



**EXECUTIVE FORUM ON
NATIONAL EXPORT STRATEGIES**

**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?
IMPLICATIONS FOR STRATEGY- MAKERS**

**5-8 October 2005
Montreux, Switzerland**

**Value-Based Tourism – Getting the Most of the Tourism Dollar
A Srilankan Perspective**

**A paper contributed by
Prema Cooray
Secretary General/C.E.O.
Ceylon Chamber of Commerce
Sri Lanka**

VALUE-BASED TOURISM – GETTING THE MOST OF THE TOURISM DOLLAR A SRILANKAN PERSPECTIVE

Developing a Strategy

Tourism is a growth industry and an engine of development worldwide. In Sri Lanka the industry has been a mainstay of the nation's economy, its fourth largest source of foreign exchange and a major employer. Over the last two decades, however, growth in Sri Lanka's international tourist arrivals and tourism receipts has been weak when compared to growth in world averages and among rival destinations in Asia. The continuing civil conflict has much to do with this, but more important are structural issues. Sri Lankan tourism has become too dependent on a low-cost, low-value market segment. In this segment, Sri Lankan firms compete against rival destinations and each other on the basis of a standardized product—a packaged beach holiday—delivered to the international tourist at the lowest price. Industry returns are poor and its primary product is not following growth opportunities or trends in world tourism demand. The industry can and must do better.

To take advantage of developments in the international marketplace and to improve its performance, we must improve our *competitiveness*. This means more than increasing the number of visitors and the value of revenues they generate. It means propelling the industry into a position where it is recognized for sophisticated, differentiated, and highly valued products and services that command a premium price.

In order to implement this strategy, the following initiatives were recommended:

Improve the tourism product mix. This new initiative calls for developing high-yield tourism products that appeal to independent, high-spending tourists. The proposed products include ecotourism; adventure tourism; meetings, incentives, congresses, and events tourism; and Ayurveda tourism.

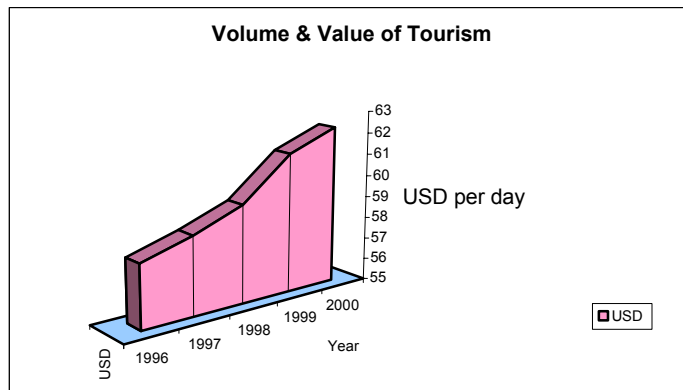
Upgrade tourism offerings. This initiative supports the improvement of the product mix by adding value to and promoting unique Sri Lankan assets, such as the Sigiriya Sound and Light Project. It also calls for upgrading the Southwest Coast by transforming Galle Fort into a major attraction, commensurate with its status as a UNESCO World Heritage Site. This effort will highlight cultural depth and demonstrate a new approach to complex development projects. This initiative also considers developing domestic tourism by improving site management, facilities, information, and accessibility for all tourists.

Modernize industry organization and key institutions. This initiative calls for creating a national, industry-led, promotion and marketing organization, the Sri Lanka Tourism Promotion Bureau (SLTPB) as a first step toward a private-public Tourism Authority driven by the private sector; setting up an industry Internet portal to stimulate destination marketing and improve cooperation in the industry; fostering mechanisms to manage the impact of the civil conflict on tourism; and addressing human resource needs through development in the industry's education and training organizations.

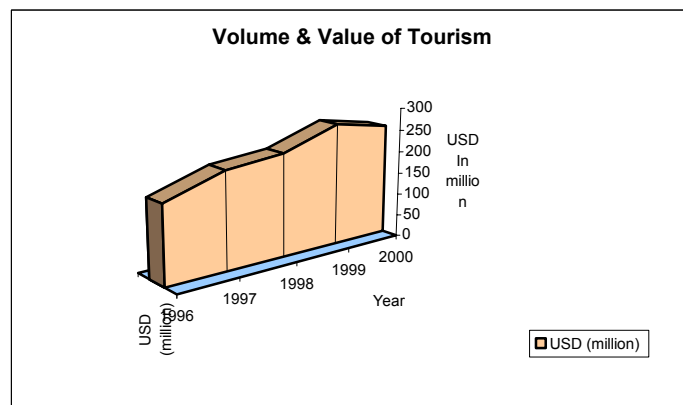
Reform the policy environment. This initiative aims to shape policies that affect the tourism industry. These include civil aviation policy and domestic air travel. It also aims to define and recommend reforms to improve tourism-related infrastructure and to present a unified industry voice on policies for taxation, tourism planning and regulation, land planning, environmental protection, and municipal government.

This strategy was brought to focus by the formation of a tourism cluster— an initiative supported by USAID to promote the competitiveness of the industry. We were of the view that by 2010, international tourist arrivals will more than double to 800,000 per year and international tourism receipts nearly quadruple to \$ 890 million annually. These increases will depend on raising average daily tourist expenditures by 50%, to US \$ 94 per day by 2010. This increase, in turn, will reflect the new type of tourists Sri Lanka attracts and the new higher-value products the industry delivers.

Receipts per Tourist per day



Total Tourist Receipts in US\$ millions



Sri Lanka Market Context

Sri Lanka's tourism industry may be a small player in the global marketplace, but it is a strategic force in the national economy. In 2000, the industry generated foreign exchange earnings of US\$253 million, making it the fourth largest source of such earnings, behind textiles and garments, private remittances, and tea. The SLTB recorded direct employment from tourism at 38,000 and indirect employment at 53,000 in 2000. The WTTC estimates that tourism may also account for as many as 217,000 jobs directly and another 330,000 jobs indirectly, a combination that represents about 7 percent of total Sri Lankan employment. But industry performance has been uneven and below the potential of the country's natural asset base.

Lacklustre performance

Because of inattention to competitiveness and perceptions of security problems, Sri Lanka's tourism industry has performed unevenly in arrivals and receipts over the long term from one year to the next. Consider the five years since 1995 and the mixed picture the industry presents when compared to other performance patterns in the same time frame.

World and region

Sri Lanka has seriously under-performed world, Asia, and South Asia averages as measured by rates of increase in international tourist arrivals or international tourism receipts. Sri Lanka, however, substantially exceeded world and regional averages for rate of increase in receipts per arrival.

Key rivals

When compared to rivals in Asia-identified by the Sri Lanka Tourist Board as India, Indonesia, Malaysia, Maldives, Singapore, and Thailand-the industry has fared little better. It experienced no growth in international arrivals during the period, while rivals posted average annual increases from 3 to 8 percent. Sri Lanka reported an average annual increase in international tourism receipts of about 2.4 percent over the same period. This surpassed powerhouses such as Indonesia and Thailand, both hard hit by the Asian financial crisis in 1997 and 1998, but fell short of the growth in receipts in India, Malaysia, and Maldives. In receipts per arrival, Sri Lanka's average growth of 2.5 percent per year is the best among all seven Asia tourism competitors cited by the Tourist Board.

Emerging rivals

The arrivals and receipts of Sri Lanka-and indeed of its six Asian competitors-pales against those of emerging rivals such as China, Iran, and Viet Nam. From 1995 through 2000 these destinations demonstrated double-digit annual rates of increase in arrivals. Iran and China also achieved double-digit annual growth rates in tourism receipts, and exceeded Sri Lanka and all others in rate of increase in receipts per arrival.

Sri Lanka's tourism performance as measured by another key indicator, average daily tourist expenditure, is also mixed. From 1995 through 1999, Sri Lanka recorded average daily spending from US\$56 to US\$61-well below spending in Indonesia, the Maldives, Singapore, and Thailand. On the other hand, most of these rivals experienced sharp erosion in their average daily spending levels over the period, but Sri Lanka was able to maintain its spending per tourist and even experienced a modest increase. Only the Maldives has done better on the *rate of increase* of average daily expenditure.

Between 1999 and 2000, Sri Lanka's international tourist arrivals and tourism receipts declined roughly 8 percent. This was in sharp contrast to its Asia rivals, nearly all of which registered sharp gains in these indicators. This reversal, along with the industry's lacklustre performance from 1995 to 2000, is troubling, possibly signalling a failing destination. The industry can and must improve its performance.

Implementing the Strategy (Year 2002 – To Date)

In order to achieve this new strategy, the Industry identified a number of challenges. To overcome these, the following meaningful steps were taken to implement the strategy outlined:

a) Transforming a Low Cost, Low Value Client Base

The Industry decided to shift its focus from a volume based low cost destination to a premium niche market and thereby increase the quality of the tourist, eventually giving the Industry a higher spend per tourist. These efforts helped Sri Lanka to reach a level around US\$ 75 per day as against around US\$ 60 achieved around five years ago.

b) Managing the Impact of Civil Conflict

Sri Lanka has been plagued with the civil conflict for over twenty years. However, the county has managed the industry very effectively during this period and has showed great resilience. With the signing of the Peace Accord in 2002, Sri Lanka has experienced relative peace and thereby succeeded in securing an arrival figure of over Half a Million tourists for the first time in Sri Lanka.

c) Offering New Tourism Products

Sri Lanka's dependence on cheap package beach vacations as the main segment was to be replaced by a new strategy named "Going Beyond Beaches – Nature, Culture and Adventure". The Island's biodiversity is acclaimed to be the highest in the region and thereby had great potential for nature and Eco Tourism. In addition Sri Lanka's natural waterfalls, lakes and rivers provide an ideal base for water related adventure sports, Spar and wellness treatment combined with our ancient Ayurveda medication seemed to fall in line with the demand from holiday makers, who in the recent times have shown great interest in health and well being. All these new

products now form an integral part of Sri Lanka's tourism profile and has given the much-needed diversity to the product.

d) Developing Human Resources

There was a need to improve and refine the human resource base, critical for the hospitality industry. A well designed, state of the art Hotel School was completed in early 2002, and this paved the way to streamline and introduce relevant professional courses of study with modern facilities for all those who sought tourism as a carrier. This would no doubt facilitate a steady flow of qualified candidates for tourism management and technical jobs. Sri Lanka's tourism industry is now prepared to innovate and develop staff resources to design and deliver sophisticated products and services in a demanding and discriminating market place.

e) Modernising Industry Relationships

Traditionally, Sri Lankan Government agencies for tourism have been in a dominant position in relation to the private industry. However, this needed change. The industry from late nineties canvassed strongly to play a more active role in the destination promotion of the country. Eventually, the Sri Lankan Government and the Tourism Ministry agreed to consider this request and has now prepared a Cabinet paper to effectively bring the private sector to play a more dominant role in the promotion of the industry. The industry is hopeful that this new Law will be in place and the private sector will play a pivotal role in steering the future of the industry.

f) Increasing Promotion Budgets

The Sri Lanka Tourist Board's budget for the promotion of tourism was US\$ 1.6 Million in 1995 and had increased marginally to US\$ 1.43 Million in 2001. These budgets lag far behind those of rival competing destinations like Singapore, Malaysia and Thailand. Well recognising the need for increased promotion to realise the new strategies outlined, the private sector agreed with the Government to pay a CESS of 1% on turnover to create a fund for the promotion of the destination. In addition, very recently, there was an increase of US\$ 5 on the embarkation tax on all departing clients, which will directly flow to this promotion fund. The industry collected as much as US\$ 12 Million for promotion purposes in the year 2004. Several initiatives have been taken to effectively market the destination and the industry is very hopeful that these initiatives will bear results.

g) Embracing New Information Technology

There was a real need for Sri Lanka to embrace new IT based technology to improve the effectiveness of the product. To this end, Sri Lanka has advanced to online systems, a very comprehensive national website and many related software systems, which has made Sri Lanka advance and compete effectively, especially in marketing the destination. A Tourism Industry Internet Portal is now being designed with input from all Stakeholders and this initiative will no doubt strengthen the online information base of the industry.

h) Reforming New Tourism Policy

There was a need to identify tourism zones for development. Up to now, the tourism areas have developed on an ad-hoc basis and have created a lot of drawbacks in terms of having proper infrastructure by way of proper road networks and other extended utilities. This proposal is well underway for implementation and would give the industry "Planned Zones", which will facilitate all developers to create tourism products in line with accepted Standards of International Products. Sri Lanka's Aviation Policy was restrictive in the late nineties and has seen far reaching changes in the recent past and the country follows a policy of "liberal skies", which policy has made it possible for many airlines to operate to Sri Lanka. For example our giant neighbour India has now become our biggest partner in tourism. India brings the largest amount of tourists compared to an almost party in the tourism map ten years ago. With an additional two private airlines flying to Sri Lanka from April 2004, Sri Lanka's flights have expanded to around 100 per week to all parts of India.

Sri Lanka's Tourism – At Present

Having met most of the challenges outlined above, Sri Lanka's tourism is well poised to make best use of the Tourism Dollar. This is amply demonstrated in the following graph:

