South Carolina Competitiveness Initiative
Hospitality and Tourism Analysis

- INNOVATION
- ECONOMIC PERFORMANCE
- BUSINESS ENVIRONMENT
- CLUSTERS
- COLLABORATION

- PRODUCTIVITY
- ECONOMIC COMPOSITION
- SPECIALIZATION
- STRATEGY

Phase I Presentation
Columbia, South Carolina Dec. 8, 2003

Agenda

- Overview of the South Carolina Competitiveness Initiative
- Conceptual Framework and Methodology
- Assessment of the South Carolina Economy
  - Economic Performance and Innovation Output
  - Economic Composition
    - Clusters
    - Impact on Economic Performance
  - Business Environment
- **Assessments of Selected Clusters**
  - Automotive
  - Chemicals
  - Textiles
  - **Tourism**
- Implications and Recommendations

South Carolina Hospitality and Tourism Cluster Overview

Performance:

- Modest sized cluster with slightly higher employment growth than the US average;
- Slightly lower average wages and wage growth

Position:

- Diverse positioning, from very low-cost to high-end;
- Focus on relaxation — such as golf and beach — much like nearby competitors

Strengths:

- Attractive natural assets (e.g., climate, golf, coastline);
- Historical and military sites

Challenges:

- Relatively weak K-12 system;
- Limited supply of specially trained local workers;
- Limited collaboration among firms on product development;
- Numerous cluster councils, but fragmented efforts with little consensus on strategy

Hospitality and Tourism Cluster

<u>South Carolina's Relative Performance</u>

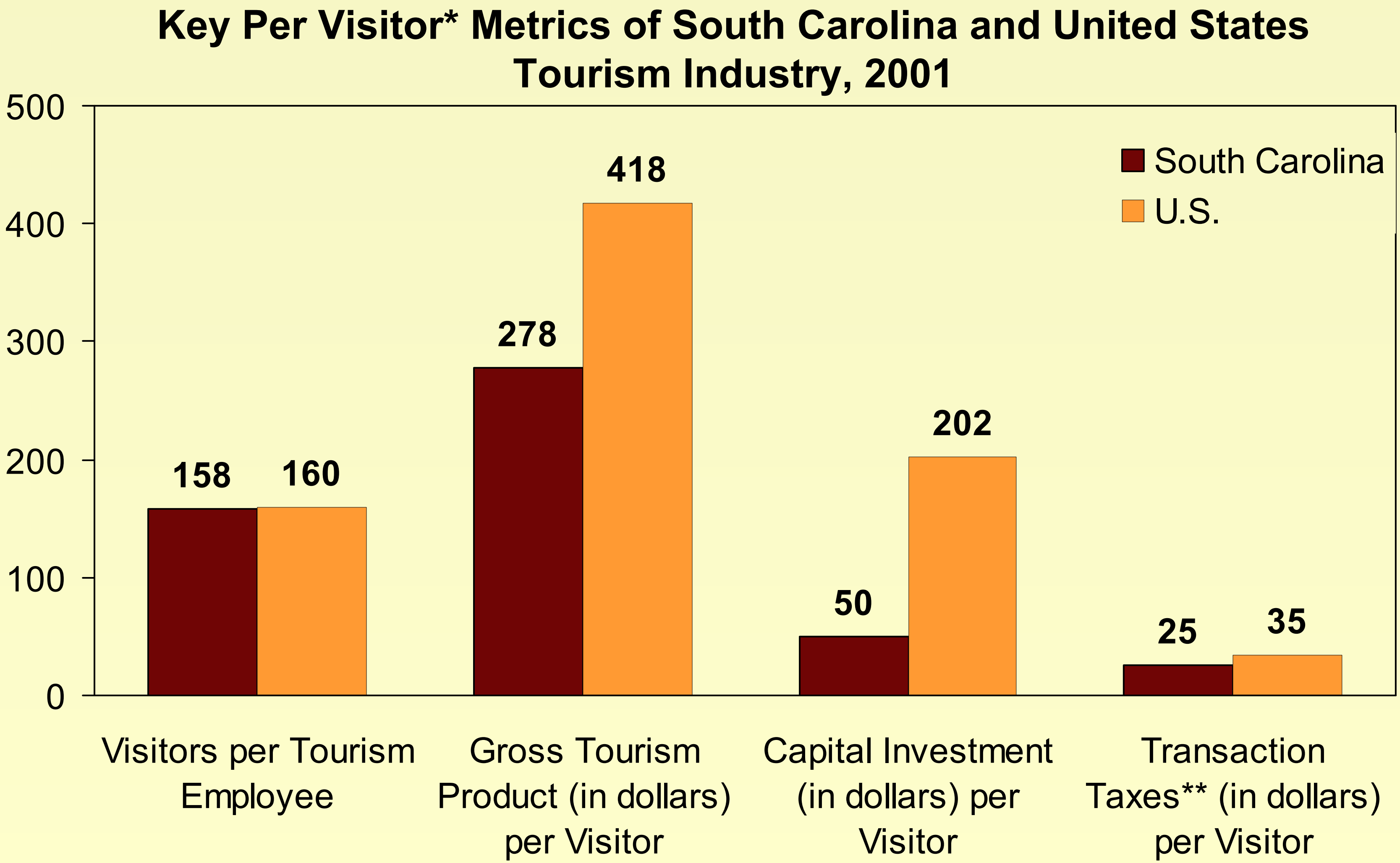
State	2001 Location Index*	2001 Employment	1990–2001 Employment Growth	2001 Average Wage	1990–2001 Average Wage Growth	1990–2001 Establishments Growth
Nevada	10.96	222,975	4.33%	$26,029	3.47%	1.81%
Hawaii	4.59	44,966	-1.15%	$27,139	4.26%	2.08%
Vermont	2.11	12,205	3.24%	$14,174	3.19%	1.62%
Wyoming	2.09	8,254	2.64%	$15,725	4.60%	3.54%
Florida	1.93	275,252	2.78%	$20,301	4.27%	2.87%
Mississippi	1.69	34,649	13.61%	$19,648	7.08%	4.23%
Montana	1.68	11,251	3.65%	$13,052	3.26%	4.63%
District of Columbia	1.57	14,712	-1.35%	$29,914	4.74%	0.24%
Arizona	1.46	63,026	2.75%	$18,331	5.12%	4.07%
Alaska	1.46	6,933	2.04%	$25,496	3.45%	5.61%
Louisiana	1.35	48,064	5.10%	$18,569	3.75%	4.34%
South Dakota	1.35	9,306	4.28%	$12,244	2.93%	2.71%
New Mexico	1.30	15,936	2.46%	$15,080	4.84%	3.39%
West Virginia	1.19	14,624	2.15%	$15,742	3.21%	2.17%
Colorado	1.18	51,886	2.98%	$19,965	5.41%	3.62%
South Carolina (Ranked 19th)	**1.07**	**37,815**	**3.22%**	**$16,556**	**4.11%**	**3.32%**
South Carolina Out-Performs Percent of Top 15 Employing States	0%	60%	60%	40%	47%	47%

* "Location Index", also known as "Location Quotient", equals 1 when a state's share of cluster employment equals the state's share of total employment. A Location Index greater than 1 indicates that state has a disproportionate share of Hospitality and Tourism employment, relative to the state's total employment. Narrow cluster definition.

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Competitive Position in Tourism

South Carolina vs. the United States Average



* Visitor Trips exclude 'pass through' visitors to make SC comparable to the U.S.

** Transaction Taxes using projected for SC 2001, actual U.S. 2002

Source: SC PRT; TIA; WTTC United States Report, 2003; Monitor Analysis

South Carolina Tourism Business Environment

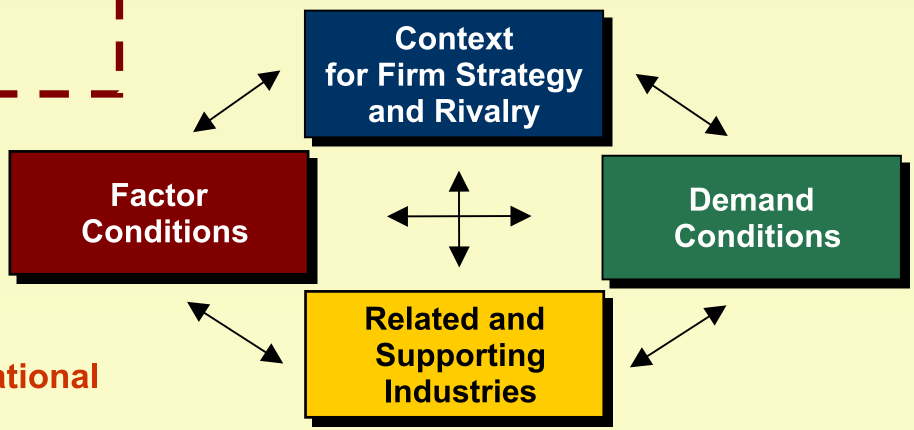
Findings from the Surveys and Interviews

Advantages:
- Relatively high number of airports
- Active technical college system
- Attractive natural assets, including climate, golf courses, and coastline
- Unique military and American history assets

Disadvantages:
- Lack of hub airport means few direct flights to key markets
and expensive fares
- **Relatively weak K–12 and specialized advanced educational programs for locals**
- **Limited supply of local skilled workers**
- Lack of interstate access to Myrtle Beach
- Underdeveloped port passenger terminal in Charleston
- Few specialized tourism research centers

Advantages:
- Intense local competition

Disadvantages:
- **Few local headquarters of core operations**
- **Limited collaboration between firms on development of integrated product offerings**
- **Highly fragmented industry lacking major anchor organizations**



Advantages:
- Frequent feedback from customers on product improvements

Disadvantages:
- Relatively small presence of international visitors
- Lack of high-end tourism consumers beyond Hilton Head and Charleston

Advantages:
- A number of specialized transportation-related sub-clusters

Disadvantages:
- Relatively low quality of suppliers
- **Limited interaction on new product development**
- Few support industries that capture a significant portion of the value chain (i.e., tour operators, reservation systems, large travel agencies)

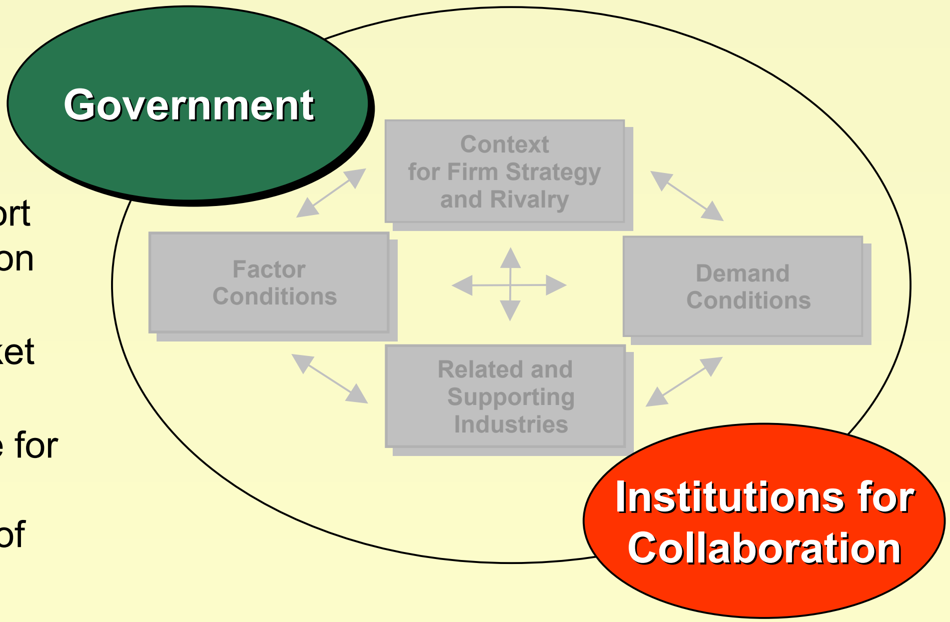
Note: Red bold letters illustrate key themes; Dotted boxes indicate potentially leverageable assets

Source: Monitor Competitiveness Survey, Interviews, Monitor Analysis

South Carolina Tourism Business Environment
Findings from the Surveys and Interviews (Cont.)

Advantages:
- Relatively good recent collaboration between public and private sectors
- Recent improvements in marketing and promotional efforts by the state

Disadvantages:
- Need for greater support for specialized education and training programs
- Lack of adequate market research
- Limited funds available for tourism promotion and perceived overall lack of support from the legislature
- Limited role in providing policy framework and catalyzing collaborative efforts



Advantages:
- Emergence of several regional organizations for and initiatives aiming to build networks
- Effective organizations for marketing key tourism destination areas

Disadvantages:
- **Few statewide organizations working to upgrade the quality of all elements of the business environment**
- **Limited coordination between universities, government and companies**
- **Numerous regional cluster institutions yet limited focus on building partnerships**

Note: Red highlights indicate factors different from the state overall, or of particular significance to the cluster
Source: South Carolina Competitiveness Survey, Monitor Interviews, Monitor Analysis

South Carolina's Hospitality and Tourism Cluster

New Directions

Visitors

Identify attractive, high-potential segments

- High per capita tourism expenditures
- High conversion rate
- Cost-effective marketing and distribution channels
- Critical mass of visitors
- Adequate transportation infrastructure in place

Updated Strategy

Create a differentiated position that provides the right destination for the right tourist segments by:

- Improving visitor mix
- Packaging, cross-selling, and cross-promoting
- Broadening and upgrading of product offering
- Increasing conversion of pass-through / business visitors
- Increasing shoulder season occupancy
- Leveraging tourism to attract talent and businesses to SC

Product Offering

Identify attractive, high-potential assets

- Coastline and beach resorts
- Historic cities, towns, plantations, and military sites
- Golf courses
- State parks and forests
- Cultural attractions
- Family attractions
- Retail offering

South Carolina’s Hospitality and Tourism Cluster
Findings and Implications

Strengths
- Natural endowments
  - Attractive coastline
  - Climate and quality of life
  - Multiple historic / heritage assets
- Economic development organizations
  - Effective state and regional marketing organizations
  - Relatively effective public / private sector collaboration
- Workforce and education
  - Strong technical colleges
  - Select high school providing specialized H&T programs

Action Items (Preliminary)
- Create a differentiated position coupling an attractive coastline and rich historical assets
  - Appeal to international and domestic fly-in visitors looking for unique US destinations
- Upgrade tourism-related educational system
  - Promote industry / university / technical colleges collaboration to make SC a premiere H&T educational and research location
  - Leverage technical colleges to develop training programs for local and rural workers
  - Expand H&T vocational high-school training

Challenges
- Tourism-oriented transportation infrastructure for tourism
  - Few direct flights and expensive air fares
  - Lack of interstate access to Myrtle Beach
  - Underdeveloped passenger terminal in Port of Charleston
- Visitor mix
  - Disproportionate concentration on drive leisure tourists from established domestic markets
  - Limited segmentation efforts; lack of market research
- Cluster composition
  - Few large firms that can act as anchor organizations
  - Limited collaboration in integrated product offering
  - Relative low presence of upstream and support firms

- Develop state transportation infrastructure plan
  - Attract low-cost carrier to state
  - Upgrade passenger terminal in Charleston
  - Speed-up construction of I-73
- Entice cluster-specific organizations to
  - Promote business development through collaborative efforts and data-driven plans
- Recruiting and expansion
  - Targeted recruiting of tour operators, reservation systems, travel agencies
  - Creation of statewide cluster organizations
  - Focus on tourism services related research and technology companies