Opinion
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EXCELLENCE IN CONVENTION CENTRE MANAGEMENT

Investing in Convention Centres

Why "The Wrong Reasons" May Just Be the Right Ones

By Rod Cameron

Every once in a while we see indignant news items about why investment in a convention centre is in the worst possible interests of a particular city. Although they may be from anywhere, they have a remarkably consistent formula: They are generally initiated in reaction to some kind of announcement, reported by local media who can always use some controversy, and often supported by sage comments from critics whose existence depends on them reliably having something bad to say about these kinds of investments. As ammunition, they typically draw on data that has been selectively assembled to show the worst possible consequences for any destination dumb enough to build or expand a centre "for the wrong reasons."

So what are those reasons, and what exactly makes them "wrong?" Interestingly enough, the best arguments in favour of centre development can often be found in the kinds of reasoning put forward as to why centres are a bad idea – and for that, we need look no further than the articles themselves, which display a startlingly consistent list of negatives.

They cost too much. They don't meet their financial or business projections. There's already an oversupply. Oh, and by the way, all that money would be best spent elsewhere. Collectively, a seemingly insurmountable assembly of negatives that any politician would only contest at their peril. But the answers to these criticisms generally hold the key to why so many destinations are looking at centre investment or re-investment in the first place.

Let's look at a few examples;

They're not profitable:
They're not supposed to be. If they were, private investors would be building them and we could forget about this whole discussion. What they're intended to do is attract incremental business into the city that will generate economic benefits beyond the centre itself. As a result, they're only unprofitable if you ignore the broader economic benefit they generate, which, while they may not go to the centre's own bottom line, are nevertheless very real and inevitibly re-captured in part via the incremental tax revenues that result – something easily calculated. The government (and therefore the community) still gets the revenue, and weren't they the ones that paid for the facility in the first place?

To ignore the broader economic impacts generated by a centre is to misunderstand the reason they were built in the first place – yet that's what a simple profit / loss analysis does.

Well, yes, but community facilities like hospitals, schools and recreation facilities should be the priority for government investment:
Hard to disagree – but that's the whole point. All those community amenities have to be financed – and if as a taxpayer you'd rather not take the whole hit yourself, a facility like a convention centre that generates non – resident income which can be used to support those amenities seems like a pretty good idea. In short, a centre is an investment whose returns help support all those other things you'd like but that can't (or shouldn't) support themselves with their own user fees.

They're built for non-resident delegates and don't serve the local community:
Not unless you count generating visitor revenues, supporting the business and academic communities, attracting global expertise, promoting knowledge transfer, creating educational opportunities and…. um, what was the question again? While it may be convenient to ignore these broader benefits simply because they're not as easy to measure, they are in fact the real reasons business events take place and the host community generally gets a large proportion of the resulting spin-off.

But there's also the fact that a centre forms an important part of the capabilities a community has for accommodating its own events, including everything from local trade and consumer shows to banquets and community celebrations. And these are not theoretical roles – they make up a big part of the actual usage centres see throughout the world, and are as legitimate as any other kind of use.

They don't meet their business projections:
Yes, that can be true – but projections are just that – estimates of what may be expected to happen under a particular set of circumstances, which in turn depends on when the projections were made – has anyone noticed there's been a major global economic slump over the last several years? If so, was there some reason to think convention centres would be exempt from the impacts that pretty much flattened almost every other sector, particularly when their business levels are a reflection of the health of the overall economy?

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Anyway, "meeting projections" is not an end in itself – it's all about what kind of return is ultimately achieved, and at what cost. If this picture looks good, and the centre is delivering on the broader range of anticipated benefits, does it really matter what the original projections were?

There's an oversupply of convention centres in the market:
This too, may well be true in some places – but take note of the point above about the current (hopefully temporary) state of the economy. As with any commodity, supply and demand move in different cycles and are often out of sync at any particular time, particularly one of economic challenges.

Anyway, "overall" supply is meaningless in any practical terms; while it may be convenient for critics to reference macro figures that support their arguments, clients don't spread themselves around evenly just to make the statistics look good. As in any business, there will always be relative winners and losers based on what kind of overall package can be offered up to the market. So it again comes down to a good analysis of what a specific centre can expect to achieve in the way of business, not how many square feet of facility space there are in the world today.

Existing facilities aren't full:
Maybe not, but again, who cares? As with any business enterprise, there is a pretty good question around what exactly "full" means. It's generally considered that when you take into account the down times associated with moving events in and out, dead periods in the event season and maintenance intervals anything over about 65% occupancy in a convention centre is a miracle.

But that's not the point: if you're generating net economic benefits, does it really matter how "full" you are. Do restaurants close down if every table isn't taken 100% of the time? Of course not – the real determiner is if they're making money. And speaking of making money….

There are better ways to stimulate economic development:
Really? And what would those be? Most cities in hot pursuit of new investment (read: economic development) spend enormous amounts of money on development agencies, who in turn spend it on trying to attract decision makers, expose them to relevant business opportunities and encourage them to think about locating and / or investing in the community.

But wait a minute: this is pretty much what is happening in a convention centre any time a major national or international event is in town – delegates are much more likely to be decision-making business, professional and academic people than any other category of visitors. Furthermore, these prospects are actually paying the vast majority of their own way – even a subsidized centre is still recovering by far the largest proportion of their operating cost from users – which is a lot more than you can say about many other approaches to attracting new investment via more traditional economic developments strategies.

OK, but this is the worst time to invest, given the state of the economy:
In fact, it may just be the best possible timing, for three very good reasons:

First, a project like this has a long lead time – often 5 years or more - which means you're building for future economic conditions, not current ones. Investing in a dip means positioning for the recovery, rather than waiting for more robust times when it will already be too late to take advantage of future growth (and if you don't think there will be an economic recovery at some point, all bets are off anyway). That's why the decision is inevitably made as part of a long term economic and community development strategy, not based on whatever may happen to be going on in the economy at the moment.

Secondly, infrastructure is arguably the best form of stimulus spending – because you not only get the immediate benefits in terms of job creation but also the longer term benefits from what it is you've built.

Finally, because development costs – including land acquisition, construction costs and even related services like design and engineering - are likely to be much more attractive than in the middle of a boom.

And now to "the wrong reasons":

It's all about competing with other cities and / or creating a monument to some administration or other, and that's civic vanity, not good business sense:
The thinking here seems to be that there is something seriously wrong with governments aspiring to create a competitive facility capable of attracting attention and participation in a form that will help the community grow and prosper in a particular direction.

But isn't that what they're supposed to do? Isn't the role of responsible government to invest in those things that are going to support an economic and social strategy for the future? And in those terms, isn't creating the kind of facility that will enable a place to attract and accommodate the kinds of business, academic, professional and investment-related activities that support such a strategy more of an obligation than an indulgence? In a way, the long-term nature of such projects - when based on a solid assessment of the market and in the context of an overall economic development plan – provides governments with an opportunity to demonstrate one of their most important roles, namely to anticipate and provide for future opportunities rather than just reacting to current conditions.

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True, this all needs to be thought through carefully. It requires the right kind of research and analysis to determine what those future aspirations are, what kind of investment will best support it and, in the case of a convention centre, what kind of facility would be most likely to respond effectively to the available market opportunity and attract the right kinds of business events. But an investment that enables a city to do what it could not otherwise hope to do, when properly planned and executed, is a sound one. And when you realize that that investment – unlike most others in the public realm – is heavily supported by the users themselves, it's hard to see this as a bad idea.

There are of course "wrong reasons" for building centres – doing so for narrowly defined beneficiaries, or in the absence of and / or against the advice of a solid feasibility study, for example - but these are fading fast in the face of a growing appreciation of the real role centres play in the overall economic and social agenda of a city and an understanding of the need for a rigorous assessment of the business opportunity prior to making any decisions. To be understood, they need to be seen (and used) for what they are: a multi-functional investment that, with a well-structured mandate, governance and corresponding priorities can assume an integral role in the business life and aspirations of the community.

The bottom line: a centre is seldom going to be a money-maker in itself but is almost always a net revenue generator for the overall community when total benefits are taken into account. If at the same time it delivers the kind of educational, knowledge, investment and academic support described above, and does so largely on the basis of revenues earned at least partly from non-residents, that's a pretty good investment.

What this means is that the thing that most critics focus on – whether or not a centre is profitable in itself – is actually the least important part of the equation. What's far more important is that the owner has a good plan in place to maximize the broader benefits it generates in terms of helping advance their community and economic agendas while the users pay the lion's share of the costs.

Is investment in a convention centre the right choice for every community? Absolutely not – but neither is it always the wrong one, and those that suggest this are doing a huge disservice to those that have the potential and the plan to make it work for them. Critics have both a right and a responsibility to question and even challenge public investment – after all, it's often their money. But there's also a responsibility to listen to the answers – because they may illustrate why "the wrong reasons" are actually the right ones.

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