# Tourism Sparks South Africa's Economy

*By Margaret Ntloedibe*

Tourism is the fourth largest—and the fastest growing—industry in South Africa, which attracted 6.6 million visitors in calendar 2002. That same year, the industry contributed 8.2 percent, or $10.3 billion, of South Africa's GDP (gross domestic product) and has a projected 12-percent yearly growth rate for the next few years.

That growth rate will receive an extra bounce from the recent decision that South Africa will be hosting the FIFA (Federation International Football Association) World Cup 2010™ expected to bring 270,000 soccer fans to South Africa.

Africa's complex HRI (hotel, restaurant and institutional) sector, an integral part of the tourism industry, is the country's largest employer with 500,000 workers.

In the HRI food service sector, worth roughly $2 billion in sales in 2003, restaurant receipts account for about 70 percent of the market. Hotels claim 20 percent, and institutional food catering companies make up the last 10 percent.

## Western Influences

Though independent restaurants are plentiful, South Africa has a highly developed web of fast-food and chain restaurants. Improving economic conditions mean that families are patronizing these outlets more than ever before.

## South Africa as Hub

In relation to Africa, South Africa accounts for 6 percent of the continent's population, 50 percent of its purchasing power, 18 percent of the GDP, 50 percent of the electricity generated and 45 percent of all mineral production.

South Africa's stable political climate and relative economic strength guarantee the country a pivotal role in Africa's future. However, other factors—transportation infrastructure and geographical location—promise an enhanced commercial role for the country as a regional trade hub.

Most business travelers pass through the Johannesburg International Airport on their way between major cities in southern Africa. Also, the South African rand is readily accepted as legal tender in Lesotho, Namibia and Swaziland.

Imports often transit through the port of Durban, South Africa, en route to other destinations. This transshipment offers suppliers a cost-effective means of gaining entry to the countries that make up SACU, the South African Customs Union: South Africa, Namibia, Botswana, Lesotho and Swaziland.

An FTA (free trade agreement) with the SACU nations is expected in 2005, with implementation a year later. The new agreement would give the United States guaranteed preferential access to a market of 50 million customers.


It would also level the playing field in areas where U.S. suppliers have been at a disadvantage due to the European Union's FTA with South Africa.

In short, South Africa is a logical conduit for most commercial activities in the region—retailing, channels of distribution, after-sales service, as well as continent-wide strategic planning and project management—and now is the time for U.S. companies to prepare their business development plans in southern Africa for these projected market openings.

Franchised fast-food chains, which have introduced U.S.-style cuisine and consumption patterns, have had a phenomenal run over the past few years.

In 2002, franchise fast-food outlets increased 7 percent, to 2,947, from the year before; half of these new outlets serve U.S.-style cuisine. Fast-food restaurants, however, do face stiff competition from supermarkets and convenience stores that also offer ready-to-eat meals.

Concurrent with fast-food sector growth, consumers are also becoming aware of the benefits of healthy eating. This trend has upped consumption of chicken, fish and fresh foods.

Restaurants tend to buy dry groceries from catering wholesalers, while perishables and frozen products come directly from the manufacturer or distributor.

## Hotel Investment Up

A complete range of accommodations welcomes visitors to South Africa, from five-star hotels, game lodges, guesthouses, B&B (bed and breakfast) establishments, to youth hostels.

B&B, guesthouse and game lodge facilities lead the sector in growth. The number of accommodation establishments increased from 5,045 in 2001 to 5,763 in 2002, a 14-percent gain. Game lodges showed exceptional growth of 32 percent, from 397 to 524. B&B facilities, representing 45 percent of the accommodation industry, grew 8.5 percent, from 2,387 to 2,590.

Overseas investors are providing capital for joint venture hotels. Smaller, independent owners have also benefited from investment that enables them to compete with larger businesses.

Twenty national parks have resorts with their own restaurants administered by SANParks (South African National Parks). SANParks also negotiates contracts for food products needed by its restaurants.

Most major hotels are owned by large local companies but are managed by international hotel management chains.

Each hotel operates autonomously in terms of food purchases. Generally, hotels do not import foods and beverages directly. Hotels prefer to buy directly from specialty retailers, local manufacturers and producers. Dry groceries are usually sourced from catering wholesalers. Local suppliers provide baked goods, fruits and vegetables, meats and dairy products.

## Best Prospects

Products present in the market with continuing sales potential include:

- Fats and oils
- Vegetables
- Fruits and nuts
- Animal feeds

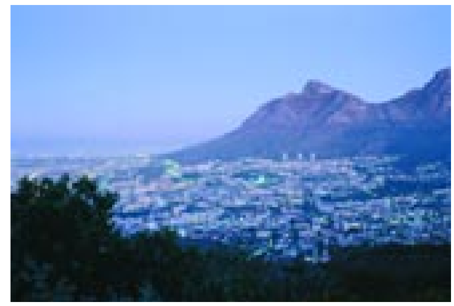
Products not present but with good potential include:

- Fish and seafood
- Baking ingredients
- Meat products
- Cocoa powder
- Tea and spices
- Spirits

## Institutional Sector Concentrated

State entities account for almost a quarter of the institutional sector's value. A few large catering companies dominate the remainder of the sector.

Generally, catering companies purchase directly from local manufacturers, wholesalers and distributors. Companies and public organizations with in-house food services usually buy foods as needed from wholesalers and local specialty retailers.



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## Stand By for Opportunity

With the food service industry mostly tapping into local sources, export opportunities may not be apparent. But this will change when the local supplier base can no longer totally support the demands of an increasing number of outlets that must be competitive in the price and quality of their products.

Besides the opportunities presented by the tourism sector, an expanding middle class and relatively stable economy offer additional room for U.S. niche food products.

South African importers are actively seeking suppliers who can provide top-quality products at competitive prices. As food trends develop, U.S. exporters are well positioned to provide South African restaurants with innovative, competitively priced products. ■

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