Building Sustainable Value



A successful family business begun as a trustworthy financial institution, Mercantile Investments Group with decades of dedication and commitment has today reached sustainable stability and strength in a range of sectors. Gerard Ondaatjie, Managing Director of Mercantile Investments Group speaks of the endless potential in the leisure sector of Sri Lanka and of the means of boosting tourism for a prosperous future.

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Your father Deshabandu George Ondaatjie founded Mercantile Investments (MI) close to 50 years ago and built it up to be one of the strongest players in the finance company industry, which your brother

Travice and sister Angeline are also a part of. As the current Managing Director of the MI Group of companies can you take us to the beginning, of how the journey began?

Born in Matara to humble beginnings my father started the company in June 1964. Prior to this he worked for Autodrome selling General Motors vehicles. He was a sales manager, and held the same position when he resigned. For ten years he sold Vauxhall and Opel motor vehicles. During this time he developed his market, his customer base and his savvy to sell motor vehicles.

My father soon realised that it was an opportune moment to start his own company. He did not have much capital but his good friends helped him. Parallel to this he started the finance company because his concept was that a person wanting to buy a car would require financing. Thereafter he began offering financing for the vehicles he sold. This is how he began Mercantile Investments in June 1964.

Everyone Who Joins Builds And Grows With The Company. No One Wants To Move Out. We Have Some Employees Who Have Been With Us For Over 45 Years. This Reflects In The Culture Of The Company.

How has the Group developed since then? What have been the latest ventures?

Since Autodrome he ventured into plantations in the southern region. However, with the 1972 Land Acquisition Act most of his land along with paddy and tea estates were acquired by the Government. Almost 500 acres were taken over leaving him with only Mercantile Investments.

During this same time he was able to buy a property in Nilaveli; and seeing the opportunity for tourism, he started his first hotel Nilaveli Beach Hotel. This was to be the first planned hotel in the East coast. The hotel commenced its operations in September 1974. Since then, my father built Tangerine, and at the time it was one of the first hotels to be built close to Colombo. During this time, Beruwala and Bentota in the West coast was very popular but Tangerine, in terms of travelling time, was almost 40 minutes closer to Colombo than Bentota. This set a new trend of having beach hotels closer to Colombo.

About five years after that he acquired certain portions of the Nuwara Eliya Hotels Company and took over the management. Subsequently he acquired the controlling interests of Nuwara Eliya Hotels, which is Grand Hotel. About 15 years ago he built the Royal Palms also a foremost hotel and with that, today we have four hotels as well as substantial shares in Mercantile Investments. Even though we have not introduced new products as such, the travel section has expanded and hotels have been refurbished. We also have a trading company, Mercantile Fortunes and even though it is not visible to the market, it is a leader in timber flooring and has ventured into marble and granite and has become a major player in the market in flooring right now. In addition, we are working on a new hotel 'Fair View Hotel' in Wellawatta, the first bed and breakfast hotel in Colombo. That is where we stand today.

During the past 50 years we have grown steadily, not so much that we see new ventures taking place every month or every year, but only when it is the appropriate time, when we feel comfortable, because when a company is born the real success is how well it stands the test of time. We have always developed after each business has routed itself well into the economy. That is where you see the different types of new companies opening, and that is how my father has built the company and as a group that is how we grow. Each company is built, then allowed to mature before we venture into something new. We don't set up three or four companies at once but try and develop each individually. If not, the chances are that you will fail.

Therefore, everything that we have ventured into has worked out very well. The hotel in Wellawatta, which is a bed and breakfast property is a product of the new post-war economy. This is a company that we can talk about in another three years. However, we have to also be aware of the economic situation, because if you proceed with a venture and the economic cycle is not predicted, then you can collapse. It is always good to hold on to what you have rather than trying to build fast and lose what you have as well. This has been our policy.

MI has stood firm facing challenges both local and international securing customer confidence to be what it is today. What sets it apart from other finance companies?

What is unique about our management is that we still maintain our core values,

even though it is almost 50 years old. The culture remains very much the same. If you take most other companies, whether you are the general manager, or a director you have to make an appointment to meet the managing director or the Chairman; and however important or urgent the issue is you have to abide by the managing director's appointment schedule. We have a very different policy. Each employee can walk into my office, even to discuss a personal problem. We maintain a very home grown attitude. The company has got quoted in the stock exchange and yet we still have very informal means of conduct. This philosophy has stood strong since day one. This casualness, easy access, humane approach is what sets us apart from other companies. It is this culture that has made employees stay with us. The staff turnover here is substantially low compared to competitors. Everyone who joins builds and grows with the company, no one wants to move out. We have some employees who have worked for us for over 45 years. This reflects in the culture of the company. This is a very valuable quality of ours. I say this because my time is also limited and whoever replaces me should always be able to understand and follow this, because this is what sets us apart from others.

MI already has a good branch network Island wide; will we see further expansion in the near future?

Many companies with a multitude of branches are concerned about their profitability because of the current credit curtailment. We on the other hand have a branch network that is sustainable. With today's competitive environment a new branch should have the ability to sustain not just for one or two years but as long as the business is alive. Therefore, we are not eager about opening branches everywhere like raindrops, but are more concerned about opening a branch and making sure that it is sustainable. That is our policy.

Our name is very well known, but our branch network is moderately represented Island wide. However, each branch operates as a very powerful profit centre.

If We Are Making Use Of The Environment We Need To Give Back To The Environment

A stable financial system creates a favourable environment for depositors and investors, encourages financial institutions and markets to function effectively and efficiently, and hence, promotes investment and economic

growth. How would you comment on the stability of the financial system in Sri Lanka?

We see many business cycles set in Sri Lanka. Traditionally, in an economy, a business cycle takes place when a market gets saturated over something and there is no room for further growth. For instance, once all households have bought TVs the market for TVs is saturated, unless there's a new type of TV.

This is not the case in Sri Lanka. There are so many business cycles taking place but it is not because the market is saturated. We need to understand the structures of the economy properly, especially now that those in the private or public sector cannot cite the war as an excuse. Today, everyone's ability and intelligence is tested.

For a heart problem you will not consult an orthopedic surgeon but a cardiologist. It is the same with an economy, especially one like ours that is re-emerging from the dust, and therefore is full of opportunities. If you do not know how to handle all these activities you will create distortions in the economy.

We need to have skilled and experienced people who understand the structures of the economy properly, and the fact that to grow we need direct investments to the country. We are a net importer and the only product that we sell in the world market that doesn't require a foreign component to put it together is our agricultural products. If you take our garment sector, there is a considerable amount of imports – 70 percent, like the thread, buttons, zips and material. All we do is put them together. The value addition is only very little. Therefore, there has to be prudence in understanding post-war development, on how we can take this forward, because if we don't, we may experience shocks in the system. With too many shocks businesses can be paralysed. We need skillful policy planners to bring in proper plans and longterm solutions to problems. This way, major players who want to invest in our country will build their confidence in our system. We are currently in the face of great opportunities. It is an open plain and we really have to be able to know what we are doing.

The rise in tourist arrivals with peace being established has created positive sentiments for hotel and leisure sectors. As a hotelier what

potential do you see for the industry?
There is great potential in the leisure sector. Sri Lanka is a unique country. We have historic sites and a varied temperature. We have places like Polonnaruwa, Sigiriya and Dambulla Viharaya, then we have the Dalada Maligawa. We also have the two largest mammals in this little Island, which most other countries cannot boast of. We have the elephants and we have the whales. These are jewels in terms of tourist value. A good room and good food are not the only important requirements for a holiday maker. Rather, when he reaches his destination he must have a varied experience throughout his ten day, two week or 21 day stay. Sri Lanka can provide this within a very brief travel time.

By travel time I mean distances. However, travelling can take time because of the nature of the transport system, which is small. This can be amended by improving the transport system. Take for example somewhere like Africa or America. Would you land in New York and say that you have seen America? No. America is a vast country. If you want a proper representation of America you need to probably spend over six months, in order to visit the different states and experience the different features of each state.

Sri Lanka has relatively short distances. If you go up to Sigiriya you can visit Polonnaruwa on the same day. You need to keep this in mind when you organise a tour package for a tourist. Within the two weeks they have, they should experience everything including the beach and the hill country. Our culture and people are also a significant component of that experience.

With the numerous opportunities ahead, we need to plan tourism very carefully. It is wise to get specialists to come in and conduct a proper study in order to understand the kind of experience a tourist anticipates while in Sri Lanka; for instance, the quality of the hotel, and the quality of the experience that he has in a particular region. The facilities should be available. We have to make sure there is proper care for a tourist who might fall sick while on the road, for someone who may want to use the toilet or rest a while inbetween travel from one pont to another. There should be first aid centres. Hotels have to be classified properly. Each tourist town or region should have a well planned layout.

As the Sri Lankan economy progresses, leisure will be an industry that will sustain because of the country's uniqueness. We have an absolute advantage in this sector. It is not just about taking a tourist to the beach. There should be a variety of related aspects. There should be whale watching, river rafting or bird watching. Each aspect of the experience must have a proper plan and infrastructure. In Yala National Park for instance, infrastructure needs to develop. There can be an area where tourists can stop for a meal and proper facilities inside the park. However, it is also not about putting up constructions haphazardly. The process must be wildlife-friendly. Sustainability is an important aspect that has to be considered. If we are making use of the environment, we need to give back to the environment. If the tourist numbers increase by twofold, there will be double the cars in the Yala National Park. Perhaps a special care unit to monitor whether the necessary breeding of animals is taking place – is a good means of tribute to the environement. Likewise, what is challenging right now is how well we should manage tourism.

We Need To Have Skilled And Experienced People Who Understand The Structures Of The Economy Properly And The Fact That To Grow We Need Direct Investments To The Country.

Currently Sri Lanka is being actively promoted as a major tourist destination in Asia. What are the key aspects of tourism that need to be improved in Sri Lanka for tourism to truly flourish?

Tourism is not about providing a hotel room and a beach. Addressing issues in infrastructure and transport are equally significant. For instance the travel time from Katunayake to a given region or town. One of the main complaints is the excessive time spent in a vehicle. Some of the more affluent tourists do not like to travel much after being in a plane for ten hours.

Infrastructure and the road systems have to be improved. Our railways have not been developed and adequately utilised for tourism. This is one positive area which can be looked into as our railway lines run along the coastal belt and so do most of our hotels. We have had situations where we had our clients take the trains to reach certain hotels. These matters have to be properly administered and planned.

Then we need to improve internal air travel. If one opens a resort in Jaffna, we are looking at nine hours travel time by land but there is a plane service to Jaffna.

However, if the frequency of the existing plane service is increased more people can be expected to visit Jaffna. Likewise, air travel could be introduced to other popular destinations such as Passekudah, Arugam Bay and Puttalam. Taking a tourist from point A to point B needs to be efficiently planned. There should be transit points for a drink or to enjoy some fruits on the way because the travel experience also counts.

While most other countries use the backwaters to transport goods, we still use our public roads. This is another area that can be capitalised and worked on.

The reason why infrastructure is so important is because Sri Lanka is considered a long-haul destination. Whether they come from the Far East, Russia, Europe or the UK, it takes more than ten hours – that is flying time only – and if the traveller is required to be at the airport three hours ahead, it will add up to 15 or 16 hours. Then with the time difference and the jet lag, and internal travel, it could be very tiring for a tourist.

We also need trained people in the leisure sector. In places such as Sigiriya or Dambulla, there have to be trained personnel with the capability of explaining in various languages so that a visitor feels comfortable speaking in his own language. These services must be streamlined for the benefit of tourists who may want to visit such places individually or as groups. There are also aspects such as parking, security, health and safety. If a tourist takes a fall while being taken up to the frescos at Sigiriya there should be a proper system of first aid. When there are more tourists coming in, the incidence of a problem occurring is much greater. Therefore, when we have proper processes in place, the information will travel back to Europe and the rest of the world that the country is a safe place. Take Singapore for example; can you ever tell yourself it is unsafe? No, because the city planners made sure that the country is a safe destination.

National Geographic Traveller recently recognised Grand Hotel Nuwara Eliya as one of the best places to visit in 2012. Why?

If you take the hotel itself, and compare it with any other resort in the world, there is a uniqueness about it from the time you step into the geography. The location is beautiful and it has a beautiful garden to walk around. As you enter, you walk into a colonial building which is over 100 years old including the entrance, the floor plan of

the hotel, some of the furniture and even the billiard tables. This is why National Geographic Magazine selected Grand Hotel. This is why they have classified it as a place to travel. I can also say that we have maintained the property in that same manner.

The beach is a beautiful place to walk, just as a beautiful mountain surrounded by trees and flowers is. These are basic values of nature. No one can give you clean air, you can not buy it, but it is what the earth offers. Similarly, the Grand Hotel has a very pleasing atmosphere.

Also, the amount of attention given to the gardens does not come as just a byproduct. There is a year-round planning process that takes place in terms of what plants have to go where, how the pathways have to be maintained, what new flowers have to come in. We are now trying to introduce a beautiful rock garden. Therefore, just as a bedroom has to be clean, lights turned on, new bulbs fitted, so much work goes into the garden.

The first thing people say is how beautifully the hotel is maintained. That is why the editors of the magazine said, “we need to give it some positioning” because there are very few such places in the world, man-made structures that are maintained in a pristine manner such as Grand Hotel. It is a national treasure.

Sri Lanka Is Certainly The Pearl Of The Indian Ocean, And We Are Not By Any Means Over-Extending The Meaning.

Having been built in the 1970s Nilaveli Beach Hotel has seen some turbulent times being in the war torn East. How were the challenges met and what is its current status?

The challenges have been met because even at the time of the war we decided not to close the hotel. It was always kept running. We are happy that we did so amidst so many considerations to just close it down and abandon the property. We also kept the staff going and this is why it is there today. The tsunami was equally challenging and we lost everything to it, yet we rebuilt the hotel.

Nilaveli is a very beautiful place and the current challenge is to plan for its future. Ten years from now Nilaveli beach should have people surfing, whale watching, scuba diving; and we need to plan for this. It is not just about putting up buildings but everything should blend in with the environment. If you have 1,000 people coming onto the beach, we need to be able to cater to a large influx of tourists both local and foreign, with life guards and proper waste management.

In terms of staff, despite the war we kept the staff going. There were no guests during the war, yet the staff were paid a salary, they were given meals and uniforms. The hotel also provided assistance each time a church, temple or kovil approached for help, maintaining a good rapport with the community. This is how we have been able to sustain our operations. Even when the tsunami struck, many hotels retrenched staff because there was nothing for them to do until a property is rebuilt, but none of our employees were asked to go, they were still paid a salary, given meals, and each one of them is still with us. This is what got us this far.

The current status is that we have about 45 rooms and we are planning to build 25 more rooms, to increase the number of beds and chalets. In an adjacent land we want to build a small boutique hotel, which will be part of the Nilaveli Beach Hotel. The hotel has been very moderately priced, and we want to maintain those standards but the new venture will have a higher price and of course different facilities.

What is the progress of ‘Fair View Hotel’, Colombo’s first bed and breakfast hotel?

We are almost at the first floor right now. We had to spend about five months constructing a large basement. It is an important part of the foundation of the hotel. The construction work on the hotel is well underway and I would say it is due sometime next year.

The Tangerine Group of hotels has won several awards. What is behind this success?

I think it is our diligence, we manage our business very prudently. Even during difficult times, we made sure to maintain our operations at all our hotels. This is how we have been able to sustain and be market leaders, be it down south, or

Nuwara Eliya. If you take the the Grand Hotel it is one definite stop for clients staying in neighbouring hotels. We have commanded that respect. Last year the hotel won the top hotel award in one of the feedback sites. It did not just come – this was feedback from the clients. Our feedback was at 98.7 percent, which is brilliant. If there is negative feedback on the other hand, we address the relevant issue.

Most hotel staff are from the respective areas and these communities have so many attractions. Now we organise special events for each religious ceremony to try and bring in the community. School children are brought from the surrounding areas as a means of motivation. Therefore, there is continuous interaction with the community.

Our business is managed in a certain way. There is that human touch that many businesses lose while trying to grow, because they forget their most important values like the humaneness, closeness to the customers and attention to detail. Sustainable growth is the most valuable growth. Today sustainability has become an inherent byword of business.

Following the end of a 30-year war, which coincides with the recovering global economy, the country opened up to development opportunities especially in the North and East. How would the group contribute towards post war development and reconstruction in the North and East?
We are investing a great deal of capital in our resort in the East coast, and have acquired new land to make sure that there are more rooms at Nilaveli Beach Hotel. Mercantile Investments has opened a branch in Trincomalee. We are one of the few finance companies operating in Trincomalee. By next year Mercantile Investments will consider setting up branches in the North as well. However, Nilaveli Beach Hotel is certainly a name that anyone in Sri Lanka can associate with the East coast. It is a powerful brand name.

Even At The Time Of The War We Decided Not To Close The Hotel…The Tsunami Was Equally Challenging And We Lost Everything To It, Yet We Rebuilt The Hotel.

The ten-year development plan, the Mahinda Chintana, emphasises the need to improve the business environment more widely. What areas need to improve to secure an investment climate conducive to large-scale private investments?

What we need is Foreign Direct Investments. However, some believe that we have uncertainty in policy planning; for instance, how fast would the process of approvals be if one wanted to set up a business? Even if approval is granted, will there be a review of policies after a certain period? These are concerns that a prospective investor would have. There are plenty of business opportunities but if we do not manage ourselves properly, it is going to dissuade foreigners from investing. They would want to see that the policies are consistent. It is important that we portray ourselves as an extremely business-friendly destination, and to be business-friendly we need to build those systems and have structures in place to gain investor confidence.

If you turn on the TV today, Indonesia, India Burma, Mongolia and Croatia are saying ‘come and invest in our countries’. Likewise, we have to tell the world at large that this is a great place to invest. There is no question about a lack of opportunity. It has great investment value.

You have been successful in making the MI Group what it is today. A lot has been achieved since you joined the Mercantile Investments Board in December 1993. What do you hope to accomplish in the future?

We should not lose the important values started up by my father Deshabandu George Ondaatjie. The human resources have to be of high standards. We cannot just get people to work. We need people who share and build on the values of the company with the ability to grow with the business. They need to understand the values and also be able to deliver because deliverance comes from ability. This is where we are right now and all this leads back to sustaining our business.

Any final thoughts?

A certain sense of negativity has been captured by the international eye with the human rights and other issues that the world press has been recently discussing about Sri Lanka. One need not forget that we have just ended a war; our lives have changed so much from three years ago. Today, we have the freedom to walk on the roads without fear. We have achieved everlasting freedom and we must not forget that.

Even though the western press is portraying certian matters negatively, there are many westerners who feel that the world press is very biased in their journalism. For instance, I met an independent British journalist in Nilaveli recently who expressed how pleasantly surprised he was to find Sri Lanka as it is today, contrary to what is often relayed through the international press. Sri Lanka is certainly the pearl of the Indian Ocean, and we are not by any means over-extending that meaning.



