

Tourism Industry

A Competitiveness Strategy for Sri Lanka's Tourism Industry

Developed by The Tourism Industry Cluster



Supported and funded by The Competitiveness Initiative, a joint project of the United States Agency for International Development (USAID), Nathan Associates Inc., and J.E. Austin Associates.

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Preface

Sri Lanka's Tourism Cluster has devoted nearly two years to considering new ways of developing the industry and of providing guidance to tourism enterprises and policymakers. The findings and recommendations in this report are the result of that effort and constitute a balanced strategy for enhancing the competitiveness of Sri Lanka in the global tourism marketplace. Activities recommended in this report chart a path for growth that can resolve near-term barriers and set the stage for medium- and long-term progress in the industry. With the change in government and focus on the peace process, some activities have already taken place, others are in mid-stream, and others are being formulated—even as new issues emerge.

Written over a period of nine months, beginning in July 2001, this report supports the Strategic Marketing Plan of the Sri Lanka Tourist Board (SLTB) and marks a new spirit of cooperation. Through the efforts of the Tourism Cluster and Sri Lankan tourism industry leaders, the entire industry has renewed cooperation toward common goals and dedicated time, energy, and expertise to pursuing those goals. The cluster, through its organizational structure, has been able to advance the thinking of the industry and facilitate significant progress. Cluster activity has involved initiatives from industry associations, the SLTB, and the Ministry. Working groups established through the cluster have been implementing strategies while expanding the cluster to include new members.

The Competitiveness Initiative (TCI) for Sri Lanka sponsored the preparation of this report. TCI is a project funded by the United States Agency for International Development (USAID) and managed by Nathan Associates Inc. of Arlington, Virginia. The principal author of this report, Robert Bentley, Director, Sustainable Tourism Development Associates, would like to express his sincere thanks and appreciation to the Tourism Cluster and its Chairman, Mr. Prema Cooray, for the cluster's unstinting contribution of time, insight, advice, and support in preparing this report. He would also like to thank the TCI team for establishing an effective framework for promoting economic and business change and openness to new ideas. Finally, Ms. Pri Ratnayake, TCI's Cluster Coordinator for the Tourism Cluster, merits special thanks and recognition.

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Executive Summary

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, Sri Lanka's tourism industry must improve its *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.

Sri Lanka's Tourism Cluster has devised a strategy to improve competitiveness. Made up of industry associations—the Tourist Hotels Association of Sri Lanka, the Travel Agents Association of Sri Lanka, and the Sri Lanka Association of Inbound Tour Operators—and the Sri Lanka Tourist Board, the cluster consulted with other industry stakeholders, including Sri Lankan Airlines, to arrive at a broad consensus on strategy. Presented in this report, the strategy seeks to turn Sri Lanka into a special, high-value destination, differentiated from its rivals by

- Building on and building up Sri Lanka's basic advantages;
- Targeting distinct market segments where worldwide demand is vigorously expanding;
- Having industry stakeholders work together;

- Organizing the industry to increase internal competition, thereby sharpening firm-level skills, and building consensus on policy and other issues of common concern; and
- Embodying the principal drivers of change in the industry worldwide—use of information technology (especially for marketing and promotion), private sector prominence, product diversification, and education and training.

The proposed strategy is to be implemented through the following strategic initiatives:

- **Improve the tourism product mix.** This 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.

Some activities, such as a best practice “ecolodge,” will be pursued by individual firms or groups of firms; other activities, such as development of an Internet portal by the Tourist Board, will be supported by the Tourism Cluster.

Implementing this strategy will significantly boost the size and value of tourism in Sri Lanka. The Tourism Cluster believes that by the 2010 international tourist arrivals will more

than double to 800,000 per year and international tourism receipts nearly quadruple to US\$890 million annually. These increases will depend on raising average daily tourist expenditures by 50 percent, to US\$94 per day, by 2010. This increase, in turn, will reflect the new type of tourist Sri Lanka attracts and the new higher-value products the industry delivers.

Having defined a competitiveness strategy, the industry will now focus on improving the public–private partnership in implementing the strategic initiatives. The Tourism Cluster should play a major role in fostering this partnership. It will therefore be important to identify resources and set up mechanisms for funding the cluster’s efforts.

The Competitive Environment for the Tourism Industry

Competitiveness is now *the* strategic issue for the tourism industry in Sri Lanka. The Tourism Master Plan is 10 years old, and in the last five years tourism growth in Sri Lanka has been nearly flat, in contrast to growth around the world and in the Asia region.¹ Tourism firms recognize that this lack of growth can be blamed in part on the nation's civil conflict, but they also recognize other serious constraints—how the tourism business is organized and operates in Sri Lanka and the policy context to which business responds. The February 1998 Presidential Task Force Report and the Sri Lanka Tourist Board's "Medium Term Strategic Marketing Plan for Sri Lanka Tourism, 2002–2004" both reflect these concerns and a desire for change among private operators and government policymakers.

Recent political changes also suggest new opportunities and encourage new approaches. The elections of December 2001 created a new parliamentary majority and ministerial lineup, and movement toward a settlement of the civil conflict is discernible. Seizing this moment, the Sri Lanka Tourism Cluster proposes a strategy to reignite industry growth and development: *reposition Sri Lanka as a differentiated high-value tourism destination*.

Integrated through four strategic initiatives, this strategy reflects what hoteliers, tour operators, allied organizations and businesses, and other industry stakeholders believe must be done to transform the industry. Implementing the strategy will require new forms of cooperation within industry, a more assertive and unified industry voice, a more limited and defined government role, and broadly coordinated policies to correct underlying problems. The strategy takes into account the desire for change and competitive conditions of the industry—from its global context to the unique context of Sri Lanka. This report examines those conditions, the Tourism Cluster's competitiveness strategy, and the four strategic initiatives.

¹The attacks of September 11, 2001 are expected to reverse world trends temporarily, possibly reducing international tourism in 2001 with a slow recovery anticipated for 2002.

INDUSTRY CONSTRAINTS AND OPPORTUNITIES

Building a globally competitive tourism industry in Sri Lanka requires a keen understanding and constant awareness of the forces and trends that shape tourism worldwide. It also demands an objective assessment of Sri Lanka's competitive position, strategic challenges, and opportunities.

Global Market Context

Arguably the world's largest single industry, tourism functions as a global engine of economic development. The World Travel and Tourism Council (WTTC) estimates that tourism and travel now generate about US\$4.5 trillion in total economic activity, counting direct and indirect effects. WTTC also calculates that, directly or indirectly, tourism and travel account for nearly 210 million jobs, more than 8 percent of the world's total employment, or one in every twelve jobs.²

Worldwide Growth Trends

Tourism is also a steadily expanding industry. In the last five years worldwide growth, measured in arrivals and receipts, has been vigorous. In 2000, international tourist arrivals reached 699 million and international tourism receipts nearly US\$476 billion.³ Compared to figures reported for 1995, these figures represent average annual rates of growth of 4.3 percent for arrivals and 3.2 percent for receipts. Of course, experience differs by region. Sri Lanka's rival tourist destinations—East Asia and the Pacific and South Asia—experienced strong growth in the last five years. Rates of increase in international arrivals in these two regions have been well above the world average. For example, in South Asia, the rate of increase in arrivals and receipts has more than doubled the world average, albeit from a small base (see Table 1).

	International Tourist Arrivals			Avg. annual growth		International Tourism Receipts			Avg. annual growth	
	(million)			(%)		(US\$ billion)			(%)	
	1995	1999	2000	00/99	00/95	1995	1999	2000	00/90	00/95
World	565.4	650.4	698.8	7.4	4.3	406.2	455.4	475.8	4.5	3.2
Africa	20.1	26.5	27.6	4.2	6.5	8.1	10.3	10.7	3.9	5.7
Americas	108.9	122.2	129.0	5.6	3.4	99.7	122.4	136.4	11.4	6.5
East Asia & the Pacific	81.4	97.6	111.9	14.7	6.6	74.5	75.2	82.5	9.7	2.1
Europe	338.4	380.2	403.3	6.1	3.6	212.8	233.1	231.5	-0.7	1.7
Middle East	12.4	18.2	20.6	13.2	10.7	7.6	9.8	9.7	-1.0	5.0
South Asia	4.2	5.8	6.4	10.3	8.8	3.5	4.6	5.1	10.9	7.8

SOURCE: World Tourism Organization, *Tourism Market Trends 2001*; and *Tourism Highlights 2001* (Updated)

Table 1. International Tourist Arrivals and Tourism Receipts, Worldwide and by Region, for 1995, 1999, and 2000

²See World Travel and Tourism Council, *Year 2001 Tourism Satellite Accounting Research*. WTTC: London, 2001.

³This includes tourists' expenditures on lodging, food and drink, fuel, in-country transport, entertainment, shopping, etc., but not fare for international transport by foreigners traveling to tourist destinations.

Total arrivals and receipts are expected to slump in 2001 as a result of the events of September 11, but growth is expected to continue worldwide and in the marketplaces of Sri Lanka's rivals. In fact, for the first 20 years of the new century the World Tourism Organization (WTO) forecasts the number of international arrivals rising at about 4 percent annually worldwide, more than tripling for East Asia and the Pacific, and nearly tripling in South Asia (see Table 2).

	International Tourist Arrivals (million)				Average annual growth (%) ^a		
	1995	2000	2010	2020	00/95	10/00	20/00
World	565.4	698.8	1,006.4	1,561.1	4.3	3.7	4.1
Africa	20.1	27.6	47.0	77.3	6.5	5.5	5.3
Americas	108.9	129.0	190.4	282.3	3.4	4.0	4.0
East Asia & the Pacific	81.4	111.9	195.2	397.2	6.6	5.7	6.5
Europe	338.4	403.3	527.3	717.0	3.6	2.7	2.9
Middle East	12.4	20.6	35.9	68.5	10.7	5.7	6.2
South Asia	4.2	6.4	10.6	18.8	8.8	5.2	5.5
Intraregional	464.1	n.a.	790.9	1,183.3	n.a.	3.6	3.8
Long-haul	101.3	n.a.	215.5	377.9	n.a.	5.2	5.4

^a Growth rates for intraregional and long-haul travel are computed from 1995 base year.

SOURCE: World Tourism Organization, *Tourism Highlights 2001* (Updated)

Table 2. International Tourist Arrivals, Worldwide and by Region, Forecast for 2010 and 2020

These figures are for *international* tourism. Data on *domestic* tourism are harder to come by, but the WTO estimates world domestic arrivals to be 8 to 10 times the number of international arrivals. On this basis, the number of total arrivals in 2000 was nearly equivalent to the size to the world's entire population.

Many forces fuel the expansion of the tourism marketplace—more disposable income in the tourist-generating countries of Western Europe and North America; increased availability and convenience of air service; and reduction in the real cost of air travel. In the next 20 years, however, tourism growth, especially in Asia, will be influenced by other factors too. These include improvements in tourism infrastructure in the receiving countries of Africa, Asia, and the Middle East; an explosion of new destinations and products; and a proliferation of information on tourism opportunities, much of it directly channeled to the consumer through new technologies and marketing approaches.

Forces of Change in Global Tourism

Tourism is not only growing, but also experiencing rapid and accelerating change. The forces of this change are relevant to tourism worldwide and to the marketplace in which Sri Lanka competes. The most important forces are product diversification, education and training, new organizational relationships, technology, and marketing and promotion.

Product Diversification

With Internet-based marketing and distribution, tourists increasingly treat physical assets, such as hotel rooms and amenities, as commodities. They shop for a total tourism “experience” with unique services, settings, and events. In response, tourism operators are striving to diversify what they offer. In Asia, the development of ecotourism has been emphasized, as well as adventure, sports, and cultural tourism. As a market segment, cruise tourism also has great potential. To support this diversification, public agencies and private sector enterprises must make sizeable new investments in infrastructure and training to provide the systems, facilities, and personnel to deliver the new products. As new products proliferate and destinations position themselves in new market segments, quality has become a central industry issue. To maintain quality, many countries in Asia are explicitly defining and differentiating their tourism products.

Education and Training

More sophisticated, better-informed, and more demanding tourists require tourism industry workers and managers who can operate in an information-oriented and product-diversified environment. But the global tourism industry is facing a shortage of qualified labor, especially “knowledge workers.” One response has been to use cyber-based distance learning and customized training, as well as multimedia tools, to build skills at all levels of the labor force. Aside from stressing the ability to use information technology competitively, human resource development for tourism will be emphasizing thinking and decision making and moving away from a mostly technical skill-based, operational focus.

New Organizational Relationships

Organizational changes are occurring among firms in the tourism industry, between government and the private sector, and between the tourist and the destination. Within and among firms, such changes are redefining the limits and forms of cooperation and competition. Information technology has globalized tourism markets and information flows and extended business control. Greater access to capital worldwide has globalized flows of finance and unleashed mergers and acquisitions and innovative structuring and financing of tourism real estate assets and operations. The result has been consolidation—global airline alliances, tour operators, and hotel brands. Tourism is now a truly worldwide business, and successful companies are either large enough to act globally or specialized enough to be niche operators, marketing globally to a precisely identified clientele. Medium-sized and smaller general operators are increasingly squeezed by these two powerful trends.

Organizational shifts are also occurring between government and private industry. In Asia, such changes are manifest in the expanding role of the private sector. More and more often, governments are ceding operation of tourism enterprises to private business and using tax breaks and other incentives to encourage private investment in tourism assets (e.g., the Export Industry Status accorded to the tourism industry by the Government of India).

Responsibility for industry functions, such as promotion and marketing, are increasingly being transferred from government to the private sector because private operators know their markets and, with information technology, are better equipped to anticipate and adjust to changing tastes and new trends.

Information technology, especially the Internet, is also dramatically reshaping the relationship between tourists and destinations. Tourists now have direct access to information about destinations and can conduct online transactions. The new knowledge, sophistication, and power of the individual tourist is driving—and being matched by—the growing sophistication of tourism businesses and destination management organizations. Travel agents and tour operators must provide services with value in this dynamic environment.

Technology

Technology may be the single most powerful force for change in the tourism industry today, dominating and shaping all other forces. Tourism has always been a technology-driven industry. Mass tourism started with long-range civilian jets in the 1960s, which made it possible to travel around the world quickly, and expansion of jet fleets since then has lowered the real cost of air travel, making tourism cheaper and more competitive. This was the first technological revolution.

Tourism is now entering its second revolution—the application of information technologies. This revolution is affecting every aspect of tourism, including how the industry is organized and how it does business. For example, information technologies permit tourism managers to measure and evaluate tourism operations—including all the diverse inputs and outputs of the business—in the same ways as traditional industries. This results in more rigorous business discipline and pressure to maximize return on investment. Information technologies also give tourism professionals in every part of the business new tools for attracting visitors, selling to them more efficiently, and providing more complete service. These tools make it possible to automate marketing, sales, and customer service, thereby lowering cost and increasing profits.

Such technologies also provide government policymakers the information they need to formulate, apply, and monitor tourism policies to help the business generate revenues, foreign exchange earnings, and employment, and to use tourism as an instrument to develop and conserve social and physical environments.

New Marketing and Promotion Approaches

The World Tourism Organization has estimated that the Internet now accounts for 15 percent of all travel purchases and that this share will grow to 20 to 25 percent in five

years.⁴ While North America accounts for most of these online sales, the WTO anticipates that the Asia-Pacific region could quickly catch up and become a predominantly Internet-based travel market. This means that Internet portals for marketing and promoting tourism can be expected to become the rule in Asia and elsewhere. It also means that marketers are confronting new challenges and new opportunities. These include how to identify the tourism client and analyze that client's needs, take advantage of the wealth of market research data that Internet-based operations provide, customize marketing messages and operate through multiple marketing channels to distribute them, and do so cost-effectively.

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.⁵ But industry performance has been uneven and below the potential of the country's natural asset base.

Lackluster 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 timeframe (see Table 3).

- **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

⁴See World Tourism Organization Business Council, *E-Business for Tourism: Practical Guidelines for Destinations and Businesses*. Madrid: WTO, 2001.

⁵See WTTC, *Year 2001 Tourism Satellite Accounting Research, Sri Lanka*. London: WTTC, 2001.

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 (Table 3).

Sri Lanka's tourism performance as measured by another key indicator, average daily tourist expenditure, is also mixed (see Table 4). 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 lackluster performance from 1995 to 2000, is troubling, possibly signaling a failing destination. The industry can and must improve its performance.

Eight Strategic Challenges

Sri Lanka's tourism industry is in danger of stagnation. Over the years, the industry has established a fairly large and serviceable infrastructure of hotels and other tourism facilities, but its recent experience has been one of low growth and low value. To position itself for rapid growth and high value, it must overcome eight strategic challenges. Most of these challenges arise from forces changing the industry globally, but a few arise from Sri Lanka's unique situation.

Transforming a Low-Cost, Low-Value Client Base

More than 70 percent of Sri Lanka's tourist market is made up of charter-based, low-budget visitors, particularly from the United Kingdom (18.5 percent of arrivals) and Germany (17.7 percent of arrivals). These tourists buy low-price package holidays from a few large tour operators whose marketing efforts have defined Sri Lanka as an inexpensive beach package destination. This formula has generated a significant volume of clients, but because such visitors are attracted solely on the basis of cost, the industry has been forced into severe price competition with frequent undercutting. The result has been a low-cost, low-value trap for the Sri Lanka tourism industry. The industry must create a new image and acquire a new core of tourism clients.

Region or Country	Arrivals (thousands)				Average annual growth (%)				Receipts (US\$ million)				Average annual growth (%)				Receipts per Arrival (US\$)				Average annual growth (%)			
	1990	1995	1999	2000	00/99	00/95	00/90	1990	1995	1999	2000	00/99	00/95	00/90	1990	1995	1999	2000	00/99	00/95	00/90			
World	457,900	565,400	650,400	698,800	7.4	4.3	4.3	263,400	406,200	455,400	475,800	4.5	3.2	6.1	576	718	700	681	-2.8	-1.1	1.7			
Asia	52,700	77,500	94,500	108,600	14.9	7.0	7.5	34,100	64,900	66,100	73,400	11.0	2.5	8.0	647	837	699	676	-3.4	-4.2	0.4			
Northeast Asia	28,000	44,100	55,200	64,000	15.9	7.7	8.6	17,600	33,500	37,600	41,100	9.3	4.2	8.9	629	760	681	642	-5.7	-3.3	0.2			
Southeast Asia	21,500	29,200	33,500	38,200	14.0	5.5	5.9	14,500	27,900	23,900	27,200	13.8	-0.5	6.5	674	955	713	712	-0.2	-5.7	0.5			
South Asia	3,200	4,200	5,800	6,400	10.3	8.8	7.2	2,000	3,500	4,600	5,100	10.9	7.8	9.8	625	833	793	797	0.5	-0.9	2.5			
Sri Lanka	298	403	436	400	-8.3	-0.1	3.0	132	225	275	253	-8.0	2.4	6.7	443	558	631	633	0.3	2.5	3.6			
Rivals																								
India	1,707	2,124	2,482	2,641	6.4	4.5	4.5	1,513	2,583	3,009	3,296	9.5	5.0	8.1	886	1,216	1,212	1,248	2.9	0.5	3.5			
Indonesia	2,718	4,324	4,728	5,064	7.1	3.2	6.4	2,105	5,229	4,710	5,749	22.1	1.9	10.6	774	1,209	996	1,135	14.0	-1.3	3.9			
Malaysia	7,446	7,469	7,931	10,222	28.9	6.5	3.2	1,667	3,909	3,540	4,563	28.9	3.1	10.6	224	523	446	446	0.0	-3.1	7.1			
Maldives	195	315	430	467	8.6	8.2	9.1	89	210	325	344	5.8	10.4	14.5	456	667	756	737	-2.5	2.0	4.9			
Singapore	4,842	6,422	6,258	7,691	22.9	3.7	4.7	4,937	8,390	5,974	n.a.	n.a.	n.a.	1,020	1,306	955	n.a.	n.a.	n.a.	n.a.				
Thailand	5,299	6,952	8,651	9,509	9.9	6.5	6.0	4,326	7,664	6,695	7,119	6.3	-1.5	5.1	816	1,102	774	749	-3.3	-7.4	-0.9			
Emerging Rivals																								
China	10,484	20,034	27,047	31,229	15.5	9.3	11.5	2,218	8,733	14,088	16,231	15.1	13.2	22.0	212	436	521	520	-0.3	3.6	9.4			
Iran	154	452	1,321	1,700	28.7	30.3	27.1	61	190	662	850	28.4	34.9	30.1	396	420	501	500	-0.2	3.5	2.4			
Viet Nam	250	1,351	1,782	2,140	20.1	9.6	24.0	85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	340	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			

SOURCE: World Tourism Organization, *Tourism Market Trends Asia, 2001*

Table 3. International Tourist Arrivals and Tourism Receipts for the World, Asia Region, Sri Lanka and Key Asia Rivals for the Years 1990, 1995, 1999, and 2000

Region or Country	Arrivals (thousands)			Average annual growth (%)			Receipts (US\$ million)			Average annual growth (%)			Receipts per Arrival (US\$)			Average annual growth (%)						
	1990	1995	1999	2000	00/99	00/95	00/90	1990	1995	1999	2000	00/99	00/95	00/90	1990	1995	1999	2000	00/99	00/95	00/90	
World	457300	565400	650400	698800	7.4	4.3	4.3	263400	406200	455400	475800	4.5	3.2	6.1	576	718	700	681	-2.8	-1.1	1.7	
Asia	52,700	77,500	94,500	108,600	14.9	7.0	7.5	34,100	64,900	66,100	73,400	11.0	2.5	8.0	647	837	699	676	-3.4	-4.2	0.4	
Northeast Asia	28,000	44,100	55,200	64,000	15.9	7.7	8.6	17,600	33,500	37,600	41,100	9.3	4.2	8.9	629	760	681	642	-5.7	-3.3	0.2	
Southeast Asia	21,500	29,200	33,500	38,200	14.0	5.5	5.9	14,500	27,900	23,900	27,200	13.8	-0.5	6.5	674	955	713	712	-0.2	-5.7	0.5	
South Asia	3,200	4,200	5,800	6,400	10.3	8.8	7.2	2,000	3,500	4,600	5,100	10.9	7.8	9.8	625	833	793	797	0.5	-0.9	2.5	
Sri Lanka	298	403	436	400	-8.3	-0.1	3.0	132	225	275	253	-8.0	2.4	6.7	443	558	631	633	0.3	2.5	3.6	
Rivals																						
India	1,707	2,124	2,482	2,641	6.4	4.5	4.5	1,513	2,583	3,009	3,296	9.5	5.0	8.1	886	1,216	1,212	1,248	2.9	0.5	3.5	
Indonesia	2,718	4,324	4,728	5,064	7.1	3.2	6.4	2,105	5,229	4,710	5,749	22.1	1.9	10.6	774	1,209	996	1,135	14.0	-1.3	3.9	
Malaysia	7,446	7,469	7,931	10,222	28.9	6.5	3.2	1,667	3,909	3,540	4,563	28.9	3.1	10.6	224	523	446	446	0.0	-3.1	7.1	
Maldives	195	315	430	467	8.6	8.2	9.1	89	210	325	344	5.8	10.4	14.5	456	667	766	737	-2.5	2.0	4.9	
Singapore	4,842	6,422	6,258	7,691	22.9	3.7	4.7	4,937	8,390	5,974	n.a.	n.a.	n.a.	n.a.	1,020	1,306	955	n.a.	n.a.	n.a.	n.a.	
Thailand	5,299	6,952	8,651	9,509	9.9	6.5	6.0	4,326	7,664	6,695	7,119	6.3	-1.5	5.1	816	1,102	774	749	-3.3	-7.4	-0.9	
Emerging Rivals																						
China	10,484	20,034	27,047	31,229	15.5	9.3	11.5	2,218	8,733	14,098	16,231	15.1	13.2	22.0	212	436	521	520	-0.3	3.6	9.4	
Iran	154	452	1,321	1,700	28.7	30.3	27.1	61	190	662	850	28.4	34.9	30.1	396	420	501	500	-0.2	3.5	2.4	
Viet Nam	250	1,351	1,782	2,140	20.1	9.6	24.0	85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	340	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Table 4. Average Daily Expenditure per Tourist, Sri Lanka and Selected Asia Rivals, 1995 through 1999

SOURCE: World Tourism Organization, *Compendium of Tourism Statistics 2001 Edition* (Madrid: WTO, 2001). Average daily expenditure figures computed by Nathan Associates from compendium data for Indonesia, Maldives, Singapore, Sri Lanka, Thailand, China and Iran. Figure for Malaysia from PATA, *1999 Annual Statistical Report*.

Managing Impact of Civil Conflict

Tourism managers, public and private, must deal with Sri Lanka's civil conflict, which has continued with varying intensity since 1983. The conflict is often cited as the reason why Sri Lanka's tourism has not developed according to plan. But tourism has developed in other troubled countries—Egypt, Israel, and Spain (see Table 5). Indeed, the response of Sri Lanka's tourism industry to the attacks at Bandaranaike International Airport in July 2001 shows that such issues can be managed and that organized responses can significantly affect tourism performance.

Country	Thousands of Tourist Arrivals			Average Annual Rate of Growth (%)		
	1990	1995	1999	95/90	99/95	99/90
Sri Lanka	298	403	436	6.2	2.0	4.3
Pakistan	424	378	432	-2.3	3.4	0.2
India	1,707	2,124	2,482	4.5	4.0	4.2
Iran	154	452	1,321	24.0	30.7	27.0
Indonesia	2,178	4,324	4,728	14.7	2.3	9.0
Korea	2,959	3,753	4,660	4.9	5.6	5.2
Israel	1,063	2,215	2,312	15.8	1.1	9.0
Palestine	n.a.	n.a.	271	n.a.	n.a.	n.a.
Egypt	2,411	2,871	4,489	3.6	11.8	7.2
Spain	34,085	34,917	46,776	0.5	7.6	3.6
Croatia	7,049	1,485	3,805	-26.8	26.5	-6.6

SOURCE: World Tourism Organization

Table 5. International Arrivals in Countries Experiencing Civil Conflict, 1990–1999

Offering New Tourism Products

Partly because of its civil conflict, Sri Lanka became too dependent on cheap package beach vacations as the main segment of its international tourism industry. As the industry organizes more competitively, it will need to design and develop new products that reflect the changing tastes of consumers—ecotourism, Ayurveda and other forms of health tourism, adventure tourism, and golf. Only by rejuvenating its offerings can the industry compete with its rivals in Asia—all of which are pursuing product diversification—and attract the higher-value visitors who will substantially increase tourists' average daily spending.

Developing Human Resources

Sri Lanka's tourism industry relies on a few public institutions and in-house training programs to meet human resource needs. For various reasons, this system has not been able to produce a steady flow of well-qualified, motivated candidates for tourism management and technical jobs. This problem can only worsen. The growing importance of information technology alone will widen the gap between traditional training and future industry needs.

More fundamentally, Sri Lanka's desire to move from standardized beach packages to high-value, unique products will intensify training requirements. A crucial part of the value-adding process for these products will be the interaction of tourists with managers, tour operators, chefs, sports instructors, guides, and all other customer service personnel. Sri Lanka's tourism industry must find ways to innovate and develop staff resources to design and deliver sophisticated products and services in a demanding and discriminating marketplace.

Modernizing Industry Relationships

Sri Lanka's tourism industry is just beginning to reorder its relationships to increase cooperation and better organize the destination's resources. The balance between the public and private sectors in particular needs to change. Traditionally, Sri Lankan government agencies for tourism have been in a dominant position relative to private industry, but this appears to be changing. The 1998 Presidential Task Force Report on Tourism called for a privatized Sri Lanka Tourism Authority to replace the Sri Lanka Tourist Board. Private industry has so far been unable to take full responsibility for financing or managing tourism through such an authority. An interim solution is to form a joint venture public-private Sri Lanka Tourism Promotion Bureau (SLTPB) to handle promotion and management tasks until industry is strong enough to create a Tourism Authority, at which point the SLTPB could become a division within the Authority. The structure of the Authority is yet to be determined. Turning the SLTPB proposal into reality might be challenging but, if successful, will encourage greater private sector responsibility for industry functions.

Increasing Promotion Budgets

Sri Lanka's official budgets for tourism promotion have increased in recent years, but slowly. The Tourist Board's entire budget for 1995 was US\$1.16 million (SLR 59.3 million), and by 2001 had risen to only US\$1.43 million (SLR 83.3 million), an average annual growth rate of 3.6 percent.

These budgets lag behind those of rivals (see Table 6). In 1999, for example, Sri Lanka's promotion budget came to 0.5 percent of its international tourism receipts, well below Singapore (2.16 percent), India (1 percent), and Thailand (0.75 percent).

Based on a simple ratio of international arrivals to promotion budgets, Sri Lanka's promotion resources appear to be relatively productive at the margin: each dollar budgeted for Board promotion and marketing has contributed to generating 0.3 visitors or more, bettering the standard for similar organizations in India, Singapore, and Thailand. Only the Maldives have done better among this group of Asia rivals.

These indicators suggest that, relative to rivals, Sri Lanka should consider additional budget allocations for promotion. A critical task for a future SLTPB will be to secure resources to competitively and consistently fund industry promotion.

Embracing New Information Technologies

Some Sri Lankan firms have adopted information technologies for internal operations and marketing, and Sri Lankan Airlines has recently announced “Roomsnet,” an online, interactive reservation system that will enable the carrier to book hotel rooms in Sri Lanka from its overseas offices. The industry as a whole, however, has no comprehensive electronic infrastructure. Such infrastructure (e.g., a tourism industry Internet portal) is needed to distribute information and link firms as a single full-service destination, which is how professional tour operators and individual tourists will increasingly want to approach Sri Lanka.

Reforming Tourism Policy

Sri Lanka's basic policies on security; transportation; education; taxation; land use; tourism planning, zoning, and regulation; and the environment affect the tourism industry. Some policies were established without regard for their effect on the industry. And many specific to the industry—on industry regulation, training, and private sector participation—were established decades ago when the only tourism was international, the central government dominated the economy, the environment was not a priority, and tourism was viewed as independent of social and cultural contexts. Because all this has since changed dramatically, policies and institutional relationships should be re-examined. Policies affecting air transportation are of particular concern. Tourism operators, for example, believe that Sri Lankan tourism will remain at a competitive disadvantage unless civil aviation policies promote greater air service capacity, a view not necessarily shared by the national carriers.

Untapped Potential

Whatever the challenges, Sri Lanka's tourism industry has the resources necessary to become much more competitive. Sri Lanka has a great depth and variety of assets to attract tourists, including

- Warm and friendly people, naturally welcoming to the visitor;
- A strategic location, accessible to tourist-generating markets of Western Europe and (in the future) Asia;
- Pristine environments, from beaches to mountains to rainforest;
- Unique and diverse flora and fauna;
- A rich multicultural heritage of customs, arts, and foods;
- A fascinating history with seven ancient World Heritage Sites and varied colonial connections; and
- A high literacy rate, including English literacy.

	Reference			International Tourism				Ratios		
	Population (million)	Per capita GDP (1995 constant US\$)	Tourist arrivals (thousand)	Tourism receipts (US\$ million)	Promotion budget (US\$ thousand) ^a	Promotion dollars per population-per capita (US\$)	Promotion budget as share of tourism receipts (%)	Arrivals per promotion dollar (number)		
1999										
India	986.6	450	2,482	3,009	30,040	0.03	1.00	0.08		
Maldives	0.3	1,405	430	325	888	3.17	0.27	0.48		
Singapore	3.9	26,117	6,258	2,534	54,776	14.08	2.16	0.11		
Sri Lanka	18.6	825	436	275	1,371	0.07	0.50	0.32		
Thailand	61.8	2,711	8,651	5,974	45,065	0.73	0.75	0.19		
2000										
India	1,002.1	468	2,641	3,296	32,570	0.03	0.99	0.08		
Maldives	0.3	1,475	467	344	871	3.00	0.25	0.54		
Singapore	4.0	28,230	7,691	n.a.	n.a.	n.a.	n.a.	n.a.		
Sri Lanka	19.4	860	400	253	1,102	0.06	0.44	0.36		
Thailand	62.32	2,805	9,509	7,119	58,901	0.95	0.83	0.16		

^a Represents National Tourism Organization budgets for promotion, administration, research and other expenditure.

SOURCE: Nathan Associates calculations based on Pacific Asia Travel Association data on National Tourist Organization budgets (PATA 1999 and 2000 Annual Statistical Report); population and GDP data from World Bank, World Development Indicators online; tourism receipts from Table 3; and Sri Lanka promotion budget data from Sri Lanka Tourist Board.

Table 6. Comparative Tourism Promotion and Marketing Research Budgets for Sri Lanka and Selected Asia Rivals, 1999 and 2000

In addition, the size of the island makes it possible to comprehend a number of attractions in a single trip. Sri Lanka is a naturally “packaged” destination. In fact, Sri Lanka’s tourism industry has great potential for growth—if the industry can transform itself and become more competitive, especially if the civil conflict ends.

Aware of this potential, the Tourist Board in early 2001 set ambitious targets for the industry in its “Medium Term Marketing Plan.” These targets call for the industry to attract, after following the marketing plan for five years, between 800,000 and 1 million international tourist arrivals annually, each tourist staying an average of 12 days per visit and spending an average of US\$90 to US\$105 per day, generating US\$830 million to US\$1.3 billion in foreign exchange earnings.

Given the events of September 11, 2001, these targets will need to be recast. Even so, if the industry embarks on a concerted program to build competitiveness it may be able to attract 800,000 visitors annually and provide yearly total foreign exchange earnings approaching US\$1 billion by the end of the decade. These targets are challenging, but achievable.

The Tourism Cluster

Sri Lanka’s Tourism Cluster is the source of the competitiveness strategy. Cluster members include three private associations at the center of Sri Lanka’s tourism industry—the Tourist Hotels Association of Sri Lanka, Travel Agents Association of Sri Lanka, and Sri Lanka Association of Inbound Tour Operators—the public-sector Sri Lanka Tourist Board, and Sri Lankan Airlines, the national carrier. Other organizations that have worked with the cluster include the Ministry of Tourism, the Sri Lanka Convention Visitors’ Bureau, the Forest Department, the Sri Lankan Board of Investment, the Galle Heritage Foundation, the Central Cultural Fund, the Department of Civil Aviation, and the Sri Lanka Ports Authority. Many individuals have also contributed to cluster discussions and decisions, including ecotourism and adventure tourism specialists, domestic tourism operators, provincial tourism leaders, university professors, zoologists, biologists, and botanists. Cluster activities have been coordinated with the World Bank and other international financial institutions. Mr. Prema Cooray, Chairman of the Aitken Spence Group and former President of the Tourist Hotels Association of Sri Lanka, chairs the Tourism Cluster.

Given the breadth and depth of the cluster’s membership and contributing parties, its recommendations reflect private sector opinion about the businesses’ strengths, weaknesses, and priorities. The cluster also provides a valuable forum for systematically considering the opportunities and requirements of the Sri Lankan tourism industry in relation to changing world conditions.

The Tourism Cluster sees itself leading or guiding some of the initiatives and actions proposed in this report (see Table 7). For other activities, it proposes to support, reinforce,

Strategic Initiative	Cluster Activity
Improve Tourism Product Mix	<ul style="list-style-type: none"> ▪ Undertake joint activities to develop high-value products and enter markets for ecotourism, adventure tourism, Ayurveda tourism, cruise tourism, MICE tourism, golf tourism. ▪ Develop Organizing Framework—develop and monitor standards to ensure product quality; develop skills required for new product areas; gather market intelligence and research to develop high-quality products; focus marketing through new channels to reach specialized markets.
Upgrade Existing Tourism Offerings	<ul style="list-style-type: none"> ▪ Support national projects (e.g., Sigirya, Galle) that highlight the destination as unique. ▪ Develop and improve management of domestic tourism. <ul style="list-style-type: none"> — Undertake national survey and design targeted packages. — Improve site management. — Provide facilities, information, and accessibility through welcome centers, signage, and other infrastructure.
Modernize Industry Organization and Key Institutions	<ul style="list-style-type: none"> ▪ Lay foundation for Sri Lanka Tourism Authority. <ul style="list-style-type: none"> — Operationalize the Sri Lanka Tourism Promotion Bureau (SLTPB). — Develop industry portal. ▪ Upgrade Institute of Tourism and Hotel Management. ▪ Strengthen industry associations.
Reform Policy Environment for Tourism and Tourism-related Infrastructure	<ul style="list-style-type: none"> ▪ Review civil aviation policy. ▪ Conduct studies of intermodal transport systems, including domestic air travel and sea transportation. ▪ Review and make policy recommendations on taxation, environment, land planning, and tourism regulation.

Table 7. Tourism Cluster Activities in Support of the Competitiveness Strategy

and follow programs established by other organizations, such as the Tourist Board. This balanced approach recognizes that the cluster is a loosely structured organization with limited resources and that the Board has responsibilities of its own. Through its “Medium Term Strategic Marketing Plan” the Board has already worked with industry stakeholders to establish strategic directions and activities for tourism for the next few years.

THE COMPETITIVENESS STRATEGY

Since the 1960s, Sri Lanka's tourism industry has pursued a strategy based on a low-cost competitive advantage. This requires designing, producing, marketing, and delivering products and services—in this case, packaged beach tourism—comparable to those of competitors, but more efficiently and at less cost per unit. For products and services priced the same as those of competitors, this approach yields better-than-average returns. And, as the early experience of Sri Lanka shows, it is appropriate when launching an industry in a mass-market. Over time, however, it deteriorates into price-cutting and diminished profitability.

Differentiation as Competitive Advantage

Recognizing that competitive strategy “means deliberately choosing a different set of activities to deliver a unique mix of value,” the Tourism Cluster has embraced *differentiation* as the industry's competitive advantage.⁶ Through differentiation the industry will seek to provide unique and superior value to its visitors through the high quality and special features of its products and services. Because they are differentiated from the offerings of competitor destinations, such products and services will command a premium price. So long as costs are comparable to those of competitors, this approach will yield superior returns for Sri Lanka's tourism industry.

The Competitiveness Goal

The goal of this strategy is to make Sri Lanka's tourism industry globally competitive on a sustainable basis, commensurate with the nation's world-class attractions, unique culture, and bio-diverse natural environment. This means more than simply increasing the total number of visitors to Sri Lanka and the total value of tourism revenues. It means more than simply capturing a larger share of the world's tourism business. It means propelling Sri Lanka's tourism industry into a position where it is recognized and celebrated for sophisticated, differentiated, and highly valued products and services offered in the global marketplace.

⁶Michael E. Porter, “What is Strategy?” *Harvard Business Review*, November-December 1996, p.64.

Repositioning Requirements and Effects

Repositioning will require (1) improving the mix of tourism products, (2) improving existing tourism offerings, (3) modernizing industry organization and key institutions, and (4) reforming the policy environment for tourism and related infrastructure. It will require that industry operators and institutions commit to distinguishing Sri Lanka from rivals by creating a unique blend of high-value products and services. In doing so, the industry will for the first time be capitalizing on all of Sri Lanka's assets and its potential as a special destination.

Repositioning should also stimulate investments in infrastructure, introduction of technologies and innovations, reformulation of policies, and sustained collaboration between government and the private sector. The net result should be significant improvement in performance as measured by arrivals, revenues, and employment and, more important, industry transformation through higher value-added products and services.

THE STRATEGIC INITIATIVES

The strategy for building competitiveness in Sri Lanka's tourism will be realized through four strategic initiatives. The first is the centerpiece of the strategy and the other three will support and reinforce it:

- **Improve the tourism product mix.** To differentiate Sri Lanka as a destination new, higher yielding tourism products must be developed. Such products will increase Sri Lanka's appeal to independent, higher spending tourists in new and fast-growing tourism market segments. Proposed products include ecotourism; adventure tourism; Ayurveda tourism; cruise tourism; and meetings, incentives, conferences, and events (MICE).
- **Upgrade existing tourism offerings.** This initiative aims to make Sri Lanka's existing tourism offerings more attractive while increasing average daily spending by tourists. It will reinforce Sri Lanka's international image as a culturally rich and unique destination by supporting two flagship national projects—the Sigiriya Sound and Light Project and transformation of Galle Fort into a major attraction, commensurate with the monument's status as a UNESCO World Heritage Site. The initiative will also support developing domestic tourism to strengthen the industry's financial health and long-term competitiveness. This will require developing better information on existing domestic tourism and providing facilities and information through “welcome centers” and improved management of domestic tourist sites.
- **Modernize industry organization and key institutions.** This initiative will support creation of an industry-led promotion and marketing organization, the Sri Lanka Tourism Promotion Bureau (SLTPB), as a first step toward a public-private Tourism

Authority. It will set up an industry Internet portal to improve destination marketing and international competitiveness while improving cooperative relationships in the industry. This initiative will also focus on institutional development and greater private sector involvement in tourism training organizations.

- **Reform the policy environment for tourism and tourism-related infrastructure.** This initiative aims to review and reform policies that affect the tourism industry. The initial focus will be civil aviation policy and domestic air travel, but attention will also be devoted to defining and recommending reforms for tourism-related planning and infrastructure services generally. This initiative will also strive for a unified industry voice on policies for taxation, land planning, environmental protection, municipal government, and tourism regulation (e.g., licensing of so-called tout or “beach boy” services to tourists).

These initiatives embody a balanced strategy for differentiating Sri Lanka as a unique, high-value industry, the “foremost tourist destination in Asia.” They will change dramatically the organizational basis of Sri Lanka’s tourism, ensure tourism growth in volume and value, and spread tourism activity to more firms and locations in Sri Lanka.

WHY THIS INDUSTRY STRATEGY?

The proposed strategy and its strategic initiatives take into account global forces of change and local strategic challenges, the determinants of competitive advantage, and every part of the tourism industry’s value chain.

Global Forces of Change and Local Strategic Challenges

Reflecting on the “massive” change in their markets, experts in the global hospitality industry contend that in “the information era ...competitive advantage depends to a large extent on accurately reading and anticipating the future....” Consequently, “managers who align the objectives and resources of their businesses with the forces driving change in the business environment in order to capitalize on the opportunities presented and counter potential threats are most likely to sustain competitive advantage.”⁷ By this criterion, the Tourism Cluster concludes that the competitiveness strategy is sound. Each strategic initiative and action is forward looking, and reflects one or more of the change drivers at work in international tourism, as well as local strategic challenges (see Figure 1).

⁷International Hotel & Restaurant Association, “Forces Driving Change in the Multinational Hospitality Industry,” cited in World Tourism Organization, *Tourism Market Trends: World Overview & Tourism Topics—2001*. Madrid: WTO, 2001, p. 51.

Strategic Initiative	General Forces of Change							Specific Sri Lanka Strategic Challenges						
	Technology	Org. relationships	Marketing/promotion	Product diversification	Education & training	Client base	Civil conflict	New products	Information technologies	Industry relationships	Promotion budgets	Tourism policy	Human resources	
Improve Tourism Product Mix														
Ecotourism	✓		✓	✓	✓	✓		✓				✓	✓	
MICE tourism			✓	✓	✓	✓		✓				✓	✓	
Adventure tourism	✓		✓	✓	✓	✓		✓				✓	✓	
Ayurveda and spa tourism			✓	✓	✓	✓		✓				✓	✓	
Cruise tourism			✓	✓	✓	✓		✓				✓	✓	
Golf tourism			✓	✓	✓	✓		✓				✓	✓	
Upgrade Existing Tourism Offerings														
Sigiriya Sound and Light	✓		✓	✓	✓	✓		✓				✓	✓	
Galle Tourism Development Corporation		✓	✓	✓	✓	✓		✓				✓	✓	
Domestic tourism expansion		✓	✓	✓	✓	✓		✓				✓	✓	
Modernize Organization and Institutions														
Sri Lanka Tourism Promotion Bureau	✓	✓	✓						✓				✓	
Tourism Internet portal	✓	✓	✓						✓				✓	
Human resource development	✓	✓	✓		✓				✓				✓	

Figure 1. The Competitiveness Strategy, General Forces of Change, and Local Strategic Challenges

Determinants of Competitive Advantage

Each strategic initiative directly addresses conditions necessary for creating and sustaining competitive advantage. Each can be understood and evaluated by how well it builds on or produces the conditions that give rise to competitive advantage. The strategy content and rationale are summarized in Figure 2, together with the Tourism Cluster's priorities for activities. Each strategic initiative reflects and reinforces baseline resource advantages, demand conditions, supporting industry and services capabilities, and the industry organization and consensus building necessary for increasing industry competitiveness.

Baseline Advantages

Sri Lanka's biodiversity, culture, climate, and natural environment should enable it to become an appealing destination for new and important segments of the global tourism business. The competitiveness strategy aims to build on and build up these assets to maximize their value for tourism.

The first strategic initiative will use Sri Lanka's natural and human resources to enter high-value tourism market segments that are now untouched in Sri Lanka (e.g., ecotourism, adventure tourism). The second aims to improve existing tourism assets and develop domestic tourism by promoting cultural, natural, and historical tourism resources, raising industry returns, and generating from 5,000 to 10,000 full-time jobs. The third will provide organizations and technical tools that will give tourism firms and government the relationships and information necessary to re-examine and redefine Sri Lanka's natural and cultural resources for high-value, differentiated tourism products. The third initiative will also focus on improving labor resources. Rather than viewing labor as a low-cost input, senior managers in tourism firms and government will seek to raise the productivity of Sri Lankan tourism workers by adapting training and staff development to the production and delivery of new, high-value services.

While baseline advantages give Sri Lanka a strong *potential* competitive position in several tourism product markets, the global industry is highly dynamic. Sri Lanka's tourism entrepreneurs recognize that they must continually re-interpret and re-evaluate baseline advantages in light of changing consumer tastes, preferences, and styles.

Targeting the Market

The competitiveness strategy also reflects tourism demand trends. The first strategic initiative targets distinct and sizable tourism market segments, all growing at rates far in excess of the roughly 4 percent rate of growth of international tourism (see Table 8). Culture- and nature-based tourism demand is growing constantly, especially as populations in tourist-generating countries age. Older tourists are shifting from "sun and sand" activities to more introspective, educational, and active tourism. Adventure tourism is an industry in itself, with huge demand and explosive growth. MICE tourism, a business and professional

Strategic Initiative	Content					Builds on or fosters				Cluster priority
	Investment in competitiveness infrastructure	Investment in competitiveness technology	Improved policy and regulations	Effective public-private dialogue	Baseline resource advantages	Demand conditions	Supporting industry services	Organization & consensus building		
Improve Tourism Product Mix										
Ecotourism	✓	✓			✓	✓	✓	✓		1
MICE tourism	✓	✓			✓	✓	✓	✓		1
Adventure tourism	✓	✓			✓	✓	✓	✓		1
Ayurveda and spa tourism	✓	✓			✓	✓	✓	✓		2
Cruise tourism	✓	✓			✓	✓	✓	✓		3
Golf tourism	✓	✓			✓	✓	✓	✓		2
Upgrade Existing Tourism Offerings										
Sigiriya Sound and Light	✓	✓			✓	✓	✓	✓		1
Galle Tourism Development Corporation	✓	✓	✓	✓	✓	✓	✓	✓		2
Domestic tourism expansion	✓		✓	✓	✓	✓	✓	✓		3
Modernize Organization and Institutions										
Sri Lanka Tourism Promotion Bureau	✓			✓	✓	✓		✓		1
Tourism Internet portal	✓	✓				✓	✓	✓		1
Human resource development	✓	✓	✓	✓	✓	✓	✓	✓		1
Reform the Policy Environment										
Civil aviation and transportation			✓	✓		✓	✓	✓		1
Additional policy reform areas			✓	✓		✓	✓	✓		2
Tout/beach Boy certification/licensing			✓	✓	✓	✓	✓	✓		1

Figure 2. Content and Rationale of the Competitiveness Strategy

Tourism Market Segment	Estimated market size (global)	Estimated rate of growth in demand	Major competitor destinations
Ecotourism	> US 30 billion	10 % to 30 % annually	Costa Rica, Malaysia, Nepal, Kenya
Cruise	US\$ 25 billion; 9 million passengers	8% annually	Dubai, India, Malaysia, Singapore
MICE	> US\$ 8 billion	> 8% annually (in Asia)	Dubai, India, Singapore, Bali
Adventure	> US\$ 11 billion	7 % annually	Australia, Philippines, Indonesia, Thailand, Malaysia

SOURCE: Nathan Associates, using various industry estimates.

Table 8. Demand Conditions for Selected New Sri Lanka Tourism Product Mixes

segment, has experienced steady growth worldwide, particularly among East Asian and Middle East destinations. Cruise tourism has a growth rate nearly double that of international tourism in general. These segments are specialized, have higher value, and appeal to tourists who are willing to spend more. In fact, destinations competing with Sri Lanka (e.g., China, Indonesia, Malaysia, and Thailand) are already capturing a share of MICE tourism, ecotourism, and adventure tourism. Sri Lanka's rivals are pursuing product diversification and Sri Lanka should do the same.

The second initiative also responds to favorable market conditions. Local tourism demand is sizable and has impressive growth potential. According to a survey conducted by the Sri Lanka Tourist Board in 1997, domestic tourist trips may number as high as 450,000 annually, surpassing Sri Lanka's international arrivals. These tourists represent an estimated demand of US\$42 million to US\$70 million annually. With a serious promotion effort, tourist activity could increase by 200,000 trips within four to five years. Such an increase could generate another US\$25 million to US\$50 million in incremental tourism revenues. Demand for a Sigiriya Sound and Light Project will likely be strong. The tourism development at Galle Fort, while not yet quantified, is likely to be as transforming in tourism organization and planning systems as other complex tourism projects (e.g., Nusa Dua, Indonesia; Cancun, Mexico; Costa del Sol, Spain; South Antalya, Turkey) as well as altering budget beach tourism on the south coast.

The third initiative will help put the industry directly in touch with demand conditions in world tourism market segments. Creating a private sector-led Sri Lanka Tourism Promotion Bureau and a tourism Internet portal will make it possible to improve market research and provide an information base for developing new products and targeting new segments. Doing so will also provide a mechanism to organize and disseminate marketing campaigns. With these new assets in place, tour operators and hoteliers will be able to (1) de-emphasize price and compete on differentiated, high-value product offerings and (2) target promotions to new market segments.

Supporting Industries and Services

The competitiveness strategy will stimulate coordination and collaboration among supporting industries. Creating and delivering new products will require training tourism professionals in cultural, adventure, MICE, and ecotourism products. These professionals will include product managers and advertising and sales experts, as well as guides, chefs, and facilities managers. New products will also require specialized facilities, such as lodges, conference centers, and customized sports terrains, equipment, and signage. Sri Lanka's design and construction firms, manufacturers, and artisans will need to learn about international standards for such facilities and imprint these with Sri Lankan style.

To ensure international and islandwide access to new products, Sri Lanka's basic infrastructure must be substantially upgraded. Upgrading should begin with air transport facilities, then extend to ship berths and terminals, telecommunications and power systems, and internal transportation, including roads and services in the provinces. Government and private sector entities involved in public facilities and utilities will need to invest in infrastructure systems and in the technicians and managers to operate and maintain them.

Other strategic activities will require new types of support. The SLTPB's promotion and marketing programs and the Internet portal will need to reflect the offerings of all the industries and services that make Sri Lanka a unique destination. Sri Lankan Airlines, small hotel enterprises, auto rental companies, food service firms, and government agencies that manage natural and cultural resources will need to be involved in such programs. Developing domestic tourism will involve provincial leaders and planners and national government ministries. The Galle Tourism Development Corporation, Sri Lanka's first megadevelopment, will need the support of government, from the grass roots to the highest level, and the cooperation of ministries and agencies. It will also require a wide variety of innovative legal, financial engineering, and management input, many from industries and professional service firms previously uninvolved in tourism.

Organization and Consensus

Pursuing the competitiveness strategy will stimulate productive rivalry. Tourism operators will be competing not on price but on quality—distinctive products of superior value, at acceptable yet premium prices. Firms with market insight, capabilities for innovation, and solid business organization and efficiency will be able to meet demand in the new market segments. Their success will help create and sustain Sri Lanka's competitive advantage in the global tourism marketplace, and their superior returns will build the industry's financial health. Developing new products will spread the economic benefits of tourism as new firms and locations enter and compete in the market. Such industry expansion will introduce new ideas, energy, and resources that will deepen Sri Lanka's competitive advantage. This kind of rivalry will animate the tourism industry as a whole and hone the competitive skills and strategies of individual operators.

Pursuing the strategy will also stimulate collaboration and consensus. Developing new products for ecotourism, adventure tourism, MICE tourism, and cruise tourism will require that new and established firms reach consensus on standards, practices, and policies for distinguishing and maintaining quality. Expanding domestic tourism will require that the private sector outside Colombo and provincial and local governments together produce Provincial Tourism Strategic Plans. Integrating the programs of the SLTPB with the operations of the Sri Lanka Tourist Board, developing and operating the tourism Internet portal, and planning and upgrade training and education will require coordination between the private sector and government.

Added Value in the Business Process

How will the competitiveness strategy strengthen the industry's business process value chain? As Figure 3 shows, it will add value to virtually every link in that chain.



Figure 3. Tourism Industry Business Process Value Chain

- **Research and development.** New products will be based on an understanding of dynamic demand conditions and consumer preferences, particularly for ecotourism and adventure tourism, but also for MICE and cruise tourism. Domestic tourism surveys will improve the industry's ability to isolate and measure tourism activity, including direct effect and multipliers of economic impacts. R&D for the Galle Fort development will provide valuable insight into the market for high-end megaproject tourism destinations, as well as competitive models of tourism project development and financing.
- **Procurement.** Designing specialized products (e.g., ecotourism, adventure tourism) and the developing domestic tourism will engage many new supply sources and channels. Procurement will also become more efficient to the extent that the Internet portal becomes a channel for supply of input to tourism industry establishments.
- **Production.** The new tourism products will be high-value, customized offerings, calling for new designs and modes of production and service delivery. New input and new workers and managers will enter the production process. Strengthening human resource institutions for tourism will increase industry productivity and make higher quality tourism products possible.

- **Distribution.** New and stronger industry associations and an Internet portal will strengthen cooperative ties within the industry and with international tour operators and individual tourists. These new organizations and new technologies will lead to customized, highly differentiated channels of distribution.
- **Sales and marketing.** The SLTPB and the Internet portal will make sales and marketing more efficient. Both will permit Sri Lanka to target its tourism products in a segmented and dynamic global marketplace.
- **Customer service.** Reaching different and more demanding segments of the international tourism market with new products will require close attention to customer care and satisfaction. This will involve direct customer service and indirect enterprise administration and management. Elevating service levels will be essential to differentiating Sri Lanka as a high-value, premium-price tourism destination.
- **Administration and management.** Stronger competition will improve the skill and productivity of administrators and managers. Human resource training programs and the industry Internet portal can be expected to make administration and management more efficient. Changes in the policy framework will alter incentives and penalties that condition the behavior of industry entrepreneurs, owners, and managers. Liberalizing tourism industry-related policies should encourage decision makers to strategize and innovate, seeking to offer not only *more* but *better* products and services.

TARGETS AND EXPECTED RESULTS

The competitiveness strategy should result in a sharp and sustained rise in international tourist arrivals and international tourism foreign exchange earnings. The earnings increase will derive from a substantial increase in average daily expenditures of tourists and a modest extension of the average length of stay, while more and more visitors are attracted to new and better tourism.

Performance targets are presented in Table 9. The Tourism Cluster envisions that within nine years (2001 to 2010)

- International arrivals will reach nearly 800,000 annually, an average annual rate of growth of 10 percent;
- Average daily tourism expenditures will increase to nearly US\$94, an average annual rate of growth of 4.5 percent;
- Average length of stay will increase to 12 days, an average annual rate of growth of 2 percent; and
- Total foreign exchange earnings will increase to nearly US\$890 million, an average annual rate of growth of 17.2 percent.

	International arrivals (thousand)	Average daily tourist expenditure (\$US)	Average length of stay (days)	Total foreign exchange earnings (US\$ million)
Reference 2000	400	63	10	253
Average annual rate of growth	10.0%	4.5%	2.0%	17.2%
2001(est.)	337	63.00	10.0	212.3
2002	371	65.84	10.2	248.9
2003	408	68.80	10.4	291.9
2004	449	71.89	10.6	342.2
2005	493	75.13	10.8	401.2
2006	543	78.51	11.0	470.5
2007	597	82.04	11.3	551.6
2008	657	85.73	11.5	646.7
2009	722	89.59	11.7	758.3
2010	795	93.62	12.0	889.1

SOURCE: Nathan Associates

Table 9. Indicative Performance Targets for the Competitiveness Strategy

Achieving these targets will require that the industry far exceed its historical performance. The Tourism Cluster recognizes that these targets are ambitious, but believes them to be appropriate given Sri Lanka's tourism capabilities and potential.

Improve Tourism Product Mix

This initiative calls for developing distinct, high-quality tourism products that command a premium price in niche markets, particularly by appealing to the fully independent tourist. Developing such products will help position Sri Lanka as a differentiated high-value destination. Products to be created or expanded for niche markets include

- Ecotourism;
- Adventure tourism;
- Meetings, incentives, congresses, and events (MICE) tourism;
- Ayurveda tourism;
- Cruise tourism; and
- Golf.

Product development in these areas should include creating a model ecolodge that takes advantage of Sri Lanka's natural resources and provides a prototype for entry into ecotourism, a fast-growing market segment; targeting the business tourist by combining business with pleasure and developing special events to counter seasonality; capitalizing on Ayurveda as an important Sri Lankan health tradition; organizing for entry into a cruise tourism, a high-spending market segment; and capitalizing on Sri Lanka's golf courses to tap into a multimillion-dollar market.

Several products will require complex planning and marketing and direct investments that would be best handled by individual firms working independently. Others products will require a coordinated industry-wide effort. Accordingly, the Tourism Cluster will encourage firm-level action and provide a framework for joint action. Development of each product will require standards and monitoring for quality, skill development, market intelligence and research, and sophisticated marketing methods.

WHY THIS INITIATIVE?

Throughout Asia, competitors in the tourism industry are diversifying their products to capture larger shares of a growing market and to offset “product fatigue”—overdependence on and loss of appeal of the standardized tour packages. To succeed in this marketplace, Sri Lanka must do the same.

OPERATIONAL AND POLICY IMPLICATIONS

A varied tourism product mix gives rise to complex operating and policy demands, with special requirements for each new product. Some concerns for this strategic initiative are as follows:

- **Industry standards.** Developing new products requires formulating new standards, including standards for quality and safety. New standards are being formulated for adventure tourism and ecotourism in the context of the pilot ecolodge. Similar efforts will be required for other types of ecotourism and for Ayurvedic tourist products. Such standards will affect Sri Lanka's branding of new products and its status as a differentiated destination.
- **Industry associations.** To develop standards, regulations, and acceptable industry polices and practices in each new product segment tourism operators need to form associations. To avoid a proliferation of associations it may be necessary to affiliate with national associations. The emerging adventure tourism association may be a model for strengthening industry structure. Such associations will also encourage self-policing by members.
- **Public-private partnership.** New products will require that the private sector work with many government agencies unfamiliar with the needs of tourists or the development of tourism enterprises. Ecotourism and adventure tourism will require cooperation with local and provincial government. Such relationships should aim to build mutual confidence and trust, and to find satisfactory formulas for creating sustainable tourism products.
- **Infrastructure development.** Success in the new segments may strain existing infrastructure, especially water, waste disposal, and power. Cruise tourism development may require investments to upgrade or establish port facilities and efficient tourism transportation networks. Public-sector budgets will be strained easily by these new demands. One solution may be to adopt various forms of private sector participation for development of incremental infrastructure systems. This would allow tourism firms to grow at the targeted pace without being constrained by infrastructure capacity.

- **Sri Lanka Convention Visitors' Bureau.** At present, the Sri Lanka Convention Visitors' Bureau (SLCVB) is a Guarantee Company under the Ministry of Tourism, which supplies 70 percent of SLCVB funding. Repositioning SLCVB as an autonomous, financially self-sufficient company associated with the future Sri Lanka Tourism Authority, with its own budget, should be considered. SLCVB has already developed conferences, fairs and exhibitions for tea, garments, gems, sports, and consumer-oriented events, but often at no cost to event organizers. As a self-financing, private sector operation, it will have the mandate and the incentive to aggressively promote Sri Lanka as a MICE destination.
- **Measurement of product success.** Firms and organizations backing new tourism products will be concerned about the products' success and financial viability. Monitoring and measuring product performance should go well beyond counting arrivals and receipts. For example, many destinations now measure *spending per day per tourist per nationality in different product segments*. This indicator permits better-informed judgments about marketing and promotion budgets; product development; economic, social, and environmental impact; and tourism development strategies. Such measurements will require that the tourism industry establish a reliable base of information technology. They will also require cooperation among private operators and between the public and private sectors to develop data and share analyses.

KEY BENCHMARKS

The most useful benchmarks for measuring the value of specialized tourism products are as follows:

- **Tourist numbers in different market segments.** As industry offerings become more differentiated, measuring performance by number of tourists attracted to each segment will be important.
- **Average spending per day per tourist.** With average daily spending of US\$62, Sri Lanka lags behind many other Asian nations. Nationality and type of tourist by purpose can be added to the measurement, so that industry managers can judge the efficiency of their promotion expenditures in each market, and returns on investments in new products.
- **Employment and wages by market segment.** Employment is related to wage and service levels. Public managers use employment figures to measure tourism benefits to the society. Private managers use service ratios to help achieve desired price levels. The industry and the Sri Lanka Tourist Board will need to monitor the growth and quality of tourism employment for both purposes.

The tourist industry has models worldwide against which to measure Sri Lanka's standards of product quality and service delivery. Sri Lanka's tourism performance may be compared with that of competitive destinations in various segments, such as cruise tourism (Chennai, Cochin, Dubai, Goa, Mumbai, Singapore); ecotourism (Australia, Costa Rica, Kenya, Malaysia, Nepal); adventure tourism (Australia, Indonesia, Malaysia, Philippines, Thailand); and MICE (Bali, Dubai, India, Singapore).

ACTIONS

Ecotourism and Ecolodge Pilot Project

Sri Lanka's Ministry of Tourism is preparing to formulate a National Strategy for Ecotourism that will cover planning and policy, particularly environmental policy. The Tourism Cluster, to begin positioning Sri Lanka in the ecotourism market, is promoting development of a best practices ecolodge and biodiversity reserve. The project will serve as a model for ecotourism and will demonstrate the commercial viability of environmental tourism. It will involve constructing a 20-room "ecolodge" of environmentally sound materials and systems, as well as research and guide training units, an interpretation center, nature trails, and viewing sites. The reserve will be located on private land bordering the pristine Sinharaja Rainforest, a UNESCO World Heritage Site. The ecolodge will be state-of-the-art, integrating tourism with training, education, research, conservation, and participation from the local community. It will cater to up-market, environmentally conscious Sri Lankan and international tourists. Reflecting the local culture, it will benefit the surrounding community through employment and a fund to support community development.

Eight member-partners, representing the three associations in the Tourism Cluster, have formed a working group to promote the project. So far, the group has developed basic project parameters, an ecotourism charter to guide the project, a consortium to facilitate project development, and an agreement to lease land at the prospective site. It has also commissioned a feasibility analysis of all project components and has agreed to work with the University of Peradeniya, the Ecotourism Society of Sri Lanka, and the Forest Department as the project progresses. The Sri Lanka Tourist Board has agreed to work with the cluster to use the standards for this pilot project to guide all of Sri Lanka's ecolodges. When the project planning and feasibility work is completed with cluster support, investment will be opened to interested tourism firms.

Adventure Tourism

Relatively new to Asia, adventure tourism is a rapidly growing niche for which Sri Lanka has natural and cultural resources and attractions, as well as the necessary tourism infrastructure and specialized operators. A small group of specialized adventure tourism

operators in Sri Lanka is forming an association to develop this market segment. They are creating standards for the business and will address ancillary requirements, such as equipment, safety and emergency care, training and quality of guide services, local community involvement, accommodations, infrastructure, insurance, and incentives.

The association will also undertake projects that demonstrate the value of Sri Lanka as an adventure destination. The Tourism Cluster is supporting the first of these, a national biking trail that will be accessible along the south coast. If successful, this trail will be linked to trails in the cultural triangle and other suitable areas. Mountain biking is a promising activity because it depends largely on existing infrastructure and accommodations. Sri Lanka's diverse terrain is suitable to different levels of mountain bikers; and its rich cultural heritage and diversity of landscape will make mountain bike itineraries interesting.

Good community relations will be important because adventure tourism will affect the local culture and economy, especially in rural areas. It will bring the economic benefits of tourism to places that have not felt them previously; and it will bring tourists into close contact with villages that do not usually meet foreigners. Adventure tourism should therefore be introduced carefully to local authorities to avoid unwanted social and cultural effects. Government agencies that may not be familiar with tourism—such as the Departments of Forestry, Coast Conservation, Fisheries, Wildlife Conservation, the Central Cultural Fund, and the Urban Development Authority—should also be consulted so they can help maximize economic gains from adventure tourism while ensuring conservation of natural resources.

Because the local market for soft adventure is growing, this sort of tourism should be an integral part of a domestic tourism strategy. It should figure in the Provincial Tourism Plans in terms of developing products and facilities, infrastructure, guide training, and other support service jobs.

Distribution of product information is important in this niche, so the tourism Internet portal should have an excellent presentation and links with prime adventure tourism websites.

Meetings, Incentives, Congresses, and Events Tourism

With a higher average value than leisure tourism, business tourism is essential to any tourism strategy. Congresses and conventions bring large numbers of people to destinations; business travel is less sensitive to security risks and continues in off-peak periods, evening out “seasonality”; and business travelers' special needs for organization, communications, and interpretation requires more highly paid, skilled workers.

Business tourism constitutes 10 percent of Sri Lanka's tourism, but by any measure is underdeveloped. Not only do the components of business tourism—meetings, incentives, congresses, events (MICE)—have different and specialized requirements, but attracting the desired type of business traveler varies by source country. For example, the business market in Sri Lanka is conditioned to a great extent by the island's proximity to India. The Indian business tourism market should therefore be studied more carefully so Sri Lanka can sell to it more effectively. Sri Lanka's domestic MICE market also needs to be studied and developed. The Tourism Cluster believes that opportunities exist in the following niches:

- **Meetings.** Target domestic businesses and government and businesses based in South Asia, particularly India.
- **Incentive travel.** Target regional and global corporations to adopt Sri Lanka as a destination for incentive travel—travel to an exotic, tropical island as a performance reward.
- **Congresses and trade fairs.** Target regionally focused international congresses and industrial fairs, particularly those in areas important to the economy.
- **Events.** Develop events for a national events calendar, offering theater, dance, films, handicrafts in the high season and carnivals, garden shows, festivals, and other events with mass local participation in the low season. Target both domestic and international tourists.
- **Professional sports.** Host as many international sporting competitions as possible, attempting to have them televised internationally. Sri Lanka's success with professional cricket offers a model for other sports, such as rugby, soccer, golf, sailing, windsurfing, scuba diving, and mountain biking.

The SLCVB will take the lead in developing MICE market segments, with assistance from the Tourism Cluster as needed. SLCVB offerings will have a prominent place on the new tourism industry Internet portal.

Ayurveda—Health Tourism

As a tourism product, Ayurveda is a special kind of spa tourism connected to a centuries-old holistic medical tradition in Sri Lanka. The market for Ayurveda is strong and growing, with tremendous appeal in the tourist-generating markets of Asia, Australia, Europe, and North America, where aging populations seek to feel and look better. India is Sri Lanka's only competitor in this market segment, and Sri Lanka has an edge in quality of service, therapy, and facilities.

Standards and branding will be important in development of an Ayurveda tourism product acceptable to international tourists. In Germany, North America, and the United Kingdom the production and labeling of vitamins, food supplements, and homeopathic medicines is increasingly regulated. Eventually, such regulation will affect Ayurvedic, Chinese, and other folk medicines. International tourists will be looking for some sort of standards and labeling, at least to distinguish cosmetic from medicinal products. In addition, branding and international sale of high-quality Ayurvedic products could be a part of the tourism package. A number of spas have had success with this approach.

The holistic approach of Ayurveda for general health and well-being could be combined with practices such as yoga and meditation, which are also becoming popular. Product development on this basis warrants further research.

Because an Ayurveda tourism product builds on a distinct Sri Lankan asset, the Tourism Cluster considers it a priority and will encourage industry members to champion its development.

Cruise Tourism

When a destination is strong, cruise tourism can be an interesting long-range mechanism for tourism development. It brings high-income tourists to a destination for short periods, uses little infrastructure, and if the tourists like what they see, they return for longer visits. And, when a destination is included on the itinerary of a prominent cruise ship, it is promoted among other types of travelers.

The cruise segment comprises a variety of products, including global cruises, smaller regional cruises, charters, and self-hire boats. Sri Lanka could become competitive in all segments. At present, only about 1 percent of the cruise business goes to South Asia—India, the Maldives, and Sri Lanka. In 2001, 17 cruise companies were operating in the Indian Ocean and Asia-Pacific area. Eight companies scheduled stops in Sri Lanka from December 2001 to February 2002. Small, luxury cruise vessels are highly peripatetic. Charters and self-hire boats, with or without crews, have much greater local economic impact. Perhaps based in Galle and Trincomalee, ports of call could include Colombo, Negombo, Puttalam, and eventually Batticaloa, Mannar, Jaffna, and others. Absent civil conflict, Sri Lanka is nearly ideal for this sort of tourism, which could include day trips to cultural sites, nightlife in Colombo (and in the rehabilitated Galle Fort), and visits to national parks and nature sanctuaries. Cruise tourism also focuses attention on the potential value of Sri Lanka's ports and harbors—Colombo, Galle, Jaffna, and Trincomalee.

Operators of global and regional cruises tend to integrate vertically, so there may be little local economic impact from a cruise visit unless the destination organizes well. Tourism ground services generated by cruise ships can include hotels, transportation, guides,

restaurants, shops and attractions, as well as ship chandlery and other port services. Concentrated, high-quality shopping areas must be convenient for cruise passengers on a day stop. The new Sri Lanka Cultural and Crafts Center will be important in this regard.

Organization for self-hire and charter boats is more akin to adventure travel and is best handled through specialized operators. This segment could be set up after a feasibility study of where it should be based and how it might operate. Special consideration should be given to basing the ships in Galle, in conjunction with the Galle Fort project.

Cruise operators and passengers are risk-averse. Serious development of a cruise tourism segment, whether classical cruise visits or self-hire and charter cruises, can take place once there is peace in Sri Lanka and with a renewed marketing drive. But the various segments could be developed in terms of volume and location in the medium term. Development of a self-hire or charter cruise segment would take longer, but have more economic impact. This segment would also have greater economic potential once peace is achieved and could be used to revive previously conflicted areas.

Except for developing a marketing strategy and educating industry members in promoting Sri Lanka as a cruise destination, the Tourism Cluster ranks development of cruise tourism as a long-term priority.

Golf

Many destinations base their appeal on golf, and golfers travel the world in search of new courses. With three beautiful courses and a several more under construction, Sri Lanka has a base to begin promoting itself as a golf destination over the medium term. Promotion could begin by including golf green fees in packages at nearby hotels and by placing golf as an attraction on the tourism industry Internet portal, with links to popular golfing web sites. Business travel and MICE tourism also present opportunities.

Advertising and televising a tournament with celebrities or professionals could also promote Sri Lanka. The existing Sri Lankan Airlines tournament may be a foundation on which to build. The Tourism Cluster, in collaboration with the SLCVB and the airline, will explore this action as a medium- to long-term priority.

TIMELINE

An approximate schedule for actions under this initiative is presented in Figure 4. Two activities—ecolodge and promotion of MICE tourism—are considered immediate priorities. Developing an adventure tourism industry association and product standards and safety regulations are also important. Other actions will be phased in as opportunities present themselves, and as Tourism Cluster resources permit.

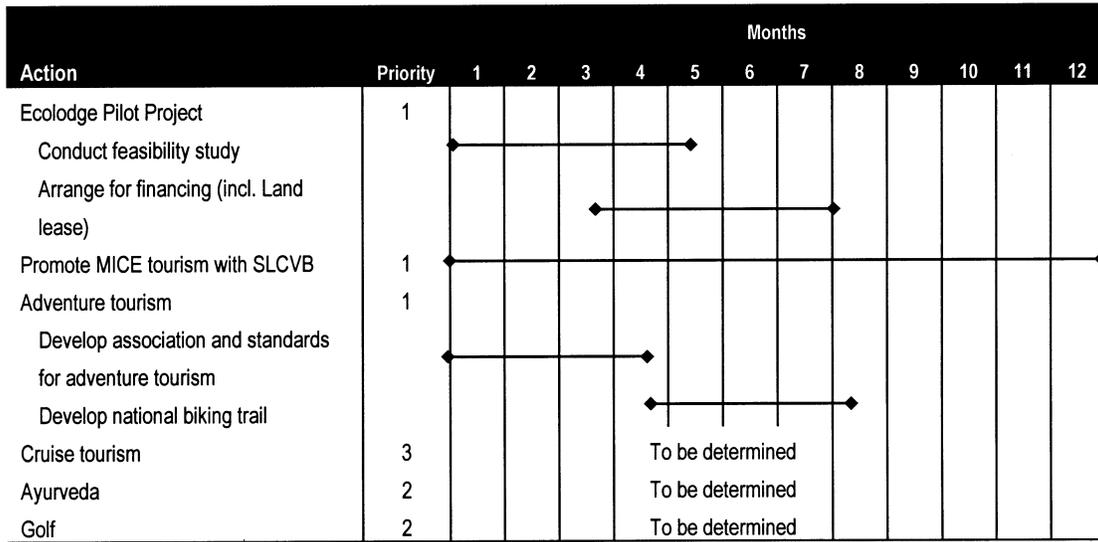


Figure 4. Timeline for Improving the Tourism Product Mix

Upgrade Existing Tourism Offerings

Differentiating Sri Lanka as a destination means devoting most attention to the international tourist market and the development of new products. At the same time, upgrading existing offerings will sharpen the character of Sri Lanka as a fresh and differentiated destination. Consequently, this strategic initiative also focuses on product-oriented activities:

- **Support the Sigiriya Sound and Light Project.** The Sigiriya Project is a commercial venture with great potential for drawing international attention to the unique cultural heritage of Sri Lanka through the national icon of Sigiriya.
- **Create the Galle Tourism Development Corporation.** This activity aims to transform inexpensive, packaged beach tourism on the Southwest coast into a more valuable product. A proposed Galle Tourism Development Corporation (GTDC) would take the lead in turning Galle Fort into a cultural tourism attraction, conserving the constructions within its walls according to its UNESCO World Heritage Site status, while developing the area with hotels, restaurants, museums, and shops.
- **Develop domestic tourism.** Treating domestic tourism as a long-term growth segment, this activity aims to increase the profitability of Sri Lanka's tourism business and cushion the effects of swings in international arrivals due to seasonality or civil conflict. It will require the combined efforts of the private sector and central, provincial, and local government to improve tourism facilities and infrastructure throughout the country.

Pursuing these long-term activities is beyond the resources of the Tourism Cluster, but cluster members are in a position to begin stimulating interest in these activities among industry stakeholders.

WHY THIS INITIATIVE?

The three proposed activities will complement improvements in Sri Lanka's product mix and will help increase average daily tourist spending. This initiative will help broaden and solidify the business base of Sri Lanka's tourism enterprises, reinforcing conditions that create and sustain industry competitiveness.

OPERATIONAL AND POLICY IMPLICATIONS

This initiative faces two threshold issues: (1) the funding and form of the GTDC and (2) a research, targeting, and follow-up campaign for domestic tourism.

The scale and complexity of the GTDC are well beyond the resources of the Tourism Cluster. Even initial project planning calls for significant investment. The approach recommended calls for interested parties, with cluster support, to draft a concept paper and a proposal for a full feasibility study to submit to international financial institutions and foreign governments as first steps in planning. Part of the feasibility study will analyze the proper ownership form for the GTDC—public, private, or joint public–private partnership.

To begin developing domestic tourism, the Sri Lanka Tourist Board will conduct a survey to understand the market. Survey results will provide a base of information for a 12-month domestic tourism campaign. Funding needs to be secured for the campaign, which will include welcome centers, site enhancement, events development and packaging, signage, and an information program.

KEY BENCHMARKS

The World Tourism Organization has published lessons learned from megaproject development in *An Integrated Approach to Resort Development: Six Case Studies*. These include models of project execution covering financial engineering, contracting, labor supply for civil construction, local community impact, transportation and other supporting infrastructure. Marketing and commercial arrangements are also suggested. Although smaller in scale than projects described in these studies, Galle development will be similar in approach. Other models for the GTDC include experiences in Williamsburg, Virginia (USA); Dubrovnik, Croatia; or Florence, Siena, or Lucca (Tuscany).

In January 2002, a research officer from the Sri Lanka Tourist Board consulted with tourism officials and academic specialists in Washington D.C. to develop tools and methods for measuring domestic tourism output and impact. The Board will formulate suitable indicators and benchmarks.

ACTIONS

Support the Sigiriya Sound and Light Show

Sigiriya, King Kasyapa's fifth-century fortress atop a monolithic granite mountain, is a World Heritage Site and an icon of Sri Lanka. The climb to the fortress, passing through water gardens and by well-preserved frescoes, is a unique experience. According to Sri Lanka's Park Service, 3.2 million people visited Sigiriya in 2000, including 95,000 international tourists—or about 25 percent of tourists traveling to Sri Lanka. The Park Service also reports that the number of visitors is increasing each year.

The Lankem Company, which opened the Sigiriya Hotel 12 years ago, was awarded the tender to develop the Sigiriya Sound and Light Show. Lankem and the Central Cultural Fund (CCF) have since formed a joint venture to operate and manage the show and are committed to creating a quality product. Bids are being accepted from international specialists from Egypt, Europe, France, and India who have visited the site and conducted initial cost analysis. They plan to use the latest technologies—holograms projected on sheets of water or on smoke—to tell the story of Sigiriya.

The show could be commercially viable and a good credit risk. Given the apparent feasibility of the project, the CCF may consider a government guarantee for financing. In exchange, developers would be obliged to construct a museum and a visitor center to provide additional interpretation and information about Sigiriya and a “virtual” climb for visitors who might find the actual climb too arduous. The center, with a bookshop and restaurant, would also be designed to make a profit.

Because of the national significance of the site and its potential impact on domestic and international tourism, the Tourism Cluster fully supports this project as essential to showcasing Sri Lanka's cultural heritage.

Create the Galle Tourism Development Corporation

Sri Lanka tourism professionals have accepted a false division between beach tourism—tourism on the South West Coast—and cultural tourism, which is associated with historic cities in the “cultural triangle.” Galle, an historic city on the South West Coast, combines the attractions of beach and cultural tourism. The city has significant potential as an international destination, yachting marina, and center for business meetings. It could also become a center for cultural excursions, shopping, dining, and entertainment for tourists at nearby beach resorts. Galle also embodies important parts of Sri Lanka's history of colonization by the Portuguese, Dutch, and British. The Galle Fort earned its World Heritage Site status because it is the best example of a European presence in all of Asia.

This action calls for creating a Galle Tourism Development Corporation (GTDC) to transform the Galle Fort. The goal will be to conserve constructions within the fort's walls while developing the surrounding area with hotels, restaurants, museums, and shops according to a master plan. The GTDC should have broad legal powers and an excellent management and staff. The Tourism Cluster could establish a working group to determine the basic feasibility and organization of the GTDC, in consultation with the Tourist Board, the Galle Heritage Foundation, local officials, the Board of Investment, and relevant national ministries. This will have to be done carefully so that rights of current property owners are respected and an operational agreement with the local government is achieved.

The first task of the GTDC will be to find funding for and develop a master plan. National authorities will need to approve the plan. No construction, demolition, or changes will be permitted within the fortress unless they comply with the plan. The plan will provide details on a mix of services and activities—and their expected financial results. Services and activities could include world-class accommodations and attractions, with major hotel chains represented through boutique hotels; a planned number of restaurants and boutiques; bars and entertainment areas; museums; theater; plastic arts; “living heritage” experiences of daily life; and events and festivals.

The GTDC will have to be aware of local and international relationships. For example, existing Sri Lankan tourism businesses will be interested in this opportunity and how it could affect property and operations on the South West Coast. Though Galle will be the main beneficiary of the project, local government may have difficulty with such an entity as autonomous and powerful as the GTDC. And a project of this magnitude will provide opportunities for local entrepreneurs, but some aspects will be suitable for international competition.

Run on a commercial basis, the GTDC will work according to a schedule, secure financing and funding, and develop a business plan that allows for loan repayment. Possible funding sources include the Dutch and the Portuguese (the Gulbenkian Foundation has as part of its mandate the rehabilitation of historic Portuguese sites), the World Bank, the OPEC Fund, and the European Union.

Though new to Sri Lanka, this sort of megadevelopment has been successful in other countries. The implications for regional economic development are considerable, and the transformed Galle Fort would radically upgrade Sri Lanka's beach tourism product, exerting a positive influence on the country's tourism image, production of high-quality tourism products, as well as distribution, marketing, and promotion. The Galle development program will take at least four or five years. During that period, the tourism industry will have consolidated new organizational and business models consistent with Sri Lanka's emerging status as a differentiated destination in Asia. Galle development must be integrated with the rest of Sri Lanka's tourism during this period.

Develop Domestic Tourism

The objective of this action is to expand Sri Lanka’s domestic tourism market, making it a cornerstone of the industry. This will require assessing the importance and value of domestic tourism, working with provincial authorities to plan its development, and creating new tourism products to stimulate it. A suggested approach to this long-term activity is as follows:

- **Reposition the domestic tourism product**, developing welcome centers or staging areas to facilitate tours and provide information to travelers; a site enhancement program to improve attraction facilities and management; and a national events calendar to stimulate interest and enthusiasm for domestic travel.
- **Organize a domestic tourism transport network**, incorporating a national tourism signage system for sites and way-finding; an approach for scenic byway designation and tour routing; and a study of affordable multimodal transportation.
- **Develop a domestic travelers’ information system**, incorporating a Sinhala and Tamil Sri Lanka Guide and teaching aid, and a quality rating system for accommodations catering to the domestic traveler.

Repositioning will also feature domestic tourism branding—“Discover Sri Lanka”—to reinforce the benefits of travel and vacation tours in the domestic market; cooperative advertising by tour operators, travel agents, and accommodations; a Tourism Impact Handbook for planners and policymakers; and a program of tourism skills training.

Before these activities begin, the Sri Lanka Tourist Board and industry members will conduct a 12-month domestic tourism campaign to test marketing themes and products, stimulate demand, and build support for expansion of domestic tourism among industry operators. This campaign will be reinforced by a domestic tourism survey and the Tourist Board’s program to measure and evaluate the campaign.

TIMELINE

A timeline for implementing actions called for in this initiative is presented in Figure 5. Given existing resources and other commitments, the Tourism Cluster considers these actions of less importance in the near term. But, with the Tourist Board, the cluster will support the domestic tourism campaign and initiative in the present year. Once the status and issues associated with the Sigiriya Sound and Light project are clarified, any action to support the project will be considered a priority.

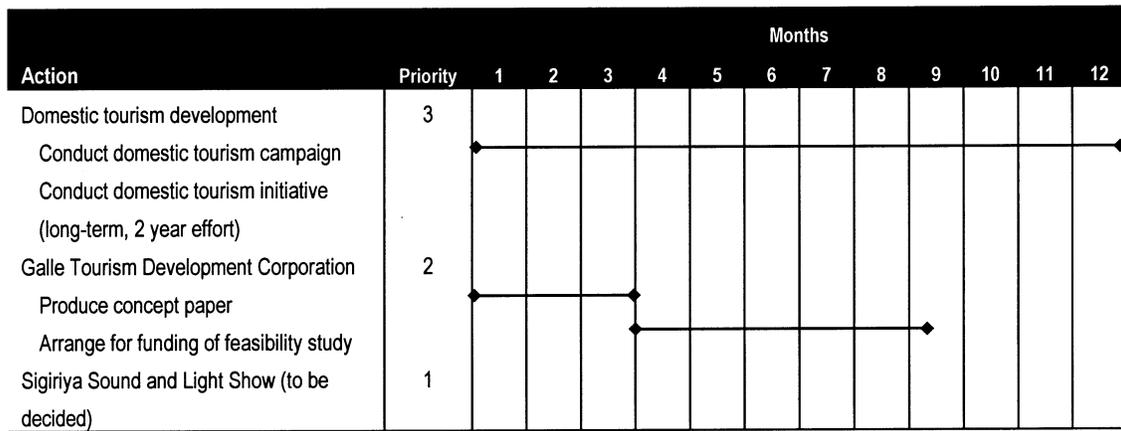


Figure 5. Timeline for Upgrading Existing Products

Modernize Industry Organization and Key Institutions

To develop high-quality specialized tourism products, upgrade existing offerings, and improve the policy environment, Sri Lanka's tourism industry must develop sophisticated private sector organizations. This initiative calls for four activities to modernize the industry's structures:

- **Reorganize promotion and marketing** by legally constituting and operationalizing a new Sri Lanka Tourism Promotion Bureau (SLTPB) as recommended in the "Medium Term Strategic Marketing Plan."
- **Establish a tourism industry Internet portal** by adopting technologies to electronically distribute tourism information and undertake transactions and to position the industry to work more effectively and profitably with professional interlocutors in tourism-generating countries.
- **Support industry human resource development** by upgrading the Institute of Tourism and Hotel Management (ITHM), building programs to train a variety of professionals needed to support differentiation in high-value products, encouraging professional advancement in each industry sector (i.e., travel agents, hoteliers, and destination managers), and designing programs that will strengthen industry associations.

Creating the SLTPB is under fast-track consideration. The SLTPB will be a joint venture of the private and public sectors, but privately led. It will be concerned with promotion and marketing of Sri Lanka abroad and could take over management of the industry Internet portal and the conflict response function of the Sri Lanka Tourist Board. Making the SLTPB operational will be the first step in fulfilling the long-term need for a private sector driven Tourism Authority. That authority would manage all other aspects of destination

management (market research and intelligence, product quality and development, human resources, promotion), work with industry associations and government to influence policies, and coordinate with other institutions and agencies involved in tourism.

The Tourism Cluster will lead some of these activities and support other institutions, such as the Sri Lanka Tourist Board, in advancing others.

WHY THIS INITIATIVE?

The organizational model of Sri Lanka's tourism industry is several decades old and based on government dominance. Key institutional roles must be revamped so tourism enterprises can anticipate and respond more effectively to new opportunities. This new model will confer greater responsibility on the private sector for defining, creating, and sustaining Sri Lanka's competitive advantage for tourism, particularly through promotion, marketing, and human resource development. The activities making up this initiative all build on or foster the conditions that determine Sri Lanka's competitiveness in tourism.

OPERATIONAL AND POLICY IMPLICATIONS

Funding, collaboration, technical expertise, and human resource development issues have implications for operations and policy.

- **SLTPB funding.** The initial plan for the SLTPB called for funding through an assessment, or CESS, based on a percentage of industry operators' revenues. To achieve competitive and consistent funding for tourism promotion, this issue must be settled.
- **Internet portal collaboration.** The Internet portal of Sri Lankan Airlines contains real-time flight information and provides information on tourism packages and services. It will also have room-booking capabilities in the future. The Sri Lanka Tourism Board, which is creating a tourism industry Internet portal as the central destination management tool, should collaborate with developers of the airline portal to develop links between the two.
- **Portal positioning.** The success of the tourism Internet portal will, in part, be determined by its position on key search engines. Sri Lankan IT experts will need to ensure proper positioning.
- **Human resource development.** Although represented on the board of the ITHM, private industry needs to do more to ensure that this institution produces graduates who can become effective managers and can deliver the service required for higher value or specialized tourism products. The long-term strategy aims to have the institute managed by the private sector.

KEY BENCHMARKS

The international tourism business has many models and benchmarks that can help Sri Lanka's managers and policymakers guide activities under this initiative and measure success. These models and benchmarks will be particularly useful for SLTPB activities, portal development, and human resource development.

- ***Sri Lanka Tourism Promotion Bureau.*** Most countries with advanced tourism have moved to public–private organizations or to entirely private ones. While many Asian countries are still following a state-control model, Sri Lanka may well look to France, Hong Kong, or the United States for privatized models. In any case, the industry will benchmark against regional rivals that are particularly meaningful (e.g., Malaysia, Singapore, Thailand). Quantitative benchmarks could include
 - Promotional dollars spent per arrival, with inter-annual trend analysis; and
 - Promotional dollars spent per arrival by target market segment (e.g., ecotourism, MICE) or by target geographical market (Germany, India, the United Kingdom).
 These benchmarks could also be used when comparing tourism promotion spending to that of rival destinations.
- ***Tourism industry Internet portal.*** Singapore may offer a particularly relevant model for the portal that Sri Lanka wants to develop. A vast number of indicators can be formulated to measure portal effectiveness, including number and rate of growth of “hits” and online transactions, and the value of online transactions. Each indicator can be in total and on average.
- ***Tourism industry human resource development.*** Several institutions offer models for tourism industry training (e.g., the Singapore Hotel and Tourism Education Center, Macau's Institute for Tourism Management). Benchmarks might include indices of earnings levels achieved by graduates of Sri Lankan tourism training programs and surveys to track graduate retention and advancement.

ACTIONS

Create Sri Lanka Tourism Promotion Bureau

The industry recognizes the need for a public–private Tourism Authority that will take on industry development and management functions in addition to destination marketing and promotion. The structure and financing of such an entity is complex and the private sector is not ready to immediately accept total responsibility for this. In the meantime, a Sri Lanka Tourism Promotion Bureau (SLTPB) has been proposed to handle promotion and management until industry is strong enough to create a Tourism Authority. The SLTPB would then become a part of the new privately led organization. Creating the SLTPB will be challenging but, if successful, will encourage further privatization of industry functions.

The SLTPB is to be a joint venture of the government and private sector. Its concept and functions are described in the Sri Lanka Tourist Board's "Medium Term Strategic Marketing Plan." The SLTPB would

- Lead industry promotion, executing certain parts of the Marketing Plan in Sri Lanka and abroad;
- Engage private companies, associations, and individuals in planning and executing promotional activities;
- Develop short- and long-term programs and action plans;
- Conduct market research and share findings on tastes, trends and product with Sri Lanka's operators, hoteliers, and other participants;
- Have a permanent staff and equipment and facilities appropriate to its mission;
- Eventually handle the marketing and promotion functions of the tourism Internet portal being developed by the Sri Lanka Tourism Board; and
- Build strong relationships with all direct or indirect industry stakeholders.

The SLTPB would be financed through government and the private sector, with the latter assuming full financial responsibility as soon as practicable. A CESS or other mechanism could be applied to private industry to generate a stable financial base.

The SLTPB would work closely with organizations and institutions, such as industry associations and the Sri Lanka Convention Visitors' Bureau, in planning promotion cycles and deciding on themes and targets for change (e.g., opening new markets or improving air access). After the first cycle, the SLTPB would be assessed and adjusted. Likewise, the SLTPB would adjust its promotional messages and approaches as new tourism products become operational. For such products it would undertake the following special projects:

- **Niche product promotion**
 - Establish a database of tour operators for niche tourism products.
 - Conduct programs to reposition Sri Lanka in the Asian, European, and U.S. markets as a high-value, differentiated destination.
 - Maintain and expand the accommodation classification system being developed by the Sri Lanka Tourism Board. Such a system will feature market-oriented and qualitative standards for the sector and take into account new niche products—ecolodges, campgrounds, boutique and heritage hotels, and Ayurveda and spa resorts.
- **Tourism Market Measurement.** Set up a marketing research unit to measure
 - *Economic impacts of tourism.* Create a Tourism Observatory. Provide monthly reports

- on arrivals compared with capacity, accommodation sales at each level compared with rack rates, the number of tourists in country, and estimates of sales to tourists.
- *Visitor motivation.* Make tourist landing cards machine-readable and revise them to gather more information about individual tourists. Analyze landing cards and supplement analysis with targeted surveys aboard incoming flights.
 - *Visitor satisfaction.* Conduct regular surveys on departing flights. Negotiate access to passenger surveys conducted by tour operators on charter flights.
 - *Seasonality.* Study what triggers desirable market segments to travel and when. Lead a concerted effort to organize festivals, events, and meetings during low seasons.
- **Promote Quality Standards.** Some hotels have sought the International Standards Organization (ISO) 9002 rating for service and ISO 14000 rating for environmental management. The Sri Lanka Tourist Board will establish a Sri Lanka logo for tourism excellence, backed by international standards such as ISO, to recognize and promote quality. The SLTPB could work with its members to help them qualify for the logo.

Civil Conflict Response Mechanisms

For more than 18 years, Sri Lanka has managed its tourism in the context of a civil conflict that divides the country along ethnic lines. In many countries, competitively organized tourism industries have mitigated the effects of conflict by shaping tourists' perceptions of the nature of the conflict and the ability of the government to protect tourists. The Sri Lanka Tourist Board has now begun to strengthen Sri Lanka's mechanisms to mitigate and manage the real or potential impact of the civil conflict on tourism. Such efforts could be managed by the SLTPB and should include the following:

- **A crisis management unit** to develop a plan for dealing with civil conflict crises and to draft crisis management manuals for hotel managers and other tourism operators. The unit will also form crisis management teams to give direction as difficult situations arise that might affect tourists. The teams will ensure cooperation with police and the military by establishing communication and crisis management arrangements in advance.
- **An industry "hotline"** for reporting problems and incidents to a national organization that would clarify incidents for promotion offices and press representatives around the world. The promotion offices would convey this information to the media and to tour operators and travel agencies that work in tourist-generating countries. The goal would be to shape perceptions and news stories, rather than simply react to them.
- **Travel advisories** with up-to-date information and more accurate language as advisories about Sri Lanka are often broadly—and damagingly—written. To remedy this, the Sri Lanka Tourist Board, building on the country's credibility, will call on the ambassadors of countries that have issued travel advisories and offer up-to-date information and propose more accurate language for the advisories.

- **Safety reassurances.** Prepare materials and establish channels to reassure tourists about safety. SLTPB will also provide a free information “hotline” for tourists.

Senior professionals in the tourism industry will seek to persuade Sri Lanka government policymakers of the importance of tourism and the need to ensure both the reality and perception of security for tourists. To do so, the tourism industry will seek broad approval in government (including the military) and society, nationally and locally, for its development goals, policies and strategy.

Establish Tourism Industry Internet Portal

By 2005 nearly a quarter of tourism industry business is expected to be transacted over the Internet. The Sri Lanka Tourist Board will design and launch an industry Internet portal with support from a variety of technology partners, including the Sri Lanka Institute for Information Technology and private software and information technology training companies. The portal will

- Provide a database of tourism resources, including hotels, attractions, restaurants, transportation, parks, natural reserves, activities, people, customs, and events;
- Permit global distribution of this information;
- Enable e-commerce transactions;
- Give tourism professionals and individual clients ready access to linked services;
- Enable marketers to target sharply defined market segments;
- Help the industry work more effectively and profitably with professional interlocutors in tourism-generating countries, who are already using advanced information technology;
- Automate a vast range of transactions and processes, from customer service to accounting and payment of commissions—and eventually realize considerable cost savings; and
- Enable precise management of natural and built resources, and more accurate and comprehensive strategic planning.

Detailed planning and construction is already well underway. To be successful, the portal must be driven by organizational and marketing goals, not technology. Tourism portals have failed because of organizational problems, not technological ones. Stakeholders throughout the industry could assist the Sri Lanka Tourist Board in deciding on portal content and organization. Hotels, travel agents, tour operators need to work with the Board to agree on functions, rights, obligations, and sharing of benefits, costs, and fees. The development process includes the following steps:

- **Determine results desired.** Private sector operators will tell technology partners what they want the portal to achieve.
- **Determine capabilities desired.** Technology partners will help the industry to understand what the system can do and the cost of different functions, so that industry can make rational judgments about cost-effective functions. For example, the portal could feature hotel reservation software that works with local travel agents, ensuring fulfillment, automatic commissions payments, back-office functions, and post-sale client tracking.
- **Determine technological options.** Technology partners will inform tourism operators of the advantages, disadvantages, implications, costs, and tradeoffs of various technical solutions.
- **Determine legal form of portal.** The legal form of the portal will decide who owns the content. The portal could be owned by the government or a for-profit portal firm consisting of public and private shareholders (e.g., the Tourist Board, SLTPB, and private firms).
- **Conduct feasibility study.** A formal feasibility study will define the financial viability of alternative portal designs. The alternatives will reflect various levels, functions, timing, and costs, and will highlight the most financially attractive for the industry. It will recommend parameters such as organization, membership, dues and fees, information ownership, database maintenance, and quality control.

The benefits of a portal are far-reaching. A tourism portal will help bring Sri Lanka to international standards of business, reinforce the shift from price to differentiated product, and demonstrate the country's first industry-wide application of an information technology solution.

Develop Human Resources

The industry will need well-trained managers and staff at all levels to differentiate tourism products and position Sri Lanka as a high-value destination. Training is now provided through the government-owned Institute of Tourism and Hotel Management (ITHM) in Colombo and the privately owned International Hotel School at Mount Lavinia (IHSML). ITHM also has facilities in provincial centers, and three universities offer tourism degrees. Hotels have organized their own training programs for critical hospitality management functions. Of these institutions, ITHM is the leader. At present, the tourism industry is constrained by the quality and quantity of training graduates, the quality and breadth of the training curricula, and poor training facilities outside Colombo.

- **Graduates.** The tourism and hotel business is no longer a high-profile occupation among graduates. Its long hours, low starting pay, and relocation requirements do not attract high-quality, motivated graduates, who seek better opportunities in banking, finance, or the garment industry. ITHM and IHSML produce only about 75 executive trainees annually, a number insufficient to meet industry needs. Many graduates take jobs overseas and many students drop out to take jobs locally or abroad.
- **Curricula.** Travel agents and destination managers (inbound operators) will need basic, intermediate, and advanced training and management courses. Also needed are language courses (English, French, German, Japanese, Chinese); courses that provide for international exposure, especially for chefs; and courses in hotel gardening, landscaping, maintenance, customer relations, and recreation/animation management.
- **Training for specialized areas.** Ecotourism, for example, will require training in natural history and cultural interpretation; adventure tourism in outdoor survival skills, CPR, and first aid; and MICE tourism in event planning and management.
- **Training outside Colombo.** Training facilities in the provinces are underfinanced and understaffed, and are provide only very basic courses.

To address these issues and upgrade training, the private sector will do the following in the near to medium term:

- Work with ITHM to establish greater private sector participation on the institute's board. Industry counsel on curriculum development will emphasize hospitality management and other travel industry management areas (tour operations, guide training, travel agency management, and quality enhancement). It will also define the need for training in information technology.
- Sponsor career fairs and seminars to publicize industry advantages and opportunities and to attract candidates.
- Where new high-value tourism products are introduced, review staff and manager compensation in relation to expected service and productivity to give new entrants incentives.
- Working through the Tourism Cluster, find ways to organize and finance scholarships in Sri Lanka and possibly overseas for promising graduates and examine internship and mentoring schemes.
- Again working through the Tourism Cluster and with the ICT Cluster and training institutions, identify opportunities for Internet-based distance learning for hospitality and travel industry management.

- Expand and share the cost of specialized training, for example, joint funding for trainers and programs to make more resources available for developing staff in critical functions and geographical areas.

Through the cluster forum, the industry can discuss programs to strengthen associations and enable them to take on functions such as a code of ethics for driving, education and training initiatives, and industry quality upgrading programs.

TIMELINE

Figure 6 is a rough timeline for activities under this initiative. Once the issue of financing is settled, the Tourism Cluster and the Sri Lanka Tourist Board can shape and support the SLTPB. The Board will develop the tourism Internet portal and develop the civil conflict response mechanisms, building on its success in handling reactions to the July 2001 attack at Bandaranaike International Airport. It may shift conflict response to the SLTPB. Through a working group, the Tourism Cluster can pursue the industry’s human resource development.

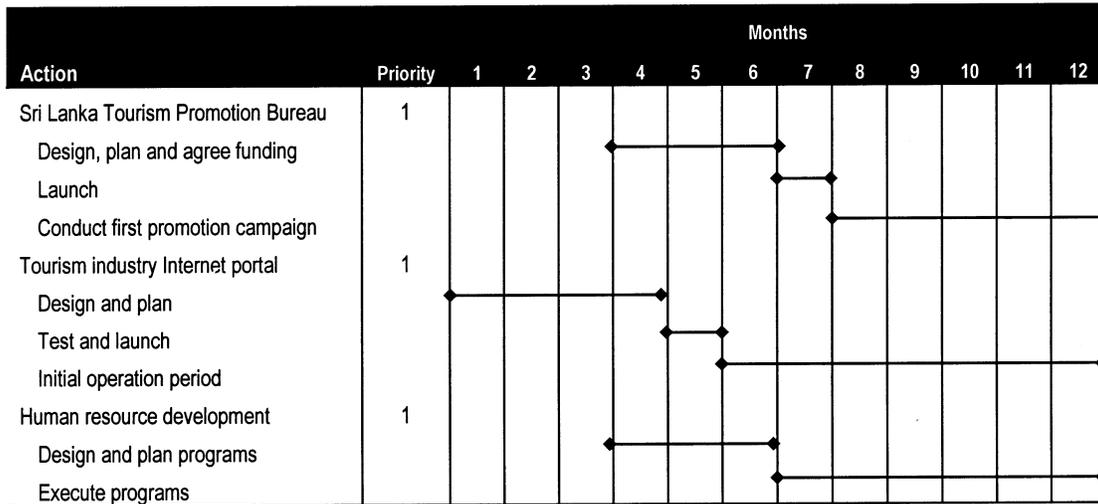


Figure 6. Timeline for Modernizing Industry Organization and Key Institutions

Reform the Policy Environment for Tourism and Tourism-Related Infrastructure

The policies that influence Sri Lanka's tourism performance are deeply rooted in the nation's society and institutions. They also reflect more than 18 years of civil conflict, with all the attendant distortions and constraints that the conflict has imposed on social and infrastructure development. Small and incremental changes to policy have accommodated the changing needs of Sri Lanka's tourism industry, but a more concerted reform effort is required to improve its competitiveness. Wholesale reform is a highly complex and expensive proposition. For this reason, the Tourism Cluster has narrowed areas of policy reform to those most likely to immediately boost Sri Lanka's competitive advantage in tourism.

WHY THIS INITIATIVE?

The first three strategic initiatives call for the industry to organize modern programs, introduce new technologies, and design and deliver better products. This initiative will concentrate on improving the environment for such activities. Flexible, market-oriented government policies will free industry operators to find more effective ways to build on and build up Sri Lanka's baseline resource advantages, and to respond rapidly and creatively to global and local demand conditions and opportunities. Policy reform will affect allied industries and services in the same way, raising the competitiveness of the industry as a whole. A modern, liberalized policy framework will foster the mix of rivalry and collaboration among local tourism operators that will strengthen industry competitiveness.

POLICY ISSUES

In due time, a broad range of policies should be reviewed and revised, but the Tourism Cluster is now concerned with reviews that could have positive short-term effects on the industry. These include policies affecting civil aviation, domestic air travel, sea and rail transportation, and tourism planning, regulation, and taxation. Under this initiative, studies or other efforts will be undertaken to provide reform proposals.

Aviation Policy

A review of civil aviation policy will examine how government has regulated the volume of air service capacity and policies for airport infrastructure.

Air Service Capacity

Tourism industry operators contend that limited air service constrains growth in international tourist arrivals. First, service capacity, as measured in air carrier seats per week, may be inadequate to meet demand in some of Sri Lanka's international air travel markets, thus artificially depressing the number of visitors. Tourist air travel service between India and Sri Lanka, for example, may suffer in this way. Second, since 1996 Sri Lanka has prohibited private domestic air travel, although it is still possible to fly to some domestic locations by military air transport. This prohibition arises out of security concerns associated with the civil conflict. Given the difficulty of travel by road and rail, tourism industry operators find that the policy puts Sri Lanka at a disadvantage in attracting international tourists, a view not necessarily shared by the national carrier.

Reform of international air service capacity can begin with a review of Sri Lanka's bilateral air service agreements, an upward renegotiation of agreed-upon capacity levels (service frequencies and sizes of aircraft) in markets where demand appears to be constrained, and an examination of the impact of radically liberalizing access to Sri Lanka's air travel market through an "Open Skies" policy for international airlines. Lifting the ban on private domestic air travel will depend on reconsidering security risks. In any event, these issues may be resolved soon because the government has announced its intention to investigate private sector proposals for reintroducing domestic air service and a revised civil aviation policy is being considered.

Airport Infrastructure

The tourism industry also calls for a review of policies governing Bandaranaike International Airport (BIA). BIA's landing fees and other airport user charges are considered high as are its prices for fuel and catering services. Tourism industry operators believe that this elevated price structure discourages airlines from providing more service to and from Colombo and may contribute to air service capacity constraints. A policy review should provide a comparative analysis of BIA's airside and landside fees and charges, as well as its charges for

auxiliary services to the airlines, relative to those of airports at rival destinations. This review will lead to proposals for airport pricing reform.

BIA operating policies should also be examined. Most international tourists arrive by air and get their first impression of Sri Lanka from BIA. Also, tourism operators suggest that signage and passenger flow patterns, internal lighting, the organization and appearance of shop concessions, outside traffic flow, and external lighting could all be improved. Overall, the airport could be made more welcoming and secure to further Sri Lanka's goal of becoming a differentiated and superior destination for international tourists.

Infrastructure Policy Reform

The Tourism Cluster also proposes analysis to establish a basis for reform of infrastructure policies that affect tourism. Transportation policies are the most important, but others could also be important (e.g., power generation and distribution and water supply and distribution).

All parts of the transportation system need to be reappraised and the transport policy framework modernized. The Tourism Cluster will commission reviews of transportation issues, to be published as industry white papers, to provide technical, economic and political alternatives to the government. Such papers will cover the following:

- **Sea transport.** Domestic coast-wise transportation of passengers and cargo is not usually by sea. But with many tourists traveling from the airport to points along the southwest coast, and facing road travel times of up to four hours, it is imperative to seek alternatives, and coast-wise maritime service may be one of them. Jet foil boats, such as those used in Hong Kong, could be a solution. In the meantime, a new ferry service between Colombo and Chennai is expected to boost transport capacity for visitors from India. Policies governing the development and operations of passenger transport by sea need to be reviewed in relation to the broad needs of the transport sector. As noted under the first strategic initiative, cruise tourism presents an important opportunity for diversifying Sri Lanka's tourism products. To promote the industry's participation in this market may require policy reform, port marketing, and investment in port infrastructure.
- **Railways.** As a state monopoly, railways in Sri Lanka have budgets that severely limit investment and quality of service. Rail traffic to the north and east has been cut because of the civil conflict. In addition, it is extraordinarily difficult to persuade railway management to provide any special services for tourism (e.g., a shuttle train from the airport to Colombo or special carriages from Colombo to points along the southwest and south coasts). Railway schedules are not coordinated with air or bus schedules. Creating a class of service to attract tourists on major routes could relieve some pressure on roads.

- **Road transport.** Sri Lanka has no modern intercity highways and major roads are saturated with vehicles ranging from heavy trucks to oxcarts. Transportation infrastructure is expensive, requires careful planning, and has a high social impact in a country as densely populated as Sri Lanka. Domestic requirements will drive infrastructure investment policy decisions, but the tourism industry should make industry needs known through the Tourism Cluster. For example, the most important transportation corridors for tourism—the Negombo-Galle, Colombo-Kandy, Colombo-Nuwara Eliya, and eventually corridors linking Colombo to Trincomalee and Jaffna—are also the most important for the nation. Achieving growth targets under the competitiveness strategy will add considerably to traffic congestion.
- **Intermodal transportation planning.** Transportation policy needs to be considered on an intermodal basis. Civil aviation and road, rail, and sea transportation should each be used to best advantage, but this requires careful technical planning and a coordinated policy framework. Through the Tourism Cluster, the industry will participate in transportation policy planning, explaining and prioritizing its transport requirements.

Additional Policy Reform Areas

The Tourism Cluster has identified several more areas of policy reform—some for immediate action, and others for more medium- to long-term study and reform.

Tourism and Land Planning

Land planning in Sri Lanka is a monumental task because of the civil conflict and the lack of clear titles for many properties. Nevertheless, it is a determinant of value in the tourism industry. Planning should ensure conservation of resources while providing guarantees for quality development.

As previously conflicted areas open because of the peace process, tourism planning and zoning must ensure that tourism development is properly managed. The Asian Development Bank is formulating a project for development of the East Coast which will deal with tourism planning down to the number and type of resorts, interpretation centers, and community-operated establishments. A broadly based process for granting development permits based on such plans would help ensure tourism sustainability and would protect investors from uncontrolled development that undercuts property values. The Tourism Cluster will support and provide input to this process as required.

Environment

The Ministry of Tourism plans to create a National Strategy for Ecotourism Development that will develop a policy framework and address issues regarding environmentally sensitive areas. The Tourism Cluster has an interest in the representation of tourism industry leaders in deliberations to ensure that tourism development is coordinated with environmental

policy. The cluster will promote environmental policy analyses, particularly in association with new environmentally sensitive tourism products (e.g., the ecolodge, adventure tourism). Regulations to protect the environment and promote sustainable tourism products in environmentally sensitive areas, such as land bordering protected areas, should be established before such areas are opened for ecotourism projects.

Municipal Government

The development of domestic tourism, cultural tourism, ecotourism, and adventure tourism will affect the interior of the country, including towns and villages. The tourism industry will need to examine policies relating to municipal government services, including how local governments are funded, and such as issues as town planning, water and sanitation, and waste management. The Tourism Cluster can monitor policies and offer analyses as needed.

Taxation and Incentives

The tourism industry is subject to many taxes and fees—entry and exit, general service, security, income, profits, and licenses. The industry should pay its fair share of taxes, but taxes should not undermine business. To make sound business plans and investments, the industry needs a tax package that minimizes adverse effects and is predictable. The Tourism Cluster proposes to review tax policy related to tourism enterprises, including the usefulness of the Board of Investment incentives offered to tourism investors, and to recommend policy reforms that will improve industry competitiveness and stimulate development of specialized and high-end products.

Tourism Regulation—Licensing of Touts or “Beach Boys”

Minor security issues are more likely to affect the tourist’s experience in Sri Lanka than the civil conflict. “Beach boys” and touts pursue tourists because they see opportunities to make money by hawking services. Unfortunately, many hound tourists until some feel threatened. At worst, such unregulated activity is a path to petty crime or organized crime (e.g., scams, drugs, and adult and child prostitution). These activities can harm the reputation of Sri Lanka as a high-value destination, and the potential social costs to Sri Lanka and to the tourism industry far outweigh the marginal employment benefits for beach boys and touts.

Solutions lie in regulating services and in anti-harassment legislation. A regulatory system would provide for certification and licensing of guide services, including training, and for ensuring that those offering services are employed by a legitimate organization. The Tourism Cluster has discussed similar policy proposals and the Sri Lanka Tourist Board is championing such proposals. One calls for establishing a marketplace and facilities in Beruwala, from which touts and beach boys could sell legitimate tours and goods in an organized manner. The collaboration of the Sri Lanka Tourist Board and private industry in sensibly regulating the tout or beach boy trade can be a model for other licensing and regulatory reform in the industry.

KEY BENCHMARKS

The success of this initiative in reforming civil aviation and domestic air travel policies will be measured by indicators in

- **International air service capacity**
 - Before and after measures of seats per week, number of carriers operating, service schedules and frequencies, number of tourists and air ticket price levels.
- **Domestic air service**
 - Number and growth of domestic flights by domestic market, number of air passengers, number of international tourists flying on domestic air carriers.
- **Airport pricing and operations**
 - Before and after airport tariffs, especially compared to airports at rival destinations; growth of air traffic, especially international tourist traffic connecting through BIA, including comparison to rival airports.
- **Tout/beach boy regulation**
 - Before and after harassment complaints measured by surveys.

Similar indicators can be customized to other reforms. Indirectly, the impact of reforms should be evident in general growth in tourist numbers and expenditures.

ACTIONS

The immediate priority for the Tourism Cluster is to *define transportation needs*. It will provide a basis for proposing civil aviation and other transport policy reforms in three studies:

- **Tourism transport policy agenda.** Develop an agenda of general tourism transport policy reform proposals for immediate consideration and suggest others for further discussion and analysis.
- **Civil aviation and sea transport policy.** Prepare in-depth studies on (1) aviation, including air service capacity, domestic aviation, and airport pricing policies; and (2) sea transport related to tourism.
- **Total tourism transport demand.** In 2002, prepare a tourism transport demand study that examines likely tourist passenger flows in all modes and the policy and infrastructure required to meet demand.

The Tourism Cluster will also elaborate a medium-term reform agenda for other policy areas, including tourism and land planning, taxation, environment, and municipal

government. In the meantime, other cluster working groups are engaged directly or indirectly in policy issues associated with their projects. The Ecotourism Working Group will consider environmental and land planning policy issues; the Adventure Tourism Working Group will formulate operating and safety standards for adventure sports (rafting, diving, biking); and a Domestic Tourism Working Group, when established, will deal with land planning and municipal government issues. The Sri Lanka Tourist Board is formulating reform proposals for tout/beach boy certification and licensing. The Tourism Cluster will support the Board's efforts as needed.

TIMELINE

Figure 7 presents an approximate timeline for important policy reform studies and other actions. Once these actions are completed, the cluster will define a pipeline of other policy reform analyses.

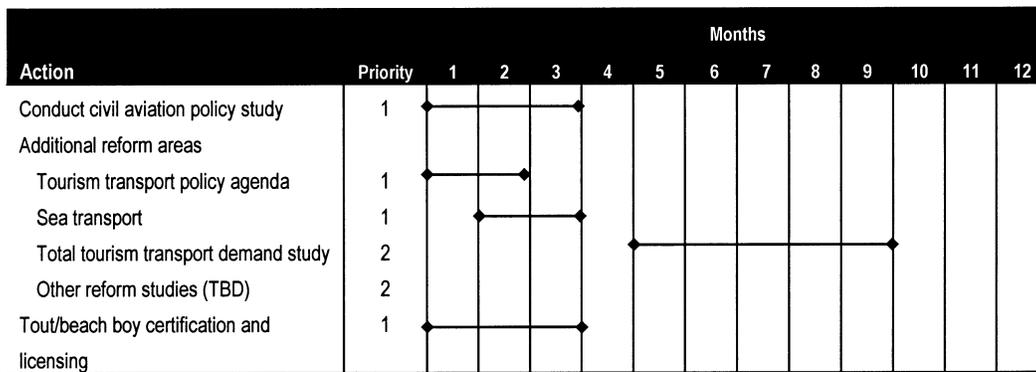


Figure 7. Timeline for Reforming the Policy Environment

Maintain Strategic Momentum

The Tourism Cluster has identified strategic options for industry competitiveness, analyzed those options, and created an agenda of prioritized actions that will contribute to competitive advantage based on differentiation. With the strategy in place, attention will need to shift to improving public–private dialogue and partnership in implementing the strategy and its objectives. The cluster can and should continue organizing the desired dialogue and in following up and encouraging timely execution of the strategic initiatives.

But the cluster's future and funding will have to be decided by members who are also creating an apex body. Depending on how the issue of financing the SLTPB is resolved, the cluster could be funded by an assessment on members or by obtaining from government a rebate of some industry tax payments. Either approach could be used to continue the level of cluster activity that the industry considers necessary.

Glossary

BIA	Bandaranaike International Airport
CCF	Central Cultural Fund
CPR	cardiopulmonary resuscitation
GTDC	Galle Tourism Development Corporation
ICT	information and communications technology
IHSML	International Hotel School at Mount Lavinia
ITHM	Institute of Tourism and Hotel Management
MICE	meetings, incentives, congresses, and events
OPEC	Organization of Petroleum Exporting Countries
R&D	research and development
SLCVB	Sri Lanka Convention Visitors' Bureau
SLR	Sri Lanka rupee
SLTB	Sri Lanka Tourist Board
SLTPB	Sri Lanka Tourism Promotion Bureau
TCI	The Competitiveness Initiative
UNESCO	United Nations Educational, Scientific, and Cultural Organization
USAID	United States Agency for International Development
WTO	World Tourism Organization
WTTC	World Travel and Tourism Council

