



tourismcouncil
the voice of tourism western australia

26 June 2013

Hon. Troy Buswell MLA
Treasurer; Minister for Transport; Fisheries
13th Floor Dumas House
2 Havelock Street
West Perth, WA 6005

Dear Treasurer,

Accounting and Budget Measures for Destination Advertising & Promotion

State budget measures targeting expenditure on government advertising have an unintended impact on public and private investment in destination marketing and visitor expenditure in the WA state economy. This impact is due to the inappropriate accounting of destination marketing expenditure as government advertising and promotion. We are writing to seek permanent changes to the accounting and budget treatment of destination marketing expenditure.

Background

The Western Australian Tourism Commission (Tourism WA) receives state budget appropriations to deliver three services: destination marketing, event tourism and tourism investment and infrastructure. The cost of services for destination marketing by Tourism WA is \$34.2 million in the 2012-13 state budget.

Most of the non-staffing expenditure on the destination marketing is currently accounted for as 'advertising and promotion'. Hence advertising and promotion is core expenditure for the core service of Tourism WA. Consequently budget measures on government advertising and promotion have a significant impact on Tourism WA's service outcomes.

Difference between destination marketing and government advertising

Destination marketing differs from other government advertising in its relationship to government goals. Destination marketing is the core component of an economic development program; the outcome of which is increased visitation and expenditure in the state economy. Whereas government advertising is typically a non-core component of government programs; the outcome of which is to raise awareness by Western Australians of government programs and objectives.

The objective of destination marketing is economic return to the state economy, not public awareness or appreciation of government objectives.

As well as different objectives, destination marketing and government advertising have very different audiences. Government advertising is typically focused on the WA general public, whereas destination marketing is typically focused on trade partners and tourism consumers in international and interstate markets. Destination marketing cannot be subject to criticism as government funded self promotion because the primary market is outside Western Australia.



Return on investment for destination marketing

Destination marketing is essentially selling WA as a visitor destination. Visitation is critical to the state economy, delivering \$7.5 billion in additional direct visitor expenditure in the 12 months to March 2013¹. This visitor expenditure employs 83,000 people in Western Australia².

The reason for government expenditure is market failure to promote a destination, as opposed to private tourism product. Government investment in destination marketing addresses market failure, which enables the private sector to optimise investment in tourism product marketing.

“There is a strong, ‘market failure’-based, case for government financial support for generic tourism marketing. The focus of States should be on interstate domestic marketing. State Tourism Organisations should maximise cooperative marketing with the private sector through tactical campaigns”³

Destination marketing has a high and measurable return on investment (ROI). The ROI for domestic marketing is measured by direct bookings received by trade partners through cooperative marketing campaigns. For example Tourism WA spent \$1.3 million on the ‘Extraordinary Taxi Ride’ campaign of 2010-11. This \$1.3 million expenditure attracted a further \$2.5 million from private industry partners and generated \$29 million in visitor expenditure; a ROI of 22:1 on the state government investment.

Independent academic analysis has consistently found high ROI for destination marketing. Recent meta analysis of international marketing campaigns (using a dynamic modelling approach and cost-effectiveness analysis) found a ROI of 17:1 for Asia and 8:1, 36:1, 3:1 and 7:1 for Japan, New Zealand, the UK and the US respectively⁴. As you are aware, this ROI compares favourably with infrastructure and other government investment.

Impact of budget measures applied to advertising and promotion

Recently a freeze on government advertising expenditure was imposed as a measure to restrain budget expenditure. Similar measures have been applied in the past and may be applied in the future.

Presumably government advertising is targeted as expenditure which is not essential to deliver government objectives, has a low impact on economic activity and is open to criticism as government self promotion. None of these reasons apply to destination marketing expenditure which is critical to the objective of increasing visitation, has a high economic ROI and is not targeted at the Western Australian public.

Despite the differences between destination marketing and government advertising, the recent cuts to government advertising have been applied to destination marketing. The economic impact of these cuts is significant due to the high ROI of destination marketing foregone.

¹ Tourism WA, *Quarterly Visitor Snapshot – year ending March 2013*.

² Tourism Research Australia, *State Tourism Satellite Accounts 2010–11*, July 2012.

³ Geoff Carmody, *Australian Tourism: How deep the recession?* March 2009.

⁴ Kulendran & Dwyer, *Measuring the return from Australia tourism marketing investment in Asia*, STCRC 2008.



Budget expenditure on marketing staff, research, branding, websites and trade partnerships is the essential soft infrastructure for destination marketing. However, it is expenditure on advertising that realises the investment in this soft infrastructure. Advertising is the last dollar spent, but is the 'call to action' for visitors to select WA as a destination. It is advertising that converts the other budget expenditure into economic outcomes. Cutting advertising reduces the ROI not just on the advertising dollar, but on previous budget expenditure in the soft infrastructure of destination promotion.

The advertising cuts have also been arbitrary in their timing. Applied to destination marketing they severely impact on the ability of Tourism WA to reach the right market at the right time. These cuts further reduce ROI by missing key seasons, trade channels and consumer decision making cycles.

Furthermore, private marketing of tourism product relies on public investment in destination promotion. It is critical that the industry has certainty on Tourism WA marketing efforts. Cutting anticipated destination marketing reduces private investment in marketing tourism products at that destination. Hence public cuts trigger private cuts and further exacerbate the lost economic return to the state economy.

Recommended policy on accounting and budgeting for destination marketing

Destination marketing differs from government advertising in objective, economic impact and audience. Tourism Council WA contends that these differences are such that expenditure on destination marketing should be accounted for separately from other government advertising and promotion expenditure under the chart of accounts that is applied across government.

General budget measures applying to all government advertising and promotion would therefore apply to Tourism WA and all other agencies; but would exclude advertising and promotion undertaken for destination marketing. The level of budget investment in destination marketing should be a specific decision of government and not subject to the unintended consequences of general budget measures applied to government advertising.

We therefore request that government accounts and budget measures be permanently amended in 2013-14 to separate destination marketing from other government advertising and promotion expenditure.

Yours sincerely,



Evan Hall
Chief Executive Officer
Tourism Council WA

cc Hon Colin Barnett MLA, Premier
Hon Dr Kim Hames MLA, Tourism Minister

