

# The tourism industry in the maldives tourism essay



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The Maldives, known for its high end world class resorts, popular among the rich and famous is situated in South West of Sri Lanka on the Equator comprises of 1, 190 tropical islands stretching over an area of 90, 000 sq Km. With an average of 30 degrees Celsius, underwater coral gardens, white sandy beaches, turquoise blue lagoons, crystal clear water and 664 Km of coastline; the Maldives offers unimaginable natural beauty and remote tropical island experience to its visitors. An array of festivities and activities can be found on the islands including superb fishing, world class surf, shopping, diving and snorkelling, whale and dolphin watching and much more.

There are 97 luxury resorts established in the Maldives currently under operation and a further 30 resorts are been developed in addition to 145 safari vessels and city hotels already operating in the country. One resort one island is the policy that has been maintained in the Maldives. Each of them is self sustained providing maximum privacy to the guest.

Tourism is the main industry in the Maldives and contributes about 32% to its GDP - a figure which could easily rise to 70% if indirect sectors relating to tourism are taken into account. Tourism generates a 5th of Maldives total employment and 70% of its foreign exchange earnings. It also accounts for 30% of the Government's revenue. Over the last five years tourist arrivals to the Maldives have been increasing constantly except for 2005 as the region was severely devastated by the tsunami. 2007 saw a record year for Maldives Tourism with a 12. 3% rise (3. 8% higher then expected), a significant achievement signalling the industry was coping well with the long lasting impacts of the tsunami.

However over the last 2 years the financial crisis in Europe and the rest of the world affected the Maldivian tourism industry tremendously recording a 4 % drop in total tourist arrival.

The year 2010 looked more optimistic for the Maldivian tourism industry as signs of economies rebounding in the form of increased tourist arrival.

Maldives recorded a 21 % increase in arrivals and an 8 % increase in the European segment.

It has been identified that Maldives tourism will be facing many challenges especially from man made crises such as the economic recessions and the environment degradation.

Recessions can lead to a fall in disposable income of consumers resulting in a decrease in consumption of luxury goods such as holidays. When consumers becomes increasingly pessimistic about their future in terms of reduced job security and increased financial obligations they minimizes spending dramatically worsening the economic situation further.

the environmental impact of tourism expansion can threaten the very basic experience that is being sold , the remote tropical islands with coral gardens and a vast variety of species occupying them . Activities such as snorkeling, scuba diving and reef walking , water sports activities where power boats are used extensively can threaten the very coral reef that sustain not only an ecosystem of multi species but the barrier to erosive impacts of waves on the resort islands. Without such natural barrier the beautiful white sandy beaches the Maldives is known for will fade away replacing it with a man made barrier changing the very image of the islands.

To meet the challenges face by the Maldives tourism industry, marketers are devising strategies enhancing the image and develop products incorporating the changing needs, values and consumer behaviour while simultaneously sustaining the tourism industry.

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## **1. 0Introduction**

This report presents a critical review of the tourism industry of the Maldives and an evaluation of the challenges it is facing . Discussions on how marketers are responding has been presented as well.

The effects of the global financial crisis which hit the Europe and the rest of the world on the Maldivian tourism industry will be evaluated. The effects on Maldives tourism from the financial crisis in Europe, which accounted to more than 70 % of the total tourist arrival in the country in the past, will be also evaluated. Factors in the external environment will be included in the analysis.

The report will focus on finding challenges faced by the tourism industry and evaluate the responses by the marketers in responding to these challenges.

Brief initiatives by companies within the sector to offset these issues will also be presented.

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## **1. 1 Limitations**

The Studies limited to operators of the resorts and other tourists vessels.

Due to lack of information on the 2010 statistics much emphasis is not put on to describe the extent of recovery of the economy as a result of the increase in tourist arrivals as only one month statistics were available during the time of this research. Furthermore the study considered only the man made crisis in deriving challenges to the industry.

## **2. 0 Over view of the industry**

The Maldives, situated in South West of Sri Lanka on the Equator comprises of 1, 190 tropical islands stretching over an area of 90, 000 sq Km. With an average of 30 degrees Celsius, underwater coral gardens, white sandy beaches, turquoise blue lagoons, crystal clear water and 664 Km of coastline; the Maldives offers unimaginable natural beauty and remote tropical island experience to its visitors.

Maldives has a rich and diverse culture with influences from African, Asian, Indian and British . An array of festivities and activities can be found on the islands including superb fishing, world class surf, shopping, diving and snorkelling, whale and dolphin watching and much more.

Over the last five years tourist arrivals to the Maldives have been increasing constantly except for 2005 as the region was severely devastated by the tsunami. 2007 saw a record year for Maldives Tourism with a 12. 3% rise (3. 8% higher then expected), a significant achievement signalling the industry was coping well with the long lasting impacts of the tsunami.

Tourism is the main industry in the Maldives and contributes about 32% to its GDP – a figure which could easily rise to 70% if indirect sectors relating to tourism are taken into account. Tourism generates a 5th of Maldives total employment and 70% of its foreign exchange earnings. It also accounts for 30% of the Government's revenue. (W. T. O. 2010)

## **2. 1 Product**

Maldives holiday provides the following products to the tourists Honeymoon . Business, family, Spa retreat, wedding Ceremonies, Diving, Cruising and Surfing.(Maldives traveller website, 2010) . Recent tourist opinion survey showed that the main reasons for tourists coming to the Maldives were relaxation (55%); honeymoon (28%) and diving (11%).

## **2. 2 Pricing**

The Maldives is known for its high end world class resorts and, which offer tropical privacy in the modern hectic world, popular among the rich and famous. This privacy and seclusion of many Maldivian resorts is what makes them unique. This is what differentiates the Maldives from its competitors, and over the last few years many new exclusive resorts have sprung up. These high end resorts, and the tourism sector as a whole, are an important part of the Maldivian economy: in 2008, the sector contributed 27. 2% of the Maldivian GDP. (MMA 2010)

## **2. 3 Place**

There are 97 luxury resorts established in the Maldives currently under operation and a further 30 resorts are been developed in addition to 145 safari vessels and city hotels already operating in the country. One resort

one island is the policy that has been maintained in the Maldives. Each of them is self sustained providing maximum privacy to the guest. (Tourism ministry website 2010)

## **2. 4 Promotion**

Destination Maldives promotion is actively taken up by the government . activities are carried out by the government organisation called Maldives tourism promotion board. They initiate, lead, facilitate and execute the planned activities . Maldives is promoted mainly in UK, Germany, and Italy.

## **2. 5 Distribution**

The Maldivian travel and tourism industry is largely controlled by the private sector. The central government acts as a regulatory body in the industry. The key stake holders in the industry are the local tour operators, tour operators abroad, local airlines, international airlines, tour operators. Among them exists partnerships and strategic alliances together contributing to the quality service being provided.

## **2. 6 Competition**

According to Riza (2010) every country is a competitor in the tourism industry. However in terms comparable products to the Maldives the Bahamas; Barbados; Bermuda; the Cayman Islands; the Dominican Republic; Fiji; Guadeloupe; Jamaica; Martinique; Mauritius; New Caledonia; Reunion; the Seychelles; St Lucia; and Trinidad and Tobago can be considered as competitors they are tropical island nations which offers tourists tropical island experience. these destinations do not have an advantage over the



Maldives in terms of distance to the main source market of markets.(Riza 2010)

### **3. 0 Key findings**

#### **3. 1 Swot analysis**

##### **Strengths**

Unique model of island development

Natural resource base: tropical atolls and islands

Excellent resort facilities with ocean based activities (coral beaches, diving, and fishing)

Enviably brand image in marketplace

30-years of progressive growth

Liberal investment climate

Entrepreneurial drive

##### **Weaknesses**

Reliance on foreign personnel and Maldivians' coolness (reluctance) to working in tourism

Long-haul destination for current market segments

Dependence on imports of capital and operating goods and products

Inter-island transport

Absence of forward linkages and poor integration of local inputs

Destination marketing

Poor information base for mature market

## **Opportunities**

Productive public-private dialog and action planning-by including all stakeholders, including tour operators, in future planning

Product differentiation and segmentation: ecotourism, island themes

New markets (China, India , Russia)

Human resource development

Supply chains for local products, including coir rope, thatch, grass mats, fishing, fruit and vegetable production

Enhanced SME and microenterprise development

Improve government resource mobilization/use framework for tourism

## **Threats**

Monochromatic product line

Losing traditional market base

Progressive commercialization

Environmental degradation and weak coastal zone management (e. g., sanitation)

Shallow financial sector and lack of savings and investment vehicles

Limited prospects for emerging entrepreneurs to enter the field

Source: (World Bank Report 2006)

### **3. 2 Current analysis of tourist arrivals**

Europe is the biggest market for Maldives tourism industry accounting for 73. 3%, 72. 8% and 70. 5% in 2007, 2008 and 2009 respectively. The European share of the total tourist arrival has declined by 0. 05 % in 2008 and 2. 3% in 2009. Despite the a drop in overall share of arrivals , European sector saw an increment by 0. 4 % . This increment is due to an increase in tourist arrivals from Russia and Ukraine by 53. 8 % and 52. 3% respectively. United Kingdom, Italy and Germany were the biggest markets for the Maldivian tourism industry accounting for 63. 5 %, 58. 3%, and 57. 2% in 2007, 2008 and 2009 respectively. This is a continuous drop from 7. 9 % to 8. 8 % in 2008 and 2009 respectively. (Tourism ministry website, 2010)

Total tourist arrivals to the country dropped by 4 % despite an increase in Asian sector by 6. 9 % especially china which registered the highest growth rate in 2009 at 46. 1 % and overall share of the Asian sector by 39 %. china over took Japan which was the largest Asian market for Maldives shared 23. 6 % of total Asian sector registering a drop in tourist arrival by 7. 1 % and 4. 1 % in 2008 and 2009 respectively.

However in 2010, total tourist arrivals increased by 21 % registering an 8 % growth in the European sector.

### **3. 3 Other findings**

The Only international airport in the country is Male international airport on Hulhulé Island which is a 10-minute ferry ride away from the capital Male. It has a runway of 3, 200 meters for the time being adequate however research suggests that at peak times the terminal facilities are stretched beyond capacity. Currently 30 carriers connect Maldives to the rest of the world. Recently the domestic airport in Gan was upgraded to an international airport status to cater for the southern resort developments . however it is yet to be run as an international airport.

There were plans for six regional airports to improve commuting between the atolls and the capital where Access to all islands is tightly controlled through transfers to resorts by speedboats owned by the resorts themselves or under contract with the two seaplane taxi services. For domestic flights,

There are two sea-taxi services (Trans Maldivian and Maldives Air Taxi), with a total of 31 Twin Otters and an airline serving the country's network of airports (Island Airways). (World Bank report, 2006)

## **4. 0 Challenges in the industry**

### **4. 1 Impact of global economic recession**

Global economic recessions can have a profound impact on the tourism industry in the form of decrease in tourist arrival receipts.

Recessions can lead to a fall in disposable income of consumers resulting in a decrease in consumption of luxury goods such as holidays. When consumers becomes increasingly pessimistic about their future in terms of reduced job security and increased financial obligations they minimize their

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spending dramatically worsening the economic situation further.(Shina, 2010).

Furthermore loss in business confidence leads to cost cutting measures such as employee reduction and price increment which ultimately makes the destination reach and price of the holiday package more expensive.

Recessions can be caused by a hike in global fuel prices which makes cost of production expensive . especially the airline sector which is a product of tourism will be affected by the fuel prices. The increase in fuel price in other words the marginal costs are reflected in the fares or covered by reducing the discounted seats. (Shina, 2010)

It is clearly evident from the recent financial crisis which stemmed from United States that derived the economies of the world in to recession affects the tourism industry negatively. In the case of Spain, a sharp decline in consumer expenditure and surged in unemployment with a forecast in further increment in 2010 devastated the economy making it one of the worst affected countries in Europe. This was as a result of the government's slow response to the crisis and problems in the political front in implementation of the strategies. (Sebastian 2009)

## **4. 2 Impact of environmental degradation**

According to McKercher(1993) tourism is a resource based industry which describes it as a voracious consumer of resources.

The construction of resorts located in areas with unique and fragile ecosystems can cause a permanent restructuring of environments and

sometimes destroying the original ecosystems. The provision of infrastructure can extend the environmental impacts of tourist developments far behind the development site. (McKercher1993).

Despite numerous economic benefits from tourism the environmental impact in its expansion can threaten the very basic experience that is being sold , the remote tropical islands with coral gardens and a vast variety of species occupying them . Activities such as snorkeling, scuba diving and reef walking , water sports activities where power boats are used extensively can threaten the very coral reef that sustain not only an ecosystem of multi species but the barrier to erosive impacts of waves on the resort islands. Without such natural barrier the beautiful white sandy beaches the Maldives is known for will fade away a man made barrier will have to be built changing the very image of the islands.

According to the Prior (1995) significant damage is caused by the leisure scuba diving to the coral reefs of Egyptian resort Sharm el Sheikh on the red sea. Similarly McKercher (1993) reports that damage of reef by scuba divers were reported in USA, Australia and the Caribbean.

However the demand from the tourism industry and the economic benefits from it had pressured the government to meet the infrastructure requirements such as extension of airports by land reclamation through dredging lagoons and leasing islands for resort developments in new areas which has no human activity etc. Despite these pressures in order to mitigate the damage government imposed strict regulations and guidelines for resort construction and operation. Government was particularly

concerned with the carrying capacity of the islands. Measures to limit the number of people in a resort island below the environmental threshold such as limiting the maximum built-up area to 20% of the total land area were taken. (Ministry of tourism website, 2010)

Further more resorts are required to employ latest technologies to mitigate the damage to the environment such as having incinerators, bottle crushers and compactors and sewerage treatment plants.

## **5. 0 Proposals to meet the challenges.**

To meet the challenges face by the Maldives tourism industry, marketers are devising strategies enhancing the image and develop products incorporating the changing needs, values and consumer behaviour while simultaneously sustaining the tourism industry.

In partnership with the Government of the Maldives, operators are offering services to tourists visiting some resorts on complimentary basis to attract and increase the tourist arrivals to the country. (World Tourism organisation website 2010) furthermore strategic alliances have been made in order to increase access to the destination. British airways direct flights connecting Europe, and Bangkok airways direct flights connecting south East Asia to the Maldives in addition to the already established airlines.

Focus on other emerging destinations such as china, India and Russia to reduce the dependency of Maldivian tourism on western European segments. Maldives is undertaking extensive promotional activities in china and developing strategic partnerships in Russian and India to increase tourist arrivals.

Turning Maldives in to a green economy and promoting green tourism is another response to the challenges. Maldivian government had already initiated programs such as going carbon neutral by 2020 to re invent the destination image of Maldives. Strategic alliances with large multinational companies had already been establish one such project is providing safe and renewable energy for different parts of the country through wind farm which will be supplied to inhabited islands as well as nearby resorts. (The guardian website 2010)This is particularly optimistic for tourist resorts as the operation costs decreases since all the resorts in Maldives are self sufficient and produce their own energy by diesel fuelled engines.

Companies such as six senses hotels UK had initiated projects in its Maldives properties to become carbon neutral and promote itself as a green resort. Some of the initiatives included utilizing timber from sustainably managed and certified sources , using natural ventilation as much as possible , sourcing materials locally , installing energy-saving light bulbs, encouraging the use of bicycles and battery-operated vehicles and reducing ‘ food miles’ by growing fresh produce their two organic gardens. The resort implemented Water-saving measures as powering a reverse-osmosis desalination plant to convert seawater into freshwater for the resort’s operations and both guest and host needs was energy intensive. Measure such as (Six Senses Hotels website 2010)

Giving guests the option to not have their bed linen and towels washed each day

All swimming pools use filtered seawater



The newly renovated guest rooms as well as other areas are connected to a grey-water recycling system; the filtered water is used for the irrigation of the organic gardens

The island's groundwater is used for staff sanitation

Rainwater is collected and channeled into the reverse-osmosis plant to make the desalination process more efficient

Native plant species only are grown in the jungle areas that do not require additional irrigation

MTDC is a key player in resort development and operation jointly owned by the government and public . some of the marketing initiatives by them to cope with challenges include implementation of a two faceted marketing strategy – one, to attract investment and management partners for the development and management of the resorts, and two, to market the properties under operations or approaching operations to tour operators and potential tourists.

MTDC participated in the leading international travel and tourism fairs. In 2009 MTDC took part in the two leading international tourism trade shows; the ITB International Tourism Fair held in Berlin, and the World Travel Market exhibition held in England. MTDC also participated in the BIT 2009 fair held in Milan. (MTDC Annual Report 2009)

## **6. 0 Conclusion**

It is evident that the Maldivian tourism industry largely depends on the tourists from the European segment. However the financial crisis in Europe

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that leads to a drop in tourist arrival n this segment leads to a shrink of the economy. This gave the tourism industry a new perspective as a slight change in the European travel consumer behavior can lead to slow growth in the economy which shared more than 70 % tourist arrival to the country. Therefore in order to counter the challenge focus was put on the Asian segment especially china and India the new emerging economic powers as well as Russia. This lead to another challenge, increase in tourist arrival to the country straining the natural resources, leading to pollution and environmental damage.

Therefore marketers had to counter these challenges by catering products to accommodate the changing consumer behaviors in the west as well as in sustaining the tourism industry by protecting the environmental by introducing green tourism.