

## CASE STUDY 61

### Business Opportunities Exploration in the Tourism Field in Southwestern Nicaragua

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#### Context

The continuous growth of the tourism field in Nicaragua and specifically in the Southwestern region, is revitalizing the economy of the region and offers opportunities for the expansion of current businesses and/or the development of new businesses. The region, which consists of the destinations of San Juan del Sur bay, Ometepe island and the city of Granada, has a big potential for developing a wide and diverse range of nature, beach and culture related tourism activities, which have not been fully exploited in order to increase the number of tourists that stay overnight in the country and the region.

The access of MSMEs in the region to financial services, especially tourism related ones, is limited due to a high capital cost, financial products that do not match the field and highly informal businesses. Paradoxically, the formal financial system is characterized by excess cash flow and slow growth due to its focus on the segment of big enterprises and people with high purchasing power. Due to this situation, micro, small and medium tourism enterprises don't have access to financial services that allow them to develop a competitive tourism offer that attracts and generates a bigger tourist flow for the country.

Taking this into account, the private bank BAC-Credomatic in Nicaragua decided to develop an inclusive business.<sup>8</sup> The initiative allows low-income citizens to increase their market participation and also responds to the financing needs of tourism MSMEs. This makes it possible for them to invest in the development and improvement of the tourism offer, increasing the competitiveness of the sector, which also creates more jobs, income and a better quality of life for low-income citizens in Nicaragua.

#### Clients and partners

**BAC-Credomatic Network in Nicaragua ([www.baccredomatic.net](http://www.baccredomatic.net)).** This is regional organization with offices in Central America, Panama and Mexico. It has been a leading institution in payment systems, mercantile acquisitions, credit card issuance, bank services and electronic payment services for over 50 years. BAC-Credomatic belongs to "Grupo Empresarial Pellas"<sup>9</sup>. BAC-Credomatic Network has offices in Nicaragua, Guatemala, El Salvador, Honduras, Costa Rica, Panama, Grand Cayman, Bahamas and the USA. BAC-Credomatic reached a comprehensive service level in Central America through standardization of systems, procedures, policies and its wide variety of financial products/services offered. In each country, BAC-Credomatic works in three main service areas: personal banking, corporate banking and affiliate commerce. Nevertheless, their products are not designed to satisfy the needs of MSMEs in the most productive industries of the country: coffee, meat, dairy and tourism. Rather, their offerings have traditionally focused on large corporate enterprise clientele.

The foundation "**Fundación Centro Empresarial Pellas**" (CEP) ([www.centroempresarialpellas.org](http://www.centroempresarialpellas.org)) is a non-profit organization founded in 2006 by family member Carlos Pellas and select companies of the Group. CEP was formed as a united expression of Corporate Social Responsibility philosophy and a sustainability strategy for the future of Grupo Empresarial Pellas. Today CEP is implementing the program "Development of Tourism in Southwestern Nicaragua", with the financial support of the EKN and technical

<sup>8</sup> An inclusive business is a business initiative that promotes poverty reduction by including low-income citizens in the value chain of an enterprise, thus creating a win-win situation from which both the enterprise and the low income citizens mutually benefit.

<sup>9</sup> The largest economic group of Nicaragua, with companies like: Ron Flor de Caña, Compañía Azucarera de Nicaragua, Casa Pellas (Toyota distribution), GBM, Seguros América and other companies. This group has over 8 billion USD in assets, including an extensive network of bank branches in Florida of the United States.

assistance by SNV.<sup>10</sup> This includes the improvement of access to financial services, that has led to the development of a strategic alliance with BAC-Credomatic.

### **Intervention logic and methods**

The development of the inclusive business was defined at the beginning of the project as a four stage process: research, development, implementation and monitoring. In 2010, Phase I of the process was executed, the main goal being to explore business opportunities for BAC-Credomatic in the tourism MSME segment in Southwestern Nicaragua. The business opportunities that were identified in this first phase influenced the decision the company made to continue with inclusive business in 2011. The following outline shows the details of the intervention:

**PHASE I: Research.** The research phase included the definition of a MSME and tourist profile, a segmentation and analysis of potential markets, a SWOT analysis of tourism companies, and an identification of complementing enterprises, ending with the definition of business opportunities for the bank.

The research phase was performed through primary data collection on site with 2 surveys developed by SNV: a survey designed for tourism MSMEs and another survey for tourist evaluation.

The tourism MSME survey was used to evaluate the characteristics and needs of the enterprises in accordance with several segmentation types. First, an evaluation according to destination-based segmentation was performed; this showed how destinations of tourism companies differed and which destination implied major needs and business opportunities. Second, an evaluation according to the types of tourism services provided took place. This elaborated upon the differences between the tourism enterprises regarding services provided and which kind of companies implied major needs and business opportunities for an inclusive tourism business, using the Base of the Pyramid (BoP) MSMEs.

The tourist surveys were used to evaluate client characteristics and to determine the level of coherence and consistency between the services offered for destinations and the services tourists demand. The evaluation was performed in accordance with two market segments, national and foreign tourists, in order to be able to define the needs and opportunities each of them represent for MSMEs, and to adapt their services in a coherent way.

The results of the research show that only a modest 35% of the tourism MSMEs have access to some kind of financial services and only 10% of them accept payments by credit card. This is a huge disadvantage for tourists and reduces sales to BoP owned MSMEs. According to these and other statistics, there is a need and demand for financial services, from increasing mercantile points of sale/transaction processing, to short-, medium- and long-term loans and credit terms, to pre-paid or credit cards for business-to-business (B2B) purchasing of supplies from providers, to reliable savings/cash account services and management. In short, if these MSME financial service and product demands are fulfilled, the bank will increase its sales in this market segment and thus contribute to the quantitative and qualitative improvement of the tourism offerings of the BoP tourism operators, stimulating the sector's growth and enhancing its business dynamics. This will also generate a higher income level for tourism MSMEs and increase jobs for low-income BoP citizens in Southwestern Nicaragua.

In order to reach this goal, SNV is working with several organizations to complement the BAC-Credomatic bank's efforts, mainly INTUR ("Instituto Nicaragüense de Turismo"), CEP, the municipalities and ENITEL ("Empresa Nicaragüense de Telecomunicaciones").

On the basis of the results of the first phase, BAC-Credomatic was proposed to intervene in the sector through the segmented analysis made on the basis of 3 fundamental variables: the volume of business, sales level and formality level. The strategy is based on offering suitable specific products for certain MSME segments from different strategic positioning

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<sup>10</sup> The project goal is to contribute to the increase of the income level and jobs, improving human resources competitiveness and the management by tourism and tourism related entrepreneurs, leading to a better quality of life for the population in general in Southwestern Nicaragua.

approaches, according to the Delta model.<sup>11</sup> The positioning approach will depend on the characteristics of the business and will provide services that respond to their needs and are within their reach.



The model wants to take all MSMEs from the level of offering **a better product** to the level of **consolidation of the system** through simple access to points of sale in order to increase sales levels and eventually offer comprehensive services, BAC-Credomatic thus fulfilling all of its service needs.

The development of the next inclusive business phases for 2011 is currently being negotiated.

### Outcome

During implementation of the first phase, the following outcomes were reached:

- BAC-Credomatic has improved its capacity to identify business opportunities in the field of inclusive tourism operations with [BoP owned and operated] MSMEs.
- BAC-Credomatic has improved its capacity to understand MSME needs and to develop products and services that respond to the needs of this new market segment.

### Impact

The impact levels of the project must be measured in Phase IV of the process; it's too soon to be able to see an improvement of the income and job creation level for tourism MSMEs within the region.

### Lessons learned

These are some of the lessons learned in the intervention process:

- The intervention methodology used for Phase I has been the correct one, as research validated SNV's hypothesis, which identifies both the needs of low income communities and business opportunities for the client.
- This kind of interventions are valid to be repeated in different economic fields, and in different countries, provided that the need for the service and the business opportunity are validated, in order to create a socioeconomic impact in low-income communities.
- When financing a project we have to foresee additional moments for the extension of activities and/or unforeseen activities, as some activities take more time than estimated and other activities come up during the implementation process.

<sup>11</sup> **Delta Model:** Strategy Management Model developed by Arnaldo Hax and his co-workers at the MIT Sloan School of Business. Main publications: *The Delta Project: Discovering New Sources of Profitability in a Networked Economy* (2001), *The Delta Model: Reinventing your Business Strategy* (2009).

## **Sustainability**

This kind of intervention and their related inclusive tourism business initiatives may be repeated by BAC/Credomatic in order to develop inclusive tourism in other tourism destinations/regions and in other highly dynamic economic sectors within Nicaragua and abroad, provided that a genuine need for service and a business opportunity are defined that envisage growth based on BoP low-income communities inclusion.

The sustainability of the action in the long run will depend on several factors, some internal and other external. If some factors in the environment change, the economic feasibility level for the company may decrease and thus its level of intervention within the sector. The sector is characterized by some risks that are very unlikely to happen, but have a high impact level, e.g. natural disaster events, the political situation and the local and global economic circumstances.

## **Standard data**

- The contract was signed on November 9, 2009 and was into effect for 11 months, until October 8, 2010.
- The working group was composed of the following SNV advisors: Gabriel Sevilla, Miguel Méndez and Fernando Aguilera. In addition to the SNV task force, a local company (LCB) specialized in field data collection, Dichter & Neira, was hired.
- PPD distribution for the implementation of the project was approximately as follows:
  - Miguel Méndez – 10 PPDs
  - Fernando Aguilera – 20 PPDs
  - Gabriel Sevilla – 40 PPDs.
  - External services / Dichter & Neira – 20 PPDs
- The amount charged to the client for Phase I was US\$ 60,000. \*
- The total cost of the follow-on phases for scaled implementation is not yet determined but in negotiation status with the client.

*\*Please note that the Client (RM) funds did cover the direct costs of SNV involvement in this project and the SNV indirect costs for this project alone. Taking the 350 Euro PPD cost per day average for the fully loaded costs of the region as a whole would make the SNV investment equivalent to \$42,525 USD in this project, although actual cash expenditures were lower than this amount (approximately \$34,000 USD). In other words, this is an estimate of how this Nicaragua project and RM client helps pay for other SNV costs within the LA region, including senior management and back-office operational overhead and support costs.*

## **Translation of the images:**

<p><b>FASE I: Investigación</b></p>	<ul style="list-style-type: none"> <li>• Perfil y análisis de las PYMES y los turistas dentro de la región.</li> <li>• Segmentación y análisis de mercados potenciales.</li> <li>• Análisis FODA de las empresas turísticas de la región.</li> <li>• Identificación de iniciativas complementarias de parte de otras empresas privadas y organizaciones de acción local.</li> <li>• Identificación de oportunidades de negocios vis a vis servicios financieros.</li> </ul>
<p><b>FASE II: Desarrollo</b></p>	<ul style="list-style-type: none"> <li>• Diseño de soluciones financieras y tecnológicas, a la medida de las necesidades y particularidades del sector.</li> <li>• Diseño de estrategia de movilización de la oferta de soluciones financieras.</li> <li>• Diseño de la estrategia de coordinación con empresas privadas y/o organizaciones con las cuales se establezcan alianzas de sinergia.</li> </ul>
<p><b>FASE III: Movilización</b></p>	<ul style="list-style-type: none"> <li>• Movilización de la oferta de soluciones financieras a las empresas turísticas, apoyando la adopción y practica a través de un “coaching” continuo.</li> <li>• Implementar sinergias estratégicas acordadas con empresas privadas y/o organizaciones de acción local.</li> </ul>
<p><b>FASE IV: Monitoreo y Evaluación</b></p>	<ul style="list-style-type: none"> <li>• Diseño e implementación de un sistema de monitoreo y evaluación de los avances y resultados del proyecto.</li> <li>• Análisis e identificación de los ajustes requeridos en la estrategia de movilización de soluciones financieras.</li> <li>• Documentación de la experiencia y resultados del desarrollo del proyecto.</li> </ul>

**PHASE I:  
Research**

- Profile and analysis of SMEs and tourists within the region.
- Segmentation and analysis of potential markets.
- SWOT analysis of tourism enterprises in the region.
- Definition of complementary initiatives on behalf of other private companies and local action organizations.
- Definition of business opportunities vis-a-vis financial services.

**PHASE II:**

**Development**

- Financial and technological solution design, tailored to the needs and characteristics of the sector.
- Design of a strategy for mobilization of the financial solutions offer.
- Design of a strategy for coordination with private enterprises and/or organizations to build synergy alliances.

**PHASE III:**

**Mobilization**

- Mobilization of the financial solutions offer for tourism enterprises, supporting its introduction and practice through constant coaching.
- Implement strategic synergies agreed upon with private enterprises and/or local action organizations.

**PHASE IV:**

**Monitoring and evaluation**

- Design and implementation of a monitoring and evaluation system of the progress and results of the project.
- Analysis and definition of the required adjustments in the financial solutions mobilization strategy.
- Documentation of the experiences and results of the development of the project.



- Consolidation of the system
- Dominating Market
- Exclusive Channel
- Horizontal Range
- Comprehensive Solution for the Client
- Redefinition of the Experience with the Client
- Integration with the Client
- Differentiation
- Better Product
- Cost Leadership
- Registered Property Standard