

The Strength Of Blue Ocean

Posted on



Blue Ocean is a versatile conglomerate with an impressive portfolio; having diversified into several sectors, the Group continues to differentiate through innovation. S Thumilan, Group Chairman, Blue Ocean Group of Companies speaks with Business Today about the potential of the Sri Lankan real estate industry, effective policies that are based on practical considerations and achieving success amidst the existing economic background of the country.

By Gayathri Kothalawala
Photography Menaka Aravinda

Can you speak about the journey of the company and the progress of the Group?

Blue Ocean was established in 2011, but Link Engineering – one of our construction arms was established 36 years ago. As such Blue Ocean is one of the pioneering real estate companies in Sri Lanka. At the moment we are engaged in 35 projects in several locations. Link Engineering is engaged in 34 Government and public projects. Our growth each year is almost 300 per cent.

In the year 2018, we commenced several projects and there are some upcoming projects that are in progress. Therefore, even though the country experienced economic challenges and political instability towards the latter part of 2018, we continued to perform strongly. Our clients are attracted to our projects due to the location and the brand name. Furthermore, our overseas clients continue to place their trust and confidence with Blue Ocean, taking a positive attitude while investing in our brand.

Can you elaborate on your business model?

We live by the concept of simultaneous pursuit of differentiation and cost leadership. Blue Ocean Strategy describes how to create growth and profit by being innovative in a created uncontested environment. Value innovation with continuous perseverance for differentiation with low cost, and understanding of the big picture of the competition and its weaknesses thereby being constantly in line with honesty, ethics and transparency to differentiate with low cost structures are but only a few ingredients of the highly acceptable Blue Ocean concept in the context of today's world. Following the Blue Ocean concept and adopting the same name, Blue Ocean Group of Companies strives to be the most ethical, innovative and constructive company in Sri Lanka.

In Sri Lanka we see many high-rise buildings coming up. What are your thoughts on this?

This is a question that has been asked for many years. Yet, in Sri Lanka real estate occupancy is still in the single digits. In countries such as Hong Kong, Malaysia and Dubai, they are further ahead of us in terms of real estate occupancy. We need to ask how the country can be made more attractive to bring foreign investors and expats to Sri Lanka and encourage them to invest in holiday homes and properties.

Political, economic and social factors have to facilitate foreign nationals making the decision to live in Sri Lanka. Factors include the immigration visa and then, if they invest, what are the benefits they receive from their investment. Sri Lanka needs to think about how we can attract investors and ensure that we have conducive economic policies for foreigners to come here.

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Sri Lanka, of course, is a country with a gifted climate and peaceful living environment compared with other nations. Unfortunately, we do not have a stable economic and fiscal policy to boost the economy of this country. At time the policymakers, they are not practical, only academics. Therefore, it is difficult for the country to take our policies forward to the global level.

What do you see as the potential for real estate in Sri Lanka and what do you think should be done to achieve that?

The real estate market in Sri Lanka is huge, so the former Finance Minister Ravi Karunanayake introduced a lot of economic policies. He introduced a policy that allowed foreigners the freedom to purchase an apartment unit on any floor.

However, according to the recent regulations, foreign clients can only purchase units from the fourth floor of a building and upwards. Furthermore, the former Minister also introduced the policy where foreign investors who invest 300,000 US dollars were eligible to have a resident visa or business visa. And foreigner investors were also eligible to borrow a 40 per cent loan to support them to purchase an apartment.

Countries such as Dubai attract investors through other avenues. The real estate industry can contribute almost 30 per cent to the economy. This is not a foreign loan; it is foreign remittance to the country. Thus, our economy and fiscal policies should facilitate the real estate sector. But it is very unfortunate that the market forces and the banking industry is scrutinising the industry and exerting pressure to downsize. They have introduced a cool down system, but it is not an appropriate strategy. Globally, large businesses and industries are involved in the real estate sector that includes, construction and infrastructure.

The banking industry should facilitate the relevant financial services for a reasonable interest rate. But you can see in Sri Lanka, the interest rate of the banks is around 16 to 28 per cent. While it leads to an enormous profit to the banks, the economy is not developing or expanding. As such there is an evident mismatch between the banking sector and the various other industries in Sri Lanka. I will say, especially SMEs. Most of the SMEs are declining because of the borrowing cost. The Government and the Central Bank have to take responsibility to smoothen or streamline this interest rate, which must be affordable to the entrepreneurs. At the end of the day, the banks are making huge profits; but the industry is struggling or they are closed down by auctions, which is not good for the economy.

In other countries, the interest rates are in single digits, less than ten per cent. But the gap in Sri Lanka – that is between the lending rate and the borrowing rate, as well as the exchange rate, selling rate and the buying rate is massive. This has to definitely be narrowed down.

What are your thoughts on industry standards and quality in Sri Lanka?

Industry standards in Sri Lanka are really high. Compared to other nations, we have very high quality standards and the people are very skilful. The issue is not the industry or the people, but the economic policies.

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The economic policies of the country have to facilitate the industry. Therefore, we should put more focus on creating a positive investment environment in the nation by implementing attractive investment policies. Even BOI; we do not provide any BOI tax holidays. There are so many countries offering attractive policies and incentives to foreign investors. We have to think practically rather than believing in policies and procedures which are not going to bring any foreign investments to Sri Lanka.

How does Blue Ocean achieve success?

There are four pillars in the BCG model or Boston Consulting Group model, which we follow. Sometimes, while the company is strong, the market does not perform well. In Sri Lanka, that has happened to Blue Ocean.

Even though we are strong, the market was not strong. If it was we would have grown further. Not only Blue Ocean, any other company would have grown much faster and brought a large amount of foreign investment into Sri Lanka. Because of

inappropriate policies implemented by academics who don't have practical experience, it has forced us to fold into the system, which is not going to support the industry. It has started to slow down, as you can see, including the stock market. Apparently, it will hit all the companies' profits subsequently, including the financial sector.

Of course for the investors, in terms of real estate, there are many opportunities overseas including Cambodia, UK, Canada, Vietnam and all over the world. But as Sri Lankans, we are loyal to our country, which is why we continue to sustain the business. If you are focusing only on the profitability of the company, there is overseas diversification, which will allow your profit margins to grow. Some of the construction companies are already doing overseas projects to attract foreign income, which is a more suitable and successful model.

Blue Ocean Group had won two major international awards as 'Sri Lanka's Best Property Developer 2017' and 'Asia's Greatest Brands and Leaders 2017'. Following this historic achievement in 2017, the Group had achieved yet another tremendous victory this year by winning eight awards including Special Recognition in Corporate Social Responsibility, Best Condo Architecture Design, Best Affordable Condo Development, and Best Condo Interior Design at the PropertyGuru inaugural session held in Colombo in 2018.

We survive in Sri Lanka because we want to provide employment and also the necessary education and skills to Sri Lankans. Therefore, we continue to be successful overall.

Could you describe the key projects that your group is involved in?

In addition to the massive projects done by Link Engineering, Blue Ocean is currently developing over 35 projects in ten cities, targeting more than 1, 250 apartments at one stretch, which is regarded as a record for a private company in Sri Lanka's real estate sector.

Also, to suit the customer's financial capacity we have taken an additional step to classify our apartments into three categories – First Class, Business Class and Economy Class and carry out our construction works with a highly qualified team and using high quality materials

To be more specific, nine projects were completed between January and August 2018. Three projects were completed before the end of 2018. Currently, six running projects in hand, valued at 11.5 billion rupees; seven projects being designed which are valued at 14 billion rupees and another 15 on-going projects, valued at 20 billion rupees, all of them totalling to approximately 55 billion rupees.

We have set an impressive record of completing the seven multiple condominium projects simultaneously. Within the last six months we have completed over 200 condominium units in De Alwis Avenue, Mount Lavinia; Barnes Avenue, Mount Lavinia; Lillian Avenue, Mount Lavinia; Beach Road, Mount Lavinia; De Alwis Place, Dehiwala; Inner Flower Road, Colombo 3 and Gregory's Road, Colombo 7. In addition, another 125 Condo Units are scheduled to be completed in the near future.

If you can elaborate on the human resources in Sri Lanka?

We have more than 4,000 employees in our company, direct and indirect. But as an engineering firm, we are providing skill development training to undergraduates from the University of Moratuwa and Peradeniya as well as management degrees for accountants. We are an authorised training provider for Chartered Accountants and ACCA. We conduct many skill development programmes. Innovative skills need to be introduced to Sri Lanka because our system of education is very academic.

There are many talented people in Sri Lanka, they may not have the academic qualifications but they have the practical knowledge. It is a matter of refining the education system; we need to restructure the system to cater to future needs.

Can you also speak about yourself and how your background has helped

you in guiding the Group?

I am a Chartered CIMA, ACCA Accountant, and CPA member as well as a member of several other professional organisations. I conduct lectures for Chartered, CIMA and ACCA. I am not a typical accountant; I always think outside the box. Usually accountants have a framework to think within. But I always think beyond the box to be innovative, because I have learned by looking at international entrepreneurs.

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Accountancy is a primary factor to understand a company's position, that is what we call balancing financial position of the company. To understand the performance, we need income statements and other documents, which will provide a solid position of the company. We are capable of converting any business into a success.

What are your group's future plans?

We have already established our brand name firmly among our customers, both in Sri Lanka as well as abroad. This is the very reason why most of our apartments are sold out faster than any other company. We have a very strong customer base comprising Sri Lankans and foreigners and we are making every effort to widen it in the future. In the process of widening our overseas operations, we have already opened our branch offices in the UK, Australia, Canada and UAE for the benefits of Sri Lankans living abroad and foreign nationals, and we plan to extend our development services to the same countries. We have received very satisfactory feedback from them and many customers have already taken steps to invest in apartments in our country.

Blue Ocean Group has been a dominant force in the growth of Sri Lanka's construction sector, handling a wide variety of projects from condominiums and commercial projects to Government projects. We aim to continue with our core

business of apartment development while widening our overseas involvement. We have already expanded ourselves to land development and construction of individual houses.

