Horwath Tourism & Leisure Consulting
Member of Horwath International

Tourism Environment in South Africa

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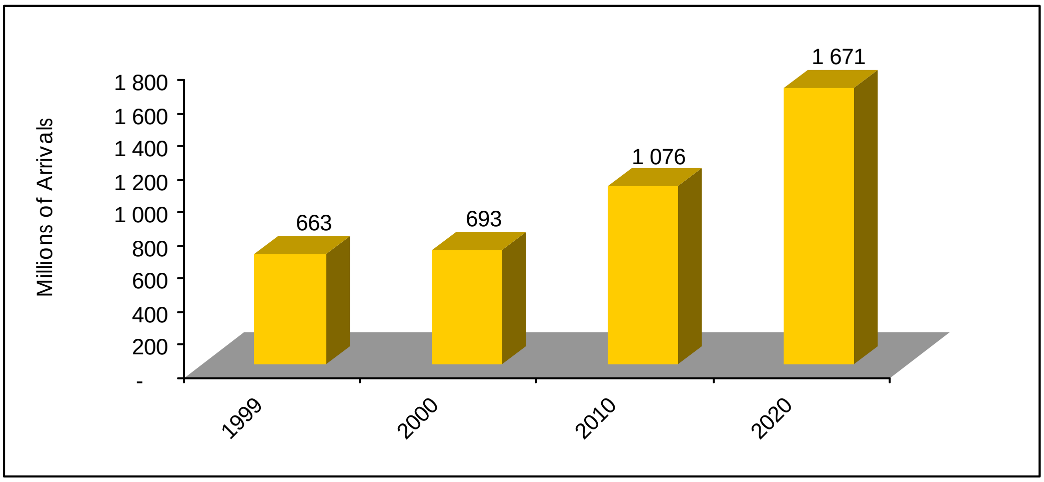
1. World Tourism

Tourism is the world's largest industry and employs the most people. Tourism activity grew substantially in the 20th century with tourist arrivals around the world growing from 25 million to 693 million in the last 5 decades, corresponding to an annual growth rate of about 7%.

It is estimated that the average annual growth of tourist arrivals around the world will decrease to a level of some 4% per annum over the next 20 years. This reduced projected growth rate still signifies an increase of approximately 1 billion arrivals by the year 2020, as is shown in **Figure 1**.

Figure 1: Projected Growth in Arrivals Worldwide



Source: World Tourism Organisation

According to the World Travel and Tourism Council (WTTC), tourism already directly and indirectly contributes more than 10% to world employment, world Gross Domestic Product (GDP) and world capital investment. In addition, tourism is recognised as an indispensable source of foreign exchange earnings for many countries.

An estimated 270 million people are employed directly or indirectly by the tourism industry – a number that is nearly equivalent to the entire population of the United States of America.

Europe and the Americas are the main tourist receiving regions with 19% of total world tourist arrivals being received in the Americas and 59% in Europe in 1999.

According to the WTO France, Spain, the United States, Italy and China were the world's top 5 tourist destinations in terms of international arrivals in 1999.

Table 1: Top Five Tourist Destinations

Country	International Tourist Arrivals (millions)		% Change	% Market Share
	1998	1999	1998/ 1999	1999
France	70	71,4	2%	10,7%
Spain	47,7	52	8,8%	7,3%
United States	46,4	47	1,3%	7,1%
Italy	34,8	35,8	2,9%	5,3%
China	25,1	27	7,9%	3,8%

Source: World Tourism Organisation

Although destinations in Europe and the Americas typically receive the highest number of international tourist arrivals, tourism to other regions of the world is growing faster than tourism to these traditional destinations.

2. African Tourism

There were some 27,8 million arrivals in Africa during 2000, a growth rate of 1,5% in arrivals from 1999. This represents a decline from the 9% increase in arrivals experienced on the continent between 1998 and 1999.

In North Africa, arrivals growth was generally positive with Morocco, Tunisia and Algeria all showing positive growth between 1999 and 2000. In Southern Africa, tourism growth declined over the same period due to a number of regional factors.

In the SADC region (Southern African Development Community), which includes Mozambique, Zimbabwe, South Africa, Angola, Botswana and Namibia, the tourism industry suffered in 2000. Zimbabwe's precarious political and economic situation affected arrivals to the whole region and it is estimated that foreign arrivals to Zimbabwe dropped by more than 70% in 2000, having a serious impact on the industry and the Zimbabwean economy as a whole. However, tourism prospects picked up in Mozambique with capital investment in the country increasing in 2000 and a recovery from the devastating floods of 1999 underway.

South Africa received 5,87 million foreign arrivals in 2000 and remained the most popular destination in Africa, in terms of the number of foreign arrivals achieved, followed closely by Egypt. Morocco and Tunisia also performed well with the 3rd and 4th most foreign arrivals on the continent. Foreign arrivals to South Africa decreased marginally between 1999 and 2000 due to a decrease in arrivals from Africa. Overseas arrivals to South Africa grew year-on-year by 2,7% between 1999 and 2000.

Egypt, Tunisia and Morocco received 5,15 million, 5,05 million and 4,10 million foreign arrivals respectively in 2000. Foreign arrivals to Egypt grew by 14% between 1999 and 2000, while Tunisia and Morocco achieved growth rates of 4,7% and 7,4% respectively over the same period.

Of the 5,87 million arrivals in South Africa, 4,4 million were from African countries, approximately 75% percent of the total foreign arrivals received. However, only 14% of the arrivals in Tunisia and 2% and 3% of arrivals in Morocco and Egypt respectively, were from Africa.

Unlike South Africa, Egypt, Tunisia and Morocco's largest source market was Europe, representing 71% of total foreign arrivals in Tunisia, 67% in Egypt and 49% in Morocco in 1999. Egypt, Tunisia and Morocco received 3,2 million, 3,5 million and 1,9 million arrivals from Europe in 1999 respectively, compared to South Africa which received only 1 million arrivals from that region.

3.1 South African Tourism

South Africa received 5,87 million foreign arrivals in 2000 and remained the most popular destination in Africa, in terms of the number of foreign arrivals achieved.

It is estimated that domestic tourism contributes about 83% to the total visitor market in South Africa, but only 60% to total tourism spend – as foreign tourists typically spend considerably more than domestic tourists.

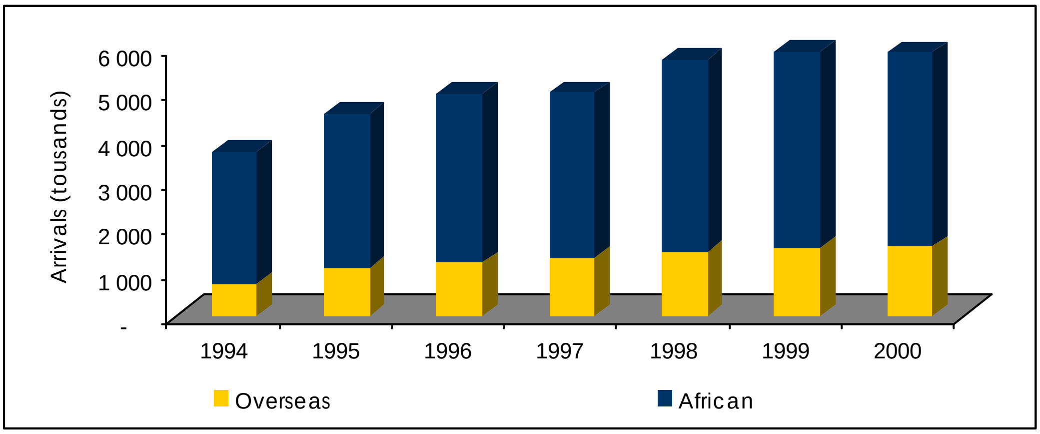
3.1.1 Foreign Tourism

Subsequent to the first democratic elections in South Africa in 1994, the number of foreign arrivals grew substantially. In fact, the number of foreign arrivals in South Africa grew by nearly 60% between 1994 and 2000.

However, although the initial year-on-year growth rates were substantially in excess of the average world tourism growth rate, South Africa experienced a decline of 0,31% in total foreign arrivals between 1999 and 2000. The decline in total foreign arrivals was largely due to a 1,34% decrease in African arrivals, which was to a degree offset by a growth of 2,73% in overseas arrivals.

Figure 3.1 shows the increase in African and overseas arrivals in South Africa between 1994 and 2000.

Figure 3.1: Foreign Arrivals Growth in South Africa



Source: Statistics South Africa

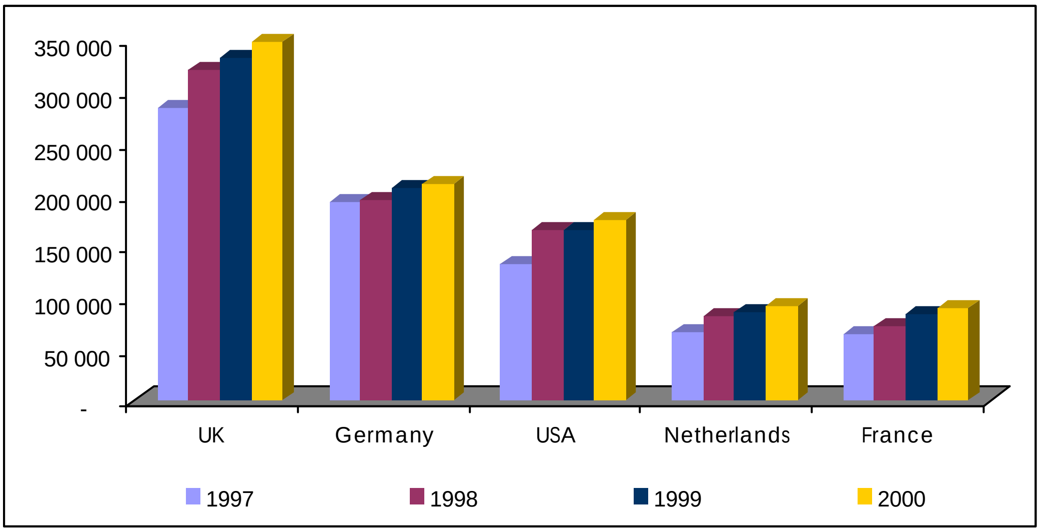
About 75% of the 5,87 million foreign arrivals recorded in South Africa in 2000 were arrivals from other African countries. This equates to over 1,5 million foreign visits to South Africa from overseas countries in 2000.

Main Overseas Source Markets

South Africa's main overseas source markets are the United Kingdom, Germany, the United States, the Netherlands and France in that order. In 2000 these 5 countries made up 60% of total overseas arrivals. **Figure 3.2** shows the growth in arrivals from South Africa's main overseas source markets.

Although the United Kingdom is South Africa's largest overseas source market, United Kingdom arrivals in South Africa comprise only 0,6% of total United Kingdom outbound travel and some 3% of United Kingdom long-haul travel. The same pattern is true for South Africa's other main source markets. This demonstrates a considerable opportunity for growth in established markets.

Figure 3.2: South Africa's Main Source Markets

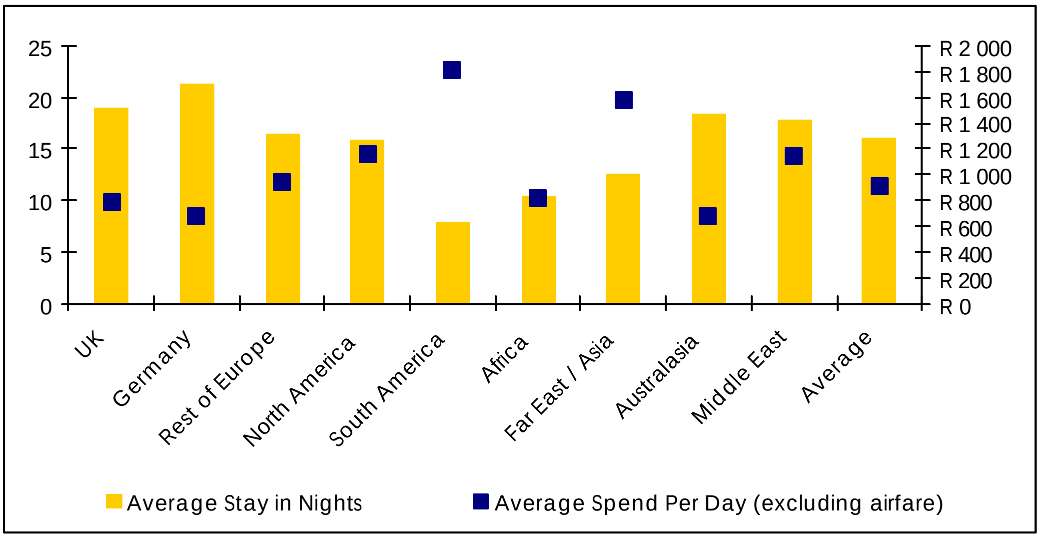


Source: Statistics South Africa

Average Spend and Length of Stay

A survey commissioned by South African Tourism and carried out at airport departure halls indicates that the average stay of foreign air arrivals in South Africa was 16 nights and the average spend per day, excluding airfare was R904 in 2000. **Figure 3.3** summarises the results of the survey.

Figure 3.3: Average Spend and Average Stay of Foreign Air Arrivals



Source: South African Tourism

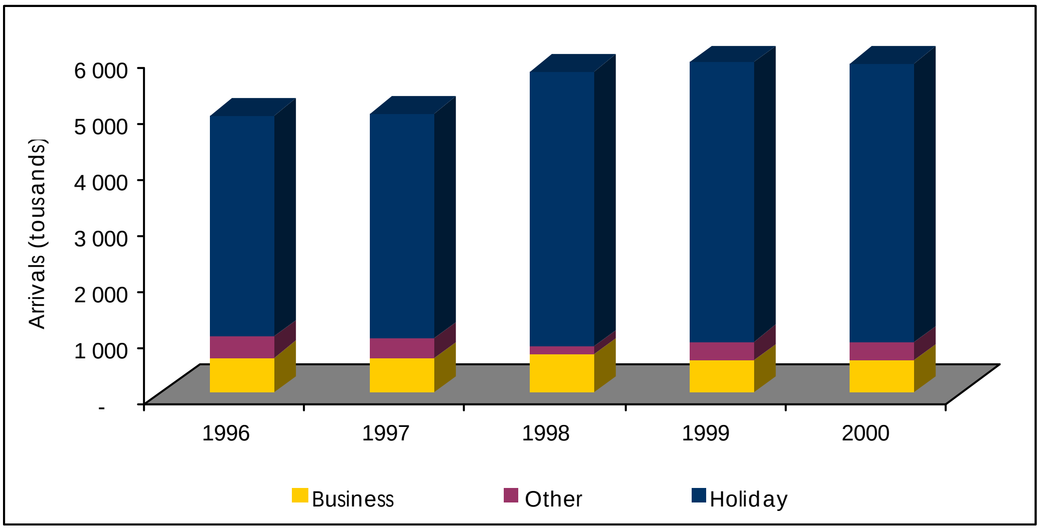
Results of the survey showed that on average German visitors spent the most time in South Africa (21 nights), while they tended to spend the least money (R684 per day). South American visitors spent the least amount of time (7,8 nights) while spending the most money (R1 815 per day).

This survey, conducted in international airport departures halls, pertains to air arrivals only. As a result the R823 per day average expenditure and 10-night average stay recorded for African arrivals refers only to African air arrivals. Although there are no reliable statistics in existence regarding African cross border arrivals, we believe that it is fair to assume that their average expenditure per day is less.

Purpose of Visit

An estimated 85% of South Africa's foreign arrivals visited the country for holiday purposes in 2000. The arrivals for business purposes comprised of 10%; this percentage has been slightly higher in the past as the number of business arrivals has grown at a slower rate than that of leisure arrivals. **Figure 3.4** shows foreign arrivals in South Africa according to purpose of visit.

Figure 3.4: Arrivals by Purpose of Visit



Source: Statistics South Africa

Holiday air arrivals tend to spend more per trip than business air arrivals. As would be expected, tourists whose main purpose is to visit friends or family (VFR) spend the least per trip. **Table 3.1** shows the average expenditure per trip by purpose of visit for foreign air arrivals.

Table 3.1: Average Expenditure per Trip

Average Expenditure	Business Visitors		Holiday Visitors		VFR Visitors	
	Rand	%	Rand	%	Rand	%
Airfare	11 394	49	8 758	33	8 112	42
Prepaid Expenses	2 934	13	7 080	27	2 284	12
Accommodation	3 438	15	3 508	13	2 302	12
Food and Drink	1 626	7	2 397	9	2 064	11
Shopping, Souvenirs, Gifts	1 740	7	2 121	8	2 585	13
Local Transport	779	3	1 038	4	598	3
Recreation, Culture, Sport	443	2	615	2	572	3
Other Expenses	1 049	4	1 185	4	841	4
Total	23 403	100	26 702	100	19 358	100

Source: South African Tourism

For expenditure incurred in South Africa, the highest expenditure for all three segments was incurred from:

- accommodation;
- food and drink; and
- shopping, souvenirs and gifts.

In the aftermath of the recent terrorist attacks on the United States, it is likely that European markets will shift bookings from the Eastern Mediterranean, North Africa, America and parts of Asia to alternative destinations. This provides South Africa with a substantial opportunity to attract additional visitors from European markets.

The United States received a total of around 8 million visitors from South Africa's four main European source markets (the United Kingdom, Germany, France and the Netherlands) in 2000 and it is likely that these visitor markets, and tour operators developing packages for these markets, may be looking for alternative destinations in the near and medium term.

Table 3.2 shows the approximate percentage of total outbound visitors and long haul visitors that the United States and South Africa received from those 4 European source markets in 2000.

Table 3.2: Percentage Outbound Travel to SA and US from Main Source Markets

	United Kingdom		Germany		Netherlands		France	
	% total	% longhaul	% total	% longhaul	% total	% longhaul	% total	% longhaul
United States	8%	36%	2%	25%	2%	23%	4%	15%
South Africa	1%	3%	0,2%	3%	0,3%	4%	0,3%	1%

Source: World Tourism Organisation - adapted

A number of international airlines have already made substantial increases in this capacity into South Africa in order to address increased demand.

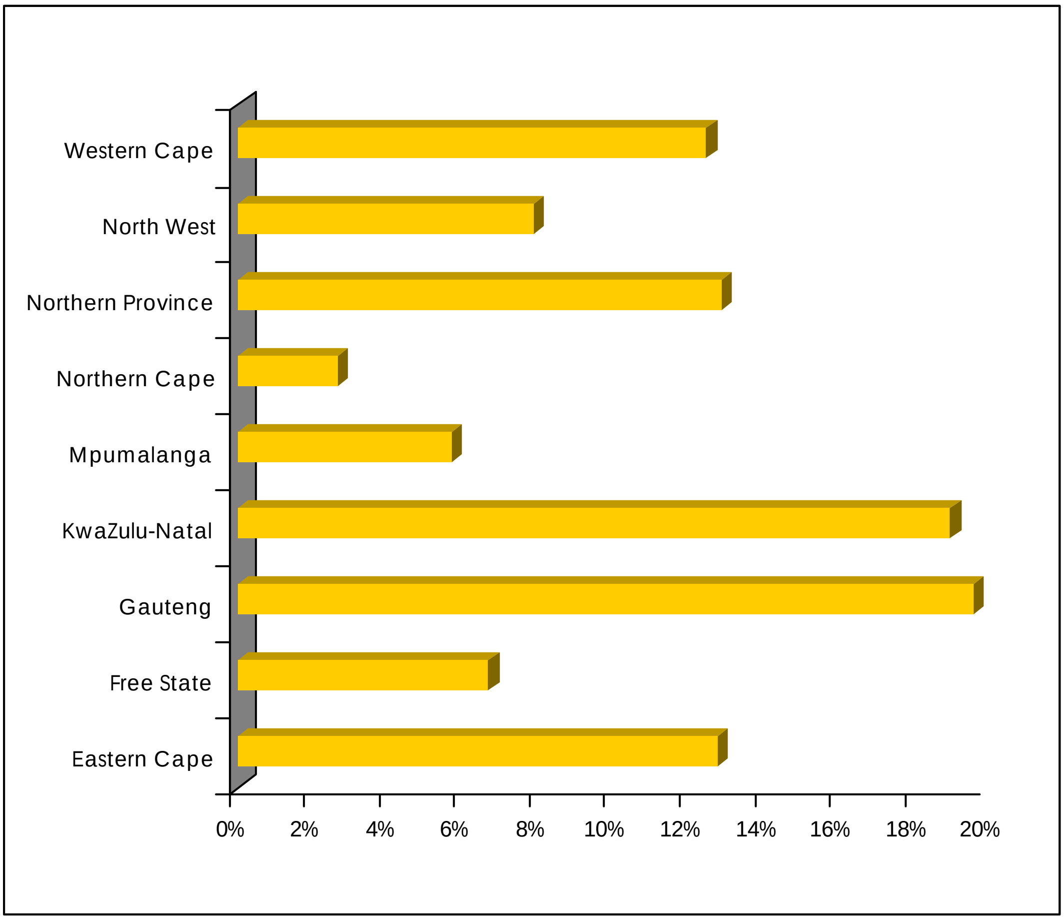
3.1.2 Domestic Tourism

In South Africa, domestic tourist arrivals made up 83% of the total, at approximately 34 million between May 2000 and April 2001. It is estimated that approximately 16,5 billion Rand was spent on domestic travel and tourism over that period.

Most Popular Domestic Provincial Destinations

The most popular destinations for domestic tourists were Gauteng and KwaZulu-Natal, followed by the Northern Province, Eastern Cape and the Western Cape in that order. **Figure 3.5** shows the distribution of domestic trips by province.

Figure 3.5: Share of Domestic Trips by Province

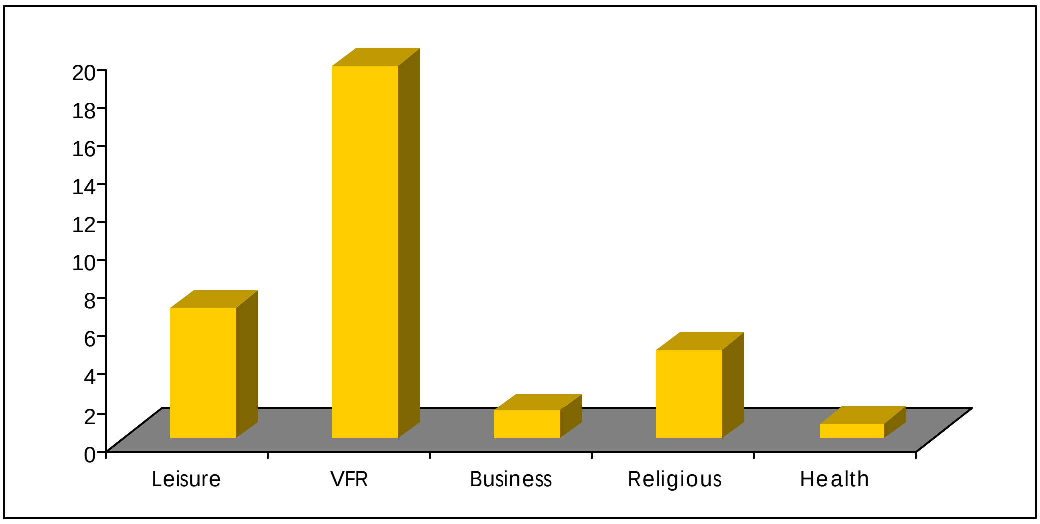


Source: South African Tourism

Purpose of Visit

The primary purpose of travel was identified as being to visit friends and family (58,5%); for holiday, recreational or leisure purposes (20,6%); religious purposes (14,1%); for business or professional purposes (4,4%) or to receive health treatment (2,4%). **Figure 3.6** shows the number of domestic arrivals by purpose of visit in 2000.

Figure 3.6: Number of Domestic Arrivals by Purpose in 2000/ 2001 in Millions



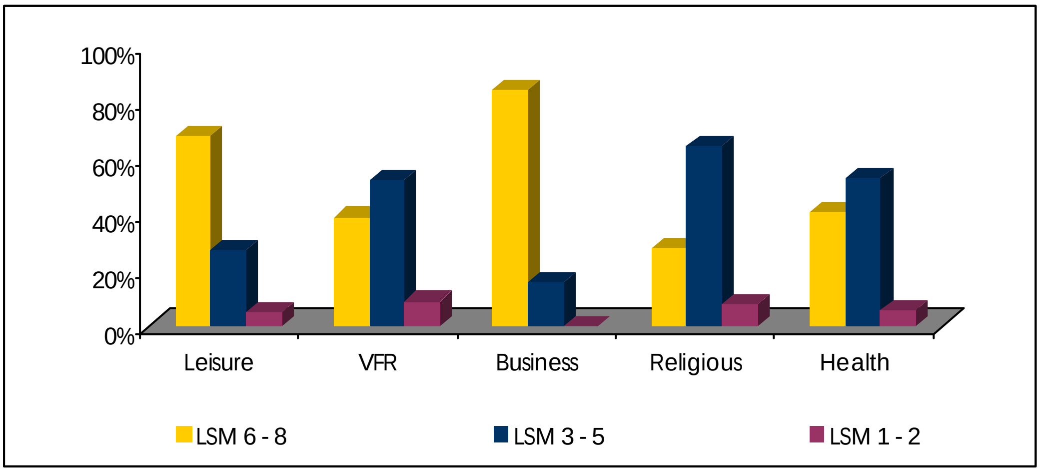
Source: South African Tourism

The South African Advertising Research Foundation developed a method of market segmentation based on living standards and according to which 8 segments or categories were developed. Living Standard Measure (LSM) 1 through 8, has 1 as the lowest and 8 the highest living standard.

Although lower LSM groups do travel their level of disposable income and resulting average spend per trip is low and relatives generally provide accommodation.

Figure 3.7 shows the percentage contribution that LSM groups made to the domestic market, by purpose of visit.

Figure 3.7: LSM Group Percentage Contribution by Purpose of Visit

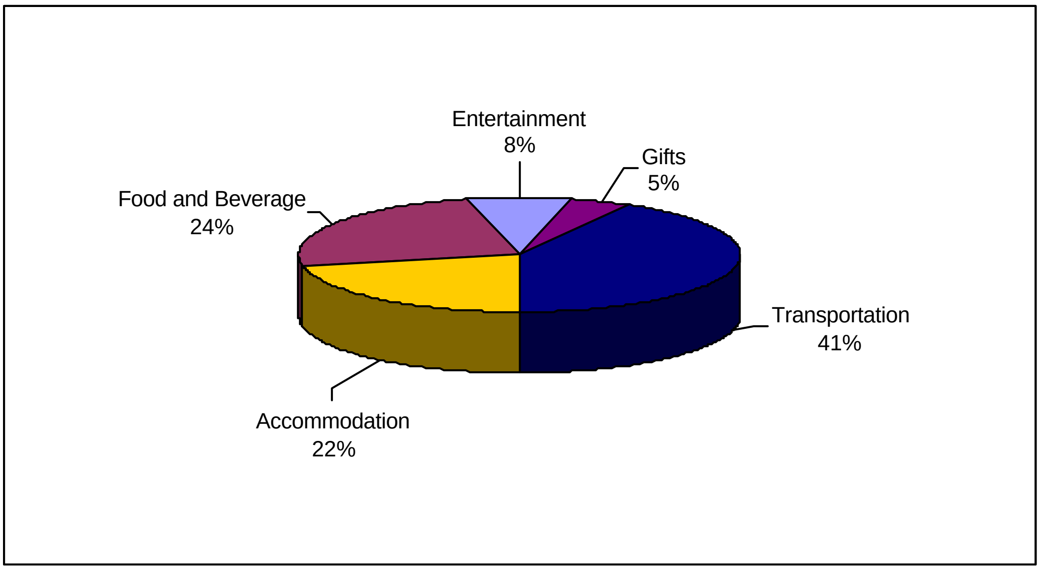


Source: South African Tourism

Average Expenditure

The mean cost of a domestic trip was R437 per person. About R182 was spent on transport, R97 on accommodation, R105 on food, R34 on entertainment and R20 on gifts. The proportion of total trip expenditure received by each of these components is shown below.

Figure 3.8: Expenditure Breakdown for Domestic Trips



Source: South African Tourism

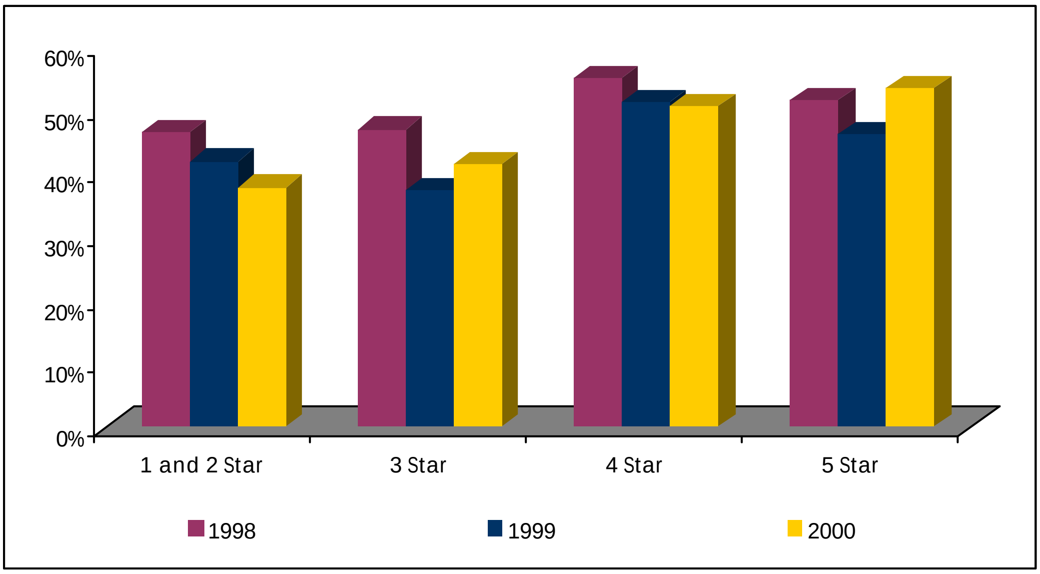
4. South African Hotel Sector

According to data collected by Statistics South Africa, occupancies across all hotels in South Africa have remained constant at 52% over the past three year period. At the same time, the aggregate Average Daily Rate (ADR) across all hotels has increased in line with inflation, at approximately 6% per annum.

Aggregate hotel performance has not increased in line with increases in international and domestic demand. This is largely due to the increased supply of hotel rooms in almost every hotel segment across South Africa since the democratic elections in 1994 served to stimulate tourist demand.

In 1998 hotel occupancy rates were highest for 4 star hotels, at 55% and lowest for 1 and 2 star hotels, at 46%. In 1999 hotel occupancy rates were once again highest for 4 star hotels, at 51% and lowest for 3 star hotels, at 37%. In 2000 hotel occupancy rates were highest for 5 star hotels, at 53% and lowest for 1 and 2 star hotels, at 38%. **Figure 4.1** shows the movement in occupancy rates for graded hotels by star grading over the past three years.

Figure 4.1: Hotel Occupancies by Star Grading

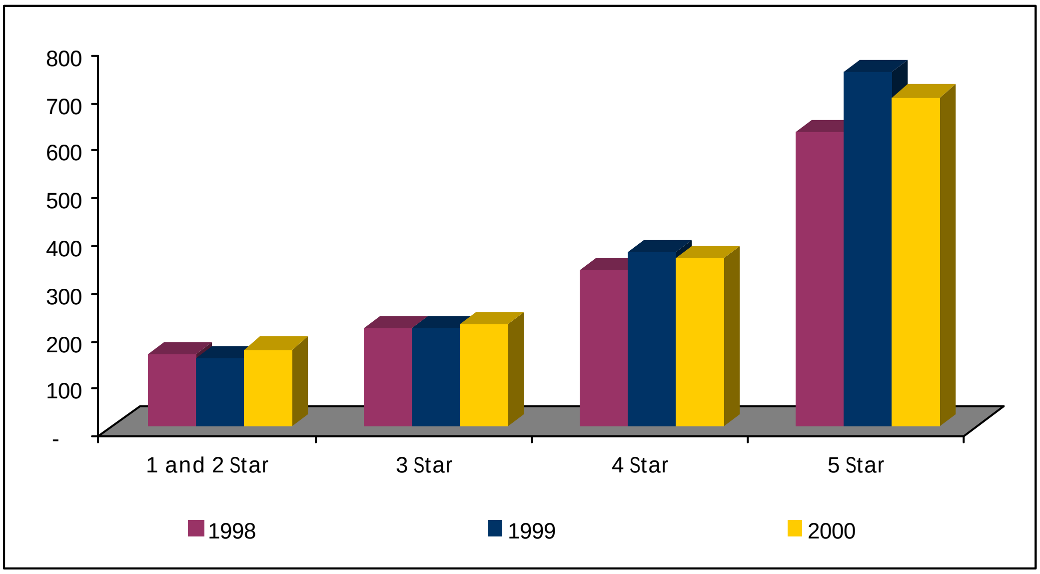


Source: Statistics South Africa

Decreases in occupancies across graded hotels were largely due to increases in the supply of hotel rooms, which outstripped demand in various market segments over the period. It is evident from **Figure 4.1** that hotel occupancy rates declined in 1999 for 3 star and 5 star hotels but increased again in 2000. This was probably due to a worldwide decline in travel over the millennium period.

Figure 4.2 shows the movement in Average Daily Rates for graded hotels by star grading over the past three years.

Figure 4.2: Hotel Average Daily Rates by Star Grading



Source: Statistics South Africa

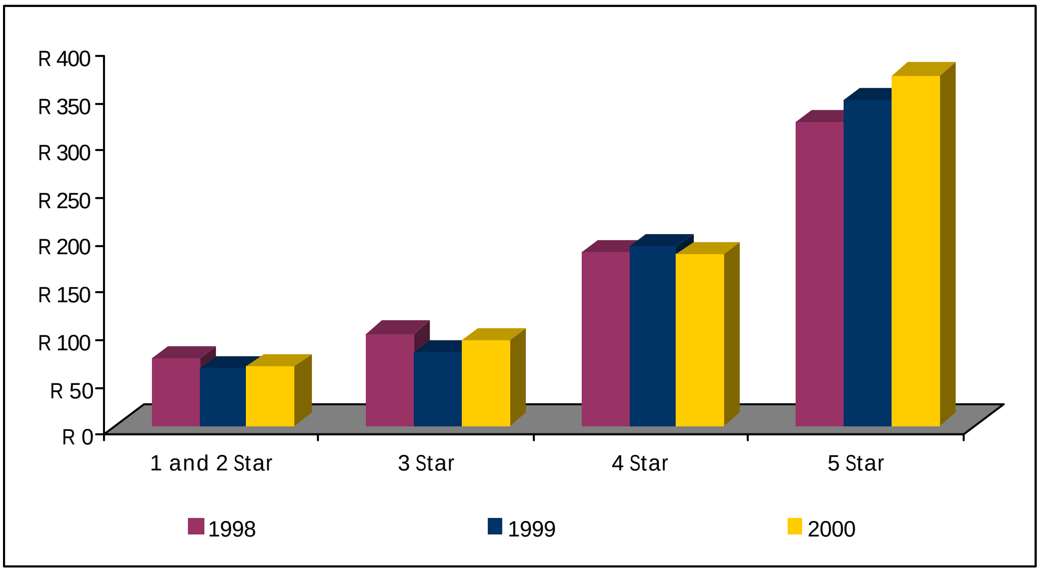
As would be expected, higher graded hotels achieved higher Average Daily Rates than lower graded hotels. The Average Daily Rate for 4 and 5 star hotels decreased between 1999 and 2000. This is probably as a result of optimism relating to demand as well as an increase in operating costs over the millennium period. The rates of 4 and 5 star hotels increased by 11% and 20% respectively between 1998 and 1999; this is in excess of inflation reported over the period.

In evaluating hotel performance, it is particularly important not to view average occupancy rates and average daily rates in isolation. The two variables are indelibly linked because the pricing levels at a given accommodation establishment invariably affects the demand for rooms at the establishment. The variable, revpar, is a conceptual link between average occupancy rates and

Average Daily Rates; it is the net accommodation revenue per day per available room.

Figure 4.3 shows the movement of revpar for graded hotels by star grading over the past three years.

Figure 4.3: Revpar by Star Grading



Source: Statistics South Africa; Horwath Tourism & Leisure Consulting

Although the Average Daily Rates for 5 star hotels decreased between 1999 and 2000 the revpar increased over the period. This indicates an increase in the average occupancy rate which had an overall positive effect on revpar. The revpar curve for 4 star hotels, on the other hand is very similar to that of the Average Daily Rate, indicating the minimal effect of price decreases on demand. The same is true for 1, 2 and 3 star hotels, albeit to a lesser degree.