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The Limited Service Hotel in South Africa: The Growth of City Lodge

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Abstract A critical competitive strategy for the growth and expansion of large hotel chains is the pursuit of market segmentation. This article investigates one aspect of market segmentation and the restructuring of the South Africa hotel sector, namely the emergence of the limited service hotel. The growth of the limited service hotel segment of the South African hotel industry is analysed through a case study of the strategic development and evolution of City Lodge Hotels which pioneered this market niche in Africa. Close linkages are disclosed between the limited service segment and the growth of business tourism in South Africa's major urban centres.

Keywords Market segmentation · Hotel growth strategy · Limited service hotel · South Africa · Hotel industry · City Lodge

Introduction

The international lodging sector is numerically dominated by small and medium enterprises, including a large element of "lifestyle entrepreneurs" (Timothy and Teye 2009; Lashley and Rowson 2010). Nevertheless, the commanding heights of the accommodation sector are represented by small clusters of large enterprises, many of which have been engaged in strategies of internationalization, particularly over the past three decades (Dunning and McQueen 1982; Johnson and Vanetti 2005; Brida et al. 2010; International Labour Organization 2010). In the USA, for example, the recent substantial expansion of the lodging sector has been led by large hotel enterprises such as the Cedant Corporation, Six Continents PLC, Marriott International, Choice Hotels International, Hilton Hotels Corporation, Best Western, and Starwood Hotels and Resorts (Cunill 2006; Lomanno 2010). Globally, there has been a widespread move towards ownership and brand concentration, a consequence

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of acquisitions and mergers undertaken by leading hotel chains (Johnson and Vanetti 2005). This itself is an outcome of the key emerging trends in the lodging sector associated with internationalization which are "the current push for a broad and widespread geographic presence in critical overseas markets, the quest for global branding, expansion of brand loyalty, improving profitability, assuring durable shareholder value, international product positioning, and the pursuit of uniform standards" (Timothy and Teye 2009, p. 67).

McNeill (2008) asserts that global hotel markets are dominated by only six major operating companies each of which contains a range of different brands dedicated to a specific demographic or market segment. Large enterprises are considered as "active product and service innovators and frequently set trends for the sector" (International Labour Organisation 2010, p. 8). One key influence driving the changing landscape of the lodging or accommodation sector is market segmentation (Dev and Hubbard 1989). As a response to changing markets, Timothy and Teye (2009) draw attention to the existence of a range of different forms of accommodation, including hotels, bed and breakfasts, guest houses, self-catering, second homes, time-shares, and camping. Across the hotel sector, segmentation is strongly in evidence with the appearance of different forms of hotel such as the all-suite property, the airport hotel, boutique hotels, budget hotels, the luxury full service segment, and Sharia-compliant hotels (Fiorentino 1995; Henderson 2001; Rutes et al. 2001; Aggett 2007; Geieregger and Oehmichen 2008; McNeill 2009; Teo and Chang 2009; Cassidy and Guilding 2010; Henderson 2010). It is argued prior to "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 and Chiofaro 2007, p. 16). For the past 30 years, a critical competitive strategy for the growth and expansion of large hotel chains has been that of pursuing market segmentation (Cunill 2006). This phenomenon was first identified during the 1980s and hailed in the USA as "the past decade's biggest supply-side news" (Dev and Hubbard 1989, p. 23). In the UK, Davies (1999) uses "market segmentation" as the basis for interpreting the organization of the country's hotel sector.

It is evident that these trends towards segmentation and the concentration of ownership or control of the accommodation sector have impacted upon the nature of hotel developments taking place even in the periphery of the global tourism economy. As compared to other regions of the global economy, however, scholarship on the evolving organization of the hotel sector in sub-Saharan Africa is relatively undeveloped. For the 15 countries of the Southern African Development Community, an analysis of tourism research production for the period 2000–2010 disclosed only a small amount of writings around the accommodation sector as a whole and hotels in particular (Rogerson and Rogerson 2011). Certain contributions can be noted, however, which afford insight into recent aspects of hotel developments taking place in a number of different African countries. Examples include works on Angola (Barros et al. 2010), Cameroon (Kimbu 2011) Ghana (Addo 2011; Mensah-Ansah et al. 2011), Kenya (Wadawi et al. 2011), Mauritius (Prayag et al. 2010), Morocco (Lee 2008), Namibia (Lapeyre 2011), and Rwanda (Gatsinzi and Donaldson 2010).

Currently, most scholarship on hotels in Africa concerns South Africa, which hosts the most developed and sophisticated hotel sector in sub-Saharan Africa

(Rogerson 1990; Ahmed et al. 1999; Frey and George 2010; Rogerson 2010, 2011). Nonetheless, given that the bulk of formal accommodation in terms of tourism bed spaces is supplied by the formal hotel sector in South Africa, the limited number of academic reflections on this crucial element of the national tourism economy is viewed an important gap in African tourism scholarship (Rogerson and Visser 2011; Visser and Hoogendoorn 2011). This article seeks to add to the limited writings on the changing organization of the South African hotel industry. Specifically, this paper examines one aspect of the market segmentation which has restructured the South African hotel sector particularly since the early 1990s. The focus is on the emergence and growth of the "limited service hotel", the origins of which can be traced back to the mid-1980s (Berger and Chiofaro 2007). An investigation of the growth of the limited service segment of the South African hotel industry essentially is a case study of the strategic development and evolution of one hotel chain which pioneered and expanded this particular market niche. Two sections of discussion are presented. The first provides a conceptual discussion of segmentation within the context of the growth strategies of hotel enterprises. The second section turns to the South African hotel industry and locates the expansion of the City Lodge group of limited service hotels in relation to the positioning of the country's other major hotel groups within the traditional full-service segment of hotel operations.

Hotel Growth Strategies

The growth strategies of hotels have been the subject of considerable scrutiny resulting in the recent expansion and consolidation of a body of theories, concepts, and models (Cunill 2006; Slattery 2009a, 2009b; Cunill and Forteza 2010; Clancy 2011). An essential corporate strategy decision is between on the one hand, seeking growth through specialization or on the other, growth through diversification variously across different hotel market segments, different fields of tourism or different forms of economic activity. In undertaking a strategic analysis of the US lodging industry Dev and Hubbard (1989, p. 22) isolate the key factors in the development of competitive advantage for hotel chains. Building upon the work of Porter (1982), two major categories of competitive forces are identified, namely low cost and differentiation.

In the cost leadership strategy the enterprise seeks "to gain a competitive edge by achieving a cost advantage" (Cunill 2006, p. 4). In the USA, the largest expense factors for hotel chains relate to the maintenance costs for service standards, most significantly labour; other important cost considerations are interest rates and the imperative for capital improvements. Dev and Hubbard (1989, p. 22) consider the low cost strategy of hotel growth represents a competitive option which "offers little opportunity for gaining a long-term competitive advantage" as any "cost advantage that one hotel company might gain is quickly eroded by the rapid flow of information within a market". Nevertheless, some hotel chains have sought to exploit this strategy of becoming a low price leader (Cunill 2006). In order to follow such a strategy, Cunill (2006, p. 4) points to a number of necessary conditions, *inter alia*, an enterprise must have a high market share so that it enjoys a high volume of sales, must ensure a high performance in those factors that permit a reduction in the unit costs of production, and maximize new technologies in order to ensure that operations occur at lowest possible cost.

Several analysts maintain that the strategy of differentiation offers a stronger basis for enterprise competitive advantage. Cunill (2006, p. 6) states the purpose of the differentiation strategy "is to ensure that either the company in general or certain specific elements (such as its products, customer care, quality, etc.) are perceived to be unique by both clients and suppliers". Dev and Hubbard (1989, p. 22) assert the most significant driver of differentiation "is the ability to offer a unique benefit to customers". Accordingly, the issue of hotel branding and of the image and services that the brand implies become of vital importance. Branding plays a vital role in the growth strategies adopted by hotel companies with the ownership of brands considered central to business plans and expansion opportunities (Cunill 2006, p. 152). From the viewpoint of corporate strategy, well-managed hotel brands tend to gain increased market share (O'Neill and Mattila 2004, 2006). Arguably, a hotel brand represents a relationship with guests which is constructed as consumers get to know a brand, "use its facilities, evaluate the experience and begin the relationships; and it becomes cemented as guests continue using its services" (O'Neill and Mattila 2010, p. 28).

Hotel chains pursue growth strategies which are geared to build brand loyalty through strategies aimed at reinforcing differentiation factors (McNeill 2008, p. 388). One common tactic has been the introduction of frequent guest programmes (Dev and Hubbard 1989). In the USA, O'Neill and Mattila (2010, p. 27) point to the fact that the largest "lodging companies have developed multiple brands to serve multiple market segments". Lomanno (2010) draws attention to the phenomenon observed during the past two decades that in the USA hotel industry, hotel chains which had been the backbone of the country's lodging industry since the 1950s necessarily have reinvented themselves in an effort to appeal to new demographic groups and market segments. The predominant trend in the USA, however, has been for the long-standing hotel chains which operate mid-scale hotels with full food and beverage facilities to be eclipsed by newer brands operating in the mid-scale limited service or upscale sectors (Lomanno 2010).

Examining the growth of hotel chains in the Asia-Pacific, Jogaratnam and Tse (2004, p. 252) highlight "an entrepreneurial stance is a recipe for success among large hotel firms". As a whole it is asserted "differentiation is the only strategy that is sustainable in the long term" (Dev and Hubbard 1989, p. 22). In undertaking differentiation as the basis for building enterprise competitive advantage, the most common strategy applied in the hotel sector "is to target specific segments of the lodging market with new products or extensions of existing products". Hotel chains focus on specific market niches and seek to obtain "a competitive advantage within the market segment or niche in which they are competing" (Cunill 2006, p. 7). McNeill (2009) shows the emergence of the airport hotel as a specific new product linked to the needs of the business traveller and the increased transnationalization of business activity. In search of differentiated products and services, the experience of the USA and Western Europe has been that in traditional full-service and upmarket hotel developments, issues of service quality and comfort are underlined (Victorino et al. 2005). By contrast, in the lower cost segments emphasis is upon low price and convenience. Although food service is regarded as an essential dimension of the full service hotel, in many other market segments either it is downgraded or dropped altogether often on the grounds that food service is considered a loss-making element for many hotel operations (Berger and Chiofaro 2007).

Key growth decisions are associated with a company's business strategy (Cunill 2006). Hotel chains adopt a range of different growth strategies (Cunill and Forteza 2010). Some hotel groups expand through internal growth which is based on investment within the company itself. Nevertheless, external growth is "the method that most hotel groups prefer and growth is achieved through acquisition, buying shares in, controlling or co-operating with other companies" (Cunill 2006, p. 73). An acquisition based growth strategy has the advantages of extending geographic coverage or new brand names, increasing market share, broadening international coverage and quality levels as well as enhancing share values. The use of strategic alliances, in the form of joint ventures, is another growing phenomenon. The expansion of strategic alliances in the hotel sector is accounted for by factors such as rapid technological change, shared know-how in order to obtain synergic benefits, a search for financial support and reduced financial risks, access to markets, and an increasingly competitive environment particularly in mature economies (Cunill 2006).

A further critical change in the competitive strategies of leading hotel chains relates to questions of the ownership versus management of properties. Since at least the 1980s, a striking trend has been that property ownership is no longer the essential basis for hotel expansion (Schlup 2004; Timothy and Teye 2009). Increasingly hotel chains "enter markets through non-equity means" (Clancy 2011, p. 82). On the international stage, Holiday Inn, Sheraton, and Hilton exemplify how major hotel chains "shifted from property ownership to property management and franchising as a means of expanding their presence in a variety of markets" (Dev and Hubbard 1989, p. 22). Franchising is viewed as a form of cooperation between companies in which one company (franchiser) grants the other companies (franchisees) the right to commercialize products or services in exchange for financial compensation (Cunill 2006). Recent research suggests that the franchise contract is a preferred strategy of hotel chains pursuing expansion programmes (Cunill and Forteza 2010). Cedant Corporation, the world's largest franchising chain, operates the greatest number of rooms in the global hotel industry and is a pure franchising enterprise; it owns no hotels and operates its entire portfolio under a franchise system (Cunill 2006). The enterprise offers backup services including marketing, staff training, quality control, a telephone booking system, financial assistance, and a computerized management system; these services are provided on a fee based on sales by its franchisees. Beyond the example of Cedant, the use of franchising spurred the growth of the Holiday Inn brand (Clark 1993; Berger and Chiofaro 2007). Franchising has spread also as a growth strategy outside of North America with documented cases in Western Europe (Connell 1997) and Asia (Cho 2004).

Management contracts emerged as a further growth strategy popular with American hotel groups; since the 1970s, they have become a "cornerstone" of rapid development in the sector (Eyster 1993, p. 16). More recently, management contracts have spread to catalyse the international expansion of hotel chains (Panvisavas and Taylor 2006, 2008). The initial growth of management contracting occurred because of increased land prices, construction costs, and mortgage interest rates which collectively made investment in large properties difficult especially at a time when business risks had increased (Cunill 2006). Using a management contract means that the investment risk is transferred from the company which runs the hotel to the owner. Institutional investors acknowledge that management skills are the main ingredient for successful hotel operation and therefore are prepared to invest large sums of funds in hotel ownership, whilst the company running the hotel does not need to make a financial commitment. Under this arrangement, the management company receives a fee for its services and the owner receives the remaining profits after costs have been deducted. Undoubtedly, management contracts assume a core role in the growth strategies of many leading chains in the global hotel industry. For example, Marriott International is identified as the world's leading hotel management chain with almost 800 properties under management contracts; Extended Stay America has over 400 hotels all of which are managed, which makes it a pure management company (Cunill 2006, p.133).

De Roos (2010, p. 68) maintains that whilst management contracts were conceived as a relatively simple arrangement allowing the expansion of hotel chains without the risk of property ownership, they have "become an intricate and nearly essential element of the contemporary hotel industry". Another growth strategy particularly in evidence within the hotel sector of Western Europe is leasehold. The leaseholds in the hotel industry are contracts between the leaseholder (a hotel group) and the property owner which effectively means "renting a hotel for a certain period of time" (Cunill 2006, p. 145). Under this system, the leaseholder assumes the corporate image of the hotel and the lessor is made responsible for maintenance and conservation of the building. In particular, European hotel chains have concentrated on use of leasehold contracts such that hotel ownership in this system accounts for as much as 65% of Accor's portfolio (Cunill 2006, p. 147).

Finally, in terms of conceptual thinking concerning the growth strategies of hotels, it is necessary to acknowledge the hotel sector is renowned for business failures and poor financial returns. Underpinning this situation are increased levels of competition, globalization, rapid technological change, social change, and internal weaknesses of firms (Timothy and Teye 2009). Importantly, Solnet et al. (2010) draw attention to the need for tourism scholars to acknowledge research questions of decline and of "turnaround strategies" as essential elements for understanding the dynamics of change in national and global hotel networks. Only recently, however, has research begun to emerge around turnarounds in the hotel sector and of the potential need to consider issues such as rebranding hotels in the context of declining enterprise performance (Solnet et al. 2010).

From the above discussion, it is evident that large hotel chains expand through an array of different growth strategies and that systems not based on capital transactions, especially the use of franchise agreements and management contracts, are the preferred growth strategies and are resulting in increasing market concentration (Cunill and Forteza 2010). According to Clancy (2011, p. 83), international hotel chains function much like big buyers in buyer-driven commodity chains "through determining specification of properties, setting standards, remodeling and redecorating, and determining the terms of management contracts and leases". Correspondingly, the position of hotel owners is akin to "captive suppliers who provide rooms and other physical structures to chains" (Clancy 2011, p. 83).

The Limited Services Hotel and South Africa

The limited service hotel is one new product offering that emerged from the segmentation of the hotel industry. Its international origins are considered as located in developments taking place in the US hotel sector in the 1980s. 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, p. 40). Over the past two decades the limited services hotel, which has been led by brands such as Days Inn, Comfort Inn, or Super 8, has been one of the fastest expanding segments of the US hotel industry (Ransley and Ingram 2004).

The concept of limited service has spread outside of the USA and in South Africa has been adopted and refined in what has been termed the “selected services hotel” (Enderle 1987). This section identifies the key features of this new product in the hotel sector and its subsequent growth, change, and adaption in South Africa by the City Lodge Group of hotels. Source material for City Lodge draws from an analysis of a complete set of annual reports (AR) from 1993 to 2010. This information is supplemented by an historical account of the foundation of the company (Enderle 1987) and a detailed interview on corporate strategy provided by the (longstanding) Chief Executive Officer of City Lodge Hotels (Ross 2011).

The Limited Service Hotel

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, ranging between 100 and 200 rooms and importantly incorporates fewer ancillary spaces such as meeting rooms, lobby space and restaurants. From existing scholarship, 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 (Ninemeier and Perdue 2005; Berger and Chiofaro 2007; Younes and Kett 2007).

As the physical product is less detailed and specialized than the full service hotel, the limited service hotel is both simpler and quicker to develop than the full service hotel (Ninemeier and Perdue 2005). In addition, as pointed out by Berger and Chiofaro (2007, p. 41), “the time that is required to design a limited-service hotel is also significantly shorter than the more detailed and specialized full-service brethren”. Furthermore, as the product is simpler and more uniform in design relative to full service hotels, rapid planning and construction is another advantage of the limited service hotel. In the USA, the majority of limited service hotels are franchised by large hospitality firms as the “uniformity of the product and streamlined development process is a major selling point to potential franchisee partners” (Berger and Chiofaro 2007, p. 42). Overall, as compared to development of the full service hotel, the limited service variant appeals to a wide range of investors and developers.

Ease of operation is a second major distinguishing characteristic of the limited service segment. The limited service hotels are by definition less expensive to operate because they do not offer the range of services or amenities of a full service hotel. The most significant saving relates to food and beverage provision as the elimination of the restaurant in the limited service hotel results in significant labour cost savings. Berger and Chiofaro (2007, p. 43) point out, however, that certain limited service hotels in the USA "make arrangements with adjacent restaurants to provide room service which allows them to sell room service as an amenity and still eliminate the majority of the associated overhead and restaurant construction and management costs". Another set of advantages for the limited service concept relates to questions around development risk. In comparative analysis, Younes and Kett (2007) show limited service hotels present the least initial property development related risk because of their relatively straightforward development process, smaller scale, and simpler construction. From an analysis of historical trends in the USA, it has been shown that "limited service hotels tend to be less vulnerable to economic shocks than full service and luxury hotels" (Berger and Chiofaro 2007, p. 44). As a whole, therefore, limited service hotels are attractive investment vehicles because they are less capital intensive and labour intensive than full service hotels and during both peak and off-peak economic cycles exhibit high guest retention levels.

The Limited Services Concept in South Africa's Hotel Industry

The emergence of the limited service hotel segment in South Africa must be understood as the outcome of the growth strategy pursued by one particular hotel group, City Lodge. The limited service segment market niche occupied by City Lodge contrasts with the strategic emphasis placed by the country's other leading hotel groups upon market segments associated with full service hotels.

Under the impress of international sanctions during the 1970s and 1980s, the South African hotel industry became dominated by the operations of the Southern Sun Group of hotels (Tucker 1986). This group had been launched in 1969 under the leadership of Sol Kerzner and formed part of the broader diversification programme of South African Breweries away from its core brewing activities (Tucker 1986). Growth of the hotel chain was rapid and by 1973 Southern Sun had a network of "24 hotel operations in South Africa covering all the country's major urban centres and most of the leading tourist areas" (Rogerson 1990, p. 346). Throughout the 1970s and 1980s, the Southern Sun Group continued to extend its operations in the segment of middle range and upmarket full service hotels (Tucker 1986). During the early 1980s, several other hotel groups began operations in South Africa. The most significant newcomer was the Protea group, launched in 1984, which focussed on establishing a national chain of full service middle to upper end hotels.

Table 1 shows the property portfolio of South Africa's leading three hotel chains in 2010. Since the democratic transition, South Africa's hotel industry has become dominated by the operations of three hotel groups, namely Protea, Southern Sun, and City Lodge, all of which are South African owned and managed. Each of these groups has been engaged in diversifying their brands and segmenting operations in order to appeal to a wider range of travellers. The Protea group, Africa's biggest hotel operating company, expanded through a combination of direct hotel ownership, management contracts, and franchise agreements. By 2010, 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. Taken together, by 2010 these three dominant

Table 1 South Africa's leading hotel groups, 2010

Hotel Group	Properties in South Africa	Properties in other African countries	Market Served
Southern Sun	78	7	1 to 5 stars
Protea Hotels	84	33	3 to 5 stars
City Lodge	52	0	1 to 4 stars

Sources: City Lodge Hotels AR (2010), Southern Sun (2010), and Protea Hotels (2010)

enterprises in the South African hospitality sector owned or managed a total of over 200 hotels within South Africa (Table 1). In addition, both Southern Sun and Protea had embarked on the geographical spread of their activities into a range of other countries in sub-Saharan Africa and, in the case of Southern Sun, even beyond Africa to the Middle East.

Against a backdrop of accelerating rapid market segmentation occurring during the post-apartheid period City Lodge continued since launch in 1985 to concentrate its activities in the limited service market of South Africa. By 2010, the group was the established leader in the limited service segment of the South African hotel industry. With a portfolio of 52 hotels offering a total of six 629 rooms, City Lodge was the country's third largest hotel group as a whole. Nevertheless, by 2010 the group was no longer the only enterprise which operated in the country's limited service market segment as newer competition emerged from brands such as Holiday Inn Express as well as from the introduction and growth of other limited service hotel products, such as the all-suite hotel (Rogerson 2011).

The Growth of City Lodge as a Limited Service Hotel Chain

The limited service hotel pioneered in South Africa by City Lodge thus represented the opening of a new market segment which had been overlooked by the country's existing hotel groups. The establishment of the limited service concept in South Africa was anchored upon research conducted during the 1980s which investigated the characteristics of the "economy sector" of the US hotel industry (Enderle 1987). This concept of the limited service hotel had been extensively investigated by the founder of City Lodge, Hans Enderle, when he was the managing director of Holiday Inn South Africa. During his time at Holiday Inn, Enderle researched the limited service concept with particular reference to its success in the USA (Ross 2011).

Several aspects of the US limited service model subsequently would be modified in the context of specific market research concerning South African consumers. Local research revealed that whereas "97 percent of hotel guests wanted breakfast, only 18 percent wanted lunch at a hotel" and that "87 percent ate dinner in their hotels but indicated they were not averse to eating out" (Enderle 1987, p. 23). Although these results disclosed a demand for "good quality accommodation with en suite bathrooms" many guests "were not particularly interested in facilities such as conference rooms, endless lobbies and reception areas" (Enderle 1987, p. 23). The founders of City Lodge eschewed the potential option of franchising a brand from an

American chain; instead they sought to initiate "something specifically tailor-made for the South African business community" (Enderle 1987, p. 23). The group's founder Hans Enderle claimed the "uniquely South African" features of City Lodge to be "the breakfast area turns into a bar in the evening" and that "instead of offering room service, City Lodge has tea and coffee machines in every room" (Enderle 1987, p. 23).

Under the rubric of "the selected services hotel", City Lodge opened its first lodge at Randburg, Johannesburg in 1985. In addition to the "homely no fuss atmosphere" on offer and "the elegant informality of a night at City Lodge" the room rates were highly competitive (Enderle 1987, p. 23). Undoubtedly, the selected service hotel of City Lodge offered a marked improvement upon the standards of accommodation as provided by the country's existing "economy" segment of one and two star hotels, the majority of which focused more on profit-making from off-sale or in-house liquor selling than on the provision of decent affordable accommodation. The first City Lodge hotel was an immediate success and the group began scouting other sites to roll out their new product to the South African market. Financial backing was secured from the Mines Pension Fund which gave City Lodge a mandate to complete 1,000 rooms by 1990 (Ross 2011). City Lodge had broken away from existing local hotel standards as it did not establish full service hotels which hitherto were the South African norm. In establishing the limited service hotel concept, the group stated their "prime business is the provision of affordable, high-quality accommodation to travelers with excellent service" (City Lodge Hotels AR 1993). The City Lodge concept was summed up as follows: "since its formation in 1985 the group has focused on achieving high margins through offering business and tourist travelers a consistent product without the often under-utilised services and facilities and the high staff-to-guest ratios of full service hotels" (City Lodge Hotels AR 1993).

In terms of clientele City Lodge has enjoyed a consistent base of 75% business and 25% leisure travellers. The vast majority of the group's clients are domestic rather than international travellers; in total, 75% of guests is South African domestic tourists. Within the cohort of international visitors, once again business tourists predominate. The client base of City Lodge thus does not reflect patterns of international tourism flows to South Africa, which are dominated by leisure visitors from Western Europe (Rogerson and Visser 2006). City Lodge's international guest profiles mirror more especially recent trends in the growth of business tourism to South Africa with expansion from several Asian countries, notably India, Korea, and Japan, as well as growth in business travel from other countries in sub-Saharan Africa. Among the group of regional business tourists, City Lodge's largest market is Angola, albeit growth has been recorded recently also from Ghana and Nigeria.

Overall, City Lodge was positioned and styled as a "selected services" hotel. This new type of hotel development in South Africa was an anomaly for the national organization which was responsible for accommodation grading. After some initial confusion, the country's national grading council adapted its grading model and City Lodge's limited service hotel was classed a three-star product. Since its beginnings, the group has stayed loyal to the limited service model. Only minor changes and adjustments occurred to the initial concept as client needs changed. Importantly, food provision changes were effected. Initially the lodges started with a set dinner offering, but in 1987 the evening food service was phased out and only breakfast was offered (Ross 2011). During 2009, a coffee shop concept was introduced to offer a light snack menu throughout both the day and evening. This was in response to the growth in the numbers of female travellers many of whom often preferred not to go out at night, or business people who after a business lunch required only a light evening snack.

Another adjustment to the limited service model related to acknowledgement of the fact that the majority of clients were business people and of the need for boardroom facilities as clients wanted a place for meetings other than the common area lounge. City Lodge's newest hotels have three small board rooms and the new flagship hotel at Johannesburg's OR Tambo International Airport boasts large conference facilities due to the demand and its central location which makes it a cost effective conference venue especially with international associations and airline related businesses (Ross 2011). Fitness rooms also have been introduced to many hotels due to customer demand. Other minor adjustments concern the provision of more twin bedded rooms.

As a chain the City Lodge hotel group has expanded mainly as a result of internal growth rather than external growth. Unlike the trends noted for large hotel chains in North America to grow through franchising and use of management contracts, City Lodge has not adopted this growth path. The group has, however, engaged in expansion through a strategy of brand diversification and of further market segmentation of its limited service model of hotel development. Figure 1 shows that by 1990 there was a total of seven City Lodges all of which were located in major urban centres of South Africa serving the group's main target market, the

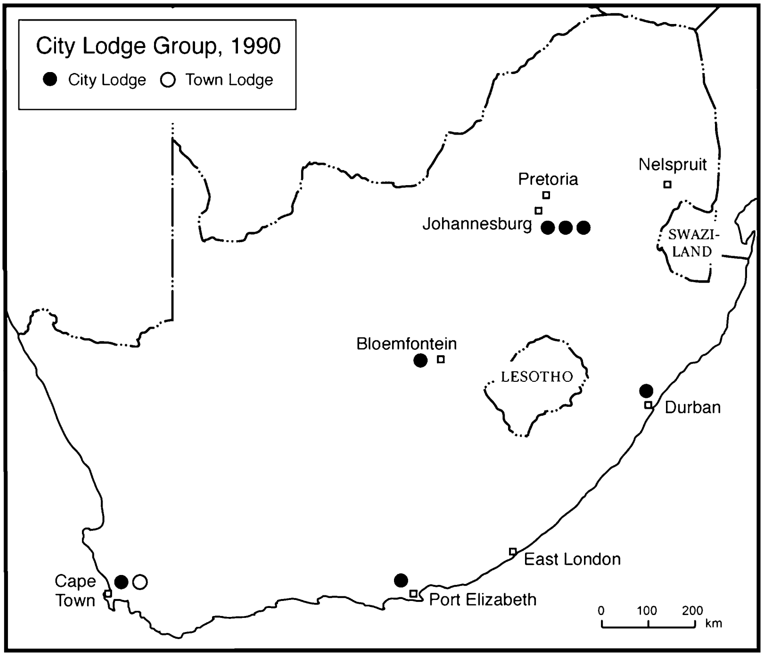

Fig. 1 Location of City Lodge Group of Hotels 1990 (City Lodge Hotels AR 1990)

domestic business traveller. After extensive research, the strategic decision was made in 1990 to diversify the group's products. During that year, City Lodge established its first Town Lodge at Bellville, Cape Town. The Town Lodge was established as a two-star offering. This "second-tier lodge concept" (City Lodge Hotels Annual Report, 1993) was initiated as a result of the success of the initial City Lodge brand. Additional Town Lodges were opened in Johannesburg, Pretoria, and Nelspruit.

Further segmentation of the limited service model occurred in 1995, City Lodge's tenth year of operations. The group diversified its activities into both the one- and four-star markets with the innovation of two further brands, the Road Lodge and the Courtyard. The one-star Road Lodge is a value-for-money option which is positioned at the budget end of the market. This new brand was established and rolled out in South Africa's major cities and subsequently spread to secondary cities. The group's entry into the four-star upmarket brand was through a strategy of external growth. In a joint venture arrangement, City Lodge acquired the existing Courtyard chain of five properties, including 100% of the management company. By 1995, 10 years after the birth of City Lodge, the group consisted of a network of 19 hotels with four distinct brands serving different market segments (City Lodge Hotels AR, 1995).

The period 1995–2000, the immediate years of democratic transition, was viewed as "difficult years" for the hospitality industry of South Africa (Ross 2011). This period was marked by considerable optimism in the hotel industry around a potential major surge in international tourism to South Africa following the country's shedding of its apartheid pariah status and re-entry into the global tourism economy. During this period, several local hotel groups expanded their operations and upgraded their hospitality products. Although regional tourism from Africa burgeoned in the immediate post-apartheid years, the anticipated boom in long haul international tourism to South Africa was not fully realized (Rogerson and Visser 2004). The consequence was that the South African hotel sector experienced a situation of over-supply of hotel rooms. Because of poor occupancies, a number of local hotel groups (Cullinan, Karos, and Stocks and Stocks) were bankrupted and their hotel properties sold on by banks (Ross 2011). The difficult trading conditions of the late 1990s are reflected in statements made in the 1999 Annual Report of City Lodge:

> The depressed economic environment, increased competition and excess room capacity that persisted in the hospitality industry in 1989 still persists in 1999. Overseas arrivals have reportedly increased, but the higher figure was insufficient to offset the supply of new beds coming to the market. This factor coupled with a decline in disposable income occasioned by the economic recession, high interest rates and ongoing high levels of crime, rendered the 12 months to June 1999 one of the most difficult in the company's history (City Lodge Hotels Annual Report, 1999).

Notwithstanding this difficult period, further growth of the City Lodge Group's operations took place between 1995 and 2000. With its core focus on business travellers and a customer mix dominated by domestic rather than international visitors, by 2000 City Lodge Group had expanded operations to a total of 33 properties (Fig. 2). This included six four-star Courtyard suite hotels, ten three-star City Lodges, seven two-star Town Lodges, and ten one-star Road Lodges. Geographically, the group's operations were concentrated in and around the major

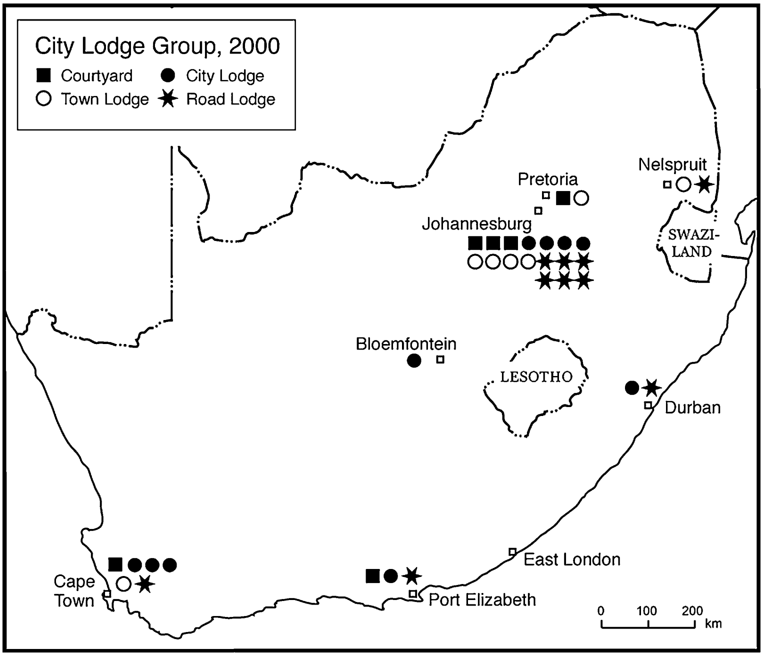

Fig. 2 Location of City Lodge Group of Hotels 2000 (City Lodge Hotels AR 2000)

centres of South African business tourism, with 17 hotels in metropolitan Johannesburg and surrounds. In addition to South Africa's business capital, City Lodge operations extended also to other cities such as Cape Town, Pretoria, Port Elizabeth, and Durban as well as the secondary cities of Bloemfontein and Nelspruit. Of the Group's national portfolio of 33 properties, more than half were situated in Gauteng province, South Africa's economic heartland.

For the South African hospitality sector, the year 2002 is considered a watershed because it marked an upturn in long haul international leisure visitors to the country. The annual reports of City Lodge confirm the growing contribution of international tourist arrivals and of the special importance of African shopper tourists particularly in Johannesburg. In 2002, it was observed that:

> Foreign tourists often boost our occupancy levels on weekends and during off-peak periods during the year. We are confident that by benefiting from South Africa's improving reputation as a holiday destination and our own international marketing efforts we can further grow the foreign portion of our occupancies….. Coming off a low base, there are signs that South Africa is finally taking off as a genuine international tourist destination. There is always a strong VFR (visiting friends and relatives) in our tourist mix but we are now seeing growing numbers of tourists from around the world who hire cars, stay in hotels and eat in restaurants. Of particular note is that SA is becoming a major shopping destination for visitors from elsewhere in Africa (City Lodge Hotels AR 2002).

The City Lodge group continued to grow operations throughout the decade 2000–2010. By 2003, the group had 3,791 rooms/suites which ranked it amongst the 250 largest hotel chains in the world (City Lodge Hotels AR 2003). With the award of the hosting of the 2010 FIFA World Cup to South Africa, further expansion of the Group's operations was inevitable. It is suggested that a number of opportunistic independent developers entered the South African hotel market establishing new hotel operations which were specifically targeted at potential opportunities associated with the 2010 Football World Cup. The approach of City Lodge, however, towards the 2010 World Cup was more cautious, more especially in the context of the global financial crisis which began during 2008. Nevertheless, during 2010 City Lodge opened nine new hotels and also undertook a major extension and upgrading of one of its existing Johannesburg hotels. This remarkable expansion of the Group's operations is attributed to the fast tracking of approvals for new hotel property developments by City Councils across South Africa in response to mounting concerns which were raised about potential shortages of rooms for the 2010 World Cup. Because of local council procedures and delays in East London, City Lodge waited 18 years in order to secure the site and proceed with a planned hotel development in the city. National government pressured local councils to speed up local approval procedures. As a result of this leverage City Lodge found itself in an unforeseen situation that the group had more hotel approvals and developments on stream than the longer-term phased pattern of development that it normally pursued (Ross 2011).

Overall, between 2000 and 2010 City Lodge Group experienced a further growth of 19 new hotels (Fig. 3). The group's location strategy has been to have a presence in all South Africa's major urban centres and to grow brand awareness. Careful research was undertaken before establishing any of their four brands in a new location with consideration given to the cost of proposed developments, what the market could

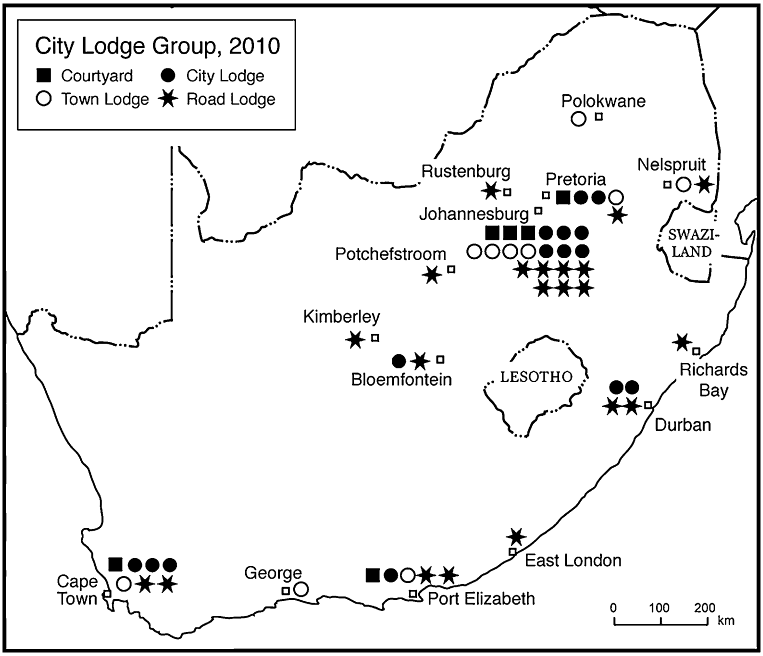

Fig. 3 Location of City Lodge Group of Hotels 2010 (City Lodge Hotels AR 2010)

afford and the supply situation of other hospitality products. City Lodge claim not to have a “follow the leader” approach and develop hotels only if all market factors are correct; it was stated that they do not locate in any city merely because their competition has a presence there (Ross 2011). Between 2000 and 2010, the greatest number of new hotel developments occurred in terms of building 11 new Road Lodges; in addition, five new City Lodges and three Town Lodges were opened. Figure 3 provides a profile of the geography of City Lodge group operations by 2010. It should be noted that new expansion was recorded during the period 2000–2010 especially in South Africa’s secondary cities, many of which were also host locations for the 2010 FIFA World Cup. New developments were recorded in George, Polokwane, Rustenburg, Potchefstroom, Kimberley, Richards Bay and East London. In addition to these developments City Lodge further expanded its imprint in South Africa’s leading urban business and leisure destinations, launching an array of new hotels in Johannesburg (three new hotels), Pretoria (three new hotels), Durban (two new hotels), Port Elizabeth (two new hotels), Cape Town (one hotel), and Bloemfontein (one hotel). The close association of City Lodge operations with the economy of business tourism is reflected by the continued concentration of operations in Gauteng. Of the total portfolio of 52 properties, 20 were in Johannesburg and its surrounds as compared to seven properties in Cape Town and four properties in Durban, South Africa’s leading two leisure tourism destinations.

As this rapid period of hotel expansion of the Group occurred at a time of global financial crisis, economic recession, and consequent weak local and international markets, the group announced “a consolidation phase in South Africa” with no further developments planned on South Africa (City Lodge Hotels AR 2010). Since the FIFA World Cup, trading conditions for South Africa’s hospitality sector have been viewed once again as “difficult” with clear signs of saturation and the over-supply of rooms in certain parts of the country, most notably in Cape Town (Ross 2011). The two months period around the World Cup was described in somewhat under-stated terms as “good” for City Lodge operations, particularly in the Johannesburg region (Ross 2011). Nevertheless, after the FIFA World Cup, industry stakeholders observed “it was as if the rug had been pulled from underneath us. Everybody left and nobody has come to take their place. Business and government have both cut back substantially on travel and until that changes the hotel market will stay with a huge oversupply” (Ross 2011). It is as an outcome of both rapid growth by City Lodge and the slowdown in the national hospitality market in late 2010 that the group is embarking on a period of consolidation. The group is pursuing a strategy of looking for future opportunities and sites for future hotel developments, undertaking land banking in order to be ready to develop new hotels in future when there are signs of upturn in demand and absorption of current levels of oversupply.

The internationalization of City Lodge operations has been under consideration since at least 2003. The group has undertaken research on potential investment opportunities for developing limited service hotels outside South Africa. Within the region of Southern Africa, Botswana, Namibia, and Mauritius have been under investigation for potential three-star City Lodge developments. Other African market opportunities have been researched in Nigeria and Ghana. Outside of Africa, hotel development options have been scrutinized in Australia, Malaysia, and even parts of South America. The most promising opportunities for replication of the South

African model appear to exist, however, in establishing limited service hotels in tier 1 and tier 2 cities of India (City Lodge Hotels AR, 2010; Ross 2011).

Conclusion

Within the accommodation sector, hotels assume "an important role in the context of tourism systems" (Solnet et al. 2010, p. 139). Since the 1980s, market segmentation has been an accelerating trend in the hotel sector and the identification of new market sub-segments had "become a science" scrutinized and researched by large hospitality organizations (Berger and Chiofaro 2007, p. 16). It has been demonstrated that pursuit of market segmentation has been a viable strategy for the growth of many hotel chains in Western Europe and North America (Cunill 2006).

The objective in this article was to offer a modest contribution towards understanding the impact of market segmentation in the context of the changing South African hotel industry. It is evident that the limited service segment represents another facet of the accelerating segmentation which recast the landscape of South African hotels particularly after 1990. The growth of limited service hotels in South Africa is inseparable from the market niche left vacant by the focus of existing local hotel groups upon development of full service hotel operations. Building upon the success of limited service hotels in North America, the City Lodge Group adapted the concept of limited service to open up opportunities in this hotel segment in Africa. Further, within South Africa, the City Lodge group has driven the differentiation of the limited service market.

Unlike the patterns of hotel chain development documented for North America and Western Europe, however, the dominant growth strategy adopted by City Lodge for limited service hotels in South Africa has been through a "traditional" growth approach of internal developments with some hotel acquisitions rather than the emerging mainstream approach of growth through franchising and management contracts. The success of this market segmentation is imprinted in the development of limited service hotels as distinctive features of the urban fabric of all South Africa's major cities as well as many of the country's secondary centres. As the concept of the limited service hotel is closely associated with South Africa's growing business tourism economy, the geographical impact of this particular form of hotel is most strongly evident around the country's leading business hubs.

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