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Hotel chains of the global South: The internationalization of South African hotel brands

Abstract

The global hotel industry is at the heart of the tourism production system and dominated by chain affiliated hotels. Understanding the international spread of hotel chains is a critical issue in contemporary tourism scholarship. Although the internationalization of hotel chains based in the global North is extensively researched, limited work exists on hotel chains based in the global South. This paper addresses the internationalization and destination choice in Africa of South African based hotels as a contribution to this investigatory void. Research material is drawn from the triangulation of data from internet sources, corporate annual reports and the business press. The analysis reveals eight different South African chains expanded northwards and now operate a total of 72 hotel or hotel/resort operations across 16 different African countries. A useful conceptual base for unpacking the destination choice of South African hotel chains is the eclectic paradigm of internationalization which offers insights based upon the variables of ownership advantages, location-specific advantages and internalization/coordinating advantages. It is argued that South African hotel chains advancing into other African countries have distinct ownership advantages which give them a competitive advantage as compared to local hotel groups. The spatial spread of South African hotel chains is linked mainly to the growth of business tourism and improvements in the infrastructure, business environment and tourism product base across several African emerging tourism destinations.

Key words: hotel chains; business tourism; eclectic paradigm; South Africa; Africa

Introduction

At the heart of the tourism production system is the global hotel industry (Niewiadomski, 2016, 2017). Essentially this hospitality service industry can be conceptualised into two distinct components, a large segment of independent hotels on the one hand and a comparatively small number of branded establishments functioning as large hotel chains on the other hand.Although the global hotel industry remains fragmented,by 2014 it is estimated the five largest brands accounted for over a million hotel rooms and that 80 percent of hotels under construction around the world were chain affiliated (Niewiadomski, 2014; Ivanova, Ivanov & Magnini, 2016). With competition in the hotel industry becoming increasingly global in character, the internationalization of hotel chains is an expanding terrain of research with recent contributions drawn from business/management studies, economic geography, and tourism studies.In researching hotel chains a central issue is the patterns and processes of their development and international expansion (Ivanova, 2013; Niewiadomski, 2014, 2015; Ivanova et al., 2016). Among key issues under scrutiny are the sources of competitive advantage, the modal choice or market entry strategy, destination choice factors such as market size, cultural proximity or geographical distance, and the hotel industry's influences on host economies through knowledge-transfers and innovation (Littlejohn, Roper & Altinay, 2007; Boyen & Ogasavara, 2013; Ivanova, 2013; Ivanova &

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Ivanov, 2014; Niewiadomski, 2014; Yu, Byun & Lee, 2014; Ayazlar, 2015; Niewiadomski, 2015; Falk, 2016; Ivanov & Ivanova, 2016a, b,c; Ivanova et al., 2016; Niñerola, Campa-Planas, Hernàndez-Lara & Sanchez-Rebull, 2016; Niewiadomski, 2017).

In terms of global scholarship most existing research is dominated by the internationalization processes and patterns of hotel chains based in the global North. Africa is a growing region of the global tourism economy and subject to expanded competition by international hotel chains seeking to capture its growing markets of leisure and business tourism (World Bank, 2014; Rogerson, 2015).This paper addresses the internationalization of South African based hotels and destination choice in Africa as a contribution to the little documented scholarship concerninghotel chains based in countries of the global South. Material is drawn from the triangulation of data from internet sources, corporate annual reports and the business press.

South African hotel chains

Prior to 1960 the majority of South Africa's hotels were little more than bars serving alcohol with rooms attached (Rogerson, 2013a). These sub-standard accommodation offerings were shaken up bylegislative changes in the mid-1960s which resulted in a dramatic growth, restructuring and modernization of the South African hotel industry led by the emergence and consolidation of the large Southern Sun Hotel chain (Rogerson, 2013b, 2013c). With limited local competition because of international sanctions the South African hotel industry became dominated by the operations of the Southern Sun group. Growth of this hotel chain was rapid throughout the 1970s and 1980s extending its portfolio in middle range and up-market full service hotels. However, market penetration of Southern Sun into the surrounding states of Southern Africa was thwarted by apartheid-based political opposition to a South African based hotel chain. The allied Sun International group established an array of major hotel casino resorts in the supposedly independent Bantustan states of South Africa and despite a hostile political environment did extend into select surrounding African states and Indian Ocean islands (Rogerson, 1990).Beyond these two chains several other hotel groups commenced operations in South Africa during the 1980s the most significant the Protea group of mid-range hotels (launched 1984) and City Lodge which innovated the conceptof the limited service hotel (Rogerson, 2011).

The 1994 democratic transition opened a new era for South Africa's tourism economy and its hotel groups (Rogerson, 2013b, 2013c).With the abandonment of international sanctions South Africa became a popular destination for long haul travelers to experience the country's big 5 wildlife attractions, beaches, cities and winelands. Other South African hotel brands were launched, notably Legacy Hotels, Three Cities, Peermont, Mantis Group, Signature Life, Urban Hip and African Sky. These new hotel chains as well as the established Southern Sun, City Lodge and Protea Hotel groups consolidated their hotel offerings within the growing South African tourism economy. Importantly, also, several began to investigate new business opportunities farther north in Africa, a region hitherto *terra incognita for South African based hotel chains under apartheid.*

Northern shift

No longer circumscribed to the home base, South African hotel chains northward advances is an integral part of the wider internationalization of South African capital in sectors such as retailing (Carmody, 2013). Table 1 represents the findings of the audit of South Africa's leading hotel chains and their operations in 2015, 20 years after the ending of sanctions.

Table 1

Hotel chains based in South Africa: Expansion into Africa 2015

	Protea	Tsogo Sun	City Lodge	Sun Int	Three Cities	Lega-cy	Peer-mont	Mantis	Total
South Africa	69	93	53	15	32	19	10	12	303
Rest of Africa	28	8	3	9	5	11	5	3	72
Botswana			1	1	2		4		8
Gabon						1			1
Ghana	1					2		1	4
Kenya		1	2						3
Lesotho				2					2
Malawi	1						1		2
Morocco								1	1
Mozambique		1							1
Namibia	9			1		2			12
Nigeria	3	1		1		1			6
Seychelles		2						1	3
Swaziland				1					1
Tanzania	4	1							5
Uganda	2								2
Zambia	8	2		1	1				12
Zimbabwe				2	2	5			9

It is shown that eight different South African chains expanded into other countries of Africa and currently operatea total of 72 hotel or hotel/resort operations across 16 countries beyond South Africa (Table 1).The most extensive African footprint is enjoyed by Protea with 28 hotels across seven African countries beyond South Africa. The group comprises the mid-upmarket Protea Hotels and Protea Hotel Fire & Ice as well as the superior deluxe African Pride Hotels, offering full service hotels catering for the three to five star business and leisure traveler. During 2014 the Protea group sold its hotel marketing, management and franchise business to the US-based Marriott International, albeit all itsportfolio are still branded as 'Protea'. The takeover provided Marriott International with exposure to Sub-Saharan Africa a geographical regionformerly absent from its international hotel investments as historically, the Marriott brand focused on North Africa. Since the buyout Marriott enjoys exposure in Zambia, Nigeria, Namibia, Uganda, Tanzania and Ghana (as well as South Africa) making it now the largest hotel operator in Africa with 125 hotels and 14 000 rooms across 10 countries. At present Marriott are capitalizing on the Protea Brand with new hotel openings due in Botswana, Rwanda, Nigeria and Ghana; they have yet to introduce other Marriott Brands into Africa.

Seven other South African hotel chains area active outside the country with a collective total of 44 hotels. Arguably, each of these groups targets different market segments for accommodation services. In its second attempt at geographical extension beyond South Africa the Southern Sun group – rebranded in 2012 as Tsogo Sun – has shifted its brand of casino and leisure hotel resort developments into six different countries.Sun International, the operator of hotel and gaming properties, has properties in Botswana, Zambia, Swaziland, Namibia and Lesotho. Recently, the group has restructured and aggressively markets a portfolio of premium 5 star deluxe properties (including Zambia) and business travel-focused properties spanning Nigeria, Namibia and Swaziland.As compared to other chains the City Lodge Group with three main brands -City Lodge, Town Lodge and Road Lodge -was relatively slow to invest in Africa. Recently, their investments have accelerated and by 2018 City Lodge will have eight hotels outside South Africa. As the City Lodge brands target the three to two star travel market and provides limited service, value for money accommodation offerings spatiallyits hotels are located in urban areas – often capital cities - convenient for leisure and (especially) business travelers. Their first venture was a Town Lodge in Gaborone, Botswana followed by two hotel investments in Nairobi, Kenya; further developments are announced for Nairobi, Windhoek, Maputo and Kampala.

The Legacy Hotels and Resorts owns and manages a collection of 11 four and five star hotels and casino resorts in tourist and business locations beyond South Africa and targets its activities to "key corporate areas of Africa" (Rogers, 2015, p. 72). The group has hotel investments in Ghana, Gabon, Nigeria, Namibia and Zimbabwe and plans for expanding into Zambia, Mozambique and Kenya. The final three chains are Peermont, Three Cities and Mantis. Peermont Hotels launched in 2002and rebranded as Peermont Global in 2003 has the most extensive operations in Botswana and in 2015 opened Malawi's first 5 star hotel and convention centre in Lilongwe, the capital city. Three Cities Group, formed in 1988 as a hospitality group with a portfolio of 30 leisure properties including game lodges and country resorts, linked with African Hotels and Adventures (AHA) in 2014 resulting in a wave of expansion beyond South Africa most notably hotel investments in Botswana, Zambia and Zimbabwe.

The Mantis chain consists of up-market boutique hotels and eco-lodges and within this segment has three hotels outside South Africa in Seychelles, Ghana and Morocco, the latter the only South African hotel chain in North Africa. New Mantis developments to their African portfolio are a 5 star hotel due to open late 2016 on the remote island of St Helena. Arguably, this boutique hotel is at the heart of initiatives for establishing St Helena as a new African tourism destination.

Unpacking patterns and processes

In unpacking the patterns and processes of the internationalization of South African hotel chains in Africa Dunning and McQueen's (1981) influential eclectic paradigm provides a useful conceptual base and starting point. This holistic approach to hotel internationalization with roots in international trade theory offers insights based upon the variables of ownership advantages, location-specific advantages and internalization/coordinating advantages (Littlejohn et al., 2007; Boyen & Ogasavara, 2013; Ivanova, 2013). South African hotel chains advancing into other African countries have distinct ownership advantages which afford them a competitive advantage as compared to local hotel groups because of the experience and quality of their managerial expertise, networks of suppliers and partners, and (critically) their ability to innovate new accommodation products.The location-specific advantages for internationalization relate to improvements in the infrastructure, business environment and tourism product base across several African emerging tourism destinations (World Bank, 2014). According to the UNWTO (2016) data tourism arrivals in Africa burgeoned from 37 million in 2003 to 62.5 million by 2015 notwithstanding political turbulence and the Ebola outbreak. The core leisure attractions relate to nature tourism, culture and heritage as well as iconic natural beauty of destinations such as Victoria Falls. Beyond leisure assets, however, other significant location-specific advantages of African host markets relate to the growth of international and domestic business travel which is a vital driver for the growth of hotel chains (Rogerson, 2015). Another explanatory factor is of cultural distance or familiarity between South African hotel developers and the host destinations. Following Ivanov and Ivanova (2016c) it can be argued that 'culture matters' in terms of explaining the different markets and countries that individual hotel chains have penetrated. Indeed, of the 72 hotels operated by South African chains only one is located in Francophone Africa; South African hotels predominantly have built upon their networks in Anglophone Africa. The third group of factors put forward as determinants of a hotel chain's expansion into foreign markets are so-called 'internalization advantages' which relate to companies' skills to internationalize resources. In this respect the entry modes of South African chains into other African markets exhibit a range from full ownership and joint venture equity to a cross-section of non-equity modes from management contract to franchise operations.

Finally, in seeking to interpret the destination choice of South African hotel chains in Africa, the growing competition must be acknowledged from international hotel chains based in the global North. As has been pointed out, local property developers in Africa often seek 'international' (rather than South African) brands for hotel developments in order to "provide a certain level of comfort and a sense of security when travelling to an unfamiliar location" (Ernst & Young, 2011, p. 35). In the increasingly competitive environment of the African hotel industry South African hotel chains therefore are challenged by the activities of Accor, Starwood, Hilton and Radisson which are pro-actively seeking out opportunities for management and franchise agreements as well as the occasional direct equity investment. As Africa is one of the emerging tourism regions of the global tourism economy, understanding the complex and shifting landscape of hotel chains in Africa is a critical research issue for tourism scholars.

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