

# **Report No. 49 of the Director of Audit — Chapter 6**

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

### **Summary**

1. To promote inbound tourism, the Hong Kong Tourism Board (HKTB), a government-subvented 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). According to the audited accounts of the HKTB for 2005-06, its income (comprising government subvention of \$683 million and other revenue of \$42 million) was \$725 million and its expenditure was \$724 million.
  
2. ***Audit review.*** 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, namely: (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 (Chapter 6 of the Director of Audit's Report No. 49 and the subject matter of this summary).

#### **Planning of marketing activities**

3. ***Consultation process for preparing Business Plan and Budget.*** According to good practices, consultation with the tourism industry is a key to success and should be undertaken whenever possible. Audit notes that before the annual 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 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.*

4. ***Marketing strategy.*** The HKTB's aim is to maintain a balanced portfolio of visitors and thus a healthy growth from all 16 key markets. To ensure effective investment and marketing, and thus maximise return, these 16 markets were prioritised into four

categories. These four categories comprised five priority markets, five primary markets, five secondary markets and one emerging market. Audit found that: (a) in 2006, visitor arrivals from the five priority markets accounted for 75.1% of the total arrivals. Regarding the other 11 key markets, the visitor arrivals ranged from 2.3% to 0.8% of the total arrivals; (b) for 2006-07, the HKTB average budgeted marketing expenditure per visitor of different markets varied significantly, ranging from \$3.2 for a visitor from the Mainland (a priority market) to \$45.4 for a visitor from Germany (a secondary market); and (c) the HKTB budgeted marketing expenditures of some markets of lower priority were more than those of some markets of higher priority. *Audit has recommended that the HKTB should consider: (a) regularly reviewing the mix of arrivals from different markets; and (b) setting out the return on investment for various markets in its annual Business Plan and Budget as an objective means for the allocation of marketing resources.*

### **Worldwide Offices and Representative Offices**

5. ***Organisation review of the Worldwide Offices (WWOs).*** As at June 2007, the HKTB had 15 WWOs, with an establishment of 101 staff, set up to perform marketing activities in six regions. It had also seven Representative Offices operated by its appointed agencies for performing marketing activities in various markets. Audit noted 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 and other strategic objectives, 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.*

6. ***Hong Kong Tourism Board offices in the Mainland.*** In July 2003, the Individual Visit Scheme (IVS) was introduced and as at June 2007, there were 49 IVS cities. Audit found that: (a) despite the high growth rate of visitor arrivals from the Mainland (from 6.8 million in 2002 to 13.6 million in 2006) and the increased number of IVS cities, the staff establishments of the four WWOs in the Mainland had remained nearly the same; and (b) of the total 49 IVS cities, the HKTB classified 28 IVS cities as high potential cities and laid down specific marketing strategies and programmes for them. Regarding the 21 IVS cities not classified as high potential cities, the marketing strategies for them were covered only in the IVS programmes for all IVS cities in the Business Plan and Budget. *Audit has recommended that the HKTB should: (a) conduct regular reviews of the staff establishments of the WWOs in the Mainland; (b) consider whether specific marketing strategies and programmes need to be developed for those IVS cities not yet classified as high potential cities; and (c) conduct regular reviews of the market potential of selected Mainland cities, including all IVS cities.*

7. ***Visitor information and service (VIS) centres in the Mainland.*** In June 2005, the HKTB informed the Legislative Council 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 (i.e. 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 noted that the visitors served by the Beijing VIS centre were about 33,000 in 2006, a figure well below the 0.5 million-target. *Audit has recommended that the HKTB should: (a) consider whether the Beijing VIS centre could be scaled down; and (b) review the need for setting up the VIS centre in Shanghai.*

### **Execution and evaluation of mega events**

8. ***Mega event strategy.*** Since April 2001, the HKTB had organised a number of mega events, some using ad hoc non-recurrent funding from the Government. In 2006-07, the HKTB staged six mega events and the total expenditure amounted to about \$76 million (\$60 million from ad hoc funding and \$16 million from the recurrent subvention). In January 2007, at a meeting of the Product and Event Committee (one of the four Committees under the HKTB Board for overseeing various aspects of the HKTB’s operation), the Committee agreed to drop two mega events in 2007-08. The Committee considered that 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 feedback from third parties. Audit notes that the HKTB is now conducting a review of the mega events in order to advise the Government on the related issues. *Audit has recommended that the HKTB should finalise the review on the mega events as soon as possible and take into account the review results in enhancing its strategy for organising future mega events.*

9. ***Performance targets not fully met.*** Audit examined the execution and evaluation of three mega events in 2006-07, namely the Hong Kong Shopping Festival (HKSF), the Hong Kong WinterFest (WinterFest) and the International Chinese New Year Night Parade (Parade). The total expenditure amounted to \$57.7 million. Audit noted that the HKTB: (a) had set four performance targets for the 2006 HKSF and did not meet one of the four targets; (b) had set five performance targets for the 2006 WinterFest and did not meet four of the five targets; and (c) had set five performance targets for the 2007 Parade and did not meet two of the five targets. *Audit has recommended that the HKTB should ascertain the reasons for not meeting the targets and take measures to improve similar mega events in future.*

10. ***2006 HKSF anchor event.*** Audit noted that as an anchor event to the 2006 HKSF, the HKTB appointed an overseas contractor to stage a multimedia water show during the event period at a contract sum of \$3.45 million. Upon the request of the HKTB, the Artistic Director of the contractor flew to Hong Kong on four occasions in 2006 to

discuss the event. The HKTB reimbursed him the airfare of \$34,000 for his trip in May 2006 and the hotel charges of \$15,000 for all his four trips to Hong Kong. Audit noted that prior approval of the Executive Director (ED) or the Deputy Executive Director of the HKTB for making payments outside the contract requirement had not been obtained. *Audit has recommended that the HKTB should ensure that charges for work items to be performed are clearly laid down in future agreements with contractors and, where payments are made outside the contract requirement, prior approval from the appropriate authority is obtained.*

11. ***Title sponsorship for the Parade.*** Audit noted that a company had been the title sponsor for the Parade since 1999, the sponsorship agreements for which had been renewed seven times. The HKTA and the HKTB had not invited others to bid for title sponsorship before renewing the agreements with the said company since 1999. This was based on a mutual understanding whereby this company was given a right of first refusal for the sponsorship. *Audit has recommended that the HKTB should take action to maximise the title sponsorship income and solicit more sponsorship for the Parade.*

#### **Execution and evaluation of other marketing activities**

12. ***Worldwide promotion activities.*** The HKTB launched a series of strategic promotions worldwide over a two-year period from 2005-06 to 2006-07 in the 16 key markets. 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. 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. *Audit has recommended that the HKTB should set performance targets for its advertising and promotion campaigns to evaluate the effectiveness of the campaigns in achieving their intended objectives.*

13. ***Pyrotechnic displays for A Symphony of Lights.*** 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. 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, 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.*

14. ***School promotion campaign in the Mainland.*** In May 2006, the Guangzhou WWO entered into a contract with a contractor to organise a school promotion campaign in the Mainland. The contract sum was about \$929,000. Under the contract, the contractor 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 which were mainly Mainland educational organisations. Regarding the expenditure on cooperating with participating organisations, the contractor worked with cooperating partners to implement the campaign in schools in different cities and paid them a fee which included staff cost incurred in liaisons with schools, briefing the students, distribution of promotion materials and monitoring work. The contractor was required to provide supporting documents to the HKTB as evidence for claiming the expenditure incurred in cooperating with participating organisations. Audit examined the supporting documents provided by the contractor claiming such payment and 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. The contractor subsequently provided a statement certifying that the above five payments were made to the responsible staff of the cooperating partners. *Audit has recommended that the HKTB should require its contractors to provide proper receipts to substantiate the claims for payment and state clearly the nature of the expenditure in the receipts.*

15. ***Customer website.*** Through its website “DiscoverHongKong” (DHK), the HKTB disseminates tourism information about Hong Kong to its worldwide customers. 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) by providing their names, e-mail addresses and language preference. Audit noted that the HKTB had collected information about the travel behaviour and personal profiles of about 20% of the customers of its E-zine subscription database. *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.*

16. ***Evaluation of marketing activities.*** According to a research conducted by the World Tourism Organisation of the United Nations on 56 National Tourism Organisations, 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 conversion study and tracking study. The HKTB had undertaken tracking studies and the simpler methodologies for evaluating its marketing activities. *To enhance the methods of evaluating marketing activities, Audit has recommended that the HKTB should consider exploring whether there are other cost-effective methods that should be undertaken for evaluating the effectiveness of selected marketing activities.*

## **Quality Tourism Services (QTS) Scheme**

17. ***Complaints received against QTS merchants.*** In 1999, the HKTA launched the QTS Scheme to accredit shops and restaurants that met the prescribed service standards. Audit noted that the total number of complaints against QTS merchants 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. *Audit has recommended that the HKTB should investigate the reasons for the increase in the number of complaints received against QTS merchants and take action to improve the QTS Scheme.*

18. ***Self-financing of the QTS Scheme.*** Audit analysis of the income and expenditure for operating the QTS Scheme shows a shortfall of \$5.3 million in 2006-07, which was met by the HKTB's recurrent funding, and an estimated shortfall of \$5.9 million for 2007-08. *Audit has recommended that the HKTB should explore ways to enable the QTS Scheme to achieve self-financing.*

19. ***Scheme expansion.*** In November 2006, the HKTB expanded the QTS 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 view of the high demand for budget visitor accommodation, Audit has recommended that the HKTB should take measures to encourage more visitor accommodation operators to apply for QTS certification.*

## **Response from the HKTB**

20. The ED, HKTB has said that the HKTB will critically examine the various audit recommendations and consider their implementation, taking into account their feasibility and cost-effectiveness.

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