

## **Financial Oversight and Management Board for Puerto Rico**

Open Meeting on Economic Development Agenda for Puerto Rico

Date: Friday, March 31, 2017 – 9:00 am to 5:00 pm

Location: Dr. Pedro Rosselló Puerto Rico Convention Center, San Juan, Room 209

### Re- Foundation Public Statement

Good morning members of the Board, my name is Arnaldo Cruz, Director of Research and Analytics at Foundation for Puerto Rico. Foundation for Puerto Rico is a local nonprofit dedicated to transforming Puerto Rico into a destination for the world by driving sustainable strategies of economic and social development.

We are here today to discuss the importance of tourism, or as our Foundation refers to it in its broader context, the “Visitor Economy”, in Puerto Rico.

We believe that significant Visitor Economy growth is possible and could alter the trajectory of the Puerto Rico economy. International tourist arrivals worldwide are growing constantly at a rate of 4% since 2010. Expenditure by international visitors on accommodation, food and drink, entertainment, shopping and other services reached \$1, 260 billion worldwide in 2015, representing an increase of 4.4% over 2014 (in real terms). We believe Puerto Rico can benefit from this trend, if the various stakeholders of the visitor ecosystem, from the public, private, not profit sector and academia, come together and agree on a revised and coherent destination development strategy and coordinate their efforts to implement it.

The Visitor Economy in Puerto Rico is estimated to be around \$7.4 billion. Puerto Rico can double that number in 5 years, and create thousands of new jobs and entrepreneurial opportunities if we prioritize the visitor economy as the key development strategy with greater growth potential in Puerto Rico.

The key for growing the visitor economy is to increase inbound tourism consumption in the Island. To increase consumption, we need to attract more visitors to Puerto Rico and ensure they increase their spending during their stay.

Let’s begin on how we get more tourists to the island. Currently, Puerto Rico receives around 3.5 million tourists a year (this excludes excursionists, who are visitors who do not stay overnight, which account for an additional 1.5 million). This 3.5 million is a tiny portion of the number of tourist arrivals worldwide which in 2015 reached more than 1.1 billion (.3%)

First, Puerto Rico needs to make changes to its approach to destination branding and marketing. Puerto Rico has historically been promoted as a sand and beach destination. Although we do

have great beaches, Puerto Rico has a rich and vibrant culture, with an abundance of other attractions and unique visitor experiences to offer island-wide. Thus, we need to market Puerto Rico as an experience-based destination with diverse textures and sensible to the preferences and needs of all visitors. Puerto Rico's also needs branding and marketing strategies to be consistent and continuous. Lack of brand consistency has been a struggle for Puerto Rico for decades, given the constant changes of image, concepts, strategies and slogans at the Tourism Company.

Puerto Rico also needs current and continuous market research and segmentation analysis, which we currently lack, due in part to incomplete visitor profile data. Thankfully, though, the Visitor Survey which hasn't been conducted since 2012 was resumed last November after a four-year gap. This survey will provide the necessary information to analyze visitor behavior and activity in Puerto Rico, which will in turn help us evaluate the ROI of our marketing efforts using actual tourism expenditure data.

The approval and recent signing by the Governor of Puerto Rico of Law 17 for the establishment of the Destination Marketing Organization (the DMO) is certainly a very important step in the right direction. We are counting on this entity to help create more international awareness about Puerto Rico and to provide visibility to all our attractions and unique experiences. Notwithstanding, while we are working on increasing and diversifying new inbound demand, we need to simultaneously work with increasing air and maritime access to the destination. Choices to visit can be influence by convenience factors such as availability and cost of flights, visitor and passport provisions, airport facilities, emigrations services, check-in and gate operation, availability and ease of ground transportation.

The second part of the equation is to ensure tourists spend more while they are in Puerto Rico. This can be accomplished by increasing the length of stay of visitors. The length of stay can be increased by making visitors aware of the many experiences they can have in Puerto Rico beyond the traditional tourist attractions and by facilitating their movement around the entire island.

Currently, visitors who stay at hotels in Puerto Rico average around 3 nights a visit, a significantly low number by international and regional standards. We believe a key factor for their short stay is their lack of awareness of things to do in the Island. Our Foundation has done a lot of work on this matter, collecting data of local attractions, commodities and points of interest through community-based mapping and data scraping. So far we have identified many points of interest that are popular with locals but have zero to very little visibility on online platforms like Trip Advisor and Google. In interviews conducted by Foundation, many service providers have expressed their lack of knowledge and expertise in digital marketing. In this area, our recommendation to the Board is to re-direct some of the workforce development funds for web-literacy (i.e. content management) and e-marketing training programs. By retraining existing employees or providing these critical skills to job seekers, we could help service providers grow their current customer base. This would also help the Tourism Company coordinate and

communicate more effectively with service providers. Additionally, we recommend to broaden the scope of the workforce development programs by proving workshops on entrepreneurship around the sharing economy (i.e., AirBnB, Uber).

If visitors are aware of the wide range of experiences they can have in the island at the moment they are planning their trip, they will book longer stays. However, in addition to visibility, easy access to reliable ground transportation services is essential to a quality experience. Seamless access to the full dimension of our diverse and compact destination, from the rural, urban and coastal settings, will not only help increase the length of stay of visitors, but will also decentralize the economic activity generated by their consumption. Unfortunately, transportation for visitors is a major issue in the Island. The arrival of companies like Uber has helped, but current regulation is still hampering access to these services. We understand the need to enforce current laws and regulations, but when the exiting legal framework is obsolete and no longer meets visitor expectations, public policy needs to change. This is the case of statute 282, which regulates tourism ground transportation services. This statute needs to be amended to foster innovation within the industry and to provide more options to visitors. We also recommend eliminating tourism zoning. Our Foundation views the entire island as a tourist destination, thus different rules for different geographical areas is simply unnecessary. These rules confuse visitors and limit their access to the full expansion of our destination.

Our current public transportation system, wayfinding and destination signage does not cater to visitors, which affects their ability navigate through the island. The latter is a responsibility of the Department of Transportation and Public Works and not the Tourism Company. Thus, there is a lot of interagency coordination work that needs to be done in government and it will only get done if tourism and the visitor economy is understood as priority to all public agencies, and is incorporated in all their strategic plans.

Finally, to help bring more visitors and increase tourism consumption we need a well-connected and integrated ecosystem that considers the perspective of all local tourism stakeholders. In Puerto Rico, tourism management and growth efforts have been mainly focused on hotels and hotel surrounding areas. Although important, traditional hotels represent less than 50% of visitor lodging. Most tourists in Puerto Rico stay at a friend & family's house or a short-term rental (Airbnb, Home Away, VRBO). Therefore, in order to build a sustainable, inclusive and healthy visitor economy we must take a "no-wrong door" approach to tourism, by catering to all types of visitor preferences. We should also take in consideration all the other tourism service providers, like restaurants and the retail sector, regardless of their proximity to a hotel. Currently Puerto Rico lacks data on tourism consumption beyond hotels endorsed by the tourism company. Our Foundation is working on developing a national system of tourism statistics and is updating the input/output table for tourism, which has not been done since 2002, to show the impact of tourism beyond hotels and lodging. We intend to use this data to help demonstrate the value added of tourism in other sectors of the economy, like restaurants, retail, transportation,

entertainment, creative industries and many more. We believe strong industry linkages and a more robust supply chain could produce better and cheaper services to our visitors.

Our Foundation recently published a study on destination management<sup>1</sup>. Our main recommendation is the development of a destination development strategy and management plan that incorporates input from all key stakeholders in the ecosystem. This destination management plan should be the point of reference that guides all tourism strategies, marketing, policy, incentives and investments. If the government proposes a new tourism related legislation, it should be aligned to the goals and objectives established in destination management plan. The same goes for incentives programs, public investment and regulation. The private sector also needs to align its decisions to this plan, in order to piggyback on government efforts and investments. Fostering transparency in decision making processes and results will help Puerto Rico achieve the goals included in the tourism management plan.

Our Foundation believes the visitor economy should be an indispensable part of any economic development strategy in Puerto Rico. With the right approach, visitors could be responsible for billions of dollars of new economic activity, encourage new businesses and create thousands of jobs in the local economy. We look forward to work with the Board, the government and other key stakeholders to discover, link and unleash Puerto Rico's potential as a destination for the world.

Sincerely

Arnaldo Cruz  
Director of Research and Analytics  
Foundation for Puerto Rico

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<sup>1</sup> Visitor Economy: Destination Management and Governance. Foundation for Puerto Rico. March 2017.