

## CHAPTER 4

### TOURISM AND ENTREPRENEURSHIP

#### 4.1 INTRODUCTION

The contribution of SMME's in generating employment and income tend to become increasingly recognised in South Africa. This is an encouraging sign as people find opportunities to participate in ways that empower and nourish many others, particularly those that are otherwise disadvantaged. However, an increase in the numbers of people who are engaged in SMME's could be a sign of economic failure to provide productive jobs. People are then forced to take refuge in activities that might provide only minimal, subsistence support.

Shaw and Williams (1998:254) mention that SMME's hold a special place in tourism economies for a number of reasons, but most notably because they can provide a strong interface between the host community and tourism. In this respect, entrepreneurial activity not only has an economic dimension but also strong social and cultural elements. However, in developing economies the small business culture is being increasingly perceived as a constraining influence on certain areas of tourism growth.

This chapter investigates what entrepreneurship entails and its importance to economic development. Opportunity driven entrepreneurship is analysed, while the role players and opportunities that exist in tourism are discussed.

#### 4.2 SMALL BUSINESSES, ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

It is important to define small businesses as well as entrepreneurship in order to establish whether an enterprise is classified as being small, medium or micro.

#### 4.2.1 Defining small businesses

According to the National Small Business Act (No. 102 of 1996) a small business means: "a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy". The classification of "business services" is as follows:

- **Small:** Less than 50 full-time paid employees with a total annual turnover less than R10 million;
- **Medium:** Less than 100 full-time paid employees with a total annual turnover less than R20 million; and
- **Micro:** Less than 5 full-time paid employees with a total annual turnover less than R0,15 million.

"Catering accommodation" (and other trade), which is relevant to some role players in the tourism industry, is classified as follows:

- **Small:** Less than 50 full-time paid employees with a total annual turnover less than R5 million (R5 million difference from "small" under business services);
- **Medium:** Less than 100 full-time paid employees with a total annual turnover less than R10 million (R10 million difference from "medium" under business services); and
- **Micro:** Less than 5 full-time paid employees with a total annual turnover less than R0,15 million (same as "micro" under business services).

A "small business organisation" is defined as: "any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of/or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organisation".

#### 4.2.2 Defining entrepreneurship

**Entrepreneurship** is the emergence and growth of new businesses and firms. An **entrepreneur** is therefore a person who sees an opportunity in the market, gathers resources and creates and grows a business venture to satisfy these needs. He/she takes the risk of the venture and is rewarded, with profit, if it succeeds. An **entrepreneurial venture** is one that constantly seeks growth, innovation and has strategic objectives (Nieman, 2002:6).

Hisrich and Peters (1998:9) argue that entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychical and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence. In almost all of the definitions of entrepreneurship, there is agreement that entrepreneurship comprises a kind of behaviour that includes: (1) initiative taking, (2) the organising and re-organising of social and economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk or failure. Although each of these definitions view entrepreneurs from a different perspective, they all contain similar notions such as newness, organising, creating wealth and risk-taking. Yet, each entrepreneurial definition is somewhat restrictive, since entrepreneurs are found in all professions.

Entrepreneurship is about people who realise new opportunities. Entrepreneurs are persistent, passionate, adaptable and able to take risks. Entrepreneurship in its broadest sense is about the capabilities of people to combine scarce resources in new ways to respond to opportunities or provide solutions to problems. As a set of attitudes and behaviours, entrepreneurship can occur in



a range of environments. However, at the core of entrepreneurship lies the creation of new business ventures by individuals or teams (Driver, Wood, Segal and Herrington, 2001:2).

#### 4.2.3 The role of entrepreneurship in economic development

Smallbone and Welter (2001:63) argue that the potential role of Governments in SMME's in transition economies include:

- To generate employment and thereby contributing to absorbing labour surpluses which result from economic restructuring;
- It contributes to the development of diversified economic structures;
- It contributes to the development of a supply base to serve the needs of large firms (including inward investors and state owned enterprises);
- It can be a source of innovation;
- SMME development can contribute to sectoral restructuring;
- The development of the SMME sector can also contribute to the wider process of social transformation that is an integral part of transformation; and
- Self employment and small business ownership may provide a means of "self help" support for many former employees of state-owned enterprises who have either lost their jobs, the restructuring in state-owned enterprises, or have been forced to take leave.

Hisrich, *et al* (1998:13) state that the role of entrepreneurship in economic development involves more than just increasing per capital output and income. It involves initiating and constituting change in the structure of business and society. This change is accompanied by growth and increased output, which

allows more to be divided by the various participants. One theory of economic growth depicts innovation as the key not only in developing new products or services for the market, but also to stimulate investment interest in a new venture being created. A new investment works on both the demand and the supply sides of the growth equation: new capital create expansion in the capacity for growth (supply side), and the resultant new spending utilises the new capacity and output (demand side).

### ***Tourism entrepreneurship and economic development***

Shaw, *et al* (1998:243) argue that entrepreneurship is important in the linkages that tourism forms in developing countries, and it may well be that such relationships develop in a series of distinctive stages. However, as Mathieson and Wall (1982:82) point out, the nature of entrepreneurship is contingent: "Although it is attractive to think of a sequence of developmental stages, the exact pattern of entrepreneurial activity is likely to vary from place to place". Unfortunately, such geographical variations in the development of entrepreneurship that can be conceptualised as local contingencies in their formation and operation have been little researched. One exception is the general recognition that economic linkages between tourism and local industries depend on: (a) the types of supplier and producers in the local economy; (b) the historical development of tourism within the area (although this is only vaguely conceptualised); and (c) the type of tourism development under construction.

Tourism creates income and employment directly in the sectors in which expenditure or tourism-related investment takes place. It also induces further increases throughout the economy. Income and employment generation result not only from expenditure by foreign tourists along with the associated increases in private investment and public expenditure, but also from domestic tourist expenditure. The extend to which changes in tourism demand are likely to affect income and employment depends in part, upon the existence of the appropriate surplus resources within the economy. An example is airport capacity that should be sufficient to meet additional demand for incoming and departing tourists (Sinclair and Stabler, 1997:139).



However, Kotler, Bowen and Makens (1999:651) argue that destinations may not welcome tourists uniformly. Due to location, climate, limited resources, size and cultural heritage, some places have few economic choices other than to participate in tourism. Some engage in tourism with mixed emotions and at times, ambivalence. Some people and businesses benefit from tourism while others may not. While a destination's economy may be better off from tourism, residents sometimes feel that losses in quality of life, convenience and cultural and social values are not worth the economic benefits.

Tourism ranks as one of the top sources of employment. Other industries also give way to tourism as a major source of foreign exchange earnings. Consequently, tourism can make an essential contribution to the welfare of nations and has the potential to assist in the attainment of sustainable development by generating economic benefits for local communities and national economies. At the same time, environmental protection is reinforced.

### **4.3 OPPORTUNITY DRIVEN ENTREPRENEURSHIP**

#### **4.3.1 Opportunity identification**

Entrepreneurship is arguably the single most powerful force to create economic and social mobility. Because it is opportunity-centred and rewards only for talent and performance, it enables people to pursue and realise their dreams, to falter and to try again, and to seek opportunities that match who they are, what they want to be, and how and where they want to live. No other employer can make this claim (Timmons, 1999:5).

Kotler, *et al* (1999:87) define a marketing opportunity as an area of need in which a firm can perform profitably. Opportunities can be listed and classified according to their attractiveness and the success probability. The firm's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market, but also exceed those of its competitors. Therefore, the best performing firm will be the one that can generate the greatest customer value and sustain it over time.

Driver, *et al* (2001:3) argue that only one in 16 adults in a metropolitan area in South Africa is an opportunity entrepreneur (engaged in an entrepreneurial venture primarily to take advantage of a business opportunity), compared with only one in 167 adults in rural areas. It is estimated that 83 percent of the entrepreneurial activity in rural areas is driven by necessity, compared with 50 percent in metropolitan areas. Only 1 in 39 black adults is an opportunity entrepreneur, compared with 1 in 12 white adults. It is estimated that 66 percent of entrepreneurial activity amongst blacks is necessity driven, compared with 23 percent amongst whites.

Temlett (Graham, 2002a:5) states that 30 percent to 40 percent of students from international business schools start their own business within 10 years of graduating. Graduates are successful in most sectors, but there is evidence of more activity in the service industry, where knowledge-based businesses are less capital-intensive. He argues that South Africa offers tremendous potential for entrepreneurs who are prepared to take a risk to attain their goals. South African graduates are likely to take their knowledge, experience and wealth back to their communities. This has a strong multiplier effect on local economies.

Temlett (Graham, 2002a:5) argues that students have great ideas but often have to be taught to identify profitable opportunities: "Our teaching aims to help entrepreneurs identify opportunities with real economic potential, harness the necessary resources and manage the sustainable growth of their firms. A key challenge is finding new venture capital".

### ***The "window of opportunity"***

Opportunities exist or are created in real time and have what is called a "window of opportunity". For an entrepreneur to seize an opportunity requires that the "window" be opening, not closing, and that it remain open long enough. Markets grow at different rates over time and as a market quickly becomes larger, more and more opportunities are possible (Timmons, 1999:83).



As the market becomes larger and established, conditions are not as favourable. Thus, at the point where a market starts to become sufficiently large and structured, the "window" opens and later the "window" begins to close as the market matures. In considering the "window of opportunity", the length of time the "window" will be open is important. It takes a considerable length of time to determine whether a new venture is a success or a failure. If it is to be a success, the benefits of that success need to be harvested (Timmons, 1999:88).

Hisrich, *et al* (1998:41) state that the market size and the length of the "window of opportunity" are the primary basis for determining risks and rewards. The risks reflect the market, competition, technology and amount of capital involved. The amount of capital forms the basis for the return and rewards. The methodology for evaluating risks and rewards frequently indicates that an opportunity does not offer either a financial or personal reward commensurate with the risks involved. The return and reward of the opportunity need to be viewed in light of any possible subsequent opportunities as well.

The opportunity must also fit the personal skills and goals of the entrepreneur. It is particularly important that the entrepreneur is able to put forth the necessary time and effort required making the venture succeed. Although many entrepreneurs feel that the desire can be developed along with the venture, typically it does not materialise and doom the venture to failure (Hisrich, *et al* 1998:41).

Opportunity identification and evaluation is a difficult task. Most good business opportunities do not suddenly appear but result from an entrepreneur being alert to possibilities or in some cases, by establishing mechanisms to identify potential opportunities. Whether the opportunity is identified with the input from consumers, business associates, channel members or technical people, each opportunity must be carefully screened and evaluated.



### 4.3.2 Strategies in relation to entrepreneurial opportunities

#### ***The entrepreneurial process***

Hisrich, *et al* (1998:39) argue that the process of starting a new venture is embodied in the entrepreneurial process that involves more than just problem solving in a typical management position (Table 4.1 - page 117). An entrepreneur must find, evaluate and develop an opportunity by overcoming the forces that resist the creation of something new. The process has four phases, namely: identify and evaluate the opportunity; (2) development of a business plan; (3) determine the resources required; and (4) manage the resulting enterprise created. Although these phases proceed progressively, none is dealt with in isolation or is totally completed before factors are dealt with in a sequential phase. For example to successfully identify and evaluate an opportunity (Phase 1), an entrepreneur must have the type of business desired in mind (Phase 4).

#### ***The evaluation and assessment of an opportunity***

The evaluation of the opportunity is perhaps the most critical element of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed for the resources required. As indicated in Table 4.1, this evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur and its differential advantage in its competitive environment (Hisrich, *et al* 1998:41).

Figure 4.1 is presented on page 117.

**Table 4.1 is presented on page 117.**

Table 4.1: Aspects of the entrepreneurial process

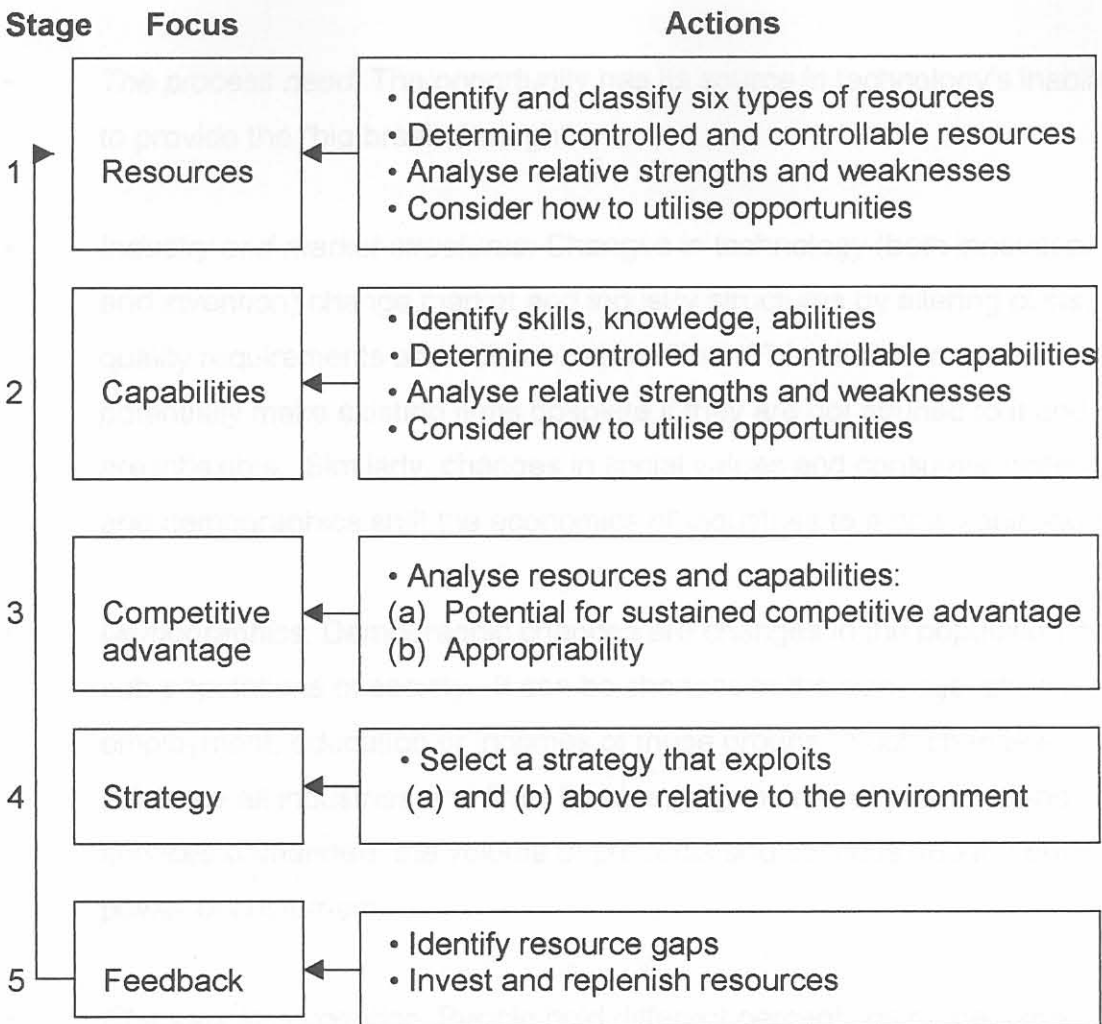
IDENTIFY AND EVALUATE THE OPPORTUNITY	DEVELOP THE BUSINESS PLAN	RESOURCES REQUIRED	MANAGE THE ENTERPRISE
Creation and length of opportunity	Title page Table of contents	Existing resources of the entrepreneur	Management style
Real and perceived value of opportunity	Executive summary	Resource gaps and available supplies	Key variables for success
Risk and returns of opportunity	Description of the business	Access to needed resources	Identification of problems and potential problems
Opportunity versus personal skills and goals	Description of the industry Marketing plan		Implementation of control systems
Competitive situation	Financial plan Production plan Organisation plan Operational plan Summary Appendices (Exhibits)		

Source: Hisrich, *et al* 1998:40

Opportunity assessment can be broken into five stages as demonstrated in Figure 4.1 (page 118). Each stage focuses on the analysis and actions that must be taken. Analysis rests on the entrepreneur's understanding of the nature of the business that one wants to create. Traditionally, entrepreneurs must ask the question, "What is my business"? One should attempt to answer the question in terms of a target customer and the target's buying needs, tastes and preferences. In opportunity assessment, entrepreneurs should initially assess the core stable set of *internal* capabilities rather than the volatile *external* resources (Dollinger, 1999:121).

Figure 4.1 is presented on page 118.

**Figure 4.1: A resource-based approach to entrepreneurial opportunity assessment and analysis**



Source: Dollinger, 1999:122

### 4.3.3 Sources of entrepreneurial opportunity and new ideas

#### *Sources of entrepreneurial opportunity*

Dollinger (1999:69) identifies the following sources of entrepreneurial opportunity, namely:

- *The unexpected:* When current businesses are surprised by an unanticipated event, they are often unable to adapt quickly enough to take advantage.



- *The incongruous:* Incongruity is dissonance, things that "ought to be", but are not. It creates instability and opportunity.
- *The process need:* The opportunity has its source in technology's inability to provide the "big break-through".
- *Industry and market structures:* Changes in technology (both innovation and invention) change market and industry structures by altering costs, quality requirements and volume capabilities. This alteration can potentially make existing firms obsolete if they are not attuned to it and are inflexible. Similarly, changes in social values and consumer tastes and demographics shift the economics of industries to a new equilibrium.
- *Demographics:* Demographic changes are changes in the population or sub-populations of society. It can be changes in the size, age, structure, employment, education or incomes of these groups. Such changes influence all industries and firms by changing the mix of products and services demanded, the volume of products and services and the buying power of customers.
- *Changes in perception:* People hold different perceptions of the same reality. These differences affect the products and service they demand and the amounts they spend.
- *New knowledge:* It is not sufficient to have new knowledge. There must also be a way to create products from it and to protect the profits of those products from competition as the knowledge is spread to others. (In addition to this, timing is critical).

### **Sources of new ideas**

Hisrich, *et al* (1998:173) emphasise that different sources of new ideas exist throughout the world for entrepreneurs. Some of the more frequently used sources include:

- *Consumers:* Potential entrepreneurs should pay close attention to the final focal point of the idea for a new product or service, which could be the potential consumer. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.
- *Existing firms:* Potential entrepreneurs should establish a formal method to monitor and evaluate competitive products and services. An analysis of this kind uncovers ways to improve on existing offerings, which result in a new product with more market appeal.
- *Distribution channels:* Members of distribution channels are excellent sources for new ideas due to their familiarity with the needs of the market. Channel members frequently have suggestions for completely new products. They can also assist in marketing newly developed products.
- *Government:* The Government can be a source of new product ideas in various ways. For example, a patent office contains numerous new product possibilities. Although patents themselves may not be feasible new product introductions, they can frequently suggest other more marketable new product ideas. New product ideas can also emerge in response to Government regulations. However, various Acts can influence the industry and new entrepreneurs.
- *Research and development:* The largest source of new ideas is the entrepreneur's own "research and development". Formal research and development departments are often well equipped to enable the entrepreneur to conceptualise and develop successful new product ideas.

However, Kotler, *et al* (1999:291) argue that the search for new product ideas should be systematic rather than haphazard. Otherwise, the firm risks finding new ideas that will not be compatible with its type of business. A firm should carefully define a new-product development strategy. The strategy should state

what products and markets to emphasise. It should also highlight what the business wants from its new products, such as whether it be a high cash flow, market share, or some other objective. To obtain a flow of new product ideas, a firm should consider several idea sources.

Therefore, environmental scanning should be conducted

### **Methods for generating ideas**

Environmental scanning is the systematic search that is used by a firm to detect

Hisrich, *et al* (1998:174) state that even with a wide variety of sources available, to come up with an idea to serve as the basis for a new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas such as by means of:

- *Focus groups:* A "moderator" leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit a participant's response. For a new product area, the "moderator" focuses the discussion of the group in either a directive or a non-directive manner. In addition to generate new ideas, the focus group can be an excellent method for initially screening ideas and concepts.
- *Brainstorming:* The brainstorming method for generating new product ideas is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organised group experiences. Although most of the ideas generated from the group have no basis for further development, often a good idea emerges.
- *Problem inventory analysis:* Problem inventory analysis uses individuals in a manner analogous to focus groups to generate new product ideas. However, instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. Consumers are asked to identify and discuss products that have a particular problem. This method is effective since it is easier to relate known products to suggested problems that arrive at a new product idea, than to generate an entirely new product idea by itself.



#### 4.3.4 The business environment

Firms may be influenced by forces outside their industry that may affect not only particular organisations within the industry, but also the industry as a whole. Therefore, environmental scanning should be conducted.

Environmental scanning is the systematic method that is used by a firm to study and forecast external forces. These forces are not under the direct control of the firm or its industry. The basic purpose of environmental scanning is to study and interpret what is happening in a firm's current environment in order to forecast developments in its future environment (Bennett, 2000:145).

There are two types of environmental scanning namely the internal and external environments:

- ***The internal environment***

The internal environment, which is likely to be more controllable than the external environment, includes factors that are internal or intrinsic to the organisation of a business. Assessment of the internal environment requires an analysis of a firm's existing and accessible resources in order to determine its performance capabilities. The firm's profile reflects the quantity and quality of physical, financial and human resources available to the tourism organisation, and also accesses the inherent strengths and weaknesses of the firm's management and organisational structure (Bennett, 2000:145).

- ***The external environment***

The *external forces* are those that emanate from the external environment. It is not enough to know only one's own products, market and competition. The manager also needs to know the business and market environment in which it operates. For this reason, an accurate and thorough assessment of both the internal and external environments is critically important in the strategic management process.

A firm's external environment consists of all the conditions and forces that affect its strategic options but are typically beyond the firm's control. The external environment consists of two interactive and interrelated segments, namely the operating (or market) environment and the macro-environment. The market environment includes the competitive, consumer and supplier environment, while the macro-environment includes the economic, technological and socio-cultural environments and the legal and political dimensions. Some are more critical than others are, but all are important (Bennett, 2000:145).

Dollinger (1999:15) argues that the entrepreneurial challenge is to acquire resources from the environment, combine them with other resources already possessed and to configure the new venture into a successful firm (Table 4.2 - page 124). The threats or constraints imposed by the environment are those inherent in any competitive marketplace. The entrepreneur can overcome these constraints, or protect against their worst effects by developing strategies that exploit the firm's resources. Since the environment is characterised by change, uncertainty and complexity, entrepreneurs must continually monitor events and trends and make adjustments to their firm's and their strategies.

**Table 4.2 is presented on page 124.**

**Table 4.2: The environment and constraints in the environment**

ENVIRONMENT	CONSTRAINTS IN THE ENVIRONMENT
Resources in the environment	Barriers to entry
Venture capital availability Availability of financial resources Presence of experienced entrepreneurs Technically skilled labour force Larger urban areas Large industrial base Accessibility of suppliers Accessibility of customers High occupational and industrial differentiation Proximity of universities Availability of land or facilities Accessibility of transportation Attitude of the area population Availability of supporting services	Governmental influences Rivalry among existing competitors Pressure from substitute products Bargaining power of buyers Bargaining power of suppliers

**Source: Dollinger, 1999:17**

### ***The strengths, weaknesses, opportunities and threats analysis***

One useful instrument to help tourism entrepreneurs to identify key internal and external variables and to pinpoint potential business opportunities, are the strengths, weaknesses, opportunities and threats (SWOT) analysis. A SWOT analysis is the process of systematically identifying a firm's strengths, weaknesses, opportunities and threats. *Strengths* are the resources or abilities that can give the tourism firm the upper hand over competitors. *Weaknesses* must also be acknowledged. *Opportunities* are the potentially favourable conditions in the firm's environment. *Threats* are major unfavourable circumstances or impediments to a firm's present or future position (Bennett, 2000:147).

Table 4.3 (page 125) shows some of the typical issues that tourism managers need to consider when conducting a SWOT analysis.



**Table 4.3: The SWOT analysis checklist**

STRENGTHS	WEAKNESSES
Competitive advantages Ability to innovate Distribution system Marketing skills Brand name recognition Cost advantages Financial strength Complete product line Reputation/image	Obsolete facilities Lack of management depth Low brand name identify Weak marketing image Low research and development capability Below-average marketing skills Lack of financial muscle High operating costs Shaky reputation/image
OPPORTUNITIES	THREATS
Expand product line Enter new markets Diversify to broaden risk Improve buyer/supplier relationships Improve technology Improve regulatory/legal climate Favourable demographic changes	New competitors Slowing market growth Changing needs of customer Adverse demographic changes Weakening economy Unfavourable regulatory environment

**Source: Bennett, 2000:147**

Kotler, *et al* (1999:87) argue that each business needs to evaluate its strengths and weaknesses periodically. The management of the business (or an outside consultant) reviews the business' marketing, financial, manufacturing and organisational competencies. Each factor is rated as to whether it is a major strength, minor strength, neutral factor, minor weakness or major weakness. A firm with strong marketing capability would show up with all marketing factors rated as major strengths. In examining its pattern of strengths and weaknesses, the business does not have to correct all its weaknesses or gloat about all its strengths. The question is whether the business should limit itself to those opportunities for which it now possesses the required strengths or should consider better opportunities.

### ***Evaluating external forces***

Longenecker, Moore and Petty (2000:100) state that entrepreneurs are subject to direct influences of their industries. Therefore, forces can determine the

nature and degree of competition in an industry (Porter, 1985). The forces include the following:

- Bargaining power of buyers;
- Threat of substitute products or services;
- Bargaining power of suppliers;
- Rivalry among existing competitors; and
- Threat of new competitors.

Collectively, these five market forces can determine a small firm's success. Obviously, all industries are not alike. Therefore, each force has varying impact from one situation to the next. Elements in an industry's structure can influence these five factors. Basically, these factors add to a firm's competitive foundation as follows:

Buyer power influences the prices that firms can charge for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. The bargaining power of suppliers determines the cost of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising and sales force. The threat of entry places a limit on prices and shapes the investment required to deter entrants.

The more completely entrepreneurs understand the forces underlying competitive pressure, the better they will be able to assess market opportunities and threats facing their ventures. The challenge to the entrepreneur is to recognise and understand these forces so that the venture is positioned to make the most of what the industry has to offer. Once the entrepreneur has identified the opportunities and threats present in the macro-environment and the industry environment, the competitive foundation begins to form (Longenecker, *et al* 2000:100).



### ***The importance of a business plan***

A business plan is a written document that sets out the basic idea that underlines a business and related start-up considerations. It is a way of reducing risk as it forces the entrepreneur to think about his/her business. For the entrepreneur to start a new venture, a business plan has four basic objectives. *First*, it identifies the nature and the context of the business opportunity e.g. why does such an opportunity exist. *Second*, it presents the approach the entrepreneur plans to take to exploit the opportunity. *Third*, it identifies the factors that will most likely determine whether the venture will be successful. *Finally*, it serves as a tool for raising financial capital.

A business plan can be viewed as an entrepreneur's game plan. It crystallises the dreams and hopes that motivate the entrepreneur to attempt to start the business. The business plan should lay out the basic idea for the venture, describe where one is now, indicate where one wants to go, and outline how one proposes to get there. Above all, the business plan should explain the key variables for success or failure, thereby helping one prepare for different situations that may occur by thinking about what could go right and what could go wrong. This is seen as a business plan's most important function. While the business plan will represent the vision and goals for a firm, it will rarely reflect what actually happens. Within the context of a start-up, there are just too many unexpected things that can affect the final outcome. As the entrepreneur's "blueprint" for creating a new venture, the business plan is in essence, a bridge between an idea and reality (Longenecker, *et al* 2000:121).

An entrepreneur should adopt a flexible approach and allow room for necessary changes to take place as, and when required. It is necessary to document what one learns, including what one aims to achieve in the business plan. The business plan should ideally be reviewed annually through a strategic planning process to reflect some trends and development that are taking place in the marketplace. The entrepreneur also needs to constantly scan the environment under which his/her business operates.



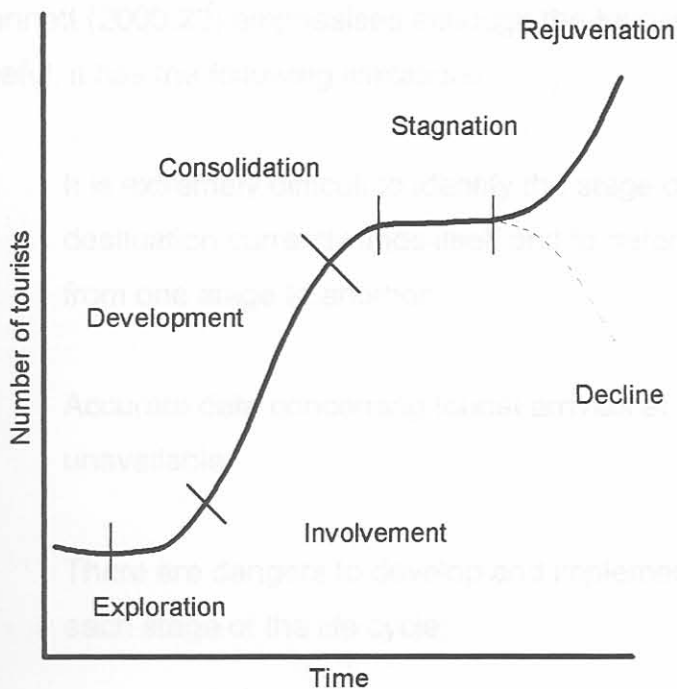
#### 4.4 OPPORTUNITIES IN TOURISM

Before one can consider the opportunities in the tourism industry, it is necessary to understand the life cycle of a tourist area.

##### 4.4.1 The tourist area life cycle

The tourist area life cycle in Figure 4.2 describes the main stages of a tourism destination from its initial discovery to its eventual decline or rejuvenation. This implies that tourism destinations are of a dynamic nature and that they undergo a measure of change as time passes. This change (or evolution) has both positive and negative effects, not only on the basic attractiveness of the area and its tourism resources, but also on the people that live and work in the community. It also affects the tourist who visits the area and the tourism industry as a continued investment opportunity. Sadly, many people agree that tourism destinations often undergo a change for the worse over time (Bennett, 2000:17).

**Figure 4.2: The tourist area life cycle**



Source: Butler, 1980

Six distinct stages can be identified namely exploration, involvement, development, consolidation, stagnation and decline. According to this presentation, only a few people will at first explore a destination wherefore it will gradually be frequented visited by more tourists and be further developed, until it reaches a decline phase.

The nature and length of any destination's life cycle are unique, and differ from those of most other destinations. Some destinations may have a life cycle of 100 years while another may have one as short as a few months or years. Some destinations may slump into decline after the stagnation phase, whilst others may undergo a rejuvenation phase. In the case of an instant resort (e.g. Sun City), the initial stages (involvement and development) are of limited significance. The shape of the life cycle curve is dependent on factors such as the rate of development, access, Government policy, market trends and competitive destinations. It is important for local communities, developers and entrepreneurs to realise that a destination will change over time, and that its appeal for tourists may change as physical and other changes take place (Bennett, 2000:17).

Bennett (2000:22) emphasises although the tourist area life cycle might be very useful, it has the following limitations:

- It is extremely difficult to identify the stage of the life cycle in which a destination currently finds itself and to determine when an area moves from one stage to another;
- Accurate data concerning tourist arrivals at a specific destination are unavailable;
- There are dangers to develop and implement a tailor-made strategy for each stage of the life cycle;
- What represent a tourist area? Is it a region, city or town or an area within a city or town? and

- Few tourist markets are homogeneous, and whilst a destination might be declining in popularity in one market segment, it might be increasing in popularity in another market segment.

#### 4.4.2 Role players in the tourism system

A large number of entrepreneurial opportunities exist in travel and tourism. It can range in size from a small business to multinational corporations. Figure 4.3 (page 131) classifies the tourism industry into various role players.

#### 4.4.3 Role player descriptions

Entrepreneurial opportunities might exist in the following areas:

##### **Accommodation**

Accommodation is a critical component of the tourism product since the type, scale and nature of accommodation available at a destination determine the type and scale of tourism that is possible at that destination. The nature of accommodation supplied at a destination is mainly a function of demand i.e., it is tourists who determine what type of accommodation will be found at the destination area. Some tourists prefer the full-amenity type of property, whilst others are content with the bare essentials. The type and nature of accommodation will also be partly determined by what competitors have to offer, and by the type of transportation visitors use to reach the destination (Bennett, 2000:50).

Source: Barnett, 2007:43

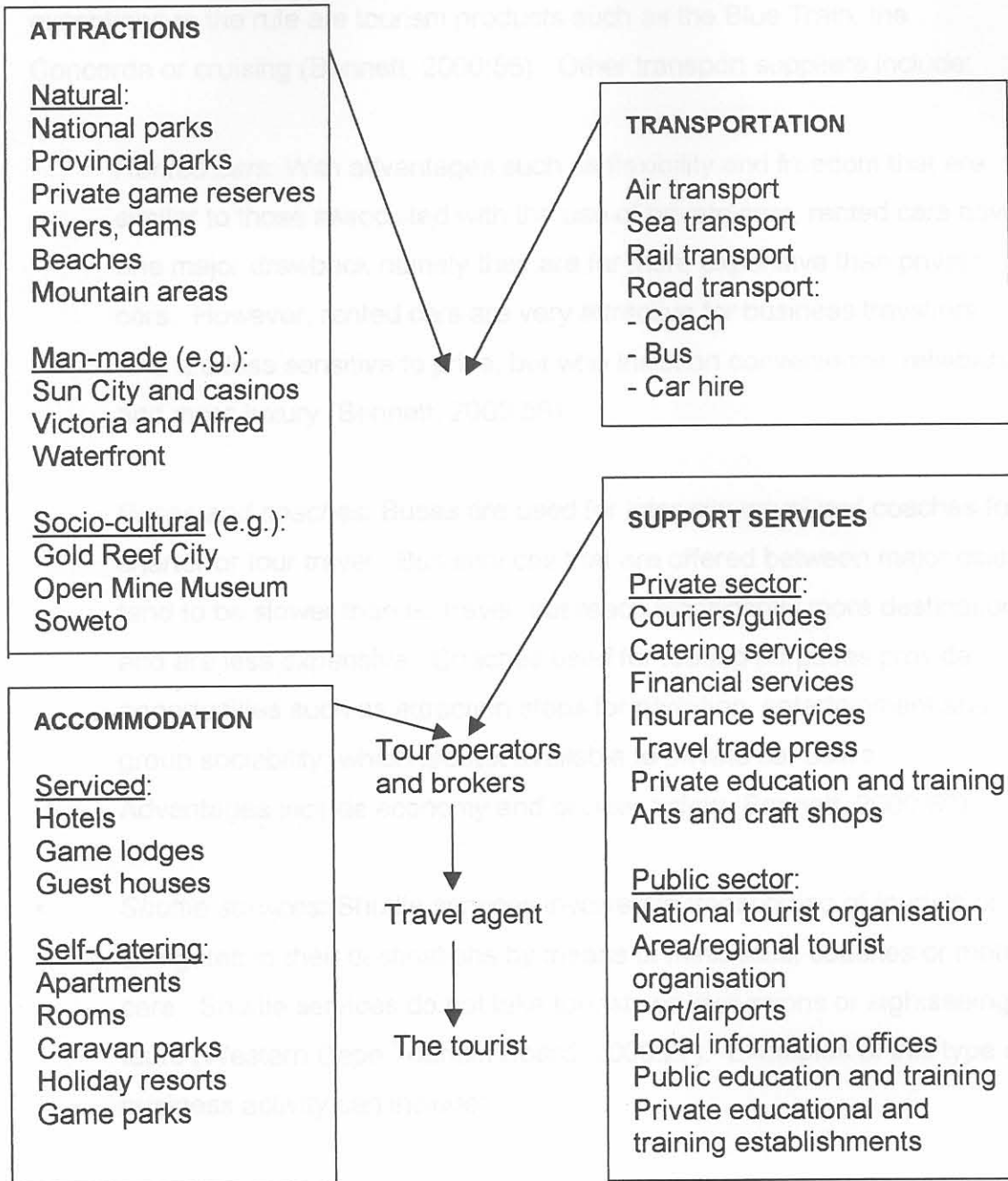
Tourism suppliers:

Transportation is defined as the ability to reach the desired means of movement at the destination. The four main travel modes are rail, water and air. Transport is generally not part of the main attraction of the destination, but it is an enabling condition

Figure 4.3 is presented on page 131.



Figure 4.3: Role players in the tourism system



Source: Bennett, 2000:43

### *Transport suppliers*

Transportation is defined as the means to reach the destination and the means of movement at the destination. The four main travel modes are road, rail, water and air. Transport is generally not part of the motivation or attraction of the destination, but rather an enabling condition, i.e. it is essential

for tourism but in itself it is not sufficient reason for travel. However, exceptions to the rule are tourism products such as the Blue Train, the Concorde or cruising (Bennett, 2000:56). Other transport suppliers include:

- *Rented cars:* With advantages such as flexibility and freedom that are similar to those associated with the use of private cars, rented cars have one major drawback namely they are far more expensive than private cars. However, rented cars are very attractive for business travellers who are less sensitive to price, but who insist on convenience, reliability and more luxury (Bennett, 2000:58).
- *Buses and coaches:* Buses are used for inter-city travel and coaches for charter or tour travel. Bus services that are offered between major cities tend to be slower than air travel, but reach significantly more destinations and are less expensive. Coaches used for touring purposes provide opportunities such as attraction stops for narration, entertainment and group sociability, which are not available to private car users. Advantages include economy and greater safety (Bennett, 2000:60).
- *Shuttle services:* Shuttle services involve the transporting of tourists or delegates to their destinations by means of minibuses, coaches or motor cars. Shuttle services do not take tourists on excursions or sightseeing tours (Western Cape Tourism Board, 2000:27). Examples of this type of business activity can include:
  - Airport transfers;
  - Conference transfers;
  - Door-to-door shuttle services;
  - Hotel transfers;
  - Long distance transfers; and
  - VIP chauffeuring.

### **Tour wholesalers**

A tour wholesaler can be defined as an organisation that puts together the services of airlines or other transportation carriers, ground service suppliers and other travel needs into a tour package which is sold through a sales channel, such as a retail travel agent to the public. By definition, a tour wholesaler does not sell directly to the public. According to Mill and Morrison (1992:472), "the tour wholesaler is involved in tour planning, preparation, marketing and reservations and may or may not also operate the tour". Wholesalers can offer tour packages at prices lower than an individual traveller could arrange because they can buy services such as transportation, hotel rooms, sightseeing services, airport transfers and meals in large quantities at discounted prices (Lubbe, 2000:253).

### **Tour operators**

A tour operator is a person or business that purchases the different items that make up an inclusive holiday in bulk, combines them together to produce package holidays and then sells the final products to the public either directly or through travel agencies. Tour operators can therefore be seen as the wholesalers of the travel industry, buying from its principles and reselling through its retailers, the travel agencies (Lubbe, 2000:254).

### **Travel agencies**

A travel agency can be defined as a business or person selling the travel industry's individual parts or a combination of the parts to the consumer (McIntosh, Goeldner and Ritchie, 1995:133). The travel agency is an agent of the principal and specifically of the transportation industry. It operates as a legally appointed agent, representing the principal in certain geographic areas. The agency operates also as a broker and brings the buyer and seller together for the other suppliers of travel such as hotels, car rentals and ground operators. In marketing terms, a travel agent is an agent or middleman who act



on behalf of the client. Types of travel agencies include full-service travel agencies, corporate agencies and speciality agencies (Lubbe, 2000:81).

### **Tour guides**

Tour guides have an information-giving role, although they may also be called upon to perform some of the functions performed by couriers. They are usually employed for their general or specialist knowledge. Tour guides perform a vital role in tourism, since many tourists see a country or region through their eyes. Various categories of tour guides can be identified. These include national, regional, local and specialist guides. Specialist guides are numerous. They range from guides who specialise in professional hunting, ostrich farms or crocodile farms to those who specialise in features such as the Cango Caves, museums, diamond diggings and many others (Bennett, 2000:67).

### **Event and convention management**

Opportunities that can relate to event and convention management include:

- Event planning and management;
- Pre-event and on-site services;
- Registration services;
- Site or venue selection;
- Logistics management;
- Technical support; and
- Event marketing.

Galas, parties, social functions, conventions, exhibitions, meetings or corporate functions are only a few of the events one may come across (Western Cape Tourism Board, 2000:28).

- Airsation managers
- Training and information suppliers
- Craft products (souvenirs and souvenirs)

### **Alternative tourism**

Rogerson (2000:9) mentions that alternative tourism is thought of small-scale dispersed and low-density developments. They are often located in and organised by villages or communities "where it is hoped that they will foster more meaningful interaction between tourists and local residents, as well as to be less socially and culturally disruptive than enclave developments" (Brohman, 1996:64). Examples of alternative tourism include village and cultural tourism, adventure tourism, backpacker tourism, trekking, etc.

### **Rural tourism**

Wilson, Fesenmaier, Fesenmaier and Van Es (2001:132) argue that although tourism can be expensive to develop in certain cases (.e.g. large resort areas) or can involve large firms and chains, rural tourism can be developed with relatively little investment credit, training and capital. Rural areas have a special appeal to tourists because of the mystique associated with rural areas and their distinct cultural, historic, ethnic and geographic characteristics (Edgell and Harbaugh, 1993:17). Tourism particularly helps two types of small businesses in rural areas, namely those directly involved in tourism (e.g. attractions and hotels/motels) and those indirectly involved in tourism (e.g. grocery stores). Additionally, rural tourism works well with existing rural enterprises such as farms and can generate important secondary income for farm households (Mjalager, 1996:103; Oppermann, 1996:86).

### **Suppliers to the tourism industry**

The potential of tourism lies in the provision of goods and services to complement existing attractions (Western Cape Tourism Board, 2000:26). A few of the tourism related services include the following:

- Attraction managers;
- Training and information suppliers;
- Craft products (curios and souvenirs);

- Interior design in terms of providing furniture, art or paintings;
- Gardening and landscaping;
- Food supplies;
- Sport facilitation;
- Entertainment facilitation;
- Marketing agents;
- Portering;
- Laundry services;
- Cleaners;
- Safety and security; and
- Construction and building trade.

Entrepreneurs in the sector who will help shape the free market

The opportunities listed are certainly not the only ones that exist. They serve merely as a means of stimulating thought. Entrepreneurial ventures in the tourism industry can be exploited further as the opportunities will still be there. Therefore, it is important for new entrants to consider the bigger picture and to try identifying something that is unique and appealing.

However, as confirmed with various tourism Authorities and professional bodies, the following presents an overall view of the industry:

and a list of the various bodies in the industry

- Provincial Tourism Authorities are in the process to compile a database of the number of tour guides that are operating in South Africa. Unfortunately, these numbers are not available as it will only be presented in booklet form at the end of the year (2002) (Nunes, 2002).
- There are currently 30 000 bed and breakfast establishments registered with the Bed and Breakfast Association of South Africa (BABASA), of which 6 000 are located in Gauteng. However, the numbers could be much more as it is not compulsory to register with them (Ham, 2002).
- The Association of Southern African Travel Agents (ASATA) cannot make the number of travel agents in South Africa available as it is only available to affiliated members or alternatively at a cost (Viljoen, 2002a).



- It is voluntary to belong to the Southern African Association for the Conference Industry (SAACI). Therefore, record is kept only of conference providers who are members. In Gauteng alone, 350 conference providers are affiliated with SAACI (Botha, 2002).
- The Southern African Tour and Safari Association (SATSA) keeps record only of tour operators that deal with international tourists. This information is available only to affiliated members (Jay, 2002).

#### 4.5 CONCLUSION

Entrepreneurs are the decision-makers who will help shape the free-market economic system of the new millennium by taking opportunities, discovering market needs and the launching of new firms to meet those opportunities and needs. Self-employment and small business ownership are important contributors to the economy. In a developing country like South Africa, tourism is vital for creating income and employment.

Tourism is a fast growing industry and due to a presence of foreign tourists and the extent of tourist expenditure, opportunities for entrepreneurs will always exist in various sectors of the industry.

Entrepreneurs need to investigate the opportunities in tourism and it's potential carefully as well as the environment in which they operate. There are plentiful sources of new ideas and successful enterprises in the South African tourism industry.

Businesses can be small in scale and local people can use tourism as an opportunity to obtain additional income to their present business or even to create new ventures. A major advantage for tourism entrepreneurs is that they have the choice to operate in a rural or urban area. Tourism contributes to other small businesses and functions very well with existing enterprises in an area.

The attractiveness of tourist attractions and destinations change over time as it is of a dynamic nature and undergoes a measure of change as time passes. Changes create both positive and negative effects and entrepreneurs will have to cope with these impacts. It is therefore important for tourism entrepreneurs to maintain interest and appeal to their tourism products and services.

In the next chapter the problems, barriers and constraints to tourism entrepreneurs are investigated.

#### 4.1 ECONOMIC BARRIERS AND CONSTRAINTS

##### 4.1.1 The economic situation in South Africa

Not all the foreign exchange earnings that the country receives are spent in the country (Dreyer (2002:382). When goods and services are imported, the service current needs to finance exports. Some of the ways that South Africa can

- The cost of goods and services that have to be imported to produce a product;