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Market segmentation and the changing budget hotel industry in urban South Africa

Market segmentation is a critical driver of change in the hotel industry, resulting in the appearance of differentiated forms of hotel property developments, including budget hotels. International research on budget hotels is mainly limited to North America and Europe, with some more recent studies on emerging economies. This article examines the role of budget hotels within the wider restructuring of the South African hotel industry following the country's re-entry into the global tourism economy after its democratic transition. Historically, the South African hotel industry became dominated by one- and two-star budget accommodation as a result of the country's liquor legislation. With the reconfiguration

of the hotel industry after 1990 to target the growing international tourism market, the role of budget hotels changed. This analysis examines the diminished role of budget hotels in South Africa's hotel economy, the shifting nature of the budget hotel and location patterns of budget hotels from 1990 to the present. It shows that post-1990 budget hotels are mainly concentrated in large cities and secondary centres of South Africa, and that in small towns the former liquor-focused budget hotel has been replaced by other forms of accommodation.

Key words: segmentation, hotel industry, budget hotels, South Africa

1 Introduction

Dallen Timothy and Victor Teye (2009) point out that in lodging services the largest share of scholarly work focuses on the business management side of accommodation, mostly studying it from a hospitality management perspective. Although this approach is extremely important, accommodation researchers have overlooked the broader role of accommodation as part of national and global tourism systems. Arguably, as pointed out by Colin Michael Hall and Stephen Page (2006: 108), tourist accommodation assumes “an important function in cities.” Among others, David Solnet et al. (2010) draw attention to the vital roles played by hotels in tourism systems, and Slavoj Medlik and Haydn Ingram (2000) highlight their significance in offering facilities for urban leisure and entertainment, business transactions, conferences and meetings. Despite the core position assumed by hotels in cities and tourism systems, it is remarkable that hotels are little researched by both urban and tourism scholars, especially in comparison to other urban functions such as housing, retail or office development (Shoval & Cohen-Hattab, 2001). A review of existing social science literature on urban hotels reveals a number of studies by scholars across a range of disciplines including business, human geography, economics, sociology and tourism. Several themes are observed, including the historical evolution of urban hotels and their role as part of the heritage infrastructure of cities (Teo, 2001; Teo & Chang, 2009; Azmy & Atef, 2011), hotel turnaround and decline (Solnet et al., 2010), the relationship of hotels to urban space either as landmarks within cities or statements of civic pride (McNeill, 2008; McNeill & McNamara, 2009, 2012), the impact of hotels in post-communist transformation (Niewiadomski, 2009) and the role of hotel design and the design of hotel spaces (Rutes et al., 2001; McNeill, 2009; Lee, 2011). Other strands of scholarship on hotels and cities concern location decisions about hotel developments (Wall et al., 1985; Bégin, 2000; Urtasun & Gutiérrez, 2006; Rogerson 2012a) and the impact of market segmentation and the appearance of a range of differentiated forms of hotel development (Aggett, 2007; Rogerson & Kotze, 2011).

This article focuses on market segmentation and the range of development. It investigates a hitherto undocumented aspect of the restructuring of the contemporary South Africa hotel industry; namely, the emergence and organisation of budget hotels. Following its democratic transition in 1994, South Africa experienced a major expansion in international tourism as the country re-entered the global tourism system (Rogerson & Visser, 2004, 2006). The central axis points for the South African tourism economy are the country’s leading cities (Rogerson & Visser, 2007, 2011a). Since the early 1990s, the growth in the tourism economy has produced a major restructuring in the

key segments of the supply of tourism services, including the urban accommodation sector. As shown elsewhere, in parallel with international trends of hotel development, during the 1990s a range of new innovative hotel products were initiated in South Africa. Examples of these new tourism products include the airport hotel, the all-suite hotel, the boutique hotel, the limited service hotel and large luxury hotels (Rogerson, 2010; Rogerson & Kotze, 2011; Rogerson, 2011a, 2011b; Rogerson, 2012b; Ferreira & Boshoff, in press; Rogerson, 2013a, 2013b). The appearance and growth of these differentiated forms of hotel development in South Africa was driven by hotel and property developers’ recognition of opportunities arising from tourist market segmentation (Rogerson & Kotze, 2011; Rogerson, 2012b).

Within the rapidly changing landscape of the hotel industry, the role of budget hotels is of particular interest because historically the largest share of South African hotels was simply low-quality budget-oriented forms of accommodation (Rogerson, 2011). This paper examines the changing significance, form and location of budget hotels in South Africa. Overall, the paper contributes to the limited literature relating to market segmentation and budget hotels in emerging economies, to the minimal research undertaken on the hotel industry in sub-Saharan Africa (Rogerson & Rogerson, 2011; Rogerson & Visser, 2011b) and to the neglect of budget hotels in South African urban tourism research (Rogerson & Visser, 2007, 2011a). In terms of the urban challenges facing contemporary South Africa, the bulk of scholarship on urban geography focuses around issues relating to the urban poor (see, e.g., Moolla et al., 2011). This paper is a response to the call by Gustav Visser (2013) for works to move beyond issues of the urban poor in South Africa’s developing cities.

Methodologically, the discussion is based on an analysis of two comprehensive databases of all South African hotels in 1990 and 2010 and is supplemented by key stakeholder interviews that were carried out with budget hotel operators in South Africa. The managers of individual budget hotels and the CEOs of two of South Africa’s largest hotel chains were interviewed, and a variety of issues pertaining to budget hotels were discussed. Topics that were examined include the history of South African budget hotels, the improved quality of modern budget hotels, the changing geography of budget hotels in South Africa and the types of tourists that are attracted to the new budget hotels. Three sections of material are examined. The first section serves as context and explores the concept of market segmentation and international discussions related to budget hotels. This is followed by an investigation of the historical rise of budget hotel accommodation in South Africa. The final section investigates the changing nature and location of budget hotels from 1990 to the present.

2 Market segmentation and budget hotels

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; Lattin, 2005). Indeed, it has been argued that market segmentation represents “the bedrock” for successful marketing and business development (McDonald & Dunbar, 2010). The significance of market segmentation for the tourism industry and management of tourism enterprises is widely acknowledged. In tourism scholarship, the concept of market segmentation has been accepted and used in a range of studies. Currently, research on segmentation in the tourism industry mainly concentrates on the construction of tourist segment profiles and interpreting which bases of segmentation can most accurately predict tourist behaviour (Tkaczynski et al., 2007).

Market segmentation has been utilised extensively in research on the accommodation sector. In their international review of the lodging sector across both developed and developing countries, Timothy and Teye (2009) highlight its segmented character. It is claimed that before “the age of market segmentation, many of the major hotel chains had difficulty expanding their brand and growing their profits without re-entering markets in which they already had an established presence” (Berger & Chiofaro Jr., 2007: 16). During the past few decades, market segmentation in the accommodation sector has been rapidly accelerating as an international phenomenon (Albrecht & Johnson, 2002; Graf, 2011). It is argued that the supply of different forms of tourist accommodation is a response to shifting markets and the changing production of accommodation, and is most significantly a reaction to new consumer trends that reject the homogeneous character of much of the commercial accommodation sector (Freund de Klumbis & Musters, 2005; Aggett, 2007; Timothy & Teye, 2009). Over the past three decades, a critical competitive strategy for the growth and expansion of large hotel chains has been the pursuit of market segmentation (Cunill, 2006). Within the hotel sector of North America and Europe, this process of market segmentation is attributed to consumers “seeking out increasing numbers of niche products and services to satisfy their (accommodation) demands” (Horner & Swarbrooke, 2005: 369).

In addition to consumer demands for more accommodation choice, market segmentation has also been the means whereby major international hotel chains expand, grow brands and increase profits (Berger & Chiofaro Jr., 2007). In particular, Onofre Martorell Cunill (2006) asserts that market segmentation has been a key driver and critical competitive strategy for

the growth and expansion of large hotel chains since the 1970s. Repetitive branded design and the standard “cookie cutter” hotel room were viewed as “a potential competitive disadvantage” (Lee, 2011: 708). The segmentation of the market for hotel services into identifiable groups now is a well-established phenomenon. The trend toward product differentiation and segmentation is manifest within the hotel industry as a reaction to the global spread of the standardised branded box hotel. The impact of segmentation is increasingly evident in the nature of hotel developments occurring in developing economies. Nevertheless, compared to other regions of the global economy, scholarship on the evolving organisation of the hotel sector in emerging economies is minimal, not least of all concerning budget hotels.

Since the 1970s – and especially since the early 1980s – the international hotel industry has witnessed the strong emergence of an identifiable budget hotel concept. The origins of the budget hotel concept are found in North America and western Europe (Gilbert & Arnold, 1989; Fiorentino, 1995). In analysing the existing scholarship on budget hotels, two critical points must be made. First, as a rising segment of the global hotel industry, budget hotels have attracted only a limited volume of scholarship, the majority of which focuses, not surprisingly perhaps, on the development and challenges of the budget hotel sector in Europe and North America (Gilbert & Arnold, 1989; Gilbert & Lockwood, 1990; Fiorentino, 1995; Smith & Jenner, 1995; Brotherton, 2004; Teng, 2010; Blanco et al., 2011; Ruetz & Marvel, 2011). Second, recent scholarship shows the geographical diffusion of the concept of budget hotels into emerging economies. Among the small body of research that investigates aspects of budget hotel growth and operation in emerging economies, one can note works on China by Wen Hua et al. (2009), Wilco Chan and Shanshan Ni (2011), Rolly Huang and Mastura Chathoth (2011), Yu Qin et al. (2012) and Li Pan (2013), and on Malaysia by Mastura Jaafar et al. (2011), Jaafar et al. (2012) and Uma Munikrishnan and Bhuvanesh Veerakumaran (2012).

It is evident that since the late 1980s a growing number of tourism scholars have acknowledged budget hotels to be a specific hospitality concept. By the 1990s, the budget hotel could be described as “a significant reality” and no longer a minor hospitality product (Fiorentino, 1995: 455). Budget hotels have been considered successful examples of segmentation and branding within the wider context of product portfolio management, a technique recently introduced by hospitality organisations. The term “budget hotel”, however, has been contested in its definition. In one of the earliest academic studies, budget hotels were considered to be a concept that concentrated on providing food, drink and accommodation rather than upgrading the quality or service aspects of

the hotel (Gilbert & Arnold, 1989). For David Gilbert and Andrew Lockwood (1990), budget hotels offer consistent low-risk accommodation at peripheral sites where restaurant facilities are often minimal but accommodation standards are good. In other studies, budget hotels are recognised as mainly small, with limited facilities and a no-frills price; often budget hotels are synonymous with limited-service hotels (Fiorentino, 1995; TRI Hospitality Consulting, 2007). In a European context, Ana Campos Blanco et al. (2011: 373) maintain that budget hotels have “traditionally been positioned at the lowest extreme of the value-for-money equation offering basic accommodation for relatively short periods of time at affordable prices”. Nevertheless, the growing segmentation within the budget hotel phenomenon itself is highlighted by Blanco et al. (2011) in their analysis of budget brands in which they differentiate four categories of ultra-budget, core budget, upper budget and design budget. Now, many authors concede that there is not a single type of budget hotel but instead a “tiering” of such accommodations into budget and super budget, or upper, middle and lower budget.

According to Alessandro Fiorentino (1995), TRI Hospitality Consulting (2007) and Blanco et al. (2011), the budget hotel concept shares certain strategic elements. First, budget hotels mirror the corporate culture and the values of the company they belong to. Second, the budget hotel product is different from traditional economy accommodation, which generally pursues an undifferentiated marketing strategy without making any particular effort to target selected segments of demand – budget hotels are targeted to business customers and frequent travellers, and to maximise occupancy to families, leisure travellers and VFR (visiting, friends and relatives) tourists. Third, providing a clean comfortable room is the core service element of the budget product – standard rooms with selected facilities, unique human resources policy, specific location and price. Fourth, with respect to service delivery, accommodation providers do their best to make their budget systems unique by modifying and innovating the way they work. Fifth, the budget hotel relies on a distinct image in order to be clearly positioned in the mind of customers as good products in the economy market offering consistency and value for money. The budget segment of hotels is largely located in people-intensive flow areas, such as main roads, airports and busy city centres. Budget hotel customers are people belonging to all market segments and all socioeconomic groups (Fiorentino, 1995). Companies are also part of the budget hotel clientele because business travellers that formerly stayed in full-service and up-market hotels are staying in these establishments (Fiorentino, 1995; Blanco et al., 2011).

Overall, some scholars contend that “budget hotels still lack an established definition and it is difficult to fit them into

existing categories” (Fiorentino 1995: 455). Indeed, it has been stated that although the term “budget hotel” has been a “buzzword”, it is somewhat of a misnomer because it implies a homogeneous product when in reality budget hotels themselves are a highly segmented phenomenon (Roper & Carmouche, 1989). One common thread in all definitions of budget hotels is that, as categorised by star grading systems of product quality, the budget hotel segment is generally equated with one- and two-star hotel accommodation, a definition that has been used by a number of researchers (Gilbert & Lockwood, 1990; TRI Hospitality Consulting, 2007; Blanco et al., 2011). This definition is also applied in the South African analysis below.

3 Budget hotels and the historical development of South Africa’s hotel industry

Historically, the vast majority of South African hotels that were established before the late 1980s would be classed as low-budget forms of accommodation. Under apartheid, the country’s tourism industry experienced boycotts and international sanctions, particularly after the 1976 Soweto uprising (Rogerson & Visser, 2004). As a result, most of the country’s hotel industry remained disconnected from international tourism markets and focused on supplying the domestic South African tourism market, which was almost exclusively a white consumer market. One critical characteristic that marked the historical development of the hotel industry was its link to liquor sales. This link shaped the essential character of the South African hotel industry from the 1920s to the late 1960s and only after that time was there an element of the hotel industry that began to focus on providing accommodation as its core service (Rogerson, 2011).

The liquor domination of the early hotel industry in South Africa was “a consequence of government policy which, until the 1960s, although nominally supportive of economic development through tourism growth, was in practice driven by desire to control the sorts of premises in which alcohol could be consumed” (Caras, 2007: 106). The critical legislative requirement was explained as follows: “an establishment with 10 bedrooms that provided meals was deemed eligible for a liquor license, and many public houses (pubs) merely added ten basic rooms with minimum facilities in order to qualify for one” (Caras, 2007: 106). Works by Arthur Norval (1936) and Christian Rogerson (2011) provide a detailed account of the early links during the twentieth century between the alcohol sector and hotel development in South Africa. Of critical importance was the emergence of the tied house system, which shows the links with liquor selling. Under the tied house system, the liquor trade becoming “the primary function of the

“tied or controlled hotels” and correspondingly reducing the real function of providing accommodation to one of secondary importance (Norval, 1936; Caras, 2007; Rogerson, 2011). The legislative framework for the twentieth-century development of the South African hotel industry thus was set by liquor legislation and, as a consequence, the overwhelming majority of the country’s hotels primarily operated as liquor outlets rather than accommodation providers.

It was only with legislative changes in the late 1960s that there was a gradual shift away from liquor dominance to the growth of a hotel sector in South Africa focused on providing accommodation services for profit. Legislative changes introduced by the national government around the hotel industry provided the impetus for a restructuring process from the mid-1960s onwards, in particular accelerating during the 1970s “thanks in part to the activities of Southern Sun Hotels” (Saunders & Barben, 2007: 27). The development of a “modern” hotel industry in South Africa was especially associated with the emergence and consolidation of large hotel chains, the most important of which was Southern Sun Hotels. From the 1970s and 1980s onwards, the hotel industry begins to be more differentiated with the establishment of a number of quality hotels, particularly in the country’s major cities: Johannesburg, Durban and Cape Town. As a result of these developments, which were led by the emerging hotel chains, the South African hotel sector “flourished” during the 1970s, such that it could be observed that by the end of the decade that “the country could boast hotels of international standard in all its major cities” (Caras, 2007: 107). Another later wave of hotel developments was spurred during the late 1970s and early 1980s by the establishment of major hotel resorts linked to gambling and the establishment of large casino operations in the supposedly independent Bantustan states, the illegitimate offspring of apartheid planning (Rogerson, 1990).

Overall, the 1970s and 1980s witnessed the emergence of a new leisure-focused hotel industry, which produced the beginnings of a hotel sector that went beyond that of low-budget accommodation associated with liquor sales. Throughout the 1970s and 1980s, the Southern Sun Group continued to extend its hotel operations in the segment of middle-range and upmarket full-service hotels. By the early 1980s, other hotel groups began operations in South Africa. The most significant newcomers were the Protea group, launched in 1984, which concentrated on establishing a national chain of full-service middle- to upper-end hotels, and the City Lodge group, which innovated the concept of the limited-service hotel product in South Africa (Rogerson, 2011b).

4 The changing budget hotel segment in South Africa

After 1990, the South African hotel industry began to be re-configured around the growing market offered by international tourism as sanctions began to fall away and international tourism to the country increased (Rogerson, 2013a, 2013b). In addition, the role of the budget hotel itself radically changed. This section examines the impacts of these changes for the position of budget hotels in South Africa’s hotel economy, the shifting nature of the budget hotel and location patterns of budget hotels from 1990 to the present.

The legacy of liquor legislation and the undeveloped international tourism economy on the South African hotel industry was that by 1990 the largest share of the national hotel stock was represented by one- and two-star hotels (Table 1). By 1990 there was a total of 821 budget hotels in South Africa as defined by one- and two-star hotels and spread geographically across the country from large urban centres to small towns. As Table 1 shows, over 80% of the entire South African hotel industry consisted of low-standard economy hotels, a large segment of which were little more than liquor establishments with a few backrooms. In terms of the total number of national hotel rooms in 1990, the budget segment of hotels amounted to 57.8% of national hotel stock, a reduced share as a result of the generally small size of most of the liquor-dominated hotels. Arguably, this heavy weight of the budget hotel sector within the total hotel stock limited the competitiveness of the South African tourism economy (Rogerson, 2013a).

After 1990 (and particularly after 1994), a rise of long-haul international tourists visiting South Africa’s iconic tourist attractions (Figure 1) was apparent. One consequence was a wave of new hotel construction to accommodate these upmarket international tourists that replaced domestic tourists as the core market segment of the South African tourism industry (Rogerson, 2012b, 2013a). The building boom for upmarket hotel accommodation was given further impetus from about 2005 to 2010 by South Africa’s selection to host the 2010 FIFA Soccer World Cup. This successful bid to host the Soccer World Cup created much unfounded optimism in the country about a flood of visitors to attend this mega-event, which resulted in over-building of the luxury hotel segment, particularly in Cape Town (Ferreira, 2011; Ferreira & Boshoff, in press).

The fundamental restructuring that took place in South Africa’s hotel industry after the democratic transition is seen in Table 2, which shows the numbers of hotels and room stock for 2010. The new opportunities available after the early 1990s for attracting an expanding international tourist clientele triggered

Table 1: Total number of hotels and hotel rooms in 1990 in South Africa.

Stars	Number of hotels	Percentage	Number of rooms	Percentage
Ungraded	13	1.3	414	1.0
One	598	59.6	13,456	32.2
Two	223	22.2	10,678	25.6
Three	107	10.7	10,008	24.0
Four	42	4.2	3,799	9.1
Five	20	2.0	3,395	8.1
Total	1,003	100	41,750	100

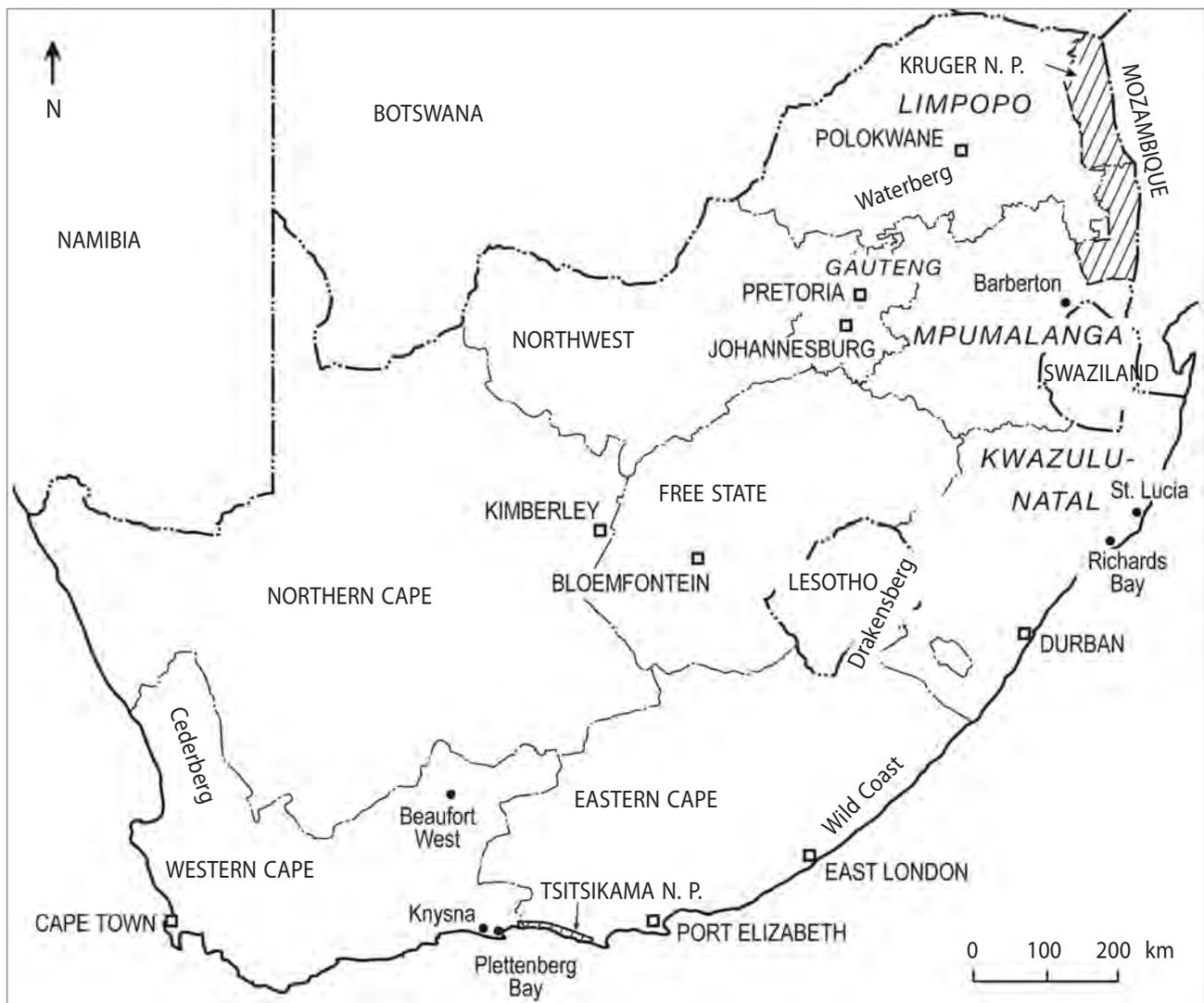


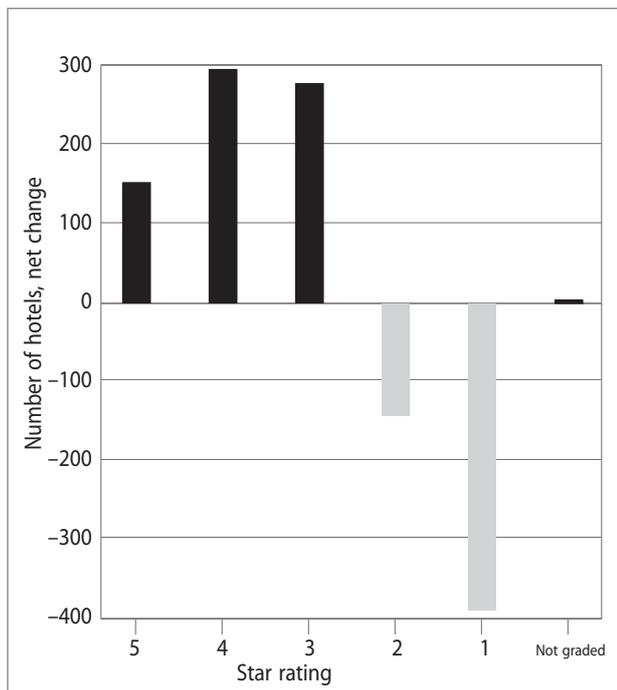
Figure 1: South Africa's major cities and tourist attractions.

a redefinition of the nature of the hotel in South Africa from the sale of liquor to the core provision of accommodation. Since the democratic transition, South Africa's hotel industry has become dominated by three leading hotel groups: Protea, Tsogo Sun (Southern Sun) and City Lodge, all of which are locally owned and managed. Each of these groups has been diversifying their brands and segmenting operations in order to appeal to a wider range of tourists. With eighty-four hotels, the Protea group is Africa's biggest hotel operating company,

and has expanded its three- to five-star hotels through a combination of direct hotel ownership, management contracts and franchise agreements. By 2012 Tsogo Sun (formerly Southern Sun) was an umbrella for a range of different brands, the majority of which are within the three- and four-star full-service sector. City Lodge owns its one- to four-star hotels, most of which fall into the category of limited service hotels (Rogerson, 2012b).

Table 2: Total number of hotels and hotel rooms in 2010 in South Africa.

Stars	Number of hotels	Percentage	Number of rooms	Percentage
Ungraded	19	1.7	532	0.7
One	199	17.4	6,692	9.1
Two	73	6.4	3,258	4.4
Three	377	32.9	29,439	40.2
Four	335	29.2	23,151	31.6
Five	162	14.1	10,180	13.9
Total	1,165	100	73,252	100

**Figure 2:** Net change by number of hotels in South Africa, 1990–2010.

A massive upgrade in the quality of the country's hotel industry occurred as the result of a wave of new quality hotel developments as well as refurbishment of a portion of existing hotel properties. In 1990 the budget range of one- and two-star accommodation together constituted over 80% of total hotel stock, but by 2010 the share of one- and two-star establishments in the total hotel stock had fallen to less than one-quarter of hotel properties. In contrast, the group of upper-end to luxury four- to five-star hotels had grown markedly in importance. In 1990 these two categories of hotel accommodation represented 6.2% of hotel stock; by 2010 they represented 43.3% of graded hotels. Correspondingly, the share of budget one- and two-star hotels fell from 81.8% in 1990 to 23.5% of the total hotel stock in South Africa by 2010. In terms of total hotel rooms, the decrease in the budget hotel stock is even more striking. In 1990 budget hotels constituted 23% of the national hotel room stock, but by 2010 this share had fallen to less than 14% (Table 2).

The profile of net change in the number of hotels between 1990 and 2010 is shown in Figure 2. There was a rapid increase in the share of establishments for three- to five-star accommodation and an absolute decline in one- and two-star hotels. The quality shift of the national hotel stock is clearly illustrated by the finding that in 1990 South Africa had only twenty five-star hotels; by 2010, the number had increased to 162 establishments. In 1990 South Africa had 598 one-star hotels, but by 2010 the number had fallen to 199. The dynamics of change in the South African hotel industry from 1990 to 2010 are revealed by the use of components of change analysis to identify patterns of "births and deaths" in the hotel industry. This analysis shows that from 1990 to 2010 only ninety-four new establishments were developed among one- and two-star hotels, representing only 11.7% of "hotel births". In contrast, during this twenty-year period a total of 547 one- or two-star establishments in 1990 had ceased to operate by 2010. This group of closures represents 85.5% of all "hotel deaths" in South Africa from 1990 to 2010. What this analysis reveals is that a major part of the demise of the budget hotel sector can be accounted for by the closure of large numbers of former liquor-dominated hotel properties.

The changed situation of the budget hotel sector in South Africa is also shown in patterns of geographical change. Figure 3 maps the patterns of one- and two-star hotel accommodation in South Africa for 1990 and 2010. In 1990, budget hotel accommodation was widely available throughout the South African urban system. However, the largest clusters of one- and two-star hotels were found in the country's major metropolitan areas, most importantly in Johannesburg and surrounding municipal areas, Durban, Cape Town and Pretoria. By 2010, there was a striking reduction in the geographical range of budget hotel locations. This is the result of the closure of large numbers of independent cheap hotels outside of South Africa's major metropolitan areas. Across large parts of South Africa, the budget hotel disappeared and was often replaced by other forms of accommodation such as small-scale bed and breakfasts, self-catering chalets, guest lodges and farmstays. Although the disappearance of the traditional budget hotel in small towns is acknowledged, it must be understood that the largest number of "deaths" and closures of one- and

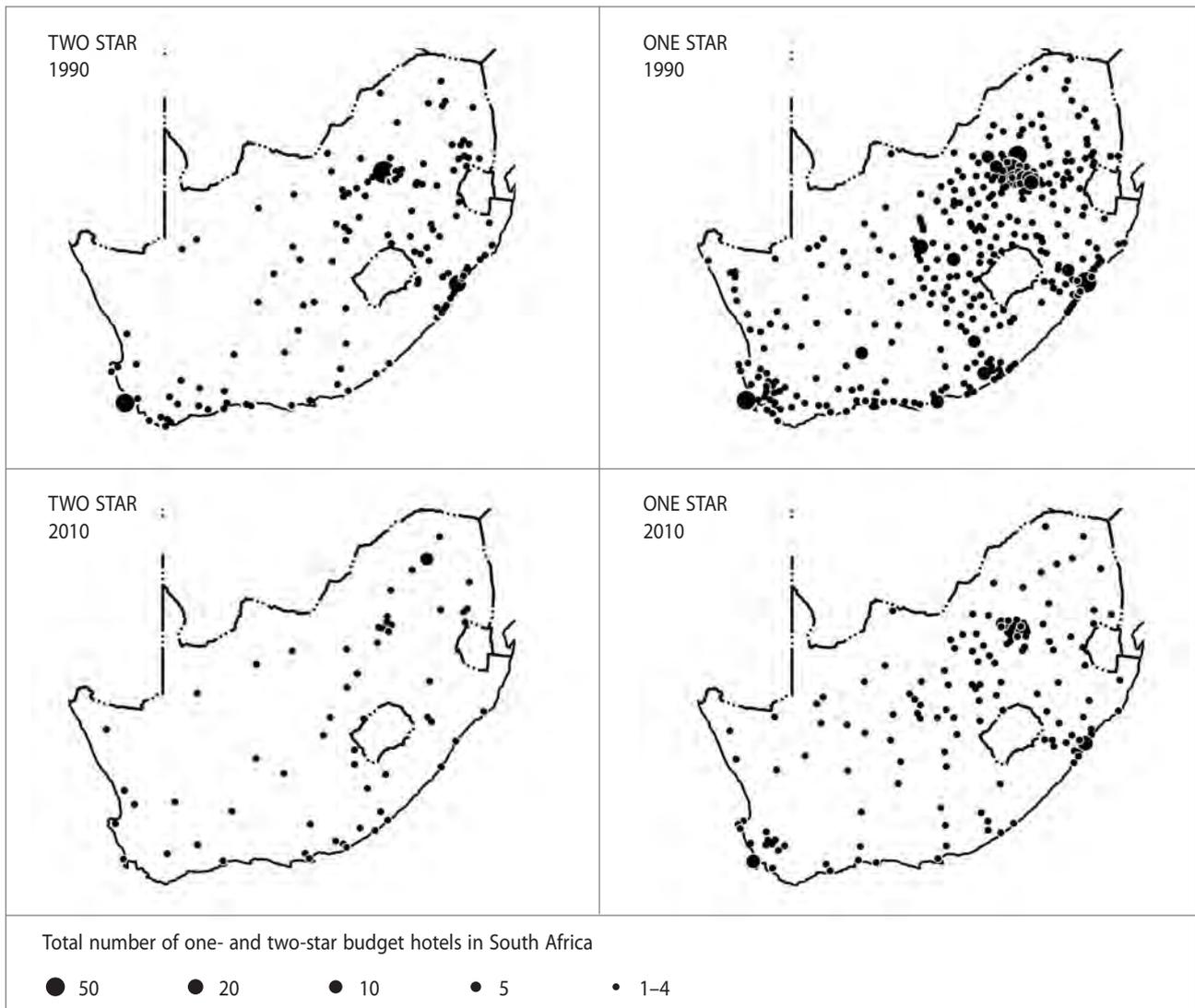


Figure 3: One- and two-star budget hotels in South Africa in 1990 and 2010.

two-star accommodation occurred in South Africa’s major cities. For example, between 1990 and 2010 Johannesburg recorded a reduction of one-star establishments from a total of fifty-six (1990) to twenty (2010). Likewise, Johannesburg had twenty-five two-star establishments in 1990, but by 2010 only six. The second greatest losses for budget hotels are shown for Ekurhuleni, an adjacent municipality of Johannesburg. Here in 1990 there were thirty-eight one-star and six two-star hotels; by 2010 this had fallen to fifteen one-star and two two-star hotels.

With the reconfiguration of the South African hotel industry since 1990, the budget hotel itself has been reinvented from the poor standard and liquor-dominated establishment that emerged to dominate the national hotel industry as a whole. One facet of the South African hotel industry’s restructuring is the appearance of innovative new forms of budget hotels. Almost all of the ninety-four new “births” of one- and two-star hotels recorded in South Africa between 1990 and

2010 represent new forms of budget hotels that parallel the phenomenon of budget hotels that have emerged in the global North. The establishment of this new wave of the supply of one- and two-star hotel accommodation “budget” products was undertaken by various local South African hotel chains, most importantly the Tsogo Sun and City Lodge groups. These new forms of budget hotels targeted the emerging markets of business tourists and groups of leisure tourists in search of reasonably priced and quality accommodation. Figure 4 shows the distinctive geography of the new budget hotels in South Africa. The hotel developments that were established by City Lodge and Tsogo Sun are mainly concentrated in large cities and secondary centres, and aimed primarily at domestic business and leisure markets. City Lodge’s Town Lodges are two-star limited service hotels, and City Lodge’s Road Lodges are one-star “value-for-money” limited-service hotels located at five of the country’s major airports as well as major metropolitan areas and secondary cities. Formula One hotels are part of the Accor brand, which is owned and managed

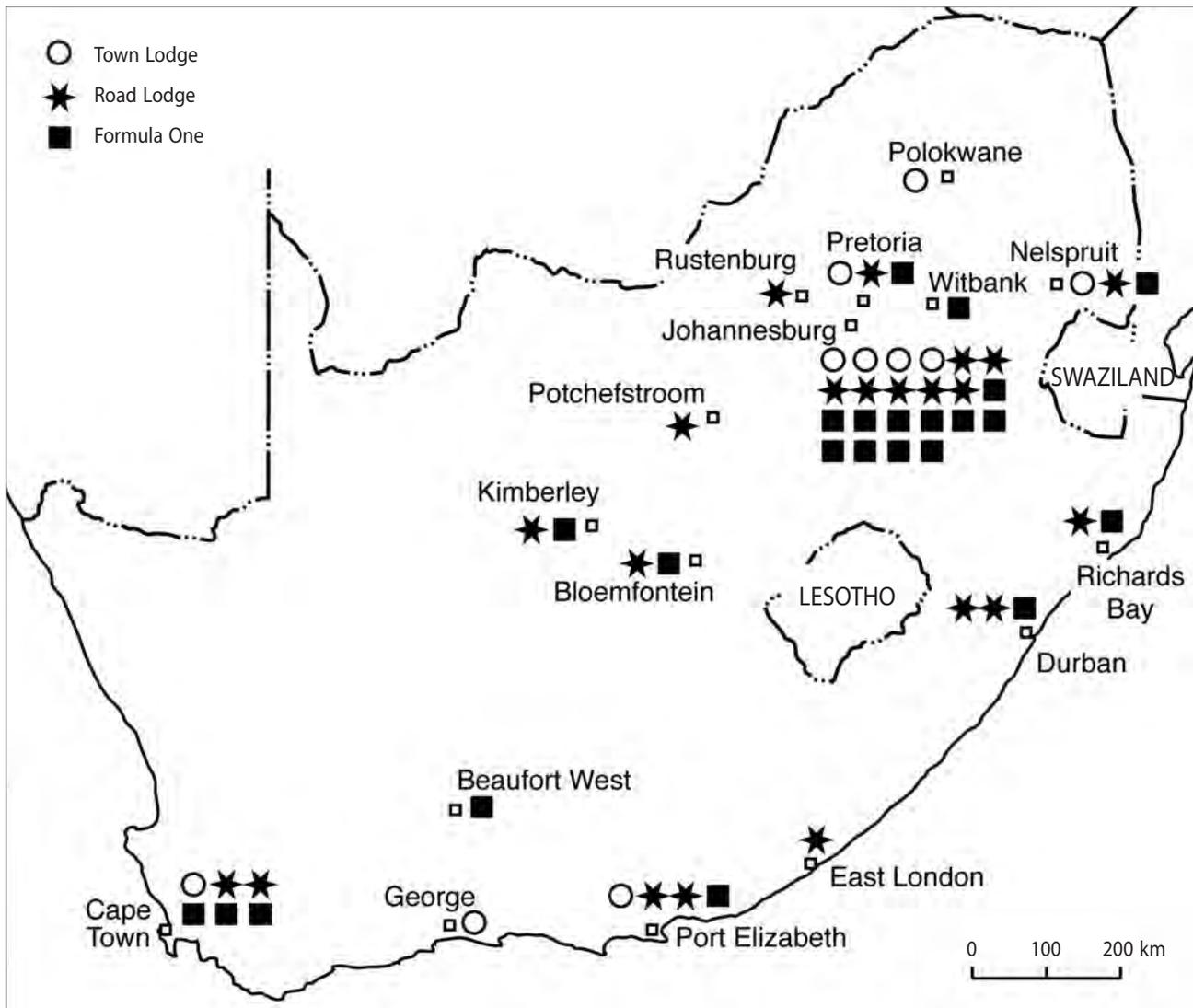


Figure 4: Chain budget hotels in 2010 (source: City Lodge Hotels Limited, 1990, 2010; Tsogo Sun Hotels Limited, 2010).

by Tsogo Sun in South Africa and are comprised of one-star “modern and practical accommodation with no frills and no fuss” (Tsogo Sun Hotels Limited, 2010). All of these hotels are located in metropolitan centres or secondary cities in convenient locations near major highways or airports. Accordingly, two processes can be observed in the changing budget hotel sector of urban South Africa since 1990. On the one hand, there has been the closure of the old style of low-standard budget hotels, which were inseparable from liquor sales; on the other hand, there is the rise of a new wave of new budget hotels that are geared toward the new emerging tourism segments in business and leisure in post-apartheid South Africa.

5 Conclusion

Since the 1980s, market segmentation has been an accelerating trend in the hotel sector and the identification of new market sub-segments has “become a science” scrutinised and

researched by large hospitality organisations (Berger & Chifaro Jr., 2007: 16). It is evident that the growth and geographical spread of the budget hotel phenomenon is part and parcel of the broader segmentation of the global hotel industry. Although the international growth and spread of budget hotels is acknowledged by those studying tourism and hospitality, only limited research has been done (Gilbert & Arnold, 1989; Fiorentino, 1995; Blanco et al., 2011). Moreover, most of the existing research is dominated by studies of the budget hotel sector in North America and Europe. The budget hotel phenomenon has spread from its original heartland and become a distinctive element in the hotel industries of several emerging economies. This provides the rationale for expanding the research agenda on budget hotels, not least of all incorporating the region of sub-Saharan Africa, where hotel research represents only a small fraction of tourism scholarship as a whole (Rogerson & Rogerson, 2011; Rogerson & Visser, 2011b).

This study demonstrates that the budget hotel sector in South Africa occupies an important position in the evolution of the country's hotel industry. Historically, budget hotels constituted the largest share of all hotels in South Africa until the 1990s. The re-entry of post-apartheid South Africa into the global tourism economy precipitated a reorientation of the country's tourism infrastructure and hotel products to cater to the demands of the growing numbers of long-haul international tourists visiting the country. One consequence has been the diminished role of the budget hotel in the national hotel landscape. It is argued here, however, that the budget hotel industry in South Africa must be understood in terms of different "layers" of such hotels that have been established in the country. The South African budget hotel sector is itself segmented between the declining group of long-established poor-quality accommodation, which provided the foundation of the entire South African hotel industry for many years prior to democratic change. In contrast, another growing element in the budget hotel sector parallels the style of budget hotels in North America and western Europe. The growth and consolidation of this newer or second-wave form of budget hotel is an innovative product introduced by South Africa's leading hotel groups in order to address an identified market niche.

Finally, location change in the budget sector has been marked by two parallel processes impacting the shifting budget hotel sector of urban South Africa. Alongside the reduced role and closure of the majority of the former low-standard budget hotels, which focused on liquor sales, there has been the growth of a new form of budget hotel in cities, a phenomenon of segmentation, offering an accommodation product for new tourism segments in business and leisure in the South African economy since the democratic transition. In small-town South Africa, two trends are observable in relation to the poor quality of accommodation as provided by the old-style liquor-dominated budget establishments. In much of small-town South Africa, hotels simply closed down as a consequence of the broader economic decline of small-town South Africa over the past two decades (Nel & Rogerson, 2007). In other small towns where economic revival based on tourism-led development has taken place, it is evident that the quality of local accommodation has been upgraded because the old liquor-style budget hotel has been replaced by new forms of local tourist accommodation, most notably the guesthouse and the bed and breakfast.

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