Reengineering destination structures as a condition for successful tourist products and marketing

Abstract

In tourism, the complete service chain of a village or region forms a product for the customer. Therefore, some coordinative and cooperative functions have to be fulfilled by tourism organizations. This fact is widely recognized both in theory (Heath/Wall, Marketing Tourism Destinations, New York, 1992; Inskeep, Tourism Planning, New York, 1991; Bieger, Management von Destinationen, München, 1996) and in the professional world. These cooperative functions can be structured in four main groups:

1. **Supply side** orientated functions such as coordination of the different presentations from independent, private enterprises and organization of public services (information centres)
2. **Strategic planning** of the tourist product and development of the destination
3. **Marketing** of the destination's tourist product
4. **Lobbying** functions for tourism industries in the destination

In Switzerland, like in most traditional tourist countries, these functions have been taken over by mostly community based local tourist offices. This structure dates back from 1864, when the first local tourism board was founded in St. Moritz. Nowadays, almost every local tourism board is organized as a private agency or association with private tourism enterprises and representatives of the population as its members. But there are not only tourism boards at a local, but also at a state and national level. All these organizations provide their own marketing services, trying to form and maintain a brand, to organize the product and to stay active in the lobbying business.

Due to globalization and an increasingly competitive environment, this structure is reaching its limits. Marketing efforts and investments are mainly below the critical mass because they are too decentralized. The administrative costs are rising uncontrollably. Political issues are dominating over demand orientation.

Recognizing these problems, accompanied by a loss of competitiveness of Swiss tourism, the association of the Swiss Tourism Board Directors together with representatives of the Swiss National Tourist Board, the Swiss National Tourism Association and the two university departments in tourism (St. Gallen and Bern) have elaborated a new concept for reengineering the Swiss tourism structures.
The new structure is based on the concept of destination management. The destinations are seen as the competitive units in tourism. They have to be able to form and maintain a direct reservation centre, to organize a sale structure and to secure a quality service chain. Given the conditions in Switzerland, i.e. a high proportion of independent, individual travellers, the size of the destination has to be at least 1 mio. overnight stays on average. The tourism organization must have a budget of at least 3 mio. Swiss francs (Bieger et al., 1997).

All marketing activities at all levels have to focus on these new destinations. For example, the Swiss National Tourist Board will only work together with destinations fulfilling the above mentioned criteria. The regional and state tourism organizations - previously the connection between the national tourism organization and the local boards - which have been performing their own marketing activities have to be downsized to service centres. As service centres they must help the destinations with marketing information and logistics.

This „reengineering process“ calls for new professions. Destination managers will be responsible for the competitive strategy of the destination. Product managers have to coordinate the product for specific target markets and managers of regional tourism boards will be in charge of service centres.

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4.3. Outlook

1. GLOBALIZATION IN TOURISM - THE OLD LOGIC DOESN’T WORK ANYMORE

Since the early 1990s the traditional tourism centres, especially in Europe, experience a dramatic change in tourism demand. Cheap airline transport, new information technologies such as the internet and global distribution systems as well as travel experienced customers have led to a fast globalization in tourism demand. Tourists satisfy their travel needs in destinations all over the world depending on the specific travel motivation. Therefore, customer loyalty is decreasing. While global tourist demand is increasing by six and more percent annually, demand in Switzerland is decreasing by annual rates of 3 to 4%.

Figure 1: Development of overnight stays in comparison with Switzerland

![Graph showing development of overnight stays in comparison with Switzerland.]

Obviously traditional strategic success positions are devaluated. This first part is trying to show why the strategic success positions of traditional tourism centres are not important anymore, what the new trends in tourism demand are and what challenges the tourism organizations in charge of cooperative marketing are facing.

1.1. Why the SSPs of traditional tourism centres lost their value

For decades the traditional European tourism countries could rely on the following factors:

1. demand
   - demand for simple products such as single purpose vacations (hiking holidays, ski holidays)
   - inexperienced customers who were afraid of foreign destinations and high transport costs
2. factors
− cheap, skilled labour, cheap capital and untouched nature

3. industry network
− inspiring cluster of sports equipment producers, transport system producers, innovative hotellerie, sportscentres with good infrastructure, etc.

4. management capacity/strategy
− stakeholder orientated management which took care of the problems and fears of the destination’s citizens

Under these market conditions, strategic success positions such as close distance to densely populated areas in Central Europe, small and medium sized enterprises with close contact to their loyal customers, decentralized production structures with a large number of independently operating companies specialized in single functions, production processes relying on human work and expensive infrastructure and management with highly developed political skills able to legitimate nearly uncontrollable funds led to an economic success.

Figure 2: Traditional success factors for alpine destinations

Now the growth rules of the market have changed:

1. demand

Customers ask for integrated service chains able to fulfil problem solving functions or to offer new forms of holiday experiences. Most customers are seasoned travellers able to compare prices and quality. New destinations come into the market, part of them profiting from huge state subsidies as a means of enabling them to earn foreign exchange. These new destinations can easily be reached by cheap air transport.
2. production factors

Wages have risen in European tourism areas because of the industrialization and the wage shifts stemming from other service industries such as banking. Capital costs are high, which can be put down to overinvestments made in times of low interest rates. The tourism industry isn’t seen as a low risk industry anymore and therefore the interest rates rise.

3. industrial networks

Small and medium sized enterprises are still dominating the industry. But many of the sports equipment companies have disappeared in a concentration process. Hence the possibilities for product innovations have diminished. The snowboard for instance hasn’t started its success story in the European Alps.

4. management capacity/strategy

A strong, politically orientated management is still following strategies concentrating on preservation and regulation.

Figure 3: Service chain of an alpine destination

1.2. Trends in tourism demand

As mentioned above modern tourists have become critical regarding prices and quality. Moreover high income market segments are critical about time efficiency. For guests belonging to this segment experiences per minute have to be maximized. These tourists are swamped with information about new destinations. Hence they rely on the information of relatives and friends or stick to strong brands. They ask for experiences and authenticity as a contrast to the ever growing routine duties of a more and more artificial world. It doesn’t mean that they like to have the original. What does it matter if it’s real or not? If it’s real enough for the customer he will buy it (Poon, 1993).

Therefore tourism products must meet the following demands:
- based on integrated service chains, which allow the highest possible convenience for the customer (Bieger et al., 1997)
- promoted as strong brands (Bieger 1992 and 1997)
- distributed by a fast just in time system which enables the customer to make reservations everywhere, every time and with immediate response (Bieger et al., 1997) consisting of integrated service products allowing the customer to choose from a multi-optional offer (Poon, 1993).

1.3. New challenges for destination tourism organizations

Tourism organizations have to fulfil promotional and organizational functions to assure the competitiveness of their destinations, areas or countries. Following the new logic of the market they therefore have to:
1. make sure that bookable products with a good price/value ratio are offered by co-operations of different partners along the whole service chain.
2. follow a brand policy that leads to a better market transparency and customer orientation.
3. operate a reservation system which is able to serve as many point of sales as possible.
4. assure a certain range of activities by cooperating with suppliers and other destinations. In a certain sense tourism organizations have to play a key role in motivating co-operations between different partners in tourism. Horizontal cooperations to ensure economies of scale, vertical cooperations to ensure economies of scope (Keller/Koch, 1995).

Figure 4 shows the driving forces for cooperations at destination level and the need for bigger business units.

Figure 4: Driving forces for cooperations in tourism

- **New Industry Organization**
  - new working methods
  - new working processes with tour and incoming operators

- **Demand**
  - increasing international offer
  - optimal quality with adventure guarantee and time efficiency
  - critical price/output orientation

- **Supplier**
  - increasing media costs
  - brand flooding

- **Technology**
  - new communication technology

⇒ increase of critical size in tourism

2. DESTINATIONS AS THE STRATEGIC BUSINESS UNITS IN TOURISM

Discussing the functions of tourism organizations, especially in traditional tourism countries where the industry consists of a large number of independently operating small and medium sized enterprises, the question of the critical size of an unit managed and coordinated by a tourism organization arises. In the following sections I would like to outline briefly the traditional structure of tourism organizations in Switzerland, which are quite similar to the structures in Germany or Austria. As a new concept for tourism organizations structures, the destination concept will be shown and the functions of a tourism organization at destination level will be depicted.

2.1. The inefficiencies of the old tourism organization structure

The still existing structure of tourism organizations in Switzerland is a hierarchic one. There are tourist organizations at a local, regional, state (Cantons) and national level. Together with the individual enterprises they all do their own marketing. So hundreds of different brands are promoted in Swiss tourism. Every level does some coordination work. If for example the Swiss national tourist office were to start a campaign with specific products it would take weeks to get the offers of the different enterprises and hotels, because state, regional and local level organizations
have to communicate together. In a market with time based competition speed-management is a key factor.

At every level political work is done. Only at national level the tasks are divided between the Swiss national tourist office (responsible for the marketing) and the Swiss tourism association (responsible for the political lobbying). At state, regional and local level marketing and lobbying is performed by the same organization, by the same people. Therefore many goal conflicts arise. Because all these tourist organizations have a political function, they have to be neutral in their work with the private enterprises most of which are members of these organizations. Therefore they are not able to guarantee quality control, to secure hard selling or to ask good prices from the hotels and other partners. All these tourism organizations work for areas within political borders. On the other hand, in most cases the area that the tourist regards as a product and in which he consumes his services during his stay, is independent of political borders. Therefore an efficient coordination of the tourist product can’t be guaranteed by these political organizations.

The main disadvantages of the traditional structure can be summarized as following:

– unfocused, dispersed marketing efforts mostly below any critical size
– unable to perform hard selling and quality control
– goal conflicts between political targets and marketing necessities
– insufficient product coordination

2.2. The destination concept: conditions for a competitive destination

The destination concept focus on customers and producers. Destinations can be defined as areas which consist of all services and offers a tourist consumes during his/her stay (Bieger, 1992 or WTO, 1993). A destination therefore can be seen as the tourist product that in certain markets competes with other products. These products are always relevant for certain market segments. Hence destinations must be defined according to market segments. In most cases a destination has to be the bigger the farther away a tourist is. For a Japanese tourist coming to Europe for example five or six European countries are the destination. On the other side, for a German tourist coming to ski holidays to the Swiss Alps one village may be the destination. Therefore tourism organizations have to be defined to markets.

Because the markets linked to the products are quite stable, destinations may be seen as strategic business units from the management point of view (Müller, 1995 or Bieger, 1997).

The destination concept leads to a new paradigm in tourism organizations because it is:

– customer focused
– process oriented

The focus is not on industries and enterprises anymore, but on service chains. A 90° shift of the management perspective, i.e. from a functional to a process view, is necessary.

Figure 5: Reengineering in tourism
Because in most tourist areas one form of tourism is dominating it is reasonable to define a destination out of this segment. For example in a Swiss mountain village the most important form of tourism and the one that offers the largest income is the winter sports business. Therefore the destination has to consist of all the services and prestations consumed by a winter holiday guest. These destinations have to be managed as strategic business units by destination management companies or in our terminology by tourism organizations at destination level. This destination management companies must comply with the requirements of section 1.3. Certain demands concerning financial resources, professionalism and opportunities have to be met to form a brand.

An expert group has worked out the conditions for effective destinations and a new tourism organization structure based on the destination concept. The main criteria for a destination are shown in table 6.

**Figure 6: Criteria for a destination**

- Independence from political limits and primary concentration on a destination. (Area from the guest’s point of view. For example a region or a city).
- Within a destination the offer for the guest includes all the necessary facilities such as entertainment, lodging, transportation, etc.
- The destination has at least one independent brand and qualified personnel. Depending on the range of the brand the available funds are the following (see table 7).
- Obligation to offer starting points for the creation of new brands (supraregional known sights, special farming products, etc.).
- It is necessary to build up reservation facilities / points of sale, which create and commercialize new offers or provide the facilities to distribute within such channels with the help of modern media.

The range of marketing activities depends on the available marketing budget respectively the number of overnight stays (as a proxy for the income generated in tourism).

**Figure 7: Range of marketing activities of tourism organizations**

<table>
<thead>
<tr>
<th>Category</th>
<th>Range</th>
<th>Funds</th>
<th>Overnight stays (resp. equivalent value added by)</th>
</tr>
</thead>
</table>
other forms of tourism such as day-tourism)

<table>
<thead>
<tr>
<th>National players</th>
<th>Switzerland, resp. selected segments in Switzerland</th>
<th>mutual marketing funds, at least Sfr. 500'000, total budget Sfr. 1'000'000</th>
<th>300'000 OS</th>
</tr>
</thead>
<tbody>
<tr>
<td>International players</td>
<td>Switzerland and selected close foreign target markets</td>
<td>mutual marketing funds, at least Sfr. 1'000'000, total budget Sfr. 2'000'000</td>
<td>600'000 OS</td>
</tr>
<tr>
<td>Global players</td>
<td>Specific markets in other continents</td>
<td>mutual marketing funds, at least Sfr. 2'000'000, total budget Sfr. 4'000'000</td>
<td>1 Mio. OS</td>
</tr>
</tbody>
</table>

2.3. Functions of a tourism organization at destination level

Because destinations are the strategic business units they have to be managed at the market base with competitive strategies. Considering the requirements mentioned in section 1.3. as well as the general functions of a tourism organization (marketing, offer coordination, political lobbying and planning (Bieger 1997 or Heath/Wall, 1992)), the following are the tasks to be met by destination management companies (figure 8).

Figure 8: Functions of destination management companies

TASKS WITHIN A DESTINATION

The destination, respectively the newly defined SBUs must meet the following requirements. It is not settled if these tasks must be fulfilled by a single or several organizations internally or through outsourcing.

1. Planning
   - Working out a development model
   - Developing a destination strategy (competitive and corporate strategy)

2. Offer shaping
   - Operating a central information office (data base) and an information desk
   - Creating marketable products
   - Guaranteeing guest care and animation
   - Operating a quality development and securitization system with the help of service chains
   - Guaranteeing management and front personnel training
   - Guaranteeing a complaint office (ombudsman)
   - Organization of (big) events

3. Marketing
   - Developing a marketing strategy
   - Guaranteeing market research respectively analysis of opinion polls concerning the destination
• Guaranteeing a brand management (positioning, maintenance, cooperation strategies) depending on the range of the brand / target market
• Guaranteeing the image marketing, promotion and public relations
• Defining a price strategy for the offers in the distribution system of the destination
• Active selling and operation of a central reservation office / incoming function with guarantee of a distribution system and creation of marketable products

4. Pool
• Information of industry and population
• Promoting the tourism awareness
• Political pools for special projects - but no political work for general conditions

3. DEVELOPMENT OF A DESTINATION MANAGEMENT COMPANY

There are only a few local tourism organizations meeting the requirements mentioned in section 2.2. that are able to provide the functions highlighted in section 2.3. In most cases tourism organizations at local level have to be merged to become a bigger and more effective unit. In the following sections, the structure of a destination management company will be sketched and transforming strategies for local tourism organizations will be outlined. Because this transformation requires a dramatic change management resistance to change is discussed considering the role of the different partners.

3.1. Structure of a destination management company

A destination management company must be efficiently funded and provided with operational freedom to do a professional job. The type of cooperation structure (association, join stock company, etc.) is a matter of secondary importance. What does matter is the operational freedom for the management and the professionalism of the board members. If most of them are politicians it is very unlikely that market focused competitive strategies will be followed.

Within the destination management company product managers must be put in charge of the different market segments. They are responsible not only for the product creation and distribution but also for the coordination of the offers. Figure 9 shows a possible organization structure of a destination management company based on a matrix structure.

Figure 9: Destination management company
In these destination management companies new professions emerge. Instead of tourism organization managers, product and destination managers will be needed.

The destinations are directly linked with the market either by their own marketing activities or by global distribution systems. Therefore the regional and state tourism organizations are no longer responsible for any marketing or product coordination functions. Nevertheless they keep performing some lobbying work at state level and ensuring some coordinative planning. Because economies of scale arise in certain marketing functions it seems reasonable to put these regional and state tourism organizations in charge of specific marketing service functions such as marketing information or media contracting.

**Figure 10: The new responsibilities in Swiss tourism**

<table>
<thead>
<tr>
<th>Planning</th>
<th>TO local</th>
<th>destination</th>
<th>TO regional</th>
<th>ST</th>
<th>STV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>model</td>
<td>model and strategy</td>
<td>model</td>
<td>strategy</td>
<td>support model</td>
</tr>
<tr>
<td></td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>●</td>
<td>○</td>
</tr>
<tr>
<td>Offer creation</td>
<td>information</td>
<td>product development, quality systems, etc.</td>
<td>regional coordination relevant to market</td>
<td>national coordination</td>
<td>consulting</td>
</tr>
<tr>
<td></td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>---</td>
</tr>
<tr>
<td>Marketing</td>
<td>service center</td>
<td>●</td>
<td>●</td>
<td>consulting</td>
<td></td>
</tr>
<tr>
<td>Pool</td>
<td>●</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>●</td>
</tr>
<tr>
<td>Fund rising</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>●</td>
</tr>
</tbody>
</table>

X project specific  
● very important  
○ of small importance  
--- of no importance
The destination management companies must be financed appropriately to their task and function. Because all their prestations have the character of a public good, private financing is impossible (Boehan/Mak, 1996 or Mühlenkamp, 1997).

Specific taxes have to be introduced. The expert group suggests a business tax for all benefitted companies within the destination to finance the tourism marketing, a tourism tax from the guest to finance the public prestations and the product coordination and public subsidies to finance the destination planning as a part of the regional planning process.

3.2. Transforming strategies for different types of local tourism organizations

Four different types of local tourism organizations have been discussed (Bieger et al., 1997).

Type A:

Type A local tourism organizations already have the critical size and are in charge of an area that fulfills the necessary criteria of a destination. These are tourism organizations responsible for one million or more overnight stays p.a.. These organizations must enter into cooperations with their surrounding local tourism offices to get more funds and to improve the product coordination. This seems reasonable for both sides, because most of the small surrounding tourism offices promote themselves by taking advantage of the strong position of the big neighbour. On the other hand they fail to take all the profits of the bigger destination’s marketing efforts and reservation systems and have therefore an interest in a strong cooperation.

Type B:

Type B tourism organizations are those surrounding the big ones. As mentioned above, they must enter into cooperations with big organizations.

Type C:

These are smaller tourism offices in areas without a big, important destination. These local tourist offices should work together and found joint destination management companies. The different local associations have to be given up to prevent overambitious board members from maximizing the profits of their small office. A new brand must be created or, even better, if an important one is already existing it has to be used and exploited.

Type D:

Type D local tourism offices are responsible for non-touristic areas. In such areas tourism is of secondary economic importance. There are only a few tourism enterprises mainly concentrated on a few attraction points. In these areas the tourism companies have two opportunities. Either they work together on an homogenous basis, that means similar companies in the same industry work together and create their own quality brand, or they work together on a heterogenous basis which means that different companies form a product of their own, for example a wine road or a gothic road and exploit and optimize their product.
3.3. Resistance to change

Resistance to change must be expected from the following interest groups:

1. Local, regional and state tourism managers who are afraid of losing their job. Especially for managers in a certain age with education deficits it is very difficult to find a new job.
2. Local and state politicians fearing a loss of influence and opportunities who are trying to position themselves as market orientated.
3. Weak and small enterprises fearing a loss of protection received from the neutrality of today’s tourism organizations.
4. Citizens who are afraid of losing their local identity.

4. CASE STUDIES OF SWITZERLAND

The following two case studies highlight who the most important change agents could be and what dangers might occur in the realization of this new structure in the incoming tourism.

4.1. Central Switzerland - state pressure needed

In central Switzerland, besides the two world class destinations Lucerne and Titlis-Engelberg, there are primarily small and medium sized tourist villages such as Weggis, Brunnen and so on. Tourists coming to central Switzerland normally use services and prestations of a whole area, for example the whole lake region of the lake Lucerne district. These areas consist of different states and several villages. Until now, local tourism organizations and mainly state based regional organizations have tried to fulfil marketing functions and to coordinate the product. They lacked in the critical size that would allow them the positioning of a true brand. Right now, the conviction prevails that destinations with destination management companies have to be founded.

There is heavy pressure against these changes from the political side and from smaller and weaker companies in tourism. Only because the state governments stand behind the destination concept and because they guarantee financial incentives this transformation process stands a good chance to be successful.

4.2. Laax-Flims - mountain transport companies as change agents

Flims and Laax have worked separately as alpine tourism villages for decades. They operated separate mountain transport companies which were exploiting a connected ski area. Only when one of these transport companies got into losses a stronger cooperation was taken into consideration. Last year, the two companies merged and the new company pressed heavily on a merger between the two tourism organizations which will hopefully be realized this year.

4.3. Outlook

As the two examples show, it is very difficult to reform destination structures against the resistance of powerful interest groups and against the general tendency to preserve old structures. Only if there are strong organizations (big mountain railway companies, state
government) with a strong interest in the strategic position of the whole destination can this transformation process be accomplished in a reasonable time.

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