Morrison Institute for Public Policy
School of Public Affairs # College of Public Programs
Arizona State University

Destination Flagstaff: How Important is the Flagstaff-Area Tourism Cluster?

by
Rick Heffernon

with
Kathy Andereck
Tom Rex
Christine Vogt

for
Flagstaff Convention and Visitors Bureau

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Table of Contents

By
Rick Heffernon
Senior Research Analyst
Morrison Institute for Public Policy
Arizona State University

with
Kathleen Andereck, Ph.D.
Associate Professor
Recreation and Tourism Management
Arizona State University West

Tom Rex
Research Manager
Center for Business Research
Arizona State University

Christine A. Vogt, Ph.D.
Visiting Assistant Professor
Park, Recreation and Tourism Resources
Michigan State University

and with research assistance from
Rebecca Gau
Ryan Johnson
Mary Jo Waits

and production assistance from
Cherylene Schick
Nielle McCammon

Morrison Institute for Public Policy
Arizona State University

Tables and Figures

Table

Figure

I Introduction

Tourism is one of 12 industry clusters widely considered to be driving the Arizona economy according to the Governor's Strategic Partnership for Economic Development (GSPED). The term "cluster" refers to a geographic concentration of interdependent companies, suppliers, products, labor pool, and institutions that together constitute an important competitive advantage for a region. In northern Arizona, tourism ranks as the predominant industry cluster.

This paper provides a profile of the tourism cluster in Coconino County, with special focus on the Flagstaff area. It examines the cluster's composition, relative size and importance to the regional economy. It addresses the cluster's dynamics and requirements for growth. It reviews important national and worldwide trends affecting tourism in Arizona, as well as the special characteristics of gateway communities. And, finally, it presents a menu of actions to choose from for strengthening the cluster in both Flagstaff and Coconino County.

II The Tourism Cluster in Coconino County and Flagstaff

A—Overview

Coconino County possesses an abundance of natural, cultural, and archaeological resources that fuel an active tourism economy. Primary among all attractions is the Grand Canyon, a widely recognized natural wonder located about 80 miles north of Flagstaff that stimulates domestic and international visitation at a rate approaching 5 million persons per year. Significantly, two main highway routes to the Grand Canyon pass through Flagstaff giving northern Arizona's largest city ample opportunity to capture visitor business for lodging, food, fuel, services, shopping, and entertainment.

Grand Canyon, however, is not the only tourist draw or destination in the area. Other natural attractions surrounding Flagstaff include national parks and monuments, Lake Powell, the scenic red rock areas of Oak Creek Canyon, the state's highest mountain range, several wilderness areas, colorful aspen forests, volcanic areas, ice caves, and much more. In addition, nearby cultural and historic attractions include ancient Indian ruins, and well-known Indian reservations that attract up to a million visitors per year. Also attracting substantial numbers of visitors—at least from within the predominantly hot and arid state of Arizona—are the city's refreshingly cool summer climate and the novelty of snow in winter.

The Flagstaff area's sheer abundance of external attractions has led to a distinct market concentration on tourist services within the city. Thus, most of the private-sector tourism industry has historically been involved with providing the visitor necessities and services rather than providing the attractions themselves.

That is not to say that Flagstaff does not have its own visitor draws. Among the local attractions—both private and public—are Lowell Observatory, the Museum of Northern Arizona, the Arizona Snowbowl Ski Area, Northern Arizona University (including NAU's High Altitude Sports Training Complex), the Arboretum at Flagstaff, a number of popular festivals, several parks, an incomplete but potentially extensive system of urban hiking trails, and contact points for most levels of government from city to federal, including visitor information centers for the Forest Service and National Park Service.

Other factors also favor Flagstaff's tourism industry. As the area's largest population center, it is the only destination that can provide the types of amenities that accrue to a city of some 60,000 residents—night life, a wide variety of dining choices, and access to large and small retail establishments found nowhere else in northern Arizona. Add in the fact of Flagstaff's position along two Interstate highways and a major Amtrak route, and it is easy to see why many tourists continue to find their way to Flagstaff. The challenge for tourism industry participants is to encourage these tourists to stay and spend their money in Flagstaff.

B—Tourism Cluster Size and Growth in Coconino County

Components of Coconino County's Tourism Cluster

16 SIC sectors plus the Federal Government comprise the tourism cluster in Coconino County.

- Large Sectors
  - Eating and drinking places
  - Lodging places (hotels, motels, camps, recreational vehicle parks, and other types of lodging)
  - Federal government (National Park Service, U.S. Forest Service, and other federal operations)
- Medium Sectors
  - Gasoline service stations
  - Miscellaneous amusement and recreation services (boat rentals, miniature golf, riding stables, and downhill skiing)
  - Gift and souvenir shops
- Small Sectors
  - Arrangement of passenger transportation (travel agencies and tour operators)
  - Marinas (mostly Lake Powell)
  - Vehicle rental
  - Museums, galleries, gardens
  - Linen supply
  - Water transportation of passengers (mostly Lake Powell and Colorado River)
  - Amusement parks
- Very Small Sectors
  - Motion picture production
  - Commercial sports
  - Public golf courses
  - Coin-operated amusement devices

In order to appraise the extent and nature of tourism cluster activity in Coconino County and Flagstaff, an economic base study was conducted using the latest (1996) sectorally detailed data and employing the federal government's Standard Industrial Classification (SIC). Based on cluster definitions used in Arizona and results of the economic study, 16 SIC sectors plus the Federal Government have been included in Coconino County's tourism cluster. (See Appendix A for more details on methodology.)

In several cases, tourism is responsible for only a portion of the total economic activity in a particular sector, but the unusual size of that sector is a direct result of tourism. For example: most federal government activities are unrelated to tourism, but the large number of National Park Service and Forest Service sites in Coconino County largely account for the area's attractiveness to tourists. Another example: all cities have gasoline service stations and restaurants, but the high number of these establishments in Flagstaff can be attributed to the extra demand caused by tourism.

Among the findings of the economic base study:

! **Tourism is the leading economic activity in Coconino County.** Clusters are considered the most important economic growth engines of the economy, and among all clusters in Coconino County the tourism cluster is dominant, accounting for 84 percent of total cluster employment. (Note: More than half of the county's 1996 employment occurred in sectors not included in any recognized cluster, but few of these sectors had a concentration greater than the national average.) Tourism is also the most highly concentrated cluster in the county except for biomedical, which is not actually a cluster but consists primarily of one large company.

Table 1
Cluster Employment in Coconino County, 1996

Cluster	Employment	Location Quotient*
Tourism	13,345	2.2
Biomedical	1,084	5.4
Transportation	676	0.6
Agriculture	502	0.3
Business Services (Call Centers only)	116	0.2
Plastics	75	0.2
High Technology (Aerospace & Information)	39	0.1
Information	39	0.1
Software	16	0.0
Mining	0	0.0
Optics	**	**
Senior Living	**	**
Environmental Technology	**	**
Total, All Clusters	15,853	—

Note: Three clusters cannot be analyzed by SIC: Optics, Senior Living, and Environmental Technology.
*Location Quotient: Shows the concentration of industry employment relative to the national average (1.0) for that industry.
**Data not available.

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona and United States, 1991 and 1996; and U.S. Bureau of Economic Analysis data.

! **Coconino County has the highest per capita tourism employment figure in the state.** Coconino County's location quotient of 2.2 for tourism is the highest in the state, one full point higher than that of Maricopa County. ("Location Quotient" shows the concentration of industry employment relative to the national average for that industry. A location quotient greater than 1.0—the national average—may indicate "export" activity.) Furthermore, tourism accounted for 31 percent of Coconino County's private-sector employment, second only to La Paz County's 39 percent. In most Arizona counties the figure was between 12 and 19 percent. Thus, tourism is more important to Coconino County than to any Arizona county except possibly La Paz.

Table 2
Cluster Concentration by County, 1996

County	Location Quotient*	Tourism Cluster Employment**	County	Location Quotient*	Tourism Cluster Employment**
Coconino	2.2	10,600	Yuma	0.9	4,800
La Paz	1.9	1,400	Cochise	0.8	3,900
Maricopa	1.2	137,400	Navajo	0.8	2,900
Gila	1.2	2,400	Pinal	0.7	4,400
Mohave	1.1	6,100	Apache	0.6	1,900
Santa Cruz	1.1	1,700	Graham	0.6	800
Pima	1.0	33,800	Greenlee	0.5	200
Yavapai	1.0	6,100			

* Location Quotient: Shows the concentration of industry employment relative to the national average (1.0) for that industry.
** All figures exclude federal government.

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona and United States, 1996.

! **Total tourism employment is significant and growing steadily.** Including federal government, more than 13,000 were employed in the tourism cluster in Coconino County in 1996, accounting for 39 percent of the county's total employment. Between 1991 and 1996, tourism cluster employment rose 23 percent in Coconino County, keeping pace with the county's overall employment growth of 25 percent during that period.

! **Cluster employment is concentrated in eating and drinking places, lodging places, and the federal government.** Restaurants and bars employed 44 percent of the cluster's 1996 total employment. Lodging places and the federal government each were responsible for 21 percent of the cluster total.

- **Tourism cluster employment is highly concentrated compared to the rest of the nation.** Employment in Coconino County's tourism cluster in 1996 was more than two times greater per capita than the national average, accounting for approximately 7,500 more tourism workers than would be expected in a county of this size were it not for the high concentration of tourist attractions.

- **The occupational mix in the tourism cluster is heavily weighted toward services.** In Coconino and Yavapai counties, services accounted for 56 percent of total cluster employment in 1989. This is four times as much as any other occupational sector in the cluster, and three times the services weighting for all industries in the two counties. (Note: The only source of data on occupation by industry combines Coconino and Yavapai counties.)

Table 3
Cluster Employment by Sector in Coconino County

SIC	Description	Sector Employment 1996	% Change 1991-1996	Location Quotient*
58	Eating & Drinking Places	5,903	37%	1.88
NA	Federal Government	2,755	-11%	2.27
70	Lodging Places	2,752	25%	4.07
554	Gasoline Service Stations	605	8%	2.01
7999	Miscellaneous Amusement & Recreation Services	427	183%	3.15
5947	Gift & Souvenir Shops	387	145%	4.73
472	Arrangement of Passenger Transportation	110	69%	1.19
4493	Marinas	105	**	11.75
751	Vehicle Rental	92	-1%	1.46
84	Museums, Galleries, Gardens	83	-17%	2.47
7213	Linen Supply	60	62%	2.67
448	Water Transportation of Passengers	39	333%	3.89
7996	Amusement Parks	14	**	0.33
781	Motion Picture Production	7	**	0.08
794	Commercial Sports	2	0%	0.05
7992	Public Golf Courses	2	**	0.08
7993	Coin-Operated Amusement Devices	2	-83%	0.08
	Cluster Total	13,345	23%	2.22

*Location Quotient: Shows the concentration of industry employment relative to the national average (1.0) for that industry.
** Greater than 1,000 percent.

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona and United States, 1991 and 1996; and U.S. Bureau of Economic Analysis data.

- **Wages are relatively low but improving.** Of the six cluster components for which 1996 data are available, five paid less than the county's overall average of $18,900. (The national average was $27,900.) This includes the cluster's two largest components: eating and drinking places and lodging places. Tourism wages, however, were increasing faster than the national average, and also faster than the rest of the county, which overall showed an inflation-adjusted increase in payroll per employee of only 3 percent. (These figures, and those cited in the remainder of this report, exclude the federal government sector due to a lack of data.)

Table 4

Tourism Cluster Payroll per Employee in Coconino County

SIC	Description	Payroll Per Employee Coconino County 1996	% of National Average	1991-96 Real % Change in Payroll per Employee
7999	Miscellaneous Amusement & Recreation Services	$22,948	157%	4%
751	Vehicle Rental	$18,141	71%	70%
5947	Gift and Souvenir Shops	$15,553	154%	20%
554	Gasoline Service Stations	$14,210	112%	14%
70	Lodging Places	$13,732	86%	17%
58	Eating and Drinking Places	$ 9,447	101%	19%
—	Coconino County (excludes federal government)	$18,900	68%	3%

Note: Data for other cluster components are unavailable. Excludes federal government

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona, 1991 and 1996.

- **Productivity varies among the cluster's components.** Sales per employee were above the national average in 1992 in the lodging places sector and close to the national average in restaurants and bars, but relatively low in two other sectors.

Table 5

Tourism Cluster Productivity in Coconino County, 1992

SIC	Description	Sales Per Employee	% of National Average
554	Gasoline Service Stations	$156,600	78%
751	Vehicle Rental	$84,800	55%
70	Lodging Places	$58,000	125%
58	Eating and Drinking Places	$28,500	95%

Note: Data for other cluster components are unavailable.

Source: Calculated from U.S. Bureau of the Census, Economic Censuses, Arizona, 1992.

! **Establishment size is relatively high.** Compared to the county overall, the tourism cluster had relatively many establishments employing between 20 and 99. The average number of employees in the tourism cluster in 1996 was 15, compared to the overall Coconino County figure of less than 11.

Table 6
Distribution of Tourism Firms by Size

Firm Size	% of Cluster Firms
1-4	41%
5-19	37%
20-99	21%
100+	1%

Note: Excludes federal government.

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona, 1991 and 1996.

! **The number of establishments has risen significantly in the tourism cluster.** Tourism establishments increased by 56 percent between 1991 and 1996. The average number of employees per establishment, however, dropped 12 percent indicating a trend toward smaller establishments.

Table 7
Change in Cluster Establishment Size and Number

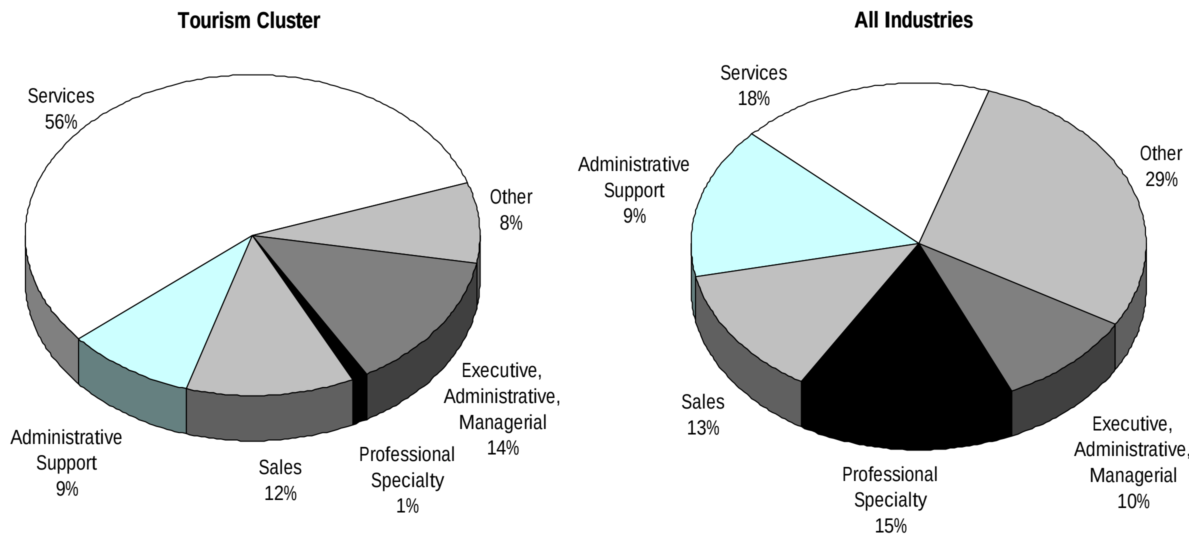
Number of Firms in 1996	% Change Number of Firms 1991-96	Average Employees per Firm in 1996	% Change Employees per Firm 1991-96
707	56%	15.0	-12%

Note: Excludes federal government.

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona, 1991 and 1996.

! **The occupational mix in the tourism cluster is heavily weighted toward services.** In Coconino and Yavapai counties, services accounted for 56 percent of total cluster employment in 1989. This is four times as much as any other occupational sector in the cluster, and three times the services weighting for all industries in the two counties.

Figure 1
Occupational Composition of Tourism Cluster—Coconino and Yavapai Counties, 1989



Note: Excludes federal government.

Source: Calculated from U.S. Bureau of the Census, 1990 decennial census.

C—Tourism in Flagstaff

Economic data are not readily available by city, but some are available by Zip Code. For this study, the Flagstaff area was approximated by summing the data for Zip Codes 86001 through 86004, plus 86011. Among the findings:

! **Tourism leads economic activity in Flagstaff.** Tourism employment accounted for more than 75% of all cluster employment in Flagstaff, excluding federal government. It also accounted for almost 60% of all tourism cluster employment in Coconino County, excluding federal government.

Table 8
Cluster Employment in the Flagstaff Area, 1996

	Flagstaff Area	Coconino County
Tourism (excluding federal government)	6,268	10,590
Total (all clusters)	8,193	12,783

Source: Calculated from U.S. Bureau of the Census, County Business Patterns, Arizona, 1996.

! **Two components dominate the cluster in Flagstaff.** Together, eating and drinking places and lodging places account for 70 percent of establishments and 87 percent of employment in the Flagstaff-area tourism cluster, excluding federal government.

Table 9
Leading Components of the Tourism Cluster, Flagstaff Area, 1996

SIC	Description	Establishments	% Total of Cluster	Employment*	% Total of Cluster
58	Eating and Drinking Places	175	50%	4,150	66%
70	Lodging Places	70	20%	1,340	21%
-	Total for Cluster	347	—	6,268	—

Note: Excludes federal government.
*Estimated

Source: Calculated from U.S. Bureau of the Census, Zip Code Business Patterns, Arizona, 1996.

! **Revenue growth has risen steadily for Flagstaff restaurants.** Reported sales to the City's BBB tax (Bed, Board, and Beverage) show that total restaurant revenues have grown 62 percent since fiscal year 1989.

Table 10
Restaurant BBB Sales 1989-1999

Fiscal Year (7/1-6/30)	Total Sales ($ in millions)
1999	$115
1998	$111
1997	$104
1996	$101
1995	$ 94
1994	$ 87
1993	$ 81
1992	$ 77
1991	$ 75
1990	$ 74
1989	$ 71

Source: Calculated from City of Flagstaff BBB records.

- **Lodging revenues have grown overall, but not recently**. Total lodging revenues (excluding campgrounds) have grown 67 percent since fiscal year 1989, but have remained nearly flat since 1996. In the same period, revenue per available room (REVPAR) has grown less than total revenue, and has actually dipped almost 10 percent since fiscal year 1995. Most of this decrease can be attributed to a substantial increase in hotel rooms in the region: in Flagstaff alone since 1989, the number of available hotel rooms within the city limits has grown by 55 percent, adding 1661 rooms.

Table 11
Flagstaff Lodging Revenues 1989-1999

Fiscal Year (7/1S6/30)	# Rooms	Total Sales ($ in millions)	Revenue Per Available Room
1999	4678	$53.4	$30.81
1998	4668	$53.5	31.62
1997	4542	$53.1	32.49
1996	4452	$54.2	33.23
1995	4249	$52.5	33.86
1994	4199	$50.9	33.22
1993	4199	$47.4	30.90
1992	4023	$42.8	29.07
1991	4023	$36.2	24.68
1990	3646	$34.4	25.85
1989	3017	$32.0	29.02

Source: Calculated from City of Flagstaff BBB records.

D—Relationships of Cluster Components

In most clusters, individual firms form complex relationships with others in the cluster based on their roles as suppliers, service providers, or retailers. Trade associations also play a role in cluster networking.

The following findings are based on interviews with tourism participants and officials (see Appendix B for complete list), observations, and literature research:

- **Bigger firms connect through trade associations and marketing ventures.** The strongest relationships occur among the lodging firms in the Flagstaff area which, as a group, have their own trade association. Larger establishments tend to be most active in the association. Lodging establishments and restaurants also tend to be best represented on the City Tourism Commission that oversees efforts of the Convention and Visitors Bureau. Other relationships among firms exist as a result of various joint marketing plans, participation in the Chamber of Commerce, and in organized response to outside competitive threats.

! **Some smaller firms engage in supplier/client relationships.** Working relationships sometimes occur between cluster firms in different sectors, such as seen in the connections of linen supply companies with their client hotels. Relationships also occur when firms discover mutual or dependent interests, such as might happen between travel agents, lodging establishments, vehicle rental agencies, or tour providers. Some informal networking also occurs due to the relatively small size of the population in Flagstaff, but overall networking remains weak.

! **Some firms have established strong connections with educational institutions.** Many of the larger lodging and food establishments have connections with NAU's School of Hotel and Restaurant Management through its labor pool of students. In addition, some industry leaders have developed a customer service education program in conjunction with the community college to provide training for employees.

III Dynamics of the Flagstaff-area Tourism Cluster

The Flagstaff-area tourism cluster basically sells its location: a desirable climate, outstanding natural attractions, diverse outdoor activities, numerous cultural and historic sites, and major transportation corridors. Revenues accrue from serving visitors to the area by providing food, lodging, fuel, shopping, and access to attractions. While Flagstaff's tourism industry has become well established over the past 100 years, it remains subject to a number of external and internal "drivers" that have the power to affect its future growth and vitality. External drivers include trends, resources, and events that lie outside the control of the local community, while internal drivers include assets and resources within the local community that have the potential to affect how, where, and how much the tourism industry grows. In addition, Flagstaff faces constant competition from other destinations that have the potential to lure visitors away.

The following findings are based on interviews with tourism participants and officials (see Appendix B for complete list), observations, and literature research:

A—External Drivers

Because Flagstaff tourism businesses are primarily reliant on "outside" attractions to bring them customers, many external factors can be influential. Among them are the following:

- **Natural environment and weather conditions.** Summer drives the business cycle in Flagstaff. The area's typically cool, sunny weather draws visitors from Phoenix and Tucson to escape the heat. In combination with its pleasant weather, the area's robust natural environment also encourages visitors to come for activities such as camping, hiking, and fishing—activities that extend well into fall. Winter, meanwhile, remains a traditional "slump season" for the area, but good snowfall attracts substantial numbers of skiers from Phoenix and elsewhere around the state, which helps to moderate the economic drop off. Environmental drivers can also pose occasional economic threats in the form of summer forest restrictions due to fire danger, snowless winters, and degradation of popular natural areas due to overuse and development.

- **Hub position for many regional attractions.** Proximity to the Grand Canyon draws many people to Flagstaff because two main access routes pass through the city. Flagstaff also serves as a transportation hub and important center of commerce for many other attractions, including Lake Powell, Oak Creek Canyon/Red Rock Country, several national monuments, and a number of well known Indian Tribes including the Navajo, Hopi, and Havasupai. Flagstaff also provides a regular stop for tourists taking a larger tour route that encompasses the entire Four Corners region and several national parks. Threats within this driver can include overcrowding and environmental degradation of national parks, traffic congestion on main highways, limited and expensive air service, lack of mass transit access to Grand Canyon from Flagstaff, and interception of overnight visitors by regional competitors.

- **International tourism.** Flagstaff has long served foreign travelers, particularly from Europe and more recently from Asia. Better air service would allow Flagstaff to compete more closely with Las Vegas for some of those international visitors, but threats in this driver come primarily from down cycles in international economic conditions.

- **Grand Canyon policies.** As the dominant tourist draw in the area, Grand Canyon National Park can significantly affect tourism-related businesses in Coconino County, mainly through internal policies covering all aspects of visitation and commercial enterprise involving the park. The park periodically reviews and revises these policies, and any major changes can have significant impacts on interest groups, sometimes improving conditions for one group while limiting opportunities for another. Among the policies currently under review that could affect certain aspects of the tourism cluster in the Flagstaff area are those addressing the following: ground transportation and access to the park, air transportation and overflight patterns near the park, gateway status of a new development at Tusayan that would greatly increase lodging and retail space near the park's south entrance, and Colorado River policies that could restrict motorized raft trips or alter fees and available dates for commercial trips.

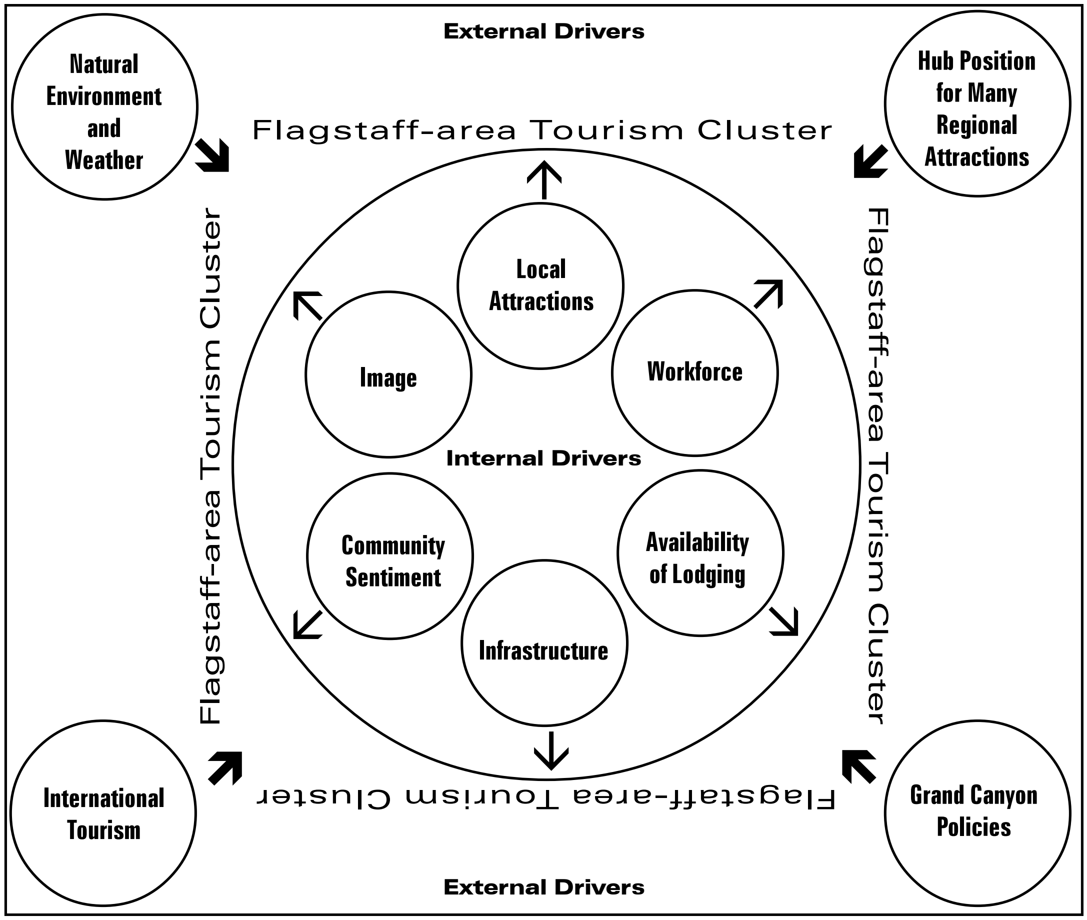
B—Internal Drivers

Among the assets and resources within the control of the community are the following:

- **Image.** Flagstaff enjoys an image as a romantic getaway for big city dwellers. Downtown renovation, pleasant dining, boutique-style shopping, access to many outdoor activities, and the presence of a university contribute to its mountain town/college town luster. A number of festivals hosted by the Chamber of Commerce also support the image. Threats to Flagstaff's image could come from sprawling development, traffic congestion, increased crime, rundown buildings and neighborhoods, unsightly billboards, factional conflicts, and roadside trash.

- **Local attractions.** A number of smaller attractions (*e.g.*, Lowell Observatory, Riordan Mansion, archaeological sites, the Museum of Northern Arizona) add depth to the city's offerings and attract visitors from out of state who are in the area for other reasons. They also offer the potential to bring back repeat visitors. Possible threats within this driver could come from the loss of some attractions, such as occurred with the annual Indian Pow Wow.

Figure 2
Forces Affecting the Flagstaff-area Tourism Cluster



- **Workforce.** The tourism cluster's two largest non-government sectors—eating establishments and lodging places—enjoy a ready pool of educated and career-minded workers due to NAU's School of Hotel and Restaurant Management (HRM), considered one of the top such schools in the country. HRM students must acquire 800 hours of work experience in order to graduate, hence employers have a motivated workforce. Employee turnover, however, tends to be high for entry-level positions because HRM graduates expect to find careers in management.

- **Infrastructure.** As the largest city in northern Arizona, Flagstaff offers the best infrastructure in the region for the support of tourism—major highways, regular commercial air service, rail service, hotels, restaurants, shopping, public library, and night life. Flagstaff also provides the most services and amenities for visitors, such as transportation, tour operators, large retailers, and repair facilities. Most threats within this driver come from the effects of rapid population growth. The city's few main traffic arteries have experienced a noticeable increase in traffic congestion, and the recent surge in electronic communications has highlighted a potential shortcoming in telecommunications infrastructure.

! **Availability of lodging.** Flagstaff cannot increase its annual number of visitors, nor their average length of stay, unless it offers enough rooms of sufficient quality to accommodate them. Currently, Flagstaff possesses an abundance of rooms, which will allow it to capitalize on any increase in tourism. The potential threat, however, is that overcapacity could lead to a punishing price war among lodging establishments.

! **Community sentiment.** Tourism is clearly a driving force of the Flagstaff economy. It provides support not only to many businesses and their employees, but also to a number of community enhancements—such as beautification and the arts—through collection of visitor tax dollars and the multiplier effect of tourism revenue. It can also be argued that tourist-oriented enterprises potentially provide a valuable public service: they make it possible for visitors to experience—and perhaps appreciate and want to protect—the unique attractions of the area. To residents concerned about their quality of life, these all have the potential to be considered as positive contributions by the industry. A primary threat within this driver comes from the negative outcomes often associated with tourism that could make expansion politically difficult. These include such things as seasonal overcrowding, pressures for growth and development, stress on infrastructure and natural resources, and relatively lower paying jobs than some other industries.

C—Competitors

The world recognizes only one Grand Canyon, and northern Arizona has it. Flagstaff can also claim a fair share of the mystique and romance of the American Southwest. Nevertheless, tourists face many choices when making vacation plans.

Because Flagstaff is blessed with a tourism market of many facets, its competition must also be considered from a number of different angles. Among them:

! **Other world-class attractions.** The Grand Canyon is world renowned, hence its primary competition for visitors comes from equally famous “must-see” attractions in the world, including natural wonders (*e.g.*, Alaska, Yellowstone, African wildlife parks), famous regions (Europe, Asia, the Caribbean), and human marvels (Egypt’s pyramids, Disneyworld).

! **Other local gateways.** Smaller towns in the region also provide “gateways” to the Grand Canyon and other local attractions, drawing visitors away from Flagstaff’s lodging and services. These competitors include Williams, Page, Sedona, and Tusayan (including the future Canyon Forest Village), among others.

- **Other quaint mountain towns.** For colorful southwestern experiences, potential visitors can also turn to other attractive regional towns and cities such as Durango, Telluride, and Santa Fe, as well as to other Arizona mountain towns such as Prescott or Greer.

- **Southern California.** Because I-40 brings many cross-country travelers through Flagstaff, their stay in the area may be shortened by the lure of Southern California attractions, such as Hollywood, Palm Springs, or simply the beaches of the Pacific Coast.

- **Las Vegas.** An international destination in its own right, Las Vegas provides many foreign visitors—especially Asian tourists—their primary gateway to the Grand Canyon. Las Vegas's advantages include robust international air service, the glitter of gambling, and strong marketing.

D—Requirements for Cluster Vitality

Based on interview data, Flagstaff tourism leaders want business to be strong throughout the year independent of Grand Canyon visitation. Among their stated requirements for meeting that objective are the following:

- **Marketing of the hub image.** Many cluster participants consider Flagstaff's marketing budget to be too low to keep the area competitive. They feel a strategic marketing campaign is needed that can capture other markets besides those inclined to visiting the Grand Canyon or making weekend getaways from Phoenix. When developing a broader marketing strategy for Flagstaff, however, there is a danger of sending mixed marketing messages.

- **More local attractions.** Cluster participants tend to agree that the area needs more attractions. Among the popular ideas are a convention center and a proposed heritage theme park called Arizona Territory. Another less-discussed possibility is a NASCAR track.

- **Customer service training.** While NAU students are trained in the technical aspects of tourism at the School of Hotel and Restaurant Management, many cluster participants feel that all workers need to have the "right attitude" in order to improve customer service. One step in that direction has been the development of a hospitality skills and customer relations courses at Coconino Community College, but many cluster participants are not aware of these classes.

- **Workforce stability.** NAU students provide an inexpensive labor supply for traditionally low-paying hospitality jobs, but these jobs have a high turnover rate leading to strong competition for experienced help. High housing costs, high cost of living, and limited chance for job advancement also lead to job turnover. Some cluster participants feel that improvement could be made by creating a collective benefits package for low-wage employees, and tapping into the employment resources on the Navajo reservation.

- **Community support and leadership.** Not all residents of Flagstaff want tourism to grow, primarily because of sentiment that it reduces the local quality of life. Among the suggestions made by cluster participants for improving this situation were 1) to promote tourism's contributions as a taxpayer and major employer, and 2) to address tourism's effects on the environment and infrastructure. In addition, some participants called for an independent tourism leader or industry marketing group—separate from city government—that could freely advocate for the industry without any outside political pressures.

- **Improved air service**. Current air service is expensive and limited. Cluster participants believe that Flagstaff needs links to more cities and markets.

- **Continued beautification and improved amenities.** While much progress has been made by creating a downtown draw for visitors and cleaning up along the railroad tracks, Flagstaff needs to become more user friendly. Among the concerns cited by tourism representatives are dirty streets, inappropriate signs, run-down lodging places, and an incomplete and inadequately mapped system of hiking and biking trails.

IV New Trends in Tourism

Worldwide tourism has grown substantially in recent years, and a number of new trends have emerged that will greatly shape its growth and impact for the future. While many of these trends are well-known within the industry, they are sometimes overlooked. Therefore, the following list is presented with the recommendation that tourism leaders and government decision-makers keep these trends in mind as they set policies and plan new products and services.

A—Industry Trends

- **Technological innovations will streamline and personalize the way business is done.**
  - *Tourists will link directly with information sources and travel services,* thereby eliminating some intermediaries. A few online intermediaries, however, have gained market share by offering "fire sale" values on last-minute reservations (*e.g.*, Priceline.com).
  - *Niche marketing will grow as more sophisticated marketing techniques emerge* (such as through the internet). Destinations that prove they can serve highly specialized interest groups will gain a strong following.
  - *All sizes of tourism-related operations will need a technological presence and capability.* Tourists will expect to electronically connect with their destinations from home, office, and on the road.
  - *Local infrastructure will have to keep up with technological advances.* Visitors will expect to maintain electronic communications with home and office via personal devices (cell phone, laptop computers, 2-way pagers) and through local amenities (cyber cafes, public libraries, and hotel rooms.
- **The industry will develop more sustainable tourism practices.**
  - *Communities and the tourism industry* will move toward planning and developing more environmentally responsible tourism to satisfy the demands of local residents, vacation home owners, and tourists.

> The future tourist will demand…
>
> - High quality, value, and personal service.
> - Maximum use of precious free time.
> - More family-oriented travel.
> - Accommodation of diversity.
> - A pristine natural environment.
>
> The tourism industry can respond by…
>
> - Streamlining and personalizing services through technology.
> - Developing environmentally responsible tourism practices.

B—Consumer Preferences

! **High quality, value, and service will become base expectations for travelers.**

Top performing destinations will have to exceed all customer expectations to keep them returning and telling their friends.

The level of personalized care will determine whether many businesses succeed or fail—particularly bed and breakfasts, guided tour businesses, and travel agencies.

! **Free time will become more precious for working adults.**

More time will be devoted to "doing the experience," so travelers will demand timesaving conveniences such as pre-purchased tickets, restaurant reservations, and quicker check-in/checkout procedures.

Get-away weekends will continue to grow in popularity, partially replacing the one or two week vacation.

Vacationers will want to concentrate on educational and recreational activities that renew them either mentally or physically.

! **A substantial portion of travel will be family-oriented.**

Multi-generational services will be in high demand for adults traveling with their children, their elderly parents, or both.

A move toward changing school calendars, particularly in Arizona communities, will tend to spread vacation travel throughout the year.

! **Diversity will continue to drive changes.**

A growing number of seniors and early retirees will show preferences for heritage tourism, educational tourism, and ecotourism.

Hispanics will form a major portion of the consumer market in California, Arizona, and elsewhere.

! **The natural environment will remain a major attraction.**

Visitors will continue to look for "nature" experiences, both real (such as at National Parks) and simulated (such as at IMAX theaters).

Desirable tourist destinations will also be the targets for vacation home buyers, including those seeking houses, condominiums, and timeshares.

! **Shopping will maintain its luster.**

Destinations that can also offer locally-made goods of value and uniqueness will prosper by capturing a high amount of tourism spending.

V Characteristics of Gateway Communities

Gateway communities are towns and cities that provide services to tourists visiting nearby natural and cultural resources on public lands. As a group, gateway communities face many challenging issues related to growth, quality of life, and economic development. These issues are of particular significance to Arizona because more than half of all tourism-oriented towns and cities in the state officially promote themselves as gateway communities. These issues are also of significance to Flagstaff because of concerns that have already arisen. This chapter highlights issues that many gateways face, offering action guidelines based on the successful experiences of some communities.

A—Growth Issues

The United States has witnessed a recent trend of residential migration into rural communities. Among the most popular targets of this migration are gateway communities because they possess many attributes that people say they want—recreation, scenery, safety, a clean environment, and a friendly, small-town atmosphere.

Growth in gateway communities is expected to continue for at least the next 20 years as the baby boom generation ages and retires with a significant amount of disposable income. This growth, however, is not without its drawbacks and controversy. Among the issues that are often associated with growth are pollution, sprawl, traffic congestion, rising real estate prices, higher taxes, and housing shortages for working-class residents. These issues have attracted the attention of researchers interested in environmental and community concerns. Among their conclusions from studies conducted in gateway communities:

- **Gateway communities are overwhelmed by rapid growth.** Many find that growth and development is failing to meet local needs and aspirations.

- **Residents feel a strong attachment to both the landscape and the character of their town.** The vast majority want a healthy local economy, but they don't want it at the expense of their natural surroundings or community character.

- **Residents lack information about the positive options available to them**. While planners and landscape architects have reams of data on various land-use and economic-development options, such information is not common knowledge to the people making day-to-day decisions about the future of their communities.

- **Gateway communities can learn to deal with growth.** Throughout the country, dozens of communities have proved that economic prosperity doesn't have to transform them into tourist traps. They have implemented policies that stimulate a healthy economy while protecting the community's identity and safeguarding natural and historic areas.

B—Quality of Life

Quality of life consists of those characteristics of a community that make it a satisfying location for its residents. Though hard to measure, quality of life has emerged as an important consideration in how people decide where to live and work. According to rural development researcher Tom Power, the real economic base of a community "consists of those things that make it an attractive place to live, work, or do business."

Recent studies of gateway communities in various regions of the country have underscored the importance of quality of life to residents and businesses there. Among the results:

- **Residents rank clean environment, recreation/tourism, and low crime rate as the top three factors for future success.** Surveys conducted in two gateway communities near Yellowstone National Park found that most residents rated quality of life factors far above mining development, and somewhat higher than employment and business prospects.

- **Business location decisions in gateways often hinge on environmental and recreational quality.** A study of the Greater Yellowstone region of Montana found that businesses ranked traditional economic values least important when it came to making a decision to locate in the area, while quality of life values were among the top factors. Another study of the Yellowstone region found that business owners and managers chose recreational and environmental qualities as the most important reasons for locating in gateway communities, even though 68 percent believed they could earn more income elsewhere.

- **Maintaining high quality of life makes good economic sense.** Several studies have found that communities with policies or initiatives in place to protect scenic, ecological, or historical assets enjoy a more robust economy with less volatile residential growth and business migration.

C—Tourism and Economic Development

Gateway communities typically feature tourism as one of their major employers with markets extending into other states or internationally. Rather than focusing on providing the tourist attractions themselves, however, gateway businesses usually concentrate on the services that tourist need such as hotels, restaurants, and access to the attractions. Consequently, gateway communities tend to experience high visitor volume, but short lengths of stay.

Two studies looked at the economic and social effects of tourism on gateway residents.

- **Tourism tends to provide higher employment but lower average wages.** A study conducted in Cherokee, North Carolina and Gatlinburg, Tennessee (gateways to Great Smoky Mountains National Park) found that tourism resulted in a greater percentage of employed residents compared to nearby areas, but that jobs were often lower-skilled, lower-paying, seasonal, or part-time without much room for advancement.

- **Tourism leads to greater amenities, but more exposure to social ills.** A study conducted with residents near Acadia National Park found that proximity to the park offered advantages such as increased recreational, cultural and educational opportunities; extra police and fire protection; and more jobs. But it also created disadvantages such as high cost of housing; inflated cost of goods, services, and land; reduced amounts of developable land; reduced access to hunting and trapping areas; increased noise, litter and traffic generated by visitors; and perceived increases in alcoholism, drug abuse, crime, and vandalism.

D—Successful Practices

A number of communities have found ways to retain their scenic beauty, small town values, historic character, and sense of community while encouraging economic prosperity. According to some gateway researchers, these communities tend to share at least a few of the following practices. Successful communities:

- **Agree on a broadly-based community vision.** Residents must have a shared vision of what they want their community to become. This involves open discussion and visioning in town meetings involving all segments of the population.

- **Create an accurate inventory of assets and build on it.** Prior to making long-term plans, residents must assess their community's resources—natural, cultural, demographic, regulatory, and economic. Successful gateway communities build their community and economic development policies around these distinctive assets, creating a clear sense of place that attracts and retains businesses, residents, and tourists.

- **Minimize regulation and attend to the needs of both landowner and the larger community.** Most problems related to development are not the fault of one individual development, but the effects of overall patterns of development.

Successful Gateway Communities...

✓ Share a community vision
✓ Build on local assets
✓ Minimize regulation
✓ Collaborate with public land managers
✓ Encourage grass-roots leadership
✓ Pay attention to aesthetics

Successful communities create clear, long-term development criteria that reflect the community's vision of the future and simplify the approval process for allowable developments.

- **Collaborate with public land managers.** The relationship between community leaders and public land mangers has often been adversarial. Many successful gateway communities, however, have developed partnerships with public land managers to help them achieve mutual goals. These partnerships provide two benefits. First, land managers can contribute to community planning efforts, provide technical assistance, and offer financial leverage. Second, citizens can participate in and influence park and land management plans.

- **Encourage non-governmental organizations and provide opportunities for grass-roots leadership.** Most successful communities support several groups of active volunteers that work on important issues. This situation increases community buy-in for new policies, and allows neighborhood leaders to emerge who can effectively spearhead improvements.

- **Pay attention to aesthetics.** A hallmark of successful gateway communities is their visually appealing development. Attention to aesthetics involves protecting views, scenery, and historic landmarks while maintaining an attractive built environment.

VI Opportunities for Action

The following list presents initiatives to consider for strengthening the Flagstaff-area tourism cluster. Results are based on economic analysis, a study of worldwide tourism trends, review of existing research on gateway communities, and interviews and discussion with community and industry leaders.

A—Collaborative Strategies

! **Make Flagstaff a World-Class Location**

- *Invest in local amenities that pay double benefits—to both tourists and residents.* Among the possibilities: build a well-thought-out system of trails and walkways that makes the city pedestrian friendly and connected to its surrounding mountains; create easily accessed and engaging public places such as gardens, parks, and cultural and historical attractions; expand and publicize library services and internet access for overnight guests; improve bicycle access for tourists and create self-guided bicycle tours; promote diversity and innovation in local cafes, restaurants, and other establishments; encourage quality local events and entertainment; look at the feasibility of providing water to the ski area for snowmaking. Such investments may also lead to a third benefit—by increasing quality of life in the city, Flagstaff could become more desirable as a home for high-paying, clean industry.
- *Fortify the infrastructure.* Work toward improving traffic conditions, technology and network access, and airline service.
- *Pursue development of conference space to attract moderate-size meetings.* A busy conference center could also attract improved airline service.
- *Improve Flagstaff's first impression on visitors*. Create entrances to the city that welcome visitors, draw them off the Interstates, and help them find their way around town to discover its assets.
- *Focus on customer service and use it as a marketing tool.* Take full advantage of the tourism industry's close connection with NAU's School of Hotel and Restaurant Management—first to improve all-around customer service through better training, and second to promote the city's reputation as "number one" in customer service.
- *Encourage commercial and residential developments that are consistent with Flagstaff's character.* Determine the types of developments that will best complement the community's natural and cultural assets while maintaining or improving access to public areas. Then streamline the regulation process for those developments.

- *Find ways to update and upgrade lodging facilities to keep pace with consumer demands for higher levels of service* (*e.g.*, technology access, swimming pools, exercise facilities). This will be a particular challenge for many older facilities, and may require innovative solutions.

Enlist Community Support

- *Gain understanding of community concerns* by conducting a scientific survey of Flagstaff residents' attitudes toward tourism, including their perceptions of how it affects quality of life issues. A recent statewide study conducted by the Department of Recreation and Tourism Management at ASU West (Andereck & Knopf, 1999) may provide some preliminary information.
- *Work with opposing groups to develop a concept of "responsible tourism."* First, address the concerns of the community, particularly regarding quality of life issues highlighted by survey responses. Second, educate visitors regarding protection of natural or archaeological attractions.
- *Improve community perceptions* by publicizing tourism's benefits for local residents—financial and otherwise. Encourage and facilitate citizen involvement in decision-making related to tourism.

Focus the Vision

- *Develop strategies for protecting* Flagstaff's unique character and open spaces. Use current and proposed growth laws (Growing Smarter, Citizens Growth Initiative) as an impetus to determine what kinds of development the city wants and where.
- *Create a long-term tourism plan* that is linked to the city's master plan, and that emphasizes citizen input. Consider an annual marketing strategy consistent with long-term plans.
- *Integrate planning and marketing with other city plans.* Consider a model used by Scottsdale: a planner working in the economic development department also serves on the board of the Convention and Visitors Bureau, providing both departments with representation regarding zoning issues, business expansion/retention plans, and community beautification efforts. Such a planner in Flagstaff could also begin to work with neighborhoods and commercial areas that the city would like to promote to tourists.

Lead a Regional Approach

- *Take a leadership role in reducing tensions among regional competitors, and foster collaborations that benefit the region as a whole.* Bitter competition, law suits, and public opposition can give a negative impression to visitors and create a financial drain, while a team approach to solving problems can increase overall revenues and benefit everyone. Flagstaff stands to gain the most from any regional upswing due to its position as a transportation and commercial hub.

Work with government land managers to develop new products (*e.g.*, unique eco-tours of archaeological sites or geological areas).

B—Marketing strategies

More primary research—particularly Flagstaff resident and visitor surveys—will help refine marketing strategies for the Flagstaff area. The following suggestions, however, are based on existing research and current trends:

! **Design marketing communications that take what we know about consumer decisions and use it to go interactive.** Consumers usually move through four stages in learning about places and deciding to travel:

Stage 1—*Awareness.* Initial communications in new markets must introduce Flagstaff, suggest what it has to offer, tell where it is located, and suggest how to get there.

Stage 2—*Interest.* Communications must stimulate interest in Flagstaff as a destination for a variety of high-interest features and activities. According to a report published by Behavior Research Center of Phoenix, travelers who have not yet visited Arizona say they are most interested in natural beauty, good weather, quality of lodging, variety of attractions, and outdoor recreation opportunities. According to a 1998 report for the Office of Tourism by marketing research firm DK Shifflet, those who have visited Arizona ranked their top activities as sightseeing, visiting national and state parks, visiting historic sites, hiking and biking, and camping. Significantly, Flagstaff outperformed Phoenix, Tucson, and the composite of all Arizona destinations on these activities.

Stage 3—*Desire.* Strong, clear messages should stimulate desire to visit Flagstaff by illustrating the area's abundance of top attractions and outdoor recreation opportunities. Responses to inquiries by potential customers must be flexible and targeted to any expressed interests.

Stage 4—*Action.* The communication process must end by helping the prospective tourist make plans, arrange reservations, and reach the destination. Technological innovations can help close the deal conveniently by phone, fax, internet, or other electronic means.

! **Position Flagstaff through its world-class attractions and status as a gateway.** Marketing should illustrate Flagstaff's image and special features, but differentiation is key: a 1994 report by NAU geography professor Alan Lew documents that half of all Arizona communities considering themselves a tourism destination also promote themselves as a gateway. NAU tourism professor Allen Reich has recently written a book on positioning and could be a resource for developing an effective positioning strategy.

! **Develop and prioritize new target markets.** Additional research is needed to refine new targets, but current information points in three directions.

Geographical markets: Phoenix and Southern California are current geographical favorites for marketing efforts, but Las Vegas may also be a viable market given its population growth, proximity, warm-weather climate, and strong tourist population.

Weekend getaway markets: Flagstaff attracts instate residents interested in short getaway vacations. This market segment could be better developed by considering activity and accommodation preferences, the decision-making process, and planning horizons.

Trip of a lifetime market: Flagstaff also attracts out-of-state and foreign visitors engaged in lengthy once-in-a-lifetime tours. As with the weekend getaway market, this market could also be better developed by considering activity and preferences and planning horizons. This would eventually lead to separate marketing strategy from that used for weekenders.

! **Use technology to test niche markets such as outdoor recreation.** Moab has exploited mountain biking; Yosemite has rock climbing. Flagstaff may want to expand one of its outdoor specialties or emphasize a region-specific version of ecotourism (*e.g.*, archaeological or geological tourism). Several niche markets could be explored inexpensively through Web pages on the internet, particularly in joint ventures with special interest groups, outdoor schools, or other cities.

! **Package the area's bewildering number of assets into coherent themes.** Create a comprehensive and meaningful menu of activities and tours that will help time-budgeted tourists get the most out of their visit. Show them what they are missing and make them want to come back for more. For example, develop more experiential activities such as guided and self-guided tours to the area's lesser-known attractions, geological wonders, national monuments, and Indian reservations.

! **Provide more "how to" instructions for visitors in brochures, Web pages, and marketing materials.** Brochures, internet sites, and other materials that list attractions should include information that is essential to visitors: hours of operation, approximate prices, and time needed to tour the attraction.

! **Collaborate on joint marketing ventures.** Continue working with Arizona Office of Tourism on joint programs such as regional advertising, and continue to look for new joint ventures, such as with corporate sponsors, Amtrak, federal agencies, or other cities.

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Appendix A

METHODOLOGY OF ECONOMIC BASE STUDY FOR COCONINO COUNTY

Methodology of Economic Base Study for Coconino County

A. County Data

The primary data source used in the economic base study is County Business Patterns, an annual product of the U.S. Bureau of the Census. Among annual reports, County Business Patterns provides the most sectorally detailed data at the county level. It contains one major drawback: while it covers most private-sector enterprises, it excludes the public sector.

Economic activity is reported by establishment in County Business Patterns. An establishment is defined as a single physical location at which business is conducted; in other words, one company may consist of multiple establishments. By sector, County Business Patterns provides the total number of establishments, the number of establishments by employment-size class, the number of employees, and payroll. A strict rule protecting the confidentiality of an individual establishment means that employment and payroll data may be withheld in sectors with few establishments or with one establishment that dominates. For those sectors affected by this disclosure rule, employment was estimated.

The economic base study makes it possible to determine a common indicator of industry concentration called the “location quotient.” This is calculated by dividing the local sector’s per capita employment by the national sector’s per capita employment. A location quotient greater than 1.0 signifies a greater concentration of the sector at the local level. This may indicate export activity—that the product or service is disproportionately sold to companies or individuals residing outside the local area. By this definition of export activity, tourism is considered to be an exporting industry. Anomalies in local purchasing patterns, however, can also affect location quotients, particularly in relatively small sectors.

B. Zip Code Data

The Census Bureau also produces a companion product, Zip Code Business Patterns. Broken down by individual Zip Code, it provides the same data as County Business Patterns, but only for all economic activity as a total—not by sector. Sectoral data is limited to the number of establishments per employment-size class. Based on this distribution, however, a rough estimate was calculated for sectoral employment in the Flagstaff area.

Appendix B

INTERVIEWS CONDUCTED

Cluster Participant Interviews

The following 23 people representing diverse interests related to the Flagstaff-Area Tourism Cluster were formally interviewed during August and September 1999.

Name	Representing
Chris Bavasi, Mayor	City of Flagstaff
Robert Button, General Manager	Little America
John Cavolo, Owner	Crown Royal Cafe
Ron Evans, Dean	School of Hotel & Restaurant Management, NAU
Michael Fox, Director	Museum of Northern Arizona
Connie Frisch, Forest Supervisor	Kaibab National Forest
Mark Grisham, Executive Director	River Outfitters Association
Dora Harrison, County Manager	Coconino County
Sam Henderson, Superintendent	Flagstaff Area National Monuments
Howard Krueger, Owner	The Inn at 410
Clara Lovett, President	Northern Arizona University
Dave Maurer, President & CEO	Flagstaff Chamber of Commerce
Robert Millis, Director	Lowell Observatory
J.R. Murray, General Manager	Arizona SnowBowl
Theresa Propeck, Marketing Director	Grand Canyon Railway
Mark Ross, General Manager	AmeriSuites
Matt Ryan, Chairman	Coconino County Board of Supervisors
Libby Silva, Owner	El Metate Mexican Restaurants
Bob Slavin, Owner	Buster’s Restaurant and Bar
Jim Tuck, Transportation Director	Grand Canyon National Park
Kerren Vollmer, Owner/Vice-President	NavaHopi Tours
Gary Weiskopf, General Manager	Black Bart’s Steakhouse
Dave Wilcox, City Manager	City of Flagstaff