



RECOMMENDATIONS FOR THE GOVERNANCE & ADMINISTRATION OF DESTINATION MARKETING FEES ▶▶

FEBRUARY 2011



ahla

ALBERTA HOTEL &
LODGING ASSOCIATION



ALBERTA HOTEL & LODGING ASSOCIATION DESTINATION MARKETING FEE RECOMMENDATIONS

INTRODUCTION & BACKGROUND

Since the introduction of the 4% Tourism Levy in 2005, hotel groups in a number of communities around Alberta have responded to the need for sustainable funding for tourism marketing by implementing Destination Marketing Fees (DMFs).

As Trustee of certain pools of DMFs, the Alberta Hotel & Lodging Association (AHLA) witnessed the issues faced in dealing with DMFs and observed a variety of practices as they are implemented and administered. In March 2010, the AHLA retained Western Management Consultants (WMC) to conduct a comprehensive review of the governance, administration and operations and marketing alignment of DMF structures in Alberta. The AHLA's Board of Directors shared the results of this research with contributing organizations at a meeting in September 2010.

As of January 2011, DMFs have been implemented in:

- ▶ Calgary
- ▶ Camrose
- ▶ Canmore
- ▶ Edmonton
- ▶ Grande Prairie
- ▶ Jasper
- ▶ Lethbridge
- ▶ Medicine Hat
- ▶ Red Deer
- ▶ Slave Lake

As well, lodging facilities in Banff collect a Tourism Improvement Fee. The collection of DMFs is not legislated or regulated by the government. Participating hotels and motels collect these fees on a voluntary basis. Two privately owned hotel groups have also implemented collection of DMFs that are charged at their own properties.

This document is intended to provide recommendations for the implementation, governance and administration of DMFs.

IS A DESTINATION MARKETING FEE RIGHT FOR YOUR COMMUNITY?

The AHLA supports the transparent and accountable collection and expenditure of DMFs to promote tourism marketing for the benefit of all Albertans.

Since most tourism marketing dollars are generated through direct taxes and fees on our industry, AHLA members should be vigilant when it comes to ensuring the transparency and accountability of tourism marketing expenditures at all levels.

A sound business case should be made prior to making the decision to implement a DMF. DMFs may not be effective in all areas. The AHLA encourages hotels and DMF proponents to consider the following:

- ▶ Do you have a strong local hotel group with engaged members?
- ▶ Is your community a tourism destination?

- ▶ Do you have enough local room nights annually to generate the amount of revenue required to mount a meaningful marketing campaign?
- ▶ What are your goals & objectives?
- ▶ How will you define & measure success?
- ▶ What percentage of the DMF will be spent on administration, based on the size and structure of the DMF Collector and/or DMO?
- ▶ Do you have a destination marketing organization (DMO) that has the capacity to develop and execute a marketing plan?
- ▶ How will you hold the DMO accountable?
- ▶ Who will be responsible for the management of the funds that are collected?

BEST PRACTICES IN GOVERNANCE & ADMINISTRATION

Identify the Role of Entities (DMF Collectors) that Collect and Spend the DMF Funds

Decide what role the DMF Collectors will take in destination marketing. Will the DMF Collectors:

- ▶ Simply collect revenues and provide these to the local Destination Marketing Organization (DMO)?
- ▶ Act as the DMO, developing its own marketing plan and directing and executing destination marketing activities on its own?
- ▶ Use some combination of these two approaches?

This should be clearly defined in the DMF Collector's organizing documents. Prior to collecting any monies, determine what the relationship will be with the local DMO. If the DMF Collector will be collecting monies and turning these over to the DMO to fund tourism marketing activities, the DMF Collector should ensure that their expectations and the DMO's accountability are clearly defined and understood.

Establish the DMF Collector as a Legal Entity

Implementing and operating a DMF Collector is a significant undertaking. As with the Tourism Levy, the AHLA believes that DMF funds should be collected, managed and spent in a way that is transparent and accountable to all stakeholders, including:

- ▶ Properties that charge the DMF,
- ▶ Guests who pay the DMF,
- ▶ Organizations and/or companies engaged to market the destination, and
- ▶ Governmental or Regulatory bodies that may have jurisdiction such as the Canada Revenue Agency.

The creation of dedicated entities will help to structure the affairs and activities of the DMF Collector. Having a formal structure gives the DMF Collector a basic framework and governing rules. It can help to avoid and resolve conflicts, and is important to the sustainability of organizations with changing membership. Creating a legal entity to act as the DMF Collector will lay the foundation for sound governance and responsible administration of the revenues that are generated. DMF Collectors may wish to incorporate under legislation such as the *Societies Act*, *Companies Act*, or *Business Corporations Act*. Legal and financial advisors will be able to help you decide which structure or entity is right for your DMF program.

Some of the benefits of creating a legal entity to operate as the DMF Collector include:

- ▶ Identifying the DMF Collector's objectives and how it will be organized,
- ▶ Identifying the DMF Collector as a separate entity for legal and tax purposes,
- ▶ Clearly establishing who is responsible for decision making, as well as setting out reporting and accountability requirements, and
- ▶ Managing the liability of participating properties.

The DMF Collector's organizing documents should address among other matters:

- ▶ Who qualifies for membership in the DMF Collector,
- ▶ How the Board of the DMF Collector is constituted, who is eligible to serve on the Board and the length of terms for board members,
- ▶ The process by which the percentage to be collected as DMF is determined,
- ▶ How meetings are called,
- ▶ Powers and duties of the Board, and remuneration, if any,
- ▶ Appointment of auditors, and
- ▶ What will happen in the event of dissolution of the entity.

Implement Sound Governance Practices

To be successful, the roles and responsibilities of the Board of Directors of the DMF Collector must be understood. The Board of Directors:

- ▶ Is responsible for the DMF Collector's decision making and legal authority.
- ▶ Is accountable for the DMF Collector's resources & activities.
- ▶ Articulates & communicates the DMF Collector's vision and mission.
- ▶ Defines the organization's parameters through policy.

The AHLA believes that industry representation is critical to the good governance of boards of DMF Collectors. Governance is how the board exercises its authority, control and direction over the organization on behalf of the membership. The DMF Collector's governance structure should address these key areas:

- ▶ Framework governance
- ▶ Board self governance
- ▶ Operational governance
- ▶ Advocacy governance

Governance is different than managing. It is future focused, and leads the board to consider a wide range of possibilities and establish long term goals and plans for the collection and allocation of the DMF.

The AHLA encourages all boards to use the Knowledge Based Decision Making model, which is based on these four questions:

1. What do we know about the current realities and evolving dynamics of this organization's environment that is relevant to this decision?
2. What do we know about the capacity and the strategic position of this organization that is relevant to the decision?
3. What do we know about our members' and stakeholders' needs, wants and preferences that is relevant to this decision?
4. What are the ethical implications of our choices?

The AHLA has a variety of resources available to assist DMF Collectors in implementing and employing sound governance practices.

FRAMEWORK GOVERNANCE

Vision, Mission & Strategic Plan

Framework governance establishes fundamental elements of the organization's identity. It focuses on results, rather than methods.

Vision - What is the end result the DMF Collector is striving for?

A vision statement describes the way things could be in an ideal world. It is the picture of the future that the DMF Collector seeks to create. What would need to happen so that the DMF Collector could rightly say it had achieved everything it set out to do?

Mission - What is the DMF Collector's purpose? What does it exist to do?

The mission statement defines the purpose of an organization by stating changes that it will bring about. It reflects the essence of what the DMF Collector is, and what it intends to do. Deviations from the mission are deviations from the true identity of the organization. By definition, a DMF Collector's mission should reference the goal of marketing the destination.

Strategic Plan

Strategic planning allows the DMF Collector to envision its future, create goals and develop tactics to achieve the future it wants to secure. The strategic plan helps a strategic board in two ways:

1. It defines 3 – 5 outcomes or goals that the DMF Collector wants to achieve. The strategic plan is the basis on which the organization will choose what it is going to say 'yes' or 'no' to. It is the list of goals that the leadership team has agreed on and wants to achieve. *These goals are not necessarily marketing strategies.*
2. It ensures that board members are on the same page when it comes to the direction of the organization. Board time can then be spent on achieving the agreed upon goal, instead of arguing about whose perceived individual direction for the organization is correct.

A thorough strategic plan should include:

- ▶ Stakeholder analysis
- ▶ Environment scan and trend analysis
- ▶ Analysis of Strengths, Weaknesses, Opportunities & Threats
- ▶ Development/confirmation of the DMF Collector's Vision, Mission and Targets
- ▶ Strategic objectives that are:
 - specific, measurable, achievable, realistic and timely
 - based on issues that are relevant to the DMF,
 - aligned with the DMF Collector's Vision, Mission and Targets, and
 - the basis for medium and short term business and marketing plans

The strategic plan answers these questions:

- ▶ What are we doing today as an organization that we need to be doing differently in the future to sustain success?
- ▶ What are we not doing today that we need to be doing in the future to sustain success?

Taking the time to develop a vision, mission and strategic plan for the DMF Collector will help it to clearly communicate its goals to stakeholders and the organizations it engages to conduct marketing activities. It will also demonstrate the DMF Collector's commitment to transparency and accountability.

BOARD SELF GOVERNANCE

Board self governance defines how the DMF Collector's board will organize itself to get its work done, how it will govern, and its relationship to the DMF Collector's constituents and its community. To fulfill its self governance responsibilities, the DMF Collector board must take responsibility for:

- ▶ Orientation of new board members, which should include:
 - Review of the organization's mission, vision, and strategic plan
 - Roles & responsibilities of the board and individual board members
 - Review of the board's policies and positions
- ▶ Board recruitment & succession
- ▶ Understanding its legal & ethical responsibilities
- ▶ Putting in place a conflict of interest policy
- ▶ Evaluation of directors

The AHLA can help DMF Collector boards with resources to support many of these responsibilities.

OPERATIONAL GOVERNANCE

Operational governance directs the work the DMF Collector undertakes as well as its financial resources and sets the rate of progress that it takes toward achieving its mission and vision. Operational governance incorporates:

- ▶ Program governance, which may include:
 - Development and/or approval of a comprehensive destination marketing plan. This is different than the DMF Collector's strategic plan, and should indicate how monies the DMF Collector allocates for tourism marketing will be spent. To ensure that funds are used effectively, the AHLA encourages DMF Collectors to fund marketing efforts that are aligned with regional, provincial, and national destination marketing strategies. Travel Alberta, the Canadian Tourism Commission, and local destination marketing organizations have resources to support the development and measurement of marketing plans.
 - A process to recruit non participating properties to collect the DMF Collector.
 - Ensuring that resources and training are in place for front line staff about how the DMF is charged, what it is used for, and how to handle guest inquiries about the DMF.
- ▶ Personnel governance, which may include:
 - Deciding whether the DMF Collector will employ staff or contract administration.
 - Hiring, evaluating and releasing the senior staff person, if one is hired or contracted.

- ▶ Financial governance, which may include:
 - Ensuring that agreements are in place between the DMF Collector and each collecting property. This agreement should identify:
 - The bylaws/governing documents of the DMF Collector and the collecting properties' agreement to be subject to the bylaws as long as it collects the DMF.
 - The period covered by the agreement.
 - The percentage of room revenue to be collected by the property as DMF.
 - How the DMF will be administered, including the method for remittance and collection.
 - Notice period and method for termination of the agreement.
 - The right of the DMF Collector or their agent to verify remittances and audit as required.
 The AHLA can provide a template agreement to help DMF Collectors ensure that these points are addressed.
 - Determining the rate at which the DMF is charged, and the process by which this may be changed.
 - Appointment of the DMF Collector as trustee to collect & distribute DMFs, or appointment of a separate trustee. A written agreement should be in place between the trustee and the DMF Collector defining the role and accountability of each party. This agreement should include:
 - How the trustee is appointed.
 - Duties, rights and responsibilities of both the trustee and the legal entity.
 - The trustee's fee.
 - How the trustee agreement may be dissolved.
 - Ensuring that remittances for taxation and payroll are made and statutory reporting requirements are fulfilled.
 - Establishing a policy on financial reserves. The AHLA recommends that DMF Collectors with not for profit status carry no more than one year's worth of annual expenditures as a reserve.
 - Determining how the DMF Collector will hold accountable the marketing entities it funds. This may include the DMO and/or individuals, organizations or companies hired to conduct marketing activities.
 - Ensuring that a financial audit or review is conducted each year by a reputable third party, depending on what legislation the legal entity is incorporated under.

ADVOCACY GOVERNANCE

Through advocacy governance, the board secures support for the DMF Collector's vision mission and strategic plan. It also establishes the DMF Collector's position and response to matters that affect its role in and relationship with the community. If funds are designated for advocacy, this should be clearly stated in the agreement between the collecting hotels and the DMF Collector. The DMF Collector's advocacy activities should be limited to those that support marketing initiatives.

State How the DMF Will be Accountable to Constituents

Depending on what legislation the DMF Collector is created under (e.g. *Societies Act, Companies Act, or Business Corporations Act*), accountability and reporting requirements may differ. The AHLA encourages DMF Collectors to use the following tools to report on the DMF's progress:

▶ **Business Plan**

It is important to note that the DMF Collector's business plan is different than the destination marketing plan. A business plan contains the operational activities that the DMF Collector will undertake in the short to medium term to achieve the objectives laid out in the strategic plan. The business plan may be focused on the next one to three years. It does not have to be lengthy. It only needs to state the anticipated outcomes and how these will be measured.

▶ **Annual General Meeting (AGM)**

The Annual General Meeting is an opportunity for the Board of the DMF Collector to report to the membership on its finances and the activities of the DMF Collector, and is the occasion when new board members are typically elected. The AGM is an opportunity for the board to get feedback from the membership about proposed bylaw changes and positions on issues that affect the DMF Collector.

▶ **Annual Report**

The annual report states what the DMF Collector achieved during the previous year against its business plan. It should provide key performance measures and include financial statements. The annual report should clearly state what percentage of funds was used for:

- ▶ Administration and overhead
- ▶ Marketing
- ▶ Established reserves

The annual report can be a useful tool for communicating with collecting hotels and other stakeholders.

▶ **Financial Audit**

Ensuring that the funds generated through the DMF Collector are managed effectively is integral to good governance. Transparent audit processes give confidence to participating properties, government, regulators and the public that the financial statements are accurate.

APPROPRIATE RATE RANGES

At the time of preparing these recommendations, DMF rates in Alberta range from 1- 3%. The AHLA cautions against DMF rates that will discourage hotels and motels from participating and attract negative attention from guests and regulators. Prior to deciding on the rate to charge or whether to change the percentage charged, DMFs should:

- ▶ Have a business plan
- ▶ Have a marketing plan, or be working with a DMO that has a destination marketing plan in place
- ▶ Consider the aggregate of taxes & fees charged on guest folio.
- ▶ Ensure that collecting properties are consulted.

The AHLA encourages DMF Collectors to base their rate on what is needed to achieve the DMF Collector's objectives, recognizing that higher rates may reduce participation and consumer demand. Higher participation by hotels and motels at a more modest rate may be a more effective way to generate funds than charging a higher rate that discourages properties from participating. High participation by local hotels and motels levels the playing field between properties.

PRIVATE DMFS

When appropriate checks and balances are in place, private DMF Collectors can perform destination marketing activities in communities where there is no DMO. If they follow the best practices suggested above, private DMF Collectors may be an effective alternative to creating a destination marketing structure in communities or regions with limited resources.

The AHLA recommends that private DMF Collectors:

- ▶ Ensure that the funds they collect are used for destination marketing, not to market their own properties or initiatives. As much as possible, funds should be used to market the community or destination area in which they were collected.
- ▶ Operate only in communities where there is not a critical mass of hotels that want to collect a DMF. Once critical mass is achieved, private DMF Collectors should be folded into community DMF Collectors.
- ▶ Make every effort to be transparent in the collection, management and use of funds to mitigate any perception by guests, competitors or government that funds are being used to market a private business.

CONCLUSION

The AHLA strongly believes that all organizations involved in tourism marketing should strive to minimize administrative costs, align and maximize marketing efforts and leverage available marketing channels.

While every effort has been made to make these guidelines as comprehensive as possible, it is not possible to anticipate or contemplate every circumstance. DMF Collectors that are structured to ensure good governance and boards that are committed to transparency and accountability will be well positioned to respond effectively to the challenges they face.

ADDITIONAL RESOURCES

Alberta Culture and Community Spirit Board Development Program, “Board Development: Strategic Planning and Governance” http://www.culture.alberta.ca/bdp/bulletins/StrategicPlanning-print_09.pdf

Alberta Culture and Community Spirit Board Development Program, “Roles and Responsibilities of Not-for-Profit Boards” <http://www.culture.alberta.ca/bdp/bulletins/RolesResp09-print.pdf>

Bud Crouch, “Strategies to Create a More Strategic Board,” Association, October-November 2009.

Government of Alberta Agency Governance Secretariat, “Public Agencies Governance Framework,” February 2008. http://www.alberta.ca/home/documents/Governance_Framework_web_version.pdf

Service Alberta, <http://www.servicealberta.gov.ab.ca/>

Kent Stewart, Western Management Consultants, “Review: Tourism Destination Marketing Fee Structures in Alberta,” September 2010.