able to charge their guests just one week prior.

The other characteristic that identify festivals and special events can influence destination-wide hotel pricing would be their ability to create publicity and awareness. Note per Figures 1 and 2 those festival weeks produced higher room rates even in seasonal periods of only moderate demand. The basic law of supply and demand reflects an economic environment where consumers compete for limited goods. In this case, however, we note that hotels during festival weeks have raised their rates despite being short, at times significantly short, of full occupancy levels. Hoteliers it seems, have the confidence to do so as a result of the increased hype that accompanies these events. And non-attendee consumers seem less price sensitive when aware that they are sharing a destination with those visiting specifically for a special event. If the event were not well publicized, however, such likely would not be the case. It is interesting consumer psychology.

Festival and event managers, as well as government officials often responsible for supporting these events, should be careful to consider both the positive and the negative factors when computing the economic value of their events. Overstatement, due to a failure to consider offsetting costs and displacement issues, must be conscientiously avoided. Crompton has provided a good primer of potential errors and his work should be required reading for any festival manager producing an economic impact study. But,
while further research in other communities and across a range of festivals and special events would be useful to confirm generalizability, a broader macro-view is appropriate for those festivals and special events of sufficient significance to influence lodging pricing across their destination market as a whole.

Litvin et al. (2006), in a multi-year study of the expenditure of accommodation tax funds in smaller communities across the state of South Carolina, suggested that the best use of these funds was an investment in festivals and special events. No explanation was provided to support the finding beyond the fact that those communities that promoted festivals reported higher tourism growth rates than had those that had not. Perhaps, it can be argued that the ‘rising tide effect’ may have played a part in explaining their findings, with the benefits of these events broader than is sometimes credited.

**Several concluding comments**

The study has the following caveat. The study attributes the rise of ADR and hotel occupancy rates to specific festivals and special events. Other unidentified factors may have also influenced these numbers. We have spoken with local tourism officials, and asked if they could point to other factors possibly in play during the current festival period. None were apparent to them. However, what is important is not our specific impact calculations related to the festivals discussed. These festivals were solely illustrative. When preparing their own studies, Festival organizers should consider their locale’s macro-environment and account for all positive and negative factors. If they see the rising tide as an incremental benefit, they have the responsibility to justify this to those relying upon their studies. Our goal is simply to suggest the new variable, and
enable a truer and more complete assessment of the contributions of a festival or special event to the economic well-being of its host community.

Further, spiked performances occur during certain weeks in Figure 1 and 2 do not tie to any special event. Beyond the comments of the CVB director in Figure 1, the study provides no further explanation. Destination-wide lodging performance evaluation is a complex issue and that such fluctuations are to be expected.

In addition, tourism officials often warn the danger of “festivalitis” - an over-reliance upon festivals while disregarding the development of a permanent tourism attractions base. While those are good advice, a calendar with major events appealing to different demographics and interest groups can provide benefits both under-appreciated and under-counted by festival and event organizers and host communities.

Finally, public monies support many festivals and special events. Hoteliers should become involved with the process that governs the distribution of these funds, and lobby governmental entities to support major events in the community. These events not only drive visitor numbers, but can also be the impetus for increased hotel rates across the destination. Those events benefit the economy in a way neither captured nor appreciated.
References


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OTA [College of Charleston Office of Tourism Analysis] (2010). Economic multiplier for Charleston County tourism analysis, based upon IMPLAN. Multiplier number provided by the OTA.

Note: There are several weeks throughout the year that reflect fluctuations not attributable to any specific festival or special event. Per the CVB (Lawson 2010), the week following July 4 always sees a significant decline in demand. Mid to late August, as schools begin in South Carolina, is likewise an annually depressed period. January’s uptick coincided with the MLK holiday, but is more likely a function of several meetings held in the city that week. When asked for explanation for other upticks or downticks, the answer was that these likely reflect normal demand variability, inevitable over the course of the year. Source: College of Charleston Office of Tourism Analysis, as derived from Smith Travel Research data.
Figure 2. Charleston SC Hotel Average Daily Rate, 2009

Note: Please see Figure 1 for comments regarding non-labeled fluctuations.

Source: College of Charleston Office of Tourism Analysis, as derived from Smith Travel Research data.