

DMO funding

Going forward, the lazy or unimaginative will continue to wait for members' dues checks to arrive, and pray that their municipality continues to fund them at the same, or (with a little luck) at an even higher level through the room tax or city's general fund. Their days are numbered.

Marks (2004, p. 141)

Aims

The aims of this chapter are to enhance understanding of:

- the importance of securing long-term funding
- the reliance on public-sector funding
- other funding sources



Perspective

Fundraising has been a perennial challenge for many DMOs. The majority of DMOs, at all levels, and regardless of how they are structured, rely to a large extent on government support. Government funding is commonly provided through annual grants or through some form of levy on visitors or businesses. The over-reliance on government funding has been a concern to many DMOs, given the often long-term uncertainty of political commitment towards tourism. The withdrawal of state government funding in Colorado serves as a warning to all DMOs. More research into alternative forms of funding is required. John Marks, CEO of the San Francisco CVB, suggests that the key to future funding lies in developing a more entrepreneurial spirit among staff. Marks (2004) sees the entrepreneurial spirit as being critical to developing alliances with non-traditional partners as well as tourism businesses. The San Francisco CVB, for example, has partnered with a diverse range of companies, such as Visa, See's Candies, Colavita Olive Oil, Buick, and the San Francisco Giants. Similarly, New York City and Company has partnered with American Express, Coca-Cola, and the National Football League to leverage budgets (Nicholas, 2004).

Long-term funding security

In Colorado, a state government referendum in 1993 resulted in the abolishment of the tax that funded the Colorado Tourism Board (CTB). Without such government funding the CTB was closed (Bonham & Mak, 1996). The state became the only one that did not have an STO. At the time tourism was the state's second largest industry, worth an estimated \$6.4 billion annually (La Page et al., 1995). The effects in the marketplace were significant, with estimates that Colorado slipped from 3rd to 17th in terms of traveller recognition of state destinations, and that pleasure travellers decreased by up to 10% (Donnelly & Vaske, 1997). McGehee et al. (2006) cited a report indicating that Colorado's share of domestic pleasure travel declined by 30% between 1993 and 1997.

In 2004, the Illinois governor's office proposed a 54% cut in tourism funding to help offset the state deficit (Bolson, 2005). This was successfully opposed in an aggressive campaign by the tourism industry, led by the state's CVB association. Such a withdrawal of government funding can lead to a tourism crisis. For example, in 2006 Tourism Waikato, one of New Zealand's regional tourism organisations (RTO), had its budget unexpectedly cut in half by the local government (see Coventry, 2006, p. 1). Tourism Waikato's Chief Executive Officer lamented: 'It's a very gut wrenching situation. Marketing of the whole of Waikato will be suspended until funding regenerates.'

The world average for NTA budgets was estimated at US\$19 million in 1997, which pales into insignificance in the global marketplace in

comparison to leading consumer goods brands such as Sony and Philips. DMOs compete with such brands for a share of voice in discretionary spending categories. Morgan and Pritchard (2001) compared Sony's annual advertising budget of US\$300m with a WTO estimate of the total tourism advertising spend of all governments in the world to be US\$350 million.

Marketing destinations in a dynamic environment requires significant financial and management resources. However, destination marketing is undertaken by organisations that often have no direct financial interest in the visitor industry, and therefore have no income of their own. A key exception is in places where a bed tax regime operates, such as North America, where increased accommodation revenue can lead to an increased budget for CVBs. Of course the reverse also applies, as in the 9/11 aftermath when accommodation revenue decreased in many places. For example, in Las Vegas, a 10% decrease in visitors following 9/11 resulted in a similar decrease in the CVB's \$250 million annual budget.

While Vallee (2005) reported Canada's largest CVBs, such as Montreal, Toronto, and Vancouver, have budgets ranging from \$10 million to \$25 million, many DMOs have limited budgets. For example, Rogers (2005) found only one in five British CVBs had a budget greater than £100,000. Relative to RTOs in other major cities, the London Tourist Board (LTB) is poorly funded by government (Hopper, 2002). At the time the LTB received £1.85 million from central government and £241,000 from local authorities annually. The remainder of the £6 million annual budget was contributed by the private sector through subscriptions, partnership marketing, and sponsorship.

Funding is a critical issue for DMOs. In fact for any marketing organisation without products or services of its own to gain sales revenue it is arguably the most important consideration. Non-business organisations usually cannot cover costs through sales, and often devote ongoing efforts to generate new tax revenues, sponsorships, and/or contributions from members. The high reliance on government funding leaves many DMOs at the mercy of political masters. A survey of USA CVBs identified the main impediment to financial management was future funding security (Sheehan & Ritchie, 1997).

Security of long-term government funding is not only a challenge faced by STOs and RTOs. WTO (1999a) estimated that collective worldwide NTA budgets declined during the 1993–1997 period, from US\$2,224 million to US\$1,791 million. The problem is global. RTO budgets in Australia have generally been modest, and in New South Wales many have struggled to survive (Jenkins, 2000). Carson et al. (2003) found local authority budget contributions to tourism in the state of Victoria, Australia, ranged from A\$2,000 to A\$6.5 million, with a median of \$232,000. They found 40% of councils surveyed indicated a tourism budget of less than A\$150,000. In Scotland, Kerr and Wood (2000) reported on the financial difficulty, including near bankruptcy, for some ATBs due to reduced levels of local government funding. They cited the example of the Dumfries and Galloway Tourist Board, which was £1.2 million in debt in 1998. One of the problems was that the ATB areas did not match local government

boundaries, and so ATBs were forced to lobby several councils for funding support.

Multiple accountability

The challenge of spending scarce resources lobbying several local authorities in an RTO's 'regional' catchment area is common. Consider, for example, Outback Queensland (www.outbackqld.com.au) in Australia. The RTO's catchment area represents 50% of the state's land area and includes 21 local government authorities. The structure of local government can make a regional approach to regional problems extremely difficult. Clearly, managing relationships with multiple-funding agencies is time-consuming. Tourism Auckland CEO Graeme Osborne strongly lamented to me the impact of the resultant multiple accountability and multiple governance, where the RTO reports to the committees of each council as well as to the tourism industry.

It prevents truly visionary leadership being exercised at a regional level, which of course is the correct approach for destination marketing. The fundamental flaw then is the structure and (ridiculously excessive) scale of local government, the ensuing lack of regional vision, the 'sovereignty driven', duplicative, parochial leadership offered by generally low-average-quality local government politicians.

Tourism Auckland received NZ\$2.1 million in local authority funding for the 2003/2004 financial year. As can be seen in Table 5.1 most of this was from one local authority. However, it has been estimated that while the Auckland City Council contributes 79% of the RTO's funding, the city area receives only 55% of the economic contribution of tourism to the Auckland region (Tourism Auckland, 2002).

Auckland is New Zealand's largest population centre, and its most visited destination. Auckland International Airport facilitates 71% of all visitor arrivals to New Zealand. Given the prominent status of the region,

Table 5.1 Local authority funding for Tourism Auckland

Local authority	Population base	2003/04 contribution	Per capita
Auckland City Council	377,382	\$1,645,000	\$4.36
Manukau City Council	281,604	\$300,000	\$1.07
Waitakere City Council	167,172	\$0	\$0.00
North Shore City Council	184,287	\$90,000	\$0.49
Rodney District Council	77,001	\$10,000	\$0.13
Papakura District Council	40,035	\$5,000	\$0.12
Franklin District Council	51,450	\$20,000	\$0.39

Table 5.2 Comparison of local authority contributions to major New Zealand RTOs

RTO	Population base	Local authority contribution	Per capita
Auckland	1,178,931	\$2,000,000	\$1.70
Christchurch	316,224	\$2,600,000	\$8.22
Wellington	163,827	\$4,600,000	\$28.08
Rotorua	64,473	\$1,212,000	\$18.08
Queenstown	17,040	\$1,600,000	\$93.90
Mean	581,895		\$18.24

Tourism Auckland's budget might be considered low relative to other New Zealand RTOs, as shown in Table 5.2.

Manchester's CVB, in the UK, reports to 10 local authorities (Bramwell & Rawding, 1994), Bundaberg Region Ltd, an RTO in Australia, reports to 10 local authorities (www.bundabergregion.info), the former West Country Tourist Board in the UK was responsible to six and a half counties (Meethan, 2002). At the state level, Pennsylvania has more RTOs than any other in the USA, with 59 agencies in 67 counties (Goeldner et al., 2000).

There is no common model for determining the appropriate level of funding for a DMO. In an examination of government policy of European Community member countries, Akehurst et al. (1993) found little correlation between central government tourism expenditure and international receipts on a per capita basis. For example, Greece, which had the highest government spend per capita, was at the lower end of international tourism receipts per capita. Comparisons can be made between DMO budgets from different regions using many different measures, including:

- host population
- visitor numbers
- as a ratio of visitor spend
- number of commercial accommodation beds/rooms
- number of taxpayers/ratepayers.

Ultimately the funding decision process will depend on the local situation, with influences including:

- local politics
- community acceptance of tourism
- destination life-cycle stage and industry maturity
- economic importance of tourism relative to other industries
- DMO history and current structure.

A key management challenge for DMOs is finding the optimal balance between fixed costs and promotional spend (WTO, 1999a). The WTO found

that the average marketing allocation was 74% for those NTOs with budgets over US\$50 million and for those with budgets between US\$10 and \$20 million. For NTOs with budgets between US\$20 and US\$50 million, the average was 64%. In the USA, IACVB (1993, in Morrison et al., 1998) estimated that of all room taxes collected, approximately 27% is used for the convention centre construction, debt servicing and operations, 25% for CVB marketing, and 48% for 'non-visitor uses'. McKercher and Ritchie's (1997) study of local government tourism units in New South Wales and Victoria, which identified a median operating budget of A\$215,000, found over half of average budgets were allocated to staffing, with the median marketing allocation only A\$70,000.

Sources of revenue

The most common sources of revenue for DMOs are: accommodation tax, tax on business, member subscriptions, commercial activities, cooperative campaigns, and government grants.

Accommodation bed/room taxes

Key advantages of accommodation taxes are that they directly target the visitor industry, and can generate large amounts of revenue for a relatively low cost. Room taxes, which are additional to any other local, state, or national general sales taxes, have existed in the USA since at least the 1940s (Migdal, 1991 in Morrison et al., 1998). A survey of IACVB members (IACVB, 2001, in Fenich, 2005) found that the average city hotel tax was 11.6%. An average of 56% of the tax collected is dedicated to funding the CVB. Visitor taxes are a way for governments to shift the financial burden of funding DMOs and infrastructure from local taxpayers. While many countries, such as the UK, Australia, and New Zealand do not have a bed tax system, Sheehan and Ritchie's (1997) survey of USA CVBs found that the largest source of revenue was hotel room taxes, generating a mean 72% of revenue. The next level of funding sources were modest by comparison: membership fees (7% – the highest was 58%), government grants (6% – highest 90%), local authority taxes (2.6% – highest 100%), cooperative programmes (2% – highest 41%), restaurant taxes (2% – highest 60%). Other sources, representing an average of 8%, included: convention centre grants, merchandise, advertising sales, county tax, events, admissions, in-kind services, and a provincial or state tax. In Mexico, federal government legislation in 1996 enabled the states to levy up to a 5% hotel room tax (Cerdeña, 2005). Just over half of Mexico's CVBs are now funded by room taxes. In Europe, Vienna introduced a bed tax of 2.8% in 1987.

However, the hotel room tax is far from universally lauded. The repeal of the 5% bed tax in the state of New York was hailed by some in the tourism industry as the removal of an inhibitor to destination marketing (Cahn, 1994). The tax, which was introduced in 1990, was the subject of strong criticism from industry, with one executive likening it to 'economic suicide' for the meetings sector. In a survey of delegates attending the 1999 Scottish

Hospitality Industry Congress, Kerr and Wood (2000) found a resounding 93% of respondents against the concept of a bed tax, although 35% did indicate possible support if all the revenues were devoted to the tourism industry. A variation of this, reported by the *The News Mail* (31/503, p. 3), was used in Queensland's Wide Bay region. Around A\$80,000 was collected from a visitor levy during the 2002 whale-watch season, which was being used on an advertising campaign to promote the 2003 season.

In light of the criticism by some in industry that visitor taxes damage destination competitiveness through forced price increases, a number of studies have investigated the impact such levies have on traveller demand (see Aguilo et al., 2005; Bonham & Gangnes, 1996; Bonham et al., 1991; Hiemstra & Ismael, 1992, 1993; Mak, 1988; Mak & Nishimura, 1979).

Tax on business

An alternative tax, which may become more common in the future, is one that is levied on local business' turnover or capital value. This can be used as an effective means of raising revenue for RTOs, and an alternative to funding through the general household tax or rates base, or through member subscriptions. The efficacy of this approach has been demonstrated in smaller resort areas where tourism has a high profile. Examples include the New Zealand resort destinations of Lake Taupo and Queenstown. These local governments charge a levy to all local businesses, thereby avoiding the challenge of defining tourism businesses at a percentage rate of the business' capital value. The mechanism provides the main source of funds for the RTOs in both areas. Another example is Monaco, which with no income taxes relies to a large extent on levies on casinos (Bull, 1995).

Bonham and Mak (1996) reported that the Oklahoma Tourism Promotion Act (1991) levied a tourism promotion tax of 0.1% of gross turnover of accommodation, rental car, restaurant and bar operations. The intent was for the state government to collect the tax from the tourism industry to be used solely by the industry, for which the state would charge a 3% collection fee. Prior to its demise in 1993 the Colorado STO had a similar tax of 0.2% (Bonham & Mak, 1996). A downside of this approach is a reduction in funding during periods of crisis when visitation levels have fallen, even though such periods demand more marketing funds. For example, in Canada, the *Calgary Herald* (13/1/03, p. B4) reported that a fall in the Banff/Lake Louise Tourism Bureau's 2003 revenue was likely to result in a reduction in marketing spend of C\$168,000, which would directly impair the organisation's ability to promote Banff in their traditional secondary markets such as New Zealand and Australia.

Member subscriptions

In the UK, 58% of CVBs receive funding from membership fees (Rogers, 2005). The IACVB (1993, in Morrison et al., 1998) found that while half of their member CVBs received membership subscription fees, for those responding to a survey, the level of subscriptions was only 5% of their collective budgets. Bonham and Mak (1996) found that only Alaska, Hawaii,

and Washington DC received significant private-sector contributions such as through membership subscriptions. Their analysis of private versus public funding of the Hawaii Visitors Bureau is summarised in Research Snapshot 5.1. This is a common problem for RTOs, many of which have abandoned attempts to generate subscriptions due to low returns relative to costs incurred in the process.

Research snapshot 5.1 Public versus private-sector funding

The Hawaii Visitors Bureau (HVB), which has one of the longest histories of private membership, has offered a range of incentives to financial members, including: monthly newsletters, HVB posters and brochures, reduced fees for HVB meetings, participation in trade promotion and cooperative advertising, listings in information guides, and a copy of the annual report. In its early years the organisation received more in private-sector contributions than from government. However, by 1988 only an estimated 7% of all businesses were financial members of the HVB, and by 1994 private-sector contributions represented less than 10% of the annual budget. One of the reasons offered by Bonham and Mak (1996) was extensive 'free riding' by tourism operators. They cited Mok's (1986) PhD thesis, which estimated HVB memberships representing 78% of airlines, 66% of hotels, 32% of banks, 24% of restaurants, and only 4% of retail outlets. Since membership is voluntary the organisation was forced to spend up to \$500,000 to generate \$2 million in membership dues (Rees, 1995, in Bonham & Mak, 1996).

Source: Bonham, C. & Mak, J. (1996) Private versus public finance of state destination promotion. *Journal of Travel Research*, Fall, 3–10.

A survey of IACVB members (IACVB, 2001, in Fenich, 2005) found that half of the CVBs were a membership organisation, with an average of 663 members. Membership fees may be based on tiered sponsor categories, a standard arbitrary amount, tiered based on organisation turnover level or number of employees or per room for accommodation establishments. Donnelly and Vaske (1997) investigated the factors influencing membership of the voluntary organisation, the Colorado Travel and Tourism Authority (CTTA), established to replace the previously state-funded DMO. The CTTA targeted businesses that directly benefited from tourism, such as hotels, restaurants, and attractions. Their review of the literature relating to voluntary organisations identified two participative incentive themes: instrumental and expressive. Instrumental incentives are those public goods, such as promotion of the destination, that are obtained by both members and non-members. Expressive incentives are resultant benefits that will only be obtained by membership, such as access to a database of consumers who have requested tourism information from the DMO. Donnelly and Vaske (p. 51) suggested that the value placed on expressive incentives to join a DMO will depend on an individual's:

- financial ability to pay membership dues
- beliefs about tourism and destination marketing
- level of perceived importance about the costs and benefits of membership.

In practice

The following story was relayed to me a number of years ago by a member of an RTO subscriptions committee who was frustrated by the lack of support from businesses in a tourism resort area. Two LTA directors were attempting to enlist the modest financial support of one of the region's busiest gas stations. They were told, very bluntly, by the business owner that he was not in the tourism business and therefore refused to subscribe to the LTA. Standing directly behind the gas station owner were two 40-seat sightseeing coaches, filling up with diesel fuel.

Commercial activities

Some DMOs have developed an income stream from their own activities to fund destination marketing. In the UK, 63% of CVBs receive some funding from commercial activities (Rogers, 2005). Pritchard (1982) reported an innovative approach used by Alaska to stimulate industry contributions to the STO budget. For every dollar contributed by an individual business, the STO would provide one name and address from the consumer database for direct marketing. The database was tailored to provide contacts from segments of interest to the contributing tourism business. *Marketing News* (29/9/97) reported that the new logo developed by Florida's STO in 1997 would be used to generate royalties of 6% of the wholesale price of items featuring the logo. The report claimed that universities such as Florida State and Notre Dame earned millions of dollars annually from such royalties. In some cases, however, legal issues can prevent some types of DMOs from maximising their earning potential. In the USA, most CVBs have been structured as non-profit associations, qualifying for tax-exempt status. These organisations promote the business interests of their members but are not permitted to engage in regular profit-making business activities.

It is also not uncommon for RTOs to earn commission from their member hotels for conference bookings. However, this approach can lead to the DMO focusing on conference promotion, business travel, and short-break hotel packages to the exclusion of other destination products (Bramwell & Rawding, 1994).

Other RTOs earn commissions through subsidiary visitor information centre (VIC) sales. Net returns are often modest, even with a substantial turnover, if there is an absence of big-ticket items. In New Zealand, local government regulations prohibited many local authority-owned VICs to trade commercially, other than sales of sightseeing tickets and postcards. However, the greater empowering provisions of the Local Government Act (2002) have enabled enhanced trading opportunities. VICs are labour intensive, and, as their title suggests, a large component of visitors are there seeking 'information'. Travellers seek advice, collect brochures, make a decision, and then book direct with the tourism provider, from the comfort of their accommodation.

Even with a multi-million dollar turnover, it is difficult for VICs to generate a profit when relying on sightseeing sales paying on average 10% commission. However, many of these VICs could be profitable if they adopted private-sector practices used by travel agencies, such as preferred supplier agreements. This might involve, for example, one operator per service category receiving preferential treatment and in return providing commissions up to 25–30%. A tiered system of commissions might be used to rank providers in terms of preference levels and prominence of brochures on display. For example, in Canada travel agents represent on average only four tour wholesalers (Statistics Canada, 1999, in Hashimoto & Telfer, 2001). However, it would be hypocritical for an RTO that receives government funding for the purpose of developing tourism in the region to then preclude the majority of suppliers from receiving VIC bookings in a preferential system. In some parts of the world this type of activity would leave the DMO open to litigation from disadvantaged businesses. Many local authorities understand the need for a trade-off and provide an operating grant for the VIC on the basis that the contribution is for the public good.

In Australia, Tourism Queensland recently licensed the STO's wholesale travel division, Sunlover Holidays, to a private sector firm, earning what the outgoing CEO Ian Mitchell described in 2007 as 'millions of dollars of new income through licensing fees for the purposes of international marketing'.

Cooperative campaigns

Tourism Consultant Ken Male lamented the problem that the British Treasury measures the success of NTO activity by the level of private-sector participation (www.travelmole.com, 30/9/03). Indeed, cooperative campaigns managed by the DMO can be an effective vehicle for demonstrating to government the level of industry contributions. In this regard, the government grant is seen as seeding funding to attract private-sector contributions. Cooperative campaigns include a diverse range of initiatives such as sales missions, travel exhibitions participation, media advertising features, and visiting media programmes.

Government grants

Due to the significant resources often required to attract and retain membership funding, it can be more cost-effective to lobby for government funds. For example, two decades ago, as a direct result of the STO lobbying state political candidates in the 1978 Pennsylvania election, the elected governor tripled the destination marketing budget between 1979 and 1982 (Pritchard, 1982). Bonham and Mak reported that the HVB employed three political lobbyists. In the UK, 90% of CVBs receive funding from local government, with 25% also receiving funding from the European Union (Rogers, 2005).

Key points

1. The importance of securing long-term funding

Marketing destinations in a dynamic environment requires significant financial and management resources. However, destination marketing is undertaken by organisations that often have no direct financial interest in the visitor industry, and therefore have no income of their own. It is critical to secure a long-term funding agreement, since the more that resources are spent on fundraising activities the less resources are available for marketing.

2. The reliance on public-sector funding

The majority of DMOs, at all levels, and regardless of how they are structured, rely to a large extent on government support. Government funding is commonly provided through annual grants or through some form of levy on visitors or businesses. The over-reliance on government funding has been a concern to many DMOs, given the long-term uncertainty of political commitment towards tourism. The withdrawal of state government funding in Colorado serves as a warning to all DMOs. Commonly, public-sector funding is sourced through grants, accommodation taxes, or levies on businesses.

3. Other funding sources

It has been suggested that DMOs need to be more creative in sourcing funding, to overcome the over-reliance on the public sector. However, this has proved problematic at many destinations and more research into alternative forms of funding is required. Other options available to DMOs include: member subscriptions, commercial activities, and cooperative campaigns.

Review questions

- Why should the DMO not receive all the revenue from an accommodation tax, since it was generated by visitors at tourism businesses?
- What are the key benefits for a business becoming a member of a DMO?