

# Microeconomics and tourism in south africa tourism essay

[Economics](#), [Microeconomics](#)



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South africa is a country that a has a famous history of racial divisiveness and diversity, but today the rainbow nation is one of the most popular tourist destinations in Africa and in the world as a whole.

In the following report we will analyze the situation in South Africa in relation tomicroeconomics. This will help us decide weather the hotel we have chosen is, in fact, the best one.

In order to achieve our goal, we will look at the history of the country and talk about South African government and politics. We will also analyze the countries' economic situation by looking at the economic growth since 1980, the principal trading partners, the impact of the 2010 World Cup and finally the Gross Domestic Product (GDP) as well as the type of the market economy.

Furthermore we will analyze the local economy of the city of Cape Town where the Hotel is located. Thus looking at the lodging Industry and analyze

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weather the economic strategy is successful or not. We will achieve this by identifying its Strengths, Weaknesses, Opportunities and Threats of the tourism industry as well as for the Arabella Western Cape Hotel and Spa. Finally we will identify the competitors of the Hotel.

With this in mind we will begin to define what are our criteria to classify the “best hotel” and identify weather this Hotel is indeed the best one or not.

In the end we will present our conclusions that prove that Hotel can be classified as the best one in South Africa.

### History of the Country

South Africa is located at the southernmost point of the African continent. It has a long 2798 km coastline on the Atlantic and Indian oceans. It is one of the largest and most powerful states in Africa with a population of over 50 million inhabitants.

The African country has been inhabited for more than three million years. This country is also known as the cradle of mankind. Diversity in South Africa began very early with the San and the Khoekhoe peoples in the 6th century BC and evolved ever since making it one of the most ethnical diverse country in the world. This diversity is a big part of the rainbow nation’s conflictual history. In 1487 white settlers set foot for the first time with the portuguese explorer Bartolomeo Dias Today. Later in 1961 it became a republic, but apartheid rules did not leave with the British retreat. Apartheid gave a bad image of South Africa in the world, and other wealthy nations of

the world began to boycott its economy because of its racial policies and oppression.

But when Nelson Mandela was freed in 1991 the situation started to change, he was elected as president on the first non-racial elections on 27th of April 1994. Since then South Africa came a long way, a black man Jacob Zuma is currently at the head of the state since he was elected in May of 2009. The country has been given the trust and privilege to host last summer's biggest event worldwide: the FIFA World Cup which showed the world what South Africa has achieved.

They have 11 official languages, the main ones are Zulu, Xhosa and Afrikaans followed by English. It is a member of the African Union, the United Nations, the World Trade Organization, the Commonwealth of Nations, the International Monetary Fund and the NEPAD (New Partnership of Africa's Development).

Mandela's nation has three capitals, Cape Town which is the legislative capital, Pretoria which is the executive capital and Bloemfontein which is the judicial capital. Johannesburg is not a capital although it is the largest city.

It is a middle income emerging country that has a large amount of supplies thanks to their natural resources. The country has a very developed finance, communication, energy and transportation sectors and is ranked as 17th largest stock exchange in the world by the WTO and is in the top 30 in the world in accordance to its GDP.

## Economy in South Africa

The South African economy is ranked as a upper-middle income economy by the World Bank. About a quarter of the population is unemployed and lives on less than US \$1. 25 a day.

This table shows the economy growth from 1980 to 2010 :

Year

Gross Domestic Product

(bIn USD)

US Dollar Exchange

(early January)

Unemployment rate

Per Capita Income

(as % of USA)

1980

80. 547

0. 8267 Rand

9. 2

22. 56

1985

57. 273

2. 0052 Rand

15. 5

9. 81

1990

111. 998

2. 5419 Rand

18. 8

13. 10

1995

151. 117

3. 5486 Rand

16. 7

13. 24

2000

132. 964

6. 1188 Rand

25. 6

8. 47

2005

246. 956

5. 6497 Rand

26. 7

12. 34

2010

354. 414

7. 462 Rand

24. 8

15. 06

The majority of economical transactions occur around 4 areas: Cape Town, Port Elizabeth, Durban and Pretoria. They are the economical heart of the country and the hubs to the rest of the world. Although these megalopolis can be compared to those of the western world, disparity amongst the

country's region remains. The development is marginal and poverty and HIV are still prevalent.

The government demonstrated its commitment to open market, privatization and a favorable investment climate with its introduction of the Growth, Employment and Redistribution (GEAR) strategy which is a South African neoliberal macroeconomic strategy implemented in 1996. As its name says the GEAR strategy has four more objectives that are embedded on this strategy namely: economic growth, full employment, price stability and balance payment stability.

The Rand is the most actively trended emerging market currency in the world. The Rand was the best performing currency against the US dollar between 2002 and 2005, according to the Bloomberg Currency Scorecard.

Principal international trading partners of South Africa include Germany, the United States, China, Japan, The United Kingdom and Spain. Chief exports include corn, diamonds, fruits, gold, metals and minerals, sugar and wool. Machinery and transportation equipment make up more than 1/3 of the value of the country's imports. Other imports are chemicals, manufactured goods and petroleum.

Also, South Africa has a big agricultural sector and an exporter of farming products. There are almost a thousand agricultural cooperatives and businesses throughout the country. Agricultural exports constituted 8 % of the country's exports for the last 5 years and it contributes that 10% of formal employment to the country.



Finally, South Africa's economy depends largely on the tourism industry which has been identified as one of the key economic sectors with excellent potential for growth. Directly and indirectly, tourism constitutes approximately 7% of employment in South Africa.

To develop and exploit the country's tourism potential, infrastructure and support facilities of which hotels, like the one we chose, are an integral part. The hospitality industry in South Africa has experienced a steady growth during the past years. Different issues in the government really affected the hospitality sector of the country, but there is a reason now to be optimistic.

By hosting the FIFA World Cup it was a great opportunity to boost their economy and especially the tourism sector. A total of 309. 554 foreign tourists arrived in South Africa for the primary purpose of attending the event. The continent counted 34% of the world's foreign tourists, followed by Europe with 24% and Central and South America with 13%

The total expenditure in South Africa by tourists who came specifically for the 2010 FIFA World Cup amounted to 3. 7 million euros.

The average length of stay of tourists during this period was 10. 3 nights. Total awareness of South Africa as a leisure and tourism destination increased by 9% following the event. The intention to visit South Africa in the Short term increased by 35% following the event.

The industry is creating jobs and wealth, it could also play a crucial role in making the country's economy to be a better one. However, fragmentation

remained some serious impediments to South Africa's hospitality industry growth. The industry revolved in different types of businesses, such as airlines, boats, bus companies, hotels, car hire, festivals and events, tour guides, retailing and sightseeing destinations. Therefore the South Africans must be proactive and take responsibility to continue to drive change.

After the positive market sentiment recorded last September 2010, the tourism industry is in a very good shape especially since 2009 was a particularly bad year also due to the world economy crisis. South Africa's tourism boom has had a predictable effect on the performance of the country's hotels.

#### South Africa GDP per capita

The GDP has grown by more than 4 times in 30 years, that is due to the political and social development since 1980 and especially the abolition of the apartheid which lead to more open economical choices.

According to the World Bank, South Africa's GDP per capita is currently U\$D 3, 764 (South Africa's GDP adjusted by inflation, divided by the total population). From 1960 until 2008 this figure was U\$D 3096. 02, with a historical peak of U\$D 3764 in December 2008 and a historical low of U\$D 2207 in 1960.

Although the GDP seems to be increasingly rising, the unemployment rate has reached a dramatical number, 24. 8% of the South African's population is unemployed the rate rose by 15 points since 1980.

## Demand

According to the Horwath Worldwide Hotel Industry Study (2001) South Africa remained the most popular African destination in terms of arrivals in 2000.

South Africa is also increasingly becoming a popular international conference destination attracting a large amount of customers from the MICE market. In addition, South Africa's hospitality industry continues to attract international investors especially once it was set to host the FIFA world cup and since then investors have been flowing in. In 2010 South Africa recorded 5.5 million arrivals.

There was growth in tourist arrivals to South Africa from all regions, with the highest growth coming from the Americas at 91.3% (74,545). Asia and Australasia grew by 41.0% (30,216) and the Africa air markets grew by 30.8% (20,611), while Europe and the Africa land markets grew by 19.1% (43,672) and 5.3% (63,770) respectively. The demand in the tourism industry in South Africa is growing exponentially and the government, investors and hospitality professionals are working together so that the supply meets the constantly rising demand.

## Supply

### Profit maximization

Profit maximisation is the process by which a hotel determines the price and output level that returns the greatest profit.

There are 2 typical ways to achieve profit maximisation:

Focus on minimising and control expenses

Focus on maximising revenue

The Leisure and Tourism Industry

South Africa

South Africa is known as one of the most sophisticated and promising countries in the whole African continent, and has shown as we have seen it, a strong and consistent improvement in the economy. Its scenic beauty, cultural diversity and reputation for delivering value for money have made it one of the world's fastest growing leisure and business travel destinations (BRICS countries).

Being highly diverse in terms of its, culture, tourist activities and infrastructure. It adapts to every tourism niche, from business, eco- and cultural tourism through to adventure and sport tourism.

Its tourism sector began growing significantly since 1994, and due to the importance government gives to tourism in the country. Tourism also generates much of South Africa's tax revenue - as much as \$655 billion in 2005 - and influences government spending in infrastructure - such as highways, airports, etc.

Growing three times faster than the world average. It has become a really important sector, which is creating millions of jobs, employing 212 millions of people.

South Africa is becoming more popular among tourist destinations, with 860 000 arrivals per month (statistics from 2008) from which over 10% come from outside of the African continent. The tourism industry has generated a revenue of \$3.4 trillion, which represents around 3% GDP.

The hosting of the 2010 FIFA World Cup in June and July 2010 remarkably contributed to the country's economy and development of hundreds of hotels and other hospitality establishments

South Africa is therefore targeting numerous different segments of tourism industry. Such as the afore mentioned domestic tourism, business tourism, eco tourism, cultural tourism but also the adventure tourism.

### Business Tourism

The award of the 2010 FIFA World Cup was just one sign that South Africa was seen

as a stable and modern country compared to other African countries. It proved that it possesses first-class infrastructure and is an ideal location for international investors and investors. The country has over 1 000 world-class hotels and numerous other facilities.

South Africa is experiencing business travellers for the main reason that they spend 3/4n on business travel to four times more than the leisure travellers. This through business and leisure activities - such as experiencing the African culture and safari, but also luxury golf courses, shopping and relaxation- business travellers spend 3/4r on their business trips.

In 2007 business travellers spent 6-7% of South Africa's foreign visiters in 2007 worth business travellers. Total of 2.4 billion that year. South Africa's industry moved up 30th place in the International Development Index and 34th in the World Economic Forum's competitiveness index.

### Domestic Tourism

In 2006 domestic travel grew by 2.7%, nearly 12 million South Africans inhabitants took 37 million internal trips. In those trips 29 million tourists were visiting their family and friends, 2.8 million were traveling for holiday and 1.9 million for business reasons.

The issue the tourism department is dealing with, is the challenge to turn the domestic tourism market from visiting family to leisure tourism and thus optimize the increase in the market.

Furthermore, the tourism department is running a program called Sho't Left, which works on the principle that encourages South African population to travel inside of the country. This is achieved by providing information about tourist attractions, access to tour operators, reasonable prices and tour packages.

### Eco Tourism

Eco tourism is the fastest growing segment of tourism in South Africa thanks to its diverse and plentiful natural resources. It is a form of tourism that is based on the conservation of the environment and the well-being of the local population. The country's wildlife is protected, and is supported by the government. It creates opportunities for tourists which include bird-watching, nature photography, hiking and mountaineering, botanical studies and snorkeling.

National and provincial parks in South Africa - the world famous Kruger National Park - as well private reserves, involve local communities in the management and conservation of natural resources. These communities are becoming aware of their responsibility to the environment, and with that they are also financially benefiting from ecotourism. The country's per capita income has increased to 8%, and its manufacturing per capita income grew up to 20%, in 2010.

### Adventure Tourism

Basing on the South African tip of the Eastern Cape, South African  
 is a 3000 kilometre long coastline with the mountains.  
 The country's diverse terrain, with the mountains with the  
 limit of the suit of the South African  
 is a typical of the hunting ground for  
 the mountainous and the mountains.

South African is a 3000 kilometre long coastline with the mountains, surfing, diving,  
 hiking, horse riding, sailing, mountain biking, river  
 rafting and just about any other activity.

### Cape town

Cape Town is the most popular tourism destination for international arrivals  
 as well as locals. Approximately 1.6 million tourists visited Cape Town in  
 year 2006 and their total spending resulted in \$10 billion of revenue.

Cape town has recently expanded their International Convention center and  
 now hosts 10% of all conferences and meeting of Africa for international and  
 local business tourists. Also real estate business and construction market has  
 hit its peak, when during the 2010 World Cup many people started to buy  
 summer houses in the city or relocating there permanently.

As we can see, there is a tendency for international tourists to visit South  
 Africa more from year to year, which results in overnight stays and demand  
 for accommodation and F&B.



Furthermore, the Cape Town beaches are very popular for their uniqueness and layout because of the difference in the water temperature. The Atlantic Coast average water temperature is around 13° Celsius, and the False Bay has an average temperature between 16 and 17° Celsius. Though colder, the Atlantic Coast is famous for its big waves and hosts different events including the Red Bull Big Wave Africa.

## Issues

### Unemployment

Has an extreme unemployment rate, which interacts with other social and economic problems( education, crime and poor health outcomes) over 60% of unemployed have been without jobs more than a year. In second quarter of 2010 a number of people with work fell from 61. 000 to 12. 700 million.

### Income inequality

The country is ranked in the top 10 countries in the world for income inequality. Black people are poorer than colored people - Indians and Asians - who are poorer than Whites.

### Public sector strikes

In August and September 2010 SA unions organized a 4 week national strike involving 1. 3 million public sector workers, demanding a 8. 6% wage increase. The strike ended when the government had raised its 5. 2% wage increased to 7. 5%.

## Illegal immigration

Many South African employers have employed migrants from poorer neighboring countries( Mozambique, Zimbabwe, Malawi and others) for a lower pay than South African citizens.

## Electricity crisis

After unsuccessful attempts by the government to encourage private construction of power generation capacity, the state-owned power supplier Eskom started experiencing deficiency in capacity in the electrical generating infrastructure in 2007. The lack of capacity was triggered by a failure at Koeberg nuclear power station. The supplier has been criticized for failing to adequately plan for and construct sufficient electrical generating capacity. The crisis was resolved in few month, but the margin between available capacity and national demand is still low. The government and Eskom are planning new power station (in 2025).

## SWOT analysis of the Tourism Industry

### **Strengths: Weaknesses:**

Emerging economy Union strikes

Low labor and fixed costs High poverty level

Low tax Lack of skilled labor

Better infrastructure and increased destination Unstable currency

awareness since FIFA 2010 High rates of HIV/AIDS

## **Opportunities: Threats:**

Growth of tourism from USA and European countries High crime level

Low cost airlines companies (domestic market growth) Economic recession

Government spending in tourism Unstable US Dollar

Hosting of the 2020 summer Olympics?? Racial differences

Arabella Western Cape Hotel and Spa

### Description

Created in 1998, the Arabella Western Cape Hotel and Spa is situated on the Southwestern coast of South Africa 45 minutes, by car, from Cape Town.

The hotel is embraced by the Kogelberg Mountains and bordered by the Bot River Lagoon. The Hotel is near the Cape Wine Route in the the souther tip of Africa near Cape Agulhas, and only 15-minute drive from Hermanus.

Perfectly suitable for those who want to relax from the hectic life but don't want to go far away from civilization, the region where the hotel is located is rich in bird life, exquisite mountain landscapes and endless recreational activities. For guests on business there are special conference facilities that deliver standards of professionalism and comfort.

General Manager

Rob Kucera has been promoted to GM of the Arabella Western Cape Hotel and Spa after three years as a hotel manager at the Westin Grand in Cape Town. Rob joined The Westin Grand Cape Town Arabella Quays as an experienced hotelier, his most notable achievement is the establishment of an extremely focused and effective management team. His business acumen and leadership skills will undoubtedly add tremendous value to the Arabella Western Cape Hotel and Spa and its employees. Rob Kucera has extensive experience, impeccable values and immense dedication added to a huge passion for the industry. These mentioned qualities have definitely earned him the respect from his seniors, peers, employees and guests alike.

“ Rob Kucera has made a tremendous impact on the hotel industry this far in his career and we look forward to his continued success,” says Friedrich Schaefer, COO and Area General Manager of Arabella Starwood SA.

### Facilities

Apart from the standard facilities and services as: business center, shopping mall, valet and car rental service, airport transportation service (pick up and drop off), beauty salon, 24 hours Front Desk and Concierge service, children’s playground and babysitting service, restaurants with classic or traditional food, an wireless high internet access coverage on the premisses. The Arabella Western Cape Hotel and Spa provides its guests with :

### Chapter’s Library

Arabella Spa with indoor and outdoor pools and jacuzzis and massage treatments

The African Rainforest Experience- a world first sauna treatment developed in South Africa using African products and inspired by African rains

The Sport club with a fitness center, tennis courts, horseback riding, fishing and kayaking

The Unique golf course, recently voted the “ Number Two Golf Course in South Africa” and the “ Top Golf Course in the Western Cape” by The Complete Golfer magazine

#### Rooms and Rates

The Hotel has 265 rooms in total and brings

#### Deluxe Rooms ( Rate is 1. 672 ZAR)

These large rooms are perfectly arranged for utmost comfort. Each Deluxe Room has a private balcony or terrace that overlooks garden or swimming pool. Most of 46 rooms are furnished with king size beds or twin single beds. The room can accommodate 2 adults and 1 child under two in a camping cot.

#### Grand Deluxe Rooms (Rate is 1. 950 ZAR Around 213 Euro)

Offer the same style and comfort as Deluxe Room but has the additional benefit of a magnificent view of the Bot River Lagoon and Arabella Golf Course.

### Deluxe Suites (Rate is 2. 850ZAR around 310 Euro)

The room has a separate bedroom and lounge, divided by wooden sliding doors for additional privacy. The bathroom is large and for extra luxury equipped with TV set. A large balcony with loungers offers view of the perfectly manicured grounds and swimming pool. The Deluxe Suites can accommodate 2 adults and 2 children under the age of 12 and one child under the age of 2.

### Grand Deluxe Suites (The Rate is 3. 500 ZAR around 380 Euro)

The Grand Deluxe Suite provides the exceptional luxury and comfort of the Deluxe Room, with the addition of magnificent views of the Bot River Lagoon and Golf Course.

### Presidential Suites (The Rate is 6. 500 ZAR around 705 Euro)

The room offer luxury and comfort in a superbly appointed private setting complete with a 24 hours butler service to attend to your requirements. The entrance lobby affords access to the guest bathroom and beautiful lounge furnished with a fireplace. A study, accessible through the lounge, ensures a quite area to work or conduct business.

### Awards

Arabella Western Cape Hotel and Spa is the Winner of:

Africa's Leading Luxury Hotel

## Africa's Leading Spa Resort South

### Africa's Leading Spa Resort

#### Starwood Hotels and Resorts Worldwide Inc alliance

The Arabella Western Cape Hotel and Spa is part of the Starwood Hotels and Resorts Worldwide Inc. Founded by Barry Sternlicht, it is one of the leading hotel and leisure companies in the world, with 1000 properties in nearly 100 countries with over 145, 000 employees. They have a variety of brands include : Le Méridien®, ElementSM Hotels, AloftSM Hotels, Sheraton® Hotels & Resorts, The Luxury Collection®, St. Regis® Hotels & Resorts, Westin® Hotels & Resorts, W Hotels® and Four Points® by Sheraton.

In 1993 Starwood Capital buys its first hotels and by 1994 owns interests in more than 30 properties.

Nowadays Starwood celebrates the opening of its 1000th hotel in China named The Sheraton Qiandao Lake hotel.

#### Environmental sustainability:

Starwood aims to conserve energy and water, reduce waste and enhance indoor environmental quality for Starwood guests.

“ This year, in more than 90, 000 rooms, guests staying in Starwood properties will be encouraged to turn off the lights. Properties will participate by dimming or turning off non-essential interior lighting, using candlelight in appropriate public areas such as restaurants and bars. Starwood's

trailblazing eco-chic boutique Element Hotels brand was launched as the first major hotel brand to mandate that all U. S. properties pursue the U. S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) certificate.

Globally, Starwood is increasingly focused on integrating environmental sustainability into its operations and it was important to create a partnership with a world-class organization like CI to continue to move that work forward in the most impactful way," said Sandy Swider, Vice President of Global Citizenship for Starwood.

SWOT analysis of the Arabella Western Cape Hotel and Spa

### **Strengths:**

Location: The Arabella Western Cape Hotel and Spa is situated only 45 minutes from Cape Town offering all the benefits of the city but, at the same time, giving its guests the tranquility and privacy of a remote location.

Upscale hotel: Rated a 5 star hotel The Arabella offers only the highest quality service

Web page: Very interactive and beautifully designed

Starwood alliance: High quality standards and strength of the brand name, the Arabella Western Cape Hotel and Spa profits of the Starwood's achieved awards and new projects such as the " Green" policy

History of the country: Rich historical heritage - monuments and architecture



Multicultural surrounding

Developed infrastructure and superstructure

### **Weaknesses:**

Location: The hotel is outside of the city area thus the hotel guests have some trouble getting transportation to it, even though the local transportation has improved, the regional transportation is not used at its fullest

Lack of skilled labor: All though the school enrollment percentage has grown, this mainly concerns the primary education level. Skilled hoteliers are therefore still foreigners, such as Hotel School students like ourselves.

### **Opportunities:**

Sports tourism: As we have seen in 2010, South Africa has been given the FIFA World Cup and presented an important economical growth, increasing the potential of their tourism sector. Having this experience, South Africa qualifies for the 2020 summer Olympic Games. We think that The Arabella Western Hotel and Spa should prepare its facilities to accommodate not only the visitors there to watch the games but also the athletes and their needs.

Going green policy: Cape Town is ranked 30th “ greenest” city in the world, plus the Arabella is following Starwood’s Green Project and by incorporating the ideas and start attracting an eco friendly market segment.

## **Threats:**

Unemployment rate: With the recession the unemployment rate has increased over the years. making the recovery harder. Furthermore the growth in the South African tourism will feel the crisis if the unemployment rate doesn't decrease, directly influencing the hotel.

### Seasonality and Occupancy level

South Africa is rarely affected by seasonality issues because being situated at the most southern tip of Africa it has an ideal climate whole year round.

During high seasons : November - January, March - April, June - July and September - October; the occupancy level at the Arabella Western Cape Hotel and Spa is situated, in average, between 85%-95%

For the rest of the year, on few occasions that we can call a low season, the occupancy level at the Arabella Western Cape Hotel and Spa is in average 60%-65%.

### Competitors

Within South Africa there are a lot of hotels and up and coming hotels. There is also a necessity for hotel rooms as there is a continuous increase of various tourists.

### The Marine Hotel

Price: 200 € for standard room

No of rooms: 64

40 minutes ride to city center

Facilities: Spa, small conference room for 80 people and The collection boutique

Auberge Provence Guesthouse

Price : 390 € for standard room

No of rooms: 90

1 hour drive to city center

Facilities: 3 restaurants, Spa and Wellness center, conference rooms max 50 people.

Mosselberg On Grotto Beach

Price: 190 €

No of rooms: 110

1 hour ride to city center

Facilities: Swimming pool, Lounge area, Games center, Free Wireless.

One and only Cape town

Price : 550 Euros

No of rooms : 131

Located in the city center

Facilities : One&Only Spa Cape Town, Beauty Center, one Michelin star restaurant (chef Nobu Matsuhisa), Conference room for 112 guests maximum.

The Vendome Hotel Cape Town

Price: 260 Euros

No of rooms: 143

Located in the city center

Facilities: outside pool, Conference facilities for approximately 220 guests, classic lounge, airport transfer.

Based on the research, all the nearest 5 star hotels are very similar when it comes to location. However the prices are different. We discovered that Arabella Western Cape Hotel and Spa is larger than all the nearest hotels. Our hotel is the best place and offers the most, not only for leisure travelers but also for business ones.

Long term sustainability

Finally we are looking at the actions and ideas that the Arabella Western Cape Hotel and Spa can implement in order to continue to develop and become what we call " sustainable" in long term. An effective sustainable

plan will help and maybe even ensure long life span for the hotel. By thinking about the environment and how our actions affect it we can predict issues that we will have to deal with in the near future. Therefore we can anticipate the loses and c