

CONSTRAINTS IN A LAND OF OPPORTUNITY

Nilanthi Sivapragasam pinpoints the numerous roadblocks that confront the corporate sector's opportunities for growth.



The year has been a challenging one," says the Chief Financial Officer of Aitken Spence Group and Managing Director of Aitken Spence Corporate Finance Nilanthi Sivapragasam. "We had so many plans, but things didn't quite work out as well as we thought they would. One of the main reasons for this is that we are very focused on the tourism industry. The group operates in a few core sectors and our largest investments are in tourism. The industry has had a very bad year, so the group as a whole has not fared as well as we originally envisaged," she reveals. "But we hope we will be able to at least match our results of last year," she says.

The core sectors of the highly-respected conglomerate comprise tourism, logistics, services and strategic investments. Infrastructure, which is a part of the strategic-investments sector, says Sivapragasam, is performing best. "As an independent power producer, we generate some 12 per cent of the country's energy requirements," she claims. Aitken Spence is looking at investing more in this crucial sector. "There are many areas in which the group is very interested in investing, but there are impediments. One of the constraints is the government's reluctance to encourage private-sector participation in large-scale projects," she explains. On the other hand, Sivapragasam acknowledges that opportunities abound, despite the prevailing country environment.

How about new business ventures and diversification, then?

"We are very interested in the Colombo port-expansion project. As a leader in marine and logistics services in Sri Lanka and as the first Sri Lankan company to venture into the field of port-management overseas, we believe our eagerness to be a part of the port's expansion is justified. Our ground-breaking operation in the port of Durban (South Africa) in efficiency management and training has attracted inquiries from several other international ports," she reveals.

"Then, we are also looking very seriously at Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) operations. We are more interested in KPO, because while BPO is driven by cost considerations, KPO is about value addition," she adds. Whilst India is the market leader in BPO, Sivapragasam notes that "India has become a little too expensive, so multinationals are looking at Sri Lanka now". But she warns: "If we focus on this purely in terms of the cost base, they will eventually find a cheaper destination and move out of Sri Lanka." Aitken Spence is, therefore, looking at KPO operations and tying up with a partner in the IT industry in the US.

Sivapragasam notes that the recent investment in MMBL Money Transfer – which is a principal agent of Western Union Money Transfer – is another aspect of the group's diversification pro-

gramme. "Last year, inward foreign-worker remittances to the country amounted to about US\$ 2.3 billion. However, there is so much that comes from illegitimate means, which we want to bring into the mainstream. Hence, there is immense potential in this business," she says. The inflation spiral and high interest rates are also a cause for concern for the blue-chip's financial officers. "When you go in for new projects and investments, you have to finance them. When the cost of finance and project financing increases, project and operational costs rise – and this invariably results in a lower return on equity," she explains.

"I know the government is keeping interest rates high with a view to containing inflation, but government expenditure should also be controlled. The stock market was booming for some time, but then the market collapsed because interest rates started rising and investors shifted their funds away from the capital markets. Corporates are going to find it very difficult in this situation with high debt-servicing costs," laments Sivapragasam.

As for the future, she says: "Sustainable peace is essential for Sri Lanka to achieve its true potential. The substantial impact of a possible humanitarian crisis and the economic costs of conflict is being felt by the country, and they will certainly have an adverse impact on business. With rising costs – particularly fuel prices – and resulting inflation, our employees would naturally feel the pinch, resulting in demands for higher wages."

The way forward is seemingly in venturing overseas. "Our geographical diversification has helped. Although tourism has been negative here, it is booming in the Maldives. Following our success, we have ventured into India," she states.

The bane that is taxation is also having a telling impact on corporate investment. "Yes, this is affecting us really badly. There's something like 30 different types of taxes and levies, and nearly 70 payments that companies in this country are liable to pay each year! Naturally, they all go into the cost of products and services. Another problem is that legitimate taxpayers are few and far between. Those who pay taxes are being asked to pay more, but those who evade tax get away with it! In addition, substantial VAT refunds have been delayed, which has an adverse effect on our cash flow. The authorities should recognise that genuine taxpayers in the corporate sector should not be unfairly penalised for the actions of a few fraudulent elements. Successive governments tend to meddle with the tax system. This lack of consistency impedes our planning process, which affects investment. There must be a streamlining and rationalisation of our tax system, if we are to permit greater private investment," she urges.

PUBLISHER'S NOTE: This is an updated version of the article which appeared last month, which – due to an error on our part – was published as an unedited draft.

LMD
ADVERTORIALS

STRATEGY



THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME
LEVEL 06 – 2005/2006
FINAL EXAMINATION -2007
ADVERTISING –MCU 4205

DURATION: THREE (03) HOURS

DATE: 14.07.2007

TIME: 09.30A.M-12.30 P.M

ANSWER ANY FIVE (5) QUESTIONS

ALL QUESTIONS CARRY EQUAL MARKS.

1. Critically analyze the major issues and trends in advertising in Sri Lanka and discuss with suitable examples.
2. “Advertising is an unnecessary expense”. Do you agree or disagree with this statement? Why or why not? Discuss with appropriate examples of your own.
3. Explain the importance of research in advertising using examples of your own.
4. Assume that a client wants to select a media for advertising. How would you advise your client? Discuss the key issues in media selection with examples.
5. a) Identify by name, 3 top advertising agencies in Sri Lanka.
b) Evaluate the effectiveness of advertising agencies using key performance indicators of your choice.
6. Explain and discuss the relevance of the internet in advertising by using examples of your own.