

Performance Audit

Advertising Malta as a tourist destination a case study of the Italian Market

Report by the Auditor General

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List of Abbreviations

GDP	Gross Domestic Product
MIA	Malta International Airport
MICE	Meetings, Incentives, Conferencing, Exhibitions
MTA	Mata Tourism Authority
MTAC	Ministry for Tourism and Culture
NAO	National Audit Office
NSO	National Statistics Office
PR	Public Relations
TEFL	Teaching English as a Foreign Language
TOS	Tour Operator Support



Executive Summary

Executive Summary

Introduction

1. The National Audit Office (NAO) has conducted the performance audit: “Advertising Malta as a tourist destination – a case study of the Italian Market”. The audit sought to examine the extent to which the Malta Tourism Authority’s (MTA) advertising initiatives are effective in attracting and sustaining tourism. The audit focus on Italy was due to the significant interest of this market to the local tourism industry, the recent increase in accessibility by air and sea as well as the substantial advertising budget MTA allocates for the Italian market. Moreover, due to the operational similarities with other international offices, the review of the advertising in Italy can, in many instances, be considered as reflective of the MTA’s practices and procedures. Unless, otherwise stated, this report primarily focused on the period 2008 to 2011.

2. Similar to the overall positive performance, tourism from Italy has generally shown positive trends. In fact, during the period under review, tourist arrivals, expenditure and total nights have shown an increasing trend. However, available tourism statistics have shown that there is potential to further improve performance with respect to this important market. Towards this end, opportunities exist for further growth in the winter and shoulder months while consolidating business in the summer months.

3. Against this backdrop, this performance audit sought to determine the extent to which the MTA’s advertising ensures the optimisation and the sustainable growth of tourism from the Italian

market. Consequently, the audit’s objectives entailed establishing the degree to which:

- the MTA planning appropriately addresses the dynamics of the Italian tourist market;
- the process adopted by the MTA to advertise Malta in Italy is effective; and
- the MTA is in a position to effectively monitor the results of its advertising initiatives.

4. Responsibility for implementing advertising programmes in the various countries, including Italy, mainly vests with the Authority’s International Offices. A Director, who is assisted by locally engaged personnel, heads each of the International Offices. These Offices report to the Director International Marketing, who in turn is accountable to the Authority’s Chief Executive Officer.

5. The MTA’s planning process of advertising programmes in Italy is considered as holistic, since it takes into consideration the various elements that affect the tourism industry. The planning process involves, at various stages, the input of top and line management within the Authority. The studies and research undertaken by the MTA’s research unit are also critical to the planning process since they provide the industry related market intelligence. The planning process also takes into consideration the Authority’s policy framework, budgetary allocations, as well as the dynamics of the industry.

6. The generally positive planning process adopted has led to a sharp increase in the number

of tourists from the Italian market in recent years, particularly in the peak season. Despite the short to medium term successes, the potential still exists for the MTA to further exploit tourism in line with the available flight accessibility from various regions in Italy.

7. The short to medium term successes can be mainly attributed to the predominant importance allocated to promote Malta as a destination offering a wide range of leisure activities, particularly during the peak season. Towards this end, the MTA promotes Malta as a unique country by communicating the mix of city and Island characteristics through generic and multi-segment advertising. In part, the rationale behind this advertising approach is to exploit already developed tourism products. This generic advertising and promotion reflects the existing demand for the different tourism segments.

8. To varying degrees, this marketing approach also aims to promote the different tourism niches. However, each niche constitutes a product in its own right, which aims to target particular consumers and necessitates specific marketing, including advertising.

9. However, the MTA's predominant focus on general advertising is restraining the Authority from developing further other specific segments. This is emphasised by the fact that, in 2011, the MTA's targets for Culture and Heritage, Sports, Teaching English as a Foreign Language (TEFL) and Meetings, Incentives, Conferencing, Exhibitions (MICE) indicated in the Marketing Plan 2010 to 2012 were not attained.

10. The introduction of new routes from Italy in recent years led to a significant increase in the number of Italians visiting Malta during the low season. However, the opportunity exists to increase the number of visitors from Italy during this period in line with current seat availability from various regions in Italy. Towards this end, the Authority has increased its off-peak advertising.

11. Nevertheless, the MTA contends that low-season advertising is to be conducted once the Authority has ascertained that the local tourism industry is operating at its full capacity during

the peak season. Consequently, the spread and frequency of low season advertising would be dependent on the funds available following the undertaking of peak seasons campaigns as well as the spill over effect of peak season programmes. Furthermore, during the period under review the Authority incurred unplanned expenditure to cater for unforeseen circumstances that further limited the availability of funds for off-peak advertising.

12. In addition to reviewing the planning process, this audit aimed to review that the implementation process adopted by MTA is effective. The MTA generally fulfilled implementation criteria set by the NAO for the purpose of this study. Such criteria related to implementing campaigns in a timely manner, within budget and in a manner, which enabled the attainment of the main national tourism targets related to incoming tourism from Italy.

13. The Malta Travel and Tourism Services Act (1999) stipulates that the Authority can contract for the supply of goods or materials, or for the execution of work, or for the rendering of services through direct orders up to €232,937. This provision provides the appropriate flexibility required for the MTA to react quickly to emerging and changing circumstances in a dynamic and volatile industry.

14. However, the procurement of services through direct orders is not fully supported by governance structures. Such circumstances pose threats to operating transparency and to business continuity. These concerns generally related to the non-documentation of negotiations undertaken with third parties and subsequent decisions in connection with procurement through direct orders. Through the randomly selected cases reviewed, this audit nonetheless found that the legally set financial limits and relevant approvals for procurement through direct orders were respected.

15. Additionally, the MTA does not have fully documented operational policies and guidelines regarding the granting of financial support to tour and other industry operators. The importance of such documentation increases since the MTA has significant discretion when carrying out negotiations with beneficiaries of such support.

16. The Authority procured the services of a pan-European advertising agency to support its marketing and advertising activities. The MTA encountered difficulties in managing the relative contract. Although such issues were at times beyond the Authority's control, these impinged, to varying degrees, on advertising campaigns – including those related to Italy. Most of these concerns were eventually addressed through an out of court settlement. Generally, the advertising agency experience has enhanced the Authority's knowledge in how to best deal with and better exploit such services in the future. However, the process of awarding a new contract for a new advertising agency stalled at the evaluation stage in October 2011. Matters in this regard are still outstanding since a decision, based on financial and technical concerns, was taken to issue a fresh call for tenders.

17. Various tourism indicators show that, generally, advertising campaigns conducted in Italy were successful. Total tourist arrivals from this country, together with total expenditure and total nights, registered an increase throughout the period 2008 to 2010. Moreover, generally, the expenditure per night of tourists also increased. However, such a trend was interrupted during 2011 where a decline in the aforementioned performance indicators was recorded. Additionally, during the first three quarters of 2012, tourist arrivals from Italy declined marginally when compared to the same period of the previous year.

18. The prevailing economic conditions in Italy were major contributory factors leading to the negative shifts indicated in the preceding paragraph. In addition, the decrease in airline seat capacity from Italy together with the problems in Libya also contributed to the decline to these performance indicators. Such a situation rendered the importance of advertising as critical, and in this respect, the MTA budgetary allocation for advertising was significantly increased to counter the economic downturn. Consequently, the intensifying of advertising campaigns resulted in higher costs per Italian tourist visiting Malta.

19. The cost per Italian tourist also increased since advertising funds were utilised to support the introduction of new routes from Italy. This initiative increased the number of Italian arrivals. However,

the load factors of airlines operating on various routes from Italy pose concerns, particularly due to the lower load factors pertaining to flights operated during the winter months. This clearly indicates that the opportunity exists for the MTA to work more with regards to advertising with its partners to ensure that its campaigns give more prominence to low season tourism from Italy.

Overall Conclusions

20. This performance audit has shown that the advertising campaigns carried out in Italy by the MTA were generally effective. Various tourism indicators suggest that significant progress was made to boost tourism from Italy. Towards this end, the MTA's efforts were mainly two pronged, and in accordance with the Tourism Policy. This entailed an intensification of advertising campaigns and the introduction of new airline routes from various regions in Italy. However, such initiatives coupled with the economic downturn experienced in Italy have increased significantly the cost of attracting Italian visitors to Malta.

21. The MTA's planning process appropriately addresses the dynamics of the Italian market. Towards this end, the MTA sought to promote Malta as a destination offering a wide range of leisure activities, particularly during the peak season. However, the significant focus on generic advertising does not fully consider that each activity may constitute a product niche in its own right.

22. The MTA's planning process of its advertising campaigns focus to ensure capacity during the peak season. Nevertheless, over the years, the MTA also managed to improve performance during the low season by increasing its advertising during the winter and shoulder months. Despite these positive results, the opportunity exists for the MTA's planning process to further address Malta's low season potential.

23. The Authority's operations are concerned with economic and commercial realities. This audit raised governance concerns, specifically related to supporting documentation in cases where services are procured through direct orders. Although the relative financial limits and authorisation procedures are respected, the non-documentation of internal discussions and negotiations with third parties

weakened audit trails. Similar issues also exist with respect to the granting of financial support to industry operators through the Tour Operator Support (TOS) scheme. The strengthening of the MTA's corporate governance should not be interpreted as an operational obstacle but rather as a means to enhance results as well as improving the Authority's transparency and accountability.

24. To conclude, this audit acknowledges that the MTA's efforts and initiatives to attract tourism from Italy have led to significant progress in arrival rates and earnings. Nevertheless the opportunity exists to address the areas of concerns highlighted in this audit to further ascertain the industry's sustainability.

Recommendations

25. In view of the foregoing the NAO proposes that the MTA considers the implementation of the following recommendations listed below. These proposals are intended to address the strategic, operational and governance concerns discussed in this report:

- i. The MTA is to step-up its efforts and extend its advertising campaigns and marketing initiatives to promote further all of Malta's tourism niches. Whilst acknowledging that current efforts do promote the various tourism niches both through generic and specific advertising, increasing niche specific advertising will contribute towards attracting more visitors seeing specialised activities. This is because each niche may constitute a product in its own right. Moreover, such an approach will also be contributing towards ensuring the long-term sustainability of the industry as advocated by the Tourism Policy 2012 to 2016.
- ii. Advertising campaigns are to further promote low season tourism. Whilst acknowledging that the distribution of arrivals is to a large extent demand driven, current airline load factors on a number of routes from various regions in Italy show that the potential exists to continue to improve arrival rates.
- iii. The Authority's strategies and plans are to provide a seasonal breakdown of the annual tourism targets. The formal setting of seasonal targets will stimulate the Authority to allocate greater importance, in terms of advertising resources' allocation, and further improve the Italian market's low-season performance.
- iv. In cases relating to major advertising campaigns, the MTA is encouraged to scientifically test the advertising content prior to its publishing. In this context, the term 'major' relates to the strategic importance and financial materiality of specific campaigns. Such tests will ensure that the advertising material conveys the Authority's messages clearly to the intended target groups. The NAO acknowledges the MTA's current efforts to incorporate such evaluations in the new advertising agency tender.
- v. The Authority is encouraged to expedite matters relating to the award of the advertising agency contract. Further delays in appointing an advertising agency to assist the MTA in its marketing and promotional function raises the risk of outdated advertising material being published in major campaigns.
- vi. The corporate governance related to the procurement of service by direct order is to be strengthened through more robust audit trails. Towards this end, the Authority is to document the reasons and rationale relating to the needs for the services being procured. Additionally, the MTA is to formally record the outcomes of the negotiation processes with third parties leading to the award of contracts through direct orders.
- vii. The Authority is encouraged to increasingly utilise and extend access of the recently introduced Management Information System to its International Office in Italy. This electronic system facilitates the maintenance of audit trails relating to MTA expenditure.
- viii. The opportunity exists for the MTA to draw up policies and guidelines relating to the granting of financial support relating to

the TOS scheme. These documents are to include support granting criteria, which will enhance the Scheme's operating consistency and transparency. The compilation of TOS policies and guidelines will further improve the Authority's corporate governance by providing operating parameters which will enhance value for money considerations.



Chapter 1

Prevailing situation

Chapter 1 – Prevailing situation

1.1 Introduction

1.1.1 The National Audit Office (NAO) has conducted the performance audit: “Advertising Malta as a tourist destination – a case study of the Italian Market”. The audit sought to examine the extent to which the Malta Tourism Authority’s (MTA) advertising initiatives are effective in attracting and sustaining tourism.

1.1.2 The analysis of MTA advertising in Italy was considered to provide a reliable case study to assess the Authority’s effectiveness in implementing its advertising programmes. The audit focus on Italy was due to the significant interest of this market to the local tourism industry, the recent increase in accessibility by air and sea as well as the material advertising budget. Moreover, due to the operational similarities with other International Offices, the review of the advertising in Italy can, in many instances, be considered as reflective of the MTA’s practices and procedures. Unless, otherwise stated, this report primarily focused on the period 2008 to 2011.

1.1.3 In accordance with the definition coined by Berkowitz et al, for the purpose of this audit, advertising is being considered to be “*any paid form of non personal communication about an organization, good, service, or idea by an identified sponsor.*” Consequently, advertising conducted by

the MTA’s Italian International Office was considered for the purpose of this audit.

1.1.4 Additionally, advertising undertaking jointly between the MTA and Tour Operators, which was funded through the Tour Operator Support (TOS) scheme was also considered for the purpose of this audit. The TOS is a means whereby the MTA allocate funds to private tourism operators to advertise Malta overseas. While both this Scheme and the advertising budget pertain to the MTA’s marketing budgetary allocation, relative expenditure is accounted for in their respective accounts.

1.1.5 The scope of this audit did not encompass arrivals by cruise liners mainly due to the inherent differences of the marketing and advertising strategies involved. Generally, cruise liner passengers tend to be same day visitors who do not spend the night in collective or private accommodation in the place or country visited.¹ Moreover, in accordance with the World Tourism Organisation’s definition, a visitor is classified as a tourist if an overnight stay is included in the trip.

1.2 In recent years tourism indicators registered positive trends

1.2.1 Over the past ten years, tourism’s direct contribution to the Gross Domestic Product was always greater than 10 per cent.² In addition, tourism

¹ Eurostat (1998), *Community methodology on Tourism Statistics*, page 8.

² World Travel & Tourism Council (2011), *Travel and Tourism Economic Impact 2011*, page 5.

accounts directly to around 10 per cent of the Gross National Product, 14 per cent of government income, 10 per cent of employments as well as six per cent of imports and outflows. These figures increase further when taking into account the indirect impacts of tourism.³

1.2.2 During the last years, tourism registered considerable fluctuations both in the number of tourist arrivals and in the amount of expenditure spent in Malta. Figure 1 analyses the trend in tourist arrivals from 2008 to 2011. The highest number of tourist arrivals in Malta was from the United Kingdom, Germany, Italy, France and Spain. The overall positive trend registered up to 2008 was reversed in 2009. This sharp drop in arrivals was mainly due to the economic crises. However, in 2010, the decline in the number of visitors was reversed again. Both 2010 and 2011 resulted into two positive years, in terms of tourist arrivals, when compared to the previous years. This overall positive performance continued to be registered in 2012, as outlined by tourism statistics for the period January to September.

1.2.3 A similar trend was also apparent in the total tourist expenditure, their total per capita expenditure as well as the total number of nights. Although, the three variables followed the same trend, the drop registered in 2009 in the total number of nights

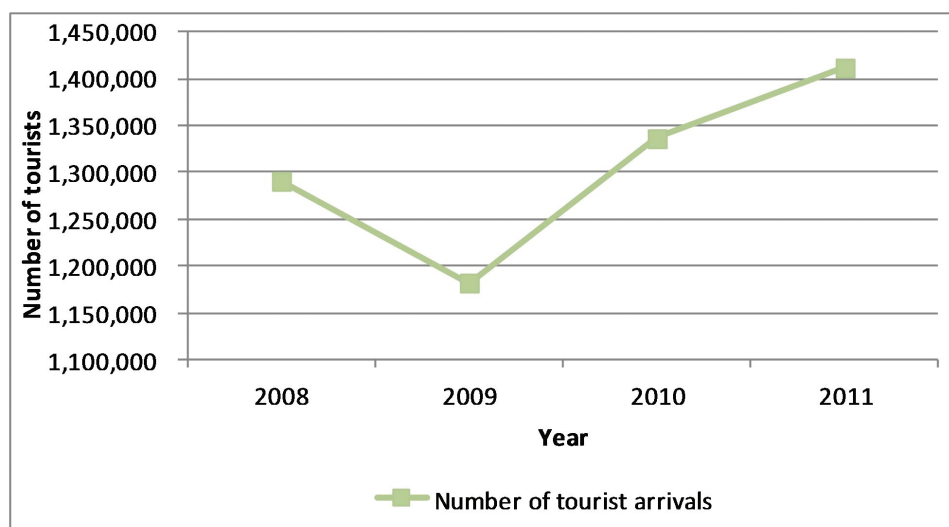
was bigger when compared to the total number of tourists.⁴

1.3 Despite the increase in tourist arrivals from the Italian market, there is still scope for further growth

1.3.1 Similarly to the overall positive performance, tourism from Italy - the market being reviewed as a case study in this audit, has generally shown positive trends. Since 2009, in terms of arrivals, Italy became the second largest market. Such a positive trend was not even forecasted by the MTA's three-year marketing plan. This situation materialised as the extensive route development in Italy and its implications on the industry ensued the publication of the document. It is to be noted that this plan was not updated to reflect the introduction of new routes. Consequently, during the period under review, the yearly targets outlined in the aforementioned marketing plan were always exceeded. For instance, in 2010 tourist arrivals from Italy were 24 per cent more than MTA's target.

1.3.2 During the period under review, tourist arrivals, expenditure and total nights have shown an increasing trend. However, available tourism statistics have shown that there is potential to further improve performance with respect to this

Figure 1 : Number of tourist arrivals



Source: NSO News Release, *Departing Tourists*, December 2010 and 2011.

³ MTCE (2012), *Tourism Policy For the Maltese Islands 2012 to 2016*, page 106.

⁴ NSO News Release, *Departing Tourists*, December 2010 and 2011.



important market.⁵ Towards this end, opportunities exist for further growth in the winter and shoulder months while consolidating business in the summer months.⁶

1.4 Advertising by the MTA is critical to the local tourism industry

1.4.1 In spite of the positive results being registered, MTA's advertising remains crucial to sustain, diversify and ultimately maximise Malta's potential as a tourism destination. The "Tourism Policy for the Maltese Islands 2007 to 2011", portrayed the objectives for sustainable tourism. These objectives provided the strategic direction and framework for the MTA's advertising programmes. The guiding principles outlined in this document set out the overall economic and social strategic objectives. The Ministry for Tourism and Culture (MTAC)⁷ was entrusted to drive and monitor this Tourism Policy. The MTA as well as other Governmental Ministries and entities are responsible for the implementation of this Policy.

1.4.2 In July 2012, Government launched the "Tourism Policy for the Maltese Islands 2012 to 2016". The over-arching goal of this document is to ensure that tourism remains a driver for sustainable development. This could be attained through the goal of achieving a greater quantity within a quality structure and framework.

The MTA develops medium-term and annual market specific marketing plans

1.4.3 In 2006, the MTAC formulated the "Malta's National Tourism Plan" to enable the implementation of the Tourism Policy 2007 to 2011. This plan identified the required actions, deliverables, responsibilities and timeframes. In addition to, and to complement the "Malta's National Tourism Plan", the MTA developed various other marketing and advertising plans. These included three-year marketing plans as well as annual market specific plans that are to be implemented by the relative MTA International Office.

The implementation of advertising programmes is mainly the responsibility of MTA's International Offices

1.4.4 The MTA has three International Offices at its major markets as well as Representatives Offices in other countries. The International Offices, including the one responsible for the Italian market, are headed by a Director and employ locally engaged personnel to assist in the implementation of the various programmes and initiatives. These Offices report to the Director International Marketing, who in turn is accountable to the Authority's Chief Executive Officer.

1.4.5 The operation of the International Offices is guided by the three-year marketing plan published by the MTA. This provides the targets for each particular tourism niche and the MTA's vision for

⁵ Malta International Airport (MIA) data on seat capacity and arrivals.

⁶ MTA (2012), *Tourism Policy for the Maltese Islands 2012 to 2016*, page 18

⁷ MTAC has changed to Ministry for Tourism, Culture and the Environment as from 6 January 2012.



sustainable tourism. This document serves as the basis for the development of the annual plan for each particular market. The latter plan, which is the responsibility of the respective International Offices, includes the specific advertising campaigns to be conducted in each market.

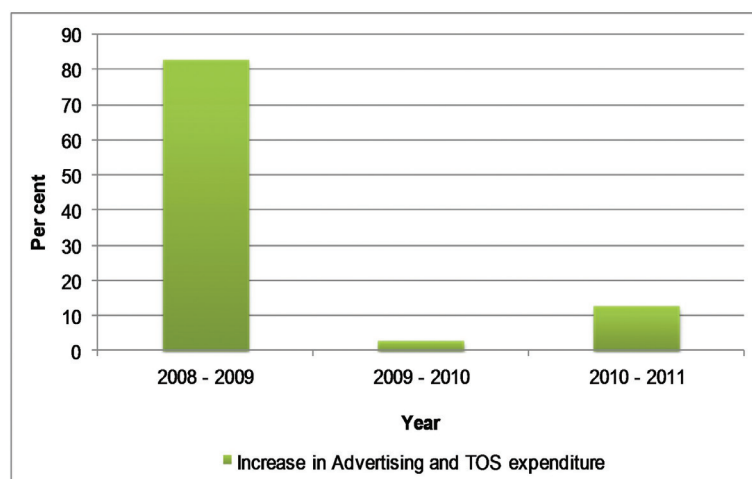
There was a significant increase in advertising expenditure with respect to the Italian market

1.4.6 In 2011, MTA's total expenditure amounted to €38.5 million. Over 71 per cent of this amount was expended on the Authority's marketing activities, which included an expenditure of over €5.6 million to advertise Malta in various countries. The latter relates to initiatives conducted through various advertising mediums, such as television, newspapers, internet and billboards.

1.4.7 In addition to the advertising expenditure referred to in the preceding paragraph, the MTA's advertising also includes campaigns, which are conducted jointly with tour operators. Such campaigns are mainly funded through the TOS scheme. Expenditure on such campaigns, vary in according to the specific needs of the targeted market.

1.4.8 This audit focused on advertising programmes implemented in Italy by the MTA, mostly through the Authority's International Office. For commercial reasons, the expenditure incurred with respect to the implementation of the advertising programmes in Italy is not being disclosed. However, in recent years, there was a substantial percentage increase in advertising expenditure in Italy over the preceding year. Figure 2 refers.

Figure 2 : Increase in Advertising and TOS expenditure in Italy (2008 to 2011)



Source : MTA.

1.4.9 Figure 2 shows that in 2009 the advertising expenditure in Italy increased significantly over the previous year. This increase in advertising expenditure (around 83 per cent) was mainly due to the fact that additional funds were made available to the MTA to mitigate the effect of the economic downturn which was having a negative impact on the tourism industry. Additionally, during the period under review, the MTA increased its advertising programmes to maximise tourist arrivals from Italy, particularly in view of the increase in seat capacity by air and sea.

1.5 Audit aims and objectives

1.5.1 Against this backdrop, this audit analysed the extent to which the MTA's advertising ensures the optimisation and the sustainable growth of tourism from the Italian market. Consequently, the audit's objectives sought to determine the degree to which:

- the MTA planning process appropriately addresses the dynamics of the Italian tourist market;
- the process adopted by the MTA to advertise Malta in Italy is effective; and
- the MTA is in a position to effectively monitor the results of its advertising initiatives.

1.6 Audit methodology

1.6.1 Various sources were used in the conduct of this audit. Such sources of documentation included, the "Tourism Policy for the Maltese Islands 2007 to 2011", the "Malta's National Tourism Plan" as well

as Malta Tourism Marketing Plans 2008 to 2010 and 2010 to 2012. On case study basis, the NAO also analysed a sample of the advertising campaigns conducted. A selected bibliography is found in Appendix II.

1.6.2 In addition, the NAO carried out semi-structured interviews with MTA officials both at the Head Office in Malta and at the Italian International Office. Meetings were also carried out with the main stakeholders involved in the local tourism industry.

1.7 Report structure

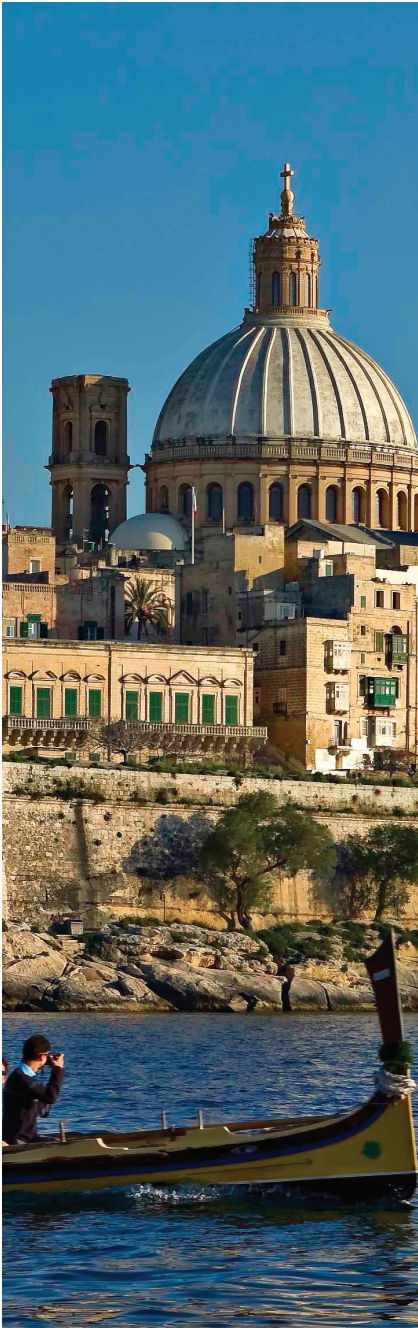
1.7.1 The ensuing Chapters seek to review the effectiveness of MTA's advertising campaigns in ensuring the maximisation and continuous growth of tourism from the Italian market.

1.7.2 Chapter 2 seeks to evaluate whether the MTA has the adequate structures in place to enable effective planning in a constant changing circumstances.

1.7.3 Chapter 3 evaluates the implementation of the various advertising campaigns and whether the process adopted is appropriate.

1.7.4 Chapter 4 analyses the results achieved by the MTA through the campaigns conducted in Italy and whether the Authority has the suitable mechanisms in place to monitor the effectiveness of its advertising initiatives.

1.7.5 The overall conclusions and recommendations related to this performance audit are presented in this report's Executive Summary from page 8 to 10.



Chapter 2

Planning the advertising programme for the Italian market

Chapter 2 – Planning the advertising programme for the Italian market

2.1 Introduction

2.1.1 This Chapter aims to evaluate the effectiveness of the planning process adopted by the Malta Tourism Authority (MTA) with regards to its advertising initiatives in the Italian market. This review illustrates that MTA's advertising programme planning was generally appropriate.

2.1.2 The MTA's planning process takes into consideration the relevant policy framework, various studies undertaken by the Authority, budgetary allocations, as well as the dynamics of the industry. This review noted that the major focus of the planned advertising programmes relate to the Summer and Winter Sun niche. This niche incorporates generic advertising to promote Malta's main tourism segments throughout the year. To varying degrees, the Summer and Winter Sun niche emphasises Malta's favourable climate and promotes activities such as those related to sun and sea as well as culture and heritage. In addition to its advertising funds, the MTA also utilises other marketing funds and adopts strategies to promote other tourism specific segments. These include Diving and other Sports, Teaching English as a Foreign Language (TEFL) as well as Meetings, Incentives, Conferences and Exhibitions (MICE).

2.1.3 The MTA's planning process acknowledges the importance of peak season tourism, which aims to exploit Malta's competitive advantage associated with summer tourism. Consequently, most of the advertising budget is absorbed in promoting peak

season tourism. Although the MTA has registered substantial progress in developing off-peak and shoulder months tourism, this audit has shown that the opportunity exist to further improve tourism performance with regards to the Italian market during the winter and shoulder months.

2.1.4 Against this backdrop, the main themes discussed in this Chapter relate to MTA's:

- focus on generic advertising and promoting Malta as a destination offering diversified activities; and
- priority of maximising tourist arrivals during the peak-season.

2.2 MTA's advertising main focus is to exploit Malta's competitive advantage through promoting the diversity of the destination

2.2.1 The MTA's planning process of advertising programmes in Italy is considered as holistic, since it takes into consideration the various elements that affect the tourism industry. The planning process involves, at various stages, the input of top and line management within the Authority. Moreover, the studies and research undertaken by the MTA's research unit are also critical to the planning process since they provide the industry related market intelligence.

2.2.2 The planning process is a multi-tiered exercise that aims to embrace the objectives highlighted in the Tourism Policy. Towards this end, a three-year marketing plan is compiled. This medium-term plan outlines the general direction for each tourism market (visitors from the various countries) and the envisaged developments in each niche being promoted by the Authority. Additionally, the three-year plan stipulates the relative annual targets.

2.2.3 The annual plan seeks to operationalise the three-year plan, and mainly revolves around budgetary allocations to each tourism market. These allocations are dependent on the various representations submitted by the relative International Office. Such submissions are usually supported by the relative research and official statistics. The annual planning process concludes by the allocation of available funds to the different advertising mediums for each tourism market.

In certain instances, the rapidly changing dynamics of the tourism industry constraint the MTA to opt for tactical rather than long-term strategic decisions

2.2.4 In order to ensure sustainability through diversification, Malta's Tourism Policies framework seeks to consolidate existing markets and aims to develop emerging ones. The objectives and strategies elicited in these Policies as well as the three-year marketing plans are not always fully reflected in the annual advertising programme. Consequently, the appropriate levels of advertising funds are not always made available to fully implement the objectives and attain the targets outlined in the Policy framework.

2.2.5 The MTA contends that there are instances where the Authority has to make tactical decisions as a response to industry dynamics. Whilst the Authority acknowledges their importance, long-term planning cannot forecast changing geo-political, economical scenarios as well as unexpected natural phenomena. Consequently, in scenarios such as the Icelandic Ash Cloud, the Arab Spring as well as the economic downturn in a number of European countries, the MTA had to react immediately by deviating from its planned advertising objectives. Such reactions range from the postponement of planned advertising

programmes to the channelling of additional funds to intensify the Authority's campaigns.

Advertising predominantly promote a wide range of leisure activities

2.2.6 MTA's advertising predominantly focus on Malta's diversity as a destination. The Authority seeks to achieve such an aim through the advertising of its Summer and Winter Sun tourism niche, as well as through All Segment Advertising.

2.2.7 The generic elements featuring in the Summer and Winter Sun niche also include the sun and sea as well as culture and heritage, and aim to position Malta as a unique country by communicating the mix of city and Island characteristics.⁸ The rationale behind the substantial advertising of the Summer and Winter Sun segment, which is a highly developed tourism product based on Malta's favourable climate, is to exploit Malta's competitive advantage over other destinations. As a matter of policy, most of the MTA's advertising in Italy is undertaken to convey the message that through its favourable climate, the Maltese Islands offer visitors a diverse product.

2.2.8 Similarly, All Segments Advertising aims to promote Malta and Gozo as a destination to visit for different motivations, namely Diving and other Sports, TEFL, History and Culture as well as Winter and Summer Sun. All Segments Advertising enables the MTA to reach the general rather than a specific consumer (eg. the diving segment only).

2.2.9 In the period under review, this approach together with the increased airline accessibility from various regions in Italy has led to substantial increases in the number of tourist arrivals. However, some specific segment targets outlined in the Authority's Marketing Plans with respect to Italy were not attained. These included targets for 2011 with respect to Culture and Heritage, Sports, TEFL and MICE as indicated in the Marketing Plan 2010 to 2012.

⁸ MTA (2010), *Malta Tourism Marketing Plan 2010 – 2012*, page 6.

The opportunity exists to intensify segment specific advertising

2.2.10 Apart from its expenditure on advertising, the MTA undertakes various other initiatives in Italy through the utilisation of funds allocated under its marketing budget. Funds utilised for this purpose relate to business to business and business to consumer initiatives. Towards this end, the MTA's advertising planning process entails the Authority's participation in tourism fairs, public relations (PR) exercises leading to the publication of specialised reviews, as well as the support provided to tourism operators in Italy.

2.2.11 To varying degrees, the advertising and other marketing initiatives outlined in the preceding paragraph enable the Authority to promote and develop a number of tourism segments. For example, reviews published following PR exercises can either be generic or sector specific. In the latter case the MTA utilised PR exercises to promote culture, diving and to a limited extent MICE. Similarly, the MTA participates in a number of tourism themed fairs in Italy. Such fairs are also used to promote Malta as a tourism destination and their focus can also be both generic or segment specific. The MTA's participation in segment specific fairs held in Italy during the period under review enabled the Authority to promote the MICE, TEFL and diving.

2.2.12 The foregoing illustrates that the MTA has taken various initiatives to promote sector specific campaigns. However, in Italy, generic campaigns significantly outweigh segment specific initiatives on the basis of expenditure incurred for direct advertising and the costs related to fairs, public relations and strategic support.

2.2.13 Against this backdrop, this performance audit sought to determine whether the planning process is appropriately considering advertising and

promotion of the various segments. For the purpose of this audit, the targets for the different segments outlined in the Marketing Plan 2010 to 2012 are being considered to constitute the demand for these niches. In view of limitations in the availability of data, it was assumed that:

- campaigns advertising and promoting the summer and winter sun segments, campaigns promoting all or a mix of segments as well as strategic support utilised for the Italian market constitute generic advertising; and
- in addition to funds voted for specific segment campaigns, all promotions, advertising emanating through fairs and public relations exercises wholly relate to specific segment advertising.⁹

2.2.14 Based on funds allocated from the Italian International Office Marketing Budget, Table 1 seeks to determine the proportionality between generic and segment specific advertising. The figures quoted in this Table also consider the assumptions outlined above.

2.2.15 Table 1 clearly shows that there is a clear bias in favour of generic advertising. To a great extent, this bias in generic advertising and promotion complies with the Policy provisions, which aim to create synergies between the different segments. Moreover, this bias further acknowledges Malta's competitive advantage as a diverse destination.

2.2.16 Nevertheless, each segment constitutes a specific niche in its own right, which aims to target particular consumers. These niches do not exclude tourists who seek to participate in an array of activities during their visit. However, they offer the potential for specialised markets, for example, tourists visiting Malta for a diving holiday, or to participate in conferences, or to learn English.

⁹ The latter assumption invokes the prudence concept. In cases where the proportion between the generic and segment advertising cannot be clearly determined, the NAO exercise allocated the relative expenditure in favour of the latter.

Table 1 : Allocation of actual marketing expenditure in Italy (2010 to 2011)

Marketing Initiatives	2010		2011	
	Generic	Segment specific	Generic	Segment specific
Advertising				
All Segments	23%		19%	
Summer and Winter Sun	41%		57%	
History and Culture		2%		1%
Diving and other Sports		2%		1%
MICE		1%		1%
TEFL		2%		1%
Other related advertising campaigns		1%		1%
Fairs		2%		2%
Public Relations		14%		11%
Strategic Support	12%		6%	
Total	76%	24%	82%	18%

Source : MTA data (2010 to 2011).

2.2.17 The bias in generic advertising and promotion also reflects the existing demand for the different tourism segments. This materialises since most tourists visit Malta for leisure activities, such as those offered by the Summer and Winter Sun segment as well as All Segment Advertising campaigns. However, whilst the MTA's predetermined targets for tourists seeking a diversity in leisure activities were surpassed, the targets for segment specific tourism were not fully attained. Table 2 refers.

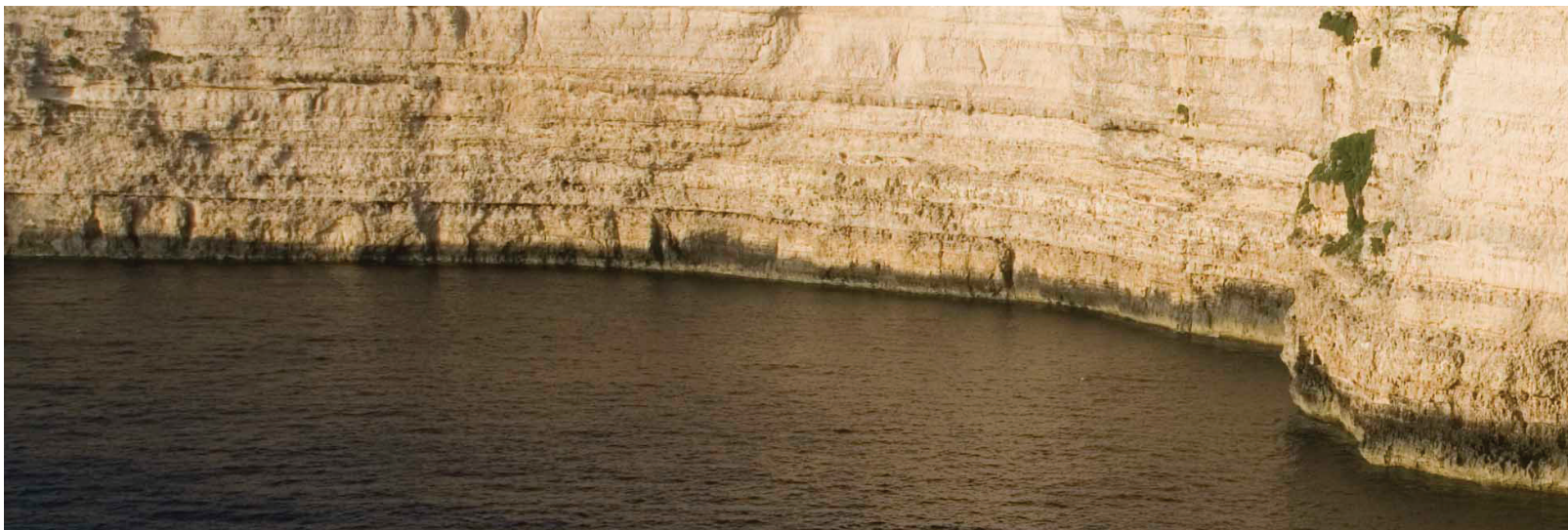
2.2.18 This Section of the report acknowledged the importance of generic advertising. The resultant

variance between expenditure related to generic and segment specific campaigns can be largely attributed to the economic situation in Italy as well as the scenario created by the Arab Spring. To minimise the impact of these situations, the MTA intensified its generic advertising. Overall, this proved to be a positive tactical approach. However, the opportunity cost of such an approach is that segment specific targets were not fully attained since the Authority's funds were diverted to mitigate the aforementioned situations.

Table 2 : Segment specific tourism targets (2010 to 2011)

Tourism Segment	2010	2011
	Variance between targeted and actual tourists	Variance between targeted and actual tourists
Summer and Winter Sun	28%	17%
Culture and Heritage	20%	-11%
Diving	101%	43%
Other Sports	-61%	-89%
TEFL	-13%	-35%
Business	5%	-12%

Source: MTA data (2010 to 2011).



2.3 Despite the positive improvements, the potential of attracting more tourists during the low periods exists

2.3.1 Tourism from Italy, as from all other major destinations, peaks during the summer months. Consequently, the substantial efforts by the MTA to maximise peak season arrivals and the ensuing earnings for the industry are considered as sound business practices. However, such an approach leaves relatively limited advertising funds for MTA to promote Malta's potential during the low season, as outlined in the Tourism Policy.

2.3.2 The general improvement registered with respect to tourist arrivals from Italy during the low season is in line with recent trends that Europeans have slightly changed their tourism behaviour. Towards this end, travellers tended to take additional holidays during the traditional low season rather than in the peak season. Given the reduction in the average length of trips, these additional trips tended to be shorter and are leading to a reduction in seasonal variation.

2.3.3 The MTA's efforts over the years have resulted in an increase in tourist arrivals during the low season, including from the Italian Market. Whereas the tourism industry in Malta registered an increase of about 12 per cent in tourist arrivals during the off-peak season, the increase registered specifically from the Italian market rises to 47 per

cent.¹⁰ Tourists arrivals from Italy increased from 51,524 in 2008 to 75,676 in 2011. This substantial increase is mainly due to the introduction of new routes from various regions in Italy which operate throughout the year and MTA efforts to increase advertising during off-peak. However, the opportunity exists for the MTA's planning process to further address Malta's low season potential. The NAO case study, which focused on tourism from Italy, illustrates such concerns.

The advertising planning process is not guided by seasonal tourism performance targets

2.3.4 The Marketing Plan 2010 to 2012 stipulate annual tourist arrivals targets from the main markets, including Italy, with regards the various tourism segments. However, such targets are not broken down to indicate the anticipated seasonal potential.

2.3.5 Despite the inherent problems in their development, the absence of seasonal targets does not appropriately encourage the MTA's International Offices, including the Italian Office, to commit expenditure towards low-season advertising. Such a situation arises since the highest return on such expenditure is during the peak season. Whilst the maximisation of the return on available funds is understandable, such an approach may not be fully exploiting the current seat availability during the low season.

¹⁰ For the scope of this audit, off-peak season is composed of the months from November to April.



Budget availability limits MTA's efforts to attract more tourists during the off-peak months

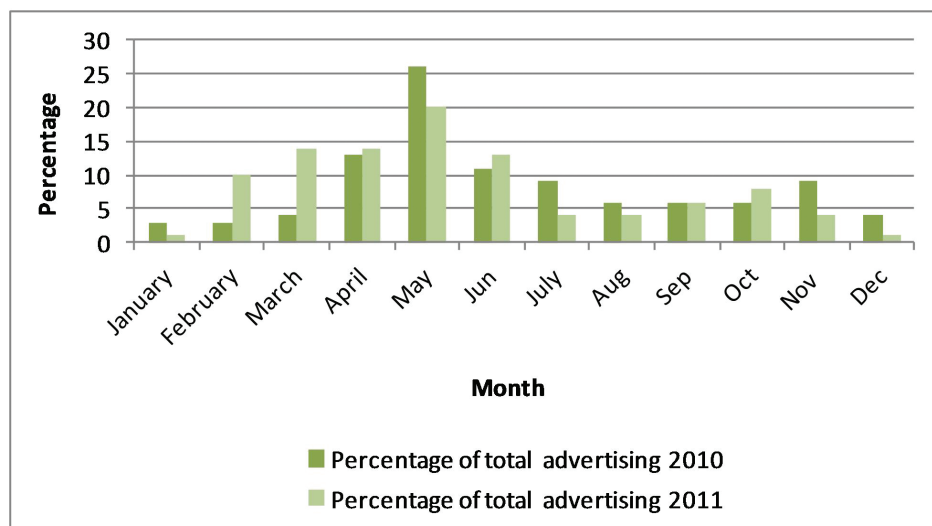
2.3.6 The MTA plans to allocate a significant proportion of its Italian market budget to attract tourism during the summer months. Figure 3 illustrates that during 2010 and 2011 most of the advertising budget was actually expended during the second quarter of the year, reaching its peak in May – that is, in time to stimulate arrivals and ensure that the industry's full capacity is reached during the peak season.

2.3.7 As is indicated by Figure 3, advertising expenditure in Italy peaks in May and June. The MTA plans such expenditure in accordance with tourism

behavior trends in Italy, such as consumers' decision related to the choice of destination and eventual bookings. Moreover, such expenditures are intended to stimulate peak season visits. The MTA contends that during 2010 and 2011, the Icelandic Ash Cloud and the Libya crisis respectively further influenced its advertising expenditure in May.

2.3.8 Despite the importance allocated to advertising intended to motivate peak season tourism, Figure 3 shows that that the MTA is striving to continue to increase its campaigns during off-peak periods. There were more advertising funds invested in Italy in February, March and October 2011 over the same months in the previous year. Furthermore, the MTA's expenditure during the period November to

Figure 3 : Monthly advertising costs (2010 and 2011)



Source : MTA data (2010 to 2011).

April amounted to 38 per cent of its 2011 advertising budget. This is also an increase of around 10 per cent over the same period in the previous year.

2.3.9 The MTA contends that low-season advertising is to be conducted once the Authority has ascertained that the local tourism industry is operating at its full capacity during the peak season. Consequently, the spread and frequency of low season advertising would be dependent on the funds available following the undertaking of peak seasons campaigns as well as the spill over effect of peak season programmes.

2.3.10 The availability of low season advertising funds may, on occasions, also be limited since the Authority may have to incur unplanned expenditure to cater for unforeseen circumstances. Examples in this regard have already been referred to in paragraph 2.2.5. In such instances, the MTA is constrained to allocate a lesser importance to low-season advertising.

2.3.11 The MTA’s budgetary allocation practices discussed in the preceding paragraphs is resulting in a situation where airline load factor relating to incoming flights from Italy rank lower than those relating to other major markets.¹¹ The main reason for this is the increased flights from various Italian regions in recent years.

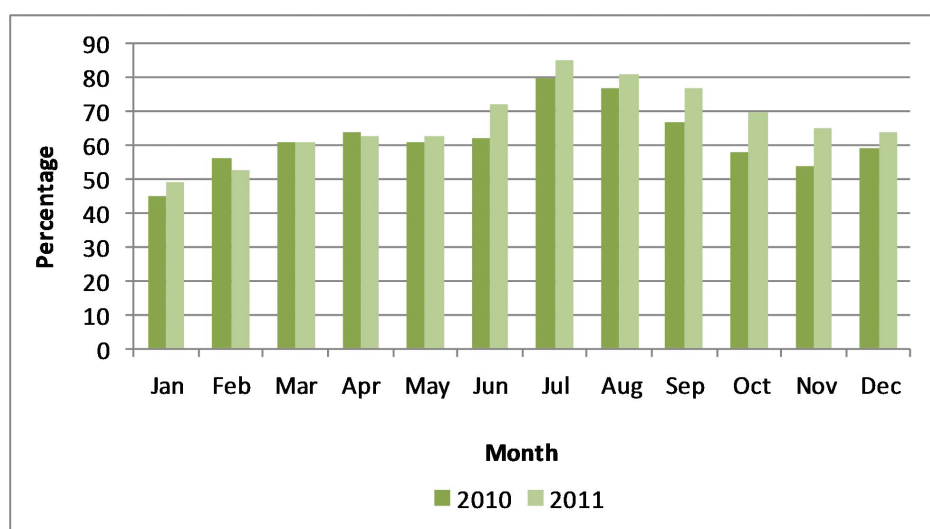
2.3.12 In terms of airline seat availability, Figure 4 clearly illustrates the existing potential for off-peak tourism from Italy. To date the MTA has been gradually increasing its advertising during off-peak months. However, although on an increasing trend, the intensity and frequency of advertising may not be sufficient to project Malta as an all season destination. This is mainly due to the fact that traditionally Italians predominantly viewed Malta as a summer destination.

2.4 Conclusion

2.4.1 This Chapter has shown that the relevant structures and inputs are in place to enable the MTA to plan effectively its advertising programmes. The planning process adopted by the Authority had led to a sharp increase in the number of tourists from the Italian market, particularly in the peak season. Despite the short to medium term successes, the potential still exists for the MTA to further exploit tourism from Italy, in line with the available flight accessibility from various regions in Italy.

2.4.2 The short to medium term successes can be mainly attributed to a planning process that prioritised promoting Malta as a destination offering a wide range of leisure activities, particularly during the peak season. Various positive industry

Figure 4 : Load factors for flights in the Italian Market (2010 and 2011)



Source : MIA data (2008 to 2011).

¹¹ For the scope of this audit, Malta International Airport (MIA) data on load factor includes both Italian tourists coming to Malta and Maltese returning back from Italy.



performance indicators evidence the success of this approach.

2.4.3 However, the significant focus on generic advertising does not fully consider that each niche constitutes a product in its own right, which aims to target particular consumers and necessitates specific marketing, including advertising. This is emphasised by the fact that, in 2011, the MTA's targets for some specific segments were not fully attained.

2.4.4 The introduction of new routes from Italy in recent years led to a significant increase in the number of Italians visiting Malta during the low season. However, the opportunity exists to increase the number of visitors from Italy during this period in line with current seat availability from various regions in Italy. Towards this end, the Authority has increased its off-peak advertising.

2.4.5 Nevertheless, the MTA contends that low-season advertising is to be conducted once the

Authority has ascertained that the local tourism industry is operating at its full capacity during the peak season. Consequently, the spread and frequency of low season advertising would be dependent on the funds available following the undertaking of peak seasons campaigns as well as the spill over effect of peak season programmes. Furthermore, during the period under review the Authority incurred unplanned expenditure to cater for unforeseen circumstances that further limited the availability of funds for off-peak advertising.

2.4.6 Whilst acknowledging the short and medium term success of the MTA's approach, the Authority has not allocated the ideal level of attention on its longer-term strategy, as indicated in the "Tourism Policy for the Maltese Islands 2007 to 2011" and reiterated by the 2012 to 2016 Policy document.

2.4.7 The next Chapter of this report discusses the implementation process of advertising campaigns conducted in the Italian market.



Chapter 3

Implementation process of advertising campaigns in Italy

Chapter 3 – Implementation process of advertising campaigns in Italy

3.1 Introduction

3.1.1 This Chapter aims to analyse the effectiveness of the MTA's implementation process of advertising campaigns conducted in Italy during the period 2008 to 2011. This entailed reviewing a number of advertising campaigns conducted by the Malta Tourism Authority (MTA) through its International Office in Italy.

3.1.2 During this period, tourist arrivals from Italy increased by 38 per cent, although there was a minor decline in arrivals in 2011 over 2010. The strategies adopted by the MTA, including those related to advertising programmes have greatly contributed towards this end. However, some operational concerns, namely related to the services provided to the Authority by its contracted advertising agency as well as the MTA's approach in regulating and conducting joint advertising with third parties emerged.

3.1.3 This Chapter proceeds to discuss the following issues:

- The generally successful implementation of the MTA's advertising campaigns in Italy.
- The reliance on direct orders to implement the advertising campaigns is not appropriately supported by governance structures.

- The administrative and operational concerns related to the MTA's contract with the pan-European advertising agency.
- The lack of pre-testing of advertising content and material in the Italian market.
- The non-documentation of operational guidelines for joint advertising campaigns could potentially raise value for money concerns.

3.1.4 The findings and conclusions presented in this Chapter were based on a case study approach involving 13 randomly selected advertising campaigns, which were implemented in Italy during 2010 and 2011. These cases represent 26 and 13 per cent of the expenditure incurred with respect to advertising campaigns by the Italian International Office during 2010 and 2011 respectively. Four out of the 13 campaigns reviewed were joint initiatives between the MTA and its partners, and were financed through the Tour Operator Support (TOS) scheme. These campaigns cover a spectrum of advertising mediums and segments.

3.1.5 Additionally, this evaluation entailed reviewing media buying expenditure, as well as the role and operations of the commissioned advertising agency, particularly with regards to issues directly or indirectly related to advertising in Italy.

3.2 Generally, the Italian International Office implemented advertising campaigns effectively

3.2.1 The responsibility for the implementation of the advertising campaigns mainly lies within the Italian International Office. Towards this end, in the larger advertising campaigns in terms of costs and strategic importance, the Italian International Office generally utilises the services of commissioned advertising and media-buying agencies.

3.2.2 The advertising agency is responsible for creating, planning and handling advertising promotion for the MTA. On the other hand, the media-buying agency is responsible for purchasing time and advertising space. The latter agencies are generally utilised when the MTA considers that it does not have the in-house capacity to negotiate itself the respective price and placements of specific advertising campaigns. Consequently, there are a number of options available to the MTA with regards the implementation of advertising campaigns.

3.2.3 This review has shown that generally, once the annual advertising was agreed, the MTA's International Office in Italy effectively implemented the relative campaigns. In this context, the effective criteria adopted by the National Audit Office (NAO) related to the appropriateness of media categories, scheduling, adherence to budgetary parameters and giving due considerations to value for money issues.

3.2.4 The MTA utilises various media categories for its advertising campaigns. This audit has revealed that the Authority seeks to exploit the different potentials offered by the various media for demonstration, visualisation, explanation and credibility of the messages projected through advertisements. Moreover, the MTA appropriately takes into consideration the capacity of media categories to deliver reach and frequency. The former relates to the number of different persons or households exposed to the particular message. The latter refers to the number of times that an average person or household is exposed to the message within a specified period.

3.2.5 The foregoing is evidenced by the case studies reviewed by the NAO whereby the following transpired:

- The advertising media used by the MTA, generally, reflects the relative sources that influence arrivals from Italy. An exception in this regard relates to television advertisements where MTA surveys have shown that the level of influence of this medium with regards the Italian Market is low. The MTA contended that television advertising was utilised to complement other promotions through other media. Nevertheless, in recent years the MTA has revised its television advertising practices, particularly due to the high costs involved.
- The MTA is increasingly utilising on-line advertising. This is in-line with MTA's research, which confirms the increasing trend of internet bookings within the Italian Market. Additionally, internet advertising is highly renowned for tourism and travel sites.
- As indicated in the MTA's research, the Authority generally tends to utilise media categories with high circulation, viewership and internet hits. Efforts are made to synchronise advertisements published through the different media categories. However, budgetary restrictions and the relative advertising costs of the different media categories are operational constraints that do not always reflect the declared tourists' sources of influence as reported in the MTA's research.

3.2.6 Advertising scheduling in the tourism industry is dependent on the audience size and interest that vary at different times of the year. The MTA's implementation of its advertising campaigns is considered to appropriately take into consideration the cyclical interests of tourists.

3.2.7 Towards this end, the Authority has generally the appropriate logistical arrangements to enable the timely implementation of advertising campaigns. Apart from difficulties with its contracted advertising agency (Section 3.4 refers), the Authority utilised



its experience of the media industry in Italy to good effect to ensure the timely implementation of advertising campaigns. For instance, the advertising programme in Italy to exploit peak season tourism was executed in time. This is evidenced by the following:

- The strong link between tourist arrivals and advertising expenditure.
- MTA's advertising programme is conducted on a continuous basis. Nevertheless, the intensity in terms of volume and frequency of advertising corresponds to seasonal circumstances.

3.2.8 Another effectiveness criterion relating to the implementation of the MTA's advertising programmes considered for the purpose of this audit relates to maintaining operations within pre-determined budgetary parameters.

3.2.9 Towards this end, advertising campaigns conducted in the Italian market were generally in accordance with agreed budgetary parameters. In certain instances, a negative variance between budgeted and actual advertising expenditure materialised. However, the highest negative variance between budgeted and actual advertising expenditure amounted to only seven per cent during 2008. During the period 2008 to 2011, the variances registered amounted to seven, four, five and three per cent respectively.

3.2.10 Throughout the implementation of the advertising programme, the MTA sought to give due consideration to acquiring advertising services at the most economical cost. The 13 case studies reviewed by the NAO have shown that the MTA sought to reduce its advertising costs without compromising on the quality of its advertising content. This was partly achieved by utilising the media-buying services from another agency. In such instances, the cost only amounted to around two per cent of the total advertising costs involved in these specific programmes.

3.2.11 This Section has shown that in general the implementation of advertising campaigns in Italy satisfied the NAO's effectiveness criteria. However, this audit has also revealed that certain factors are hindering the MTA from optimizing the full potential of the Italian market.

3.3 The reliance on direct orders to implement the advertising campaigns is not appropriately supported by governance structures

3.3.1 From the 13 advertising campaigns analysed, it emerged that all campaigns were implemented through direct orders. The Malta Travel and Tourism Services Act (1999) stipulates that the Authority can contract for the supply of goods or materials, or for the execution of work, or for the rendering of services through direct orders up to €232,937. This provision provides the appropriate flexibility required for the



Malta, Gozo e Comino, 3 isole per un fantastico viaggio alla scoperta di esperienze mozzafiato, cultura millenaria ed eventi spettacolari.

MTA to react quickly to emerging and changing circumstances in a dynamic and volatile industry. Additionally, direct orders would need to be resorted to since the effectiveness of programmes is largely dependent on aligning advertising media categories to the specific sources of influence as identified through the MTA research.

3.3.2 The 13 advertising campaigns reviewed by the NAO all complied with the procurement limits established by the MTA Act. However, in many instances, the documentation supporting the decision to procure services through direct orders was not maintained by the MTA. The only documentation available relates to approvals to proceed with the relevant payments. The value of these direct orders ranged from €2,000 to €114,886, excluding Value Added Tax.

3.3.3 The lack of audit trail regarding the procurement of goods and services through direct orders deviates from the principles of good corporate governance. Moreover, the absence of documentation in this regard raises risks to business continuity. It is to be noted that the MTA has recently implemented an electronic system in its International Offices in Germany and the United Kingdom. The aim of this system is to document the process related to each specific advertising campaign. It is expected that the system will be extended to other International Offices, including the Italian Office, in the near future.

3.4 The MTA encountered various administrative and operational problems related to its contracted pan-European advertising agency

3.4.1 In 2007, through a competitive tendering process, the MTA appointed a pan-European advertising agency in its quest to complement its marketing strategies and upgrade its advertising in Malta's main tourism markets – including Italy. The contracting of an advertising agency was seen as a way to streamline the relative advertising processes and render them more cost-effective. The decision to contract the services of an advertising agency was also deemed necessary since the Authority lacked in-house technical expertise to develop an integrated communication concept including strategy, key messages, claims and all other issues related to advertising.

3.4.2 Towards this end, the contracted party was to raise perceptions of the Maltese Islands in the mind of the consumer and raise the profile of the destination to maximise Malta's tourism revenue potential. The contractor's contribution towards the attaining of these goals was to be undertaken within the framework of the Malta brand vision, 'Enriching your Life', underscored by the three core values of heritage, hospitality and diversity. The contract was to be effective up to 2010. The contract stipulated an annual agency fee of €958,895 which comprised services relating to the overall elaboration, coordination and the management of advertising campaigns which included classical advertising,

media-buying, public relations media co-operations and services as well as other related services. The MTA retained the option to procure services over and above those included in the annual agency fee up to an all-inclusive maximum of €7 million. The optional services referred to in MTA's contracts relate to extension of services listed in the agency fee. These outsourced expenses can be mainly classified into media costs and other project costs.

3.4.3 The contracted advertising agency was intended to provide its services to all MTA's international and representative offices. In practice, however, the services provided to the Italian market were limited. Such a situation materialized since the MTA considered itself more ideally placed than the contracted advertising agency to attain better cost-effective advertising campaigns. Consequently, the role of the contracted advertising agency mainly related to the provision of standard advertising content.

3.4.4 The ensuing section of this report discusses issues of concern related to the MTA's advertising agency contract management with reference to the Italian market.

The services of the advertising agency were only marginally utilised in the Italian Market

3.4.5 The MTA recognized that the contracting of an advertising agency constituted a new experience for the Authority. Consequently, the advertising agency contract was negotiated to provide the MTA the option to procure up to around €6 million worth of services over and above those included in the annual agency fee.

3.4.6 The advertising campaigns conducted in Italy utilised advertising content that were developed as part of the standard advertising strategy to be implemented in all markets by the contracted advertising agency. The expenditure for these services, together with the necessary adaptations for advertisements, was covered through the annual agency fee. The aforementioned services were generally provided on a needs basis throughout the validity of the contract by the contracted advertising agency.

3.4.7 On the other hand, the 13 cases reviewed for the purpose of this audit revealed that with regards media buying, the MTA either sought the

services of other agencies or such services were directly procured through its International Office in Italy. The Authority could adopt such an approach since the provision of these services was listed as 'optional' in the advertising agency's contract.

3.4.8 The cases reviewed showed that such a course of action proved to be more economical than if these services were sought through the contracted advertising agency. In these cases, the MTA is considered to have made savings of about 98 per cent over the value of the advertising contracts entered into. Such savings mainly emanated from the lower fees due to Italian media-buying agencies.

The advertising content provided by the contracted advertising agency was not always up to the required standard and delivered on time

3.4.9 The contracted advertising agency was obliged to prepare advertising content in accordance with the MTA's policies and instructions, as well as deliver the relative advertising material in accordance to its agreements with the Authority. Such contractual obligations extended to all markets, including Italy.

3.4.10 The MTA was constrained to enter into litigation with the contracted advertising agency due to concerns over the quality and the timeliness of delivery of advertising material, as well as for failing to provide agreed services. Issues of concern, specifically related to the Italian market, included the pricing of an outdoor campaign as well as other advertising in the press and magazines. In certain instances, the MTA had to make use of other agencies that quoted more favourable prices.

3.4.11 The advertising content and material issues with the contracted agency impinged in the MTA's efficiency by unnecessarily stretching further its resources. Such circumstances mainly materialised due to the additional administrative work involved for the MTA to ensure the appropriateness and timely delivery of advertisement content and material.

3.4.12 The issues under litigation with the contracted advertising agency were eventually resolved through an out of court settlement. Despite the problems encountered, the strategy to appoint an advertising agency to complement the in-house

work conducted by the Authority generally proved to be a learning experience for the MTA. In fact, the Authority is currently in the process of selecting another agency for the provision of similar services.

Delays in awarding the advertising agency contract is impinging on the implementation of new advertising campaigns

3.4.13 Following the expiry of the three-year contract with the advertising agency in 2010, the MTA sought to continue with its strategy for utilising the services of an advertising agency. However, at the time of publishing this report, a contract in this regard has not yet been awarded.

3.4.14 A call for competitive tender was issued in November 2010. The contract process was delayed due to technical and financial issues. The evaluation process has been stalled since October 2011. Furthermore, since the aforementioned issues were not satisfactorily resolved, it was decided that a new call for tenders is to be issued.

3.4.15 The delays in contracting an advertising agency are resulting in circumstances where the MTA is not in a position to upgrade its images and creatives that are currently in use. The Authority considers that, in some cases, the available advertising content material is outdated. Moreover, the MTA is being constrained to repeatedly utilise available advertising material for consecutive years. The further delays in awarding the contract may potentially inhibit the MTA from further exploiting existing and new markets.

3.4.16 To counter this situation and minimise the effect on its markets, the MTA sought the services of other third party suppliers for the provision of a limited number of images and creatives. However, this scenario can only be considered as an interim measure since if such scenario persists the Authority is going to encounter difficulties with regards winter 2012 / 2013 advertising campaigns and beyond.

3.5 Pre-testing of advertising campaigns in the Italian market was not carried out

3.5.1 A requisite outlined in the contract with the advertising agency related to the pre-testing

of artwork and advertising content used for the advertising campaigns. Such an obligation was partly included in the annual agency fee. This testing generally entails that focus groups provide their feedback on the respective images and creatives. The opinions and reactions of participants, who pertain to the market being targeted, are critical to the success or otherwise of advertising campaigns. The participants' criticism consequently enables improvements in the advertising content of campaigns as well as further adaptation to the respective market.

3.5.2 However, the advertising content utilised in the Italian Market was not subject to in-depth pre-testing due to cost-effectiveness issues. The last focus group review undertaken by the advertising agency was held in August 2008 and only covered the UK and German markets. In Italy, advertising content was only reviewed and approved internally by the MTA prior to its publication. The MTA contended that the choice of UK and Germany to pre-test advertising material was taken on the basis that these countries constituted Malta's largest markets at the time. Moreover, the Authority pointed out that pre-testing was carried out within these two countries since they were deemed to represent British and Continental perspectives respectively.

3.5.3 It is acknowledged that it might not be economically viable to undertake in depth pre-testing of all advertising campaigns. However, the value added derived through the pre-testing of advertising content to be utilised in major and costly campaigns was not fully exploited by the MTA with regards the Italian market. The absence of such pre-testing is also considered as a missed opportunity in the light that this market now has the extra potential due to the introduction of low cost airlines and the substantial increase in accessibility.

3.6 The MTA's policy framework relating to joint advertising needs to strengthen the relative governance structures

3.6.1 As in other markets, a number of advertising campaigns conducted in the Italian market are joint programmes. These include advertising campaigns conducted through the Tour Operator Support (TOS) scheme. Campaigns partners include airlines, tour

operators, hotels and other industry operators. This audit mainly focused on agreements with Tour Operators focusing on incoming tourism from Italy.

3.6.2 A contract regulates the funding arrangements between the MTA and the partners. Funding through the scheme is generally dependant of the outcome of discussions and negotiations between the parties. The audit review revealed that funding arrangements ranged from an equal apportionment of advertising costs between the parties to full funding of campaigns through the Scheme. Additionally, the contract between the MTA and the partners also outlines the terms of the agreement, namely standards relating to advertising content, publication days and the expected tourist arrivals. During the period 2008 to 2011, the MTA entered into various agreements with Italian Tour Operators. Details of these agreements are not being disclosed for commercial reasons.

3.6.3 The agreements entered into between the MTA and Italian Tour Operators are generally based on the extent of negotiations with potential partners. In such instances, the Authority allocates funds based on the operators' size, scale, potential, importance and relevance to the local tourism industry. The MTA contends that the outcome of agreements is ultimately dependent on the negotiating position and bargaining powers of the parties involved.

3.6.4 Such circumstances are acknowledged and considered as normal business practices. However, the Authority has not documented its policies and operating procedures with respect to the selection of partners and the awarding of financial support through the TOS scheme. This situation does not fully embrace corporate governance principles. Whilst the need for MTA flexibility is a necessity to enter, negotiate and conclude agreements with third parties, the non-documentation of policies limits operational guidance and consistency as well as raises business continuity risks.

3.6.5 Other corporate governance issues relating to the TOS relates to instances where the Authority does not fully document its justifications for the financial support agreed with operators. Towards this end, documentation regarding the eligibility of applicants as well as the basis of the Authority's decisions regarding the level of support offered is not always fully available.

3.6.6 The outcomes of this Scheme will be discussed in further detail in Chapter 4.

3.7 Conclusion

3.7.1 This Chapter has illustrated that the implementation of advertising campaigns in Italy during the period 2008 to 2011 has generally been successful. Advertising campaigns were largely implemented in a timely manner, within budget and enabled the main targets related to incoming tourism from Italy to be attained. Nevertheless, this audit has shown that a number of operational concerns impinged on the effectiveness of the MTA's advertising campaigns in Italy.

3.7.2 Most of the concerns highlighted in this Chapter can be categorized as governance related issues. The non-formal documentation of decisions, such as those related to the award of direct orders, weakens audit trails and raises business continuity risks.

3.7.3 Additionally, the MTA lacks documented operational guidelines regarding the disbursement of financial support to tour and other industry operators. The importance of such policies increases since the MTA has significant discretion when carrying out negotiations with beneficiaries of such support.

3.7.4 During the period under review, the MTA utilised the services of a pan-European advertising agency to support its marketing and advertising activities. The Authority encountered some difficulties in managing the relative contract. Although such issues were at times beyond the Authority's control, these impinged to varying degrees on advertising campaigns – including those in Italy. Most of these concerns were eventually addressed through an out of court settlement. Generally, the advertising agency experience has enhanced the Authority's knowledge in how to best deal with and better exploit such services in the future.

3.7.5 The next Chapter of this report discusses the main results attained through the advertising campaigns conducted in the Italian market. The Chapter also reviews the MTA's monitoring practices of its advertising programmes.



Chapter 4

The effectiveness of advertising campaigns in Italy

Chapter 4 – The effectiveness of advertising campaigns in Italy

4.1 Introduction

4.1.1 This Chapter evaluates the results achieved by the Malta Tourism Authority (MTA) through the advertising campaigns conducted in Italy. This review illustrates that the MTA's advertising programme contributed towards the attainment of targeted tourist arrivals from Italy. Generally, during the period 2008 to 2010 there were also positive results in terms of total expenditure and total nights.

4.1.2 However, despite the increase in advertising costs, in 2011 the tourism performance related to the Italian market registered some decline over the previous year, particularly with regards arrivals and tourism expenditure and total nights. The declining trend in arrivals was also evident in the first nine months of 2012. This decrease is mainly attributable to the economic situation, which also impinged on the travelling behaviour of Italians. Furthermore, a reduction in airline seat capacity materialised during 2011. This also contributed to the drop in the above-mentioned tourism indicators.

4.1.3 The findings and conclusions presented in this Chapter are based on analysing tourism performance related to Italy's advertising expenditure incurred by the MTA that was directly targeted at the Italian Market. This Chapter discusses the following main issues:

- The MTA's monitoring focus on the macro level rather than on the effect of the specific

advertising campaigns conducted in the Italian market.

- The increase in advertising costs to maintain and continue to attract Italian tourists to visit Malta.
- The relationship between advertising expenditure and the main tourism indicators pertaining to Italy.
- The trends relating to the main tourism indicators over the period 2008 to 2011.
- The wide ranging rate of return in terms of tourism arrivals through the Tourism Support Scheme.

4.2 MTA's monitoring of advertising mainly focuses on the macro level rather than the outcome of specific campaigns

4.2.1 The monitoring of the outcomes of campaigns is an important phase in the advertising cycle. Its importance stems from the fact that it provides the opportunity to evaluate the results of campaigns undertaken. Monitoring provides valuable information, which can also be utilised in future advertisements. The monitoring of advertising campaigns is usually undertaken on two major levels. Specific campaigns can be analysed for their particular impact. Additionally, the monitoring of campaigns can be carried out through a macro approach to determine the overall

impact of advertisements on a specific market over a defined period. The monitoring of advertisements on both these main levels is usually done based on pre-determined targets, tourism indicators as well as other issues regarding the rate of return on expenditure incurred for advertising purposes.

4.2.2 The MTA's monitoring exercises generally focus on the macro level by seeking to determine the overall impact of its campaigns carried out in a specific market. The MTA establishes the impact of campaigns in terms of the market dynamics. These include total tourists, total expenditure, total nights and average length of stay spent in Malta. The MTA collects such information from the various visitor surveys it undertakes itself. Additionally relevant data is also collated from other official agencies, such as the National Statistics Office (NSO) and other international agencies related to the tourism industry. Furthermore, since the MTA does not own real time sales data, it also seeks to analyse performance through the regular updates and meetings with the local tourism industry stakeholders.

4.2.3 The information derived serves as the input for various analyses in connection with the overall advertising programme undertaken in a specific country. The analysis undertaken enables in-depth reviews of the overall effectiveness of campaigns. Moreover, the macro campaign analysis also includes the extent to which campaigns have reached their target population, the appropriateness of the advertising mediums used as well as the effectiveness of advertising segments and regions chosen for advertising. Information derived through such analysis is routinely discussed at various levels within the MTA.

4.2.4 On the other hand, the MTA does not monitor the outcome of individual advertising campaigns. The Authority contends that diseconomies of scale negatively impinge on the cost-effectiveness of such exercises. The National Audit Office (NAO) acknowledges this line of reasoning. However, there are instances where the substantial advertising expenditure and the strategic importance of specific

campaigns would render an evaluation exercise as beneficial.

4.2.5 Towards this end, the MTA has not yet compiled internal guidelines, which define the instances where analysis of specific campaigns is to be undertaken. By not reviewing the outcomes of the more material campaigns, the MTA is forfeiting the opportunity to enhance its corporate governance through the better application of the principles of transparency and accountability.

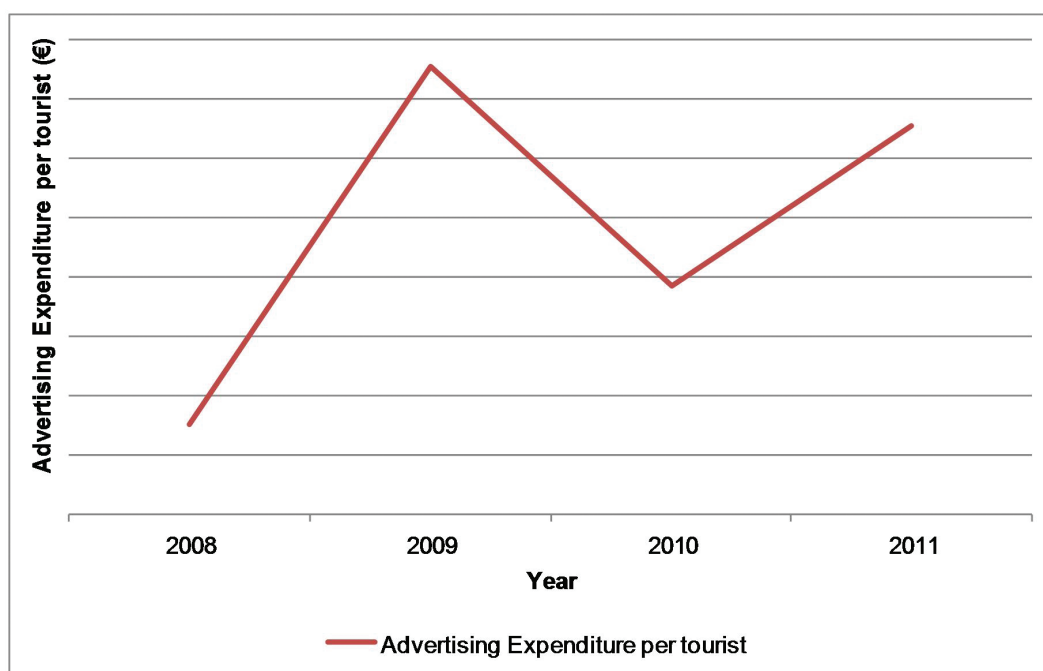
4.3 Advertising costs per Italian tourist are on an increasing trend

4.3.1 During the period 2008 to 2011, the MTA increased its advertising and Tour Operator Support (TOS) expenditure to retain and further attract Italian tourism. MTA studies estimate that over 50 per cent of Italian tourists are directly influenced by advertising.

4.3.2 Advertising expenditure in Italy increased by 119 per cent while TOS expenditure increased by 55 per cent during the period 2008 to 2011. The most significant increase occurred in 2009 where advertising as well as TOS expenditure increased by 83 per cent over the previous year, mainly to counter the global economic downturn which had a negative impact on tourism.

4.3.3 When advertising costs, including those related to TOS directed towards the Italian market, are compared to the number of arrivals, it transpires that advertising cost per tourist is on an increasing trend. Advertising costs are not being disclosed for commercial reasons. Figure 5 refers.

4.3.4 The substantial increase in the MTA's advertising expenditure mainly emanated from policy and strategic decisions. Towards this end, the Budget Speech 2009 noted that in order to support the Tourism sector, the MTA was to continue investing strongly in advertising Malta while introducing more routes, which increase the country's potential to attract a greater number of tourists.

Figure 5 : Advertising Expenditure per tourist

Source : MTA and NSO News Release, *Departing Tourists*, December 2010 and 2011.

Adverse economic conditions led to an increase in advertising costs

4.3.5 The increase in the advertising cost per tourist is also a result of a decline in the economic situation in Italy. In 2009, the Real Gross Domestic Product (GDP) in Italy contracted by 5.5 per cent, as against an EU-27 average decline of GDP of 4.3 per cent.¹² Consequently, in such circumstances, the MTA intensified its campaigns, which resulted in higher advertising expenditure per tourist arrival from Italy. Such a situation also occurred in 2011 due to the low marginal economic growth in Italy during that year and the subsequent contraction of the economy in 2012.¹³

4.3.6 During 2009 and 2010, the intensifying of campaigns led to an increase in the number of tourist arrivals from Italy by 12 and 35 per cent respectively.¹⁴ On the other hand, during the same

years, Italian tourism outbound to EU countries only increased by three and two per cent respectively.¹⁵ However, in 2011, tourist arrivals from Italy declined whilst the advertising expenditure increased. Such a scenario further inflated advertising expenditure per tourist by 23 per cent over the previous year.

Advertising costs increased to sustain the introduction of new routes

4.3.7 The introduction of new routes from Italy has also influenced the advertising expenditure to tourist arrivals ratio. The non-linear relationship between the change in seat capacity and advertising expenditure can be largely attributed to the initial advertising expenditure outlay associated with the introduction of the new routes. This outlay also contributed to the increase in the advertising expenditure per tourist arrival. Table 3 refers.

¹² Available at : <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115> [Accessed at 17 October 2012].

¹³ Ibid.

¹⁴ NSO News Release, *Departing Tourists*, December 2010 and 2011.

¹⁵ Available at : http://www.ontit.it/opencms/opencms/ont/it/statistiche/banca_italia/viaggiatori_italiani_all_estero/index.html [Accessed at 17 October 2012].

Table 3 : Relationship between change in seat capacity and advertising expenditure

Year	Change in seat capacity (per cent)	Change in advertising expenditure (per cent)
2008 – 2009	6	83
2009 – 2010	24	3
2010 – 2011	-10	13

Source : MIA and MTA data (2008 to 2011).

4.3.8 Furthermore, in 2011 there was an inverse relationship between the change in seat capacity and advertising expenditure. Advertising expenditure increased by around 13 per cent over the previous year whilst the available seat capacity on the various routes operating from Italy declined by around a tenth as airline operators ceased operating on certain routes during the low season. The MTA contends that despite the decline in seat availability, the Authority had to advertise more to improve the operating airlines' load factor, which would consequently translate itself into increased arrival rates.

4.4 Apart from per capita expenditure, there was a strong relationship between advertising expenditure and the main tourism indicators pertaining to Italy

4.4.1 In view of the increase in the advertising and TOS expenditure¹⁶, the NAO sought to determine the extent of relationship between advertising incurred by the MTA and the main tourism indicators pertaining to Italy. Such a review entailed the undertaking of correlation exercises. It is to be noted that the inherent limitation of correlation exercises is that they do not provide any information relating to the cause and effect of the variables under test. The correlations undertaken showed that a high

correlation existed between expenditure and main tourism indicators. Table 4 refers.

4.4.2 The correlation results presented in Table 4 suggest that the increase in advertising expenditure resulted in increased tourists arrivals from Italy, total expenditure as well as an increase in the total number of nights spent in Malta by visitors. However, the strong negative correlation regarding the per capita expenditure variable resulted due to shorter average length of stay. The attraction of short break possibilities led to a decline in per capita spending even though the average expenditure per tourist night increased.

4.4.3 The correlation exercise presented in Table 4 is indicative of a generally positive outcome of advertising campaigns. The ensuing discussion presents the findings and conclusions of further analysis of the outcome of advertising based on the main tourism indicators pertaining to Italy.

4.5 MTA's advertising has generally contributed to a positive tourism performance during the period 2008 to 2011

4.5.1 In the absence of the MTA's monitoring of individual advertising campaigns, very limited

Table 4 : Correlation between the main tourism indicators for the Italian market and advertising expenditure

Variable	Correlation
Total tourists arrivals	0.76
Total tourist nights	0.63
Total tourist expenditure	0.62
Per capita tourist expenditure	-0.98

Source : MTA and NSO News Release, *Departing Tourists*, December 2010 and 2011.

¹⁶ For the purpose of this exercise, advertising expenditure and TOS will be referred to collectively as advertising expenditure.

information is available to enable meaningful analysis of specific campaigns. Consequently, the results and conclusions presented in this section are based on the total advertising and TOS expenditure incurred as well as tourism performance indicators pertaining to the Italian market during the period reviewed by this audit. The main indicators considered for the purpose of this review included total tourist arrivals, total tourist nights, total tourist expenditure and per capita tourist expenditure. Appendix I refers.

Despite the increase in arrivals, there is still potential to maximize the available seat capacity by air

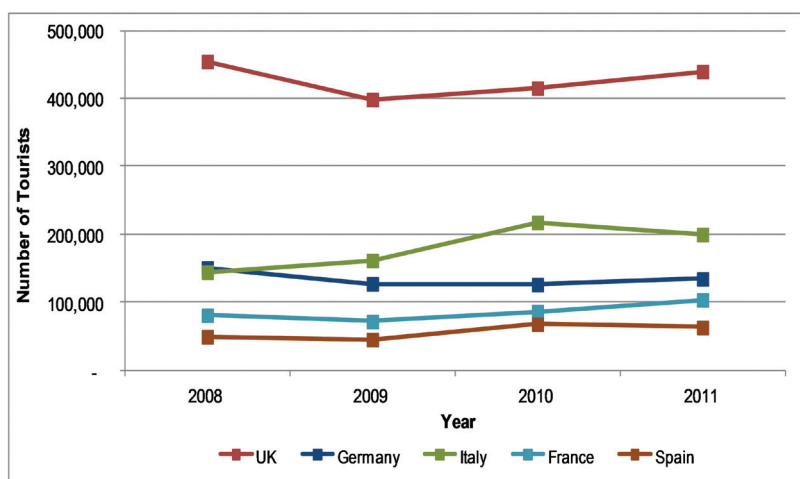
4.5.2 In 2009 and 2010, total tourists from Italy increased by 12 per cent and 35 per cent respectively over the previous year. However, in 2011, a decline of eight per cent was recorded with further significant declines, particularly during the early months of 2012 over the same period in the previous year.¹⁷ Figure 6 refers.

4.5.3 The increase in tourist arrivals from Italy could be attributed to an increase in the seat capacity between the two countries. Generally, there exists a positive relationship between the available seat capacity and the total tourist arrivals. This implies that arrivals increased as accessibility between the two countries rose.

4.5.4 However, it emerged that during the period under review, the Italian market had one of the lowest load factors with respect to available airline seat capacity. Around one third of the available seat capacity remained unutilised during the period 2008 to 2011. The percentage of unutilised seat capacity increased further during the winter and shoulder months, and, in certain instances, it reached the 50 per cent level. Such a concern is further emphasised when load factors of airlines operating from Italy to Malta are compared to airline operators from other major countries. Figure 7 refers. This analysis excludes a review of the sea load factor since data on sea seat capacity was not available at the MTA.

4.5.5 Figure 7 illustrates that over the period under review, there was an improvement in the overall yearly load factors relating to carriers operating from Italy. These improvements would be more notable if load factors relating to Trapani and Bari are not considered for the above analysis. When these routes are excluded, during 2011, load factors relating to the rest of Italy stood at around 70 per cent. This notwithstanding, load factors relating to Italy remain generally ranked below Malta's other major markets.

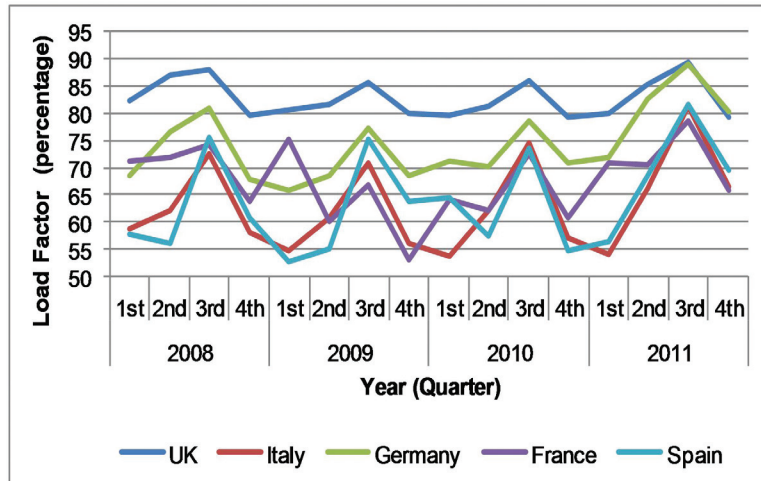
Figure 6 : Total tourist arrivals from major markets (2008 to 2011)



Source : NSO News Release, *Departing Tourists*, December 2010 and 2011.

¹⁷ Statistics for departing tourists published by the NSO show that during 2012 a decline in tourists from Italy was registered over the same period in the previous year as follows: up to March - 19 per cent, up to June - six per cent, up to August - one per cent.

Figure 7 : Airlines operating to Malta - Load Factor (2008 to 2011)



Source: Malta International Airport.

4.5.6 However, it must also be considered that low load factors could also result through overcapacity on certain routes. Such situations materialise as airline compete for market share, and therefore beyond MTA’s control.

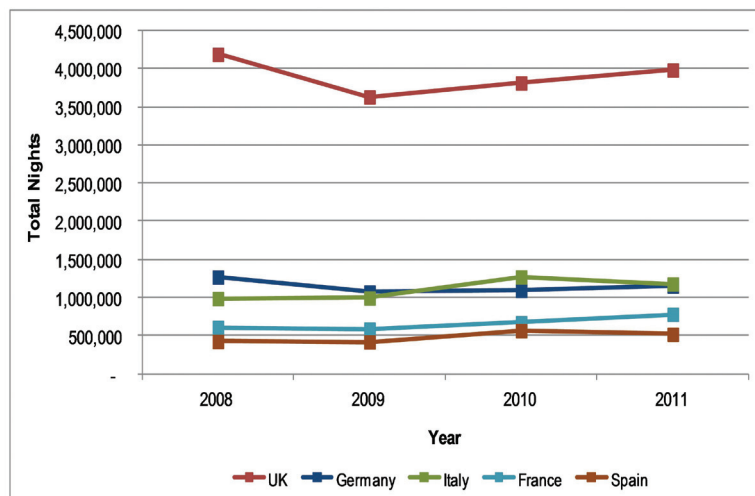
4.5.7 Load factors relating to airlines operating from Italy are at their lowest during the winter period. This period coincides with the time when MTA advertising is at its lowest level. Although beyond the scope of this audit, the MTA’s effort to increase seat capacity from Italy is acknowledged. Given the existent potential for off-peak tourism, MTA’s efforts to improve the seat capacity from Italy may not be fully supported with the appropriate

level of advertising - both directly by the MTA or in conjunction with its partners.

Despite the increase in the total tourist nights, there was a significant decline in the average length of stay from the Italian marketing in accordance with current tourism behaviour

4.5.8 Similarly to tourist arrivals trends for the period under review, the total number of tourist nights relating to the Italian market generally increased. In 2010, total nights significantly increased by around 28 per cent over the previous year. In 2011, there was a seven per cent decline from the figures registered in the previous year. Figure 8 refers.

Figure 8 : Total tourist nights by major markets (2008 to 2011)



Source : NSO News Release, *Departing Tourists*, December 2010 and 2011.

4.5.9 Figure 8 illustrates that, since 2010, the total nights spent by Italian tourists ranked second amongst the major markets. This is mainly due to the increase in tourist arrivals during the same period. However, the average length of stay (in nights) of Italian tourists decreased from 6.8 nights in 2008 to 5.9 nights in 2011. The decline in the average length of stay by Italian tourists was more than that related to Malta’s other major markets. In total, the average length of stay of tourist visiting Malta between 2008 and 2011 contracted by 2 per cent from 8.5 days to 8.3 days, whilst the average stay of Italian visitors decreased by 14 per cent.

4.5.10 The decline in the average length of stay could be attributed to changing travelling patterns. The European Travel Commission points out that the length of trips appear to have shortened as the number of nights spent abroad by Italians has slowed in relation to the number of visits for most destinations. To an extent, the local tourism industry is also experiencing the same phenomena. Furthermore, MTA research shows that Italians are travelling more frequently but for shorter visits. This is supported by the trend that Italians consider Malta as either their second or third holiday or as a long weekend holiday. The decline in the average length of stay has impacted on the average expenditure per night by Italian tourists.

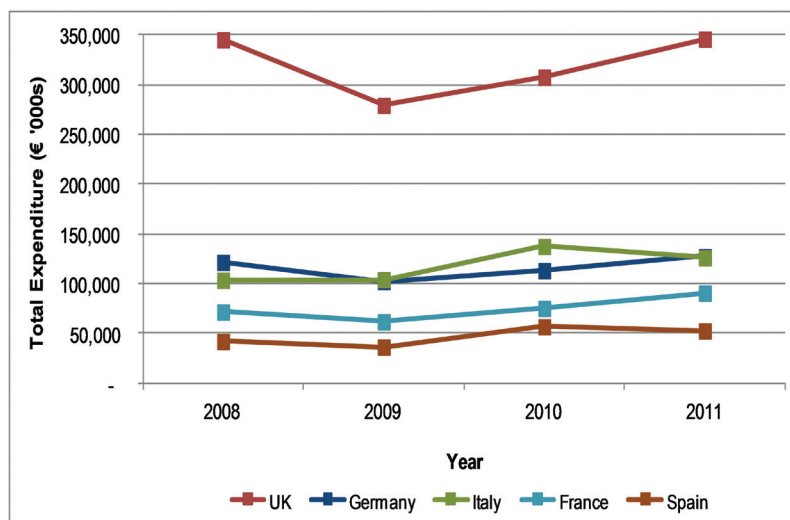
There was an inverse relationship between total and per capita expenditure during the period 2008 to 2011

4.5.11 The total expenditure by the Italian market generally followed the same trends of total tourist arrivals and total tourist nights. Tourist expenditure is considered to include air and sea fare, accommodation costs as well as spending incurred during the visit.

4.5.12 Despite the negative prevailing economic situation during 2009, expenditure from Italian tourists increased marginally by 0.58 per cent whereas expenditure from the other markets decreased. In 2010, the Italian market registered a major upward shift of 32 per cent over the previous year in total expenditure. However, in 2011, as the number of tourists decreased, total expenditure declined by eight per cent. The same scenario was also experienced by the Spanish market whilst Malta’s other major markets registered increases in total expenditure. Figure 9 refers.

4.5.13 Despite the overall increasing trends in tourist arrivals and total expenditure, the per capita expenditure from the Italian market declined during the period under review from €715 in 2008 to €630 in 2011. This constitutes the sharpest decrease in

Figure 9 : Total tourist expenditure from major markets (2008 to 2011)



Source : NSO News Release, *Departing Tourists*, December 2010 and 2011.

per capita expenditure among the major tourism markets. It is to be noted that during the same period the UK and German market registered notable increases in per capita expenditure.

4.5.14 A contributory factor, which may have led to the decline in per capita expenditure relates to the cost of air and sea fares, which are considered in tourist expenditure computations. The introduction of low-cost carriers from various regions in Italy has led to a decrease in the cost of air fares. The MTA contends that air fares from Italy are lower than the cost of flights from other major markets due to the proximity of the two countries, which implies that carriers incur lower fuel expenses.

4.5.15 The decline in per capita expenditure by Italian tourists is mainly due to the decrease in the average length of stay, as discussed in paragraph 4.5.9. However, in this respect, a more realistic indicator to gauge the level of spending by tourists is the per capita expenditure per night.

4.5.16 During the period under review, expenditure per night increased by around two per cent. This is mainly attributable to an increase in the total number of nights spent in Malta by Italian tourists as well as an increase in total tourist expenditure.

4.6 The Tourism Support Scheme is resulting in a wide range rate of return in terms of tourist arrivals

4.6.1 The Tourism Support Scheme provided to Italian tour operators generally resulted in a positive return, in terms of Italian tourist arrivals. With regards the Italian market, the support provided through this Scheme is utilised for advertising purposes by the recipients of such assistance. During the period 2008 to 2011, the number of tourists coming to Malta through tour operators increased by around three fold from 12,600 to 49,050 tourists.

4.6.2 As referred to in Chapter Three of this Report, there are no documented operational policies and guidelines in place to formally determine the criteria for TOS support allocations. The ensuing contract

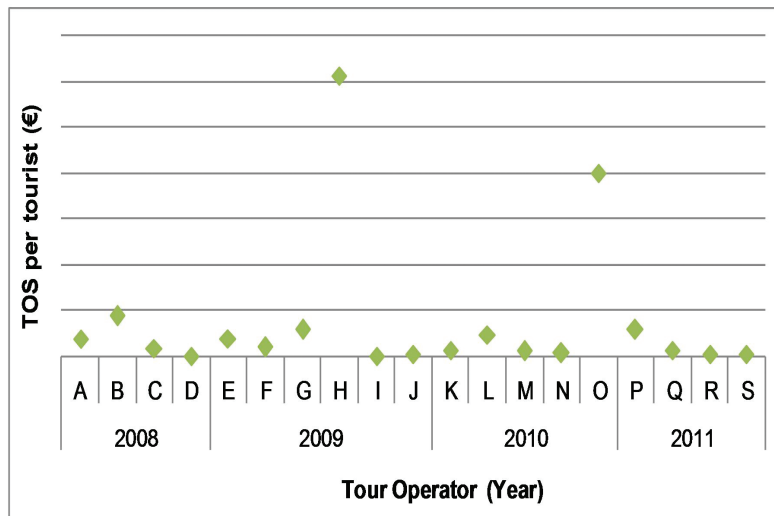
between the MTA and the recipient of TOS funds provides the terms and conditions related to the support as well as the expected number of tourists which will travel to Malta through package bookings with the operator.

4.6.3 Following a review of support allocations to TOS applicants operating from Italy, the following concerns emerged:

- The agreements reached between the MTA and operators were wide ranging in terms of assistance provided, as well as the expected number of tourists who will be expected to travel to Malta through bookings with the latter. Figure 10 refers. Due to commercial considerations, the relative costs associated with TOS are not being disclosed.
- The MTA contended that the foregoing state of affairs results due to the negotiation process that is undertaken with the various operators. Such a process considers a number of factors, such as the marginal increase in the number of tourists that will be travelling to Malta and the applicant's ability to fulfil the agreement with the MTA.
- The basis and the reasons corresponding to the agreement with the applicant are not fully documented by the MTA. Such an omission raises governance concerns in terms of accountability and transparency as well as business continuity risks. In the circumstances, the NAO is not in a position to offer any comments relating to the support allocations. However, the MTA contends that the final agreement generally reflects the negotiating position and bargaining power of the Italian Tour Operators.

4.6.4 Throughout 2008 to 2011, the MTA entered into 19 agreements with various agencies operating from Italy. The MTA considers that through such agreements 103,670 tourists travelled to Malta. It is to be noted that information, which enables estimates to be based on incremental arrival rates, is not maintained by the MTA.

Figure 10 : Italian TOS expenditure per tourist (2008 to 2011)



Source : MTA – TOS data (2008 to 2011).

4.7 Conclusion

4.7.1 Analysing the results of the MTA’s advertising campaigns in Italy is a complex endeavour. A number of variables, to varying degrees, influence the outcome of advertising campaigns. Matters are further complicated since the Authority’s analysis of its advertising campaigns is generally limited to a macro review. Consequently, data and information pertaining to specific campaigns is very limited, which renders the analysis of advertising campaigns more problematic. In view of the foregoing, this Chapter discussed the outcome of the MTA’s advertising campaigns in Italy with respect to various tourism performance indicators.

4.7.2 Total tourist arrivals, together with total expenditure and total nights, registered an increase throughout the period 2008 to 2010, however, such an increasing trend was interrupted during 2011 where a decline was recorded. The prevailing economic conditions in Italy were major contributory factors leading to this negative shift. Such a situation rendered the importance of advertising as critical, and, in this respect, the MTA budgetary allocation for advertising was significantly increased to counter the

economic downturn. Consequently, the intensifying of advertising campaigns resulted in higher costs per Italian tourist visiting Malta.

4.7.3 The cost per Italian tourist also increased since advertising funds were utilised to support the introduction of new routes from Italy. This initiative increased the number of Italian arrivals. Nonetheless, the load factors of airlines operating on various routes from Italy pose concerns, particularly due to the lower load factors pertaining to flights operated during the winter months. This clearly indicates that the opportunity exists for the MTA to work more with its partners to ensure that its advertising campaigns promote low season tourism.

4.7.4 This review also identified governance risks related to the TOS scheme due to the non-documentation of operational policies and guidelines. Additionally, the non-documentation of reasons relating to grant allocation weakens audit trails and diminishes the principle of transparency. These elements of corporate governance are considered critical in situations where it is necessary for MTA officials to exercise their discretion, particularly in negotiations with third parties.



Appendices

Appendix I – Italian market tourist profile

Year	2008	2009	2010	2011
Tourist arrivals	144,456	161,737	217,726	199,830
Tourist expenditure (€ '000s)	103,236	103,830	137,262	125,805
Per capita expenditure (€)	715	642	630	630
Average length of stay (nights)	6.8	6.1	5.9	5.9
Tourist nights	985,622	993,825	1,270,553	1,178,197
Expenditure per capita per night (€)	104.74	104.48	108.03	106.78
Expenditure (€'000s)				
Package	32,616	29,237	39,840	34,439
Non-Package	35,365	35,582	40,366	37,677
Air/Sea fares	16,316	16,474	16,273	15,035
Accommodation	19,049	19,108	24,093	22,642
Other expenditure	35,255	39,010	57,056	53,688

Source : NSO Press Release, *Departing Tourists*, Dec 2010 and 2011.

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