

Synopsis
of the
4th Annual Management Conference



“Beyond Traditional Boundaries”
Success Stories of Our Times
MBA Alumni Association - University of Colombo
2nd April 2008



Compiled by Chris Corea



EXECUTIVE SUMMARY

This conference featured several entrepreneurs who had grown their businesses from small beginnings to billion rupee turnovers in 10 to 15 years. There were several salient matters for attention which emerged from the presentations that were made at the conference :

- 1) The availability of opportunities in India and other overseas markets.
- 2) Lack of development banking facilities in Sri Lanka.
- 3) The crying need for elimination of bribery and corruption.
- 4) Staffing of the public sector with dedicated, efficient people.
- 5) Patriotism in consumer/ corporate buying decisions.
- 6) Empowerment and introduction of a “can do” mentality in both public and private sectors - “Sri Lanka can ... ” !



SPEECHES/ PRESENTATIONS



H.E. Alok Prasad, High Commissioner of India Keynote Address

In his Keynote Address, HE Alok Prasad emphasized the trend towards globalization and integration of the global economy. However protectionism by the growth of regional blocs eg ASEAN was also prevalent. He warned that these regional blocs may become fortresses in a downturn.

South Asian countries don't trade enough with each other. India and Sri Lanka are doing better than the regional average. Since the introduction of the FTA, trade from India to Sri Lanka has increased 4 times and from Sri Lanka to India has increased 10 times.

He pointed out that 70% of transshipment in Colombo is to and from India. There are 120 flights a week to 18 Indian destinations - mostly operated by SL airlines. He hoped that trade relations would integrate even more closely - moving towards meshing the growth rates in the two countries. There should be more connectivity – physical and transportation, shipping and aviation links and pipelines. Flow of knowledge and ideas will increase after SL hosts the SAARC summit in August this year.

The economic centre of gravity is shifting to Asia. Recently in the news was Tata's \$2 billion purchase of Land Rover and Jaguar. India is now a trillion dollar economy growing at 8 to 9 %. The BRICs report of Goldman Sachs predicted a trillion dollar economy for India in 2011. This was achieved in 2007 ! There is a sense of quiet confidence that India will soon reach a growth rate of 10%.

The Indian reform process was slow and incremental – no “big bang” changeover. This was contrary to international advice to “cross the road quickly or get run over” !

The FTA between India and SL is leading toward a comprehensive economic partnership agreement later this year. This will deepen trade preferences, address non tariff barriers, include financial services etc. More Indians are likely to come here to work and it is even more likely that Sri Lankans will have opportunities in accounting, architecture, engineering etc in India.

Due to the nature of the global economy, companies in one country will set up facilities in other countries. Brandix is setting up one of the finest textile projects in India.

Sri Lanka has islands of industrial excellence – eg in Garments, Hospitality, Ports and Shipping. SL is not going to be a manufacturing hub like China. SL needs to exploit its strengths in shipping, aviation, tourism and logistics.

Sri Lanka is well placed to grow with India.
But its full potential can be reached only when SL is at peace with itself.





Mr. W.K.H. Wegapitiya, Chairman, LAUGFS Holdings Limited
“Overcoming challenges faced by Sri Lankan entrepreneurs”.

Management degree in hand and fired by an untamable desire to win, Mr Wegapitiya started a small Company with a capital of Rs 5000. His business now has a turnover of Rs 12 billion, employees 1200 people and is now expanding to Australia. He is setting up a car care products and lubricants business in Perth.

Laugfs is the 2nd largest LPG player in the country and also has an extensive fuel station network. Mr Wegapitiya is getting into emission control by May this year.

He also operates a 24 hour supermarket, manufactures tyres, rubberized coir products, heavy engineering equipment, multi day fishing crafts and runs a restaurant chain and a boutique hotel.

Elaborating on the growth of his Group of companies he touched on some of the obstacles to progress that are faced by an entrepreneur. Although he is often faced with demands for bribes by politicians and officials, he does not condone such unethical practices – thereby missing out on several tenders.

Due to the high level of corruption SL does not have a conducive environment for business. According to a World Bank report on business confidence – SL ranks 101 out of 178 countries – Singapore being No 1.

The tax structure and tax administration is also a significant brake to progress – there being numerous types of taxes which take a lot of effort to compute and comply with. This leads to numerous queries from the Inland Revenue Department which takes an enormous amount of management time to deal with.

There seems to be no visionary or forward thinking in tax policy – taxes have a political bias rather than an economic bias. The World Bank ranks SL 158th out of 178 countries in relation to tax – taking into account the time spent on computation and query handling, the effective tax rate (63.75 %) and the number of payments to be made (62).

To create value for the nation we need good banks. Most banks take no risk at all – any loan requires collateral. Banking is not an entrepreneurial business. Unlike in the 60s and 70s, today there are few development banks to encourage local industrialists. Interest rates are also prohibitively high.

Many government decision makers are, unfortunately, incapable, unsuitable people. Many are also highly corrupt. This makes entrepreneurship a series of painful processes. Ironically, requests for

meetings by foreign business people are entertained by Ministers in preference to local businessmen ! However, in Malaysia, for example, Mahathir Mohamed supported the local business people first.

We also have powerful trade unions and frequent industrial unrest. This leads to low productivity and low competitiveness in the global economy.

He also warned against opening up our economy to foreign countries on a one way basis. Eg Indian Oil can do retail business in SL but Laugfs was not permitted to sell auto gas in India ! In the Maldives Laugfs was not given permission to operate a supermarket. Even between India and Pakistan and Bangladesh, the borders for travel are opened for only a few hours a day. We must not blindly open our borders to foreigners. With the world economy changing from a national to a global economy barriers between countries are disappearing. We must also be ever cautious of the World Bank, IMF, UN and WTO because they may mislead economies like SL and make them moribund.

We have an “island mentality” - we expect to import everything ! Despite being surrounded by the sea, we do not even produce all our own edible salt.

We are blessed with natural resources. The Mannar basin almost certainly has oil. We have iron ore deposits, clement weather and high literacy. However, centuries of foreign rule have systematically paralyzed our capability.

How do we overcome these challenges ? The Lion on our flag – which symbolizes the Sri Lankan identity must rise. We must be patriotic and national minded like the Indians. We must at least make an effort to buy products which support local entrepreneurs. It is not the politicians but we (you and I – all Sri Lankans) who have to effect a change.





Dr. Rohan Fernando, Managing Director, Aitken Spence Plantations

“Diversification in the Plantations Industry - A New Approach”.

If we look at our plantation land we see mountains, valleys, the trees, waterfalls, rivers. Land, people, natural resources, infrastructure. How have we added value and made use of these resources ?

In the plantations, the pace of diversification has been slow, mainly due to fear of the unknown. We prefer to be on known ground. So our investments continue to be mainly in tea, rubber and coconut. Even here we can move up the value chain. Reluctance to take risks has limited diversification.

The RPCs have got leased land from the government. In order to diversify in the sector, there has to be understanding of the available opportunities. However, there is suspicion and a lack of understanding of anything new. The bureaucracy does not understand. There is a lack of investor confidence. In addition, large amounts of capital are required.

In 1992 privatization took place – both local and foreign. However, confidence was lost due to inconsistent government policies. Only the Indian investors remain, most other investors have left.

There have been massive wage cost increases causing loss of competitiveness overnight. From 1992 there has been a 250% increase. Other problems are cost and availability of finance and requirement for collateral.

There is no scope for non traditional thinkers. There is opposition from workers – lack of awareness – brainwashed thinking. For example workers tend to oppose forestry initiatives which involve uprooting unproductive tea. Even the movement of machinery from one factory to another may be opposed.

Due to a lack of a proper land ownership policy, encroachment is a problem. There are constraints in exercising lease rights on the 53 year lease granted.

Despite these limitations, there are success stories. Watawala plantations have set up the first producer owned brand of tea. Dilmah, Mlesna, Heladiv are all exporter owned brands.

James Finlay’s Hapugastenne Plantation has set up commercial forestry on a big scale. A “gum” tree in 20 years can be worth Rs 100,000. They have set up logging, saw milling and tissue culture facilities and developed sustainable forest management practices.

Aitken Spence Ltd, in a diversification into tourism, converted Hethersett Factory to a hotel -The Tea Factory – one of the 100 best theme hotels in the world.

Hayleys' Kelani Valley Plantations (in Tea and Rubber) earned record profits last year. In keeping with the provisions of the UN "global compact" they are providing a house for every worker. They have also set up a green tea factory at Oliphant estate.

Another success story is the AEN Palm Oil factory belonging to the partnership of Elpitiya, Agalawatte and Namunukula Plantations. The output of 3000 hectares of oil palm can be processed in this factory. This is the second mill in SL and has been in operation from January 2007. It is now worth about Rs 300million.

Other possibilities for diversification are - using waterfalls for power generation, eco tourism, horticulture (eg rose project in Punduloya), bottling of mineral water, Palm Kernel Oil production, gemming etc . Unfortunately, corrupt authorities seem to prefer illicit gemming and sophisticated mining projects are not encouraged

The tea industry earned 1Billion dollars last year. However, this was achieved with the same level of value addition. We should take the level of value added teas from 40 % to at least 60%.

Upali Wijewardena suggested the purchase of the Lipton brand a long time ago. We need to buy an international brand to leap frog to a higher level of value addition. Eg India's Tata Tea bought Tetley's.

We manage hotels overseas, marketing management skills. Aitken Spence manages a Port in Durban, South Africa. Why not manage and own plantations overseas ? This would give more exposure to SL planters. Critics would say that we are helping competitors to come up. However they will come up anyway. Carsons has bought plantations in Indonesia.

Finally, visionary thinking, availability of finance and a conducive investment climate will help diversification to move forward in the plantation sector.





Dr. Romesh Dias Bandaranayake, CEO, Eco Power (Pvt) Limited

“Building a Successful Hydro Power Company: The Eco Power Experience”

Eco Power was incorporated in 1996 to sell power to the national grid. Bogowantalawa Plantations identified a few hydro sites starting with Elapitaela a 540kv plant in 1999.

Now they have 9 plants totaling 20.5MW (1% of total capacity of all power plants in SL). These generate 88GWA or 1% of all power generation in SL.

A 10MW plant at Magaganga (18cbm per second) in Deraniyagala is ready for commissioning. Also the 6MW Badulu Oya Plant will be completed by end 2008.

New projects include a 3MW plant at Dunsinane, and, overseas in Rwanda, a 9.5MW project (turnkey) costing \$16m and, in Uganda, a 6.5MW plant costing \$12m and several other s.

1879 saw the first hydro power plant in SL a 20KW plant by Gilbert Jilkes & Gordon. By 1900 there were 50 small hydro plants on estates – not for electricity – mainly for rolling tea.

Eco Power operates on the basis of in house surveys , design, feasibility and supervision of construction. Outsourced are Hydrology, Environment Approval, Civil Construction and Equipment. “Water to Wire” should be provided by one contracting party.

There is a lot of delegation and trust involved in large projects. “Social” spending during construction is also often necessary to keep local communities satisfied.

Finally, “carbon credits” are available for these projects - in fact these were some of the first few projects internationally which qualified for carbon credits.



Mr. Hiran Cooray, Deputy Chairman / Managing Director, Jetwing Hotels

"Niche marketing of exclusive, unique, tourism products."

The 70's and early 80's were the "glory days" of tourism. SL was one of the first countries to come up with a tourism development plan in 1966. Chiefly targeted were charter travelers from Western Europe and America. In those days, all rooms would sell !

Since '83 tourism has been down. This was due to the North East problem and JVP problems in the South. In 1982 we had 14000 rooms. This has actually come down to 13500 now ! Thailand, India, Malaysia, and the Maldives have been developing their tourism dramatically. The Maldives have grown to 20000 rooms and charge as much as 1500-2000 dollars per day.

There is a lack of confidence. We are catering to the same markets as in the 70's and 80's and to the same European Tour Operators which kept the industry alive. Operators here are scared to change in case they lose their clients.

In the 90's Bawa (the world renowned architect) became an important factor. He was a futurist, who was not understood very well. He stuck to his concepts and created the "Bali Style" of architecture.

The Jetwing portfolio includes 5 hotels in Negombo. St Andrews was added in '88. Lighthouse, Galle in 1995. Recently, Vil Uyana, which has won many international awards. This project created a 9 acre lake and has villas built over water. It is in sight of Sigiriya the 8th wonder of the world. It took 23 months to get the necessary approvals for this project !

Warwick gardens in Hakgala was acquired recently. Also Kurulubedde – tree houses on a Gin ganga tributary. The most recent expansions have been overseas – a Motel in Auckland NZ, a management contract in Cochin to convert a coir press and warehouse to tourism. Rainforest lodges in the Cardamom Mountains of Cambodia.

Some new areas to consider are :

Agro tourism – eg how tea is grown. People may want to stay for a week and study the process. In Italy and Australia, tourists live and eat with the farmer. There is no act put on – it is a real plantation.

Also, adventure tourism (eg mountain biking, rock climbing) and Ayurveda Tourism. Books are important to show tourists what we have – wild life, culture, archaeology etc.

We have enormous potential in tourism if we have peace. SL is one of the most beautiful countries in the world. Even now, despite bomb blasts, if we are off headline news for just three weeks, bookings start coming in again ! That's the attraction that SL has.



Mr. Dilith Jayaweera/ Ms. Varuni Fernando Jt MD s, Triad Advertising
“Turning right @ Thummulla Junction”

This success story started with a vision – simply wanting to be No 1. Having selected the advertising industry as a line of business, for the reason that only intellectual capital was required to start up, Triad has made great progress indeed. They have grown their team from 2 to 550 in 15 years.

One of their “Performance Boosters” has been their flat hierarchy. There is only one team – no individualism. Work is signed off as “The Triad Team”.

In terms of brand positioning their theme is “ Sri Lanka can” - we have the best people and the best spirit. Although a single team, we have one clear leader in Dilith Jayaweera.

The political campaign “Kawda mewata waga kiyianne ?” Triad took on in 2004 was a key turning point in their growth story. In this campaign, their budget was Rs 200m vs Rs 640m spent by their competitor.

“Api wenuwen api”, a campaign with Gen Parami Kulatunga, to promote recruitment to the armed forces was also a great success.

Triad gives preference to local brands. In taking on new work they would prefer not to take on foreign brands which compete with local brands.

Their underlying theme is Focus, Focus, Focus – to be No 1. In 2005 they obtained the 2nd highest number of gold awards in the advertising industry. Triad is now a multi million rupee group of companies.

