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Sustaining Competitive Advantage: The Case of Puerto Rico

Sustaining its reputation as the gateway to the Caribbean, Puerto Rico leads in Caribbean tourism attracting the highest visitor volume. A mature destination with nearly six decades since tourism developed, Puerto Rico is preparing to stay ahead of its competitors with a boost to its lodging inventory and the opening of the gargantuan convention center in the fall of 2005.

Notwithstanding this optimistic milieu, Puerto Rico also faces serious challenges threatening its sustainability, which, if not addressed judiciously by the government and industry, will hinder the destination's ability to sustain competitive advantage in the global tourism market.

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Bio

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Background

Located at the gateway to the Caribbean, Puerto Rico covers a land area of 3,435 square miles and has about 3.9 million inhabitants. The easternmost of the Greater Antilles – Cuba, Jamaica, Hispaniola (Haiti and Dominican Republic) – Puerto Rico was discovered by Christopher Columbus in 1493 and remained under Spanish colonial rule until 1898 when it was ceded by that country to the United States. In 1917, Puerto Ricans were granted U.S. citizenship under the Jones Act and in 1952, Puerto Rico became a self-governing commonwealth in association with the United States.

Puerto Rico embodies over 500 years of rich history and culture characterized by a fusion of native Indian, European and African influence. San Juan, the capital and only walled city in the Caribbean, reflects a sharp contrast between modern architecture and Old Spanish colonial heritage. Outside San Juan, Puerto Rico offers a wide array of attractions including tropical rainforests, caves, and stone monoliths and petroglyphs carved by the Taino civilization, the island's original settlers. Puerto Rico's outlying islands of Culebra, Vieques, Mona and Desecheo are less developed, offering an expanse of unspoiled beaches and natural wilderness.

Purpose

The purpose of this article is to highlight the current situation in Puerto Rico and the challenges both government and industry will have to overcome to ensure long-term sustainable growth and competitiveness in the global tourism market.

Puerto Rico's Tourism

Tourism boomed in 1947, gaining its momentum from the industrialization program called Operation Bootstrap, which offered attractive tax incentives to U.S. firms establishing

businesses on the island. In that same year, Puerto Rico attracted 40,400 visitors, representing a 125% increase over the previous year. Tourism continued expanding at an accelerated rate during the next two decades fueled by the U.S. embargo on Cuba. Between 1948 and 1969, the rate of growth in visitor arrivals averaged 16%, taking the destination from 49,400 visitors in 1948 to 1,067,500 visitors in 1969. Notwithstanding the rate of growth in visitor arrivals has been gradually decelerating during the last three decades (i.e., 1970s - 7%; 1980s - 6% and 1990s - 2%), in 2003 Puerto Rico attracted the lion's share of Caribbean arrivals estimated at 4.4 million visitors. Of the grand total of visitor arrivals, 3.2 million were overnight tourists – 1.2 million staying in hotels accommodations and 2 million staying in other places, contributing US \$1.2 billion and US \$1.3 billion respectively – and 1.2 million were excursionists contributing an estimated US \$127 million. Nearly 80% of the tourists originated in the U.S. (PRPB 2003). While tourism represents about 5.6% of GNP (US \$47.4 billion estimated in 2003) (GDB 2004), the economic impact of travel and tourism is much greater. In terms of total travel and tourism demand, Puerto Rico is the largest economy in the Caribbean, generating an estimated US \$9 billion of total demand and accounting for 22.4 per cent of the region's total travel and tourism activity (WTTC 2004).

Puerto Rico has been a consistent leader in Caribbean tourism. The success of its tourism industry is attributed to its diversified offerings and pivotal role as the major airline hub and cruise ship port to the rest of the Caribbean. Bolstering the island's thriving tourism is the Puerto Rico Tourism Company (PRTC) budget. For 2005, the total tourism budget is estimated at US \$96.8 million, of which US \$54.8 million will be used for marketing and promotion (Estado Libre Asociado de Puerto Rico 2003). A mature destination, today Puerto Rico is aggressively expanding its tourism offerings to maintain a competitive edge in the global tourism market.

Burgeoning hotel development has maintained momentum since 2003. By the end of 2004, the island's lodging inventory reached 13,236 rooms, or 538 rooms more from the previous year (Colon Diaz 2004). In 2005, Puerto Rico's current lodging inventory is expected to increase by more than 400 rooms (Blasor 2005) while more hotel developments, renovations and expansions are underway. Puerto Rico's occupancy rates are consistently among the highest in the Caribbean. In fiscal year 2004, occupancy rate for hotels and paradores (small inns) was 79.1%, or 14.1% higher than the previous fiscal year (Colon Diaz 2004).

Capitalizing on the lucrative golf market, the PRTC has been aggressively promoting the island as the premier golf destination in the Caribbean. Gaining velocity is the construction of the US \$415-million Puerto Rico Convention Center scheduled to open late in 2005. Located on 113 acres in the heart of San Juan, the long awaited convention center will occupy 580,000 square feet becoming the largest and most-technologically advanced meeting and convention facility in the Caribbean and Latin America. In addition, the new convention center will be part of a large-scale development comprising luxury hotels, residential and business buildings, retail, restaurants and entertainment, which will be known as the Puerto Rico Convention Center District. The District is considered one of the largest and most ambitious waterfront development projects in the history of the U.S. and its territories (Puerto Rico Convention Center 2005).

Puerto Rico's Government and Tourism Industry Challenges

While the future bodes well for Puerto Rico, there are certain key imperatives that both government and industry need to address in order to ensure the destination's full potential in the global market.

The Government: Environmental, Social and Economic Issues

- **Water** – Water remains the biggest problem in Puerto Rico. According to the U.S. Geological Survey (USGS), the island has nearly exhausted its ability to produce drinking water. An estimated 40% to 50% of treated water is wasted due to leaks in the system. In terms of water quality standards, the situation is even more alarming. Less than 20% of the 3.9 million inhabitants receive acceptable drinking water that meets all the health-based safety standards (McPhaul 2005).
- **Urban Sprawl** – Fueled by unregulated planning and zoning practices, urban sprawl and its accompanying social, economic and environmental problems are threatening the quality of life in Puerto Rico. Pressing issues include:
 - **Population Density** – With a staggering 1,128 persons per square mile, Puerto Rico ranks 18th among the most densely populated countries in the world (PRB 2004). In San Juan, the capital, which comprises nearly 442,447 persons on 47.5 miles, population density escalates to a staggering 9,314 persons per square mile (Estado Libre Asociado de Puerto Rico 2003a).
 - **Traffic Congestion** – The heavy reliance on private car transportation has created a severe traffic congestion problem for the 1.3 million residents (one-third of Puerto Rico's population) commuting in and out of San Juan daily. While the recently inaugurated US\$1.6 billion Urban Train, which runs between San Juan and suburban Bayamon (12 miles) (McPhaul 2004), promises to alleviate the traffic congestion, the success of the new rail will depend on how effectively residents adopt the use of public transportation.

- **Air Quality** – According to Puerto Rico 2025 report prepared by A.T. Kearney Management Consultants, Puerto Rico’s dependence on oil is among the highest in the world, currently at 75%. This heavy dependency on oil for electricity generation, coupled with the high density of cars, has caused a failing grade in air quality tests in many areas (McPhaul 2005a).
- **Solid Waste Management** – Puerto Rico is almost reaching its capacity in terms of landfill space. Coupled with a recycling rate at a dismal 10%, poor treatment of solid waste and a deficiency in monitoring has resulted in the contamination of beaches. More alarming, sewage discharges into the ocean are decimating the coral reefs (McPhaul 2005).
- **Protected Land** – Puerto Rico’s protected land is 3.5% compared to 11.5% in the rest of Latin America and the Caribbean (McPhaul 2005).
- **Crime** – According to the Federal Bureau of Investigation (FBI), more murders occur in Puerto Rico than anywhere in the U.S. In 2004, Puerto Rico reported 790 murders, surpassing New York City (total population 8 million) with 571, Los Angeles (total population 8 million) with 511 and Chicago (total population 3 million) with 445. An estimated 60% of the homicides are related to the illegal drug trade (Rosa 2005).
- **Unemployment** – Among serious social issues contributing to the decline in the quality of life of Puerto Ricans is an alarming unemployment rate of 12% in 2003 (GDB 2004).

The Puerto Rico Tourism Company

- **Service & Product Quality Issues** – As one of the more expensive destinations, when compared to the rest of the Caribbean, Puerto Rico grapples with sub par customer service and product quality. According to a survey on evaluating local independent hotels

conducted by Diamond Hospitality in 2004, about 85% of the hotels surveyed were classified only as one or two stars. Of the 130 properties evaluated, the mystery shoppers gave 49 hotels one star, 61 hotels two stars, 16 hotels three stars, one hotel four stars and three no stars at all. (Gonzalez-Velazquez 2004). Underlying factors contributing to this issue include deficiencies in the curriculum offered by tourism educational institutions, training and lack of written and oral communication skills in English.

- **Protection and Preservation** – Studies have shown that Puerto Rico has failed to effectively protect and develop its natural and cultural assets. A study conducted by Caribbean Business revealed that most of the island's attractions are not subject to inspections and thus, rarely comply with quality, cleanliness and customer service standards. Other issues affecting Puerto Rico's natural attractions include lack of integrated efforts to promote these attractions and insufficient funds to maintain them in optimum condition. Examples of attractions in danger of becoming tourist relics include the St. Geronimo Fort in San Juan. Closed for a decade, this historic treasure is today severely deteriorated. On the southern town of Lajas is La Parguera's Bioluminescent Bay. Unregulated development and pollution caused by water sports activities and use of boats continue spoiling the allure of this natural asset (Gonzalez-Velazquez 2004b).

The most astounding example of environmental stress occurred in historic Old San Juan. Enduring over 400 years is the massive wall that surrounds the city, known as 'La Muralla'. The national icon that many considered would last an eternity startled residents after a 70-foot section crumbled one day in February 2004. Traffic, pollution, poor repair work and salty air are among the principal factors contributing to the gradual degradation of the wall (Goodnough 2004).

- **The Economic Impact of Cruise tourism** – Cruise passengers account for US \$127 million, or 4.8% of total visitor expenditures. During the last three years, local tour operators catering mostly to cruise passengers have reported a consistent decline in sales. Factors contributing to this decline include cruise lines rejecting tour proposals to the island's central region due to travel distance and only 20%, on average, of the total 1.2 million cruise passengers visiting Puerto Rico pay for an excursion. A study on the economic impact of cruises on Puerto Rico conducted by InterVistas Consulting noted a major disparity in cruise passenger spending. The study revealed that homeport passengers spend only US \$0.79 on sightseeing versus transient passengers who spend US \$8.81. Transit passengers spend \$25.87 sightseeing or on shore excursions in Ocho Rios, Jamaica and US \$17.68 in Aruba (Gonzalez-Velazquez 2004). While Puerto Rico has taken a proactive step toward understanding the relative impact of cruise passengers versus overnight visitors, the challenge lying ahead will center on maximizing the economic contribution from cruise tourism.
- **Marketing** – Lack of continuity in the PRTC's strategic efforts has consistently been an issue in Puerto Rico due to changes in government administration. During the last year, an election year, the PRTC suffered the sudden departure of two of its directors Jose Suarez and Milton Segarra. The year ended with attorney Lilly Oronoz as head of the agency (Colon Diaz 2004).

The PRTC has launched regional marketing initiatives to disperse tourists from the congested San Juan area. Porta del Sol was the first regional branding campaign promoting the island's west coast. To succeed in this endeavor, the PRTC must ensure that each

region implements an integrated planning strategy in concert with the overall PRTC's goals.

Implications

Imperative for the long-term sustainability of Puerto Rico is the proactive involvement from both government and industry. On the one side, the government must prioritize an agenda to undertake the socio-economic and environmental challenges threatening the quality of life in Puerto Rico. On the other side, the Puerto Rico Tourism Company must effectively address the implications of maturity, a critical stage in a destination's life cycle. This will require a radical shift in competitive strategies from a product-centric approach to a customer-centric approach. Customer intelligence will be imperative for sustaining competitive advantage. Having a deep understanding of the customer will allow the destination to market more effectively and efficiently by addressing the needs, wants and desires of the most profitable customers while driving marketing toward attracting similar prospects. Implementing an integrated planning approach focusing on sustainable development and growth, while involving the local community and policy-making bodies, will be crucial for the long-term competitiveness of the destination. A major emphasis must be placed on protecting and preserving the legacy of the island's precious natural and cultural assets, ultimately its *raison d'être*. Securing Puerto Rico's competitive position will depend on the actions undertaken today; tomorrow will be too late.

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