ENABLING PRIVATE SECTOR-LED TOURISM GROWTH

From Market Failure to Market Development

Understanding the private sector in tourism

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Speaker Name

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Understanding Tourism Investment

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Understanding Tourism Investment

Building a destination

The fundamental requirements of a tourism destination are:

Accessibility	• Airlift / international carriers from key source markets • Visa access
Attractions | Activities	• Natural (national parks, world heritage sites) • Products (scuba diving, beach, adventure, culture)
Infrastructure	• Roads, ports, airports, power, water • Service providers (accommodation, transport, restaurant, tour operators etc.)
Ancillary	• Banks, telecommunications • Safety, medical, other support systems

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Building a destination

- ✓ Clearly defined **points of differentiation** – to distance the destination from competitors
- ✓ Creation of a '**promise**' that frames the destination experience
- ✓ Improved **image** as new brand initiatives revitalize the destination

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Building a destination

Participant exercise – defining a destination's USP

Instructions:

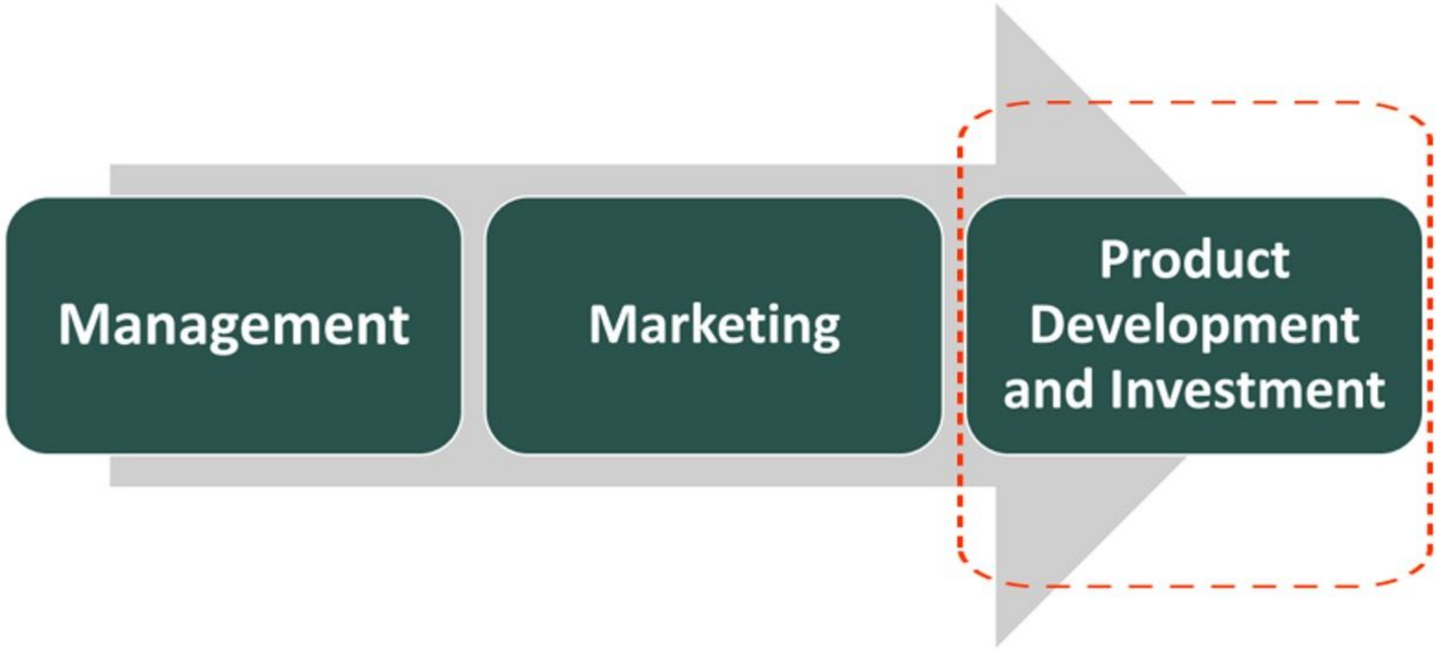
- Pick your favourite tourism destination
- Provide three bullet points which describe this destination's USP
- 5 mins

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Building a destination

Key tourism destination objectives:



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Building a destination

- Themes and Locations
- Destinations
- Products and Experiences
- Specific Investments

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Strategic approaches

- Location – zones, regions, clusters
  - expressing the strengths of each region through and creating a set of identities within the country – Ireland's Regional Brands

Regional Experience Brands

The following resources are designed to help you grow your tourism business and use these world-renowned brands to full potential.









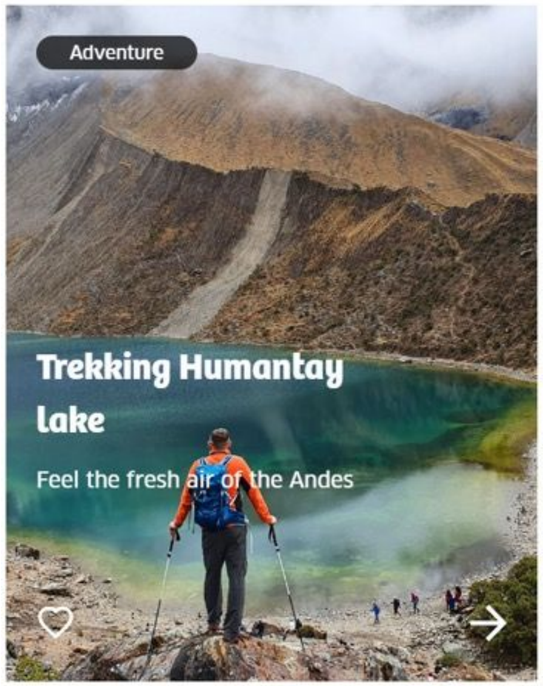
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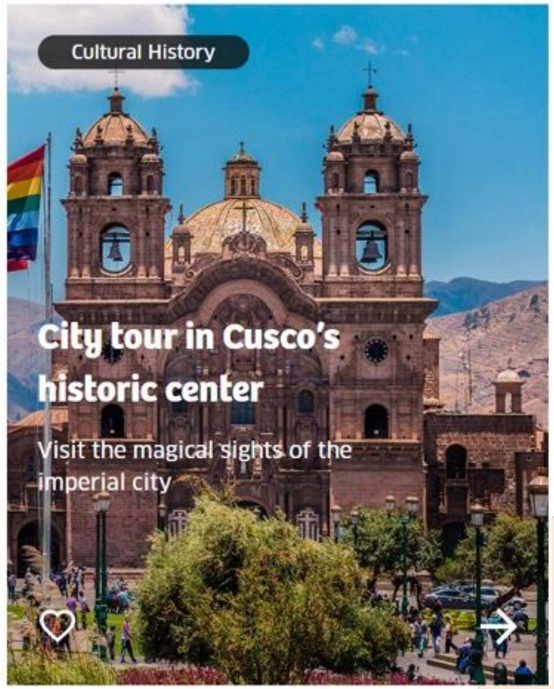
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Strategic approaches

- Activities - entertainment, events, adventure
  - Selected portfolio of activities – Peru's target sectors



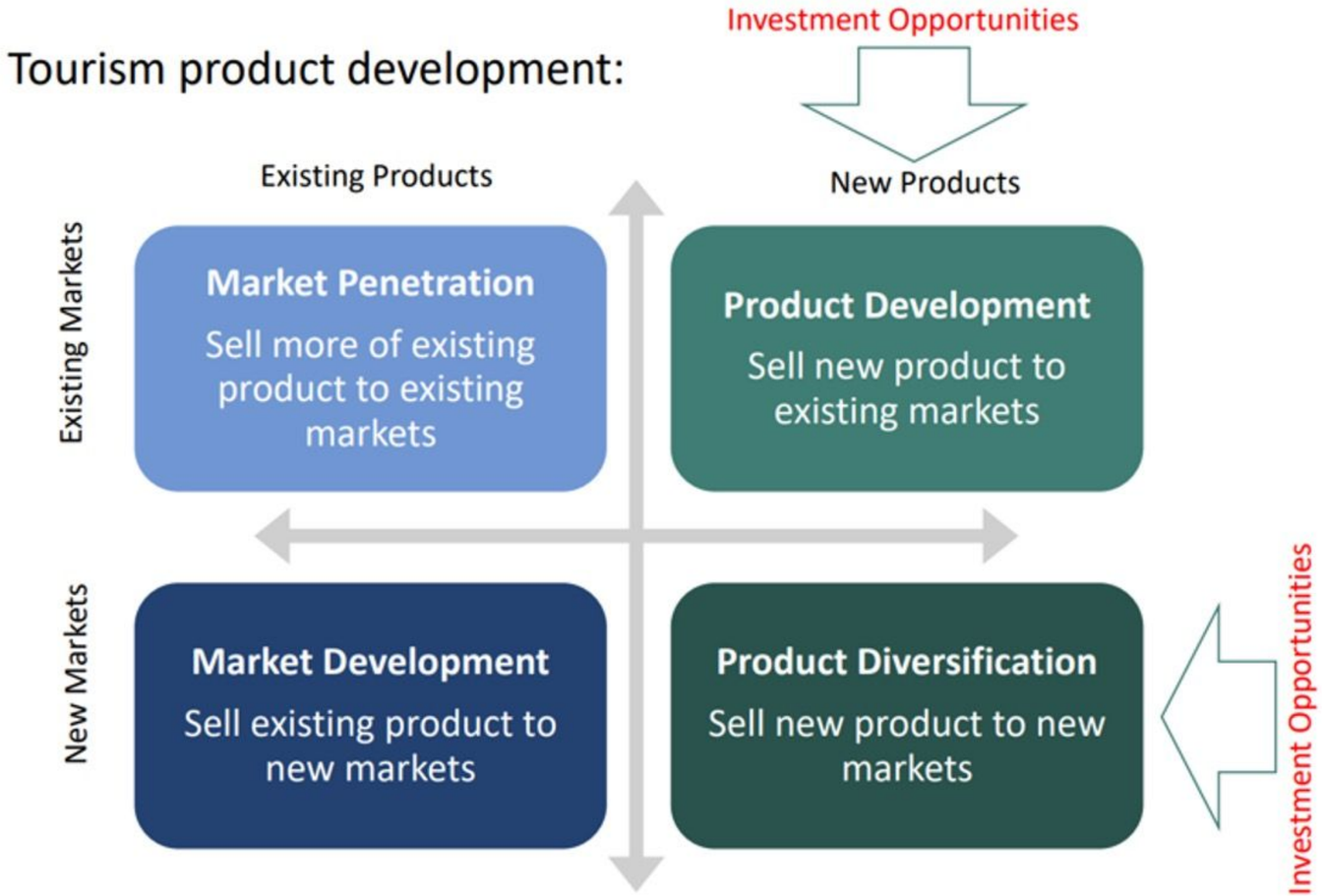




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Building a destination



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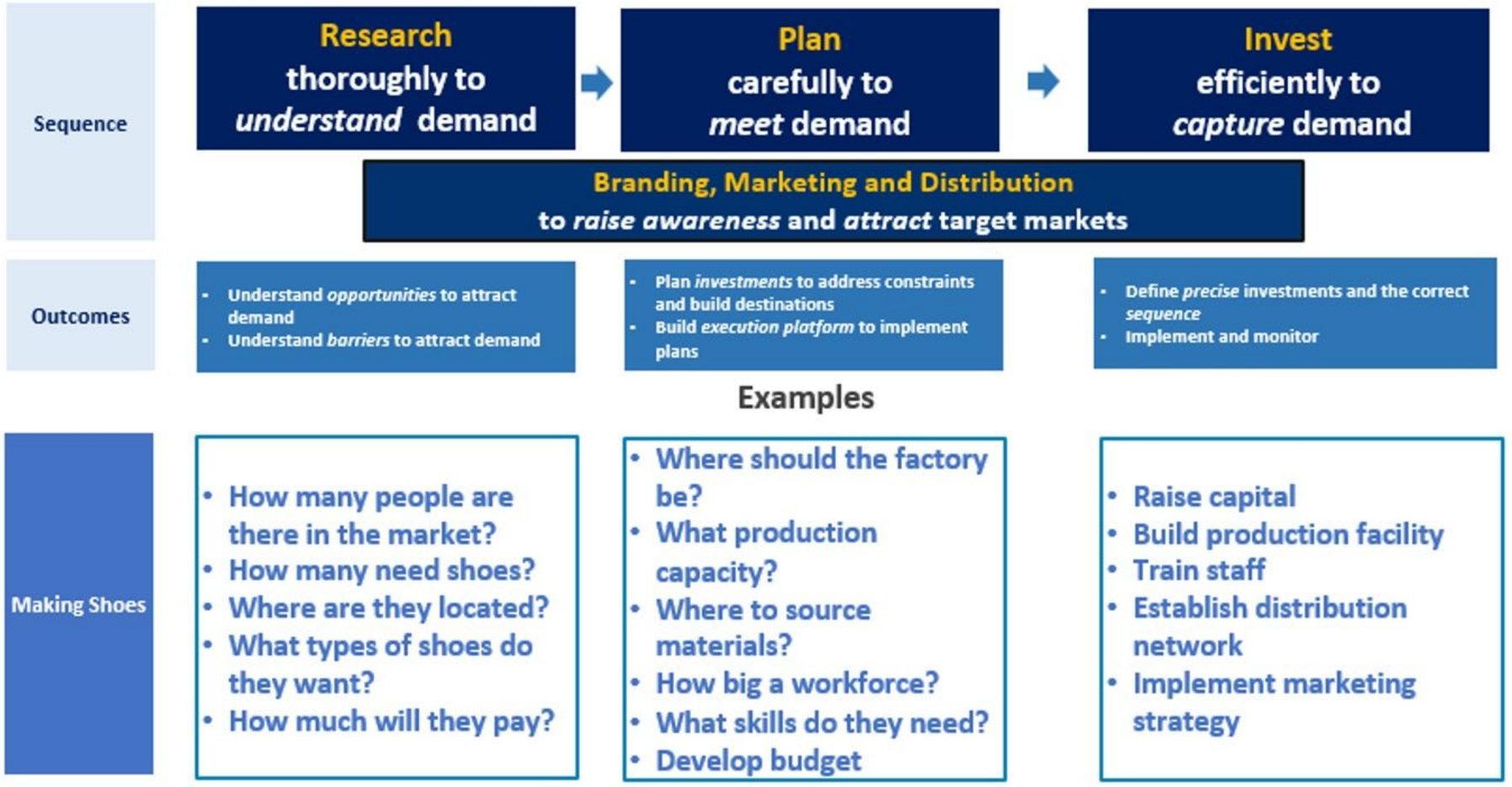
Tourism development should be led by demand and follow a logical sequence



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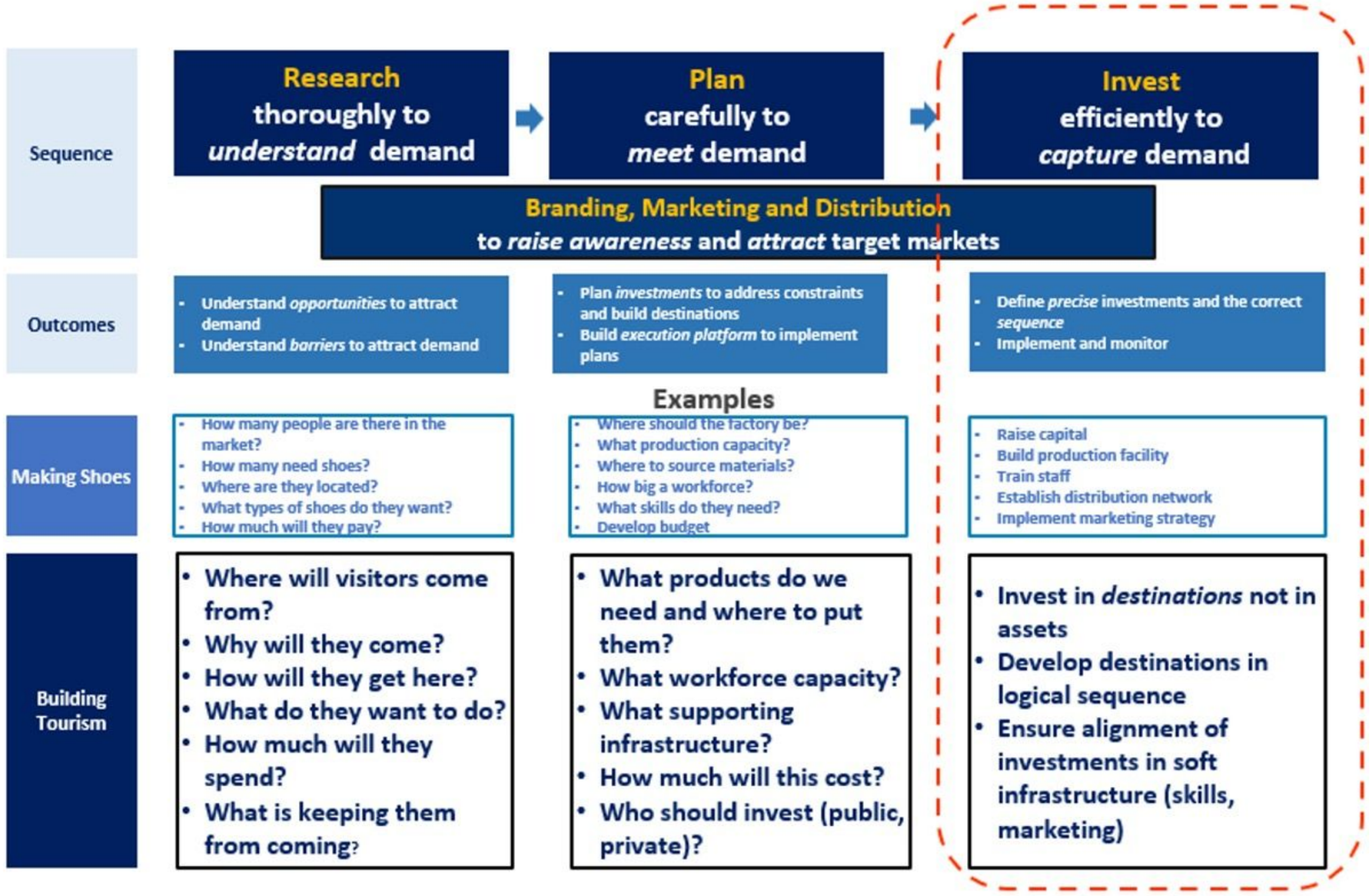
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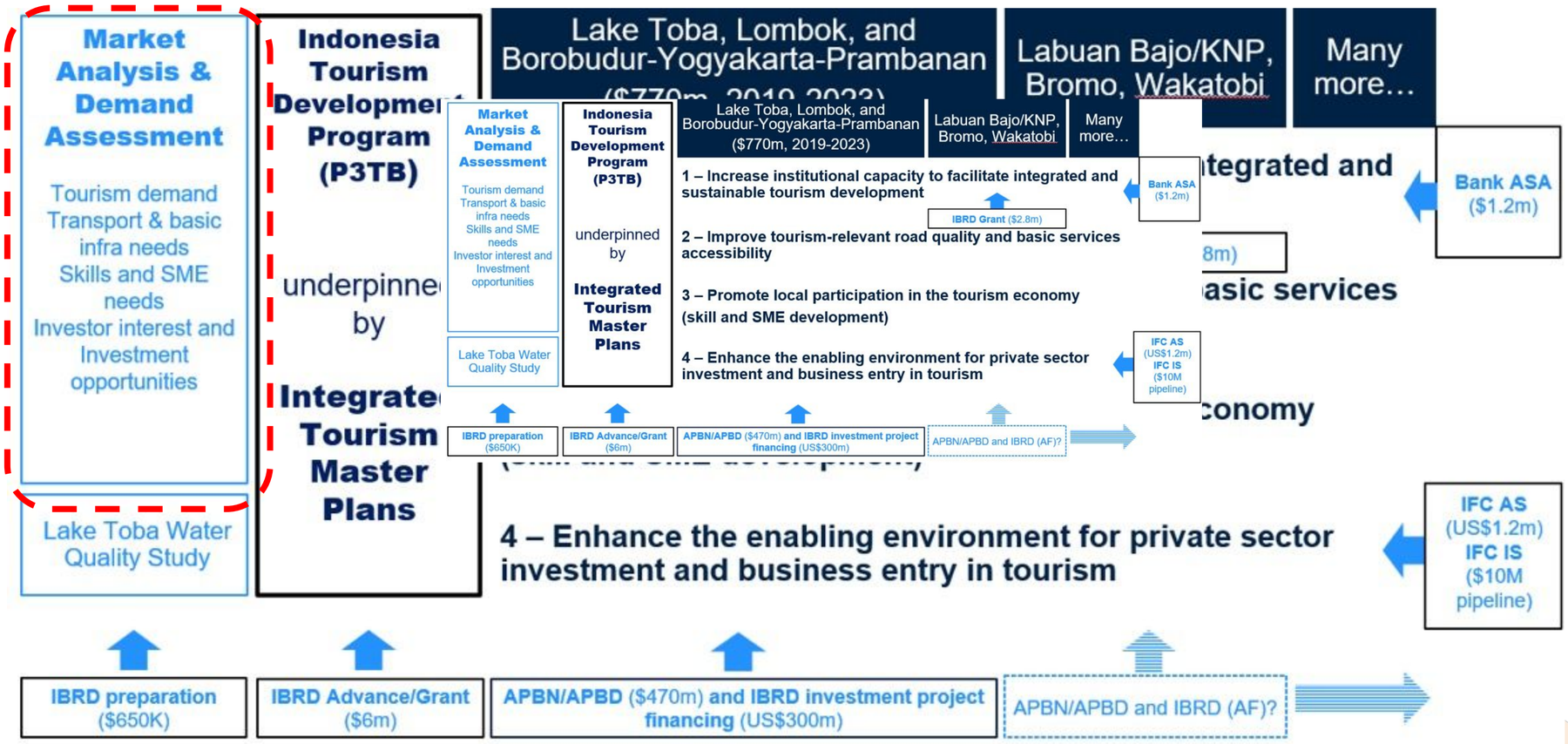
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Tourism development should be led by demand and follow a logical sequence



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Understanding Tourism Markets

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Understanding Tourism Markets

The determinants of hospitality businesses

Market segments
- Origin – country and region
- Purpose – leisure, business, official
- Psychographic or aspirational behavior patterns
- Organization – corporate, meetings, incentive, association, convention, trade show
- Purchase type – package, tour and travel, group, FITs

Market drivers
- Airlift – capacity, frequency, routes, ground costs
- Access - cost and convenience of internal transport
- Destination marketing – awareness, brand image and messaging

Revenue drivers
- Occupancy, seasonality
- ADR – gross, net, room mix, distribution channels and mix
- F&B – in-house, leased
- Other departmental revenue –retail, events, entertainment
- RevPAR
- LOS

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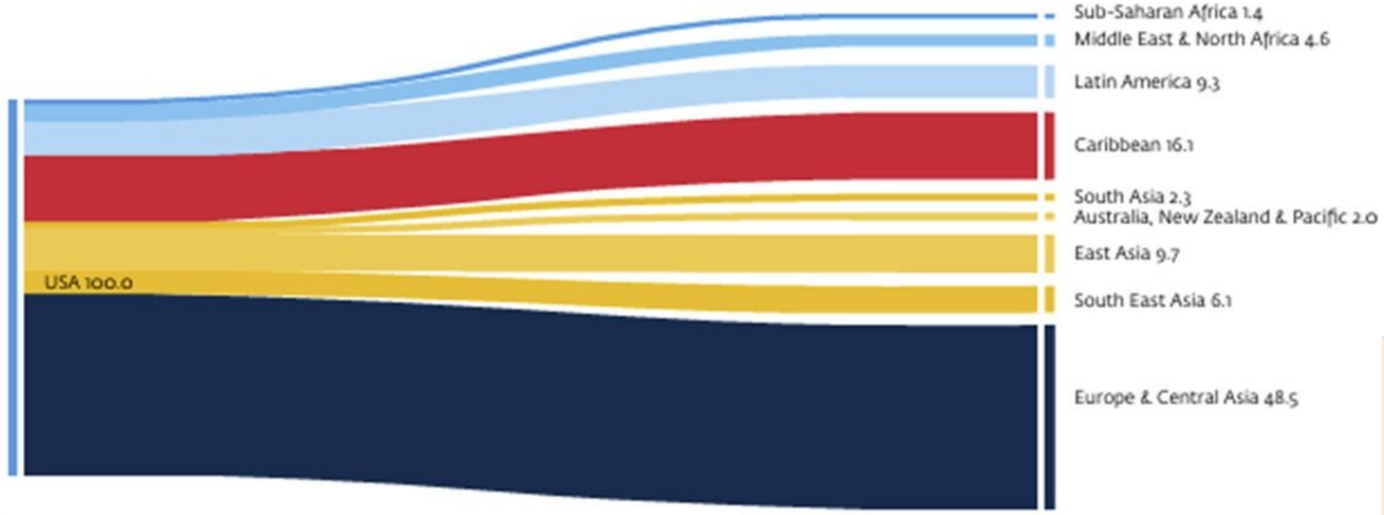
Understanding Tourism Markets

Origin analysis

Chinese Outbound 2018 (%)



US Outbound 2018 (%)



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Integrating Market Analysis and Investment Feasibility

Market Research
- Situation analysis informs both marketing and investment strategies
- Shared data collection efforts benefit both aspects of the project
- Using market insights guide investment focus

Identifying Market Opportunities
- Analysis of current and potential target markets
- Assessment of unmet demand and emerging trends

Product Development Alignment
- Matching identified market needs with potential tourism products
- Informing investment priorities based on market potential



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Understanding Tourism Products

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The Product Development Process

What are tourism products?

- Physical – infrastructure, natural resources, accommodation, restaurants.
- Experiential – festivals, activities, community, events, dining and entertainment, shopping, safety, service.
- Emotional – human, cultural and historic resources, hospitality.

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The Product Development Process

What is tourism product development?

Tourism Product Development is a process whereby the assets of a particular destination are moulded to meet the needs of national and international customers.

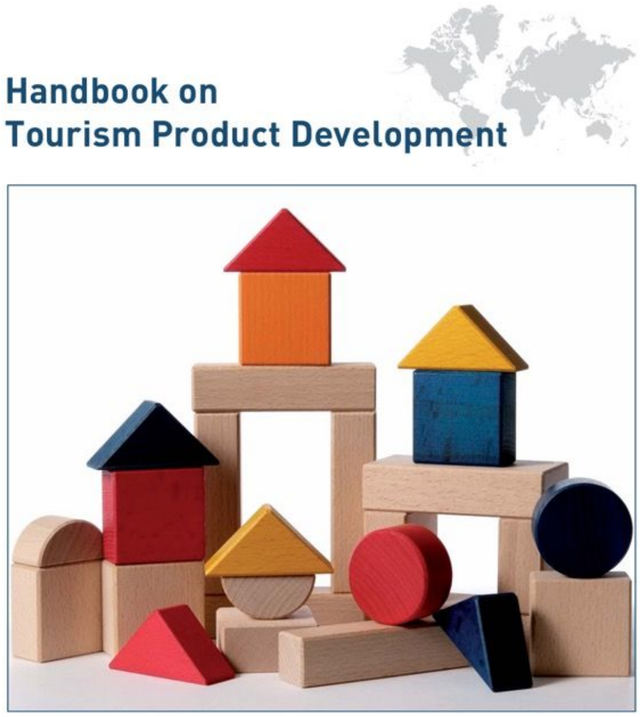
Destination focus

The development of a portfolio of things for visitors to see and do - accommodation and lodging, tours, active pursuits such as water-based activities, hiking/walking/ cycling, pastimes related to natural and cultural heritage, organized entertainments, health and wellness, festivals and events.

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The Product Development Process



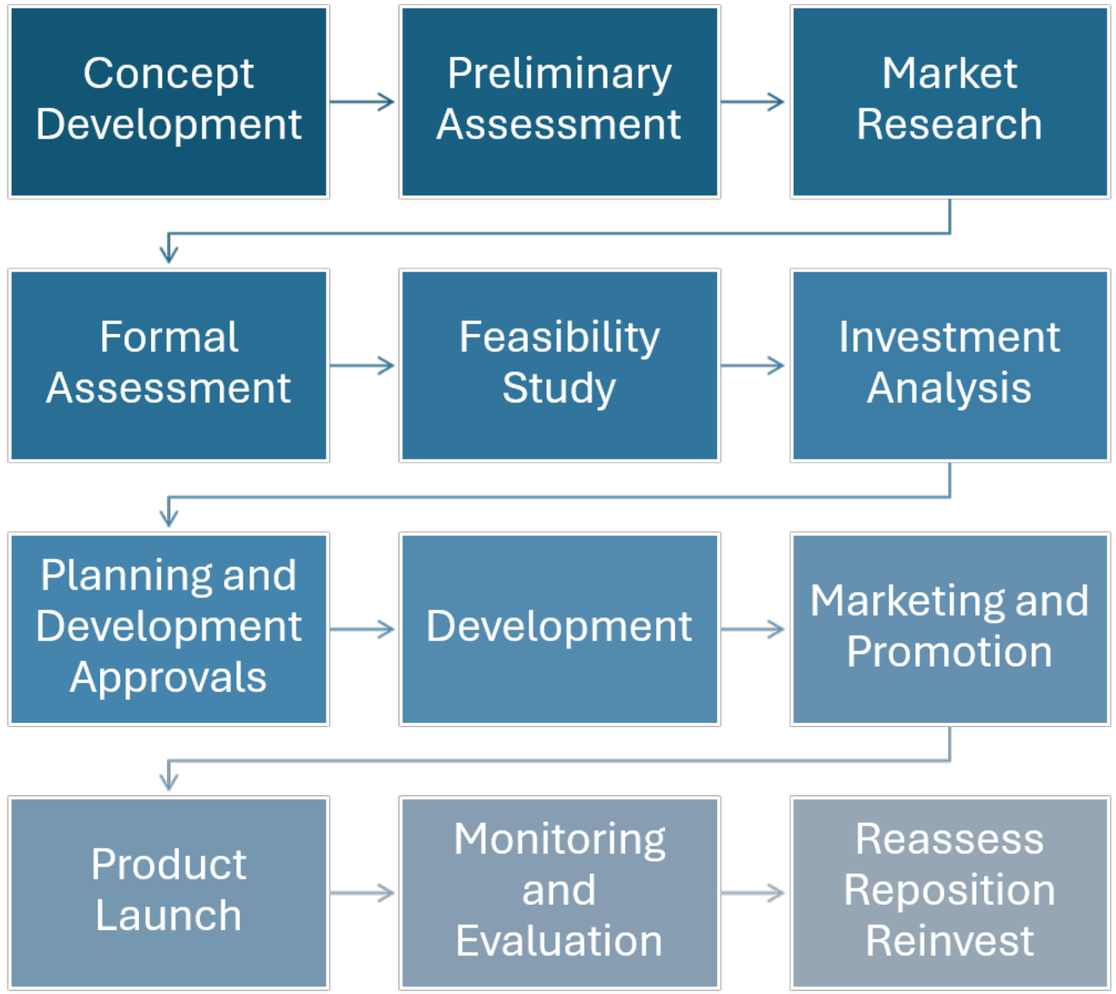


2011 World Tourism Organization (UNWTO) and European Travel Commission (ETC)

Handbook on Tourism Product Development | World Tourism Organization

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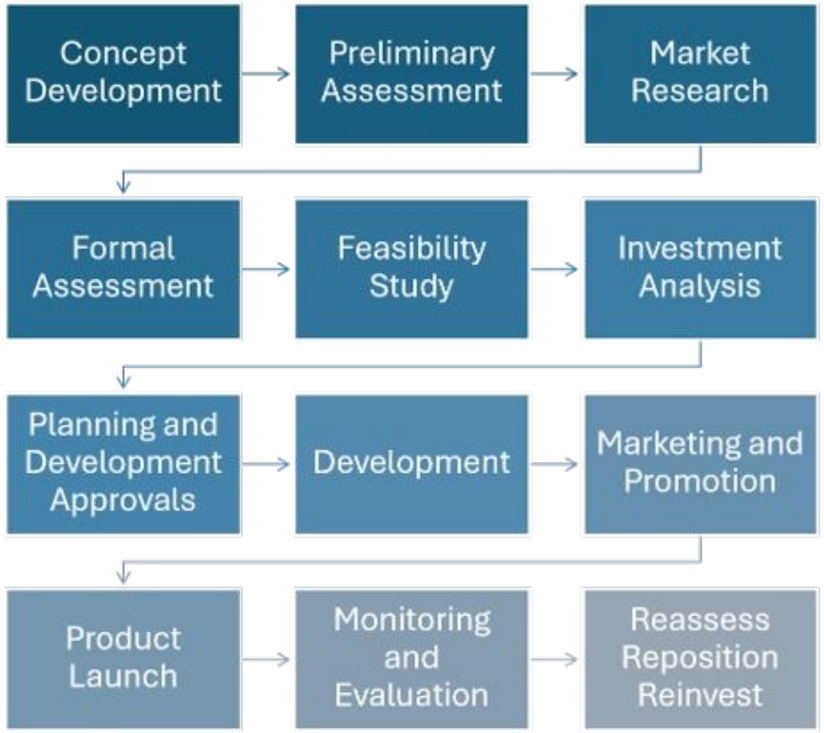
The Product Development Process



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The Product Development Process

Stages in the project life cycle



- possible concept
- prospective idea
- market ready project
- qualified or preferred project
- investment ready project
- financed project
- construction ready project
- project in development
- operating project
- project in review

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Matching Products to Markets

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Matching Products to Markets

Using the product market matrix to identify new products



- What new products could be sold to existing markets?
- What new products could be sold to new markets?
- What existing products could be changed or repackaged so they can be sold to new or existing markets?

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Matching Products to Markets

Case Study – The Gambia

What the market analysis told us	Key opportunities

Market **segments** with significant potential to diversify demand

- Adventure
- Ecotourism
- Wellness
- Culture and events
- MICE
- Sports

Product **gaps** which represent potential investment opportunities

- River Cruising
- Quality accommodation outside BJL
- International brand hotels
- High-quality wildlife experience
- High-quality commercial marina
- Private tour companies
- Tourism service providers
- Run down existing accommodation
- Underinvestment in infrastructure

Opportunity to **mainstream sustainability** and regenerative practices

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Matching Products to Markets

Evaluating and prioritizing new products

Participant exercise – evaluating and prioritizing products

Instructions:

- Identify 4 or 5 criteria you would use to evaluate and prioritize possible new tourism products
- For each criteria identify 2 or 3 measurable dimensions
- Be ready to explain your criteria and dimensions to the group
- 5 mins preparation

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Matching Products to Markets

Evaluating and prioritizing new products

Criteria	Dimensions
Strategic Alignment	• Contribution to economic objectives • Contribution to tourism strategic goals • Alignment with destination positioning
Market Demand	• Leverages existing markets • Alignment to existing or new and markets • Competitive strength and strength of USP • Fills a clear market gap
Sustainability	• Alignment with conservation objectives • Meets market expectations for sustainability • Contribution to community wellbeing • Productive and sustainable use of resources
Ease of Development	• Adequacy of access • Leverage exiting infrastructure • Availability of land • Quality of local site conditions
Impact	• Makes significant difference to strategic direction • Catalytic effect in attracting new markets • Crowds in other investment • Can stimulate underperforming markets?

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Barriers to Investment (AKA Market Failures)

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Barriers to Investment

Thinking like an economist……

What is limiting the efficient operation of markets?

Thinking like a policy maker…..

What is limiting the mobilization of private investment?

Thinking like an investor…..

What conditions impact my business?

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Barriers to Investment

Participant role play

Instructions:

- Divide into three groups – economists, policy makers, investors
- Each group to list the barries to investment as you see them
- Be ready to explain your list
- 5 mins preparation, 5 mins discussion

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Barriers to Investment

Thinking like an economist

What is limiting the efficient operation of markets?

- Access to information
- Access to Land
- Access to capital – public and private
- Efficiency in distribution
- Ease of doing business

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Barriers to Investment

Thinking like a policy maker

What is limiting the mobilization of private investment?

- Access to Land
- Availability of capital amount and form
- Costs
- Availability of utilities
- Complex approvals
- Stability

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Barriers to Investment

Thinking like an investor

What conditions impact my business?

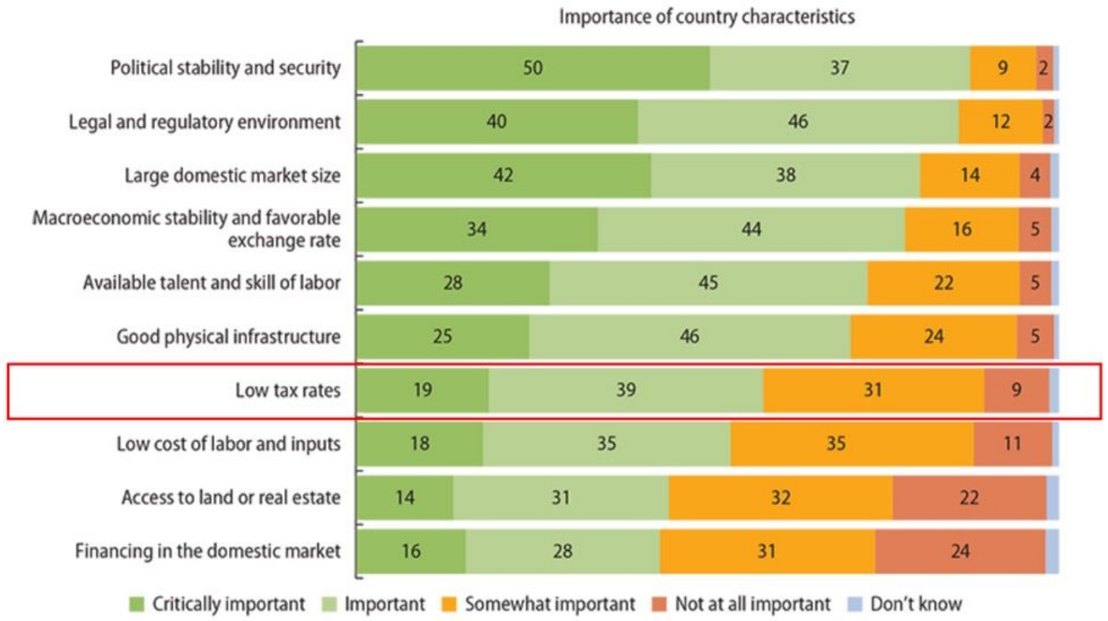
- Things that impact the top line – capacity to earn revenue
  - conditions impacting demand – the number of people coming, the prices they pay, the range of activities they engage in, how long they stay
- Things that impact the bottom line - cost of inputs
  - labor, food and beverage, construction and equipment, maintenance, import costs, financing charges, energy charges
- Things that impact convenience - policies and processes
  - government actions and behaviors which impact how business is done and the cost of doing business – licenses, approvals
- Things that impact risk - security of my investment
  - currency volatility, political stability, capital repatriation

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Barriers to Investment

Role and effectiveness of investment incentives

While the use of incentives is widespread, they play a limited role in investor decision-making



Source: World Bank, 2018, Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications.

- *In terms of investment location decisions, political stability and security along with a stable legal and regulatory environment are the leading country characteristics considered by investors.*
- *Incentives are second-order considerations that come to bear at the tail-end of the decision process, when investors are wavering between similar locations.*

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Barriers to Investment

Role and effectiveness of investment incentives

Global experience shows incentives can be effective if they are carefully designed and implemented



- Is the incentive conceived to address specific & measurable policy goals?
- Is the incentive best-suited to address the market failure/obstacle?
- Have alternative policy instruments been considered, weighing the advantages, challenges and risks?

- Is the eligibility criteria tied to the specific policy goal?
- It is targeting those investors likely to be swayed by the incentives?
- Is the eligibility criteria objective and conceived to minimize distortions to competition?

- Is the incentive profit- or cost/performance-based?
- Do the analytics and evidence demonstrate that the benefits outweigh the costs?

- Are incentivised firms subject to frequent review and rigorous monitoring?

- Are there effective safeguards in place to prevent abuses through shifting of incentives?
- Does the incentive incorporate a sunset-clause?

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Barriers to Investment

Case Study – The Pacific Islands

Barriers to Tourism Investment in the Pacific

- Connectivity: small markets, expensive flights, difficult schedules
- High costs: infrastructure gaps, utilities, limited scale
- Land: complex tenure and approvals
- Access to Finance: collateral requirements and limited SME lending
- Business capability: market intelligence, coordination
- Regulatory environment: lengthy approvals, costly and complex.

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Barriers to Investment

Case Study – The Pacific Islands

Reducing regulatory barriers to tourism investment

Regulatory reforms can reduce business costs and barriers to investment without major infrastructure spending.

PSDI Examples:

- PNG tourism regulatory mapping: Identified overlapping requirements, complex approvals and opportunities for reform.
- Pacific business law reforms: Supported the introduction of online business registries in six Pacific countries, reducing the time and cost of establishing businesses.

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Role of Sovereign Financing

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Role of Sovereign Financing

Where should public money be spent to unlock private investment?

- Creating a stable and attractive investment climate
  - Economic conditions – inflation, wages, currency volatility
  - Liquidity, capital market conditions and access to finance
  - Planning documents
  - Government actions and behaviors which impact how business is done and the cost of doing business – licenses, approvals, capital repatriation
- Essential hard and soft infrastructure that unlocks specific opportunities
  - Access – flights, routes,
  - Land
  - Utilities – power, water, telecoms
  - Skills
  - Destination marketing and investment promotion
  - Underwriting consultation, coordination and collaboration to balance public policy objectives, private sector and community interests
- Research and analysis
  - Investment data – sector performance
  - Identify, evaluate and prioritize product development opportunities
- Direct participation in transactions where capital is not flowing
  - PPPs – BOT, BOOT, BTO, DBFOM
  - concessions, leases, management agreements to operate public assets

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Role of Sovereign Financing

Case examples

- Indonesia
  - Detailed market demand analysis
  - Tourism related infrastructure – roads, water, waste management
  - Public asset management plans
  - Training infrastructure - certifications
  - Integrated Tourism Master Plans
  - Delivery mechanisms across all levels of government
  - Destination marketing and investment promotion

- Sierra Leone
  - Physical infrastructure – attractions
  - Advisory services to structure investment opportunities
  - Identification, evaluation and prioritization of product development opportunities
  - Investor mapping and targeting
  - Direct investor outreach
  - Tourism investment promotion capacity building

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Who Takes the Lead?

Public sector role in unlocking investment

- Setting the tourism development strategy and planning framework including designated tourism development areas
- Establishing the product development framework including consultation mechanisms and public-private dialogue forums for the generation, assessment and prioritization of opportunities
- Providing supporting infrastructure where needed
- Facilitating and supporting the development of new products by the public and private sectors or communities
- Possible provision of direct investment/financial support in the form of grant aid or incentives, particularly in undeveloped regions

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Who Takes the Lead?

Private sector and community roles in unlocking investment

- Participation in the development of the tourism development strategy
- Active engagement in the product development framework including consultation mechanisms and public-private dialogue forums for the generation, assessment and prioritization of opportunities
- Contributing critical market intelligence and community views and expectations to the product development process
- Advice to government on the commercial viability of new product concepts and opportunities
- Financing the development of new products and services
- Ongoing assessment and renewal

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