REVIEW: TOURISM DESTINATION MARKETING
FEE STRUCTURES IN ALBERTA

Alberta Hotel and Lodging Association

Prepared by:
Kent Stewart, MCIP, CMC
Western Management Consultants

September 2010
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ACKNOWLEDGEMENTS

The consultants and staff of Western Management Consultants would like to acknowledge and thank the many representatives of DMOs, DMFs, Travel Alberta, Hotel and Lodging Associations and other organizations for their time, insights and support in providing input to this report.

In particular, Western Management Consultants would like to thank the Committee of the Alberta Hotel and Lodging Association for their insights and direction during the course of this work. A special thanks to David Kaiser, President and CEO of AHLA, for his oversight of this independent research and his support for the reporting of its findings.

All findings and recommendations of this report are independently developed by the consultants, Western Management Consultants.

Per

Western Management Consultants

Kent Stewart, ACP, MCIP, CMC, Director
1.0 INTRODUCTION

The Alberta Hotel and Lodging Association (AHLA) retained Western Management Consultants (WMC) in March 2010 to undertake a summary review of the Destination Management Fee structures in Alberta. This report summarizes the independent findings of Western Management Consultants.

1.1 Background to the Review

In 2005, when the Government of Alberta reduced the hotel tax from 5% and replaced it with a room levy of 4% and primarily dedicated it to tourism marketing, the door was opened to the creation of voluntary Destination Marketing Fee (DMF) structures in Alberta.

Destination Marketing (or Management) Organizations (DMOs) in Canada are challenged to establish sustainable, long-term funding. Without access to direct taxation, municipal government funding is based on grants, and this support can be volatile.

Hotel associations based in a number of Alberta communities have responded to the need for sustainable marketing funding by adopting DMFs during the past few years. Five of these organizations have retained AHLA to act as Trustee for these funds.

In its role as Trustee, AHLA had the opportunity to observe common practices as well as the types of issues organizations face as they adopt and administer DMF funding. As a service to the tourism, hospitality and municipal communities, AHLA commissioned this research to provide a comprehensive, third party consideration of commonalities and issues if they are present.

The Board of AHLA has committed to share the results of the research with contributing organizations in a meeting to be held in the fall, 2010.
1.2 Purpose of the Review

The purpose of the review was to review and compare the governance, administration and operations, and the marketing alignment of Destination Marketing Fee systems in specific communities in Alberta.

1.3 Methodology and Process

The process was straightforward. An interview guideline was prepared by Western Management Consultants in consultation with David Kaiser, President and CEO of AHLA. Kent Stewart conducted all the interviews personally, either in person or by telephone. Only one organization (Medicine Hat) did not participate.

1.3.1 Interview Guideline

The interview guideline was designed to manage a conversation between Kent Stewart and the respondents about three relevant aspects of the DMF:

- Governance;
- Administration and Operations; and
- Marketing Alignment.

In some cases the interview guideline was sent out ahead of time so the respondent could prepare for a telephone conversation or personal interview.

1.3.2 Organizations and Participants

The following organizations participated in the interview program:

<table>
<thead>
<tr>
<th>DMF/DMO Organization</th>
<th>Key Contact</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Alberta</td>
<td>Bruce Okabe</td>
<td>CEO</td>
</tr>
<tr>
<td>Edmonton Economic Development Corporation</td>
<td>Ken Fiske</td>
<td>Vice President</td>
</tr>
<tr>
<td>Edmonton DMF</td>
<td>Richard Wong</td>
<td>General Manager The Sutton Place Hotel</td>
</tr>
</tbody>
</table>
### Interview Program Participants

<table>
<thead>
<tr>
<th>DMF/DMO Organization</th>
<th>Key Contact</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edmonton DMF Facilitator</td>
<td>JoAnn Kirkland</td>
<td>Vice President Westcorp</td>
</tr>
<tr>
<td>Tourism Calgary</td>
<td>Randy Williams</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Tourism Calgary</td>
<td>George Brookman</td>
<td>Chairman of the Board</td>
</tr>
<tr>
<td>Calgary DMF</td>
<td>Joseph Clohessy</td>
<td>General Manager Calgary Marriott Hotel</td>
</tr>
<tr>
<td>Banff Lake Louise Tourism</td>
<td>Julie Canning</td>
<td>President</td>
</tr>
<tr>
<td>Banff Park Lodge Resort Hotel and Conference Centre</td>
<td>Frank Denouden</td>
<td>General Manager</td>
</tr>
<tr>
<td>Tourism Canmore</td>
<td>John Samms</td>
<td>General Manager</td>
</tr>
<tr>
<td>Canmore DMF</td>
<td>Steven Dyck</td>
<td>General Manager Best Western Pocaterra Inn</td>
</tr>
<tr>
<td>Lethbridge DMF</td>
<td>Steven White</td>
<td>General Manager Ramada Hotel &amp; Suites Lethbridge</td>
</tr>
<tr>
<td>Chinook Country Tourism Association</td>
<td>Kimberley Lyall</td>
<td>President, CCTA</td>
</tr>
<tr>
<td>Jasper DMF</td>
<td>Chad Gulevich</td>
<td>Director of Sales and Marketing Mount Robson Inn</td>
</tr>
<tr>
<td>Jasper Destination Marketing Corp.</td>
<td>Maggie Davison</td>
<td>CEO</td>
</tr>
<tr>
<td>Jasper DMF (Chair)</td>
<td>Amanda Robinson</td>
<td>General Manager Jasper Park Lodge</td>
</tr>
<tr>
<td>Canalta Hotel Group</td>
<td>Dan Sullivan</td>
<td>Vice President, Marketing</td>
</tr>
<tr>
<td>Pomeroy Group</td>
<td>Ryan Pomeroy</td>
<td>President</td>
</tr>
<tr>
<td>Westcorp</td>
<td>JoAnn Kirkland</td>
<td>Vice President Hotels</td>
</tr>
<tr>
<td>Camrose DMF</td>
<td>Wynn McLean</td>
<td>General Manager Camrose Regional Exhibition</td>
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All respondents felt the effort of the AHLA to document the present situation would be of value to the industry, and they encouraged the AHLA to share the results if at all possible.

### 1.4 Foundational History of DMFs in Canada

The taxation of hotels to create marketing funds for municipalities is certainly not new in North America. In the United States, more than 80% of municipalities use a hotel tax to create revenue for tourism marketing and often for other municipal ends.
Municipalities in the United States have the power to apply sales taxes, whereas in Canada they do not have this authority.

Destination Management Fees come in a variety of configurations in the provinces across Canada. They originated when Charles Lapointe, CEO of Tourisme Montreal (beginning in 1988), convinced the Quebec provincial government to enable through legislation voluntary hotel fees. The legislation finally passed in 1996. The Montreal urban hotel community then voted to create a hotel levy of $2 per room in the region. The levy was collected by the Province of Quebec for a small administration fee, audited by its Auditor General, and invested in Tourisme Montreal as the Destination Marketing Organization.

British Columbia was soon to follow with provincial legislation enabling a room levy to be transferred to Municipalities. Vancouver, first to adopt the levy, quickly had an issue with the Municipal Corporation. It was resolved by a Council motion to transfer, in perpetuity, the DMF funds to Tourism Vancouver. Today Vancouver has an additional hotel room tax as well as the provincial tax.

British Columbia legislated the Additional Hotel Room Tax in which the accommodation sector in communities votes to apply the hotel levy, which is then collected by BC’s provincial finance organization. This voluntary fee will disappear when the mandatory HST is applied.

Ontario allowed for a 3% room levy initially by reducing the Provincial Sales Tax on rooms by 3%, from 8% to 5%. This provided “room” for a local hotel fee. While the enabling structures have changed over the years, many Ontario communities have applied a voluntary 3% hotel levy.

In Atlantic Canada, voluntary room levies are relatively new, usually enabled by provinces or municipal bylaws, and have rates of 2% or 3%.

1.5 DMFs in Alberta

In Alberta the history of DMF funding is relatively recent, although hotel taxation is not. Alberta legislated hotel taxation in 1987 through the Hotel Room Tax Act. A 5% hotel room tax was applied to defined accommodations, collected by the Province and accrued in general revenue until 2005. That year the Tourism Levy Act replaced
the former Act. This new Act reduced the provincial room rate to 4% effective April 1, 2005.

The tourism industry in the cities of Calgary and Edmonton immediately developed a joint business case to request provincial permission to apply a voluntary room levy in these jurisdictions, the idea being that the 1% difference could be taken as a room levy without any impact on the market. The Province saw no impediment to this voluntary levy, and both cities moved ahead with the initiative.

Other Alberta hotel groups came together to create a voluntary hotel levy. Today there are voluntary levies operating in the following communities:

<table>
<thead>
<tr>
<th>Community</th>
<th>Percent DMF</th>
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<tr>
<td>Edmonton</td>
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<tr>
<td>Calgary</td>
<td>1%</td>
</tr>
<tr>
<td>Banff</td>
<td>2%</td>
</tr>
<tr>
<td>Lethbridge</td>
<td>2%</td>
</tr>
<tr>
<td>Canmore</td>
<td>3%</td>
</tr>
<tr>
<td>Medicine Hat</td>
<td>2%</td>
</tr>
<tr>
<td>Camrose</td>
<td>1%</td>
</tr>
<tr>
<td>Jasper</td>
<td>2%</td>
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</tbody>
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2.0 OVERVIEW OF FINDINGS

2.1 Introduction

The overall findings are presented at a high level in this section.

The main research finding is that virtually all organizations believe the DMF approach they initiated was accomplishing its purpose, its governance is reasonable, operations and administration are appropriate, and marketing alignment has been accomplished in a reasonable fashion.

This is not to say that there are no issues. All organizations recognize some issues or anticipate issues for their organization going forward. Most, however, believe they are addressing these issues proactively and with pragmatic solutions that will work for all the players.

This overview is supported by a detailed review of each jurisdiction prepared in tabular format for the purpose of comparison. This document was submitted to AHLA under separate cover.

2.2 Governance of DMF Structures

There are a variety of governance structures across the province, falling into five categories:

- **Dependent Structures**: These structures are most often organized as Committees of the Hotel and Lodging Association (H&LA). While sometimes they are referenced as Boards, the overarching governance structure is that of the H&LA of that area.

- **No Formal Structure**: In some cases (Edmonton) there is no formal or documented organization structure. In these cases the DMO acts as the organization which serves the DMF group. These examples still have committees, conduct marketing planning together, have audits, etc., but there is no formal structure for the DMF organization itself.
- **Independent Structures**: Some DMFs are organized as independent structures separate from the H&LA (i.e., Canmore).

- **Community Corporate Structures**: There are two types of corporate structures. Jasper is structured as a for-profit corporation, yet brings together many contributors from the hotel, attraction and service sectors.

- **Private Corporate Structures**: The other corporate examples are the DMFs that exist within private hotel chains – the Canalta Hotel Group and the Pomeroy Group in Alberta. These structures have Boards, bylaws, marketing plans, marketing partners, etc., but the funds are collected and distributed by a structure within the corporation.

Third party audits are performed or could be performed in virtually all cases.

Trustee Agreements range from three-page agreements between the Trustee (AHLA) and the DMF alone to 17-page three-party agreements between the Trustee, the DMF organization and the DMO.

Most organizations have some form of statement that indicates that funds collected are dedicated to marketing the destination; few refer to other functions. An exception is the Canmore agreement which specifically enables define spending (10%) of DMF funds on “lobbying by the CHLA”.

While no respondents identified external organizations as “best practice”, a number thought their model might be best practice.

While many organizations intend to formalize their governance model legally, they remain today a Committee of the hotel association.

Most organizations are in the early stage of development, so the thought is their governance model would evolve further as the organization learns.

DMF rates vary from 1% to 3%:

- Lethbridge – 2%;
- Banff – 2% on hotels; business license fee forgiven;
- Canmore – 3%;
- Calgary – 1%;
- Medicine Hat – 2%;
- Camrose – 1%;
- Edmonton – 1%; and
- Jasper – 2% of sales (hotels, attractions, services).

Most organizations do not have plans to increase their DMF rates in the foreseeable future.

2.3 Operations and Administration

2.3.1 Contracting of Marketing

The DMF organizations generally do not have staff. Most have contracted marketing using DMF funds to the DMO. Some exceptions:

- Canmore intends to contract a sales person;
- Canalta has a contracted marketing manager; and
- Calgary has paid contractors in the past, has done its own separate plan, contracts the Web development and fully funds MCIT.

The marketing contractors for various DMF organizations are identified following:

- Lethbridge – Chinook Country Tourism Association, contracted by Lethbridge Lodging Association;
- Banff – contracted to Tourism Banff/Lake Louise;
- Canmore – DMF contracts Tourism Canmore/Kananaskis;
- Calgary – pick specific programs from the DMO programs;
- Edmonton – DMF organizations works closely with Edmonton Tourism/Edmonton Economic Development Corporation;
- Camrose – DMO, although programs selected by some DMF partners;
10.

- Jasper – Tourism Jasper, wholly owned by the DMF Corporation; and
- Private Funds – their management/contractors.

### 2.3.2 Hotel Contracts

Individual hotels generally enter into a contract with the local hotel and lodging association. This contract records the agreement of the hotel to collect and submit a percentage of revenues. However, the collected funds are often submitted to a third party, and in Alberta this is often the Alberta Hotel and Lodging Association acting as Trustee. This approach ensures that individual hotel data is held only by an arm’s length third party.

The contract template used in many cases is the form used in the provincial levy, edited as appropriate. Thus many of the jurisdictions are very similar in the contracting with hotels and the collection of fees.

### 2.3.3 Engagement and Compliance

In all cases, the DMF Committee is responsible for ensuring hotel compliance and for engaging properties that are not in the levy to join it.

There was a large variation on the level of engagement across communities. Where a number of communities represented 85% of tourist class rooms, some communities had as few as 30% of the tourist class rooms. The most common level of engagement was in the range of 80%.

### 2.3.4 Marketing Planning

The norm across DMF organizations in Alberta is for significant involvement of the DMF people in the marketing planning phase. Where professional marketers are employed by a DMO, they will bring the research, their advice on positioning, strategic priorities and promotion options to the meetings. However, the whole group will decide on the final plan. In short, the DMF group, while not having formal power, essentially has veto power over the plan. Plans can only go forward with significant DMF investment if there is reasonable consensus.
Calgary has evolved differently than other DMFs. During the formative stages of the
DMF, leadership at the DMO (Tourism Calgary) was in flux. As a result, the DMF
organization undertook a number of initiatives on its own:

- Prepared its own DMF destination marketing plan in 2009;
- Contracted development of the Calgary website, although there is an
  understanding that operations will be ceded to Tourism Calgary; and
- Funds MCIT separately with separate staff and in conjunction with the
  convention centre.

The DMF organization continues to fund specific programs with Tourism Calgary as
opposed to funding the entire marketing plan prepared by the DMO. Tourism
partners in Calgary are working toward better integration through all stages of the
cycle – marketing planning, execution, measuring results and adjusting – and most
respondents report progress.

### 2.3.5 Measuring Results

Respondents reported that specific measures were in place at the marketing program
level. They indicated that they believed these measures would result in an overall
measure of the return on investment (ROI) of DMF funds, in most cases they felt it
was too early in the development of the DMF marketing approach to make
conclusions.

Jasper is using a formal Strategic Mapping and Balanced Scorecard approach to plan
and measure results. This is the same approach Travel Alberta and the Canadian
Tourism Commission are using, and it is done purposely by Jasper Tourism to
integrate with those planning processes.

### 2.3.6 Reporting

Reporting or results varied from monthly to semi-annually and in some cases
annually.
2.4 Marketing Alignment

Respondents were asked to comment on both internal and external marketing alignment.

2.4.1 Internal Alignment

Most respondents feel that strong alignment exists internally. They feel the DMF has a strong role in planning the marketing initiatives, they participate in reviewing results, and they play a role in realigning tactics when initiatives did not work so well. In short, they feel ownership of the marketing plan and initiatives. While no organization is perfect, most are feeling they are pretty much on a good track with the DMF.

There are two exceptions to this finding:

- Calgary has had to address a legacy issue whereby the DMF organization and the DMO were not on the same page in terms of the process of marketing planning, the roles in execution of plans, and the reporting and measurement of outcomes. While they have not yet become fully integrated, there is good movement toward a more open planning, execution and measurement process.

- Camrose DMO has found it is not always aligned with private hotel corporation DMF ideas about marketing the destination. As a result they cannot always count on DMF support at this time. They are meeting together on this issue and anticipate a reasonable resolution in the near term.

2.4.2 TDR Alignment

The biggest issue area across all interviews was with the Tourism Destination Regions (TDR) system of funding marketing initiatives. Some were frustrated that the marketing rules were not the same across all TDRs. Others were frustrated with the TDR rules:

- Multiple organizations must be involved in initiatives;
- Sunset clause over three years; and
Single program applications – some TDRs would not deal with a comprehensive, integrated marketing campaign with multiple programs; they would fund some but not all programs, rendering the overall campaign “almost useless” in the view of some respondents.

The TDR issues are considered in more detail in next chapter of this report.

### 2.4.3 External Alignment

The resort areas and the larger DMOs feel they are reasonably aligned with the plans and programs of Travel Alberta. However, a more integrated planning process with Travel Alberta is desired. Travel Alberta recognizes the issue and is revising the timing of its planning process so strategic priorities are communicated to the regions before they are fully engaged in their tactical plans. This improvement in timing will resolve a good deal of the alignment issues.

Smaller centres outside the mountain regions do not feel as strongly aligned to Travel Alberta’s plans and programs. They tend to pick those programs that work for them, but do not feel the external marketing focus of Travel Alberta aligns with their predominantly “in-Alberta” marketing focus. This reflects the “normal” view of the smaller operators across Canada in our experience.

Alignment with the Canadian Tourism Commission (CTC) was strong for resort communities and for Calgary. However, others were selective in their work with CTC and others indicated they were not on the CTC radar at all. Generally, respondents felt CTC focused on a few Canadian cities and regions and is not interested in the others, except when they need support from them. The exception, noted by many, was the CTC Olympic program for community marketing. This program will end in 2010.

### 2.4.4 Conclusion

Our conclusion from the interviews is marketing alignment is going in the right direction, but there is a good deal of improvement possible.
2.5 Private Destination Marketing Funds

Two organizations operated private DMFs – Canalta Hotel Group and Pomeroy Group. These organizations apply a 3% DMF to their own rooms, hold the money in a marketing fund, and distribute it toward community and regional marketing ends.

Private funds are:

- Structured similar to other DMFs – they separate the fund account, are organized under the Corporations Act, have a Board or Committee plan and deliver marketing programs, have auditors, and measure their results.

- The Committees that make decisions on marketing are corporate. No community representation sits on the Committees. In the case of Canalta, marketing decisions are made centrally.

- Private fund respondents suggest there are many advantages to private funds:
  
  - They LEAD in marketing in small communities where no other major attractions, events, etc., are doing significant marketing;
  
  - They can move quickly, where other DMF/DMO organizations are slow to decide;
  
  - They can fund a full range of promotion, from local events and celebrations, to destination marketing; DMF/DMO/TDR organizations are limited by their own rules; and
  
  - Some are planning hospitality training at the community level to bring service up to a higher standard – most DMFs don’t do this kind of work.

Critics argue that the promise implied on the hotel bill is that the DMF funds would be used to market the destination. They believe it is misleading to have funds used for awareness marketing for a chain organization when it is collected in this manner. Further, they believe there is a danger that more hotel chains will do the same, and then legislators will step-in to regulate activity.
2.6 Best Practices

It appears to the consultants that the best practice organization in Alberta, at the present time is Edmonton:

- Structured with a separate fund, audit requirements, a Committee to oversee a collaborative planning and execution process;

- Allocate the fund to 75% city-wide (destination) marketing and 25% cluster marketing;

- The city-wide marketing planning is done collaboratively with the DMO and DMF groups working together under a consensus decision process;

- Cluster marketing is done by the DMF cluster in each of the three areas of the city. These areas use the same marketing contractor so integration can occur among initiatives;

- Funds are used strategically – DMF funds are used where leverage can be obtained and DMO funds are used in other areas;

- Reporting is program-based and occurs at every DMF meeting; all DMF meetings are attended by DMO representatives; and

- Respondents say the process has created a broad, mutual sense of “ownership” of the plan, mutual trust and a focus on the whole city/region. The DMF gives them the power to move quickly and opportunistically, while the DMO provides long term core destination marketing discipline.

While Edmonton is best practice from an operational point-of-view, respondents are quick to allow that there is no formal collective structure to the collaboration. It is done by handshake and contracts with hotels. As such, it could be considered fragile, where a single issue could challenge its success. While this is a legitimate concern, the same issue applies to any of the other, more formal structures as well.
3.0 KEY SUCCESS FACTORS AND EMERGING ISSUES

In this chapter the consulting team summarizes the key success factors and issues emerging from the consultation. These represent the independent view of the consultants and are certainly subject to and open to discussion.

3.1 Ownership of the Strategy and Plan is Key to Success

3.1.1 Trust Trumps Structure Every Time: Communication Breeds Trust

A key underlying theme throughout the interview process was the theme of trust. Where the key stakeholders trust each other, the process, planning, marketing, and measurement tends to be done collaboratively and with a view to what is best for the destination. Where there is less trust, issues emerge on a regular basis.

It is also evident that trust trumps structure. Regardless of the supportive structures, if trust was not evident, there were issues.

In our view, the presence of trust leads to Joint Ownership – ownership of the marketing plan, marketing activities and ultimately of the result. Where this is of critical importance is where a marketing initiative fails. In an environment of shared ownership, the group reviews the failed initiative and then moves on. Groups with little trust tend to blame each other for misspent funds.

3.1.2 Understanding Destination Marketing as a Separate Discipline

It was also evident that where destination marketers are respected for their specific discipline – the discipline, art and science of destination marketing (and management) – the collaboration between DMF and DMO is smoother and more effective. In situations where DMF partners believe they can do destination marketing more effectively than professional destination marketers, things tend to not go as well.
3.1.3 Recognizing Hotel/DMF as Key Stakeholders is Fundamental

Another fundamental key success factor is the recognition of the DMF organization as an entity. While it may appear self evident to some that a Committee of a Hotel Association needs to be treated as an entity, a short history of the formation of DMFs may shed some light on this factor.

DMOs (particularly Montreal) as organizations faced huge funding issues in the past. Primarily reliant on municipal funding, support for the DMO varied depending on the economic strength of the region and extent to which senior government economic issues were “downloaded” on the municipal level. In the 1990s, and particularly during the recession of 1991, senior governments began downloading responsibilities to the municipal level. As this level became impoverished, discretionary funding areas such as tourism and economic development were seriously downsized. Thus, just when the DMO needed money to respond to recessionary cutbacks in travel, monies from the municipality were not forthcoming.

The search for sustainable funding led many DMOs to the DMF as a means of relatively independent funding. In the early years of DMFs, it was often assumed that the government or the hotels would collect the money and these funds would go immediately to the DMO. In fact, the initial hotel levy systems did exactly that. Enabled by provincial legislation, the funds were collected provincially and sent to the DMO or to the municipality and then to the DMO.

As hotel associations became more involved in fund collection and management, they created Committees and sometimes Boards to oversee these roles. Members of these committees or boards took their roles seriously and collectively acted in the best interest of their stakeholders in using and administering these funds for their expressed purpose.

It is clear that DMF Committees and Boards are entities now. The DMO must work with these organizations to achieve destination objectives. They cannot be ignored.
3.1.4 Integrated Plans – DMF, DMO, TDR Smooth the Process

Integrated planning, very clearly, is a key success factor, and it is of course related to the other factors mentioned above. Those jurisdictions that plan together from the beginning share an understanding of what will work, are invested in the process and marketing activities, and share successes and the occasional failure together. In other words, they jointly own the destination marketing approach and process.

3.2 Issues Related to Governance Approaches

While most organizations have organized the DMF, most have not created separate formal structures or legal entities. Some implications of this situation on governance are discussed in the sections that follow.

3.2.1 Variety of Governance Approaches May Present Issues

There are a variety of governance approaches across the organizations now operating DMFs in Alberta. If many more communities adopt DMFs, the range of entities may become a communication issue logistically. At the very least, administration by Trustees may be less efficient than if there were a single or a few structural options.

3.2.2 Promoting the DMF as an “Entity”

As mentioned above, the DMF group needs to be recognized as an entity or an organization. This is particularly important for the DMO, and especially where it is the sole contractor of marketing for the DMF.

The challenge for the DMO is to balance its recognition of the DMF with its responsibility to all the other stakeholders in the destination. Governed as it is by a Board of Directors, the DMO must market the entire destination. Again, when the planning is both professional and collaborative, these potential issues disappear.

3.2.3 Director’s Liability

Where DMFs have not been formalized, any liability would likely accrue to the Hotel Association in the particular community or region. While it is difficult to imagine
the kinds of liability which could be charged against the collecting organization for the DMF, it is a consideration for local hotel association Boards.

3.3 Issues Related to Administration and Operations

There are a few administration and operations issues that require consideration, particularly by local hotel associations.

3.3.1 Contracting and Collection Issues

Hotels generally contract with the hotel association to contribute the set amount or percentage. Funds are held by the Trustee. In five communities in Alberta the AHLA is the Trustee. In Edmonton, monies are held in a separate fund by Edmonton Economic Development Corporation. The private hotel groups hold the money in a separate fund that is subject to audit.

In most cases cheques are issued by the Trustee when the DMF organization authorizes the spending.

Collection of committed funds from hotels is the responsibility of the DMF organization. In most cases this falls to one or more Board members, who are generally unpaid volunteers.

When and if the DMF expands to other communities in Alberta, the variance and severity of collection issues may expand. Concerns related to this issue are primarily focused on the time required to handle such issues, the sanctions created to deal with them, the introduction of staff at the DMF level to handle collections, and the possible “noise” created with the politicians if disenchanted hoteliers contact politicians to deal with issues.

3.3.2 Percentage of Properties Supporting DMF

In most jurisdictions, around 80% of rooms are represented. Across the country, it is also the case where DMFs are in place, a large percentage, often 80% or more of total rooms are represented.
Where a smaller number or rooms are represented, such as in Canmore where only 35% or rooms are included, the DMF is more fragile. In legislated jurisdictions, a high percentage of rooms must vote in favour of the DMF for it to be passed. Where there is not legislation, smaller DMFs can exist.

There is little to prevent an area from having several separate DMFs in the same area. This is already the case in Drumheller, Alberta where there is a Canalta DMF and a community DMF with eight properties in it.

The concern around this issue is simply the amount of “noise” and variety in the tourism/marketing environment. The more similar jurisdictions are, the more common the approach, the more standard the percentage etc., the less “noise” one might anticipate about DMFs in Alberta.

### 3.3.3 Recognition and Reporting of GST

AHLA has received clear instruction from the Government of Alberta that fees collected by hotels as DMF will be counted as hotel revenue. They are therefore subject to GST.

All DMFs in Alberta are required to collect from hotels in this manner, and all hotels are required to report in this manner. If hotels and DMFs are not reporting in this way, they could be subject to sanctions. Further, they could attract government and political interest and/or court challenges.

### 3.3.4 Use of Funds Exclusively for Marketing

It is understood that destination marketing fees are to be used exclusively for marketing the destination, understanding that the administrative and operations cost of the marketing organization come within this definition of marketing. Some respondents believe this is a “contract” on the hotel bill, and DMF organizations are in breach if they spend funds on administration, lobbying, and other activities that are not specifically tied to marketing the destination.

While it is the realm of the lawyer to deal with this legal question, the issue for the system in Alberta comes if and when the DMF is tested in court or in the political system. It is by far preferred to have a common understanding of what a DMF can
be used for and to have all organizations using it appropriately than to have legal testing occur. Issues Related to Marketing Alignment

While marketing alignment is generally considered to be good across the system, there are issues to consider.

3.3.5 Most DMF/DMOs Believe Internal Alignment is Strong

Where DMOs are retained to be the professional planners and administrators of the marketing activities, and where planning is done collaboratively, alignment appears to be strong.

There is a challenge where DMOs have limited professional staff and where DMF partners dominate the marketing planning stage. This imbalance could weight the marketing toward short-term sales-oriented marketing particularly of the hotel sector with a limited focus on the destination. This imbalance will cause the DMO to have to deal increasingly with membership issues.

3.3.6 Alignment with Travel Alberta

Travel Alberta is aware of issues related to the timing of marketing planning and it has already taken actions to resolve this issue. Strategic priorities of Travel Alberta will be circulated to DMOs earlier than in the past so the DMOs can account for these provincial priorities as they determine their own regional priorities and develop their tactical plans. This single action will improve alignment significantly.

3.3.7 Leverage through Tourism Destination Regions

Tourism Destination Regions represented the largest single issue for the majority of respondents. While the key administrative issues are documented in earlier sections, there are a few key issues that are overarching:

- As DMF organizations generate more marketing money, they will likely tap all of the leveragable assets of the TDRs, essentially bankrupting the TDR in the sense that demand for leveraged marketing will exceed supply; and
A related issue goes to the equity of TDR funding. If more funding goes to DMFs, and less funding goes to communities without DMFs, either everyone will get into the DMF game or some communities will complain politically. In either circumstance, the “noise” may create a perceived need for political action.

### 3.4 Fundamental and Potential Issues

A number of fundamental considerations need to be addressed. While some of these come from the interview process, they also come from experience with tourism organizations and DMFs in Canada.

#### 3.4.1 Hierarchy of Marketing Organizations

In the classical hierarchy of tourism marketing organizations there is the National Tourism Organization (NTO), the Provincial Marketing Organizations (PMO), the Destination Marketing (and Management) Organizations (DMO) and Private Sector Suppliers (PSS). Over many years, these organizations have learned to take on specific roles and responsibilities in the marketing system, and these roles vary depending on the stage of the marketing cycle specific markets are in – awareness, positioning, and sales are three specific stages as examples.

Other tourism intermediaries fit within this hierarchy – receptive operators, inbound operators, tourism wholesale operators etc. are examples on the trade side of marketing. Various websites, web aggregators and other new technologies might be cited on the independent travel side.

The hierarchy of tourism marketers is well established, and its key players would find it difficult to add an entire new level called the DMF Consortia or some such moniker. It is challenging enough to work with the existing players so adding another level would create more complexity. This is why most senior marketing organizations would prefer that DMFs work through and with DMOs who are in the destination marketing business.

The more DMFs insist on working directly with PMO and NTO organizations, the more complex and difficult marketing will be.
3.4.2 Alignment of Marketing Plans

Alignment of marketing plans is desirable and efficient. While many respondents are encouraging about alignment, there is yet, a long way to go.

The more encouragement that can be given to joint planning, the more alignment will occur. As mentioned earlier, trust of each other is the single most important precondition to this outcome.

3.4.3 The Future of TDR Leveraging

Leveraging TDR funds for marketing is considered very important to DMF organizations and the DMOs they work with. One can see that the proliferation of DMFs across Alberta could easily bankrupt the TDRs.

There is a need to review the purpose of TDRs, their approach to fostering business growth through marketing, and their relationship to Travel Alberta and the DMOs.

Leveraged funding is desirable for the provincial organization, Travel Alberta, for the DMOs and for the DMF organizations. Any review of the system should ensure there is sufficient regional leveraging in place to support effective intra-provincial and inter-provincial travel marketing as well as supporting national and international initiatives.

3.4.4 Integration of Plans with DMOs

DMOs must ensure that in addition to collaborative DMF planning, other stakeholders in tourism have an impact on destination marketing strategy. This is critical to ongoing success in working with DMF organizations.

3.4.5 Long-Term: Measuring Success

In the longer term, standard measures of success of DMO and DMF marketing initiatives would be desirable. The organizations working with Destination Marketing Association International (DMAI) have developed standardized measures that are gaining support. Integrating DMF measures with these standard DMO measures is a sensible way to move forward.
3.4.6 Governments and the DMF

The Alberta government has permitted DMFs to exist without regulating them. Other jurisdictions have legislated regional and community-based hotel levy funding, thereby ensuring a common standard, approach, and reporting.

Many respondents would prefer the unregulated situation to regulation. If this is to occur, DMOs and DMF organizations will need to collaborate to ensure the rules remain reasonably similar between various organizations. There may be a role for AHLA in assisting these organizations in such an effort.

3.5 Moving Forward with DMFs in Alberta

In this section we consider what the future may look like for DMFs in Alberta.

3.5.1 The Growth of Communities with DMFs

There will be significant pressure for communities to install DMFs as defensive measures if they want to participate in leveraged tourism marketing. There are no specific “rules” today. As more communities join the DMF game, the pressure to create common set of rules will increasingly be focused on the politician.

3.5.2 DMF Rates – Should They Be Aligned?

DMF rates today vary from 1% to 3% in Alberta. This is not a big range, and there appears to be little pressure for alignment of rates.

Rates would become an issue if the total hotel tax/levy burden becomes too high. The research suggests that a total hotel tax burden in the range of 12% to 15% is bearable without major changes in demand. Alberta’s total burden on hotels is 4% for the Hotel Levy and 5% for GST. Adding a 3% DMF raises the total rate to 12.27% on the room. Arguably this would still be palatable to room guests, when compared with rates in other jurisdictions.

Private DMFs may be a more serious issue that would tax the system. If private DMFs proliferate, if the range of rates is great, and if these private chains use funds for awareness marketing of the chain as opposed to community-based marketing, we
would expect a reaction from the community and legislators. While there seems to be little issue today, in our view private DMFs could represent a significant issue for the system going forward.

Creating DMF rates that range wildly across Alberta is not desirable and will eventually attract political interest. A preferred approach is for AHLA to suggest rates to community-based hotel organizations within a range that is considered palatable in our jurisdiction.

### 3.5.3 Should AHLA Promote Formalizing DMFs?

AHLA could get out ahead of the public and government and promote formalizing and legislating DMFs in our province.

We would advise AHLA to take the following steps:

- Prepare to advise government on province-wide DMF regulation, but do not suggest this to government;
- Advise DMO and DMF organizations, existing and proposed, concerning reasonable standards for the creation of DMFs and their successful integration into the marketing of destinations. Using this report, a set of standards may be prepared as suggestions to local hotel associations on getting started; and
- Address emerging issues from this platform of standards, thereby forestalling government regulation.

### 3.5.4 What is the View of Government and the Impact of HST?

The view of the provincial government was not tested in this assignment. It certainly makes sense for the AHLA to test the thinking of selected government spokespersons.

While the HST has significantly impacted DMFs in other provinces, particularly Ontario and British Columbia, there is no concern at this time with HST in Alberta.
3.5.5 Municipal Request for Taxing Powers

Municipalities have requested direct taxing powers. The Province of Alberta has not supported such powers to date. AHLA has historically opposed municipal taxing authorities over hotels. Their concern is that monies could be used for municipal goals that are not tourism-related.

In the United States, where municipalities have direct taxing powers, hotel taxes are an important source of revenue in over 80% of DMOs. Often taxes collected municipally go directly to the DMO to undertake specific agreed duties. However, often a portion of the tax goes to municipal infrastructure, with sports infrastructure being the most common investment.

If municipal corporations are given direct taxation powers, the AHLA should play a key role in defining the relationship and purpose of hotel taxation in the mix of taxes municipalities might consider.

3.5.6 Meeting of the Key Stakeholders

Many respondents suggested that a meeting of respondents would provide a platform for discussion of the report findings and of desirable efforts of the AHLA and other organizations going forward.

The consultants believe that such a meeting would be useful in validating the report findings and testing the consensus among respondents in terms of which areas are the most important for moving forward in the near term. The preferred role of the AHLA in moving forward on DMFs might also be considered in this meeting.

We recommend that the Board of the AHLA considers inviting participants to such a meeting in September 2010.