



CENTRE FOR ENTREPRENEURSHIP, SMEs AND LOCAL DEVELOPMENT

CENTRE POUR L'ENTREPRENEURIAT, LES PME ET LE DÉVELOPPEMENT LOCAL

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GLOBALISATION, SMES AND TOURISM DEVELOPMENT

Case study: Successful Alliances for SMEs in the Austrian Tourism Sector

1. Introduction

1. The increasing global competition has prompted numerous SMEs in the tourism sector to initiate or to join a co-operation scheme as a prerequisite for a more successful performance of their businesses. Today Austrian companies representing nearly 50% of the bed capacities available in the hotel sector are already involved in an inter-company co-operation because they are convinced that this will help them to increase their profitability.

2. Especially during the last ten years the concentration process in the tourism industry has reached a new quality level. We observe today a continuous increase in the number of hotel chains, of mergers, of alliances and inter-firm co-operation as well as a greater diversification of the offer due to branding.

3. Usually an overall package for tourists consists of a whole bundle of services that are mostly provided by autonomous partners. For a guest though it is not the single service that counts but the overall experience. An important challenge for a successful co-operation lies in the optimisation of the service chain both on the supply and on the demand side.

4. A study conducted for the Austrian Federal Ministry of Economics and Labour under the title „Successful Alliances in the Tourism Sector – Why Participation in Co-operation Schemes Increases Profitability” analyses the issue in detail and comes up with valuable results. It is our intention to present them as the Austrian case study within the framework of the OECD project “Enhancing the Role of SMEs in the Global Tourism Industry”.

5. It is obvious that there is a need for far reaching co-operation ventures and alliances on all levels of the tourism sector. Their creation and development though should not be left to chance but will have to be carefully planned by taking into account the foreseeable trends as well as the success factors identified by the study. Only a professional co-operation management can ensure that the concerted action and the joint activities will bring about an added value that is both measurable and sustainable.

2. The Austrian Tourism Sector: An Industry Overview

6. The tourism industry is one of the most important and growth intensive economic sectors of Austria, an important employer and an indispensable source of income. In the year 2005 around EUR 15.4 billion in revenues were obtained from international tourist traffic and EUR 19.1 billion from the overall expenditure of tourists. The overall turnover in the tourism and leisure economy (including the leisure expenditure of the nationals at their place of residence) amounts to about EUR 40.1 billion of direct and indirect added value that corresponds to 16.3% of the gross domestic product (according to TSA).

7. In the year 2005, the foundation for this success story was laid by over 91,000 establishments in the hospitality and leisure sector. This figure comprises approximately 18,200 registered establishments offering accommodation (hotels, boarding houses, inns, etc.) and about 51,900 establishments of the restaurant and catering sector (pubs, inns with a maximum of 8 guest beds, restaurants, cafés, bars, etc.)¹. In 2005 there was an aggregate figure of approximately 29.3 million arrivals in all establishments offering accommodation and around 119.2 million overnights².

8. 99% of all establishments in the Austrian tourism sector are SMEs of which more than 90% employ less than 10 staff members; this fact explains why the average capacity of the commercial

1. Source: Austrian Federal Economic Chamber.

2. Source: Statistics Austria.

establishments offering accommodation (categorised establishments) at present amounts to approx. 44 beds only³.

3. Co-operation Ventures – A Possible Solution?

9. There is no doubt that also in the Austrian tourism industry alliances, partnerships and co-operation ventures can be valuable tools that enable the different businesses to improve on old techniques and on existing structures with the aim of becoming successful players in the ever more global tourism market. Due to the “atomistic” structure of the Austrian tourism sector, the odds for an individual company to have a sustainable success (or even to survive) without the help of a co-operation venture must be deemed as rather poor.

10. A great number of businesses, companies, associations, and other market players have therefore come to the conclusion that in view of the steadily increasing competition in the global tourism sector the constitution of or the participation in a co-operation venture opens for them new opportunities for a successful management of their enterprises.

11. Different concentration processes in the tourism industry that have taken place mainly during the last ten years have brought about new quality standards within the overall offer of the tourist trade. We have seen, *inter alia*, the creation of new hotel chains, a host of mergers, the constitution of new alliances, the founding of a steadily growing number of co-operation ventures as well as a considerable diversification on the supply side due to an increased trend towards branding.

12. Usually an overall package for tourists consists of a whole bundle of services that are mostly provided by autonomous partners. For a guest though it is not the single service that counts but the overall experience. An important challenge for a successful co-operation lies in the optimisation of the service chain both on the supply and on the demand side.

13. In any case, there is a clear need for far reaching co-operation strategies and alliances on all levels of the tourism sector. Their initiation and development though should not be left to chance but will have to be carefully planned by taking into account the foreseeable trends.

4. Typology of Co-operation Schemes in the Austrian Tourism Sector

4.1. Co-operation Ventures

14. The alliances in the tourism sector that are the object of the present study must primarily be understood as co-operation and collaboration between individual businesses of the service value chain (at the same level, upstream or downstream). Essentially, three co-operation schemes may be distinguished:

Horizontal	Vertical	Lateral
Co-operation between partners belonging to the same sector and offering the same type of service	Co-operation between partners belonging to the same sector or belonging to two neighbouring sectors and offering different types of	Co-operation between partners belonging to completely different sectors

3. Source: Austrian Federal Economic Chamber.

	services	
Economies of scale	Optimisation of the service chain	Exploration of new market segments
Example: Co-operation between several hotels	Example: Co-operation between a hotel and a cablecar company	Example: Co-operation between a hotel and a company of the automotive industry
Keyword: „Intrasectoral co-operation“	Keyword: „Service chain“	Keyword: „Distribution partnership“

4.2. *The Spirit of the Co-operation Venture*

15. Within inter-firm co-operation, various schemes may be distinguished as follows:

⇒ Co-operation based on a specific theme (**target group-oriented**).

These co-operation ventures have been created with the aim of common marketing and/or product design around a specific theme – e.g. „family/child friendly holidays“.

⇒ Co-operation based on geographical criteria (**destination-oriented**).

Here co-operation derives naturally from the geographical vicinity of the hotels within a well defined tourist region. A typical example would be the „Millstättersee Hotel-Kooperation“, which is a clearly defined co-operation model comprising 14 hotels situated around Lake Millstätt in Carinthia.

16. Within the “destination-oriented type” of co-operation there are several variants: in addition to those based on the geographical vicinity within a specific area or valley, there are those comprising neighbouring regions, a whole province or even the whole Austrian territory. Here, the more the geographic vicinity decreases, the more the importance of the definition of a common theme increases.

17. Only few alliances in the Austrian tourism industry have successfully taken the next step, i.e. launching a truly international co-operation. Examples of this kind are the „Mountain bike Hotels“ (together with South Tyrol), the „Kinderhotels“ (together with Bavaria, South Tyrol, Switzerland and Liechtenstein) or the association “Die BIO-Hotels” (together with Germany, Italy, Switzerland, even Spain and Ireland).

4.3. *The Intensity of the Co-operation*

18. Another important distinctive criterion is the intensity of the inter-firm co-operation. At the lowest level there is only an exchange of experiences in the form of mere discussion groups called “experience-exchange groups” (“Erfahrungsaustauschgruppen” or “ERFA-Gruppen” in short).

19. Models characterised by a greater intensity of co-operation can be categorised as follows:

⇒ Co-operation concentrating on a specific management function, e.g. marketing, product design, sales, booking system, etc. This category comprises most of the numerous marketing co-operation ventures or joint offer groups created in recent years; and

⇒ Co-operation combining several management functions:

In most cases, this form represents a further development of the above-mentioned scheme. It goes beyond joint marketing activities or the offer of joint packages by including cost-saving components such as joint purchasing, a common pool of personnel, a uniform system of accounting and financial reporting enabling comparative analysis of the partner companies' results and key business ratios, joint investments (common fleet of cars, common technical equipment, etc.). This may even reach the level of putting together central hotel functions (for instance: a partner hotel with a renowned cuisine remaining open during the off-season, thus ensuring accommodation not only for the tourists in the region but also for the guests of the other partner hotels; a hotel having a particularly well developed spa and wellness infrastructure also accessible to guests of the partner hotels).

⇒ Co-operation on the basis of (partial) financial and legal merger:

Within this type of co-operation all conceivable variants may be envisaged. In some cases this co-operation scheme will just fall short of a complete operational fusion. The partners are tightly bound by strict co-operation agreements. The autonomous ownership structures are maintained on paper, but *de facto* the co-operation partners relinquish their legal, economic and/or organisational autonomy within certain core competencies. The co-operation agreement may for instance foresee that a common management company shall be founded in which each partner company disposes of a share in accordance with its earning capacity and where profits and losses are distributed among the partners. This management company takes over all operative management functions from the legal proprietors.

20. It should be noted that the vast majority of all the co-operation ventures within the Austrian tourism sector represent rather loose alliances where the object of the co-operation agreement is mainly limited to the fields of common marketing and sales promotion activities and the design of a joint offer.

5. Case Study: Methodological Overview

21. The co-operation ventures already active in the Austrian tourism sector form the basis of the present study which focuses primarily on inter-firm co-operation models within the typically SME-based Austrian structures. **A co-operation in the sense of the present study is defined as a sustained collaboration of businesses in the tourism sector that has a clear-cut contractual basis as well as a jointly defined economic aim.**

22. The main conclusions derived from the study are based on an analysis of the co-operation projects funded in the framework of the TOP Tourism Promoting Scheme made available by the Austrian Federal Ministry of Economics and Labour, on the results of a questionnaire addressed to the managers of active co-operation ventures within the Austrian tourism sector, on structured interviews of industry experts as well as on the results of an analysis of the annual accounts of already active co-operation ventures.

6. Case Study: Main Outcomes

6.1. Co-operation Ventures in the Austrian Tourism Sector – Status in the Year 2006

23. On average, a co-operation venture in the Austrian tourism sector comprises 37 partner businesses with a joint offer of approx. 1,800 beds per venture. This means that the average number of beds offered by a typical partner establishment amounts to approximately 48.

24. As far as the legal form of the co-operation is concerned, more than 65% of the ventures have opted for an association or a consortium (ARGE) or for a civil law partnership (GesbR).

25. In around 50% of the cases of hotel co-operation ventures the management function has been entrusted to one of the partner establishments; the other half is managed or guided by an external consultant (management consultancy firm) or by a representative of a regional tourist board. There are also cases where an external manager (who does not come from one of the co-operation partners) has been recruited.

26. Approximately 97% of all ventures involve co-operation in the fields of marketing/advertising/distribution, i.e. they represent the classic pattern of a horizontal co-operation (i.e. a partnership between enterprises of the same economic sector or the same service industry). Far reaching co-operation activities as for instance the pooling of human resources are seldom found, whereas 26% of the co-operation ventures try to realise savings by joint cost management measures (joint purchasing or joint investments, collaboration in the allocation of staff members for administrative, accounting or controlling tasks, etc.). In 38% of the cases this aim is already defined in the co-operation agreement.

27. More than two thirds of the co-operation ventures insist on compliance with specific quality criteria by all partner establishments and have also a system which regularly monitors them.

28. In general, co-operation ventures have been found to be very disciplined in budgetary matters. The funds made available by the partners are nearly exclusively used for the implementation of the venture's main mission. The study authors note with particular satisfaction that the costs for the bureaucratic apparatus of the different alliances have been kept to a minimum or are covered by other sources of income (sponsoring, subsidies or sale of the venture's own products). On average, the partners disburse approx. EUR 70 per bed and p.a. for the participation in a co-operation venture.

29. The positive aspects of an inter-company co-operation clearly outweigh the negative ones and appear mainly in the marketing field; they translate into an increase in capacity utilisation and turnover figures. Relatively "innocuous" data like overnights and capacity utilisation ratios are commonly shared. On the other hand, business data that would give a clear picture of the profitability status of the partner companies are revealed only very reluctantly although this would probably be the very area where an exchange of experiences and a thorough analysis of the turnover and cost structures of their competitors would probably be seen by the individual partners as the most welcome return on their investment in a co-operation venture.

30. More than 70% of the surveyed partnership schemes intend to further intensify their co-operation in the future and envisage an additional growth by admitting new partners.

31. From the data collected we can conclude that in the Austrian tourism industry there is already now a "co-operation-minded" sector representing the equivalent of about 47% of the entire Austrian accommodation capacity available in commercial establishments. This figure shows that an increasing number of players in the Austrian hospitality business are already aware of the need for the forming of alliances.

7. What Makes Co-operation Ventures Successful: A Comparison of Selected Business Parameters

32. An analysis on the basis of selected business parameters has been made for 6 Austrian hotel co-operation ventures whose economic efficiency was compared with that of other Austrian hotel businesses that were comparable as far as their business philosophy, target group orientation, category, size and partly also their geographical location (province) and their number of "open for business"-days were concerned.

The fundamental economic data for this comparative analysis were supplied by the data bank of the Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H. (Austrian Tourism Development Bank).

33. The results of this comparative analysis lead to the following conclusions:

Robustness of turnover figures: The partners of co-operation ventures show consistently better turnover figures as a result of their participation in joint activities, projects, and programmes.

Capacity utilisation ratio and number of “open for business”-days: One of the common factors contributing to the success of co-operation schemes are the improved capacity utilisation ratios or the stimulation of the usually less booked shoulder season. The fact that co-operation partners usually stay open longer each year than their competitors will occasionally also contribute to an improvement of the employment situation in the tourism sector of their region.

Staff costs: Although the partners of co-operation ventures will have similar costs for human resources than companies not involved in such alliances, they usually show better turnover per capita ratios and have thus lower staff costs in relation to the overall turnover figures.

Profitability: Although the surveys conducted in the framework of the present study confirm that there is virtually no co-operation in the field of cost management, co-operation partners usually have a higher profitability measured by the ratio “GDP to overall turnover”.

34. The central aim of co-operation ventures, i.e. ”to increase profitability“, can be achieved through active measures focusing on an increased turnover and improved capacity utilisation ratios but will also manifest itself in additional (and not always clearly perceived) positive side effects of the forming of an alliance.

The Ideal Co-operation Venture: Success Factors

35. Co-operation ventures with a proven efficacy show specific success factors that are absent in the partner businesses of less successful co-operation models. These factors are:

- The legal form of the venture or the type of co-operation agreement;
- The intensity of the co-operation;
- The size of the co-operation venture;
- The spirit of co-operation; and
- The internal organisational structures.

The legal form

36. The experts interviewed in the framework of the present study are unanimous in saying that „a co-operation venture in the tourism sector without a clear legal basis or a specific co-operation agreement just does not work“. The formalisation of the founding act of a co-operation venture imposes uniform structures and the development of efficient control mechanisms governing the joint activities. Clearly formulated “articles of co-operation” that are binding for all members of the alliance will be perceived as a symbol for the unreserved commitment of each and every partner to the co-operation venture’s objectives and will solemnly underscore the seriousness of the common endeavour und emphasise its efficiency goal.

37. The successful co-operation schemes within the Austrian tourism sector have typically opted for the legal forms of an association or that of a limited company under commercial law (GmbH). The

association type is particularly suited for co-operation ventures with relatively low co-operation intensity and a spirit of co-operation oriented towards specific target groups (for instance the Special Interest Groups within the Austrian Tourist Board). The limited company (GmbH), on the other hand, has proven to be the ideal legal form for co-operation ventures with high co-operation intensity or with a specific destination orientation.

The intensity of the co-operation

38. Commonly agreed and clear priorities for the co-operation venture have to be set. One will either focus on common marketing activities and on the product design involving a clear branding or else on the realisation of cost-saving potentials. In the latter case the partners must be bound together by a legally very tight co-operation agreement. The co-operation scheme will therefore be one of two possible and very distinct types: either a co-operation in the field of marketing, of the traditional type, with a large number of partners and aimed at the constitution of groups of service providers having in common a clearly defined offer, or else an alliance involving only a small group of partners who want to jointly pursue, via a very intensive and tight co-operation, precise cost saving goals.

The size of the co-operation venture

39. A very tight co-operation between establishments in the tourism sector will inevitably bring about very intensive personal contacts and presupposes among all stakeholders a readiness to develop a feeling of togetherness. In a tightly knitted co-operation venture, everybody has to know what and how the other partners think. This is only possible if the co-operation venture does not exceed a certain size that is still digestible for all the partners. The results of the present study show that an intensification of the co-operation will usually have the consequence that the venture will lose some of its partners. A co-operation scheme aiming at a very tight alliance between a small group of partners should therefore never exceed the number of approximately 12 associates.

40. On the other hand, co-operation ventures of the other successful type, the one aimed at joint marketing activities, will have to reach a critical mass in order to be able to adequately position their offer on the market in accordance with the objectives of the alliance. It is this greater number of players that constitutes the added value generated by the alliance as opposed to a business acting alone. One will nevertheless avoid the unreflected recruiting of additional co-operation partners with the only aim in mind to reach a certain minimum number of members. The quality of the joint offer will therefore have to have a clear priority, and in certain cases one will even envisage the possibility of according territorial exclusivity rights. The cooperative ventures surveyed in the framework of the present study and whose success resides in the marketing of a common offer have on average a number of partners that does not exceed a maximum of 50 to 60 members per venture.

The spirit of co-operation

41. Among the successful co-operation ventures operating in the Austrian tourism industry we find two groups of approximately equal size which represent either a spirit of co-operation that is “target group-oriented” or alternatively one that is “destination-oriented”.

42. The partners of successfully acting target group-oriented co-operation ventures (traditional horizontal co-operation in the field of marketing / constitution of groups with “joint offers”) are characterised by the similarity of their mission statement and their product offer as well as by a largely homogenous quality level. These elements are the basis of their joint activities around a common theme or with regard to a specific target group. A minimum number of co-operation partners constituting a critical mass are in such cases an essential prerequisite for a successful positioning of the group in the market and

for the development of a common brand because all these activities will require a certain minimum amount of financial means.

43. The partners in a destination-oriented co-operation model have as their common element shared territorial roots. In most cases a co-operation scheme of this type will clearly be aimed at going beyond joint marketing activities or the designing of a joint product. There will be only few partners who in most cases will maintain very close personal contacts between them. Their venture will be a particularly successful one if they succeed in optimising the cost structure of their companies by focusing on an intensive co-operation in some specific fields of micro-economic management.

The internal organisational structures

44. The essential ingredients for the success of a co-operation venture are: leadership qualities on the company management level, an excellent internal communication, a systematic co-operation development and the presence of certain character traits like for instance trust, integrity, commitment and the identification with a co-operation project.

45. As far as the management of a co-operation venture is concerned, there are, in principle, two alternative solutions. The internal one (the management function is taken over by one of the co-operation partners) and the external one (management by an externally recruited specialist or guidance made available by a consultancy firm or by the regional tourist board). A successful co-operation will be most likely achieved if the venture has at its helm a strong leader who knows how to defend the commonly agreed philosophy of the co-operation venture, how to motivate the co-operation partners and how to create the conditions for a continuous and target-oriented further development of the alliance. Another key element for the success of such a scheme is a precisely planned and well functioning internal communication that helps to foster and to maintain a climate of trust, personal integrity and motivation as well as a feeling of productive togetherness among the partners of the alliance.

ANNEX: BEST PRACTICE EXAMPLES

On the basis of the survey conducted in the framework of the present study, the following pages present a selection of success stories of co-operation ventures within Austria's tourism industry:

1. **Kinderhotels (Kinderhotels Europa Management and Marketing GmbH)**

Characteristic features

1. After a hotel owner had the idea to focus his offer on a particular target group, i.e., families with children, a small group of partner hotels founded in 1989 a registered association that later became the "Kinderhotel" Group (family-friendly hotels). With the help of the Austrian National Tourist Office this co-operation venture grew rapidly and at one point numbered nearly one hundred members. It was then decided to professionalise the organisation and to massively increase its budget by creating a "GmbH" (private limited company) comprising 36 partner hotels. Since then, there has been a steady growth in the number of members (at present there are 58 "Kinderhotels") that comply with very strict quality specifications and have succeeded in developing a well defined trademark. On the basis of transparent qualification criteria there is a categorisation into 3 quality levels. These are marked by 3, 4 or 5 "smileys" and give the guest a clear picture of what to expect in terms of class, infrastructure and quality of service. New applications for membership are carefully scrutinised since the co-operation venture does not strive for a purely numerical growth but rather an expansion of the capacities offered by partner hotels of proven excellence. A special feature of this venture is the great diversity of partnerships with companies outside the hotel industry (distributive trades, print media, food industry, etc.)

Legal and organisational structure

2. The Kinderhotel Group is organised as a "GmbH" (private limited company) with an internal management. The "founding father" of the cooperative venture – although still owner of one of the partner hotels – continues to serve as a full time executive manager of the group as he was able to delegate the management tasks in his own enterprise to his collaborators.

3. At the level below the co-operation management there are usually no direct contacts between the partner hotels. The only link that holds them together is the common trademark. There are nevertheless some creative and committed individuals who try to further develop the branding idea, but all essential innovations have to be presented to the annual assembly and require a consensus.

4. Apart from the annual assembly, the internal communication within the group is based on a monthly newsletter, regular e-mail contacts between the Group management and the partners, the intranet and on meetings around specific themes that offer an opportunity to benefit from the experience of the partners (e.g. "Kinderhotel" project and investment counselling).

Type of co-operation

5. The "Kinderhotel" Group represents a horizontal co-operation between hotels supplemented by a strong lateral network of sales partners. The co-operation venture has a clear orientation towards a specific target group and considers marketing as its main focus ("joint offer group").

Scope of the co-operation venture

- ⇒ Marketing and sales promotion – common trademark/branding;
- ⇒ Public relations/communication;
- ⇒ Sales partnerships with companies outside the tourism sector;
- ⇒ Basic and advanced training for hotel staff; and
- ⇒ Quality management.

2. Landhotels (Landhotels GmbH)

Characteristic features

6. This co-operation venture was initiated by the Economic Chamber of Upper Austria (“Wirtschaftskammer Oberösterreich“) and the Tourism Board of that same province (“Landestourismusverband OÖ“). It started as a registered association bringing together 18 small country hotels and inns situated in the rural areas of the province of Upper-Austria. The co-operation venture was assisted and advised by an external team of consultants. Today the Landhotels are typically Austrian family-run hotels of the 3 and 4 star category offering their guests an up-close experience of the traditions and the folklore that are still very much alive in Austria’s rural areas. Their mission statement includes offering high quality service at a moderate price and treating the guests to the delicacies of an authentic Austrian cuisine. Since the venture already comprises 66 partners from all Austrian provinces, it has been necessary to develop a panoply of specialised themes from which each partner hotel can choose in order to suitably complement its own offer. There are six such modules: Golfing, Wellness, Winter Wonderland, Outdoor-Summer, Seminars in the Countryside, and Cycling and Mountain Biking.

Legal and organisational structure

7. In the year 2000, the original registered association was transformed into a private limited company („GmbH“) that comprises the 16 founding partners (the core team that has not changed since the start of the partnership plus the management team; the latter has always been an external team of full time salaried managers). These are assisted and advised by a small committee of representatives of the partner hotels (3 elected members with a two-years' mandate) which can be considered as an internal management component.

8. There is an annual general assembly in which all full partners are represented and which is complemented by the annual meeting of the licensees who do not have full partner status. This convention lasts one day and a half and gives the partners the opportunity to discuss the joint marketing campaign and to book one or several of the specialised modules. This yearly gathering is also marked by different activities oriented towards information and training as well as social events aimed at promoting the partnership idea. This way of emphasising the idea that „we all belong to the same alliance“ is generally much appreciated by the members.

9. The internal communication within the group is based on annual individual information meetings between each partner hotel and the management team, annual mystery-checks, and regular information given by way of a newsletter.

▶ *Type of co-operation*

10. This is a classic example of a horizontal co-operation between hotels and country inns. It is target-group oriented (one fundamental theme with six possible specialisation modules) and focuses on marketing (“joint offer group”).

▶ *Scope of the co-operation*

- ⇒ Marketing/sales promotion – common trademark/branding; and
- ⇒ Quality management (compliance with a common set of criteria).

3. Flachau Touristik Aktiv (Registered Association)

Characteristic features

11. Under the slogan „Adventure Flachau“, the owners of local hotels, inns and serviced apartments joined forces to enliven Flachau’s summer season. The co-operation venture perceives itself as a summer tourism project for sports-oriented families as well as for adventurous adults for whom the individual charm of their accommodation is important but who nevertheless want to enjoy a kind of club atmosphere. Founded as a registered association in 2003 on the initiative of a local business association (“Wirtschaftsbund”), the alliance comprises today 18 establishments offering accommodation of different categories. The main aim of the co-operation agreement is the elaboration of common guest activity programmes in close coordination with local service providers.

12. To liven up the summer season three different programmes are on offer (Adventure, Incentives and Family); these packages can be booked at a fixed price (regardless of the category of the guest’s accommodation) and comprise several related activities (e.g. sports animation, evening entertainment, Nordic walking & hiking, mountain bike tours, horseback riding, adventure sports like rafting and climbing, etc.). The scheme can be described as an all-inclusive vacation package jointly offered by local providers. The co-operation venture has its own travel agency that uses proprietary reservation software to handle bookings and accounting. For the summer season, the participating establishments must commit themselves to allocate at least half of their room contingents to the packages offered by “Flachau Touristik Aktiv”. This rule enables the venture to evaluate in a very precise manner the individual success of each of the packages offered in the framework of the co-operation and its overall success.

Legal and organisational structure

13. “Flachau Touristik Aktiv” is a registered association consisting only of local accommodation establishments (hotels, serviced apartments, and private bed & breakfast providers) who must commit themselves to a minimum of 5 years membership. In view of the possibility of conflicting economic interests it was decided not to admit other service providers (e.g. sports agencies) as full members of the association; however, additional agreements with these exist in the sense of a vertical co-operation scheme.

14. One of the founding members of the co-operation scheme has been serving as manager since the creation of the venture. Since he is himself a member of the association (as owner of an apartment house), the management can be described as of the internal type. The executive manager receives an expense allowance as financial compensation for his work. He is assisted by a half-time employee whose salary is paid by “Flachau Touristik Aktiv”. Twice a year the association holds a general assembly, and also at least twice a year the group organises a social programme (e.g. hiking tours) to strengthen the ties between the

members. The management informs the members about all activities of the group by way of a periodic newsletter.

Type of co-operation

15. „Flachau Touristik Aktiv” represents a horizontal co-operation between establishments of the accommodation sector. This group has entered into contractual links with different service providers in neighbouring sectors so that a system of vertical co-operation has also been formed. It is destination-oriented with an emphasis on “guest assistance / joint offer design”.

Scope of the co-operation venture

- ⇒ Guest assistance;
- ⇒ Design of a joint offer;
- ⇒ Marketing / sales promotion;
- ⇒ Exchange of information and experience; and
- ⇒ Social contacts and common activities of the group members.

4. Millstättersee Hotel Kooperation (Millstättersee Hotelkooperation GmbH)

Characteristic features

16. In 1997, 14 innovative hotels of the 3- and 4-star categories situated on the shores of Lake Millstätt in Carinthia decided to join their forces under the brand name „MHK – Millstättersee Hotels“ in order to improve their capacity and business infrastructure and thus boost profitability. The particular features of the alliance “MHK – Millstättersee Hotels” are its individual character and flexible structure. The hotels offer the atmosphere of a family-run establishment and provide a wide selection of seasonal offers; among other things they succeeded in enlivening the winter season in the region around Lake Millstätt by entering into a close co-operation with the neighbouring ski resorts. Since more than a year the co-operation scheme has further developed through an additional marketing organisation to which 9 of the partner hotels, which handed over their marketing fully to MHK, belong. Within this group the co-operation is therefore particularly close and covers nearly all sectors of activity of an individual company (product development, joint purchasing department, production and insurances matters, common pool of human resources and joint training of staff, uniform system of accounting and balance sheet presentation in order to be able to compare business indicators, co-operation in the field of project financing and investments, joint quality management, joint use of infrastructure and equipment, etc.). If one compares the performance of the recent years with the times when each of the hotels still acted as a “lonely rider”, one notes a 30% increase in the number of overnights and a 15% improvement in capacity utilisation. The success of the venture becomes even more apparent when looking at the statistics for the whole region during the same period. They show a general stagnation of the number of overnights and a 10% decline in capacity utilisation ratios.

17. Each of the individual partners was able to benefit from the co-operation in a specific way: reduction of liabilities as a result of a financing scheme jointly elaborated by the groups main bankers and the regional authorities responsible for public grants for investment projects, joint infrastructure investments, elaboration of common specifications for the improvement of software and hardware, general increase in sales, optimisation of the cost structure (via a partly centralised purchasing department, a

reduction of personnel costs via a pooling of human resources and of related administrative work, etc.). The net result of all these positive factors was, of course, an improvement of profitability.

Legal and organisational structure

18. The “Millstättersee Hotel Kooperation” was initially founded as a GmbH & Co KG (Limited Partnership with a Limited Company as general partner); after five years the legal form was changed to a GmbH (Private Limited Company) whose associates are the 13 member hotels. An association close to the Government of the Province which manages part of its project promotion and financing activities has been admitted as an additional (minority) partner.

19. Based on the principles of openness and transparency (“full communication in a spirit completely devoid of envy and aggressive rivalry”), the co-operation venture presupposes, of course, a high degree of mutual trust since particularly sensitive economic data of the individual companies are revealed to the whole group. The executive managers are in constant contact with each other and jointly work on the further development of the co-operation venture which may even be transformed someday in a joint management company. In that case, the co-operation alliance would carry out an authentic entrepreneurial function.

Type of co-operation

20. The “MHK” represents a horizontal co-operation of hotels with individual lateral partners from neighbouring economic sectors (e.g. car rental agencies); it is destination-oriented, and the co-operation reaches down to the operational level with the aim of maximising the venture’s savings potential.

Scope of the co-operation

- ⇒ Marketing/sales promotion via a specially founded marketing organisation (MHK-MO);
- ⇒ Product development (seasonal thematic activities);
- ⇒ Guest services / guest assistance and entertainment;
- ⇒ Quality management (goal: ISO certification);
- ⇒ Personnel development (human resources programme, staff training, centralised recruitment – e.g. house technician, housekeeping);
- ⇒ Joint production (centrally managed kitchen as a pilot project);
- ⇒ Financing and investments, uniform system of accounting and controlling; and
- ⇒ Optimisation of cost centres

5. Harmony Hotels (Harmony Hotels Betriebsges.m.b.H. & Co KG)

Characteristic features

21. The Harmony Hotels Group was founded in 1998 as the result of a long lasting loose co-operation of three family-run hotels of the 4-star category in Bad Kleinkirchheim/Carinthia. The partners had realised that the old type of co-operation (mainly consisting of a common design of hotel brochures) was far from fully exploiting the existing synergy potential and that a more intensive co-operation would lead to better results. The three families decided therefore to maintain private ownership of their respective hotels but to have them managed by a joint management company. Since then, a common accounting system for all profit and cost positions has been set up, but the different hotels appear in the balance sheet

as individual profit centres. The common budgeting reaches down to the smallest of details (definition of goods and materials employed by depositing individual recipes in the calculation system of the centrally managed kitchen, specification of a yearly maintenance provision administered via a joint budget for repair work, centrally planned personnel deployment, etc.) and is subject to a strictly binding contractual structure. The quality level of the three hotels is guaranteed by the application of strict quality criteria. Within the group there is a diversification of the offer, which means that each hotel focuses on a different main theme and reaches out to a specific target group („Wellness & Beauty”, “Family & Adventure”, “Fun & Happiness”). The guests are entitled to use the infrastructure of all three partner hotels and will therefore find all their needs and expectations covered by the services offered within the group.

22. So far, the joint management and the uniform organisational structure have resulted in considerable savings, a streamlining of operational procedures as well as major advantages due to common marketing and sales promotion activities. The success of the co-operation becomes evident not only in the annual statement of financial results but also in the periodic controlling reports that consistently show positive trends in the fields of cost management and operational results.

Legal and organisational structure

23. After an intensive planning phase the management contract between the families and the management company (Betriebsges.m.b.H & Co KG = Limited Partnership with a Limited Company as general partner) was initially concluded for a period of five years. After this trial period and take-off phase the wide-ranging joint investments (for instance a large-scale centrally managed kitchen) made in 2003 required an extension of the management contract for a minimum of 10 years (this period corresponding to the fiscal write-off time and the maturity of the financing scheme). The legal structure of the co-operation venture provides for three executive managers with different areas of responsibility (marketing, accounting, kitchen, etc.). At the same time each proprietor is the profit centre manager of his own hotel. Thus the co-operation management can be considered as of the internal type.

24. An essential requirement for this type of co-operation is a tightly-knit contractual basis including all legal and fiscal details, the partners' readiness to act in a spirit of complete openness and transparency, and their absolute willingness to manage the alliance as a joint business venture.

25. The partners / owners meet once a week to discuss current affairs, and additionally once a month in order to take more far-reaching decisions (investments, questions of financing, etc.). Twice per year the budget is adopted for the following season. As the co-operation venture perceives itself as a single business, the responsible managers stay in permanent contact with each other. Staff members can rotate between the establishments and guests may choose on a daily basis in which hotel they want to dine ("half-board sharing").

Type of co-operation

26. The Harmony Hotels constitute a horizontal hotel co-operation venture, which is destination-oriented; the co-operation scheme is based on financial and legal fusion.

Scope of the co-operation

- ⇒ All operational areas; and
- ⇒ Co-operation = enterprise = joint management company.