SOUTH AFRICAN TOURISM

Gearing up to be Globally Competitive:

The development of the Tourism Growth Strategy

2002 - 2004

www.southafrica.net

PART I: Introduction to the Tourism Growth Strategy (May 2001 to 2004)

The Tourism Growth Strategy project was started in May 2001 to address key problems in international tourism marketing of South Africa.

Marketing by South African Tourism then was generic and focused on six Euro-centric markets targeting largely wealthy and elderly travelers.

The “strategy” was driven by anecdote from established trade sources, and SAT supported their work rather than had its own strategy for growth informed by national objectives and goals for the sector in South Africa.

BUT MORE IMPORTANTLY:

Arrivals to South Africa has started to flatten out by 2000 and were starting to dip.

It was imperative to work out the core objectives of the organisation and the sector, and to build a growth strategy that would deliver against the national objectives for tourism.

Phase 1:

Project scope, goals and objectives, and identification of priority markets

Phase 2:

Analysis of current in-bound markets

India

MICE

USA segmentation

Phase 3:

Integrate strategy based on priority markets

Deployment strategy for core markets and organisational restructuring

Phase 4:

Brand tracking (first wave)

UK and German segmentation

Phase 5:

China, Japan and French segmentation

Strategy for East and West Africa

Strategy for SADC land travel

Phase 6:

Global competitiveness

Brand tracking (second wave)

Guiding principles in developing the Tourism Growth Strategy (TGS)

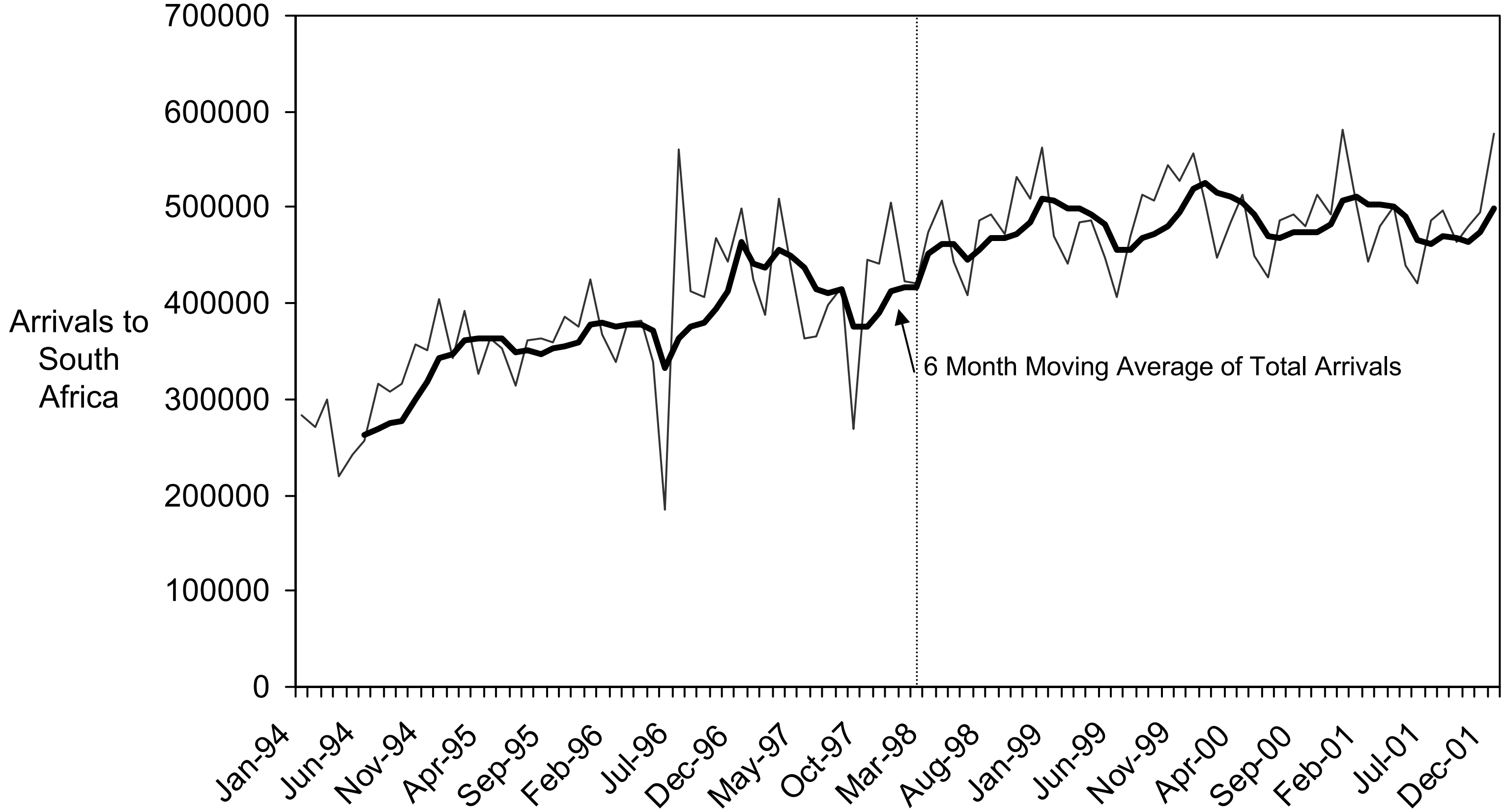
The TGS was developed in SA Tourism according to a set of consistent principles

Focused	With limited human and financial resources, we must be focused in all our activities so we had to make of choices and explicit trade-offs which have a long-term strategic impact on South African tourism. This is not about doing everything on offer but making choices based on ROI and both national and business objectives - and making clear decisions on what you do and do not do.
Data Driven and customer focused	The strategic decisions that drive the TGS are based on sound data and analysis, and not anecdote. It is about understanding consumers who are attractive for South Africa in terms of our objectives and immediate focus is on people who are interested in traveling to South Africa (the low-hanging fruit). Deep consumer understanding would give South Africa the competitive edge in markets and drive them to the channel.
Consultative to build sector 'co-opetition'	The TGS process is consultative, incorporating input from as many stakeholders as possible. The principle is to build "co-opetition" in the sector so that we co-operate on building volume and compete on service and move away from the current patterns of destructive competition where we compete with each other on price.
Goals are GDP, jobs and transformation	The choices are made in relation to our mandate and the national tourism goals in the Tourism Act: to promote GDP growth and job creation and the transformation of our economy through six key objectives (growing volume, spend, length of stay and provincial distribution while reducing seasonality and promoting transformation).
Transparent	The choice-making processes and source of data is transparent to build consensus on building tourism against the broader nation's goals while informing business-level decision making within a broader context. The TGS does not tell people what to do but rather sets the playing field for companies and other roleplayers to choose where they want to invest and do business.

The steady growth in tourism arrivals post 1994 had slowed to 0.3% between 1998 and 2001 from 6,9% between 1994 and 2001

The major declines in tourism arrivals from Lesotho were a major issue, but even without Lesotho, overall growth has slowed to 3.2% CAGR between 1998 and 2001

Total Arrivals to South Africa over the 7 Year Period from 1994



CAGR (94-01)	CAGR (98-01)
6.9%	0.3%

Source: South African Tourism Table K

Stagnant arrivals since 1998 forced a fundamental assessment in 2000 and the decision was made to develop a data-driven strategy

Outcomes 1998- 2001

Stagnant arrivals and revenues were characterised by:

- Over two-thirds of arrivals derived from business travel and "Visiting Friends and Relatives" markets
- Heavy dependence on arrivals from neighbouring states where SA already had over 90% of market share
- Over 50% of overseas holiday travel was drawn from just four markets — the UK, Germany, France and the US; and South Africa was still a marginal player in these global leisure markets
- Almost no impact on arrivals after major marketing campaigns
- Little or no innovation in the product offering being sold by the private sector and operators into overseas markets

Underlying Drivers

SA Tourism's approach to marketing the destination had not changed for decades:

- Markets were viewed purely from a geographic perspective
- The implicit strategy was about "product-push" — selling what SA thought the consumers would want
- Consumer-focused campaigns were limited to small special interest segments (e.g. Golf Tourism). These were difficult to target and fragmented the offering
- The only criteria for success was increased arrivals
- The highly decentralised operating model of SA Tourism (of five hubs) resulted in almost no global co-ordination and very different strategies in different markets where SAT had offices

This assessment highlighted eight core challenges

Volume	Seasonality
Balance of Risk in Portfolio	Distribution
Value	Transformation
Global competitiveness	Sustainability

The core challenges identified were symptomatic of powerful patterns of change in the global tourism market

More Complex Consumer Segmentation	Intensifying Competition	Consolidation and Specialisation in the Channel	Fragmentation within Local Tourism Clusters

"COMMODITISATION"

Category "trap" (E.g. Sun & Beach)	Undifferentiated competitive positioning	Increasing value capture within the channel	Destructive internal rivalry

- Declining Growth
- Declining Yields
- Internal convergence in product offerings
- Limited Innovation and Competitive Upgrading

The global context, and our past performance, forced us to recognise that difficult choices were needed

Focus effort and resources

- Despite increases in overall funding of the marketing campaign, the total budget is small in global terms, and as the currency weakens, is getting smaller. SA Tourism needs to focus its efforts and resources on those countries and customer segments which are most valuable to South Africa.

Re-balance the portfolio

- Arrivals to South Africa are too dependent on a few large markets. The mix of arrivals needs to lessen dependence on volatile markets and at the same time increase our share in high-value markets.

Marketing to be based on a view of customers

- Generic “spray and pray” marketing, and increased commoditisation of the offering by channels, results in averaging and low returns. SA’s marketing needs to focus on specific sets of consumers (and the specific channels that serve them), and speak directly to their specific holiday buying criteria. We need to move from pushing what we like about SA to delivering to consumers what they want.

Create alignment within the tourism sector

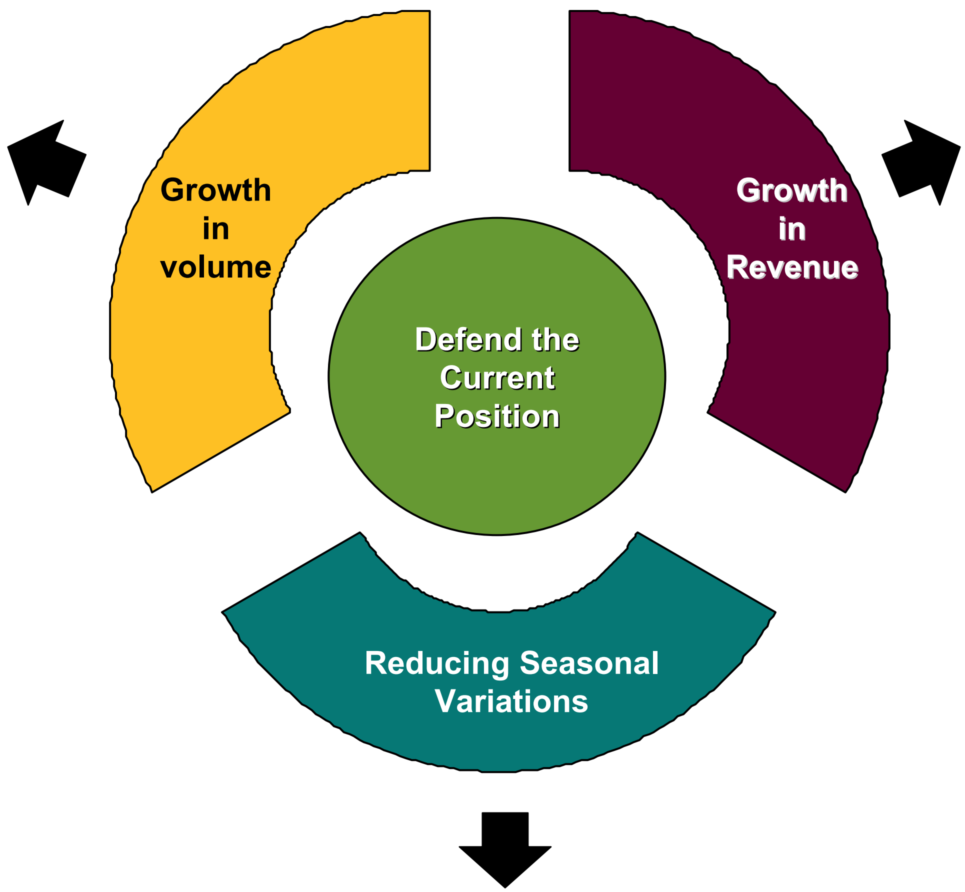
- Behind the strategy the tourism industry needs to redefine and upgrade products and services to deliver against the promise offered by the marketing message.

As tough choices were required it was imperative at the outset of the project to state the national mandate and objectives for SA Tourism

The Tourism Act's mandate to SA Tourism is ...	**Sustainable GDP Growth**	**Sustainable job creation**	**Redistribution and transformation**
. . . through six key objectives . . .	**Increase in tourist volume**	**Increase in tourist spend**	**Increase length of stay**
	Improve geographic spread	**Improve seasonality patterns**	**Promote transformation**
. . . by acting in a focused way to . . .	**Understand the market**	**Choose the attractive segments**	**Market the Destination**
	Facilitate the removal of obstacles	**Facilitate the product platform**	**Monitor and learn from tourist experience**

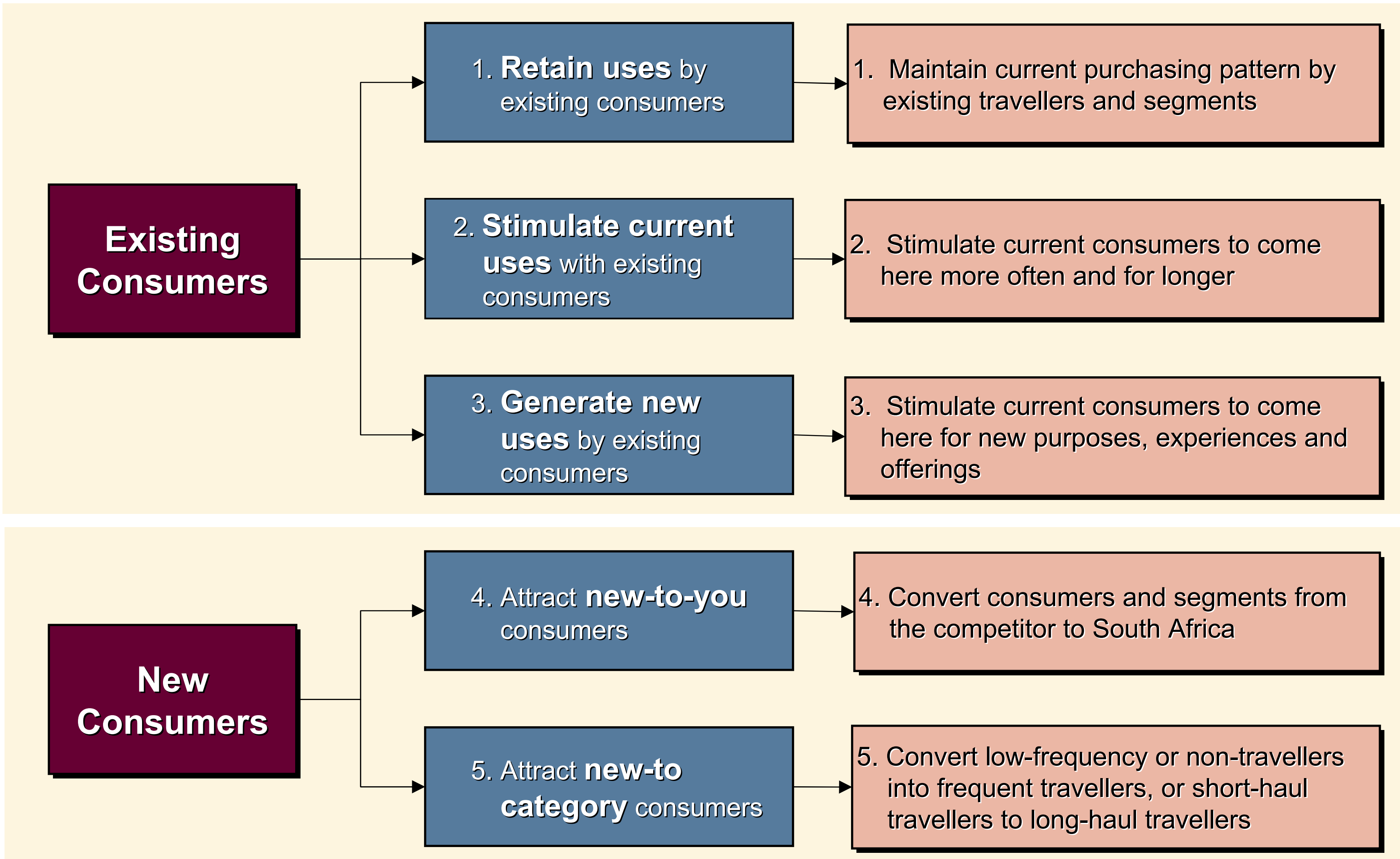
At the core of the strategy was about re-balancing the portfolio through four areas of related activity

Seeking out the countries and markets that will address these various components (the six key objectives) is critical to establishing the marketing portfolio and get the ROI



To obtain growth and defend the current shares, the strategy needed to integrate the approach through focusing on five key drivers

Clearly different countries and / or segments will drive growth in different ways



Given that 60% of South Africa's arrivals are accounted for by 5 of the neighbouring states, the strategy for SADC was largely one of "defend"

Given the high market share already in SADC and the absence of any true competition the focus for SADC shifts to one of retention and the extraction of additional value. Outside of neighbouring SADC however, there is scope to attract smaller high-end leisure volumes which long term may provide growth in markets in East and West Africa

Existing Consumers

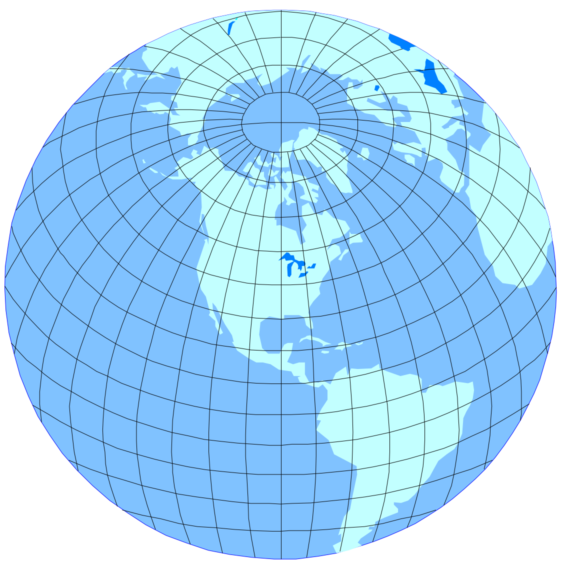
1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

New Consumers

4. Attract **new-to-you** consumers
5. Attract **new-to category** consumers

For countries outside of Africa, the focus for South Africa was to leverage all the growth drivers in the overseas (non-continental Africa) markets

The real growth for South Africa is to focus the portfolio on countries and markets that are attractive from a volume and value perspective and from which South Africa can get the greatest yield in the short to medium term. Clearly some markets are more seasonal than others



Existing Consumers

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

New Consumers

4. Attract new-to-you consumers
5. Attract new-to category consumers

MICE is a purpose market that cuts across several countries and the challenge was to find the attractive portion of the market to target

The real value of MICE lies in the ability to leverage resources to attract large numbers of delegates at low cost

Existing Consumers

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

New Consumers

4. Attract new-to-you consumers
5. Attract **new-to category** consumers

PART II: Developing the Tourism Growth Strategy

The Tourism Growth Strategy focused on the first three questions, while the last two are organisational issues for SA Tourism

Starting the Tourism Growth Strategy project in 2001 we had to work through a number of key questions

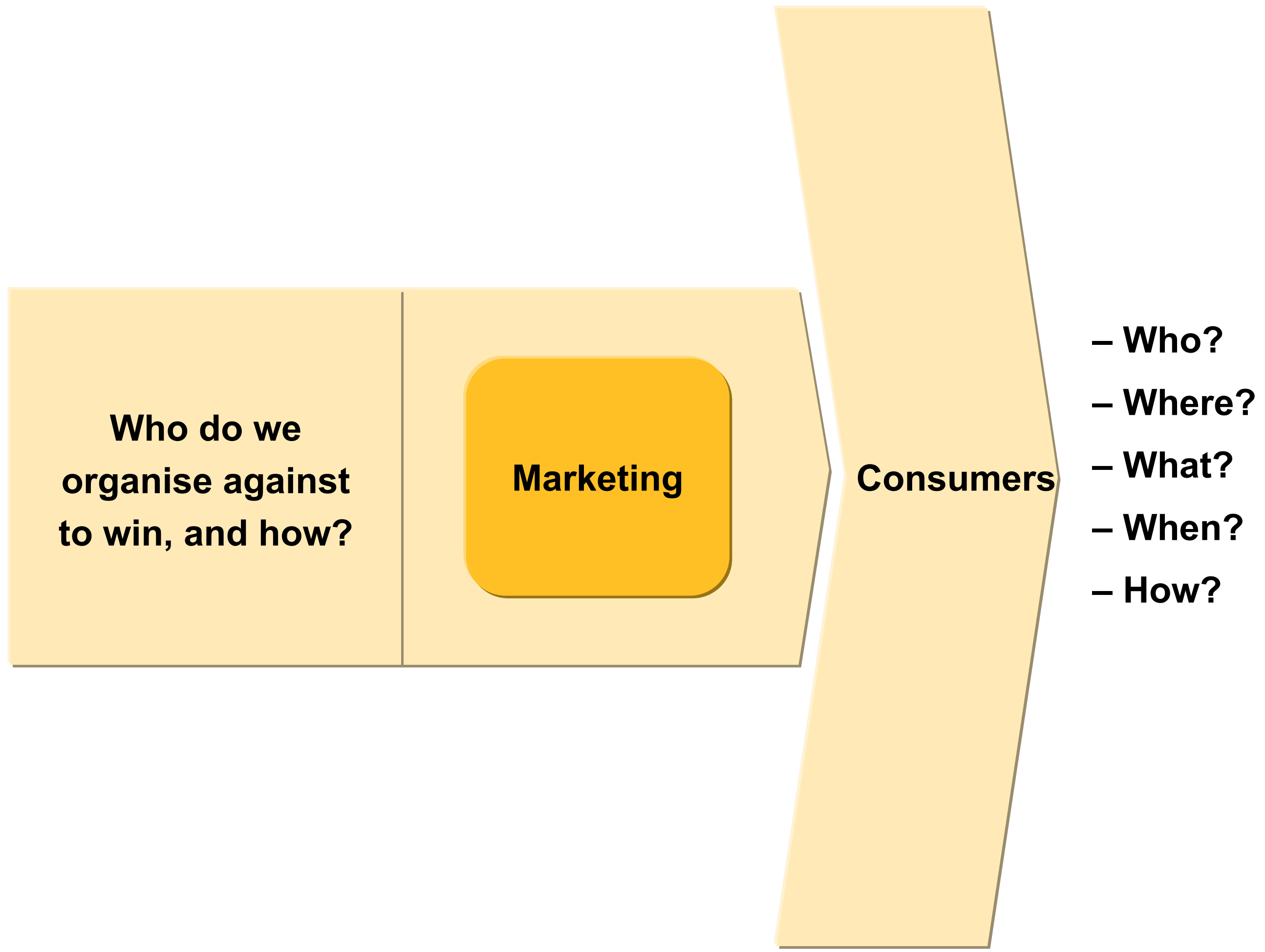
What are our goals and aspirations?

Where will we play?

How will we win in chosen markets?

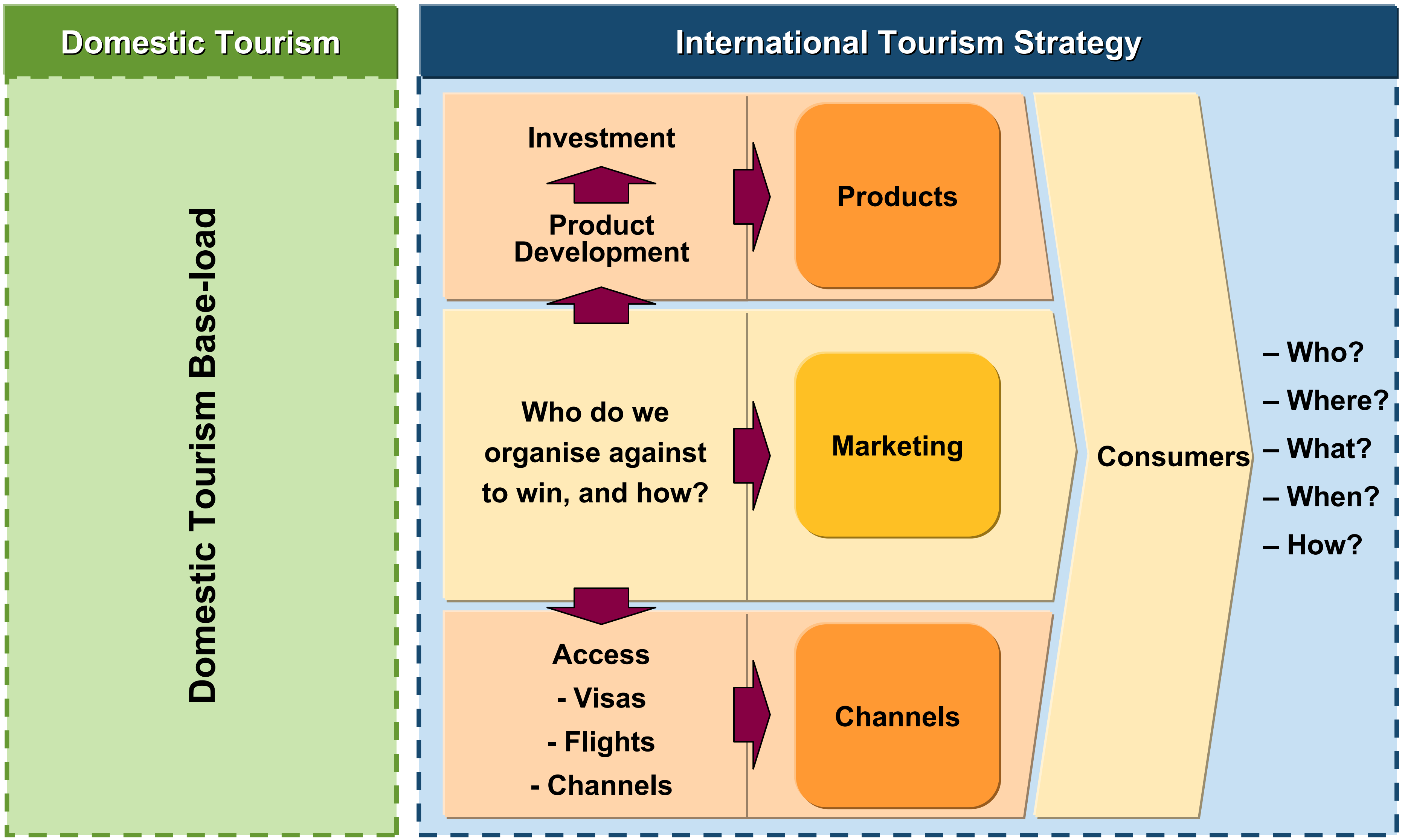
Way Forward

The core business of South African Tourism is the international marketing of South Africa



… which forms part of a broader international tourism strategy…

… in combination with South Africa's overall strategy for tourism



The development of the Tourism Growth Strategy

What are our goals and aspirations?

Where will we play?

How will we win in chosen markets?

Way Forward

At the outset of the project, South African Tourism's core business was clearly stated to make the choice making and trade-offs clear

In the Tourism Act, SAT's mandate is to contribute to …	**Sustainable GDP growth**	**Sustainable job creation**	**Redistribution and transformation**
… through delivering on six key objects …	**Increases in tourist volume**	**Increases in tourist spend**	**Increased length of stay**
	Improved geographic spread	**Improved seasonality patterns**	**Promote transformation**
… by acting in a focused way to …	**Understand the market**	**Choose the attractive segments**	**Market the Destination**
	Facilitate the removal of obstacles	**Facilitate the product platform**	**Monitor and learn from tourist experience**

The TGS also turned the business of SAT around from the traditional product-push approach to tourism marketing to consumer-driven

From

Product Driven

SA's tourism products → Decide where to sell the products → Sell to the consumer / channel

to

Customer-Focused

Execute on marketing ← Develop the products ← Understand the consumer/ channel

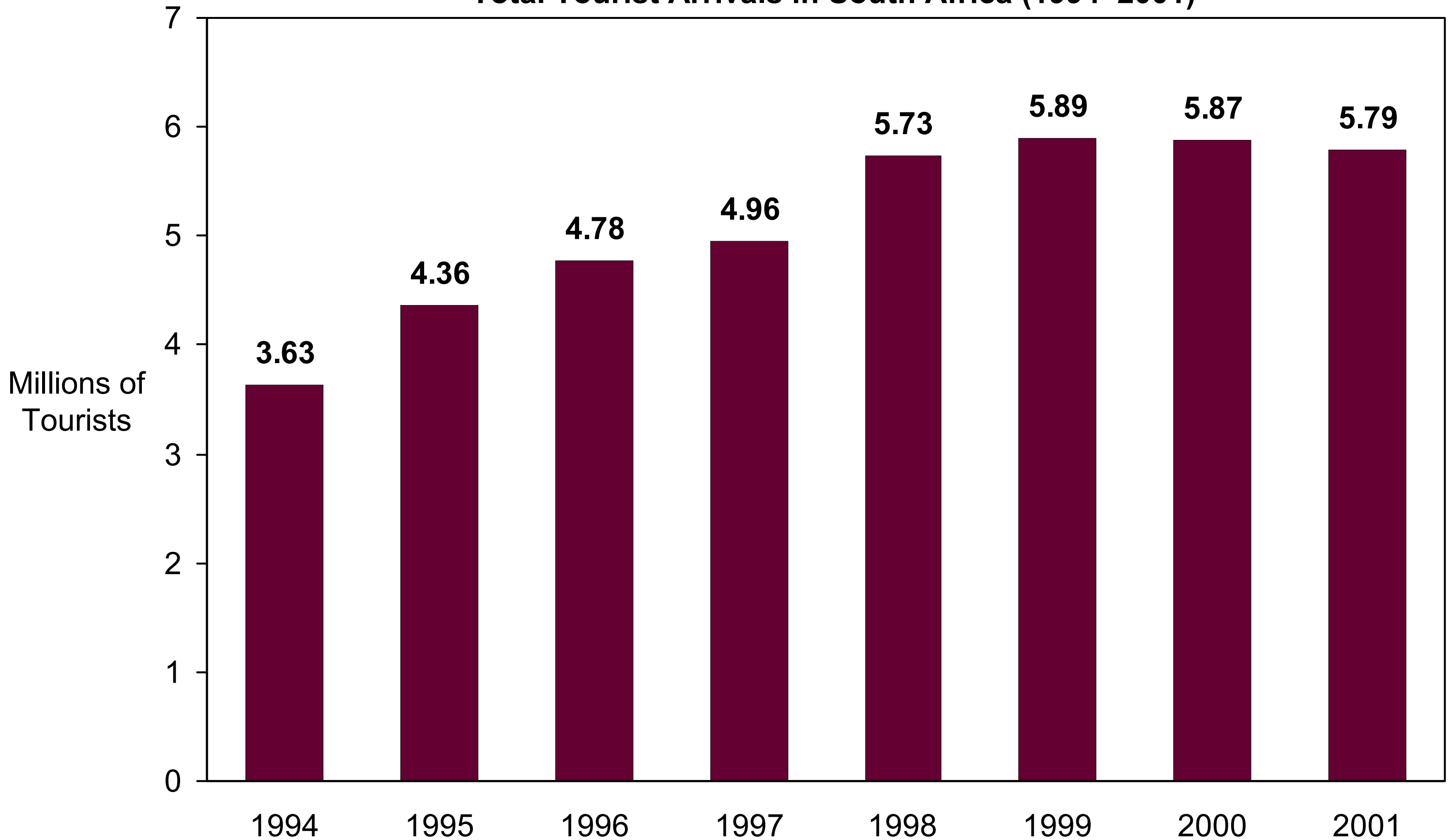
The immediate challenges were closely aligned to five of the six core objectives of the South African Tourism

VOLUME	SEASONALITY
Balance of Risk in Portfolio	DISTRIBUTION
VALUE	TRANSFORMATION
Global competitiveness	Sustainability

VOLUME CHALLENGE: The "Democracy-Dividend" had been paid out

The strong growth seen in the period 1994 -1998 has been followed by a period of almost no growth

Total Tourist Arrivals in South Africa (1994–2001)



CAGR 1994-2001

6.9%

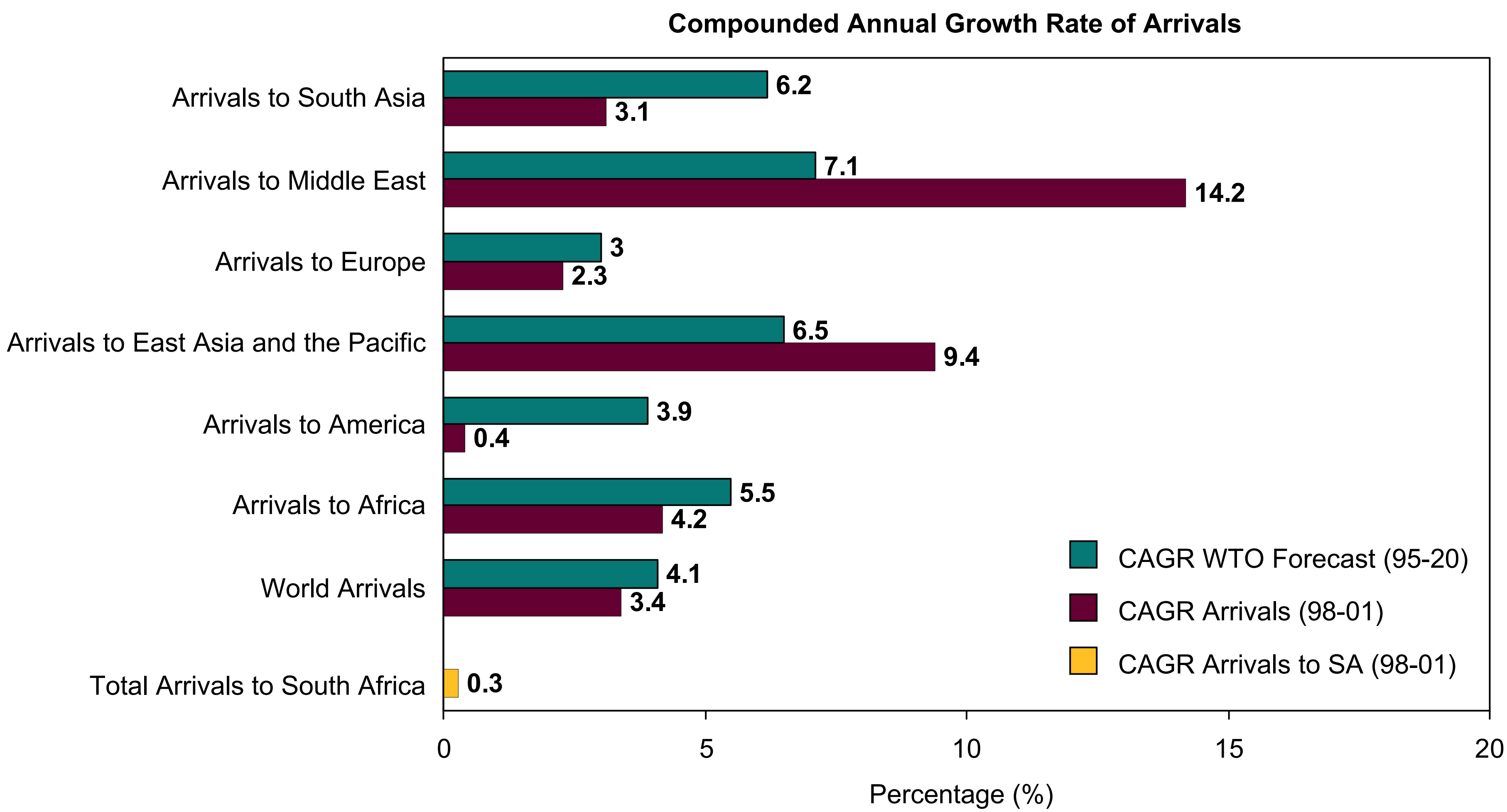
CAGR 1998-2001

0.3%

Source: Stats SA;

Arrivals to South Africa had under performed the world tourism arrivals and most of the world regional arrivals over the period 1998 to 2001

The forecasts for many of the world regions are lower for the period to 2020

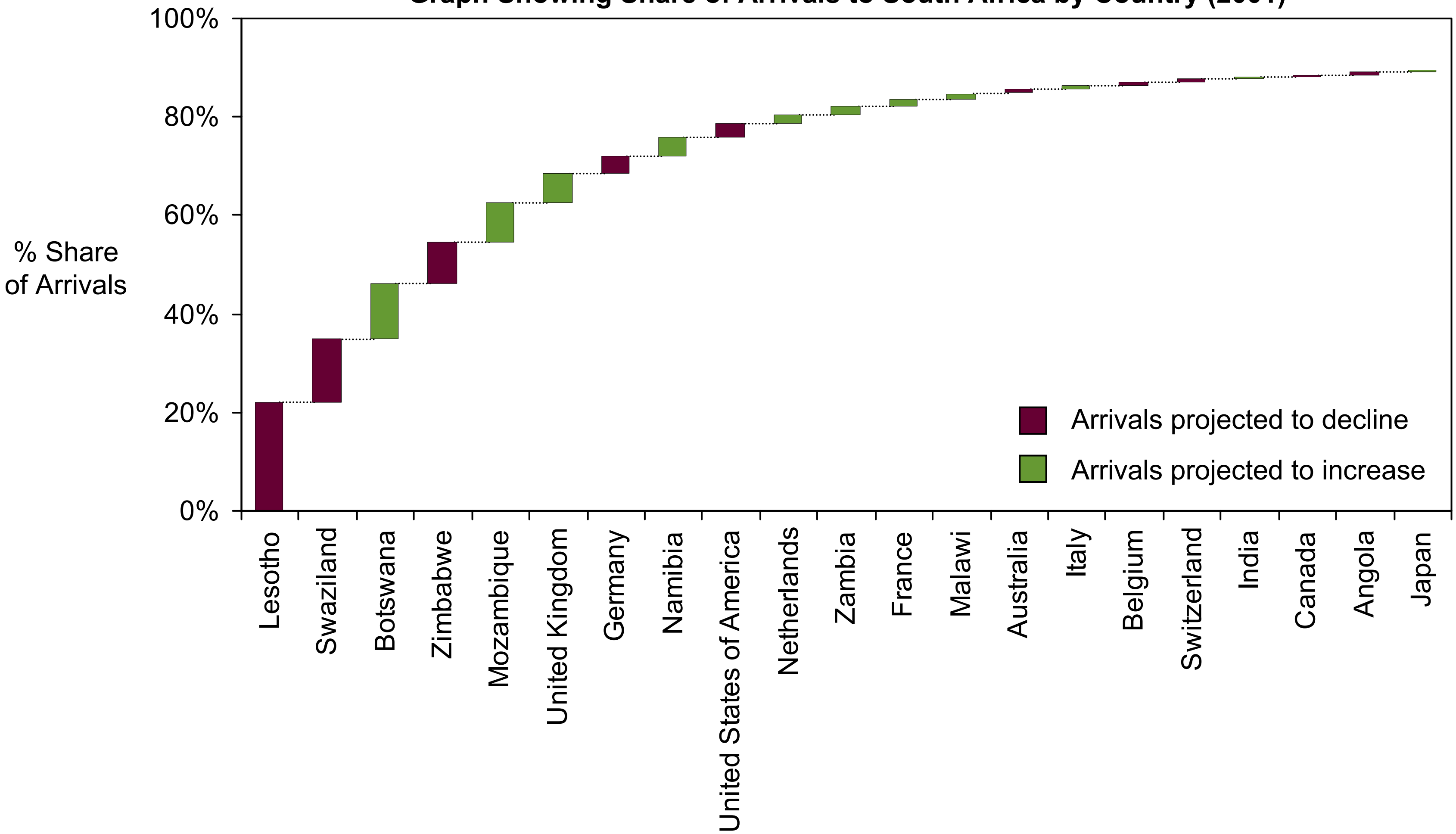


Source: Tourism Market Trends, WTO 2001 Edition ; Tourism Highlights 2001, WTO

South Africa's current portfolio was driven off 21 countries, which accounted for 90% of the arrivals

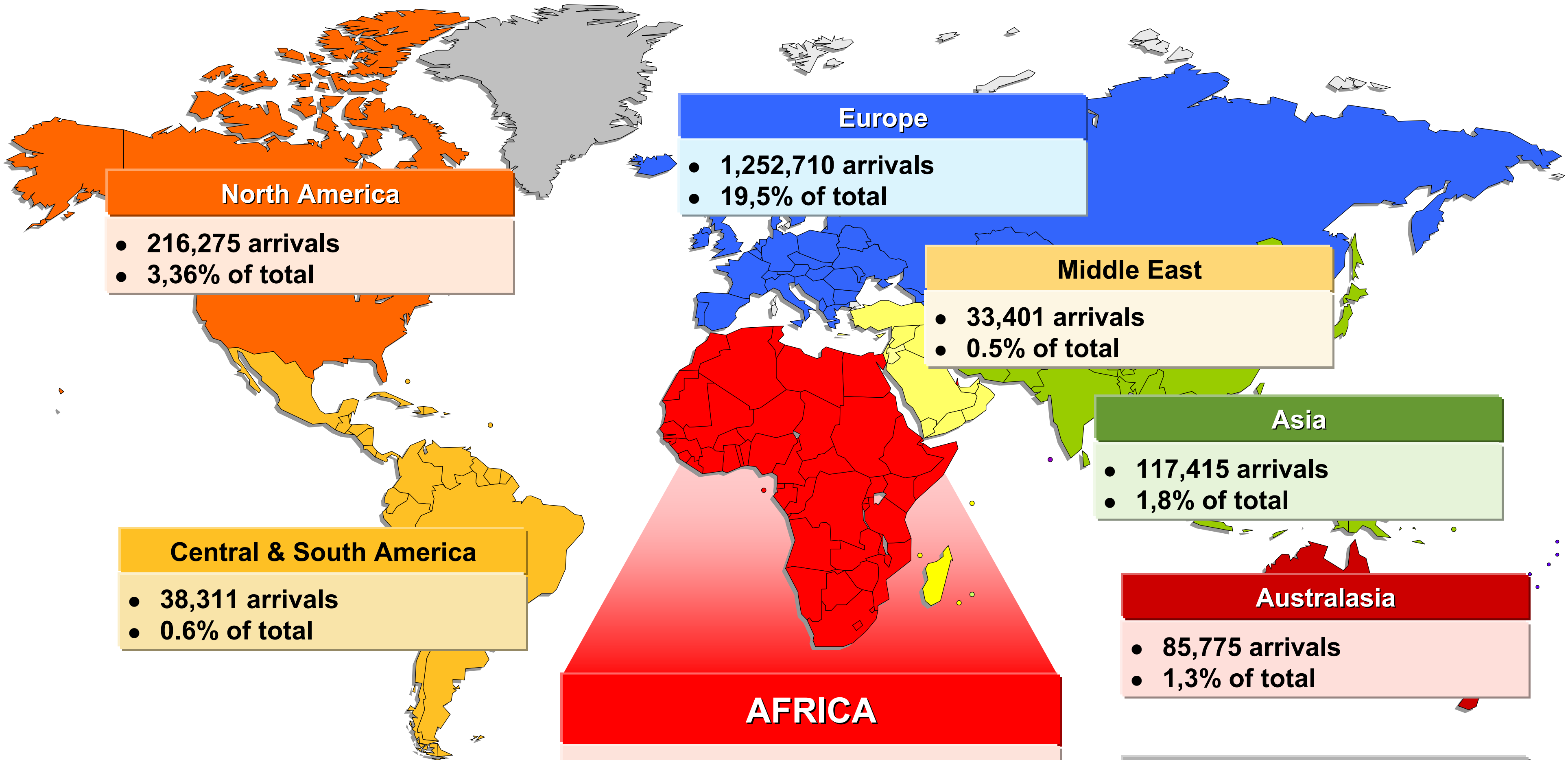
Many of the markets were (until 2001) in decline which suggested a need to defend current share, while at the same time rebalancing the portfolio of source markets

Graph Showing Share of Arrivals to South Africa by Country (2001)



Source: Monitor analysis; Statistics South Africa, 2001; Foreign Visitor Departure Surveys, 2000 & 2001

And global risk needed to be balanced across the world and not just Europe where the majority of the budget was spent



North America
- 216,275 arrivals
- 3,36% of total

Europe
- 1,252,710 arrivals
- 19,5% of total

Middle East
- 33,401 arrivals
- 0.5% of total

Asia
- 117,415 arrivals
- 1,8% of total

Central & South America
- 38,311 arrivals
- 0.6% of total

AFRICA
- 4,455,971 Arrivals
- (4,435,218 mainland)

- 69.3% of total
- (69% mainland)

Australasia
- 85,775 arrivals
- 1,3% of total

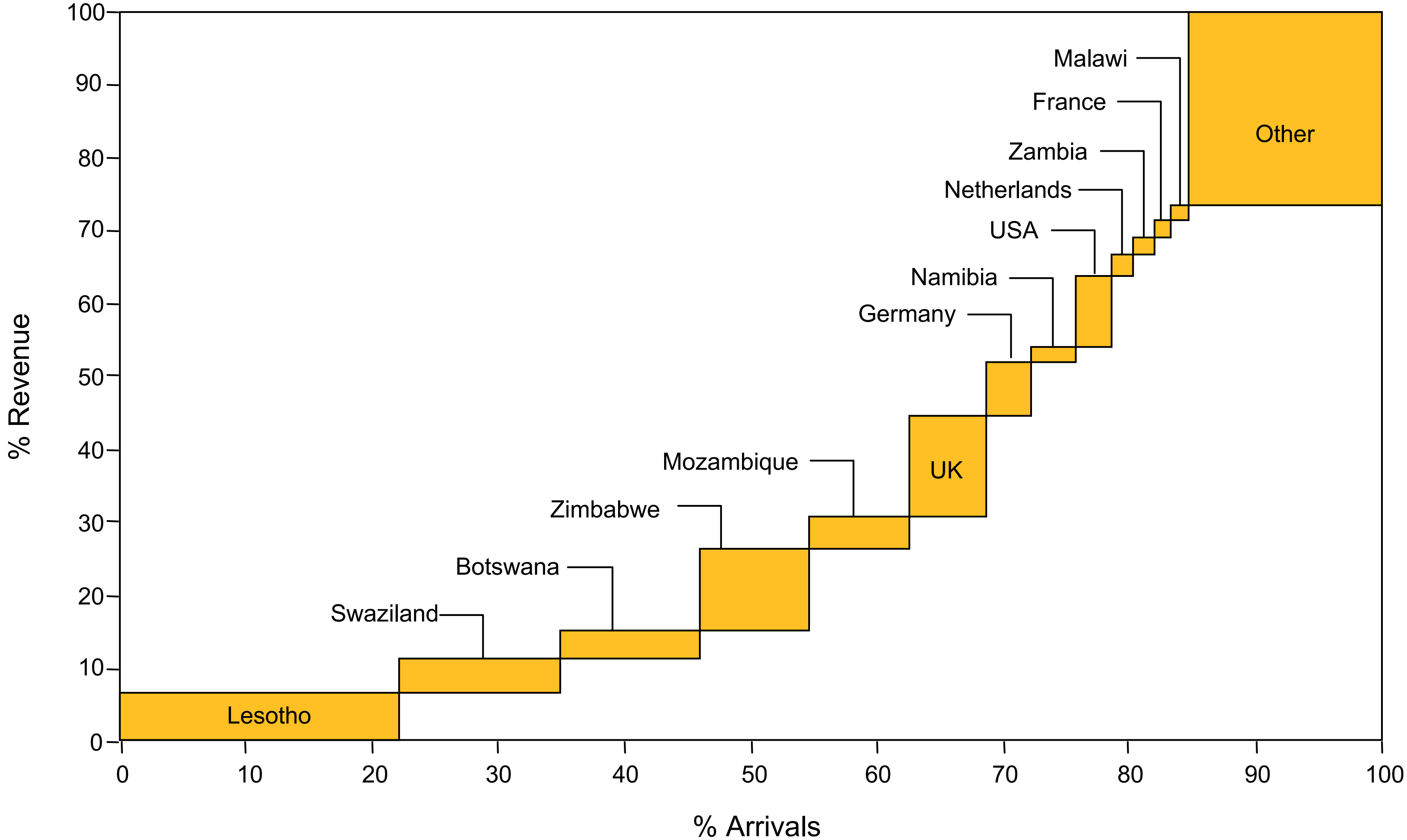
Other
- 3,64% of total

Source: SA Tourism - Table A December 2002

CHALLENGE OF VALUE: When contribution to revenue was assessed, the high value countries contributed the least in terms of arrivals

Thus, although Lesotho accounts for 22% of the arrivals, its contribution to revenue is only 7%, while the UK accounts 6% of arrivals, its contribution to revenue is 14%

Graph Showing the Relationship Between Volume of Arrivals and Tourist Revenues

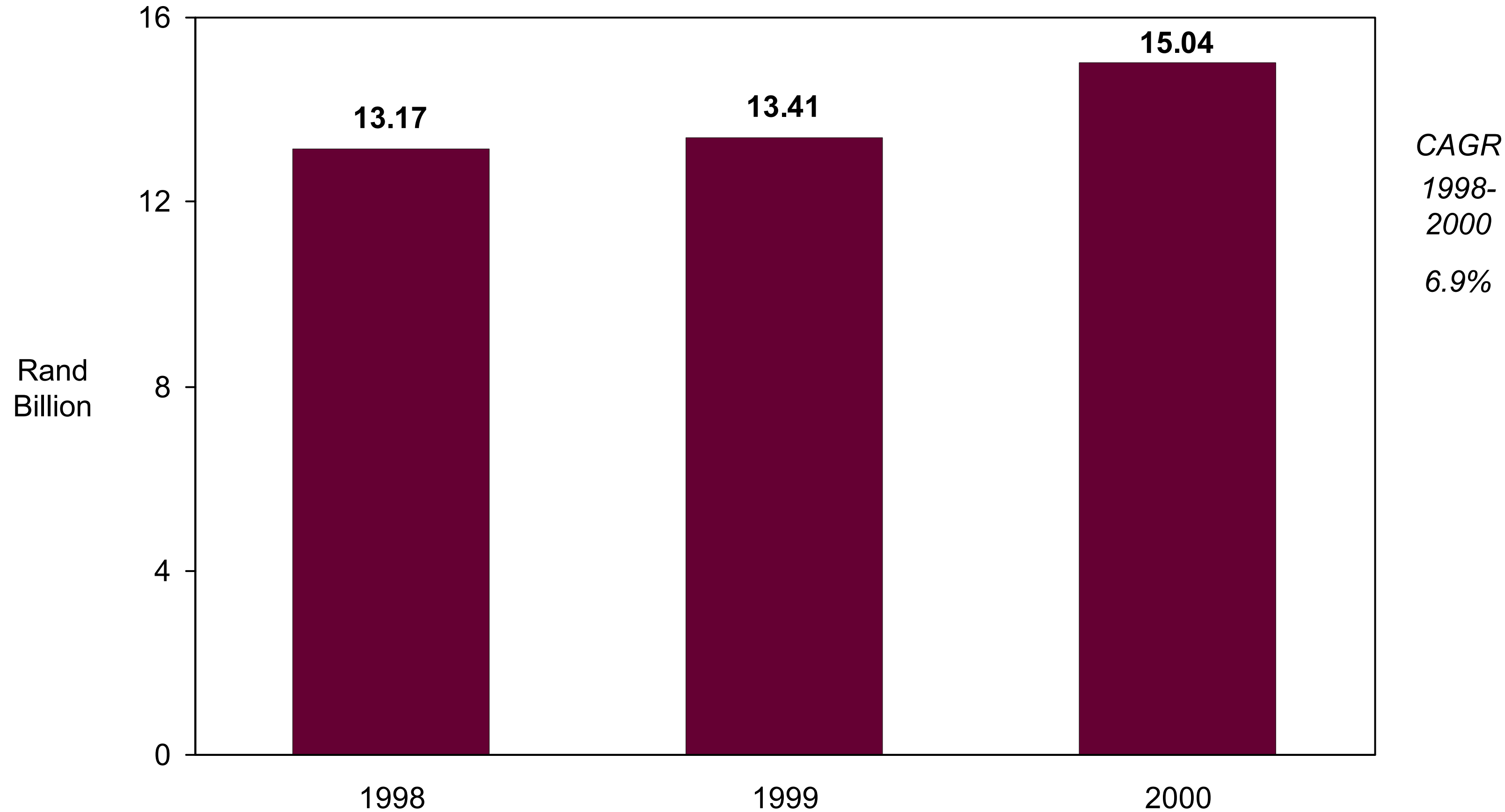


Source: Monitor analysis; Statistics South Africa, 2001; Foreign Visitor Departure Surveys, 2000 & 2001

Receipts from tourism showed incremental increases annually

In real terms however, spend in South Africa by tourists was declining

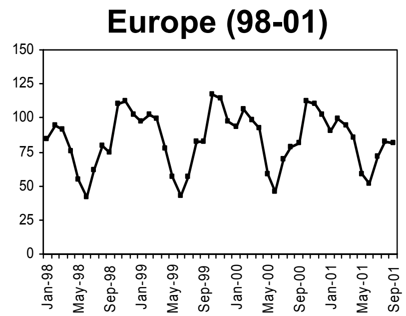
Total Spend in South Africa of Long-Haul Tourists — Departure Surveys (1998–2000)

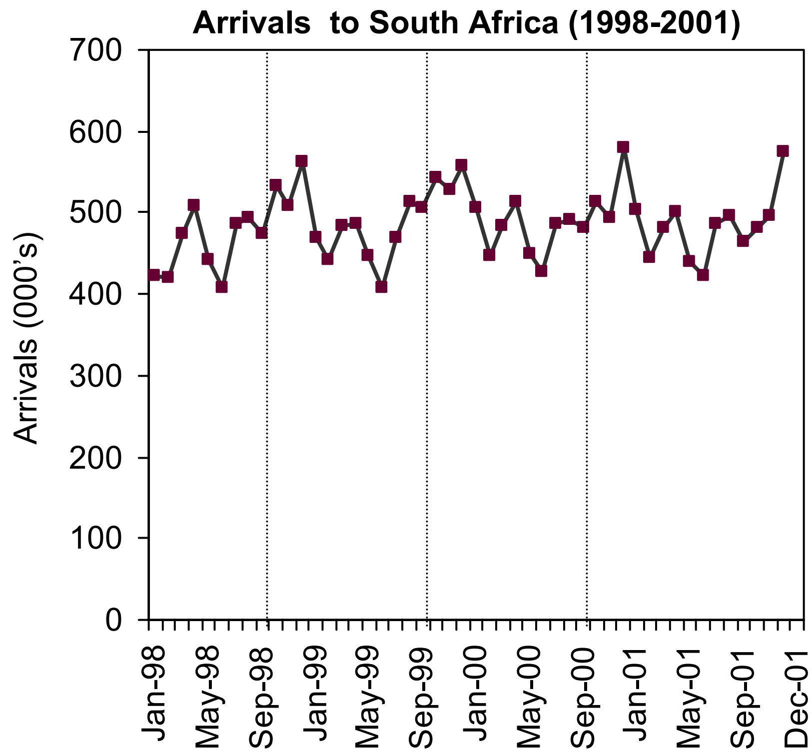


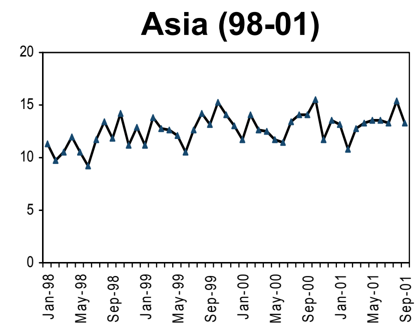
Note: The sample has been restricted to respondents who stayed 100 days or less and have reported their spend in SA; Outliers on spend have been removed
Source: DSI; Stats SA; Monitor Analysis

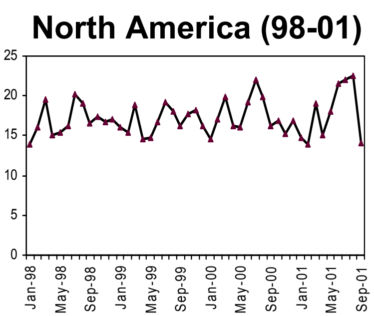
CHALLENGE: Seasonality was a major constraint on capacity for growth

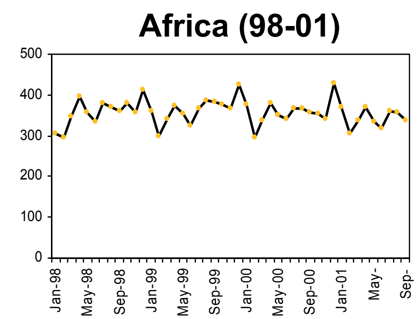
The deep seasonal pattern of arrivals created significant challenges for investing in capacity to serve increased demand as well as sustainability of jobs and current product







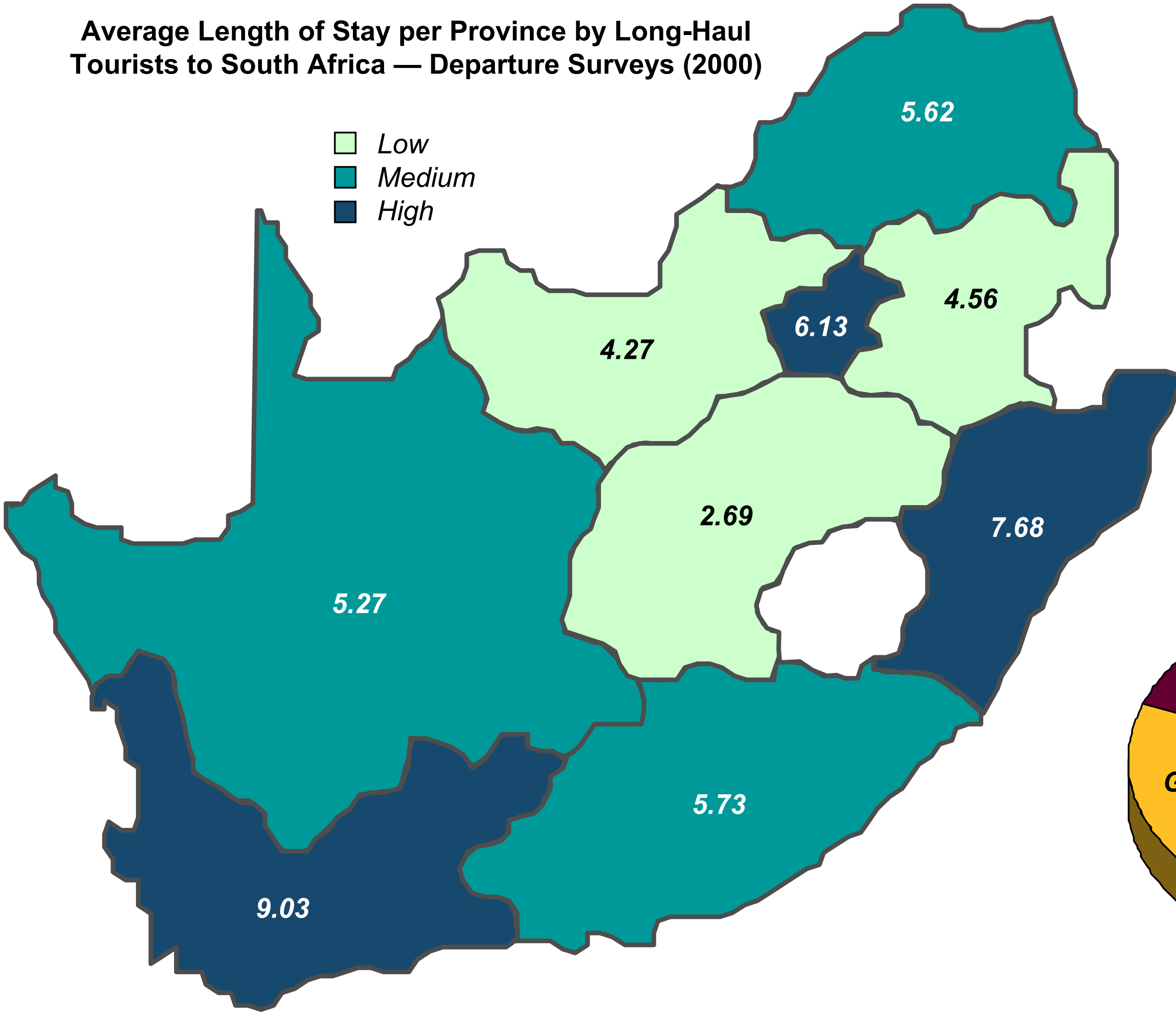




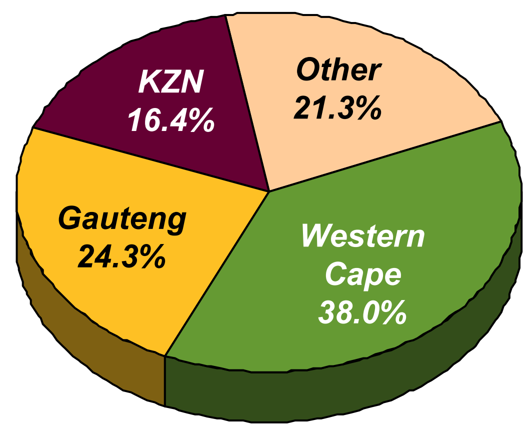
Source: South African Tourism Strategic Research Unit

CHALLENGE: Tourism value from long-haul travel was being captured mainly by three provinces — adding up to 75% of the tourism receipts

Average Length of Stay per Province by Long-Haul Tourists to South Africa — Departure Surveys (2000)



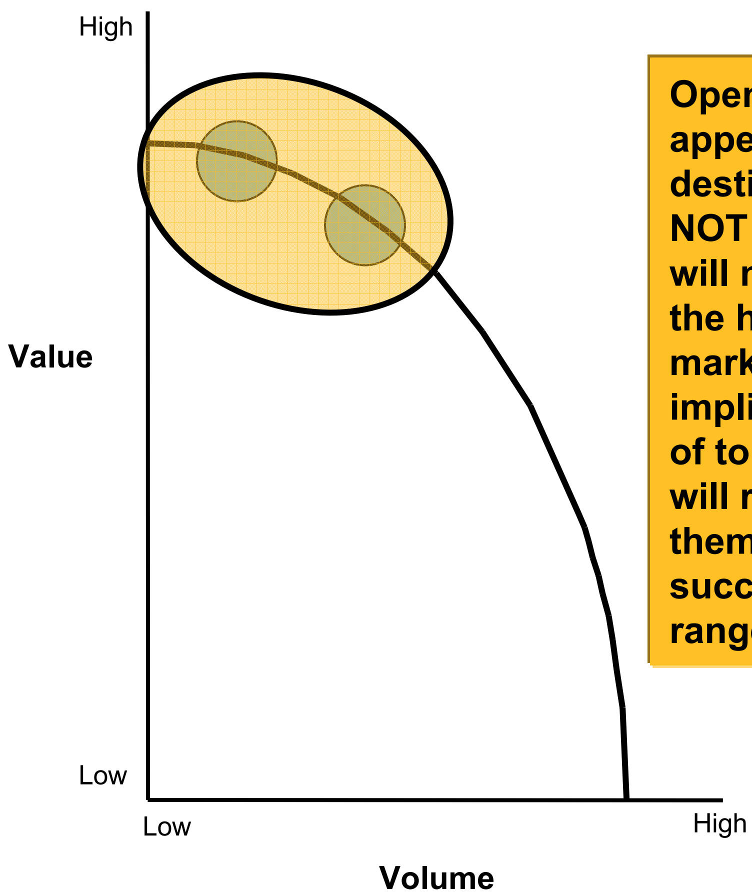
Share of Nights Spent by Province (2000)



CHALLENGE: South Africa's current positioning in many of the major global tourism markets was as a low volume, high priced destination

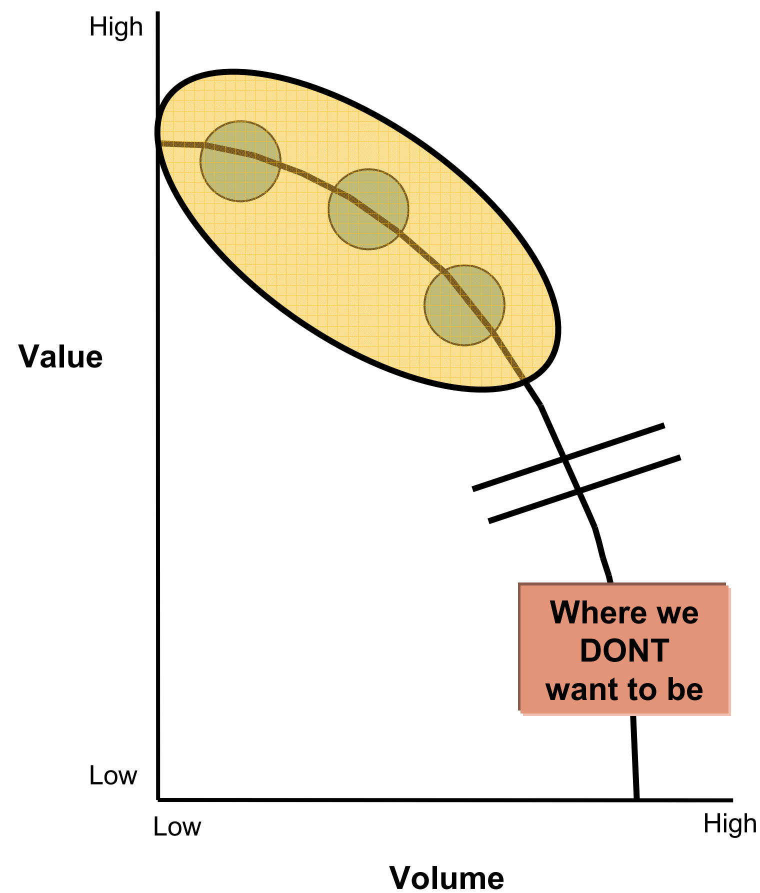
One of the key challenges for South Africa was to unlock the tourism value by opening up the appeal of the destination to more tourists, by re-assessing the current positioning

Where we are



Opening up the appeal of the destination DOES NOT mean that we will no longer serve the high end of the market, rather it implies that clusters of tourism products will reconfigure themselves to successfully serve a range of segments

Where we want to be



Development of the Tourism Growth Strategy

What are our goals and aspirations?

Where will we play?

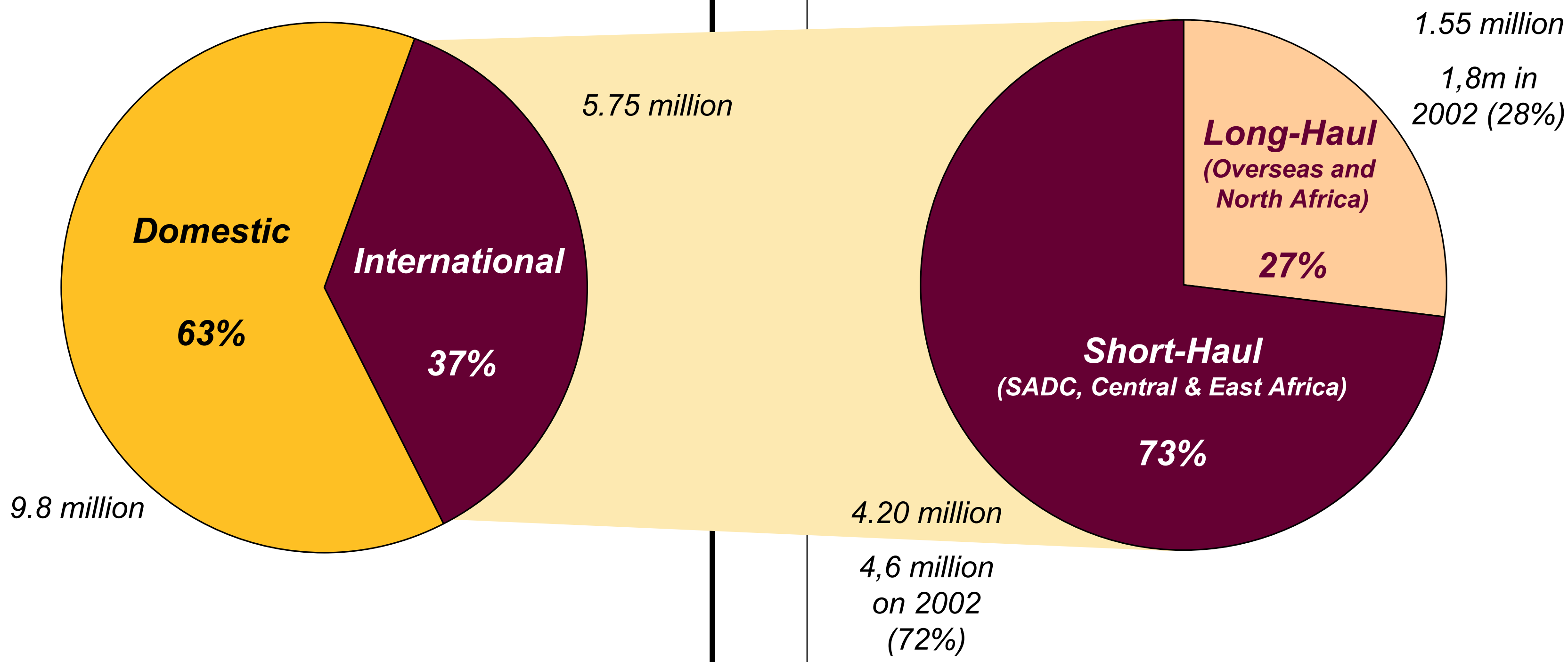
How will we win in chosen markets?

Way Forward

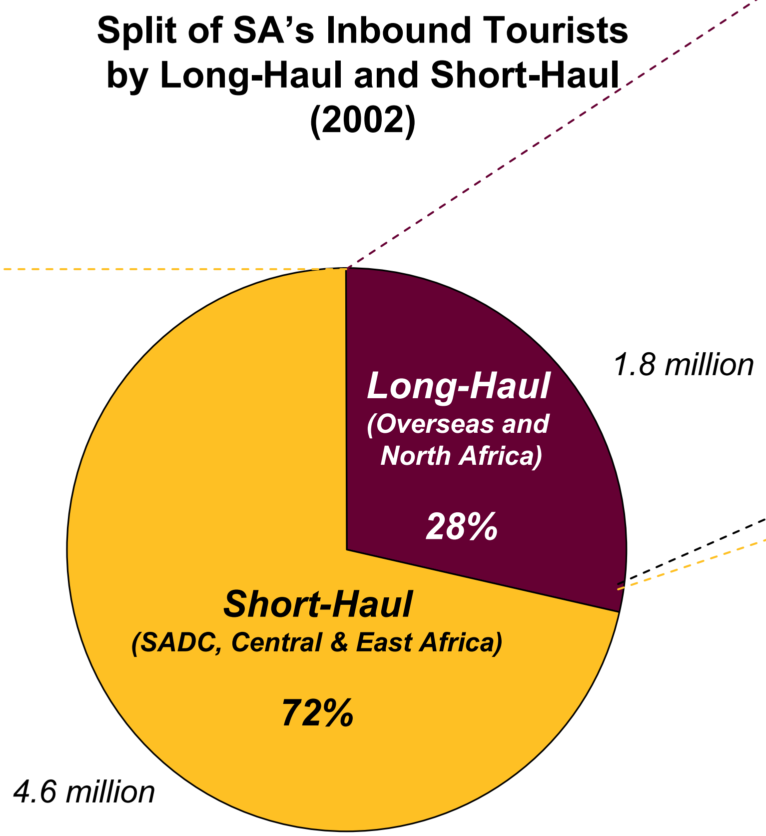
Domestic is the bedrock of the tourism industry, but SA Tourism's core business was defined as foreign tourism

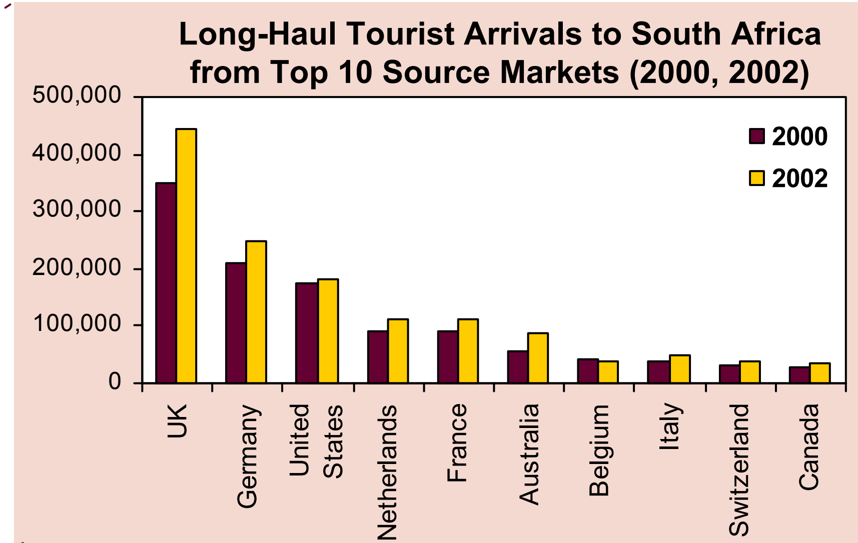
Split of SA's International and Domestic Tourists (2000)

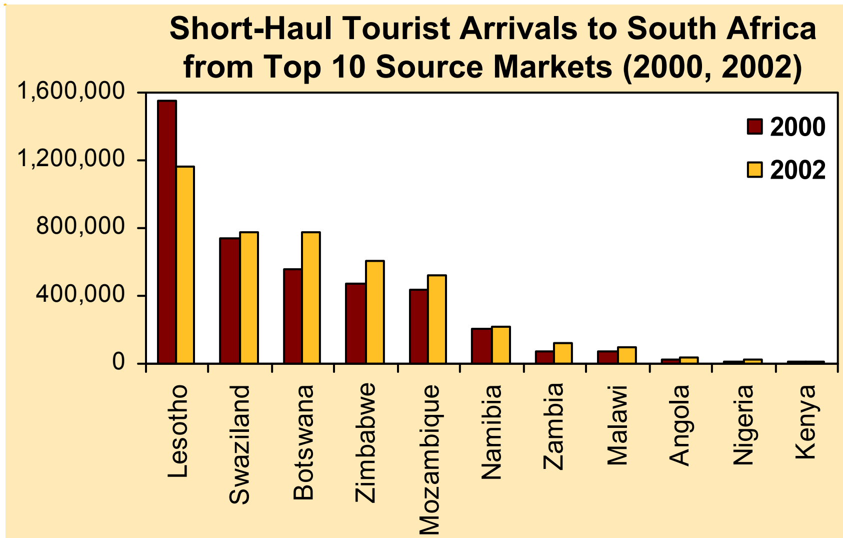
Split of SA's International Tourists by Long-Haul and Short-Haul (2000)



The current arrivals were driven off a handful of markets







The selection of markets was based on a set of six key objectives …

The consultation process has resulted in a set of key objectives

Phase 1

Focus

Increase Volume	Increase tourism volume at high and sustainable rates
Increase Spend	Increase total spend by tourists in South Africa
Optimise Length of Stay	Optimise length of stay to maximise revenue yield to South Africa
Improve Distribution	Improve volume and spend distribution around the country, and throughout the year
Promote Transformation	Improve activity and spend patterns to enable transformation and promote black economic empowerment

Phase 2

… which have been translated into attractiveness criteria

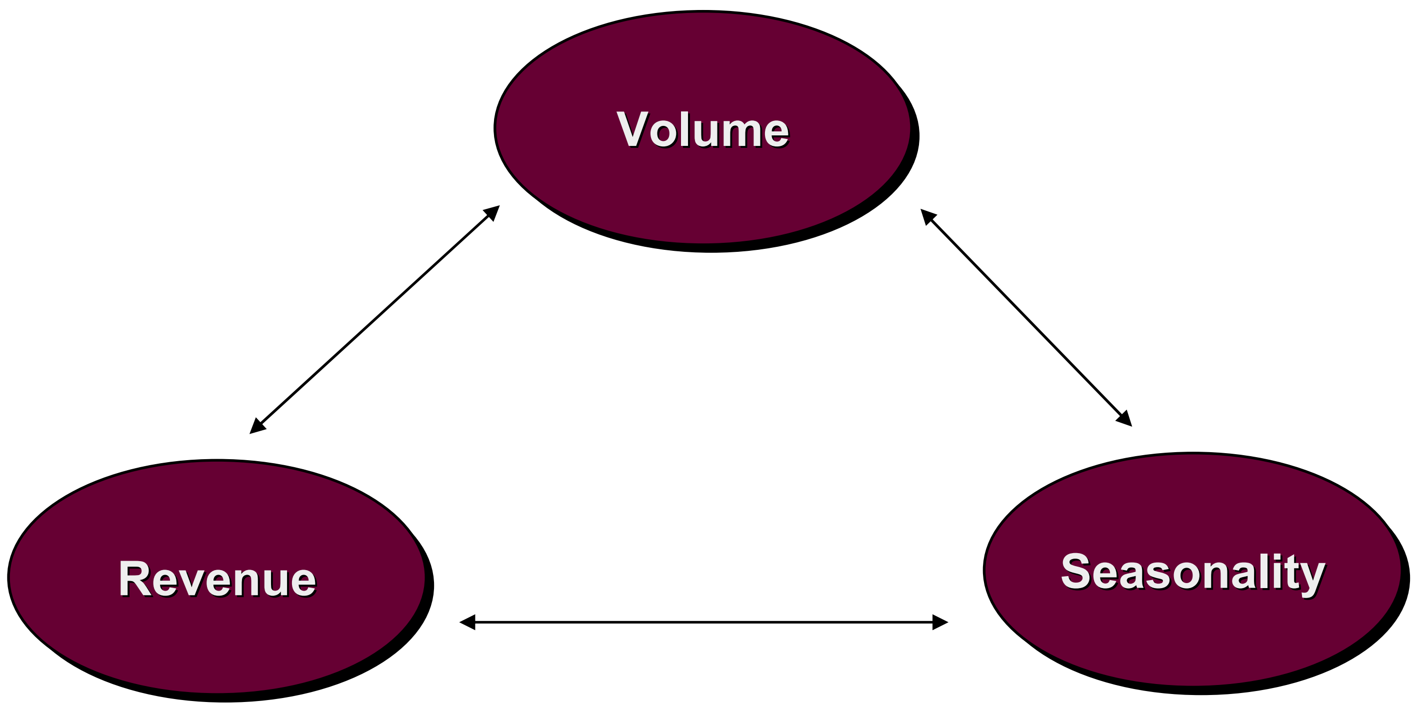
Phase 1

Focus

Phase 2

	Attractiveness Criteria
Increase Volume	• Size and growth of the source market or segment • Size and growth of segments most likely to travel to South Africa
Increase Spend	• Percentage of the relative outbound spend captured in destination markets • Size of total, and average per capita spend, of outbound tourists
Optimise Length of Stay	• Average length of stay of outbound travellers and of SA arrivals
Improve Distribution	• Relative size of package vs. FIT travel segments • Average number of provinces visited • Seasonality of outbound travel
Promote Transformation	• Relative spend in channels versus discretionary spend in-market

There were thus three key issues that need to be considered and in some cases a trade-off will need to be made against each other

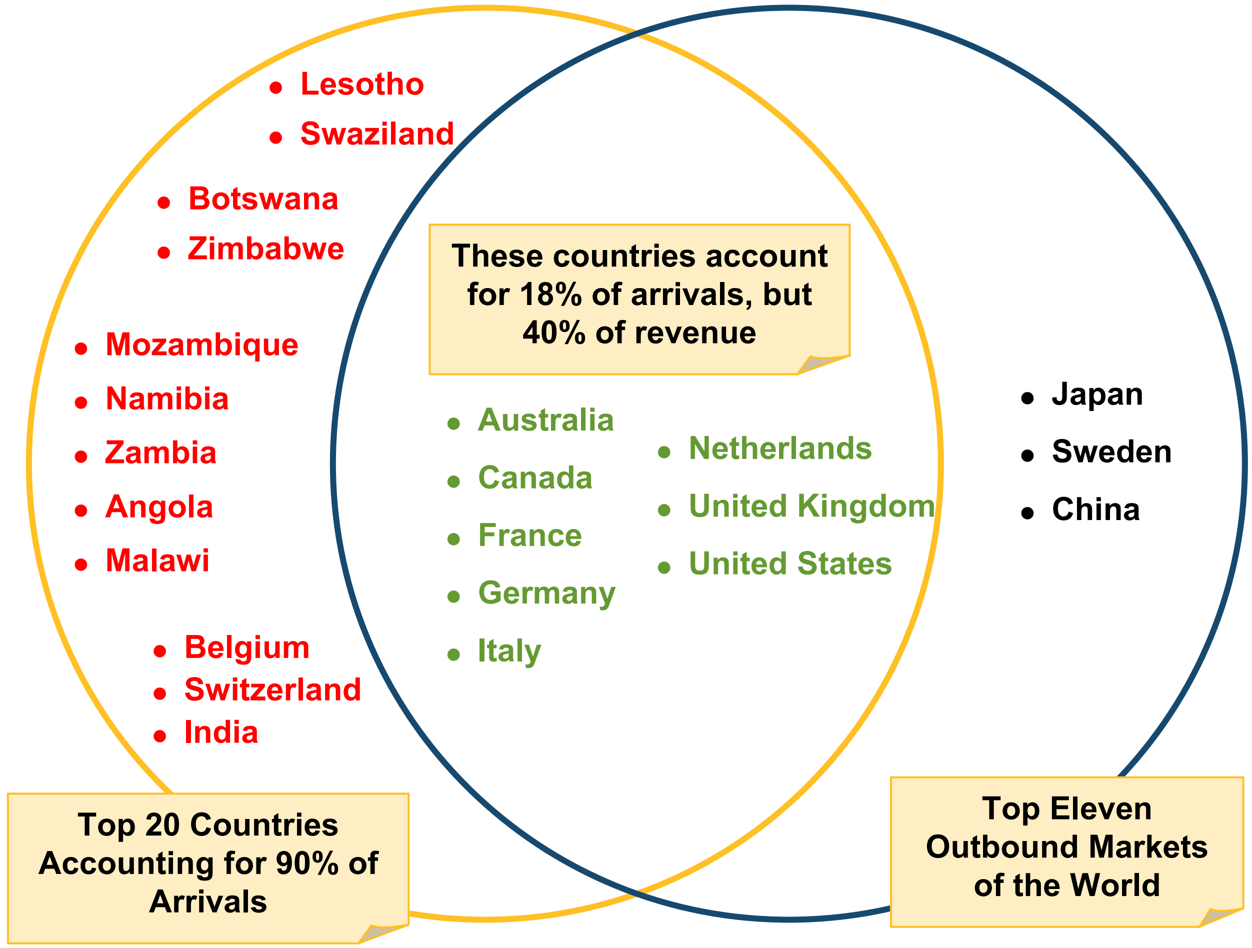


Distribution and transformation are possibly better addressed at the segment level and how the actual product is packaged and developed

The portfolio of current countries was identified by putting relative importance to South Africa against the value of the markets

Niche Opportunities
Additional markets where value has been identified

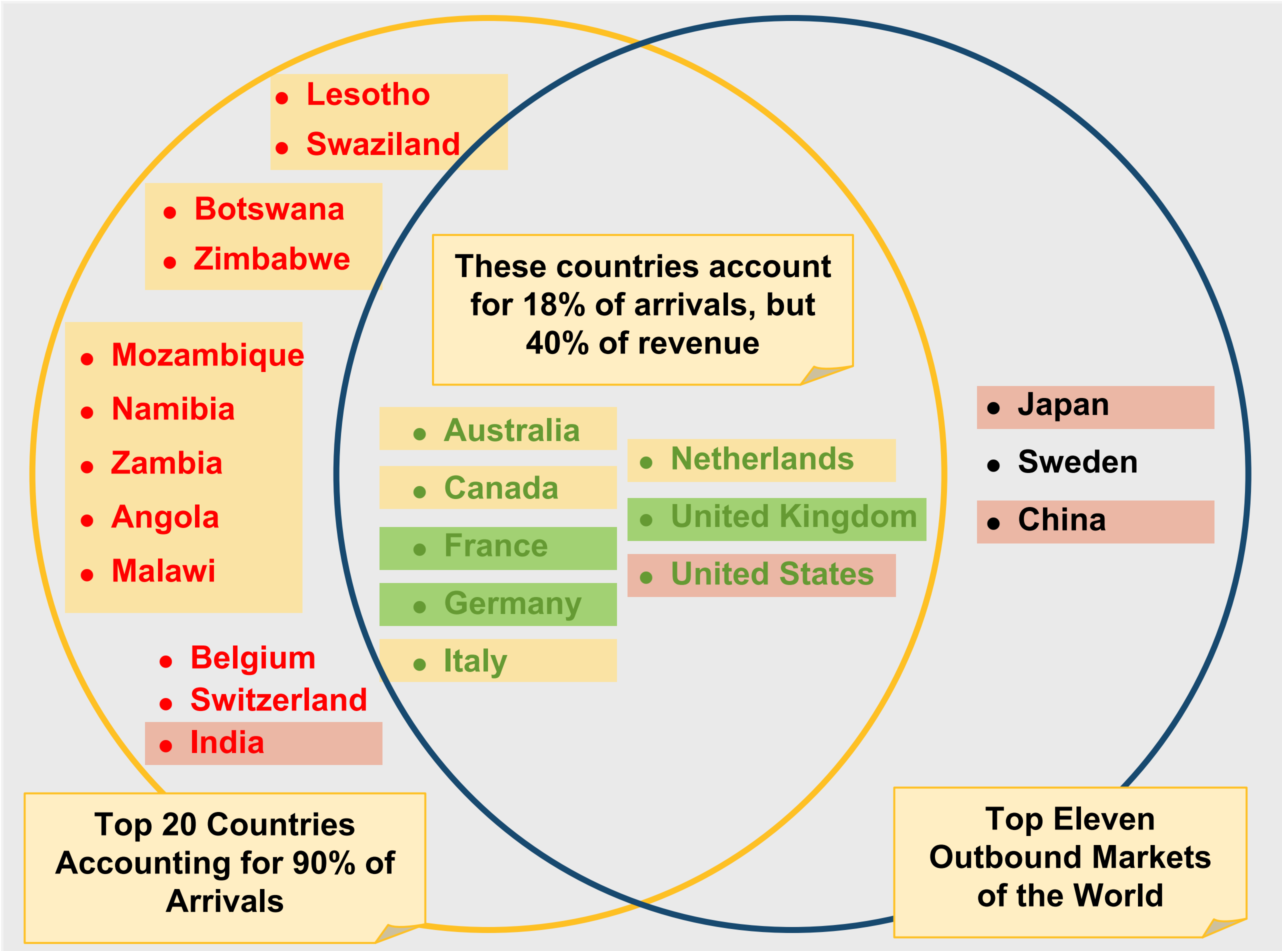
Kenya
Nigeria
Egypt
Mauritius
Tanzania
MICE Markets



Watch List
These are markets which SAT may investigate further to find value segments

- Austria
- Argentina
- Brazil
- Denmark
- Finland
- Greece
- Hong Kong
- Indonesia
- Ireland
- Israel
- Malaysia
- Mexico
- Norway
- New Zealand
- Philippines
- Poland
- Portugal
- Russia
- Saudi Arabia
- Singapore
- South Korea
- Spain
- Taiwan
- Thailand
- UAE

Against these markets different strategies were defined



Niche Opportunities

Additional markets where value has been identified

- Kenya
- Nigeria
- Egypt
- Mauritius
- Tanzania
- MICE Markets

Legend:
- Invest for growth
- Defend and growth
- Defend

Watch List

These are markets which SAT may investigate further to find value segments

- Austria
- Argentina
- Brazil
- Denmark
- Finland
- Greece
- Hong Kong
- Indonesia
- Ireland
- Israel
- Malaysia
- Mexico
- Norway
- New Zealand
- Philippines
- Poland
- Portugal
- Russia
- Saudi Arabia
- Singapore
- South Korea
- Spain
- Taiwan
- Thailand
- UAE

The whole of the SAT Portfolio by Importance and Attractiveness

SAT Portfolio: Core and Tactical Markets

Relative Attractiveness

	Others	*Top 20 markets delivering 90% of arrivals*
Markets with over 1 million long-haul outbound departures	• **Japan** • **Sweden** • **China** (Incl. Hong Kong)	• **Australia** • **Canada** • **France** • **Germany** • **Italy** • **Netherlands** • **UK** • **United States** *These countries account for 18% of arrivals, but 40% of revenue*
Others with Identified Potential	• **Austria** • **Brazil** • **Ireland** • **Kenya** • **Malaysia** • **New Zealand** • **Nigeria** • **Saudi Arabia** • **Singapore** • **South Korea** • **Spain** • **Taiwan** • **Tanzania** • **Thailand** • **UAE**	• **Angola** • **Belgium** • **Botswana** • **India** • **Lesotho** • **Malawi** • **Mozambique** • **Namibia** • **Swaziland** • **Switzerland** • **Zambia** • **Zimbabwe**

Relative Importance to SA

Core Markets

Tactical Markets

Watchlist

(Countries to keep our eye on)

- *Argentina*
- *Belgium*
- *Cote d'Ivoire*
- *Denmark*
- *Finland*
- *Ghana*
- *Greece*
- *Indonesia*
- *Israel*
- *Mali*
- *Mexico*
- *Mauritius*
- *Norway*
- *Philippines*
- *Poland*
- *Portugal*
- *Russia*
- *Senegal*
- *Uganda*

What are our goals and aspirations?

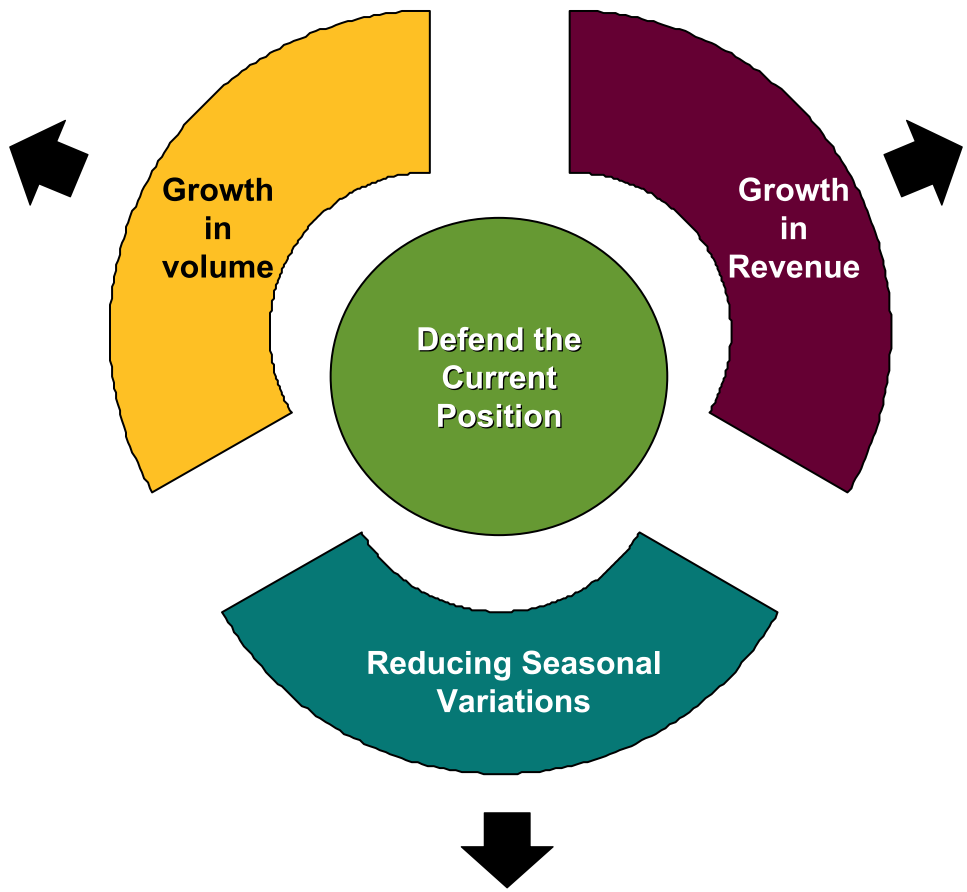
Where will we play?

How will we win in chosen markets?

Way Forward

In rebalancing the portfolio, SAT had to defend its current position, while at the same time growing volume, revenue and addressing seasonality

Seeking out the countries and markets that will address these various components is key to establishing the portfolio



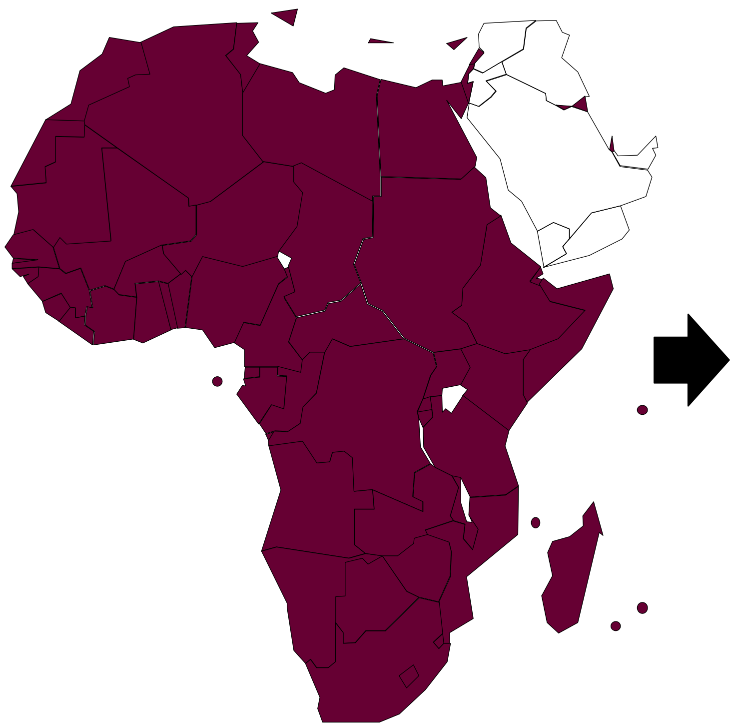
There are five drivers to obtaining growth while defending the current market share of consumers

Clearly different countries and / or segments will drive growth in different ways

Existing Consumers	1. **Retain uses** by existing consumers	1. Maintain current purchasing pattern by existing travellers and segments
	2. **Stimulate current uses** with existing consumers	2. Stimulate current consumers to come here more often and for longer
	3. **Generate new uses** by existing consumers	3. Stimulate current consumers to come here for new purposes, experiences and offerings
New Consumers	4. Attract **new-to-you** consumers	4. Convert consumers and segments from the competitor to South Africa
	5. Attract **new-to category** consumers	5. Convert low-frequency or non-travellers into frequent travellers, or short-haul travellers to long-haul travellers

Given that 60% of South Africa's arrivals are accounted for by 5 of the neighbouring states, the strategy for SADC is largely one of "defend"

Given the high market share already in SADC and the absence of any true competition the focus for SADC shifts to one of retention and the extraction of additional value. Outside of neighbouring SADC however, there is scope to attract smaller high-end leisure volumes which long term may provide growth in markets in East and West Africa



Existing Consumers

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

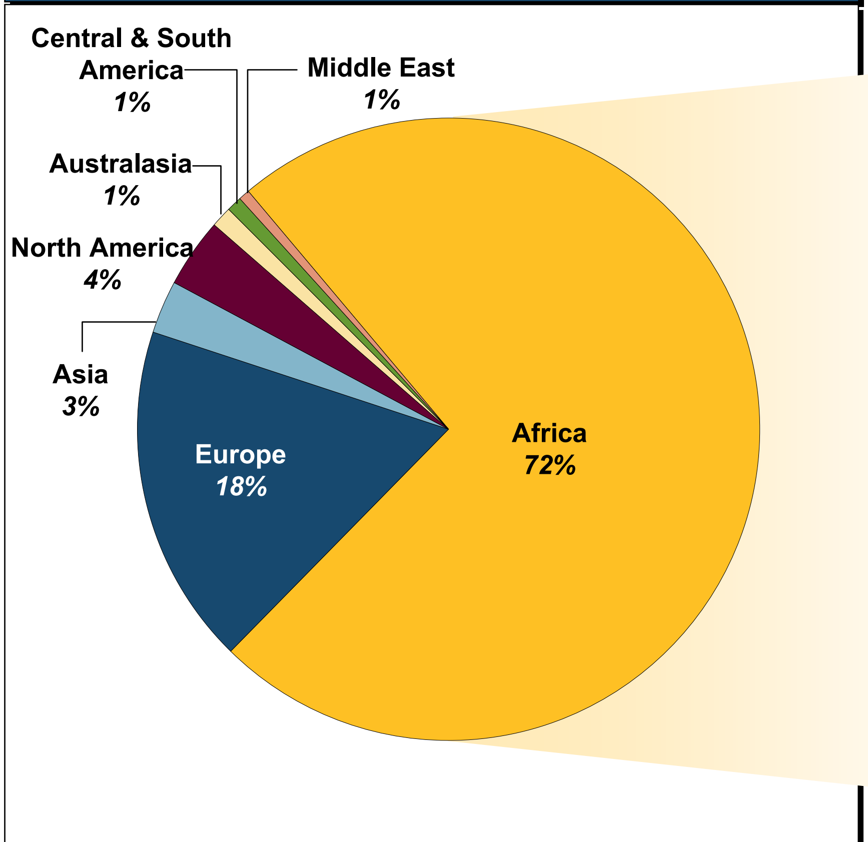
New Consumers

4. Attract **new-to-you** consumers
5. Attract **new-to category** consumers

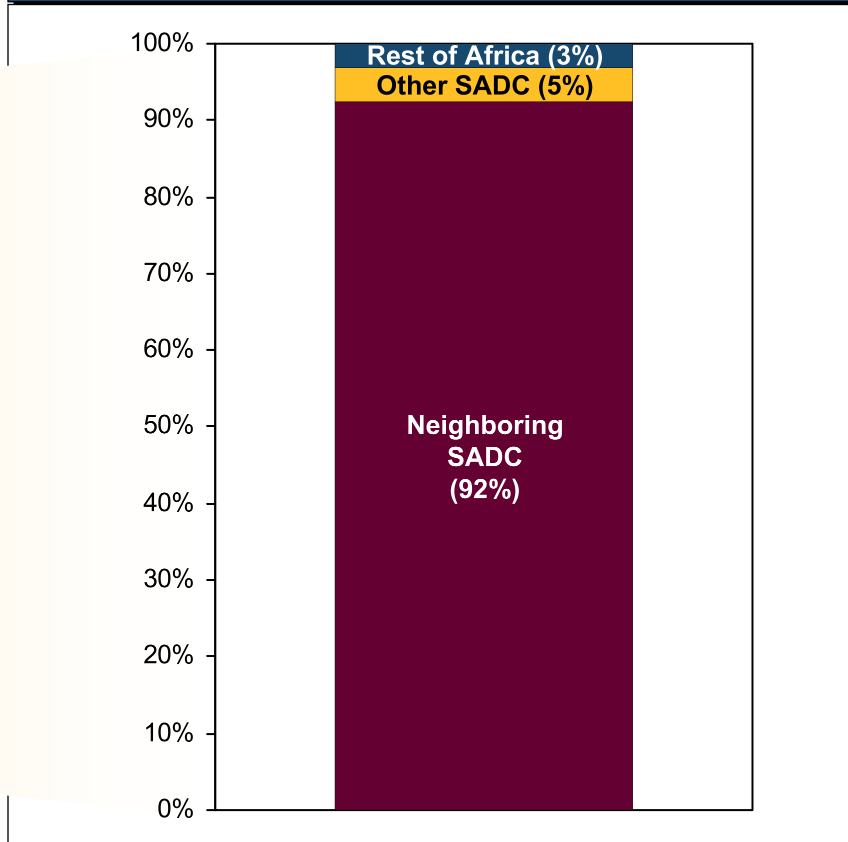
Africa and specifically neighboring SADC are important source markets for South Africa

Africa accounts for 72% of the arrivals to South Africa, with neighboring SADC countries representing the majority of these arrivals

Regional Share of Arrivals to South Africa, 2000

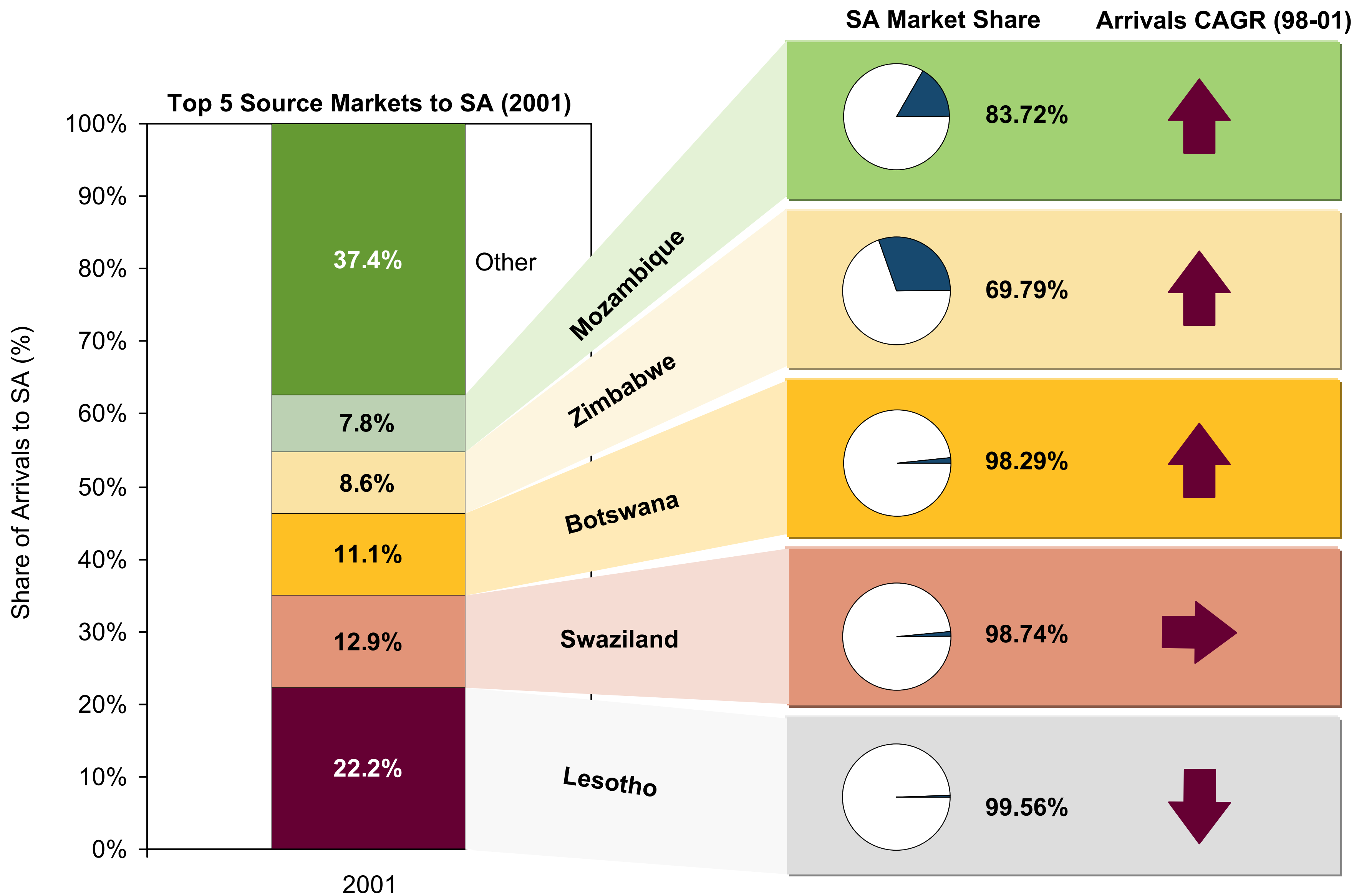


Breakdown of Africa Arrivals to South Africa, 2000



Source: Statistics South Africa

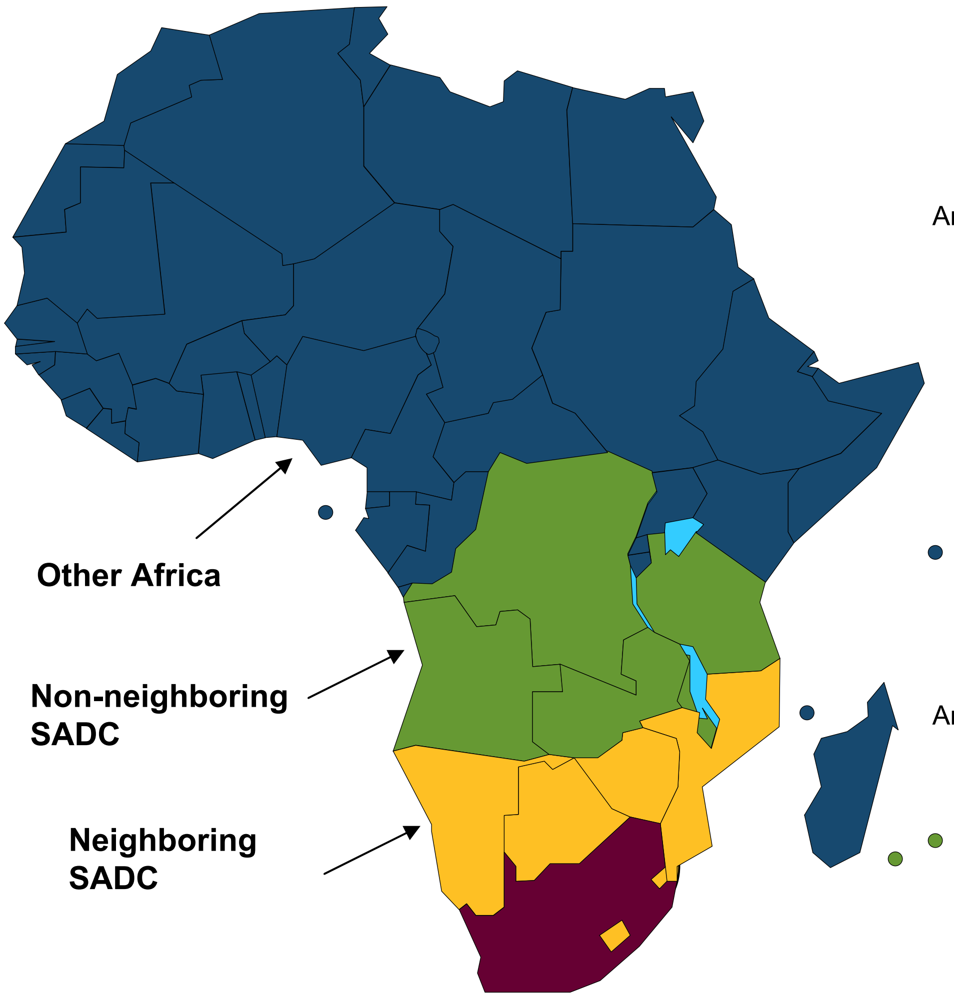
Nearly two-thirds of arrivals come from just 5 countries with little growth and therefore we needed to look at air travel in Africa for growth

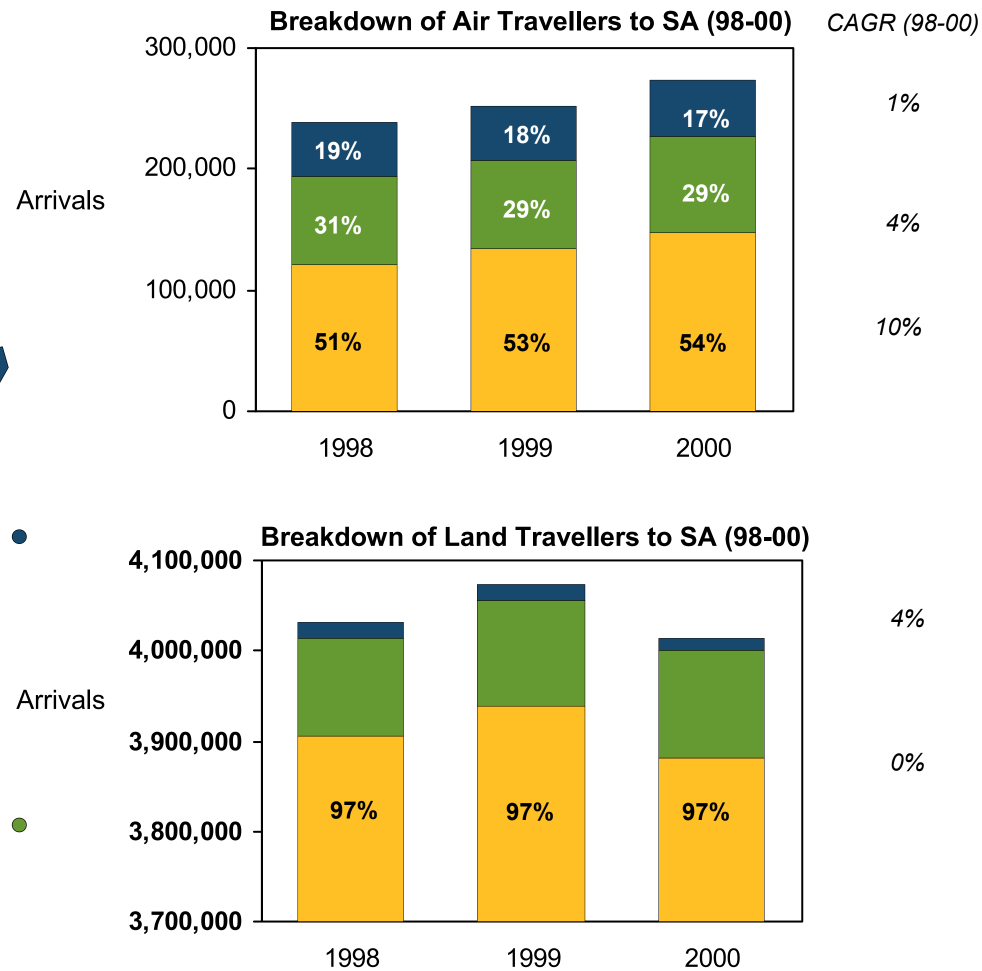


Source: Statistics South Africa, Foreign Visitor Departure Survey, Monitor Analysis

Air Travel from Africa is Growing

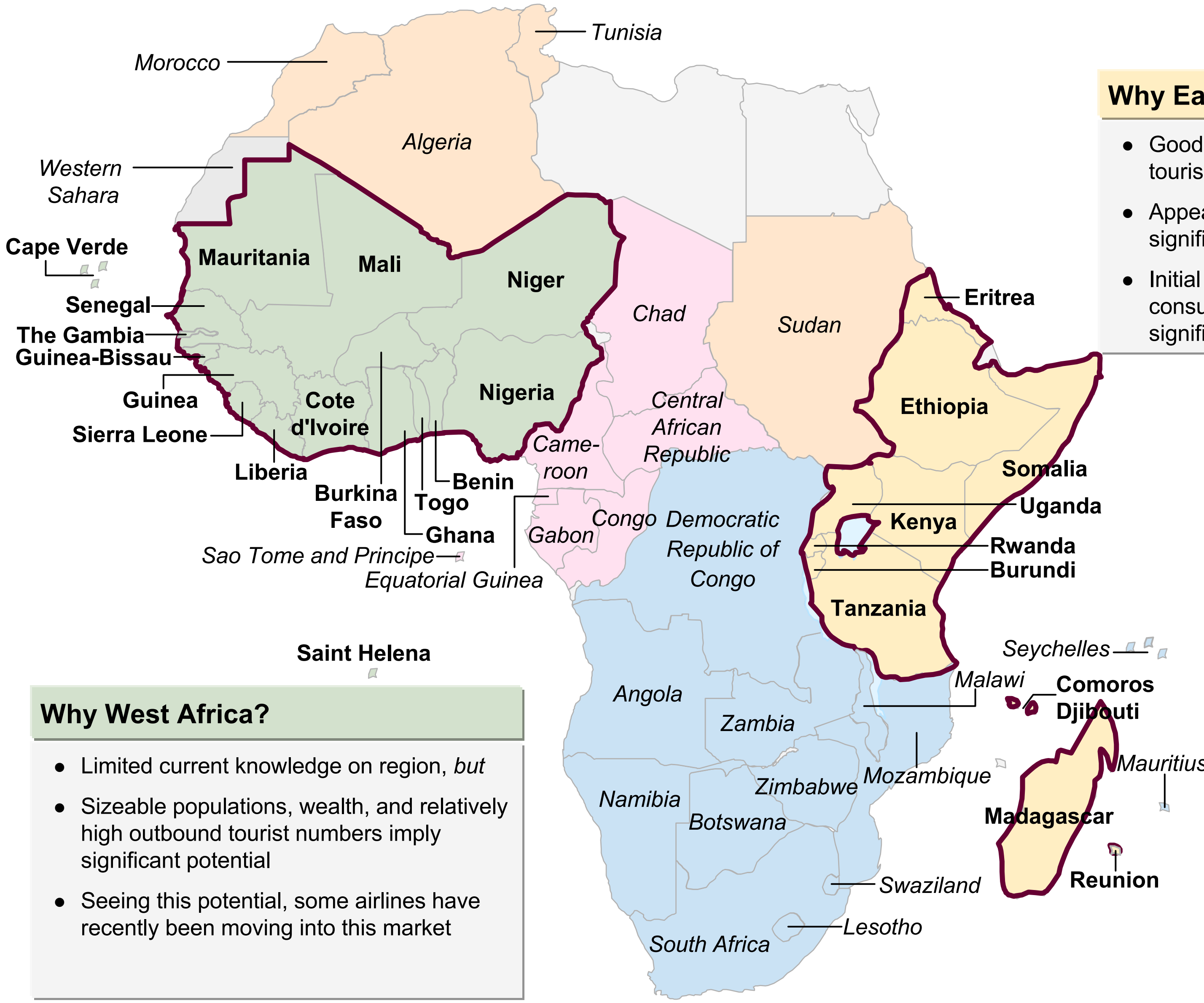
Overall, travel into SA from neighbouring SADC is stagnant, but air arrivals are growing fast, including out of neighbouring SADC states.





Note: The land travellers out of the rest of Africa are insignificant
Source: Statistics South Africa

Initially, we considered 27 countries in East and West Africa



Why East Africa?

- Good flight connections and outbound tourist potential
- Appears to be easiest region to generate significant increase in demand
- Initial findings indicate that additional consumer research could generate significant leverage

Why not North Africa?

- Due to proximity to Europe, and language barriers, conversion deemed relatively more difficult

Why not Middle Africa?

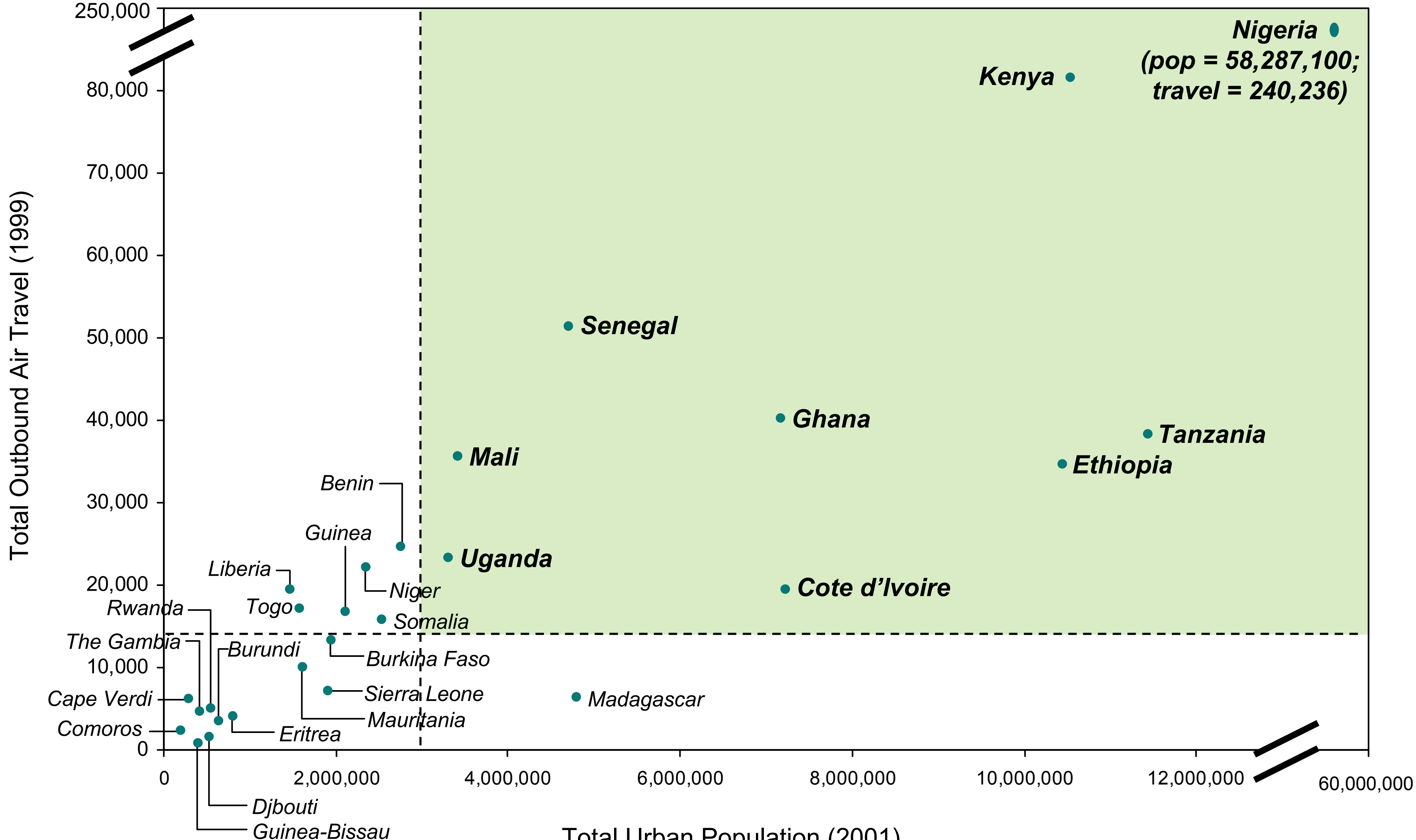
- Low current outbound numbers imply very limited short and medium term potential

Why West Africa?

- Limited current knowledge on region, *but*
- Sizeable populations, wealth, and relatively high outbound tourist numbers imply significant potential
- Seeing this potential, some airlines have recently been moving into this market

Of these 27 countries, nine appeared worth pursuing and to start focusing on Kenya and Nigeria as gateways into East and West Africa

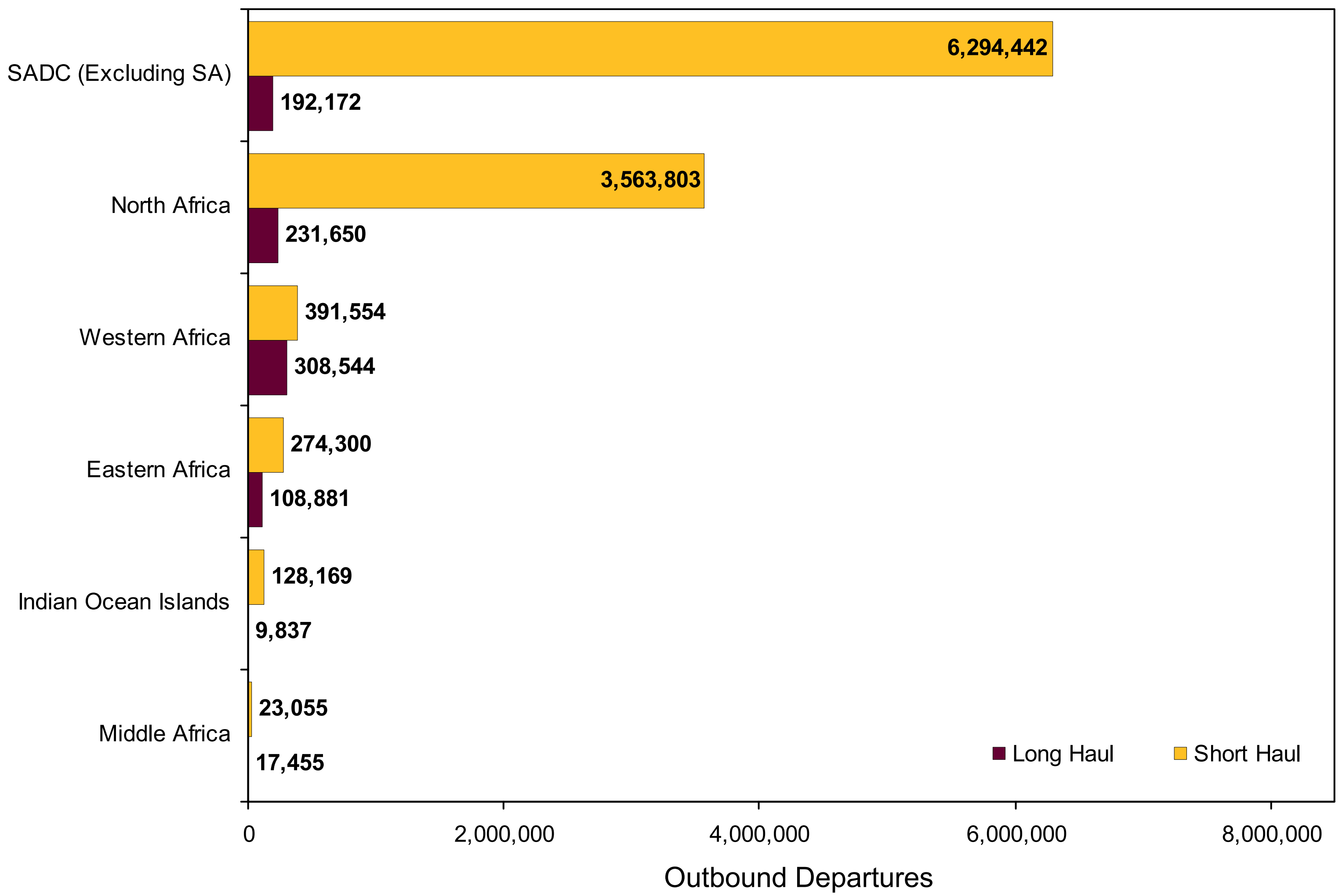
Screening Matrix



Note: Green shaded area is worth pursuing
Source: World Bank

Africa and Middle East are a very focused markets. On the continent the travel costs are high and long-haul markets are relatively small

Outbound Departures by Region from Africa (1999)



SA's Market Share

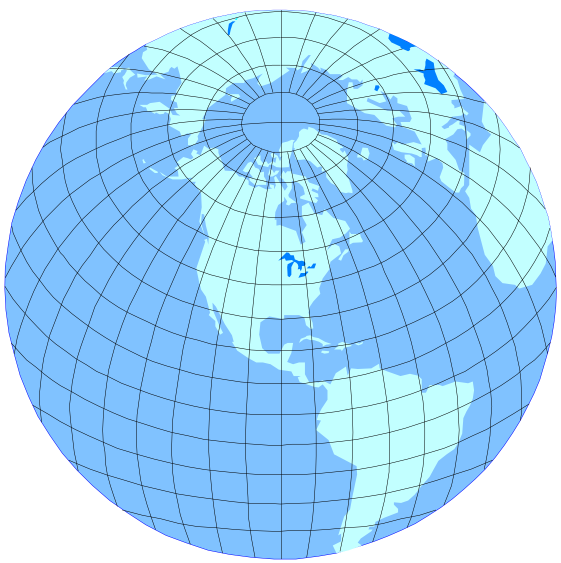
	Long-haul	*Short-Haul*
SADC (Excluding SA)	—	*(67.2%)*
North Africa	*(2.5%)*	
Western Africa	—	*(8.4%)*
Eastern Africa	—	*(10.4%)*
Indian Ocean Islands	*(17.1%)*	*(2.1%)*
Middle Africa	*(0.6%)*	*(20.9%)*

Note: Data for Mozambique is missing from SADC analysis. The only data on Mozambique are outbound departures from South Africa to Mozambique (2000). Missing data points for 1999 were projected based on historical growth rates and triangulated where possible with other sources

Source: World Tourism Organization 1999; Monitor Analysis

For countries outside of Africa, the focus for South Africa is to leverage all the growth drivers

The real growth for South Africa is to focus the portfolio on countries and markets that are attractive from a volume and value perspective and from which South Africa can get the greatest yield in the short to medium term. Clearly some markets are more seasonal than others



Existing Consumers

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

New Consumers

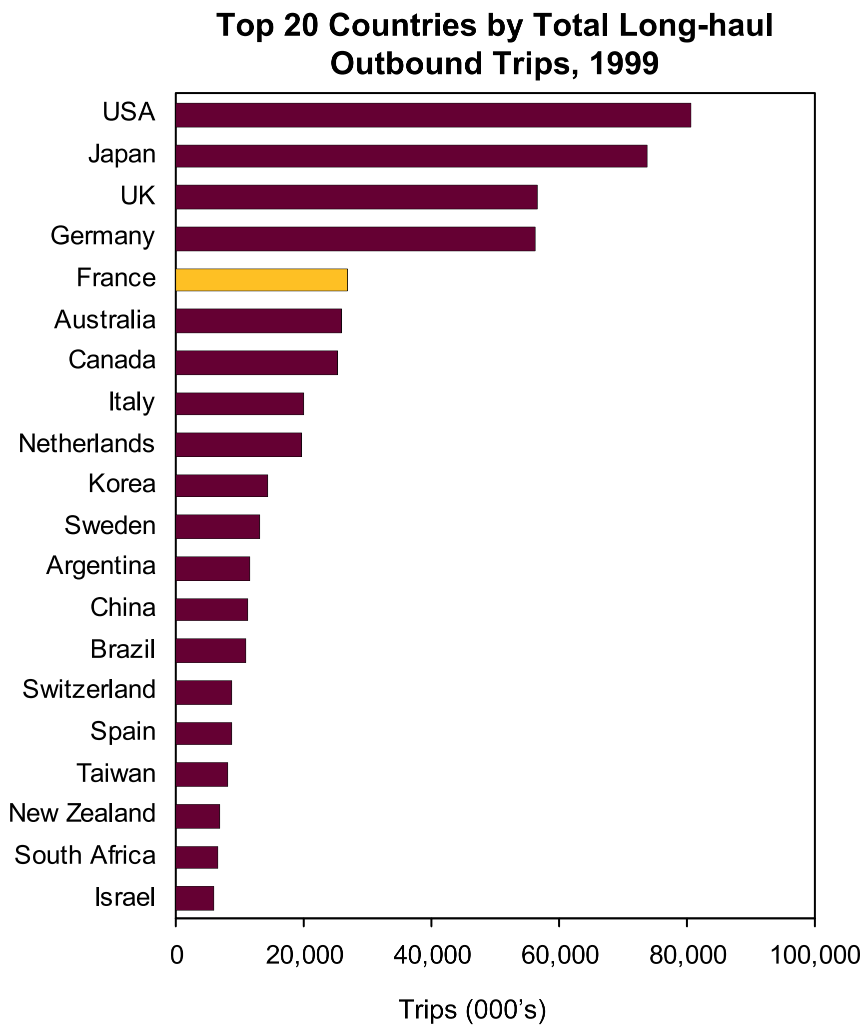
4. Attract new-to-you consumers
5. Attract new-to category consumers

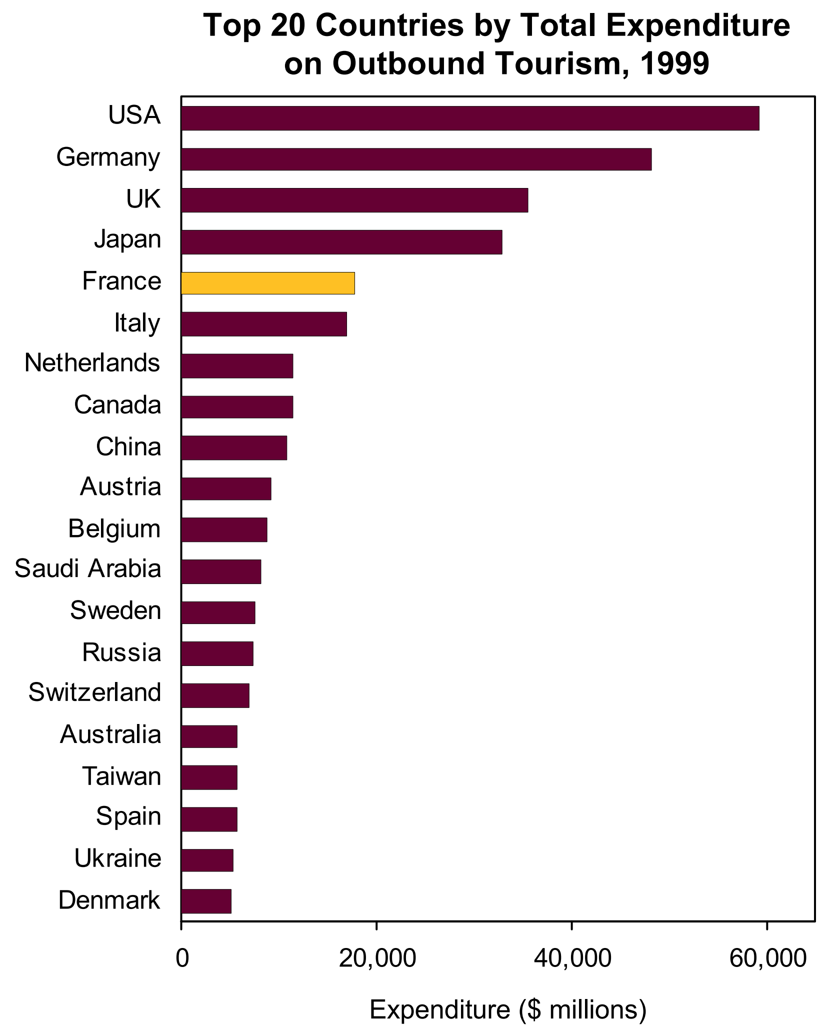
In looking for growth opportunities, we started in the eleven largest long-haul leisure markets where the volume influences the value

These markets are forecast to continue growing and would be key in any portfolio

	Country	Size of LH Leisure Travel (Holiday + VFR)	Estimate of the LH Holiday Travel	Ranking on Leisure	Arrivals to SA, 2000	Arrivals Ranking, 2000
1	US	20,932,893	12,237,691	2	174728	3
2	Japan	14,076,641	14,076,641	1	22662	13
3	UK	8,604,193	7,127,271	3	349652	1
4	Germany	5,828,967	5,239,521	4	210227	2
5	France	4,847,124	3,540,034	5	89573	5
6	Canada	3,696,141	2,850,552	6	27531	10
7	Australia	3,500,183	2,245,261	7	56040	6
8	Italy	1,703,360	1,510,763	8	38195	8
9	Netherlands	1,548,637	1,259,025	10	91154	4
10	China	1,498,134	1,270,157	9	18306	17
11	Sweden	1,348,714	1,027,194	11	20213	15
12	Argentina	1,159,014	701,938	16	15383	20
13	Switzerland	1,124,213	985,611	12	33181	9
14	Spain	1,070,516	923,318	14	17941	18
15	Korea	1,056,369	802,983	15	8574	28

For example France is the fifth largest long-haul outbound market and the fifth largest outbound tourism spend market in the world



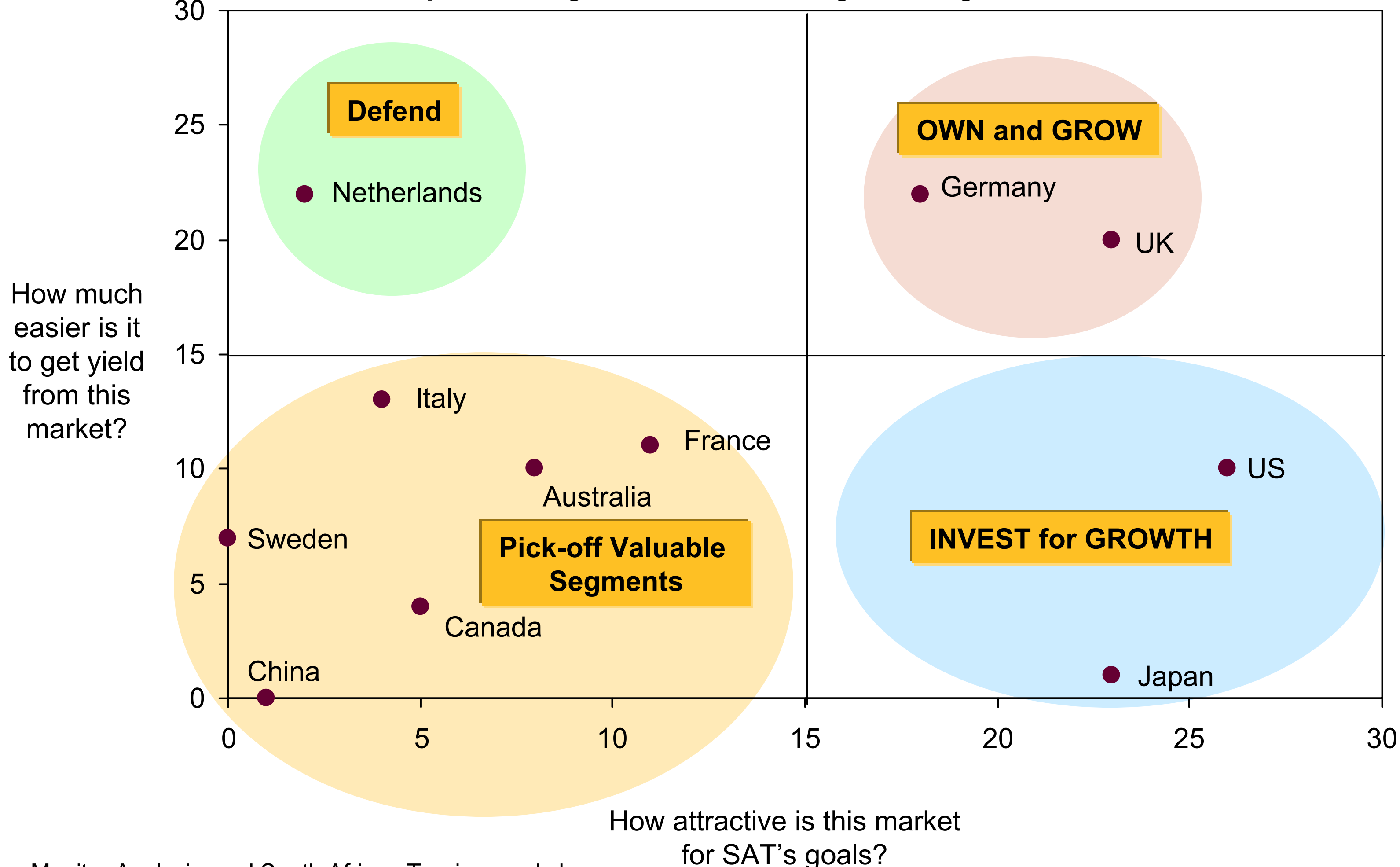


Source: World Tourism Organization, 1999

Different strategies are required against these different markets as one size does not fit all

In 2001 territories like Japan are highly attractive, but are very difficult as a result of product barriers, while the Netherlands has much lower attractiveness, though is comparatively much easier to activate and we had no agreement to market in China

Graph showing Potential Marketing Effort against Potential Gain



Source: Monitor Analysis and South African Tourism workshop.

MICE is a purpose market that cuts across several countries and the challenge was to find the attractive portion of the market to target

The real value of MICE lies in the ability to leverage resources to attract large numbers of delegates at low cost

Existing Consumers

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers

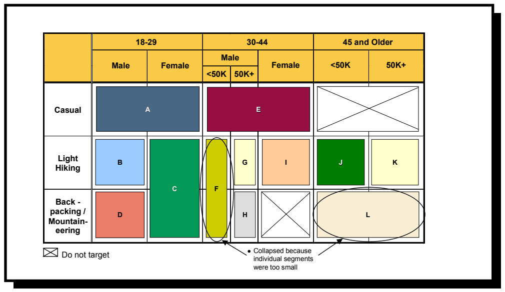
New Consumers

4. Attract new-to-you consumers
5. Attract **new-to category** consumers

Having a salient set of countries or markets is not sufficiently actionable and hence needs to be driven down to consumers on the segment level

There are three key reasons why SAT chose to do segmentation (or a variation thereof):

Action Segmentation™



1. To understand how the market is structured at a consumer level

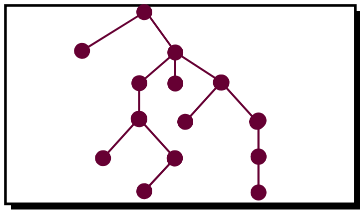
2. To understand the relative size and value in the market as well and objectively show the relative contribution of the segments

3. Allows one to identify the levers in the market that need to pulled to activate the segment

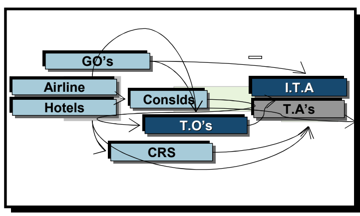
The action segmentation model generates deep consumer insights into chosen markets as the basis for developing marketing plans

We use both qualitative and quantitative methodologies to test and size markets

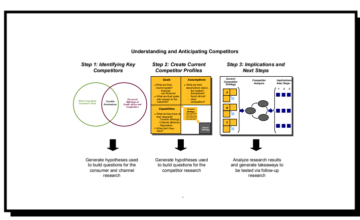
Buying Process (consumers)



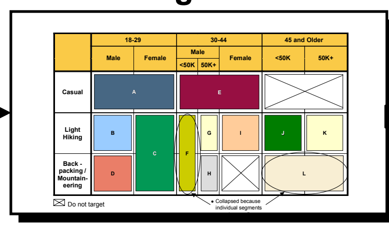
Channel (value chain and selling process)



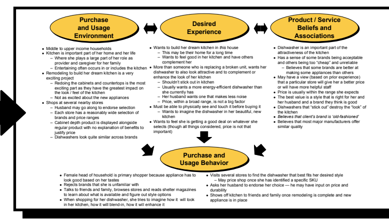
Competition (who are we up against and how differentiated)



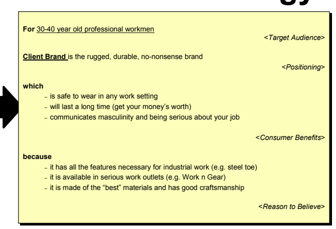
Action Segmentation™



Customer Portraits®



Activation Strategy



The critical success factor in segmentation is that it must result in action and not result in the "so what?" factor

Segmentation must be predictive of behavior and motivations

to

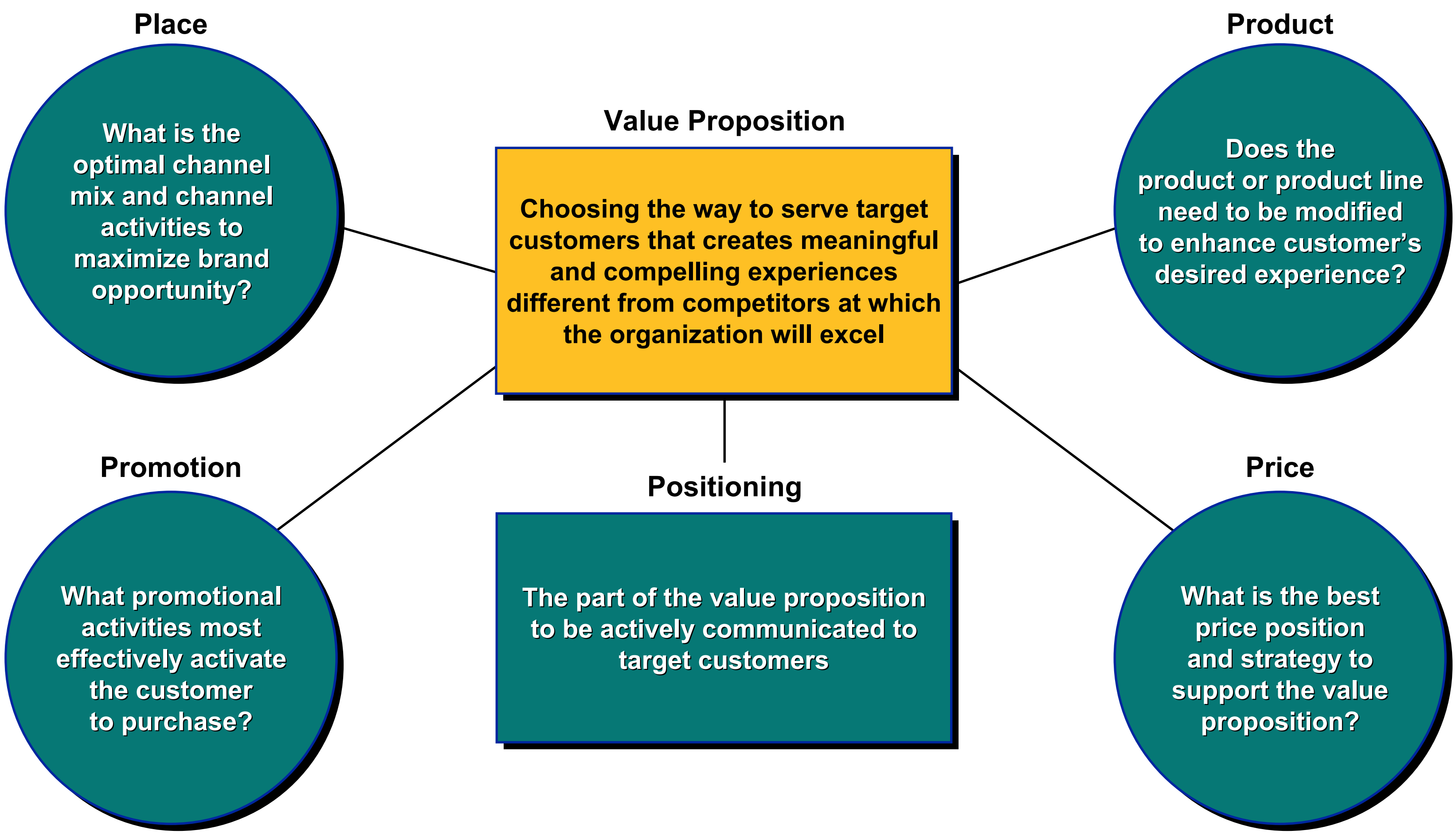
Organization must be able to take action against segments

to

Organization must be committed to taking action

IN MARKETS THE FOCUS IS ON CONSUMERS: Growth and Activation Strategies have been developed on a chosen segment basis

For each chosen segment, an activation strategy has been created. This includes an overall value proposition and depending on the segment's drivers and barriers specific changes to product, price, positioning, place, or promotion



Global segmentation identified attractive consumer segments that cluster in five generic typologies - with Wanderlusters and NSSAs at the core

Wanderlusters

- Upscale Wanderlusters (USA)
- UK Wanderlusters (UK)
- Young Wanderlusters (UK)
- German Wanderlusters (De)
- French Wandlerlusters (Fr)
- Ex-Pat Wanderlusters (Ni, K)
- Segment 4 and 5 (China)
- Segments 5 and 6 (Japan)

NSSAs (Next Stop South Africa)

Adventurous, explorative (Grown-Up Wanderlusters)

NSSA Explorers

- US Adventure/Culture NSSA's
- UK NSSA's (UK)
- German NSSA's (De)
- French NSSA's (Fr)
- Ex-Pat NSSA Explorers (Ni, Ke)
- Segment 9 (Japan)

Relaxation & luxury with some discovery

Pampered NSSAs

- US Relaxer NSSA's
- High End Inquisitives (It)
- High End Package (Ne)
- Luxury Elderly Break (Ne)
- High Spend Package (A)
- Hyper Wealthy (Without Kids) (Ni)
- Ex-Pat Pampered NSSA's (Ni, Ke)

Family Travellers

'Cacooned'/Low Adventure

- Family Explorers (USA)
- Attractive Segment (In)
- Hyper Wealthy (With Kids) (Ni)
- Ex-Pat Low Adventure Family Travellers (Ni, Ke)

Explorers/Adventurous

- Family African Discoverers (De)
- French Family Explorers
- Ex-Pat Family Explorers (Ni, Ke)

Positive Convertibles

- CPAs (USA)
- UK Positive Convertibles (UK)
- Segment 8 (Japan)

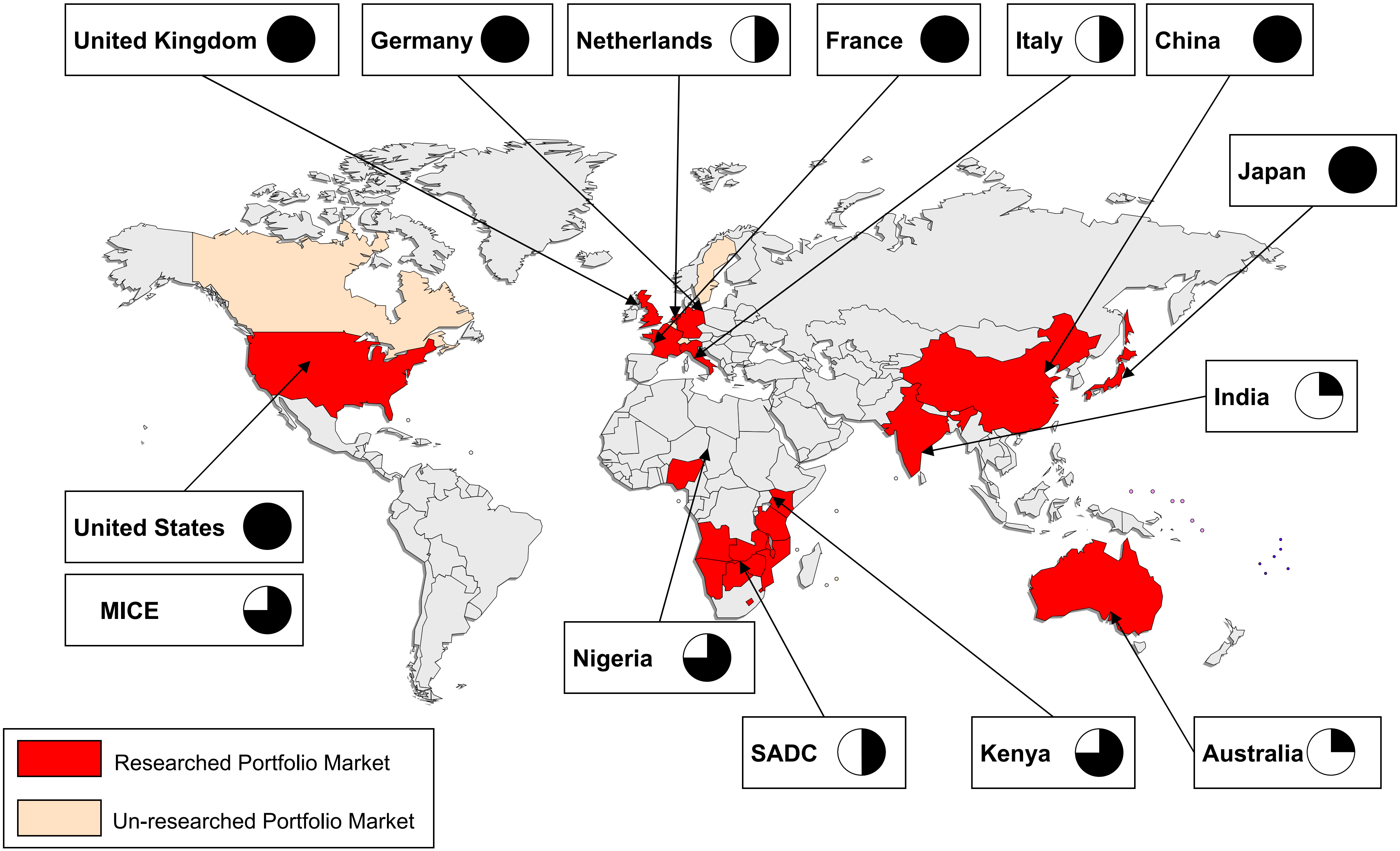
Senior Explorers

- Organised African Explorers (De)
- Segment 10 (Fr)
- Upper End Tour (It)
- Segment 12 (Japan)

Purpose Travellers

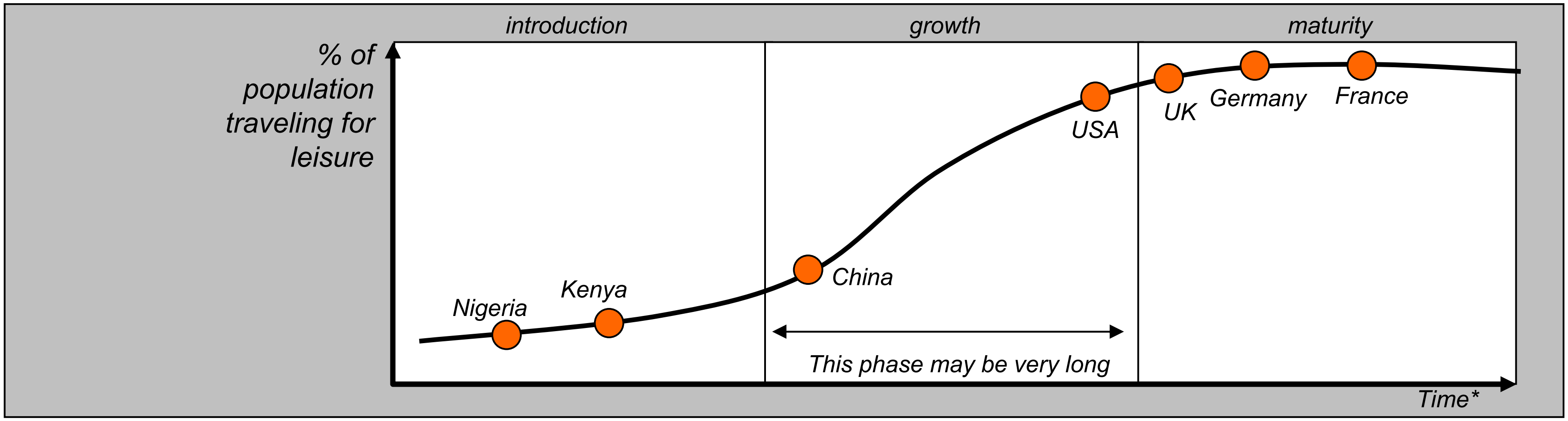
- Independent Business People (Ng)
- Traders/Importers (Ng)
- Mid-Income Self-Employed (Ke)
- High-Income Self-Employed (Ke)
- High-Income Business Owners (Ke)
- Segment 8: sponsored travelers (China)

By the end of 2003 we had worked our way through the core of the portfolio to understand consumers



Global Patterns:
Why and how people travel appears to correlate with the market maturity

Tourism Industry Life Cycle

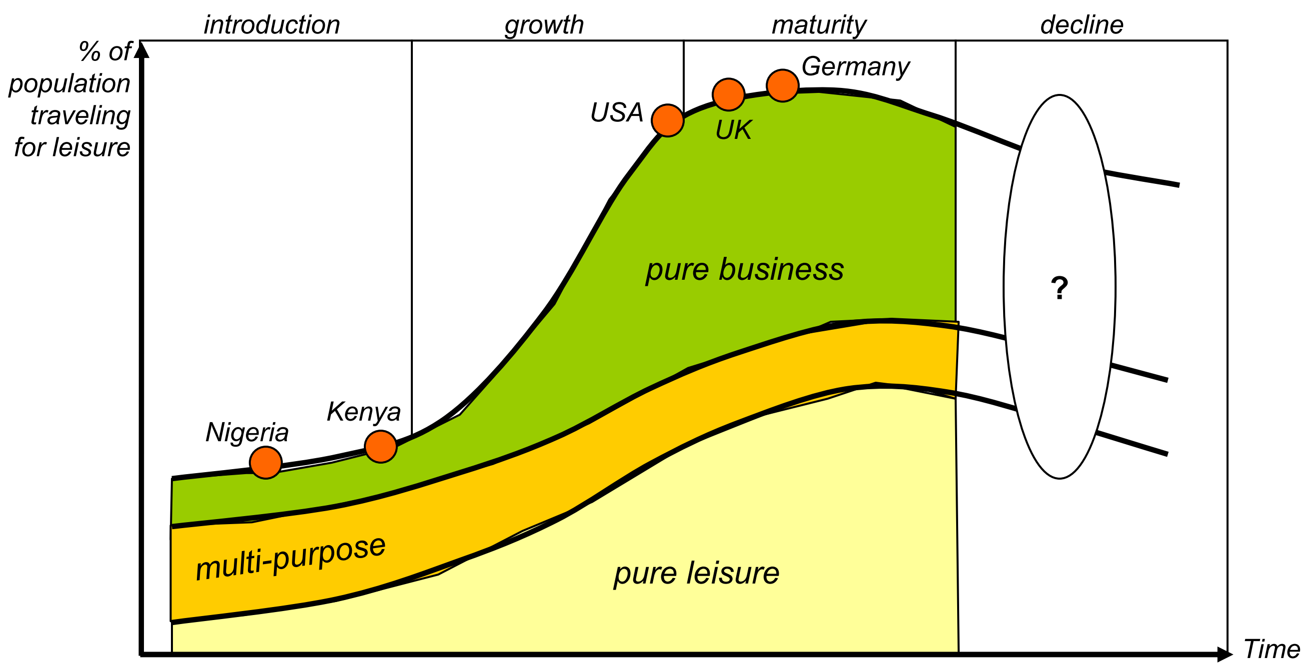


Market Symptoms	Consumer	• Uninformed, Price insensitive, multi-purpose	• Seek information & opportunity; discover leisure	• Very informed, price sensitive, focus on leisure
	Product	• Very individualized • Status oriented	• Emergence of packages (seeking scale effects)	• Specialized packages
	Competitor	• few • One-stop-shops	• Emerging specialization / focus	• High competition • Clear focus
	Channel	• Unsophisticated, isolated, experience based	• Integrate products; information/choice provider	• Specialization; Information provider
Tourism Authority Actions	Marketing	• Combine with trade initiatives	• "shout": get as many as you can	• Adapt trade and market to select segments
	Overall strategy	• Develop positioning	• Facilitate scale effects (e.g., packages)	• Understand segments & select

* The duration of the four phases of the life cycle may vary significantly; their graphical representation with equal distances may thus be misleading.
Note: Framework based on Michael Porter: Competitive Strategy, 1980, Chapter 8 (Industry Evolution)

Outlining a Theory of Travel Evolution
The Economic Development Stage May Be linked to Travel Motivations

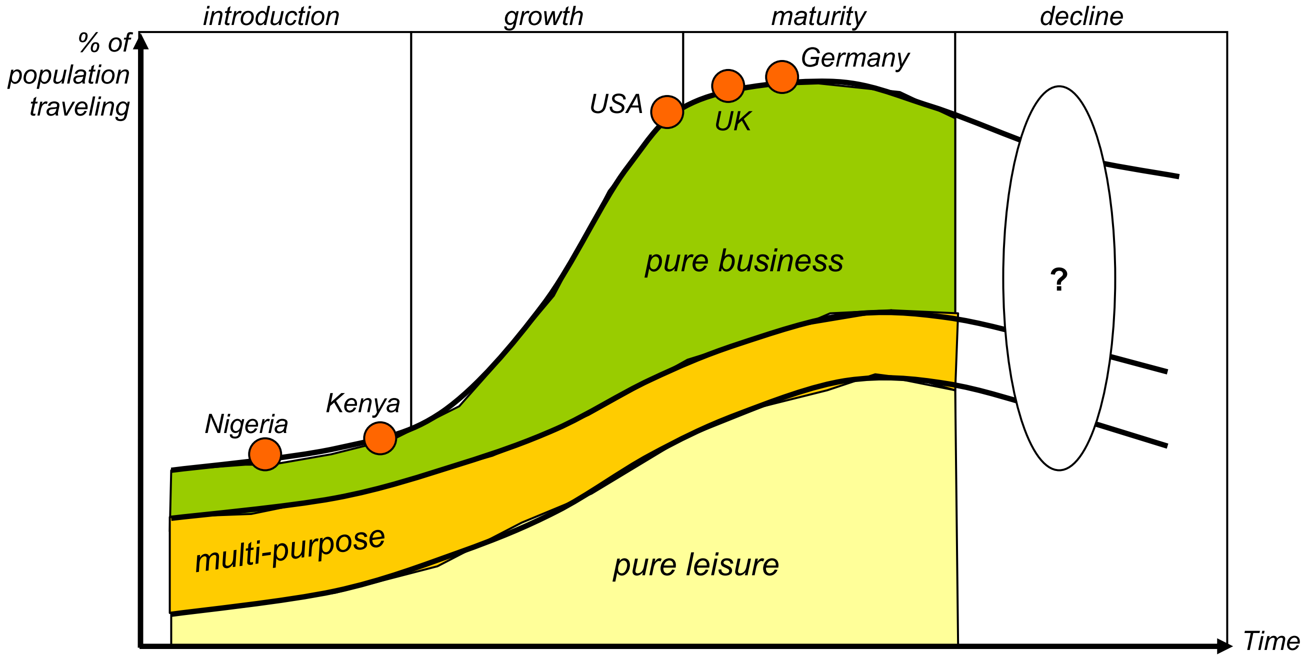
Tourism Industry Life Cycle



	introduction	growth	maturity	decline
Formalization of economy	Large informal sector	Formalization in process	Completely formal	?
Organization of labor	Many self-employed, small businesses	Emergence of “Mittelstand”	Large corporates, few entrepreneurs	?
Relationship between private and professional	Conflation of private & professional spheres	Division of labor, specialization	Re-integration of spheres, “life-careers”	?
Motivations for travel	Seek to combine private leisure and business aims	Exploring how to spend “holidays”, time-off	Seeking meaningful, complementary diversions	?

From these markets we started to outline a Theory of Travel Evolution: The Purpose of Travel Appears to Be Dependent on Industry Stage

Tourism Industry Life Cycle



- Markets with a lower travel intensity (percentage of population traveling) have a far higher proportion of purpose and multi-purpose travelers.
- It appears that the growth within the tourism life cycle is driven by pure business and pure leisure travel.

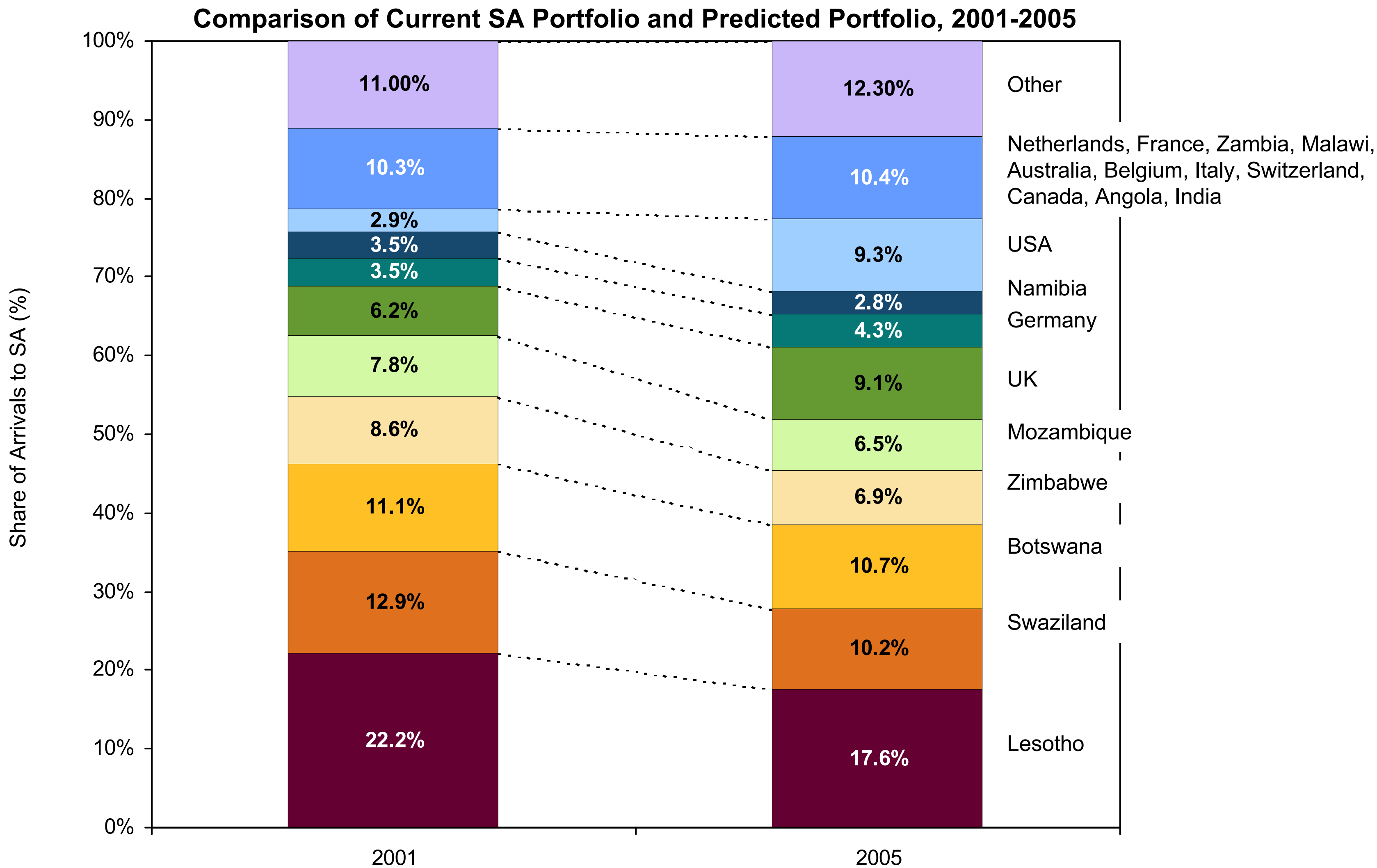
What are our goals and aspirations?

Where will we play?

How will we win in chosen markets?

Way Forward

Effective defense (to hold current share) and 2% growth per annum over the next five years in growth segments changes the mix in the portfolio

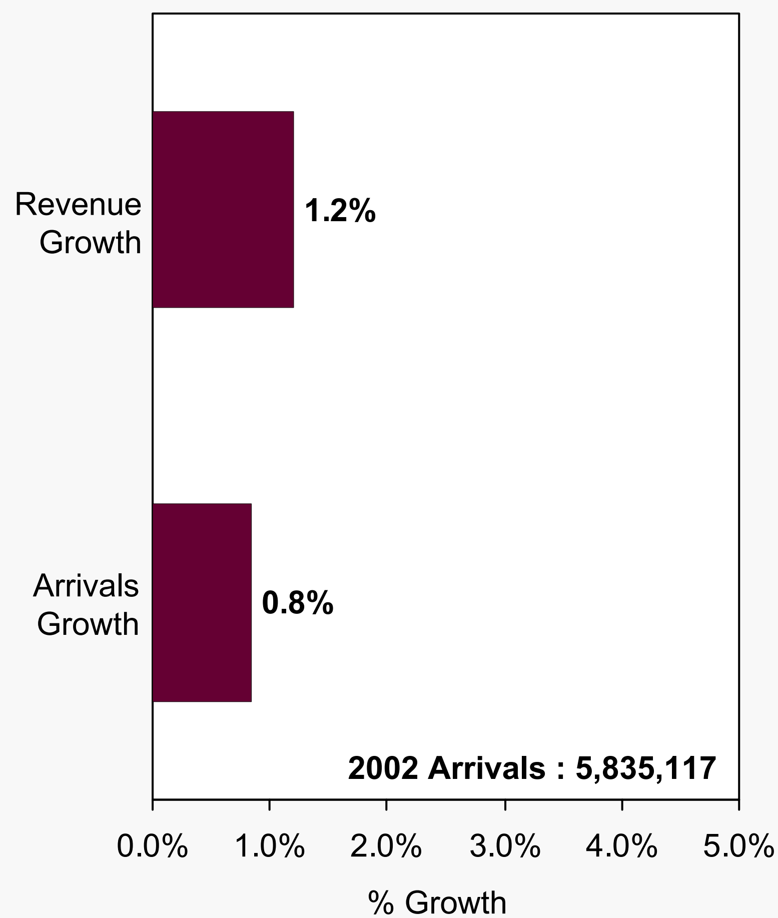


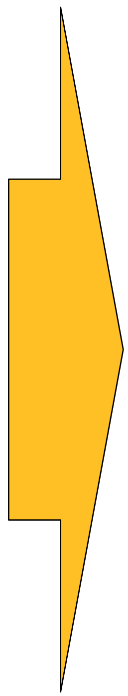
Note: The 2005 portfolio was obtained using the assumptions outlined on the previous slide
Source: Statistics South Africa, Foreign Visitor Departure Survey, Monitor Analysis

And changes the results in both volume and value dramatically by 2005

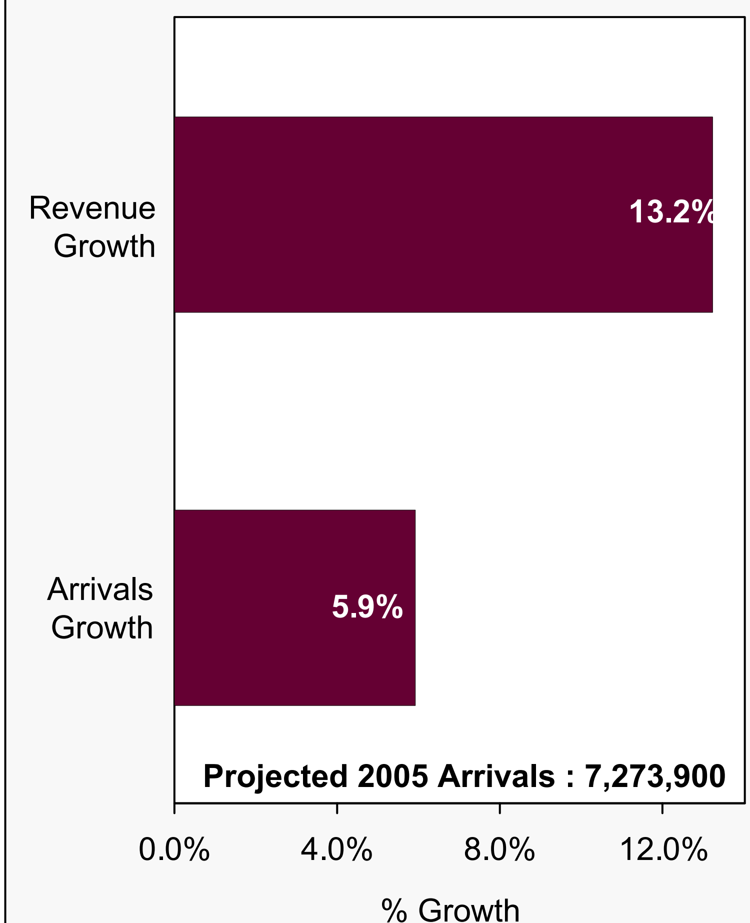
Tourism to SA projected to increase 2002, however a clear targeted strategy needs to be followed to ensure that this is sustainable and not a temporary phenomena

Results if we do nothing different
(based on growth to the end of 2001)



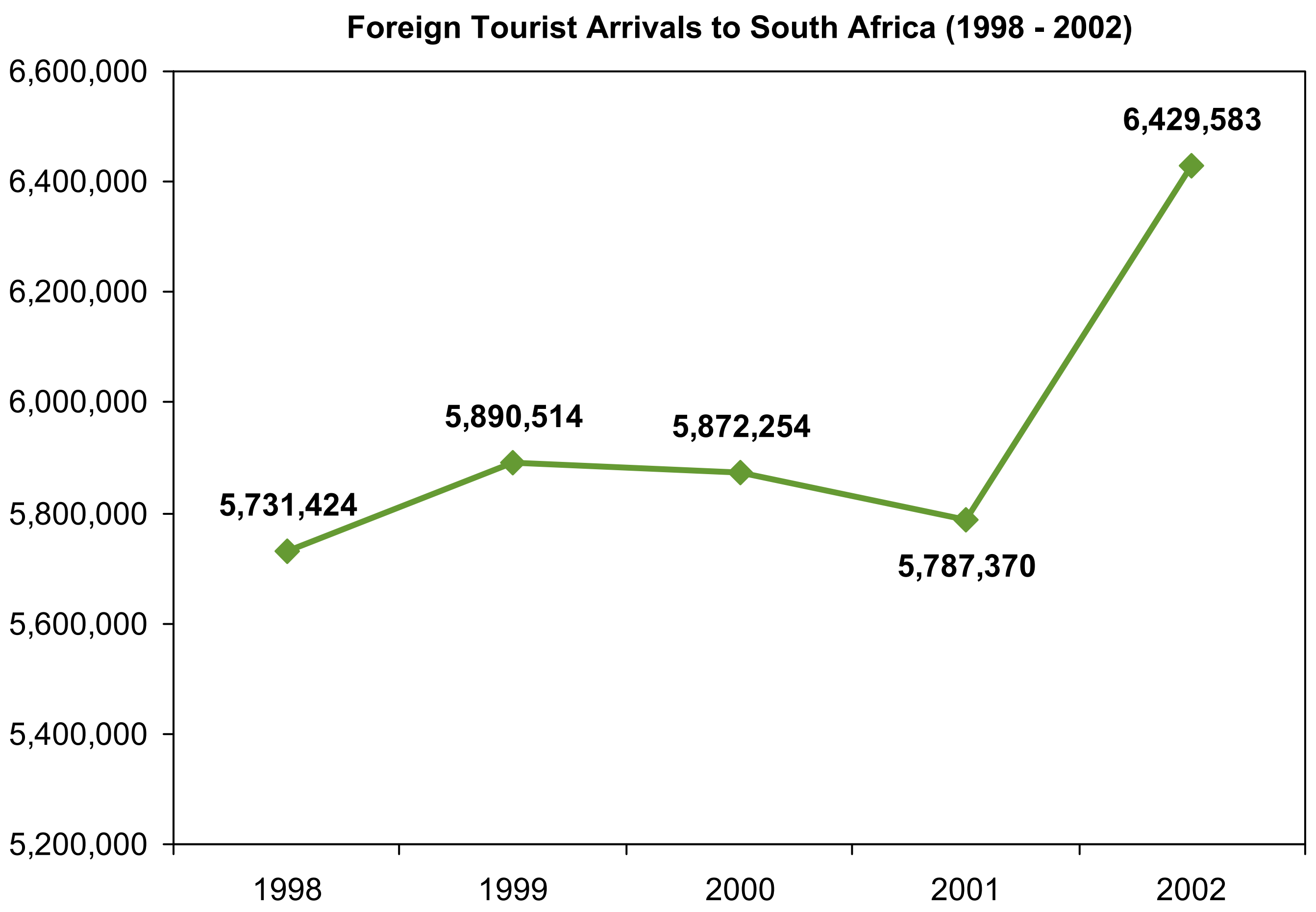


What the strategy can deliver



Source: Monitor analysis; Foreign Visitor Departure Surveys, 2000 & 2001

YEAR ONE: The 2002 Tourism boom was driven off an 11% increase in foreign arrivals and 20% increase in "overseas" arrivals

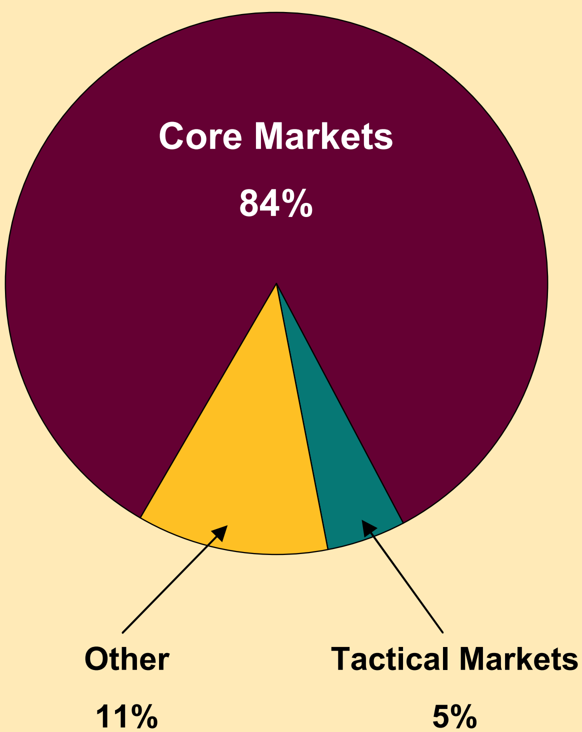


Portfolio Markets were the foundation of the volume and of 2001/2 growth

Our core and tactical markets were the major drivers of volume growth in 2002

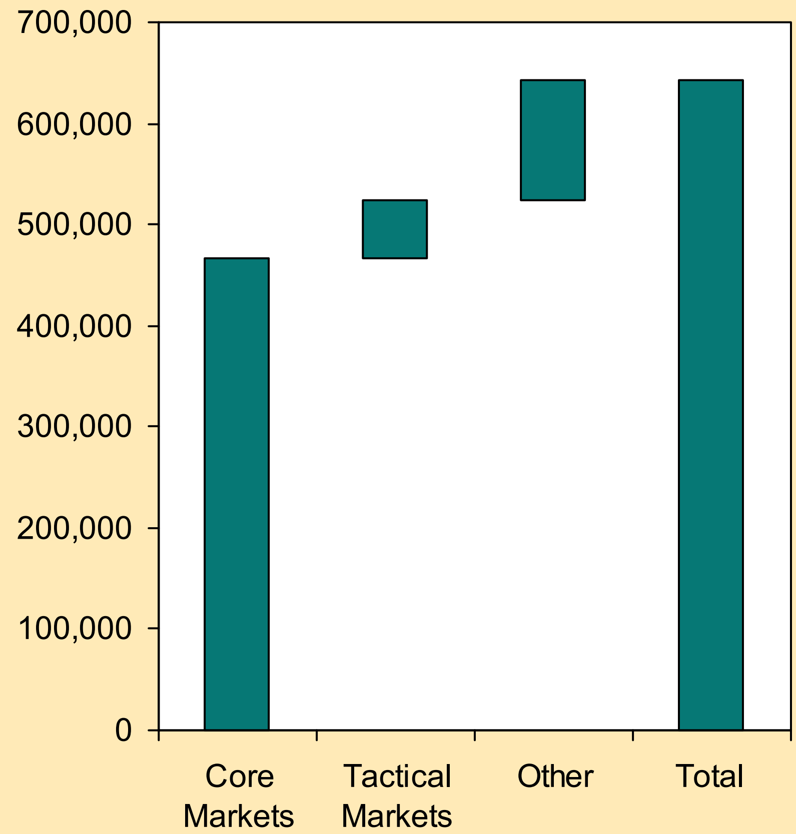
Contribution to Total Arrivals by Portfolio Markets 2002

2002 Arrivals : 6,429,583



Contribution to 2001/2002 Growth by Portfolio Markets

2001/2 Growth : 642,215 arrivals

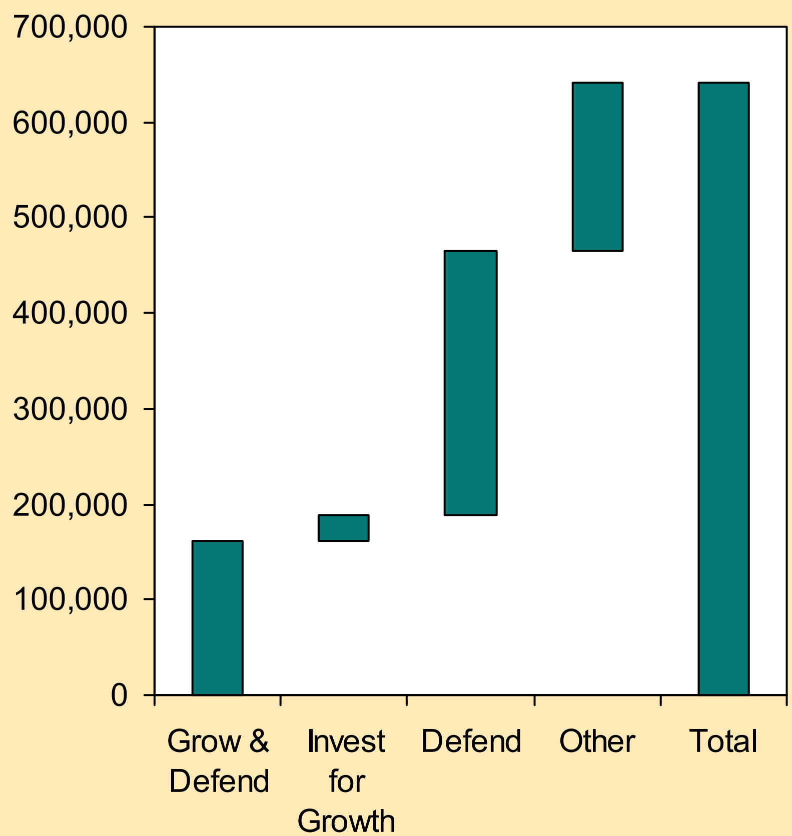


Portfolio Markets were the foundation of the volume and of 2001/2 growth

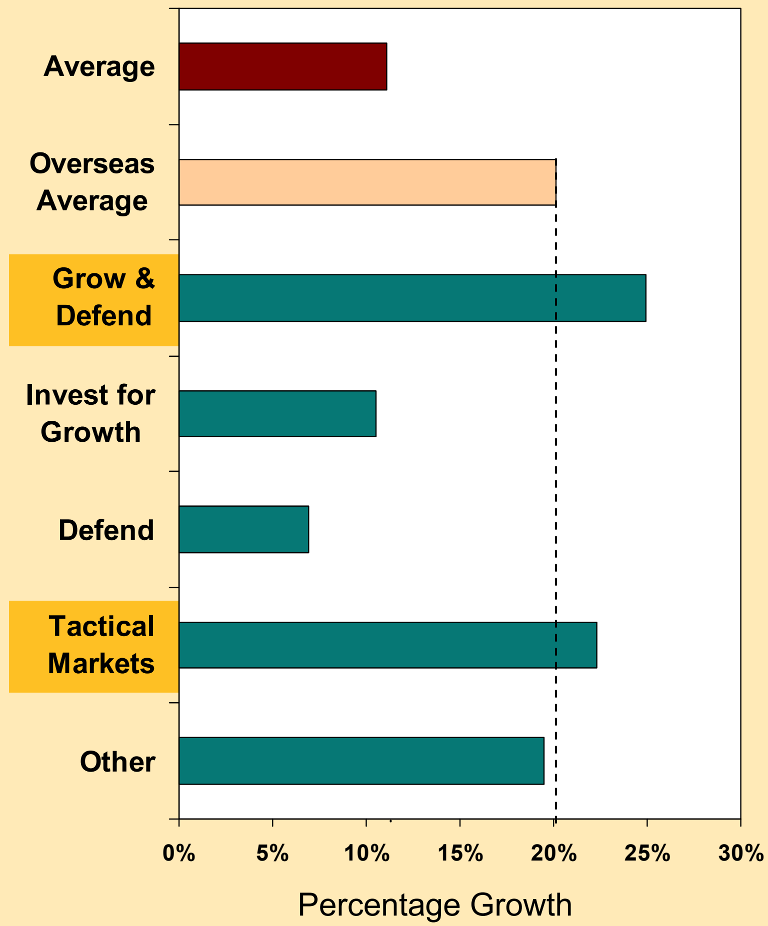
We held our position in the key "defend" markets, and our core "defend & grow" as well as tactical markets showed above-average growth

Contribution to 2001/2002 Growth by Portfolio Markets

2001/2 Growth : 642,215 arrivals

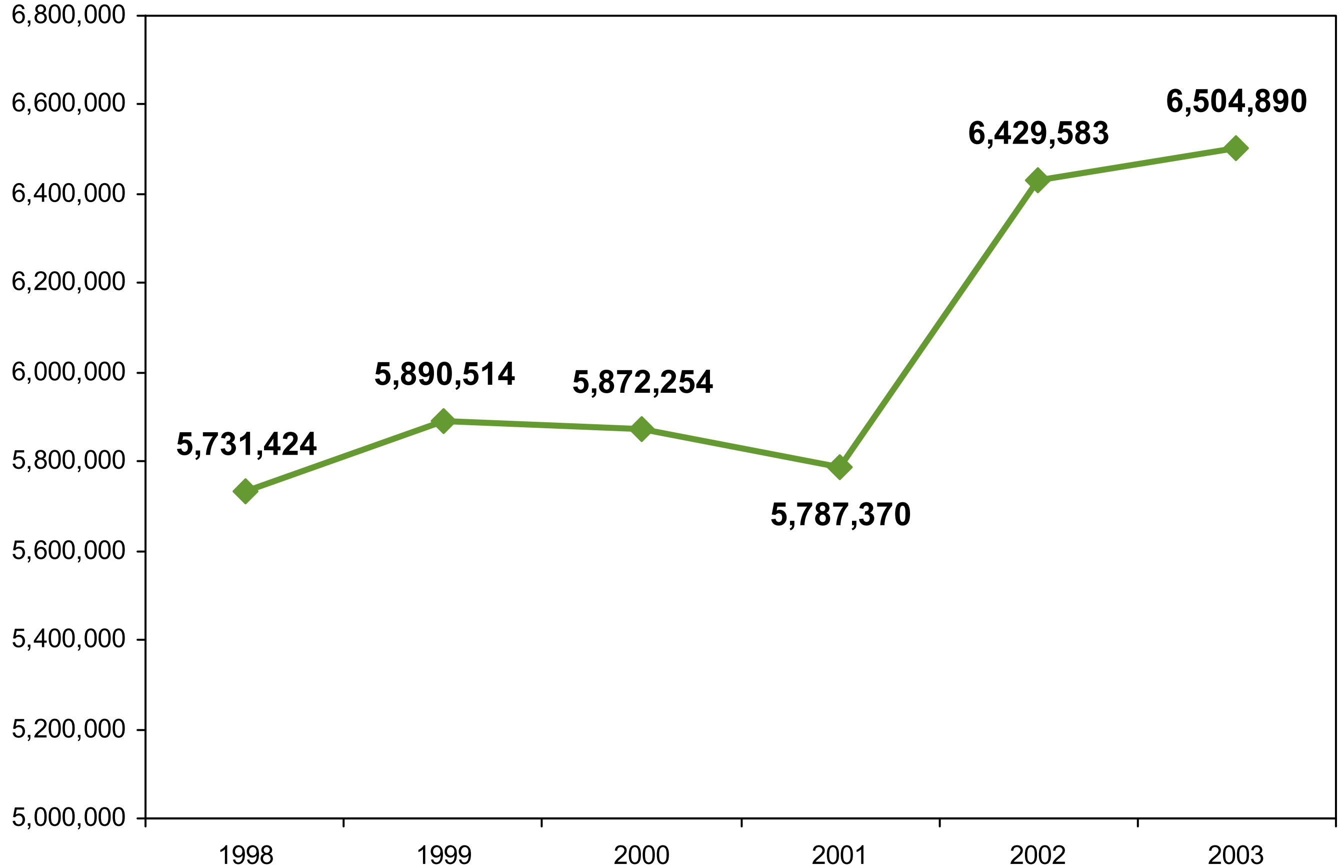


2001/2002 Growth Rates



YEAR TWO: Arrivals continued to grow in 2003 – consolidating the 11% growth seen in 2002 at a new high of 6,5 million tourist arrivals

Foreign Tourist Arrivals to South Africa (1998 - 2003)



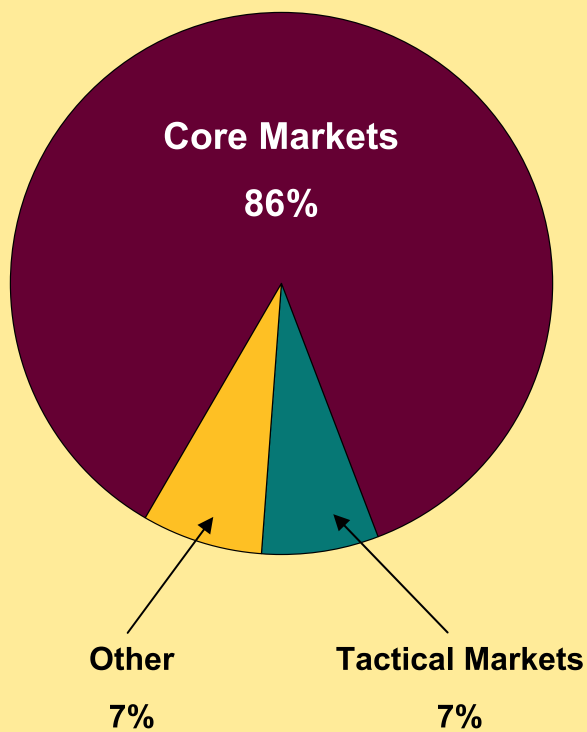
Source: SAT Arrival Statistics, 2003

Portfolio Markets were the foundation of the volume and of 2003 growth

For the second year, our core and tactical markets were the major drivers of volume growth

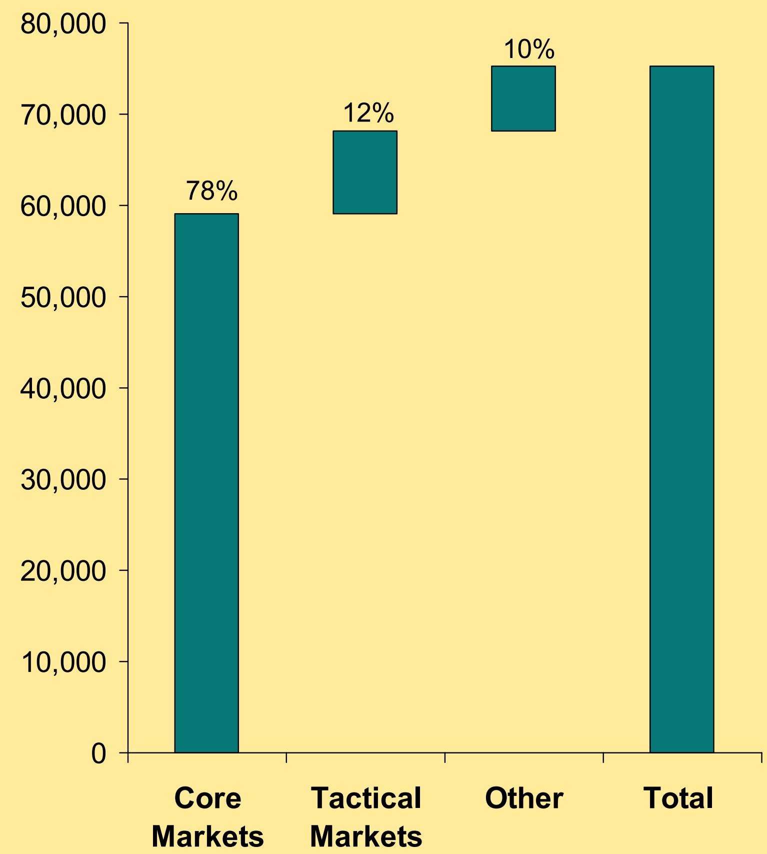
Contribution to Total Arrivals by Portfolio Markets 2003

2003 Arrivals : 6,504,890



Contribution to 2003 Growth by Portfolio Markets

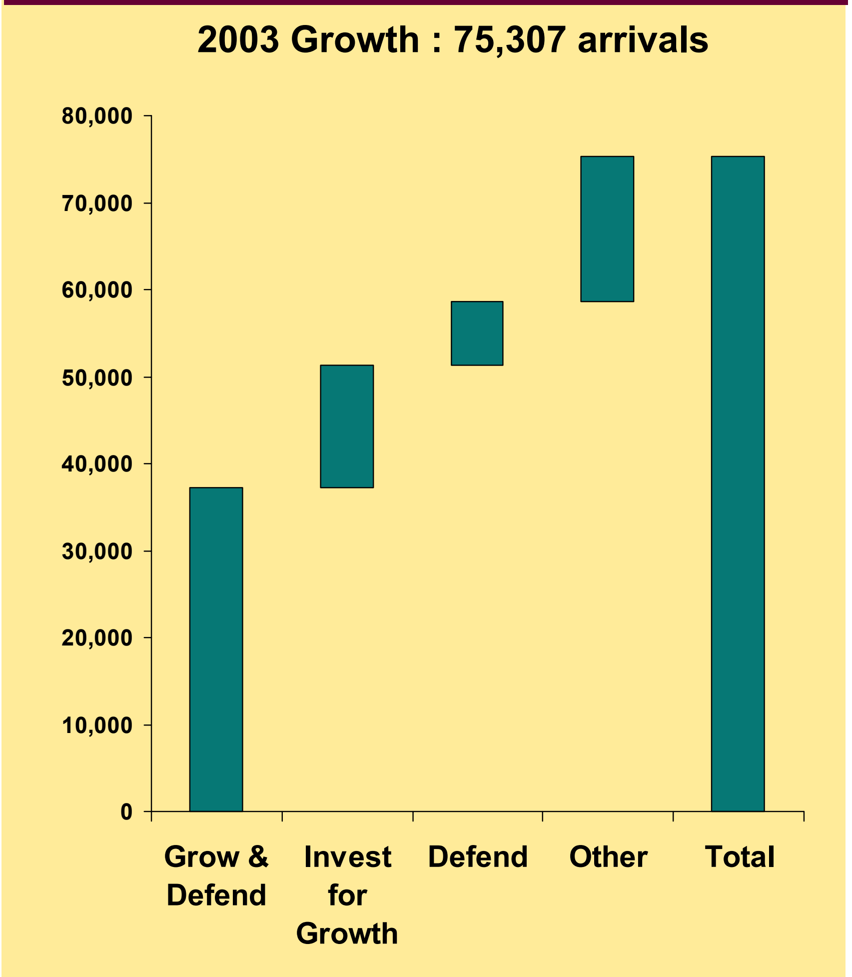
2003 Growth : 75,307 arrivals



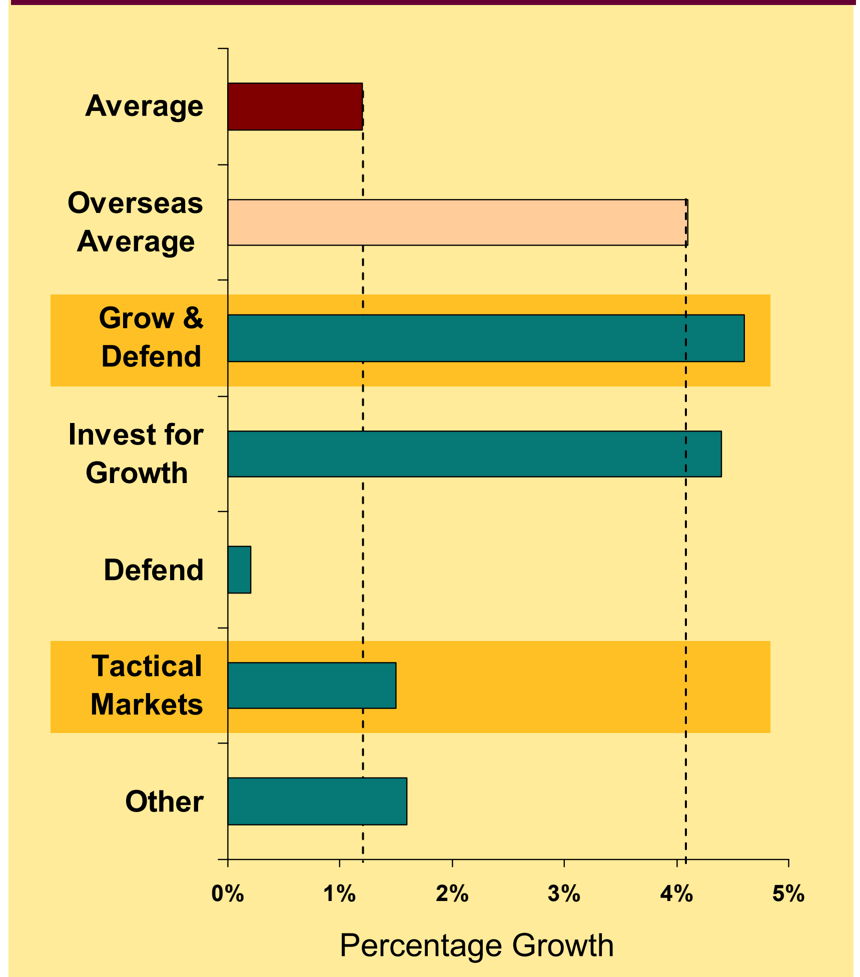
Portfolio Markets were the foundation of the volume and of 2003 growth

We held our position in the key "defend" markets, and our core "defend & grow" as well as tactical markets showed above-average growth

Contribution to 2003 Growth by Portfolio Markets



2003 Growth Rates



But SA faces some key challenges if it is to realise the growth potential

Sustainable strategy depends on four areas. SAT controls only a few of the necessary levers

Focus	• Choices about which segments to target and serve are required • SA needs to differentiate itself - not be all things to all people (BRAND)
Channels	• Channel strategies must be based on reaching target consumers and maximising the value captured in SA (TOUGH CHOICES about customers)
Access	• Choices about which segments to serve must be backed by strategies to ensure adequate and easy access to South Africa
Product	• Choices about which segments to serve must be supported by appropriate products with sufficient capacity

In developing an integrated strategy for South African Tourism, trade-offs needed to be made across three key dimensions

Time

- Demands for rapid
  - economic growth
  - social improvement
  - profitability

Resources

- Political capital
- Legislative attention
- Financial capital
  - investment
  - operations
- Leadership

Scope

- Range of objectives
- Range of markets and customers
- Range of products
- Range of channels
- Breadth of participation

Therefore South African Tourism saw its future role in the tourism sector in terms of what it actually did as an organisation and what it facilitated

Understand who is out there	**DO** the international research to inform the choices about in which market spaces we will "play" **FACILITATE** industry insights on customer product and service needs
Choose who we can & want to get here	**DO** the choice-making for SAT's core markets **LEAD** the choice-making process for other markets
Get them here	**DO and LEAD** marketing in core markets **FACILITATE** the unblocking of barriers (e.g.. Flights, visas) **FACILITATE** packaging for core markets
Get them to the product	**FACILITATE** the tourist-product connect **FACILITATE** appropriate product-development
Ensure they have a good experience	**MONITOR** tourist satisfaction and experience **LEARN** from feedback **FACILITATE** learning by industry

But marketing alone cannot deliver results — key constraints and barriers on delivery need to be removed

Maintain our presence in non-core markets

- SAT cannot afford representation in all markets which are important, but SA needs to maintain some marketing presence through other players (for example foreign missions)

Align tourism product and services

- The new strategy requires that in our product and services we begin to do things differently from the past - and keep ahead of the competition
- Focus on tourism safety and quality strategies

Make it easier to get access to South Africa

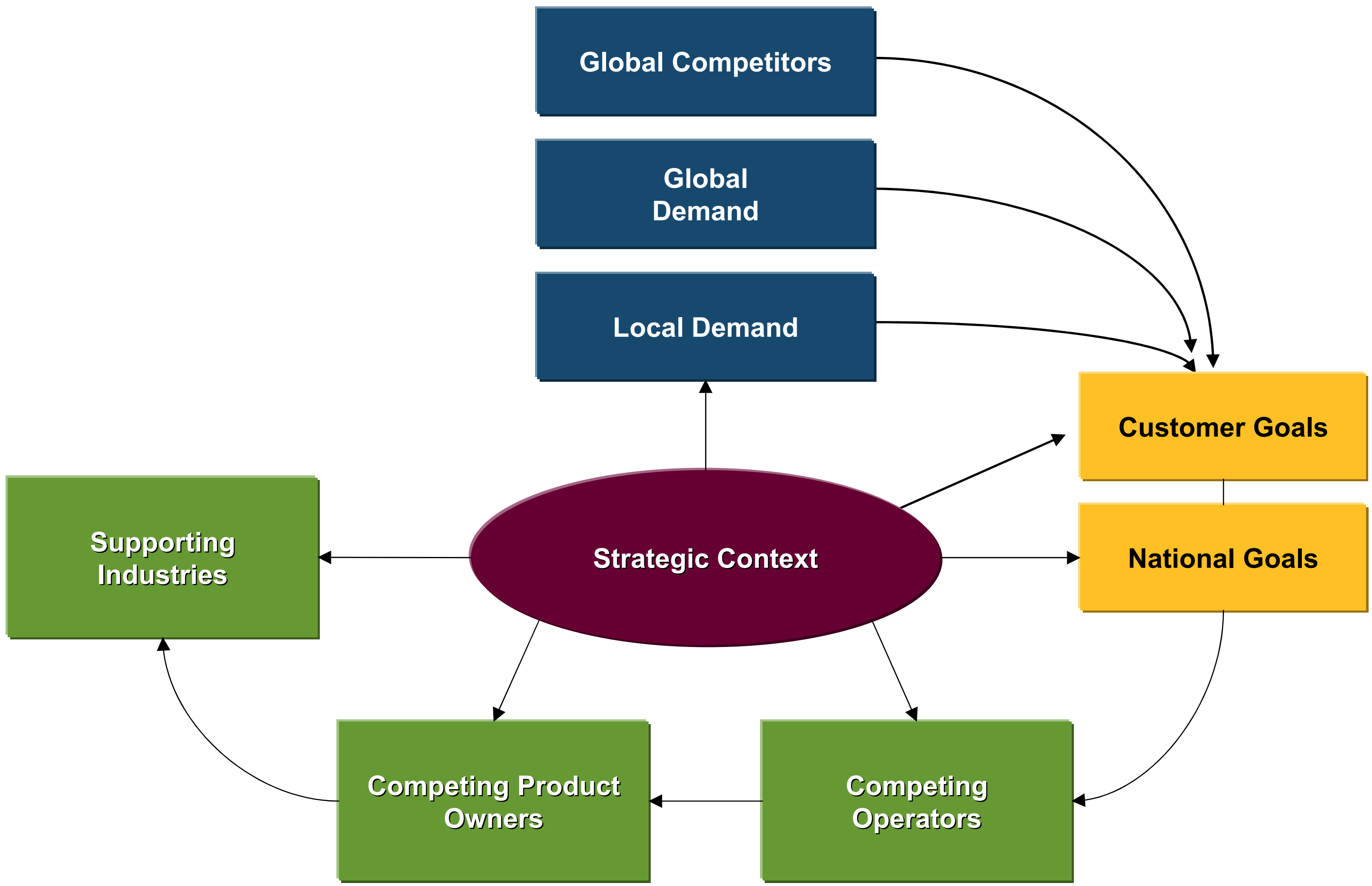
- In certain key markets - particularly Africa and Asia - our immigration and visa procedures represent a major constraint

Enable adequate and competitive airlift

- At certain times of the year, and in certain markets, the availability of airline seats is lower than would support growing demand. This combined with channel economic issues drives up the cost of holidays to SA compared to our competitors

Strategic alignment in the sector is one of the biggest challenges ahead and one of the biggest barriers to growth

Sustainable competitiveness is not an accident - it is created through the deliberate development of the context within which firms both compete and co-operate



From more information contact:

South African Tourism

Private Bag X10012
Sandton
2146

+27 (011) 895 3000

or
www.southafrica.net

research@southafrica.net or
information@southafrica.net

© South African Tourism 2004