



**The Bahamas in the Era of Total Competition
June 2007**

Confidential

Agenda

- 1. Competitiveness Theory**

- 2. Jamaica: Avoiding the Commodity Trap**

- 3. Bermuda: Knowing the Customer**

Why prosperity matters...

There is a correlation between incomes and:

productive attitudes toward authority ,
tolerance of others and support of civil liberties, openness toward foreigners ,
positive relationships with subordinates, self-esteem ,
sense of personal competence, satisfactions with one's own life ,
the disposition to participate in community and national affairs,
and interpersonal trust,...

Alex Inkeles, Stanford University

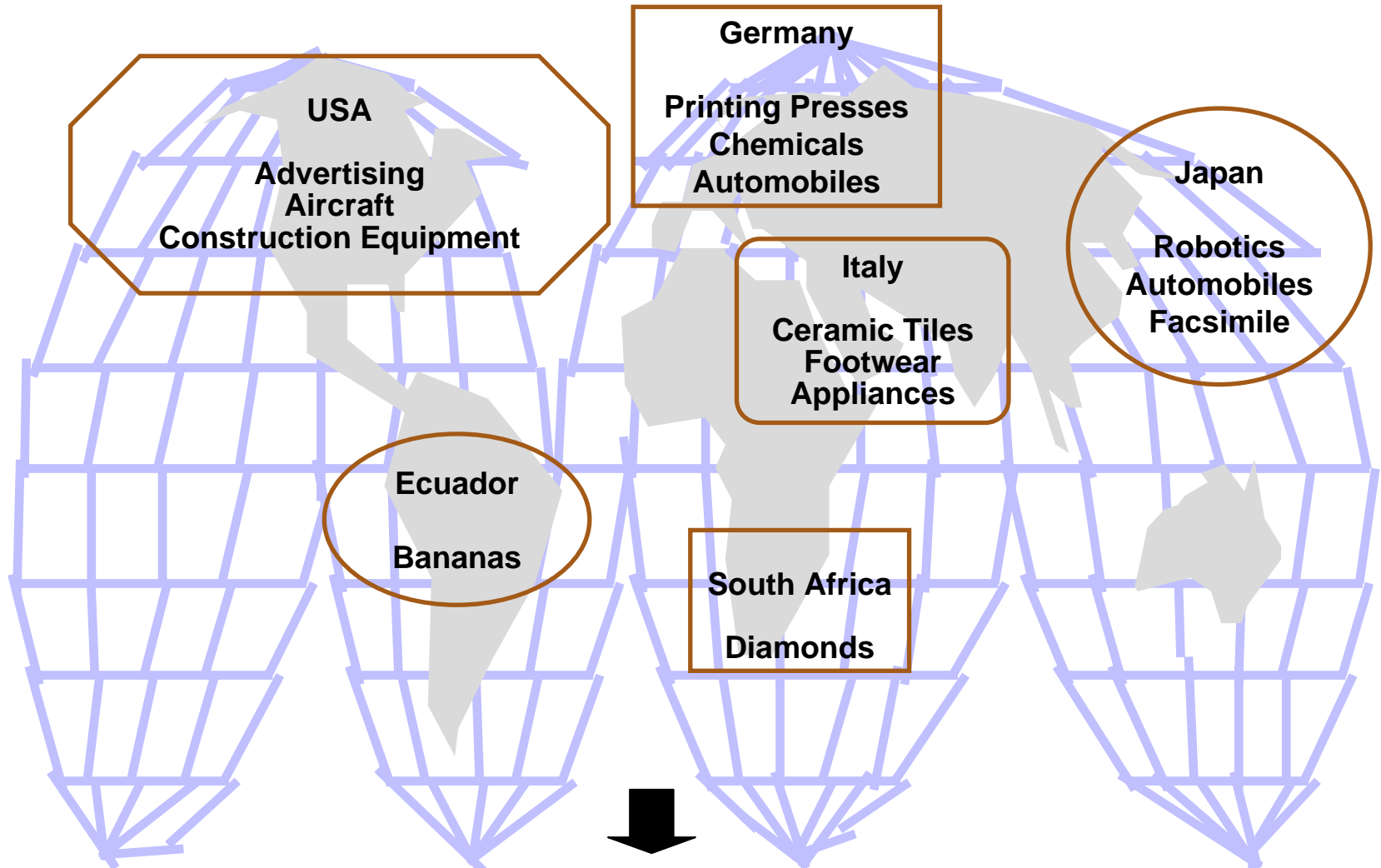
Competitiveness Theory

What is Competitiveness?

- **Competitiveness has emerged as the preeminent issue in every nation – for companies and governments**
- **Upgrading a nation's export competitiveness requires a shared understanding of competitiveness within the nation**
- **Competitiveness is not simply:**
 - **A favorable exchange rate**
 - **Positive balance of trade**
 - **Industrial subsidies**
 - **Low inflation rate**
- **Rather, competitiveness is the productivity with which resources are deployed**
 - **Human resources**
 - **Capital**
 - **Physical assets**
- **Since competitiveness relies on productive deployment of resources, industry sectors and their firms compete, not nations**
 - **Government has a partial but significant role in creating the platform from which firms compete**

Competitiveness Theory

Competitive Cluster Examples



- Nations have very different natural resources, macroeconomics and management cultures
- Learning and innovation at the level of the cluster and firm drive competitiveness

Two Paradigms

Thinking in the “Era of Total Competition”



Seven Forms of Capital

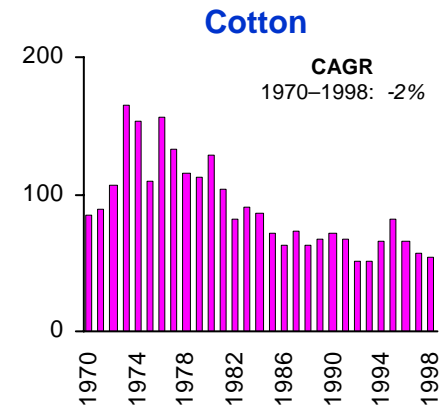
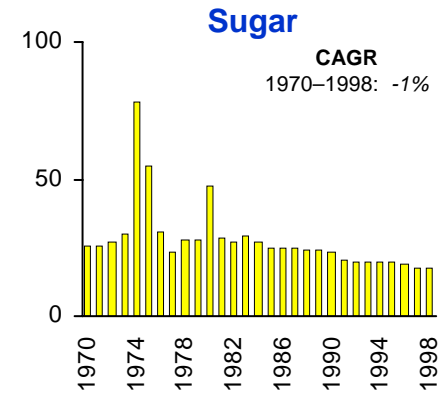
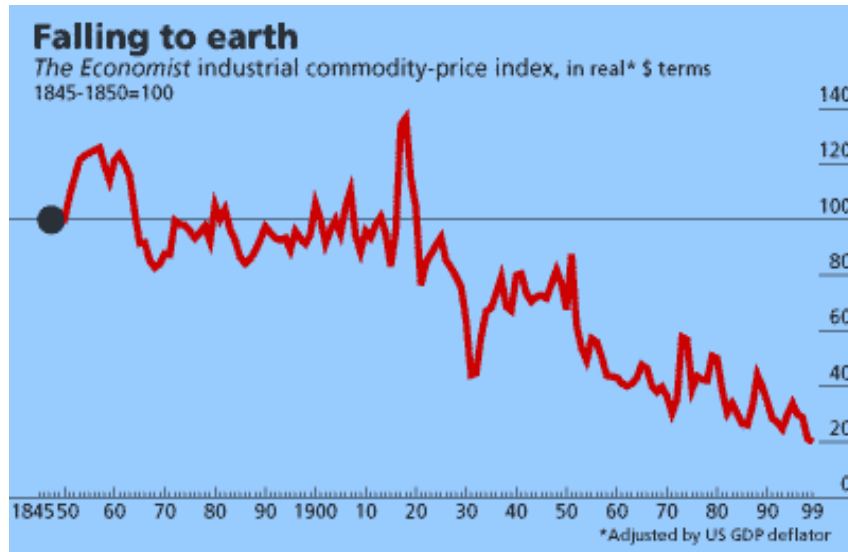
		<i>Representative Elements</i>	<i>Representative Examples</i>
Social	Cultural	<ul style="list-style-type: none"> • Tangible Articulations • Norms • Mental Models 	<ul style="list-style-type: none"> • Architecture, Music, Language • Range of Acceptable Behaviors • Trust, Wealth Creation Attitudes, Long-Term Thinking
	Human	<ul style="list-style-type: none"> • Health and Population • Education and Training • Attitudes and Motivation 	<ul style="list-style-type: none"> • Nutrition, Medical & Mental Health • Primary & Secondary, Technical • Self-responsibility, action-orientation
	Knowledge	<ul style="list-style-type: none"> • Qualitative, Quantitative Data • Frameworks and Concepts • Knowledge Generation 	<ul style="list-style-type: none"> • Statistics, Opinions, Records • Theories, Processes, Procedures • Universities, R&D, Market Learning
Physical	Institutional	<ul style="list-style-type: none"> • “Good, Clean Governance” • Justice System • Connective Organizations 	<ul style="list-style-type: none"> • Transparency, No Hidden Costs • Property Protection, Predictable Regulations • Chambers of Commerce, Unions
	Financial	<ul style="list-style-type: none"> • Financial Systems • Private Wealth • Public Wealth 	<ul style="list-style-type: none"> • Banks, Stock Markets • Bank Deposits • Bank Reserves, Taxes, Duties, Macroeconomic Stability
	Man-Made	<ul style="list-style-type: none"> • Transportation, Communication • Power • Water and Sewerage 	<ul style="list-style-type: none"> • Roads, Ports, Telephone Systems • Electric Grids, Generation Capacity • Pipelines, Pumping Stations
	Natural Endowments	<ul style="list-style-type: none"> • Environmental Issues • Raw Materials • Climate and Location 	<ul style="list-style-type: none"> • Conservation, Restoration • Agricultural, Mineral, Petroleum • Proximity to Markets

Seven Patterns of Uncompetitive Behavior

- **Overreliance on Basic Factors**
- **Lack of Customer Focus**
- **Poor Understanding of Relative Position**
- **Lack of Forward Integration**
- **Poor Interfirm Cooperation**
- **Defensiveness**
- **Paternalism**

Competitiveness Theory

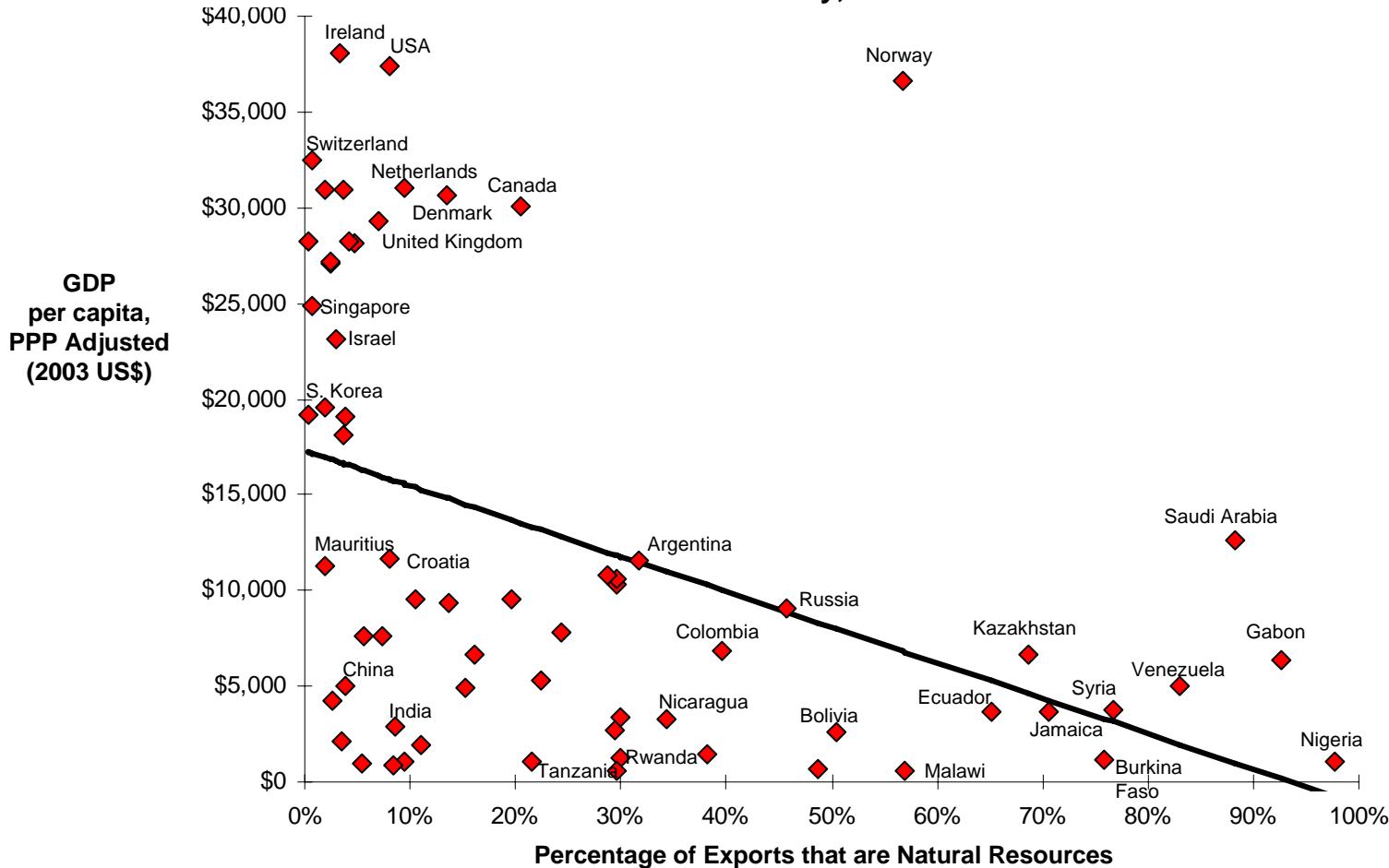
Declining Commodity Prices



By definition, commodity products are difficult to differentiate and producers are forced to compete on price. Real prices continue to decline, increasing pressure on producers to lower costs and reducing the average worker's salary. Competing on commodity products is not a sustainable strategy for generating wealth for the average citizen.

Over-Reliance on Basic Factors: Relationship Between Natural Resource Exports and Wealth

Percentage of Exports that are Natural Resources versus Purchasing Power Parity, 2003



Countries Unable to Reduce Natural Resource Dependency Have Lower Standards Of Living

Notes: 1) The data analyzes goods and services exports. 2) The coefficient of correlation was .18. 3) Where 2003 data was not available, 2002 data was substituted.
Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.
Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics; OTF Group Analysis.

Poor Understanding of Relative Position Differentiation in the Tourism Industry

“Blue water, the tradewinds, freedom from ringing telephone and other hassles make this a perfect place to get away from it all.”

“This is a very discreet and quiet, a very romantic place. You can watch the beach at sunset, crime is not a problem.”

“They have made significant improvements in the facilities they offer for families traveling to the island. And with the advertising push they’re making, they pose a real challenge for us.

“Aquamarine waters, life-rich coral reefs, breathtaking beautiful beaches offer the potential for excellent diving.”

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**Northeast Tour Operators’ Evaluation of
Cayman Islands**

**U. S. Tour Operator speaking about Grand
Cayman**

**Florida Tourism Official commenting on
competition from Grand Cayman**

Grand Cayman tourism promotion document

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The Competitiveness Challenge

Old and New Models for Tourism

Old Model (Comparative Advantage)

Competitive Assets

- beauty
- location
- brand name



Operational Excellence

- firms strategies organized by industry priorities
- “master strategist”



Competitive Strategy

- broadly-defined, “mass market” visitor experiences
- volume
- uneven quality

New Model (Competitive Strategy)

Competitive Assets

- human capital
- trust
- institutions
- unique knowledge



Operational Excellence

- firm strategies coordinated by customer needs
- shared vision



Competitive Strategy

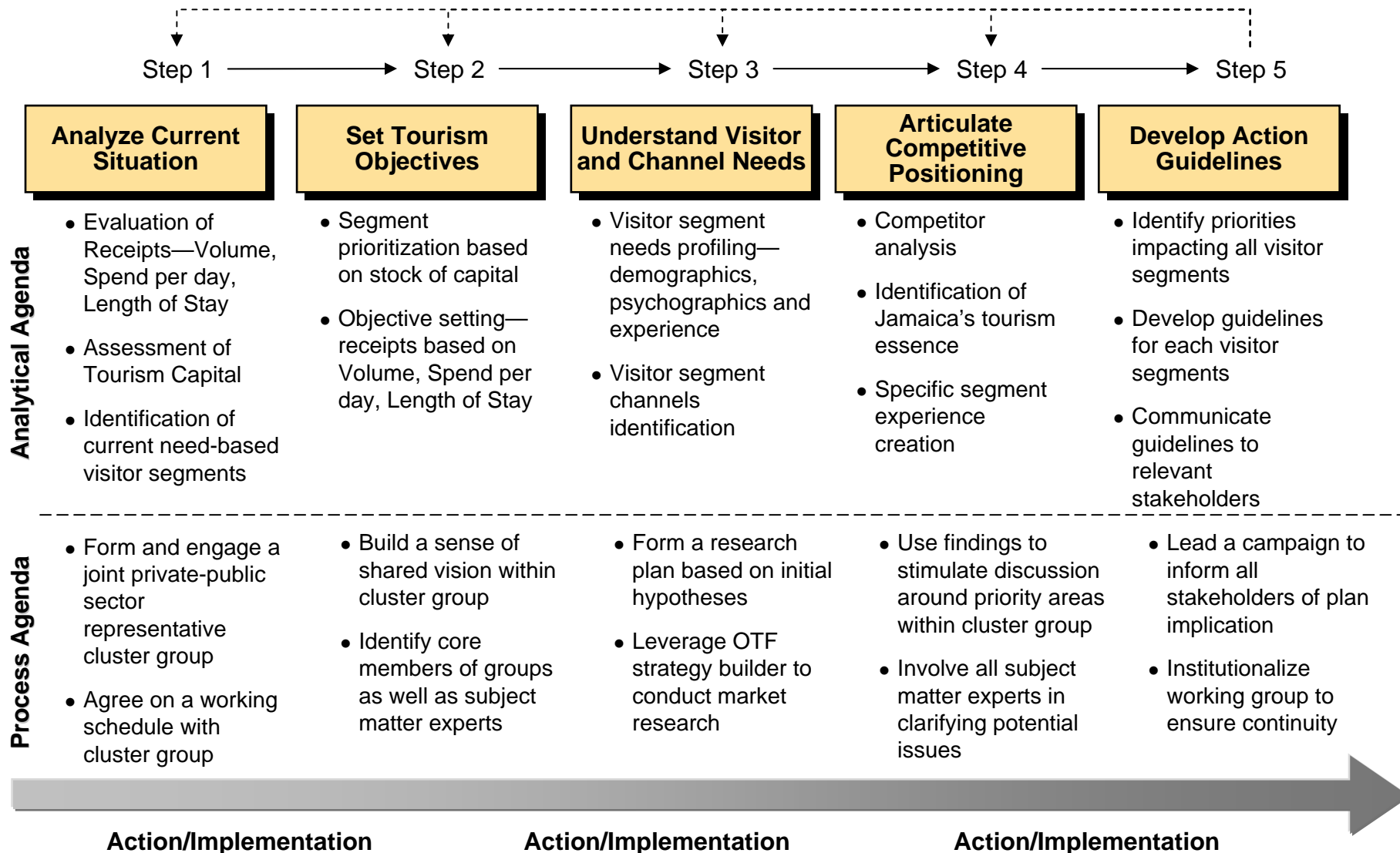
- customization
- consistently high quality
- integrated customer experiences

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Five Step Process

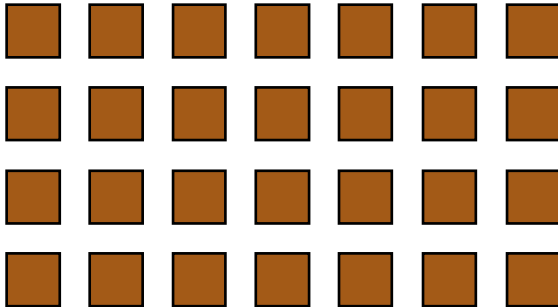
Change Process for Jamaican Tourism



Strategy:

Identification of Customer Segments

Individual Customers



Develop Competitive Strategy Based on an Understanding of Individual Customers?

or . . .

Very detailed and extensive learning about specific customers possible. Impractical to try to understand every customer - may end up trying to serve everyone.

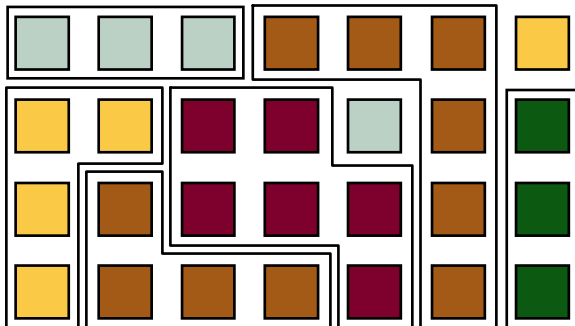


Develop Competitive Strategy Based on Generalizations about "The Industry"?

or . . .

"Big picture" knowledge can give sense for trends and opportunities, but difficult to learn actionable characteristics of customers.

Segments



Develop Competitive Strategy Around Clusters of Customers (Segments) About Which We Can Make Generalizations?

Can isolate groups of customers, profile them, and design strategies about serving desirable clusters. Can be complicated, however.

Prosperity is the Bahamas' Choice

Eight Imperatives for Creating Change in The Bahamas

1. We need to define and make explicit our **moral purpose: a high and rising standard of living for the average Bahamian.**
2. Understand the **the world has changed dramatically**: political boundaries have disappeared, costs of communications, transportation and learning are declining rapidly.
3. Acknowledge that **we are overdependent on the basic advantages** of location, and the abundance of natural resources.
4. Understand that **wealth in the future** is based on insight, sophisticated human capital, cultural attitudes focused on embracing competition, learning, trust, cooperation and investing in complex advantages.
5. Understand that **economic growth and social equity** are the same thing.
6. Understand that **competitiveness is productivity**; and productivity is *where* we choose to compete and *how* we choose to compete.
7. Acknowledge that the government must **do everything it can to assist the private sector, except to impede competition**; invest in people, infrastructure, learning organizations and a non-defensive dialogue between the public and the private sectors.
8. Understand that the private sector needs to invest in more learning: customer preferences, knowledge of position relative to competition, possibilities of changing the distribution channels, and **investing in the upgrade of its products.**