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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 manifold...

- **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 manifold 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)

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... 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)

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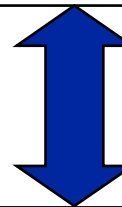


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Branches and companies are in the middle of a transformation process.

Macro perspective (branches)

Reconfiguration of activities and transactions



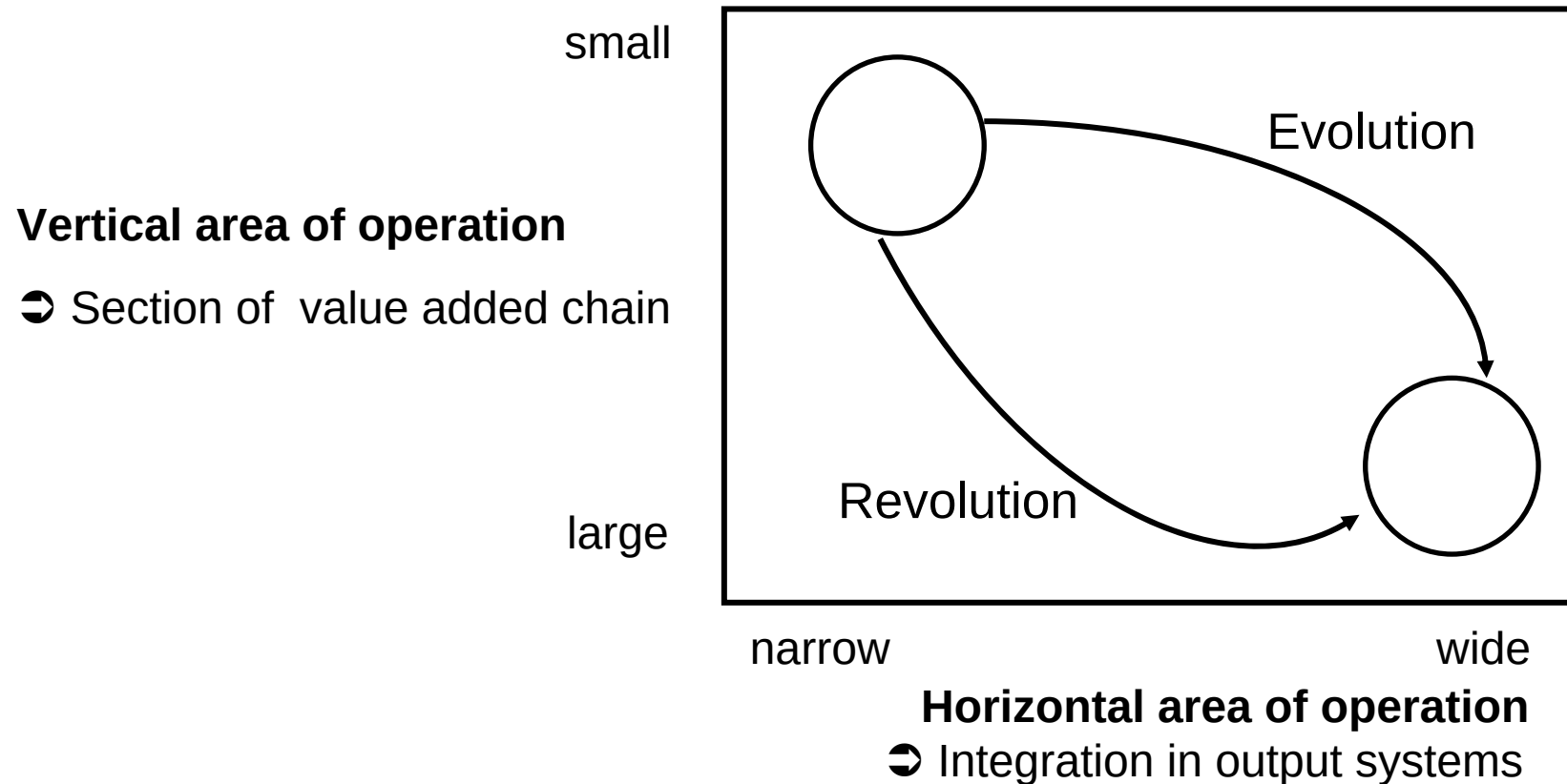
Break up of branches and industries

Pressure to become „Best in Class“

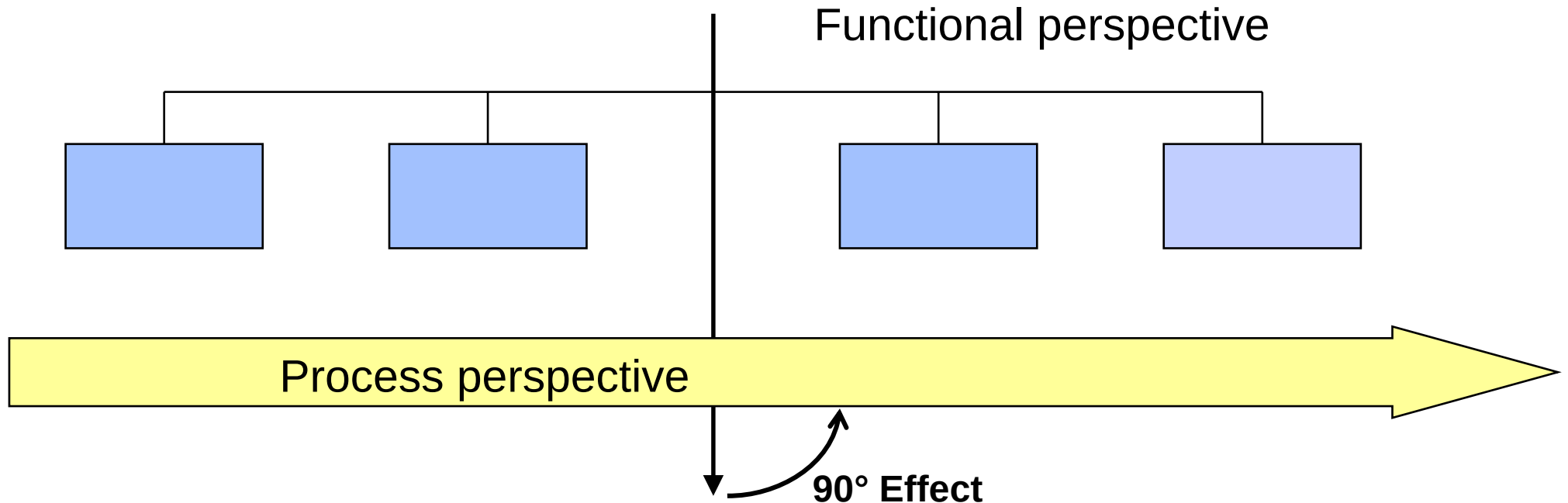
Micro perspective (companies)

Reengineering of core competencies

From a macro perspective, business activities are reconfigured.



From the micro perspective, companies are reingeneerd 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)

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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)

Characteristics

- Stable (static) technologies
- High transportation costs
- Stationary competition with location delimited and bound factor input potential

Crucial factors

- Fertile soil
- Sufficient sunshine
- Cheap labour
- Sufficient investment capital

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)

Characteristics

- Further development of agglomeration theory in regard of
 - Interdependency between different kinds of enterprises, industries and sectors
 - Transmission mechanisms

Crucial factors

- Sectoral polarisation (interdependency between different sectors)
- Regional polarisation (areal interdependency)
- Push- und Pull-effects

Approaches to the theory of places (4): Competitive advantage (Porter, 1990)

Characteristics

- Dynamic approach to competition
- Special interests in factors explaining the viability of enterprises, industries and sectors
- Central role of know-how and competencies

Crucial factors

- Strategy, structure, competition
- Demand conditions (structure and overall size)
- Role of related and supplying branches (cf. economies of scope)
- Factor conditions

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)

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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 (?)**

Source: Wilhelm and Thierstein (2000)

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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

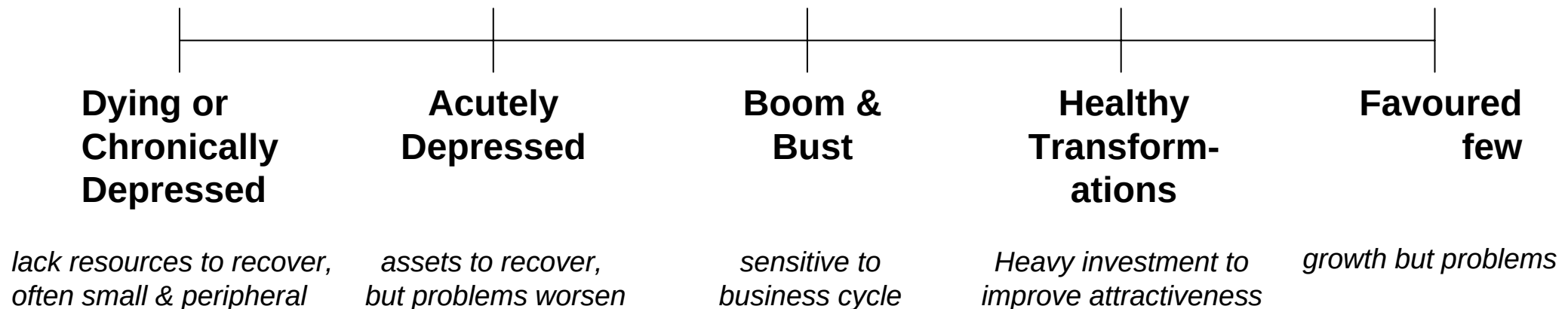
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However, places rise and fail by numerous reasons.

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



Source: Kotler et al. (1993)

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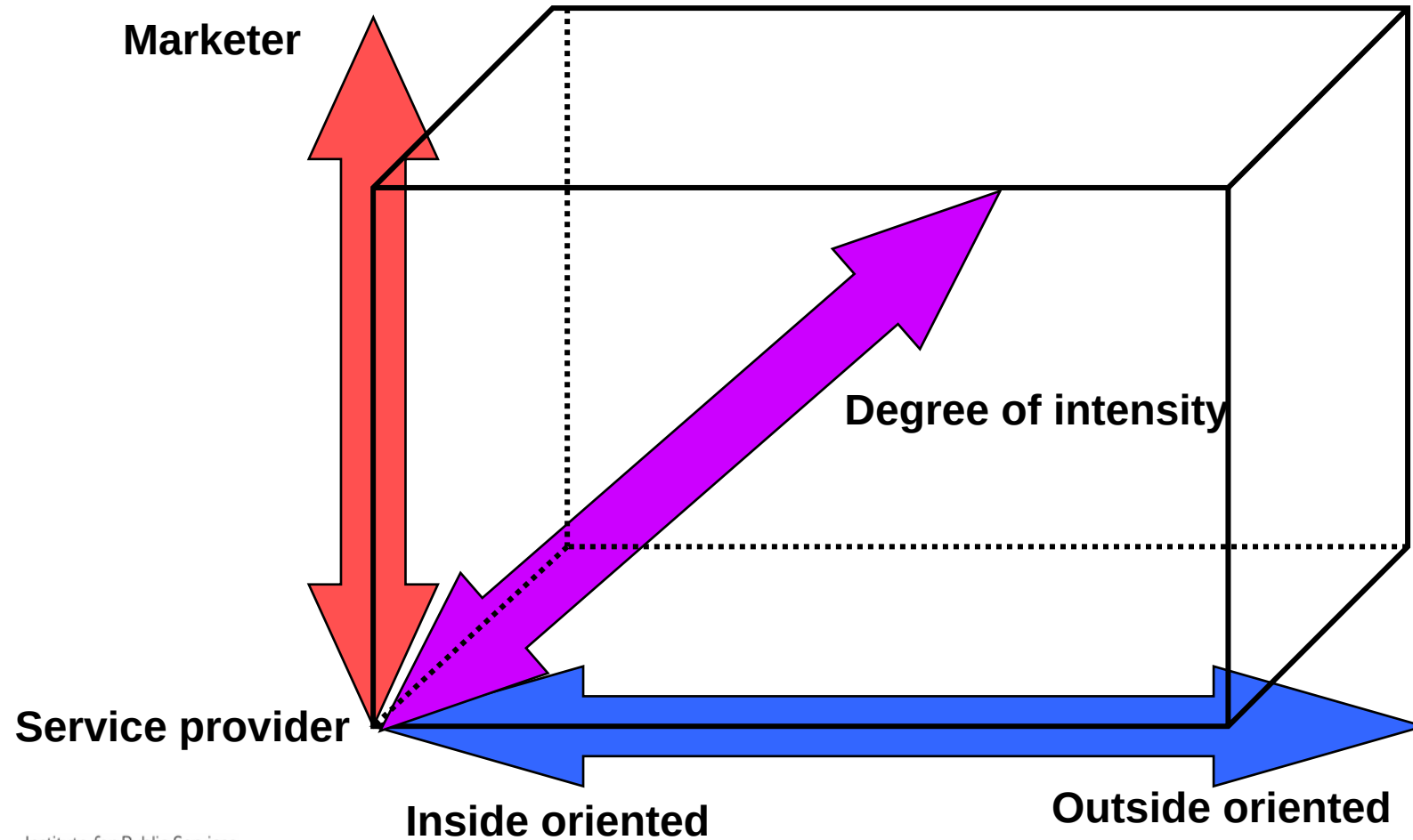
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Destination Marketing: Creating, fostering and promoting a successful location-bound network

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

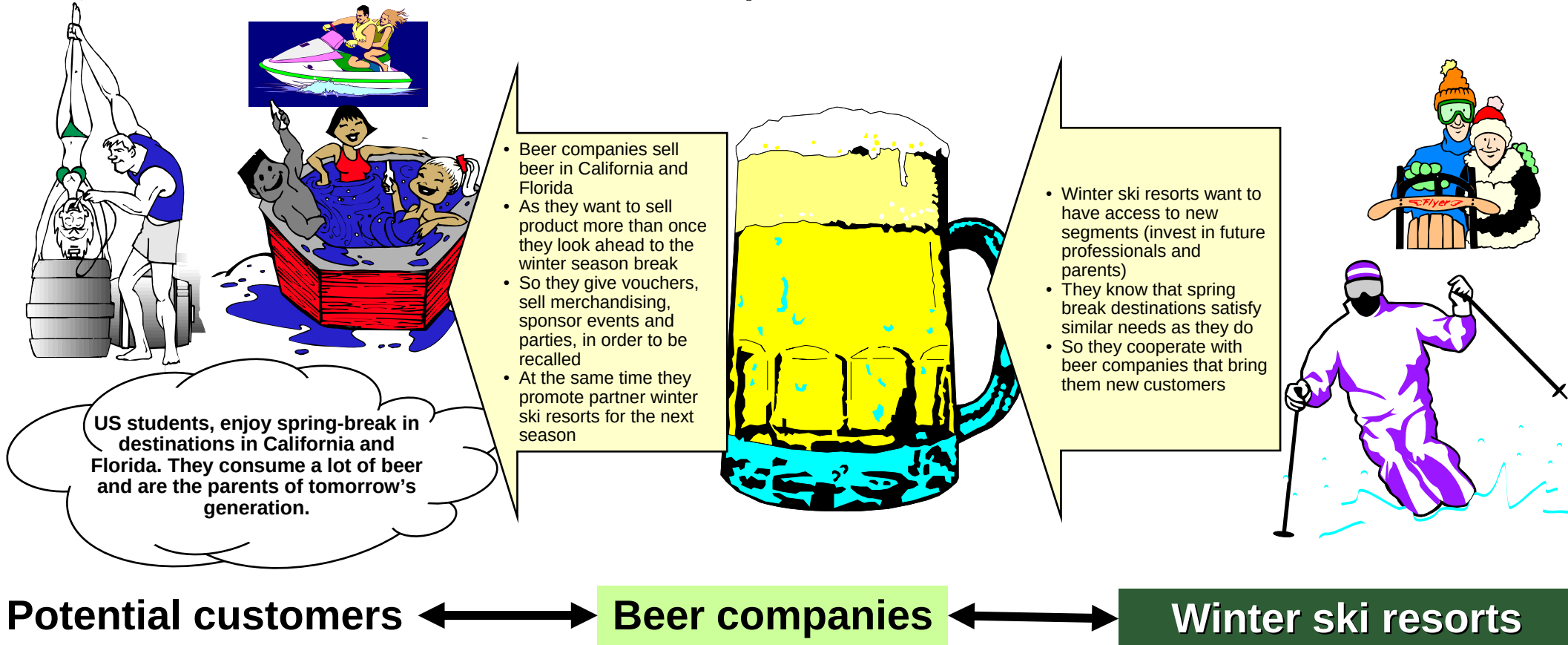


... so the necessary co-operations are driven by a number of options

- **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.

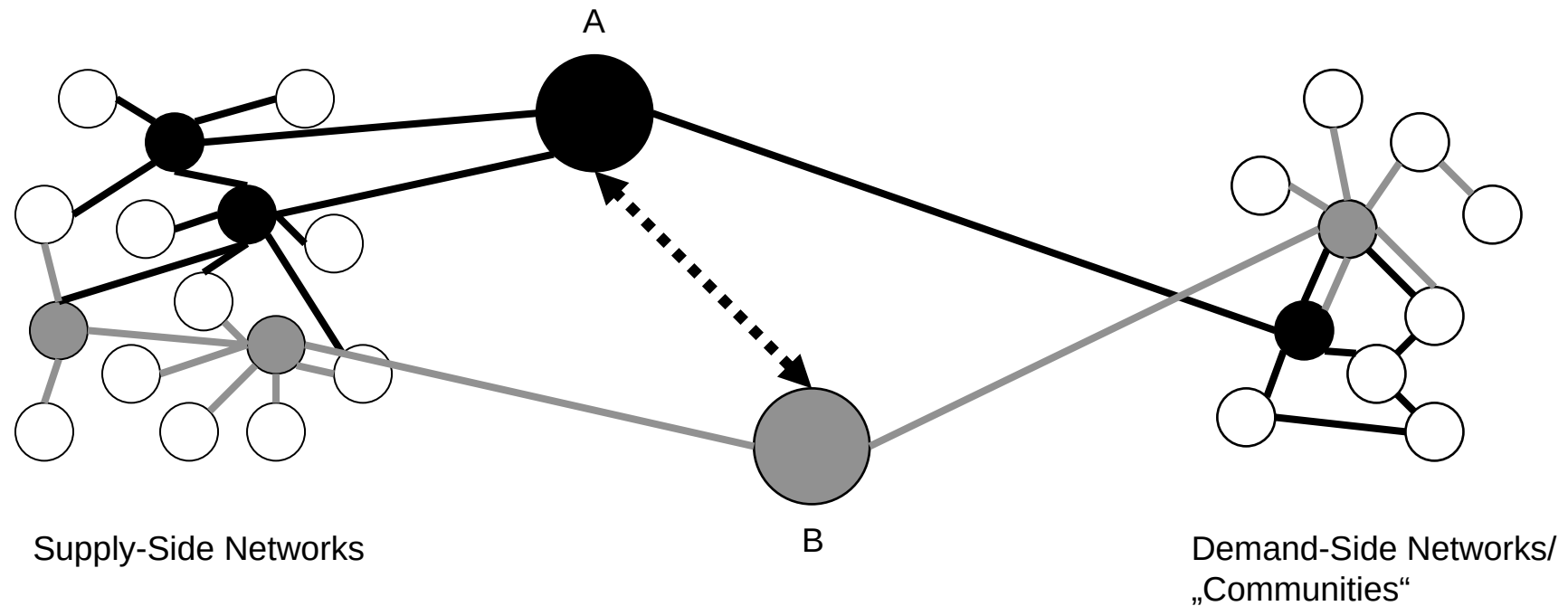
Cross-industry cooperation has become very popular in the last few years

Case of winter ski resorts and beer companies in the US



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)...

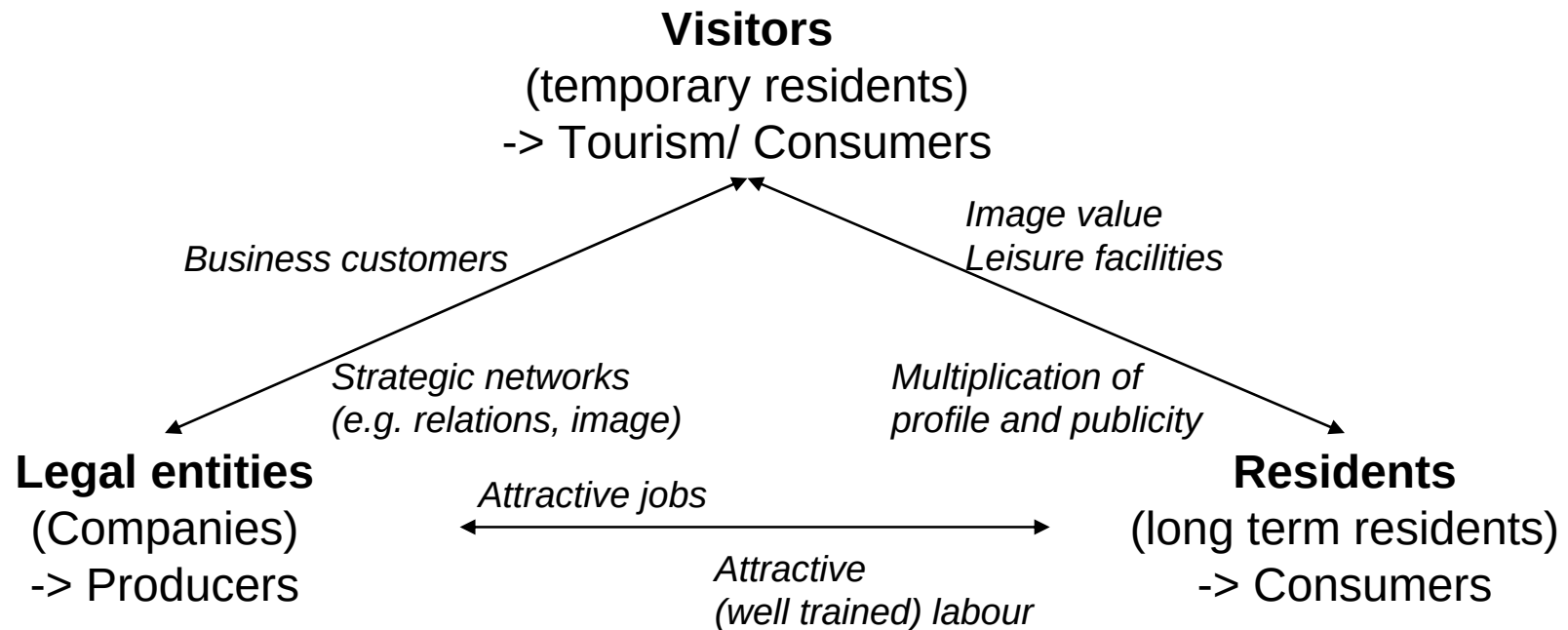


... with two basic marketing functions.

Dimension	Areal Basic Function	Tourism Product Function
Key Task	Basic market access for all; primary market-related enablement for production of tourism offers	Bundeling of tourism offers to marketable products; promotion and sales of those products
Key stakeholder	Supply side (Enablement of market access)	Demand side (produce and sell marketable products)
Beneficiaries	All providers of tourism services; no exclusion	Selected providers; exclusion principle
Bearer of Tasks	(Possibly) Exclusively a politically legitimated or commissioned organisation	Any private marketing organisation
Marketing initiatives	Regional to national initiatives	Sectoral and subsectoral initiatives
Duration	Perpetual and permanent	In dependance of character of concrete project (business plan based)



There are numerous interdependencies between the promotion of spheres in a given living space.



Source: Bieger (1999)

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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 **opportunistic 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)

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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)

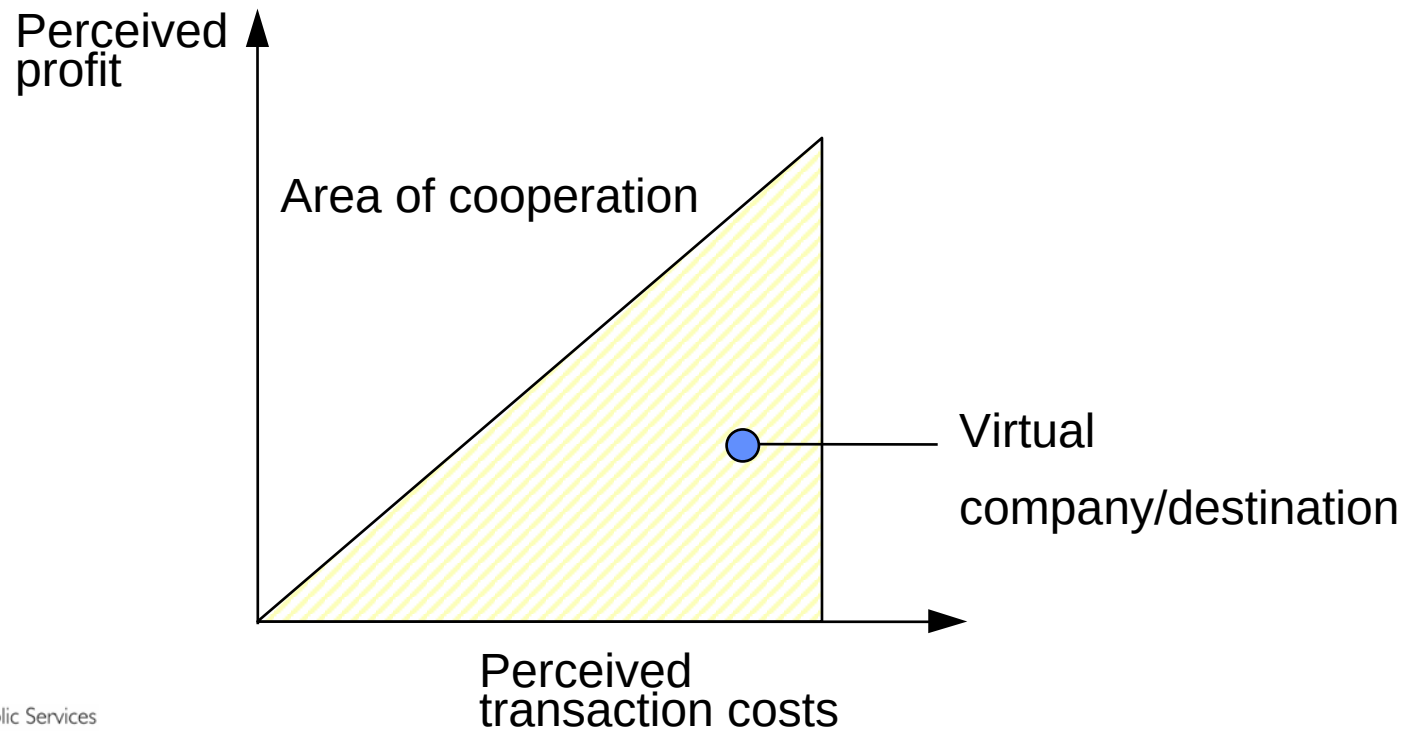
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The readiness for any co-operation is based on the relation of profit and transaction costs.

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



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.