

TOURISM INDUSTRY ASSOCIATION of ONTARIO

Position Paper on The Implementation of a Regional Structure for Destination Management & Marketing

Introduction

In his report *Discovering Ontario*, Greg Sorbara recommends the “establishment of regions to better coordinate tourism marketing and management across the province. Each region should work toward creating a unique brand and a stellar experience within a provincial brand. There should be one Destination Marketing and Management Organization (DMMO) for each region.”

This recommendation has been the most controversial with the tourism industry and has elicited the most comments and concerns. This paper will lay out a number of principles that TIAO feels should be adhered to in implementing a regional structure. This paper is based on input and discussions with the TIAO Board of Directors as well as discussions and feedback with TIAO members.

Mr. Sorbara also recommended enacting legislation to regularize the collection and use of Destination Marketing Fees. The announcement in the 2009 Ontario budget of the intent to implement a harmonized sales tax in July 1, 2010 has raised questions regarding the future of the DMF and the industry's access to the 3% tax room previously available.

Givens

In discussions with the Minister and Ministry, we have concluded the following:

- It is clear the government is intent on implementing the recommendation to establish a regional structure. The Minister has directed Ministry of Tourism staff to begin the process immediately. A facilitator has been contracted to head up as many as 20 regional meetings to begin the process. In addition, the 2009 budget refers to regions as recipients of funding from the harmonized tax.
- Tax harmonization will occur July 1, 2010 thus eliminating the current 3% lower provincial sales tax on accommodation.
- Although the 3% tax room has been eliminated as a result of the proposed HST, it is our position that a voluntary DMF can still be legally collected by a destination, recognizing that many of the current DMF agreements would have to be renegotiated. A voluntary DMF would be charged in addition to the 13% HST.

- The Ministry of Tourism has indicated that all parts of the province must be included in one of the regions.
- The Ministry has also indicated there is flexibility on the number of regions but do not want to deviate much beyond the proposed eleven.
- Mr. Sorbara, the Minister and Deputy Minister have all stated that the proposed boundaries are not carved in stone but can be adjusted to accommodate tourism priorities.

TIAO has concluded that fighting the establishment of regions would be futile. Instead we feel it is important to clearly articulate how we feel a regional structure should be established and operated to provide maximum benefit to tourism businesses.

Areas of Interest

In looking at the implementation of a regional organization, it is instructive to understand the areas of interest for the various players.

Provincial Interest

- The government wants to see the contribution of tourism to the provincial economy **continue to grow**.
- They want to see a clear, coordinated strategy and accompanying accountability in place to meet the **\$44B growth target by 2020**.
- The government wants to be seen as **delivering on the Sorbara report** including the recommendation to establish regions.

Industry Interest

- Destination Marketing Organization should continue to retain budget and accountability for marketing the destination.
- Marketing and development programs must be in place to drive business (bookings, attendance, overnight stays etc.).
- Funding should be available to assist in developing new tourism products.
- Businesses must have access to capital (government incentives and external investment) to refurbish, expand or build new tourism assets if the industry is to meet the proposed growth target.

Size of Regions

The large size of a number of the proposed regions has raised major concerns with tourism stakeholders. For example, the two northern regions, and Regions 2, 6, 7 and 8 take in areas larger than make sense from a potential tourist perspective. Given the diversity of the tourism product branding any one of these regions would be a challenge.

TIAO recommends that for regions too large to effectively market as one, consideration be given to managing and marketing as sub sectors or clusters within the region.

Organizational Mandates

Most organizational development experts will agree that **form follows function**. In other words, you should establish the mandate and accountability of an organization before defining the details around the structure of the organization. In the case of the proposed regional structure, we feel it is imperative to define the mandate, roles and accountabilities of all organizations involved before sorting out regional boundaries, names for the regions and location of regional administration.

The following suggests what we feel are appropriate mandates for the OTMP, the Regions, Destination Marketing Organizations and sector associations.

OTMP (Tourism Ontario) Mandate

- Responsible for the promotion of the Ontario brand, especially in the United States and overseas.
- Responsible for brand maintenance and integrity.
- Lead for international tourism marketing efforts.
- Role in product and package development.
- Lead organization for market research.

DMMO Mandate

- Coordinate the development of tourism products on a regional or cluster basis.
- Coordinate and contribute to funding regional or cluster marketing initiatives.
- Provide marketing and product development expertise and capacity building for DMO's.

DMO Mandate

- Responsible for delivering destination focused marketing.
- Lead for development of local tourism product.
- Lead for attracting MC&IT, events and sports tourism to the destination.
- Lead for destination development activities.

Sector Association Mandate

- Provide organizational expertise for sector-focused businesses.
- Responsible for delivering sector-focused marketing initiatives.
- Advocate on behalf of businesses in a defined tourism sector.
- Provide unique services to businesses in a specific tourism sector.

TIAO Principles re: Regional Structure

The following presents the TIAO positions on key aspects to the regional structure including funding and governance.

- Three percent of the proposed harmonized sales tax charged on accommodations must go to tourism marketing and development. The 2009 Budget recently tabled in the legislature indicated an allocation of \$40M “to alleviate the impact of the single tax”. We estimate that the potential revenue from a three percent tax on accommodation is in the neighbourhood of \$100M to \$125M. That is the amount TIAO feels should be allocated for tourism marketing and development.
- TIAO wants the allocation for tourism marketing and management tied directly to the 3% portion of the HST rather than a line item in the Ministry of Finance or Tourism budgets. If the funding is part of a ministry budget, the allocation will always be vulnerable to budget cuts.
- The OTMPC budget allocation must remain at the current level of higher. We do not want to see the allocation from the HST used to fully or partially replace the OTMPC budget.
- Local DMO’s must receive sufficient funds from the HST allocation to be able to deliver meaningful destination marketing and development initiatives.
- One size does not fit all. What works in a relatively small geographic area such as Toronto or Ottawa may not work in a larger region like the two regions in the North or St. Lawrence-Rideau Region. A cookie cutter, one size approach must be discouraged.
- In large regions, rather than attempting to brand and market the entire region consideration must be given to branding or marketing a subset of the region. This subset could be a cluster of destinations making up a logical tourist area.
- TIAO is concerned that the creation of regions will require a significant part of the budget allocation to cover overhead costs. The experience in British Columbia suggests that the tendency is to over build the regional organizations thus tying up significant budget in overhead. Consequently, TIAO recommends total overhead for the regional organizations not exceed 10% of the budget.
- Sector associations should continue to receive partnership marketing funding from the OTMP and/or from regional funds.

- Governance of the regional organizations is of particular concern. The regions must be industry-driven and as such should be governed by an industry selected board of directors independent of government.
- Local DMO's should continue to be governed by an industry board of directors autonomous of the regional organizations.

Initial Regional Structure

TIAO is concerned that time, effort and money will be spent initially setting up a formal regional structure. Also, as noted above the one size of the organizational structure will not be appropriate for all regions. We recommend beginning with one regional facilitator/ animator for each region to work with DMO's and clusters to develop marketing alliances, new tourism products assist in investment attraction and build capacity within the DMO's.

The facilitator would report to the Board of Directors as described above. As regional programming develops, a more extensive organizational structure may be needed in some but not all regions.

Summary

TIAO feels as a minimum there are four key elements necessary for the regions to be successful:

- The regional organizations must be industry-driven autonomous of government.
- All of the 3% additional tax that will be collected on accommodation beginning July 1, 2010 must be directed to industry marketing and development.
- The OTMPC budget must remain intact rather than funded from the 3% of HST.
- Existing DMO's must receive sufficient funding from the regional allocation to be able to continue their marketing and development activities. Funding for regional overhead costs must be minimized.