



Port of Seattle

Internal Audit Report

Functional Review of Port-wide Marketing Activities

Current Practices

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 I. Strategy and Coordination

Internal Auditor's Report

We have completed a functional audit of marketing activities throughout the Port. Marketing is defined for purposes of this audit as the processes and activities involved in promoting facilities and/or services of the Port.

A functional audit differs from department, compliance and systems audits in that the focus is on the value-added assessment of a particular management function across organizational lines, including performance.

The overall audit objectives were as follows:

- 1) Assess the adequacy of the structure and strategies of marketing activities throughout the Port based on clear priorities, clarity of purpose, and alignment with Port wide strategic plans.
- 2) Identify whether marketing is being carried out by management in an efficient and effective manner, and whether management practices promote successful performance.

We conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance that the risks impacting marketing functions were sufficiently mitigated through effective operational controls and performance measures.

The current structure of marketing activities at the Port is reflective of the Port's decentralized organization. Marketing efforts at the Port are achieving intended divisions/departments results. However, we observed certain areas that can be improved to effectively promote Port facilities and services.

We extend our appreciation to Port management and staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objectives The overall audit objectives were as follows:

- Assess the adequacy of the structure and strategies of marketing activities throughout the Port based on clear priorities, clarity of purpose, and alignment with Port wide strategic plans.
- Identify whether marketing is being carried out by management in an efficient and effective manner, and whether management practices promote successful performance measurement.

The scope of the audit was current marketing practices in 2010.

Background As the lines of businesses within the Port mature, an infrastructure to support marketing has been established. The Port uses several marketing approaches to suit its unique customers and business lines. These activities include typical marketing functions surrounding advertising in media, such as print (newspapers), web, radio, video and publications, and related production expenditures.

The delivery of marketing at the Port includes in-house support. There is partnership with the Public Affairs Department for events and the design/production of marketing materials, contracting with outside marketing firms (such as for concessions marketing program at Sea-Tac Airport), and incentive programs for new international carrier routes. The Port also supports various trade business and community development activities. These include all Port-sponsored events and support activities to outside organizations that have long standing relationships with the Port.

Audit Result Summary The current structure of marketing activities at the Port is reflective of the Port's decentralized organization. Marketing efforts are achieving intended divisions/departments results.

We observed marketing activities have been operating without a current Port wide strategic plan. We also observed a need for more coordination among business/corporate units to fully optimize this structure and its various marketing methods and processes.

We additionally noted that some business/corporate units currently do not have performance measures for their marketing activities. The development of such metrics is in the process.

Background

Over the years the Port developed a decentralized approach to marketing. Marketing is defined for purposes of this audit as the processes and activities involved in promoting facilities and/or services of the Port. As the lines of businesses within the Port mature, an infrastructure to support marketing, business development and communication activities has been established within 11 business/corporate units.

Some departments have specific marketing plan requirements to comply with such as the annual concessions marketing plan and the joint international carriers marketing program. Other departments partner with the Public Affairs Department with its airport, seaport and tourism specialists for events and the design and production of marketing and advertising materials.

The 11 business/corporate units with significant marketing functions included the following:

1. Commercial Strategy (formerly Seaport Container Marketing) – Business strategy development and direct marketing to the key customer segments of Terminal Operators, Ocean Carriers, Railroad and Beneficial Cargo Owners to attract new business and influence the growth of volume through the Port.
2. Air Service Development – Incentive program for air carriers in support of their marketing program for new international routes.
3. Airport Concessions – Marketing program funded by Sea-Tac concessionaires through their agreements with the Port. The marketing program was outsourced to a private marketing firm in 2010.
4. Air Cargo – Airline cargo business development to promote global trade value.
5. Public Affairs - “Outreach and Goodwill” to the broader community with concentrated efforts on the Seaport, Passenger Cruise lines, Aviation and Tourism business lines.
6. Corporate Communications - The Port’s “Public voice” encompassing communications about the Port’s business lines and corporate matters.
7. Tourism Public Affairs - Partnerships with the Seattle Convention & Visitors Bureau and Washington State's Tourism, Convention & Visitors Bureau with a focus on the key markets of Japan, Germany, UK, France, Germany and China.
8. Public Affairs – Airport – Aviation Division Communications and Events.
9. Real Estate/Harbor Services Marketing – Support programs for the benefit of the public by providing moorage and services to the region’s fishing, commercial and pleasure boating industries.
10. Cruise, Dock Operations and Industrial Properties – Support to cruise ship terminals, cargo handling facilities and industrial properties. They include large vessel berthing

docks and related equipment, utilities and services to encourage current and new customers to move greater amounts of marine tonnage and cruise passengers through the Port of Seattle.

11. Social Responsibility- Promotion of Small Business Programs Outreach initiatives.

Financial Highlights

The scope of marketing expenditures for this engagement is limited to Advertising and Trade and to Business and Community Development. There are also other accounts in use such as contracted services for marketing activities. Promotional Hosting was specifically excluded from the scope of this audit. The State Auditor’s Office (SAO) audits these expenditures yearly and has commended the Port’s overall approach and processes for promotional hosting.

Expenditures for 2008 and 2009 were as follows:

	2008		2009	
	<i>Port-Wide</i>	<i>11 units reviewed</i>	<i>Port-Wide</i>	<i>11 units reviewed</i>
Advertising *	1,800,158	1,428,998 79%	766,145	667,603 87%
Trade, Business & Community Development	1,278,637	1,177,007 92%	686,896	592,580 86%

* Includes marketing program funded by Lessee and other concessions at the Airport.

Air Service Marketing and Commercial Strategy (formerly Seaport Container Marketing) comprised 65% of the Trade, Business and Community Development expenditures for the two years. Advertising expenditures were more dispersed throughout the Port, but Airport Concessions accounted for nearly 50% of the two-year total.

Based on our audit, it is estimated that a total of 8.5 FTEs are devoted to marketing functions throughout the Port.

Audit Objectives

The overall audit objectives were as follows:

- Assess the adequacy of the structure and strategies of marketing activities throughout the Port based on clear priorities, clarity of purpose, and alignment with Port wide strategic plans.
- Identify whether marketing is being carried out by management in an efficient and effective manner, and whether management practices promote successful performance measurement.

Audit Scope

The scope of the audit was current marketing practices in 2010.

Conclusion

The current structure of marketing activities at the Port is reflective of the Port's decentralized organization. Marketing efforts are achieving intended divisions/departments results.

We observed marketing activities have been operating without a current Port wide strategic plan. We also observed a need for more coordination among business/corporate units to fully optimize this structure and its various marketing methods and processes.

We additionally noted that some business/corporate units currently do not have performance measures for their marketing activities. The development of such metrics is in the process.

Observations on the Port's Marketing Activities

I. Strategy and Coordination

Each marketing unit and the marketing or communication plan were assessed within the definition of promoting Port services and/or facilities.

The assessment included an evaluation of the following areas:

1. Approaches/processes, including those for establishing performance measures.
2. Strategies based on current environment.
3. Defined objectives to address the strategies.
4. Specific goals with established targets.
5. Tasks identified with specific measures and how to track them – i.e., metrics, reports, tracking documents.

Assessment criteria for # 5 above included the followings:

- Performance Measures are realistic, measurable, and related to Division/Department strategy.
- Performance Measures are appropriate at the present time and are used effectively.
- Performance Measures are changed or adjusted as conditions and strategies warrant.

Most of the eleven business/corporate units had developed plans (including marketing, communication or operations plans depending on division/department terminology) based on effective approaches and processes. The plans were appropriate to their respective business/corporate units. We; however, noted three units had not developed, but were in the process of developing, their marketing plans and related performance measures. The in-progress status of the three units was attributable to the relative immaturity of the units (Air Cargo, Social Responsibility) or a re-direction of focus and approach (Airport Concessions).

The following table is a summary of our conclusions based on the criteria we used to evaluate process and performance measures:

BUSINESS/CORPORATE UNIT	Approach/process for establishing performance measures	Strategies (situational analysis or department used terminology) that have established targeting facilities, services and/or customers	Objectives that are defined and address the strategies	Specific goals with target dates established	Tasks identified with specific measures defined on how to track them – i.e., metrics, reports, tracking documents.	Performance Measures/Out comes are realistic, measurable and related to Department strategy	Performance Measures are the right ones and that the measures are being utilized, and that they are effective	Performance Measures are changed or adjusted as conditions and strategies warrant
Container Marketing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Air Service Development	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Airport Concessions	In Development	In Development	In Development	In Development	In Development	In Development	In Development	In Development
Air Cargo	In Development	In Development	In Development	In Development	In Development	In Development	In Development	In Development
Other Public Affairs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Corporate Communications	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tourism Public Affairs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Public Affairs – Airport	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Real Estate/Harbor Services Marketing	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cruise, Dock Operations and Industrial Properties	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Social Responsibility	In Development	In Development	In Development	In Development	In Development	In Development	In Development	In Development

Strategy

Marketing strategy is most effective when it is an integral component of the Port overall strategy. Without current strategies, the potential success of marketing efforts is less assured.

The most recent Port-wide strategic plan approved by the Commission covered a 5-year period through 2007. There has been a concentrated effort to update the plan based on the current environment. Currently, marketing activities are developed based on divisional or department goals and priorities rather than strategies and a vision for the Port as a whole.

Coordination

With a distributed approach to marketing, there is a need to tie the parts into a whole to successfully promote facilities and/or services of the Port. Shared understanding of common goals and the collective awareness of available resources are some of the benefits of well coordinated marketing efforts. We observed that such coordination was lacking in certain instance as follows:

- Lack of coordination to ensure effective resource utilization. We noted that contracted services (e.g., public relations firms) were procured without adequately coordinating with other Port units that could provide necessary services. Available Port resources could go unused in the absence of coordination. We did not see evidence of consistent coordination.

- We observed focused marketing at the activity level without an element of other Port facilities or services. We acknowledge the uniqueness of individual units' marketing audiences, but overall promotion of Port facilities and/or services should also be considered with certain audiences.

Recommendation

The Port needs to continue its efforts to develop clear, well defined strategies which would benefit all groups involved in marketing and help them to focus their planning efforts to support the Port vision. There is also a need for more coordination among all the marketing units to increase effectiveness of marketing activities for the Port as a whole.

We recommend:

- Port management develop a marketing component for future strategies.
- Port management consider establishing a marketing forum to meet on a regular basis (e.g., semiannually).

Management Response

Thank you for this review of the marketing program on an enterprise basis. It is helpful to hear your perspective, and the report has given us some good ideas to consider going forward.