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Introduction

The information and strategic plans contained in this document are based on extensive research and consultation conducted by SA Tourism over the past five years.

The process of developing the strategy was guided by a set of core principles to which we believe we have remained true.

The insights we have gained and used to inform our strategic choices were generated through two parallel, but integrated, processes:

1. The **Tourism Growth Strategy** started in 2001 and is a market-facing process that involves ongoing research and analysis to support critical choices around which markets and consumer segments to focus on, and specifically how to activate growth through marketing, brand positioning and channel fulfillment in the chosen focus areas while at the same time monitoring and evaluating our work.

2. The **Global Competitiveness** project was done in two phases in 2003/4 as a joint project with the National Department of Tourism and the Department of Trade and Industry. It studied how competitive the South African tourism sector is and has initiated a set of actions to adjust the competitive platforms and micro-economic context of the industry to fill key product gaps and upgrade the overall performance and rate of innovation in South Africa’s tourism industry. In 2010, SA Tourism conducted a review of progress made since the first study.

This document details the Tourism Marketing Strategy of South Africa which forms part of the broader Tourism Growth Strategy. More information is our website [www.southafrica.net/research](http://www.southafrica.net/research)
Guiding principles of the Marketing Tourism Growth Strategy (TGS)

We have limited human and financial resources so must be focused in all our activities so we make 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 business objectives, and making clear decisions on what to do and do not do.

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, with the immediate focus on people who are interested in traveling to South Africa.

The TGS process is consultative and incorporates input from as many stakeholders as possible. The principle is to build “co-opetition” in the sector so that we cooperate on building volume and compete on service and move away from the current destructive competition.

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).

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.

1 The concept of “Co-opetition” is used here with the same meaning as that described by Adam Brandenburger and Barry Nalebuff in their book of the same title.
SA Tourism’s business focuses on three purposes of travel and caters to both domestic and international travellers.

South Africa Tourism Brand

Purpose of Travel

1. Business
2. Leisure
3. Events (eg 2010 Soccer World Cup)

International Travellers
- Business Unusual
- It’s possible
- Events Tourism Growth Strategy

Domestic Travellers
- Focus of provinces and cities
- Sho’t Left
- Events Tourism Growth Strategy
The strategy ensures that we defend our share in areas of strength while at the same time, aggressively pursue growth in volume, value and reduce seasonality.

Defending share while pursuing new growth opportunities

**Travel Categories**

Our targeted growth areas are:-

- **Leisure travel** (domestic and international)
- **Business Tourism** (conferences, meetings and incentive travel)
- **Mega Events** (sports and cultural events)
To obtain growth and defend the current shares, SA Tourism's strategy focuses on five key drivers in an integrated approach.

**Growth Strategy – Different countries and/or segments drive growth in different ways**

1. **Existing Consumers**
   - Retain uses by existing consumers
   - Stimulate current uses with existing consumers
   - Generate new uses by existing consumers

2. **New Consumers**
   - Attract new-to-you consumers
   - Attract new-to category consumers

1. Maintain current purchasing pattern by existing travellers and segments
2. Stimulate current consumers to come here more often and for longer duration
3. Stimulate current consumers to come here for new purposes, experiences and offerings
4. Convert consumers and segments from the competitor to South Africa
5. Convert low-frequency or non-travellers into frequent travellers, or short-haul travellers to long-haul travellers

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72% of South Africa’s arrivals are from our 6 neighbouring states

Growth from African Continent

- **1. Retain uses by existing consumers**
- **2. Stimulate current uses with existing consumers**
- **3. Generate new uses by existing consumers**
- **4. Attract new-to-you consumers**
- **5. Attract new-to-category consumers**

Given the high market share already in SADC and the absence of any true competition, the strategy for SADC shifts to one of ‘defend’ and the extraction of additional value. Outside of neighboring SADC, however, there is scope to attract smaller high-end leisure volumes which in the long term may provide growth in markets in East and West Africa.
The focus for South Africa is to leverage all the growth drivers in the overseas (non-continental Africa) markets.

Growth from Countries Outside Africa

1. **Retain uses by existing consumers**
2. **Stimulate current uses with existing consumers**
3. **Generate new uses by existing consumers**
4. **Attract new-to-you consumers**
5. **Attract new-to category consumers**

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. The most challenging tasks will be to ensure constant inflows from seasonal markets, as well as convert the category in markets (i.e. from short-haul to long-haul travel).
The real value of Business Tourism lies in the ability to leverage resources to attract large numbers of delegates at low cost.

**Growth of Business Tourism**

1. **Retain uses** by existing consumers
2. **Stimulate current uses** with existing consumers
3. **Generate new uses** by existing consumers
4. **Attract new-to-you consumers**
5. **Attract new-to-category consumers**

Business Tourism cuts across several countries and thus can help to increase value and volume of tourists from countries across the Globe.
SA Tourism focuses on international business tourism market

There is a large and very lucrative domestic market which is the responsibility of the regional and local tourism authorities to target and develop

Business Tourism
(A trip which is undertaken with the purpose of attending a conference, meeting, exhibition, event or as part of an incentive)

Domestic Business Tourism
- Conferences, meetings, exhibitions, events or incentives with a purely domestic audience
  - Exhibitions with a purely domestic audience
  - Local government meetings
  - South African Associations meetings
  - Local corporate meetings / off sites
- A large and lucrative market that should not be neglected

Global Business Tourism
- Conferences, meetings, exhibitions, events or incentives with an international audience
  - Regional / global exhibitions
  - Inter-governmental meetings at regional or global level
  - Regional/global association meetings
  - Corporate meetings involving participants from more than one country
  - Incentive trips for employees from outside South Africa
- Highly competitive global industry

Responsibility of provincial and local tourism authorities to target and develop

Not the focus for SA Tourism

Within the scope of SAT's Business Tourism Unit

Focus of SA Tourism

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Within the Meetings market, there are three organisational types that SA Tourism focuses on

**Inter-Governmental Meetings**
- Meetings of representatives of governments and government institutions
- Usually within multi-lateral or regional organisations / institutions, to negotiate relationships, set regional policy on key issues or set regional investment agendas
- IGO meetings can be segmented into regional, international and large international meetings

**Corporate Meetings**
- Business-related meetings of private companies, sometimes including customers, suppliers and other external role-players
- Sometimes include other corporate events such as exhibitions and product launches

**Association / NGO and Academic Meetings**
- Meetings of professional associations, industry associations, non-governmental organisations and academic groups
- Exchange information, network with other professionals
- Learn and develop their subject areas
- Association meetings can be separated into Small, Medium and Large categories
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The core business of South African Tourism is the international marketing of South Africa…

- Who?
- Where?
- What?
- When?
- How?

Who do we organise against to win, and how?

Marketing

Consumers
… which forms part of a broader international tourism strategy…

International Tourism Strategy

- Who?
- Where?
- What?
- When?
- How?

Who do we organise against to win, and how?

Investment

Product Development

- Who?

Products

Marketing

Consumers

Access
- Visas
- Flights
- Channels
... in combination with the domestic tourism market: The Marketing Tourism Growth Strategy (TGS)

Domestic Tourism

Base-load

International Tourism Strategy

- Investment
- Product Development
- Who do we organise against to win, and how?

Who?
- What?
- Where?
- When?
- How?

Marketing

Channels

Access
- Visas
- Flights
- Channels

Products

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Several critical questions need to be answered to develop the Marketing Tourism Growth Strategy (TGS)

**Critical Questions**

- What are our goals and aspirations?
- Where will we play?
- How will we win in chosen markets?
- What capabilities must be in place to win?
- What management systems are required?
- What is the feasibility of implementing the required management systems?

- What are the broader goals of tourism?
- What role does SA Tourism play in the tourism value chain?
- What countries should SA Tourism focus on?
- What are the segments within these countries that SA Tourism needs to target for growth?
- What are the segments that SA Tourism needs to defend its share in?
- What are the marketing, facilitation, product and channel levers that must be addressed for growth to take place?
- How we will build our brand?
- What implications does this have for SA Tourism’s capability set?
Government has set a agenda for tourism and SA Tourism has made clear choices on how to deliver against its mandate

**Mandate and Key Strategic Objectives**

**The 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
In order to develop an integrated marketing strategy for SA Tourism, trade-offs are needed to be made across three key dimensions:

**Mandate and Key Strategic Objectives**

- **Time**
  - Demands for rapid
    - Economic growth
    - Social improvement
    - Poverty alleviation
    - 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 SA Tourism’s role, as a key tourism organisation, is to market and facilitate interventions to improve and grow the country’s tourism sector.

<table>
<thead>
<tr>
<th>Key Role and Responsibilities</th>
</tr>
</thead>
</table>
| **Understand who is out there** | - DO the research to inform the choices about which market spaces we will ‘play’ in  
| | - FACILITATE industry insights on customer product and service needs |
| **Choose those who we can & want to get here** | - DO the choice-making for SAT’s focus markets and segments and tourism brand development  
| | - LEAD the choice-making process for other markets |
| **Get them here** | - DO and LEAD marketing in focus markets and tourism brand development  
| | - 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 |
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A vision for tourism: the key challenges for tourism

The Tourism Act sets out clearly the mandate for SA Tourism and it is against that mandate that we make the strategic choices in the organisation. The mandate is delivered through the six key objectives that are levers for tourism growth. What is important to remember is that no one tourist can deliver all six objectives and that the strategy must look across the globe for consumer segments and markets that can help us realise our goals.

Since the transition to democracy in 1994, South Africans have become aware of the potential for tourism to play a meaningful role in contributing to the economic development of our country and our people. Government has prioritised tourism as one of five economic growth sectors on which to focus its efforts to support investment and facilitate growth.

The period of strong growth since 1990 has fundamentally changed the face of the tourism industry in South Africa. With a small domestic market and less than 1 million annual foreign arrivals in the two decades before 1990, we have grown to a destination that welcomed almost than 10 million visitors by 2009.

The early stages of the TGS process involved wide-ranging interviews across the industry and a data-rich assessment of what key challenges needed to be addressed. In that process, the facts around past performance and the experience of the industry was that whatever strategy emerged, it could only deliver against the mandate if it set an action programme that would successfully address eight key strategic challenges on an on-going basis. These eight challenges were identified as follows:
Key Challenges

1. Volume
2. Value
3. Transformation
4. Distribution
5. Seasonality
6. Risk Management
7. Sustainability
8. Competitiveness
Tourism arrivals have grown tenfold since 1990, but further growth is essential if tourism is to make a meaningful impact on job creation and GDP growth. With the size of our population and unemployment levels, South Africa cannot be a high-end, low impact destination (i.e. niche) for a few wealthy foreigners. Tourists today lack the time and money to travel for long holidays so we need focus on growing the volume.

This does not deny the importance of the high value parts of the market. Instead, it implies the need to reach into and beyond the exclusive five- and four-star markets into the middle (three- and two-star) markets in order to achieve the volumes necessary to create jobs across the country. The TGS’s focus is on growing the cake not re-dividing it.

Two of the associated challenges are therefore to make the country:
1. More affordable, and
2. Open it to younger travellers in whom we could make a lifetime investment as potential repeat travellers to South Africa at different stages in their life.

Against this background, South Africa has had to understand that volume growth needs to be pursued deliberately and systematically and that the ‘goodwill’ impact of the end of apartheid on tourism from 1990 had largely played out by 1998.

Furthermore most of our arrivals come by land from our neighbouring states (where we have an outbound market share of 69% to 99%) so we need to look beyond the region for new growth. Volume is therefore a critical part of the portfolio review as we look at the high-volume travel markets of the world (and in particular, the big long-haul markets) for overseas arrivals.
Arrivals to South Africa continues its upward climb reaching 9.9 million arrivals in 2009

Foreign Tourist Arrivals to South Africa, 1967-2009

1970s and 80s – Stagnation
- Stagnation drove low investment, focus on narrow white domestic market and costs

1990-1998 – Growth
- Initial period of short-term profit-taking followed by period of investment growth and entry of foreign players

1998-2004 – Cyclicality
- Global events, currency volatility drove uncertainty and short-term strategy by firms
- Investment rates remain weak overall

Source: StatsSA, Tourism & Migration release
In 2008, out of a total of 444 million outbound trips globally, long-haul travel from overseas markets accounted for ~27% of all outbound trips.

Total Outbound Travel ('000s) – 2008

Outbound Travel by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Short Haul Outbound</th>
<th>Long Haul Outbound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas</td>
<td>307,015</td>
<td>114,053</td>
</tr>
<tr>
<td>Africa Air</td>
<td>16,762</td>
<td>3,713</td>
</tr>
<tr>
<td>Africa Land</td>
<td>6,323</td>
<td>6,209</td>
</tr>
</tbody>
</table>

Share of Total Outbound Trips

- 95%
- 4%
- 1%

Note: Long haul outbound data was calculated using the proportions estimated from UNWTO data source and applying it to the Euromonitor data. It is the closest approximation as this data is not available. Total outbound data is for 2008 while long haul data is for 2007.

Source: Euromonitor
Overseas markets present significant opportunity given the high incidence of long-haul travel and the small market share South Africa presently holds.

### Overseas Markets

#### Total Outbound Vs Long Haul Outbound

<table>
<thead>
<tr>
<th>Market</th>
<th>Total Outbound</th>
<th>Long Haul</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>64,052</td>
<td>36,510</td>
</tr>
<tr>
<td>Canada</td>
<td>25,138</td>
<td>8,559</td>
</tr>
<tr>
<td>Brazil</td>
<td>5,141</td>
<td>2,802</td>
</tr>
<tr>
<td>UK</td>
<td>67,236</td>
<td>19,917</td>
</tr>
<tr>
<td>Germany</td>
<td>26,700</td>
<td>8,248</td>
</tr>
<tr>
<td>France</td>
<td>5,090</td>
<td>5,090</td>
</tr>
<tr>
<td>Italy</td>
<td>23,156</td>
<td>3,057</td>
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<tr>
<td>Netherlands</td>
<td>17,888</td>
<td>1,964</td>
</tr>
<tr>
<td>Belgium</td>
<td>11,834</td>
<td>1,657</td>
</tr>
<tr>
<td>Sweden</td>
<td>13,375</td>
<td>2,456</td>
</tr>
<tr>
<td>Ireland</td>
<td>7,507</td>
<td>1,106</td>
</tr>
<tr>
<td>Australia</td>
<td>5,508</td>
<td>2,038</td>
</tr>
<tr>
<td>India</td>
<td>4,682</td>
<td>4,682</td>
</tr>
<tr>
<td>China</td>
<td>2028</td>
<td>8,559</td>
</tr>
<tr>
<td>Japan</td>
<td>3840</td>
<td>2,802</td>
</tr>
<tr>
<td>New Zealand</td>
<td>52</td>
<td>8,11</td>
</tr>
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</table>

#### % LH

<table>
<thead>
<tr>
<th>Market</th>
<th>57%</th>
<th>34%</th>
<th>55%</th>
<th>30%</th>
<th>10%</th>
<th>19%</th>
<th>13%</th>
<th>11%</th>
<th>14%</th>
<th>18%</th>
<th>15%</th>
<th>85%</th>
<th>26%</th>
<th>20%</th>
<th>41%</th>
<th>42%</th>
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</thead>
</table>

### Long Haul Outbound / Arrivals and Saturation

<table>
<thead>
<tr>
<th>Market</th>
<th>Total Outbound</th>
<th>Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>287</td>
<td>287</td>
</tr>
<tr>
<td>Canada</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Brazil</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>UK</td>
<td>488</td>
<td>488</td>
</tr>
<tr>
<td>Germany</td>
<td>238</td>
<td>238</td>
</tr>
<tr>
<td>France</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>Italy</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Netherlands</td>
<td>128</td>
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<tr>
<td>Belgium</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Sweden</td>
<td>44</td>
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</tr>
<tr>
<td>Ireland</td>
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</tr>
<tr>
<td>Australia</td>
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<td>100</td>
</tr>
<tr>
<td>India</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>China</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Japan</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>New Zealand</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Note: Long haul outbound data was calculated using the proportions estimated from UNWTO data source and applying it to the Euromonitor data. It is the closest approximation as this data is not available. Total outbound data is for 2008 while long haul data is for 2007. Arrivals to South Africa is for the year 2008.

Source: Euromonitor; Statistics SA

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South Africa has a larger market share in Africa air markets relative to the overseas markets.

### Africa Air Markets

#### Total Outbound Vs Long Haul Outbound

<table>
<thead>
<tr>
<th>Market</th>
<th>Outbound 2007</th>
<th>LH Outbound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>228</td>
<td>11</td>
</tr>
<tr>
<td>DRC</td>
<td>82</td>
<td>12</td>
</tr>
<tr>
<td>Ghana</td>
<td>130</td>
<td>30</td>
</tr>
<tr>
<td>Kenya</td>
<td>1,114</td>
<td>191</td>
</tr>
<tr>
<td>Nigeria</td>
<td>707</td>
<td>540</td>
</tr>
<tr>
<td>Tanzania</td>
<td>723</td>
<td>74</td>
</tr>
<tr>
<td>Uganda</td>
<td>476</td>
<td>41</td>
</tr>
<tr>
<td>Mauritius</td>
<td>248</td>
<td>140</td>
</tr>
<tr>
<td>Turkey</td>
<td>8,938</td>
<td>950</td>
</tr>
</tbody>
</table>

| % LH | 5% | 15% | 23% | 17% | 76% | 10% | 9% | 56% | 11% |

### Long Haul Outbound / Arrivals and Saturation

<table>
<thead>
<tr>
<th>Market</th>
<th>Outbound 2007</th>
<th>Arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>217</td>
<td>36</td>
</tr>
<tr>
<td>DRC</td>
<td>70</td>
<td>13</td>
</tr>
<tr>
<td>Ghana</td>
<td>30</td>
<td>191</td>
</tr>
<tr>
<td>Kenya</td>
<td>44</td>
<td>27</td>
</tr>
<tr>
<td>Nigeria</td>
<td>74</td>
<td>41</td>
</tr>
<tr>
<td>Tanzania</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Uganda</td>
<td>108</td>
<td>16</td>
</tr>
<tr>
<td>Mauritius</td>
<td>950</td>
<td>9</td>
</tr>
</tbody>
</table>

| Market Share/Situation | 17% | 45% | 44% | 14% | 8% | 21% | 31% | 15% | 1% |

Note: Long haul outbound data was calculated using the proportions estimated from UNWTO data source and applying it to the Euromonitor data. It is the closest approximation as this data is not available. Total outbound data is for 2008 while long haul data is for 2007. Arrivals to South Africa is for the year 2008.

Source: Euromonitor; Statistics SA
Africa land markets are largely saturated, which account for 1% of all outbound travel globally

<table>
<thead>
<tr>
<th>Country</th>
<th>Arrivals</th>
<th>SH Outbound</th>
<th>% SH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>1,669</td>
<td>1,652</td>
<td>99%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2,150</td>
<td>2,087</td>
<td>97%</td>
</tr>
<tr>
<td>Malawi</td>
<td>196</td>
<td>194</td>
<td>99%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>492</td>
<td>482</td>
<td>98%</td>
</tr>
<tr>
<td>Namibia</td>
<td>557</td>
<td>546</td>
<td>98%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>202</td>
<td>202</td>
<td>100%</td>
</tr>
<tr>
<td>Zambia</td>
<td>394</td>
<td>386</td>
<td>98%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>663</td>
<td>630</td>
<td>95%</td>
</tr>
</tbody>
</table>

% Saturation/Market share:

<table>
<thead>
<tr>
<th>Country</th>
<th>% Saturation/Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>48%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>104%</td>
</tr>
<tr>
<td>Malawi</td>
<td>84%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>255%</td>
</tr>
<tr>
<td>Namibia</td>
<td>41%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>538%</td>
</tr>
<tr>
<td>Zambia</td>
<td>50%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>195%</td>
</tr>
</tbody>
</table>

Note: Long haul outbound data was calculated using the proportions estimated from UNWTO data source and applying it to the Euromonitor data. It is the closest approximation as this data is not available. Total outbound data is for 2008 while long haul data is for 2007. Arrivals to South Africa is for the year 2008.
South Africa’s positioning in overseas markets has historically been predominantly aimed at the high-value, low impact market making our country an expensive destination that few tourists could afford.

Opening up the appeal of the destination DOES NOT mean that we will no longer serve the high value end of the market, rather it implies that clusters of tourism products will reconfigure themselves to successfully serve a range of segments from the high-end segment to three- and two-star tourists.
CHALLENGE: Value

Tourism is often called the “new gold” of the South African economy as the total foreign direct spend of tourists has overtaken gold foreign exchange earnings\(^1\). Two of the key challenges around increasing value from tourism are to:

1. Maximise the spend of our current travellers to increase revenues, and
2. Maximise the relationship between volume and value in our choice of markets such that we maximise the return on the marketing effort.

While the contribution of tourism to South Africa’s GDP is round R190 billion\(^2\) and has outperformed all other sectors in terms of both GDP and job creation\(^3\), there remain opportunities to extract further value. Compared with our global competitors for example, we appear to be underperforming our potential.

---

\(^1\)Standard Bank quoted in *Business Day* 12 October 2004

\(^2\) WTTC– Travel and Tourism economic impact, South Africa 2010

\(^3\)Gearing up to be Globally Competitive: DEAT, the DTI and SAT Global Competitive Study (2003/4) www.southafrica.net/research

---

![Graph](image_url)

<table>
<thead>
<tr>
<th>Measure</th>
<th>2008</th>
<th>2009E</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism’s contribution to GDP (direct &amp; indirect)</td>
<td>R184,4bn</td>
<td>R189,4bn</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>8.1%</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>Tourism’s contribution to GDP (direct impact only)</td>
<td>R70,0bn</td>
<td>R71,4bn</td>
<td>2.0%</td>
</tr>
<tr>
<td>Direct employment in tourism</td>
<td>421,800</td>
<td>389,100</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Indirect employment in tourism</td>
<td>571,600</td>
<td>530,700</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Total employment in economy</td>
<td>993,400</td>
<td>919,800</td>
<td>-7.4%</td>
</tr>
</tbody>
</table>
Relative to other markets, SA creates fewer jobs per tourist arrival ...

Tourist Arrivals per Direct Tourism Employee

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>11.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>7.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>2.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>10.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>16.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1Number of foreign arrivals per direct tourism employee is calculated as follows: Total International Visitors/Number of people employed in the economy as a direct contribution of the tourism sector; 2Numbers have been validated from respective tourism websites of all the countries.

Economy direct employment means employees directly engaged in the Travel and Tourism industry. The value for this parameter is computed by taking into account the GDP contribution of the tourism sector. Economic indirect employment considers employees engaged in intermediate sectors such as suppliers of intermediate inputs to tourism industry as well as suppliers of investment goods to the tourism industry and of goods to tourists overseas such as construction firms building hotels. GDP contribution of respective sector (in which the intermediate supplier falls into) is used to derive this number. For South Africa, it has been assumed, that ~50% of the tourists from Botswana, Lesotho, Mozambique and Swaziland are not tourists, and hence, are not considered for calculations.

Source: Euromonitor; WTTC; Stats SA
but each employee extracts a high value per tourist, better than Thailand, Kenya and Brazil

Total Spending by International Visitors\(^1\) in Country per Direct Employee\(^2\) (USD), 2002–2008

<table>
<thead>
<tr>
<th></th>
<th>CAGR (2002–08)</th>
<th>Tourist Spend Per Employee (USD), 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.5%</td>
<td>43,597</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.9%</td>
<td>8,622</td>
</tr>
<tr>
<td>Brazil</td>
<td>14.4%</td>
<td>2,546</td>
</tr>
<tr>
<td>Kenya</td>
<td>2.3%</td>
<td>6,135</td>
</tr>
<tr>
<td>US</td>
<td>8.8%</td>
<td>23,933</td>
</tr>
<tr>
<td>South Africa</td>
<td>13.2%</td>
<td>20,729</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exchange Rate</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 USD to</td>
<td>AUD 0.54414</td>
<td>AUD 0.65249</td>
<td>AUD 0.73712</td>
<td>AUD 0.76280</td>
<td>AUD 0.75356</td>
<td>AUD 0.83898</td>
<td>AUD 0.85296</td>
</tr>
<tr>
<td>Local Currency</td>
<td>BRL 0.36119</td>
<td>BRL 0.33138</td>
<td>BRL 0.34256</td>
<td>BRL 0.41308</td>
<td>BRL 0.46072</td>
<td>BRL 0.51630</td>
<td>BRL 0.55716</td>
</tr>
<tr>
<td></td>
<td>KES 0.01277</td>
<td>KES 0.01326</td>
<td>KES 0.01270</td>
<td>KES 0.01329</td>
<td>KES 0.01398</td>
<td>KES 0.01499</td>
<td>KES 0.01506</td>
</tr>
<tr>
<td></td>
<td>ZAR 0.09593</td>
<td>ZAR 0.13365</td>
<td>ZAR 0.15621</td>
<td>ZAR 0.15800</td>
<td>ZAR 0.14916</td>
<td>ZAR 0.14236</td>
<td>ZAR 0.12327</td>
</tr>
<tr>
<td></td>
<td>THB 0.02329</td>
<td>THB 0.02413</td>
<td>THB 0.02489</td>
<td>THB 0.02489</td>
<td>THB 0.02644</td>
<td>THB 0.03126</td>
<td>THB 0.03064</td>
</tr>
</tbody>
</table>

Note: \(^1\)‘Total Spending by International Visitor’ has been converted from local currencies to USD by using the conversion ratio for each respective year from Oanda.com as shown above; \(^2\)Total spending by international visitor in country per employee is calculated as follows: Total Spending by International Visitor/ Number of people directly employed in the tourism sector. The value for this parameter is computed by taking into account the GDP contribution of the tourism sector

Source: Tourism Impact Data and Forecast Tool, WTTC; Euromonitor
Another way to increase value is to increase length of stay but the global trend is towards more short (rather than few long) holidays.

South Africa’s average length of stay is significantly affected by the high proportion of land travellers who typically stay for 2 days but the average of 10 days is line with global trends.

Distribution of South African Arrivals by Length of Stay

- Average length of Stay\(^1\):
  - All tourists: 7.5 days
  - Land arrivals: 5.0 days
  - Air arrivals: 16.6 days
- Most common length of stay\(^2\):
  - All tourists: 2 days
  - Land arrivals: 1 day
  - Air arrivals: 6 days

Source: SAT Departure Survey
The tourism sector’s direct contribution to GDP and employment experienced a growth between 2002 and 2008. Growth in employment vs. growth in GDP contribution (CAGR: 2002–2008) for various sectors:

- **A**: Agriculture, hunting, forestry and fishing
- **B**: Mining and quarrying
- **C**: Manufacturing
- **D**: Electricity, gas and water supply
- **E**: Construction
- **F**: Wholesale and retail trade
- **G**: Transport, storage and communication
- **H**: Financial intermediation, insurance, real estate and business services
- **I**: Services and others
- **J**: Tourism (Direct)
- **K**: Tourism (Indirect)

Overall GDP growth over 2002–2008: 4.6%
Overall employment growth over 2002–2008: 2.3%

### Growth in Employment and Contribution to GDP (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Direct GDP</th>
<th>Employment</th>
<th>Arrivals</th>
<th>Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct1</td>
<td>Indirect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>4.4</td>
<td>0.2</td>
<td>0.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.1</td>
<td>1.6</td>
<td>1.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.3</td>
<td>3.2</td>
<td>3.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>17.6</td>
<td>0.7</td>
<td>0.7</td>
<td>3.5</td>
</tr>
<tr>
<td>US</td>
<td>3.5</td>
<td>-0.7</td>
<td>-0.7</td>
<td>7.1</td>
</tr>
<tr>
<td>SA</td>
<td>10.2</td>
<td>1.5</td>
<td>4.6</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Note: For employment, ‘Services and others’ includes ‘community, social and personal services’ and ‘private households’. For GDP, ‘Services and others’ includes ‘general government services’ and ‘personal services’. Definition of direct and indirect tourism employee is same as Module 1


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CHALLENGE: Transformation

Aligned to the goal of tourism value reaching an ever-widening circle of our nation is the important challenge of ensuring the direct participation by the previously disadvantaged majority in the industry. Tourism is still predominantly white–owned and white-managed.

The imperative to transform goes beyond the desire to extend economic participation alone. Transformation is in many ways a key opportunity and requirement for future growth. Apart from the fact that unless transformation occurs there won’t be enough managers or businesses to meet the demand for new capacity. There exist clear signals in the market that transformation will be the key to unlocking new opportunities for growth.

Consumer research has revealed that foreign tourists are exposed to fewer and less authentic cultural experiences than they expect or desire. The uniqueness of our diverse cultures, both in their historical and modern forms, represent a significant opportunity for South Africa’s competitiveness globally – exactly because this speaks directly to one of the key drivers of outbound Western markets: the desire to experience another culture.

In the domestic market, the challenges of growing tourism in emerging tourism segments is in many respects dependent on new offerings becoming available. Despite conventional wisdom, emerging tourism segments want many of the same things as the foreign market – and they want it delivered by an industry that represents the totality of South African society.

The mandate of the TGS process is to develop an approach that not only supports the transformation agenda, but which also specifically seeks out sources of growth through transformation.
CHALLENGE: Distribution

If tourism is to impact significantly on poverty and unemployment, then tourism must develop in areas beyond the traditional tourism routes and nodes currently used. Provincial-level data reveals that Gauteng and the Western Cape enjoy the bulk of tourism receipts as these are the two areas visited by most foreign tourists. In the domestic market, KwaZulu Natal has the highest visitors but most of them are from the province.

The challenge for the TGS process was to seek opportunities to extend the access to market for less-developed provinces. In part, this would include developing products to encourage international tourists to increase the average number of provinces visited on a trip (or to return to visit new and different places), and to encourage new and existing domestic travellers to explore destinations outside their traditional patterns. For this to be successful new products must meet the desired experience of these consumers (i.e. not ‘build it, and they will come’).

The second aspect involves choosing consumer segments in markets who are interested in exploring the country.

While UK and USA tourists tend to visit one to two provinces, there are segments in France, Germany and the Netherlands who go off well-known tourist routes and explore less visited places. The latter two markets also have high repeater rates to our country.
CHALLENGE: Tourism value from long-haul travel was being captured mainly by three provinces — adding up to 81% of the tourism receipts.

Average Length of Stay per Province by Long-Haul Tourists to South Africa — Departure Surveys (2009)

<table>
<thead>
<tr>
<th>Province</th>
<th>Average Length of Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>9.1</td>
</tr>
<tr>
<td>Western Cape</td>
<td>10.1</td>
</tr>
<tr>
<td>KZN</td>
<td>13.0</td>
</tr>
<tr>
<td>Other</td>
<td>5.5</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Share of Nights Spent by Province (2009)

- Gauteng: 26.7%
- Western Cape: 42.8%
- KZN: 11.4%
- Other: 19.1%
Like many other destinations, South Africa faces the challenge of seasonality in domestic and foreign arrivals. Domestic travel patterns follow the patterns around school, religious and traditional holidays, with strong peaks at year-end and Easter.

The seasonality of foreign arrivals varies by region (driven by market-specific and traditional holiday patterns). Overseas arrivals, dominated by significant numbers of VFR arrivals and the tradition of the “big trip” being in the European winter, result in a strong peak starting in October and ending in February. June is traditionally South Africa’s lowest month and for some key overseas markets represents almost half of the arrivals for the year-end peak.

These seasonal patterns present a significant challenge for product owners and transport operators as business profitability and job sustainability is a function of activity throughout the year. Both costs and investment must therefore be made in line with expected total annual revenues.

To invest ahead of growth in an environment where new demand will be further concentrated at one particular time of the year doesn’t make business sense. For this reason we experience the perennial issue of limited seat availability on airlines in the peak. At the same time, the impact of employment is also sub-optimal as jobs increasingly become seasonal and temporary in nature.

Against this background, the TGS and Portfolio Review looks for opportunities to address this challenge – particularly through finding new market segments (domestic and international) whose travel patterns may be more flexible so we can extend the season and reduce the level of the gap between high and low months.
Seasonality patterns vary by region but are 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: StatsSA
Over-exposure to Europe and Africa raised the need to spread the risk globally and invest in Asia and the Americas.
Tourism industries, particularly those which are heavily dependent on foreign source markets, are vulnerable to unpredictable events outside of their spheres of direct influence. The last two decades have seen national tourism industries rocked by a series of events from the global financial crisis, the events of 9/11, the Asian SARS virus, the Tsunami of December 2004 to the outbreak of the H1N1 virus in 2009.

Destinations like Australia, South Africa and Brazil have in addition faced challenges around global exchange rate fluctuations which have made price consistency management and competitiveness challenging.

Some of the cyclicality in South Africa’s growth performance can be attributed in part to an over-dependence on a narrow set of source markets – mainly neighbouring states and Europe. The TGS process was therefore mandated to find an approach that ensured that limited marketing resources were deployed in a fashion that achieved an appropriate balance between the need to focus as well as reducing the level of dependence on a set of markets in one or two economic regions.
CHALLENGE: Sustainability

The recognition that South Africa’s competitive strategy needed a fundamental review was accompanied by a clear desire that future growth must be sustainable in the long run. While the patterns of growth in recent years suggest that there will always be periods of growth and followed by periods of consolidation, these should not become patterns of boom and bust driven by short-term tactical approaches to market opportunities. Instead, growth in our industry must become about sustained investment behind clear choices around how to differentiate ourselves in important target markets for the future development of our destination.

Thus the mandate to the TGS process was that the choices made about which markets to target, how to re-position the brand, and how we compete in the channel and the market, needed to be choices about the long term.

These choices would have to enable South Africa to differentiate itself from the world in a way that is compelling to consumers, internally consistent, practical to implement, inspiring of confidence in investors and the industry, and clear and action-oriented in its message about what needs to be done.
The core challenges identified are symptomatic of powerful patterns of change in the global tourism markets.

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

"COMMODITISATION"

- Category “trap” (Eg Sun & Beach, Resort)
- 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
With product offerings that overlap so much, it’s easy to offer a diversity of offerings - and become commoditized in the process.

Source: Composite of offerings/pictures from the countries studied
CHALLENGE: Competitiveness

All of the challenges described before ultimately come back to a single key proposition: South Africa, in order to achieve sustained growth, must to be able to differentiate itself from its competitors now and for future growth.

In a dynamic world market, differentiation requires constant innovation and renewal because tourism is rife with the practice of replicating good ideas and not so good at creating new ones. So flavour of the month soon becomes yesterday’s news.

An industry that is innovative is one that is characterised by businesses, institutions and organisations that are informed, sophisticated in their outlook and constantly investing to upgrade their performance against their consumer’s every changing needs and choices.

While there is evidence of many new and interesting things happening all the time – in terms of offerings, products, and experiences – in the mind of consumers globally, South Africa remains, on the whole, much the same as what it was 10 to 15 years ago. South Africa is still perceived mainly as an adventurous wildlife destination with striking natural beauty.

Most consumers globally have low levels of travel awareness about South Africa and regard our country as generally unsafe and often unstable as well. While the 2010 FIFA World Cup™ helped raised the profile of South Africa on the global stage, our cultural assets are largely unclear in the consumer’s mind, and undifferentiated from the rest of the continent.
Challenges that remain going forward

Of all the global events, the economic crisis had the most pronounced effect on the tourism industry. Consumer and business confidence fell as global unemployment rose. Globally, businesses are dealing with the fact that recovery will mean a “new normal”. Consumers need shift as they seek value for money offerings and become increasingly conscious of their carbon footprint.

Internationally, our tourism industry remains fragmented, and often inter-company, inter-provincial and inter-city competitive behaviour is destructive. Firms at different parts of the value chain often struggle to find opportunities for co-operation and collaboration, leaving the space open for stronger players higher up the value chain to exert considerable influence over pricing, packaging and the shape of the value proposition.

Tourism value-chains are still under-developed, and linkages across the industry are still generally fragmented and shallow. Supporting institutions and organisations, whether public or private, are relatively new and face periodic crises of confidence and legitimacy as they struggle to find adequate skills and resources.

Thus the mandate for the TGS process was extended in 2003 to move beyond the challenges of competitive go-to-market strategies in target markets, which themselves are struggling to recover following the global financial crisis of 2008. The next stage had to extend into identifying what needed to be done in order to upgrade the micro-economic context within which tourism firms operate (i.e. the business environment) and where new platforms to support competitiveness need to be established.

All of the eight challenges described above have to be addressed in ways that recognise the realities of a dynamic and difficult global market. Whatever the TGS process came up with, it had to be bold in its ambitions, and at the same time realistic about what constraints are imposed by the realities of global markets.
The global context continues to challenge us to make tough choices

Focus effort and resources

- Despite increases in overall funding of the marketing campaign, the total budget is small in global terms. 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 still 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 has 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 and in line with our tourism brand.

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.
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- Key challenges for tourism Page 21
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    - Domestic market Page 73
  - Conclusion Page 87
To improve its tourism competitiveness, SA Tourism needs to understand the global context where it operates and invest in resources to gain returns.

South African Tourism focuses its time and resources on a number of markets within a portfolio approach. This allows SA Tourism to understand and manage the risk from global players.

- Global travel is a dynamic industry affected by economic and socio-political factors
  - How does changing global travel patterns affect our portfolio?

In order to understand the changing global tourism patterns, SA Tourism undertakes portfolio review every three years.

This review allows SA Tourism to answer specific questions such as:
- Which markets are attractive to us in terms of achieving our objectives?
  - Increasing volume of tourists
  - Increasing tourist spend
  - Increasing length of stay
  - Reducing seasonality
  - Improving geographic distribution
- Which markets have sufficient volume to warrant SA Tourism to invest in an office or infrastructure in a market?
  - Analysis shows that about 4 frequencies\(^2\) makes it feasible for an airline to fly a route, i.e. about 57,200 passengers a year. This is a useful yardstick for growing a market to the point of investment.

Note: \(^1\)Promoting transformation is not included in this analysis as it is an internal measure.
\(^2\)Data from the Dept of Transport in 2006 based on aviation economics. The number of passengers is calculated on the airbus with an average of 275 seats.
Review of SA Tourism’s portfolio is the key process that helps to update and develop the Marketing Tourism Growth Strategy every three years.

The key objectives of Portfolio Review are:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Review</strong></td>
<td>To review global trends to understand which markets are attractive in the short- and the long-term against the organisation’s key objectives taking into account events, e.g. 2010 FIFA World Cup</td>
</tr>
<tr>
<td><strong>Update</strong></td>
<td>To understand which markets we should consider playing and how we should play in these markets ahead of the following year’s business plan, i.e. setting up the organisation’s investment decisions for the next three years</td>
</tr>
<tr>
<td><strong>Cost-benefit Evaluation</strong></td>
<td>To understand the cost and related benefit of investing in each market in terms of the return on investment for South Africa</td>
</tr>
</tbody>
</table>

This is the fourth portfolio review done by SAT. Prior to 2002, SAT was a largely response-led organisation without clear strategic objectives and focus. The methodology of the review has deepened our knowledge of markets and has increased our ability to measure results.

*In business tourism, the prime focus is on the global association market, while in event tourism, sport and culture are the focus areas. These choices are not geographically based and are therefore not part of the portfolio review.*
The review considers that markets are at different stages of development and therefore need market specific strategies to activate.

Tourism Industry Life Cycle

% of population traveling for leisure

- **Introduction**
  - SADC, Nigeria, Kenya, South Africa
  - Uninformed, Price insensitive, multi-purpose
  - Seek information & opportunity, discover leisure
  - Very informed, price sensitive, focus on leisure

- **Growth**
  - China, India
  - Very individualized
  - Emergence of packages (seeking scale effects)
  - High competition

- **Maturity**
  - Germany, Netherlands, France, UK, Japan
  - Few
  - Emerging specialization / focus
  - Specialization, Information provider

**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; focus on leisure
  - 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 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)
The 1st Portfolio Review categorized the geographies into a list of core and tactical markets with a watch list of countries.

### SAT Portfolio: Core and Tactical Markets

<table>
<thead>
<tr>
<th>Core Markets</th>
<th>Tactical Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td><strong>Australia</strong></td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td><strong>Canada</strong></td>
</tr>
<tr>
<td><strong>China (Incl. Hong Kong)</strong></td>
<td><strong>France</strong></td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td><strong>Italy</strong></td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td><strong>Netherlands</strong></td>
</tr>
</tbody>
</table>

#### Watch List
(Countries to keep our eye on)
- Argentina
- Cote d’Ivoire
- Denmark
- Finland
- Ghana
- Greece
- Indonesia
- Israel
- Mali
- Mexico
- Mauritius
- Norway
- Philippines
- Poland
- Portugal
- Russia
- Senegal
- Zimbabwe

#### Relative Attractiveness
- Markets with over 1 million long-haul outbound departures
- Others with identified potential

#### Top 20 Markets delivering 90% of arrivals

<table>
<thead>
<tr>
<th>Others</th>
<th>Top 20 markets delivering 90% of arrivals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Austria</strong></td>
<td><strong>Angola</strong></td>
</tr>
<tr>
<td><strong>KSA</strong></td>
<td><strong>Mozambique</strong></td>
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<td><strong>Brazil</strong></td>
<td><strong>Belgium</strong></td>
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<td><strong>Singapare</strong></td>
<td><strong>Namibia</strong></td>
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<td><strong>Ireland</strong></td>
<td><strong>Botswana</strong></td>
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<tr>
<td><strong>South Korea</strong></td>
<td><strong>Swaziland</strong></td>
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<td><strong>Kenya</strong></td>
<td><strong>India</strong></td>
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<tr>
<td><strong>Spain</strong></td>
<td><strong>Switzerland</strong></td>
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<td><strong>Malaysia</strong></td>
<td><strong>Lesotho</strong></td>
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<td><strong>Taiwan</strong></td>
<td><strong>Zambia</strong></td>
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<tr>
<td><strong>New Zealand</strong></td>
<td><strong>Malawi</strong></td>
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<td><strong>Nigeria</strong></td>
<td><strong>UAE</strong></td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td><strong>UAE</strong></td>
</tr>
</tbody>
</table>

#### Relative Importance to SA

[Countries represented with flags]**

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Copyright © 2010 SA Tourism. Not to be reproduced without permission.
The 2nd Portfolio Review separated out core and investment markets, introduced strategic hubs (air links) and included domestic tourism for the first time

<table>
<thead>
<tr>
<th>2nd Portfolio</th>
<th>Africa &amp; Middle East</th>
<th>UK &amp; Americas</th>
<th>Asia &amp; Australasia</th>
<th>Europe</th>
<th>Domestic* &amp; Regional</th>
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</thead>
<tbody>
<tr>
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<td>USA, UK</td>
<td>Australia</td>
<td>France, Germany, Netherlands</td>
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<tr>
<td>Tactical Markets</td>
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<td>India</td>
<td></td>
<td>Botswana, Lesotho, Swaziland</td>
</tr>
<tr>
<td>Investment Markets</td>
<td>Angola, Mauritius</td>
<td>Canada</td>
<td>China (Incl. Hong Kong, Japan)</td>
<td>Mozambique, Zambia, Zimbabwe</td>
<td></td>
</tr>
<tr>
<td>Watch-list Markets</td>
<td>Ghana</td>
<td>Brazil</td>
<td>New Zealand</td>
<td>Belgium, Ireland, Italy, Sweden, Switzerland</td>
<td></td>
</tr>
<tr>
<td>Strategic Hubs</td>
<td>Egypt, Senegal, UAE</td>
<td></td>
<td>Malaysia, Singapore</td>
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<td></td>
</tr>
</tbody>
</table>

* Domestic and Regional (i.e. SADC) land were consolidated under the Africa Portfolio
The 3rd portfolio review separated out markets of strategic importance and strategic hubs and included business tourism focus markets for the first time.

<table>
<thead>
<tr>
<th>Core Markets</th>
<th>Africa &amp; Middle East</th>
<th>UK &amp; Americas</th>
<th>Asia &amp; Australasia</th>
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<tr>
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<th>Investment Markets</th>
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<td>Canada*#</td>
<td>China (incl. Hong Kong)</td>
<td>Italy #</td>
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<td></td>
<td>Japan#</td>
<td>Sweden#</td>
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<tr>
<th>Tactical Markets</th>
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<tr>
<td>Ghana Lesotho Swaziland Tanzania</td>
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<td>Ireland</td>
<td>Singapore</td>
<td>Switzerland*#</td>
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<thead>
<tr>
<th>Watch-list Markets</th>
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</thead>
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<td>Egypt Namibia UAE</td>
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<td>Brazil</td>
<td>Malaysia Rep of Korea</td>
<td>Austria*#</td>
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<td></td>
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<td>Belgium*#</td>
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<td>Denmark*#</td>
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<td></td>
<td>Norway Spain</td>
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<tr>
<th>Strategic Importance</th>
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</thead>
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<tr>
<td>Bahrain, Oman, Qatar, Saudi Arabia</td>
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<table>
<thead>
<tr>
<th>Strategic Links/Hubs</th>
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<tr>
<td>Ethiopia, Zambia, Senegal</td>
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<td>Argentina</td>
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<td>Greece</td>
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</table>

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The review adopts a “fresh eyes” approach by considering all the countries in the world, and filtering them based on a set of objective attractiveness criteria.
Key steps of the Portfolio Review Process

1st filter
Exclude sub-Saharan Africa
Exclude markets with less than 4 million people living in urban areas and less than 20,000 arrivals p.a. or no airlift
Include all Africa land markets*

Top sub-Saharan Africa markets PLUS Africa land markets

2nd filter
Exclude markets of less than 3 million people or GDP per capita is less than US$2,000
Markets with less than 20,000 arrivals p.a. in 2008 but with airlift (strategic hubs)

Salient set

3rd filter
Top 50 markets in terms of outbound volume and value
Exclude markets with less than 20,000 arrivals p.a. or no airlift

Final portfolio
Core, tactical, investment and watch-list markets
Application of cost-benefit evaluation

How attractive are these markets in the short term and the long term?

*Africa land markets are markets where more than 60% of arrivals to SA arrive by land.
Twelve African markets meet the criteria to be added to the “salient” set

- Africa – air markets: >60% of arrivals to SA are by air
- Africa – land markets: >60% of arrivals to SA are by land

Sub-Saharan Africa

Exclude markets with an urban population of less than 4 million and arrivals less than 20,000 p.a. or no airlift

Africa – air markets
- Angola
- Dem Rep Congo
- Kenya
- Nigeria

Africa – land markets
- Botswana
- Lesotho
- Malawi
- Mozambique
- Namibia
- Swaziland
- Zambia
- Zimbabwe

Strategic hubs
- Ethiopia
- Ghana
- Mauritius
- Senegal
- Tanzania

Salient set to which attractiveness criteria will be applied

Set added to final portfolio

---

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For the most part, the top countries in terms of outbound volume (total) are also the top countries in terms of outbound value.
Each market is then evaluated against a set of attractiveness criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Short term (2 years)</th>
<th>Long term (5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of long haul outbound market</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5 year forward projected LH outbound market</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Travel intensity (measure of the intensity of travel amongst the population taking the population not living in poverty and the outbound travel volume)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Total value of the outbound market¹</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>5 year forward projected GDP / capita at PPP</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>GDP per capita @ PPP</td>
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<td>✓</td>
</tr>
<tr>
<td>Inflation rate</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Political stability of the market</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of long haul outbound market</td>
<td>30</td>
<td>5 year forward projected LH outbound market</td>
<td>25</td>
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<tr>
<td>Travel intensity (measure of the intensity of travel amongst the population taking the population not living in poverty and the outbound travel volume)</td>
<td>40</td>
<td>5 year forward projected GDP / capita at PPP</td>
<td>30</td>
</tr>
<tr>
<td>Total value of the outbound market¹</td>
<td>30</td>
<td>5 year forward projected GDP / capita at PPP</td>
<td>20</td>
</tr>
<tr>
<td>GDP per capita @ PPP</td>
<td>5</td>
<td>GDP per capita @ PPP</td>
<td>5</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political stability of the market</td>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: ¹This figure represents the value of the total outbound market. It is not possible to split this into the value of long-haul travel. Therefore, this criteria must be treated as indicative only.
The attractive markets are then sorted by geographic region

<table>
<thead>
<tr>
<th>Africa Air &amp; Middle East</th>
<th>Africa Land</th>
<th>Americas</th>
<th>Asia &amp; Australasia</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Botswana</td>
<td>USA</td>
<td>Australia</td>
<td>UK</td>
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<tr>
<td>Kenya</td>
<td>Lesotho</td>
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<tr>
<td>DRC</td>
<td>Swaziland</td>
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<td>Norway</td>
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<td>Zimbabwe</td>
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<td>New Zealand</td>
<td>Sweden</td>
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<td></td>
<td>Zambia</td>
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<td>India</td>
<td>Ireland</td>
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<td></td>
<td>Mozambique</td>
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<td>Netherlands</td>
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<tr>
<td></td>
<td>Malawi</td>
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<td></td>
<td>Switzerland</td>
</tr>
</tbody>
</table>

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The last filter is the relative ranking of the attractive set of markets based on a cost / benefit analysis for South Africa

What effort would it take to win in this market:
- Barriers and enablers
  - Current air seat capacity?
  - Are there political issues?
  - Economic issues (such as unemployment)
  - Language issues?
  - Visa requirements
  - Current SAT marketing spend?
- Do we own or dominate any channels?
- Do we have the product for this market?
- How compatible is the market with the current SAT brand?
- Does SAT have the necessary capabilities to win?
- Do we have current knowledge in this market that allows us to win?

COST
How difficult is it to get yield from the market?
- Less attractive, but easier
- Attractive and easier
- Less attractive, but difficult
- Attractive, but difficult

BENEFIT
How attractive is the market in meeting the goals of South Africa?
- Spend measures
- Distribution measures
- Brand awareness measures
- Travel intent in future
- Travel intent in next 2 years
- Repeat travel measures
- ROI

What is the potential attractiveness of this market with respect to:
The results of the evaluation will illustrate the suggested core, tactical, investment and watch-list markets within each region.

### Results of Portfolio Review

- **Core Markets**
  - Markets that deliver the “bread & butter”
  - 60% of organisation’s effort deployed against these markets
  - Best capabilities allocated to these markets

- **Tactical Markets**
  - Markets where there are particular opportunities, i.e. “low hanging fruit”
  - 15% of organisation’s effort deployed against these markets

- **Watch-list Markets**
  - Markets that are on the radar
  - Activity in these markets will only occur if there is spare capacity in the organisation
  - 5% of organisation’s effort deployed against these markets

- **Investment Markets**
  - Invest in these markets ahead of return, i.e. invest for the future
  - 20% of organisation’s effort deployed against these markets

### Attractiveness of Market

- **Less Attractive But Easier**
  - Tactical Markets
  - Watch-list markets need to be watched for value segments

- **Less Attractive And Difficult**
  - Watch-list Markets
  - Activity in these markets will only occur if there is spare capacity in the organisation

- **Attractive And Easier**
  - Core Markets
  - 15% of organisation’s effort deployed against these markets

- **Attractive But Difficult**
  - Investment Markets
  - 5% of organisation’s effort deployed against these markets

### Core markets are those which present the greatest opportunity.

### Tactical markets are those which should be considered for specific, tactical opportunities.
Markets that fall into the Watch-list category need to be further rationalised to understand the relative attractiveness of each market in this set.

An evaluation of the effort vs. gain of investing was conducted for the watch-list markets, resulting in a ranking of watch-list markets.

### Tactical Markets
- **Less Attractive But Easier**
- Markets where there are particular opportunities, i.e. “low hanging fruit”
- 15% of organisation’s effort deployed against these markets

### Core Markets
- **Attractive & Easier**
- Markets that deliver the “bread & butter”
- 60% of organisation’s effort deployed against these markets
- Best capabilities allocated to these markets

### Watch-list Markets
- **Less Attractive & Difficult**
- Markets that are on the radar
- Activity in these markets will only occur if there is spare capacity in the organisation
- 5% of organisation’s effort deployed against these markets

### Investment Markets
- **Attractive But Difficult**
- Invest in these markets ahead of return, i.e. invest for the future
- 20% of organisation’s effort deployed against these markets

### Less attractive but easier
- **Attractive & easier**

### Less attractive & difficult
- **Attractive but difficult**

Note: Core, tactical and strategic markets were excluded from the original effort vs. gain evaluation to give the scores for just the watch-list markets.

*This depends on the air lift and air capacity in the market as well as national imperatives.*
The 4th Portfolio Review took place during July/August 2009 and the outcomes will be implemented in full by 01 April 2011.

<table>
<thead>
<tr>
<th>Core Markets</th>
<th>Africa &amp; Middle East</th>
<th>UK &amp; Americas</th>
<th>Asia &amp; Australasia</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td></td>
<td>USA*</td>
<td>Australia*</td>
<td>France*</td>
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<td>Netherlands</td>
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<td>Nigeria</td>
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<td>UK*</td>
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<td>South Africa*</td>
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<table>
<thead>
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<tr>
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<tr>
<td>Oman, Qatar, Saudi Arabia</td>
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<th>Core Markets</th>
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<tbody>
<tr>
<td>Egypt, Ethiopia, Ghana, Mauritius, Tanzania, Senegal, UAE</td>
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<thead>
<tr>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Singapore</th>
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</tbody>
</table>

*Indicates Business Tourism Hubs
# Table of Contents

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- Key challenges for tourism Page 21
- **SA Tourism Focus: Where to Play** Page 48
  - Review of the portfolio of markets
  - **International consumers** Page 65
    - Domestic market Page 73
- Conclusion Page 87
In addition to choosing a set of countries or markets, it is critical for SA Tourism to understand its consumers on a segment level.

The three key reasons for implementing consumer segmentation (or a variation):

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 SA Tourism to identify the levers in the market that need to pulled to activate the segment.
The consumer segmentation model generates deep consumer insights on the chosen markets as the basis for developing marketing plans.
Activation strategy includes an overall value proposition and specific changes to 5Ps (product, price, positioning, place, or promotion) based on segment’s drivers and barriers.

Growth and activation strategy is created for each chosen segment.

**Place**
- What is the optimal channel mix and channel activities to maximize brand opportunity?

**Product**
- Does the product or product line need to be modified to enhance customer’s desired experience?

**Promotion**
- What promotional activities most effectively activate the customer to purchase?

**Price**
- What is the best price position and strategy to support the value proposition?

**Positioning**
- The part of the value proposition to be actively communicated to target customers

- Choosing the way to serve target customers that creates meaningful and compelling experiences different from competitors at which the organization will excel.
Consumer segmentation allows SA Tourism to develop a consumer focused strategy, instead of its previous product-driven strategy.

**Consumer Focused Strategy**

- **Product Driven**
  - SA's tourism products
  - Decide where to sell the products
  - Sell to the consumer / channel

- **Customer-Focused**
  - Understand the consumer / channel
  - Develop the products
  - Execute on marketing

- In-depth consumer research in portfolio markets is consistent with the decision taken in the first phase of the TGS: to focus on consumers and not products. In the past SA was marketed in terms of what products were on offer with little reference to the desired experience of the consumer or a brand positioning for the country.

- The second major value of consumer research is the ability to accurately measure the real opportunity for growth. Historically SAT worked with national totals and averages – i.e. total population, average spend and total outbound travel. This is inappropriate because in most source markets, the majority of the population travels short-haul if they travel (at all) beyond their own borders.

- South Africa, being a long-haul market for all major tourism source markets, has to focus on people who are worldly, well travelled and are interested in other cultures. They are also the most positive about our country and interested in travelling here.
SA Tourism has identified key segments in its focus markets across the world…

Key Focus Segments

Wanderlusters
- Wanderlusters (USA)
- Upscale Wanderlusters (USA)
- Wanderlusters (UK)
- Upscale Wanderlusters (UK)
- Wanderlusters (De)
- Wanderlusters (Fr)
- Wanderlusters (In)
- Wanderlusters (Ne)
- Emerging Wanderlusters (Aus)
- Wanderlusters (Aust)
- Expat Wanderlusters (N, K)
- Organized Wanderlusters (Ch)
- Experienced Wanderlusters (Ch)
- Organized Wanderlusters (Jp)
- Experienced Wanderlusters (Jp)
- Wanderlusters (Jp)

NSSAs
- Adventurous, explorative (Grown-Up Wanderlusters)
  - US Adventure/Culture NSSA’s
  - UK NSSA’s (UK)
  - German NSSA’s (De)
  - French NSSA’s (Fr)
  - Dutch NSSA’s (Ne)
  - Expat NSSAs (Ni, Ke)
  - NSSA’s (Ke)
  - NSSA’s (Japan)
  - NSSA’s (Aust)
- Relaxation & luxury with some discovery
  - US Relaxer NSSA’s
  - High End Package (Ne)
  - Luxury Elderly Break (Ne)
  - High Spend Package (A)
  - Hyper Wealthy (Without Kids) (Ni)
  - Expat Pampered NSSA’s (Ni, Ke)

NSSA Explorers

Pampered NSSAs

Family Travellers
- ‘Cocooned’/Low Adventure
  - Family Explorers (USA)
  - Hyper Wealthy (With Kids) (Ni)
  - Ex-Pat Low Adventure Family Travellers (Ni, Ke)
- Young Families (in)

Explorers/Adventurous
- Family Explorers (De)
- French Family Explorers
- Expat Family Explorers (Ni, Ke)
- New Family Explorers (in)
- Experienced Family Explorers (In)

Positive Convertibles
- Convertible Short Haul (Ne)
- Positive Convertibles (USA)
- Positive Convertible Couples (UK)
- Positive Convertibles (Japan)

Senior Explorers
- Senior Explorers (De)
- Senior Explorers (Fr)
- Senior Explorers (Japan)
- Empty Nesters (In)
- Senior Explorers (Aust)

Purpose Travellers
- Independent Business People (Ni)
- Traders/Importers (Ni)
- Purpose Travelers (China)
- Business Professionals (SADC)
- Private Traders (SADC)
- Taxi Traders (SADC)
- Trading Truckers (SADC)
...Wanderlusters and NSSA’s (Next Stop South Africa) are the core segments in the international leisure travel markets

Marketing in international markets is focused principally on worldly, well-travelled segments who seek new experiences. SA Tourism’s brand and marketing strategies are focused on two priority segments, which form the heart of all global marketing campaigns

The ‘Wanderluster’ Segment
- The “Wanderluster” segment is made up of younger singles or couples between the ages of 25 and 40 and generally do not have children. They are young urban professionals earning higher incomes, and they already have considerable travel experience. Their desired experience centres on nature, culture and adventure with a strong liking for “urban vibe”. While also concerned with issues of safety and comfort, these consumers are driven more by the emotional appeal of a destination compared to the more practical NSSAs. They are generally more positive about South Africa in every market than any other segment but they also want to travel the world.

The ‘Next Stop South Africa’ (NSSA) segment
- The NSSA segment represents our traditional market. They are wealthier experienced international travellers, usually between the ages of 40 and 60 whose children (if any) have left home. They typically look for natural beauty and authentic cultural experiences. They prefer independent or small group travel, and look for luxury and comfort as part of their experience. Safety is a key consideration when choosing a new destination. Safari is a big draw-card when travelling to Africa.

The other segment categories are pursued on a tactical or opportunistic basis only
While SA Tourism has made progress in growing the markets in its portfolio, there is still significant opportunity in 11 target markets.

### Size of Target Market in the 11 markets

76,540,000 Consumers

### Size of Target Segments in the 11 markets

28,071,300 Consumers

11 Target markets has massive potential

Arrivals from 11 key Markets (2009)

1,5 million Arrivals

Source: SAT Market Segmentations Studies for US, UK, Germany, France, Netherlands, Kenya, Nigeria, India, China, Japan and Australia
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- **SA Tourism Focus: Where to Play** .............. Page 48
  - Review of the portfolio of markets .............. Page 48
  - International consumers ......................... Page 65
  - **Domestic market** ................................ Page 73
- Conclusion ............................................. Page 87
The Domestic Market is important – and will become more so in future…

### Domestic Tourism Market

| The South African population travel within the country... | • 49% of South Africans undertake travel each year  
• On average, domestic travelers take 2.1 trips per year |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>... generating huge volumes ...</td>
<td>• Domestic travelers generated a total of 30 million trips in 2009, compared to 9.9 million generated by foreign arrivals</td>
</tr>
<tr>
<td>... and significant value</td>
<td>• In 2009, domestic tourists spent R 22.4 billion, compared to a total direct spend of R 79.4 billion spent by foreign tourists</td>
</tr>
</tbody>
</table>

**BUT, the market is still emerging...**

Note: Spend includes Capital Expenditure  
Source: SAT Analysis
...as there is huge opportunity to grow holiday travel which accounts for 12% of volume and 22% of revenue

Domestic Tourism Market

Where the Volume is
- 55% of all trips originate from KZN and Gauteng
- The holiday market is concentrated with 79% of contribution by four provinces (Gauteng, Western Cape, Eastern Cape and KZN)
- The highest rates of holiday travel incidence are found in the Western Cape (27% of adults) and Gauteng (26% of adults)

Where the Value is
- 41% of the domestic tourism spend comes from Gauteng
- The highest spenders per trip are from Gauteng and the Western Cape

Holiday travel is the future
- Holidays made up only 3.6 million trips in 2009 (12%), BUT
- Contribute 22% to the total domestic tourism spend (an average of R 1,330 per trip compared to R 560 for VFR)
- Have a high average length-of-stay (4.5 nights), AND
- Have the highest incidence amongst younger adults (25 – 44 years)

Note: Spend includes Capital Expenditure
Source: SAT Analysis
SA Tourism has a well defined Domestic Tourism Marketing Strategy with the key objective to improve the domestic tourism in the country.

**Domestic Tourism Objectives**

- Sustainable GDP growth
- Sustainable job creation
- Redistribution and transformation

- Increases in tourist volume
- Increases in tourist spend
- Increased length of stay

- Improved geographic spread
- Improved seasonality patterns
- Promote transformation

- Developing a holiday travel culture
- Optimizing spend amongst key segments
- Creating year round destinations
- Reducing the geographic polarization of holiday travel

Source: South African Tourism Domestic Tourism Growth Strategy
Similar to the international consumer segmentation, SA Tourism segmented the domestic tourism market to identify the key domestic segments and formulate segment specific strategies.

### Domestic Consumer Segmentation

<table>
<thead>
<tr>
<th>Segment A: Young &amp; Upcoming</th>
<th>Segment B: IYCF ¹</th>
<th>Segment C: Striving Families</th>
<th>Segment D: WOHC ²</th>
<th>Segment E: HBLIC¹</th>
<th>Segment F: BNOF²</th>
<th>Segment G: GAC³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age:</td>
<td>18 - 35</td>
<td>&lt;50</td>
<td>31 - 50</td>
<td>&gt;30</td>
<td>31 - 50</td>
<td>&gt;30</td>
</tr>
<tr>
<td># of People:</td>
<td>5,100 k</td>
<td>700 k</td>
<td>400 k</td>
<td>800 k</td>
<td>400 k</td>
<td>5,500 k</td>
</tr>
<tr>
<td>Average Spend per holiday:</td>
<td>R1,367</td>
<td>R4,585</td>
<td>R2,578</td>
<td>R2,258</td>
<td>R1,392</td>
<td>R1,449</td>
</tr>
<tr>
<td>Average length of stay:</td>
<td>6 Nights</td>
<td>10 Nights</td>
<td>5.5 Nights</td>
<td>7.5 Nights</td>
<td>5 Nights</td>
<td>5 Nights</td>
</tr>
</tbody>
</table>

Note: ¹IYCF – Independent Young Couples & Families; ²WOHC – Well Off Homely Couples
The Young and Upcoming segment was selected as the focus segment because of its size and prospect of long-term returns.

**Focus Segment**

<table>
<thead>
<tr>
<th>Segment A: Young &amp; Upcoming</th>
<th>Segment B: IYCF</th>
<th>Segment C: Striving Families</th>
<th>Segment D: WOHC</th>
<th>Segment E: HBLIC</th>
<th>Segment F: BNOF</th>
<th>Segment G: GAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age:</td>
<td>18 - 35</td>
<td>&lt;50</td>
<td>31 - 50</td>
<td>&gt;30</td>
<td>31 - 50</td>
<td>&gt;30</td>
</tr>
<tr>
<td>Category:</td>
<td>Emerging</td>
<td>Established</td>
<td>Emerging</td>
<td>Untapped</td>
<td>Emerging</td>
<td>Established</td>
</tr>
<tr>
<td># of People:</td>
<td>5,100 k</td>
<td>700 k</td>
<td>400 k</td>
<td>800 k</td>
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<td>5.5 Nights</td>
<td>7.5 Nights</td>
<td>5 Nights</td>
<td>5 Nights</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13 Nights</td>
</tr>
</tbody>
</table>

**Young and Upcoming Segment**

- 5,1 million people contributing R1,6 billion to revenue
- This segment represents emerging travelers' (2,3 million holiday trips and average spend of R1,300 per trip)
- They are young (18 -35 yrs) and have a lifetime as they help create a culture of holiday travel in South Africa
- Hence, this segment is easier to activate and offers an opportunity to grow

The other segment categories are pursued on a tactical or opportunistic basis only.
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While the domestic market accounts for 75% of total tourism volume to SA, foreign markets contribute the most to total tourism revenue.

### Contribution of Domestic and International Tourism

#### Domestic Trips vs. Foreign Arrivals, 2007 – 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic (%)</th>
<th>Foreign (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>80%</td>
<td>15%</td>
<td>100%</td>
</tr>
<tr>
<td>2008</td>
<td>77%</td>
<td>17%</td>
<td>94%</td>
</tr>
<tr>
<td>2009</td>
<td>75%</td>
<td>19%</td>
<td>94%</td>
</tr>
</tbody>
</table>

#### Domestic vs. Foreign Direct Spend, 2007 – 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic (%)</th>
<th>Foreign (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>25%</td>
<td>45%</td>
<td>70%</td>
</tr>
<tr>
<td>2008</td>
<td>26%</td>
<td>43%</td>
<td>69%</td>
</tr>
<tr>
<td>2009</td>
<td>22%</td>
<td>52%</td>
<td>74%</td>
</tr>
</tbody>
</table>

### CAGR 07 - 09

<table>
<thead>
<tr>
<th>Category</th>
<th>07 - 09 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Foreign Land</td>
<td>6.3%</td>
</tr>
<tr>
<td>Foreign Air</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Domestic</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Foreign Land</td>
<td>19.8%</td>
</tr>
<tr>
<td>Foreign Air</td>
<td>7.1%</td>
</tr>
<tr>
<td>Domestic</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: StatsSA, SAT Departure and Domestic surveys for 2007 to 2009
While overall tourist spending and volume has increased, length of stay has reduced and the seasonality patterns has worsened in the last 5 years.

### Overall Summary of SA’s performance across all markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Tourist Volume</td>
<td>↑</td>
<td>↓</td>
<td>↑</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td>Increase in Tourist Spend</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Increase Length of Stay</td>
<td>↓</td>
<td>↓</td>
<td>↓</td>
<td>↓</td>
<td>The same</td>
</tr>
<tr>
<td>Improve Geographic Spread</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Improve Seasonality Patterns</td>
<td>The same</td>
<td>Improved</td>
<td>Improved</td>
<td>Worsened</td>
<td>The same</td>
</tr>
</tbody>
</table>

Source: SAT Departure and Domestic Surveys; SAT Tourist Arrivals Data
There has been substantial improvement in employment numbers between 2003 and 2008.
SA has maintained a double-digit growth rate of tourism industry GDP contribution over the 5-year period ending in 2008.

The tourism industry contribution to GDP grew by 140 basis points between 1998 and 2008.


Note: Direct industry GDP measures the value added of the traditional Travel & Tourism industries, excluding any indirect effects generated throughout the supply chain and all tourism-related investment, collective public spending and export of tourism-related goods.

Source: WTTC; StatSA; World Economic Outlook Database; Monitor Analysis.
During 2007, tourism contributed substantially (~15% to ~44%) to the employment in other sectors of the country...

### Tourism’s Direct and Indirect Contribution to South Africa’s Employment by Sectors, 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>Direct Tourism Employment</th>
<th>Indirect Tourism Employment</th>
<th>Non-Tourism Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>770</td>
<td>64</td>
<td>148</td>
</tr>
<tr>
<td>Mining and quarrying¹</td>
<td>323</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,941</td>
<td>214</td>
<td>70</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>84</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td>Construction</td>
<td>1,093</td>
<td>184</td>
<td>48</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>3,410</td>
<td>403</td>
<td>289</td>
</tr>
<tr>
<td>Transport, storage and comm.</td>
<td>800</td>
<td>284</td>
<td>217</td>
</tr>
<tr>
<td>Finance, real estate, insurance and business services</td>
<td>1,447</td>
<td>217</td>
<td>230</td>
</tr>
<tr>
<td>Services and others</td>
<td>3,806</td>
<td>664</td>
<td>213</td>
</tr>
</tbody>
</table>

Note: ¹Tourism’s contribution to ‘Mining and quarrying’ is not available; Data available for 2007 only; Total Tourism contribution has been calculated by subtracting Tourism’s direct and indirect contribution from the total employment in a particular sector for 2007.

...It also made a significant contribution (7.5% to ~12%) to the gross value added (GVA) by other sectors

Tourism’s Direct and Indirect Contribution to SA’s Gross Value Added (GVA)\(^1\) by Sectors, 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>Direct Tourism GVA</th>
<th>Indirect Tourism GVA</th>
<th>Non-Tourism GVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>3%</td>
<td>7%</td>
<td>90%</td>
</tr>
<tr>
<td>Mining and quarrying(^2)</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>93%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>88%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>91%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>89%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, storage and comm</td>
<td>88%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance, real estate, insurance and business services</td>
<td>91%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services and others(^3)</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: \(^1\)Tourism’s sectoral contribution to GDP is not available. This slide is for GVA, defined as Gross Value Added (GVA) = GDP – taxes on products – subsidies on products; \(^2\)Tourism’s contribution to ‘Mining and quarrying’ is not available; Data available for 2007 only; Total Tourism contribution has been calculated by subtracting Tourism’s direct and indirect GVA contribution percentage from 100%; Totals may not add to 100% due to rounding off; \(^3\)Weighted average of Real composition of GDP per sector in Q4 of 2007, of the two sectors, viz. personal and government services

The average contribution to the GDP per indirect tourism employee is ~1.2 times more than that of a direct tourism employee.

Note: 1Quarterly value added by industry and gross domestic product at constant 2005 prices; 2Workers includes employers, employees and self-employed people falling in the age group of 15-64. Employment figures represent both formal and informal sector jobs. Employment for a given year is for the month of September; 3For the employment numbers, ‘Services and others’ sector includes ‘community, social and personal services’ and ‘private households’. For the GDP figures, the ‘Services and others’ includes ‘general government services’ and ‘personal services’.

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SA Tourism is responsible for branding and creating awareness – tourism service providers are responsible for the experience delivery.

**Awareness and desire**

Awareness created by SAT marketing campaigns

**Delivery and Experience**

Channels: Tour operators, Internet, etc

Transport: Airline, rail, car, ship

**The South African Tourism Product Offering**

**THESE ARE GOVERNMENT LEVEL CHOICES**

**THESE ARE COMPANY - LEVEL CHOICES**
The Theory of Travel Evolution: Markets are at different stages of development and therefore need specific strategies to activate.

### Tourism Industry Life Cycle

<table>
<thead>
<tr>
<th>% of population traveling for leisure</th>
</tr>
</thead>
<tbody>
<tr>
<td>SADC</td>
</tr>
</tbody>
</table>

### Time*

| Introduction | Growth | Maturity |

### 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 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)
The tourism industry in South Africa appears to be in a rapid growth phase.

Tourism Product Life Cycle – South Africa’s Current Position

Profile of a high growth industry:
- Rapid entry by new players and over capitalisation / excess capacity
- Emergence of consolidating forces in order to control pricing and capacity
- More ‘competition’ than ‘co-opetition’ and weak relationships within the industry
- Lack of industry-specific / institutionalised information

The doubling of tour operator numbers in the past five years, rapid expansion in hotel and non-hotel accommodation and proliferation of tourism products are indicative of the current growth phase of the tourism industry.
Marketing alone cannot deliver results — key constraints and barriers on delivery need to be removed

<table>
<thead>
<tr>
<th>The Next Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maintain presence in non-core markets</strong></td>
</tr>
<tr>
<td>• SA Tourism cannot afford representation in all markets which are important, but it needs to maintain some marketing presence through other players (for example foreign missions)</td>
</tr>
</tbody>
</table>

| **Align tourism product and services** |
| • The new strategy requires that tourism product and services should be developed differently to 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 – SA immigration and visa procedures represent a major constraint |
| • This situation should be improved to provide easier access to SA to all the potential travellers |

| **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 |
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Johannesburg
2146
Tel: +2711 895 3000
Email: research@southafrica.net
www.southafrica.net