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Review

Market segmentation and the changing South African hotel industry (1990 to 2010)

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Market segmentation is an expanding focus in tourism scholarship. Only limited application of this concept has been undertaken to interpret hotel business development, especially in sub-Saharan Africa. This article shows that in South Africa, one of Africa's leading tourism destinations, market segmentation has been a distinguishing feature of the country's hotel sector especially over the past 20 years. It is argued that as post-apartheid South Africa shed its international pariah status and emerged as a new destination in the international tourism economy, the national tourism industry experienced a phase of considerable restructuring. The growth and subsequent acceleration of market segmentation in South Africa's hotel industry is one outcome of the country's reintegration into the global tourism economy which facilitated a range of new upgrading opportunities for business development and property investment.

Key words: Hotels, segmentation, South Africa, tourism.

INTRODUCTION

Market segmentation represents both a 'pervasive' theme (Dickson and Ginter, 1987: 1) and a 'cornerstone' of international marketing literature (Boejgaard and Ellegaard, 2010; Webber, 2011). The concept of market segmentation refers to the division or splitting of a market into different groups or segments of consumers with distinctly similar needs and product/service requirements (Frank et al., 1972; Kotler, 1997; McDonald and Dunbar, 2010). For business development, market segmentation is often closely related to product differentiation as enterprises seek to adapt different variations of their offerings to satisfy or appeal to different market segments. For McDonald and Dunbar (2010), market segmentation is "the bedrock" for successful marketing and business development. Scholarship on market segmentation has been described as 'voluminous' (Beane and Ennis, 1987) and continues to be a significant concept in marketing research (Grover and Srinivasan, 1987: 139). Webber (2011) maintains that segmentation is a term that is found in every textbook and course in marketing. Arguably, according to Dickson and Ginter (1987: 1) markets have been segmented "for as long as suppliers have differed in their methods of competing for trade". The concept of market segmentation thus has been the focus of extensive scientific academic enquiry in journals and marketing texts during the past 50 years (Boejgaard and Ellegaard, 2010: 1291). Over the past half century, a continuous stream of influential writings and debates around market segmentation can be observed (Smith, 1956; Frank et al., 1972; Green, 1977; Kotler, 1984; Dickson and Ginter, 1987; Weinstein, 1994; Kotler, 1997; McDonald and Dunbar, 2010).

The purpose of this article is to extend the scholarship of market segmentation and tourism. More specifically, the task is to examine market segmentation in the context of the changing hotel sector of South Africa through the period 1990 to 2010. The investigation represents a modest contribution to further our limited existing understanding of the hotel sector of South Africa, which, as noted in several recent papers, is an overlooked theme both in tourism scholarship of South Africa and of African tourism more widely (Rogerson and Rogerson, 2011; Rogerson and Visser, 2011; Visser and Hoogendoorn, 2011). In addition, the article shows the application of the concept of segmentation to offer new critical insight into the shifting character of the hotel business in South Africa. The issue of market segmentation in tourism is addressed; the empirical context is set by reviewing key features and recent trends in the rise of South Africa's tourism sector since the country's reintegration into the

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international tourism economy. Against this backcloth, the paper analyses the growing importance of segmentation as a dimension of the post-apartheid hotel sector. This draws from recently completed empirical investigations on several emerging segments of the country's hotel industry, part of a wider study on the shifting organization and management dynamics of South Africa's hotel industry between 1990 and 2010 (Rogerson, 2011a).

Methodologically, the study draws from an analysis of primary interview data which was collected from key stakeholders and entrepreneurs in three emerging segments of the post-apartheid hotel industry. In addition, other source material is drawn from South African Tourism national data, two comprehensive national data bases which have been constructed of the South African hotel industry in 1990 prior to democratic transition and for 2010 coincident with the country's hosting of the FIFA World Soccer Cup (Rogerson, 2011a).

SEGMENTATION, TOURISM AND ACCOMMODATION

The significance of segmentation for the tourism industry and management of tourism enterprises is recognized widely. One recent study records "much has been written about market segmentation and how it applies to tourism" (Manthiou et al., 2011: 2). In contemporary tourism scholarship, the concept of market segmentation has been accepted and deployed in a number of different investigations, including using neural networks (Bloom, 2005). According to Tkaczynski et al. (2007: 1), research on segmentation in the tourism industry mainly focuses upon two core themes, namely, the construction of tourist segment profiles and interpreting which bases of segmentation can most accurately predict tourist behavior. Overall, it is contended that "the most common approach adopted in tourism segmentation studies is to develop tourist profiles for one destination using tourist surveys" (Tkaczynski et al., 2007: 5). Among multiple examples of research, investigations which are geared to understand the segmentation of different travel markets can be noted, inter alia, Sung et al. (2001) application of segmentation to interpret the adventure travel market; Bieger and Laesser's (2002) work in the mature travel market of Switzerland; Simpson and Bretherton (2004) on New Zealand, and in a developing world context an interpretation of the MICE (meetings, incentives, conventions and exhibitions) sector in Thailand at a time of crisis (Arcodia and Campiranon, 2007). Recent applications of market segmentation in tourism scholarship encompass inter alia Najmi et al. (2010) segmentation of Iran's inbound tourism market, Tkaczynski and Rundle-Thiele (2011) on event segmentation, Svensson et al. (2011) utilisation to understand travel expenditure patterns; Manthiou et al. (2011) research on international travelers in China; and, Xia et al. (2010) on market segmentation which is anchored on the dominant movement patterns of tourists.

One central facet of the international tourism value chain is the provision of accommodation (Christian, 2010). Indeed, it is calculated that at the global scale, accommodation represents "by far the greatest share of overall tourism expenditure" (Clancy, 2011: 81). In their international review of the lodging sector across both developed and developing countries, Timothy and Teye (2009) highlight its segmented character. During the past few decades, however, it is evident that market segmentation in the accommodation sector has been rapidly accelerating (Graf, 2011). It is argued that the supply of different forms of tourist accommodation is a response to shifting markets, the changing production of accommodation, and most significantly, is a reaction to new consumer trends that reject the homogeneous character of much of the commercial accommodation sector (Timothy and Teye, 2009). Among other writers, Lee (2011: 708) emphasizes that repetitive branded design and the standard 'cookie cutter' hotel room as part of the McDonaldization of hotels "is a potential competitive disadvantage".

The segmentation of the market for hotel services into identifiable groups is now a well-established phenolmenon (Mooney and Penn, 1985).The trend toward product differentiation and segmentation is observed as especially clear within the hotel sector in reaction to the global spread of the standardized and branded "box hotel" (Rutes et al., 2001). Looking across the international experience, a range of different kinds of hotel emerge, including airport hotels, the all suite hotel, boutique hotels, budget hotels, heritage hotels, limited service hotels, the luxury full service segment and Sharia-compliant hotels (Henderson, 2001; Aggett, 2007; Geieriegger and Oehmichen, 2008; McNeill, 2009; Cassidy and Guilding, 2010; Henderson, 2010; McNeill and McNamara, 2010). Within the hotel sector, Horner and Swarbrooke (2005: 369) attribute this process of market segmentation to consumers "seeking out increasing numbers of niche products and services to satisfy their (accommodation) demands". Beyond consumer demands for more accommodation choice, market segmentation also has been the means whereby major international hotel chains expand, grow brands and increase profits (Berger and Chiofaro, 2007). In particular, the work of Cunill (2006) stresses that market segmentation has been a key driver and critical competitive strategy for the growth and expansion of large hotel chains since the 1970s.

Despite the considerable growth in African tourism research over the past decade, remarkably little attention has been given to the production and management of the accommodation sector. A recent overview undertaken of tourism scholarship authored for the 15 countries of the Southern African Development Community during the period 2000 to 2010 demonstrated the paucity of research concerning the accommodation sector

(Rogerson and Rogerson, 2011). Some African research work has been produced on small-scale accommodation, including bed and breakfast, guest houses and back-packer lodges (Visser and Van Huyssteen, 1997; Nuntsu et al. 2004; Rogerson 2004, 2007; Darkey and Horn, 2009). In addition, questions relating to second home accommodation (Hoogendoorn and Visser, 2004, 2010, 2011; Hoogendoorn, 2011) and time share resorts (Pandy, 2011) have also been investigated.

Some scholarship on the accommodation sector in Africa is centred on hotel related issues. A range of different issues are scrutinised concerning African hotels. Structural issues of ownership and investment (domestic and foreign) and the technical efficiency of hotels represent important sub-themes in the African context (Barros and Dieke, 2008; Snyman and Saayman, 2009; Barros et al., 2010; Gatsinzi and Donaldson, 2010). Critical human resource issues and questions relating to employment, training and working conditions in African hotels are another focus of attention (Jauch, 2007; Fortanier and van Wijk, 2010; Mkono, 2010a, b). In Kenya, Mauritius and South Africa, responsible travel and sustainable tourism practices as well as accompanying environmental management strategies of hotels have been highlighted (Masau and Prideaux, 2003; Kohler, 2007; Frey and George, 2010; Prayag et al. 2010; Coolen and Bokhoree, 2011). The role of hotels in shaping the nature of cultural product offerings has been explored in Kenya (Wadawi et al., 2009). In Malawi, the historical-geographical development of the accommodation sector, dominated by establishment of hotels has been documented (Magombo, 2011). Another study has focussed on the spatial patterns of small hotels in contemporary Tanzania (Sharma et al., 2007).

As the most well-developed hotel industry in Africa, the challenges of South Africa's hotel industry have attracted the greatest amount of research attention. Historical trends in the country's changing hotel industry and of the expansion of leading hotel chains have been researched for the apartheid period (Rogerson 1990). Not surprisingly, renewed attention has been given to the challenges of the South African hotel sector particularly in the context of the post-apartheid transition (Ahmed et al., 1999; Venter and Cloete, 2007; Frey and George, 2010; Du Plessis and Saayman, 2011). This article extends the literature by focussing upon one neglected issue of existing scholarship on the hotel sector in Africa as a whole and specifically of post-apartheid South Africa, namely, the trend towards market segmentation which has accompanied the country's re-insertion into the global tourism economy.

THE RISE OF SOUTH AFRICAN TOURISM

As has been shown by several scholars, South Africa's tourism industry has grown markedly over the past two decades (Rogerson and Visser, 2004; Saayman and Saayman, 2008; Gil-Alena, 2011). Although the accuracy of South African tourism data is open to question, particularly as certain data series of tourism include cross-border migrant workers in statistics, the upward trajectory in tourism numbers is unquestioned for the period 1990 to 2010 (Scholz, 2011).

According to data used by South African Tourism, by 1990 the total number of international arrivals in South Africa was only approximately 1 million (South African Tourism, 2010). This low figure was a reflection of the fact that the country's tourism economy suffered variously from the negative impacts of apartheid policies, the imposition of a national State of Emergency in the late 1980s, and the effects of international sanctions and boycotts (Rogerson and Visser, 2004). Indeed, the period of the 1970s and 1980s is characterised appropriately by South African Tourism (2007) as that of 'stagnation' which drove low investment and an industry focus which was narrowed upon white South African domestic markets (South African Tourism, 2007: 2). With the release of Nelson Mandela in 1990, and the lifting of international sanctions, international tourism arrivals began to increase sharply, such that, by 1993, a total of 3 million foreign arrivals was recorded. In 1994, the year of transition to democracy and the hosting of the country's first democratic elections, international tourism numbers totalled 3.9 million (Gil-Alana, 2011). In the wake of the democratic elections and the country's peaceful transition to non-racial democracy, the South African tourism industry experienced a new sense of buoyancy with an upturn in tourism arrivals which reached nearly 6 million by 2000. This growth in international tourism continued even after the uncertainties following the 9/11 attacks in the USA which ironically gave South Africa a new status as a relatively peaceful destination which was not subject to international terror attacks (Rogerson and Visser, 2004). Ten years after the birth of the new democracy, international tourism arrivals had expanded to a total of 6.7 million visitors.

Since 2004, further growth has been recorded, albeit tempered somewhat by the effects of global recession associated with the financial crisis beginning 2008 to 2009 (Dlamini, 2010). From 2008, the actual year-to-year trends in international tourism arrivals become difficult to interpret. This is a result of the fact that during 2009 to 2010, the collection and reporting of statistics relating to international tourism was amended by the official authorities. The major change was to separate out the category of 'foreign day visitors' (mainly from neighbouring African countries) from the totals of overall international arrivals (South African Tourism, 2011: 4). Currently, the best picture of international tourism in South Africa is that offered by the 2011 Annual Tourism Report produced by South African Tourism which states that in 2010, the year of South Africa's hosting the FIFA World Cup, a total of 8 073 552 total tourism arrivals was recorded. This represents an increase of 1 061 687 tourists or 15.1% from the 2009 arrivals (South African Tourism, 2011). Undoubtedly, this rise in international tourist arrivals numbers was boosted by the hosting of the 2010 FIFA World Cup which saw 309 554 tourists visiting specifically for the event. Indeed, during 2010, international tourist arrivals spiked during June, a traditionally low performing month, as a result of the World Cup (South African Tourism, 2011).

Overall, in the two decades from 1990 to 2010, it is evident that the numbers of international tourism arrivals in South Africa expanded eightfold. It should be understood, however, that there are two distinct sub-groups within the international tourism economy of South Africa. These are the long haul market of mainly leisure tourists from Western Europe and North America on the one hand, and the regional market of tourists to South Africa from sub-Saharan Africa, on the other hand (Rogerson and Visser, 2006). The largest cohort in South Africa's international tourism economy is represented by 'regional' tourists or tourists from other countries in sub-Saharan Africa. The growth in African tourist arrivals to South Africa has been remarkable since 1990. The official data of tourism arrivals as recorded by South African Tourism discloses Africa is the source of 78% of international tourism arrivals to the country (South African Tourism, 2010). This finding confirms the considerable importance of regional tourists for South Africa's tourism economy. Indeed, Eita et al. (2011: 667) suggest that "South African businesses should align themselves to serve the increasing number of African tourists".

Over the past five years, the significance of African arrivals for South African tourism has heightened both in absolute and relative terms. As compared to 2004 the absolute numbers of regional tourists grew by 3.07 million visitors and the share of Africa in total international tourism arrivals to South Africa rose by nearly 8%. Arguably, South Africa's neighbouring states are an anchor for the country's international tourism economy (Rogerson and Visser, 2006). The dominance of neighbouring African nations is demonstrated by the fact that they represent seven of the ten most important source countries for foreign arrivals. Six of South Africa's top 10 country source markets for international tourists - Lesotho, Swaziland, Botswana, Zimbabwe, Mozambique and Namibia - are proximate countries (Rogerson and Visser, 2006). Importantly, however, for the development of tourism product in South Africa, including the supply of accommodation products, it must be appreciated that the largest segment of African visitors are travelling to South Africa for the purpose of either visiting friends and relatives or for cross-border shopping or trading.

In terms of tourism product development, the most significant segment of the international tourism market in South Africa is represented by the 'long haul market'. For 1990, it was estimated that the long-haul international tourism market, which is dominated by visitors from the United Kingdom, Germany, the USA, Netherlands and France, was less than 0.5 million in total (Kohler, 2010). Rapid expansion of this critical segment of mainly leisure tourists occurred after South Africa's re-engagement and integration into the international tourism economy as the country gained the positive image of a peaceful 'Rainbow Nation' (Rogerson and Visser, 2004). By 2008, the long haul international market had grown fourfold reaching over 2 million arrivals (Kohler, 2010). The global financial crisis impacted most severely upon this group of long haul international tourists with a recorded 4% decrease in the period 2008 to 2009. The largest downturns occurred from the critical source markets of Germany, France, USA and Netherlands (Dlamini, 2010: 6). Nevertheless, the hosting of the 2010 FIFA World Cup witnessed a reversal of this downturn with the increase of international tourism to South Africa from Western Europe, North America as well as Asia and Australasia.

Finally, in terms of profiling the South African tourism economy, it must be appreciated that the historical base of tourism product development, including hotels, has been constituted by domestic tourism. Indeed, during the years of South Africa's isolation (as a result of apartheid) from the international tourism economy, domestic tourists were the foundations or bedrock of the local tourism industry (Rogerson and Visser, 2004). Since 1990, in relative terms, the importance of the domestic market has been reduced with the surge of international tourism arrivals. Nevertheless, this market remains substantial and is still critical for certain segments of both business and leisure tourism. As regards actual numbers, the volume of domestic tourists exceeds that of international tourists in South Africa (South African Tourism, 2011). It is estimated that 14.6 million adult South Africans undertook about 30 million domestic trips in 2009 and in 2010, 13.5 million domestic tourists undertook 29.7 million trips. Visiting friends and relatives continues to be the major reason for domestic trips accounting for almost three-quarters of all domestic trips taken in 2010 (South African Tourism, 2011: 10). For the tourism industry, the continued significance of this segment of tourists is apparent from the fact that it is less volatile than the foreign tourist market.

Since the post-apartheid transition, the South African government has recognized that the tourism sector offers the potential to bring about economic growth and employment creation (Rogerson and Visser, 2004; Eita et al., 2011). Most recently, this view is confirmed by tourism's positioning as one of the six 'core pillars of growth' in South Africa's 2010 New Growth Path Framework. In his 2011 State of the Nation address, President Jacob Zuma declared 2011 as "the year of job creation" with the tourism sector committed to creating a total of 225 000 additional jobs by 2020 (Department of Tourism, 2011). The National Tourism Sector Strategy issued in 2011 seeks to increase the tourism sector's total direct and indirect contribution to the economy from

R 189.4 billion (7.9%) in 2009, to R 318.16 billion in 2015, and R 499 billion by 2020. National government recognizes that many different segments of the South African tourism economy are not currently being fully explored. Several tourism 'niches' thus have been targeted for promotion, including business and events tourism, cultural and heritage tourism, and 'rural tourism' opportunities as a whole (Department of Tourism, 2011). It is against the backcloth of the reinsertion of South Africa into the international tourism economy from the early 1990s and of recent energetic drives made by national government to spur the tourism economy that in the next section attention turns to analyse the changing nature of the South African hotel industry and of hotel businesses over the period 1990 to 2010.

SOUTH AFRICA's CHANGING HOTEL SECTOR AND MARKET SEGMENTATION SINCE 1990

In contrast to the situation in certain African countries, which maintain data bases on the national hotel sector, it is admitted officially that South Africa lacks "an adequate data base of the tourism supply-side" (Department of Tourism, 2011: 15). In the absence of accurate official data concerning the hotel sector in South Africa, as part of this investigation, two national data bases were constructed to afford a comprehensive listing of all registered hotels in the country for the years 1990 and 2010 (Rogerson, 2011a). These two data bases were based on a triangulation of a range of different data sets and sources, including listings of hotels as collected by SATOUR (the precursor to South African Tourism), the South African Tourism Grading Council, the AA listings, SA venues, Where To Stay listings and, most recently, an internet search of corporate and local destination websites. Information on each establishment was collated variously concerning location, size of hotel (indexed by room numbers), and quality as measured by star rating. In addition, ownership changes were tracked with information sourced most especially for hotels that were part of chains.

The key findings of this analysis of the South African hotel industry for the period 1990 to 2010 reveal a phase of major restructuring. The full details are reported in Rogerson (2011a) and only the summary details are provided here. Between 1990 and 2010, there was little net change in the total number of hotels in the country. In 1990, the study recorded 1003 hotels; in 2010, the total had risen to 1165. These gross figures, however, disguise considerable changes which occurred in the hotel industry over this 20 year time-span. First, the hotel industry had become concentrated in terms of ownership with the growth of a number of major chains of hotels, which importantly were South African owned and managed businesses. The most notable of these chains are Southern Sun, Protea Hotels and City Lodge. Second, in terms of location, what is observed is a pattern of geographical concentration of hotels in and around South Africa's major urban centres, most importantly, Johannesburg, Pretoria, Cape Town and Durban. With South Africa's re-entry into the global tourism economy, the most notable new growth is recorded at Johannesburg, South Africa's business capital, and Cape Town, the country's most iconic destination for long haul international tourists. Three, enormous shifts have taken place in the quality standards of the hotel sector. In 1990 almost 800 hotels were graded as either only one or two star establishments, representing 80 percent of the total hotel stock. By 2010, approximately 900 hotels or 77% of the total were graded as three, four or five star standard establishments. Four, major changes were evident also in the size of hotels in South Africa. In 1990, nearly 80% of all the country's hotels were 50 rooms or smaller. By 2010, the majority of hotels were in a larger size class, ranging between 51 and 500 rooms (Rogerson, 2011a).

What is of particular interest in this analysis is the observed trend between 1990 and 2010 for accelerating segmentation of South African hotel products. Since the 1994 democratic elections in South Africa, the hotel industry has evolved from one that was underdeveloped and undifferentiated to one that is differentiated, segmented and offers a range of accommodation types of high quality (Rogerson, 2011a). Although it was disclosed that the initial moves towards segmentation occurred prior to 1990, the period of the country's rapid expansion of tourism coincident with its reintegration into the global tourism economy marked the onset of major hotel development and upgrading. Since 1990 the nature of the hotel industry in South Africa has changed with the emergence and growth of an array of new hotel products catering for particular market niches. Three examples to show market segmentation are highlighted subsequently in the cases of boutique hotel, the all suite hotel and the limited service hotel. In each of these three cases, a specific national data base was established for each particular segment and key stakeholder interviews conducted in order to understand major trends and business management issues.

Boutique hotel

The boutique hotel represents a market segment which has been the focus of increasing international investtigation. The emergence of the boutique hotel is acknowledged to be an innovative response to the standardization and commoditization of the hotel and of international hotel developments occurring during the 1970s and 1980s (Rutes et al., 2001). Teo and Chang (2009: 83) observe the global popularity of boutique hotels is a reaction to the prevalent mass tourism of the 1970s "characterized by identically designed transnational hotel companies, commodified attractions and rigid travel practices" This counter- movement was inspired by a consumer search for hotels with unique or innovative characteristics and these establishments became variously styled as design, lifestyle or boutique hotels (Freund de Klumbis and Munsters, 2005). The origin of boutique hotels is widely attributed to Ian Schrager and Steve Rubell in New York and Anouska Hempel in London (Callan and Fearon, 1997; McNeill and McNamara, 2010). Scholarly writings on boutique hotels stress the experiential nature of this form of accommodation (Horner and Swarbrooke, 2005; McIntosh and Siggs, 2005; Aggett, 2007; Chang and Teo, 2008). McNeill (2009: 219) avers that the most common features of boutique hotels are "individual, design-conscious, small scale-operations" while Lim and Endean (2009: 39) stress "the combination of service quality characteristics, individual design, location and facilities". In addition, several writers point to different features of the boutique hotel, namely the personalized and individual service, their uniqueness that differentiates them from branded hotel chains and their design expressed variously in terms of architecture, buildings or furniture which are acknowledged to be crucial to the growth and success of the boutique hotel sector.

In South Africa, there were no boutique hotels established in the country prior to the 1994 democratic elections. This market niche is, however, now a rapidly emerging segment of the growing South African hotel industry as a whole. The national audit produced a total of 127 boutique hotel establishments in operation by 2010 or 10.7% of the total number of hotels in South Africa (Rogerson, 2010). The boutique hotel segment represents a vital element of the broader movement towards quality upgrading in the hotel sector as a whole. It was revealed that 44% of the South African boutique hotels were graded as five-star, 47% four-star and 9% were graded as three-star establishments. In particular, the boutique hotels account for 16.8% of the national total of establishments in the 3 to 5 star accommodation bracket. Common with international trends, the majority of South Africa's boutique hotels are relatively small with an average of 22 rooms per establishment. Unlike the full service hotel sector which is predominantly situated in and around Johannesburg, boutique hotels are mostly concentrated in the Western Cape with 40% of all South African boutique hotels found in the city of Cape Town.

The interviews disclosed key issues around ownership and management of this emerging segment of the South African hotel industry. The vast majority of boutique hotels are South African owned by small groups or individual investors rather than by large investors. None the less, Protea Hotels, one of South Africa's largest branded hotel chains has entered into the boutique hotel market in order to diversify its brand into the boutique niche. Foreign direct investment is limited, although some recent FDI has occurred with Swiss and Kuwaiti investors (Rogerson, 2010). Common with international trends (Rutes et al., 2001; McIntosh and Siggs, 2005; Aggett, 2007), South African boutique hotels are distinguished by their experiential qualities regarding their intimacy, service excellence, individual décor and design, ambience and high levels of personalized attention. In terms of management challenges, the most distinctive problem was that the national grading classification in South Africa does not recognize boutique hotels as a separate and distinctive category of hotel. This situation means that many hotels remain ungraded as the five star products that they consider themselves to offer differ from those formally required facilities and services (such as 24 h room service, concierge service, restaurant facilities) which they cannot supply as a result of their small size.

All-suite hotels

This is a new hotel product in South Africa. The concept of all-suite was first developed in the United States during the 1980s when the Marriott Group introduced its Residence Inn brand (Leslie and Craig, 2000). The all-suite concept is based on the premise that certain travelers do not use the meeting rooms, lounge facilities and restaurants that are provided for in full service hotels (Rushmore and Baum, 2002). By re-using the space normally allocated to these facilities for the provision of guestrooms, the developer creates spacious suites with separate living and sleeping areas. The key differentiating factor of an all-suite hotel is that it offers self-catering (Geieregger and Ochmichen, 2008). It is considered that all-suite products have the advantage of lower construction costs as compared to similar quality full service hotels. During the 1990s and early 2000s, it was recorded that the all-suite sector in the United States outperformed the traditional hotel sector and that gross operating profits were consistently higher for all-suite hotels than the other segments in the hotel industry. However, as a result of declining hotel investment returns as a whole combined with escalating residential real estate prices a hybrid variant of the all-suite hotel emerged.

What has become known as the 'condo hotel' became established and has increased in numbers. The condo-hotel differs from the traditional all-suite hotel in that it is not fully owned by a hotel enterprise. Instead, the suites are owned by individual investors and the common area and hotel functions are managed by a hotel group or management company. The suites are rented out to guests and the hotel management company oversees the unit bookings and reservations through the hotel rental pool and the income is divided between the unit owners. The condo-hotel provides a new supply of properties and opportunities for hotel chains to expand their brands and generate fees from the franchising and management of operations (Clancy, 2011). Common with the traditional all-suite hotel, the condo-hotel enjoys flexibility in its usage and can easily be converted from a hotel to an apartment block if returns are below projections.

The all-suite hotel concept arrived in South Africa a decade after it was an established market segment in North America. The research disclosed the first appearance of all suite hotels in Johannesburg during the 1980s prior to democratic change. Since 1994, however, there has been a steady growth of new all-suite hotel openings in South Africa (Rogerson, 2011b). The research audit yielded a total of 60 all-suite hotels established by 2010, a small niche segment of 5.1% of all hotels in the country (Rogerson, 2011b). Parallel with the North American experience, the South African all-suite hotels were initially developed and owned outright by hotel groups. However, the condo-hotel in which suites are sold as sectional title to individuals, has since gained in popularity. Interestingly, a further variant of the all-suite hotel is recognized in South Africa. A number of full service conventional hotels have been developed to include top floors dedicated to all-suite accommodation and sold off as sectional title to private investors yet managed by the hotel group on a day to day basis. This emerging hybrid is found mainly within the financial districts of the two major cities of Cape Town and Johannesburg. All-suite hotels in South Africa average 61 units per establishment and are located within the medium to luxury category of accommodation. Geographically, this form of accommodation is highly concentrated with the two largest cities of Johannesburg and Cape Town accounting for 82% of all-suite hotels in the country (Rogerson, 2011b). In both cities, the all-suite hotel was targeted primarily at the business tourist rather than the leisure tourist. South African hotel brands are the major developers and actors in the all-suite hotel market. Major international brands such as Marriott, Hilton, InterContinental or Ascott are absent from the South African all-suite market sector.

The interviews conducted with all-suite managers disclosed three key management challenges (Rogerson, 2011b). First, a significant theme from the research interviews was of intensified levels of competition in the all-suite sector, which mirror the conditions in the hotel market as a whole (Kohler, 2010). Signs of oversupply are evident, particularly in the Cape Town area, mainly due to a number of four and five star hotels coming on stream which were catalyzed by the optimism linked to an expected spike in tourist numbers because of the FIFA World Cup. The all-suite sector has responded by either reducing their rates or keeping them in line with conventional hotels of the same star grading. Second, it was revealed that the majority of all suite clients in South Africa opt to stay in an all-suite hotel mainly because of its locational attributes rather than for its distinctive self-catering facilities. In this respect, the South African all-suite market differs substantially from that in either Western Europe or North America (Moreau and Thorsteindottir, 2005). Third, there has been a shift away from the traditional all-suite hotel towards the condo hotel or hybrid variant of all-suite properties. These more differentiated hotels reduce the hotel chain exposure to costs and variable occupancies through its individual ownership structure. Current patterns of investment in South African all-suite hotels reflect the preference for condo-hotels which often are marketed and sold as "lifestyle choices" (Rogerson, 2011b).

The limited service hotel

This represents a third example of market segmentation occurring in the South African hotel industry since 1990. Once again, the limited service hotel is an imported concept with its origins in the USA (Tanford et al., 2011). The rise of the limited services concept was triggered by "the consumer drive for affordable accommodations that still offer the necessary or most frequently utilized creature comforts of the full service hotel" (Berger and Chiofaro, 2007: 40). In the USA, the growth of the limited services hotel has been advanced by brands such as Days Inn, Comfort Inn or Super 8 and represents one of the fastest expanding segments of the United States hotel industry over the past two decades. Several elements differentiate the limited service hotel as opposed to its full service counterpart. The limited service hotel tends to be smaller than the full service hotel and incorporates fewer ancillary spaces such as meeting rooms, lobby space and restaurants. Further, the limited service hotel is viewed as easier to develop, easier to operate and, using comparative risk analysis, demonstrated to be less risky than investment in the full service hotel (Berger and Chiofaro, 2007). In terms of ease of operation, the limited service hotel is less expensive to operate as they do not offer the range of services or amenities of a full service hotel. The most significant savings relate to food and beverage provision as the restaurant is eliminated, and consequently, significant labour cost savings are also realized (Berger and Chiofaro, 2007).

The concept of limited service spread to South Africa during the 1980s, adapted and refined in what was termed the "selected service hotel" (Enderle, 1987). The growth of the limited service market segment in South Africa has been pioneered by one particular hotel group, namely the City Lodge, one of three locally owned hotel groups that dominate the country's hotel industry. By contrast, the other two leading hotel groups Southern Sun and Protea Hotels operate a range of branded hotel products mostly in the full service hotel category. City Lodge characterizes their hotels as "selected service" due to their offering differing slightly from the American one. After extensive market research concerning South African consumer preferences a strategic management decision was taken not to merely import an already successful American branded product but rather to initiate “something specifically tailor made for the South African business community” (Enderle, 1987: 23). In the South African variant of the limited service concept, accommodation standards were improved from the American model and lifted from the one and two star level offerings to those matching a three star establishment (Rogerson, 2011c).

The first three star selected service, City Lodge, was established in Johannesburg in 1985 and was an immediate success with the business travelers that were, and continue to be, its target market. City Lodge broke the mould of the traditional full service hotel that was the norm in South Africa and declared that their “prime business is the provision of affordable, high-quality accommodation to travelers with excellent service” (City Lodge Hotels Annual Report, 1993). Since its inception, there have been a few minor changes to the initial business concept with small meeting rooms added to most of the hotels as well as more twin bedrooms and a coffee shop which serves light meals suitable for those who have already indulged in a business lunch or female travelers not wanting to go out at night. These adjustments have been as a result of constant reassessments of their offerings and the feedback of their customers (Rogerson. 2011c).

A significant observation is that the City Lodge hotel group has expanded mainly as a result of internal growth rather than external growth (Cunill, 2006). City Lodge did not adopted the growth path of management contracts and franchise agreements but instead, has engaged in expansion through a strategy of internal investment, brand diversification and of further market segmentation of its limited service model of hotel development (Rogerson, 2011c). By 2000, the group owned and operated 33 properties in metropolitan Johannesburg, Cape Town, Durban and Port Elizabeth as well as the secondary cities of Bloemfontein and Nelspruit. Notably, more than half of these properties were situated in and around Johannesburg and Pretoria, South Africa’s economic heartland. The decade 2000 to 2010 was one of further growth and economic confidence as South Africa’s reputation improved as an international destination. The year 2010 witnessed the most new hotel openings with nine new hotels and one major expansion completed. This unprecedented growth took the group to a total portfolio of 52 limited service properties located within and around 14 major and secondary cities (Rogerson, 2011c).

Of note is that by 2010, City Lodge was not the only player in the limited service market in South Africa; this market niche was experiencing expanded competition from new business entrants. During 2011, it is significant to record that City Lodge announced investment plans for developing a chain of up to 20 branded hotels outside South Africa in other countries of sub-Saharan Africa. The group’s expansion is to be focused upon city business locations with the following countries the potential targets for expansion of operations: Botswana, Kenya, Mozambique, Namibia, Nigeria, Rwanda, Tanzania, Uganda and Zambia (Anon. 2011).

DISCUSSION

Over the past 20 years, South Africa has emerged as one of Africa’s leading tourism destinations. The findings of this empirical work on the South African hotel industry show that behind a statistical picture, which reveals seemingly little change in the South African hotel sector between 1990 and 2010, dramatic shifts and transformations have occurred in the nature of the country’s hotel industry. The findings given in this article extend the initial attempts made to unpack the changing nature and challenges facing the South African hotel industry which were presented over a decade ago by Ahmed et al. (1999). Key structural changes which have re-ordered the landscape of the South African hotel industry since 1990 have included major new investments and upgrading which have produced a major upgrading of quality standards in the industry. Although there has been some element of foreign direct investment (FDI) in the South African hotel sector, it must be made clear that unlike the situation in many African countries where foreign investors dominate the ‘commanding heights’ of the hotel sector, in South Africa, it has been domestic capital which has been reshaping the country’s hotel industry in the wake of new opportunities which accompanied the post-apartheid transition and South Africa’s reintegration into the global tourism economy.

One critical dimension of quality upgrading of South Africa’s hotel sector has been the growing trend towards market segmentation. The segmentation processes that have been advancing in the South African hotel industry have obvious parallels in the North American and Western European hotel industry. In common with trends observed in other parts of the world, therefore, investors in the South African hotel industry have sought to create differentiated products to appeal to different market segments. Some of those differentiated products such as the quality boutique hotel represent direct parallels to those in urban centres in the global North. Others, however, represent an adaption to the African context of forms of hotel development which were first innovated in North America or Western Europe. It was observed, for example, that the all suite hotel has shifted its form to adapt to the South African market such that one can recognize the appearance of a distinctive ‘African’ condo hotel. Likewise, it was documented that aspects of the limited service concept of hotel as pioneered in North America have been ‘Africanised’ in the roll out and expansion of City Lodge operations in business centres of South Africa and potentially now into the wider arena of urban centres in other sub-Saharan African countries.

Overall, therefore, there is emerging a distinctly African component in the market segmentation processes as observed here of the changing hotel sector in South Africa over the 20 year period (1990 to 2010).

CONCLUSION

As has been pointed out by Beane and Ennis (1987) and Webber (2011) among others, the literature on market segmentation is extensive. In tourism scholarship there is an increased interest in applying the concept of market segmentation (Tkaczynski et al., 2007; Tkaczynski and Rundle-Thiele, 2011). Only limited use of this concept has been undertaken so far to analyze the hotel sector, particularly in sub-Saharan Africa where the hotel Industry is relatively neglected within the corpus of existing tourism scholarship (Rogerson and Rogerson, 2011). The results of this research show that in South Africa, one of Africa's leading tourism destinations, market segmentation has been a distinguishing feature of the country's hotel sector particularly over the past 20 years. It is observed that as post-apartheid South Africa shook off its status as international pariah state and blossomed as a new destination in the international tourism economy, the national tourism industry underwent restructuring with considerable extension and upgrading. Arguably, therefore, the growth and subsequent acceleration of market segmentation in South Africa's hotel industry is one outcome of the country's reintegration into the global tourism economy which facilitated a range of new opportunities for hotel property investment and business development. This was demonstrated through the three case studies of the growth and expansion of the boutique hotel, the all suite hotel and the limited service hotel in South Africa. In the international context, the discussion highlights a trend towards a distinctively African variant of market segmentation as revealed through the lens of the South African hotel sector. Further monitoring of market segmentation in the growing hotel sector of sub-Saharan Africa is warranted in future research investigations.

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