Assessing Performance: An Analytical Framework for the San José McEnery Convention Center

by

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ASSESSING PERFORMANCE: AN ANALYTICAL FRAMEWORK FOR THE SAN JOSÉ McENERY CONVENTION CENTER

by

KAI-YAN LEE

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ABSTRACT:

This study first outlines three major factors that limit the assessments of convention centers: high uncertainty in the convention industry, complex institutional structures and operational priorities, and plethora of external factors in the venue decision process that are beyond the control of convention centers.

This study then compares the performance of San José McEnery Convention Center (SJMCC) with the industry average and other comparable facilities using an assessment framework that comprises four elements: financial performance, economic impact, productivity, and service quality. This study further proposes various indicators for these four assessment elements, including the Productivity and External Attractiveness Matrix (PEAM).

This analysis concludes that SJMCC’s current performance is moderate, even considering various external constraints of its operations. In addition, this analysis also suggests that SJMCC could further improve its current facility occupancy rate, diversify its client base, and enhance its service qualities and varieties as alternative competition strategies to facility expansions.

KEY WORDS:

San José McEnery Convention Center, Performance Assessment, Financial Evaluation, Economic Impact, Productivity, Service Quality, Expansion

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Chapter I: Executive Summary

The purpose of this study is three-fold: 1) It provides an overview of the constraining factors that impact the assessment of convention center performance; 2) It establishes a multidisciplinary performance assessment framework that ascertains various aspects of managing convention facilities effectively; 3) It uses this performance assessment framework to analyze the performance of the San José McEnery Convention Center (SJMCC).

This study first examines three factors that limit convention center assessments. First, the conventions industry is subject to high unpredictability, much more so than other closely related industries such as tourism. Special consideration is needed regarding the difficulty of operating in this volatile industry while assessing SJMCC's performance. Secondly, diverse institutional structures and operational procedures among different convention centers require adjustments in assessment analysis. Differences in marketing and sales responsibilities, booking priorities, and management structures likely subject convention centers to very different operational environments. Comparative assessment across different convention facilities needs to consider these aspects. Lastly, convention centers' performance is subject to many external factors beyond the control of these facilities, as event planners often make their venue site choices based on criteria not related to convention centers (e.g. the number of hotel rooms in the area). Therefore, external factors beyond the control of convention centers often have a critical role in convention centers' performance, and adjustments need to be made for such externalities.

Complementing the retrospective comparison approach that the San José Office of the City Auditor (SJOCA) performance audit uses, this report evaluates SJMCC's performance "horizontally" by comparing its performance with the industry average and other comparable convention centers in the nation. More specifically, the assessment framework used in this report is comprised of four components:

- **Financial Performance Assessment:** It evaluates how well SJMCC fares compared with other convention centers in terms of itemized revenues and expenses per square...
foot of exhibit space. SJMCC surpassed its national competitors in generating rental revenue per square foot of exhibit space. Nonetheless, SJMCC's lead was reduced with the expansion of the South Hall in 2005. In addition, its unit labor expense is substantially higher than the industry average, likely caused by both high unit employment per square foot of exhibit space and a high labor rate. Nonetheless, the data cannot conclusively determine which of the four related factors — internalization of services, excessive workforce, pro-labor practice, and higher labor wage in the region — is (are) the more dominant cause(s) for SJMCC's high labor expense. However, the analysis does suggest that SJMCC could substantially reduce its current higher expense per square foot of exhibit space by simply maintaining the current staff level even with the added space from the South Hall (i.e., increase the labor productivity to meet the needs of added space instead of expanding the staffing level). Moreover, SJMCC's revenue from food and beverage sales was below the industry's average level, though it has been improved with an increase in FY 2005/2006.

- **Economic Impact Assessment:** No conclusive assessments can be derived because of the lack of data. Nonetheless, a close examination of a widely cited study, *The San José Visitor Study: Market Profile and Economic Impact* 2005 authored by Thayer Watkins and Philip J. Trounstine of San José State University, reveals that past assertions of direct, indirect, and induced economic impacts of convention activities are likely seriously inflated.

- **Productivity Assessment:** This study examines productivity performance in three areas: attendance, hotel room-nights, and convention facility occupancy rate. SJMCC's performance in these areas is slightly below average, even considering the limitation of its moderate external attractiveness as a convention venue location. However, SJMCC outperforms in generating a higher-than-average overall attendance level, but this is achieved mostly through consumer shows and local fairs, as its ability to attract out-of-town conventioneers is relatively mediocre. Secondly, SJMCC's ability to generate hotel room-nights is also moderate, probably correlated with its limited ability to attract out-of-town visitors. Lastly, SJMCC's ability to rent out exhibit space efficiently is moderate too, slightly below the average level. This is also revealed in the fact that its occupancy rate is still at the lower end of the "efficient range" by the conventions industry standards.
• **Quality Assessments:** Team San José (TSJ) did not collect a sufficient number of surveys from its customers to be used for this analysis. Nonetheless, TSJ could improve its quality assessment techniques by building on the foundations of various customer satisfaction survey methods developed in the marketing and tourism industry. TSJ could also explore using these surveys as a market strategy analysis instrument in addition to their quality assurance function.

Furthermore, other evaluation methods focusing on the productivity of public subsidies could also be explored, as SJMCC is currently operating at a net loss that relies on subsidies from the City of San José.

Although this report mostly focuses on assessing SJMCC’s performance, it suggests that the City of San José and TSJ first better define what constitutes success for SJMCC. This in turn will also help make this study’s recommendations more constructive.

In response to the above performance assessment, this study proposes a set of recommendations to improve the future operation and performance evaluation of SJMCC:

- Track South Hall’s impact on SJMCC’s revenue stream;
- Use the South Hall experience as a case study for future expansion considerations;
- Conduct comparative studies with comparable facilities to determine if SJMCC has over-internalized functions for which others typically use contract services;
- Examine the current staffing level and see if SJMCC has excessive workforce;
- Examine SJMCC’s current labor rate structure to ascertain if it needs reform;
- Analyze related records to determine the reason for the fluctuation in food and beverage revenues;
- Assess the possibility of imposing performance measures with CenterPlate;
- Conduct a detailed study on SJMCC’s economic impact;
- Assess the performance of the San José Convention and Visitors Bureau (CVB);
- Evaluate the integrated institutional structure between SJMCC and CVB;
- Construct an effective survey instrument;
- Ensure TSJ’s future compliance with the customer satisfaction survey requirement.
As an epilogue, this report briefly discusses the prospect of SJMCC's future expansion. Before making critical decisions on major physical improvements, this study suggests that the City of San José and TSJ consider three “bigger questions”:

- What is the niche market for the San José McEnery Convention Center?
- Does a bigger facility make San José more competitive?
- Is SJMCC destined for expansion?

The background research of this study reveals that a convention center’s expansion often fails to produce better performance or increased competitiveness. Therefore, the City of San José and SJMCC need to be prepared to accept the high risk associated with an expansion if they do decide compete in the big event market by expanding SJMCC. Nonetheless, the performance analysis suggests that SJMCC could improve its performance by further increasing its current facility occupancy rate and diversifying its client base. Furthermore, enhancements on its services quality and variety could also help SJMCC become more competitive.

Finally, the assessment framework proposed in this study is instrumental, but it can only reach its full potential when it is applied with a clear vision from the City and a comprehensive set of competitive strategies for SJMCC.
Chapter II
Introduction

A. Background

In June 2004, the San José City Council approved a Management Agreement with Team San José (TSJ) to manage and operate San José's three convention facilities and three cultural facilities for a five-year period of time, beginning July 1, 2004. The three convention facilities include: the San José McEnery Convention Center (and subsequently its new addition, the South Hall), the Civic Auditorium, and the Parkside Hall. The three cultural facilities are: the Center for the Performing Arts, the Montgomery Theater, and the California Theater. These facilities were managed and operated by the Conventions, Arts, and Entertainment Department of San José before TSJ assumed such responsibilities.

The primary objective to transfer the management and operational responsibilities to TSJ was "to decrease costs of operation and increase the occupancy and revenue-producing capabilities" of these facilities. (SJOCA 2006, p. 1) In addition to this objective, the City of San José also outlined three other objectives in its Request for Proposal (RFP) for management entities, which included customer service, employee environment, and city/community use and public access. (SJOCA 2006, p. 3)
Team San José was one of the four entities that responded to City of San José's RFP. Its business and organization model is rather unique in the convention and cultural facility management industry. It is a locally based private non-profit corporation created exclusively to manage these convention and cultural facilities. In addition, it also performs the function of the Convention and Visitors Bureau, an entity that is usually independent from convention centers for a city of San José's size.

TSJ's permanent staff is comprised of personnel from four different entities: 10 from Team San José, 85 from the City of San José, 4 from Centerplate (catering), and 34 from the San José Convention and Visitors Bureau. (See Appendix A in Chapter VI for Team San José's organizational structure). Therefore, the majority of the employees (84.75 full-time equivalent positions) under TSJ are actually in the civil service system, with pay and benefit structures beyond the control of TSJ. In addition, TSJ also needs to pay into City Overhead and Workers Compensation, which is stipulated in the Management Agreement.

The San José McEnery Convention Center (SJMCC) was opened in 1984, and its capacity has been expanded from 143,000 square feet of convention space to 223,000 square feet with its 80,000-square-foot tensile addition (South Hall) in June 2005.

The client of this report is the Office of the City Auditor (SJOCA), City of San José. The research of this report is under the guidance of Mr. Michael Edmonds, Deputy City Auditor, Ms. Belinda Silvatici, Program Performance Auditor II, Prof. Frank Levy of Massachusetts Institute of Technology, and Prof. John Donahue of Harvard University.

**B. Existing Performance Requirements**

Section 4.8 of the Management Agreement stipulates four performance measures for TSJ that are subject to annual performance audits:

- **Gross Revenues**: To increase gross revenues for the facilities. Gross revenues are aggregated from all sources, including rental income, food and beverage commissions, services and other revenue streams. The annual (fiscal year, FY) gross revenue targets are as follows:
- **Net Profit or Loss Financial Performance**: To reduce the City of San José’s operational subsidy to support the facilities. The performance is measured through Net Profit or Loss (year-over-year) comparisons expressed as Earnings before Interest, Taxes, Depreciation and Amortization. The annual net profit/loss targets are:
  
  FY 2004/2005: ($3,745,000)  
  FY 2005/2006: ($1,966,000)  
  FY 2006/2007: ($1,432,000)  
  FY 2007/2008: ($975,000)  
  FY 2008/2009: ($836,000)

- **Economic Impact**: Increase the total attendance for events held at the facilities. Attendance is measured as “attendee days” (i.e. number of attendees multiplied by the number of days of attendance). The following are the attendance targets:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local Visitor</th>
<th>Out of Town</th>
<th>Exhibitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/05</td>
<td>507,000</td>
<td>60,200</td>
<td>10,000</td>
</tr>
<tr>
<td>05/06</td>
<td>515,100</td>
<td>87,300</td>
<td>18,500</td>
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<tr>
<td>06/07</td>
<td>600,400</td>
<td>92,700</td>
<td>19,700</td>
</tr>
<tr>
<td>07/08</td>
<td>660,000</td>
<td>103,600</td>
<td>22,000</td>
</tr>
<tr>
<td>08/09</td>
<td>690,400</td>
<td>108,000</td>
<td>22,900</td>
</tr>
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- **Customer Service Results**: TSJ will ask the decision-makers of each event to rate their overall satisfaction with the product and services provided. Using 81% as the baseline satisfaction rate for the first fiscal year (FY 2004/2005), it needs to increase by an additional 2% annually until it reaches 91%. The post facility satisfaction survey data will be sent directly to the Contract Administrator for review.

The Management Agreement further stipulates that the City Council can terminate the contract with TSJ, in part or in whole, if TSJ has not met the performance measures, defined as:
• Failure to achieve at least three of the four performance measures; or

• Failure to achieve at least 67% of the performance measures of gross revenue, net profit/loss financial performance, and economic impact, and failure to achieve the customer service results measure.

C. Project Scope

This report first examines various external and internal factors impacting the performance of the San José McEnery Convention Center. It then constructs a performance assessment framework evaluating SJMCC's performance given these external and internal factors. The assessment framework is also suitable for adoption in future continuous evaluations rather than just a one-time analysis.

As there are detailed targets stipulated in the abovementioned four performance measures per the Management Agreement, the performance audits conducted by SJOCA have primarily been retrospective — comparing TSJ's current performance with its predecessor's historical performance up to five years ago (FY 2000/2001). The latest completed performance audit by SJOCA indicates that TSJ failed to reach two of the four performance targets in FY 2004/2005, the first fiscal year under the management of TSJ. The only performance target TSJ fulfilled satisfactorily was the Economic Impact (attendance) target. (SJOCA 2006, p25) In addition, TSJ failed to collect sufficient data to support an analysis for its customer service performance audit requirement.

Complementing SJOCA's retrospective or "vertical" approach, the comparisons in this report are mostly "horizontal," comparing SJMCC's performance with other convention facilities around the country, as well as with the industry average. This report does not intend to replicate the retrospective analysis approach for FY 2005/2006, as SJOCA is currently undertaking such an audit. Most of the comparisons in this report are for FY 2004/2005, though comparisons are also included for FY 2005/2006 if data are available. Nonetheless, FY 2005/2006 data are not yet audited at the time of analysis..
One critical point to emphasize is that the four performance measures outlined in the Management Agreement evaluate all six convention and cultural facilities managed by TSJ. However, this report focuses only on the San José McEnery Convention Center, although the assessment framework could be applied to evaluating other facilities with proper modifications.

The narrower project scope serves the City of San José's interests best. Despite the fact that the convention center is the primary function of TSJ, and its performance is absolutely paramount to TSJ's overall performance, no study has been specifically conducted on SJMCC (SJOCA's past performance audit is on all six facilities collectively). Concerns have been raised in performance studies on TSJ without separating other facilities from the convention center, as other facilities tend to generate much less revenue due to their mission of cultural education. A narrower scope helps isolate the effects from other facilities to provide a more accurate assessment on SJMCC's performance alone. A performance study for only the convention center is especially timely as the City Council is currently contemplating the possibility of an expansion.

This study uses my work for Harvard University's Policy Analysis Exercise as a foundation, with substantial revisions in the productivity assessment section by incorporating new survey data collected in March and April 2007 from about 30 convention centers in the U.S. In addition, this study has also expanded the inquiry into the probable causes of SJMCC's high labor expenses. The conclusion and recommendation section has also been substantially revised and expanded to incorporate additional analysis from the new and more complete data.

D. Methodologies

The research of this project primarily involves the following methods:

- **Literature Review:** Two major types of publications are examined, including both professional reports (e.g. performance audits) and research reports (e.g. academic journals). Please refer to Chapter VII for a complete list of literature references.

- **Interviews:** Numerous interviews with TSJ staff, industry professionals, and scholars were conducted for this project. Please see the acknowledgement section (Chapter VIII) for the
complete list of interviewees. Interviews were conducted with compliance to guidelines and regulations of the Committee on the Use of Humans as Experimental Subjects (COUHES).

- **Statistical Analysis:** Basic statistical analyses are used in evaluating correlations and trends. A statistical composite matrix, the Productivity and External Attractiveness Matrix (PEAM) is developed specifically for the purposes of this report (Section D of Chapter IV). A regression model is unfortunately infeasible due to the lack of data.

- **Surveys:** A survey was conducted for this project in March and April 2007. More than 110 major and medium convention centers in the U.S. were surveyed. This represented the majority of such facilities in the country. Numerous follow-up attempts were made to encourage the convention centers, which did not initially participate, to fill out the survey. In the end, twenty-eight convention centers returned valid surveys, resulted in a 25% response rate. The survey was conducted with compliance with COUHES guidelines and regulations. A copy of the survey questionnaire is also included as Appendix D in Chapter VI.

In addition, this report has cited extensively surveys conducted by various entities and individuals, including: Destination Marketing Association International, the International Association of Assembly Managers, Pricewaterhouse Coopers, Ernst & Young, Tradeshow Week, the Center for Exhibition Industry Research, the International Association of Convention & Visitor Bureaus Foundation, U.S. Bureau of Economic Analysis, U.S. Labor Statistics Bureau, and various scholarly survey research. Proper background research has been conducted to ensure that these surveys are of reasonably acceptable quality.

**E. Limitations of the Project**

Like any other research project, this report project is subject to various limitations. The following are the three primary limitations of this analysis project:

- **Convoluted institutional structures of convention centers:** TSJ, unlike most other management contractors of convention centers, is also responsible for managing other cultural facilities. Although every attempt has been made to isolate data specifically for the convention center, some elements are impossible to delineate precisely (e.g. it cannot be said for certain that 80% of the time TSJ’s office electricity is used for convention-center-
related business, while 10% of the time the lights and AC are running for managing other facilities’ businesses).

In fact, convention centers’ institutional structures and arrangements are often rather convoluted and vary considerably across the nation. This report specifies such differences wherever special considerations are needed and when such differences are critical.

- **Data Quality**: As mentioned earlier, this report has cited extensively statistics from various surveys and studies. Proper attention has been invested to ensure that the data cited in this report are with a reasonably acceptable quality, but this analysis can only be as good as the data it relies on. Almost all research involving quantitative analysis with second-hand data is subject to data quality limitations, and this research is no exception, but not to an unusual extent.

- **Recording Inconsistency**: Different convention centers often have different recording practices. For instance, some facilities categorize events by only two types: “trade shows and conventions” and “consumer shows and public fairs;” while other convention centers have more detailed categories. Inconsistency in recording makes precise comparisons among different convention centers difficult. Necessary re-categorization was implemented in this study in order to compare SJMCC with other facilities.

It is important to emphasize that the scope of this report is limited as it provides a performance assessment framework and comparative evaluations. The nature of this framework is *ex post* and therefore conclusions from this assessment framework do not necessarily suggest future performance. Although future performance could probably be derived from current and past performance, the intent of this report is not designed for projecting future performance.
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Chapter III
Performance Assessment Constraints

A. Introduction

San José McEnery Convention Center (SJMCC) is operating within a set of premises with both internal and external factors impacting its performance. SJMCC can control some of these factors, but some of them, especially the external factors, are often beyond the reach of SJMCC. Nonetheless, even though some internal factors, such as its institutional structure, are within the control of SJMCC, it is practically difficult for SJMCC to alter these internal factors. Therefore, an accurate performance assessment needs to take into account these various factors in its evaluation to arrive at a comprehensive and fair conclusion.

It should be emphasized that, although “constraints” are used customarily with a negative connotation, it does not necessarily mean that these factors are unfavorable for the convention center’s performance in the context of this report. For instance, tourism attractions in the area are an external constraint, and more tourism attractions are likely to help SJMCC generate a higher volume of conventioneers. “Constraint” is used here purely in a sense that a convention center’s management and operation decisions are often subject to these factors.

Regression analysis is one way to mitigate the impact of these constraints in
order to derive a more objective assessment. If sufficient data are available, a regression model can be constructed to include these constraints and produce performance predictions controlling for the impacts of these constraints. Such performance predictions can then be used to compare with the actual performance of SJMCC to gauge whether it is outperforming or underperforming vis-à-vis the average of all convention centers. Such an assessment approach is beyond the scope of this report, and an amendment based on regression analysis is recommended when sufficient data are collected.

B. Economic and Industry Trends

Convention centers are usually the hosting sites for conventions, trade shows, and local events such as consumer events and public fairs. Attendance of such events is rarely an independent act as it is often accompanied with a series of consumer activities such as dining at restaurants, patronizing concession booths, staying at hotels, purchasing souvenirs, and visiting local attractions. Therefore, attending a convention center event is often not an isolated economic act, but rather it is a component of a bundle of economic activities that are often considered "leisure activities" with high demand elasticity.

As a result, it is reasonable to believe that many of these activities are sensitive to overall economic wellbeing, and the demand for conference center space is likely to fluctuate with the general economic conditions. As events are usually planned out in advance, it is also possible that there is a lag in the demand for exhibition space when responding to the general economic health.

Figure 1 affirms this speculation, as outputs (i.e. GDP, Gross Domestic Product) from the arts, entertainment, and recreational industries (AER)¹ and the accommodation industry between 1991 and 2004 generally mirror the overall GDP trend of the nation. The conspicuous divergence happens at the beginning of 1999 as the output in the accommodation industry noticeably declined, likely reacting to the (anticipated) technology economic bubble bursting. The AER industries, on the other hand, appear to be relatively less sensitive to this economic slowdown, though they did suffer from the earlier economic downturn in the early 1990s.

¹ See the glossary in Chapter VI for the detailed definition of AER industries.
The AER and accommodation industries are mostly associated with leisure activities, and they are a good barometer to test the general demand for leisure-related events. Although food services are also related to leisure activities, it is difficult to segregate those routine dining events (e.g. daily lunch at the restaurants down the street from office) from leisure-related dining activities, and routine dining often accounts for a great proportion of the outputs in the food services industry.

Despite the fact that the output in the AER and accommodation industries closely mirrors the overall economic output, the actual attendance of conventions and tradeshows is much less predictable, as indicated in Figure 2.

There are three principal data sources for convention and tradeshows attendance. However, the data from *The Tradeshow Weekly* are the most reliable measure, as these data are from actual post-hoc summaries of the 200 largest tradeshows and conventions of the year (the so-called "200" events in the conventions industry). These events generally account for about half of the total attendance of all the events in that year. (Sanders 2004) Because of the size of these events, attendance in these shows tends to be less volatile than smaller shows that depend on smaller potential attendee pools. Therefore, the "200" events are a better indicator of the actual demand for convention space and services.

As illustrated in Figure 2, the actual attendance of the largest 200 conventions and tradeshows fluctuate independently from the overall economic trend, which is generally positive. The attendance at these events in fact dropped about 10% between early 1996 to mid-1998 when the economy was about to boom.
Figure 3 demonstrates a similar trend from a different angle. One of the demand measures often used in the convention industry is "occupancy rate" of the exhibit space. "Gateway centers" are usually defined as the ones located in a metropolitan area with at least 30,000 hotel rooms and containing at least 100,000 square feet of exhibit space. These centers tend to be more competitive than smaller centers in attracting events and attendees, and their occupancy rates are expected to be more stable. Therefore, occupancy rates at gateway centers are more suitable for indicators of the industry trend. Echoing with the patterns displayed earlier, occupancy rate of gateway centers is clearly out of sync with the general economic activities trend in the U.S.

In addition, Table 1 also indicates the correlations ($R^2$) between the performance of "200 events" attendance and the U.S. gateway centers' occupancy rates to the performance of the general economy, the AER industry, the accommodation industry, unemployment rate, and the stock market. Echoing the previous trends displayed in Figures 1 to 3, data in Table 1 also indicate that the AER and Accommodation industries' performance is generally correlated to the performance of the general economy and the stock market, but less correlated to the unemployment rate. However, none of these correlations exists for the performance of the "200 event" attendance or the gateway centers' occupancy rates. Table 1 also shows that the performance of the convention industry not only is not correlated to the performance of the general economy (e.g. GDP, stock market), but also is not correlated to the performance of the AER and the accommodation industries, the two industries that are closely related to the convention industries.
Table 1: \( R^2 \) of Historical Trends (1991-2003)

<table>
<thead>
<tr>
<th></th>
<th>AER Industry Real GDP</th>
<th>Accommodation Industry Real GDP</th>
<th>&quot;200 Events&quot; Attendance</th>
<th>U.S. Gateway Centers' Occupancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>0.980</td>
<td>0.937</td>
<td>0.031</td>
<td>0.260</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>0.486</td>
<td>0.658</td>
<td>0.106</td>
<td>0.033</td>
</tr>
<tr>
<td>(Seasonally Adjusted)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Return on Dow Jones Index</td>
<td>0.846</td>
<td>0.952</td>
<td>0.091</td>
<td>0.053</td>
</tr>
<tr>
<td>AER Industry Real GDP</td>
<td>-</td>
<td>0.884</td>
<td>0.006</td>
<td>0.375</td>
</tr>
<tr>
<td>Accommodation Industry Real GDP</td>
<td>0.884</td>
<td>-</td>
<td>0.125</td>
<td>0.080</td>
</tr>
</tbody>
</table>

AER = Arts, Entertainment, and Recreation, \( R^2=1 \) indicates perfect linear correlation, \( R^2=0 \) indicates no correlation.


The above figures and table suggest that, although the tourism-related industries are sensitive to the general economic activities of the country, it appears that the attendance levels of conventions and the exhibit space occupancy rate, two proxies to the performance of the conventions industry, are far less predictable than the demand of tourism. The causes of this phenomenon are likely complicated, but some of the probable reasons may include: many of the major events take place regularly (e.g. annually) regardless of the general economic outlook; large events are often planned years in advance, and such events generally cannot adjust quickly to economic fluctuations, with cancellation extremely rare due to the large sunk cost invested.

Because of this apparently high unpredictability of the demand for conventions, as suggested in the above analysis, the assessment of SJMCC's performance needs to take into consideration the difficulty of accurately responding to unpredictable demand in the industry.

C. Institutional Structures and Operational Priorities

About two-thirds (64%) of the freestanding convention centers and exhibition halls in the U.S. are owned by public entities, such as local governments, joint governments, and authorities. The rest, mostly smaller ones, are owned by non-profit foundations and private entities. (Ernst & Young, p16) Differences in ownership may lead to different objectives. Public ownership may focus more on bringing events that attract out-of-town visitors, even if hosting such events may not generate the most revenue for the facilities. On the other hand, private ownership may
prefer hosting events generating more revenue for the facilities, while the broader economic benefits for the host city may not be the foremost critical consideration.

In addition to the difference in ownership, there are three institutional structure and operation elements that deserve closer examination in order to more accurately assess SJMCC’s performance: marketing and sales responsibilities, booking priorities, and management structure.

**MARKETING AND SALES RESPONSIBILITIES**

Many communities have their own convention and visitors bureaus (CVB) long before they build their convention centers. Therefore, there are various arrangements for marketing and sales responsibilities for the convention centers.

As illustrated in Figure 4, CVBs assume the primary marketing and sales responsibilities for more than a third (38%) of the convention centers, while another 23% of the convention centers have these responsibilities split between CVBs and convention centers. This means that almost two-thirds of the convention centers entirely or partially rely on CVBs to bring business to their facilities.

The obvious constraining implication while assessing convention centers’ performance for this type of institutional structure is that, convention centers’ performance is subject to CVBs’ effectiveness in bringing in events to the facilities. If a convention center is not generating a sufficient attendance level, it is not necessarily the case that the convention center is...
underperforming. It could be that its partnering CVB is not bringing in enough events, and the convention center is in effect suffering from the CVB's mediocre performance.

Aside from this obvious implication, there is another caveat for the difference in marketing and sales responsibilities. This less obvious implication is related to the two primary types of events for convention centers.

Trade shows and conventions constitute the first category of events. They tend to bring out-of-town visitors and generate higher economic impacts for the host cities. Yet, the market for trade shows and conventions is very competitive and it is common for CVBs and convention centers to discount heavily on their rental and service fees, or even offer them for free, as long as these events can generate certain hotel room nights and/or attendance levels. (Clark 2004, p15)

Consumer shows and public fairs constitute the second category of events hosted at convention centers, and they tend to attract local visitors. These events often generate more revenues for the convention centers but create fewer economic benefits for the hosting cities. This is because the market for local events is generally less competitive, and convention centers do not need to discount their fees heavily to compete. Nonetheless, as attendees for consumer shows and public fairs are usually local visitors, the economic benefits for the host cities are likely be smaller. (Clark 2004, p15).

Table 2 shows the effective rental rates per gross square foot of occupied exhibit space by convention center size and the nature of the events. The “effective rate” is the rate adjusted for discounts and the move-in and move-out day losses (when the space is in transition for setup and clean-up.)

<table>
<thead>
<tr>
<th>Center Size</th>
<th>Trade Shows &amp; Conventions</th>
<th>Consumer and Public Shows</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 500K sq ft</td>
<td>$0.049</td>
<td>$0.063</td>
</tr>
<tr>
<td>100K to 500K sq ft</td>
<td>$0.075</td>
<td>$0.061</td>
</tr>
<tr>
<td>&lt; 100K sq ft</td>
<td>$0.084</td>
<td>$0.090</td>
</tr>
</tbody>
</table>

Source: Pricewaterhouse Coopers and IAAM, 2006

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2 Glossary in Chapter VI details the distinctions of various types of events.
As indicated in Table 2, rental revenue from trade shows and conventions is generally lower than that from consumer shows and public fairs (except for middle size convention centers). This disparity is more prominent as the center's size grows. In addition, bigger centers also have lower per square foot per day rental revenue for both categories of events compared to that of the smaller centers. One possible explanation is that many of the bigger events hosted at large facilities possess relatively more negotiation power in driving down the rental price because of their sheer size. CVBs (and/or convention centers) are probably also more willing to discount their fees, as the spending from the large volume of prospective attendees could partially justify such discounts.

In fact, a survey conducted jointly by Tradeshow Week and the Association of Convention Marketing Executives in January 2007 reveals that, on average, 69% of the CVBs have offered at least once free exhibition space in the previous year, while only 46% of the convention centers had done so. (Hughes 2007)

The underlying explanation for this phenomenon rests on the intent of building convention centers in the first place. Many localities want to improve their national visibility and to attract more out-of-town attendees for bigger economic impacts. Therefore, attracting trade shows and conventions usually has a higher priority in booking the facilities, as they often align better with the initial intent of building the convention centers, even if this means forgoing higher financial return by discounting the fees charged. This is even more the case when CVBs are assuming the primary marketing and sales responsibilities, as more than 95% of the CVBs are receiving their funding from hotel room taxes. (DMAI 2006, p14) In addition, 59% of the CVBs have renewable contracts with the funding agencies (e.g. city) of the hotel room taxes. (DMAI 2006, 20) The renewal of the contracts is often partially contingent on how well the CVBs have been bringing outside visitors into the area.

On the other hand, convention centers may prefer consumer shows and public events, as they tend to be are more conscious about the financial performance of the facilities. After all, they bear the burden of putting those financial numbers on their annual report.

Nonetheless, San José's situation is unique, as San José's CVB is actually a part of Team San José, the convention center's management team. Therefore, its marketing and sales efforts are not subject to any outside entity's performance. Nevertheless, the competing interests between
CVB and convention center may not necessarily be lessened, as such competition may simply be internalized. Furthermore, it needs to take into consideration the various marketing and sales structures of other convention centers when comparing SJMCC’s performance against these centers’ performance.

**BOOKING PRIORITIES**

CVBs and convention centers may have different preferences on what type of events to bring in, and the right balance between the two types of events sometimes rests on the mechanism of booking policies. CVBs often control the bookings for those events scheduled at least 12 months out in the future. Convention centers then are responsible for booking short-term events to fill whatever days are still open after CVBs’ advance bookings.

Trade shows and conventions often involve more extensive coordination and planning, and they often book facilities earlier compared to local consumer shows and public fairs. This time differential aligns well with the difference in CVBs’ and convention centers’ preferences of events. CVBs prefer tradeshows and conventions, as they tend to bring in out-of-town visitors, and CVBs often also control advanced-term booking, allowing them to better accommodate these events.

The latest industry survey reveals that, although CVBs generated about half of the overall convention attendance (53%), about three-fourths of the tradeshows and conventions attendance (74%) is accredited to CVBs’ marketing and sales efforts during the same time period. (PricewaterhouseCoopers 2006, p2) This indicates that CVBs have a much more important role in bringing events that generate outside visitors volume.
Figure 5 shows that the majority of convention centers (65%) delegate their advance booking (12 months and out) to CVBs. If the CVBs only have control over advance bookings that are further out in the future (e.g., 24 months), then convention centers would have more flexibility in filling the shorter-term bookings, bringing a better balance between generating revenue and creating economic impact. On the other hand, if CVBs have control over advance bookings up to the very near future (e.g., 12 months or fewer), then convention centers would be put into a more passive position with little flexibility to adjust the mix of events to bring a better balance between financial and economic objectives.

In addition to the difference in delegations of advance and short-term booking responsibilities, booking criteria are another mechanism to control the mix between tourism-generating trade shows/conventions and revenue-generating consumer shows/public fairs.

Figure 6 further shows that more than half (56%) of the convention centers have some kind of booking criteria in order to ensure that the facilities’ uses fulfill their intended purposes. “Hotel room-nights” is the most commonly used criterion, and this indicates that many convention centers (and CVBs) prefer trade shows and conventions that attract out-of-town visitors over local events.

San José uses a similar booking mechanism as described above. The CVB of San José, though it is merged into TSJ now, generally controls bookings for events more than 18 months into the future, while the convention center sales staff is responsible for picking up the open days for events scheduled 18 months and fewer in the future. As a result of the integrated structure of TSJ, it is expected that there is closer collaboration and cooperation in producing a
balanced mix of booked events for both objectives of generating economic impact and being financially sustaining.

The delegations of booking responsibilities and booking criteria vary tremendously across convention centers. The discussion above only provides a rough overview of the conventions industry, and it is important to pay special attention to the possible constraints these policies have when comparing SJMCC to other convention centers operating with different booking policies.

**MANAGEMENT STRUCTURE**

As discussed in Chapter II, the management structure for SJMCC is unique, as it is a private non-profit entity with a mixture of city employees, TSJ employees, and other private company employees. (Page II-1 and Appendix A in Chapter VI).

In general, there are three primary management structures for convention centers: 1) private management companies (e.g. SMG, Global Spectrum); 2) quasi-public entities, often in the form of authorities, whose boards and funding are heavily influenced by the local governments; 3) public entities, such as local governments.

The management structure is important in assessing convention centers' performance for two reasons. First, certain management structures may tend to be more efficient than others; and second, some management structures may have their interests more aligned with the cities’ interests. In the latter case, these convention center management entities would likely be more inclined to promote trade shows and conventions, even if these events tend to generate less revenue for the facilities. Therefore, it requires special consideration paid to the difference in management structure when conducting a comparative analysis on SJMCC’s performance.

The management structure sometimes depends on the destination type and the size of the convention centers.\(^3\) Based on the industry standards, SJMCC is a medium-size facility, located in a "national" destination (though depending on the interpretation of the industry definition, it could also be classified as a "gateway" destination.)

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\(^3\) See Glossary in Chapter VI for categories and definitions of "destination type" and "convention size."
Figure 7 illustrates the diverse management structures across different destination types and sizes of convention centers. It appears that larger and gateway convention centers have a tendency of using public or quasi-public management entities, while medium size and national convention centers are more inclined to contract the facilities with private management companies.

Team San José’s unique structure would probably be considered as “other” when compared with other centers. Due to the differences in management structures, and the subsequent potential differences in objectives (e.g. tourism-generating vs. revenue-generating), comparative analysis for SJMCC needs to address the potential impact of such differences.

The diversity in institutional structures and operational priorities makes assessments on individual convention centers more difficult, especially if such assessments are comparative with other convention centers. In particular, three areas of institutional structures and operational priorities deserve special attention when doing comparative assessments: marketing and sales responsibilities; booking priorities; and management structures. Team San José’s unique integrated model has its advantage to balancing tourism-generating and revenue-generating interests, but it also makes comparative assessment more difficult.

**D. Site Selection Preferences**

Event planners make their decisions of where to host their events based on many different factors. Numerous studies have shown that many of the factors that event planners consider are not specifically related to convention centers, but rather, they are external factors beyond the reach of convention centers. Therefore, even if a convention center fails to make the sales
to an event planner, it is not necessarily suggestive of the center's underperformance. It could be possible that the event planners' decision to choose another convention center over SJMCC is due to these external factors. An assessment on SJMCC's performance thus needs to consider the potential impact of these factors.

The following is a summary of the major studies on the event site selection preferences, with asterisks (**) indicating the factors that are usually beyond the control of convention centers:

- Geoffrey I. Crouch and Jordan J. Louviere use a Discrete Choice Analysis model, a commonly used modeling method for marketing, to evaluate the relative importance of different factors when convention planners make their selection choices of convention centers (Couch and Louviere 2004)

The top ten factors, out of a list of 20, that Crouch and Louviere conclude are important for convention site selections are (Couch and Louviere 2004, p. 128):

1. Cost of venue;
2. Food quality;
3. Availability and quality of plenary room;
4. ** Availability of nearby accommodations;
5. ** Proximity to participants' location;
6. Availability and quality of exhibition space;
7. Availability and quality of break-out rooms;
8. ** Accommodation rates;
9. Attractiveness of convention center's physical setting;
10. ** Opportunities for entertainment, shopping, sightseeing, recreation, and organized tours.

- Robert R. Nelson surveyed 1,272 trade association event planners in the U.S. in 1997 to evaluate the relative importance of different convention center selection criteria. (Nelson 1999) Differing from Crouch and Louviere's study, Nelson's study is able to provide rankings of these different selection criteria by the size of the event, measured by the number of attendees.
Based on the statistics from TSJ, there were 67 events hosted at SJMCC with a total attendance of 257,051 in Fiscal Year 2004-2005. The average size of attendance is therefore 3,837 people. Nelson’s survey shows that, for events expecting 2001 to 5000 attendees, the following are the 10 most important criteria, out of a list of 31, when event planners are making venue site decisions (Nelson 1999, p. 198):

1. Security and safety;
2. Availability of meeting rooms;
3. ** Competitive hotel rates;
4. Cooperative convention staff;
5. Competitive rates for exhibit space;
6. ** Hotel rooms within walking distance;
7. ** Affordability of the host city;
8. Quality of food service in CC;
9. ** Convention ground transport;
10. ** Friendless of locals.

- Similar to Nelson’s approach, Martin Oppermann has conducted one of the earlier systematic studies of event planners’ decision criteria. His surveys yield a similar set of top ten criteria out of a list of 15 (Oppermann 1996, p. 177):

1. Meeting rooms/facilities;
2. ** Hotel service quality;
3. ** Hotel room availability;
4. ** Clean/attractive location;
5. ** Safety/security;
6. ** Air transportation access;
7. ** Food and lodging costs;
8. ** Overall affordability;
9. ** City Image;
10. ** Transportation cost.

Despite the fact that “clean/attractive location” and “safety/security” are probably the factors over which a convention center could assert its influence at the local level, Oppermann’s list...
suggests that most of the important criteria for event planners' decisions are independent from the qualities of the convention centers themselves.

- Similar to Nelson and Oppermann, Steven Spickard also used survey instruments for his study. However, his study was conducted through a longer period of time between 1980s and 1990s with a much bigger sampling size. Figure 8 summarizes the top seven criteria deemed "very important" by event planners for venue site decisions. (Spickard 1996)

All of the criteria deemed "very important" by more than half of the event planners surveyed are not within the control of convention centers. Although many of these external factors echo the findings from the previous three studies, Spickard's study differs in showing that costs — surprisingly, not those associated with exhibit space rentals, but rather costs associated with food, lodging, and travel — are among the most important criteria when event planners select convention sites.

The only criterion that is directly related to convention centers is the "attractiveness of convention centers," gaining the recognition of being "very important" from just about 1/3 of the event planners surveyed.

- Petersen looks at the bigger picture and argues that there are five attributes that make cities attractive as tourism and convention destinations: (Petersen 2004)
  
  o ** General business density in the downtown core, measured by the square footage of occupied Class A office space in the Center Business District;
  o ** Accessibility of the public transit system in the downtown core, measured by the percent of work trips by public transit;
** Safety in the downtown core, measured by the crime rate (per 1,000 residents, measured within a 1-mile radius of the city center);
** General commercial opportunities in the downtown core, measured by retail sales volume within a 1-mile radius of the city center;
** Size and density of the downtown core, measured by the resident population within 1-mile radius of the city center.

Obviously, all five of these factors are beyond the control of SJMCC. However, Petersen further asserts that, “the cities ranking highest in each of these five attributes are nearly identical to the list of cities enjoying the highest annual attendance to meetings...in their convention center.” (Petersen, 154)

Figure 9 uses the data provided in Petersen’s study to assess how San José fares with 25 other major U.S. cities in each of these five criteria. The data are all normalized so that they can be compared on the same scale across all five attributes. San José’s level is set to 0 as the benchmark. Hence, the ratio of 3 indicates that it is 300% above the level of San José. To avoid confusion, the crime / safety ratio is flipped along the axis so that all ratios above the x-axis indicate more positive ratings.

Figure 9 shows that San José is mediocre in terms of business density in CBD and transit accessibility. On the other hand, San José fares well in the category of safety. Although San José is ranked higher than most competing cities in the categories of “retail opportunities” and “population” in the downtown core, its advantage is rather trivial as San José is ranked above other cities with a small margin in these areas.
• Arthur H. Darlin and Paulina Beato review convention centers in North America, Europe, and Asia, and conclude that the following are the factors critical for the success of convention centers in North America: (Darling and Beato 2004, p. 19)

  o ** Location in a city well-served by air from a large variety of origins;
  o ** Sufficient high quality hotel space within walking distance of the convention center;
  o ** Cultural, recreational, shopping, dinning and other amenities;
  o ** Proximity to large manufacturing centers and population centers with large concentrations of professionals or consumer markets.

• Chicago Convention and Tourism Bureau and Pricewaterhouse Coopers (CCTB 2006) evaluate various factors that make Chicago more competitive in promoting Chicago as a tourism and convention destination:

  o ** Convention and Visitors Bureau’s budget size;
  o Exhibition space size and proposed expansions;
  o ** Number of hotel rooms and rates;
  o ** Average labor rates;
  o ** Weather;
  o ** Airport capacity.

Although the study itself does not assert that these are the factors that make a convention center successful, a more competitive convention center in these areas is likely to be more successful in persuading event planers that it is the best choice of hosting the events.

The various studies examined above indicate that the decisions of choosing one convention center over the others is often complicated and involves consideration of factors that are well beyond the control of convention centers. In fact, Wha-in Lee and Bharath M. Josiam summarize a list of 54 most commonly considered criteria that make convention destinations competitive, and less than half (only 23) of them are in fact directly related to convention centers. (Lee and Josiam, 110)
This inevitably poses constraints on how accurately an assessment can gauge the actual performance of convention centers. A convention center may not attract as many events as other convention centers with comparable size and resources, but this may not suggest that such a convention center is underperforming. It is possible that this convention center could simply be located in an area with fewer available amenities, hotel rooms with high prices, or few transit options. As a result, it is less competitive than other comparable convention centers in attracting events when all else is equal.

E. Summary

Conventions are a people business, and this dictates that San José McEnery Convention Center operates in a context with intense interactions beyond its own institutional boundaries. In addition, some of the factors with bearing on the performance of SJMCC may be internal, but they are practically unalterable due to industry norms and/or contracts. Its performance therefore is subject to these external and internal influences over which it has little or no control.

Assessments can only evaluate SJMCC’s performance in its particular context, and the factors examined in this chapter may have cast favorable, unfavorable, or negligible impact on SJMCC. A better understanding of these external factors helps make necessary adjustments when applying the assessment framework discussed in Chapter IV. Although precise adjustments may be difficult to determine, as their influence is undoubtedly difficult to quantify, necessary qualitative adjustments will at least partially compensate for the deficiencies of a comparative analysis.

The following summarizes the potential impacts of these external and internal constraints:

Despite the fact that the trend of the industries most closely related to tourism (i.e. arts, entertainment, recreation, and accommodation) generally correlates with the overall economic health of the nation, the performance of the conventions industry seems more volatile than these other industries. Because of this higher uncertainty in the conventions industry, SJMCC may be subject to a disadvantage in accurately predicting demand and higher business risk.
Marketing and sales responsibilities, booking priorities, and management structures are the three constraints related to the institutions of the convention, but are often beyond SJMCC’s control because of prior arrangements stipulated in contracts. Various institutional configurations of convention centers across the nation often lead to (or are result of) the two very different objectives for convention facilities: the broader objective of generating higher economic impact by hosting more trade shows and conventions that attract out-of-town visitors; and a more operational objective of hosting more local consumer shows and public fairs that usually generate more revenues, though with lower economic impact.

TSJ’s unique integrated structure, which includes both the CVB and convention center management, helps offset some of the potential competing interests between these two objectives. Nonetheless, it is yet to be validated if such an integrated institutional structure functions more efficiently and effectively.

Lastly, researchers have used various approaches to analyze different factors influencing event planners’ decisions on convention center selections. Despite the different research methods and study time period, the outcomes are strikingly congruous: many external factors independent of convention center qualities play important roles in the final selection of venue sites. In general, these studies show the following three external factors critical for convention center selections:

- Hotel room availability in close proximity to the convention center at an affordable rate;
- Overall attractiveness of the host city, including its physical attractiveness, leisure and shopping amenities, and safety;
- Transportation infrastructure, including its air travel connectivity and transit system serving the convention center area.
Chapter III: Performance Assessment Constraints

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Chapter IV
Performance Evaluation Framework

A. Introduction

Performance evaluations of convention centers shall go beyond simple financial analysis to assess the true operational status of these facilities from different perspectives. This avoids the potential pitfalls of using a single-dimension approach while missing other aspects of the operation that are not revealed on financial statements.

The City of San José understands the benefits of a comprehensive performance evaluation, as it already has performance audit requirements for Team San José in the areas of: gross revenues; net profit or loss financial performance; economic impact (attendance requirement); and customer service results.

The performance evaluation framework proposed in this chapter builds upon the existing performance audit requirements, but with an augmented assessment framework that incorporates four major evaluation components:

- Financial performance assessment;
- Economic impacts assessment;
- Productivity assessment;
- Quality assessment.

It is important to look at all four of these areas in a balanced and integrated manner as outperforming or underperforming in one area is not necessarily indicative of the success or failure of SJMCC’s overall performance.

The existing performance audit by SJOCA uses a retrospective approach, which compares SJMCC’s current performance with its (or its predecessor’s) previous performance. To
complement this approach, this report focuses more on horizontal comparison with other convention centers in the U.S.

**B. Financial Performance**

Financial performance is often the most basic and widely used performance evaluation method. Financial performance of convention centers in particular has attracted considerable attention in recent years, mostly concerning whether the decisions to build or expand these facilities are financially sound. Numerous studies have been done on this subject matter, seriously questioning most of the recent convention center construction and expansion decisions. (Sanders, 2002, 2004, 2005) Although this research approach is very valuable, it has limited application to exiting facilities like SJMCC.

The consensus in the industry is that convention centers can rarely break even financially, and extensive research also supports such an understanding. (GAO 1998, Brezina 1999, Carlsen 2004, Clark 2004, Darling and Beto 2004).

The International Association of Assembly Managers (IAAM) conducted a survey in the summer of 2006 and asked convention center managers across the U.S. for their facilities’ expected financial performance. The survey results are summarized in Figure 10. Only 7% of the participating convention center managers were expecting to generate sufficient operating revenues to make a profit after subtracting operating expense and debt service. The most prevalent expectation (38%) was that the facilities would be operating at a net loss with operating revenues unable to offset operating expense.

![Figure 10: Convention Centers' Financial Performance](image-url)
With a net operating loss of $4,896,622, Team San José is in a similar situation, based on the latest currently available audited financial statements for the Fiscal Year 2004/2005. (Macias Gini & Co. 2006, p. 4) Nonetheless, a direct comparison of Team San José’s financial performance is in fact not entirely accurate, because Team San José is also responsible for managing other cultural facilities that tend to generate less revenue (e.g. theaters). Based on the preliminary financial figures provided by Team San José for each of the facilities that it manages, the convention center accounted for between 77% and 83% of Team San José’s net operating loss for Fiscal Years 2004/2005 and 2005/2006. Hence, even though Team San José’s net operating loss is not directly comparable with other convention centers’ financial performance, it is clear that TSJ would still generate a net operating loss had it not been responsible for the management of the other cultural facilities.

A more detailed examination of different revenue and expense categories would be more telling as to the performance of SJMCC. Nonetheless, such a comparison is subject to two limitations.

The first limitation is the difficulty in isolating the convention center’s financial figures from the other facilities that Team San José also manages, especially on the expense side. Most of the financial figures have been allocated to various facilities in the preliminary financial data submitted by TSJ, but there may still be some gray areas. It is relatively easy to track revenues generated by the convention center. However, expenses are harder to categorize, because managing these facilities often uses pooled resources. For instance, it is difficult to precisely delineate how many hours of air conditioning in the office is used solely for the purposes of managing the civic auditorium, as opposed to other times for managing convention center-related businesses.

The second limitation is due to the inconsistent financial recording practices among different convention centers. For instance, some convention centers would record marketing and sales expenses as a separate entry on their financial statements, while some (including San José) lump those expenses into general administration and operation expenses.
**COMPARISON WITH INDUSTRY AVERAGE**

Ernst & Young issued a report on convention centers in North America, Europe, and Asia in 2002 under the commission of the Inter-America Development Bank. Because of the different recording practices, it provides ranges of average itemized revenues and expenses for convention centers in North America. These figures are summarized in Tables 3 and 4. (Ernst & Young 2002, p. 23)

These numbers are re-categorized to better fit the items listed in TSJ’s financial statements for comparison purposes. In particular, “vendor commissions” and “parking” are lumped into a new item called “other.”

SJMCC’s financial figures are re-organized to better match the categories in the Ernst & Young study. The detailed financial statements for SJMCC are available as Appendix B in Chapter VI. Please note that, these numbers have not been audited. All figures, including the ones from Ernst & Young and TSJ, are adjusted for inflation before they are used for the following assessment.

Figure 11 compares SJMCC’s average unit revenue and unit expense per square foot of exhibit space with the industry average for Fiscal Years 2004/2005 and 2005/2006.

| Table 3: Revenue Structures of Convention Centers in North America (2001) |
|-------------------|-----------------|-----------------|
| Item              | Share in Total Revenue | Rev. Per Sq. Ft. of Exhibit Space (2001$) |
| Rentals           | 25% - 35%         | 8 – 10          |
| Food and beverage | 25% - 35%         | 8 - 10          |
| Event services    | 15% - 25%         | 6.5 - 8.5       |
| Vendor commissions| 1% - 5%           | 1 - 3           |
| Parking           | 5% - 15%          | 2 - 4           |

Source: Ernst & Young 2002, p. 23.

| Table 4: Cost Structures of Convention Centers in North America (2001) |
|-------------------|-----------------|-----------------|
| Item              | Share in Total Revenue | Rev. Per Sq. Ft. of Exhibit Space (2001$) |
| Salaries, wages, benefits | 35% - 45% | 9.5 – 11.5 |
| Utilities         | 10% - 15%       | 4.5 - 6.5       |
| Selling, general administration | 10% - 15% | 2 – 5         |
| Maintenance, repair, supplies | 5% - 10% | 1 – 3        |
| Contractual services | 10% - 15% | 9 -11         |
| Insurance         | 5% - 10%        | 1 – 3           |
| Others            | 5% - 10%        | 1 - 3           |

Source: Ernst & Young 2002, p. 23.
On the revenue side, SJMCC has consistently out-performed the industry average for rental revenue in both years, even though the rental revenue per square foot exhibit space declined substantially in the second year because of the South Hall expansion. The expansion increased SJMCC’s exhibit space from 143,000 square feet to 223,000 square feet (56% expansion).

However, because the rental revenue did not grow proportionally with the expansion in space, it resulted in a significant decline in rental revenue per square foot in FY 2005/2006.

It is reasonable to expect that there would be a time lag in generating an adequate amount of additional revenue from this new structure after its completion. A careful examination of future years’ revenue streams will be able to answer the question of whether South Hall has cast a positive or negative impact on the financial performance of SJMCC.

Nonetheless, unit revenues from other categories (food and beverage, event services, and others) have been consistently under the industry average. Unlike unit rental revenue, it appears that these unit revenues were able to adjust for the newly expanded space to avoid the decline after the addition of the South Hall.

On the expense side, two items stand out: “salaries and benefits” and “contract services.” The expense on salaries and benefits in FY 2004/2005 is more than twice the upper bound of the industry average and almost three times the lower bound. But on the other hand, the expense for contracted services is consistently substantially lower than the industry average, at the level of about 1/5 to 1/6 of the industry average.

The noticeably higher labor cost possibly could be caused by four factors, which generally fall into two categories: unit employment level and labor rate. For the purpose of this study, “unit employment” is defined as the number of full time equivalent employees per square foot of
gross exhibit space of the convention center. The first factor that can drive up the unit employment level is that SJMCC may have internalized some of the services that other convention centers typically contract out. This may result in both a higher unit labor cost and a lower unit contracted services cost when compared to the industry average. The second probable factor that could drive up unit employment level, rather than internalizing more functions compared to the industry average, is that SJMCC simply has an excessive workforce for its amount of exhibit space and services provided.

Another category of factors that could have caused a higher labor expense is, not surprisingly, average labor rates. High labor cost for SJMCC employees in the civil service system is possibly a contributing factor. Team San José arranged a special labor structure from the very beginning when it was bidding for the contract to manage SJMCC. Among the “multiple bottom lines” that it aims to achieve, TSJ states in its contract proposal that “SJMCC will provide quality employment for civil service workers and sustain a constructive labor/management relationship through partnerships with local labor.” (TSJ 2004, p. 1)

TSJ’s pro-labor approach is reflected in its organizational structure, as six seats on the 27-person Board of Directors for TSJ are allocated to organized labor. Furthermore, TSJ also initiated a shared civil service team structure, in which it inherited most of the civil service employees from the previous city agency that managed the facilities. These employees continue to be civil service employees after the transition of management to TSJ, and they are receiving the same pay and benefits as regular city employees, even though they are under the supervision of TSJ, a non-city entity. As a result, TSJ only eliminated about 10% of the previous civil service staff when it assumed the management responsibilities in 2004, and it kept 84.75 authorized civil service positions from the Conventions, Arts, and Entertainment Department.

Also, note that TSJ’s financial statements for SJMCC (Appendix B Chapter VI) indicate that 93% and 82% of SJMCC’s salary and benefit expense in FYs 2004/2005 and 2005/2006 respectively are attributed to city-related employment, exceeding proportionally the ratio of civil-service employees to SJMCC’s total employment. TSJ has no control on setting the pay scale or benefit package for these expenses.

Another factor that could have escalated the labor rate is simply a higher average labor rate in the area compared to the rest of the country. Based on the latest wage data (2006 3rd quarter)
from the U.S. Bureau of Labor Statistics, the average wage in Santa Clara County is ranked the second highest among the 326 largest counties in the U.S., outpacing San Francisco County, which is the other Bay Area county that also operates a convention center. It is reasonable to believe that the types of employment in the area will skew the average wage, especially for Santa Clara County (where San José is located), which has a technology-based economy with a higher wage level. Therefore, Santa Clara County’s higher average wage may not necessarily translate to a higher wage burden on SJMCC, which most likely hires service-oriented and blue-collar employees. However, a closer examination reveals that six out of the nine Bay Area Counties are ranked in the top 10%, out of the 326 largest U.S. counties, of the highest average wage. These six counties, Santa Clara, San Mateo, San Francisco, Alameda, Marin, and Contra Costa, are the closest to San José geographically (generally within a 1.5- to 2-hour one-way commute). They collectively represent a more diverse economy and also the most likely area where the SJMCC workforce pool resides. Consequently, it is very likely that the general high labor cost in the area does transfer into a higher labor cost pressure on SJMCC.

However, a more in-depth analysis indicates that the area’s higher average wage alone does not explain SJMCC’s higher labor wage. Figure 12 charts two types of relative hourly wage in 36 metropolitan areas with major or medium convention centers comparable to SJMCC. The left column is the general average hourly wage of all sectors in these areas, while the right one is the average hourly wages of convention center employees. Both types of wage use San José as a benchmark, where its wage level is represented as 1. As illustrated in Figure 12, the San José area’s general wage is higher than all 36 metropolitan areas, as most of them have an average wage equivalent to 55%-90% of San José’s level. However, the San José area’s average convention center wage is substantially higher, as the competing areas’ convention center
employees have an average labor rate only equivalent to 40%~70% of SJMCC's level. This significant difference between the two indicates that San José area's higher general labor rate pressure alone cannot fully explain SJMCC's higher labor rate. Other factors, such as whether SJMCC has a higher percentage of civil service and/or unionized employees than other competing convention centers may have compounding effects, but due to the lack of data, this study cannot arrive at a conclusive assessment for all of the factors that may have attributed to SJMCC's higher labor rate.

To further ascertain which category of these factors is more likely responsible for SJMCC's higher unit labor cost, Figure 13 charts the level of unit employment and normalized average labor cost of San José and these 36 comparable convention centers. The X-axis of Figure 13 measures the percentile ranking of normalized average hourly labor rate of convention center staff, and the Y-axis represents the percentile ranking of unit employment. Therefore, if the average level (i.e. 50%) is used as the threshold, then all convention centers to the right of the vertical dash-line in Figure 13 have a relatively higher labor wage for the convention center staff. Similarly, all convention centers located above the horizontal dash line are the ones with relatively a higher number of employees per square foot of gross exhibit space. As a result, the convention centers located in Quadrant I are the ones with both relatively high convention center staff hourly wage and high level of unit employment, and San José McEnery Convention Center is located in this quadrant (the black diamond in the upper right-hand corner in Figure 13). As indicated in the chart, with a 94th percentile ranking, SJMCC's average wage level nearly tops all of the major and medium sized U.S. convention centers in the sample. Meanwhile, its percentile ranking in unit

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1 The convention center employee's average normalized hourly wage is calculated by dividing the raw convention center hourly wage rates by the corresponding metro area's general wage rates, so that it isolates the effects of regional wage differences and more accurately reflects the differences in convention center average employee wages.
employment is standing at 92%, representing a larger number of employees per square foot of gross exhibit space vis-à-vis other convention centers.

This indicates that SJMCC's relatively high expense of labor when compared to the industry average is likely caused by both higher unit employment and higher labor cost. However, because of the lack of data on other competing convention centers, this study cannot make a more detailed conclusion of exactly which of the four factors, namely above-average internalization of functions, excessive number of employees, pro-labor practice, and higher area labor wage, is (are) the more dominant cause(s).

However, precautions need to be taken when interpreting the higher labor expense. The City of San José and TSJ both have strong preferences for promoting labor-friendly operations, and the objectives of the convention center are often more complicated than simply minimizing cost. It is likely that the higher labor expense is fully anticipated, and also accepted, by the City of San José and TSJ, as preserving and promoting civil service employment opportunities is one of the objectives of the convention center. On the other hand, though, it is also possible that the City and TSJ want to encourage labor-friendly operation, but they may not be aware of the extent of its impact on the budget, and thus may have overshot their goal.

In addition to the actual monetary figures on unit revenue and expense that are illustrated in Figure 11, Figure 14 further contrasts TSJ's weight (i.e. percentage shares) of various budget items with the industry average.

On the revenue side, TSJ disproportionally relied on exhibit space rental income in both years, though such dependency was lessened in FY 2005/2006. But this decline was mostly a result of its expanded exhibit space rather than a substantial increase of...
revenue in other categories. The share of revenue from food and beverages has increased noticeably during the same period, suggesting that such revenue is finally gaining an appropriate share in the overall revenue structure when compared to other convention centers.

On the expense side, despite the fact that TSJ's expense for salary and benefit is substantially higher than the industry average, its higher share in the total expense compared to the industry average is less dramatic. Salary and benefits' higher share in the overall budget also drives down the shares of the other expense categories, except energy (which is further discussed below).

**COMPARISON WITH OTHER MID-SIZE CENTERS**

Although Ernst & Young's data provide a good reference to assess SJMCC's financial performance by comparing with the industry average, financial trends of convention centers vary considerably. Consequently, a comparison with facilities similar to SJMCC's size will complement the above analysis. Unfortunately, most of the public domain data on convention centers are too generic. Although some companies, most noticeably Tradeshow Week and Pricewaterhouse Coopers, have been tracking different aspects of the conventions industry, many of the these data are proprietary.

The only appropriately detailed financial data for comparable convention centers are from the Pricewaterhouse and the International Association of Assembly Managers (IAAM) 2004 Convention Report, which provides the unit expense per square foot of exhibition space. The data are categorized by expense categories and by the size of the convention centers. Unfortunately, this report does not provide...
any unit revenue data. Table 5 summarizes the statistics from the report. Based on the San José McEnery Convention Center’s size, it belongs to the medium-size category, which includes convention centers with exhibit space between 100,000 square feet and 500,000 square feet.

In order to use Pricewaterhouse and IAAM’s data, necessary regrouping is also made, specifically: the items of “salaries,” “benefits and payroll tax” are grouped into “salary and benefit;” “general administration,” “marketing and sales,” and “professional fee” are merged into one item called, “general administration.” Furthermore, “security and traffic control,” “cleaning,” and “event services” are lumped into a new category, “contract services.” All figures are also adjusted for inflation.

Figure 15 shows how SJMCC’s expense structure fares compared to convention centers with a comparable size (between 100,000 square feet and 500,000 square feet of exhibit space).

Similar to what Ernst & Young’s data suggest, “salary and benefit” is the expense item where SJMCC significantly exceeded the convention centers of the similar size. Although it has been reduced significantly from FY 2004/2005 to FY 2005/2006, the reduction is, again, mostly the result of the substantial increase of exhibit space (+55%) because of the opening of the South Hall. Most revenues in other categories have not been impacted by the increased exhibit space except for utilities. The full financial impact of the South Hall has yet to emerge. Future financial statements will likely show whether SJMCC will benefit from an economy of scale of a bigger facility, or whether the unit cost, “salary and benefit” in particular, is going to rise again as events start to fill up the South Hall.
This presents a feasible solution for SJMCC's high expense per square foot of exhibit space. As indicated in Figure 15, SJMCC's total unit operating expense could be brought mostly back to the average level of its competitors by lowering its unit labor expense. In other words, SJMCC's unit high labor expense could be lowered if it could maintain its current staffing level even with the newly added exhibit space. This means that SJMCC needs to improve its employees' productivity level so that the same staffing size can sufficiently handle the additional workload from the added exhibit space.

Pricewaterhouse and IAAM's data also show, as do Ernst & Young data, that unit utilities expense at SJMCC is above the average of medium-size convention centers. Nonetheless, the utility price in California is known to be above the national average. Figure 16 tracks the average electricity price from 2002 to 2006 for all fifty states. Despite the fact that electricity price in California is still higher than most states between 2004 and 2006 (the period that SJMCC is under TSJ's management), California's relative price has in fact slightly gone down as a few more states have higher electricity prices than California in 2005 and 2006. Nonetheless, such small reduction in relative price may have a very a trivial impact, and it is clear that SJMCC is operating with the constraint of a higher electricity cost. This may explain SJMCC's higher unit utilities expense compared to its competitors.

Congruous to the findings when using Ernst & Young's data, Pricewaterhouse and IAAM's data also suggest that SJMCC's other unit expense categories are within a reasonable range of the average level of other medium-size convention centers.
Due to the lack of revenue data from Pricewaterhouse and IAAM, the above assessment can only focus on the expense side, which is only half of the picture. Unfortunately, Pricewaterhouse declined to release the revenue data it has collected from various convention centers, despite repeated requests.

C. Economic Impacts

As discussed at the beginning of Section B of this chapter and illustrated in Figure 10, most convention centers barely generate a net profit. However, many localities built or propose to build convention centers not merely because of their potential to generate operational profit, but instead argue that the broader economic benefits are indeed the higher objective of convention center projects.

Steven Spickard, a veteran practitioner of economic development and public facilities, argues that there are “three bottom lines” for convention center development. As illustrated conceptually in Figure 17, the “financial bottom line” is often the financial measurements that most businesses use, and most convention centers are expected to have a net operating loss. However, “fiscal impacts” and “economic impacts” are the real benefits from the perspective of the localities. Ideally, these two types of benefits will not only offset the net operating loss of convention facilities, but in addition, they will indeed generate and stimulate extra benefits for the communities. For the purpose of this study, “fiscal impacts,” which is mostly in the form of additional tax revenues to local government, is not discussed in detail, as the Office of the City Auditor has more access and expertise to conduct in-depth tax revenue analysis. Instead, this section focuses more on the “economic” impact of SJMCC.
Team San José, the management entity for SJMCC, is a local consortium with board members from local hotels, organized labor, CVBs, and the arts community, understands SJMCC’s broader important role of catalyzing economic development in the area. This is evident in the fact that four of the ten “multiple bottom lines” that TSJ stresses are related to economic impact (TSJ 2004, p. 1):

- Increase hotel usage and Transient Occupancy Tax;
- Generate more customers and more revenue for local businesses;
- Expand cultural and economic opportunities for the diverse ethnic communities in San José;
- Play a vital and constructive role in supporting the city’s economic development strategy.

Nonetheless, assessing the economic impact of convention centers is as much an art as a science. Similar to one of the difficulties of comparing financial performance across different convention centers with various recording practices, different convention centers also use different methods to approximate their economic impacts. (GAO 1998, p. 3) However, many studies have documented serious methodological deficiencies in estimations of economic impact and employment generation effects. (Crompton 1995, Noll and Zimbalist 1997, Baade and Sanderson 1997)

**TYPES OF ECONOMIC IMPACTS**

The conventions industry typically argues that convention facilities create economic impacts through the following types of impacts:

- **Direct Impact:** It refers to the visitors’ spending directly related to their attendance of conventions events, such as spending on hotels, meals, souvenir purchases, transit fares, local outings, etc.

- **Indirect Impact:** It refers to the economic impact cast on the suppliers to those businesses that benefited from the direct spending of conference attendees. For instance, a wine wholesaler that provides chardonnay and merlot to the restaurants where the conventioneers dine will benefit from the indirect economic impact, because she sells additional wine now.
• **Induced Impact:** It is the impact from the increased economic activities due to the increased income of the employees who work at the businesses that benefited from the *direct* and *indirect* impacts of the convention visitors. Using the same wine wholesaler example: if she uses the additional income from the increased sales (to restaurants serving conventioneers) and buys some cheese and crackers. Then, the consumption of these cheese and crackers is considered an induced impact.

• **Employment:** This refers to the additional employment opportunities because of the increased direct, indirect, and induced economic activities from convention events. Some convention centers use a more conservative approach and only account for the new employment positions directly generated at the convention centers.

• **Externalities:** This is the most indirect and ambiguous economic benefit to measure. Externalities could be more localized and tangible around the convention site, such as an improvement in local road infrastructure, therefore resulting in an overall reduction in economic losses due to congestion near the convention center. Externalities can also be intangible, such as an increase of positive reputation in the business community nationwide about San José, therefore attracting more new businesses.

• **Taxes:** Increases in tax revenues are different from the abovementioned economic benefits, as such benefits are much more tangible from the local government’s perspective, because they are actually on the receiving end of such benefits. Some practitioners call this “fiscal impact” to distinguish it from the economic impact discussed above, but many convention centers generally consider an increase in tax revenue as a positive economic impact. The most commonly considered tax stream for this viewpoint is the Transient Occupancy Tax (TOT, commonly referred to as the hotel tax), though sales tax and rental car tax are sometimes also considered.

**Pitfalls in Economic Impact Estimates**

There are many challenges in accurately measuring economic impact. Many of the estimates have knowingly or unknowingly used questionable, and even totally invalid, methodologies to
estimate economic impacts, often producing inflated conclusions of the actual economic benefits of convention facilities and events.

Reasonable estimates of economic impacts are feasible, but auditors should take great care in avoiding some of the common pitfalls outlined below. These pitfalls include both conceptual and implementation components:

- **Net Effect:** Economic impact estimates often focus on the end impact itself but ignore the input required to produce such an impact. For instance, an increase in TOT is often claimed as an economic benefit generated by convention centers. However, a very substantial portion of TOT is in fact put right back into subsidizing convention centers, and the actual net benefit of the increase in TOT is often much smaller. This is a conceptual pitfall that can be avoided easily by subtracting the input from the final output effect.

- **Impact Boundaries:** Direct, indirect, induced, and employment effects are often inflated because the impact boundaries are not clearly defined. It should only include the impacts generated within the city (except some cases where services are provided outside of the city, but the revenues are received by establishments registered with the city). It is relatively easy to track whether direct spending is consumed at establishments within city limits. However, the difficult is usually in subtracting the input that is supplied from outside of the city, because that portion of the economic benefit is lost to establishments and individuals outside of the city.

For instance, suppose $10 is spent on a lunch at a café outside of SJMCC, but the lunch’s provider has spent $3 in ingredients bought from Oakland, $0.5 in gas to an energy company based in Sacramento, $2 in wages for a cook who resides in Fremont, $1 in rent to a landlord who lives in Los Angeles, and $0.2 to an insurance company based in Connecticut. Therefore, the effective direct impact within the impact boundaries (i.e. San José) is merely $3.3 after subtracting all these external inputs in generating that $10 consumption.

Similarly, economic impact analysis often just reports new employment generated by convention activities. However, many of these positions may be filled by workers outside of the city, and local residents may benefit very little from these employment opportunities.
This is a pitfall in both concept and implementation. The conception pitfall is easier to avert, but the implementation pitfall of precisely separating economic benefits lost to the outside is more challenging.

- **Capacity Assumption:** This mistake is commonly committed in new employment estimates. Such estimates are often based on the assumption that increased economic activities will inevitably result in more employment opportunities. However, this will only happen if the labor force is currently operating at its maximum production level, and any additional demand for service will certainly lead to additional employment. This is often not true, as the existing labor force’s output level is usually adjusted accordingly to absorb the new demand while there is no (or very marginal) increase in employment level. Estimates without considering this effect are therefore often overstated. Although this is largely a conceptual pitfall, it is feasible to arrive at a more reasonable estimate by reviewing historical labor market reactions to increases in demand for services. Then, the estimates can be adjusted based on how much the labor market can absorb additional demand before it expands.

- **Local visitors:** Many convention centers also include local visitors’ economic benefits as a part of the economic impact generated by the convention facilities. There is no clear-cut standard for calculating the actual benefits generated by these local visitors. Nonetheless, an accurate estimate should only include the portion of the local visitors’ spending that would not have occurred had there been no convention events. For example, if a group of local visitors are dining out during weekends on a routine basis, then even eating at convention center restaurants when they are attending some of the trade shows should not be counted as an economic benefit, because these local residents are going to spend money dining out regardless.² The conceptual component of this pitfall may be difficult to comprehend because it involves convoluted backward thinking of “what would not have spent had there been no convention events.” In implementation, it is also difficult to separate different components of the local visitors’ spending.

² To be more precise, the money spent on convention center food that is above the routine amount spent on dining out can be justified as an economic impact. For example, if these local visitors usually spend $10 on lunch on weekends while dining out routinely, but they spend $15 on lunch while attending convention center events, then the additional $5 spent can be justified as an economic impact.
Opportunity Cost: Although opportunity cost is often beyond the scope of most economic impact analysis, it must be understood that the net impact of building and operating convention facilities also involves the foregone impact that could have been produced had that investment been channeled to other projects instead of the convention projects. This pitfall, both in concept and in implementation, is relatively easy to avoid as opportunity cost is a common topic for investment and cost-benefit analysis.

**EXISTING ECONOMIC PERFORMANCE MEASURE**

The current Management Agreement between the City of San José and TSJ sets forward a series of attendance benchmarks as economic impact goals that TSJ is required to meet in order to fulfill its performance objectives:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local Visitor</th>
<th>Out of Town</th>
<th>Exhibitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>04/05</td>
<td>507,000</td>
<td>60,200</td>
<td>10,000</td>
</tr>
<tr>
<td>05/06</td>
<td>515,100</td>
<td>87,300</td>
<td>18,500</td>
</tr>
<tr>
<td>06/07</td>
<td>600,400</td>
<td>92,700</td>
<td>19,700</td>
</tr>
<tr>
<td>07/08</td>
<td>660,000</td>
<td>103,600</td>
<td>22,000</td>
</tr>
<tr>
<td>08/09</td>
<td>690,400</td>
<td>108,000</td>
<td>22,900</td>
</tr>
</tbody>
</table>

The implicit assumption of using attendance as an economic impact benchmark is that an increase in conventioneer and exhibitor volume will increase spending in the local economy, therefore leading to a ripple of economic benefit through indirect and induced impacts. This approach avoids the challenge of delineating the precise economic boundaries for the various types of impacts and assigning different economic multipliers for different types of visitors. Nonetheless, this approach does not measure the exact economic benefits.

Although the latest performance audit on TSJ for FY 2004-2005 does not calculate the actual economic impact generated by these visitors, the audit report does quote unit direct spending estimates (per attendee per day) based on a memorandum submitted by TSJ on April 29, 2005:

<table>
<thead>
<tr>
<th>Visitor type</th>
<th>Unit Direct Spending (Per person per day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Visitors</td>
<td>81.67</td>
</tr>
<tr>
<td>Out Of Town Visitors</td>
<td>142.44</td>
</tr>
<tr>
<td>Exhibitors</td>
<td>215.21</td>
</tr>
</tbody>
</table>

Source: SJCCA 2006, p. 27; TSJ 2005, p. 3.
TSJ is unable to provide justifications of how it arrived at these multipliers at the time of this report. It initially claimed that these multipliers were inflated 3% annually based on the numbers derived in the *The San José Visitor Study: Market Profile and Economic Impact* (discussed below), but TSJ’s numbers are far from the estimates in *The San José Visitor Study* even after inflation adjustments.

**RELEVANT REPORTS**

There are two relevant reports that have been issued on the economic impact of conventions, with one specifically on the impact on San José. However, further reviews indicate that there are limitations in using them to accurately assess the economic impact of SJMCC.

Under the commission of the San José Convention and Visitors Bureau, Thayer Watkins and Philip J. Trounstine of the San José State University authored *The San José Visitor Study: Market Profile and Economic Impact* in 2005. The report estimates the economic impact of tourism for the City of San José by various types of visitors, including conventioneers. Table 6 summarizes the direct economic impact attributed to theses visitors’ spending, including one separate entry for the convention visitors:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel/Motel Visitors Who Attend Conventions</td>
<td>$200,490,000</td>
<td>$207,600,000</td>
</tr>
<tr>
<td>Per Person Per Day Spending</td>
<td>$117/day</td>
<td>$117/day</td>
</tr>
<tr>
<td>All Hotel/Motel Visitors (including convention attendees)</td>
<td>$385,000,000</td>
<td>$398,700,000</td>
</tr>
<tr>
<td>Per Person Per Day Spending</td>
<td>$141/day</td>
<td>$141/day</td>
</tr>
<tr>
<td>Private Home Visitors</td>
<td>$493,010,000</td>
<td>$523,480,000</td>
</tr>
<tr>
<td>Per Person Per Day Spending</td>
<td>$111/day</td>
<td>$111/day</td>
</tr>
<tr>
<td><strong>Subtotal for Overnight Visitors</strong></td>
<td><strong>$887,610,000</strong></td>
<td><strong>$922,180,000</strong></td>
</tr>
<tr>
<td>Day Visitors Spending</td>
<td>$236,292,000</td>
<td>$235,125,000</td>
</tr>
<tr>
<td>Per Person Per Day Spending</td>
<td>$58/day</td>
<td>$58/day</td>
</tr>
<tr>
<td><strong>Total Visitors Spending</strong></td>
<td><strong>$1,123,902,000</strong></td>
<td><strong>$1,157,305,000</strong></td>
</tr>
</tbody>
</table>

It is unclear why there is a discrepancy between the sum (i.e. $878,010,000) of “all hotel/motel visitors” spending and “private home visitors” spending in FY2002/2003 ($385,000,000 + $493,010,000 = $878,010,000) and the estimated “subtotal for overnight visitors” spending in FY 2002/2003 ($887,600,000). These two numbers should be equal, and the large discrepancy is not likely a rounding error. There is no discrepancy for these expense categories in FY 2003/2004.

In addition, the report also presents estimates of the total economic impact of convention visitors who stayed in hotels, including all direct, indirect, and induced impacts. Table 7 summarizes these estimates:

There is another discrepancy between the estimates reported in Table 6 and Table 7. In Table 7, the estimate of direct impact of convention attendees staying in hotels/motels is $192.9M; but in Table 6, it is $207.6M. The reason for the difference between these two items is unclear.

Attempts have been made to contact Prof. Thayer Watkins for clarification of the discrepancies (and the questionable assumptions discussed below), but Prof. Watkins has not provided clear explanations. Mr. Philip J. Trounstine was not involved in this part of the study.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Direct Impact San José Sales</th>
<th>Total Impact San José (Direct, Indirect, and Induced Impact)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging</td>
<td>83.7</td>
<td>87.1</td>
</tr>
<tr>
<td>Meals/Snacks/Beverages</td>
<td>32.5</td>
<td>33.0</td>
</tr>
<tr>
<td>Groceries &amp; Convenience</td>
<td>5.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Shopping &amp; Gifts</td>
<td>32.0</td>
<td>34.3</td>
</tr>
<tr>
<td>Amusement, Attractions</td>
<td>10.7</td>
<td>10.9</td>
</tr>
<tr>
<td>Car Rental</td>
<td>15.8</td>
<td>13.8</td>
</tr>
<tr>
<td>Other Transportation</td>
<td>12.7</td>
<td>13.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>192.9</strong></td>
<td><strong>198.2</strong></td>
</tr>
</tbody>
</table>

Furthermore, a closer examination of the study reveals more ambiguous assumptions and questionable methodologies, and the estimates in the report are likely unreliable and highly inflated. Because the San José Visitors Study has been widely quoted, it is necessary to discuss some major observations on its potential deficiencies, so that the readers are more informed to make reasonable assessments when they come across claims based on the Study:

- The major methodology used is interview and survey, including interviews with 1,344 visitors and phone interviews with 1,230 randomly selected San José residents between September 2003 and June 2004. These data served as the basis for direct spending calculations. Nonetheless, the explanation of how it obtained the indirect and induced impact is unclear (and often unsubstantiated). For instance, the report explains its process of calculating the induced impact multiplier as “This $40 million [increase in effective disposable income after saving] leads to an estimated $30 million in increased production in Santa Clara County. Another $3 million should be added to this for the production paid for by the taxes paid to local governments.” (Watkins and Trounstine 2005, p. 15) Nonetheless, there is no explanation for how the $30 million increase in production is derived, or for the $3 million from increased public spending. The report is highly ambiguous in many areas, including data sources, so it is extremely difficult to verify the validity of assumptions and justifications.

- The report does not net out the input from outside of San José when calculating the economic impact. Therefore, the actual economic benefit to San José, after subtracting input from outside of the city, is likely going to be substantially lower than that claimed in the report.

- Based on Watkins and Trounstine’s estimates, the total direct spending for those conventioneers who stayed in San José hotels and motels in FY 2003/2004 was $207,600,000, with per person per day average direct spending of $117. (Watkins and Trounstine 2005, p. 10, also see Table 5 above) Based on this estimate, San José should have 1,774,359 person-days of these out-of-town convention attendees.³ Nonetheless, based on the records provided by TSJ for FY 2004/2005, the actual recorded out-of-town attendance at SJMCC events was 75,664 person-days, only 4% of the volume suggested in Watkins and Trounstine’s report. Admittedly, TSJ’s recorded number refers to FY 2004/2005 and Watkins and Trounstine’s estimate is for FY 2002/2003, and there were

³ $207,600,000 + $117 person-day = 1,774,359 person-days
conventions held in San José but outside of the convention center, but it is highly unlikely the actual attendance is near what Watkins and Trounstine claim.

- Lastly, the employment impact presented in the report is misleadingly exaggerated. The report does not explain clearly how it derives the employment generation impact, but only vaguely suggests that it is based on San José's payroll/employee and sales/employee for the retail, wholesale, and lodging/food services sectors. (Watkins and Trounstine 2005, p. 28) Then it states that, “the employment generated in the San José economy by the visitors industries” was 15,417 in FY 2002/2003 and was 15,966 in FY 2003/2004.

Based on the vague explanation it provides, these are not the positions generated, but rather, these are the number of positions demanded by or attributed to these visitors. “Employment generated” implies that these are new positions, which should be the marginal changes from FY 2002/2003 to FY 2003/2004. Assuming these estimates are reasonable, then the new employment opportunities generated between FY 2002/2003 and FY 2003/2004 is only 549 positions4, only about 3.4% of the level claimed by the report.

In addition, it appears that the report has also committed the two common mistakes in employment generation estimates. First, it assumes that the current employees are working at the maximum output level, and additional demand from the tourism industry will be entirely transmitted to a higher demand for labor. This assumption is undoubtedly questionable as discussed previously in the “Pitfalls in Economic Impact Estimates” section.

Moreover, even if these new positions were indeed generated, it is still unclear how many of them will be filled by San José residents and how many will be filled by workers in the Bay Area region who do not intend to relocate to San José.

In summary, despite the fact that Watkins and Trounstine’s report is the only report available that provides detailed estimates of the economic impact of convention visitors, the estimates it provides are highly questionable and likely with significant exaggeration. It is thus not recommend to use this report to assess SJMCC’s economic impact.

4 15,966 - 15,417 = 549
Another relevant report, though not specifically for the San José area, is the *ExPact 2004: Convention Expenditure & Impact Study*, conducted by VERIS Consulting under the commission of the International Association of Convention and Visitor Bureaus Foundation (IACVB). It surveyed 12,920 convention attendees ("delegates"), 1,286 exhibiting companies, and 77 event organizers in 2004 for their expenses at the conventions.

The expenditures are reported by event scopes, defined by IACVB as:

- **International**: Events drawing a national and international event audience, with 15% or more of event attendees residing outside of the event host country;
- **National**: Events drawing a national event audience, with more than 40% of attendees residing outside of a 400-mile (640-km) radius of the event city;
- **Regional**: Events with 60% of attendees residing within a 400-mile (640 km) radius of the event city. Attendees may reside in a multi-state area or a regionally homogeneous international area.

These are the events most relevant to SJMCC. Unfortunately, expenditures at local events are not tabulated in *ExPact 2004*.

| Table 8: Per Delegate's Expenditure for International, National, and Regional Events |
|----------------------------------|-----------------|------------|
| Type of Expenditure               | Daily Expenditures | % of Total |
| Lodging & Incidentals            | $127.52          | 48.7       |
| Food & Beverage                  | $73.36           |            |
| Hotel Food & Beverage            | $25.02           | 28.1       |
| Other Food & Beverage            | $48.34           |            |
| Entertainment/Recreation          | $7.23            | 2.8        |
| Tours & Sightseeing              | $4.87            |            |
| Recreation                        | $1.59            |            |
| Sporting Events                   | $0.77            |            |
| Retail                            | $28.60           | 10.9       |
| Transportation                    | $24.82           |            |
| Local Transportation              | $8.17            | 9.5        |
| Auto Rental                       | $6.73            |            |
| Gas, Tolls, Parking               | $9.92            |            |
| Other                             | $0.10            | 0.0        |
| Total                             | $261.63          | 100.0      |

Source: IACVB 2004, p. 16.
### Table 9: Per Exhibiting Company’s Expenditure for International, National, and Regional Events

<table>
<thead>
<tr>
<th>Type of Expenditure</th>
<th>Daily Expenditures</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Living</td>
<td>$916.88</td>
<td>50.4</td>
</tr>
<tr>
<td>Vendor Services</td>
<td>$226.22</td>
<td>12.4</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>$219.86</td>
<td>12.1</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>$192.21</td>
<td>10.5</td>
</tr>
<tr>
<td>Advertising (in Event City)</td>
<td>$51.39</td>
<td>2.8</td>
</tr>
<tr>
<td>Local Transportation</td>
<td>$51.84</td>
<td>2.8</td>
</tr>
<tr>
<td>Services Hired</td>
<td>$38.90</td>
<td>2.1</td>
</tr>
<tr>
<td>Additional Meeting Rooms</td>
<td>$27.14</td>
<td>1.5</td>
</tr>
<tr>
<td>Other</td>
<td>$99.39</td>
<td>5.4</td>
</tr>
<tr>
<td>Total</td>
<td>$1,823.83</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: IACVB 2004, p. 35.

### Table 10: Per Event Organizer’s Expenditure for International, National, and Regional Events

<table>
<thead>
<tr>
<th>Type of Expenditure</th>
<th>Daily Expenditures</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>$30,008.83</td>
<td>27.0</td>
</tr>
<tr>
<td>Exhibition Space Fees</td>
<td>$26,428.64</td>
<td>23.7</td>
</tr>
<tr>
<td>Services Hired</td>
<td>$24,608.04</td>
<td>22.1</td>
</tr>
<tr>
<td>Equipment Rental</td>
<td>$10,707.49</td>
<td>9.6</td>
</tr>
<tr>
<td>Staff Living</td>
<td>$7,089.83</td>
<td>6.4</td>
</tr>
<tr>
<td>Advertising (in Event City)</td>
<td>$3,300.30</td>
<td>3.0</td>
</tr>
<tr>
<td>Technology Services</td>
<td>$1,878.94</td>
<td>1.7</td>
</tr>
<tr>
<td>Additional Space</td>
<td>$1,228.96</td>
<td>1.1</td>
</tr>
<tr>
<td>Local Transportation</td>
<td>$1,173.70</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>$4,901.82</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>$111,326.55</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: IACVB 2004, p. 42.

In addition, IACVB also separately reports expenditures by delegates’ residence status (in-town vs. out-of-town), though it does not provide detailed itemized categories:

### Table 11: Per Delegates’ Expenditure for International, National, and Regional Events

<table>
<thead>
<tr>
<th>Per Event</th>
<th>Per Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delegates — In-town</td>
<td>$31</td>
</tr>
<tr>
<td>Delegates — All</td>
<td>$262</td>
</tr>
<tr>
<td>Delegates — Out-of-town</td>
<td>$284</td>
</tr>
</tbody>
</table>

Ms. Meli James, the Research and Strategy Manager of San José CVB, cautioned in an interview on April 4, 2007 that IACVB data tend to be too high for the typical conventioneers at San José events. Ms. James’ assertion was mostly based on her experience in assisting IACVB to collect data for ExPact 2004. Based on Ms. James’ observation, the sample represented in ExPact 2004 for San José was collected at events in which the attendees tend to have spent more than the average attendees at typical SJMCC events.

In spite the fact that IACVB’s data may not be closely representative of the conditions in San José, and TSJ’s direct spending multipliers (TSJ 2005, p. 3) are not justified, for the sole exploratory purpose of a very rough approximation, an estimate is constructed for the possible economic impact due to direct spending of the delegates, event exhibitors, and organizers. Nonetheless, because of the deficiencies discussed above, extreme care needs to be taken when interpreting these estimates (Table 12).

<table>
<thead>
<tr>
<th>Types of Attendees</th>
<th>IACVB Data*</th>
<th>TSJ Data**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Out-of-town Delegate Expenditure</td>
<td>284</td>
<td>142</td>
</tr>
<tr>
<td>Subtotal Out-of-town Delegate Expenditure (n=75,664***)</td>
<td>21,488,576</td>
<td>10,777,580</td>
</tr>
<tr>
<td>Unit Local Delegate Expenditure</td>
<td>31</td>
<td>82</td>
</tr>
<tr>
<td>Subtotal Local Delegate Expenditure (n=160,661***)</td>
<td>4,980,491</td>
<td>13,121,184</td>
</tr>
<tr>
<td>Unit Exhibitor Expenditure</td>
<td>1,824</td>
<td>215</td>
</tr>
<tr>
<td>Subtotal Exhibitor Expenditure (n=20,726***)</td>
<td>37,800,701</td>
<td>4,460,442</td>
</tr>
<tr>
<td>Unit Event Organizer Expenditure</td>
<td>111,327*</td>
<td></td>
</tr>
<tr>
<td>Subtotal Event Organizer Expenditure (n=67***)</td>
<td>7,458,879</td>
<td>7,458,879</td>
</tr>
<tr>
<td>Total Direct Expenditure by All Attendees</td>
<td>71,728,646</td>
<td>35,818,085</td>
</tr>
</tbody>
</table>

Source: *IACVB 2004, p. 20, 35, 42; ** SJCCA 2006, p. 27; TSJ 2005, p. 3; *** Conference attendance data from Team San José’s unpublished event records.

Note: "Unit expenditure" refers to expenditure per person per day. Attendance recorded in person-day.
Five important limitations need to be stressed for interpreting the above estimates:

- The accuracy of these estimates cannot be substantiated because of the lack of data specifically for San José and the potential quality problem with TSJ’s direct spending multipliers;

- The estimates only include the direct impact of the events held at the convention center, but the estimates do not include indirect or induced impact of these events;

- The estimates have not subtracted out the external input (i.e. from outside of San José) in producing the goods and services paid for by this direct spending. Therefore, the estimates have an upward bias tendency;

- Similar to the previous point, but slightly different, the assumption for these estimates is that all of the direct spending is spent inside of San José, but this is not necessarily true in reality. For instance, instead of spending $10 on lunch at the convention center, the delegate may decide to skip the afternoon and go to San Francisco to have lunch with her college roommate. This is especially problematic for exhibitors and event organizers’ “big-ticket items” like “equipment rental” and “services hired,” for which the service providers may not be locally based. Therefore, the estimates have an upward bias tendency.

- The direct economic impact for local attendees is calculated under the assumption that these local visitors would not have made this direct spending locally had they not been attending these convention events. This is probably not true in reality (see above discussion on “local visitors” in the “Pitfalls of Economic Impact Estimates” section). Therefore, the estimates have an upward bias tendency.

As indicated in Table 12, the range for the direct economic impact is large, bounded at the lower end using the unit expenditure data (i.e. direct spending multiplier per person per day) from TSJ, and bounded at the upper end using data from IACVB. The upper bound estimate is twice as much as the lower bound estimate. The estimate using IACVB’s data is significantly higher may be caused by the fact that its unit expenditure data are collected from international, national, and regional events. Attendees at international and national events may be more willing to spend on items like food and souvenirs because such spending is relatively insignificant.
compared to their long-distance travel expenses. This spending pattern may not necessarily be true for SJMCC event attendees.

Also note that, even the upper bound direct spending estimate of $71,728,646, which includes all expenditures from delegates, exhibitors, and event organizers, is still substantially lower (~65% less) than Watkins and Trounstine’s estimate of $207,600,000, which only includes direct spending from delegates.

The wide margins between the estimates of total direct expenditure in Table 12 is revealing about the difficulty of reasonably approximating even just the indirect impact of conventions, not to mention the more complicated indirect, induced, and externality impacts. Despite the difficulty of conclusively determining whether the current economic impact generated by SJMCC is sufficient compared to facilities with a comparable size, the discussion later in this chapter on productivity indirectly suggests that SJMCC is mediocre in generating out-of-town visitor volume and hotel room-nights. (Table 14 and Figure 20)

**ALTERNATIVE ECONOMIC IMPACT ESTIMATE METHODS**

There are two economic impact estimation methods that could potentially produce better results. Nonetheless, both of these methods require much more extensive computation, data, and expertise. In addition, these two models tend to work better for higher-level geographic units (e.g. county), and there may be practical difficulties of obtaining reliable data for a too narrowly defined area. The following is a brief introduction of these two models.

- **Input-Output Model**
  Input-Output (I/O) modeling is one of the most commonly used economic modeling techniques. It tracks how the impact of a change in one industry (e.g. conventions) is transmitted to other intermediate industries and final consumption. In addition, it can also track the value-added components (e.g. tax, revenue, salary) of such an impact. Despite the relatively straightforward computation of the I/O model, it requires a large amount of data. However, there are many readily available commercial modeling packages that perform this function. REMI (Regional Economic Modeling Inc.) is one of the most widely used hybrid I/O packages, with specific models in different policy areas. The City of San José could further explore a more vigorous economic impact study by using REMI, especially if it considers expansions in the near future.
Computable General Equilibrium Modeling

Some tourism economists have been advocating the Computable General Equilibrium (CGE) modeling method instead of the I/O technique, arguing that this model can more realistically show impacts from tourism, convention, and festival events. (Dwyer and et al 2005, 2006) Although neo-classical in spirit, the CGE approach partially evolves from the I/O approach, and only loosely conforms to the strict theoretical general equilibrium paradigm. This gives CGE more practicality and allows it more flexibility in modeling resource constraints, the existence of multiple markets, and their feedback effects. (Dwyer and et al 2006) Previous research has been conducted to study the economic impact of tourism, both at a macro level (Wanhill 1988) and for a specific region (Zhou and et. Al 1997)

D. Productivity Assessment

Both financial and economic assessments focus on the monetary aspects of convention centers. However, these two assessments sometimes compete with or even contradict each other due to the nature of the conventions industry. If financial performance maximization is the objective, convention centers would probably want to pursue local consumer shows and public fairs more aggressively. On the other hand, if economic performance maximization is the objective, then convention centers would be more inclined to treat trade shows and conventions with higher priorities, because they tend to bring in more out-of-town guests. There is a delicate balancing point between these two types of pursuits that would create both reasonable financial and economic impacts, but finding and maintaining such a balance does not only rely on the management’s expertise, experience, and resources, but also on external factors.

Due to this inherent dilemma of balancing between financial and economic objectives, assessments looking beyond mere monetary figures would help shed some light on the performance of convention centers from a different perspective. One approach is to look at the productivity of the facilities given the resources and constraints they have. This section explores three different types of productivity measures:

- Attendance;
- Hotel-room Night;
- Convention Facility Occupancy.
In addition, this section also discusses some of the other possible productivity assessment that the Office of the City Auditor can further investigate.

**PRODUCTIVITY AND EXTERNAL ATTRACTIVENESS MATRIX (PEAM): AN OVERVIEW**

As discussed in Section D of Chapter III, event planners often consider various external factors other than convention centers when making their selection on venue sites. A new analytical tool was developed specifically for this project, the Productivity and External Attractiveness Matrix (PEAM), which takes into consideration of various external attractiveness factors while analyzing productivity performance. More specifically, PEAM contains two primary components: the Productivity Index and the External Attractiveness Index.

The first component of PEAM is the Productivity Index, which is a generic term for different productivity measurements to be used for specific performance assessments. For instance, this study focuses on three productivity measures, and the corresponding productivity indicators used as the Productivity Index in this report are:

- **Attendance**: Measured by the number of attendee-days per square foot of gross exhibit space
- **Hotel-room Night**: Measured by the number of hotel room-nights generated by convention attendees
- **Convention Facility Occupancy**: Measured by the square-foot-day occupancy rate of SJMCC

Each of these productivity indicators will be used on the Y-axis within the PEAM framework (Figures 18 to 21), which is explained later in detail in the following sections.

The second component of PEAM, represented on the X-axis, is the External Attractiveness Index, a composite indicator that measures a convention site’s *external* attractiveness using the following five “external attractiveness criteria”:

- **Density of hotel rooms in convention center vicinity**: Measured by the number of hotel rooms within a half-mile radius from the convention center and normalized by the gross square footage of the exhibit space (denoted as \( a \) in the following formula). The
normalization helps represent the true density of hotel room stock from the convention center’s perspective;

- **Sheer size of tourism-related activities in the local economy**: Measured by the sales volume of the Arts, Entertainment, and Recreation (AER) and the accommodation industries in the city ($\beta$);

- **Relative importance of tourism-related activities in the local economy**: Measured by the percentage share of the AER and accommodation industries in the city’s overall economy ($\gamma$);

- **General economic vitality of the area**: Measured by the overall volume of revenues of all sectors in the city ($\delta$);

- **Affordability of lodging**: Measured by the average hotel room rates ($e$).

The calculation of the External Attractiveness Index (EAI) score is simply the averaged z-score of each city when measured by these five criteria, therefore:

$$EAI_n = \frac{1}{5} \left( \frac{x_{n} - \mu_{x}}{\sigma_{x}} + \frac{x_{\beta n} - \mu_{\beta}}{\sigma_{\beta}} + \frac{x_{\gamma n} - \mu_{\gamma}}{\sigma_{\gamma}} + \frac{x_{\delta n} - \mu_{\delta}}{\sigma_{\delta}} + \frac{x_{e n} - \mu_{e}}{\sigma_{e}} \right)$$

where $n$ = a particular city

Note that a more expensive hotel room rate (i.e. higher hotel room rate) is less attractive, thus diminishing the “attractiveness” of the city when calculating its EAI. Based on a sample of 51 convention center host cities from 29 states with various sizes, which represents about half of the major and medium convention centers in the U.S., the mean ($\mu$) and standard deviation ($\sigma$) of each of these five criteria are derived and plugged into the above formula. The scores of each city ($x$) when measured by each of these five criteria will then be put into the formula to calculate each convention center’s overall external attractiveness. See Appendix C for a complete list of these 51 convention center host cities.

These five criteria are chosen because previous studies have repeatedly concluded that these are the critical determinants for event planners’ decisions on venue choices. (Refer to the summary of seven relevant studies cited in Section D of Chapter III).

The intuitive explanation of the External Attractiveness Index is that: more hotel rooms in close proximity to convention centers, higher sales volumes in the AER and accommodation industries, a higher share of these industries in the local economy, and the higher total revenue
volume of all sectors all contribute positively to the external attractiveness of the convention centers. On the other hand, a higher average hotel room rate contributes negatively to the convention centers’ external attractiveness.

In general, the EAI has the following underlying assumptions:
1. It assumes that the abovementioned five criteria are the criteria and the only criteria affecting external attractiveness of a convention center;
2. It assumes that all these five criteria have essentially the same weight in making a facility attractive or unattractive;
3. It assumes that the distribution of various convention centers’ qualities when measured by each of these five criteria has a relatively normal distribution.

Like any other models, EAI also has its limitations, which are mostly related to three assumptions:
1. It is likely that different event planners would consider other factors in addition to these five factors for different events. Nevertheless, based on the literature reviewed in Chapter III, these five criteria have been consistently ranked as the most important criteria in the venue site selection process. While there may be other factors in addition to these five criteria, they are likely less important and/or not consistently viewed as important by most event planners;
2. It is likely that event planners would weigh the importance of these five criteria differently for different events, but it is not feasible to model all of these various situations. It is reasonable to assume that these five different criteria will have relatively similar weight at the aggregate level;
3. The actual distributions of these 51 cities examined in this model do not entirely have a standard normal distribution. The distributions for these five variables are mostly skewed positively, with outliers at the higher end of the distribution.

The External Attractiveness Index is rather versatile and can be modified to include other external, and even internal, variables to fully capture the critical forces that impact the attractiveness of a convention center. Nonetheless, the inclusion of more variables also requires more data mining efforts and may also introduce additional biases. In general, a more elaborate regression model is a better method, though the lack of reliable data for the conventions industry is a major challenge for developing a more accurate assessment. Despite
its relative simplicity, the PEAM framework developed for this project is an effective and straightforward assessment tool that can be updated annually to measure SJMCC's progress in productivity.

**EXTERNAL ATTRACTIVENESS INDEX: HOW ATTRACTIVE IS SAN JOSÉ?**

Before examining the productivity level of SJMCC, it is helpful to first gauge the level of external attractiveness of San José as the host city of SJMCC, as its attractiveness will directly affect the competitiveness of SJMCC.

Figure 18 shows SJMCC's external attractiveness relative to 50 other U.S. cities with major and medium convention centers by the five attractiveness criteria. The zero line (y = 0) indicates the average quality level for each attractiveness factor. As Figure 18 indicates, San José's overall attractiveness as a convention center host city is exactly at average (z-score = -0.008 or at 49.7 percentile). More noticeably though is San José's weak presence of tourism-related activities in its local economy, measured both by tourism-related sales and their percentage share in the overall local economy. Although San José is also below average in terms of hotel room availability and affordability, its relative disadvantage in these two areas is relatively less significant.

Table 13 translates San José's z-scores to their corresponding percentile ranking when measured by these five different attractiveness indicators. Percentile is the expected proportion of convention centers with the quality (e.g. hotel room availability) at a level comparable to or lower than that of SJMCC. For instance, San José's 46.7 percentile ranking for hotel room density in the convention center's vicinity means that 46.7% of the U.S. cities are expected to have lower hotel room density in their convention vicinity when compared to that of San José.
Therefore, the fiftieth percentile is the average level, and a percentile ranking below 50% is below average.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>( z )-score</th>
<th>Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Density of hotel rooms in convention center vicinity</td>
<td>-0.083</td>
<td>46.7%</td>
</tr>
<tr>
<td>Affordability of lodging</td>
<td>-0.216</td>
<td>41.4%</td>
</tr>
<tr>
<td>Sheer size of tourism-related activities in the local economy</td>
<td>-0.375</td>
<td>35.4%</td>
</tr>
<tr>
<td>Relative importance of tourism-related activities in the local economy</td>
<td>-0.333</td>
<td>37.0%</td>
</tr>
<tr>
<td>General economic vitality of the area</td>
<td>0.966</td>
<td>83.3%</td>
</tr>
<tr>
<td>Overall Attractiveness</td>
<td>-0.008</td>
<td>49.7%</td>
</tr>
</tbody>
</table>

Source: Author’s calculation, raw data from U.S. Census Bureau, CCTB, and author’s survey

Given the constraint of San José’s average attractiveness as a convention host city, and all else being equal, we should expect San José to be around the average productivity level when compared to the same set of 50 convention centers. The following sections measure how SJMCC fares when taking into consideration its average external attractiveness.

**PRODUCTIVITY AND EXTERNAL ATTRACTIVENESS MATRIX (PEAM): ATTENDANCE**

This report examines three productivity measures using the PEAM framework: attendance, hotel room-nights, and convention facility occupancy rates. To measure how productive SJMCC is in generating attendance, unit attendance is used as the Productivity Index benchmark. Unit attendance is simply defined as the number of attendee-days divided by the gross exhibit square footage. There are two advantages of using unit attendance: 1) It helps normalize the difference in facilities’ size, with the general assumption that productivity is at “constant returns to scale” (i.e. bigger facilities attract more attendees not because they are more productive, but because their bigger size can proportionally accommodate more attendees). Unlike using the sheer attendance volume, using unit attendance is a more reliable productivity measure, as it avoids the upward bias favoring bigger facilities’ attendance productivity. 2) Unit attendance avoids the uncertainty of assigning different economic impact multipliers to different types of
event attendees at different convention centers for different years. Therefore, one attendee-day at medium-size convention center in the heartland is valued equally as that in major metropolitan areas.

Using the PEAM framework, Figure 19 charts SJMCC's ability to generate overall attendance volume considering its relative external attractiveness. The X-axis represents the first component of the PEAM framework, the External Attractiveness Index, such that the more positive the X value gets, the more attractive the site is when measured by those five attractiveness criteria. The Y-axis reflects the second component of the PEAM framework, the Productivity Index. In this case, the Productivity Index is the Unit Attendance. The more positive the Y value gets, the more productive the convention center is relative to the rest of the convention centers. The Indexes use the unitless z-score, a commonly used standard statistics ratio in which 1 in z-score is equivalent of one standard deviation.

The Productivity and External Attractiveness Matrix is therefore divided into four quadrants, each indicating a different combination of external attractiveness and productivity:

- **Zone I** ($x > 0, y > 0$): Above average external attractiveness and above average productivity;
- **Zone II** ($x < 0, y > 0$): Below average external attractiveness, but above average productivity;
- **Zone III** ($x < 0, y < 0$): Below average external attractiveness and below average productivity;
- **Zone IV** ($x > 0, y < 0$): Above average external attractiveness, but below average productivity.

Therefore, an intuitive, though a somewhat oversimplified, interpretation of these different zones is that:
• **Zone I**: is for the facilities that we expect to do well because of the favorable external attractiveness advantages that they have, and they did do well;

• **Zone II**: is for the extraordinary facilities that overcome the constraint of less favorable external attractiveness to yield an above-average productivity;

• **Zone III**: is for the facilities that we are not too surprised by their underperformance in productivity because of the challenge from their less favorable external attractiveness;

• **Zone IV**: is for the ones that are disappointingly underperforming in productivity despite the fact that they enjoy the competitive advantage of favorable external attractiveness.

Figure 19 shows that San José McEnery Convention Center falls on the border of Zone II, the “extraordinary zone.” Despite its relative disadvantage of being moderately attractive as a venue site when measured by the five “external attractiveness criteria”, SJMCC was still able to operate successfully within such constraints to produce a unit attendance level (person-days per square foot of exhibit space) that is noticeably higher than the average of its competitors.

Likewise, Figure 20 relays similar comparative measures of productivity on the unit attendance of *trade show* attendees between SJMCC and other 50 convention centers across the country. Trade shows and conventions usually have a higher percentage of out-of-town visitors, and they are often preferred if the objective of the convention center is to generate economic impact.

SJMCC falls into Zone III by this measure, though below the average productivity. Zone III is the area for the facilities that under-perform compared to other convention centers, but such underperformance may be partially correlated with the constraints of its overall below-average external attractiveness.

---

**Figure 20: Unit Attendance (Trade) / External Attract. Matrix**

- **San José McEnery Convention Center**
- Large Convention Center (>500K SQF)
- Medium Convention Center
- Small Convention Center (<100K SQF)

*Source: Author's calculation. Raw data from U.S. Census Bureau, CCTB 2005, and author's survey. (n=51)*
Because both the External Attractiveness Index and the Unit Attendance Index are charted with standard z-scores, it is possible to look further into the relative productivity performance of SJMCC vis-à-vis other competing convention centers.

<table>
<thead>
<tr>
<th>Table 14: San José McEnery Convention Center's Relative Performance in Producing Attendance Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>z-score</td>
</tr>
<tr>
<td>External Attractiveness Index</td>
</tr>
<tr>
<td>Overall Attendance Index</td>
</tr>
<tr>
<td>Trade Show Attendance Index</td>
</tr>
</tbody>
</table>

Source: Author's calculation. Raw data from U.S. Census Bureau, CCTB 2005, TSJ, and author's survey.

As indicated in Table 14, in terms of the quality of external attractiveness as a convention venue site, SJMCC is subject to the constraint of its location being only moderately attractive. Nonetheless, its ability to generate overall attendance is noticeably superior to (almost \( \frac{3}{4} \)) of the convention centers when considering its moderate external attractiveness constraint. However, its ability to attract trade show attendees, who are more likely out-of-town visitors, is slightly below average.

The noticeable gap between SJMCC's performance when measured by overall and trade show attendance suggests that its ability to generate attendance volume is not likely through trade shows, but rather, probably more through consumer shows and local fairs. If this is a deliberate marketing strategy that SJMCC undertook, then it is likely that SJMCC’s potential to generate economic impact through attracting more out-of-town visitors is not fully realized.

It is also worth noting that most of the convention centers that are deemed “attractive,” when measured by the five attractiveness criteria, did not in fact necessarily yield higher productivity in terms of the number of attendee-days per square foot of exhibit space. Further observations indicate that many of these “attractive” convention centers are classified as “large” by industry standards (gross exhibit greater than 500,000 square feet). If attendance is an acceptably accurate benchmark, then these data suggest that simply building a larger facility does not necessarily lead to high productivity, even for the ones with the competitive advantage of locating in an attractive location. This is probably a factor to consider when SJMCC deliberates its strategies for improving performance, especially if expansion is one of the performance improvement proposals.
PRODUCTIVITY AND EXTERNAL ATTRACTIVENESS MATRIX (PEAM): HOTEL ROOM-NIGHTS MEASURES

As attracting out-of-town visitors to attend events at convention centers is often one of the underlying objectives for local governments to build the facilities, “hotel room-nights” is also a commonly accepted industry standard to assess whether convention centers are meeting this objective.

“Hotel room-nights” keeps track of the number of nights of hotel/motel rentals that conventioneers have generated. This is usually chosen as a benchmark for three reasons: 1) Lodging-related expenses account for the largest proportion of out-of-town delegates’ spending. ExPact 2004 survey indicates that, on average, out-of-town conventioneers allocate close to half (47.8%) of their expenses to lodging and related incidentals. (IACVB 2004, p. 16) Therefore, a count of hotel room nights tracks a significant portion of the direct spending by out-of-town delegates. 2) Reliable data on hotel room-nights are relatively easy to collect, especially when compared to other expenses of an unknown amount which could be spent either inside the city or instead in surrounding areas. Hotel room-nights data are readily available particularly for local jurisdictions that impose some form of hotel tax (most locales do). 3) Using hotel room-nights as a benchmark can achieve two ends with one single effort, as it will also help estimate the amount of hotel taxes generated by convention attendees — another economic benefit that cities often regard as important.

Despite these positive attributes, there is also an important precaution for interpreting hotel room-nights data:

- **Pick-up vs. Block:** Event planners often reserve blocks of rooms for conference attendees at a discounted rate, but using the reservation number as hotel room-nights calculation is inaccurate. The more accurate way of measurement is the ex post “pick-up” report from the hotels for how many room-nights are actually paid for by convention attendees;

- **Outside of the block:** Due to the internet, more and more conventioneers, especially the ones attending events at well-established destinations with plethora of hotel choices, are booking lodging outside of the block of rooms reversed by event organizers. These outside
of the block bookings are usually ignored when calculating hotel room-nights' economic benefits. (Pricewaterhouse and IAAM 2006, p. 10) There is currently no known reliable study on the extent of such undercounting.

Table 15: Hotel Room-Nights

<table>
<thead>
<tr>
<th>By Size</th>
<th>2004*</th>
<th>2005*</th>
<th>2006*</th>
<th>SJMCC** (FY 04/05)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>531,000</td>
<td>947,000</td>
<td>740,100</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>196,000</td>
<td>166,000</td>
<td>166,700</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>45,000</td>
<td>36,000</td>
<td>45,700</td>
<td>100,360</td>
</tr>
<tr>
<td>By Destination Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gateway</td>
<td>375,000</td>
<td>637,000</td>
<td>530,600</td>
<td></td>
</tr>
<tr>
<td>National</td>
<td>122,000</td>
<td>123,000</td>
<td>99,500</td>
<td></td>
</tr>
<tr>
<td>Regional</td>
<td>88,000</td>
<td>80,000</td>
<td>56,700</td>
<td></td>
</tr>
</tbody>
</table>


Table 15 summarizes the recent trends of hotel room-nights by different sizes and destination types of the conventions facilities. (See Glossary for the definition of these categories)

Unfortunately, only aggregate data like the ones in Table 15 are open to the public, and there is no systematically collected hotel room-nights data for individual convention centers available. Nonetheless, the aggregate level data in Table 15 still help shed some light for general comparison purposes. The hotel room-nights generated by the conventioners attending SJMCC's events are lower than the average for the categories to which SJMCC belongs.

For the Medium-size convention centers category (100,000 to 500,000 square feet of exhibit space), the average between 2004 and 2005 is 181,000 hotel room-nights. SJMCC's 100,360 hotel room-nights is only 55.4% of the category average. Nonetheless, SJMCC's total gross exhibit space for FY 2004/2005 was only 143,000 square feet, much closer to the lower-boundary of the category. Because the distribution of the size of the centers that were surveyed is unknown, it is inconclusive as to whether SJMCC is operating close to the average hotel room-nights productivity level when compared to centers with a similar size. As for the national and regional destination markets, SJMCC's 100,360 room-nights is about 81.2% and 119.5% of these markets' 2004/2005 average levels respectively.
Using the PEAM framework, Figure 21 charts the relationship between convention centers' External Attractiveness Index (X-axis) and their Unit Hotel Room-nights (Y-axis). Unit Hotel Room-nights, as explained earlier, is the number of hotel room-nights generated by conventioners normalized by the gross square footage of the convention center. Following the same logic as using unit attendance rather than sheer attendance volume, the unit hotel room-nights measure avoids the upward bias favoring larger facilities.

Before interpreting the results in Figure 21, it is necessary to stress that, due to the lack of data, the sample size included here is rather small, though it does provide a cross section of facilities of various sizes and locations. A sample size of 17 represents about 1/7 of the convention centers in the U.S.. Despite the effort of contacting more than 110 individual convention centers, numerous consulting companies and trade associations, all of which may hold relevant information, and reviewing industry publications and individual convention center reports, this study was only able to collect reliable hotel room-night data for these 17 convention centers included here.

As indicated in Figure 21, SJMCC is slightly below average in terms of its ability to generate hotel room-nights. This mirrors SJMCC's below average performance displayed in Figure 20 when measuring its ability to generate trade show attendance. As trade show attendees are more likely out-of-town visitors, SJMCC's below average performance in generating trade show attendance is therefore reflected in its below average performance in generating hotel room-nights. Nevertheless, considering that SJMCC's overall external attractiveness is also slightly below average, SJMCC's slight underperformance in generating trade show attendance and (subsequently) hotel room-nights is at a comparable level as its external attractiveness.
Of course, a more vigorous in-depth study is required to determine conclusively if SJMCC's average external attractiveness is the actual cause for its slight underperformance in trade show attendance and hotel room-night productivity. Nonetheless, based on the above empirical observation, it is likely that the constraint of SJMCC's mediocre external attractiveness may have limited SJMCC's ability to produce higher trade show attendance volume and hotel room-nights.

**PRODUCTIVITY AND EXTERNAL ATTRACTIVENESS MATRIX (PEAM):**

**CONVENTION FACILITY OCCUPANCY**

Convention facility occupancy measure is similar to the common indicator used in the hotel industry to measure the facilities' productivity in terms of space usage efficiency. There are usually two types of occupancy measures. The simple method only involves a rough estimate of the days that the space is being occupied, despite the fact that the space is only being partially occupied on some days.

A more accurate and commonly used measure is the occupancy of square-foot-day, which only attributes partial occupancy to the days in which the space is not fully occupied. The partial occupancy rate is proportional to the actual space that is being occupied in that day.

In practice, it often requires some days to set up and clean up in between events, and it is not possible to achieve a 100% occupancy rate. The conventions industry has traditionally considered 70% as the practical maximum occupancy rate, and 50% to 60% as the "efficient" range. An overall occupancy rate significantly below 50% is often suggestive of inefficiency in operating the facilities; while an overall occupancy noticeably higher than 70% is indicative of running the risk of losing business opportunities by frequently turning away events. (PricewaterhouseCoopers and IAAM 2005, p6)

SJMCC did not start to keep track of its occupancy rate in details until later in 2005, so it does not have a complete accounting of occupancy rate by event types. However, SJMCC's overall occupancy rate (unaudited) for FY 2004/2005 and FY 2005/2006 are 49.8% and 55.1% respectively.
Table 16 provides occupancy rates by event types and convention center size/destination categories. If the SJMCC and Pricewaterhouse data are accurate, then SJMCC is noticeably outperforming its categories’ average. The medium-size convention centers have a three-year average overall occupancy rate of 40.6%, which is substantially lower than that of SJMCC.

<table>
<thead>
<tr>
<th>Table 16: Convention Facility Occupancy Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>By Size</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Large</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  44.5 41.2 44.3</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  8.5 10.8 7.6</td>
</tr>
<tr>
<td>Overall  53.0 52.1 51.9</td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  22.0 27.1 24.5</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  14.9 18.3 14.8</td>
</tr>
<tr>
<td>Overall  36.9 45.4 39.4</td>
</tr>
<tr>
<td>Small</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  19.0 23.4 26.1</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  16.7 19.4 14.3</td>
</tr>
<tr>
<td>Overall  35.7 42.7 40.4</td>
</tr>
<tr>
<td>By Destination Type</td>
</tr>
<tr>
<td>Gateway</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  42.4 41.5 42.6</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  9.0 11.7 8.9</td>
</tr>
<tr>
<td>Overall  51.5 53.2 51.4</td>
</tr>
<tr>
<td>National</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  21.6 19.8 21.0</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  15.6 19.7 13.9</td>
</tr>
<tr>
<td>Overall  37.2 39.5 34.8</td>
</tr>
<tr>
<td>Regional</td>
</tr>
<tr>
<td>Tradeshows &amp; Conventions  18.7 20.9 19.0</td>
</tr>
<tr>
<td>Consumer Shows &amp; Public Fairs  16.1 19.2 16.3</td>
</tr>
<tr>
<td>Overall  34.8 40.1 35.3</td>
</tr>
</tbody>
</table>


Table 16 also reveals some patterns worth noting when using these data to compare SJMCC’s performance in the future:

- Medium- and small-size facilities, as well as facilities located in national and regional destination markets are severely under-utilized when measured by the conventions industry’s own standards (50% to 60% being the “efficient range”). In contrast, SJMCC is operating at the lower end of the “efficient range," though much higher than the facilities with a comparable size;
- Even though larger and gateway convention centers are outperforming the other types of facilities, their average occupancy is still at the lower-end of the "efficient range," barely above a 50% occupancy rate;

- Large and gateway convention centers' overall occupancy rate disproportionately relies on tradeshows and conventions. On average, these large and gateway facilities' ratio between "trade shows and conventions" and "consumer shows and public events" ranges from 4.3 to 5. In contrast, the ratios for other facilities are usually in the range of 1.1 to 1.4.

- The trends observed here tend to contradict the trends revealed when using "unit attendance (i.e. number of attendee-days per square foot) as the performance measure. As discussed earlier, and demonstrated in Figures 16 and 17, large centers generally do not fare well when measured by the average attendee-days per square foot. However, the predominant trend revealed when using occupancy rate as a performance measure is that large and gateway facilities tend to fare better because of their higher occupancy rates.

The possible explanation that could reconcile some of these different observations is that large facilities tend to attract larger events that demand more space at a time, yielding a higher square-foot-day occupancy rate. However, their "attendee density" is not as high as that of local shows. Since these local events are relatively more common at medium and smaller facilities, larger centers tend to have higher occupancy rates but lower unit attendance.

It demonstrates, once again, the challenge of accurately and reasonably assessing the performance of convention centers. This is precisely the reason why an integrated performance assessment framework is critical, because one or two assessment measures alone will likely fail to ascertain the full extent of the real dynamics of operating these facilities.
Using the PEAM framework, Figure 22 evaluates the relationship between a convention center’s external attractiveness and its ability to efficiently fill up the exhibit space (i.e., convention facility occupancy rate). Again, this measure is subject to the limitation of a relatively small sample, representing about 1/7 of the comparable convention centers in the U.S. In addition, this measure does not take into the consideration whether the convention facility is occupied by revenue-generating events (most likely local events) or out-of-town visitor focused events (most likely trade shows), because SJMCC and many other facilities do not keep occupancy data by event types. Therefore, a higher convention facility occupancy rate only suggests that the space is being occupied in general, but such a high rate does not necessarily translate to higher revenue for the convention center or higher out-of-town visitor volume for the city.

Echoing to the previous results of using other productivity measures, SJMCC’s ability to fill its space is slightly below average, and again, very much comparable to its level of external attractiveness.

In summary, this section of the study introduces the Productivity and External Attractiveness Matrix (PEAM) framework. It evaluates SJMCC’s performance on three types of productivity factors: attendance, hotel room-nights, and occupancy rate. Although it is inconclusive whether SJMCC’s overall moderate external attractiveness has determinately affected its productivity when measured by these three productivity factors, empirical observations using PEAM suggest that SJMCC’s productivity level largely mirrors its moderate attractiveness as a convention venue location. The only area in which SJMCC noticeably excels despite the constraint of its
moderate attractiveness is its ability to generate overall attendance volume, most likely through local events and consumer shows.

E. Quality Assessment

As revealed in the seven major studies on event planners' site selection criteria (Section D, Chapter III), only a few of them are in fact directly related to convention centers. Nonetheless, of the 13 convention center-related criteria cited in these studies, 8 of them are related to the qualities of convention centers — of which 5 are physical quality, and 3 are service quality. The remaining criteria are split between availability and cost of convention space. This suggests that quality plays a far more important role than cost when event planners are considering convention center-related factors.

However, the conventions industry as a whole does not systematically keep track of quality assessments. And unlike the tourism industry, the conventions industry has not pursued vigorously the development of quality assessment tools specifically meeting the needs of the industry.

Despite the lack of industry standards on quality assessments, more convention centers, CVBs, and local governments have recently taken the initiative to start exploring quality assessment tools. Team San José is one of the few convention centers that are subject to a required service quality assessment target stipulated in its Management Agreement.

Using 81% as the baseline satisfaction level for the first fiscal year with TSJ management (FY 2004/2005), the Management Agreement states that TSJ needs to increase this satisfaction level by an additional 2% annually until it reaches 91%. The post event satisfaction survey data will be sent directly to the Contract Administrator of the City of San José for review. The survey developed for TSJ includes questions on both the physical and service qualities of SJMCC.

However, TSJ did not collect sufficient surveys for the Auditor's Office to determine if it has met this performance audit requirement. Nonetheless, based on the very limited responses that TSJ has collected, 92% of the event "decision makers" who chose SJMCC to host their events said that they would consider returning to SJMCC in the future. (SJOCA 2006, p. 33) Despite this,
recent news articles have also suggested some service problems as well as potential employee morale problems. (Lohse 2007)

In preparation for this report, numerous convention centers’ performance audits have been reviewed, and the Houston Convention Center is the only one with a significant portion of its performance audit analysis relying on the customer surveys. (HBZK 2006)

Similar to TSJ’s surveys, Houston’s post-event surveys focus on the performance of five functional areas: sales managers, service managers, housing managers, convention facilities, and overall performance. However, unlike the TSJ survey, Houston’s surveys went beyond convention center attendees to include also convention center staff (both regular staff and management) and CVB members. This is an approach that SJOCA and TSJ could consider, as these two groups of stakeholders can also complement the quality assessments provided by convention planners and attendees. Convention center staff surveys would help reveal the internal management quality that convention attendees may not necessarily be able to observe. CVB members could provide a more historical and consistent quality assessment that convention planners and attendees may not be able to detect in a single convention event.

Nonetheless, the Houston survey also has its deficiencies: 1) It has a very small sample size, as only 44 convention center customers and 59 CVB members were surveyed; 2) There are no clear guidelines of how to choose the survey sample, resulting in possible bias; 3) There are no clear requirements of using consistent quality assessment instruments (e.g. survey), making a historical comparison difficult to conduct. Future quality assessments for TSJ and SJMCC should keep these lessons in mind for more reliable results.

The quality assessment mechanism that the City of San José stipulates in the Management Agreement is based on the customer satisfaction approach. Customer satisfaction has been traditionally valued for two functional reasons: quality improvements and marketing studies. A well-designed customer satisfaction survey not only reveals areas for improvement, but it could also indicate various market niches that San José should strengthen, explore, and avoid. Extensive research has concluded the important links between customers’ perceived quality of services and their intention of repeat business. (Cronin and Taylor 1992) In addition, recent research in the tourism industry also suggests that positively perceived service quality significantly increases the word-of-mouth effect and decreases price sensitivity. (González et al
2007) Therefore, in addition to its intended role of quality assessment, TSJ’s surveys could also serve a very important marketing study function and help it increase its competitiveness for repeat business (especially in local events).

To improve their survey instruments and achieve these dual objectives, SJOCA and TSJ could benefit from an extensive array of research on customer satisfaction, primarily spearheaded by marketing scholars and professionals. Various well-established models could be modified for the needs of SJMCC. SERVQUAL is a commonly used customer satisfaction survey model used by marketing studies, focusing on five areas of customer service quality: reliability, assurance, tangibles, empathy, and responsiveness. (Parasuraman 1988)

In addition, the tourism industry has also started to explore newer approaches and models that are more tailored to the tourism industry’s needs, such as HOLSAT (Tribe and Snaith 1998, Troung and Foster 2006), information-processing approach (IPA), and meaning-based approach (MBA). (Obenour et al 2006) Despite the fact that the conventions industry currently does not have consensus (or even the intention of gaining consensus) on systematically measuring quality, TSJ and the Auditor’s Office could pioneer an assessment mechanism borrowed from the methods and models in the tourism industry.

F. Other Alternative Assessments

In addition to the four types of assessments discussed above, SJOCA could also consider other alternative performance assessment tools.

Given the fact that SJMCC receives public subsidies, one potential performance assessment that SJOCA could consider is public investment productivity. This can be measured in many different ways:

- **Financial Productivity of Public Subsidies**: It is the most straightforward productivity measure, which evaluates how much revenue (or profit, if it generates a net profit) each dollar of public subsidy generates through the events at SJMCC.

- **Economic Productivity of Public Subsidies**: Similar to the economic impact studies' pitfalls discussed in the previous chapter, economic productivity of public subsidy is likely to face
many gray areas. However, some proxies could be used (e.g. number of out-of-town attendees, trade show occupancy rates) to approximate the potential magnitude of the economic impact in order to avoid assignment specific monetary multipliers for economic impact studies. Regardless of which approach is chosen, a well-designed and executed assessment on the economic productivity of public subsidies is certainly in the best interest of the City of San José.

G. Summary

The San José McEnery Convention Center has two important objectives. One is to generate economic impact for the city, and another is to become financially self-sustaining. Actions taken to achieve these two objectives may compete or even discount the performance of the other. In addition, SJMCC is also operating in a set of external and institutional premises that may favorably or unfavorably affect SJMCC’s performance. An integrated assessment framework is thus fundamental for an accurate evaluation of SJMCC’s performance.

This chapter proposes an assessment framework that entails the following primary components:

1. **Financial performance assessment:**
   It provides a comparative analysis of revenue and expenditure items between SJMCC and the convention industry’s average, as well as the facilities with a comparable size to SJMCC.

2. **Economic impacts assessment:**
   It examines different types of economic impacts as well as common pitfalls of studying these impacts. It also provides a generic comparison between SJMCC event attendees’ average direct spending with the industry average, and a brief overview of two alternative economic impact analyses.

3. **Productivity assessment:**
   It uses the Productivity and External Attractiveness Matrix (PEAM) framework to measure SJMCC’s ability to generate attendance, hotel room-nights, and convention facility occupancy while controlling for its external effect of attractiveness. In addition, it also
provides a general comparison between SJMCC and the industry average in terms of hotel room-nights and occupancy rate.

4. **Quality assessment:**

   It contrasts the current quality assessment that SJOCA uses with a quality audit on the Houston convention center. In addition, it briefly reviews some of the other possible quality assessment tools used in the marketing and tourism industries that could potentially serve as a foundation for future quality assessment needs.

With these assessments in mind, Chapter V further interprets the meanings of these assessments for the City of San José and discusses some of the possible strategies for both the City of San José and SJMCC.
Chapter V  
Conclusions, Recommendations, and Epilogue

A. Context: An Increasingly Competitive and Complex Industry

The San José McEnery Convention Center performs many critical roles for the city and for the region. It is a symbol of San Jose’s civic pride and innovative history, a window to the outside world as the Capital of the Silicon Valley, a hub for vibrant economic and commercial interactions, a stage for its rich local culture and diverse communities, and a bright beacon for an exciting future to unfold. Nonetheless, as it has embarked on a new journey under the recently-formed private not-for-profit management of Team San José, the convention center has fallen short of its promise to significantly reduce the need for public subsidies. Recent newspaper reports have also put a spotlight on its potential problems in service quality. (Lohse 2007)

With an increasingly competitive conventions market and the important roles convention centers play, localities have engaged in aggressive campaigns to improve their convention centers’ performance, including spending massive amounts of capital in new convention center construction and expansion. Studies have found that public capital spending on convention centers has doubled to $2.4 billion annually, increasing convention space by over 50 percent in the last decade. Nationwide, 44 new or expanded convention centers are now in planning or construction, in addition to the 19 new facilities and 34 expansion projects that have already been completed since 2000. (Sanders 2005)

Internally, SJMCC has recently undergone a major restructuring in management; externally, it is facing a progressively more competitive convention industry; additionally, the City Council is now deliberating the possibilities of expansion. It is beyond doubt that the San José McEnery Convention Center is at a historical crossroads.
It is within this complex internal and external context that this study strives to provide a performance assessment framework. Its objective is not only to evaluate the current conditions, but also to provide a framework for future monitoring so that analysis can be conducted on a consistent basis to help guide the convention center's improvements.

Improvement is unlikely without fully understanding current and past performance. But understanding SJMCC's own performance alone is not sufficient, as sustainable strategies also necessitate comparison with its competitors. Therefore, a significant part of this assessment framework takes a comparative approach for a more thorough understanding of how well SJMCC fares vis-à-vis other competitors.

B. Constraints: Factors Affecting Convention Center Performance

In addition to the context of an increasingly competitive industry and its internal management restructuring challenge, the performance of SJMCC is also subject to the following three major constraints:

• **Unpredictable Industry Trends**

Contrary to the common belief that the performance of convention centers generally responds to the overall health of the economy, the evidence this report examines indicates that there is not a strong correlation between the two. The attendance, a proxy of demand for convention and trade events, does not generally follow macroeconomic fluctuation. Occupancy rate, which is subject to both demand and supply of convention space, does not show clear correlation with the general economic wellbeing in the last decade either. This independence from macroeconomic conditions is a significant departure even for the tourism industry, a closely related industry to conventions. This high unpredictability constraint means that SJMCC is likely to be operating with a considerably higher risk, as is the conventions industry as whole. While reviews of SJMCC's past performance as an indication of improvement could be helpful, such retrospective comparison should take into consideration of the difficulty of operating in an industry with high unpredictability.
• **Impacts of Different Institutional Structures and Operational Priorities**

Convention centers across the nation have a wide range of institutional and operational structures. These differences are mainly manifested in marketing and sales responsibilities, booking priorities, and management structures. The differences in these areas make comparative studies among convention centers more difficult as each of them may subject to completely different institutional and operational premises. This is especially a concern for assessments on SJMCC because of its recent transition into a unique integrated structure that incorporates both civil service employees and not-for-profit employees, as well as CVB and convention center functions under the same roof.

• **External Factors Affecting Site Selections**

There are extensive studies on factors in event organizers and planners' selection process on venue site. The results of these studies indicate that many of the critical factors influencing this process and its final selection are external to convention centers. In other words, external factors beyond the control of convention centers often have a critical role in the performance of convention centers.

**C. Conclusions and Recommendations: How Well Does SJMCC Fare and What to Do from Here?**

**The Fundamental Question: What is Success?**

This study has exclusively focused on assessing the performance of San José McEnery Convention Center through comparisons with the industry average and with other facilities in the country. Nonetheless, this report has not discussed the simple question, and in fact a much more fundamental question, of what constitutes success for the San José McEnery Convention Center. In order to make the assessment more useful, the City of San José needs to better answer this question and have more defined objectives to measure whether SJMCC is succeeding. Is success defined by the general economic impact, enhanced city image and civic pride, financial independence of the facilities, tourism-related tax revenues, the number of out-of-town visitors, hotel room-nights, a combination of the above, or other factors?
In fact, the definition of success for a convention center is very divergent based on the perspective of the stakeholders. *Tradeshow Week* and the Association of Convention Marketing Executives surveyed 135 convention center and CVB managers (and a small portion hotel industry leaders) in 2006 for their definitions of successful convention centers.

As illustrated in Figure 23, two factors received more than half of the surveyed convention center managers' approval as constituting success: the number of booked hotel rooms and the overall economic impact. Nonetheless, more than half of the surveyed CVB officials (which often better represent the interests of the city) also valued three other factors as important components of overall success: hotel occupancy levels, number of visitors, and visitor tax revenues. (Hughes 2007)

The disagreements in the definition of success are not surprising, because each stakeholder has his/her own interests and priorities, and this situation is certainly not unique to the conventions industry. The basic solution is to find a balancing point among different stakeholders to create a consensus on the definition and measurements of success.

A performance assessment framework is certainly instrumental, but its utmost function is merely as a tool, not an objective in itself. Such a tool would be much more instrumental and effective when the objectives for success are more clearly articulated. This suggests that the City of San José needs to better define “success” in performance for SJMCC, while keeping in mind that criteria could sometimes compete with or even contradict each other, such as a high out-of-town visitor volume possibly risking the opportunities for hosting more lucrative local events.
With a clearer definition of success for SJMCC, the assessments of this report could be used more constructively. San José's Office of the City Auditor currently conducts a performance study on SJMCC, but it takes a retrospective approach by comparing SJMCC's performance to its historical level. This study complements this approach by taking a "horizontal" comparative angle to evaluate how well SJMCC fares among its competitors. A comprehensive assessment framework is thus developed to capture the true dynamics affecting the performance of SJMCC in order to evaluate how well it operates within the specific premise of various constraints and limitations. Table 17 at the end of this chapter provides more detailed summaries of the entire performance assessment framework.

RECOMMENDATIONS ON PERFORMANCE IMPROVEMENTS:

Overall, SJMCC's performance is at the industry average for most performance measures, even considering the various constraints that it faces, especially its relatively moderate external attractiveness as a venue location. This study looks at four areas of productivity: financial performance, economic impact, productivity, and quality. The following are the summary of SJMCC's assessment and recommendations for each category:

- **Financial Performance:**

In terms of financial performance, SJMCC's unit revenue and expense for various budgetary items (e.g. "general administration expense" and "space rental revenue") are mostly within a reasonable range of the industry average. The bright side is that SJMCC has outperformed the industry average in generating exhibit space rental revenue per square foot of space. However, this lead was reduced (Figure 11, Chapter IV) with the expansion of the South Hall, a $6.7
Assessing Performance: A Framework for the San José Convention Center

million tensile structure erected in June 2005 that provided an additional 80,000 square feet of exhibit space. The picture above shows the South Hall in the left, adjacent to SJMCC’s existing building to the right. The financial data used in this report only covers the fiscal year before and the fiscal year immediately after the expansion. South Hall’s ability to attract events thus may not have fully emerged in these data, and may have resulted in SJMCC losing its lead compared with other convention centers in terms of unit rental revenue. Nonetheless, given the fact that South Hall is an stand-alone structure from the existing SJMCC building, with separate entrances, an asphalt floor treatment, limited ability for climate control (in San José, to say the least), the appearance of a temporary structure, and no permanent lavatory facilities, all of these qualities cast doubts on its ability to substantially improve SJMCC’s unit rental revenue in the future.

In response to the uncertainty on South Hall and SJMCC’s revenue performance, this study thus recommends that:

- **Track South Hall’s impact on SJMCC’s revenue stream:** This can be achieved by following SJMCC’s future rental revenue per square foot of exhibit space, and comparing that to its previous performance before the South Hall expansion in order to assess if the expansion has indeed decreased SJMCC’s overall performance in generating rental revenue on a per square foot basis. Also, it is helpful to compare the rental revenue per square foot of exhibit space between SJMCC’s existing structure and that of the South Hall to evaluate if there is any significant disparity between them, which in turn suggests the difference in ability to generate rental income;

- **Use the South Hall experience as a case study for future expansion considerations:** Despite the fact that it may be too early to draw a conclusion on whether it is successful or not based on the available data, the South Hall expansion shall serve as a case study for the City of San José and SJMCC that it illustrates the criticality of integration between the expansion and the existing structure. If the City of San José does decide to undertake a future expansion, a carefully planned expansion could create positive and complementing effects with the current structure.
SJMCC’s financial performance on two budgetary items deserves further investigation: high labor expense and low food and beverage revenue. SJMCC’s expense for labor is conspicuously higher than the industry average and the average of convention centers with a comparable size. This is true measured both by labor expense per square foot of exhibit space and by labor expense’s percentage share in the overall budget. The empirical evidence analyzed by this study suggests that the high labor expense is likely caused by both high unit employment per square foot of exhibit space and a high labor rate. That being said, the data cannot conclusively determine which of the four related factors, namely internalization of services, excessive number of employees, pro-labor practice, and higher labor wage in the region, is (are) the more dominant cause(s) for SJMCC’s high labor expense.

In response to the uncertainty of the cause(s) of SJMCC’s high labor cost, this study thus recommends that:

- **Conduct comparative studies with comparable facilities to determine if SJMCC has over-internalized functions for which others typically use contract services:** If an over-internalization is indeed the case, SJMCC has to decide if such an operation model is a financially sound strategy, or if other constraints have limited SJMCC’s flexibility to make structural changes (e.g. contract terms stipulating certain functions be kept internal);

- **Examine the current staffing level and see if SJMCC has excessive workforce:** Given TSJ’s limited ability to control the staffing level of SJMCC, it is critical for TSJ and the City of San José to jointly explore feasible solutions to keep a lean staffing level while remaining sensitive to the potential impacts on the local labor force. It is also important for the City of San José to understand the dynamics between asserting its influence over SJMCC’s staffing level and SJMCC’s ability to maintain an efficient staffing level;

- **Examine SJMCC’s current labor rate structure to ascertain if it needs reform:** Despite the fact that the general labor rate of all sectors in the Bay Area is higher than most of the regions in the U.S., this study suggests that the inequality between the SJMCC’s high labor rate and the rest of the country is even more pronounced (Figure 12, Chapter IV). This reveals that the generally high labor
rate in the Bay Area alone does not explain SJMCC's higher labor cost. Therefore, further comparisons with similar facilities' labor structures and pay rates would be instrumental for a better understanding of SJMCC's high labor expense. Due to the constraints on TSJ's ability to set pay rates for a large number of the civil service employees that it hires, the City of San José ought to be mindful of the tradeoffs between maintaining its control of setting these civil service employees' pay rates and expecting TSJ to cut labor expense.

As for SJMCC's financial performance on food and beverage revenue, it has consistently underperformed in FY 2004/2005 and FY 2005/2006 compared to the industry average, both in terms of revenue per square foot and in terms of its share in the overall budget. Nevertheless, SJMCC has experienced a dramatic hike (+71%) in food and beverage revenue in FY 2005/2006, despite the fact that its rental income and occupancy rate have not fluctuated significantly during the same time period. It is possible that this is partially a result of the additional food and beverage revenue from the South Hall events, but it is unlikely that the expansion of South Hall alone has created such a substantial sudden increase, especially given the fact that South Hall was not utilized significantly during its first year of operation.

In response to the uncertainty of the cause of low revenue from food and beverage services, this report thus recommends that:

- **Analyze related records to determine the reason for the fluctuation in food and beverage revenues:** Food and beverage services are provided by Centerplate, a catering company contracted with SJMCC, so detailed records are not available as a part of the performance audit for SJMCC. Given the complex institutional setup between SJMCC and Centerplate, it is necessary to ensure that the City of San José has received its entitled share of profit from food and beverage services, especially since such revenues usually account for 1/3 to 1/4 of the total revenue for convention centers;

- **Assess the possibility of imposing performance measures with CenterPlate:** Although this may be difficult to implement, as there is already an existing contract with CenterPlate, SJMCC could consider performance measures when it is time to renew the contract. As food and beverage revenue has a significant...
weight on SJMCC’s overall revenue stream, it is preferred to have an accountability mechanism in place to prevent SJMCC from exposure to unreasonable fluctuations in the performance of an outside contractor.

- **Economic Impact:**

In terms of SJMCC’s economic impact, it is inconclusive as to the extent of such impact due to the lack of data. Nonetheless, the frequently quoted report, *The San José Visitor Study: Market Profile and Economic Impact 2005* authored by Thayer Watkins and Philip J. Trounstine of San José State University, is likely to be significantly inflated in estimating the economic benefit that convention visitors have brought to San José.

To further assess the economic impact of SJMCC, this report thus recommends that:

- **Conduct a detailed study on SJMCC’s economic impact:** Despite the fact that there are practical difficulties in accurately gauging the actual economic impact of SJMCC, it is recommended that SJMCC and the City of San José seek more reliable studies on this topic. This is particularly essential as the City of San José is currently contemplating plans for future expansion. As the broader economic impact is often one of the main arguments for expansion, it is vital to assess if such assertions are substantiated.

- **Productivity Assessment:**

In terms of productivity, SJMCC’s overall performance is mediocre even adjusted for the limitation of its moderate external attractiveness. It is mostly slightly below average when measured by productivity indicators of attendance, hotel room-nights, and convention facility occupancy.

The only bright spot that SJMCC has in terms of productivity is its ability to generate a high attendance level per square foot of gross exhibit space despite its moderate external attractiveness, though a more in-depth analysis reveals that this is mainly achieved through consumer shows and local events. This probably also explains its lackluster performance in producing trade show attendance and hotel room-nights, which are more often associated with out-of-town visitors attending trade shows and conventions.
SJMCC is at a comparable level in managing the exhibit space usage efficiently compared to similar facilities, even though it is still near the low-end of the “efficient range” of occupancy rate. However, its ability to attract out-of-town visitors specifically is relatively mediocre. As a matter of fact, 29 out of the 67 events, or 43% of the events, hosted at SJMCC for FY 2004/2005 did not bring in any out-of-town delegates at all based on TSJ's own event records. This again confirms that SJMCC's success in generating overall visitor volume is primarily due to its ability to generate local visitor volume.

All productivity measures suggest that SJMCC is less effective at bringing in out-of-town visitors. To improve its performance in the productivity of generating out-of-town visitor volume, this report thus recommends that:

- **Assess the performance of the San José Convention and Visitors Bureau (CVB):** Although the CVB is organizationally within Team San José, the management entity that operates SJMCC, CVB's institutional interest is slightly different from SJMCC. The CVB's main objective is to promote San José as a tourism and convention destination, and it in fact shoulders the main responsibility of marketing and booking trade shows and conventions, which typically generate more out-of-town visitors than other types of events. Therefore, SJMCC's performance in producing out-of-town visitor volume, and subsequently the number of hotel room-nights, is indeed contingent upon the performance of the CVB's performance. The Office of the City Auditor is currently planning a performance audit on the CVB, which is a helpful step towards a better understanding of whether the CVB's performance has contributed to SJMCC's underperformance in generating out-of-town visitors;

- **Evaluate the integrated institutional structure between SJMCC and CVB:** TSJ's organizational structure that encompasses both SJMCC and the CVB is certainly unique for cities with a size like San José. Despite the fact that the two entities have shared visions of promoting conventions, there are subtle differences in their priorities and objectives as discussed in detail in Section C Chapter III. The CVB is responsible for promoting tourism in San José, therefore focusing on bringing in out-of-town visitors; while SJMCC wants to promote out-
of-town visitor attendance, but at the same time, also needs to maintain the revenue bottom line. SJMCC may therefore be more inclined to rent out space to local events that usually generate more revenue. Putting these two agencies under the same roof could help collaboration between the two, but at the same time, it also risks blurring the distinctions in these two different entities' missions and objectives. In fact, the Chairman of TSJ has assumed the responsibilities of the President and CEO of San José's CVB after the predecessor's departure. Although the current data cannot conclusively determine if the merger of the two entities has reduced the city's ability to promote tourism more effectively, it warrants a more detailed future study about the current integrated organizational structure to determine if such a structure best serves the City's interest of tourism promotion.

- **Quality Assessment:**

The City of San José has pioneered a service quality performance audit requirement for SJMCC, which is not common among convention centers in the U.S. Carefully designed service quality surveys can fulfill two important functions at the same time: identifying areas of improvement for service quality and indicating various market niches that San José should strengthen, explore, or avoid.

However, TSJ failed to meet this audit requirement in FY 2004/2005, collecting only 46 surveys out of the 481 events that it hosted. (SJOCA 2006, p. 30) Nonetheless, TSJ has recently released a memo claiming its high customer satisfaction without specifying its source, but most likely based on the un-audited surveys conducted in compliance with the performance audit requirement in FY 2005/2006. (TSJ 2007, 1) The small sample size and the uncertainty in sample selection criteria (e.g. whether the surveys were strategically given out at well-run events or if the selection was mostly randomized) cast serious doubts on TSJ's claim.

To improve the quality performance assessment, this report thus recommends that:

- **Construct an effective survey instrument:** As discussed in detail in Section E Chapter III and also summarized above, well-designed survey instruments could achieve multiple goals in addition to quality assurance. It is recommended that
SJOCA take a more proactive role in constructing a survey instrument that could be used consistently in the future in order to accurately track the changes in SJMCC’s service quality. In addition, SJOCA could also consider surveying CVB members and TSJ employees to better understand the issues from various perspectives;

- **Ensure TSJ’s future compliance to the customer satisfaction survey requirement:** This should not stop at simply including specific recommendations in the City Auditor’s report, but rather the Office could in fact take more aggressive steps to delve into SJMCC’s service quality, including randomly selecting a reasonable sample based on the event list provided by TSJ and then conducting phone or fax surveys to assess TSJ’s true service quality level.

**SUMMARY: MODERATE PERFORMANCE**

Even with the special consideration of its relatively moderate external attractiveness as a venue location, SJMCC’s performance is rather moderate, mostly either at the industry average or slightly below average, when measured by different performance indicators discussed earlier. This means that there is still room for SJMCC to improve its performance, whether through improving its soft infrastructure (e.g. marketing efforts), hard infrastructure (e.g. expansion or innovation), or both. Nonetheless, there is one elementary question remaining to be answered before rushing to the bigger questions of improving SJMCC’s future performance.

**D. Epilogue: The Bigger Questions**

Although the focus of this report is not to ascertain the potential for expansion, such a discussion is very relevant to the City of San José, as a future expansion of the San José McEnery Convention Center has been widely speculated. This speculation is especially intensified with the recent approval from the City Council to explore the possibility of forming a Mello-Roos Tax District, in which the downtown hotels could voluntarily vote to tax themselves (or issue bonds) in order to finance the expansion. (Kaplan 2005, Lehose 2006) It has also been reported that San José’s redevelopment agency has set aside $500,000 for architectural work on the expansion. (Woolfolk 2007) This report helps to shed some light on the current
performance of SJMCC, and it could serve as the first step in a broader discussion of how to improve its competitiveness, and if expansion is a sensible strategy. In addition, a more constructive discussion should go beyond expansion and consider other alternative strategies. This epilogue section is not meant to serve as a comprehensive analysis of SJMCC’s expansion strategy, but rather, it poses some basic questions that could be helpful in future discussions.

**BIGGER QUESTION #1: WHAT IS THE NICHE MARKET FOR THE SAN JOSÉ McENERY CONVENTION CENTER?**

Similar to the fundamental question of what constitutes success for the convention center, the City of San José and TSJ also need to first better answer the fundamental question of what the market niche is for SJMCC before they can effectively evaluate the effectiveness of the expansion strategy. Bigger facilities will likely allow SJMCC to host bigger events, but the City of San José and SJMCC need to decide if this is the market niche that San José wants to compete in, and if this is the niche market where SJMCC has a competitive advantage, especially considering the strong competition from the Moscone Center in nearby San Francisco, which also targets the large event market.

However, like many public projects, the intent of a convention center usually is not just about maximizing revenues, but instead is often about targeting objectives that are beyond monetary measurements. If the ultimate objectives of SJMCC are not as simple as being the most competitive in the market by generating the most revenue using the minimum resources, then traditional cost-benefit analysis and financial forecasts alone are probably insufficient in helping policymakers. Therefore, Michael Hughes, a veteran researcher on trade shows and convention facilities, recommended that policymakers consider some of the more fundamental questions before a city undertakes new construction or expansion projects for their convention centers (Hughes 2006):

- What do our city’s tourism, corporate and convention brands stand for?
- How can new venue investments link all three of these distinct aspects of the community?
- What does our current venue’s brand stand for?
- Are the key stakeholders and decision-makers in the development process up to speed with trends in the national convention, exhibition, hotel, travel, and media industry?
- How can we develop new services to become the best in class venue in our competitive set and to compete at the highest level among North American venues?
- Are we hoping to compete mainly by expanding a facility?
- Are we committed to investing in marketing and new service development to compete?

**BIGGER QUESTION #2: DOES A BIGGER FACILITY MAKE SAN JOSE MORE COMPETITIVE?**

Just in FY 2005/2006 alone, there were 22 new convention centers, 21 expansions, and 16 major renovations either in planning or in construction, representing 7.6 million square feet of new exhibit space in the pipeline. (Hughes 2006) It is often believed that bigger facilities will help bring in more business, especially in the environment of an "arms race" in convention center expansions. However, extensive research has shown that many of the expanded facilities did not generate a substantial improvement for the convention centers as predicted. (Skickard 1996, Sanders 1998, 2004, 2005, Darling and Beato 2004, Clark, 2004)

Figure 24 shows the pre- and post-expansion attendance trends for convention centers of various sizes and in different geographic locations. Due to data availability limitations, Figure 24 illustrates the changes in attendance only a year after the expansions of Las Vegas and Dallas convention centers, and the full impact of the expansion may not have fully emerged. Despite this limitation, it appears that the expanded facilities do not necessarily help generate more attendance.
attendance, at least not in the immediate years after the expansion (up to 4 years included in this study). Intuitively, this makes sense, as competitiveness of a product, whether it is a convention center or other commodity, relies on various qualities of the product. It is usually the combined effects of this bundle of qualities that determine the competitiveness of a product. If these convention centers' experiences are any indication of the effects of expansion, then the City of San José needs to be prepared to accept the possible outcome that an expansion alone may not determinately make its convention centers markedly more competitive. Even if the competitive advantage of a bigger facility eventually emerges, it is likely that it may take years to surface after the expansion, and the City needs to be prepared to bear the financial burdens of higher operating costs of a bigger facility until it can become financially self-sufficient (which is very challenging as illustrated earlier in Figure 10).

In addition, the Productivity and External Attractiveness Matrix analysis in this report also reveals that bigger facilities, even those located in more attractive areas, do not necessarily fare better than smaller convention centers in terms of their productivity to generate attendance, attract out-of-town visitors, and sell hotel room-nights. (See Figures 19 to 22)

SJMCC's facility is more than 20 years old, and it is relatively old in an industry that has seen a major expansion race in the past decade. Nonetheless, while a less expensive upgrade renovation could make SJMCC physically more appealing, an expansion requires financial resources of an entirely different magnitude, not to mention the long-term higher operating cost and the high risk of failure that many other convention centers have suffered.

**BIGGER QUESTION 3: IS EXPANSION THE DESTINY?**

Given the fact that many other cities are expanding their convention centers, but expansion also involves risks, is expansion necessarily an inevitably destined path for a successful convention center? A much more vigorous feasibility study is certainly required before a decision should be made on expansion. Nevertheless, analysis of SJMCC's current performance indicates that there are also other alternative strategies that could help SJMCC improve its competitiveness.

As discussed in the previous chapter (Section D, Chapter IV), the occupancy rate of SJMCC for FY 2004/2005 and 2005/2006 are 49.8% and 55.1% respectively. However, the conventions industry generally considers 50% to 60% as the “efficient range” of the occupancy rate, while
70% indicates potential losses of business due to the facilities having to turn away events frequently. (Pricewaterhouse and IAAM 2005, p6) In this case, SJMCC’s occupancy rate is at the lower end of the “efficient range” and it is still well below the practical capacity limit of 70% occupancy rate. In the long run, SJMCC may likely run into capacity constraints; but in the short-run, it is more logical to first increase SJMCC’s current space usage efficiency to a level closer to the practical maximum of 70% before an expansion is compellingly justified.

Despite SJMCC’s occupancy rate above its competitors, a careful review indicates that there is still a lot of potential for more efficiency, as it can continue to improve its occupancy by about 15 to 20 percentage points before it hits the practical limit of 70%. Figure 25 summarizes the SJMCC event starting dates and their durations in FY 2004/2005. As the chart indicates, benefiting from the benign weather in the Bay Area, the events hosted at SJMCC tend to spread out evenly without a sudden rush in a particular period of the year, which is an operational limit that many other convention centers face. However, there are still plenty of extended gaps in SJMCC’s schedule that could have allowed more efficiently uses of the exhibit space (e.g. no events were booked between late September to late October 2004).

Furthermore, a preliminary analysis indicates that SJMCC is heavily relying on technology-related events. In order to determine the diversity of the events hosted at various convention centers, this study examines the events published on different convention centers’ on-line calendars. Granted, this is not the most accurate method, but it does provide a snapshot of the range of events hosted at different convention centers. Two California convention centers and two non-California centers of comparable size were chosen from a list of competitors provided by TSJ. As indicated in Table 17, SJMCC is noticeably more reliant on technology-related events, including both conventions and trade shows. This of course reflects the fact that San
José is the capital of Silicon Valley, which gives it an advantage in attracting technology-oriented events. Nonetheless, Santa Clara, also a hotbed for the technology sector, has significantly less dependence on technology-related events. As discussed earlier in Chapter III, the conventions industry tends to be more volatile than most industries, so an event profile with a significant reliance on a single sector (which is volatile itself) may not be the best strategy for SJMCC. TSJ could probably consider diversifying its client base in order to stabilize its performance in the case of a technology sector slow down.

<table>
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<tr>
<th>Convention Centers</th>
<th>Percent of Technology Related Event-days</th>
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<tbody>
<tr>
<td>San José, CA</td>
<td>52.8%</td>
</tr>
<tr>
<td>Santa Clara, CA</td>
<td>32.9%</td>
</tr>
<tr>
<td>Long Beach, CA</td>
<td>17.6%</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>14.1%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>7.7%</td>
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Source: Author’s Calculation, raw data from the published event calendars on the respective convention centers' websites.

In addition to the risk associated with high reliance on one single industry, over representation of technology-related events also limits SJMCC’s ability to generate out-of-town visitor volume and hotel room-nights. Hosting technology-based events at SJMCC is a double-edged sword: on one hand, many technology professionals live and work in the Bay Area may be more inclined to attend, therefore driving up attendance that otherwise may have been lower if it were hosted in other cities. Nonetheless, on the other hand, these events may generate fewer out-of-town visitors and hotel room-nights because these attendees already live and work in San José and the nearby area. A more diverse mix of events could therefore potentially help avoid this dilemma.

Therefore, the above analysis suggests that SJMCC could further improve its performance by enhancing its facility occupancy rate and diversifying the industries that it serves. Furthermore, improvements on its “soft infrastructure,” the services SJMCC provides, could also lead to better competitiveness without the need for expanding its hard infrastructure.

In a recent memo submitted by Team San José on March 19, 2007 to San José’s Community and Economic Development Committee, which was subsequently forwarded to the City Council
for approval and adoption, TSJ argues the urgent need to fund “deferred maintenance,” which has undercut SJMCC’s competitiveness. Despite the fact that TSJ called it “deferred maintenance,” the three cases (the Game Developers Conference, the Apple Developers Conference, and National Semiconductor’s meeting) chosen to be included in the memo directly or indirectly suggest that San José lost these events mostly because SJMCC was too small to meet the needs of these conferences. (TSJ 2007, p. 7) TSJ further states that “… Game Developers [has] moved from San José to other locations for years 2003, 2004, 2005, 2007…and [San José has] lost any potential for future years business.” (Ibid) But more careful background research actually reveals that San Jose did not lose the Game Developers Conference (GDC) in 2003 and 2004, and its success in drawing attendance despite the slow recovery of the technology sector was indeed widely reported in newspapers (e.g. “Game Business a Bridge Tech Spot” Kirby 2003, see also additional coverage in Simmers 2003, 2004 and Amer, 2004).

It is unclear why TSJ mistakenly claimed that SJMCC had lost its competitiveness for hosting GDC in 2003 and 2004, but one thing was clear — that the size of SJMCC was indeed not the only factor that the GDC organizer considered. As a matter of fact, it is reported that the organizer was more concerned that “the city wasn’t a big enough draw.” (Amer 2004, p. 52) More interestingly, it is further reported that the GDC organizer and San José’s CVB collaborated closely to develop “not only a new way to market San José as a destination, but a new strategy to attract the specific Japanese demographic Silva [a GDC’s event planner] was targeting.” (Ibid) Therefore, contrary to TSJ’s claim, San José is able to retain events even with the current facilities, if it can be more creative in defining its own market niche and fulfilling different events’ needs.

**SUMMARY: EXPANSION IS NOT THE DESTINY, AND SJMCC’S COMPETITIVENESS RELIES ON ITS ABILITY TO IMPROVE ITS CURRENT PERFORMANCE AND SOFT INFRASTRUCTURE AS MUCH AS ITS PHYSICAL INFRASTRUCTURE**

A comprehensive answer to the question of expansion or renovation deserves much more in-depth research, but the above performance analysis and the Game Developers Conference case does suggest that performance improvement could be an alternative solution. If a facility can be improved to run more efficiently and competitively, then expansion is not a prerequisite for success.
In addition to considering renovating and upgrading the physical infrastructure, improving convention facility occupancy rate, and diversifying event types, many convention centers have also been undertaking strategies beyond traditional strategies to enhance their competitiveness (Hughes 2006, 2007):

- Improving greeter, concierge, valet parking, and VIP desk programs;
- Offering a single point of contact for all services;
- Expanding special taxi and bus departure areas, and offering on-site airport check in;
- Providing video conferencing services, wireless internet, and online hosting;
- Conducting aggressive sales and marketing campaigns to local groups and organizations;
- Offering attendee marketing assistance, strengthening customized, customer-specific marketing, and online marketing initiatives;
- Strengthening attendee-focused services — better board rooms, rocking chairs, sofas, and business centers;
- Serving higher quality food and beverage;
- Reviewing rates and rules;
- Communicating more with hotel partners and working for more hotel development;
- Re-branding the facilities and the destinations.

One of the key findings of this report is that convention centers' performance is subject to many external factors. Improvements on physical infrastructure and service quality of the convention center are certainly two of the keys leading to success, but industry experts have also suggested that opportunities for a successful convention center also lie beyond the center itself (Spickard 1996, Hughes 2007):

- Marketing affordability and safety of the destination — especially in second tier markets;
- Bolstering economic development;
- Collaborating in new hotel developments;
- Promoting healthy hotel tax revenues;
- Increasing flexibility in adapting to the new trends and demands.

Expansion is a solution, but not the solution. As the success of a convention center is contingent upon a wide array of factors, an overemphasis on the size of the facilities would likely lead to unrealistic expectations. Nonetheless, a compelling and clear vision, a comprehensive set of competitive strategies, and an effective performance framework are the recipe for success. The comprehensive assessment framework proposed by this report is only one of the ingredients, and its full effectiveness will only emerge when it is working together with the other two ingredients.
### Table 18: Summary of the Assessment Framework

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<tr>
<th>Assessment Criteria</th>
<th>Description</th>
<th>SJMCC Performance and Industry Trends</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Financial Performance</td>
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</tbody>
</table>
| Unit Revenue and Unit Expense Comparison with Industry Average | Compare itemized revenue and expenses per square foot of exhibit space (i.e. unit cost/expense) to the industry average | Unit Revenue:  
  - SJMCC’s unit revenue from rental space is noticeably higher than the industry average, but it experienced a substantial decline after the opening of the South Hall. This is mainly due to the fact that South Hall’s per unit revenue has not caught up yet after the first year of its opening.  
  - Unit revenues from other categories (food and beverages, event services) are lower than the industry average.  
Unit Expense:  
  - Unit expense on salary and benefits is substantially higher than the industry average. Nonetheless, this is likely caused by both the higher unit employment and labor rate.  
  - Unit utility expense is noticeably higher than the industry average, but this is likely attributed to the higher energy cost in California. | Need to continue tracking the unit rent revenue to determine if South Hall can later generate sufficient revenue so that the facilities’ overall unit revenue will rebound to the pre-expansion level.  
  - SJMCC could effectively lower its overall unit expense if it could maintain the current staffing level even with the added space (i.e. increase productivity to meet the needs of added exhibit space). |
| Comparison in Weights of Budget Components with Industry Average | Compare the relative weights in the overall budget for itemized revenue and expenses per square foot of exhibit space (i.e. unit cost/expense) to the industry average | Unit Revenue:  
  - SJMCC is disproportionately reliant on rental income compared to the industry average.  
  - Food and beverage unit revenue is underrepresented in the overall revenue stream when compared to the industry average, but it has seen improvements in FY 2005/2006.  
  - Unit labor expense disproportionally burdens SJMCC’s budget when compared to the industry average.  
  - The percentage shares of expenses on “general administration” and “contract services” are considerably lower than the industry average.  
  - Despite the fact that unit utility expense is higher for SJMCC, its weight in the overall budget is just slightly higher than the industry average. | Need to continue tracking the weight of foods and beverages in the overall budget to ensure that it is bringing an adequate proportion of revenue. |
| Unit Revenue and Unit Expense Comparison with Facilities of Similar Size | Compare itemized expenses per square foot of exhibit space to convention centers with similar size (100,000 – 500,000 sq ft.) | Similar to the previous comparison with the industry average, SJMCC’s unit labor cost is still noticeably higher, even compared to facilities with a similar size. The dramatic decline in unit labor cost in FY 2005/2006 is mainly due to the expansion of the South Hall, creating an expanded exhibit space that drives down the unit labor cost. The decline is not due to dramatic labor saving practices.  
  - Unit expenses in the categories of “general administration,” “maintenance, repairs, supply,” “insurance,” and “other” did not experience noticeable decline even after the space was expanded 56% in 2005. This suggests that the expenses in these areas have not benefited from the economy of scale of a bigger facility, and the efficiency of expenses in these areas remains at the pre-expansion level. Despite this, expenses in these categories are at or below the average levels of the facilities with a similar size.  
  - The unit energy expense is still above the industry level, but it has decreased in FY 2005/2006. Nonetheless, this is likely a result of the South Hall expansion rather than an effective increase in energy efficiency. | This comparison further confirms the findings from the comparison with the industry average — that SJMCC is subject to the challenge of a substantially higher-than-average unit labor expense, likely due to the high costs of civil service positions. Because of the unique setup of TSJ, higher labor productivity could partially offset the effect of higher unit labor expense.  
  - The higher-than-average unit utility cost is improved, but it needs to be further monitored to ensure that such improvement remains even after the usage of South Hall grows. |

Kai-yan Lee • Department of Urban Studies and Planning • Massachusetts Institute of Technology

Chapter V: Conclusion, Recommendations, and Epilogue
### Assessing Performance: A Framework for the San José Convention Center

#### Economic Performance

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Description</th>
<th>SJMCC Performance and Industry Trends</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Spending</strong></td>
<td>Compare estimates of direct spending generated by out-of-town and local visitors, exhibitors, and event organizers.</td>
<td>The lack of reliable data leads to an inconclusive assessment of the impact of direct spending by conventioners to San José. However, a close review of the oft-cited report, <em>The San José Visitor Study</em> by the San José State University, suggests that there are many questionable analyses and likely serious exaggerations in the estimates of direct spending by conventioners in San José. Historical data for the industry at the aggregate level is provided for reference purposes, even though such numbers are not necessarily reflective of San José's situation.</td>
<td>A more vigorous direct spending analysis will help better gauge the actual impact of direct spending by conventioners to San José.</td>
</tr>
<tr>
<td><strong>Indirect, Induced, Taxes, Employment, and Externalities</strong></td>
<td>No reliable methods to examine the potential economic impacts from indirect, induced, employment, and externalities.</td>
<td>Similar to direct spending analysis, the lack of data leads to an inconclusive assessment. The estimates of <em>The San José Visitor Study</em> on these various types of impacts are also problematic. This report provides an overview of six types of economic impacts that are relevant to convention centers. It further examines five common pitfalls in economic impact analysis so that the Auditor's Office and TSJ could be aware of such limitations when reviewing future economic impact studies.</td>
<td>A more vigorous analysis on various types of economic impact will help better assess the overall performance of SJMCC. Nonetheless, given the difficulties of deriving accurate estimates, caution needs to be taken in order to produce meaningful assessments.</td>
</tr>
<tr>
<td><strong>Alternative Methods</strong></td>
<td></td>
<td>This report also offers an overview of more sound approaches to economic analysis — input-out analysis and computable general equilibrium analysis. Despite the limitations they have, these two methods would be able to provide more reliable predictions and assessments of the actual economic impact.</td>
<td></td>
</tr>
</tbody>
</table>

#### Productivity Assessment

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Description</th>
<th>SJMCC Performance and Industry Trends</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit Attendance and External Attractiveness Matrix</strong></td>
<td>Measure the productivity of SJMCC in generating attendance while controlling various external factors of the site's external attractiveness.</td>
<td>• San José's attractiveness as a convention and tradeshow venue site is ranked average when compared to other large and medium U.S. cities. • Despite the constraint of being a moderately attractive venue location, SJMCC was able to generate an above-average total attendance volume in FY 2004/2005. • Nonetheless, SJMCC's ability to generate out-of-town convention attendance is slightly below average even considering the limitation of its moderate external attractiveness. • Industry-wise, it appears that larger facilities in more &quot;attractive&quot; locations do not necessarily guarantee a better performance in &quot;unit attendance.&quot;</td>
<td>Need to be cautious about the pitfalls of miscounting due to the failure of using the &quot;pick-up report&quot; and/or excluding hotel room-nights generated outside of the block of rooms reserved for the conventions.</td>
</tr>
<tr>
<td><strong>Hotel Room-night Measures</strong></td>
<td>Assess the number of hotel room-nights that conventioners generate.</td>
<td>General comparisons with the average hotel room-nights by mid-size, national, and regional convention centers indicate that SJMCC is below the average of these comparable facilities. Using the PEAM framework, it suggests that SJMCC's ability to generate hotel room-nights is slightly below average.</td>
<td>SJMCC just started to calculate &quot;square-foot-day&quot; occupancy rate by types of events in 2005. A more detailed analysis of future occupancy rates by event types will better help understand the reasons for SJMCC's high occupancy rate.</td>
</tr>
<tr>
<td><strong>Facility Occupancy Measures</strong></td>
<td>Examine the square-foot-day occupancy rate.</td>
<td>• SJMCC consistently has an above-average occupancy rate compared to other mid-size, national, and regional convention centers. • SJMCC's occupancy is at the lower end of the &quot;efficient range&quot; of occupancy rate commonly agreed upon by the conventions industry. • Using the PEAM framework, it indicates that SJMCC occupancy rate is at average.</td>
<td></td>
</tr>
</tbody>
</table>

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**Chapter V: Conclusion, Recommendations, and Epilogue**

Kai-yen Lee • Department of Urban Studies and Planning • Massachusetts Institute of Technology
### Assessment Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>SJMCC Performance and Industry Trends</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality Assessment</strong></td>
<td></td>
<td></td>
<td>Well-designed and well-executed customer satisfaction surveys can serve two important functions: quality assurance and market analysis. SJMCC only treats the customer service survey as a quality assurance tool without exploring its potential of being a market analysis tool.</td>
</tr>
</tbody>
</table>
| Customer Satisfaction            | Track the satisfaction level of users of SJMCC                              | - SJMCC failed to collect sufficient post-event surveys as required by the Management Agreement, and thus there are no sufficient data to analyze its quality of service.  
- This report also reviews the performance audit for the Houston Convention Center, which is one of the few convention centers that included customer satisfaction as a significant component of its performance audit. |                                                                                           |
| Alternative Methods              | There are other well-established customer service analysis tools developed by the marketing and tourism industries (e.g. SERVQUAL, HOLSAT), which could serve as a foundation for SJOCA and TSJ to develop effective customer satisfaction measurements. |                                                                                                      |                                                                                           |
| **Other Alternative Assessments**|                                                                             |                                                                                                      |                                                                                           |
| Financial and Economic Productivity Assessment of Public Subsidies | Evaluate the extent of financial and economic impacts of public subsidies provided to SJMCC | The current productivity assessments focus on the non-monetary aspect (e.g. attendance, occupancy) and they do not address public subsidies either. Assessments linking these two aspects can help better determine whether the performance level of SJMCC justifies public subsidies. |                                                                                           |
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Chapter VI: Appendix

Appendix A: Organizational Structure of Team San José

Source: SJCCA 2008
## Appendix B: Revenue and Expenses of the San José McEnery Convention Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Rental</td>
<td>2,778,665</td>
<td>2,941,353</td>
</tr>
<tr>
<td>City Free Use</td>
<td>135,614</td>
<td>107,375</td>
</tr>
<tr>
<td><strong>Building Rental Subtotal:</strong></td>
<td><strong>2,914,279</strong></td>
<td><strong>3,048,728</strong></td>
</tr>
<tr>
<td>Catering (Centerplate) - all to Convention Center</td>
<td>643,868</td>
<td>1,228,739</td>
</tr>
<tr>
<td>Concessions (Centerplate) - all to Convention Center</td>
<td>147,063</td>
<td>173,514</td>
</tr>
<tr>
<td>Convention Center Starbucks</td>
<td>62,383</td>
<td>57,515</td>
</tr>
<tr>
<td>Alcohol - All to Convention Center</td>
<td>146,151</td>
<td>252,926</td>
</tr>
<tr>
<td>Other Income, Novelties</td>
<td>9,268</td>
<td>15,742</td>
</tr>
<tr>
<td><strong>Food and Beverages Subtotal:</strong></td>
<td><strong>1,008,753</strong></td>
<td><strong>1,728,435</strong></td>
</tr>
<tr>
<td>Audio/Visual Services</td>
<td>49,211</td>
<td>27,877</td>
</tr>
<tr>
<td>Electrical/Utility Services</td>
<td>444,383</td>
<td>582,977</td>
</tr>
<tr>
<td>Equipment Rentals</td>
<td>26,847</td>
<td>33,090</td>
</tr>
<tr>
<td>Networking Services</td>
<td>245,000</td>
<td>481,584</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>94,661</td>
<td>87,475</td>
</tr>
<tr>
<td><strong>Event Services Subtotal:</strong></td>
<td><strong>860,102</strong></td>
<td><strong>1,212,804</strong></td>
</tr>
<tr>
<td>Labor</td>
<td>3,866</td>
<td>14,829</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>76,534</td>
<td>128,559</td>
</tr>
<tr>
<td>Co-Generation</td>
<td>551,427</td>
<td>520,261</td>
</tr>
<tr>
<td>Room Rental Rebate</td>
<td>-</td>
<td>(60,457)</td>
</tr>
<tr>
<td>Concession rebate</td>
<td>-</td>
<td>(17,800)</td>
</tr>
<tr>
<td><strong>Others Subtotal:</strong></td>
<td><strong>631,827</strong></td>
<td><strong>585,193</strong></td>
</tr>
<tr>
<td><strong>TOTAL REVENUE:</strong></td>
<td><strong>5,414,961</strong></td>
<td><strong>6,575,160</strong></td>
</tr>
<tr>
<td>City Salaries*</td>
<td>3,246,395</td>
<td>2,752,521</td>
</tr>
<tr>
<td>City Overtime*</td>
<td>142,878</td>
<td>286,040</td>
</tr>
<tr>
<td>City Benefits*</td>
<td>1,043,222</td>
<td>961,067</td>
</tr>
<tr>
<td>Admin &amp; General Salaries (TSJ)</td>
<td>318,367</td>
<td>796,047</td>
</tr>
<tr>
<td>Benefits (TSJ)</td>
<td>21,286</td>
<td>76,225</td>
</tr>
<tr>
<td><strong>Wage, Salaries, and Benefits Subtotal:</strong></td>
<td><strong>4,772,149</strong></td>
<td><strong>4,871,899</strong></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>49,261</td>
<td>26,939</td>
</tr>
<tr>
<td>Postage</td>
<td>847</td>
<td>3,079</td>
</tr>
<tr>
<td>Telephone</td>
<td>136,495</td>
<td>130,211</td>
</tr>
<tr>
<td>Travel &amp; Entertainment</td>
<td>15,816</td>
<td>25,013</td>
</tr>
<tr>
<td>Dues &amp; Memberships</td>
<td>6,805</td>
<td>8,738</td>
</tr>
<tr>
<td>Professional Services</td>
<td>271,386</td>
<td>157,677</td>
</tr>
<tr>
<td>Computer Supplies</td>
<td>17,529</td>
<td>39,990</td>
</tr>
<tr>
<td><strong>Administrative Subtotal:</strong></td>
<td><strong>498,139</strong></td>
<td><strong>391,647</strong></td>
</tr>
<tr>
<td>Utilities</td>
<td>1,663,289</td>
<td>1,694,939</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>194,010</td>
<td>313,039</td>
</tr>
<tr>
<td>Operating Supplies</td>
<td>250,497</td>
<td>355,101</td>
</tr>
<tr>
<td><strong>Maintenance, Repair, and Supplies Subtotal:</strong></td>
<td><strong>444,507</strong></td>
<td><strong>668,140</strong></td>
</tr>
<tr>
<td>Contract City Services</td>
<td>25,875</td>
<td>16,788</td>
</tr>
<tr>
<td>Contract Outside Services</td>
<td>337,620</td>
<td>562,927</td>
</tr>
<tr>
<td><strong>Contract Services Subtotal:</strong></td>
<td><strong>363,495</strong></td>
<td><strong>579,715</strong></td>
</tr>
<tr>
<td>Insurance:</td>
<td>276,064</td>
<td>280,854</td>
</tr>
<tr>
<td>City Overhead*</td>
<td>542,369</td>
<td>555,116</td>
</tr>
<tr>
<td>Workers Compensation*</td>
<td>124,820</td>
<td>226,559</td>
</tr>
<tr>
<td>Other</td>
<td>90,181</td>
<td>226,335</td>
</tr>
<tr>
<td><strong>Other Expenditure Subtotal:</strong></td>
<td><strong>757,370</strong></td>
<td><strong>1,006,010</strong></td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURE:</strong></td>
<td><strong>8,775,013</strong></td>
<td><strong>9,495,205</strong></td>
</tr>
</tbody>
</table>

Note: * Items not under the control of Team San José. It is stipulated in the Management Agreement that the City of San José decides the amount. All numbers quoted here are not audited.

Source: Team San José.
Appendix C: Host Cities Used in Constructing the External Attractiveness Index

Anaheim, CA  
Anchorage, AK  
Arlington, TX  
Athens, GA  
Atlanta, GA  
Atlantic City, NJ  
Austin, TX  
Baltimore, MD  
Boise, ID  
Boston, MA  
Buffalo Niagara, NY  
Charlotte, NC  
Chicago, IL  
Columbus, OH  
Dallas, TX  
Denver, CO  
Fresno, CA  
Grand Rapids, MI  
Hawaii, HI  
Kansas City, MO  
Las Vegas, NV  
Los Angeles, CA  
Louisville, KY  
Madison, WI  
Memphis, TN  

Mesa, AZ  
Milwaukee, WI  
Minneapolis, MN  
Nashville, TN  
New York City, NY  
Omaha, NE  
Orlando, FL  
Philadelphia, PA  
Phoenix, AZ  
Pittsburgh, PA  
Raleigh, NC  
Reno, NV  
Sacramento, CA  
Salt Lake City, UT  
San Antonio, TX  
San Diego, CA  
San Francisco, CA  
San José, CA  
Santa Clara, CA  
Seattle, WA  
Spokane, WA  
Tacoma, WA  
Tampa, FL  
Telluride, CO  
Washington, DC  
Wichita, KS

Appendix D: Convention Center Survey, Sample Questionnaire

Convention Center Study  
Hello, Kai-Yan Lee  
This poll's results will not be available to respondents online.  
Survey Objective: Study and quantify factors that impact the performance of convention centers in the U.S.

Survey Scope: 18 questions, of which 5 are required. It will take about 10 to 20 minutes to complete.

Survey Confidentiality: Data collected through this survey are only available to Kai-yan Lee and they will not be released to any third parties. Only aggregate level data will be presented in the report and individual participants’ data will not be identifiable in the report.

Survey Deadline: MARCH 30, 2007

Survey Contact: Kai-yan_Lee@ksg07.harvard.edu or nayiak@mit.edu

* QUESTION 1:
What is the name of your convention center?

Text Limit: 100 characters (approximately 2 lines)
QUESTION 2:
What function(s) does your Convention and Visitors Bureau provide? [check all that apply]
A. Manage/operate the convention center(s)
B. Manage/operate other tourism-related facilities
C. Marketing and sales for the convention center(s)
D. Marketing and sales for other tourism-related facilities
E. Does not manage, operate, or market specific tourism-related facilities

* QUESTION 3:
Please rank the convention center’s primary market(s):

<table>
<thead>
<tr>
<th>Primary Market</th>
<th>Somewhat Important Market</th>
<th>Unimportant Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. International and national trade shows and conventions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Regional trade shows and conventions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Local trade shows and conventions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Regional consumer and public fairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Local consumer and public fairs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* QUESTION 4:
How many people attended trade and convention events hosted at the convention center(s) in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

* QUESTION 5:
How many people attended consumer shows and public events hosted at the convention center(s) in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

QUESTION 6:
What was the approximate occupancy rate of the convention center(s) by trade and convention events in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

QUESTION 7:
What was the approximate occupancy rate of the convention center(s) by consumer and public events in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

QUESTION 8:
Based on the pickup reports, how many total hotel room-nights were generated by the events hosted at the convention center(s) in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

* QUESTION 9:
What was the total revenue of your convention center for the year of 2005 (calendar or fiscal year, whichever is applicable for your convention center)? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.
QUESTION 10:

Approximately, what percentage of the convention center’s revenue was generated from convention space rentals in 2005?

QUESTION 11:

Approximately, what percentage of the convention center’s revenue was generated from food and beverage sales at conventions in 2005?

* QUESTION 12:

What were the total EXPENSES of the convention center for the year of 2005 (calendar or fiscal year, whichever is applicable for your convention center)?

QUESTION 13:

Approximately, what percentage of the convention center’s expenses were used for marketing and sales in 2005?

QUESTION 14:

Approximately, what percentage of the convention center’s expenses were used for operation (including personnel) and utilities in 2005?

QUESTION 15:

If the convention center was operating at a net loss in 2005, how was it financed?

Text Limit: 150 characters (approximately 3 lines)

QUESTION 16:

What was the number of full-time equivalent employees for the convention center in 2005?

QUESTION 17:

Approximately, how much was spent on regular facility repairs, maintenance, and beautification in 2005? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

QUESTION 18:

If the convention center has had major capital improvement(s) since 2002, what was the approximate amount of money spent on the improvement project(s)? Numeric answer required, use numbers only, with a decimal point and/or minus if necessary.

If you would like to receive a copy of this study (available in the summer of 2007), please provide us an email address to which an electronic copy of the final report will be sent:
Appendix E: Acronym List

AER  Arts, Entertainment, and Recreations industries
CBD  Central Business District
CVB  Convention and Visitors Bureau
DMAI Destination Marketing Association International
EAI  External Attractiveness Index
FY   Fiscal Year
GDP  Gross Domestic Product
GOS  Gross Operating Surplus
IAAM International Association of Assembly Managers
IACVB International Association of Convention & Visitor Bureaus Foundation
PEAM Productivity and External Attractiveness Matrix
SJMCC San José McEnery Convention Center
SJOCA San José Office of City Auditor
TOT  Transient Occupancy Tax
TSJ  Team San José Inc.
UAI  Unit Attendance Index

Appendix F: Glossary

Arts, Entertainment, and Recreations sector (AER)

The definition of Arts, Entertainment, and Recreation sector is based on the definition used by the U.S. Census Bureau, which includes a wide range of establishments that operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons. This sector comprises: (1) establishments that are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing; (2) establishments that preserve and exhibit objects and sites of historical, cultural, or educational interest; and (3) establishments that operate facilities or provide services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure time interests. Examples in the AER sector include: theater, dance, and musical groups, sports teams and clubs, museums, historical and cultural sites, natural parks, amusement parks and arcades, gambling industries, golf courses, skiing facilities, marinas, etc. It represents sector 71 of the NAICS code.

Destination Types

The definition of destination types is based on the standards set forth by Pricewaterhouse Coopers. The convention industry typically categorizes convention centers into three different destinations tiers based on the number of hotel room in the area and exhibit space.

- **Gateway centers:** are located in a metropolitan area with at least 30,000 hotel rooms and contain at least 100,000 square feet of exhibit space.
- **National centers:** are located in a metropolitan area with between 15,000 and 30,000 hotel rooms; or are located in metropolitan areas with at least 30,000 rooms and contain less than 100,000 square feet of exhibit space.
- **Regional centers:** are located in a metropolitan area with less than 15,000 hotel rooms, or are secondary/tertiary convention facilities in markets with more than 30,000 hotel rooms.
Consort Center Size
For the purposes of this report, convention centers are classified into the following three size categories based on their square feet of exhibit space:

- **Large**: More than 500,000 square feet;
- **Medium**: Between 100,000 to 500,000 square feet;
- **Small**: Less than 100,000 square feet.

Event Scope
The definition of event scope is based on the standards set forth by the International Association of Conventions and Visitors Bureau.

- **International**:
  - Draws a national and international event audience.
  - 15% or more of event attendees reside outside of event host country.
- **National**:
  - Draws a national event audience.
  - More than 40% of attendees reside outside of a 400-mile (640-km) radius of event city.
- **Regional**:
  - 60% of attendees residing within a 400-mile (640 km) radius of event city.
  - Attendees may reside in a multi-state area or a regionally homogeneous international area.
- **State**:
  - More than 80% of attendees reside in event state (or event-sponsoring state, when held in state other than home state).
  - More than 20% of attendees reside outside a 50-mile (80-km) radius of event site.
  - State audiences are less inclined to use air travel and local auto rental than regional audiences.
- **Local**:
  - 80% of attendees reside within a 50-mile (80-km) radius of event site.
  - Local audiences typically do not require overnight accommodations.

Event Types
The definition of event types is based on the standards set forth by the International Association of Conventions and Visitors Bureau.

- **Exhibition/Trade show**: An event where the primary activity of the attendees is to visit exhibits on the show floor. These events focus primarily on business-to-business (B2B) relationships.
- **Convention**: An event where the primary activity of the attendees is to attend educational sessions, participate in meetings/discussions, socialize, or attend other organized events. There is a secondary exhibit component to this event.
- **Meeting**: An event where the primary activity of the attendees is to attend educational sessions, participate in meetings/discussions, socialize, or attend other organized events. There is no exhibit component to this event.
- **Consumer show**: An event open to the public, usually requiring an entrance fee.

Productivity and External Attractiveness Matrix (PEAM)
It is a matrix specifically developed for this report that measures the relative productivity of a convention center given the external attractiveness it possesses. Refer to Appendix C for more detailed explanation of the matrix.
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Chapter VII: Reference


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Chapter VIII: Acknowledgements

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Chapter VIII: Acknowledgements

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