Global forces shaping destination development

Guest lecture
@ University of Otago

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Summary

• The framework in which we have to operate: Globalisation
• What do destinations/locations have to do now? Historical background of the theoretical discussion on the setup and promotion of successful locations
• Destination Marketing: Creating, fostering and promoting a successful location-bound network
• Managing networks in the case of a DMO
The framework in which we have to operate: Globalisation
The faces of globalisation are manyfold...

• Internationalisation of production, hereby optimising processes and creating value at locations optimal with regard to
  – Factor supply (quantity perspective)
  – Competences (quality perspective)
  – Quality and quantity of demand targeted

• Internationalisation of consumption, hereby optimising
  – Time of delivery (not the shortest but the most reliable one)
  – Costs and quality of product or service demanded

⇒ Breaking up of “traditional” areas of consumption and orientation
⇒ Areal disintegration of value chains
...as the drivers of globalisation are manyfold as well

• **Technological progress** resulting in declining transaction costs (information, communication, transportation)

• **Deregulation** of numerous markets (especially goods and transportation)

• International liberalisation and **reduction of trade barriers** (GATT, WTO, etc.)

• Efforts of **integration** or at least trade alliances (EU, APEC, etc.)

• **New** (emerging) **players** (Former Warsaw Pact countries, China, India, etc.)
In the case of tourism, the A380 will provide options to further slash transportation costs.
The results of globalisation consists of an intensifying competition…

- **Drivers** of competition:
  - Price
  - Quality
  - Flexibility
  - Reliability
  - Innovation abilities

- **Faces** of competition:
  - Declining duration of R&D, production cycle and delivery times
  - Declining duration of cycles with regard to products and series
  - Increasing customisation of products and product systems
  - Increasing variety of products

*Sources: Haubold (1995); Rust and Oliver (1994)*
... and of a decentralisation of production combined with a decreasing vertical range of manufacture.

- Making use of **economies of scope**
- Evolving **separability of economic activities** to units as focused as one step on the value added chain
- **Diminishing importance of company-bound economies of scale** due to the reduction of preproduction and setup costs as well as stockkeeping costs
- **Equalisation of the competitive edge of information** due to improved information technologies
- **Reduction** of transaction and translocation **costs**

Sources: Domroes (1994); Eisele (1989); Picot & Reichwald (1994); Seidenfus (1991); Klippel 1993); Bohr & Weiss (1994)
Branches and companies are in the middle of a transformation process.

Macro perspective (branches)
Reconfiguration of activities and transactions

Break up of branches and industries

Pressure to become “Best in Class”

Micro perspective (companies)
Reengineering of core competencies
From a macro perspective, business activities are reconfigurated.

**Vertical area of operation**
- Section of value added chain

**Horizontal area of operation**
- Integration in output systems

Small to large

Narrow to wide

Evolution to Revolution
From the micro perspective, companies are reingeneered along customer processes.

Rconfiguration of companies and its core competences
The consequences are challenging…

From -> to

- value chain -> value net
- traditional mass production -> customised “lean production”
- sectoral division -> merger of sectors (business migration)
- Economic clusters with distance protection
  -> economic clusters funded on know-how and competences
- system-centric -> human-centric approach
- Real capital -> human capital
- collective behaviour -> individualised behaviour

Sources: Pfeiffer and Weiss (1992); Bullinger (1990); Reiss (1992); Laesser (2001)
In tourism, as a consequence, consolidation of SME to large companies is under way…

*By acquiring P&O resorts, Voyages becomes a premier resort (and tour) operator in Australia.*
… with increasing number of integrated business models.

Cruise ships are the Perfect destinations.

Special interest (winter sports) Tourism is operated by Conglomerates.
What do destinations/locations have to do now?
Historical background of the theoretical discussion on the setup and promotion of successful locations
## Approaches to the theory of places (1): Comparative advantages (Ricardo)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Crucial factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Stable (static) technologies</td>
<td>• Fertile soil</td>
</tr>
<tr>
<td>• High transportation costs</td>
<td>• Sufficient sunshine</td>
</tr>
<tr>
<td>• Stationary competition with location delimited and bound factor input potential</td>
<td>• Cheap labour</td>
</tr>
<tr>
<td></td>
<td>• Sufficient investment capital</td>
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</tbody>
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Approaches to the theory of places (2): Agglomeration approaches (Christaller, 1933)

Characteristics

• First networking of the economy due to decreasing transport costs
• First use of economies of scope (Access to customers and suppliers, make use of potential synergies with suppliers of complementary goods)

Crucial factors

• Internal savings (allocation of production factors)
• External savings (access and utilisation of public facilities)
• Transport- and communication costs (areal division of labour)
• Price of land
## Approaches to the theory of places (3): Polarisation approaches (Schumpeter, 1961)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Crucial factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Further development of agglomeration theory in regard of</td>
<td>• Sectoral polarisation (interdependency between different sectors)</td>
</tr>
<tr>
<td>– Interdependency between different kinds of enterprises, industries and</td>
<td>• Regional polarisation (areal interdependency)</td>
</tr>
<tr>
<td>sectors</td>
<td>• Push- und Pull-effects</td>
</tr>
<tr>
<td>– Transmission mechanisms</td>
<td></td>
</tr>
</tbody>
</table>
Approaches to the theory of places (4): Competitive advantage (Porter, 1990)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Crucial factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dynamic approach to competition</td>
<td>• Strategy, structure, competition</td>
</tr>
<tr>
<td>• Special interests in factors explaining the viability of enterprises, industries and sectors</td>
<td>• Demand conditions (structure and overall size)</td>
</tr>
<tr>
<td>• Central role of know-how and competencies</td>
<td>• Role of related and supplying branches (cf. economies of scope)</td>
</tr>
<tr>
<td></td>
<td>• Factor conditions</td>
</tr>
</tbody>
</table>
With increasing mobility of 2 production factors, the basis of success for any location is absolute.

Goal:

⇒ Long term and stable attractiveness of mobile production factors, i.e. capital (equity) and labour (skills)

Basic means to this goal:

• Stable and predictable economic and political framework
• Promising economic structure (companies, industries, branches, sectors), implying inherent competences and know-how (implicit and explicit economies of scope)
• Proactive areal connection of mobile production factors by means of facilitating and increasing contact and transactions between actors

Source: Borner (1997)
A location strategy more and more needs to be competence oriented.

- **Labour market**: qualified labour, facilities with regard to know-how transfer
- **Customers**: Challenging and complex demand, innovation cluster (Pull)
- **Specialisation of economic and political framework**: Know-how of public administration, specific infrastructure with regard to transport and communication
- **Facilities with regard to informal know-how transfer**: „Bar-talks“, Clubs, conventions, etc.
- **Market of information and know-how**: Consultants, Research and education
- **Supplier**: Ambitious problem solving support (not only products but systems), Innovation culture (Push)

*Source: Bieger (1999)*

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“Show regions” never only evolve.

- Silicon Valley (California, USA)
- Medical Alley (Minneapolis/ St. Paul, USA)
- Science Cluster (Cambridge, UK)
- Aerospace (Toulouse, F or Seattle, USA)
- Chemical Cluster (Basle, CH)

- Tourism (?)

Each location does what it is best in.
Example: Nicheing reactions on the growth of China

- Thailand and neighbours: Tourism (China will be too polluted to do so)
- Philippines: English speaking regional service centre
- South Korea: Asia Silicon Valley (70% of households have broadband Internet)
- Singapore and Malaysia: life sciences and intellectually oriented industries (challenging in the case of Singapore…)

Source: The Australian
However, places rise and fail by numerous reasons.

- External shocks (globalisation) & internal forces have meant that “all places are in trouble” (Kotler et al., 1993)
- Places lie on a continuum:

  - **Dying or Chronically Depressed**
    - Lack resources to recover, often small & peripheral
  - **Acutely Depressed**
    - Assets to recover, but problems worsen
  - **Boom & Bust**
    - Sensitive to business cycle
  - **Healthy Transformations**
    - Heavy investment to improve attractiveness
  - **Favoured few**
    - Growth but problems

*Source: Kotler et al. (1993)*
Destination Marketing: Creating, fostering and promoting a successful location-bound network
A DMO in a wider sense integrally targets 4 different potential markets (stakeholders)...

- **Visitors**
  - Types: business and non-business
  - Duration: short term to long term

- **Residents**
  - Skills: skilled to unskilled
  - Type of contribution to society: investors, entrepreneurs, labor (professionals to unskilled)

- **Business**
  - Structure: industries, branches, sectors
  - Life cycle: Start-up to mature to declining

- **Export**
  - Types: goods to services
... with its primary task consisting of managing stakeholder related networks.
The benefits of managed networks for businesses include a wide range of potentials...

| Supply side effects       | • economies of scope  
|                           | • economies of scale  
|                           | • reduced funds flow  |
| Financial markets effects | • cheaper capital by means of risk diversion |
| Demand side effects       | • Market power towards partner  
|                           | • Cross Selling  
|                           | • Branding potential |
| Sourcing effects          | • Competence  
|                           | • Market power |
| Labour market effects     | • Capacity building / leadership  
|                           | • Attractiveness as employer |
| Effects with regard to know-how | • Competence development |
... so the necessary co-operations are driven by a number of options

- **Economies of scale (often horizontal cooperation):** Cost savings and / or market expansion through scale effects, usually attained when competitors join their forces.

- **Economies of scope (often vertical cooperation):** Different services are combined to integrated solutions. Cooperation works in this case with complementary industries, customers and suppliers.

- **Agglomeration effects:** The spatial concentration of services decreases transaction costs for the customer and increases social contacts and more options.

- **Competencies:** To learn and employ competencies does not only imply benefits for the cooperation partners. If one of them is capable to imitate them, he turns out to be a competitor.
Cross-industry cooperation has become very popular in the last few years

Case of winter ski resorts and beer companies in the US

- Beer companies sell beer in California and Florida
- As they want to sell product more than once they look ahead to the winter season break
- So they give vouchers, sell merchandising, sponsor events and parties, in order to be recalled
- At the same time they promote partner winter ski resorts for the next season

- Winter ski resorts want to have access to new segments (invest in future professionals and parents)
- They know that spring break destinations satisfy similar needs as they do
- So they cooperate with beer companies that bring them new customers

US students, enjoy spring-break in destinations in California and Florida. They consume a lot of beer and are the parents of tomorrow’s generation.

Potential customers  Beer companies  Winter ski resorts

For the beer companies it’s better to serve their clients intensively twice a year. The winter ski resorts have an additional promotion and distribution channel and could gain new segments.
A DMO in a tourism sense focuses on matching visitors (demand) with business (supply)...

Supply-Side Networks

Demand-Side Networks/
„Communities“
… with two basic marketing functions.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Areal Basic Function</th>
<th>Tourism Product Function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Task</strong></td>
<td>Basic market access for all; primary market-related enablement for production of tourism offers</td>
<td>Bundeling of tourism offers to marketable products; promotion and sales of those products</td>
</tr>
<tr>
<td><strong>Key stakeholder</strong></td>
<td>Supply side (Enablement of market access)</td>
<td>Demand side (produce and sell marketable products)</td>
</tr>
<tr>
<td><strong>Beneficiaries</strong></td>
<td>All providers of tourism services; no exclusion</td>
<td>Selected providers; exclusion principle</td>
</tr>
<tr>
<td><strong>Bearer of Tasks</strong></td>
<td>(Possibly) Exlusively a politically legitimated or commissioned organisation</td>
<td>Any private marketing organisation</td>
</tr>
<tr>
<td><strong>Marketing initiatives</strong></td>
<td>Regional to national initiatives</td>
<td>Sectoral and subsectoral initiatives</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>Perpetual and permanent</td>
<td>In dependance of character of concrete project (business plan based)</td>
</tr>
</tbody>
</table>
There are numerous interdependencies between the promotion of spheres in a given living space.

**Visitors**
(temporary residents)
-> Tourism/ Consumers

- Business customers
- Strategic networks (e.g. relations, image)
- Image value
- Leisure facilities

**Legal entities**
(Companies)
-> Producers

- Attractive jobs
- Multiplication of profile and publicity

**Residents**
(long term residents)
-> Consumers

- Attractive (well trained) labour

Source: Bieger (1999)
Managing networks in the case of a DMO
A DMO faces management problems of all virtual companies.

- Handling of information problems
- Reorientation of individual partners' basically opportunist behaviour along the lines of an overall interest
- Conception and establishment of contractual relationships
- Design of information and monitoring systems
Peculiarities of the management of a DMO I

• **Dual function** of the tourism organisation
  – Responsibility for one's own company
  – Responsibility for the destination as a whole

• **Goals** that are unclear and difficult to quantify
  – The tourism organisation as a non-profit organisation
  – No quantifiable, widely accepted target value (success indicators?)

• **Limited possibility of influence** on Destination plc and on the tourism organisation
  – Public function
  – Influence of politics
  – Fragmented service provision at the level of the destination
Peculiarities of the management of a DMO II

• Great weight of stakeholders
  – Large number of different interest groups
  – Conflicts between goals within individual interest groups

• Necessity of legitimacy in the social/political environment
  – Balance of interests between the various interest groups
  – Broadly based guidelines and objectives for the destination's future development
  – Great significance of normative management
There is no way of not involving stakeholders.

- Tourism stakeholders are vital
  - Often rely on them for funding or political support
  - DMOs represent these & have representatives
- Those outside the industry are also important
  - these stakeholders must be included in planning
  - they often supply or control the product
- planning must account for all
  - Refer to Community Tourism subject
Therefore, stakeholder need to be audited.

- Identify stakeholders
- Determine interests, priorities & values
- Review past behavior (strategies & coalitions)
- Estimate relative power
- Assess how DMO currently meets needs
- Formulate strategies to manage relations
- Evaluate effectiveness

Source: Beeton (2003)
Key elements of stakeholder inputs

- Acknowledge ‘ownership’ of their patch
- Recognise different perspectives/values
- Acknowledge many reason for involvement
- Identify what is required from stakeholders/vice versa
- Ensure info is timely accurate & understandable
- Develop individual strategies for each stakeholder
- Provide a commitment to act on concerns
- Recognise the need for ongoing involvement

Source: Beeton (2003)
The readiness for any co-operation is based on the relation of profit and transaction costs.

Readiness for cooperation = f\(\frac{\text{perceived profit}}{\text{perceived transaction costs}}\)

Perceived profit

Perceived transaction costs

Area of cooperation

Virtual company/destination
Therefore: Minimise transaction costs!

- Clear, business-oriented (value-oriented) goals: Sustainable, international cooperation relations
- Creation of win-win situations: Ensure long-term nature through lasting interests
- Disclose interests from the start: Quickly create clear relations, thus cutting transaction costs
- Clear project management with budget and schedule: Review of the appropriateness of transactions with regard to costs and time
- Simple settlement and equalisation models: Simple, lasting handling of agreements
- Clear, simple agreements that do not depend on individuals: Favourable long-term handling
.. And deal with psychology and ensure a dynamic environment

- Review mutual perception and adapt if necessary
- Accept and evaluate the culture
- Integrate knowledge management
- Retain tension through mutual learning in the relationships
- Regulate the exchange and settlement of competencies
- Prevent later "bad" feelings in the field of immaterial effects
Realising a destination approach

• **Drivers** of change can be
  – large **companies**,  
  – **Politics and politicians** or  
  – superior **personalities**.

• There is a **mix** necessary consisting of  
  – **Top down** (Visions, incentives, guidelines) and  
  – **Bottom up** (cooperative design of conceptual frameworks)

• The clearer the **goals**, the more promising the projects.

• Structural problems and missing entrepreneurship cannot be overcome by destination projects.