FORESIGHT
Issue 7: May 2004

FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month the markets South Africa, Nigeria, Kenya and Ghana are examined and we explore the latest trends in the scale and nature of Internet usage by consumers.

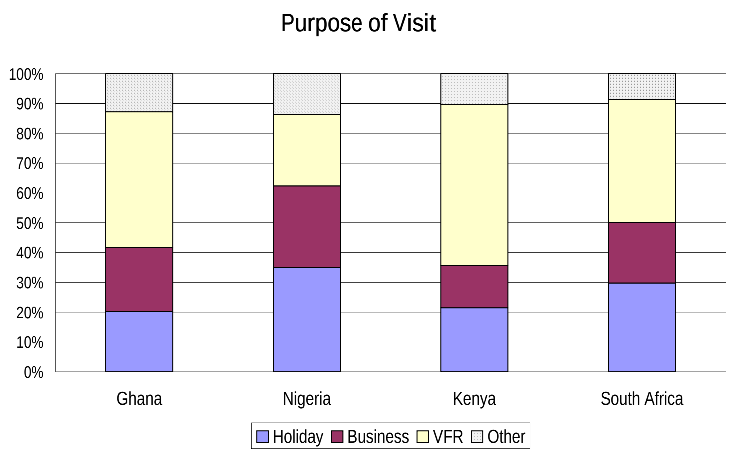
Market Focus – South Africa, Nigeria, Kenya and Ghana

Only a minority of those living in these four nations can afford international travel. There is not only a problem of very low per capita income, but the wealth of each country is very unevenly distributed, with a small, but very rich, elite and the poorest 20% of the population having a meagre 5% share of national income.

South Africa is by far the richest of the four with per capita income projected to be US$3,746 in 2004 according to the IMF, and with a relatively large "middle class". Nigeria is the poorest, with forecast GPD per capita in 2004 of just US$408. In Ghana the figure is US$424 and in Kenya US$452.

It is because there exists a rich elite in each of the nations that travel to Britain from the four amounted to some 460,000 visits in 2002 (approximately 2% of all visits), with visitor nights totalling almost 9 million and visitor spend £460m. Looking at how these totals are distributed between the four markets we find that South Africa generated three-fifths of visits and visitor nights in 2002, whilst Nigeria generated a quarter of visits and a fifth of visitor nights. However, according to the International Passenger Survey Nigeria generated two-fifths of visitor spend – on a par with South Africa's share. The reason for this is that spend per night by a visitor from Nigeria is estimated at £100, compared to £40 for visitors from South Africa, £65 per night for visitors from Kenya and £25 a night for those from Ghana.

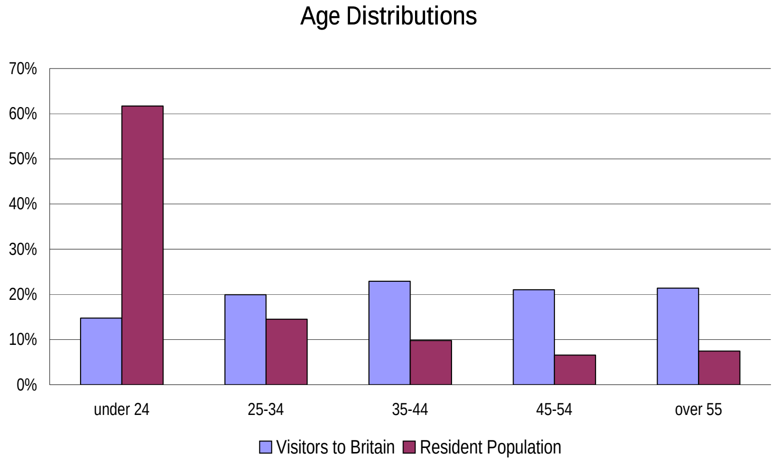
The high spend per night by visitors from Nigeria can, in part, be explained by the purpose mix of trips, with almost two-thirds being either holiday or business. As one might expect given the low nightly spend, well over two-fifths of all visits from Ghana have vfr as their primary purpose.



Visitors are not only richer than their fellow citizens, but older too

Nigeria is the world's 9th most populous country with some 139 million inhabitants, South Africa has a population of 42 million, Kenya 32 million and Ghana 21 million. Compared to the developed world life expectancy is low in all four countries; 57 in Ghana, 53 in South Africa, 52 in Nigeria and 46 in Kenya. The US Census Bureau estimates that, in contrast to most of the rest of the world, life expectancy in South Africa will decline over the coming years, being just 44 by 2025 due to the prevalence of HIV AIDS.

The age distribution of visitors to Britain from the four markets is very different to the age distribution of the resident population as is evident from the following chart. There is no



significant outbound "youth market" in the four countries, with the exception perhaps of South Africa.

The long-term study market is one area that is attracting the young of wealthy African families to Britain. Latest data from UCAS tells us that in 2003 British Higher Education establishments admitted nearly 1,700 Nigerian residents, 1,000 Ghanaians and more than 700 Kenyans. Not only can tourism in Britain benefit from the travels undertaken by these students during their stay, but an opportunity exists to attract high-value family visits whilst the child is studying in Britain.

The media mix

Email, the Internet and, to an extent mobile phones, may be becoming increasingly important means of communicating marketing messages in the developed world but this is not the case in at least three of these four markets.

The World Bank estimates that there are only 40,000 Internet users in Ghana, 50,000 in Kenya, 115,000 in Nigeria and 3.1 million in South Africa. The level of adult illiteracy stands at 14% in South Africa, 16% in Kenya, 26% in Ghana and 33% in Nigeria. Television is increasingly available, but only to those who are fairly affluent and who live in urban areas.

Radio is still the key media in Africa. The BBC World Service broadcasts, and is widely listened to in all four countries. It is estimated that one in three adults in both Nigeria and Kenya listened to the BBC World Service at least once a week during 2003. This presents an unrivalled opportunity for keeping Britain at the forefront of the minds of those considering international travel and for "painting a picture" of what Britain has to offer.

South Africa

Elections took place on 14 April with the ANC winning its third successive landslide majority. The new Government faces more than its fare share of challenges. It is thought that 5.3 million South Africans carry the HIV AIDS virus, that is one in every nine of the population. Unemployment is around 30% of the labour force and despite improvements over the past decade many tens of thousands still live in poverty. In an attempt to alleviate some of this poverty the 2004/5 Budget includes £1.6bn worth of public works intended to generate one million jobs over the next five years.

For those with jobs in South Africa it is possible to paint a rosier picture; recent wage settlements have been high relative to inflation, interest rates have fallen and the price of many consumer goods has fallen. This has fed through to a pick up in consumer confidence and according to the Reserve Bank of South Africa household expenditure grew at 4% in the fourth quarter of 2003 compared with the same period in 2002.

As a result prospects for inbound tourism to Britain appear favourable, with the majority of visitors being "middle class" and in full-time employment. Further good news is that the South African Rand will buy around 5% more Sterling now than a year ago, making Britain a more affordable destination.

Only 80 South Africans entered British Higher Education in 2003. However, working holidays in Britain are very popular among the South African young. Latest data from UK Visas reveals that in the year ending 31 March 2003 the British High Commission in Pretoria issued 17,297 "Working Holiday Maker" visas for stays of more than 6 months.

Nigeria

Oil is vital to the Nigerian economy, but only a fraction of the population has anything to show for this rich natural asset. Many of those fortunate enough to have benefited are now exceptionally rich, and not just by Nigerian standards. The weak US$ dollar means that oil, sold in dollars, is generating less foreign currency for a number of producers including Nigeria. This is one of the reasons for OPEC remaining reluctant to increase production to offset the increasing cost of oil.

Political and tribal violence is rife in parts of Nigeria, with many political killings ahead of local elections that took place during March. Much of this violence is believed to have been down to the fact that local councillors are able to siphon off central Government funding into their own bank accounts. Indeed, Nigeria is frequently ranked as one of the world's most corrupt nations. A number of officers within the armed forces have recently been questioned about an alleged coup plot.

Nigeria is Britain's second largest trade market in Africa, explaining the fact that 30% of visits to Britain are business related. This has resulted in a well developed market for air travel between Nigeria and Britain with some 21 flights a week to London from three Nigerian cities.

Kenya

Forty years on from Independence there remain very strong ties between Kenya and Britain. Britain is the largest foreign investor in Kenya and the second largest Kenyan export market. Corruption, crime, high unemployment and a dependence on agriculture (80% of those in employment work in either agriculture or horticulture) are all problems faced by Kenya. However, unlike the other markets dealt with here Kenya has seen a number of high profile terrorist attacks in recent years including attacks on the US embassy in Nairobi, a Mombassa hotel and an attempt to down an Israeli passenger plane. British planes have been grounded on occasions recently as the authorities fear further attacks.

This is bad news for the Kenyan tourism industry, and with many of the better off in Kenya dependent on tourism for their income a severe decline in visitors may feed through into a reduction in outbound travel from Kenya to Britain.

Late in 2002 Kenya elected a coalition Government that was not dominated by any single ethnic group – the first time this had happened since Independence. This "new dawn" now looks in danger of crumbling, with many in the Government opposing a new constitution that would dilute the powers of the president and establish an executive Prime Minister to lead the Government and appoint Cabinet.

Ghana

Ghana is richer than many of its near neighbours but remains extremely poor. With 45% of visits to Britain being to see friends or relatives it is not surprising that nightly expenditure is the lowest of the four markets considered here. It is possible for so many Ghanaian visitors to visit friends and relatives because, according to the Ghana High Commission in London, there are 200,000 Ghanaians living in Britain, and upwards of one million people in Britain who have some form of link with Ghana.

Britain has an estimated £500 million invested in Ghana, making it the country's largest foreign investor, and remains the largest supplier of non-oil goods. Ghana receives around £65m per annum in Poverty Reduction Aid from Britain. The political situation in Ghana is calmer than in many other African countries with Presidential and parliamentary elections scheduled for later this year.

Conclusion

According to the World Bank's Human Poverty Index which measures a combination of longevity, knowledge and standard of living South Africa is ranked 107th in the world, Ghana 129th, Kenya 134th and Nigeria 148th. It is clear then, that visitors to Britain from these four countries are not your "average man in the street".

Those able to visit Britain are well off by African standards, with Nigerian visitors reporting a nightly expenditure well above that for visitors from the majority of developed countries. Visits will typically be business related or to spend time with family and friends. The long-term study market is growing and this trend can be exploited by encouraging the students' family to visit. With the exception of South Africa the Internet is not a viable way of marketing the British tourism product in these four markets – radio remains a much more effective conduit.

Issue of the Month – The Internet: Consumers

In contrast to the African nations discussed earlier the Internet is becoming ever more relevant to day-to-day life in Britain and many of our key markets for inbound tourism, both at the level of the individual and of the business. The June Issue of the Month will focus on the Internet from the perspective of the tourism business, but this month we explore some of the latest consumer trends.

Some domestic facts and figures

It is possible to drown in a sea of statistics about how rapidly the Internet is growing in importance, and in such a fast moving environment many of these statistics may quickly become out-of-date and be based on dubious survey methodologies.

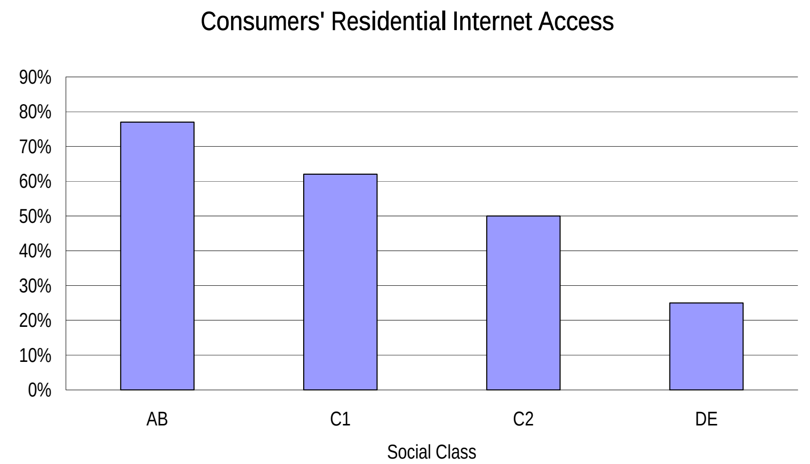
Many of the most reliable statistics on Internet access and usage patterns within Britain can be found in information compiled by the Office for National Statistics. Latest figures reveal that by the end of 2003 49% of households in the UK (12.1 million) could access the Internet.

During the three months to February 2004 58% of adults used the Internet. This compares with a figure of 40% in the three months to October 2000, but is unchanged compared with the level seen in the three months to October 2003. This hints at Internet access having (at least in the short-term) reached a plateaux. Many Britons not only have access to the Internet at home, but also in the office. However, by early 2004 38% of adults in Britain had never used the Internet, with a core group of 18% saying that they were not likely to use it in the future. Internet access is by no means universal.

Demographics

The age-mix of British Internet users is changing. Between February 2003 and February 2004 there was no change in the percentage of those aged 16-44 using the Internet. Growth is currently being driven by the older generation, with 67% of 45-54s having accessed the Internet in the three months to February 2004 compared with 56% a year earlier. For those aged 55-64 the equivalent figures were 33% in February 2003 increasing to 42% by February 2004.

Data from Oftel indicates a strong correlation between social class and whether consumers have access to the Internet in their home.



These figures are given credence by ONS data on access to the Internet by household income showing that among the richest ten percent of households in the UK 86% had access to the Internet by September 2003, in contrast to just 12% of households in the poorest income decile.

Travel and tourism is a key driver for accessing the Internet for Britons

In the three months to February 2004 69% of those who accessed the Internet in Britain had used it to search for information about travel and accommodation (equivalent to two in every five adults). Approximately half of all Internet users had made some form of on-line purchase in the three months to February 2004, demonstrating that consumers are becoming increasingly comfortable with the web as a medium for buying goods and services. Indeed, only 9% of Internet users said that security concerns were deterring them from making on-line purchases.

Figures on the types of purchases made are only available for the year ending October 2003, but these clearly show travel and tourism firmly at the top of the league table for types of purchases made. Travel, accommodation or holidays were purchased by 52% of on-line shoppers in the year to October 2003, well ahead of books in second place, purchased by just 38% of on-line shoppers.

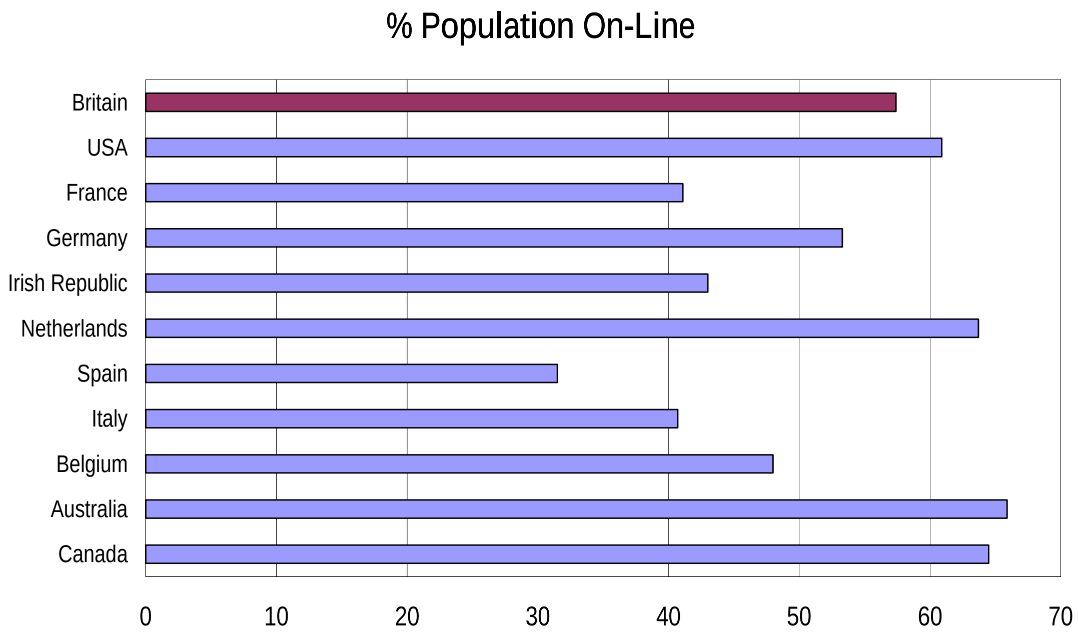
The International Scene – Britain in European top-flight

According to the Centre for Regional and Tourism Research based in Denmark the UK tops the Western European league table when it comes to on-line travel and tourism purchases, accounting for 39% of the Western European on-line travel market in 2003. The Centre estimate that in total, the Western European on-line travel market was worth €11.2bn in 2003, an increase of 43% compared with 2002. This may sound impressive, but it still only represents 5% of the market by value. In contrast, on-line purchases are forecast to account for 22% of travel and tourism industry revenue in the USA in 2004, worth a total $53bn (€44bn).

The chart on the following page is based on data from the European Travel Commission, showing levels of Internet access in Britain and our top ten inbound markets (by number of visits) in 2003.

Within Britain's key short-haul markets only the Netherlands has higher levels of Internet access than Britain, but interestingly the top three long-haul markets all have a higher share of the population on-line than is the case in Britain.

It is noteworthy that a much lower share of the population in France and Italy (40%) are on-line, with even fewer (just over 30%) on-line in Spain. These are hugely important inbound markets for Britain (worth an estimated £1.7bn in 2003), demonstrating the need for information about the British tourism product to remain accessible to those who do not enjoy web access.

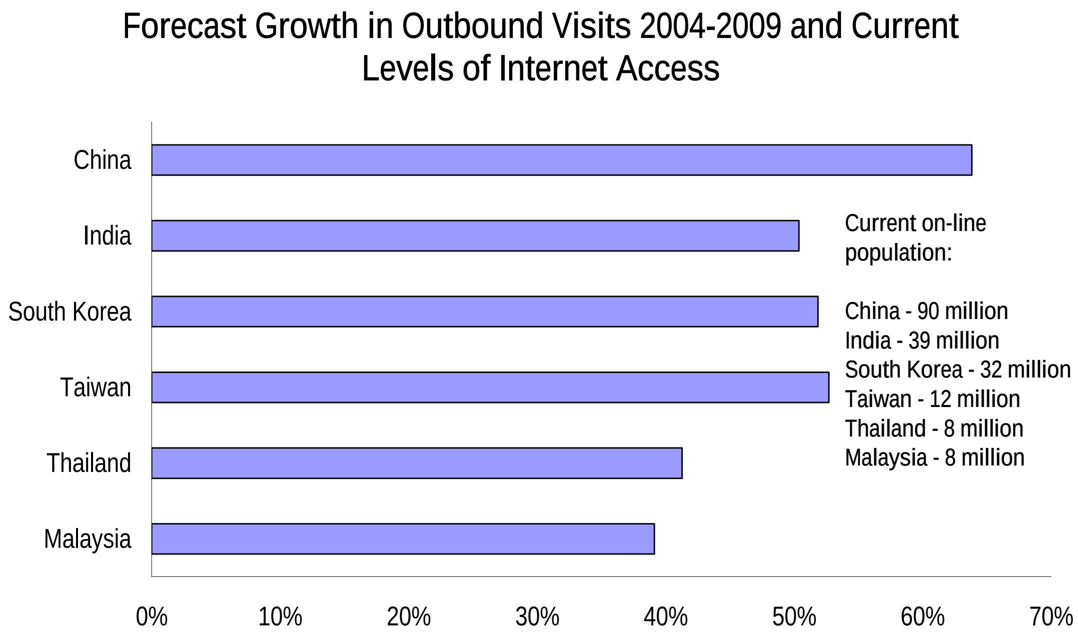


Survey findings released by the Canadian Tourism Commission suggest that around three in every four Canadians planning a trip to Europe during 2004 will use on-line information to help plan their trip. Almost a half of those planning a trip to Europe said they were likely to buy at least part of their trip over the Internet. This again demonstrating that in countries with widespread Internet access travel and tourism are high on the list of products researched and purchased by on-line consumers.

What about emerging markets?

In Africa both the volume of outbound travel and levels of Internet access are very low, however in a number of potentially valuable emerging markets for the British tourism industry access to the Internet is surprisingly well established. The next issue of Foresight will explore how business can exploit this trend but here we consider the size of the potential audience for on-line travel and tourism information in a number of emerging markets.

The following chart based on forecasts from Global Insights and estimates made by the European Travel Commission highlights the enormity of the existing Internet user-base within China and other Asian markets. The estimated number of Internet users in China is expected to double from 90 million now to 180 million by 2007. It is perhaps not surprising then, that 14% of today's global on-line population are Chinese speaking, a share that looks set to grow further.



Source: Global Insights and European Travel Commission New Media Review

A clear message emerges: in Asia the Internet is a rapidly growing medium, and outbound tourism over the next five years is forecast to grow at a much faster rate than in many of Britain's more mature markets. To take advantage of these Internet-savvy consumers Britain's tourism industry will need to be ahead of the game in using the Internet as a key marketing tool.

Conclusions

There can be little doubt that the number of Internet consumers both at home and abroad will continue to expand in coming years, with a growing confidence in the Internet as a means of making a purchase on the back of destination and product research.

This does not mean that in the future all consumers will wish to use the Internet as a tool for helping to decide where to go, how to get there or where to stay. There will remain a significant segment of the population that will not have access to the Internet, or who may have access but wish to make off-line purchases. Unless robust market research suggests that a target market is predominantly on-line, failure to accommodate customers who do not enjoy Internet access may have serious consequences for business prospects.

Next month we look at how businesses within the tourism industry have responded to the growth of the Internet and some of the factors that can help make the difference between a successful and unsuccessful tourism website.

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