

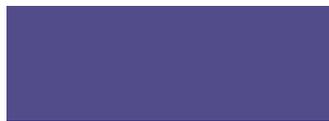
TOTAL MANAGEMENT SOLUTIONS

Vanuatu

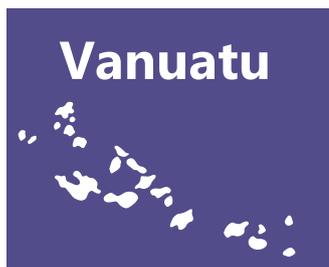
**Investment
Case Study**

By Michael Pusinelli

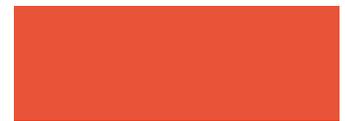
TOTAL MANAGEMENT SOLUTIONS



Country



Sector



Type



Investor Background

Trading under the company name, Total Management Solutions Limited, (TMSL), Bryan and his partner, Valerie Byrne, are the owners of a business that manages the letting of luxury private houses and villas on Efate, Vanuatu. They also manage an accommodation complex called Angelfish Cove on Pango Point on behalf of its multiple overseas owners. Both Bryan and Valerie hold Australian citizenship, although Bryan is originally from New Zealand. He began his career with 16 years in banking, which took him to, among other places, Lae in Papua New Guinea. In 1981, he started working in the hospitality industry on the Gold Coast, and in 1999, he moved to Turtle Island in Fiji, his first foray into hospitality in the Pacific Islands. He then moved back to New Zealand, spending 2 years managing luxury lodges, one in Martinborough, and the second as the opening manager at Treetops Luxury Lodge outside Rotorua. In 2002, Bryan accepted a position as General Manager of Iririki Island Resort in Port

Vila, which had just changed hands, spending 5 ½ years there before deciding to make a change to pursue some other opportunities within the industry in Port Vila.



Valerie and Bryan

Source: Image provided by Michael Pusinelli

The Motivation to Stay and Invest in Vanuatu

By this time, Bryan felt very comfortable in Port Vila and had a lot of friends in Vanuatu. He went back to Australia briefly after Iririki, during which time however, he split with his wife, and as he did not feel particularly comfortable in Australia, he eventually came back to Port Vila, as being a self-described eternal optimist he still really wanted to contribute to the tourism industry. In the interim, he went to Aitutaki Resort in the Cook Islands as General Manager for 6 months, then back to Australia to sort out his personal affairs, before finally returning to Vanuatu again in 2007 with his new partner, Valerie.

The Investment Process

Previously, Bryan had been employed under a work permit at Iririki, but when he returned in 2007, he and Valerie decided to invest in some property in Port Vila, which gave them the residency option. Their investment comprised two houses, one as a rental property and the other to live in. Once they had committed to that, they were in Port Vila for the long haul. Their investments gave them residency, but they still had to get approval through the Vanuatu Investment Promotion Authority (VIPA) for a category F4 business licence (management consultancy and marketing). They have since added a Resort category licence for Angelfish Cove, and D1-D2 licences for the retail and seafood business.

At this point, they set up TMSL, offering contract services to resort operators and new hospitality enterprises, trouble-shooting consultancy services to banks and receivers, and assisting in the opening of two resorts, Havannah Resort and the Moorings Hotel.

In Bryan's opinion, the VIPA process is not difficult to go through if the rules are followed. For any legitimate application, obtaining approval is

fairly straightforward, but the next steps are more difficult for potential investors. Bryan always introduces these people to recommended local professional advisers, who can handle not only their VIPA requirements, but also residency issues, finance and legal advice etc. Bryan is actually on the VIPA board too. VIPA is in reality a regulator, rather than a promotion authority, although it has started to promote a bit more, through the Australia Pacific Business Council. VIPA is funded by a Government grant much like other SOEs (e.g. the VTO and the Chamber of Commerce). This grant runs the office, but all the fees generated by VIPA go straight to Government general revenue. However, VIPA also has access to the citizenship programmes that the Government has operated over the years. Where people have bought citizenship, part of that money ends up with VIPA to be used for investment promotion. People who purchase citizenship get a passport straight away, at an estimated cost of around US\$300,000 per person. This is however creating a local issue in that some of these new citizens are opening businesses (e.g. kava bars) which are a restricted activity intended for ni-Vanuatu only.

All businesses have to re-register with VIPA every year. Is VIPA a roadblock? No – it just adds a little dampener to setting up a new business because of the associated costs. Categories of business covered by VIPA: VIPA differentiate between those freely available and those restricted, usually based on the amount of investment. The tourism threshold is \$30 million Vatu – below that it is restricted. Most local investment is in island bungalows or small tour operations, but even with the restricted categories, many ni-Vanuatu are unable to raise the necessary capital to start up. Inbound operators can also have restricted status.

Facilitating Factors to Investment

A primary factor that facilitate the TMS investment is knowledge of the industry. Bryan saw a grow-

ing demand for the villa concept, as there was not a lot of family accommodation available at the time. Even now, it can be very expensive for a large family group to stay at a resort. Initially, a company called Volcanic Earth helped set up their website. They used Barrett & Partners and PITCO to set up the company and provide business advice over the years. In terms of Government, apart from VIPA, no other agency provided any assistance. Bryan had no previous experience of investment anywhere else and they have no other investments in the Pacific Islands.

Key Objectives

To create a business that they could ultimately move on by establishing that it was producing a sustainable return. Their ability to retire to Australia on a pension would be unaffordable, therefore they need to sell at a level where they can retire and live on the proceeds.

Total Investment

Their total investment in Vanuatu (i.e. business and property combined) is perhaps \$160 million Vatu in total investments, including cash in the bank. The shop and debtors would be around VT\$1million. Valuing his management rights would be a very difficult thing to do. Most of his contracts are year-to-year, short-term in nature. There is always the risk of the property owners deciding to pull their villas out of the pool, if they decide to let them long-term or live in them themselves.

Even at Angelfish Cove, they would need to revise their management agreement and its structure with the owners before they could ascribe much value to it. They are however already starting to talk to the Body Corporate Council on this, as they do not technically actually own the management rights yet. The legal position is not as secure in Vanuatu as it

would be for a Building Manager in a Body Corporate structure in New Zealand or Australia.

The size of Bryan's investment he describes as small (SME status). He has an average of two employees per managed property, making around 14 at any given time, with 7 at Angelfish Cove and 2 at Head Office. All are ni-Vanuatu, all-up 70% of them female

The Business

Bryan's role in TMSL is as a hands-on Managing Director. He handles all direct accommodation enquiries himself before they are referred on to his reservations manager. He looks after the financial side and marketing on a day-to-day basis. Valerie does not work in the business on a regular basis. Their target markets are Australia and New Zealand, with a bit of business from New Caledonia. The business is run from their offices in Namba Three, where they also run the retail outlet selling commercial hotel supplies (bathroom amenities, crockery, glassware, manchester etc.) and other imported dry goods. With the retail shop, they entered into an agreement with the Melbourne-based owner pre-cyclone Pam to buy the stock and debtors, to be amortised and paid off over two years. With hindsight, Bryan thinks that after the cyclone, he should have withdrawn from the agreement. However, TMSL is fully responsible for the shop now, owning both stock and debtors, although they still owe the



Head office and retail outlet, Namba Three

Source: Image provided by Michael Pusinelli

Melbourne vendor a small outstanding balance on the original purchase price.

In 2009, they established Vanuatu Luxury Holiday Homes. They set up a website and undertook initial marketing aimed at overseas visitors who were looking to rent a house or villa rather than hotel accommodation. They started by talking directly to a number of property owners and have now built a portfolio of in excess of 20 properties. They offer a management service to the owners, and have management contracts on 40% of the properties, doing the bookings and marketing through various travel portals and on-line media. Most business is contracted direct with their clients, although some business does come via the travel agents.



General accommodation supplies

Source: Image provided by Michael Pusinelli

They are now fully automated with the OTAs on Angelfish Cove. With the villas and private houses, they have to take a more personalised approach, although they have also tried Airbnb with some limited success. Approximately 70% of their business comes from Australia, so this tends to be the focus of their marketing.



Guest bathroom amenities

Source: Image provided by Michael Pusinelli

In 2012, they took on the management of Angelfish Cove Villas, a strata-titled collection of 12 villas with a range of different room configurations. That has proved to be quite successful, and they now have a solid income base established for the owners, despite the national disasters of the last two year. They have also been able to continue to increase revenues for the owners since. By this stage, they needed a full-time reservations manager, so they invested in new staff and technology to set up a proper property management system, website and booking engine (www.vanuatuluxuryholidayhomes.com).



Villa Champagne, Whitesands

Source: Image provided by Michael Pusinelli

Bryan does not think that Airbnb is having much impact in taking business away from the established resorts, although some of the hotels regard his luxury villas as competition. However, as the villas can accommodate large family groups, (some sleep between 8 and 16 people) it is a much more affordable option for them rather than staying in a hotel. His bookings are often for special reasons, e.g. weddings, 60th birthdays, family reunions etc., and this business grew well until the arrival of Cyclone

Pam, although he estimates that they should be back up to pre-cyclone revenue levels by the end of this year. They also provide a property management service for the villas, using a small group of local sub-contractors for trade services (plumbing, electrical, minor building etc.), which their operations manager controls. The owners get a monthly statement of income and operating costs. TMSL pays the owners' outgoings on their villas, recovering the cost from the owners from the letting revenue. TMSL charges a management fee of 20% of the revenue. In addition, they offer a sub-contracted bus service and have a staff meet-and-greet service at the airport for incoming guests. The management fee is A\$250 per month per villa. A 20% commission on direct bookings makes up the bulk of the business revenue.



Angelfish Cove studio unit

Source: Image provided by Michael Pusinelli

Correspondingly, Bryan runs a small business importing live crayfish (rock lobster) from Erromango, one of the islands in the Vanuatu archipelago to the southeast of Efate. He set up an arrangement with a local lobster buyer in Erromango almost two years ago to airfreight up to 100kg a week in polystyrene containers to Vila. TMSL acts as the intermediary, wholesaling to resorts on Efate or retailing frozen lobster from the shop. Their big problem is inconsistency in supply, a factor of the unreliable domestic air service. The lobster are shipped live in polystyrene boxes, usually in 20kg shipment sizes,

with any unsold on arrival being frozen whole for sale through the shop. TMSL buys the lobster at 1,500VT/kg, selling it at 2,000VT/kg. In all this time, Bryan has never visited Erromango, so does not know if the industry is actually sustainable. It is however seasonal. At this stage, TMSL does not have a separate buyer's licence for the lobster business, so it is covered by his existing retail business licence.

Challenges of the Investment

Managing cash flow through the last two years has been a challenge. They have had to dip into their own savings to prop up the business, something that they need to stop this year, as it is unsustainable otherwise. Bryan is further concerned by the number of people who hang off the coat tails of the few that do all the work in the destination marketing of Vanuatu.

They have set in place mechanisms to assist the VTO with its marketing, and this structure has been accepted by the NTO, but there are still other operators who try to avoid contributing to it. It has been hard work to hold together as a voluntary group of associations carrying the load for the much broader tourism industry. They also wish they had better access to airfares that were year-round and competitive, because the cost of the airfare is the first thing that most people look at, and Air Vanuatu's current pricing structures do not help in this regard.

Local Supply Chains

They feel quite lucky in terms of available skill sets that can be contracted in. However, replacement parts are a problem and sometimes have to be imported especially from overseas, at some cost. Sometimes, they are able to get an owner to bring in the parts themselves in their suitcase. A lot of what they buy to service their accommodation is imported, either by them through the shop or other

local suppliers. They get most of their local consumable needs through Au Bon Marché, which is usually fairly reliable, although still expensive.

Looking Forward

If the couple could do anything differently with their initial investment, they would replicate the Angelfish Cove model, as it has shown that it can work, (but with a more robust management contract next time round). In respect of the holiday homes, they would probably embed more of a cost to the owners in the setting up of the marketing structure, website and portals. Being a bit more selective would have been better too, e.g. they initially called them all luxury holiday homes, but in reality, some of them were not. They should have used more direct terms like: 'holiday let' or 'holiday rental', 'self-contained', etc.

They feel they have exceeded their original objectives at Angelfish Cove, but the other areas have not yet met their full expectations. They would also "probably not at this stage" regard their investment as successful as it is, "still a work in progress". They are both in their 60s, with no retirement plan yet and no plan B at this stage, so if they stopped generating income tomorrow, it would be very serious for them.

When looking towards the future, they say they are "eternal optimists about their business!" and "have to make it work". The key challenge for them is to generate sustainable cash flows that will get all of their business arms above break-even. The key priority right now – letting their second house long-term, as it has been empty for a few months. Key opportunities are perhaps another good management contract, if one came along. Bryan also has a lot to offer the industry, and the industry needs key private sector leadership at a senior level. If he could find a way to increase his secured income, he would be keen to increase his involvement and input at

that level.

With all the construction now going on, they see a rise in demand from expatriates for accommodation. They are therefore optimistic about the rental income on their second house, and may be able to secure some longer-term letting contracts on some of the villas. They have no plans to increase their investment in Vanuatu. Instead, they are looking at consolidating some of their interests.

However, they would most definitely recommend Vanuatu as a place to invest. Their three tips:

- You have to be fairly accomplished at the type of investment that you are going into. E.g., don't buy a restaurant or a resort unless you already have the relevant experience.
- Whatever budget you set yourself, be prepared to double it, because things always end up taking longer to complete and cost more. Don't under-capitalise.
- Work with the system, much as you might not like it. Get good advice from someone who knows, who has been in business and can provide that advice. Even if you have to pay for it, it is worth it.

A final comment from Bryan: he thinks this research project could be very valuable, but just hopes, like most others in Vanuatu who have seen other research and other consultants from overseas coming in funded by foreign agencies, usually Australia and New Zealand, that it does not end up on a shelf somewhere gathering dust. Is it a good use of funds, could the money be better used? These are all questions that the industry always asks.