



Destination Marketing Fund

**An initiative of
Accommodation Properties in Canmore**

May 2008

EXECUTIVE SUMMARY

Recommendation

That a 3% fee be charged on accommodation sector room rates for use as a Destination Marketing Fund to promote Canmore.

This approach to addressing much needed marketing resources is being established after considerable research of options and best practices, and has been endorsed by Tourism Canmore and several key hoteliers in the area, as well as by the Alberta Hotel and Lodging Association and collectively by the various Alberta Chambers of Commerce.

A Committee of selected hoteliers will be responsible for developing programs that will be supported by the Fund and in securing the professional services necessary to execute those programs on behalf of all participating properties.

Introduction

Sustainable funding for marketing hotels and attractions in Canmore as a tourism destination has long been a critical issue facing the industry, not only in this region, but also in many other jurisdictions. Three years ago, the Province of Alberta, recognizing the importance of tourism to the economy, increased funding to the Department of Alberta Economic Development and Tourism. The 5% hotel tax charged on accommodations and going to the province's general revenues was replaced with a 4% tourism levy and is dedicated to Travel Alberta. This was an important first step in ensuring that Alberta remains competitive with other destinations vying for tourism dollars.

While this was tremendous news for the industry as a province, it does not provide additional funds to directly market the various regions of the Province. Longer term successful marketing initiatives require a sustainable funding model and Canmore lags considerably behind in regards to municipal tourism funding.

Soon, many regions in Alberta will have a Destination Marketing Fund in place, as do almost all jurisdictions in Canada. This will increase the competition for the tourist dollar and the issue of having the ongoing resources becomes critical.

Most successful jurisdictions across North America have, or are in the process of implementing programs where a charge is added to accommodation rates to create funding for the purpose of tourism marketing in a specific municipality. Each one of the jurisdictions has reported an increase in tourism since the implementation of such programs.

There are methods to increase the awareness of Canmore generally as a destination of choice in a very competitive marketplace, methods that are designed specifically to fill hotel rooms.

Background

As early as 2000, members of Alberta's tourism industry began discussing the need for increased marketing dollars at the Municipal or Regional levels. In the case of Calgary, one of the first cities in Alberta to implement a DMF, these thoughts were shared with Mayor Dave Bronconnier in 2004. The Mayor was very supportive and the City commissioned a study to explore the various options available and requested that Tourism Calgary administer the project. A team of consultants with expertise in tourism was engaged to complete the study and to recommend a solution that would work for Calgary and area's tourism industry. All of the information collected suggested that the implementation of this kind of program was the only way to create on going, sustainable funding for tourism marketing and a viable way for industry to take charge of their own destinies by having very meaningful input into how the process of marketing is conducted.

Benefits of a Destination Marketing Fee

While detailed projections of the value of the Fund won't be available until it is known how many properties will be participating, it is estimated that between \$1,000,000 to \$1,500,000 dollars per year could be available in Canmore. These funds will be used solely to benefit the participating properties in Canmore with the goal of increased accommodation unit nights sold, increasing ADRs and increased tourism spending generally.

Next Step – The Contracts

To move forward with the Destination Marketing Fee, the next step is for all accommodation properties to review and approve the governance of the Fund and the necessary legal documents. One is a Destination Marketing Fund Agreement that each property will sign with the Canmore DMF Committee for the provision of marketing services. The second item for review by the Participating Properties is the Governance contract that details the control and use of the Fund. This contract is being made available for your review and will be signed by the Canmore DMF Committee, the selected body that will provide Account Management or Trustee Services, together with each participating property. The reason that two separate legal documents are being created is so that changes can be made to the Destination Marketing Fund Agreement without affecting the governance of the Fund.

Together these two documents will form the legal part of the Destination Marketing Fund in Canmore. The Destination Marketing Fund Committee will include seven members from amongst the participating properties and one appointed representative from Tourism Canmore. The first Chair of the Committee, Steven Dyck, has been selected. The roles and responsibilities and the day to day operation of the Fund will be addressed in the Terms of Reference document, which will also be made available for your review.

Tourism Canmore and a select group of hoteliers have engaged the services of Dan Sullivan of S Comm Management Strategies to assist with the implementation process. He will be available at any time to answer individual questions or to help with interpretation of any part of the official documents.

In order to keep the process moving forward, we would ask that those who wish to participate in this unique initiative return all the copies of the signed contracts as soon as possible. You may keep a photocopy of both agreements for reference purposes. A copy of fully executed contracts will be returned to you once all parties have signed. You will be advised of the implementation date. At the current time, the target date is July 1, 2008.

Next Steps – Following the Contracts

The Fee: Each participating property will charge accommodation unit users a 3% Destination Marketing Fee calculated on the base rate of the unit. This will be the first charge that is calculated on the total bill, followed by the calculation of the Alberta Provincial Tourism levy of 4% and finally the calculation for the 5% Goods and Services Tax. These fees will be paid to an Account Manager or Trustee who will release the funds for initiatives once the conditions of the Governance contract have been met. One of the conditions will require Tourism Canmore to follow the Strategic Plan specifically developed for these funds on behalf of all the participating properties.

Selection of Account Manager or Trustee: To ensure confidentiality of the information reported by each hotel, an Account Manager or Trustee will be selected to handle the logistics of the Fund. No individual information relating to a specific property will ever be shared. The Account Manager or Trustee will be governed by the signed contracts and by Canadian laws describing the role of any body that collects funds on behalf of another. Once the Account Manager or Trustee is in place, the Destination Marketing Fund Committee will maintain a relationship with the Account Manager or Trustee ensuring that the conditions of the contracts are being met.

Establishing the Destination Marketing Fund Committee: The Committee will be selected using the methodology described in the attached contracts. The mandate and working protocol for the committee are described in the attached Terms of Reference document.

New Marketing Initiatives: Tourism Canmore will keep the DMF activities separate from any other Fund and from the general operation of Tourism Canmore. Only participating properties will receive the direct benefit from the expanded marketing efforts through the Destination Marketing Fund.

Marketing Support Services: The Destination Marketing Fund will increase the amount of funding available for marketing and related projects by hundreds of percent. Tourism Canmore and the Destination Marketing Fund Committee may have to increase the infrastructure of its tourism marketing support services, whether that be through increased staffing and/or the securing of outside professional support to assist with the process

on an on going basis. The services will be agreed to by the Destination Marketing Fund Committee and Tourism Canmore and will be paid for out of the Fund itself. All expenses relating to the Destination Marketing Fund will be accounted for separately, will never be commingled with any other funds and will follow the strategic and tactical business plans approved by the program participants.

Commencement of the Initiative: July 1, 2008 been targeted for the program to commence and every effort will be made to expedite the process. It is understood that there will be transition issues revolving around properties that may already have signed business that does not include the 3% voluntary fee. These are expected to be minimal and opportunities will exist within the contract to exempt that business.

Timing of New Programs: From the date of program commencement, it will take between four and six months for the Destination Marketing Fee to reach the marketplace in measurable programs.

Conclusion

This is an exciting time for Canmore's tourism industry and a unique opportunity for the accommodation sector to not only provide increased marketing funds, but also increased participation and leadership, via the Committee, in promoting the Region.

Questions & Answers

Below are some frequently asked questions that you might find useful as you are reviewing the information regarding Destination Marketing Funds.

Question: Who collects the levy and why is the Government of Alberta not involved? Can we embed the levy into legislation?

Answer: The Alberta Government has stated that taxes only go one way and that is down. Government, while generally supportive of the voluntary levy, will not, at this time, support it by passing any new legislation. A legislated tax would also put control of these Funds into the hands of government, with no guarantee that the funds would be used for the intended purpose.

Question: How does this local levy differ from the Alberta Provincial Tourism Levy?

Answer: The Alberta Provincial levy is collected by the government and given to Travel Alberta for Provincial marketing efforts. The leveraged, partner-based approach to marketing, that is the structure of successful marketing initiatives across North America, will continue as the model of Travel Alberta. To become an effective partner with Travel Alberta and even the Canadian Tourism Commission on behalf of our industry, funding must be available at the municipal level to be effective. Municipal funding levels for regional marketing organizations are too low for the individual regions of the Province to be able to take advantage of opportunities to address the needs and market the specifics of individual regions. This approach will provide the most meaningful opportunities for you, our industry operators. Additional resources at the municipal level, to take advantage of the expanded provincial efforts, are essential. The resources need to be predictable and sustained to achieve the greatest yields for industry over a long term basis.

Question: What action has been taken in respect of this local levy? What is the current status of the work?

Answer: Exhaustive study work has been done regarding Destination Marketing Funds. All research findings support the implementation of Destination Marketing Funds as the only viable method of providing the sustainable marketing resources to promote specific regions of the Province. Calgary, Edmonton and Banff have already established Destination Marketing Funds and Grande Prairie, Fort McMurray, Drumheller, Big Lake Country, Athabasca, Red Deer, Camrose, Stettler, Hanna, Brooks, Provost, Rocky

Mountain House and Lethbridge are at various implementation or exploratory stages. Local hoteliers in Canmore are showing strong leadership on behalf of the local industry in establishing this program for the benefit of all.

Question: What kinds of initiatives is planned for Destination Marketing Fund?

Answer: Currently, Canmore does not have the funding available to create new marketing initiatives. New money would allow Canmore, for example, to have a larger impact in all marketing and to conduct campaigns that address small and individual operator needs and to become more aggressive in rubber tire markets. Program participants will provide the input for the development of the marketing plans.

Question: How do you measure success and growth?

Answer: There are many methods of measuring the success of the expanded marketing efforts and these will be identified in the approved marketing plans.

Question: Some regions of the Province are enjoying high occupancy through resource sector business and accommodation units are largely filled anyway. Why is it necessary to embark on this program?

Answer: Alberta is enjoying the benefits of a boom in the energy sector. History has proven that the resource sector follows a boom and bust cycle. High occupancy today is no guarantee for the future and the tourism industry needs to diversify its customer base. The process must begin now as it is too late once occupancy levels begin to drop.

Question: Will this fee place Canmore operators at a competitive disadvantage?

Answer: 86% of the jurisdictions in the world have a DMF or some variation in place. It is not a new concept in the minds of the consumer. They have seen it before basically every time they travel outside the province. Almost all jurisdictions that have a similar fee in place have reported little to no resistance at the consumer level. The average burden of all taxes and levies across North America is 15%. Even with the implementation of a 3% DMF levy, Canmore operators would be at 12%, still well below the North American average.

Question: What if a consumer asks about the DMF charge on his final bill?

Answer: A statement could be prepared for all front liners in case that question comes up. As an example, in the two years since the voluntary levy was instituted in Calgary and Edmonton, the fee has only been questioned on one occasion and that was for clarification, not for debate purposes.

Question: Since this is a voluntary program, what happens if the consumer decides not to pay?

Answer: To clarify, the voluntary nature of this program is on the basis that a property can choose to participate or not participate. However, the consumer does not have that option. Once a property is collecting the fee, it becomes no different than any other charge on a hotel folio.

Question: It seems that every time an extra tax or levy is collected, the accommodation sector is always targeted as the collection mechanism. Why is that?

Answer: There is one major difference between a DMF and any tax or levy that is collected Provincially. The DMF does not involve any level of government and the money stays in the region where it was collected. The DMF is designed so as to not be a burden on the local community and the most recognized method of measuring incremental visitation and subsequently increased economic activity to a region is through accommodation usage. Studies have shown that amongst all potential sectors who might collect such a levy, it is the most administratively feasible to do it through the accommodation sector.

Question: How much input will the participants have in the marketing decisions that are made to utilize the Fund?

Answer: The DMF belongs to the participants. It is no different than if you all decided to put some money into a pool and devise some joint marketing programs. In the case of the DMF, you will be contracting a body to execute marketing activities on your behalf, but the participants decide what they want to do with the Fund. You have constant input into the process. All of this is clearly spelled out in the Destination Marketing Fund Agreements and the Governance contract. Another document, the Terms of Reference, outlines the day to day operation of the Fund.

Question: What happens if a property chooses not to participate?

Answer: Those properties that choose not to participate will not receive any direct marketing value from the programs that are initiated by the Fund. This might come in the form of exposure in brochures, a website, at trade and consumer shows, advertising and other promotion or through direct sales missions. The DMF in Canmore is expected to create many times the amount of money that is currently spent on marketing initiatives.

Question: How was the 3% fee arrived at?

Answer: Currently across North America, the fee varies between 1 – 5%. In Canmore, it was determined that 1% would not create enough critical mass in the Fund to have enough impact. The Fund was contemplated at 2%, but the recent reduction of the GST from 6% to 5%, left an additional 1% as a viable option without changing the dynamics of the original proposal. The contracts are set up so that the Fund is expandable. That means that the percentage can be changed if so desired and that other sectors of the industry can become participants if that is in the best interests of the program and the community as a whole. Currently, the contract suggests a maximum threshold of 15% (combination of taxes and levies). If through any combination, this threshold is reached, it will trigger an automatic review of the DMF. 15% was selected as it is the average across North America. Even with the implementation of a DMF, Canmore still remains well below that threshold at 12%.

The Bottom Line

The tourism industry is a very competitive environment. The only way to increase your market share is to tell potential visitors about your products and services.

BC has had a Destination Marketing Fee in place for many years and the growth of the tourism industry in the Province has been phenomenal. All of the visitors to BC, including travelers from Alberta, continue to pay into that Province's Destination Marketing Fund, which provides the resources for further marketing initiatives and growth. More tourists, higher occupancy and higher ADRs, creates an even bigger Fund allowing for even more initiatives. Albertans are helping to fund the tourism initiatives of competitive jurisdictions. Not only are we losing revenue because of our inability to compete, we are helping to fund the efforts to take business away from Alberta's regions.

Quebec and Ontario also have Destination Marketing Funds in place. Regina and Saskatoon have implemented DMFs within the last year. Manitoba is planning to implement a Province wide DMF initiative and are currently collecting and sharing resource information with potential program participants. They are scheduled to begin collecting the DMF on May 1, 2008. The Nunavut Territory has also started the process and are considering a 4% DMF.

All of the jurisdictions in Alberta and the other Provinces are following the same format of collecting a user fee from the accommodation sector to provide the revenue necessary to adequately market each specific region.

The tourism industry in Canmore needs to level the playing field. Establishing your own DMF is the first step in helping you take charge of your own marketing destinies and allowing you to compete with other regions that are all vying for the available tourism dollars. Your market share can be increased and more importantly, you will be diversifying your base of users so that you are not critically dependent on one sector of the economy.

In Provinces like Alberta where the government has no appetite to increase taxation, voluntary levies like the one being discussed here are the only viable option to providing on going, sustainable funding for the purpose of marketing. It is not viable for the public sector to increase funding to tourism marketing while issues like Education and Health Care are on the table. Only BC and Quebec have legislated taxes to be used for this purpose. All other jurisdictions across the country have established voluntary programs.

Getting Started

We would be happy to meet with you to explain the details and assist you in getting started.

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