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Note

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Preface

The *Investment Advisory Series* provides practical advice and case studies of best policy practice for attracting and benefiting from foreign direct investment (FDI), in line with national development strategies. The series draws on the experiences gained in, and the lessons learned through, UNCTAD's capacity- and institution-building work in developing countries and countries with economies in transition.

Series A deals with issues related to investment promotion and facilitation and to the work of investment promotion agencies (IPAs) and other institutions that promote FDI and provide information and services to investors. The publications are intended to be pragmatic, with a how-to focus, and include toolkits and handbooks. The prime target audience for Series A is practitioners in the field of investment promotion and facilitation, mainly in IPAs.

Series B focuses on case studies of best practices in policy and strategic matters related to FDI and development arising from existing and emerging challenges. The primary target audience for Series B is policymakers in the field of investment. Other target audiences include civil society, the private sector and international organizations.

The *Investment Advisory Series* is prepared by a group of UNCTAD staff and consultants in the Division on Investment and Enterprise, under the guidance of James Zhan.

Preface

This guide was prepared by a team of UNCTAD staff and international experts led by Paul Wessendorp, comprising Kai Partale, Jan Smit and Andreas Wigren. The report benefited from inputs and comments by Natalia Guerra, Massimo Meloni and Mike Pfister.

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Abbreviations

CRM	customer relationship management
FDI	foreign direct investment
GDS	global distribution system
ICT	information and communications technology
IPA	investment promotion agency
IRS	Integrated Resort Scheme (Mauritius)
IT	information technology
M&As	mergers and acquisitions
NTO	national tourism organization
OLI	ownership, location, internalization
PPP	public–private partnership
SWOT	strengths, weaknesses, opportunities and threats
SRRP	Silk Road Regional Programme
SMEs	small and medium-sized enterprises
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNWTO	World Tourism Organization
WTTC	World Travel and Tourism Council

Executive summary

Tourism is a key sector for economic development: it is a fast-growing and labour-intensive industry that involves many economic activities. Investment promotion agencies (IPAs) can play an important role in the development of a country's tourism industry as growing international competition between tourism destinations and higher contestability of foreign direct investment (FDI) projects make effective promotion crucial to attract investors in the sector.

Given the industry's social and economic impact and the vulnerability of many destinations, sustainability should be a main objective of tourism development. To this end, IPAs can target foreign investors that will contribute to sustainable tourism and work to foster linkages between these investors and domestic firms.

Available data indicate that FDI in tourism is still quite limited, and that non-equity forms of investment are more frequently used as a mode of entry for transnational corporations (TNCs). Furthermore, tourism-related FDI is concentrated in a few activities, mostly accommodation, restaurants and car rentals. There is little FDI in high-profile activities such as tour operations, reservations systems and airlines.

IPAs wishing to develop a strategy to promote FDI in tourism could be faced with a situation where there is already a national tourism strategy (developed by another body, such as a ministry of tourism). The role of the IPA will then be to support the delivery of that strategy by selecting appropriate sectors/subsectors and attracting foreign investors in those sectors. The IPA may also face a situation where there is no strategy for the tourism sector, and it must then set out to develop one of its own. The process involved is the same in both cases, although in the latter case, a more substantial research commitment is required than in the former.

Executive Summary

Setting out to develop an investment promotion strategy, the IPA must first obtain an understanding of trends in the tourism industry at the global, regional, sector, and subsector levels. The next step is to map out the country's current offer in the tourism industry at a detailed sector and subsector level, and to assess the industry's position in terms of its strengths, weaknesses, opportunities and threats. The IPA should then consider which tourism sectors and subsectors could generate internationally mobile projects, as well as their potential destinations. Once these sectors have been defined, a first filtering process can take place, where the IPA compares the endowments of its territory with the required assets for certain types of tourism.

The IPA can now start to identify tourism sectors and/or subsectors within its territory that could be considered for targeted promotion, and to develop specific criteria for them. These criteria will be used to decide which opportunity areas to target now and in the future. After this is carried out, the IPA should benchmark its offer in those target areas against key competitor locations for internationally mobile projects. The selection of opportunity areas can be finalized after a "sense check" with a group of experts and policymakers to ensure that the areas identified by the IPA are realistic to pursue.

Once opportunity areas have been finally selected, the IPA can develop detailed targets for its investment promotion strategy and marketing strategies to achieve those targets. The IPA should then develop and implement contact strategies for targeted firms, and, finally, evaluate the results of its efforts and modify the approach if necessary.

Introduction

Background

Tourism is a fast-growing industry that involves many economic and social sectors, making it an excellent development vector. Not surprisingly, surveys have also shown that tourism is a high-priority industry for investment promotion agencies (IPAs) throughout the world.¹ With growing international competition between tourism destinations and higher contestability of investment projects, effective promotion is crucial in order to attract investors in the sector.

Tourist destinations do not only aim to attract financial capital from abroad, but also human capital, such as entrepreneurs, hospitality and travel managers, and international franchises to market and develop local attractions. In fact, such activities are often pursued very successfully, whereas the attraction of foreign capital for tourism projects often presents more of a challenge.²

Shortage of capital is a major obstacle for tourism development, and many countries – especially in the developing world – increasingly look to foreign investors to provide capital that will help development of their tourism industries. Transnational corporations (TNCs) in the tourism sector have often had a positive impact on host destinations. Apart from investing capital, foreign TNCs can help host economies by, among other things, diversifying the supply of tourism products and improving the local service standard. However, attracting FDI in the tourism sector is often difficult, and there is a growing demand for support in this area among IPAs.

¹ Endo K (2006). Foreign direct investment in tourism – flows and volumes. In: *Tourism Management*. 27: 600–614.

² UNWTO (2007b). *A Practical Guide to Tourism Destination Management*. Madrid.

Introduction

Aim of this guide

This guide aims to help IPAs, especially those in developing countries, to target foreign investors in the tourism industry in support of national development objectives. The guide presents a step-by-step approach to developing and implementing an investment promotion strategy for the tourism sector, including methods to identify opportunity areas and ways to approach potential investors.

Structure of the guide

Chapter 1 provides a summary of tourism market trends, an overview of positive and negative impacts of tourism activities, and an introduction to FDI in the sector. Chapter 2 outlines the process of developing an investment promotion strategy for the tourism sector, while chapter 3 presents steps to be taken in the process of investor targeting. Chapter 4 contains the conclusions.

1. The tourism industry: trends and opportunities

1.1 Tourism market trends

Trends in tourism demand

The ability and interest of tourists to travel and how far they are willing to travel is dependent on a variety of factors. Estimates of future tourism demand, travel volumes, market shares of various destinations, household incomes, changes in consumer tastes, and many other variables are vital for an IPA that wants to take an informed decision on which tourism opportunity areas to target (see chapter 2).

“Tourism Vision 2020” is the long-term forecast and assessment of the development of tourism produced by the World Tourism Organization (UNWTO). Worldwide tourist arrivals are forecasted to reach nearly 1.6 billion annually by 2020. Of these arrivals, 1.2 billion will be intraregional, and 378 million will be long-haul travellers. The top three receiving regions are predicted to be Europe (717 million), East Asia and the Pacific (397 million) and the Americas (282 million), followed by Africa, the Middle East and South Asia.³ East Asia and the Pacific, South Asia, the Middle East and Africa are forecast to grow at rates of more than 5 per cent per year, compared to the world average of 4.1 per cent.⁴

The overall trend is towards more independent travel and away from traditional package tours. However, the tastes of tourism consumers vary significantly over time, among countries, and between socio-economic groups. In many developed countries, populations are expected to decrease in the future, while their inhabitants are likely to remain active into older age. This could

³ For a specification of the geographical classifications used here, see the UNWTO website at

<http://www.unwto.org/facts/eng/methodological.htm>.

⁴ UNWTO (2008). *Tourism Highlights – 2008 Edition*. Madrid.

Chapter 1. The tourism industry: trends and opportunities

create future opportunities in, for example, health tourism (since older tourists might be more health-conscious).

Consumers are increasingly aware of their rights, and this has led to a more critical attitude among tourists to quality and to the price–quality ratio. Experienced travellers, in particular, are looking for new destinations, and developing countries could offer attractive alternatives. Moreover, demand is increasingly orientated towards new types of experiences – particularly cultural and environmental. This also presents opportunities for developing countries, which often have a rich natural, cultural and historical heritage.⁵ Rising environmental consciousness will likely lead to a greater demand for sustainable destinations, in which local nature and populations play a prominent role. With increasing climate-change awareness will come opportunities to develop new low-carbon tourism products. But policies to reduce carbon dioxide emissions may also negatively affect tourist flows to certain destinations. Carbon taxes that raise the costs of air transport could, for example, lower the demand for long-haul destinations.⁶

Structural changes on the supply side

The increasing availability of direct links will stimulate demand for international travel and short visits to cities. Cruises – both expensive and “budget class” – are also expected to increase in popularity, particularly for people over 50 years of age.⁷ However, efforts to mitigate climate change are likely to affect the supply side of the tourism market as well. While current trends show an increase of short stays, one effective way for operators to reduce the carbon footprint would be a shift towards longer visits. This, in

⁵ Vellas F and Bécherel L (1999). *The International Marketing of Travel and Tourism – A Strategic Approach*. London.

⁶ UNWTO (2007c): 6–7, 15.

⁷ European Travel Commission (2006).

turn, could further increase economic opportunities for tourist destinations.⁸

The accommodation sector faces some major structural trends, which are worth mentioning because of the subsector's importance to developing countries:

- (a) Global groups and markets are becoming the norm, principally through the worldwide purchasing, distribution and retailing of consumer goods and through the single-sourcing by individual or grouped TNCs.
- (b) Large TNCs with subsidiaries in a number of locations have begun to rationalize their facilities. If a destination is “on the decline” or its reputation has been damaged, investors will try to pull out wholesale, and not simply reduce their presence.
- (c) TNCs have begun to reduce costs by decreasing their number of suppliers. Costs, quantity and global logistics thus become key factors for suppliers. In tourism, large groups are increasingly using a supplier “referencing” system.
- (d) Many TNCs are seeking to both simplify management and reduce operating costs by outsourcing functions such as information technology (IT), logistics, and employee training. In the hotel industry, activities that are often outsourced include security, cleaning, maintenance, laundry and sometimes food preparation.
- (e) The environmental quality of products and services is increasingly important, as governments, international organizations, consumer groups and environmental organizations demand that environmental quality and sustainability of raw materials be an integral part of corporate priorities. Several major hotel groups have adopted charters on sustainable tourism and environmental

⁸ UNWTO (2007c): 15.

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protection, and use them as promotion and quality control tools.

The role of the Internet – including new means of visual presentation – will grow even further.⁹ Information technology is also playing an increasingly important role through computer reservation systems and the use of software for customer relationship management (CRM). The use of the Internet for information and for the purchase of tourism products will also continue to increase.

1.2 Opportunities and constraints created by tourism

The development potential of tourism

Tourism has emerged as an important instrument for sustainable development, and even though global FDI flows in tourism are small, their potential should not be ignored.

One important characteristic of the tourism industry is that it is labour-intensive. A given level of revenue or capital investment creates many more jobs in tourism than the same level of revenue or investment would in many other sectors. Tourism is also an important source of interregional and international cash flows.

Tourism includes a wide range of activities, such as transportation, accommodation and catering, tour operation and travel agency businesses, tour guiding, the sale of souvenirs, and financial services. The tourism industry drives development too, by pulling in other sectors such as construction, infrastructure, arts and crafts, agriculture, services, transportation and manufacturing. A successful tourist destination may also attract other industries that recognize the benefits to be gained from a large inflow of

⁹ European Travel Commission (2006).

consumers.¹⁰ Moreover, tourism generates a wide range of job opportunities, from unskilled to highly skilled, both through direct employment in tourist facilities and indirect employment with suppliers.

Positive and negative impacts of tourism

Tourism can make an important contribution to poverty alleviation, employment generation and the development of remote areas. It is also a major source of foreign-currency revenue.¹¹ Improved infrastructure, public facilities and increased tax revenues are other potential benefits of tourism. In addition to capital, foreign investors can provide technical and managerial expertise, access to markets, and higher quality and security standards, as well as an improved image for the destination. Tourism development may raise the awareness of the natural and cultural heritage and contribute to more resources being allocated to the protection and conservation of that heritage.¹²

Negative effects of tourism include invasion of open spaces, pollution and traffic congestion, higher prices (e.g. for land, housing, food and services), low-skilled and low-paying jobs, seasonal unemployment, negative impacts on natural and cultural heritage, and over-dependence on tourism. Such drawbacks sometimes accompany tourism even if it is developed carefully and closely monitored. Table 1 provides examples of possible impacts from tourism.

¹⁰ Holloway CJ (2006). *The Business of Tourism*. Harlow.

¹¹ Smith LJS (1995). *Tourism Analysis: A Handbook*. Second edition. London.

¹² UNESCAP (2001). *Promotion of Investment in Tourism Infrastructure*. New York.

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Reaping the benefits of tourism and reducing its negative impacts requires a coordinated effort based on careful planning, that takes both tourist supply and demand factors into consideration.

Table 1. Possible impacts of tourism

Positive	Negative
• Increased income/improved standard of living • Employment opportunities • Improved infrastructure and tourism facilities • Increased tax revenues • Strengthened awareness and more resources for natural and cultural heritage • Provision of capital • Transfer of expertise and managerial skills • Market connections • Demonstration effect for local entrepreneurs	• Overdependence on tourism • Increased costs for land, housing, food and services • Pollution and traffic; congestion • Tourism market is dominated by TNCs • Adverse impacts on cultural and natural heritage • Sensitivity to business cycles or sudden changes in sentiment • Little control over tourism development • Inappropriate form and scale of development • Invasion of open spaces

Source: UNCTAD, expanding on UNESCAP (2001) and on Kusluva S and Karamustafa K (2001).

Sustainable tourism

The term “sustainable tourism” refers to tourism developed in a way that does not cause serious ecological or socio-cultural problems, preserving – even improving – the overall quality of the environment at tourism sites, while ensuring that tourists are completely satisfied and that all levels of society benefit from tourism.

Although – for many reasons – the benefits of tourism often do not trickle down to low-income groups, tourism can be developed in such a way as to involve the poor as well. “Pro-poor tourism” concepts aim to increase the participation of and flow of income to poor people. The institutional design of tourism planning should facilitate the participation of diverse groups and interests within the community. This will not only discourage undemocratic, top-down decision-making, but will also provide opportunities for communities to use their own resources and creativity to find appropriate methods for tourism development.¹³

Tourism and the environment are closely connected. Tourists are becoming more demanding of the environmental quality of destinations, and this has led to a rethinking of tourism development, with greater focus being put on sustainable concepts such as ecotourism. Conserving and improving the environment, while important for its own sake, can also be seen as a way of creating value, and many tourist destinations now use sustainability as a main selling point.

The IPA can play an important role in developing sustainable tourism. First and foremost, it can target foreign investors in economically, socially and environmentally sustainable projects. (The process by which the IPA identifies opportunity areas and targets investors is outlined in chapters 2 and 3). Second, it can work to enhance linkages between established investors and local firms in the tourism sector. Business linkages support local economic development and may serve to transfer knowledge in areas such as environmental conservation to suppliers and contribute to better working conditions for their employees.

A growing number of countries are embracing best practices in physical planning for tourism by adopting, for example, the

¹³ Brohman J (1996). New directions in tourism for Third World development. *Annals of Tourism Research*. 23 (1): 48–70.

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concept of carrying capacities (i.e. restricting transport and accommodation capacities to avoid overcrowding) and requiring environmental impact assessments before developing tourism facilities.¹⁴ Below are examples of guidelines that can strengthen the positive impacts of tourism.

- (a) *Economic* guidelines: Assess economic impacts before developing tourism, maximize local economic benefits by fostering linkages and reducing leakages, ensure that communities are involved in and benefit from tourism, assist with local marketing and product development, and promote equitable business and pay fair prices.
- (b) *Social* guidelines: Involve local communities in planning and decision-making, assess the social impacts of tourism activities, respect social and cultural diversity, and be sensitive to the host culture.
- (c) *Environmental* guidelines: Reduce negative environmental impacts when developing tourism, use natural resources in a sustainable way and maintain biodiversity.¹⁵

Box 1 provides an example from the Lao People's Democratic Republic of guidelines for sustainable tourism investment.

¹⁴ UNCTAD (2007a).

¹⁵ The guidebook on indicators of sustainable development for tourism destinations (UNWTO (2004a)) is a comprehensive resource on this topic. Another source, which is available online, is the Global Sustainable Tourism Criteria (<http://www.sustainabletourismcriteria.org>) – an initiative led by the Rainforest Alliance, the United Nations Environmental Programme, the United Nations Foundation and UNWTO.

Box 1. Lao People's Democratic Republic: Guidelines for investors in ecolodges

An ecolodge is a small hotel or guesthouse that incorporates local architectural, cultural and natural characteristics, promotes environmental conservation, and produces social and economic benefits for local communities. Investors who want to build ecolodges in the Lao People's Democratic Republic should abide by the following guidelines:

Use Lao architecture and building materials: Investors must build the lodge to look like a traditional home or house.

Minimize the use of energy: Investors should avoid air conditioning and other electric devices that use too much electricity, and should install solar energy to meet some power needs, such as lighting and hot water.

Use local products and minimize the use of chemicals in daily operations: Investors should use local food products and locally produced bedsheets, tablecloths and other items in the lodge. Chemical bug sprays, poisons or toxic cleaning fluids should be avoided when there is a suitable substitute.

Minimize and manage waste: Investors should not use products that leave a lot of waste, such as disposable water bottles, canned foods, or foods wrapped in plastic. Investors are also expected to recycle and reuse items when possible.

Employ local people and support their community: The lodge should give work opportunities to nearby villagers. Investors can also support the community by helping with activities at a local school.

Minimize negative impacts on nearby villages: Investors should provide information to tourists on local cultural norms. They should also speak with local villagers regularly to learn how they can help them, and to learn if there are any problems created by tourists staying at the lodge.

Support conservation of nature: Investors can do this by giving information to guests about nature tourism in the area. They can also help by not selling wildlife products and by supporting the conservation activities in a protected area nearby.

Source: UNCTAD, based on information provided by the Lao National Tourism Administration.

Chapter 1. The tourism industry: trends and opportunities

1.3 Foreign investment in tourism

*FDI and other modes of entry*¹⁶

The absolute values of tourism-related FDI stocks remain low. However, the true extent of TNC activity in the tourism sector may be underestimated, partly because many countries lack comprehensive data on tourism FDI, and partly because much transnational activity in tourism takes place through non-equity modes. Unless there is an equity purchase, the activity will not show up in FDI statistics, even though it may have effects similar to those achieved through equity ownership, such as managerial control, technology and knowledge transfer, and access to markets. Equity investments can either be made with the intention to acquire a lasting interest in a foreign enterprise (FDI); or a smaller investment without such intentions (portfolio investment). A joint venture is an entity formed between two (or more) parties to undertake economic activity together. Both parties contribute with equity and then share the revenues, expenses and control of the enterprise. Non-equity forms of investment include leasing agreements, management contracts, franchise agreements and marketing agreements.

In the services sector, mergers and acquisitions (M&As) are often used to enter a foreign market. One explanation for this is that it is quicker and more efficient to purchase an existing distribution network or trademark compared to starting a business “from scratch”. M&As in the tourism sector mainly occur in hotel deals in developed countries, while greenfield investments are common especially for resort development. Joint ventures with local partners are often used in the establishment of new tourism facilities and in services provision. Through such an arrangement, the foreign TNC can take advantage of the business partner’s market knowledge and networks in the host country.

¹⁶ The two following subsections are partly based on UNCTAD (2007a).

Among non-equity forms of investment, management contracts come close to FDI in the sense that the foreign TNC has managerial control over the local firm. Conversely, control is very limited under franchise agreements. Franchising is frequently used for hotels, catering, travel agencies, tour operations and car rentals. The franchiser provides the brand, the marketing materials, the management systems and the business support, while the local franchisee provides the capital. The possibility of using non-equity modes to ensure global distribution of brand names has led to a proliferation of strategic alliances and partnerships, especially among major players in the industry. Furthermore, TNCs sometimes have several different forms of involvement (e.g. FDI, management contract and franchising) in the same foreign market.¹⁷

So why, then, is FDI limited in the tourism sector, and why are non-equity modes often preferred by tourism TNCs when they enter foreign markets? Part of the explanation is that the logic that drives FDI in other industries seems less apparent in tourism. According to an often-used theoretical approach, a foreign firm will only invest abroad if three factors come together simultaneously:

1. *Ownership*: The company possesses ownership-specific advantages which allow it to compete effectively with local companies;
2. *Location*: There are benefits to locating in the host country (such as a large market, cheap labour, a rich cultural heritage or a pleasant climate); and
3. *Internalization*: There are benefits from directly controlling the business activity in the host country rather than hiring a local firm to provide it.

This analytical framework is known as the “OLI” (ownership, location, internalization) paradigm. The first condition

¹⁷ Pizam A (2005). *International Encyclopedia of Hospitality Management*.

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(ownership) and the third condition (benefits of internalization) determine whether or not FDI is an attractive strategy in the first place, from the firm's perspective. The second condition (location) has a crucial influence on which countries will be selected by TNCs. The internalization factor, in particular, occurs much less in tourism than it does in other economic activities, and separation of ownership and control is common. Table 2 applies the OLI approach to the four tourism-related activities in which FDI is most likely to occur.

Trends in tourism FDI

While data indicate that there has not been much FDI in tourism so far, they also show that tourism FDI is growing in many countries. However, tourism-related FDI is largely concentrated in a few activities such as accommodation, restaurants, and car rentals (table 3). There is little FDI in high-profile activities such as tour operations, reservation systems and airlines.

Tourism FDI is also largely concentrated in developed countries. This is apparent in terms of tourism-related FDI stocks, but it is also visible in the location of facilities that are part of international hotel chains. Nevertheless, tourism-related FDI in developing countries is growing markedly. Furthermore, global data on greenfield investments in foreign hotels indicate that there is some reorientation of tourism FDI towards developing countries. It is likely that tourism TNCs will continue to expand their activities in both absolute and relative terms throughout the developing world.

Table 2. OLI advantages combine infrequently in tourism

Industry/ activity	Ownership advantages	Locational advantages	Internalization factors: (+) encourages FDI; (-) encourages other modes	Organizational forms
Hotels	• Experience in home countries in supplying upmarket services • Experience in training key personnel • Quality control systems (e.g. management, procurement) • Referral system (GDS) • Economies of geographical specialization, access to inputs	• Location-bound when selling a foreign service • Exports through tourists/business people visiting home or host country	• Investment in hotels is capital-intensive (+) • Quality control can be ensured through non-equity forms (-) • Governments prefer non-equity forms (-) • Referral systems are centrally coordinated without equity control (-) • Growing brand recognition for new TNCs from the South (+) • Lack of managerial expertise in host country (-)	• Vary according to positive and negative influences on equity/non-equity decision, because both forms can protect ownership advantages
Restaurants and car rentals	• Brand name and image • Reputation and experience • Referral system (GDS) • Economies of scale and scope • Tie-up deals with airlines and hotels	• Location-bound • Foreign earnings through tourists and business people visiting exporting countries	• Franchising can protect quality (-)	• As with hotels, forms vary because ownership advantages can be protected by contract
Airlines	• Highly capital-intensive • Government support measures and/or control over routes of foreign carriers	• Logistical management • Advantages of vertical integration • Quality control	• Role is essentially location-linking (-) • Need for local sales office, access to terminal, and maintenance and support facilities (+/-) • Growth in alliances and code-sharing (-) • Liberalization of markets (+)	• International services do not require FDI • Growth in alliances and affiliations (e.g. code-sharing)
Tour operators/ travel agents	• Reputation of providing satisfactory experience • Economies of scope (travel portfolio offered) • Bargaining power • Quality of deals made with airlines, hotels, cruise companies and other associated services	• Need for local tour agents and support facilities • Customers initially originate from home country? • Costs of supplying local facilities usually lower • Fiscal incentives and infrastructure facilities	• Coordination of itineraries, packaging of services, need for quality control of ancillary services for tourists (-) • Economies of transaction costs from vertical integration (+) • Growth in e-commerce and increasing role of local tour operators (-)	• FDI is rare; mostly firms have only local agents

Source: UNCTAD (2007a), expanding on Dunning (1989).

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Table 3. FDI is concentrated in a few tourism activities

Activity	Frequency with which FDI appears to occur		
	Frequent	Occasional	Rare
Hotels and similar	✓		
Restaurants and similar	✓		
Second homes	✓		
Passenger transport rental equipment	✓		
Railway passenger transport services		✓	
Air passenger transport services		✓	
Road passenger transport services			✓
Water passenger transport services			✓
Passenger transport supporting services			✓
Travel agencies and similar			✓
Cultural services			✓
Sports and other recreational services			✓

Source: UNCTAD (2007a).

Investors from developing countries tend to invest in their own vicinities, and evidence confirms that – as with FDI in general – there is a trend towards more South–South M&As. The greater role of TNCs from the South will also have implications for global competition. Part of the rise of tourism TNCs from developing countries can be explained by large and growing numbers of tourists from places such as Brazil, China, Malaysia and the Russian Federation, and from the Arab states of the Persian Gulf.

Vertical integration

Vertically integrated companies are united through a hierarchy with a common owner. Usually each member of the hierarchy produces a different product or service, and these products combine to satisfy a common need. Tour operators own travel agents, airlines (or aircraft) and hotels. Airlines can also own tour operators, travel agents and hotels. Vertical integration is an increasingly common practice in tourism, with hotel groups such as

Sol Meliá and Club Med investing in distribution networks (tour operators and travel agencies).

Many large tour operators are vertically integrated through ownership or alliances with hotels, airlines or reservation systems. Thus, if they are interested in a particular country, they are able not only to provide a supply of tourists, but also other services such as accommodation and transportation. Vertical integration allows tour operators to control various links in the distribution chain, including the fleet of planes, and a network of agencies, cruise lines and/or hotels.¹⁸ However, vertical integration has also been criticized for reducing developing countries' benefits from tourism, since the large operators – not the countries – capture the commissions.¹⁹

In addition to vertical integration, some tourism companies have adopted a “diagonal” integration strategy, offering products and services that tourists usually purchase but that are not included in standard tourism packages (e.g. insurance, currency and luggage).²⁰

Different types of tourism investors

Foreign investors can be either firms or individual entrepreneurs investing in tourism enterprises. Accor, Four Seasons and Hilton are examples of large corporate investors; Sol Kerzner from South Africa and Prince Waleed bin Talal of Saudi Arabia are examples of individual investors. There are also several tourism TNCs, such as Colony Capital and Mercury Tourism, which rely on dedicated investment funds – particularly British and American pension funds.

¹⁸ UNWTO (2002). *Tourism in the Age of Alliances, Mergers and Acquisitions*. Madrid.

¹⁹ UNCTAD (2007a). *FDI in Tourism: The Development Dimension*.

²⁰ Endo K (2006).

Chapter 1. The tourism industry: trends and opportunities

All of the world's largest *hotel* TNCs are headquartered in developed countries. The United States is the largest home country of international hotel chains, followed by the United Kingdom, France, Germany and Spain. With the exception of the French company Accor, there is a low presence of large international hotel chains in the least developed countries (LDCs).²¹ With regard to ownership and management arrangements for hotels, these sometimes vary across regions. In Asia, for example, equity investments are preferred, while in North America, franchising and management contracts tend to be more popular.

Tour operators are the “wholesalers” of tourism products. Operators are usually affiliates of a vertically integrated firm, or directly linked to a travel agent, but they can also be entirely independent companies specialized in putting holiday packages together and selling them. In the United States market, vertically integrated groups are rare, while in Europe, most operators are vertically integrated.²² The industry consists of a few large players, and numerous small, specialized firms. The ability of large tour operators to direct a constant flow of tourists to destinations often places them in a powerful position in price negotiations with local hoteliers.²³ The largest and most influential operators are based in tourism-generating developed countries, the major ones being – in order of the size of the outbound tourist traffic – the United States, Germany, Japan and the United Kingdom. In some countries, FDI in travel agencies and tour operators requires joint ventures with local firms.

Airlines are an integral part of the tourism industry, and air transport is crucial to the growth of tourism, especially in developing countries. FDI in airlines is most common for sales offices and ground handling services in major destinations, and also

²¹ WTTC (2003).

²² UNCTAD (2007a).

²³ Endo K (2006).

for aircraft maintenance and airport catering services. The globalization of airlines mostly takes place through non-equity forms of investment such as strategic alliances, and today, the leading four alliances hold nearly 70 per cent of the global market. The major advantage of strategic alliances is that cost reductions and efficiency gains can be obtained by joint use of resources (e.g. check-in facilities and ground personnel) without physically expanding operations. More and more airlines are also forming alliances with car rental companies, hotels, wholesalers, railways, cruise operators and financial services companies, instead of setting up new affiliates through FDI.²⁴

Global distribution systems (GDS) are a key part of the international tourism infrastructure, as they bring buyers and sellers of tourism products into direct contact. They not only facilitate transactions in tourism services but also provide information on prices, services and destinations, making the international tourism market more transparent. Potential tourists use the Internet to obtain information about countries, regions and hotels.

What to expect from foreign investment

The preceding points have suggested that projects to be expected from inward investment in tourism could take the following shape:

- (a) An equity stake, e.g. in a hotel chain, a tour operator, or a car rental business;
- (b) Construction and development of a hotel or other tourism facility;
- (c) Property development;
- (d) Development of a theme park or attraction;

²⁴ Endo K (2006).

Chapter 1. The tourism industry: trends and opportunities

- (e) Setting up as a supplier to domestic or foreign firms (e.g. a training facility, provision of equipment, cleaning, catering or marketing);
- (f) Management contracts for service providers in the tourism sector.

In many cases, the main benefit to be expected from investment in tourism is not in the size of the capital investment but in the impacts on training, the upgrading of management processes, and links to international value chains. These can have major positive effects on economic development in the long term if managed carefully, for example through targeted aftercare services by the IPA.²⁵ Non-equity investment such as hotel franchises to a destination can also be very beneficial, for example by helping to attract a critical mass of visitors that will make other tourism investment projects profitable.

How tourism investors make decisions

Looking ahead to chapters 2 and 3, there are three main points to bear in mind as regards investor decision-making in the tourism industry. In many ways, these are common to nearly all FDI decision-making.

Firstly, for a location to be considered and to remain on the list in the course of the various filtering stages of the selection process, it must have the key success factors for the type of project in question. It is essential that the IPA be able to demonstrate that it knows what these are and that the location can deliver them. Chapter 2 and the first part of chapter 3 deal with identifying areas where the IPA has a valid offer and can compete.

²⁵ For a detailed guide to investor aftercare, see UNCTAD (2007c). *Aftercare: A Core Function in Investment Promotion*. Investment Advisory Series. Series A, number 1. New York and Geneva.

Secondly, when the investment involved is above a threshold value – especially in medium-sized and large firms – decisions are not made by a single individual. Decisions tend to be made by a decision-making unit, where different senior members of the executive group discuss the pros and cons of various investment proposals that are brought before them. Different individuals look at the decision from different perspectives. For example, a finance director sees it from a different angle from that of a human resources director or a marketing director. This means that the IPA has to develop a proposition that can satisfy the criteria of all of them; it should not just “sell” to one person in the decision-making team. A whole web of relationships needs to be developed and managed within the target firm, and this is where CRM systems come in handy. It is also worth bearing in mind that investors are very sensitive to the business environment in new locations. In contrast, investors already acquainted with the location may be far better able to see and appreciate the positive sides of it. The background of investors and their past links to the destination should not be underrated as factors in this process.²⁶

Thirdly, decision-makers are human beings, and they value relationships based on trust and mutual respect. Such relationships may be hard to develop, but if managed well, they can be decisive when decisions are being made between locations on the short list for which the “numbers” are similar.

Chapter 3 of this guide deals with the last two points concerning decision-making and investor relationships.

²⁶ UNWTO (2007b).

2. Developing an investment promotion strategy

2.1 A shared vision of tourism development

A national tourism strategy

The growth in international tourism and the increasing competition between destinations require policies and strategies to highlight and strengthen a country's comparative advantages. Policies to attract FDI in tourism cannot be isolated from the wider policy framework: the industry is cross-cutting with interlinking activities and a long value chain that includes services provision by both private and public entities. This means that the areas in need of attention are numerous and diverse. They include, for example, environmental laws and regulations, town planning, general education and tourism-related training, transport, human resources, financial institutions, health and safety standards, agriculture and telecommunications.

IPAs wishing to develop a strategy to promote FDI in tourism could be faced with either of two situations:

- (a) Where the Government has devised a national tourism strategy, and the role of the IPA is to support the delivery of that strategy by attracting appropriate foreign investors; and
- (b) Where the IPA must develop its own promotional strategy.

A national tourism strategy usually contains a mission statement and objectives, as well as a declaration of the overall purpose of tourism in the country, and will address the economic, socio-cultural and environmental aspects. The strategy often deals with ways to attract foreign investors, and the IPA may be tasked to attract foreign firms and just implement that part of the strategy. However, it will still have to develop criteria to use to prioritize target sectors or subsectors so as to ensure the most effective allocation of resources.

Chapter 2. Developing an investment promotion strategy

Box 2 describes how the Moroccan Government involved foreign investors to implement one component of the country's tourism strategy, "Vision 2010".

Box 2. Morocco: Implementing part of a tourism strategy

In 2001, the Moroccan Government, in cooperation with the private sector, developed a tourism strategy called "Vision 2010". The strategy had three main components: (a) to develop six beach resorts on the Atlantic coast; (b) to renovate and expand existing tourism destinations (Casablanca, Fez, Marrakech, Tangier etc.); and (c) to develop new regional tourism products. The main objective was to triple Morocco's tourism capacity in respect of the number of hotel beds and passenger seats. The strategy also included an aggressive marketing campaign aimed at attracting 10 million visitors to the country in 2010.

For the six beach resorts, the Government sought participation by foreign investors through a public-private partnership (PPP) approach. Projects for the resorts were developed with the assistance of consultants, and 50 potential foreign investors were invited to bid for the projects. The Government invested in infrastructure at the sites, in order to provide them with water, electricity and transport connections. Other measures, such as tax exemptions and land concessions, were granted too. By 2007, five consortia had been selected. The investors included developers and tour operators from Belgium, France, the Netherlands, South Africa and Spain.

Due to the financial crisis, which affected many of the investors, the Moroccan Government had to reschedule the end year to 2016. The Government has raised funds and made additional investments to help compensate for the withdrawal of some foreign investors. As of 2010, two resorts had started their operations.

Source: UNCTAD (2007), updated with information from interviews and news reports.

IPA-developed promotion strategy

If the IPA is developing a tourism investment promotion strategy from scratch, and there is not a well-defined national or regional tourism strategy, it should make its intentions known to the authority with main responsibility for tourism development. It is worth bearing in mind that in many countries, responsibility for tourism is situated in a different government department than that to which the IPA reports. However, working together will be essential for designing and implementing a strategy to promote inward FDI in the sector. If there are private sector or industry bodies, it will also be worthwhile to collaborate with them.

It will be useful to keep the involvement and encourage the input of key representatives from such organizations throughout, and to present emerging findings to them at key stages of the project. Once target sectors have been selected, it may be worthwhile to undertake a visioning exercise to capture the aspirations and commitment of the parties involved. The selection of the team to manage the project and be involved in it is therefore a critical success factor in developing an investment promotion strategy for the tourism sector. It is important that the project team include not only people from within the IPA, but also representatives from the tourism ministry and from some private sector organizations.

In-house or outsourced?

A key question for the IPA at this stage is whether to outsource the development of the investment promotion strategy (e.g. by hiring consultants) or to develop the strategy in-house. Each approach has its advantages and disadvantages. The in-house approach will lead to increased knowledge-building within the IPA if it does not have knowledge of the tourism industry as of yet. However, the outsourced approach may be quicker and – if carried out by an experienced provider – may avoid some mistakes that

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could be very wasteful in terms of time and resources. Some kind of mix of the two approaches is probably the best solution, and the strategy should be developed to make best use of in-house and external resources.

Regional investment promotion initiatives

Some groups of countries have adopted a coordinated regional approach to investment promotion. Regional cooperation can include joint tourism-marketing activities, harmonizing trade and investment policies, information-exchange, joint management of tourist assets, and provisions enabling tourists to move freely between countries.²⁷ One example of such cooperation is the East African Community's investment portal, which markets products and opportunities in tourism. Another is the Silk Road Initiative (box 3), an emerging agreement between China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

2.2 Enabling conditions for tourism investments

The preceding sections have made it clear that many factors influencing the development of the territory's tourism offer lie outside the direct control of IPAs. These factors do, however, need continuous attention from the relevant organizations, and the IPA can sometimes play a supporting role. Some key factors are dealt with in this section.

Infrastructure and land

The operation of tourism facilities, services and amenities depends on a number of infrastructure networks. In fact, the success of any tourism destination is, to a great extent, determined by the quality of its infrastructure.²⁸ Public investment in physical

²⁷ UNCTAD (2007a).

²⁸ UNESCAP (2001).

infrastructure (airports and roads etc.), information and communications technologies (ICT) and tourism infrastructure (attractions, heritage sites etc.) is needed if destinations are to stay competitive. Attracting FDI in sustainable tourism might also require public measures to facilitate and encourage more environmentally friendly means of transport, such as trains or buses.

Box 3. The Silk Road: A regional initiative to attract FDI in tourism

The Silk Road region has a great potential as a tourist destination, and the distribution of interrelated tourism resources across the region's five countries makes it ideal for cross-border or regional investment opportunities. All of the Silk Road countries prioritize the tourism sector in their efforts to attract FDI.

The United Nations Development Programme (UNDP) Silk Road Regional Programme (SRRP) focuses on three areas: trade and transit, investment, and tourism. In investment, SRRP works on ways to attract more FDI into the region, and its main strategic partner in this area is UNCTAD. More specifically, SRRP encourages PPPs through the Silk Road Investment Forum (with the first forum held in Xi'an in June 2006) and helps identify particular investment projects that meet international standards. The programme organizes study tours and roundtable discussions, and offers support to strengthen business associations. In the area of tourism, the SRRP cooperates closely with UNWTO. It seeks to enhance sustainable tourism, and prepares national and local strategies. The focus is on developing value-added cultural tourism and eco-tourism. The *Investment Guide to the Silk Road*, prepared by UNCTAD and UNDP, gives a comprehensive introduction to the investment climate and opportunities in the Silk Road region.

Source: UNCTAD (2009a). Investment Guide to the Silk Road.

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However, many governments – especially in developing countries – lack the resources required for infrastructure investments. For this reason, some countries have turned to the private sector, and PPPs are now sometimes used to upgrade tourist sites or to open up new regions to tourism. PPPs involve a contract between a public and a private party, in which the private entity provides a public service or project and assumes substantial financial, technical and operational risk in the project. Box 4 provides an example of how a PPP approach has been used to revitalize heritage buildings in Kolkata, India. The IPA can support efforts to improve infrastructure by marketing PPP opportunities to overseas investors.

Some countries have created designated tourism development zones, concentrating all the tourism-related facilities, in order to stimulate large-scale investments. Within these zones, there is sometimes support for infrastructure development (e.g. water supply, electricity and telecommunications).²⁹

Land suitable for development is another factor fundamental to the growth of the tourism sector. In any tourism strategy, priority development zones should be defined and made available. A list of land improvement zones earmarked for tourism facilities can be useful for inward investors prospecting among various locations. Such a list would include zones to be developed or under development. Public land intended to be held in reserve in the government's priority growth areas should be free of all legal obstacles.

²⁹ UNESCAP (2001).

Box 4. India: PPP to revitalize the Old Mint Complex in Kolkata

The Old Mint Complex in Kolkata is one of the city's prime heritage structures. However, the condition of the buildings has been steadily deteriorating, and without urgent intervention, the damage would have been irreversible. The idea of a revitalization initiative was first mooted and patronized by the Governor of West Bengal, and was taken up by India's Finance Minister with the support of the West Bengal State Government. This was to be a project to document and preserve the heritage precincts and their adjoining areas, and to develop the Old Mint buildings into a currency and coins museum while redeveloping the surrounding land available for tourism, through PPP.

The project components are:

- (a) A currency and coins museum, a heritage conservation research centre, a mini convention centre, a mini financial hub, an edutainment centre, associated activities, a performing arts centre, and support infrastructure and facilities;
- (b) A heritage hotel, an arts and crafts village, an ethnic food village, and support infrastructure and facilities.

The project, expected to be completed by September 2011, will cost approximately \$2 million. The bidder was selected using a transparent tender process, and the preferred bidder will be given the property on lease. A consortium of firms led by D&F Construction Group Inc. of the United States was selected as the private partner.

The revitalization of the Old Mint is expected to bring substantial benefits, such as increased heritage tourism and greater cultural diversity, as well as economic development through the generation of employment.

Source: UNCTAD, based on information provided by the Government of India.

Human resources

The availability of qualified or trainable labour is an important precondition for many tourism projects. Destination

Chapter 2. Developing an investment promotion strategy

countries may have plentiful labour but lack sufficient training capacity to meet the demands of the tourism industry. IPAs can play a role in remedying this problem, through policy advocacy³⁰ efforts aimed at strengthening the general level of education and the establishment of specific training programmes that meet the demand of the tourism industry. IPAs will find it necessary to cooperate both with government bodies and with private sector entities to achieve success in such efforts.

Investment incentives

Policies to attract foreign investors often include various incentives. Some IPAs have responsibility for the administration of investment incentives. Most agencies, however, do not, but they can nonetheless play an important role in improving incentive schemes. Through their provision of services to investors, IPAs may gain insights into how incentives work in practice, and based on the investor feedback, advocate remedies.

Incentives can be used as an instrument to enhance the beneficial impacts of FDI. Host governments may thus offer incentives to TNCs that establish in rural areas, promote environmental conservation, or train local staff. In designing incentives, it is important not to make the loss of government revenue too high or the administration of the system too difficult, or to discriminate unduly against local investors. Incentives may also have adverse effects on the development of the local economy. Providing duty-free access to imports, for example, may discourage supply linkages between tourism TNCs and domestic firms. Such incentives could be phased out over time to minimize negative side-effects. Finally, it should be emphasized that while FDI incentives

³⁰ For more detailed information on policy advocacy by IPAs, see UNCTAD (2008a). *Investment Promotion Agencies as Policy Advocates*. *Investment Advisory Series*. Series A, number 2. New York and Geneva.

may be important in attracting investors, they can never be a substitute for a good investment climate.

Examples of incentives include:³¹

- (a) Duty-free imports of capital goods, equipment and inputs;
- (b) Training grants for locally employed staff;
- (c) Accelerated depreciation on environmentally friendly assets;
- (d) Assistance with the long-term lease of business property;
- (e) Loan guarantees for small firms;
- (f) Grants or tax breaks for investors in key opportunity areas.

Box 5 provides an example from Mauritius of an incentive scheme to attract investments in high-end tourism facilities.

Box 5. Mauritius: Incentives for high-end tourism investments

Under the Integrated Resort Scheme (IRS), luxury villas and other residential properties can be sold freehold at a minimum price of \$500,000 to foreigners who, de facto, receive a residence permit. The IRS villas put on the market so far have proved very popular, with overnight reservations and sales.

The IRS targets the high-end segment of the international property market – that is to say, individuals with high purchasing power. The properties that they are allowed to purchase are luxury residences, such as villas, apartments and penthouses located in specific areas, approved by the Board of Investment.

The investor may sell the property with no minimum selling price restriction, rent the property, and elect tax residency in Mauritius, and is free to repatriate funds or revenue raised from the sale or renting of the IRS property.

Source: UNCTAD, based on information provided by the Board of Investment of Mauritius.

³¹ UNWTO (2007b).

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2.3 The strategy development and targeting process

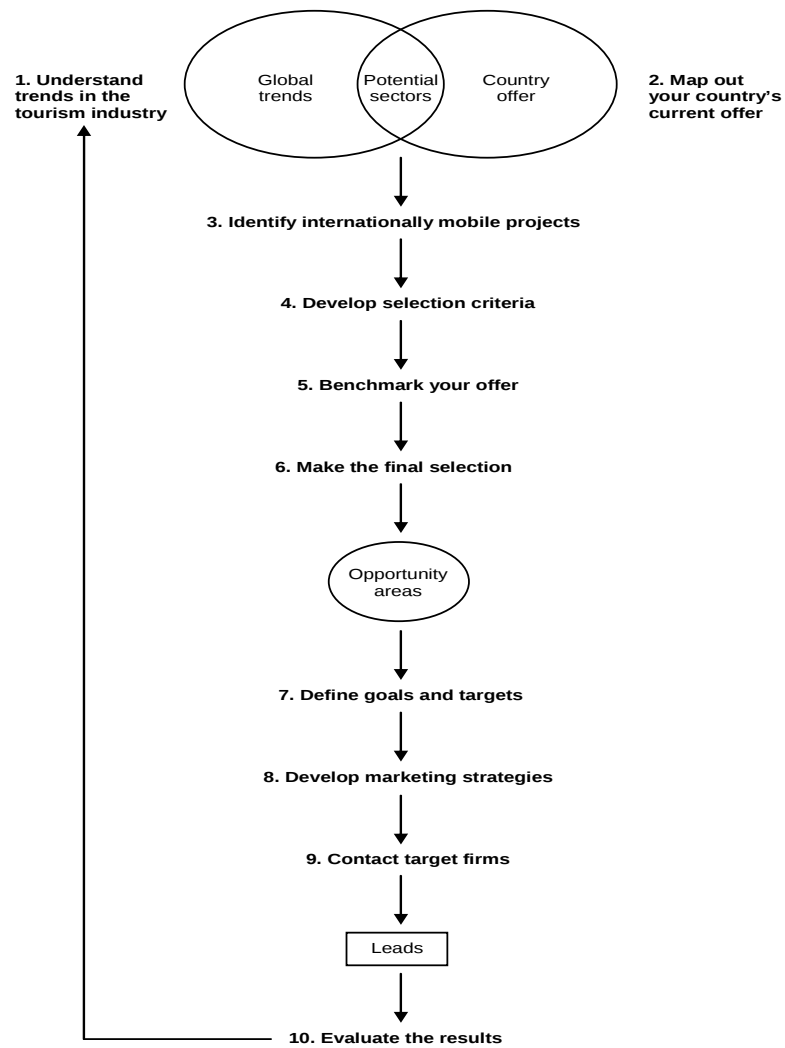
The 10-step process

The process by which an IPA develops, implements and assesses its investment promotion strategy for the tourism sector can be divided into the following 10 steps:

1. Understand trends in the tourism industry;
2. Map out the current offer;
3. Identify internationally mobile sectors;
4. Develop selection criteria;
5. Benchmark your offer;
6. Make the final selection;
7. Define goals and targets;
8. Develop marketing strategies;
9. Contact target firms;
10. Evaluate the results.

The approach adopted in this guide is not that of a generic promotional strategy, but a knowledge-driven, segmenting, targeting and positioning approach focused on achieving specified, desired impacts. In this chapter, the focus is on steps 1 to 3, which covers strategy development. Chapter 3 looks more closely at investor targeting, corresponding to steps 4 to 10 above. Figure 1 provides a schematic illustration of the whole 10-step process.

Figure 1. Developing and implementing an investment promotion strategy



Chapter 2. Developing an investment promotion strategy

Segments, sectors and areas of opportunity

To develop a successful inward investment promotion strategy in tourism, an IPA must segment the tourism market. In the tourism context, a market segment consists of a group of people sharing characteristics that cause them to have similar tourism needs. Segmenting the market will allow the IPA to focus on those investors that are most likely to “purchase” its offer (i.e. invest in the country). There are various ways to segment a market, and a useful guide to different techniques is the *Handbook on Tourism Market Segmentation* (2007), developed by UNWTO and the European Travel Commission. Market segmentation can be based on, for example:

- (a) Age;
- (b) Income;
- (c) Purpose of travel;
- (d) Geographic origin; or
- (e) Lifestyle.

It should be emphasized that sustainable tourism development guidelines and management practices are applicable to all tourism market segments, including mass tourism.³²

When selecting a segmentation approach, key factors to bear in mind are: How practical is the approach? Can the information be obtained? What is the marketing research budget? Whichever approach is adopted, the steps below (1–3) should be worked through to arrive at potential target markets.

³² UNWTO (2004b). Sustainable development of tourism – conceptual definition. Available at <http://www.unwto.org/sdt/mission/en/mission.php>

At this point, it can also be worth clarifying the meaning, as used in this particular context, of some other terms that will come up in the following discussion. The terms “sector” and “subsector” usually refer to economic activities as categorized by national or regional statistics agencies. For example, “Camping sites and other provision of short-stay accommodation” (section H55.2 in Eurostat’s classification) would qualify as a “sector”. A “subsector” would then be “Youth hostels and mountain refuges” (H55.21 in Eurostat’s classification).

An “area of opportunity” could be either at sector or subsector level, but it is identified in conjunction with other criteria, for example the size of the potential market, or a segment as identified in the list above, related to types of behaviour, or other socio-economic/demographic factors.

Step 1. Understand trends in the tourism industry

For an IPA to take an informed decision as to where to target its promotional activities, it needs to have a thorough understanding of global and regional developments, by sector and subsector. A good deal of research is available on world travel and tourism markets, and it may be that the national tourism organization (NTO) has some useful, up-to-date reports available. If not, good reports can often be purchased “off the shelf”, without having to undertake tailored research. Reports can be complemented by interviews with key individuals (in the public and private sectors) and organizations, and if necessary, by custom-made research.

The first step is to quantify the size and growth rates of the various main sectors and subsectors within the industry, as well as their geographical sources and destinations. For general purposes, a matrix approach with sectors along the horizontal axis (e.g. hotel, restaurant, car rental, airline, tour operator) and different consumer categories on the vertical axis (e.g. lifestyles, demographics, niches)

Chapter 2. Developing an investment promotion strategy

could work as a template to start with. But there is no unique way of going about this, and the IPA has to either use the approach adopted by the ministry in charge, or develop its own methodology.

Some sectors and subsectors can be discarded as being not of interest at quite an early stage, but there is always a danger in discarding a sector too early, so this should only be done with some circumspection. The point is that it will probably not be necessary to go into depth for the whole global tourism market.

The next stage in developing an understanding of the market is to identify what the *key success factors* in each sector are. For example:

- (a) In the case of game lodges for ecotourism marketed to wealthy individuals, it is important that the whole tourist experience be managed very closely in order to ensure no negative experiences. Operators can do this by meeting tourists at the incoming port of entry (usually an airport) and transporting them to the destination by road or air without having to rely on services outside their control, such as public or private transport, which could lead to cognitive dissonance in those customers.
- (b) When attracting foreign tourist backpackers who are taking a “gap year” after school before going to work or on to further education, the target clientele will be travelling and visiting very much at its own discretion, which means that a very different set of services needs to be on offer in order to ensure a positive experience. A wide range of “youth travel” support services comes into play: graded bed and breakfast accommodation, discount travel, and the health, safety and policing networks etc. required to look after these young people.
- (c) To establish a theme park or similar attraction targeting domestic or local tourism, the key factor is the existence of sufficient discretionary per capita income in the target

customer base, which would have to be located within a certain travel time from the site. Various demographic features, such as average family size, numbers of people within certain age groups, availability and use of leisure time, public transport etc. are some of the key success factors for such a venture.

The key success factors required for each sector or subsector have wide-ranging implications for the types of projects that can be targeted. For example, there is still strong tourist interest in niche offerings in ecotourism in parts of war-torn countries, such as parts of Afghanistan (e.g. walking tours in the mountains to spot snow leopards); and even if a country does not have a good record in personal safety, it may still have a very strong offer in niches where contact with the wider public is limited.

Step 2. Map out the current offer

The IPA also has to understand what it has to offer the market, from two points of view: both as a general location for inward investment, and as regards specific target sectors and subsectors.

The general investment climate

The general investment climate can play a greater or a lesser role in shaping a region's tourism strategy. There are many publications that deal with the general investment climate under headings such as political and economic stability, basic legal conditions, safeguards for inward investors, taxation, transferability of profits, administrative burden and so on.

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The current tourism offer

Understanding the IPA's current offer as regards tourism involves a wide range of factors. The IPA has to develop a thorough understanding of its location's tourism industry in terms of:

- (a) Current industry outputs;
- (b) Industry structure, including the whole value chain;
- (c) Size and rate of growth;
- (d) Main sectors and subsectors;
- (e) Drivers and trends in the industry.

The IPA may have a mandate to promote investment into the industry as it exists, or it may be mandated – alternatively or in addition – to identify and help develop, and then promote, new and emerging sectors. If there is no readily available report on the tourism industry, the IPA will have to compile one. The sources of information for such a report include:

- (a) The national statistics agency;
- (b) The NTO and regional tourism organizations;
- (c) Trade and industry associations, of which there may be several, e.g. for restaurants, hotels and tour operators;
- (d) Private research firms specializing in tourism.

An overview of the industry as a whole will certainly be useful, from the point of view of identifying areas of growth or bottlenecks. Such an initial review of the tourism industry as a whole could cover areas such as those set out in table 4.

Table 4. Elements in an overview of the tourism offer

Size and scope of the market	Current size, composition and future potential for domestic and international tourism; industry structure; quality of existing suppliers.
Drivers of change	Pressures relating to existing sources of tourism (expectations, demographics, incomes, leisure time etc.), new and emerging trends, and competition.
Labour force	Size and age composition of labour force, skills, training and quality; local management quality, cost and experience; knowledge of foreign languages; education and training facilities.
Tourism infrastructure	Tourism accommodation; specialized ethnic or regional restaurants; natural and cultural attractions; recreational facilities; travel and tour agencies; tourist information services; marketing and distribution networks.
Physical and ICT infrastructure	Roads, seaports and airports (quality, capacity, destinations, distances); power, water, and sewage infrastructure; telecommunications.
Transportation	Transportation services (airlines, buses, car rentals etc.); availability of aircraft, helicopters, ferries, cars and bicycles.
Superstructure	Key regulatory frameworks such as commercial and environmental law; law enforcement and safety; tourism-related government administration.
FDI framework	FDI legislation; ability to acquire or lease land; investment incentives; FDI flows and stocks.
Cultural factors	Traditional welcome in the country; cultural/historical linkages; accommodation and safety; expatriate community.

A more detailed look at sectors, subsectors and opportunity areas

A tool that is commonly used to assess the current tourism situation is the SWOT (strengths, weaknesses, opportunities and threats) analysis. The SWOT highlights strengths to build upon and areas of weakness to improve upon within the IPA's territory, as well as any opportunities and threats lying outside the region or area itself. It can help define the areas to investigate in the next

Chapter 2. Developing an investment promotion strategy

steps of the search. Items to include in this analysis essentially mirror the earlier analysis carried out, but at a subsector level. The subsector may be looked at in terms of: current size; industry structure, including the value chain; possible niches; rate of growth; and drivers and trends in the industry.

Once an overview of the tourism offer has been obtained and the overall position of the industry has been defined, the next step is to identify the SWOTs within the key subsectors of the industry. In an increasingly sophisticated and competitive market, an offer has to be developed to reach specific groups, or the strategy will fail. It is not possible to be all things to all people, and those who try to do so will find that they are nothing to anybody.

What is required is an examination of the IPA's territorial offer in each of the subsectors in the industry. It may be tempting to overlook some subsectors or niches in such an exercise, but it must be remembered that if they are (currently) unimportant, they may be in high demand with international investors and offer interesting future development possibilities.

Step 3. Identify internationally mobile projects

Not all tourism projects are equally mobile, or even mobile at all. For example, if the project is the development of a theme park, and the theme park requires a certain population size within a certain radius and a certain amount of per capita disposable income, some locations will just not be on the radar screen for those projects; or, if the project is to provide additional facilities at a theme park, and there is no such theme park in the destination country, there is no potential project, even if this is a large and growing sector from a global point of view.

So the first step is to identify criteria that define mobility, to arrive at the realistic pool of contestable projects in a specific subsector or segment. Such criteria would include:

- (a) Level of discretionary income available (market size);
- (b) Dependence on other factors such as family and cultural links (e.g. visits to friends and relatives, a common language, or historical ties);
- (c) Dependence on specific labour inputs;
- (d) Dependence on certain infrastructures (e.g. low-cost air transport) or assets (e.g. historic buildings).

The next step is to match the areas that offer mobile projects with those in the offer of the IPA's territory. This exercise should identify all opportunity areas that can potentially be targeted. It may include an analysis to determine which markets are emerging, growing, mature and declining. Tourism FDI information resources – such as magazines, online portals, and conferences – can help pinpoint the products that best correspond to a country's capacity.

3. Targeting foreign investors in the tourism sector

Once the reviews of global trends and the IPA's current (and possibly potential future) offer have been completed, and once a view has been taken on the presence of internationally mobile projects in those areas, so that the shape of the contestable market is defined, the issue of targeting can be addressed. This involves steps 4 to 10 of the process set out in chapter 2:

4. Develop selection criteria;
5. Benchmark your offer;
6. Make the final selection;
7. Define goals and targets;
8. Develop marketing strategies;
9. Contact target firms;
10. Evaluate the results.

The IPA will tend to play the leading role in the matters addressed in this chapter, which focuses more on promotional activities.

3.1 Selecting investment opportunities

Step 4. Develop selection criteria

Once opportunity areas have been identified, it is necessary to rank them in some form of priority, so that the most important can be focused on. To this end, criteria need to be developed in order to select targets. The criteria chosen and their relative importance will be specific to the territory in question, but could include:

- (a) *The value of the opportunity*: Including the level of value added inherent in the project, and whether it can deliver wider development benefits for the IPA's territory. For example, a training firm providing training in tourism skills could have a wide impact across many subsectors, while a

Chapter 3. Targeting foreign investors in the tourism sector

tour operator in an existing, crowded market segment would have a more limited effect.

- (b) *Sustainability*: The extent to which the opportunity is (i) vulnerable to internal or external risk (e.g. short-term changes in regulations, or exchange rate fluctuations); (ii) compatible with the location's wider economy; and (iii) sustainable socially and ecologically.
- (c) *Marketing channel*: How easy or difficult is the route to market? This includes ease of defining the market, the readiness of the proposition, the resources likely to be required, and the difficulty or ease of accessing individual firms. The IPA's marketing budget is also a factor to be taken into account here.
- (d) *Nature of the project*: How the project makes a material addition to activity. Is it through expansion of existing activities by existing organizations? Or is the expectation that new firms will establish in the territory by setting up their own operations or acquiring local companies?
- (e) *Competitive position*: Initial estimates of how competitive the territory is likely to be in the marketplace for attracting projects. Such estimates are based on discussions with interviewees and research carried out to date. More work should be undertaken as part of the competitive benchmarking exercise to validate these initial estimates (see below).

Candidate opportunity areas can be weighted in terms of these criteria and ranked in terms of their relative attractiveness. Those that are considered worth pursuing can then be further qualified by considering their competitive position in an international benchmarking exercise.

Step 5. Benchmark your offer

The competitive benchmarking exercise has two main elements:

- (a) Identifying key competitors and comparing their offer to that of the IPA, so that it is possible to judge to what extent, and how, to compete with them.
- (b) Learning more about good practices by those competitors and what investors think about the areas in question, so that the IPA can define or redefine its offer accordingly.

Factors to benchmark include:

- (a) The *overall position* of the location as regards inward FDI. This includes the performance in attracting FDI, areas targeted, the IPA and organization of FDI attraction, size of the economy, headline tax levels and similar macro data.
- (b) *Performance* in inward tourism FDI. This includes matters such as numbers employed in the sector(s) and/or subsector(s) in question, performance in attracting inward investment in those sector(s) and/or subsector(s), characteristics of the investment in tourism in the location, the nature of regulation (if any), and the location's proposition to attract inward investment in tourism.
- (c) *Activity* (e.g. programmes such as overseas marketing) of the location in each of the IPA's selected opportunity areas, and key success factors in the location.

After the benchmarking, the overall competitive position by opportunity area can be assessed and a judgement can be made as to how the location should compete (or otherwise) with other locations.

Data useful for benchmarking can be found in publications such as UNCTAD's *World Investment Report*, and the World

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Economic Forum's *Global Competitiveness Report* and *Travel and Tourism Competitiveness Report*. Trade associations often have useful industry data, while IPA and country websites may be good sources for country-related information. It is also useful to speak to some TNCs with operations in competitor countries about how they perceive the conditions there. It may be useful to outsource an operation of this nature, if the budget available allows for it.

Step 6. Make the final selection

Once the various opportunity areas have been set out, and the results of the benchmarking work are finalized, it will be possible to carry out the final selection of opportunity areas. This selection need not be a sequential listing in order of priority. Opportunity areas can be defined in terms of:

- (a) Short, medium and long term;
- (b) Importance in terms of employment, value added, or other specific impact criteria;
- (c) The extent to which they address a specific issue, such as restoration of cultural heritage or opening up of a new region as a "leader" project;
- (d) Stage of development: emerging, growing, mature or declining;
- (e) Position in an "Ansoff matrix":³³ existing products/existing sources (market development strategy); new products/existing sources (product development strategy); existing products/new sources (supplier development strategy); new products/new sources (diversification);
- (f) Ease of realizing the opportunities;
- (g) Risk.

³³ First described in Ansoff I (1957). Strategies for diversification. *Harvard Business Review*. Vol. 35. Issue 5. September–October: 113–124.

In fact, it can be more useful to see the selected areas as a portfolio of opportunities that can be represented as a chart, with benefit to the area on one axis and difficulty of realization on the other. Targets can then be developed and resources allocated accordingly, in line with the overall strategy.

Once the targets have been selected, it is useful to present them to a group of practitioners and policymakers as a “sense check”, to make sure that the analytical work carried out is realistic.

Box 6 provides an example of tourism investment opportunities as identified by the IPA in El Salvador.

Box 6. El Salvador: Investment opportunities in tourism

The tourism investment attraction strategy of PROESA, the National Investment Promotion Agency of El Salvador, is focused on promoting four sectors:

- (a) Mixed-use developments: Projects that comprise two or several world-class components, such as hotels, marinas, golf courses and spas.
- (b) Resorts and hotels: Projects that can be developed in cities or in the mountains, on beaches, or by lakes. The hotels can be branded or independent.
- (c) Boutique hotels: Low-density hotels targeted to specific niches, such as surfing, adventure, spa and wellness.
- (d) Medical tourism: Specialized medical centres (dental care, orthopedics, plastic surgery and ophthalmology) and hospitals.

Source: UNCTAD, based on information provided by PROESA.

3.2 Managing opportunities

Once the opportunity areas to pursue have been selected and ranked, the task is to convert the opportunities into results. This involves the steps described below.

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Step 7. Define goals and targets

With the target opportunity areas ranked and selected, it is possible to define SMART (specific, measurable, achievable, realistic and time-bound) goals for the tourism strategy, and set operational targets and desired impacts against which the success of the promotional activity will ultimately be evaluated.

The investment promotion strategy's goals could be to contribute to a specific part of a wider tourism strategy developed by the tourism ministry (or other authority). The goals could also be to attract investment in specific opportunity areas as identified by the IPA (e.g. around a sports event to be held in the country – such as the World Cup for football or cricket), or the development of a new marine conservation area. In addition, goals could be related to a particular market (e.g. North America) or sector or subsector (e.g. health tourism for retirees).

Once goals are defined, operational targets need to be set for each opportunity area that the IPA is to pursue. It is often useful to look at project targets in terms of their position in the sales pipeline:

- (a) Number of enquiries;
- (b) Number of qualified enquiries;
- (c) Number of serious enquiries (including site visits and provision of extensive data and other support);
- (d) Number of realized projects.

Looking at targets in this way ensures that there is a focus not just on short-term results, but also on results in the longer term, by keeping the pipeline full.

It is also important, at this stage, to spell out what the desired impacts of the promotional strategy should be. These will later be used as the yardstick against which the success or failure of

the programme is measured. The desired impacts should be stated in as unambiguous a way as possible, for example:

- (a) Attract a hotel school to a specific location, which could provide training for x number of people per year;
- (b) Attract x global brand name companies from a new source country, creating y number of new jobs, to raise the country's profile in that market;
- (c) Increase the average number of hotel nights per tourist from x to y;
- (d) Increase the average per capita visitor expenditure per day from x to y.

The desired impacts stated in this way can be easily measured and assessed.

Step 8. Develop marketing strategies

Once the market has been segmented, opportunity areas identified, and goals set, the IPA needs to define the position it wishes to adopt in the selected opportunity areas. Positioning is how the IPA's product (the investment location) appears in relation to other products/locations in the market. This position could be either as a competitor or a complement. It is the aim of the positioning to come close to the ideal expectation of the investor in this respect.

In some cases, the IPA will already have a defined tourism strategy and offer, and will consequently approach investors who supply those markets. In other cases where a new market, a new product or a diversification strategy is being followed, operators in other markets – or existing operators with other relevant offers for other markets – will have to be identified. In such cases, it may be necessary to develop a new position. To this end, it is useful to undertake a market survey, to create a positioning strategy and to promote the destination by determining the comparative

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advantages, core competencies and strengths of the tourism industry.

Image-building in tourism investment promotion is closely linked to destination marketing. The destination's image is usually managed by an NTO. In Mauritius, for example, the Board of Investment is responsible for country branding directed at foreign investors, while the marketing of the country as a tourist destination is carried out by the Mauritius Tourism Promotion Authority. A cooperative approach is essential in order to strengthen overall awareness of the destination.³⁴ One very important issue to consider is that the tourism marketing image and the inward investment promotion image should not contradict each other ("brand parasitism"). For example, a tourism advertising campaign promoting the image of a slow-moving culture may not be very attractive to foreign investors.

Step 9. Contact target firms

There are various ways for an IPA to target and contact firms operating in the identified opportunity areas. Often, the approach chosen will be determined by the budget available.

Tourism market information and databases

There are a large number of online resources for tourism investment information and opportunities, which may be of use to the IPA. Databases allow users to identify target markets and sectors based on empirical evidence, to identify potential investors,

³⁴ A good example is Switzerland Tourism (<http://www.myswitzerland.com>) for tourism and Osec (<http://www.osec.ch>) for trade and investment using similar corporate design elements. Osec worked on an image change in 2008 in Switzerland and abroad. The intention was to adopt a more coordinated approach in tandem with other promotional agencies at the federal level when promoting Switzerland abroad as a potential business location.

or to follow the performance of competitors in the tourism sector. Various custom-made databases provide powerful tools to track and profile companies and enable users to monitor projects, capital investment and job creation in real time. A useful online resource provided by UNWTO is the Tourism Information and Documentation Resource Centres Database (INFODOCTOUR), which enables users worldwide to access, transfer and exchange technical tourism information.³⁵

The integrated marketing campaign

The most sophisticated approach is to develop a public relations and advertising campaign, based on research that has identified target opportunities and developed appropriate messages, targeted at decision-makers in firms in those opportunity areas. This is followed up by the mailing of a letter, with attachments or inclusions relating to the opportunity areas, to named individuals in target firms, either by conventional mail or by e-mail (if addresses are obtainable). These mailings can then be further followed up by telephone calls. Organizing investors' conferences or seminars can be an additional element of the above-mentioned approach, or it can function as a stand-alone initiative. Individual or group missions (inwards or outwards) can be undertaken to follow up contacts made in this way.

It goes without saying that such an approach can only be afforded by a handful of IPAs, so in most cases, IPAs will generally have to adopt a more modest approach suited to more limited budgets.

Events and company visits

Tourism investment conferences, seminars, trade shows and fairs provide opportunities for IPA officials to meet and form

³⁵ Available at <http://www.unwto.org>.

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relationships with people from the corporate world, public institutions and other organizations. At such conferences, investment promoters can search for potential investors or obtain ideas on how to make the project proposal attractive to potential investors. Box 7 provides some examples of events where IPAs can meet with investors.

Box 7. Tourism investment conferences, trade shows and fairs

Some investment conferences are specialized, focusing exclusively on – for example – hotels or real estate. Other conferences cover tourism more broadly, such as the World Tourism Investment Summit, Boundless Southern Africa, or various national tourism investment conferences. The World Tourism Investment Summit’s unique forum is extended to 500 global delegates representing over 50 countries. The participants include corporate executives from all major sectors (hospitality, airlines and airports, tour operations, infrastructure etc.), tourism ministers, financiers, government officials including state and city authorities, heads of international organizations, and other major stakeholders. Boundless Southern Africa initiated a tourism, hospitality and leisure conference with the key objectives of raising awareness of the region’s significant investment potential and of marketing tourism investment opportunities in Southern Africa’s transfrontier conservation areas.

Trade shows and fairs are important in promoting both destinations and suppliers’ products. Thousands of buyers and sellers come together at these shows, which are held in various parts of the world. The two largest shows are ITB Berlin, and the World Travel Market in London. There are many other fairs that are worth looking at, and which fair to choose will depend on the focus of the IPA’s promotion strategy.

Source: UNCTAD.

Inward and outward investment missions provide other opportunities for investment promoters to meet in person with overseas investors. The key to a successful company visit is preparation: the IPA may only get one chance to “sell” its

proposition to the company. Before requesting the meeting, research on the target firm should be carried out in order to identify key decision-makers. The objectives for the meeting must also be established before it takes place. In addition, IPAs may encourage members of its country's diplomatic service to visit the overseas headquarters of potential investors.

"Cold calling"

Some IPAs are using a direct approach ("cold calling") to candidate companies in the target opportunity areas. This involves, in the first place, developing lists of firms in the target areas. Such a list can often be purchased from a list broker, although the lists in question tend to be incomplete and out of date. Alternatively, trade or industry associations may have membership lists on their websites, often with named key contacts in the firm.

While firms on such lists can easily be contacted by mail, it is becoming more and more difficult to "cold call", as firms are increasingly cautious about who they allow access to as regards senior decision-makers. However, a professional, persistent approach can produce good results.

Once contact is made, it is essential that the caller have the appropriate key sales messages available, and be able to provide additional information either immediately or with a promise to get back to the person shortly.

An IPA can choose to outsource such lead-generation activities to specialized lead-generation firms. There are advantages and disadvantages to such an approach. One of the main disadvantages for the IPA is that it does not get direct, first-hand knowledge and experience of the market. Much is lost between the conversation that the lead-generation agency has with the decision-maker and the list of contacts provided to the IPA at the end of the project. While the "cold calling" role does not appeal to all IPA

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staff members, it is a way to get to know the market well. The advantage of outsourcing is that the company is a professional, specialized organization that may be able to deliver many good-quality leads in a short period of time, and if the IPA is understaffed, this can be a very practical solution.

Promotional material

The selection of promotional materials will be driven by the communication strategy chosen. Print materials are very costly, and overproduction could lead to a substantial waste of resources. E-marketing materials (websites, e-newsletters and e-magazines) are usually not as costly to produce, and they can be easily distributed and updated.

Another approach is to prepare a broad range of “business opportunities profiles”. These profiles should not pretend to clarify rates of return and investment risks, but rather aim to inspire foreign investors to look into the opportunities more closely for themselves.

Before developing promotional material, several questions need to be answered, for example: How should the location brand be represented and reflected in promotional materials? What design imagery should be used in all materials to ensure brand recognition and consistency? How is the IPA’s promotional material coordinated with other national/subnational material?

Dealing with leads

Leads are most often a result of the IPA’s marketing campaign, although sometimes prospective investors contact the agency without targeted promotional efforts. When a lead has been generated, it is useful for the IPA to follow these guidelines:

- (a) Try to understand the investor's fundamental purpose for the project;
- (b) Be aware of the exact stage of the investor's project evaluation;
- (c) Appoint a single contact person to respond to enquiries;
- (d) Rapidly provide accurate and timely information and data;
- (e) Ensure that the relevant ministries and government agencies fully understand the project;
- (f) Encourage diplomatic service visits to the investor's corporate headquarters.

Managing contacts

Once contacts are made, they need to be managed very carefully. It has invariably taken a great deal of effort and resources to establish them, so they need to be looked after very well. Customer relationship management (CRM) is used by companies and public sector institutions to handle contacts with customers and clients. CRM software can be used to support the processes and to store information on current and prospective investors. The purpose of using CRM tools is to improve the services provided to customers and to use the information for marketing and sales activities. Databases of current and potential customers can also be used to generate personalized communications. Customer databases usually contain names, addresses, and transaction history details from internal sales or delivery systems, or a bought-in list compiled by another organization (e.g. an NTO or hotel association) that has collected that information from its customers.

Step 10. Evaluate the results

Systematic monitoring will enable continuous tracking of the performance of the promotional activities. The most important point with regard to monitoring is to state clearly, at the outset of the activity, what is to be monitored, and that relevant results and data must be collected continuously in order to obtain a good time

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series of outputs (and possibly outcomes). Of course, it is also crucial that whatever the IPA decides should be monitored must be relevant for determining the success, or otherwise, of the investment promotion programme.

The monitoring of data can be divided into tracking processes and tracking outcomes. For example, it is possible to track the number and quality of new contacts made at various events throughout a particular planning period. It is also possible to monitor the number of company visits by overseas staff, or the number of inward missions supported.

As far as outcomes are concerned, it could be a case of tracking the number of projects realized in target opportunity areas, the number of jobs created, the value of the jobs created, domestic supply chain effects or exports, and so on. It is also possible to monitor the territory's image or brand as a tourist destination year on year.

Monitoring could also include, for example, institutional arrangements such as:

- (a) A tourism development group, comprising senior-level representatives from partner agencies and the private sector, which meets to adopt the investment promotion plan as their working document. They will then regularly assess the progress made against the investment promotion plan, and review any new actions that might need to be brought forward.
- (b) A tourism forum to oversee the implementation status and the delivery of the investment promotion programme.
- (c) An annual tourism investment summit meeting to be held for the presentation of yearly results achieved and for further discussion with public- and private-sector stakeholders.

As has already been mentioned, a tourism ministry or an NTO often has the main responsibility for a tourism promotion strategy, rather than the country's IPA. When that is the case, it is essential to take a coordinated approach to the evaluation exercise.

UNCTAD has developed a guide specifically dealing with the question of evaluating the results of interventions by IPAs.³⁶ The guide's point of departure is that there are two complementary approaches to evaluation: the first asks if the IPA is "doing the right thing", while the second asks if it is "doing the thing right". When evaluating the final outcomes of the promotional process, matters such as deadweight (what would have happened even without IPA intervention), substitution (firms shifting within the territory), displacement (new entrants putting existing firms out of business) and similar factors must be taken into account. The regional multipliers are applied and dynamic effects assessed. Finally, the effects of the IPA's activities on sustainable development through the "triple bottom line" (economic, social and environmental development) should be evaluated.

On these grounds, it is then possible to reach some robust conclusions as regards the overall effectiveness of the promotion programme. The method suggested is what could be called "bottom up", working from actual projects, rather than a "top down" approach, using regional data and economic models to predict impacts.

The purpose of evaluation is to ensure that lessons from the past are learned, and to use that information to improve existing and future programmes. With the results from the evaluation at hand, the IPA should proceed to modify the targeting process if that is necessary.

³⁶ For more details, see UNCTAD (2008b). *Evaluating Investment Promotion Agencies*. Investment Advisory Series A, number 3.

4. Conclusions

The past half-century has seen a major growth in wealth worldwide, which has – in the past decades – been accompanied by the opening up of world travel to an extent not seen since the end of the nineteenth century. The increase in international travel – including growing numbers of tourists from emerging economies – has created major new development opportunities in tourism. Declining airfares, improved physical infrastructure (road and rail) and better telecommunications have further fuelled the growth of the tourism industry.

Many – if not most – countries are actively pursuing the “tourist dollar”, and the market has become highly competitive and differentiated as a result of competitors responding to the needs of consumers. The industry offers, potentially, many benefits: employment, new skills, foreign exchange, learning new management systems, the realization of improvements in productivity, and linkages with global value chains. These opportunities have created a growing demand among IPAs for support in their efforts to attract tourism investors.

For some types of tourism, the capital and other requirements of market entry are relatively low (e.g. in the case of management contracts, or niche markets such as game lodges). For mass market tourism to be successful, on the other hand, many preconditions are required in the territory: personal safety, easy accessibility, affordable transport and accommodation, rapid currency-exchange services, medical care if required, and so on. Growing attention to sustainable tourism makes it necessary for the IPA to consider how it, within its mandate, can contribute to reducing negative environmental and social impacts and ensuring that economic benefits accrue to local communities.

Due to the above-mentioned factors, it is critical, if IPAs are planning to market their territory as a destination for inward investors, whether as an element of a national tourism strategy or as a stand-alone initiative, that they undertake a structured exercise to

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assess their position as a destination for inward FDI in the tourism industry. From the outcome of such an exercise, the IPA will be able to identify where it should concentrate its resources so as to achieve the best return for the territory as a whole. Such an exercise will also help identify what areas outside the mandate of the IPA are in need of improvement to ensure sustainable tourism development. The IPA can lead or support efforts to bring about changes in these areas through policy advocacy.

The frequent use of non-equity or low-equity investments as a means of market entry should not be seen as a deterrent to the promotion of inward investment in tourism. The benefits of foreign investment are not exclusively measured in terms of capital intensity, as much of the positive impact accrues to labour- and management-related spin-offs. Even non-equity participation, such as hotel franchises, can be very beneficial, for example by helping to attract a critical mass of visitors that will make other tourism projects profitable. Non-equity forms may also encourage IPAs to strengthen ties to their domestic business communities to identify local partners of foreign TNCs and to foster linkages that could enhance the sector's sustainability. Business partners could also be found among already established foreign investors, and suitable firms might be identified through the IPA's aftercare programme.

While a rigorous segmenting, targeting and positioning approach is a necessary condition for success in promoting inward investment in the tourism industry, it is not sufficient. For inward investment in tourism to be successful, wide-ranging collaboration and coordination between players in the industry – both public and private – is required.

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