

Summary:

Strategies in Norwegian Tourism Industry

An evaluation of Public Financial Support to Tourism Organisations

This report evaluates the strategies of the Norwegian Industry and Regional Development Fund (SND) and the effects of the financial support allocated by the SND to various types of tourism organisations in Norwegian Tourism.

The organisations in question represent what can be described as «the value adding link», i.e. the commercial organisations that are marketing, selling and developing tourist products (accommodation, food services, transport, activities and attractions etc.) which are produced by the basic tourism industries.

The SND provide financial support to such organisations (they may also be supported by other public sources). The organisations comprise a new generation of geographical, *commercial* marketing organisations, initiated through the presentation of a national tourism strategy in 1989. They include five regional companies, a number of local (destination) organisations and the conference organisations in five major cities. In the SND financial support programmes towards the «value adding link» also chains and tour operators are included.

The SND tourism strategy includes a sub-strategy that is directed towards the development of such organisations. Thus an essential part of the financial support is also allocated to various geographical and/or branch networks, with the aim of developing commercial marketing and promotion organisations from these networks.

The SND tourism strategy is derived from a national tourism strategy outlined by the Ministry of Industry and Energy (in co-operation with the Tourism Industry) and from the overall SND strategy towards industrial and regional development. The strategy emphasises the development of economically healthy enterprises and a market orientated tourism industry. The major elements in the SND action plan are (i) establishment of co-operation structures (networks and commercial organisations), (ii) development of national, regional and local tourism products, (iii) pilot marketing projects

and internationalisation, and (iv) quality control and improved level of competence.

The public efforts towards the tourism industry and the development in the industry itself have changed the organisational structures, which in turn have created discussions and criticism from the industry as well as from the various governmental bodies. On this background an evaluation of performance is considered highly appropriate and necessary to provide information for the purpose of possible strategy adjustments.

The report is particularly focusing on how the SND supported organisations function as independent enterprises based on commercial principles, and as catalysts for the tourism industry. The topics that are discussed include the financial strength and survival possibilities of the organisations, the profitability in the tourism industry in general, the competitive power in the international markets, the changes in organisational structures and the efficiency in promotion of the Norwegian tourism products.

The project is based on the following main sources of information:

- Interviews with representatives of 21 tourist organisations, chains and tour operators,
- interviews with representatives of five counties and of the Ministry of Industry and Energy,
- information on tourism enterprises' accounts from the National Accounts Register
- prepared information from the SND files on the use of funds and on the tourism companies and organisations supported under the SND strategy programmes,
- accommodation statistics from Statistics Norway.

Besides, the project is based on comprehensive studies of national and international literature on the organisation and the promotion of the tourism industry.

The SND financial support programmes can be said to be reasonably successful. The observed effects seem acceptable in view of the strategic aims and the framework within which the national tourism industry has operated in the 1990s. Apparently, the effects are somewhat reduced by particular conditions within the industry, conditions that the SND may influence indirectly only.

One particular weakness is that essential parts of the promotion work in (particularly) the geographical tourism organisations have the character of a production system linked to the organised tours markets, failing to direct the promotion sufficiently towards the individual markets.

Another observed weakness is that the public tourism strategies are not sufficiently co-ordinated, which is also considered as a problem by the industry

itself. The overall national strategy presuppose a co-ordination on both geographical levels and between the various public financing sources, and this aim has not yet been fulfilled. Problems that arise from this include on one hand the existence of parallel organisation systems, which in many cases causes confusion as regards work tasks and responsibilities. In turn, this restricts efficiency, although many organisations report improved efficiency. Secondly, there are profitability problems in the basic industry caused by for instance surplus capacity, which in turn may be an effect of easy access to public finance.

The success of the strategy include SND's part in the establishment of a new organisation network in the value adding link. Many of the organisations have developed from the SND network programme, which is three-phased. Of approximately 100 networks given initial support, one third is considered to have proved business potential and been selected to further financial support to develop an organisation or a company.

The strategy has improved both the market power and also partly the profitability of the organisations. However, the survival of these organisations depend on their ability to finance their activities through long term agreements with local authorities and tourism enterprises. It is very essential, and to some extent difficult, to establish a stable finance model for the production of promotion and host services, which often have the characteristics of public goods.

The profitability in the basic tourism industries in Norway have increased in the 1990s. It has most likely been affected by the SND efforts because of the strengthening of the marketing link, but the report does not include any attempt to examine partial effects of the SND strategy. The project has, however, revealed some important measures concerning improvement of the profitability.

One obvious problem, particularly in the hotel sector, is the easy entry of new capacity *into* the market and the obstacles to withdraw excess capacity *from* the market. This makes it difficult to improve balances even in times of fast increasing demand.

Another particular measure is better knowledge of the various market segments. Improved market surveillance and better customer communication should lead to more customer orientated marketing and product development activities. As an example, the report points out that there seems to be a need for further development and promotion of products for the individual traveller. Marketing research may be looked upon as a kind of infrastructure or public good, which require more concentrated efforts by central public institutions like the Ministry of Industry and Energy, Nortravel Marketing (NORTRA), and the SND itself.