TOURISM DESTINATION MANAGEMENT COMPANY (DMC): A CENTRAL ACTOR OF A DESTINATION AS A MILIEU

Dragan Magas
Lorena Basan
University of Rijeka, Croatia

Abstract: Today in Croatia, discordant views can be encountered at local and regional levels regarding responsibilities for the development of towns, municipalities and counties as tourism destinations. This underlines the necessity of establishing a superior tourism organisation that would integrate the interests of local authorities, tourism organisations, tourism supply providers and residents, and that would, on the one hand, possess the legitimate authority, knowledge and vision needed for destination development, while, on the other hand, it would be accountable for the destination’s development.

Key words: destination management company (DMC), destination marketing organisation (DMO), tourism destination, destination management, milieu.

INTRODUCTION

An important advancement in managing a tourism destination is the establishment of a Destination Management Company (DMC), representing the integrated interests of all stakeholders in the tourism industry of a given destination.

A DMC should be organised as a public-private partnership (PPP). Considering a tourism destination from the standpoint of the milieu concept, the DMC would be a central actor of a tourism destination’s milieu.

1 Dragan Magas, Ph.D., Full Professor, Lorena Basan, Ph.D., Assistant, University of Rijeka, Faculty of Tourism and Hospitality Management in Opatija, Croatia.
1. DEFINING A TOURISM DESTINATION AS A MILIEU

Of Latin origin, the word destination means “a place at the end of a journey”. It entered the vocabulary of the tourism industry via the travel trade, especially air travel in which English nomenclature is applied. In the early 1970s, the term gradually began to find its application in tourism studies and increasingly to be used as a synonym for tourist site, zone, region, country, group of countries, and even continent.2

In the literature, there are many different definitions of a tourism destination. Taking the view of the optimum usage of available resources and tourism destination competitiveness, a destination can be defined as an optimally combined and to the marketplace adapted area that, through the development of vital and dominant competencies within the destination, is capable of creating the preconditions that will enable it, in the long term, to achieve good results in tourism relative to its competitors.3

The application of the milieu concept in destination management may help to improve a destination’s competitive position by more efficiently managing the relationships among actors within a destination.

A milieu can be defined as a geographically confined socio-spatial unit in which business and non-business entities are interconnected through the frequency of socio-economic exchange and in which they share a common presentation of business and a set of unwritten rules – “the law of the milieu”.4

From the above definition, it is obvious that a milieu is characterised by four basic elements:5

1. a territory,
2. a network of heterogeneous actors (business entities, government agencies, civil society organisations and others) interconnected within a given area,
3. a common presentation of business conditions and shared common values among actor’s and
4. a series of rules and norms (“the law of the milieu”) regulating the interaction of actors.

2 Magas, D.: Management turistické organizacije i destinacije, Sveučilište u Rijeci, Fakultet za turistički i hotelski menadžment u Opatiji, Opatija, 2003, p. 16
The theoretical framework of the milieu concept is derived from the network theory and the B2B (business-to-business) marketing theory, the characteristics of which coincide with the economic considerations in the field of regional economy and the economy of innovation that focuses on localised production systems.6

The milieu concept has been used in ecology and geography for a long number of years, but only in the past decade has it been applied in social economy.

The milieu concept is very close to the concept of industrial districts, to which Becattini referred in Italy’s regional economy as early as the 1990s. These districts are characterised by the fact that companies and local communities share common values and a common culture. Similar to the industrial district concept, the milieu concept represents a network of innovation within a given territory in which an underlying regulation pattern of trust exists within a clearly defined area.7

The trust that exists between the actors in a milieu is closely linked to the notion of credibility, which each company in the milieu must create or maintain and which Blomqvist defines as “an actor’s ability, as perceived by the other milieu members, to perform something that he claims he is able to do on request”.8

Although the application of the project marketing concept in the business operations of tourism actors and tourism destinations as a whole does not represent a situation characteristic of project marketing in all its elements as described in the project marketing literature, this application opens up new opportunities in the business management of tourism actors and tourism destinations. Hence, the application of the project marketing theory based on the milieu concept presents an opportunity to improve the marketing of individual tourism actors, as well as of the destination at large, by managing the relationships and relationship networks between business and non-business actors of a destination.

Unlike the network theory that considers only relationships between business actors, the project marketing theory within a milieu framework takes into account the relationship between project-selling firms and project-buying firms, as well as relationships between business and non-business actors linked through a particular activity within a defined territory in which specific business conditions exist. Notably, by analysing a milieu, the existence of relationships and the need to invest in

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relationships between milieu actors are identified, together with the links that a milieu actor might have or does have with actors beyond the milieu’s boundaries.

By analysing the milieu, a company will be able to define its position within the relationship network of destination actors and, if necessary, invest in relationships with various actors of the milieu with the purpose of becoming capable of anticipating the offering of future projects on the destination market, assuming that the required functional positions exist.

When applying the project marketing concept to relationship management within a destination, a distinction should be made between two categories of relationship management:

1. managing relationships with project buyers (tour-operators, other organisations and institutions)
2. managing relationships with key milieu actors (complementary companies and other actors)

providing that the management of a destination’s offering and development is project based.

In regarding a destination as a milieu and in studying the possibilities of applying the milieu concept to a destination, it is important to underline the following definition of a destination, which the authors describe as: 9

- The basic unit of analysis in tourism,
- Distinctly recognisable area with geographic or administrative boundaries,
- Where tourism revenue is significant, or potentially significant, to the economy and
- Serviced by both private and public sector.

With regard to the above definition of a destination and the attributes of a milieu, the possibility of and need for applying the milieu concept to the management of a destination derive from the following:

1. In terms of territory, some counties in Croatia can represent a milieu, such as the milieu of the Kvarner destination,
2. Within the individual counties, it is necessary to identify the networks of all business and non-business actors that are interconnected within a particular territory and that participate in creating a tourism offering, that is, in developing new projects.

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3. It is also necessary to identify the relationships that actors within the milieu of a particular county have with actors outside the milieu, in delivering projects.

4. It is necessary to establish a series of rules and norms – the so-called law of the destination milieu – that will regulate the interaction between a destination’s actors.

2. ROLE OF TOURISM ORGANISATIONS IN DESTINATION MANAGEMENT

On the subject of managing destinations, the literature demonstrates that different authors agree that securing the long-term competitiveness and the sustainable development of a destination is the fundamental mission of destination management.

Surveys conducted among tourism supply providers of the Kvarner destination indicate that a singular attitude does not exist with regard to the following questions:

- “Who represents destination management?”
- “Who is responsible for the development of a destination?”

The attitudes of tourism supply providers to these two questions vary:

1. The management of tourism and hotel companies (30.4%)
2. The local government and self-government (29.1%)
3. The management of tourism associations (19%)
4. All of the above together (5.1%)
5. Special bodies organised on a profit basis (8.9%)
6. Special bodies organised on a non-profit basis (6.3%)
7. Private and public sector collaboration under the supervision of the local government and self-government (1.3%).

The result of these discordant views is the fact that “everyone and no one” is responsible for the development of a destination. This fact underlines the need of establishing a superior tourism organisation that would bring together the interests of all stakeholders (local authorities, tourism organisation, tourism supply providers and residents) within a destination. Such a tourism organisation would also need to possess the appropriate authority and responsibility for destination development.

The attitude of hotel enterprises and tourist agencies in the Primorsko-Goranska County (PGC) confirms the need for a superior tourism organisation within the destination, which would be responsible for managing and developing the destination.

All PGC hotel enterprises surveyed (companies, concerns and holdings), together with 88.9% of surveyed tourist agencies (having an extensive network of offices), consider that, within the County as a destination, a Destination Management Company should exist that would be:

- a source of information to tourism actors regarding opportunities for delivering projects on the PGC tourism business market
- the central actor of the milieu
- organised as a public-private partnership
- responsible for the destination’s development.\textsuperscript{11}

In Croatia, the Croatian National Tourist Board acts as a national tourism organisation. It is a legal entity with an established hierarchical structure. This structure represents a system of tourist boards, at the head of which is the Croatian National Tourist Boards, with lower levels comprising County Tourist Boards, followed by the Tourist Boards of towns and municipalities.

A tourist board is a non-profit tourism organisation, whose primary sources of revenue are tourist tax and membership fees.

The 1994 Act on Tourist Boards and the Promotion of Croatian Tourism\textsuperscript{12} defines the structure, that is, the bodies of a tourist board and its objectives and tasks, that range from common to the individual within the framework of lower-level tourist boards.

The primary function of the Croatian National Tourist Board and lower-level tourist boards is to promote tourism products and offerings at their corresponding level.

Today, these organisations are frequently perceived as not being efficient enough, and they are generally criticised for:\textsuperscript{13}

- a lack of accuracy in defining business objectives and inadequate focus on business objectives;
- limited funding and financial issues;
- bureaucratic structure lacking in professionalism and specialisation;
- the application of obsolete marketing technologies and insufficiently sophisticated tools
- a low level or lack of collaboration with the private sector.

In addition to the above criticism, a key dilemma in debates pivots on the question: “Are these destination marketing organisations or are they destination management organisations?”\textsuperscript{14}

\textsuperscript{11} Primary research conducted as part of: Basan, L.: Projektni marketing u funkciji razvoja turističke ponude i potražnje, Doktorska disertacija, Sveučilište u Rijeci, Fakultet za turistički i hotelski menadžment u Opatiji, Opatija, 2007., p. 263.
\textsuperscript{12} Zakon o turističkim zajednicama i promicanju hrvatskog turizma, www.nn.hr/clanci/sluzbeno/1994/0522.htm
\textsuperscript{14} Ibidem, p. 71
To help clarify this dilemma, it is necessary to define a destination marketing organisation (DMO) and a destination management company (DMC).

A DMO is a “non-profit marketing organisation established for the territory of a city, country, province, region or area, the primary purpose of which is the promotion of the destination”.  

A DMC can be defined as being a “general contractor that possesses the skills, resources and relationships needed to achieve the goals set, and that designs an offering; engages and manages subcontractors; links up with external agencies to obtain licences, insurance, etc.; manages financing; and secures the continuous supervision within and over the entire project management.”

The Association of Destination Management Executives (ADME), which represents an international association, defines a DMC as being a “professional services company possessing extensive local knowledge, expertise and resources and specialising in designing and implementing events, activities, tours, transportation and logistics programs.”

Upon examining these definitions, it is clear that Croatian tourist boards have the function of DMOs.

Foreign practise, however, points to the fact that successful destination marketing companies around the world have no doubts with regard to the question previously raised. From a historical point of view, the primary function of these organisations was marketing, that is, promotion and sales. However, the growing need of enhancing a destination’s competitiveness, at either the national, regional or local level, caused the organisations to develop non-marketing functions and tasks. This, in turn, caused their areas of management to expand, so that the thus designed destination marketing organisations, in fact, represent destination management organisations or Destination Management Companies (DMC).

A fundamental precondition to the possibility of setting up a DMC, as a PPP-based business actor, is making amendments to legislation so as to broaden the scope of management, within the tourism destination, for which they have been established, to include:

- responsibility for managing the territory for which a DMC is established;
- the development of local infrastructure;
- collaboration with local tourism companies, and
- the organisation of tourist events.

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17 Strategic Marketing Plan, op. cit., p. 71
18 Ibidem, p. 73
3. DMC FUNCTIONS IN MANAGING A DESTINATION

Defining the functions of a DMC as a central actor of a given destination’s milieu is based on the following assumptions:

• the application of the project marketing theory (which refers to the ability of a project-selling firm to anticipate project demand based on relations with project-buying firms and other parties interested in projects within a given milieu)
• the expansion of the tasks and functions of the DMC Kvarner to include non-marketing functions
• amendments to existing legislation, because, in comparison to the PGC Tourist Board, the tasks and functions of the DMC Kvarner are broader and more comprehensive to ensure greater efficiency in managing the destination.

Therefore, the basic functions of the DMC Kvarner would relate to:19

1. Managing the development of the PGC destination and its brand;
2. Managing the relationship network of actors – project-sellers and project-buyers in the milieu of the PGC as a destination;
3. Managing the offering of the PGC destination based on projects;
4. Devising a pricing policy for the PGC destination;
5. Selling the tourism product of the PGC;
6. Promoting the tourism product of the PGC, and
7. Representing the interests of actors with the PGC.

By assigning, to PPP-based DMC, the functions related to managing destination development, the question of who is responsible for the destination’s development would finally be answered. Considering that the DMC Kvarner would integrate the interests of all stakeholders in the destination, it can be assumed that a higher level of efficiency would be achieved in destination management.

The function of destination development is closely linked to creating and managing a destination’s brand, as a basic determinant of a destination’s competitiveness and its distinctiveness on the tourist market.

Notably, destination branding should evolve in two segments:

1. in the area of business-to-consumer (B2C) branding, and
2. branding in the area of the business-to-business (B2B) market.

19 Basan, L.: Projektni marketing u funkciji razvoja turističke ponude i potražnje, op. cit., p. 269.
Today, when reference is made to destination branding and destination brand management, it is almost always about the segment of B2C marketing, that is, making a destination distinctive on the end-consumer market. We forget the importance of branding and brand management on the tourism business market, which is no less important than branding on the B2C market. As B2B marketing refers to the marketing of the products and services of one company to another, the most important function of branding on the B2B market is reflected in: increased information efficiency, risk reduction and value added/image benefit creation.

Within the framework of managing the relationship network of project-selling and project-buying firms, the Kvarner destination is viewed as a milieu with relationship management evolving across the three levels:

- the milieu level,
- the customer level, and
- the level of individual projects.

In this sense, the DMC Kvarner would manage: the networks of business and non-business actors of the destination to create a competitive project-based tourism offering, that is, the milieu of supply; the networks of customers – networks of business and non-business actors impacting on project demand – that is, the milieu of demand; and the network of actors of the level of individual projects.

This means that the DMC Kvarner, as well as tourism companies, must take into account:

- the external business conditions that impact, within the framework of specific activities (projects), on the operations of business and non-business actors in the territory of the destination/milieu
- the competencies and resources of firms (internal and external)
- the position of firms in the network of relationship with business and non-business actors in the destination, and
- the position of firms in relationships with project-buying firms.

Therefore, to manage the milieu of the destination, it would be necessary to create databases on the project portfolios of tourism companies and databases on the portfolios of relationships with customers and key actors in the milieu, as well as to create a “Kvarner Investment Support System (KISS), information system for investment opportunities in Kvarner tourism, designed primarily for potential investors”21.

The next DMC function relates to the project-based management of a destination’s offering. The definition of a DMC used previously indicates that DMCs apply the project-management concept to their operations. The project marketing concept, however, is broader than the concept of project management, and implicitly,
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Project marketing involves project management. Also, the theory of project marketing has caused the perspective of project management to broaden in the direction of developing and maintaining relationships with project-buyers. This, then, points to the necessity of DMCs using the project-marketing concept in their operations, as a new opportunity to enhance their performance in destination management.

A pricing policy is about determining the price of tourism products to make them competitive on the market, on the one hand, and profitable to destination actors, on the other hand, while providing indirect benefits to residents. It should be noted that today the measure of value has become more complex, and that whereas value was previously expressed as a price-quality ratio, now it can be defined as price, quality and a personal approach relative to time and energy invested.

Through the distribution function, a DMC will develop and use an optimum combination of various channels for selling the product of a tourism destination. It should be kept in mind, however, that the project-marketing concept sees a project as a transaction, that is, it explores the interaction between a project-selling firm and a project-buying firm through the six phases of project life cycle. In this context, tour operators, as well as other organisations and institutions may emerge as the buyers of individual projects.

A DMC’s promotional activities are focused, on the one hand, at promoting a destination as a whole to the end user market and, on the other, at promoting hotel facilities and other complementary firms, as tourism supply providers, to various business actors – project buyers (for example, tour operators) with the purpose of demonstrating that the destination possesses the competencies and resources needed to delivery future projects.

The last DMC function pertains to representing interests. This function brings together the interests of local authorities, tourism organisations, tourism supply providers and resident, based on the development model of the Kvarner destination.

Therefore, the establishing of the DMC Kvarner, together with the application of the milieu concept in the destination, represents an innovation that provides an opportunity for improving the efficiency of destination managements as a result of the following:

1. A DMC is based on knowledge, the use of modern IT, innovativeness and creativity, credibility and integrity, all of which are also preconditions to developing long-term and network-based relationships;

2. Through the existence of relationships among tourism actors and by identifying the need to develop new ones, while investing in current ones, firms will build the ability to anticipate demand for future projects.

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22 Cova, B., Salle, R.: Project marketing and project management: A first attempt to bridge the gap, op. cit., p. 9
3. In the modern literature, relationships and relationship quality are considered a segment of a firm’s intellectual capital\(^\text{24}\), which today represents a major part of firm’s market value and its primary competitive advantage. This would clearly contribute to increasing the market value and enhancing the market positions of tourism companies;

4. Defining networks based on relationships set up among destination (business and non-business) actors involved in specific activities will result in improving the coordination of activities at the destination level;

5. By defining the “law of the tourism destination milieu”, the rights and obligations of tourism actors involved in delivering individual activities (projects) will be clearly identified.

5. CONCLUSION

The application of the project marketing theory, through the application of the milieu concept in a destination, opens up new opportunities for improving the marketing of both individual tourism actors and the destination as a whole. By establishing networks and by managing relationships and the networks of relationships among business and non-business subjects of a destination viewed as a milieu, it is possible to improve the coordination of all activities in a destination.

A vital step forward in managing a destination is the setting up of a Destination Management Company (DMC), following the lead of positive experience in other countries. Organised as a public-private partnership, the DMC would be a superior tourism organisation, integrating the interests of local authorities, tourism organisations, tourism supply providers and residents. It would be a primary source of information to tourism actors about opportunities for delivering projects on the tourism business market, and it would be responsible for managing the tourism destination.

Therefore, the establishment of a DMC and the application of the project marketing theory based on the destination milieu concept would contribute to enhancing the efficiency of destination management, a ubiquitous issue in all Croatian tourism destinations.

\(^{24}\) Intellectual capital is a synonym for the intangible assets (intangible business factors) of a firm that, while impacting heavily on its performance, are not explicitly expressed in its balance sheets. This calls for the introduction of new forms in management accounting and new ways of managing and measuring the performance of firms. Intellectual capital comprises three basic components: human capital (competencies, education, knowledge, skills, attitudes, experience, beliefs, values and co-worker relationships), market capital (brand value, relationships with supplier and partner firms, licences, loyalty, etc.) and structural capital (copyrights, corporate culture, IT, relationships with consumers – customers, clients, guests, etc.) after: “Prirucnik za upravljanje intelektualnim kapitalom u tvrtkama”, Hrvatska gospodarska komora, zajednica za unapređivanje intelektualnog kapitala, Zagreb, prosinac 2001.; www.skandia.se (07.07.2005) and Schaumann, P., CMP, CSEP, DMCP: The Guide to Successful Destination Management, op. cit. p. 169.
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