

Governments and convention centres

Reconciling 'the odd couple'

by Rod Cameron

Recent surveys suggest that almost 70% of convention centres are owned by some level of government. Such a figure doesn't seem particularly significant until you realise it means that a large majority of centre owners are operating in an area far removed from their core function as administrators of public policy, with many challenged to even understand how the industry works. At the same time, governments change, and over time and a number of different

administrations the corporate memory fades, often leaving a situation where the current administration may not even remember with any real precision why it's in this business in the first place.

One of the consequences of this situation is that the economics of convention centres are poorly understood by – if not a complete mystery to – many owners, whose decisions will nevertheless hugely determine how effective their investments in such facilities on behalf of the taxpayer will be. None of this is consistent with the kind of good stewardship that governments are supposed to apply to public assets under their responsibility – particularly when one aspect of that stewardship may require some form of ongoing subsidy or investment.

The situation can be just as difficult from the operator side. Few business operations (other than utilities) are put in this kind of position relative to government, and for good reason: the priorities and instincts of the political process do not lend themselves well to those associated with a market environment, particularly one that has to function in a challenging global business sector. Such a relationship has the potential to create the worst of all worlds, with centres having to deal with a wide range of political issues while also having to perform in an intensely competitive private business environment.

So why are governments typically owners?

Quite simply, because the economics of the industry have created conditions where a 'patient' investor is required, and governments are among the very few that fall into this category. Consider this:

- Industry pricing is based on an understanding by event organisers that their events will deliver



significant economic benefits to a host destination, and they expect recognition for this in the form of attractive facility rental rates. As a result, convention centres often operate for the greater economic benefits they create, rather than being profit centres in themselves.

- When the returns do appear, they will be dispersed widely throughout the host community (based on delegate spending) rather than concentrated in a way that enables an operator to capture them. Therefore, only governments are in a position to capture a part of the overall benefit, through incremental tax returns resulting from convention-related activity in the local economy.
- Major events are booked well in advance, which means something booked today may not deliver a return for five years or more – a period that few private investors can afford to contemplate.
- Convention centres and the events they host also directly address many other areas of government policy – economic, community and professional development, for example – that are of specific value to governments responsible for advancing these, but contribute little to a centre's bottom line and are of no interest whatsoever to a private investor.

These circumstances suggest that this relationship isn't likely to change any time soon. In fact, more governments around the world are recognising the many and varied benefits that having a convention centre can generate, and are rushing to participate in an industry that can attract anything from investment and business development to new visitor revenues and global attention. If anything, this is increasing the need for each centre to compete more effectively and efficiently,

taking business performance pressures to even higher levels. Better than simply identifying the problems inherent in such a relationship is defining the conditions that would serve everyone's interests, giving owners what they need to maintain accountability and the managers what

can get what they need to address their respective concerns:

1. Owners need to clarify objectives for their centres – or perhaps revisit them – understanding that they may not be what they seem or what was appropriate a few years back when the

4. An owner should create a dedicated revenue source that enables the centre to participate in the economic benefits it creates.
5. The owner should create an arms-length relationship that separates politics from the business decisions to the greatest extent possible.

The public and private sectors have always had a challenging relationship, simply because they need to respond to different priorities, agendas and responsibilities. For this reason, most governments have in recent years tried to minimise their engagement in business activities. By acquiring knowledge, clarifying expectations and creating conditions for success, government owners can go a long way towards ensuring an effective operation, even in today's challenging marketplace, while still meeting their obligations for what may be a very significant public investment. **35**

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they need to respond to both the owner's and client's expectations. Here are five pieces of advice we in the industry should be giving to government owners in order to help turn a potentially dysfunctional relationship into one where each party

original investment was made.

2. The government owner needs to get the governance right.
3. Owners need to understand how industry economics work – and set realistic goals based on this knowledge.



About the author

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