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The Center for Exhibition Industry Research
White Paper
Space Available…The Rest of the Story

By Douglas L. Ducate

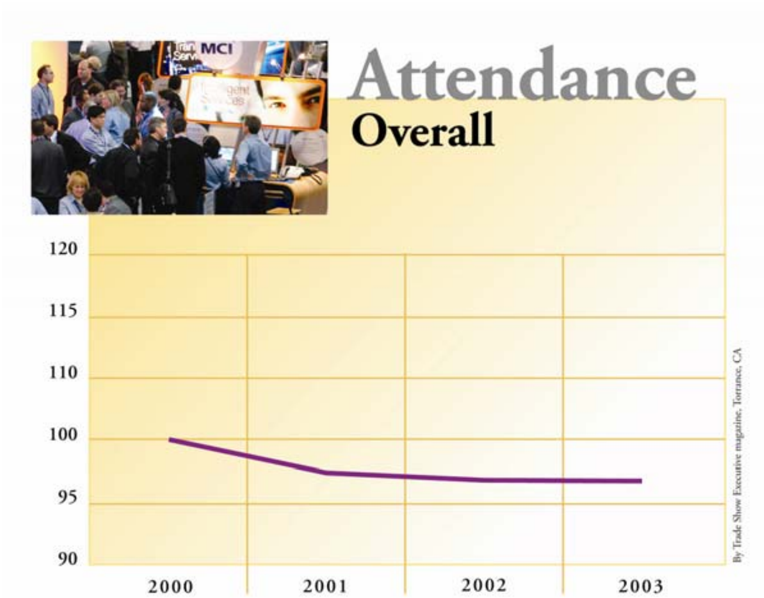
Executive Summary

The Brookings Institution released a research brief entitled *Space Available: The Realities of Convention Centers as Economic Development Strategy* on January 17, 2005.

The 35-page brief asserts there is a 'glut' of convention center space with more in the pipeline. It concludes that the use of public funds to underwrite the construction of such space is inappropriate. It cites a precipitous drop in attendance and an, "unlikely recovery and turnaround," as reasons why cities should not invest in convention center development.

However, an examination of actual data and statistics relative to the entire universe of exhibitions held in the United States reveals flaws in the report. Inaccuracies in the report include an inappropriate sampling of events for estimating results that were attached to all exhibitions and a selected time frame for measuring the performance of selected events. Finally, most of the one-sided brief is devoted to anecdotal information selected to match the pre-existing bias of the author.

- The claim that average attendance has declined sharply since 1999 is grossly exaggerated. The Center for Exhibition Industry Research (CEIR) *Exhibition Industry Index,* published in September 2004, clearly identifies the trends in four industry metrics including professional attendance from 2000 through 2003 (see chart below). The actual attendance decline at the most severe point during the period was 2.9%, significantly less than the brief suggests.



- The claim that demand for exhibit space is shrinking while supply is increasing ignores the significant growth in the number of exhibitions prior to 2000. The CEIR *Exhibition Industry Census,* published in 2001, reported a 7% compounded annual growth rate (CAGR) in the number of events from 1986 through 2000 and only 38% of those exhibitions were held in exhibition/convention centers. The suggestion that a possible flattening in the number of events from 2000 through 2003 is not supported by any data. Even if the 2005 Census update should reveal a flattening in the number of events, to suggest that signals a "sea change" in attitudes toward face-to-face marketing is unwarranted and unsubstantiated. The events leading up to 2000 included the "dot com" phenomena, and Y2K expenditures. The events following 2000 included recession, terrorism and Severe Acute Respiratory Syndrome (SARS).

- The brief devotes 30 pages to condemning the use of public funds to build convention centers, particularly when there are social services program needs such as poverty, the homeless, population loss and housing abandonment, but fails to mention that the revenue bonds typically used to build centers could be regressive if used for the social services programs identified. Ironically, the brief concludes that it is appropriate to use tax exempt bonds as long as communities invest in modest size facilities.

- The brief calls for "further discussion and study on this important and timely issue." We support that and offer the following paper as a more balanced commentary on the exhibition industry. The question of the best use of public funds deserves public debate. But at the end of the day, as Adam Schaffer, publisher of *Tradeshow Week,* wrote, "What's better: For a center to lose $15 million a year and drive $100 million into the local economy, or for the city to keep the $15 million and not have the $100 million from the trade show business?"

Introduction

The Brookings Institution released a research brief entitled *Space Available: The Realities of Convention Centers as Economic Development Strategy* on January 17, 2005. The report carried a byline identifying the author as Heywood Sanders, a professor of Public Policy Administration at the University of Texas at San Antonio and a long time critic of the use of public funds to support convention center and convention center hotel construction.

The 35-page brief asserts there is a 'glut' of convention center space with more in the pipeline. It concludes that the use of public funds to underwrite the construction of such space is inappropriate. It cites a precipitous drop in attendance and an "unlikely recovery and turnaround" as reasons why cities should not invest in convention center development. It asserts the use of public funds to underwrite the construction of such space is inappropriate. It provides a series of anecdotal examples to illustrate the fundamental premise that investment in convention centers and hotels are not in and of themselves a guarantee of success.

The underpinning of this position is established by the presentation of six premises repeated throughout the brief. This paper identifies those premises and provides comment and elaboration on each.

Premise One
There is no national data on performance and trends in the convention and exhibition industry from a non-commercial institutional source.

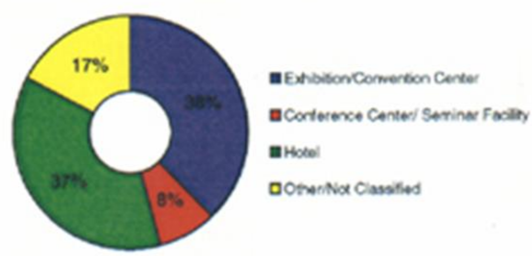
Comment
The Center for Exhibition Industry Research (CEIR) has for the last 26 years been the non-profit institution committed to collecting and using fact based knowledge regarding the exhibition industry. CEIR last published the *Exhibition Industry Census* of the U.S and Canada Exhibition industries in 2001 and is scheduled to update that work in 2005. CEIR published the *Exhibition Industry Index* in 2004. The *Index* measures change in four metrics — net square feet of space sold, professional attendance, number of exhibiting companies and event revenue. Data is reported in the aggregate for business-to-business exhibitions; it is also reported by industry sector.

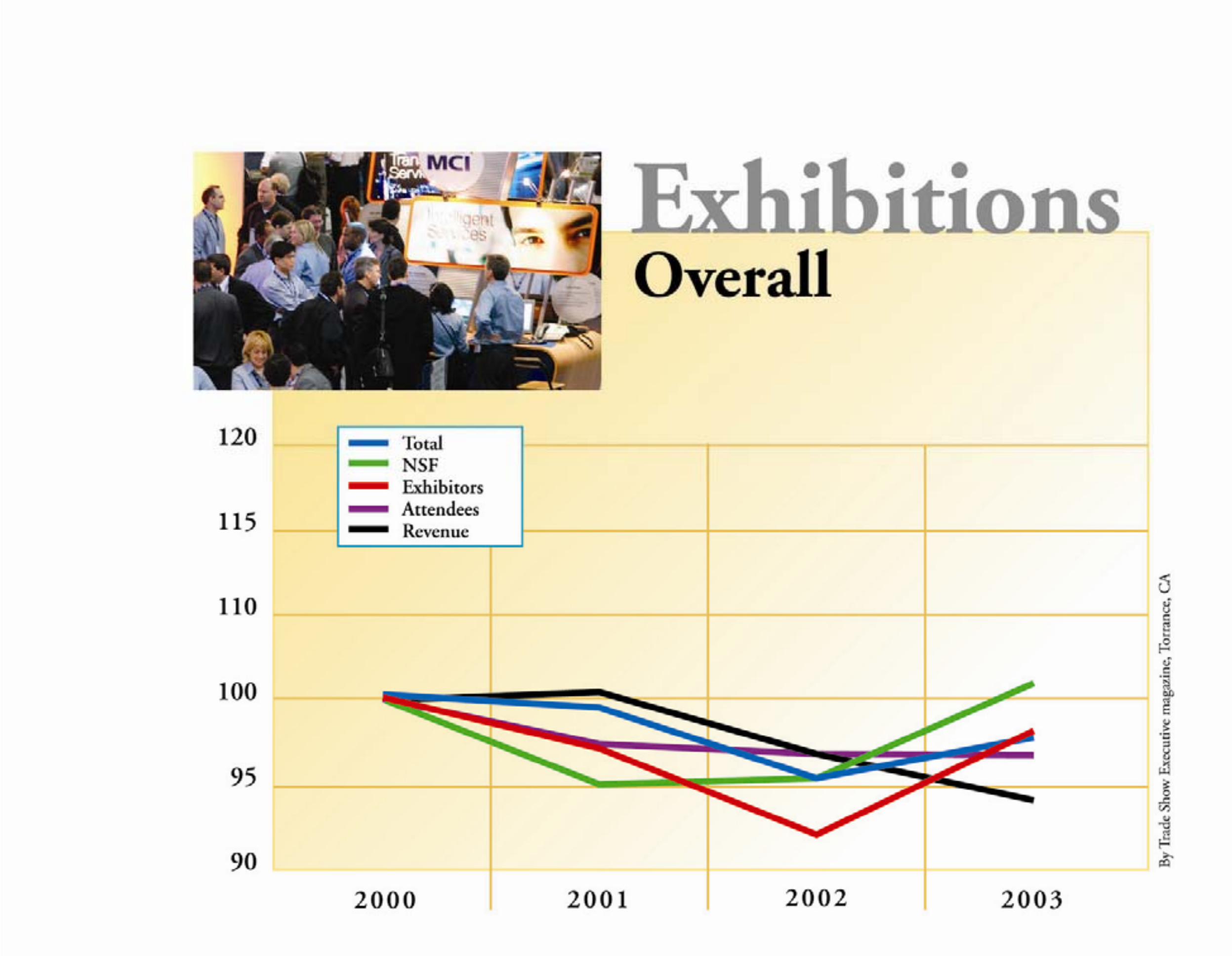
U.S. & Canada Totals

Number of Events: 13,185

By Type of Venue	Number	Percent
Exhibition/Convention Center	4,983	38%
Conference Center/ Seminar Facility	1,070	8%
Hotel	4,870	37%
Other/Not Classified	2,262	17%

Event Venues





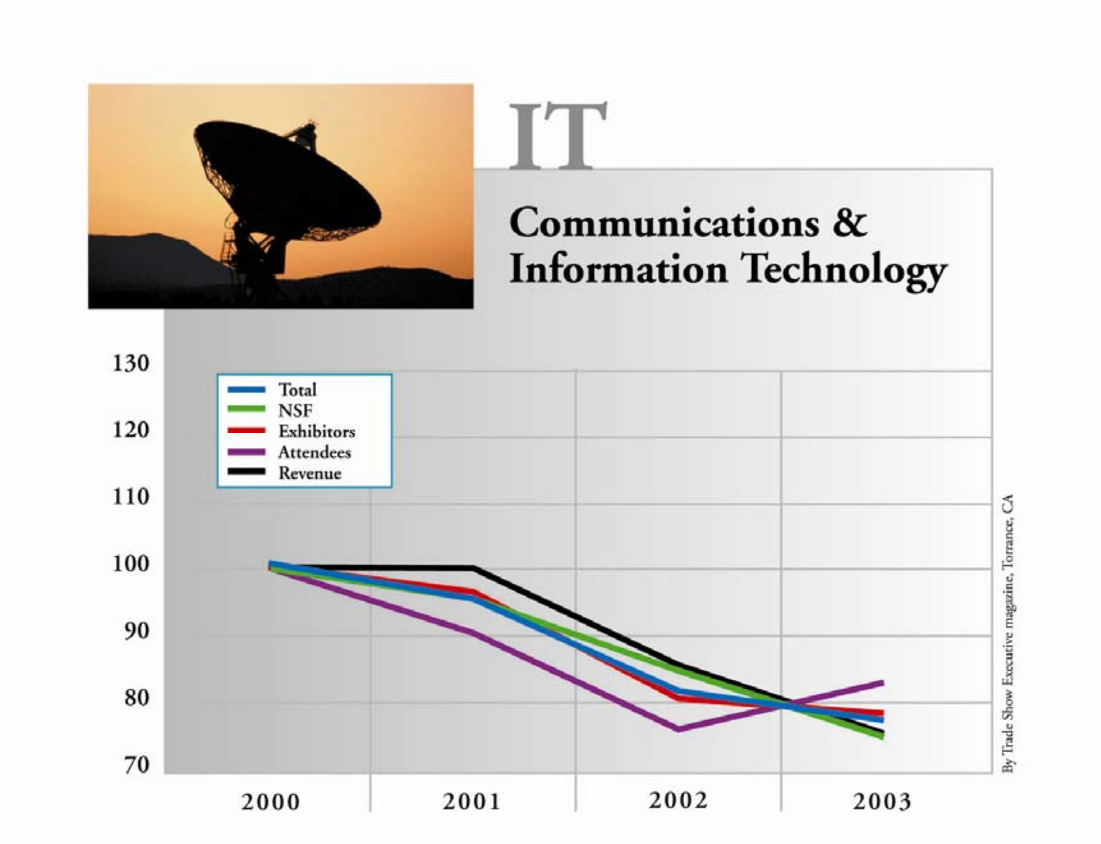
Premise Two
The supply of exhibit space is increasing but demand is shrinking and attendance is declining.

Comment
The CEIR *Census*, published in 2001, identified some 13,165 exhibitions produced during 2000. Exhibitions with more than 3,000 net square feet of space sold and 10 or more exhibiting companies were included in the *Census*. Some 7,933 of the exhibitions are greater than 10,000 net square feet of space. In a Cornell University paper authored by Bob Black in 1986 entitled *The Trade Show Industry, Management and Marketing Career Opportunities*; he identified some 2,733 exhibitions of more than 10,000 net square feet and estimated there were another 3,000 exhibitions with less than 10,000 net square feet. This translates to a compounded annual growth rate (CAGR) greater than 7%.

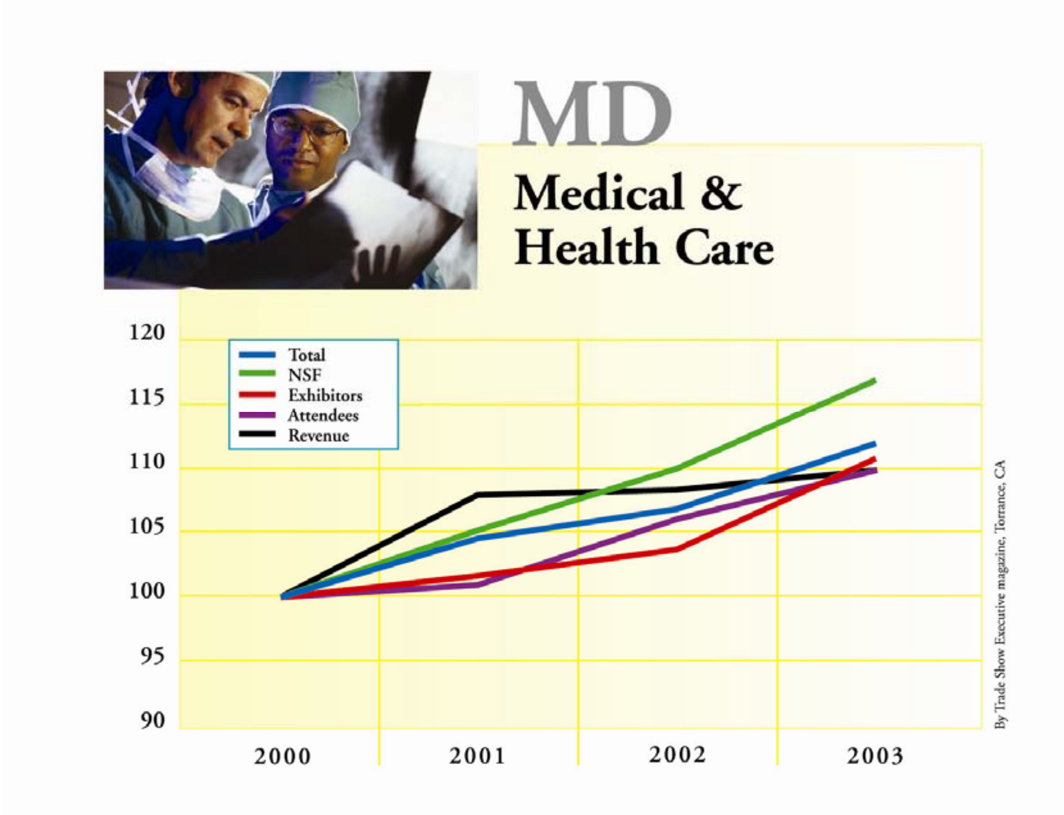
Moreover, only 38% of the 11,094 exhibitions produced in the United States are held in convention centers, while some 41% are held in hotels. Hotels provide a favorable environment for launching new events that are typically less than 10,000 net square feet. The historical growth path has been for events to grow and prosper in the hotel environment until they are large enough to move to an exhibition center. Thus, the hotel and conference center environment becomes an incubator for exhibitions. Only the *Census* tracks exhibitions held in hotels. The *Census* is scheduled for updating in 2005.

Certainly it is possible the 2005 *Census* will report a flattening or even a small decline in the number of exhibitions. The events of the last five years have resulted in some event casualties. The *Census* provides the best industry research to track new launches to see if they offset the losses.

The economic prosperity of the 1990s coupled with the advent of the Internet, the “dot com,” phenomena and the spending frenzy leading up to Y2K, all spurred rapid growth in the exhibition industry just as it did in other industries. New events were launched as new technologies came on stream. “Hot” industries always attract entrepreneurs anxious to create new events to serve them. The end of the “dot com,” boom coincided with the passing of the Y2K concerns. Companies that had made unusually high investment in technology reduced technology expenditures overnight. This had a dramatic effect on the exhibitions that serve those industries as the following chart indicates. But while Information Technology and Telecommunications were still in a state of decline in 2003, there is no long-term doubt that these growth industries will prosper and so will the exhibitions that serve them.



But just as the previous example illustrated negative performance, the following chart for the same period for the Health Care industry illustrates positive performance. It also illustrates the point that the exhibition industry cannot be accurately painted with a single brush. Exhibitions mirror the industries they serve.



In 2001, the recession took hold and by the end of August, according to the American Business Travel Association, 77% of U.S. based companies had reduced all but essential travel. The tragic events of September 11 created a significant spike in all areas and that tended to obscure exhibition performance for the entire year. SARS and a continuing economic recession, coupled with industry consolidation, created a continued decline for the exhibition business.

All of these factors created negative pressure on attendance. That was particularly dramatic when compared to the rapid rise in attendance in the 1990s. And while many exhibitions were challenged by flat or declining attendance they recognized that the high quality attendees that buy or specify purchases continued to register and attend their events.

The Brookings brief implies that each attendee is of equal value, but that is not the case. In fact, because of industry consolidation, a new class of "power buyers," has been created. Events like the Hardware Show, cited in the report, attract buyers from retail giants such as Home Depot, Loews, Sears, Target and Wal-Mart. Their net buying influence is significantly greater than that of a single hardware store owner. Finally, online access to home offices from the exhibition floor enables attendees to share information and seek advice and buying instructions from fellow employees who do not have to attend the exhibition to play an important role in the buying process.

The brief leads readers to believe that the events of the last three years signal a "sea change," in how exhibitions are viewed. To be fair, we do acknowledge that the declines experienced during the last three years — something never before experienced in the short 30-plus year history of the exhibition industry as we know it today — suggests that the industry is "cyclical," like most other industries and is not "always growing," as it was prior to 2001. But to conclude that signals a "sea change" in attitude toward face-to-face marketing is unwarranted and unsubstantiated by the data presented.

Premise Three
Competition among cities is keen, thus resulting in discounting or providing convention center space at no charge and providing other incentives and subsidies to attract customers.

Comment
Competition for convention business is keen because of the positive economic impact to a city to host a convention. Since the first purpose-built convention centers were constructed in the United States in the 1960s there has been competition among destinations to host events that utilize the centers. Convention centers in the United States were seen as "loss leaders" in that they were publicly funded and not designed to recover costs, much less generate a profit. They are not commercial shopping centers or office buildings. The reality is with a convention center, a city has the potential and the opportunity to be chosen as a destination. Without a convention center they cannot compete for this very lucrative business.

During the last 30 years, there have been significant changes in available space and thus client demand. Architect, David Greusel, AIA, principal with HOK Venue stated that:

> First generation convention centers were "boxes with docks." They offered sparse amenities, little architecture, and no thought to urban design issues, and had warehouse-like quality finishes. Second generation convention centers were "pretty boxes." They had better architecture and included urban design features such as screened loading, but still had few amenities and warehouse-like interiors. The current third generation convention centers are "really big hotel rooms" with hotel quality look and finishes, excellent lighting, lots of amenities, and high technology in both the exhibition and meeting space.

Many centers offer franchise food and beverage outlets. The ratio of exhibit space to meeting rooms in generation one was generally 80:20. Today, event producers require as much as a 50:50 ratio of meeting space to exhibit space.

What the Brookings Institution brief described as a "space race" (it also dubbed it as an "arms race,") in many cases is more of a technology race. For a facility to compete in today's market they must provide state-of-the art technology such as scalable and shared Ethernet options, VLANS and VPNs, high speed WANS, videoconferencing, fiber-optic and wireless networks, satellite downlink and uplink capability, digital signage, and interactive kiosks just to name a few. And most of these capabilities must be available throughout the meeting room complex as well as the exhibition space.

Civic leaders are faced with the difficult choice of investing more to retain existing business and to provide a hotel quality high tech convention center in order to remain competitive. Their only option to not investing in the future is to withdraw from the competition. Not investing and trying to maintain the status quo is tantamount to withdrawing from the competition. The only variable is the timing.

Premise Four
Consultant reports that have been relied upon by elected leaders when making decisions to use public funds to build convention centers and hotels are inherently flawed and historically overstated. The brief calls for institutional oversight and systematic review and validation of future performance forecasts.

Comment
Cities engage consulting firms to study situations and identify potential opportunities to help guide the decision making process. These firms submit reports and findings that support their conclusions and recommendations that are stated as opinions. Judgment of a decision to move forward on a project is made by the market place — first by the voters in the case of a public referendum and ultimately by the bond rating agencies that make financing possible.

Premise Five
It is more appropriate to spend public funds on social services programs that directly address issues such as poverty, the homeless, population loss and housing abandonment than to finance convention center and/or hotel construction that supports existing convention centers.

Comment
The issue of dedication of public funds is one faced by every municipality. Elections are won and lost based on program funding platforms. Certainly the writer of the brief is entitled to his opinion, just as those running for office and voters are entitled to theirs.

Officials are elected to govern. Making a decision on the investment of public funds is part of the job description. And as Frank Poe, director of convention and event services for the City of Dallas said, “Opportunities for investment may include libraries, museums and parks. Should elected officials avoid those investments given the social needs the brief identified? And shouldn’t libraries, parks and museums that offer little economic return be subject to the same scrutiny as convention centers that have a proven record of economic investment return?”

The economic theory of convention center construction is a combination of both immediate and long-term increased employment in the city, coupled with attracting visitors to the destination to attend events that otherwise would not come to the destination. The brief does not refute the theory; however it alleges that the employment benefit is overstated.

The brief chose to focus on the number of full-time employees of hotels as an employment measure. That challenge to the employment benefit ignores the work force employed to build the facility and several extremely significant employee groups essential to producing a convention and exhibition. Contractors employ thousands of skilled and unskilled workers in the host community to handle materials, build and tear down exhibits, provide electrical power, water, waste Internet connections and a host of services required to mount and dismantle each event. Temporary workers provide food service, security, transportation, registration support, booth personnel, cleaning, and a host of logistical functions during the event. The brief also failed to include exhibiting company expenditures as an element in the economic benefit.

The immediate economic benefit of visitors to the city is first felt by those directly employed in the hospitality industry. That includes hotel workers, taxi drivers, and restaurant and retail employees. These workers then in turn stimulate the rest of the economy by spending their earnings. It is estimated a visitor dollar turns over seven times in a community before it leaves, thus the entire community is positively impacted economically by the new revenue the exhibition provides.

Finally, if there is a shortfall in revenue versus operating cost and debt retirement, as *Tradeshow Week,* publisher Adam Schaffer wrote, “What’s better: For a center to lose $15 million a year and drive $100 million into the local economy, or for the city to keep the $15 million and not have the $100 million from the trade show business?”

Premise Six
Communities should be allowed to use public funds and tax-exempt bonds to build centers with 100,000 square feet of exhibit space or less.

Comment
In the end the brief concludes that the problem is the size of the facilities, not the actual structures or subsidies. In fact, it suggests that centers with 100,000 square feet of exhibit space or less are acceptable because it serves a “largely local purpose.” Without the benefit of out-of-town visitors spending money in the community for products, services and taxes, the total cost burden would be borne by the voters instead of shared with the visitors and there would be no positive outside economic impact. Such an alternative would appear to be an even more treacherous path for an elected leader to follow than the convention center projects the brief criticizes.

Epilogue
The Brookings Institution research brief was widely covered by the general news press. The February 28 issue of *Forbes* devoted a brief unbalanced article based upon the report, then expanded their criticism by suggesting that major companies are turning away from exhibitions. Specifically they mention Rubbermaid and Nike. The article fails to mention that Rubbermaid recently made a business decision to invest their marketing dollars in NASCAR and that Nike elected to open retail stores and sell directly to the public in competition with other retailers. When large companies make major marketing strategy shifts, such as Rubbermaid and Nike have made, it is not uncommon for them to temporarily abandon former marketing strategies and practices. These companies will monitor their performance over time and evaluate whether the new strategy is achieving their objectives with the same efficiency as alternative strategies. Only time will tell whether they return to participating in exhibitions or other forms of marketing.

Industry leading companies are important participants in all aspects of a convention and exhibition. Not only do they exhibit products and services, they present papers, provide corporate leaders as speakers, use events to conduct press briefings ranging from new product introductions to business forecasts, and meet new potential customers and thank existing customers for their business.

In the current business environment of electronic communications, companies use exhibitions to personalize themselves to their customers. Senior executives including CEOs have the opportunity to personally shake hands with their customers and remind them they are a company run by people — not machines. Current CEIR research confirms that companies want conversations with their customers, not just to sell them something. The former exhibition mantra of the exhibitor saying, *"this is what I make please buy it,"* has been replaced with the new customer message, *"this is what I need, can you make it?"*

The exhibition business has always favored the smaller companies that do not have multiple offices and international sales forces. Despite the huge spaces purchased by large companies, the average size space occupied by an exhibiting company is less than 200 net square feet.

After September 11, 2001, The International Housewares Association (IHA) considered whether they should cancel their annual exhibition scheduled to be held in Chicago in January 2002. There was concern there might be further terrorist activity or other events that could disrupt participation. The IHA leadership decided to ask their exhibiting members who regularly participate in the exhibition whether or not the event should proceed as planned; the overwhelming response was, *"we must hold the event!"* Companies responded that without the annual exhibition where they write orders for delivery during the next twelve months they might not survive the year. The annual exhibition is their best access to the market and their most efficient channel for bringing products to market.

Exhibitions provide extremely efficient marketing opportunities. Companies that establish well understood goals and objectives and then devise methods for measuring results and analyzing performance will reap the most benefit from this quintessential face-to-face marketing opportunity.

Summary

Exhibit space is not a commodity like sugar or corn. The supply cannot be transported to another area to meet demand. To criticize all exhibition space construction is no more reasonable than criticizing all new road construction. The fact is there is enough paved road in the United States for each car on the road at any given time on any given day to have one-half mile to itself. Does that mean we should not build any more paved roads?

Certainly not all cities can realistically compete as destinations for the national convention market. Currently 50% of all exhibitions held in the United States are produced in 16 cities. But as the brief itself concludes, building a convention center, even if it is just for local and regional use, is probably a good investment for many cities.

Leaders of the exhibition industry have never claimed building a convention center will "revitalize or redeem a downtown core." Cultural anthropologists around the world are still seeking the solution to decaying downtown areas.

Cities sell features and benefits. If a city doesn't have any features, it needs to have significant benefits to compete. Who better to judge the potential of a city to become a destination than the people that live there?

San Diego resisted building a convention center for many years. In the early 1980s, the city council realized the attractiveness of the destination and the likely success of a convention center. The problem they saw was if millions of people attended conventions and exhibitions in San Diego, too many of them would want to live there. In 1982, Hub Erickson and I, both officers of the National Association of Exhibition Managers (NAEM now IAEM), were asked to meet with the San Diego City Council and explain the positive aspects of building a center. At that time, the message fell on deaf ears.

Some seven years later I was invited to speak to 1,200 local business leaders in the ballroom of the new San Diego convention center on the eve before it was officially opened. My message was one of congratulations and what to expect as a new destination and how to accommodate the rush of visitors that would be coming to their city. I ended by suggesting that they go to work planning the first expansion. Cities do what is politically possible — not what the market demands.

Since that day in 1989, San Diego has converted what was open space to additional exhibition space and in 2001 completed an expansion. Carol Wallace, President and CEO of the San Diego Convention Center reports in the February 28, 2005, edition of *Tradeshow Week* magazine that "in fiscal year 2004 alone, the center generated $26.4 million in tax revenues for San Diego. After the city paid $9.2 million in expansion related bond debt and a $2.9 million operating investment, the city netted $14.3 million — a 218% ROI."

According to the *Census*, San Diego hosted the largest number of exhibitions held in California. Similar success can be cited in Las Vegas, Chicago, Orlando, New Orleans, Washington DC, Anaheim, San Francisco and several other cities. These are cities that had the courage to build second and third generation convention centers and expand and update existing centers to attract new business and meet market demand. To characterize them as losers is a disservice to their leadership. Cities like Denver, Milwaukee, Tampa and Minneapolis are faring very well; their convention center hotel projects have been able to meet and or exceed expectations. In Tampa specifically, the Marriott Westside Hotel and Marina and the city's new convention center, which opened in 2000 and was funded with public money ($30 million) has done very well. Downtown room inventory increased 25% in total and 2005 will bring some 20% more. The hotel has increased convention center business by 40%!

Contrary to the Brookings Report and *Forbes*, the convention and exhibition business is good business to bring into a community. Market research needs to be done to ensure a city has the features and benefits to become a desirable destination. And the money must be supplied to fund the development of the marketing program and build the sales team. But if it is done right, the potential for success is better than if no convention center is built.

Exhibitions are the last vestige of face-to-face marketing. As long as people want to know the people from whom they buy, exhibitions will continue to play a vital role in the future of the U.S. economy.

Douglas L. Ducate, CEM, CMP is the President and CEO of the Center for Exhibition Industry Research.

The Center for Exhibition Industry Research (CEIR) serves to advance the growth, awareness and value of exhibitions and other face-to-face marketing events by producing and delivering research-based knowledge tools that enable stakeholder organizations to enhance their ability to meet current and emerging customer needs, improve their business performance and strengthen their competitive position. For additional information go to www.ceir.org.