

## **CHAPTER 6**

**Commerce and Economic Development Bureau  
Hong Kong Tourism Board**

**Hong Kong Tourism Board:  
Planning, execution and evaluation of marketing activities**

**Audit Commission  
Hong Kong  
25 October 2007**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 49 of the Director of Audit contains 12 Chapters which are available on our website at <http://www.aud.gov.hk>.

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# HONG KONG TOURISM BOARD: PLANNING, EXECUTION AND EVALUATION OF MARKETING ACTIVITIES

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## **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines its objectives and scope.

### **Background**

1.2 The tourism industry is one of the major pillars of the economy of Hong Kong. In 2006, the total visitor arrivals were 25.25 million. Tourism expenditure associated with inbound tourism amounted to \$119.4 billion.

### **Hong Kong Tourism Board**

1.3 To promote inbound tourism, the Hong Kong Tourism Board (HKTB), a government-subsidised body, was founded on 1 April 2001 under the HKTB Ordinance (Cap. 302). It was reconstituted from and replaced the Hong Kong Tourist Association (HKTA — Note 1). According to the HKTB Ordinance, the objects of the HKTB are to:

- (a) endeavour to increase the contribution of tourism to Hong Kong;
- (b) promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;
- (c) promote the improvement of facilities for visitors;
- (d) support the Government in promoting to the community the importance of tourism;
- (e) support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) make recommendations to and advise the Chief Executive of the Hong Kong Special Administrative Region (Chief Executive) in relation to any measures which may be taken to further any of the foregoing matters.

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**Note 1:** *The HKTA was set up as a membership organisation under the HKTA Ordinance (Cap. 302) in 1957. Consequent upon the completion of the Strategic Organisation Review in late 1999, the Board of Management of the HKTA decided to abolish the membership system of the HKTA and reconstitute it into the HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes.*

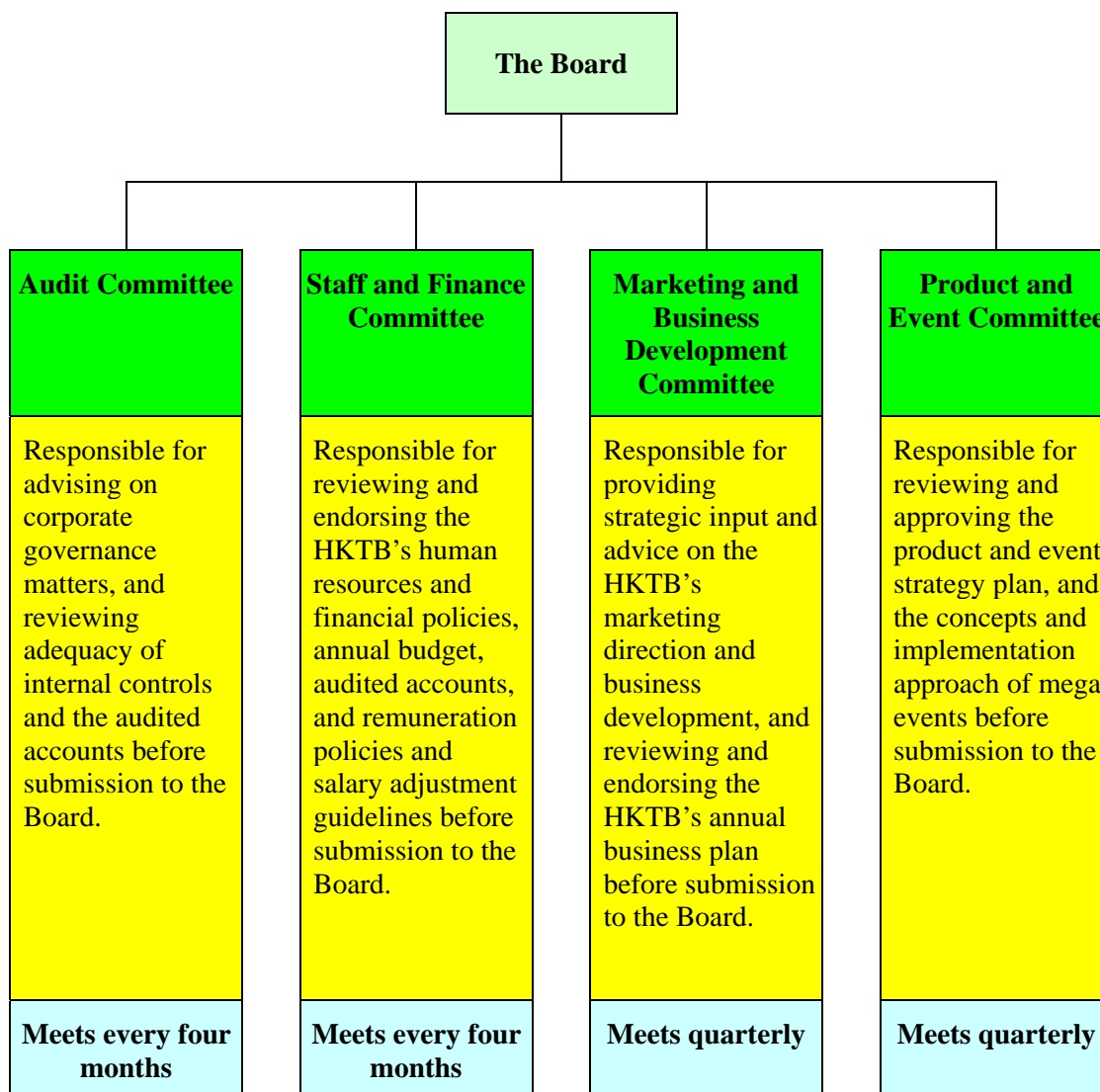
1.4 ***The Board and Committees.*** The Board is the governing body of the HKTB. It consists of 20 members (Note 2) appointed by the Chief Executive (Note 3). Board meetings are held bi-monthly. Four Committees under the Board are responsible for overseeing various aspects of the HKTB's operations, as shown in Figure 1.

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**Note 2:** *According to the HKTB Ordinance, of the 20 Board members, 8 are specified (i.e. two passenger carriers, two hotel operators, one licensed travel agent, one tour operator, one retailer and one restaurant operator). The remaining 12 members are not specified. The Government has appointed the Commissioner for Tourism as one of the 12 members since the establishment of the HKTB in April 2001 (see para. 1.11). As at May 2007, the other 11 members included individuals from different sectors, including marketing research, legal, banking, business, academic and entertainment.*

**Note 3:** *The authority for the Chief Executive to appoint members of the Board and approve the HKTB's Business Plan and Budget was delegated to the Financial Secretary in April 2001. The authority to approve the HKTB's Business Plan and Budget was further delegated to the then Secretary for Economic Development and Labour in July 2004. Following the reorganisation of the Government Secretariat with effect from 1 July 2007, the then Economic Development and Labour Bureau was merged with the then Commerce, Industry and Technology Bureau and was renamed the Commerce and Economic Development Bureau. The delegated authority was changed to the Secretary for Commerce and Economic Development.*

**Figure 1**  
**Committees under the Board**



Source: HKTB records

1.5 According to the HKTB Ordinance, the Executive Director (ED) is the chief administrative officer of the HKTB. The ED and the Deputy Executive Director (DED) are responsible for the efficient conduct and management of the affairs of the HKTB. As at 31 March 2007, the HKTB had an establishment of 327 staff, comprising 226 staff of its Hong Kong Head Office, and 101 staff of its 15 Worldwide Offices (WWOs). The HKTB's organisation chart (extract) as at 30 June 2007 is shown at Appendix A.

## Income and expenditure of the Hong Kong Tourism Board

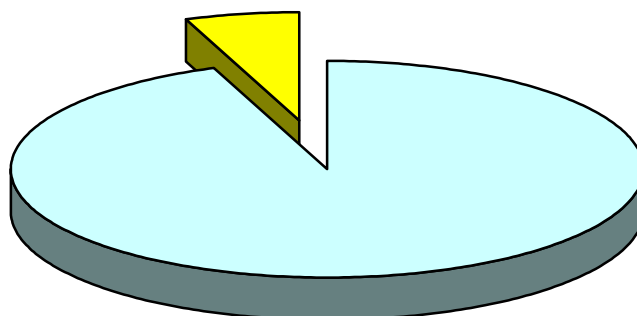
1.6 According to the audited accounts of the HKTB for 2005-06 (all years mentioned hereinafter refer to financial years commencing on 1 April), its income was \$725 million and its expenditure was \$724 million (see Figure 2).

Figure 2

### Income and expenditure of the HKTB for 2005-06

#### (A) Income

Other revenue (e.g. interest  
income and sponsorship):  
\$42 million (6%)

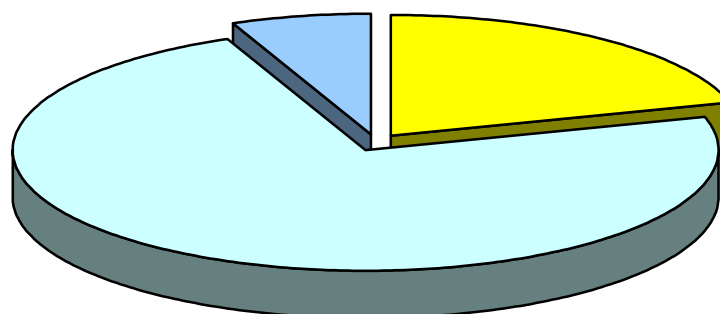


Government  
subvention:  
\$683 million  
(94%)

#### (B) Expenditure

Administration  
expenses:  
\$47 million (6%)

Staff remuneration:  
\$149 million (21%)



Marketing expenditure:  
\$528 million (73%)

Source: HKTB records

1.7 According to the World Tourism Organisation of the United Nations (UNWTO — Note 4), National Tourism Organisations (NTOs — Note 5) with marketing budget of over 10 million euros (about \$110 million) are considered as large-budget NTOs with extensive resources. They apply a much more extensive range of methodologies to the evaluation of marketing activity. The HKTB, with an annual marketing budget of well over \$110 million in recent years, can be regarded as a large-budget NTO (as defined by the UNWTO).

### ***Recurrent subvention and additional funding***

1.8 The Government's recurrent subvention to the HKTB was \$466.21 million for 2005-06 and \$466.15 million for 2006-07 (Note 6). To tie in with the opening of various major tourism facilities in 2005-06, the Government earmarked an additional funding of \$440 million for the HKTB to launch a series of strategic promotions worldwide over a two-year period of 2005-06 and 2006-07. An additional funding of \$30 million was also earmarked for the HKTB to enhance its Quality Tourism Services (QTS) Scheme.

1.9 The promotions funded by the \$440 million additional funding included:

- (a) ***2006 Discover Hong Kong Year (DHKY — \$276 million)***. This campaign showcased the new image of Hong Kong and promoted Hong Kong as a “must-visit” destination in 2006; and

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**Note 4:** *The UNWTO is a specialised agency of the United Nations and the leading international organisation in the field of tourism. It serves as a global forum for tourism policy issues and a practical source of tourism know-how. Hong Kong is an associate member of the UNWTO.*

**Note 5:** *An NTO refers to an autonomous body of public, semi-public or private status, established or recognised by the state as the body with competence at national level for the promotion and, in some cases, marketing of inbound international tourism.*

**Note 6:** *The recurrent subventions provided to the HKTB in recent years were as follows:*

<u>Year</u>	<u>\$ million</u>
2000-01	515
2001-02	506
2002-03	495
2003-04	482
2004-05	474

*Between June 2003 and March 2005, the HKTB received an additional funding of \$379 million from the Government to implement the “Global Tourism Revival Campaign” to revive Hong Kong’s tourism which had been adversely affected by the Severe Acute Respiratory Syndrome outbreak.*

- (b) ***Family and business travellers targeted promotional activities (\$164 million).***  
This campaign targeted business and family visitors, leveraging on mega events and new tourism products to attract them to visit Hong Kong.

Due to the delay in the opening of new attractions and the Avian Flu threat in 2006, the HKTB deferred and scaled down a number of promotional activities. In January 2007, the HKTB obtained the approval of the Government to carry forward the unspent balance of \$70.6 million to 2007-08.

### ***Marketing activities***

1.10 The marketing activities of the HKTB for 2005-06 and 2006-07 covered the following key functions:

- (a) ***Marketing research.*** This covered the marketing research to gauge visitors' needs, feedback and satisfaction, and to compile tourism statistics;
- (b) ***Strategic planning.*** This covered the strategic planning for formulating marketing strategies;
- (c) ***Consumer marketing and communications.*** This was for the promotion of Hong Kong's tourism products, mega events and destination image globally through various marketing tactics such as advertising and consumer promotions;
- (d) ***Tourism marketing.*** This covered achieving top of mind awareness among global trade community, creating a business platform for travel trade to market Hong Kong as a must-visit destination through trade marketing activities including trade shows, trade promotions, trade education and trade communication, branding Hong Kong as an ultimate meeting, incentive, convention and exhibition destination and developing creative packages of Hong Kong itineraries;
- (e) ***Corporate communications and public relations.*** This was for communication with different stakeholder groups (e.g. the media, business chambers and associations and community leaders) to enhance their understanding of the HKTB's promotional strategies and initiatives, hosting of familiarisation visits by overseas media and cooperation with national media organisations in 16 key markets to produce special features/programmes/national report coverage on Hong Kong's new tourism products and to publish travel guides as insertions in magazines and newspapers; and
- (f) ***Destination marketing.*** This was for ensuring visitors' satisfaction and driving their spending in Hong Kong, staging of mega events (e.g. the International Chinese New Year Night Parade (Parade) and the Hong Kong Shopping Festival

(HKSF)), organising experience management programmes, provision of visitor information services and the QTS Scheme.

## **Tourism Commission**

1.11 Under the Commerce and Economic Development Bureau, the Tourism Commission (TC), established in May 1999, is headed by the Commissioner for Tourism. The TC is responsible for formulating and coordinating implementation of policies, plans and strategies for tourism development. At the same time, it leads and coordinates the work of other government bureaux and departments on policies and initiatives which have an impact on tourism development. The TC works closely with the HKTB and other organisations to promote the development of tourism in Hong Kong. It provides advice to the Secretary for Commerce and Economic Development on matters relating to the HKTB and tourism. The Government has appointed the Commissioner for Tourism as a member of the Board since the establishment of the HKTB on 1 April 2001. The Commissioner is also a member of all the four Committees under the Board (see Figure 1).

## **Audit review**

1.12 The Audit Commission (Audit) has recently carried out a value for money audit of the HKTB. The audit findings are contained in two separate reports, as follows:

- (a) HKTB: Corporate governance and administrative issues (Chapter 5 of the Director of Audit's Report No. 49); and
- (b) HKTB: Planning, execution and evaluation of marketing activities (the subject matter of this report).

1.13 Audit's review of the planning, execution and evaluation of marketing activities of the HKTB has focused on the following areas:

- (a) planning of marketing activities (PART 2);
- (b) Worldwide Offices and Representative Offices (PART 3);
- (c) execution and evaluation of mega events (PART 4);
- (d) execution and evaluation of other marketing activities (PART 5); and
- (e) Quality Tourism Services Scheme (PART 6).

Audit has found that there are areas where improvements can be made and has made a number of recommendations to address the issues.

### **General response from the HKTB**

1.14 The **ED, HKTB** has noted the findings of the audit report. He has said that the HKTB will critically examine the various audit recommendations and consider their implementation, taking into account their feasibility and cost-effectiveness. He has also said that:

- (a) as a results-oriented marketing organisation, the HKTB has long championed strategic planning, performance measurement and tracking. Throughout the years, the HKTB has adopted an information-based approach and tailored strategies for different markets;
- (b) the HKTB's existing planning framework clearly reflects the principle of strategic planning. However, in practice, given the volatility of the tourism industry, which is especially sensitive to unforeseen external circumstances, such as natural disasters, epidemics, political unrest, financial turmoil and terrorism, the HKTB needs to build sufficient flexibility in its marketing plans so that it can respond to market changes quickly;
- (c) to ensure the optimal use of resources and adapt to the changing market environment, the HKTB constantly reviews the effectiveness of its marketing programmes, including its mega event strategy;
- (d) in setting key indicators and assessing performance of various marketing campaigns and promotions, consideration must be given to the fact that it takes years to develop and build brand equity, that is, brand awareness, perception and disposition of a travel destination, which may have long-term and short-term effects on travel decisions; and
- (e) the HKTB strives to work hand in hand with all stakeholders of the tourism industry and is committed to continuously improving its engagement/consultation process so as to seek their valuable inputs during the HKTB's business planning process.

### **Acknowledgement**

1.15 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HKTB, the Commerce and Economic Development Bureau and the TC during the audit.



## **PART 2: PLANNING OF MARKETING ACTIVITIES**

2.1 This PART examines the planning of marketing activities by the HKTB.

### **Consultation process for preparing Business Plan and Budget**

2.2 The HKTB management draws up a proposed Business Plan and Budget for submission to the Board for consideration and endorsement in January or February each year. The Board then forwards the draft Business Plan and Budget to the Government for approval under section 17B(1) of the HKTB Ordinance. The consultation process for preparing the Business Plan and Budget (including the marketing strategy and plans) is described below.

2.3 **Consultation within HKTB.** To prepare the annual Business Plan and Budget, the HKTB management in the Head Office and senior staff of its WWOs hold three business planning meetings (BPMs) in each financial year, as follows:

- (a) **First BPM.** This meeting is held in June for reviewing the business for the current financial year which has just started, and identifying issues and opportunities ahead;
- (b) **Second BPM.** This meeting is held in October for a mid-year Business Plan and Budget directional review. It reviews the current year's Business Plan and Budget and prepares the draft Business Plan and Budget of the coming year. The draft Business Plan and Budget will then be submitted for endorsement by the Board in the following January/February; and
- (c) **Third BPM.** This meeting is held around February for sharing the Business Plan and Budget (endorsed by the Board) with the global teams. The Head Office and WWOs will perform more detailed programme planning based on the Business Plan and Budget.

2.4 **Consultation with tourism industry.** Apart from the in-house consultation, in January each year, the HKTB invites representatives of the travel trade (i.e. tour operators, airlines and hotels) to attend a Stakeholders Communication Session to discuss issues relating to Hong Kong inbound tourism. In February/March each year, after the Business Plan and Budget has been finalised, the HKTB holds a forum (i.e. the Hong Kong Tourism Overview) for the tourism industry (the 2007 forum was attended by more than 400 trade representatives) to disseminate information on its marketing and promotion activities for the coming year.

### **Audit observations**

2.5 According to best practices, consultation with the tourism industry is a key to success and should be undertaken whenever possible, particularly when new strategies, brand development and marketing campaigns are being considered. However, before the Business Plan and Budget is finalised, the HKTB only holds a Stakeholders Communication Session for the travel trade. No structured consultation forum is held to gauge the views of the other stakeholders of the tourism industry (e.g. the retail and catering sectors).

### **Audit recommendation**

2.6 **Audit has recommended that the HKTB should consider conducting a formal consultation forum to gauge the views of key stakeholders of the tourism industry before its annual Business Plan and Budget is finalised.**

### **Response from the HKTB**

- 2.7 The **ED, HKTB** agrees with the audit recommendation. He has said that:
- (a) in addition to the existing practice of conducting prior consultation with key travel trade stakeholders, the HKTB has planned to extend the consultation on HKTB's plans and strategies to other trade stakeholders, such as retail and catering industries, as well as relevant academics, starting from 2007-08;
  - (b) the consultation and engagement process would be formalised, such as through regular forums with travel and travel-related industry stakeholders; and
  - (c) after the consultation and engagement process, a summary of the feedbacks gathered will be submitted to the respective Committees of the Board.

### **Marketing strategy**

2.8 According to a paper submitted to the Legislative Council (LegCo) Panel on Economic Services in June 2006 by the HKTB and the then Economic Development and Labour Bureau (EDLB — Note 7) concerning the 2006-07 Business Plan and Budget of the HKTB, the marketing strategy of the HKTB was as follows:

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**Note 7:** *Following the reorganisation of the Government Secretariat with effect from 1 July 2007, the EDLB was merged with the then Commerce, Industry and Technology Bureau and was renamed the Commerce and Economic Development Bureau.*

*Strategic objectives for 2006*

- (a) the HKTB launched the DHKY global marketing campaign in May 2005 to capture the opportunities created by Hong Kong's new tourism attractions, to raise the city's profile internationally, to showcase its new image and to sustain the growth in visitor arrivals in the future;
- (b) the HKTB would continue to capitalise on Hong Kong's existing strengths as a destination, including shopping, dining, the East-meets-West culture, and the contrasts of city and countryside. It would also build on the very popular mega events, including the Parade, the Culture and Heritage Celebration (CHC), the HKSF and the Hong Kong WinterFest (WinterFest). With all these and the city's new attractions, the HKTB would position Hong Kong as a "must-visit" destination with diversified appeal to suit different markets and segments, to attract arrivals from identified high-yield and high potential segments, especially family and business visitors, and to stimulate their spending while in Hong Kong;

*Strategic focus*

- (c) to achieve the above strategic objectives, the DHKY campaign would continue to be the core of the global marketing programmes and activities for 2006-07. On this basis, the HKTB aimed to maintain a balanced portfolio of visitors and thus a healthy growth in arrivals from 16 key markets (see Appendix B); and
- (d) the HKTB had tailored its marketing plans for different markets, based on its extensive market research. It had a balanced portfolio of marketing plans focusing on the 16 key markets which together contributed some 93% of total visitor arrivals to Hong Kong. **To ensure effective investment and marketing, and thus maximise return, these 16 key markets were prioritised into four categories.** These four categories comprised five priority markets, five primary markets, five secondary markets and one emerging market (see Appendix C), based on their current contribution in the portfolio, future potential and strategic importance.

2.9 In September 2006, the HKTB and the EDLB informed the LegCo Panel on Economic Services that the marketing budget (a breakdown of the HKTB's 2006-07 budgeted marketing expenditure by markets had been provided by the HKTB to the Panel in June 2006) was allocated to the markets according to the potential of the markets, the cost of doing business in the markets and the spread of the target segments within the markets, which in turn would affect the cost in reaching them (e.g. the cost of placing TV commercials and print advertisements in the USA was amongst the highest of all regions).

## Audit observations

### *Balanced portfolio*

2.10 An audit analysis of visitor arrivals between 2001 and 2006 is shown at Appendix C. Audit noted that:

- (a) in these six years, total visitor arrivals nearly doubled from 13.73 million to 25.25 million. Visitors from the Mainland had increased by 205% (from 4.45 million to 13.59 million), while visitors from other non-Mainland markets had increased by 26% (from 9.28 million to 11.66 million). The much higher growth rate of visitors from the Mainland was due to the rapid expansion of its outbound travel coupled with policy relaxation unique to the Mainland (e.g. the abolition of visitor quota and the launch of the Individual Visit Scheme — see para. 3.10);
- (b) since 2003, visitors from the Mainland had accounted for more than half (about 54%) of the total arrivals; and
- (c) among the priority markets, during 2001 to 2006, the visitor arrivals from Taiwan had dropped by 10% (from 2.42 million to 2.18 million) and those from Japan had dropped by 2% (from 1.34 million to 1.31 million). According to the HKTB, the drop in visitor arrivals from Taiwan was mainly due to the opening and growth of the SkyPier (Note 8) that enabled visitors to transit to Mainland cities instead of entering Hong Kong. About 20% of visitors from Taiwan, who had been classified as same-day arrivals, became transit passengers who were not counted as visitor arrivals.

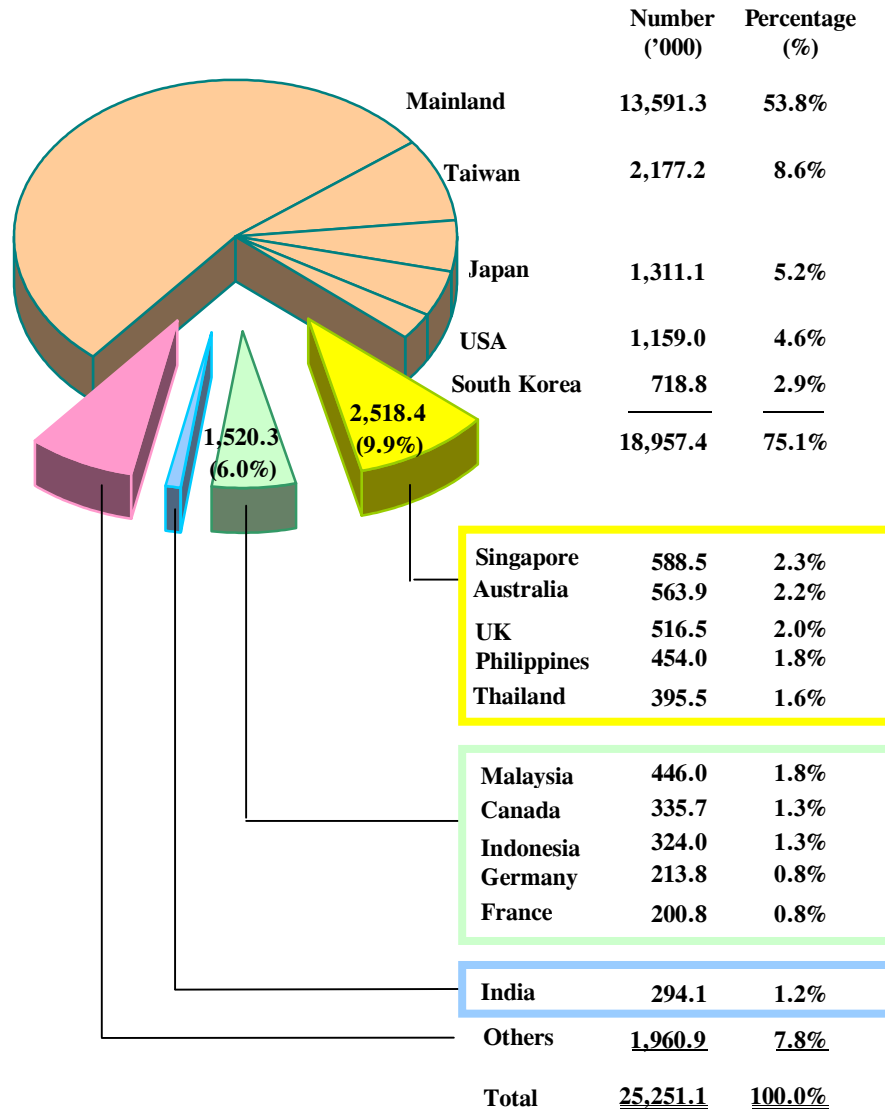
2.11 Audit notes that the HKTB's aim is to maintain a balanced portfolio of visitors and thus a healthy growth from all 16 key markets (see para. 2.8(c)). According to an audit analysis of the 2006 visitor arrivals shown in Figure 3, the five priority markets accounted for 75.1% of the total arrivals (comprising the Mainland (53.8%), Taiwan (8.6%), Japan (5.2%), USA (4.6%) and South Korea (2.9%)). Regarding the other 11 key markets, the visitor arrivals ranged from 2.3% to 0.8% of the total arrivals. Audit considers that the HKTB needs to keep in view the mix of arrivals from different markets, having regard to its aim of maintaining a balanced portfolio of visitors.

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**Note 8:** *The SkyPier, commencing operation in September 2003, provided ferry transfer service between the Hong Kong International Airport and six ports in the Peal River Delta for transit passengers.*

Figure 3

Visitor arrivals to Hong Kong in 2006



- Legend:
- Priority markets
  - Secondary markets
  - Other markets
  - Primary markets
  - Emerging market

Source: HKTB records

*Allocation of marketing budget*

2.12 The approved budget of the HKTB for 2006-07 amounted to \$775 million, of which \$564 million was marketing expenditure (i.e. expenditure directly allocated to the markets, marketing support expenditure incurred in Hong Kong to support worldwide marketing activities and destination marketing expenditure) and \$211 million was staff and office costs. Of the \$564 million budgeted marketing expenditure, \$245 million (43%) was directly allocated to the markets.

2.13 An analysis of the HKTB's 2006-07 budgeted marketing expenditure directly allocated to the markets and the visitor arrivals is shown at Appendix D. Audit noted that:

- (a) the average budgeted marketing expenditure per visitor of different markets varied significantly, ranging from \$3.2 for a Mainland visitor to \$45.4 for a visitor from Germany; and
- (b) the budgeted marketing expenditures of some lower priority markets were higher than those of some higher priority markets. For example, the budget for the UK (a primary market) was \$18.71 million, while that for South Korea (a priority market) was \$14.3 million. Similarly, the budget for Germany (a secondary market) was \$9.72 million which was higher than the individual budgets for three primary markets, namely Singapore (\$7.83 million), Thailand (\$5.65 million) and the Philippines (\$5.49 million).

2.14 In response to Audit's enquiry, the HKTB advised in September 2007 that:

- (a) budget allocation was largely determined by market priority as well as a number of other criteria that governed the need of a reasonable budget for supporting an adequately effective marketing programme. As a result, there were incidences of a lower priority market getting a higher share of budget; and
- (b) the HKTB had been analysing return on marketing expenditure in terms of cost per visitor trend and, for the current year, presented such information to the Board in the Business Plan presentation and documented it in the annual Budgetary Control Report.

2.15 **Audit notes from paragraph 2.13(a) that the marketing expenditure per visitor in a lower priority market (e.g. Germany) was over ten times that for a higher priority market (e.g. the Mainland). In comparison, the per capita spending in Hong Kong by overnight visitors from these two markets was about the same (\$4,600 in 2006). Moreover, marketing expenditures were high in some lower priority markets (see para. 2.13(b)). In the light of these variations, it would be desirable for the HKTB**

to set out the return on marketing expenditure for various markets in its annual **Business Plan and Budget**. This would “ensure effective investment and marketing, and thus maximise return” (see para. 2.8(d)). According to the UNWTO, carrying out a return on investment (ROI) analysis (Note 9) helps an NTO to quantify the return achieved for a specified investment in promotion and marketing. In fact, the HKTB had conducted an ROI analysis to estimate the benefits to be generated from the \$470 million additional funding from the Government (Note 10 and para. 1.8).

### **Audit recommendations**

2.16 For the purpose of strategic planning for the allocation of marketing resources to key markets, Audit has *recommended* that the HKTB should consider:

- (a) regularly reviewing the mix of arrivals from different markets, having regard to the HKTB strategy of maintaining a balanced portfolio of visitors; and
- (b) setting out the ROI for various markets in its annual **Business Plan and Budget** as an objective means for the allocation of marketing resources.

### **Response from the HKTB**

2.17 The ED, HKTB has said that:

- (a) the HKTB has been adopting a balanced portfolio strategy in the past few years. Based on its market research, the HKTB maintains a balanced portfolio of marketing plans focusing on 16 key markets that together contribute some 93%

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**Note 9:** *According to the UNWTO, ROI is a figure arrived at by quantifying what return an NTO achieves for a specified investment in promotion and marketing. It is increasingly common to use ROI calculations to justify the funding of destination agencies by public sector bodies or other sponsoring groups. The ROI may be estimated in monetary terms (the most common measure), visitor numbers, or in some other kinds of measured output (e.g. increase in employment in tourism and increase in the number of out-of-season visitors) depending on the objectives of the promotional investment.*

**Note 10:** *When informing LegCo about the use of the additional funding of \$470 million in June 2005 for the two-year strategic promotion campaign, the HKTB said that, based on its estimate, the marketing campaigns funded by the additional funding would generate 1.2 million additional visitors, 2 million additional nights of stay and \$10.4 billion of additional spending. In terms of ROI, the return would exceed 20 times (i.e. every dollar of investment achieved more than \$20 in return).*

of total arrivals to Hong Kong. Arrival trends and market conditions are closely monitored and promotional strategies adapted to ensure there is healthy growth in arrivals from all key markets. This is a prudent strategy designed not only to balance risks resulting from unforeseen events that may affect certain markets, but also to uphold Hong Kong's international image as Asia's world city, which is crucial to reinforcing perceptions of this cosmopolitan city as a "must-visit" destination. The HKTB constantly monitors the mix of arrivals from different markets and considers the current mix appropriate; and

- (b) the ROI for each market is set out in the HKTB's annual Business Plan and Budget in terms of the four key performance indicators (KPIs), including visitor arrivals and per capita spending, and reviewed twice every year. According to the UNWTO, there is no across-the-board standard and there are various ways of defining and estimating the return, depending on the objectives of the marketing programmes. For example, the return can be estimated in monetary terms, visitor numbers, or in some other kinds of measured output (Note 9 in para. 2.15).



## **PART 3: WORLDWIDE OFFICES AND REPRESENTATIVE OFFICES**

3.1 This PART examines the structure and operation of the WWOs and Representative Offices of the HKTB.

### **Background**

3.2 As at June 2007, the HKTB had 15 WWOs (see Figure 4), with an establishment of 101 staff, set up in the following six regions:

- (a) *the Americas*. The offices were in New York, Los Angeles and Toronto;
- (b) *Europe, Africa and the Middle East*. The offices were in London, Frankfurt and Paris;
- (c) *Australia, New Zealand and South Pacific*. The office was in Sydney;
- (d) *North Asia*. The offices were in Tokyo, Osaka and Seoul;
- (e) *South and Southeast Asia*. The office was in Singapore; and
- (f) *the Mainland*. The offices were in Beijing, Shanghai, Guangzhou and Chengdu.

These WWOs were responsible for performing marketing activities in their regions. Their 2006-07 total budgeted fixed cost was \$81 million, comprising staff cost (\$57 million) and office cost (\$24 million).

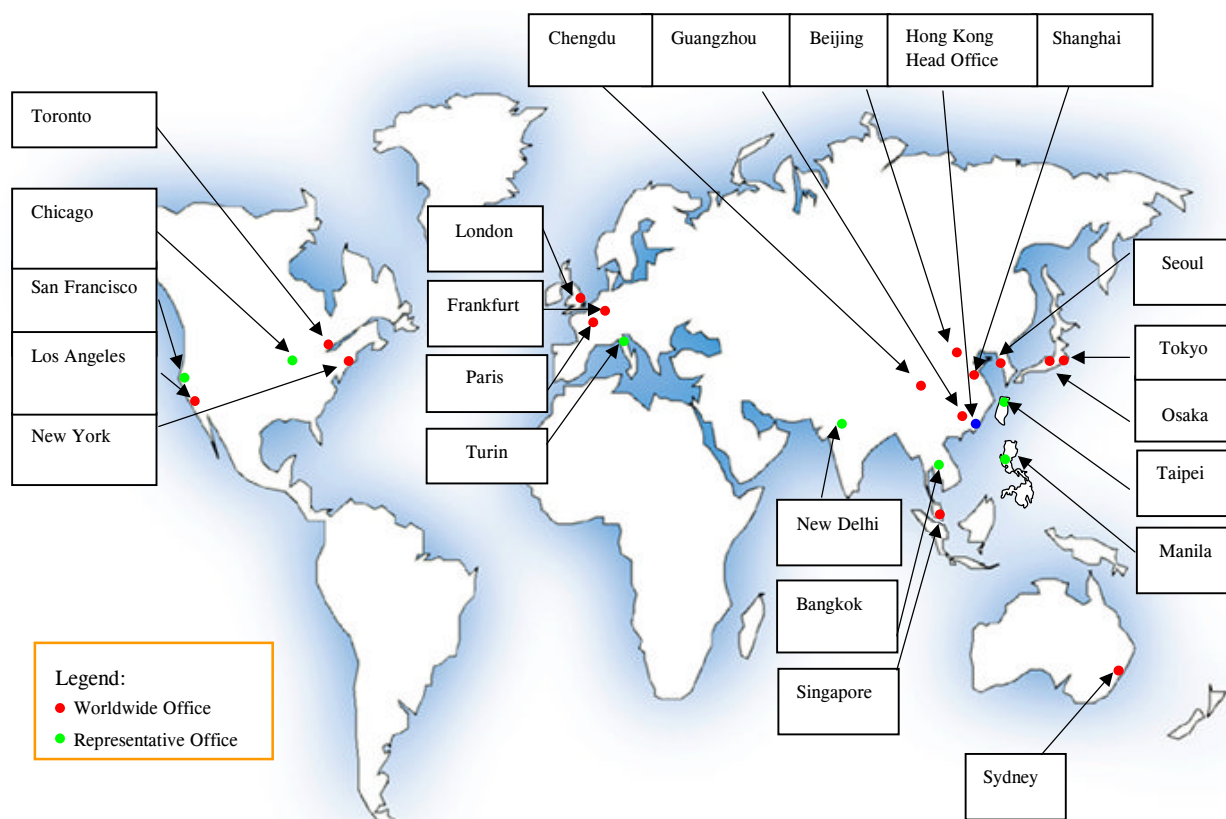
3.3 In addition, as at June 2007, the HKTB had seven Representative Offices (see Figure 4 and Note 11) operated by HKTB appointed agencies. These Representative Offices were in Taiwan, Thailand, the Philippines, India, Italy and the USA (San Francisco and Chicago) and performed marketing activities in these markets. The 2006-07 total budgeted agency fee was \$9.1 million.

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**Note 11:** *In general, Representative Offices are provided with less resources and are more flexible in terms of organisation than WWOs. For example, the 2006-07 budgeted staff and office costs for 15 WWOs were \$81 million. The 2006-07 budgeted agency fee for seven Representative Offices was \$9.1 million.*

Figure 4

Worldwide and Representative Offices  
(as at June 2007)



Source: Audit compilation based on HKTB records

Organisation review of Worldwide Offices

3.4 In late 2002, the HKTB completed an organisation review of the WWOs. The main findings of the review, which were accepted by the Board in January 2003, were as follows:

- (a) the organisation of the WWOs had been trimmed to a minimum and was a baseline scenario. The HKTB would examine whether it was necessary to strengthen the staff force in any area; and
- (b) to cope with market volatility, there should be flexibility to accommodate changes in the organisation of the WWOs by adopting the following principles:

- (i) functional expertise would be provided by the Head Office. The WWOs should focus on sales and marketing, and building relationship with the local tourism trade; and
- (ii) the WWOs should adopt a “hub and spokes” model. Wherever the HKTB had a physical presence, the WWOs would serve as a hub with many spokes penetrating into various markets.

Apart from upgrading the Representative Office in Korea to a WWO in October 2006, the organisation of WWOs had remained largely the same after the review.

### **Audit observations**

3.5 The organisation of the WWOs and Representative Offices is reviewed in the HKTB’s annual business planning process. Audit noted that:

- (a) France and Germany were secondary markets (classified as such since 2002 and 2003 respectively). The visitor arrivals from France and other markets under the France WWO were less than those from Thailand or the Philippines. Similarly, the visitor arrivals from Germany and other markets under the Germany WWO were less than those from the Philippines (Note 12). Audit noted that Thailand and the Philippines were primary markets (classified as such since 2003 and 2004 respectively). However, WWOs were set up in France and Germany, whereas there were only Representative Offices in Thailand and the Philippines;
- (b) Canada had been classified as a secondary market since 2003 and its visitor arrivals (including arrivals from markets under the Canada WWO) were comparable to those from Thailand or the Philippines (Note 13). However, a WWO was set up in Canada; and

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**Note 12:** *In 2006, the visitor arrivals from Thailand and the Philippines were 396,000 and 454,000 respectively, while the visitor arrivals from Germany and France were 214,000 and 201,000 respectively. The HKTB advised Audit in September 2007 that the Germany WWO also covered marketing activities in the Netherlands, Austria, Switzerland and Russia. Therefore, the visitor arrivals from the markets under the Germany WWO’s purview in 2006 was 408,000. The France WWO also covered marketing activities in Belgium, Spain and Portugal. Therefore, the visitor arrivals from the markets under the France WWO’s purview in 2006 was 305,000.*

**Note 13:** *The arrival figures from Thailand and the Philippines in 2006 were 396,000 and 454,000 respectively. The arrival figure from Canada in 2006 was 336,000. The HKTB advised Audit in September 2007 that the Canada WWO also covered marketing activities in South America. Therefore, the visitor arrivals from the markets under the Canada WWO was 418,000 in 2006.*

- (c) in Europe, three WWOs were set up in the UK, Germany and France, and a Representative Office was set up in Italy, which is a non-key market. However, no office was set up in the Middle East (Note 14), despite the fact that the Middle East had recorded a high growth rate in terms of visitor arrivals and per capita spending of visitors (Note 15).

3.6 In response to Audit's enquiry, the HKTB informed Audit in September 2007 that:

- (a) the HKTB recognised the importance of regularly reviewing its WWOs and Representative Offices so as to tie in with the latest market trends and the HKTB's marketing strategies;
- (b) the WWOs in France and Germany were also responsible for handling marketing activities in other French-speaking (e.g. Belgium) and German-speaking (e.g. Austria) markets in Europe respectively. The total market size under their respective purview was comparable to those of Thailand and the Philippines;
- (c) the markets of Thailand and the Philippines were managed by the HKTB's regional office in Singapore. Recognising their importance and growth potential, the HKTB had appointed representatives in these two markets and considered the current set-up adequate;
- (d) the WWO in Canada also handled marketing activities in South America. The total market size of the areas covered by the Canada WWO was comparable to those of Thailand and the Philippines; and

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**Note 14:** *As at March 2007, two Representative Offices were set up in Turkey and Israel to perform marketing activities there. In April 2007, due to budget constraints, the HKTB terminated the agency contracts for the two Representative Offices. The WWO in the UK performed marketing activities for the whole Middle East.*

**Note 15:** *The visitor arrivals from and per capita spending of visitors of the Middle East from 2004 to 2006 were as follows:*

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Visitor arrivals	91,000	121,000	150,000
Per capita spending of visitors (\$)	5,571	6,087	6,071

- (e) on the Middle East market, the HKTB had noticed the robust performance in recent years. Given the long-term cost implications of setting up an overseas office, the HKTB would carefully monitor the growth trend and long-term potential of the Middle East, and assess the need for setting up an office in the region.

3.7 Audit notes that the HKTB had not laid down guidelines and criteria for establishing WWOs and Representative Offices. Because market conditions always change over time, to help assess whether the existing set-up is consistent with the HKTB's stated aim of achieving a balanced portfolio of visitors and other strategic objectives, the HKTB may consider laying down such guidelines and criteria.

### **Audit recommendations**

3.8 **Audit has recommended that the HKTB should consider:**

- (a) **laying down guidelines and objective criteria for determining the establishment of WWOs and Representative Offices in overseas markets; and**
- (b) **periodically review the set-up of WWOs having regard to relevant pre-determined criteria.**

### **Response from the HKTB**

3.9 The **ED, HKTB** has said that the HKTB is committed to constantly reviewing the establishment of its WWOs and Representative Offices so as to take into account the changing market conditions and to tie in with its marketing strategies. He has also said that:

- (a) in determining the establishment of WWOs or Representative Offices, the HKTB takes into consideration various factors and criteria, such as the outbound growth potential, visitor arrival growth trend and local market environment (e.g. social, economic, political and air capacity). The HKTB closely monitors the development of the source markets and reviews the need to establish a WWO or Representative Office. Recommendations will be submitted to the Board for consideration and approval; and
- (b) the establishment of a Representative Office in Russia in August 2007 shows that the HKTB reacts proactively to market development and opportunities as they arise.

## Hong Kong Tourism Board Worldwide Offices in the Mainland

3.10 In July 2003, the Individual Visit Scheme (IVS — Note 16) was introduced. Visitor arrivals from the Mainland increased from 6.8 million in 2002 to 13.6 million in 2006, and since 2003, have accounted for over half of the total visitor arrivals to Hong Kong. As at June 2007, there were 49 IVS cities (see Appendix E).

### Audit observations

#### *Need to review staff establishments of WWOs in the Mainland*

3.11 Despite the high growth rate of visitor arrivals from the Mainland since 2003 and the increased number of IVS cities, the staff establishments of the four WWOs in the Mainland had remained nearly the same, as shown in Table 1. In particular, although the Guangzhou WWO had under its purview 26 (out of the total 49) IVS cities which contributed about 88% of the total 6.7 million IVS visitors in 2006, it had only an establishment of six staff in 2006-07. On the other hand, the Beijing WWO and the Shanghai WWO had establishments of eight and seven staff respectively, despite the smaller numbers of IVS cities under their purview (6 IVS cities for the Beijing WWO, and 10 IVS cities for the Shanghai WWO). **Audit considers that the HKTB needs to review the staff establishments of WWOs in the Mainland, having regard to the number of IVS cities and their market potential.**

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**Note 16:** *The IVS, introduced under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement, was first implemented on 28 July 2003. Initially, it allowed residents in Dongguan, Zhongshan, Jiangmen and Foshan in the Mainland to visit Hong Kong two times within a period of three months and stay in Hong Kong each time up to seven days. The Scheme has since been extended to other Mainland cities.*

**Table 1**  
**Staff establishments of WWOs in the Mainland**  
**and IVS cities under their purview**

WWO	2003-04		2004-05		2005-06		2006-07	
	Number of staff	IVS cities under purview	Number of staff	IVS cities under purview	Number of staff	IVS cities under purview	Number of staff	IVS cities under purview
Beijing	8	1	8	2	9	4	8	6
Shanghai	5	1	5	7	6	8	7	10
Guangzhou	5	14	5	24	6	24	6	26
Chengdu	1	0	1	1	3	2	3	7
<b>Total</b>	<b>19</b>	<b>16</b>	<b>19</b>	<b>34</b>	<b>24</b>	<b>38</b>	<b>24</b>	<b>49</b>

Source: HKTB records

*Need to set out strategies for IVS cities not classified as high potential cities*

3.12 In the Marketing Plan for the Mainland under its 2004-05 Business Plan and Budget, the HKTB classified 24 Mainland cities as high potential cities, which were further divided into core, growth and emerging cities (Note 17). In the 2006-07 Business Plan and Budget, the number of high potential cities increased to 30 (the same in 2007-08). Details of these 30 cities are shown in Table 2 and their geographical locations are shown in Figure 5.

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**Note 17:** *According to the HKTB, the classification was based on its study on the market potential of 22 provinces, four municipalities, five autonomous regions and 283 cities in the Mainland. Market potential of the provinces and cities was evaluated for their current stage of development and growth potential based on secondary macroeconomic and industry information. 24 key cities, which were identified and prioritised according to the study results, were segmented into three clusters, namely the Pearl River Delta, Yangtze River Delta and Bohai Rim based on their geographical proximity, similarity in stage of development, cultural background and travel aspirations.*

**Table 2**  
**High potential cities in the Mainland for 2006-07**

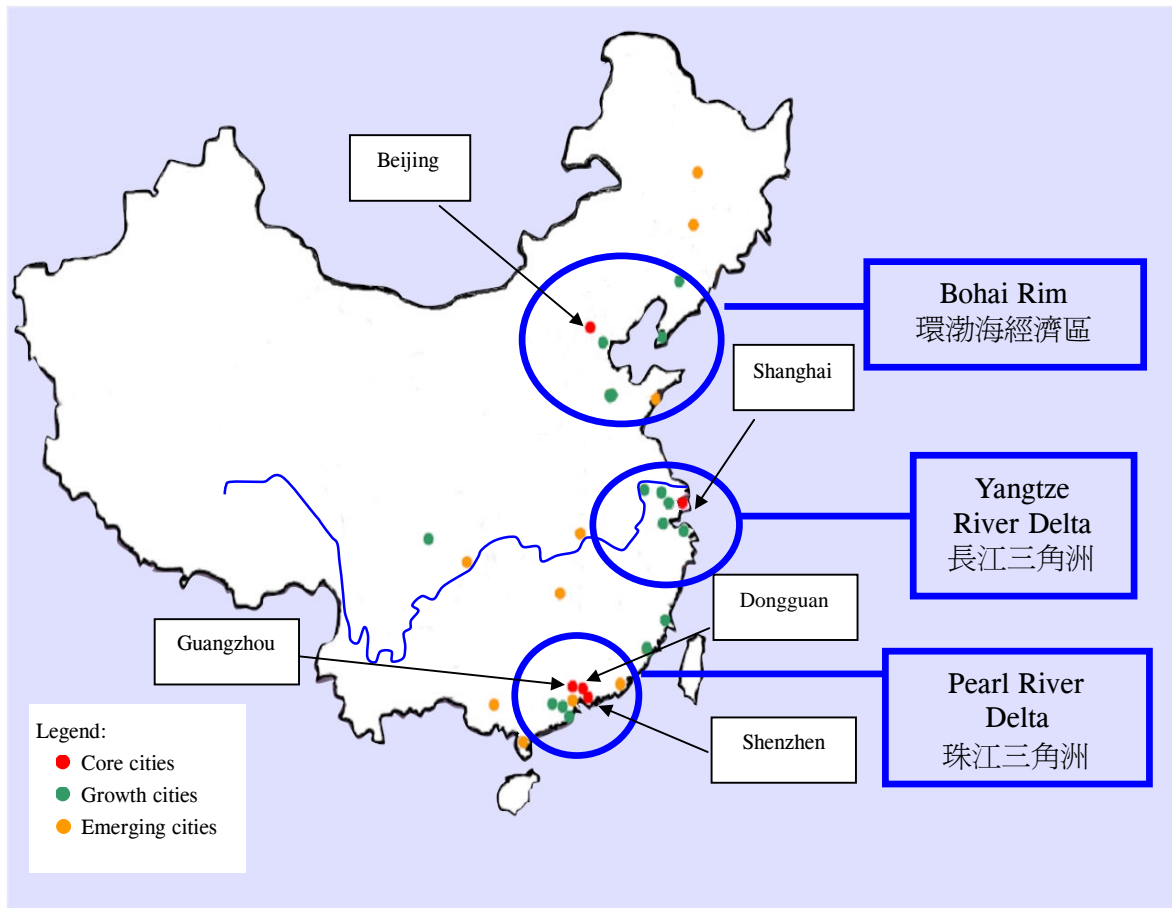
<b>HKTB classification and strategy</b>	<b>Pearl River Delta and Guangdong</b>	<b>Yangtze River Delta</b>	<b>Bohai Rim and North East</b>	<b>Others</b>
<b><i>Core cities: 5</i></b>				
To sustain volume from these core cities, protect and continue to grow outbound share	Dongguan Guangzhou Shenzhen	Shanghai	Beijing	
<b><i>Growth cities: 15</i></b>				
To increase penetration in these high growth cities and further grow outbound share	Foshan Zhongshan Zhuhai	Hangzhou Nanjing Ningbo Suzhou Wuxi	Dalian Jinan Shenyang Tianjin	Chengdu Fuzhou Xiamen
<b><i>Emerging cities: 10</i></b>				
To ride alongside the outbound growth exploring opportunities as these cities develop	Jiangmen Shantou Zhanjiang		Changchun Harbin Qingdao (Note)	Changsha Chongqing Nanning Wuhan

*Source: HKTB records*

*Note: Harbin and Qingdao were not IVS cities.*



**Figure 5**  
**Geographical locations of the 30 high potential cities in**  
**the Mainland for 2006-07**



Source: HKTB records

3.13 Audit noted that specific marketing strategies and programmes for the 30 high potential cities were laid down in the Business Plan and Budget. Among the 30 high potential cities, except Qingdao and Harbin, 28 were IVS cities. Of the total 49 IVS cities (see Appendix E), 28 were classified as high potential cities. Regarding the 21 IVS cities not classified as high potential cities, the marketing strategies for them were covered only in the IVS programme laid down in the Business Plan and Budget for all IVS cities, as follows:

- (a) to build awareness and provide timely information on IVS application through programmes with strategic partners;
- (b) to collaborate on tactical promotions with the travel trade and the new attractions in Hong Kong to convert interest into actions in the IVS cities; and

- (c) to conduct IVS roadshows to target the high-end young segments who were more receptive to IVS travel mode.

3.14 According to the Policy Agenda of the 2007-08 Policy Address, the Administration will invite the HKTB to strengthen its marketing efforts in provinces outside Guangdong province. **Audit considers that the HKTB needs to consider developing specific marketing strategies and programmes for selected cities of the 21 IVS cities (which include 9 IVS cities outside Guangdong province) not yet classified as high potential cities (see Appendix E).**

### **Audit recommendations**

3.15 **Audit has recommended that the HKTB should formulate marketing plans and strategies to take account of the gradual extension of the IVS to the Mainland cities. In particular, the HKTB should:**

- (a) **conduct regular reviews of the staff establishments of the WWOs in the Mainland, having regard to the number of IVS cities and their market potential;**
- (b) **for those IVS cities not yet classified as high potential cities, consider whether specific marketing strategies and programmes need to be developed for them; and**
- (c) **in view of the rapid expansion of the economy of the Mainland, conduct regular reviews of the market potential of selected Mainland cities, including all IVS cities.**

### **Response from the HKTB**

3.16 The ED, HKTB has said that the HKTB has formulated comprehensive marketing plans and strategies for the Mainland based on regionalisation and prioritisation. As far as staffing for the WWOs is concerned, this is based on operational needs, which warrant increase or decrease in the number of staff for each office. He has also said that:

- (a) the marketing plans and strategies for the Mainland are regularly reviewed along with the staffing requirements, and adjusted to cope with the latest market changes and development, such as the progressive extension of IVS cities. The HKTB has been conducting regular review of the staff resources of the WWOs in the Mainland, and will reallocate resources or adjust headcount, if justified, with approval from the appropriate authority;

- (b) for Beijing and Shanghai, which are of strategic importance both for commercial and political reasons, more staff are located in the WWOs of these two cities. They are for maintaining relationship with travel trade partners and government bodies (both central and city levels) in the capital, and for planning nationwide programmes with the HKTB's cooperating partners, most of which have regional operations in either city;
- (c) the marketing strategies and programmes for the 30 high potential cities, as well as for all IVS cities, including the 21 cities not classified as high potential cities, were covered in the HKTB's annual Business Plan and Budget;
- (d) although there is a greater number of IVS cities under the purview of the Guangzhou WWO, many cities in the Guangdong province are densely populated and are in close proximity, resulting in spill-over effects of the marketing and promotions conducted in selected cities; and
- (e) the HKTB has been conducting regular reviews and tracking closely the market development in the Mainland, and will adjust its marketing strategies as is deemed necessary in the light of changes in the market potential of selected IVS and other Mainland cities.

### **Visitor information and service centres in the Mainland**

3.17 In October 2004, the HKTB decided in principle to open two visitor information and service (VIS) centres, one in Beijing and another in Shanghai as part of the strategies to leverage on the IVS. According to a survey conducted by the HKTB, IVS travel appealed more to people with higher income in Beijing and Shanghai who were more sophisticated, had more outbound travel experience and were less price sensitive. To further exploit the potential for IVS travel beyond the high-end repeated visitor segment, the HKTB planned to set up VIS centres in high traffic popular consumer districts to increase the awareness of Hong Kong as a travel destination and to provide information on latest and upcoming activities in Hong Kong.

3.18 In June 2005, the HKTB informed the LegCo Panel on Economic Services that VIS centres would be set up in Beijing and Shanghai, which could serve a total of about "one million visitors" each year. (The HKTB informed Audit in September 2007 that each of the two VIS centres could serve 0.5 million visitors a year.) In June 2005, a VIS centre was opened in Beijing. As of September 2007, the VIS centre in Shanghai had not yet been set up.

## Audit observations

3.19 In 2006-07, the operating cost for the Beijing VIS centre was \$0.9 million. The visitors served were about 33,000 in 2006 (see Table 3 below), a figure well below the 0.5 million-target (see para. 3.18). With the increasing use of the Internet as an easy and convenient way of obtaining travel information, the need for a VIS centre may not be as great. In Audit's view, the HKTB may need to review the low utilisation of the Beijing VIS centre and re-examine the need for setting up VIS centres in Beijing and Shanghai.

**Table 3**

**Number of visitors served by the Beijing VIS centre  
(2005 to 2007)**

<b>Year</b>	<b>2005 (June to December)</b>	<b>2006</b>	<b>2007 (January to June)</b>
Number of visitors served (Note 1)	19,945	32,836	10,229 (Note 2)

Source: HKTB records

Note 1: This includes the number of walk-in visitors served, telephone enquiries and e-mail enquiries.

Note 2: According to the HKTB, the utilisation of the VIS centre had dropped because the shopping centre where the centre was located was under renovation from January to March 2007. In April and May 2007, the centre was closed due to expiry of the tenancy agreement. The centre was reopened at another location in June 2007.

## Audit recommendations

3.20 **Audit has recommended that the HKTB should:**

- (a) **review the reasons for the low utilisation of the Beijing VIS centre and take measures to improve its utilisation;**
- (b) **consider whether the Beijing VIS centre could be scaled down in view of the low utilisation; and**
- (c) **review the need for setting up the VIS centre in Shanghai, taking into account the low utilisation of the Beijing VIS centre.**

## Response from the HKTB

- 3.21 The **ED, HKTB** agrees with the audit recommendations. He has said that:
- (a) the HKTB has reduced the size of the Beijing VIS centre from 21 square metres to 9 square metres following its relocation in June 2007. The HKTB considers that the VIS centre is of strategic importance in maintaining Hong Kong's market presence and awareness in the capital city of Beijing, and will continue to take measures to improve its utilisation; and
  - (b) the HKTB already shelved the idea of establishing a VIS centre in Shanghai in early 2006. The HKTB will continue to monitor the market development and revisit such need as and when appropriate.

## PART 4: EXECUTION AND EVALUATION OF MEGA EVENTS

4.1 This PART examines the execution and evaluation of mega events organised by the HKTB in Hong Kong.

### Mega events

4.2 Since April 2001, the HKTB had organised a number of mega events (Note 18), some using ad hoc non-recurrent funding from the Government. In 2006-07, the HKTB staged six mega events. These events aimed at showcasing the core strengths of Hong Kong in shopping and dining, and bringing out its culture and heritage for the benefit of enhancing visitor experiences, hence driving new and repeat arrivals and reinforcing the new and exciting image of Hong Kong. According to the HKTB, the mega events could increase the appeal and awareness of Hong Kong as a diversified tourist destination and provide valuable opportunities for the local tourism-related trade (e.g. retailers and restaurant operators) to ride on to attract more business.

4.3 Some \$111 million of the \$440 million additional funding (see para. 1.8) was earmarked for staging mega events in 2005-06 and 2006-07. The total expenditure for staging six mega events in 2006-07 amounted to about \$76 million (\$60 million from the additional funding and \$16 million from the recurrent subvention). The details are shown in Table 4 below.

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**Note 18:** *In response to a LegCo Member's enquiry, in May 2005 the Administration provided a breakdown of the HKTB's expenditure for staging mega events from 1998-99 to 2003-04. For example, the actual expenditure for some mega events held in 2003-04 was as follows:*

<u>Event</u>	<u>Actual expenditure</u> <u>(\$ million)</u>
<i>Best of the Best Culinary Awards</i>	2.1
<i>Mid-Autumn Lantern Celebration</i>	9.8
<i>WinterFest</i>	10.4
<i>Hong Kong Super Draw</i>	18.7
<i>Parade</i>	16.5

**Table 4**  
**Mega events held in 2006-07**

Event	Event period	Expenditure		
		Recurrent subvention (\$ million)	Additional funding (\$ million)	Total (\$ million)
Culture and Heritage Celebration	20/4/2006 — 5/5/2006	—	5.3	5.3
Hong Kong Shopping Festival	24/6/2006 — 31/8/2006	13.4	10.1	23.5
Mid-Autumn Lantern Celebration (MALC)	30/9/2006 — 15/10/2006	—	10.7	10.7
Best of the Best Culinary Awards (BOB)	9/10/2006 — 10/10/2006	2.4	—	2.4
WinterFest	24/11/2006 — 1/1/2007	—	12.8	12.8
Parade	18/2/2007	—	21.4	21.4
<b>Total</b>		<b>15.8</b>	<b>60.3</b>	<b>76.1</b>

*Source: HKTB records*

4.4 For 2007-08, there would be no ad hoc funding (apart from the unspent amount of \$70.6 million carried forward to 2007-08 — see para. 1.9) for staging mega events. The HKTB therefore needed to prioritise the events to be staged in 2007-08.

#### *Comments of the Committees*

4.5 At the Marketing and Business Development Committee meeting held in November 2006, the HKTB management proposed not to hold the Parade in 2007-08. The management also proposed to drop the CHC and the MALC due to budget constraint. The Committee was informed that the Parade was more for image building. There was no permanent route for the Parade which was relatively less effective than the HKSF and the WinterFest.

4.6 At a Product and Event Committee meeting held in January 2007 to discuss the HKTB's strategy for mega events for 2007-08 and beyond, the HKTB management, taking the budget situation into consideration, proposed to:

- (a) continue three mega events (the HKSF, the BOB and the WinterFest) in 2007-08; and
- (b) drop the remaining three events (i.e. the CHC, the MALC and the Parade). The HKTB management said that the Parade had a high set-up cost, low ROI and no permanent route. The HKTB management could use a different approach to promote the culture of celebrating the Chinese New Year in Hong Kong.

4.7 The Product and Event Committee agreed to drop the CHC and the MALC but decided that the Parade should continue. The Committee considered that:

- (a) mega events were an integral part of the HKTB's marketing efforts. They were strategically important for maintaining Hong Kong's competitiveness all year round;
- (b) mega events should be funded under recurrent budget because the HKTB could not promote mega events based on unstable funding, as planning and lead-time were required for marketing; and
- (c) as a longer term issue for obtaining stable and consistent funding from the Government for staging mega events, the HKTB should advise the Government the effectiveness of mega events substantiated by trade feedback, with justifications and support from third parties.

4.8 In accordance with the direction of the Committee, the HKTB management revised the 2007-08 budget.

4.9 In the 2007-08 revised budget, an additional provision was made for the Parade. The budget for the HKSF was reduced mainly by scaling down the anchor event and the spending stimulation programme (e.g. the Lucky Draw was dropped because, based on survey results, it was not the key deciding factor in attracting visitor arrivals). The budgets for the BOB and the WinterFest remained unchanged.



## Audit observations

4.10 In the past few years, mega events were mainly fund-driven. Audit notes that the HKTB is now conducting a review of the mega events in order to advise the Government on the long-term issues relating to stable and consistent funding for staging mega events (see para. 4.7(c)). **In view of the significant amounts involved for organising mega events, Audit considers that the HKTB needs to finalise the review at an early date. There is also a need for the HKTB to take into account the review results in enhancing its strategy on organising mega events.** In particular, the following factors need to be considered:

- (a) ***Setting targets and periodically reviewing performance against targets.*** To help evaluate the mega events, targets need to be set for the outcomes of the events. The HKTB needs to continue to set targets for KPIs and assess, at different times, the extent to which these targets are achieved; and
- (b) ***Obtaining sponsorship.*** As mega events bring direct benefit to tourism-related businesses (e.g. airlines and hotel operators), the HKTB needs to continue obtaining more sponsorship from the private sector. In 2006-07, the HKTB had received sponsorship fees of \$5.8 million for the mega events.

4.11 Audit examined the execution and evaluation of three mega events in 2006-07. The total expenditure for staging these three mega events amounted to \$57.7 million. The findings are reported as follows:

- (a) the Hong Kong Shopping Festival (see paras. 4.12 to 4.19);
- (b) the WinterFest (see paras. 4.20 to 4.24); and
- (c) the Parade (see paras. 4.25 to 4.36).

## Hong Kong Shopping Festival

4.12 The HKTB had staged the HKSF since 2002. The objectives of the HKSF were:

- (a) to promote Hong Kong's diverse shopping experience so as to reinforce the city's reputation as a "shopper's paradise" in the region;
- (b) to create a business platform for the travel, retail and dining sectors; and
- (c) to stimulate spending of both visitors and local residents.

4.13 The 10-week 2006 HKSF began on 24 June 2006 and ended on 31 August 2006 with the participation of more than 8,000 retail and dining merchant outlets (Note 19). According to the HKTB, the 2006 HKSF generated a total publicity value of \$345 million for Hong Kong. The total expenditure for staging the 2006 HKSF amounted to \$23.5 million. The key elements included the Lucky Draw, advertising and promotion of the HKSF and an anchor event (the Aqua Fantasia multimedia water show).

### **Audit observations**

#### *Performance targets not fully met*

4.14 The HKTB commissioned a research company to conduct a tracking survey to evaluate the effectiveness of the 2006 HKSF. Key findings of the survey are shown in Table 5.

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**Note 19:** *For participation in the HKSF, the merchants should be registered with the HKTB as “Tourism Services Providers”. The merchants undertook to:*

- (a) provide shopping/dining offers in the form of any discount, gifts or other specials during the festival period;*
- (b) provide logistic support for the Lucky Draw and display HKSF promotion materials for customers’ identification; and*
- (c) support late-night shopping/dining during the period covered by the HKSF.*

**Table 5**  
**Key survey results of the HKSF**

4 key performance indicators	2005 HKSF	2006 HKSF	
	Actual	Target	Actual
Total visitor arrivals during event period	4.6 million	5.3 million	<b>4.9 million</b>
Event affected the decision to visit Hong Kong	23%	23%	29%
Overall event satisfaction (Note 1)	7.2 points	7.4 points	7.6 points
Intention to revisit Hong Kong for similar events	65%	65%	73%
<b>9 other key findings (Note 2)</b>			
Main purpose of visit (for participating in HKSF)	2%	—	4%
Main purpose of visit (tour/sightseeing/vacation)	44%	—	49%
Impact on extending the length of stay in Hong Kong	6%	—	6%
Awareness of the event before coming to Hong Kong	40%	—	46%
Awareness of HKSF before going to shopping/dining locations	40%	—	50%
Purchased at participating shops	93%	—	95%
Dined at participating restaurants	41%	—	21%
Intention of visiting Hong Kong for vacation in the future	88%	—	94%
Intention of recommending Hong Kong as a travel destination to friends and relatives	90%	—	93%

Source: HKTB records

Note 1: A 10-point system was used in which 10 was the highest level of satisfaction and 1 was the lowest.

Note 2: No targets were set for these areas under the 2006 HKSF.

4.15 As shown in Table 5, the tracking survey mainly focused on 13 key areas concerning visitors' awareness, participation and satisfaction, and the impact of the 2006 HKSF. Performance in most key areas had improved when compared with those of last year. The HKTB had set performance targets for four areas and did not meet one of the four targets. **Audit considers that the HKTB needs to ascertain the reasons for not meeting the target and take measures to improve the event in the future.**

4.16 With regard to the remaining nine key areas where the HKTB had not set targets, Audit noted that:

- (a) 4% of the respondents indicated that their main purpose of visit was for the 2006 HKSF (Note 20);
- (b) 6% of the respondents indicated that they would stay longer in Hong Kong; and
- (c) according to the tracking survey, less than half (46%) of the respondents were aware of the HKSF before they arrived in Hong Kong. According to a survey conducted on departing visitors at various immigration control points, less than 30% of the respondents were aware of the HKSF before they arrived in Hong Kong.

These figures suggest that there is room for improving similar events in future.

#### ***2006 HKSF anchor event***

4.17 As an anchor event to the 2006 HKSF, the HKTB appointed an overseas contractor (Contractor X) to stage a show called "Aqua Fantasia" at Tsim Sha Tsui (see Photograph 1) from 24 June 2006 to 31 August 2006 (Note 21). Because Contractor X developed and owned the proprietary technology (Aqua Graphic Vision) for the show, in April 2006, the HKTB decided to invite a single tender. On 14 June 2006 the HKTB awarded a contract in the sum of \$3.45 million to Contractor X.

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**Note 20:** *According to the UNWTO, one of the measurable outcomes of a mega event is to establish the proportion of people whose main purpose of a trip to the host city is the event.*

**Note 21:** *Aqua Fantasia was a multimedia water show (10 to 12 minutes) with video/slide show on water curtain, together with interactive fountains and water cannons. The show was staged four times a night.*

**Photograph 1**

**An Aqua Fantasia show staged during the 2006 HKSF**



*Source: HKTB records*

4.18 Under the contract, the HKTB had to pay the economy class airfares and hotel charges for four technicians of Contractor X for making one round trip between France and Hong Kong. In July 2006, the HKTB paid about \$60,000 to Contractor X for four plane tickets, comprising three economy class tickets (\$26,000) and one **business class ticket** (\$34,000). In response to Audit's enquiry, the HKTB advised in May 2007 that:

- (a) the three economy class tickets were paid for only three technicians (instead of four as stated in the contract) who flew to Hong Kong to prepare the show; and

- (b) the business class ticket was paid for the Artistic Director of Contractor X. Upon the request of the HKTB, he flew to Hong Kong on four occasions in 2006 (February, March, May and June) to discuss the planning and execution of the “Aqua Fantasia”. The HKTB agreed to reimburse him the airfare of \$34,000 for his trip in May 2006. The HKTB also agreed to pay the hotel charges (\$15,000) for all his four trips to Hong Kong.

4.19 Audit noted that there were no contract provisions requiring the HKTB to bear the airfares and hotel charges incurred by the Artistic Director. Prior approval had also not been obtained from the ED or the DED for making payments outside the contract requirement. In fact, the DED was not aware of such arrangement until Audit’s enquiry in May 2007 (a year later) on this matter.

### **Hong Kong WinterFest**

4.20 The HKTB had organised the WinterFest since 2002. The WinterFest is held at around Christmas and New Year time each year. Its objectives were to promote Hong Kong’s diverse winter celebrations, attract visitors (especially from short-haul markets) to celebrate Christmas and New Year in Hong Kong, and create a business platform for the tourism-related sectors. According to the HKTB, the 2006 WinterFest generated international publicity value of \$45 million. The total expenditure for the 2006 WinterFest amounted to \$12.8 million.

4.21 The 2006 WinterFest was held from 24 November 2006 to 1 January 2007 at the Statue Square in Central District. Its key elements included Christmas decorations (e.g. a 35-metre tall Christmas tree, Snowy Chapel and Santa’s Clock Tower) at the Statue Square and the adjacent pedestrian subway (see Photograph 2). There were also live performances by performing groups on Fridays, during weekends and on public holidays throughout the WinterFest.

**Photograph 2**

**Christmas decorations at the Statute Square during the 2006 WinterFest**



*Source: HKTB records*

**Audit observations**

4.22 The HKTB commissioned a research company to conduct a tracking survey to evaluate the effectiveness of the 2006 WinterFest. Key findings of the survey are shown in Table 6.

Table 6

## Key survey results of the WinterFest

5 key performance indicators	2005 WinterFest	2006 WinterFest	
	Actual	Target	Actual
Total visitor arrivals during event period	2.76 million	3.04 million	<b>2.99 million</b>
Event attendance of visitors	595,690	375,000	<b>345,449</b>
Overall event satisfaction (Note 1)	8.5 points	8.5 points	<b>8.3 points</b>
Intention to revisit Hong Kong for similar events	71%	71%	<b>69%</b>
Intention of recommending the event to friends/relatives	82%	85%	94%
<b>8 other key findings (Note 2)</b>			
Main purpose of visit (for participating in the WinterFest)	1%	—	1%
Main purpose of visit (tour/sightseeing/vacation)	80%	—	79%
Impact on extending the length of stay in Hong Kong	8%	—	10%
Awareness of the event before coming to Hong Kong	21%	—	39%
Awareness of the event before arriving at the venue	60%	—	73%
Impact on decision to visit Hong Kong	24%	—	36%
Intention of visiting Hong Kong for vacation in the future	83%	—	97%
Intention of recommending Hong Kong as a travel destination to friends and relatives	98%	—	98%

Source: HKTB records

Note 1: A 10-point system was used in which 10 was the highest level of satisfaction and 1 was the lowest.

Note 2: No targets were set for these areas under the 2006 WinterFest.

4.23 As shown in Table 6, the tracking survey mainly focused on 13 key areas concerning visitors' awareness, participation and satisfaction, and the impact of the 2006 WinterFest. Performance in some key areas had improved while some had declined/remained unchanged when compared with those of last year. The HKTB had set



performance targets for five areas and did not meet four of the five targets. Among the four targets not met, the actual performance for three of them was lower than those of 2005. In particular, the actual visitor attendance in the WinterFest had dropped by 42%, from 595,690 in 2005 to 345,449 in 2006, despite the fact that the total visitor arrivals during the event period had increased by 8% from 2.76 million in 2005 to 2.99 million in 2006. The drop in attendance in the 2006 WinterFest, according to the HKTB, was mainly due to the relocation of the Star Ferry Pier. The HKTB had scaled down the event and set a lower visitor attendance target of 375,000 in anticipation of the impact of the relocation on the visitor attendance. **Audit considers that the HKTB needs to ascertain the reasons for not meeting the targets and takes measures to improve similar events in the future.**

4.24 With regard to the eight key areas where performance targets were not set in 2006, Audit noted that:

- (a) 1% of the respondents indicated that their main purpose of visit was for the 2006 WinterFest (a measurable outcome of an event as suggested by the UNWTO — see Note 20 in para. 4.16), and 36% of the respondents indicated that the 2006 WinterFest had an impact on their decision to visit Hong Kong;
- (b) 10% of the respondents indicated that they would stay longer in Hong Kong for the 2006 WinterFest; and
- (c) according to the tracking survey, less than 40% of the respondents were aware of the 2006 WinterFest before they arrived in Hong Kong. Moreover, according to a survey conducted on departing visitors at various immigration control points, less than 15% of the respondents were aware of the 2006 WinterFest before they arrived in Hong Kong.

These figures suggest that there is room for improving similar events in future.

### **International Chinese New Year Night Parade**

4.25 The HKTA first organised the Parade in 1996. Since then, the Parade had been held each year. Starting from 2004, the Parade was held at night.

4.26 The objectives of the Parade were:

- (a) to attract more visitors to Hong Kong during the traditional shoulder season of the Chinese New Year period;

- (b) to bundle Chinese New Year activities around town to reinforce Hong Kong's status as the Event Capital of Asia and the World Capital for Chinese New Year Festival celebrations; and
- (c) to create a business platform for travel related sectors (especially travel trade, retail, dining and entertainment) and to leverage on the HKTB's global promotion programmes to generate business or branding exposures.

4.27 The 2007 Parade (i.e. the twelfth one) was held on 18 February 2007. A total of 13 floats, 15 overseas and Mainland performing groups and 12 local performing groups participated in the Parade (see Photograph 3). According to the HKTB, about 200,000 audience (including 80,300 visitors) attended the Parade, and the Parade generated international publicity value of \$1,336 million. The total expenditure for the 2007 Parade amounted to \$21.4 million.

### Photograph 3

#### The HKTB float in the 2007 Parade



Source: HKTB records

## Audit observations

### *Title sponsorship*

4.28 A company (Company X) had been the title sponsor for the Parade since 1999, whose sponsorship agreements had been renewed seven times. Under the agreements, Company X agreed to pay a sponsorship fee for enjoying the benefits of a title sponsor and the HKTB agreed to have special commercial deals with Company X (Note 22).

4.29 Audit noted that the HKTA (Note 1 in para. 1.3) and the HKTB had not invited other parties to bid for title sponsorship before renewing the agreements with Company X since 1999. In response to Audit's enquiry, the HKTB advised in July 2007 that as a mutual understanding, Company X would be given a right of first refusal for the continuation of sponsorship (despite the fact that the sponsorship agreements had not provided for this). Company X was therefore approached first to discuss sponsorship renewal before opening up the opportunity to other commercial sponsors.

4.30 Audit noted that members of the following Committees had expressed concerns about the soliciting of sponsorship:

- (a) *the Marketing and Business Development Committee, at a meeting held in November 2006.* A member of the Committee (the Commissioner for Tourism) commented that the HKTB should solicit more sponsorship for mega events. The Committee agreed that for the Parade, if continued, funding would have to come from either HKTB reserve or more preferably from sponsorship; and
- (b) *the Product and Event Committee, at a meeting held in January 2007.* The Chairman of the Committee commented that efforts should be made to find ways to maximise exposure for sponsors so as to encourage more commercial sponsors.

4.31 Audit considers that the HKTB needs to take action to maximise the title sponsorship income.

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**Note 22:** *The terms of the agreement could not be disclosed as the HKTB considered that the information involved a sponsorship agreement and commercially sensitive information of a private entity. It was standard business practice that the terms of the agreements should not be disclosed without the prior consensus of the entity concerned. The disclosure might compromise the HKTB's ability to negotiate and maximise sponsorship income in future.*

***Float income***

4.32 Apart from title sponsorship, the HKTB received float income from the participating floats. The float income included participation fee to cover rental cost of a truck and staff cost of drivers. The cost of decorating the float was borne by the sponsor of the float. For the 2007 Parade, the float income received was \$1 million. Audit considers that the HKTB needs to solicit more sponsorship as suggested by the Marketing and Business Development Committee (see para. 4.30(a)) and the Product and Event Committee (see para 4.30(b)).

***Event format***

4.33 In 2007, 15 overseas and Mainland performing groups participated in the Parade. In addition, the performing groups would give additional performances during the float display programme on the second and third day of the Chinese New Year. The performing groups would not receive an appearance fee. The HKTB would provide them with transport, accommodation, a daily allowance and a half-day sightseeing tour with lunch. At the Product and Event Committee meeting held in January 2007, the Chairman of the Committee commented that there was a need to review the event format. The HKTB could invite more local performing groups and fewer overseas groups. Ways and means should be found to reduce cost. In view of the significant expenditure on overseas performing groups, Audit considers that the HKTB needs to put in place a mechanism to evaluate whether such performance is cost-justified.

***Performance targets not fully met***

4.34 The HKTB commissioned a research company to conduct a tracking survey to evaluate the effectiveness of the 2007 Parade. Key findings of the survey are shown in Table 7.

Table 7

## Key survey results of the Parade

5 key performance indicators	2006 Parade	2007 Parade	
	Actual	Target	Actual
Total visitor arrivals during event period (Note 1):			
Mainland	570,000	586,000	589,000
Non-Mainland	810,000	834,000	851,000
Overall event satisfaction (Note 2)	7.9 points	8.2 points	<b>7.3 points</b>
Intention to revisit Hong Kong for similar events	70 %	70 %	70 %
Recommended the event to friends/relatives	96 %	97 %	<b>91 %</b>
<b>8 other key findings</b> (Note 3)			
Main purpose of visit (for viewing the Parade)	10 %	—	4 %
Main purpose of visit (tour/sightseeing/vacation)	65 %	—	71 %
Impact on extending the length of stay in Hong Kong	11 %	—	9 %
Awareness of the event before coming to Hong Kong	52 %	—	53 %
Awareness of the event before coming to the venue	80 %	—	84 %
Impact on decision to visit Hong Kong	55 %	—	50 %
Intention of visiting Hong Kong for vacation in the future	93 %	—	96 %
Recommended Hong Kong as a travel destination to friends and relatives	100 %	—	98 %

Source: HKTB records

Note 1: For the 2006 Parade, the event period was between 27 January and 5 February 2006. For the 2007 Parade, the event period was between 16 and 25 February 2007.

Note 2: A 10-point system was used in which 10 was the highest level of satisfaction and 1 was the lowest.

Note 3: No targets were set for these areas under the 2007 Parade.

4.35 As shown in Table 7, the tracking survey mainly focused on 13 key areas concerning visitors' awareness, participation and satisfaction, and the impact of the 2007 Parade. Performance in some key areas had improved while some had declined/remained unchanged when compared with those of 2006. The HKTB had set performance targets for five areas and did not meet two of the five targets. For these two targets not met, their actual performance was lower than that of 2006. In particular, the actual overall event satisfaction level of the Parade dropped from 7.9 points in 2006 to 7.3 points in 2007 (see para. 4.38(f)(ii)). **Audit considers that the HKTB needs to ascertain the reasons for not meeting the targets and take measures to improve similar events in future.**

4.36 With regard to the remaining eight key areas where the HKTB had not set targets, Audit noted that:

- (a) 4% of the respondents indicated that their main purpose of visit was for the Parade (a measurable outcome of an event as suggested by the UNWTO — see Note 20 in para. 4.16);
- (b) 50% of the respondents indicated that the Parade had an impact on their decision to visit Hong Kong;
- (c) 9% of the respondents indicated that they would stay longer in Hong Kong; and
- (d) according to the tracking survey, about half of the respondents were aware of the 2007 Parade before they arrived in Hong Kong. According to a survey conducted on departing visitors at various immigration control points, less than 25% of the respondents were aware of the 2007 Parade before they arrived in Hong Kong.

These figures suggest that there is room for improving similar events in future.

### **Audit recommendations**

4.37 **Audit has recommended that the HKTB should:**

#### ***Mega event strategy***

- (a) **finalise the review on the mega events as soon as possible (see para. 4.10);**
- (b) **take into account the review results in enhancing its strategy for organising future mega events (see para. 4.10);**

*Evaluation of mega events*

- (c) **ascertain the reasons for not meeting the targets for a mega event and take measures to improve similar mega events in future (see paras. 4.15, 4.23 and 4.35);**

*Charges for work items*

- (d) **ensure that:**
  - (i) **charges for work items to be performed are clearly laid down in future agreements with contractors; and**
  - (ii) **where payments are made outside the contract requirement, prior approval from the appropriate authority is obtained (see para. 4.19);**

*Sponsorship*

- (e) **take action to maximise the title sponsorship income and solicit more sponsorship for the Parade (see paras. 4.31 and 4.32); and**

*Event format*

- (f) **put in place a mechanism to review the cost-effectiveness of performing groups in the Parade in attracting visitors (see para. 4.33).**

**Response from the HKTB**

4.38 The **ED, HKTB** has said that:

*Mega event strategy*

- (a) the HKTB maintains a strategy for mega events, which forms an integral part of its annual Business Plan and Budget as well as long-term Corporate Plan. The strategy is regularly reviewed and enhanced, taking into account findings from its mega event tracking surveys. The HKTB targets to complete the review by the end of 2007;
- (b) the HKTB recognises the importance of stable funding for the mega events. The HKTB has been conducting regular review of the mega events, including the portfolio and budget of the events, as part of its annual Business Plan and Budget and three-year road map. The HKTB management will submit to the Product and Event Committee its recommendations on the funding allocation, including the possibility of recurrent resources for the staging of signature events in the long term;

- (c) mega events, as an anchor of the HKTB's overseas marketing initiatives, enhance the overall destination appeal and brand equity of Hong Kong. In enriching and diversifying the activities and entertainment available to visitors, mega events help enhance visitors' travel experiences, and encourage them to revisit, stay longer and spend more. They also help generate positive image and word-of-mouth publicity for Hong Kong, as visitors who participated in the mega events would recommend Hong Kong as a travel destination to their friends and relatives. Apart from enriching visitors' experiences, mega events built up the festive ambience around town and provided free entertainment and activities for the local community;

***Evaluation of mega events***

- (d) in tracking immediate feedback on the mega events, the HKTB adopts four to five KPIs as performance targets, namely:
  - (i) visitor arrivals;
  - (ii) impact on decision to visit Hong Kong;
  - (iii) overall event satisfaction and event attendance;
  - (iv) revisit intention for similar event; and
  - (v) recommending of event to friends and relatives;
- (e) for long-term planning purposes, the mega event surveys also collect other information that characterises perennial world events, such as "intention of visiting the destination for vacation in the future" and "intention of recommending as a travel destination to friends and relatives". The findings will enable the HKTB to evaluate whether the mega events have the potential of further developing into a perennial signature event in the long run, similar to the carnival in Rio de Janeiro or Mardi Gras in New Orleans;
- (f) ongoing effort has been made to track the performance of the mega events so as to identify areas for improvement, for example:
  - (i) ***WinterFest***. The HKTB has taken note of the impact of the relocation of the Star Ferry Pier on the visitor arrivals, attendance and satisfaction of the 2006 WinterFest (see para. 4.23). The other possible factor that affected visitor traffic could be a drop in interest due to diminishing novelty effect of the Santa's Town, after similar format had been adopted for several years. The HKTB will review the event format and present to the Product and Event Committee for consideration; and



- (ii) **Parade.** For the 2007 Parade, the drop in the satisfaction level was mainly due to a fire alarm in a building located at the beginning of the Parade route, which led to a significant delay in the procession (see para. 4.35).

The HKTB will continue to monitor closely the performance of the mega events and solicit feedback from key stakeholders and trade partners, such as whether the events offer an effective business platform;

- (g) the HKTB has been conducting regular review for mega events. The KPIs are time tested and are fair measurements of the performance of the mega events. Setting more KPIs would distract the HKTB from focusing on the most important ones. Having said that, the HKTB would certainly consider setting new performance indicators should new developments call for such a requirement during the regular review;

#### ***Charges for work items***

- (h) the HKTB will ensure that all charges for work items to be performed by the contractors will be clearly laid down in the agreement with the contractor concerned, and that prior approval from the appropriate authority will be sought on any change to the scope of a contract;

#### ***Sponsorship***

- (i) a right of first refusal for the continuation of sponsorship will be built into the agreement with the title sponsor(s) in future. The HKTB will try to maximise the title sponsorship and solicit more sponsorship for the Parade. However, it is not always easy to secure title sponsorship, given the substantial amount of money required and the need to balance the commercial interests and the HKTB's role and objectives as a publicly-funded organisation. In view of the difficulty, granting the right of first refusal to the title sponsor is considered necessary; and

#### ***Event format***

- (j) in planning for the Parade each year, the HKTB carefully reviews the event format, including its components and cost implications, so as to introduce further enhancement. The HKTB tries its best to strike a balance between the cost-effectiveness of the respective Parade elements and the overall attractiveness of the event, as delivered by the best possible combination of local and international performing groups and line-up. The international groups help enhance the event's image and raise the profile of the Parade as a signature event for Hong Kong. Securing sponsorship would be more difficult if the standard of the event is compromised.

## **PART 5: EXECUTION AND EVALUATION OF OTHER MARKETING ACTIVITIES**

5.1 This PART examines the execution and evaluation of other marketing activities.

### **Background**

5.2 Apart from mega events, the HKTB carries out a number of marketing activities. Audit examined these activities and the findings are reported as follows:

- (a) worldwide promotion activities (see paras. 5.3 to 5.9);
- (b) pyrotechnic displays for “A Symphony of Lights” (see paras. 5.10 to 5.14);
- (c) trade shows (see paras. 5.15 to 5.20);
- (d) trade familiarisation visits (see paras. 5.21 to 5.27);
- (e) school promotion campaign in the Mainland (see paras. 5.28 to 5.36);
- (f) customer website (see paras. 5.37 to 5.41); and
- (g) evaluation of marketing activities (see paras. 5.42 to 5.46).

### **Worldwide promotion activities**

5.3 The HKTB launched a series of strategic promotions worldwide over a two-year period from 2005-06 to 2006-07, including the 2006 DHKY campaign (see paras. 1.8 and 1.9). These worldwide promotion activities, launched in the 16 key markets, included television and print advertisements, preparation and distribution of publicity materials, consumer road shows and cooperation with media organisations to introduce Hong Kong’s new attractions.

#### ***Tracking study of promotion activities***

5.4 To keep track of the outbound travel intention and to assess the awareness and the effectiveness of its worldwide promotion activities in key markets, the HKTB commissioned a consultant to perform a tracking study. The study had two phases and covered 14 key markets. Phase I was performed between October 2005 and July 2006 at a cost of \$3.9 million. Phase II was performed between November and December 2006 at a cost of \$2.4 million.

5.5 Phase I of the tracking study comprised a pre-campaign study and a post-campaign study to track changes in customers' perception on the HKTB's worldwide promotion activities. For the Phase II study, it involved a post-campaign study only as the worldwide promotion activities had been launched.

### **Audit observations**

5.6 To ascertain the overall change in customers' perception of the worldwide promotion activities, Audit compared the Phase II post-campaign study results against the Phase I pre-campaign study results. The audit findings on the tracking study results are shown at Appendix F. **Audit noted that, following the launch of the marketing campaigns, there were mixed results of the respondents' awareness and image perception of Hong Kong, and their likelihood and intention to visit Hong Kong.** However, as targets had not been set before the launch of the worldwide promotion activities, it was difficult to ascertain whether the intended objectives of the worldwide promotion activities had been achieved.

### ***Coverage of the tracking study***

5.7 Audit noted that the tracking study covered 14 of the 16 key markets (see para. 2.8(c)) because two key markets (Indonesia and India) were not covered. In response to Audit's enquiry, the HKTB informed Audit in September 2007 that:

- (a) Indonesia was not included in the study because of the unstable political environment at the time of the study, which would affect the tracking results; and
- (b) India was originally included in the project scope but eventually taken out because of budgetary constraints.

**In Audit's view, it is desirable to cover all key markets in the tracking study.**

### **Audit recommendations**

5.8 **Audit has recommended that the HKTB should:**

- (a) **set performance targets for its advertising and promotion campaigns to evaluate the effectiveness of the campaigns in achieving their intended objectives;**
- (b) **having regard to the results of its tracking study, take measures to improve its advertising and promotion campaigns in future; and**

- (c) cover all the key markets in its tracking study on worldwide promotion activities as far as possible.

### Response from the HKTB

5.9 The ED, HKTB has said that:

- (a) the HKTB had conducted pre-campaign and post-campaign tracking studies to assess the changes before and after the launch of the worldwide promotion campaign for 2005-06 to 2006-07. These tracking studies directly measured the effectiveness of the marketing initiatives under the campaign, whereas the overall results of the campaign were measured by the defined KPIs set for the campaign period, such as visitor arrivals, spending, satisfaction and revisit intention;
- (b) throughout the campaign period, the HKTB conducted two phases of tracking study to assess the change in consumers' perception of Hong Kong. The results will serve as the benchmark for setting performance targets in this aspect for future advertising and promotion campaigns; and
- (c) the HKTB considers that the coverage of the tracking study (i.e. 14 out of 16 key markets) is sufficient. While it would be ideal to cover all key markets, consideration needs to be given to the availability of resources and specific market conditions, which might affect the reliability of findings, as illustrated in the case of Indonesia and India (see para. 5.7(a) and (b)). The HKTB therefore believes that a flexible approach should be adopted in determining the scope of the tracking study.

### Pyrotechnic displays for A Symphony of Lights

5.10 "A Symphony of Lights" (SOL) is a light and sound show first organised by the TC in January 2004 with a view to attracting tourists to Hong Kong. SOL combines the lights (i.e. coloured lights, laser beams and searchlights) of participating buildings on both sides of the Victoria Harbour with musical effects to showcase the night vista of the harbour (Note 23). In addition, pyrotechnic displays are organised on special occasions (e.g. major public holidays) and during the period when the HKTB stages mega events (see Photograph 4).

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**Note 23:** *When SOL was first organised in January 2004, 18 buildings on the Hong Kong island side participated in it. As at May 2007, the number of participating buildings increased to 37 on both sides of the Victoria Harbour. The music and narration of the show was broadcast every night along the Tsim Sha Tsui waterfront between the Avenue of Stars and the Hong Kong Cultural Centre, the promenade at the Golden Bauhinia Square and on radio.*

**Photograph 4**

**A Symphony of Lights and pyrotechnic displays staged in January 2006**



*Source: HKTB records*

5.11 In January 2004, the TC organised the first pyrotechnic display. Since then, the HKTB has been tasked to stage the pyrotechnic displays in close consultation with the TC while SOL remains to be organised by the TC. During the period 2004-05 to 2006-07, 12 contracts at a total cost of \$22.47 million were awarded by the HKTB for staging the pyrotechnic displays. Details of the 12 contracts are shown in Table 8.

Table 8

**Pyrotechnic display contracts awarded by the HKTB  
from 2004-05 to 2006-07**

<b>Contract</b>	<b>Pyrotechnic display period</b>	<b>Number of displays</b>	<b>Cost (\$)</b>	<b>Number of participating buildings (Note 1)</b>	<b>Average cost per building per display (\$)</b>
1	27/4/2004 — 9/5/2004	10	1,835,000	10	18,350
2	30/6/2004 — 4/7/2004	5	950,000	10	19,000
3	2/10/2004 — 7/10/2004	6	1,332,000	12	18,500
4	26/11/2004 — 2/1/2005	7	1,554,000 (Note 2)	12	18,500
5	11/2/2005 — 15/2/2005	5	1,350,000	12	22,500
6	1/5/2005 — 8/5/2005	8	2,160,000	12	22,500
7	25/6/2005 — 27/8/2005	11	2,673,000	12	20,250
8	23/12/2005 — 31/12/2005	3	1,900,000	N.A.	N.A.
9	3/2/2006 — 5/2/2006	3	1,940,000	N.A.	N.A.
10	24/6/2006 — 8/10/2006	9	3,780,000	N.A.	N.A.
11	23/12/2006 — 1/1/2007	6	2,100,000	N.A.	N.A.
12	20/2/2007 — 21/2/2007	2	900,000	N.A.	N.A.
		<b>75</b>	<b>22,474,000</b>		

Source: HKTB records

Note 1: For Contracts 1 to 7, pyrotechnic displays were fired from the rooftops of participating buildings. For Contracts 8 to 12, pyrotechnic displays were fired from barges and pontoons moored along the Tsim Sha Tsui waterfront.

Note 2: The contract sum for Contract 4 was reduced from \$2,222,000 to \$1,554,000 upon the cancellation of three pyrotechnic displays following the South Asia tsunami in December 2004.

### **Audit observations**

5.12 In general, the grouping of similar nature of work to be performed over a period under a single contract could save administrative efforts in tendering and achieve economy of scale. **In view of the large number of pyrotechnic displays that may be staged over a period, the HKTB may need to review the contract arrangement for the displays with a view to identifying a more cost-effective arrangement.**

### **Audit recommendation**

5.13 **Audit has recommended that the HKTB should review the feasibility of using other contract arrangements (e.g. a term contract) for staging pyrotechnic displays more cost-effectively.**

### **Response from the HKTB**

5.14 The **ED, HKTB** agrees with the audit recommendation. He has said that the HKTB will explore the possibility of arranging a term contract for staging pyrotechnic displays during SOL.

### **Trade shows**

5.15 The HKTB invites local travel trade operators (e.g. travel agents, tour operators, and operators of attractions and hotels) to participate in overseas and local trade shows. These trade shows provide opportunities for local operators to establish contacts with overseas counterparts and promote their tourism products and services.

5.16 In 2006-07, the HKTB arranged local travel trade operators to participate in various overseas and local trade shows. According to the HKTB, the direct expenses incurred in making such arrangement (e.g. expenses for construction and rental of booths, rental of meeting rooms and equipment charges) amounted to \$4.3 million. To cover the expenses incurred, the participating operators were required to pay a fee to the HKTB (Note 24).

### **Audit observations**

5.17 Audit's sample check of evaluation forms completed by local travel trade operators after trade shows revealed that the operators were generally appreciative of the HKTB's effort to create a business platform for them. They considered that the trade shows were useful for promoting their tourism products and services overseas. Most of them could get acquainted with and reach business deals with overseas travel trade operators or develop and cultivate new business contacts. They indicated that they would participate in similar trade shows in future.

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**Note 24:** *Local travel trade operators were required to arrange for their own air travel and hotel accommodation, and to bear the related costs.*

5.18 In 2006-07, the total trade show participation fees of \$2.6 million received from local travel trade operators accounted for 60% of the total direct expenses incurred by the HKTB. In response to Audit's enquiry, the HKTB advised in July 2007 that it aimed at achieving "cost recovery of direct expenses in the long run". The direct cost not recovered amounted to \$1.7 million for 2006-07.

### **Audit recommendation**

5.19 In view of the significant cost under-recovery, Audit has *recommended* that the HKTB should consider taking measures to recover the direct expenses incurred in arranging travel trade operators to participate in trade shows.

### **Response from the HKTB**

5.20 The ED, HKTB has noted the audit recommendation. He has said that:

- (a) the HKTB has seen continuous improvement in recovering the direct expenses incurred in arranging travel trade operators to participate in trade shows in the past few years. The percentage of cost recovered increased from 50% in 2004 to 57% in 2005 and 60% in 2006; and
- (b) the HKTB will continue to enhance the level of cost recovery. However, it is worth noting that there is no standard practice among other NTOs in recovering the costs for trade shows, which ranges from zero to 100% cost recovery. In considering the cost recovery ratio, consideration has been given to the specific conditions in Hong Kong, such as the support given to those travel trade operators that belong to small and medium enterprises. Moreover, the contributions made by the HKTB for trade shows are for brand building and promoting Hong Kong's tourism as a whole. This is in fact in line with the market practice of charging direct cost for space rental.

### **Trade familiarisation visits**

5.21 The HKTB invites overseas travel trade representatives (e.g. travel agents, tour operators and product planners) to pay familiarisation visits to Hong Kong for experiencing the city's diverse attractions. The objectives of familiarisation visits are to help keep the overseas travel trade representatives abreast of the latest tourism products in Hong Kong and stimulate their interests in organising tours to Hong Kong, and in promoting Hong Kong to their customers.



5.22 In 2006-07, the HKTB hosted some 280 familiarisation visits for about 3,200 trade representatives worldwide. The total expenditure for hosting these visits in 2006-07 amounted to \$7.5 million (Note 25).

### **Audit observations**

#### *Need to evaluate effectiveness of trade familiarisation visits*

5.23 At a Board meeting held in March 2006, a Board member (the Commissioner for Tourism) suggested that, as a means to measure the ROI, it would be useful if the HKTB management could track the tour products developed as a result of the familiarisation visits. The HKTB management agreed to provide Board members with such information. However, there was no evidence to show that the HKTB management had provided such information to the Board. In response to Audit's enquiry, the HKTB advised in March 2007 that it would be difficult to track the tour products developed because it would take time for the overseas travel trade operators to develop new tour packages after the familiarisation visits.

5.24 In the absence of measures to evaluate the effectiveness of familiarisation visits, it is difficult for the HKTB to assess whether the resources spent are worthwhile. Audit shares the view of the Commissioner for Tourism on the need to track the tour products developed as a result of the familiarisation visits. **Audit considers that the HKTB needs to take appropriate measures to evaluate the effectiveness of trade familiarisation visits.**

#### *Need to analyse feedback on trade familiarisation visits*

5.25 After the familiarisation visits, overseas trade representatives are requested to give their comments and suggestions for improvement of the visits by completing a survey form (Note 26). According to the HKTB, these comments and suggestions are useful for the HKTB and the local travel trade operators in developing new tourism products to enhance visitor experiences and in enhancing destination attractiveness and friendliness.

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**Note 25:** *The HKTB hosted two types of familiarisation visits. For "fully-hosted" familiarisation visits, the HKTB, with the support of airlines and hotels, provided air tickets, accommodation and ground support (e.g. local transportation and meals) to overseas travel trade representatives. For "partially-hosted" familiarisation visits, the HKTB only provided ground support.*

**Note 26:** *For example, the overseas travel trade representatives are asked to state the attractions which appealed to their markets, the market segments to which they would promote these attractions and the attractions that they would feature in their Hong Kong tour packages.*

Audit noted that, in March 2006, the HKTB completed a review of overseas travel trade operators' feedback on their familiarisation visits to Hong Kong during the period May to December 2005. The review evaluated the familiarisation visits (e.g. satisfaction level of the participants) and provided feedback to local travel trade operators and the WWOs for package/product improvement. However, up to August 2007, similar review on the familiarisation visits organised in 2006 had not been completed by the HKTB. In response to Audit's enquiry, the HKTB advised Audit in September 2007 that a review of the familiarisation visits organised during the DHKY campaign period (May 2005 to March 2007) would be completed by October 2007. **Audit considers that the HKTB needs to conduct regular reviews on the feedback of overseas travel trade operators on their familiarisation visits to Hong Kong and complete the reviews in a timely manner.**

### **Audit recommendations**

5.26 **Audit has recommended that the HKTB should:**

- (a) **take measures to evaluate the effectiveness of trade familiarisation visits; and**
- (b) **conduct regular reviews of the feedback (e.g. satisfaction level) of overseas travel trade operators on their familiarisation visits to Hong Kong and complete the reviews in a timely manner.**

### **Response from the HKTB**

5.27 The **ED, HKTB** generally agrees with the audit recommendations. He has said that:

- (a) the HKTB has all along been tracking the feedback of overseas travel trade operators on their familiarisation visits to Hong Kong through the trade familiarisation survey. The survey results for familiarisation visits during the DHKY campaign period from May 2005 to March 2007 will be completed by October 2007 and presented to the Board thereafter;
- (b) starting from 2007-08, the HKTB will formalise the tracking system for the number of tour products developed as a result of the familiarisation visits. The results will be presented to the Board on a yearly basis; and
- (c) the HKTB will strive to ensure that the above-mentioned tracking surveys are completed in a timely manner.

## School promotion campaign in the Mainland

5.28 To increase Mainland visitors' awareness and interest to visit Hong Kong, the HKTB launched promotion campaigns for target clientele. The HKTB considered that the family segment had good growth potential and launched a number of promotion campaigns to target this segment. One of such campaigns was targeted at the students of Mainland schools and their parents (hereinafter referred to as school promotion campaign).

5.29 In May 2006, the Guangzhou WWO entered into a contract with a contractor (Contractor Y) to organise a school promotion campaign in the Mainland. The contract sum was about \$929,000. Under the contract, Contractor Y was responsible for the production and delivery of promotional materials, carrying out of the campaign (covering about 650 schools in 13 Mainland cities) and cooperating with participating organisations (“合作機構” — Note 27) which were mainly Mainland educational organisations. The key elements of the programme included organising drawing competitions, distributing HKTB publications and showing videos about Hong Kong in schools.

5.30 The service fees payable to Contractor Y under the contract comprised:

- (a) participating organisation fees (“合作機構費用” — Note 27) at \$522,000. The nature of such fees was described as school entry fee (“校園公關賣進費” — Note 27) in the contract;
- (b) cost of carrying out the campaign (e.g. project staff cost) at \$298,000; and
- (c) promotional material production and delivery costs at \$109,000.

5.31 According to the contract, the HKTB was required to make an initial payment of \$465,000 (i.e. half of the contract sum) to Contractor Y upon signing the contract. The final payment for the remaining balance would be made upon completion of the school promotion campaign. Contractor Y was required to provide the HKTB with a report showing the work completed and information related to the campaign (e.g. photographs, videos and students' drawings) when claiming the final payment. In addition, regarding the participating organisation fees, Contractor Y was required to provide supporting documents to the HKTB as evidence for claiming the expenditure incurred.

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**Note 27:** “合作機構”, “合作機構費用”, “校園公關賣進費”: *These are the original terms in the contract which was written in Chinese.*

## **Audit observations**

### ***Reduction of work***

5.32 Based on the HKTB's records, three bids were received for the school promotion campaign contract. The bid prices were \$1.53 million, \$1.8 million and \$1.5 million. According to the tender evaluation report, the bid prices had been reduced to \$1.07 million, \$1.3 million and \$1.26 million by reduction of work. The contract was awarded to Contractor Y, who submitted the lowest bid (Note 28). In response to Audit's enquiry, the HKTB advised in September 2007 that the reduction of work was approved by the WWO Director who oversaw the operation in the Mainland. During the presentation of their tender proposals, the tenderers were informed of the reduction and they agreed to lower their bid prices. However, there were no written agreements documenting such changes.

### ***Participating organisation fees***

5.33 The actual payment for the participating organisation fees (“合作機構費用” — Note 27) amounted to about \$522,000. Audit examined the supporting documents provided by Contractor Y claiming such payment. Audit found that five payments involving a total amount of about \$181,500 were paid to five individuals instead of the organisations concerned. Audit noted that the receipts were self-certified by the individuals concerned without proper authentication (e.g. organisation/company chops or official receipts). In addition, no information was provided as to whether the payments were received on behalf of any organisation. The nature of the expenditure was stated as participating organisation fees (“合作機構費用” — Note 27). In response to Audit's enquiry, the HKTB advised in September 2007 that Contractor Y was responsible for the project. The contractor worked with cooperating partners (government organisations or authorised institutions for running extra-curricular activities in schools) to implement the campaign in schools in different cities and paid them the participating organisation fees. These participating fees included staff cost incurred in liaisons with schools, briefing the students, distribution of promotion materials and monitoring work, school media cost, and rental of audio and visual equipment. Contractor Y certified that the above five payments were made to the responsible staff of the cooperating partners. Audit considers that HKTB needs to ensure that proper supporting documents are obtained before payment is made to a contractor in future.

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**Note 28:** Contractor Y agreed to reduce the bid price to \$929,000 for further reduction of work.

***Payment made to contractor before entering into contract***

5.34 The HKTB paid a sum of \$261,000 to Contractor Y (in April 2006) before signing the contract in May 2006. This sum was used for offsetting the initial payment of \$465,000 upon signing the contract. In response to Audit's enquiry, the HKTB informed Audit in September 2007 that it was urgent to launch the project before the examination season started in June 2006 and the payment was necessary to facilitate smooth execution of the project. In addition, the agreement had been vetted by the Head Office and the legal department of the HKTB. **Audit considers that the HKTB needs to ensure that payment is made to a contractor only after the signing of a contract.**

**Audit recommendations**

5.35 **Audit has recommended that the HKTB should:**

- (a) **if there are changes in the work required during the tender selection process (e.g. a reduction of work), ensure that the agreement with the tenderer is obtained and documented;**
- (b) **require its contractors to provide proper receipts to substantiate the claims for payment and state clearly the nature of the expenditure in the receipts; and**
- (c) **ensure that payment is made to a contractor after the signing of a contract.**

**Response from the HKTB**

5.36 The ED, HKTB has said that:

- (a) he agrees with the audit recommendation in paragraph 5.35(a) that better documentation could be prepared, and agreement with the tenderer obtained when reducing the work in the case mentioned in paragraph 5.32. The HKTB will further tighten the procurement policies and procedures for the WWOs, and regularly remind staff to strictly follow the policies and procedures through various communication channels, such as staff briefings;
- (b) requiring contractors to provide proper receipts to substantiate the claims made by sub-contractors is not in line with the prevailing market practice. Nevertheless, the HKTB ensured that the defined deliverables in the contract of the project had already been delivered by the contractor before making the payment; and

- (c) he agrees with the recommendation in paragraph 5.35(c). All staff have been reminded that payment should be made to a contractor only after the signing of a contract.

### Customer website

5.37 Through its website “DiscoverHongKong” (DHK), the HKTB disseminates tourism information about Hong Kong to its worldwide customers in Simplified Chinese, Traditional Chinese and ten other languages (Note 29). In 2006-07, the cost for maintaining and promoting the DHK website was \$2.8 million. The web traffic is shown in Table 9.

**Table 9**  
**Web traffic of the DHK website**  
**(2004 to 2006)**

Web traffic	2004	2005	2006
Page view (Note 1)	78.6 million	86.3 million	148.3 million
Visits	14.2 million	19.8 million	29.2 million
Unique visitors (Note 2)	6.3 million	8.2 million	10.6 million
Average length of visit	11 minutes and 20 seconds	11 minutes and 44 seconds	13 minutes

*Source: HKTB records*

*Note 1: A page view is a request to load a single page of an Internet site.*

*Note 2: Unique visitors are the number of unduplicated visitors (i.e. only counted once) identified through the use of a computer software. Through this tracking, it is possible to identify accurately the monthly unduplicated number of visitors to a site.*

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**Note 29:** *The ten languages are English, Japanese, Korean, Malay, German, Spanish, French, Italian, Russian and Thai.*

## Audit observations

### *Need to improve website marketing*

5.38 According to the UNWTO, the advantage of website marketing, apart from its global reach, is the possibility of simulating two-way communications with consumers. Once in a website, customers can register for information and their details can be captured. An NTO can then send its promotion materials electronically to these customers on a regular basis. The NTO can also reach them to find out about their travel behaviour. They are also a valuable source for evaluating the website. In fact, there has been a strong shift to the online environment. More and more non-website promotion is designated to “funnel” inquirers and customers to the NTO website where they then become a permanent database for future marketing.

5.39 The HKTB has made effort to collect customer information through its DHK website. Visitors to the site can subscribe to a monthly e-newsletter (E-zine) which provides information about the latest events, attractions and offers by providing their names, e-mail addresses and language preference. As of June 2007, E-zine had a circulation base of about 236,000. **Audit noted that HKTB had collected information about the travel behaviour and personal profiles (e.g. demographics and area of interests) of about 20% of the customers of its E-zine subscription database. Audit considers that the HKTB needs to collect more customer information through its website for the purpose of targeting marketing activities to address the travel preferences of these customers.**

## Audit recommendation

5.40 **Audit has recommended that the HKTB should consider collecting information about customers’ travel behaviour and personal profiles through the DHK website for targeted marketing purposes.**

## Response from the HKTB

5.41 The **ED, HKTB** agrees with the audit recommendation. He has said that the HKTB has already enhanced the E-zine subscription form on the DHK website and the recently launched 2008 Olympic Equestrian Events micro-site to collect more customer information, including travel behaviour and personal profiles.

## Evaluation of marketing activities

5.42 According to a research conducted by the UNWTO on 56 NTOs, the methodologies for evaluating marketing activities varied among them. The methodologies ranged from simple monitoring of statistical data to conducting of more complex studies such as:

- (a) **Conversion study.** A conversion study strives to measure the number of incremental trips, bookings or revenue generated through an NTO's activities (e.g. advertising in print media, broadcasting commercials, providing information service to visitors). A conversion study depends upon a response mechanism built into an activity (e.g. a coded reply coupon in a print media advertisement, or a toll-free telephone number for broadcast campaigns). Names and addresses of enquirers are recorded and a random sample of respondents is later contacted, through a survey, to find out whether or not they actually undertook trips on the strength of the information received, or have planned to do so in the future; and
- (b) **Tracking study.** An NTO tracks the impacts of its marketing activities (e.g. a promotional campaign) through monitoring the degree to which the activities have achieved the strategic communication goals they have been designed to deliver. The tracking may be done by a quantitative survey (e.g. postal, telephone or personal interviews) conducted before and after a promotional campaign. The pre-campaign study ascertains the existing levels of awareness, interest, desire and likelihood of action towards a destination. The post-campaign study re-monitors them during, or after, the campaign.

In the research, the UNWTO identified certain best practices for evaluating marketing activities of NTOs.

## Audit observations

5.43 The UNWTO classified the best practices according to the marketing budget of the NTOs (see Appendix G). The best practices adopted by an NTO are influenced by the resources available. In general, the best practices for NTOs having a higher marketing budget were more sophisticated than those with lower budgets. For large budget NTOs (including the HKTB — see para. 1.7), the best practices included undertaking the more complex studies, namely, conversion studies and tracking studies, as well as using other simpler methodologies such as monitoring statistical data, undertaking questionnaire based surveys and assessing the articles generated from public relations activities.



5.44 The HKTB had undertaken tracking studies and the simpler methodologies for evaluating its marketing activities. In response to Audit's enquiry, the HKTB informed Audit in September 2007 that it also adopted a more direct approach of collecting feedback from travel agent partners on package sales generated by the HKTB's marketing programmes, so as to evaluate the effectiveness of its marketing activities. **To enhance its methods of evaluating marketing activities, Audit considers that the HKTB needs to explore whether there are other evaluation methods (e.g. conversion studies) that should be undertaken for selected marketing activities.**

#### **Audit recommendation**

5.45 **Audit has recommended that the HKTB should consider exploring whether there are other cost-effective methods (e.g. conversion studies) that should be undertaken for evaluating the effectiveness of selected marketing activities.**

#### **Response from the HKTB**

5.46 The **ED, HKTB** has noted the audit recommendation. He has said that the HKTB will consider enhancing the current methodologies or introducing new ones, whichever are the most effective, for evaluating the effectiveness of its marketing activities.

## **PART 6: QUALITY TOURISM SERVICES SCHEME**

6.1 This PART examines the operation of the QTS Scheme by the HKTB.

### **Background**

6.2 In 1999, the HKTA launched the QTS Scheme to accredit shops and restaurants that met the prescribed service standards. In November 2006, the HKTB expanded the QTS Scheme to cover visitor accommodation. The QTS Scheme aims to:

- (a) arouse service providers' awareness of the importance of service excellence, and hence motivate them to strive for continuous improvement in standards of service; and
- (b) help visitors choose service providers providing quality service.

6.3 For applicants who have fulfilled the HKTB's assessment criteria, they are certified as QTS merchants. A QTS merchant is entitled to display the QTS logo as an identification of its QTS status. As at June 2007, there were 6,536 QTS outlets for restaurants and shops, and three QTS visitor accommodation establishments. The QTS accreditation is valid for one year and is subject to renewal on an annual basis, unless it is terminated or suspended before the expiry. To obtain QTS accreditation, two fees are payable, namely the initial application fee and the annual renewal fee. The fees are determined based on the number of outlets (for shops and restaurants) and the number of premises and rooms (for visitor accommodation — Note 30).

6.4 In response to a LegCo question, in March 2007, the EDLB stated that the HKTB monitored the QTS Scheme in the following ways:

- (a) reviewing the standards of service of the Scheme and enhance the Scheme's quality assurance and outlets' compliance through surveillance visits and audit by professional consultants;

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**Note 30:** *For example, as at June 2007, regarding shops and restaurants, the initial application fee for one outlet was \$5,000, and for 20 outlets was \$16,000. For visitor accommodation, the initial application fee was \$5,000 for 1 to 20 rooms per premises, and \$6,000 for 21 to 50 rooms per premises. A chain business with more than one visitor accommodation premises enjoyed a 10% discount on the total application fees for the whole chain. For all shops, restaurants and visitor accommodation, the annual renewal fee was half of the initial application fee.*

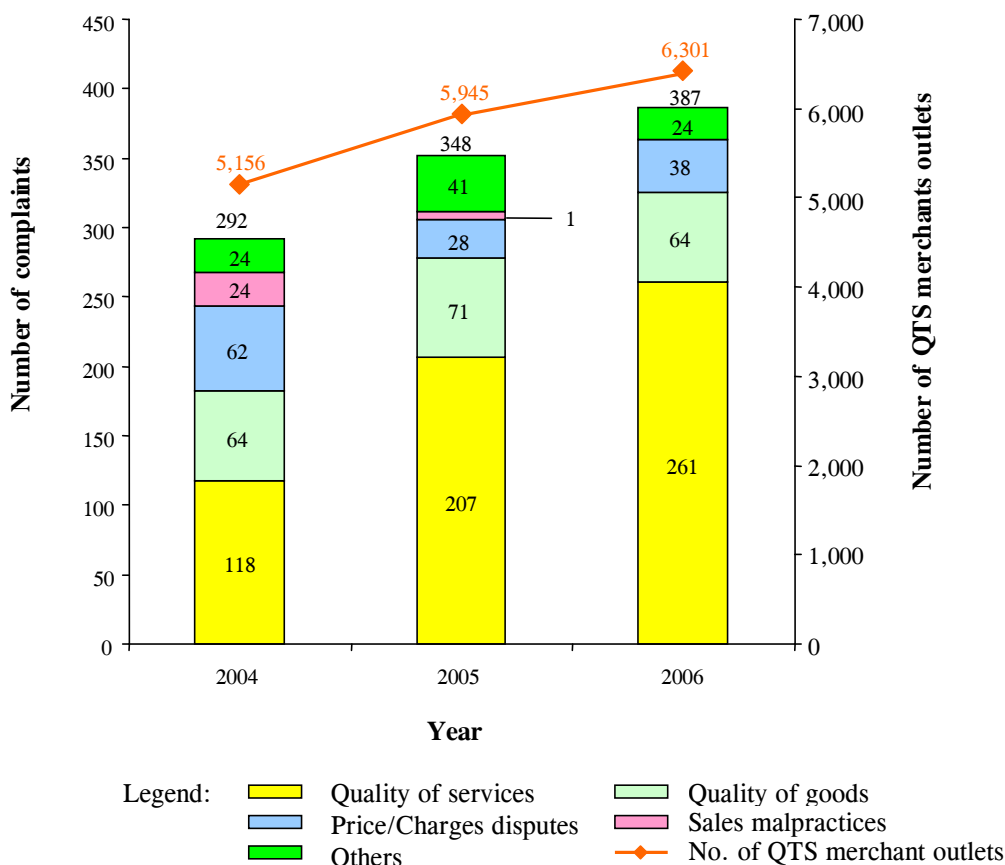
- (b) conducting analysis of visitors' complaints against accredited merchants and follow up remedial actions;
- (c) reviewing the promotion and publicity of the Scheme in order to enhance the awareness of targeted visitors of the Scheme; and
- (d) conducting regular surveys among merchants.

## **Audit observations**

### *Complaints received against QTS merchants*

6.5 An audit analysis of the complaints received against QTS merchants is shown in Figure 6. Audit noted that the total number of complaints had increased by 33% from 292 in 2004 to 387 in 2006, while the number of QTS merchant outlets had increased by 22% from 5,156 to 6,301. The visitor arrivals had increased by 16% from 21.81 million to 25.25 million during the same period. The quality of services was the major source of complaints. Such complaints had increased by 121% from 118 in 2004 to 261 in 2006. According to the HKTb, the increase in the number of complaints on the quality of services was mainly due to the sharp increase in the number of complaints lodged by local residents (an increase of 182% from 68 in 2004 to 192 in 2006). In comparison, the number of complaints lodged by visitors on the quality of services increased by 38% from 50 to 69 during the same period. **Audit considers that the HKTb needs to investigate the reasons for the increased number of complaints and take necessary improvement measures.**

**Figure 6**  
**Complaints against QTS merchants**  
**(2004-2006)**



Source: HKTB records

**Self-financing of the QTS Scheme**

6.6 At a Marketing and Business Development Committee meeting held in November 2006, a Committee member (the Commissioner for Tourism) commented that the HKTB should aim ultimately at achieving cost recovery for the QTS Scheme. The operating expenditure of the QTS Scheme consists of costs directly related to accredited merchants and costs for the promotion of the QTS Scheme. An audit analysis of the income and expenditure for operating the QTS Scheme is shown in Table 10. It shows a shortfall of \$5.3 million in 2006-07, which was met by the HKTB’s recurrent funding. Regarding 2007-08, the estimated shortfall was \$5.9 million.

Table 10

## Income and expenditure for operating the QTS Scheme

	<b>2006-07 Actual</b>	<b>2007-08 Estimate</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>
Operating income (Note 1)	5.3	5.6
Operating expenditure (Note 2)	10.6	11.5
Shortfall	5.3	5.9

Source: HKTB records

Note 1: The income comprised application fees and renewal fees from QTS merchants, and sale of QTS badges.

Note 2: According to the HKTB, the operating expenditures which were directly related to merchant accreditation amounted to \$8.4 million in 2006-07 and \$8.9 million in 2007-08. The expenditures for the promotion of the QTS Scheme amounted to \$2.2 million in 2006-07 and \$2.6 million in 2007-08.

6.7 An additional funding of \$30 million was earmarked for the HKTB to enhance the QTS Scheme for 2005-06 and 2006-07 (see para. 1.8). The funding would be used for promotion and expansion of the Scheme. Since there was no additional funding for 2007-08, the HKTB allocated \$9 million from the unspent funding (see para. 1.9) to carry out quality assurance, in-town promotion, retention of merchant base and quality upgrade programme. **Audit considers that the HKTB needs to explore ways to enable the QTS Scheme to achieve self-financing.**

### *Scheme expansion*

6.8 One of the key deliverables of the additional funding was to examine the feasibility of extending the QTS Scheme to other tourism-related sectors. In November 2006, the HKTB expanded the Scheme to cover visitor accommodation establishments to make it easier for visitors to find visitor accommodation that they can trust. Up to June 2007, three visitor accommodation establishments (providing 207 rooms) were accredited under the Scheme. In response to Audit's enquiry, the HKTB advised in September 2007 that it had taken a prudent approach to ensure that high quality visitor accommodation which met the stringent assessment criteria were recruited. The target set for recruiting visitor accommodation was 200 rooms for 2006-07 and 300 rooms in 2007-08. **In view of the high demand for budget visitor accommodation, Audit**

considers that the HKTB needs to take measures to encourage more visitor accommodation operators to apply for QTS certification.

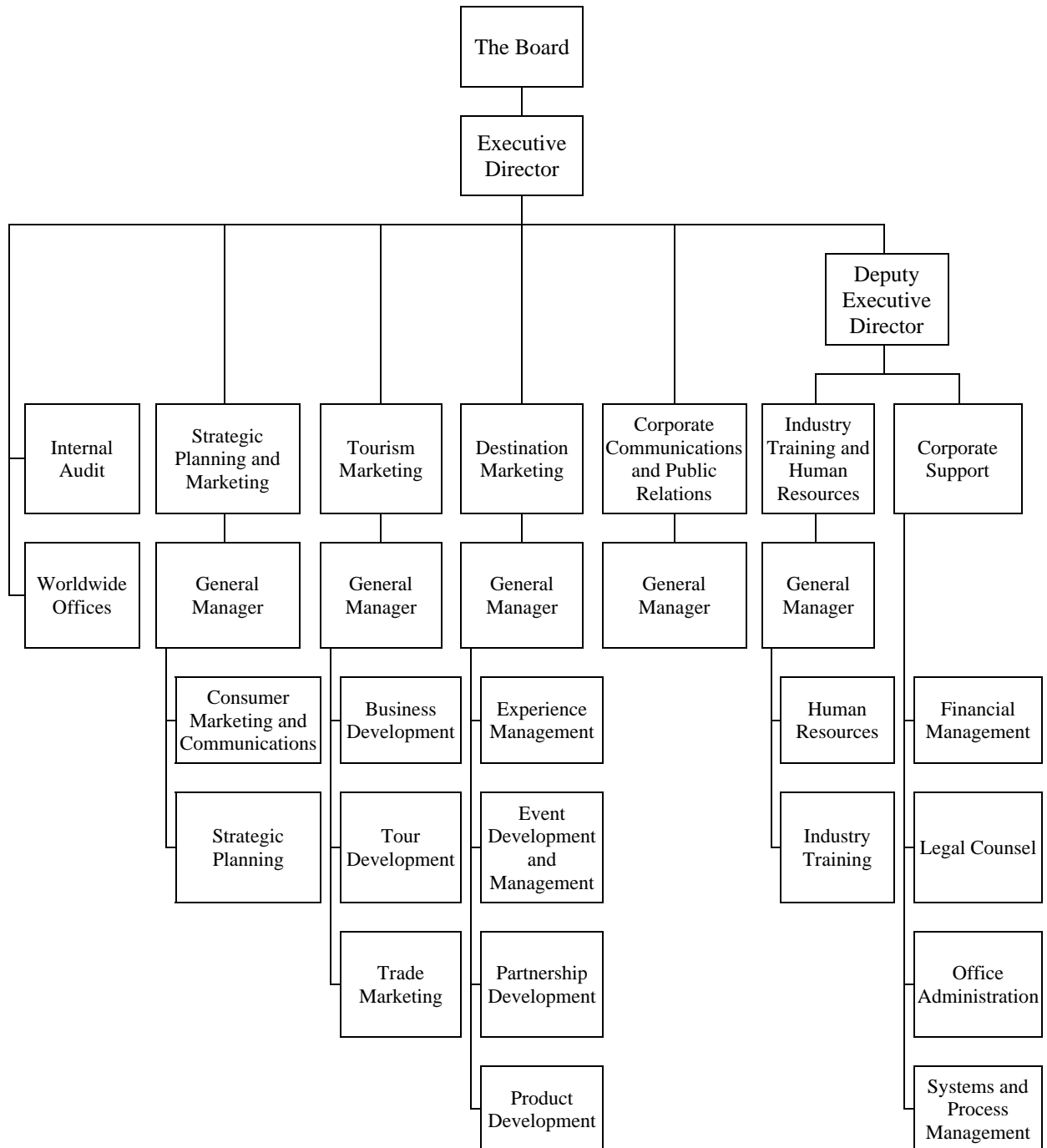
### **Audit recommendations**

- 6.9 **Audit has recommended that the HKTB should:**
- (a) **investigate the reasons for the increase in the number of complaints received against QTS merchants and take action to improve the QTS Scheme;**
  - (b) **explore ways to enable the QTS Scheme to achieve self-financing; and**
  - (c) **take measures to encourage more visitor accommodation operators to apply for QTS certification.**

### **Response from the HKTB**

- 6.10 The **ED, HKTB** generally agrees with the audit recommendations. He has said that:
- (a) the HKTB has been taking active steps to identify the reasons for the increase in complaints. One of the reasons for the rise in the number of complaints could be attributed to increased awareness of the QTS Scheme as a result of enhanced publicity and promotions, and higher expectations of customers. In addition to meeting the management of QTS-accredited merchants to investigate the root cause of the complaints and identify improvement measures, the HKTB will increase the service quality training workshops for merchants' front-line staff so as to enhance their customer service skills. For example, the number of seats for the workshops will be increased to 1,200 in 2007-08 and further doubled to 2,400 in 2008-09;
  - (b) in the long run, the HKTB aims to recover the operating expenditure directly related to merchant accreditation. The expenses on the promotion of the QTS Scheme will continue to be funded by the HKTB as part of its effort to promote Hong Kong's destination image in quality service; and
  - (c) the HKTB is taking proactive actions to recruit high quality visitor accommodation establishments to the QTS Scheme, such as by cooperating with the Home Affairs Department to promote the Scheme and working with potential applicants to enhance their service and facilities. In conducting the recruitment, the HKTB will continue to maintain the stringent criteria to uphold the quality assurance of the programme, and will not lower the criteria for the sake of acquiring more establishments.

**Hong Kong Tourism Board  
Organisation chart (extract)  
(30 June 2007)**



Source: HKTB records

**Classification of key markets by the Hong Kong Tourism Board**

- (A) **Priority markets (5 key markets).** They were the Mainland, Taiwan, Japan, South Korea, and the USA. In these markets, the HKTB aimed to maintain visitor growth and volume by expanding its reach to secondary regions and cities, and tapping into growing high potential segments, such as consumption visitors in the Mainland (Note 1), corporate incentive travel in Taiwan, the weekend getaway young segment in Japan and South Korea, and ethnic segments (Note 2) in the USA.
- (B) **Primary markets (5 key markets).** They were Thailand, the Philippines, Singapore, Australia and the UK. The HKTB was leveraging on additional air capacity, either from increased frequencies or low-cost carriers, to exploit the full potential of such markets. In Southeast Asian markets, the focus was on the growing family and young segments, which had high interest in Hong Kong's new attractions. As to the long-haul markets where the appeal was in culture and heritage, the HKTB aimed to expand the target base by including Hong Kong in multi-destination itineraries or stop-over packages (Note 3).
- (C) **Secondary markets (5 key markets).** They were Malaysia, Indonesia, Canada, Germany and France. The focus in such markets was to identify and invest in opportunities for growth, such as the Muslim segment in Malaysia, ethnic Asian segments in Canada, and multi-destination itineraries linking Hong Kong with Thailand or Vietnam for German visitors.
- (D) **Emerging markets (1 key market).** The HKTB considered that India had high potential and was a key market. The other emerging markets were Russia and the Netherlands. These markets were still in the exploration and early development stages. In India, the HKTB was focusing on encouraging high-end business visitors to bring companions, or to revisit for leisure. In Russia, it was targeting the travel trade to establish an effective network and increase awareness and knowledge of Hong Kong. For the Netherlands, preliminary analysis showed good market potential and further research would be conducted to map out the development strategy.

*Source: HKTB records*

*Note 1: These visitors included short-stay arrivals in Hong Kong for shopping, entertainment, etc. under the Individual Visit Scheme.*

*Note 2: These referred to Americans of Asian origin (e.g. Chinese and Vietnamese).*






*Note 3: Multi-destination itineraries packaged Hong Kong together with other nearby cities around a theme (e.g. golf and relaxation and gourmet dining). Stop-over packages referred to overnight stays on long-haul routes transiting via Hong Kong (e.g. Australia to Europe).*



Visitor arrivals to Hong Kong  
(2001 to 2006)

Market	2001	2002	2003	2004	2005	2006
	('000)	('000)	('000)	('000)	('000)	('000)
Mainland	4,448.6	6,825.2	8,467.2	12,245.9	12,541.4	13,591.3
Taiwan	2,418.8	2,428.8	1,852.4	2,074.8	2,130.6	2,177.2
Japan	1,336.5	1,395.0	867.2	1,126.3	1,210.8	1,311.1
USA	935.7	1,000.8	683.8	1,051.7	1,143.1	1,159.0
South Korea	425.7	457.4	368.2	539.2	642.5	718.8
Singapore	421.5	426.2	265.7	463.9	573.3	588.5
Australia	324.2	343.3	254.3	408.9	525.6	563.9
UK	360.6	380.0	281.3	411.3	464.6	516.5
Philippines	293.1	329.6	234.3	336.7	391.0	454.0
Malaysia	286.3	318.9	208.7	339.7	392.0	446.0
Thailand	241.5	259.3	185.4	316.9	380.4	395.5
Canada	249.7	265.0	186.8	273.9	308.8	335.7
Indonesia	212.3	223.6	165.1	232.3	260.5	324.0
India	161.8	193.7	178.1	244.4	273.5	294.1
Germany	173.4	172.7	117.0	169.7	204.6	213.8
France	136.9	146.7	95.8	148.1	185.6	200.8
Others	1,298.7	1,400.2	1,125.5	1,426.9	1,731.1	1,960.9
<b>Total</b>	<b>13,725.3</b>	<b>16,566.4</b>	<b>15,536.8</b>	<b>21,810.6</b>	<b>23,359.4</b>	<b>25,251.1</b>

Legend:


	Priority markets		Primary markets
	Secondary markets		Emerging market
	Other markets		

Source: HKTB records

**Hong Kong Tourism Board marketing budget and visitor arrivals  
from various markets for 2006-07**

Market	Budgeted marketing expenditure for 2006-07 (a) (\$ million)	Visitor arrivals in 2006 (b) (’000)	Marketing expenditure per visitor (c) = (a)/(b) (\$)
Mainland	42.89	13,591	3.2
USA	36.67	1,159	31.6
Japan	35.00	1,311	26.7
Taiwan	20.00	2,177	9.2
UK	18.71	516	36.3
South Korea	14.30	719	19.9
Australia	13.44	564	23.8
Germany	9.72	214	45.4
Singapore	7.83	588	13.3
Canada	6.57	336	19.6
India	5.77	294	19.6
Thailand	5.65	396	14.3
France	5.62	201	28.0
Philippines	5.49	454	12.1
Malaysia	3.87	446	8.7
Indonesia	2.52	324	7.8
Other countries in Europe	9.62	617	15.6
New Zealand	0.76	98	7.8
South and Central America	0.74	136	5.4
Others	—	1,110	N.A.
<b>Total</b>	<b>245.17</b>	<b>25,251</b>	<b>9.7</b>

Legend:

	Priority markets		Primary markets
	Secondary markets		Emerging market
	Other markets		

Source: HKTB records

**Appendix E**  
(paras. 3.10, 3.13  
and 3.14 refer)

**Mainland Individual Visit Scheme cities as at June 2007**

Implementation date	IVS cities	Number	Under the purview of the WWO in			
			Guangzhou	Shanghai	Beijing	Chengdu
28/7/2003	Dongguan, Foshan, Jiangmen and Zhongshan	4	4			
20/8/2003	Guangzhou, Huizhou, Shenzhen and Zhuhai	4	4			
1/9/2003	Beijing and Shanghai	2		1	1	
1/1/2004	Chaozhou, Meizhou, Qingyuan, Shantou, Yunfu and Zhaoqing	6	6			
1/5/2004	Heyuan, Jieyang, Maoming, Shanwei, Shaoguan, Yangjiang and Zhanjiang	7	7			
1/7/2004	Fuzhou, Hangzhou, Nanjing, Ningbo, Quanzhou, Suzhou, Taizhou, Wuxi and Xiamen	9	3	6		
1/3/2005	Chongqing and Tianjin	2			1	1
1/11/2005	Chengdu, Dalian, Jinan and Shenyang	4		1	2	1
1/5/2006	Changsha, Guiyang, Haikou, Kunming, Nanchang and Nanning	6	2	1		3
1/1/2007	Changchun, Hefei, Shijiazhuang, Wuhan and Zhengzhou	5		1	2	2
<b>Total</b>		<b>49</b>	<b>26</b>	<b>10</b>	<b>6</b>	<b>7</b>

Legend:  28 high potential IVS cities as classified by the HKTB (see para. 3.13)

9 IVS cities outside Guangdong province not classified as high potential cities by the HKTB

12 IVS cities in Guangdong province not classified as high potential cities by the HKTB

Source: *HKTB records*

**Audit analysis of the tracking study results of the HKTB  
worldwide promotion activities in 14 key markets**

***Awareness level of Hong Kong advertising/2006 DHKY campaign***

- (a) ***All respondents.*** While the respondents' awareness level of Hong Kong advertising/2006 DHKY campaign had increased in all 14 markets after the launch of the worldwide promotion activities, the awareness level had remained low in the USA (5%), Canada (7%), Germany (6%) and France (5%);
- (b) ***Potential outbound travellers (Note).*** After the launch of the worldwide promotion activities, potential outbound travellers' awareness level of Hong Kong advertising/2006 DHKY campaign had increased in 12 markets and remained unchanged in two markets;

***Image perception of Hong Kong as a travel destination***

- (c) ***Potential outbound travellers (Note) and those respondents who were aware of Hong Kong advertising/2006 DHKY campaign.*** In six markets, the respondents' perception of Hong Kong as a must-go vacation destination in Asia had dropped after the launch of the worldwide promotion activities. In seven markets, the respondents' perception had increased and, in one market, their perception had remained unchanged. Regarding the respondents' perception of Hong Kong as a desirable Asian destination for travelling with spouse and kids, two markets had decreased and 12 markets had increased after the launch of the worldwide promotion activities;
- (d) ***Potential outbound travellers (Note).*** After the launch of the worldwide promotion activities, potential outbound travellers' perception of Hong Kong as a must-go vacation destination in Asia had dropped in four markets, increased in nine markets and remained unchanged in one market. The potential outbound travellers' perception of Hong Kong as a desirable Asian destination for travelling with spouse and children had increased in 12 markets and dropped in two markets;

***Likelihood of visiting Hong Kong in future due to advertising/2006 DHKY campaign***

- (e) ***Respondents who were aware of Hong Kong advertising/2006 DHKY campaign.*** The respondents in 14 markets indicated that they would travel to Hong Kong due to the advertising/2006 DHKY campaign ranged from 15% to 58%;
- (f) ***Potential outbound travellers (Note).*** After the launch of the worldwide promotion activities, potential outbound travellers who indicated that they would travel to Hong Kong due to Hong Kong advertising/2006 DHKY campaign ranged from 18% to 75%;

***Intention to travel to Hong Kong***

- (g) ***All respondents.*** In six markets, the respondents' intention to travel to Hong Kong had dropped after the launch of the worldwide promotion activities. In five markets, the respondents' intention to travel to Hong Kong had increased and, in three markets, their intention had remained unchanged; and
- (h) ***Potential outbound travellers (Note).*** After the launch of the worldwide promotion activities, potential outbound travellers' intention to travel to Hong Kong had dropped in six markets and increased in eight markets.

*Source:* Audit analysis based on HKTB records

*Note:* Among the respondents, there were potential outbound travellers. They were individuals who intended to travel overseas for vacation in the next two years.

*Remarks:* These 14 key markets are in the list of the 16 key markets in Appendix C, i.e. excluding Indonesia and India.

**Examples of best evaluation practices  
for National Tourism Organisations with different marketing budgets**

<b>Low marketing budget (i.e. not more than Euro 1 million)</b>	<b>Medium marketing budget (i.e. Euro 1 million to 10 million)</b>	<b>High marketing budget (i.e. more than Euro 10 million)</b>
Monitoring statistical data	Monitoring achievement of tourism targets against macro statistical data	Continuous monitoring of macro statistical data
Analysis of enquiries by tourism products	Assessing the numbers of articles generated from media familiarisation trips	Assessing the numbers of articles generated from public relations and media familiarisation trips and the advertising equivalent value of the articles
Conducting questionnaire surveys at airports and/or hotels to assess the reasons for stay, length of stay, etc.	Conducting questionnaire based evaluation of satisfaction to both consumers and the travel trade	Conducting questionnaire based evaluation of: <ul style="list-style-type: none"> <li>— consumer profiles and satisfactions; and</li> <li>— travel trade activities covering such areas as satisfaction with events and estimates of additional tourism revenues generated through the events</li> </ul>
	Using advertising tracking studies occasionally	Using advertising tracking studies occasionally
	Analysing the coupon return on print media advertising	Analysing the coupon return on print media advertising, and the statistics for response to e-mail addresses or telephone numbers contained in advertisements
	Applying conversion study methodology occasionally	Applying conversion studies to a range of activities and generating ROI estimates

Source: UNWTO research study

**Acronyms and abbreviations**

Audit	Audit Commission
BOB	Best of the Best Culinary Awards
BPM	Business planning meeting
CHC	Culture and Heritage Celebration
DED	Deputy Executive Director
DHK	DiscoverHongKong
DHKY	Discover Hong Kong Year
ED	Executive Director
EDLB	Economic Development and Labour Bureau
HKSF	Hong Kong Shopping Festival
HKTA	Hong Kong Tourist Association
HKTB	Hong Kong Tourism Board
IVS	Individual Visit Scheme
KPI	Key performance indicator
LegCo	Legislative Council
MALC	Mid-Autumn Lantern Celebration
NTO	National Tourism Organisation
Parade	International Chinese New Year Night Parade
QTS	Quality Tourism Services
ROI	Return on investment
SOL	A Symphony of Lights
TC	Tourism Commission
UNWTO	World Tourism Organisation of the United Nations
VIS	Visitor information and service
WinterFest	Hong Kong WinterFest
WWO	Worldwide Office