



Australian Government



TOURISM  
AUSTRALIA

25 September 2015

Ms Angela MacRae  
Commissioner  
Productivity Commission  
Collins Street East  
Melbourne VIC 8003

Dear Commissioner MacRae

Thank you for the opportunity to respond to the Productivity Commission's (the Commission) draft report *Barriers to Growth in Service Exports* (the Draft Report). This letter provides an overview of Tourism Australia's consideration of the draft report and the attached document by Deloitte Access Economics provides further detail in support of my comments and recommendations.

Tourism Australia is the Australian government agency responsible for the international promotion of Australia as a destination for leisure tourism and business events. Tourism Australia receives approximately \$150 million each year from the Australian Government and leverages this with an additional \$60 million in partnership revenue.

The Australian Government's comprehensive 2003 *Tourism White Paper: A Medium to Long Term Strategy for Tourism* recommended the establishment of Tourism Australia to provide government funded international marketing of Australia as a tourism destination because:

... in the tourism sector, it is recognised that individual businesses, aggregations of businesses and alliances are unable to capture all the returns from their investment in generic promotion and marketing, and hence they under-invest. To ensure an effective and successful international campaign to market Brand Australia, governments have invested significantly in international marketing. International marketing has the capacity to drive demand in our key international markets and stimulate demand in new markets.

I am pleased the Draft Report endorses this long-established position, recognising "there is an in-principle role for government provision and funding of destination marketing and major events" to ameliorate the evident market failure of private sector willingness to undertake national tourism destination marketing.

The following comments and recommendations are solely in relation to the recommendation 8.1, as this relates directly to Tourism Australia's destination marketing programs and activities.

Firstly, I recommend the Commission separate its consideration of destination marketing and major events and make distinct recommendations on each activity. This will provide a clearer picture of the economic return on government investment for each activity, as well as providing greater clarity as to the different roles of the Commonwealth and state and territory governments, particularly in relation to major events.

Major events and destination marketing are distinct both in terms of the mechanisms through which additional visitation and expenditure materialise and how readily they are identified and measured. The analysis of major events can be more specific as the events have clearly defined timelines, audiences, locations and legacy impacts. The concentration of expenditure at major events also allows for greater private sector involvement in funding, and capturing, the returns through sponsorship arrangements. The concentration of returns to individual sponsors of events reduces the market failure justification for centralised funding. The bidding for, securing and hosting major events is, for the most part, the responsibility of state and territory governments.

In comparison, destination marketing provides more dispersed impacts to the tourism sector, with individual campaigns having a less clear impact by time and location. The benefits of destination marketing should be measured at a more aggregated level that averages the returns over campaigns. It is worth noting that, in accordance with current Australian Government policy, Tourism Australia focuses only on international destination marketing. State and territory tourism organisations conduct both international and domestic marketing of their respective offerings. We would recommend that the Commission consider separate analysis of each jurisdictions' investment in destination marketing in order to ascertain a clearer indication of the economic returns of such investment.

Secondly, I would like to see greater recognition in the Draft Report of the significant planning, research and analysis that goes into Tourism Australia's international marketing campaigns and the robust, systematic approach the agency takes to measuring their impact. In this context, I disagree with the Draft Report's recommendation that a cost-benefit analysis (CBA) be undertaken both prior to and after each marketing program. Such a requirement would constitute a costly diversion of resources from the provision of international destination marketing to address a recognised market failure, and would not provide any significant additional benefit to the national economy.

Tourism Australia continues to focus the majority of its global marketing resources on markets that represent the greatest long term international visitor expenditure growth potential. Tourism Australia bases decisions about which marketing investment is likely to lead to the highest return on detailed analysis and after undertaking a rigorous planning process. The target for each market is set based on annual incremental international overnight visitor expenditure and progress is measured and reported each quarter using results from the International Visitor Survey (IVS).

As noted in our submission to the Commission's recent research paper into Australia's international tourism industry, Tourism Australia has been the subject of several independent reports and refereed journal articles over the years. We also regularly commission independent research on key marketing return metrics. Some of these reports are detailed in the attached analysis from Deloitte Access Economics. Based on these independent and rigorous reports, Tourism Australia has a return on marketing investment (ROMI) of 15:1.

In addition to this research, Tourism Australia undertakes ongoing Campaign Activity Evaluation (CAE) to evaluate and inform the effectiveness of campaign activity across key source markets, providing rigorous evaluation of media spend and increasing our understanding of the impact of Tourism Australia's marketing activity among our target customer.

ROMI evaluation is then conducted using inputs from the CAE and campaign target visitor expenditure from the IVS. Besides informing Tourism Australia on the investment effectiveness of its campaigns, the evaluation results are also benchmarked against ROMI norms of similar campaigns run within the markets. This is not made public because we operate commercially and any sharing our research and consumer insights would severely impact our competitive advantage.

As a government agency, Tourism Australia's performance is overseen by our Board and we are subject to parliamentary scrutiny through mechanisms such as the Senate Estimates, Senate orders and an annual compliance report. So our governance and marketing rationale is always transparent and accountable.

To undertake CBA on all Tourism Australia's projects would be extremely onerous and require a significant diversion of resources from marketing activity, given the rigour which this CBA would require in order to be useful. Estimating the additional expenditure which each campaign would be expected to create given its unique features and target market, and converting this to a net economic benefit using an approach based on general equilibrium modelling would not be a simple exercise. Hence, the requirement for CBA to be undertaken for each campaign is itself not likely to pass a cost-benefit test.

The attached report from Deloitte Access Economics explains these arguments in further detail. I commend our submission to you and your team. If you would like to discuss any aspect of this work, please contact Mr Tim Mahony, Tourism Australia's Government Relations Manager

Yours sincerely,

John O'Sullivan  
**MANAGING DIRECTOR**