

Collaborative Economy and Destination Marketing Organisations: A Systems Approach

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Abstract Destination systems, embedded systems in the larger tourism system, evolve as a result of changes in consumer and stakeholder expectations, social trends and new technologies. New system dynamics necessitate change to traditional supply chains, management practices and relations, and allow the entrance of new players. This chapter examines the changing nature of Destination Marketing Organisations (DMOs) and the challenges they face in providing value to consumers and stakeholders. It also examines the rise of collaborative economy companies and their impact on the destination system. Collaborative economy companies in the destination are leading to new legislative frameworks, a changing competitive landscape, a wider range of product and increased innovation. The chapter also examines the new dynamics developing in the destination system as DMOs and collaborative economy companies respond to the changing system and to each other. Changing DMO roles, new areas of conflict and potential opportunities for collaboration in the collaborative economy are explored.

Keywords Collaborative economy • Destination marketing organisations • Tourism systems • Destination systems • Impacts

1 Introduction

The tourism system (Mill & Morrison, 2009) is constantly changing. As a complex adaptive system (Farrell & Twining-Ward, 2005), tourism adapts to changes in technology, consumer tastes, and financial conditions to name a few factors, by reorganizing, embracing new types of organisations and adapting to new conditions. Driven by changing consumer demands and fueled by enabling technology, the collaborative economy is shifting the equilibrium within the tourism system in a variety of ways. In some ways, these changes are most evident in destinations, themselves systems embedded in the larger tourism systems (Day, Cai, & Murphy, 2011). But

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collaborative consumption related changes are not the only changes currently taking place in destinations. Technology and new expectations of DMOs are leading to changes in the focus and operation of these actors in the destination system. The current chapter explores such evolution due to the entrance of collaborative consumption related organisations, challenges faced by DMOs and the impacts of collaboration consumption of DMOs.

2 Systems and Value: Destinations, DMOs and the Sharing Economy

Destination systems, like tourism systems more generally, are complex adaptive systems (Day et al., 2011; Volgger & Pechlaner, 2015). They are comprised of a broad variety of types of organisations. The destination system includes a mix of attractions, events, hotels and other lodging, food and beverage, other support industries like retail establishments, infrastructure (water, power, communication, sewage/drainage, healthcare, security), transportation, and hospitality services (Mill & Morrison, 2009). Destinations can be considered “amalgams of tourism products and services, offering an integrated experience to consumers” (Buhalis, 2000, p. 98) or packages of tourism facilities and services (Hu & Ritchie, 1993). Within the destination system, networks of organisations come together to create value for consumers and stakeholders. This value is measured in a variety of ways, the most common of which is what network members will pay for the product, service or experience (Porter & Millar, 1985). Using this economic proxy for value, a business is viable when the value it creates exceeds the cost of performing the value activities. Companies that don’t create value are not sustainable. The value chain for a company is the set of activities that must take place to create value (Porter, 1985).

Value chains are embedded in a larger “stream” of activities Porter describes as a “value system”. For instance, the value system for tourism includes the value chain of travel providers, destination system members and the consumers themselves. The ability of the destination system to deliver consumer experiences is dependent on the value created by each organisation in the system (Song, Liu, & Chen, 2013). Value chain/value system analysis has been applied in a variety of contexts in tourism research (Mojic, 2012; NDivio & Cantoni, 2015). Porter and Millar’s value chain concept is useful in at least two ways—it focuses on value and it recognises the linkages between values that are created by different actors in the system. The value chain/value system approach also recognises the inter-dependencies of actors to create value. As Song et al. (2013) note “every node of the chain can affect the value attained by tourists, which in turn affects the profit of individual actors” (p. 17). However, the traditional value chain and value system approach to tourism has significant limitations derived from its narrow definition of value. One notes that the tourism system is often considered as an “industrial system” and, “tourism

is primarily valued as a tool for regional economic development, employment and investment” (Dredge, 2016, p. 2). This characterisation of tourism as a purely economic phenomenon ignores the broader nature of tourism. Tourism takes place in destination communities and impacts life in those communities both positively and negatively. A multidimensional approach to tourism, incorporating a broader set of metrics rather than only economic value is increasingly necessary for analysis of the tourism system.

As the system changes, organisations adapt to create value in new ways and new types of value-creating organisations enter the system. For example, the business model of leisure travel agents has adapted to changes due to innovation in technology, resulting in new organisations like online travel agencies (OTAs), which provide new value chains for consumers. For some time there has been a general understanding that consumer demands are changing and travellers are increasingly rejecting the standardisation and commodification of tourism experiences. This has been evident in the growth of new products promising more authentic or unique experiences and can be seen in the rising popularity of products such as boutique hotel chains and farm to table dining. Stimulated by technology that supports peer-to-peer interactions, these trends have contributed to the growth of the collaborative economy. As noted by Dredge and Gyimóthy (2015) “consuming travel is intimately bound to identity construction and narratives of authentic encounters with local culture” (p. 9). The collaborative economy has enabled travellers to enjoy these types of experiences. Other factors contributing to the growth of the collaborative economy in tourism include the consumer’s ability to interact directly with tourism providers and the resultant individualized, “user-focused” service provided by the hosts and collaborative economy providers, and the low incremental capital requirements of companies in providing innovative products (Dredge & Gyimóthy, 2015). These trends, combined with underlying principles of collaborative consumption identified by Botsman and Rogers (2010)—critical mass, idling capacity, belief in the commons and trust in strangers—have resulted in changes in the system.

Many of the same factors that have facilitated the rise of the collaborative economy—new technologies, changing consumer wants and needs, and new social norms—are significantly impacting DMOs and their role in the tourism system. Presently, DMOs face an existential challenge to create value in the destination system (Dredge, 2016) at a time when many of their traditional core competencies are no longer valued or becoming too complex and costly to undertake effectively using current funding models.

3 The DMO’s Challenge to Create Value

In some countries, DMOs have existed for over a century. These organisations are known by a variety of names, including national tourism offices (NTOs), regional tourism offices (RTOs) and visitors and convention bureaus (CVBs) and are found across the globe. The acronym, DMO, refers to both Destination Marketing

Organisations and Destination Marketing Organisations (Dredge, 2016). Pike (2004) defined the Destination Marketing Organisation as “any organization, at any level, which is responsible for the marketing of an identifiable destination” (p. 14) while Morrison (2013) described destination management as a “broader and more inclusive concept that includes destination marketing and other activities to manage tourism at the destination” (p. 9). As the role of DMOs adjusts to changing conditions, the concept of destination “management”, with particular reference to destination development activities, is gaining favour among DMO managers. While appealing, the ability of DMOs to manage the destination system in a traditional “command and control” sense overstates the capabilities of most DMOs. In recent years, a number of researchers (Beaumont & Dredge, 2010; Song et al., 2013; Volgger & Pechlaner, 2015) have recognised the limitations of so-called “destination managers” and proposed the concept of destination network governance, in which DMOs are framed as network coordinators or network managers, and is a more appropriate description of the role of DMOs in the destination system. As “network managers” their ability to interact with stakeholders in the tourism system is critical to their success (Beaumont & Dredge, 2010; Bornhorst, Brent Ritchie, & Sheehan, 2010; Volgger & Pechlaner, 2014). Indeed, the DMO role of network “management” is more dependent on stakeholder oriented and participative governance than the “top down management” approach commonly associated with company management. DMOs have a singular position in the value chains within the destination system and the larger tourism system. While they rarely have a significant direct role in the consumer’s destination experience, they are generally perceived to add value through a set of activities that support the effectiveness of the networks to provide value. Nevertheless, in recent years, the assumption that DMOs add value to the system has been challenged by academics (Dredge, 2016) and practitioners (Gonzalo, 2013; Thompson, 2012). The ability of DMOs to show the value they create is an on-going challenge.

Dredge noted that “DMO functions fall into three broad categories designed to enhance tourism industry outcomes: market enhancing policies, product enhancing policies and policies addressing market failures” (Dredge, 2016, p. 3) and Morrison (2013) identified the following six key roles of DMOs:

- Leadership and Coordination: Setting the agenda for tourism and coordinating stakeholders’ efforts toward achieving the agenda.
- Planning and Research: Conducting the essential planning and research needed to attain the destination vision and goals.
- Product Development: Planning and ensuring the appropriate development of physical products and services for the destination.
- Marketing and Promotion: Creating destination positioning and branding, selecting the most appropriate markets, and promoting the destination.
- Partnership and Team Building: Fostering cooperation among government agencies and within the private sector and building partnership teams to meet specific goals.
- Community Relations: Involving local community leaders and residents in tourism and monitoring resident attitudes to tourism (pp. 6–7).

While the list is comprehensive, one may note considerable variation in the activities of DMO from this ideal. Not all DMOs undertake all these roles, and those

that do undertake all these actions, do not prioritise them equally. Resource limitations within DMOs (Shankman, 2013) tend to confound the ability to fulfill these roles effectively.

Recognising the challenge to remain relevant in the changing tourism system, Destination Marketing Association International (DMAI) initiated research to provide a “strategic road map for the next generation of global destination marketing”. That resulted in the *Destination Next* Report (DMAI, 2014) that advocates a rebalancing of DMO priorities to include adjusting marketing techniques to meet the needs of new consumers (dealing with the new marketplace: broadcast to engagement), increasing stakeholder engagement (evolving the DMO business model: collaboration and partnerships) and developing product and destination products, services and experiences (building and protecting the destination brand: destination managers).

Destination Next emphasises stakeholder engagement. As such it recognises the need for DMOs to engage with their network to create value. This approach is consistent with research proposing the necessity of networked governance of destinations (Bornhorst et al., 2010; Volgger & Pechlaner, 2014). *Destination Next* also advocates significant changes from “business as usual” approaches to marketing. Traditionally, DMOs have focused on marketing and promotion although there has been greater emphasis on product/destination development activities as DMO have revisited the term “marketing”. While the concept of the marketing mix is comprised of four P’s—product, price, promotion and place (distribution)—introduced by McCarthy (1960), many practitioners continue to tend to equate marketing with promotional activities. DMOs have undertaken advertising campaigns, supported destination publicity efforts, undertaken sales activities, and provided comprehensive (often generic) information about the destination. The evaluation of the value created by DMO activity is dominated by analysis of advertising and promotional activities (Bornhorst et al., 2010). However, effectiveness of DMOs to “add value” through promotional activities is questionable. Criticisms of DMO marketing include that it is underfunded and insufficient to meet the demands of the market place (Gonzalo, 2013; Shankman, 2013; Thompson, 2012). More recently, DMOs have become more engaged in destination development, product development and experience management. Rebalancing of these priorities reflects the response of DMOs to changing conditions. For example, the rise of SoMoLo (Social, Mobile and Local) technologies, drivers of the CE, requires greater emphasis than ever before on the delivery of the product experience. A negative video distributed via social media has the potential to overwhelm positive advertising campaigns. Destination Marketing/Management Organisations are working to ensure that experience delivery measure up to the promise of their promotions.

Product and destination development is a multidimensional construct for DMOs that includes not only stimulating the development of physical product but also supporting human capital development and training. As a result, DMOs are engaging in greater levels of “internal” marketing within the destination. Although Kotler, Bowen, and Makens (2015) defined internal marketing as “marketing to

its internal customers, its employees” (p. 274) in the case of a destination, internal customers include employees and stakeholders/actors within the destination system. While many DMOs have moved resources to destination development their ability to impact the destination has also been questioned. Based on current evidence, Pike and Page (2014) suggest that DMOs have very little impact on overall visitor experience.

Whether DMOs are redundant or merely in a period of transition will be revealed in the future. Even as DMOs adjust to the new system dynamics, new organisations are playing increasingly important roles in destination marketing. The rise of Business Improvement Districts (BIDs) or the more tourism focused Tourism Improvement Districts (TIDs) as funding mechanisms for existing DMOs, or alternatives to existing DMOs undertaking marketing and product development (Civitas, 2014), reflects the changing dynamics of DMOs. Nevertheless, DMOs and TID tend to be anchored in the economic value of tourism. Dredge (2016) posited that DMOs are policy tools—organisational instruments—designed to support industrial and economic policies. To create value in the destination system, DMOs are seeking closer relationships with economic development organisations. This approach of DMOs to focus on purely industrial and economic factors restrict the ability of DMOs to contribute to other important considerations, such as social and environmental concerns, and limits the value they can create. This raises the important issue that DMOs must consider: Who they are creating value for? Is it the destination community or the industrial tourism system in the destination community? While *Destination Next* advocates greater stakeholder engagement, the stakeholders are often defined as tourism business operators and governments as opposed to consumers and destination residents.

While traditional DMOs and new organisations like TID are place-based, some authors suggest that being constrained by location is one of the factors limiting the effectiveness of DMOs. It has been proposed that destinations should not be bounded by arbitrary demarcations and that “destinations are socially, politically, spatially and economically mobile” (Dredge, 2016, p. 4). Destinations exist at different scales—local, regional and beyond- simultaneously and the interaction between stakeholders at different levels raises the complexity for DMOs substantially (Dredge & Jamal, 2013). Organisations that market places that are not confined by physical destination boundaries are identifiable in the commercial world as tour operators, travel wholesalers and online travel agencies.

4 Destinations and the Rise of the Collaborative Economy

While DMOs adapt to these new challenges in creating value, other elements of the destination system are rapidly changing. The rise of collaborative consumption represents significant change to the dynamics of the destination as new organisations enter the system and new experiences are generated. Such changes within the

system create new opportunities and new rivalries. New actors in the system create new “value chain” networks to deliver tourism experiences. The response to the changing system dynamics, and the disruption to the current system, impacts not only DMOs but also the destination system.

4.1 New Companies in the Destination System

The impacts of companies leveraging the collaborative economy have been widespread, but tourism and visitor related industries have been impacted most dramatically. Core elements of the destination mix, including transportation, accommodations, and tours and attractions have seen new entrants based on the basic principles of the sharing economy. Several such organisations have achieved significant market share. Airbnb, the peer-to-peer accommodation facilitator, has over two million rooms available every night, significantly more than the largest hotel chain, Marriott including newly acquired Starwood, with 1.1 million rooms and the impact of Airbnb has been widespread given that it operates in 191 countries (Chafkin, 2016). In the United States it is currently capturing 1.6–1.8% of traditional hotel demand (Lane & Woodworth, 2016). In several destinations, including New York, Los Angeles, San Francisco, and Miami, the number of Airbnb rooms available represents more than 10% of the available hotel rooms. One notes that loyalty to Airbnb is high and average revenue per room beats hotel revenue (Lane & Woodworth, 2016), indicating that the organisation is delivering value not satisfied by traditional hotels. Collaborative economy companies like Airbnb, Uber and others are now important components of many destination systems.

4.2 Innovation in the System

Collaborative economy companies have unleashed a wide range of new experiences for consumers. From unique accommodation styles to tours with local experts, from rideshares with locals to sharing meals in people’s homes and learning about their lives, such sharing economy companies provide highly differentiated products with a unique personal flavour. One may note that many of these product types have existed for some time in one form or another. Meals with locals have been available in New Zealand for many years; cycle rental is not new, or couch surfing, or personalized specialty tours. So, one may argue that the social and technological advances that have led to collaborative consumption have ushered in a wave of innovation in the destination system and that these trends have enabled existing business concepts to flourish in new forms.

4.3 *Changing Dynamics*

Some collaborative economy companies in destinations have entered relatively new market spaces with little controversy. For instance, bicycle-share companies and car-sharing companies have been embraced, even encouraged, by many destinations. Nevertheless, the rise of collaborative economy companies in some destination systems is leading to conflict and change; some of which is predictable but some of which is unexpected. Collaborative economy organisations, disruptors of the current equilibrium, operate new business models and challenge existing legislative frameworks. Policy makers and legislators are responding to these new circumstances in a variety of ways, from embracing the new companies to imposing regulations and taxes, to banning collaborative economy activities completely. While early advocates of collaborative economy proposed that the marketplace could be policed by self-regulatory mechanisms such as social media feedback, and this would be sufficient to govern the collaborative economy, recognition is emerging that new regulatory frameworks designed to meet public safety and market needs is required. In some cases, these new legislative frameworks are reducing legal bureaucracy and sidelining existing structures. In some cases new legislation supports “legacy” organisations, like taxi companies, that have longstanding and highly regulated operating agreements with cities. Such approaches are criticised by collaborative economy representatives as stifling business innovation.

An additional element of complexity in this dynamic is that each destination community is responding in their own way and legislation is not uniform across the sharing economy companies. Rideshare companies compete with powerful, revenue generating and highly regulated taxi companies, and these face different legal battles compared to accommodation sharing organisations. For example, in New York where taxi interests are strong, Uber delayed a government imposed cap on its growth. Adding to the complexity of the change is the fact that many destinations are governed by local and regional authorities with differing perspectives about the value of collaborative economy elements. In the greater Los Angeles area, while the city of Los Angeles accepted Airbnb, Santa Monica has legislated against short-term rentals (Sanders, 2015). In addition to the basic questions of operation, legislation is developing to ensure public health and safety in the new regime where providers are not “professionals”. It is certain that there may be many legal battles before a new equilibrium is established in the legal frameworks which allow collaborative economy companies to operate in destinations.

There is also conflict in some sectors of the system where competition between the traditional organisations and new challengers is both direct and immediate. Building on Dredge and Gyimóthy’s (2015) conceptual work, Table 1 highlights the traditional enterprises the new businesses are challenging. The competition between ride-share companies and traditional taxi companies is insightful. Uber and other ride sharing companies compete directly with taxi companies, many with long histories and substantial legal protection. The conflict between these two groups of suppliers has been among the most confrontational. Hotel companies,

Table 1 Collaborative economy creates new competition

Destination mix	Collaborative economy A sample of new enterprises	Traditional types of enterprise
<i>Where can I stay?</i> Accommodations	AirBnb Couch Surfing VRBO Luxury Retreats Flipkey Onefinestay Homeaway	Hotel companies
<i>How can I get there/Get around?</i> Transportations	Uber Lyft GrabTaxi (Malaysia) Zipcar Bicycle shares (Liquid) Relay Rides Getaround Sidecar	Taxis
<i>Where can I get travel products, tours and experiences?</i> Tours and Guides	Guidehire Localo ADVLO Likealocal Vayable	Local tour companies
<i>Where can I eat?</i> Food	UberEats Bonappatour UberFresh Eatwith VoulezVousDiner	Restaurants and food delivery

while recognizing the changing dynamics of the accommodations market, have not responded as aggressively to the new competitors; there are differing perspectives about the potential impact of the new collaborative economy. Nevertheless, hoteliers are aware of the changing system dynamics. Commentators have noted the potential impact on traditional supply and demand equations, particularly during peak times (Jordan, 2015; O'Neill, 2015). As new forms of accommodations become popular with both leisure and business travellers, they will impact various parts of the industry in different ways. For instance, hotel room contracting associated with conventions, already changing due to the impact of OTAs, will need to adapt to emerging accommodation trends. While there is challenge for traditional accommodation providers, there is also opportunity for innovation and collaboration. Some hotel chains, such as Starwood, Hilton and Hyatt have partnered with rideshare company Uber. Others have partnered with companies offering complementary products. For example, Onefinestay, a company that offers high-end luxury home rentals, and Hyatt have developed a strategic partnership (Staff, 2015). Interestingly, several major hotel brands have adopted sharing

elements of collaborative economy principles. Accor has adopted listing policies similar to Airbnb and increased its property offerings from 3700 to over 10,000 by adding independent, non-affiliated properties (Staff, 2015). Marriott, recognising excess capacity with meeting space, has partnered with LiquidSpace, a sharing company that offers workspace for business (Botsman, 2014).

Less predictable are the conflicts created by new relationships within the system. While in the past commercial accommodations were restricted to hotels and tourists often confined to “tourist bubbles” within cities or other destinations, today house, apartment and room sharing sites bring tourists into the community. This has some advantages as it disperses economic benefits from tourism more broadly throughout a destination. Airbnb study of the impact of *Home-sharing in Portland and Its Neighborhoods* (Airbnb, 2014) describe “neighborhood activation” as Airbnb’s ability to “stay in traditionally less visited towns and neighborhoods” (p. 11). While neighborhood activation has possible benefits, it also has the potential to increase community tension. For example, in Barcelona, the headline “Airbnb remains a symbol of Barcelona’s growing unease with tourism” (Croft, 2015) leads to a discussion of the mayor “picking a fight with home rental websites as she cracks down on uncontrolled tourism that she fears could drive out poor residents and spoil the Catalan capital’s charm” (Croft, 2015). Similar tensions are experienced in a variety of locations including Santa Monica and New York.

4.4 New Business Structures and New Participants in Tourism

Many collaborative economy businesses can be characterised by a larger number of relatively independent operators working with a technology-based “umbrella” system. For example, Airbnb provides a system through which people with excess capacity in their homes (i.e. a spare bedroom) can rent the space to travellers. Similarly, Uber allows people with cars and spare time to provide transportation services. These new “hosts” may not identify as being part of the tourism system and their introduction to the system creates a need for capacity building, training and knowledge sharing to ensure quality delivery of tourism experiences.

5 Collaborative Economy and the Role of DMOs

As collaborative economy enterprises establish their place in the new system, the growth of the collaborative economy in many destinations is challenging DMOs to adjust current practices. While the DMO may be considered a “steward” of the destination, destination and DMO are distinct. DMOs must respond to this changing system dynamic in at least two ways:

- **Impact on DMO:** They must respond to the specific impacts these new players make on the DMOs themselves.
- **Impact on the destination:** They must adapt and respond to the rise of collaborative economy companies in order to meet their tourism management goals for the destination.

Responding to these changes, DMOs are presented with a series of potential challenges to DMOs. Using the six roles of DMOs (Morrison, 2013) discussed earlier in the chapter as a framework for analysis, new challenges include:

Leadership and Coordination Partnership and Team Building: DMOs must engage with new collaborative economy players as they work to set the agenda for tourism and coordinate stakeholders' efforts toward achieving the agenda. This process is impacted by several factors including role conflict in the system as new competitors establish roles within the destination, and/or larger numbers of stakeholders and actors who are either new to the tourism industry or do not identify as being part of it. DMOs will need to prove to these new participants the value of DMOs in the system in order to successfully establish their role as leaders, coordinators or potential partners.

Planning and Research The changing dynamics of the system will necessitate new research to better understand the impacts of the CE, and also to identify strategies for attaining a destination's vision and goals. The inclusion of new companies will require adaptation and modifications to destination plans and their inclusion in the destination planning process.

Product Development Planning to ensure the appropriate development of physical products and services for the destination is required. DMOs must respond to changing consumer preferences and emerging business models as they undertake destination planning for product development. DMOs active in product development may influence policy that seeks to regulate collaborative economy companies. As noted previously, more emphasis on destination experience is increasingly placing DMOs in the role of promoting standards of service that are destination brand consistent. Training programs designed to create "destination ambassadors" are becoming more common (Shankman, 2014) as a means of ensuring customer service standards throughout the destination systems. As a new extension to this task, DMOs must engage with collaborative economy travel product suppliers like Uber drivers and AirBnb hosts to ensure high levels of service and brand-consistent messaging.

Marketing and Promotion A key function of DMOs is the creation of destination positioning and branding and selection of the most appropriate markets and promotion of the destination. Several DMOs have recognized the value of crowdsourcing elements of their advertising creative in order to leverage the believability of user-generated content. Australia's: "Nothing Like Australia" campaign ("There's Nothing Like Australia—Campaign Strategy," 2012) collected

60,000 stories and images from ordinary Australians and shared them with potential travellers from around the world.

As the impact of collaborative economy on destinations becomes clearer, innovative DMOs are joining in marketing campaigns with collaborative economy partners. In July of 2015, San Francisco announced a first-of-its kind “destination promotion partnership” that leverages the sharing economy to spread the economic benefits of travel and tourism throughout the city (Alderton, 2015). In announcing the program, the San Francisco Travel Association, the city’s DMO, emphasised that the campaign would “complement—not replace- its relationship with the (traditional) hospitality community”. The campaign reflects many product development components including creating neighborhood toolkits for local merchants and supporting local hosts to share their love of San Francisco. More traditional promotion includes sales activities with meeting and event planners responsible for city-wide conferences and the development of content about local neighborhoods, businesses and experiences across the city.

Community Relations As noted previously, the rise of collaborative economy companies, particularly accommodation sharing companies, has placed residents in new proximity to guests. This is touted as a benefit that supports local business and spreads the benefits of tourism throughout the community. However, also as noted previously, these new tourists have increased tensions in some destinations. While DMOs rarely have direct control over legislation regarding collaborative economy companies or their activities, this is a new challenge that DMOs face in addressing community understanding and appreciation of tourism within the community. Advocacy for the tourism industry is a key role of the DMOs, and this role is expected to become increasingly important in the years ahead according to the *Destination Next* strategic analysis (DMAI, 2014). DMOs will need to reconcile the benefits and the costs of tourism and tourists in new ways and to new stakeholder groups.

6 Responding to the New Destination System Dynamics

The changing dynamics of the destination have practical implications for DMOs beyond the issues associated with the six core roles already identified in the chapter. DMOs governance models are based on the previous system equilibrium and will need to adapt to the changing market place. Perhaps the clearest example is in the funding models of CVBs in the United States. Over 88% of CVBs are funded by room tax from hotels (DMAI, 2015). To some degree, this approach makes policy sense as commercial accommodations were direct beneficiaries of marketing activities undertaken by DMOs. To date, only a handful of destinations require collaborative economy companies to collect occupancy tax (Airbnb, 2016). In the new collaborative economy, where both commercial accommodation and “shared accommodations” benefit from the destination marketing undertaken by the

DMO, at least two issues associated with room tax, or its equivalent, can be identified:

- Shared accommodation not paying room tax or its equivalent is clearly a “free-rider” on the DMO’s marketing efforts. While many tourism organisations “ride-free” (i.e. attractions and tour operations) they are rarely direct competitors and the fairness of two competitive accommodation providers (Airbnb and a hotel company for example) operating under different tax rules is problematic; and
- In destinations where room tax funds DMOs and shared accommodation is not room-taxed, the DMO lacks direct financial incentive to encourage visitors to use the shared accommodation.

The issue is significant for both collaborative economy companies and DMOs. San Francisco Travel, recognised as one of the first DMOs to partner in marketing activities with Airbnb, ensured the organisation was collecting occupancy tax, requiring insurance providing the guarantees for business in a similar way to hotels. As Joe D’Alessandro, President and CEO of San Francisco Travel noted “It’s about levelling the playing field. It would not have been fair for Airbnb to operate and not collect the hotel tax and not play by the same rules that hotels do (Oates, 2016).” Interestingly, Airbnb has taken the position that it would like to collect the tax, but it is stopped in some cities including New York City, where hotels oppose such legislation since they fear it will legitimise Airbnb’s activity (Griswold, 2015).

Despite such issues, collaborative economy companies are appealing to DMOs for a variety of reasons. Collaborative economy companies provide additional capacity at times of high demand. Airbnb is acknowledged as providing important additional rooms for not only major conferences but mega-events like the Superbowl (Oates, 2016), the Olympics, and Papal visits. Additionally, collaborative economy companies are useful to destination markets who typically pursue differentiation strategies (Porter, 1980) as they tend to provide special experiences useful in demonstrating the uniqueness of the destination experience.

Although many of the issues associated with the rise of collaborative economy impact DMOs indirectly, the new sharing economy does present some direct and immediate challenges to DMOs. For instance, DMOs also face challenges as they deal with the democratizing of destination knowledge. They often position themselves as the “authoritative” source of information about the destination. In this new market, where experts can provide customized tours on specific topics, the DMO may have the most general information but there will also be specific experts with greater knowledge in specific fields. How DMOs respond to this changing dynamic will be important in establishing the new equilibrium within the destination. There is clearly potential for other disruption of traditional roles. For instance, collaborative forces could challenge the assumption that DMOs are the “legitimate” destination branders. An early example of this is the “Up Greek Tourism” campaign. Up Greek Tourism was established during the Greek financial crisis by expatriates concerned about the lack of government funding for tourism, an important component of the struggling Greek economy. Funded by crowdsourcing, the marketing campaign ran in 2012 in London, New York, and Washington, DC and featured

advertising creative from award winning Greece-based designer (“Up with Greek Tourism”).

It should be expected that other challenges will emerge and, while the collaborative economy offers a broad range of product, some organisations have greater likelihood to disrupt traditional DMO roles. As an example, Airbnb is a shared accommodation sales facilitator, connecting homeowners with an extra room to the marketplace. As such, it works with a complex network of “non-professional” product providers to deliver tourism product. The similarity to the role of a DMO is striking; Airbnb provides leadership and coordination to its network, undertakes planning and research to facilitate more efficient sales, supports product development with its host network, markets and promotes the network, fosters cooperation between government entities and within the private sector to meet goals, and engages in community relations. Such similarities represent opportunities for both collaboration and synergy or competition.

6.1 *In the Balance*

DMOs must assess the value of the collaborative economy to their destinations. With the introduction of new members in the tourism system, DMOs are faced with the challenge of determining which organisations will be most helpful to achieve overall destination goals. Clearly, the costs and benefits of collaborative consumption are different from traditional tourism; some destinations are exploring the value of these new relationships. For instance, Airbnb, with assistance from Visit Portland, examined the value of Airbnb to the Portland community (Airbnb, 2014) and found the company supported household incomes, promoted enterprise and innovation, grew the tourism market by attracting “new” travelers, and “activated” neighborhoods for tourism. As DMOs assess the value of developing relationships with collaborative economy they must consider a variety of factors; the market demand for the products, the positive and negative impacts on the destination, the economic contribution of the CE, the quality of the tourism experience, and others.

While some progressive DMOs, like the San Francisco Travel Association, have engaged with collaborative economy partners, many DMOs are taking a “wait and see” approach to the largest and most impactful collaborative economy companies. As one DMO CEO in a major destination noted, “we don’t formally promote it. Airbnb and the Ubers have not approached us. It’s an evolving model” (Shankman, 2015). Awareness of collaborative economy and the issues associated with it is growing. Rachel Botsman, co-author of “*What’s mine is yours: The Rise of the Collaborative Consumption*” (Botsman & Rogers, 2010) was the keynote speaker at DMAI’s, 2014 annual convention. Nevertheless, concern for the impacts of these new approaches is low. DMAI’s strategic planning report, *Destination Next* (2014), ranks “the market moving toward a shared economy with assets being rented or bartered outside traditional commercial arrangements (i.e., Airbnb, home exchange)”, 45 of 64 important trends impacting destination marketing.

At the same time, collaborative economy companies are assessing the value provided by engaging with DMOs. As new players in the destination system they have a fresh perspective on the relevance of DMOs to tourism system. As noted previously, DMOs are currently addressing a number of challenges associated with changing roles and stakeholder engagement. DMOs recognise a lack of understanding of their work and have embarked on advocacy programs designed to raise awareness of the value created through their actions. Within this broader context, the importance of establishing the relevance of DMOs in the “new” tourism system should not be underestimated. Interestingly, Airbnb’s head of global hospitality and strategy, Chip Conley, is reported to have had “immersive sessions” with Hilton, Hyatt and Marriott about “how to be collaborative and how we can work together to promote travel and tourism globally” (Staff, 2015). New players in the destination system must see the value created by DMOs in order to engage.

7 Conclusions

The tourism system and the destination system, in particular, are changing as the result of evolving technology and demand for more authentic experiences. As the system adjusts to the entry of new organisations using innovative business models and distributed workforces, new opportunities for both conflict and collaboration are emerging. Stakeholders within the destination are responding in a variety of ways: new policies and legislation are developing, new sources of competition are emerging, and new opportunities for collaboration to meet the needs of consumers are presenting themselves.

Within this system, DMOs face new challenges to achieve their tourism goals in the changing destination system. DMOs are increasingly balancing traditional promotional priorities with product development responsibilities that range from customer service training to grant programs for attracting new tourism investments. At the same time, DMOs face existential threats to which they are responding with advocacy and stakeholder awareness campaigns highlighting the value they provide to the destination system. At this highly dynamic time in DMO evolution, the disruptive impacts of the collaborative economy are becoming increasingly apparent. Collaborative economy has the potential to impact each of the core roles of the DMO, challenging DMOs to engage with a wide range of new actors and responding to new business models and innovative products. While collaborative economy companies are not currently directly competing with DMOs, they are a disruptive force that impacts DMO operations. As DMOs adjust their approach to achieving their goals in light of the new destination dynamics, they must adjust to systematic inequities as the new equilibrium emerges. DMOs are directly impacted by the conflict concerning collaborative economy lodging companies and lodging taxes, the primary funding mechanisms for DMOs. While there is already concern over the funding model for DMOs, this issue creates urgency for many DMOs to find alternative approaches to funding their operations. The growth

of collaborative economy companies in the tourism represents an exciting time of innovation and change in the tourism system. Consumers are embracing new ways of enjoying travel, empowered by new technologies and attitudes toward consumption and social interaction.

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