The year that was for SA tourism

By Robin Fredericks

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On day one of the 2018 THINC Africa conference, we delved into a conversation focused on the first half of 2018 - how it compared to 2017 and what the industry can expect going forward - with FEDHASA chairperson Jeff Rosenberg, TrevPar World founder Derek Martin, Fairtree Capital fund manager Joe Bester, and STR MEA director Phillip Wooler.

Rosenberg began the conversation by highlighting how important collaboration within the tourism industry is and how it could create positive changes; with reference to the Western Cape drought and the term "Day Zero" which saw hospitality establishments implement various initiatives that have effectively resulted in a message that says the Cape is still open for business.

With reference to the Joint Association Members Meetings Sessions (Jamms) – consisting of Cape Town Tourism, FEDHASA Cape, SAACI Western Cape, and SATSA Western Cape – Rosenberg said that a survey was conducted to evaluate where everyone had found themselves. A total of 142 surveys were submitted, which showed a 67% year-on-year drop in areas of domestic tourism – from countries like the United Kingdom, Germany, Netherlands, the United States, Scandinavian countries and also Australia, China, and Brazil.

"We did see some increases through Spain, coming into the United States, Chile as well as France and Germany, so there was a bit of a balance there but we certainly need to work really hard together as an industry in order to make sure that we can try to increase on that."

"Other factors that affected the 67% drop were seen in room rate charges – of which over and above increased by 3 and 15%, with 75% respondents experiencing worse numbers than that of 2017; 83% in accommodation, however, indicated an increase in income. "Nineteen percent of the respondents were talking to the drought, and others to economic conditions, with crime and unrest, certainly playing its part, as did the rand and the visas."

The outlook for the second half of the year according to the survey, says Rosenberg, shows that 53% checked the remainder of the year down than the year before and 10% of the survey with an expected increase.

"There is a bit of positivity there, but not much. On arrivals in quarter one, year-on-year, Namibia stroked tremendous ground - conditional markets were way down with India down by 2% - Australia up funny enough by 7%, Brazil down by 3%, the United Kingdom 10% down and only 1% in the USA."

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Rosenberg then entered into panel discussions with delegates…

What is your view on South Africa and African hotel performance and challenges?

Martin: The drought did have an effect on the market, but there's a reason hotels have segmentation.

If you look at which segments were affected by the droughts; maybe the long-term travelling ones, the STO groups and the leisure groups travelling inbound into South Africa, there has been a rate growth in the last year across Cape Town. The rate has been growing by 1%, so if we are in dire straits we're losing 12-15% in RevPAR but we're growing rate – it doesn't seem to make sense.

We lost a low rated segment of business not coming into travelling into South Africa. What's stopping us from replacing domestic business at that rate? We've lost a very good segment, which was base business, but we haven't really taken it up with other segments. Why can't we change our direct prices? Why do we have to stay at par the whole time?

If you sell a room at R700 to a tour operator, why can't you sell a room at R800 to a local domestic traveller? Why do we always fight out for R1,500 to R2,000, "because it's Cape Town or its South Africa?" It's just a different way of switching on taps and switching off taps when we need and want the business.

> *We need to make sure that our dynamic pricing aligns with the value delivered in terms of product and services.*

In Africa, I do believe that there is a lot of opportunity because the youth are starting to travel more, people are saving for holidays. There is a lot more incremental spend coming into the market, which was not ever allocated to travel. People are dying to see the world now, because there are much more flights coming in and out of South Africa; domestic travel is getting cheaper with more airlines coming in, so people want to travel – we just actually need to make our products available to them. It's pointless having the best rates in the market but we're running 20% occupancy.

As the market becomes more and more competitive and revenue strategies become more complex, talk to us a bit about dynamic pricing and how that should affect it?

Martin: Dynamic pricing is something that's lacking incredibly in the African region as a whole – it's quite easy to set your rate seasonal, but hotels are open 365 days a year, 24 hours a day.

We need to adapt to the change and the needs of our business. We know what the cost of our rooms is, we know what our incremental spend possibilities are in the hotel, so get your room in order to be able to drive those other spends. We need to be more dynamic and go fetch the business when we need it and maximise the business when the demand is coming into the market.

If you're looking at it as a consumer and not as a hotel owner or a hotel general manager, you're looking at and/or thinking that your price is king. You need to be able to offer the best-perceived value for the price you're charging. Everything is transparent these days – TripAdvisor, Experia, Booking.com – all those channels have the possibility to book a room and also to review a room.

If you're not number one on TripAdvisor, you can't be charging the most expensive in the city. We need to make sure that our dynamic pricing aligns with the value delivered in terms of product and services. I think that's often a mistake we make because when we get 10 bad TripAdvisor reviews in a row, we don't have to put our prices down, we expect to charge the same amount of value for less of the service – that doesn't make any sense.

What I would suggest is, or what we have done with our pricing in a lot of our properties is we've moved our prices based on service delivery – if we can increase the service delivery we can charge more, but then it's also a win-win situation not only for the customers but for the whole industry as a whole – the better the service, the more international guests we are going to attract.

How can we in still this revenue culture amongst all the people within hospitality establishment?

Martin: The revenue culture is a very underestimated term. I believe in order to do a truly successful revenue strategy everyone from the janitor to the CEO needs to understand what the budget is about.

We all chasing the same targets but there is always your exclusive elite two or three people sitting in the boardroom making decisions of budgets, making decisions of silos, but all the people on the ground who are actually working to get the two goals, don't know why they working. In essence, you need to turn it from being a job into being an action. The only way you can do this is by instilling knowledge and giving your team, as I said, from the janitor to the CEO updates as to what you are trying to achieve, "what are we doing, why are we doing it" – so that everyone has the same by-end and believes in the same goal – it will be much better to achieve our targets.

If you think back to a traditional hotel there's always been a bit of comradery or sort of professional bias between the food and beverage manager, the executive chef – how do we get the general manager and the revenue manager closer together so that they all talk the same language and moving in the same direction?

Martin: That's the key – it's all about the revenue culture because if everyone understands what we talking about it will be much easier to buy into it.

You have to create competition, a scorecard, in each of your departments. It's all about making the targets at the end of the day. The owners really care about making a profit – they're invested in a business for a reason. Often you get the term return on ego thrown around for hoteliers on buying hotels because, "I have a lot of money and I want a hotel", but in essence, it's still a business. It still needs to make a profit.

Knowledge is number one, creating competition amongst your hotel to drive the strategies, to drive the targets is number two. If you can get those two right, you can only be a success.

In mentioning competition, you mentioned scorecard – can you tell us more about that?

Martin: A simple scorecard that you create is if you're running a hotel group with more than one property – why don't you get your general managers to compete against each other. Nobody likes being last.

For example, you've got ten hotels and every week a scorecard goes out and the same hotels are last; no one likes that, so automatically you've got to instil a "prove-yourself" strategy without even doing anything for it.

Another suggestion would be to let the general manager of the bottom three properties do a presentation to the board on their market. So, for example, if you're doing the worst in your group, you clearly might not know what's happening in your market. In a way, it's a punishment to do a presentation on a market that's not performing well.

General managers don't like presenting, so they never want to be in the bottom three. By instilling that, you need to actually understand the market, you need to understand your team, your environment – everything about your hotel in order to make a success. You only as strong as the weakest link in your chain. We need to get everyone on the same page.

Could you tell us about the equity markets, how they performed and what the industry should pay attention to?

Bester: I think our perspective is quite interesting with regards hospitality industry. We're an asset manager who has a number of different products for our clients; from your normal equity funds, to hedge funds, etc. I think for us, it's important to give our clients products which will provide them with different returns over different times. That's why, specifically in hospitality, we've seen it as something which is not necessarily correlated in the South African equity markets over the last few years.

From a portfolio planning point of view, we see a great spot for hospitality and real estate in an investor's portfolio and it's something that's not correlated to your general equity market.

The hospitality market has this natural built-in type of hedge against currency weakness. In our hospitality fund, our clients are all high net worth individuals that are looking for something that is not so correlated to the general business feeling in the country and the general economy.

> *I think we still have so much to discover in our country as a global tourism destination.*

We've certainly taken a long view to say, okay, we certainly see tourism as something which over the next 10 to 15 years, 20 to 25 years even is going to be something which is going to be growing globally – air travel will get broader, it will get quicker. People's schedules will become more and more flexible, so I don't have to tell you about all the data that says how tourism is going to keep growing on a worldwide basis.

We think it's been a tough six to 12 months in Cape Town – everyone's feeling it – but we take a much longer-term view in the sense that we seeing this as an opportunity to perhaps to do some acquisition from our perspective.

We remain very positive long-term about tourism in South Africa and the Western Cape specifically. It comes back to having a diversified portfolio for your client, so with equity markets, we have some investments; we just pull out of equity markets completely because they have the uncertainty and the political metric that drives prices. There is always the risk that when the GDP goes down and the rand goes, that half your shares and your portfolio go along with it.

The volatility certainly is disconcerting for a lot of investors, but we see positivity in hospitality.

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31 Aug 2017

The hospitality market in South Africa has become interesting to investors – why do you think that is?

Bester: I think the South African market from an investors point of view is far behind from more developed markets that we actually see it as an opportunity for better quality investment.

We deal with the banks in funding here and funding abroad – I don't have to tell any of you that it's a nightmare to get funding in South Africa, it really is a challenge. Banks are seeing that there are really good businesses out there that can carry funding, that whether some of the storms that do come along and I think that one has to remember that our tourism industry is really only 20 odd years old if you really consider it.

South Africa doesn't have the track record that one has in the more developed markets, so as those track records develop, banks tend to grow their confidence as an industry and that changes the whole atmosphere as an investment class – because suddenly you have a more sophisticated type of investor who is willing to come in and have the bank support and I think also places like Wesgro, are improving the quality of statistics.

I know we are not perfect yet. It's really, from an investment point of view, difficult to invest in an area if you don't have sufficient quality and critical data to make some decisions from as that develops. The City of Cape Town has been fantastic in that sense to really give that support to investors to make those decisions – all our investors hear about tourism, they hear about the new flights that are coming in; they hear about their friends with their bed and breakfasts that are making a fortune on Airbnb – it drives the investor in the front as well, so I think that's where we see the opportunity as a business.

Could investment in South Africa move forward?

Bester: I think cautiously so, as anyone should be – one cannot ignore some of the issues we have as a country, but if there is one industry that has been the most resilient in the last 20 years, it's probably tourism.

I think we still have so much to discover in our country as a global tourism destination, so we certainly see that if politics can slowly but surely work itself out and at least keep a level of stability, that would give travellers the confidence to travel.

Can you describe some of your portfolio sections?

Wooler Something that's been topical in the last 12-24 months is the income tax act which gives investors into hotel properties an income tax deduction for whatever they request.

If you invest a R1m into a certain qualifying investment, deduct that off your tax income, for example, it would certainly be a driver of hospitality investment, because it's the only property asset class which falls a bit in this legislation and has attracted an enormous amount of interest from investors and your high network taxpayers.

We see a lot of farmers specifically who, in the last 20-25 years, have been ploughing everything back into their farms for that deduction; there's no certainty around the farms and the land and no one likes to pay tax less than farmers so those guys are looking for alternative type of investment areas where they can put money into and get that tax break.

Prices have become high in certain areas. Nonetheless, we see it as an opportunity and our clients go for it. I think we're a little bit different; some people are more focused on the bigger hotels, the branded stuff, whereas we tend to focus on the boutique experience – the experience-driven type of products in the South African market. It's really a fantastic product for an investor and I think once one starts getting the right assets into those into those areas it's really fantastic.

I certainly hope the intention of the legislation as the government intended it gets given the opportunity to really work into the economy because you could start seeing significant investment into the mid-size smaller type of hospitality properties. We've seen it in some of the investment we've made – that is where you grow the jobs and those are some of the properties that can add a lot of value – with the right type of access to finance and the right type of partners. jobs and those are some of the properties that can add a lot of value – with the right type of access to finance and the right type of partners.

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