

FEASIBILITY AND BUSINESS MODEL FOR THE KHAYELITSHA EXPRESS TOURIST TRAIN

Final Report 02/10/09



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Sport and Tourism Consultancy

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Summary

The objective of this study was to assess the feasibility and to subsequently outline a business model for the operation of the Khayelitsha Express tourism train. This study determined that the Khayelitsha express train is an asset that due to minimal cost return requirement from Metrorail can help increase local benefits from tourism. This can be best achieved through the provision of a train operating license to a local business entity that would service the existing township focused attractions inclusive of Lookout Hill.

Two management options are recommended and are illustrated in Figure 1.

- The first option can be established in the short term and requires the formation of a business entity to operate the train and vehicle based tours of Khayelitsha.
- The second involves a longer term view to integrate management structures and tour operations associated with Lookout Hill.

As a secondary benefit, the proposed tourism train may also catalyse the re-vitalisation of Lookout Hill. The key challenge with Lookout Hill is in attracting large enough volumes of visitors and locals to create an atmosphere and provide a soul to the venue which otherwise feels cold and vacuous. In the case of Lookout Hill, it is recommended that the train be used to supply larger volumes of visitors to specific Lookout Hill “Events and or Conferences”. Quarterly run events will in the short term be more manageable and help build confidence in the facility.

Under the current minimal cost recovery requirements of Metrorail, the “Khayelitsha Express Tours” could operate on a daily basis to accommodate a handful of visitors. Various license conditions will be needed to ensure local involvement, control, and equity but also enable the license to be an asset that can leverage future business partnerships to assist with business sustainability and possible expansion. It is envisaged that a train operating license linked to a Khayelitsha based business entity will (with further

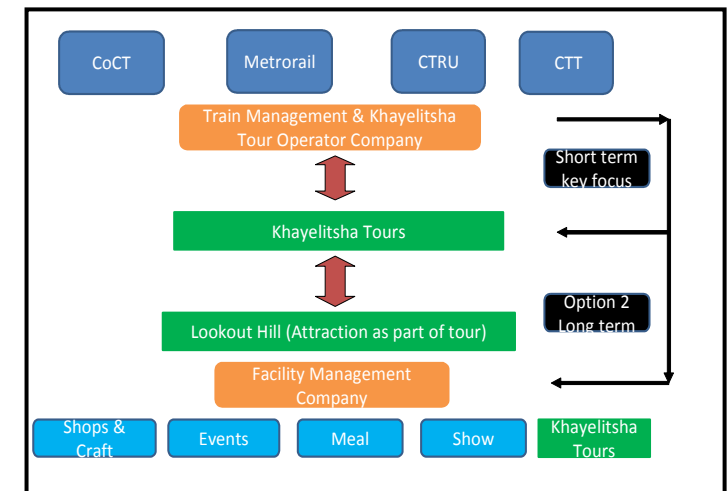


Figure 1 Proposed Management Model and Operations Option

Khayelitsha tourism stakeholder engagement) catalyse increased co-operation and marketing support for all products benefiting from operation of the train. The recommended business entities include a section 21 (not for profit), private company or co-operative. The benefits of each (outlined in detail in the annexures) would need to be discussed with tourism stakeholders with the potential existing for the establishment of a co-operative (as a pilot phase) to build understanding of the value of the train. It is envisaged that the co-operative approach may then need to be collapsed into a private company to help unlock the entrepreneurial spirit needed to drive the business.

From the lessons learnt from ensuring community engagement in such projects as Lookout Hill, it is recommended that a second study is commissioned to engage with operators. The engagement should result in developing guidelines and build understanding and consensus. This study will serve to inform key government role players on the content for an appropriately structured call for proposals for the proposed operating license.

Expectations will need to be managed as the statistics obtained in this study, although limited, indicate that the order of magnitude of visitors to Khayelitsha were relatively low between 6000 to 12,000 in 2008. Of these, it was estimated by operators that 80% of these visitors went to Lookout Hill. When comparing these visitor numbers with those of Cape Town's iconic attractions (Figure 2), it is clear that significant and pro-active marketing will be needed in order to grow less mainstream products and destinations such as those in Khayelitsha in order to assist them to grow. Figure 2 intends to illustrate the large divide between iconic products with those less established. What is worth noting is that the "township" and largely cultural based products of Lookout Hill, Gugu S'Thebe and tours of Khayelitsha are comparable in visitor numbers to that of the nature based Hoerikwaggo trail. Although the nature trail has only being in operation since 2007, it is obvious from Figure 2 that it is not just the smaller cultural products that find it difficult to grow. The quality, SanParks managed Hoerikwaggo trail has struggled to secure visitors even with a dedicated R100, 000 annual marketing budget and being included in SanParks national marketing network.

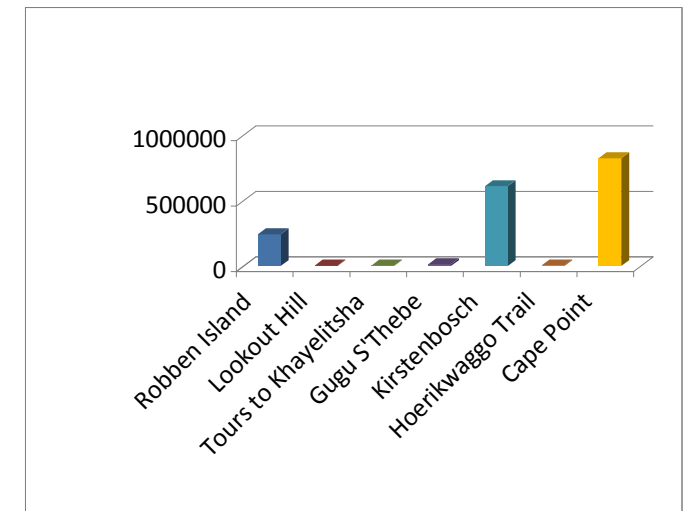


Figure 2 Cape Town Establishment Visitor Number Comparison 2008

1 Introduction

The following paragraph is taken from The Minister of Tourism Marthinus Van Schalkwyk's Budget speech in June 2009.

In 1886, gold was discovered in what is known as Johannesburg today. It turned around the fortunes of a generation of poor, jobless South Africans and within two decades a quarter of worldwide gold production originated from South Africa. It soon became the foundation of the financial system of the industrialised world and it provided one of the most significant injections of foreign direct investment in our history.

Unfortunately, the benefits of gold were quickly exported by European colonialists and the distribution of the accumulated wealth was extremely skewed along racial lines. Two centuries later, gold mining is still a vital pillar of our economy, it remains a critical employment sector and it is as vulnerable to global financial volatility as it was in the 19th century.

Tourism as the "new gold"

*Fortunately, two centuries later, it is not the only sector that flourishes in our economy. Increasingly, we are discovering **the "new gold" that drives job creation, development and economic growth** in South Africa. This "new gold" is tourism. In fact, as a sector, tourism has already overtaken gold in terms of export revenue.*

*Many of the challenges are the same as 200 years ago. The **overriding priorities remain poverty eradication, job creation and development**. What is different is that we are now working with an inexhaustible resource. This time around we are the major investors and the drivers of our own destiny. We have a much better understanding of the need for equitable growth - to exploit our resources in a way that generates benefits for all our people, with the emphasis on our people. And we have a much better understanding that we must exploit our "new gold" in a sustainable way.*

The honourable minister makes reference to equity and tourism as the new gold. In the context of tourism being the new gold, then tourism is to Cape Town as gold was to Johannesburg.

The City of Cape Town (CoCT) has become a leading tourism destination in South Africa. Within Cape Town a wide variety of tourism products have become internationally well known and can be considered “iconic” and many others have entered into what is considered as “mainstream”. However there are many products such as those in Khayelitsha that are less established but add intrinsic value to the overall attraction of Cape Town and therefore such diversifying products are important to develop in the long term even if they are unlikely to reach iconic status.

Diversifying the variety of tourism products that extend that value of tourism into emerging products is an important strategy in developing pro-poor and responsible tourism solutions that provide tangible short term and long term benefits. Using an existing train as an asset to improve access to the cultural products of Khayelitsha and by association assist the revitalisation of Lookout Hill is such a strategy.

1.1 Structure of this Report

This report presents the key findings and recommendations in the form of an executive summary. Supporting information is provided as annexures. The first section of the report provides background to the study. This is then followed by a discussion on the methodology and approach to the study. The results of the study are then discussed followed by conclusions and recommendations.

1.2 Study Objective

The objective of this study is to assess the feasibility and to subsequently outline a business model for the operation of the Khayelitsha Express tourism train. The primary aim of using the Khayelitsha express is to help unlock socio-economic benefits from the cultural experiences and products associated with Khayelitsha and Lookout Hill. Figure 3 locates the various products of Khayelitsha.

2 Study Methodology

The general methodology applied to the overall study included a combination of literature reviews, key partner interviews (Metrorail (MR), Cape Town Tourism (CTT) and Cape Town Routes Unlimited (CTRU)), product and operator surveys, financial modelling and site visits. SWOT analysis and a qualitative balanced score card (Figure 4) was also used to support the study.

Stakeholder engagement focused on key informant interviews and surveys. This enabled potentially interested parties in the product to be able to engage confidentially and provide information that would not likely be provided in group consultative processes.

The study is also underpinned by the need to consider the catalytic effect of the potential train on revitalising Lookout Hill. Lookout Hill as a product has been faced with significant challenges. For the purposes of this study, Lookout Hill is considered as one of the many products.

2.1 Study Approach

The study followed 5 phases that due to time constraints were run in parallel.

Phase 1 clarified the proposal, identified key stakeholders and developed a detailed work plan. Phase 2 was to conceptualise the product options with the City, Cape Town Tourism, Cape Town Routes Unlimited and Metrorail. Phase 3 involved a preliminary costing exercise in terms of quantifying the operational costs associated with the conceptualised packaged experience. Phase 4, involved tourism operator and establishment surveys to assess the current demand and gain general input on the tourism train concept. Phase 5 then compiles the model and report. The following discussion expands on phases 2 to 5 of the approach.

Phase 2 - Option conceptualisation and qualitative assessment

Meetings with the City, Metrorail and Cape Town Tourism were held to conceptualise potential tour products and packages as well as gather baseline costs for the operation of

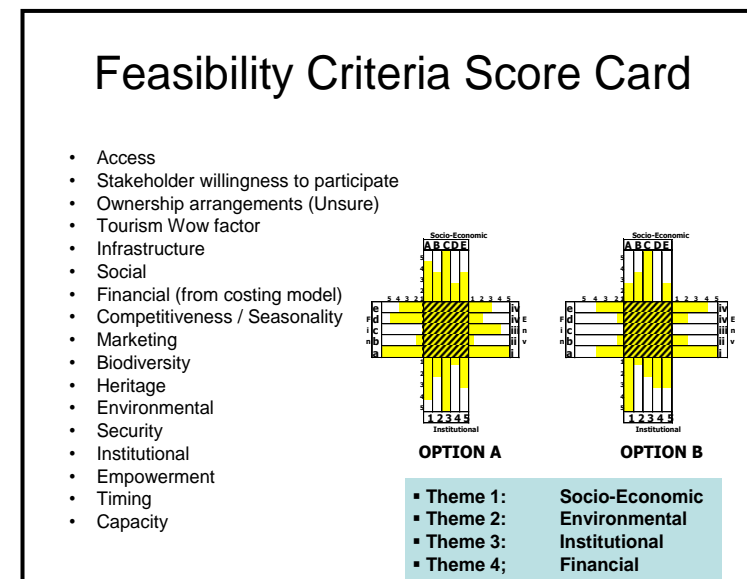


Figure 4 Balance Score Card Approach to Assessment

the train. A strategic SWOT analysis and balanced score card approach was used in conjunction with product site visits to provide a qualitative assessment.

Phase 3 - Quantitative assessment and financial model

An interview questionnaire was used to extract relevant cost information with regards to operating the train and associated package or product options. This information was then used to develop a financial model to test feasibility of product options. Additional information was also gathered from stakeholder surveys to generate information on visitor numbers occupancies and visitor profiles.

Phase 4 - Industry scoping

The challenge with engaging industry on product development is that as soon as an opportunity is presented, potential competition is established that limits honest and open interactive debate. In the case of holding group discussions in the form of workshops, participants often refrain from stating their true intentions in terms of willingness to participate as potential competitors may be present within the group. Telephonic interviews were therefore used as a means to gather information on the train concept as well as gather general interest in the train as a potential tourism option.

Phase 5 - Develop and present model

The results of the previous phases were combined to draft the qualitative and quantitative analysis and provide input into the management model.

3 The Khayelitsha Express

The Khayelitsha Express is a modern and comfortable 6 carriage train able to carry 300 passengers (Figures 5 & 6). Each carriage is equipped with comfortable cushioned chairs, coffee machines, and work stations for laptops (LCD monitors will be installed shortly as per the sister train, the Northern Express).

3.1 Comfort

The train is highly suitable for transporting tourists and once the LCD screens are installed will be able to facilitate interpretive and promotional films. The one comfort limitation of the



Figure 5 Interior Comfort of the Khayelitsha Express

train is the absence of on board toilets meaning that tourists will need to share public facilities on the Cape Town or Khayelitsha stations which are currently being renovated. As the train journey is 45 mins long, toilet stops should be manageable by using the stations or tourist friendly toilets at Lookout Hill which are a 5 minute drive from the Khayelitsha station.



Figure 6 Khayelitsha Express Exterior, Interior and Secure Parking Arrangements

3.2 Safety and Security

The Khayelitsha Express has secure parking at Cape Town and Khayelitsha stations (Figure 6), which provide safe meet and greet points for guides and operators. It is envisioned that the train will be a direct and dedicated tourism service without any stops and thus relatively secure. It is also recommended that to address the safety concerns around Cape Town and Khayelitsha stations, that local guides should be used as escorts and also provide interpretive information on the train as well as on Khayelitsha. It is also recommended that purchasing of tickets will be initially done through CTT which will also reduce security risks to tourists in station areas. Even with these added precautions, further discussions will be needed with Metrorail and training of existing Metrorail security staff and engagement with police with regard to maximising safety awareness to ensure timing of existing security patrols coincides with departure and arrival times of the train and Khayelitsha tour routes.

The potential exists for a 1 km walking or cycling tour from the station to Lookout Hill. This product would be of value to guides without access to vehicles but due to the distance would therefore be limited to the young fit and adventurous. The absence of the popular tin shacks or “Shack Chic” within easy walking distance however (Figure 7) greatly reduces the appeal of this product but is still an option to consider. Ultimately accessing the majority of Khayelitsha products comfortably within the 2.5 hours available with the train will require the support of vehicles. Using the train in this way can catalyse increased co-operation of existing operators and products into co-promoting a route that showcases the strength of tourism products in Khayelitsha.

3.3 Vehicle Operational Considerations

The use of vehicles may reduce the competitiveness and value of the product to established operators who would wish to use the train as an alternative transport mechanism. Using vehicles to get to and from train stations makes the train relatively inconvenient when compared with a direct door to door vehicle tour which can take half the time (20 minutes rather than 45 minutes by train) to reach Khayelitsha from Cape Town. It is therefore important that the guides on the train and potential use of the LCD screens (to be installed) are used creatively and effectively to engage the tourist. In short it may be difficult to on sell the train to other operators. However the train option as a walk on option

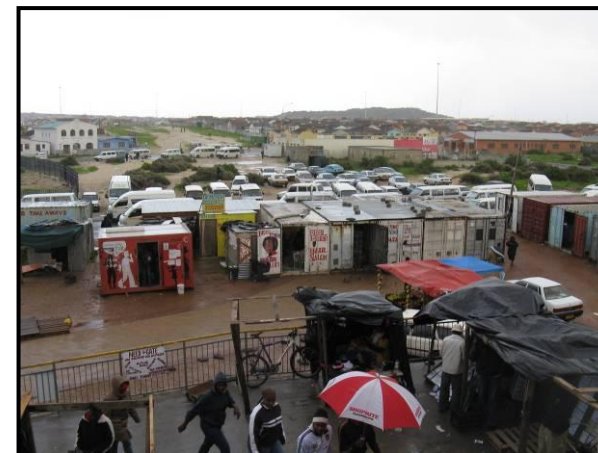


Figure 7 View to Lookout Hill from Khayelitsha Station (Above Image) and from Lookout Hill to the Station (Bottom Image)

would be more attractive to the independent traveler and backpacker markets. Other challenges to operating the tourism train are listed in Table 1 as part of the SWOT analysis.

In terms of an itinerary, the Khayelitsha Express is available for tourism use outside of peak hour business operations. The train could be made available from 9 am to 4 pm but to ensure optimal operation, a half day (4 hour) tour from 10 am to 2 pm has been used in the financial modeling in section 7 of this report. The 4 hour period allows for a 1.5 hr return trip to Khayelitsha and 2 .5 hrs to experience a township tour and have lunch a show or combinations thereof.

4 Conceptualisation and Qualitative Assessment

The SWOT analysis shown in Table 1 combines the input gathered from key role player interviews, industry surveys and site visits. Annex 1 contains a full record of key role player discussions and site visit information.

Table 1 SWOT Analysis of Train Product

STRENGTHS	WEAKNESSES / CONSTRAINTS
Joint marketing support offered by CTT and CTRU SMME support indirectly accessible via CTRU to DEDT and from the City Tourism Department General start up advisory support also available from CTT	Marketing focused at destination marketing rather than specific product marketing. The issue of who is responsible to market is a grey area that needs clarifying between partner stakeholders.
Train would significantly improve access and provide a rapid quality and safe service suitable for tourists	Lack of a sense of ownership within the community regarding Lookout Hill (CoCT, 2005 & 2008 Ishabi & Ernst and Young).
Train includes manager, supervisor, driver guard, insurance, and maintenance at no cost to potential operator	Availability of train to half a day limits event opportunities to Khayelitsha and also to other areas where routes are electrified
The train has been sold for 2 specific events over weekends and is well positioned to grow as events with the likes of Spier, Victory Train and Universities for educational visits and tour guide training	Once train is operating for Khayelitsha tourism the “event” availability of the train will be reduced
Existing example of Edu-train demonstrates the high “social service” ethics of MR & the CoCT	Edu-train operations successful but subsidised by CoCT and British High Commission
Reservations easily administered by CTT	No toilets on train but stations toilets being upgraded (June 09)
80% of survey respondents considered the train concept a good idea	
OPPORTUNITIES / SOLUTIONS	THREATS
Revitalise Lookout Hill using the ownership of the train as an incentive and catalyst	Possible overlap in marketing mandates and roles. Risk of developing marketing tools without proactive application of them
Position train as part of 2010 transport strategy (Currently not included)	Security at key handover points e.g. stations and walking to Look Out Hill
CoCT would need to mandate CTT to provide specific marketing support to the product	Look Out Hill perceived as a “white elephant” with historic negativity from community, government & the tourism industry
Train is currently not marketed by MR nor appears on their website. Possible joint marketing capacity exchange with CTT & CTRU to extend the target markets of the train.	The current business use of the train requires full occupancy (300 seats) to breakeven, therefore future cost recovery needs of MR may change
	A suitable management company/ operator may not be found locally
	Possible perception of train or eventual local operator as being seen as competitive to Khayelitsha based tour operators

Most of the weaknesses and threats to the train product such as security, use of vehicles, and lack of on-board toilets have already been discussed in the description of the train. One key risk however warranting further discussing is the potential for the future cost recovery requirement of Metrorail or contributions from other key city partners to change as circumstances change.

A Memorandum of Understanding will need to be developed between the various City role players in order to develop a better understanding of the preliminary contributions presented here.

The detail and duration of this agreement will also help inform how long a potential train operating license should be issued for. For example, similar licenses have been used in Boat Based Whale Watching (BBWW). The aim of this licence was to help unlock socio-economic benefits of tourism to fisherman who had fishing quotas reduced or removed due to diminishing fish stocks. In the case of the Marine and Coastal Managements BBWW licenses, some have been used by local operators to broker deals with larger operators. Initially licenses were awarded for a year subject to review until the local entrepreneurs complained that they could not expand their businesses as financial institutions did not see the year operating license as significant collateral. Between 2006 and 2009, due to poorly understood terms and conditions of licenses, stakeholder relations have deteriorated with license changes being contested. Capacity and lack of continuity have also added to the problem that license adjustments in terms of structure and duration have been “in process” to be changed for the last two years.

The above BBWW example illustrates the importance of having a clear understanding among stakeholders on what the value of the potential license is and that procurement processes such as the City supply chain management process is well communicated and applied to the award of a train operating license.

The other key constraint that is re-occurring is that of the general negativity surrounding Lookout Hill. Analysing tourism at Lookout Hill was not the focus of this study but was mentioned in the brief as an important product and destination to be considered as part of a route. The upcoming appointment of a restaurant operator, upgrade of the walkway and future appointment of an exhibition hall and cheese and wine operator will greatly assist the confidence of the local community and tourism operators. The potential of a tourist train will add to this and provide an additional asset and opportunity that may in the long term

catalyse Look Out Hill to have its own management company as recommended by Ishabi and Ernst and Young in 2005.

In order to gain some industry insights into the potential operation of a tourist train, two surveys were developed. One that targeted Khayelitsha based establishments and operators and one that targeted more established Cape Town based operators. The following discussion summarises their input on the concept of the train. These results are provided in detail in annex 2 & 3.

4.1 Response from Operator and Product Surveys

Comments of the concept of the Train by Khayelitsha Based Tourism Establishments

Thirteen of 15 respondents felt that the development of a tourism train would be a good idea as it would allow tourists to view the township, bring money into the area, allow tourists to interact with locals, improve transport into the City for the 2010 FIFA World Cup™, provide safe transport into the township, and promote development in the area. Two respondents thought that the train may take business away from local tour operators.

Other comments include:

- Safety is the biggest concern in the development of the train
- There needs to be interaction of people on the train, especially between tourists and locals
- Local development and participation needs to be considered and encouraged in every phase of the development

Cape Town Based Tour Operators

Four of 10 operators (40%) responded that they would not prefer the train as a mode of transport for future tourists, the reasons given were that local businesses will lose out financially; it would mean implementing extra security measures for these tourists and additional planning; it would require the eventual operator having to have trained and professional tour guide to travel with tourists on the train; and that the train would not be up market enough for high spending tourists.

Other general comments made regarding the operation of a tourism train include:

- There are high interest levels in township tours but local operators charge tourists too much money.
- There is potential for further tourism development in Khayelitsha, the train can give tourists a real life experience of the township, it offers a new product in the township and it can expose both locals and tourists to the townships.

One respondent who was unsure stated that the train must not only be focused on Lookout Hill and that tourists must be taken through more of the township whether by car, on foot or by bicycle as this could encourage further involvement from locals.

One key comment refers to growing the domestic and local tourism market to help address seasonality. This will need to be an important consideration with regards to branding and marketing the train. Marketing contributions from CTT and CTRU are discussed in section 5.3.

Due to some different opinions between emerging and more established operators, it is important to re-state that further engagement will be required to help develop and ensure a transparent process is in place for potential licensing of the Khayelitsha Express as a tourism business opportunity.

When Cape Town based tour operators were asked what the 3 biggest concerns that the Khayelitsha Express Train should address in transporting visitors to the area, the following responses were given with Table 2 providing a summary of the number of respondents per response:

- The development of the tourism train must consider different types of tourists as backpackers may be the only tourists interested in the service
- There should be more stops along the route to make it more convenient and take tourists to more areas
- Acceptance of the development by locals is the most important factor to consider as this will result in the project running smoothly, sustainability and less crime.
- Most establishments feel that the train development is a good idea and that there is tourism potential in Khayelitsha that has not yet been exposed and developed
- Safety is a major concern in township tourism
- Township tourism is already a fast growing niche where there is room for plenty of development in the future

As illustrated in Table 2, safety is clearly the dominant concern, however what is interesting is the overall 80% positive response rate to the concept of the tourism train. The loss of local business was the next main concern and it should be noted as a general impact of tourism that as you develop one opportunity conflict amongst competitors is likely to result. In a community dynamic like Khayelitsha further and ongoing engagement with the community is critical.

Response	Number of respondents
Safety	9
Cleanliness and comfort	4
Ticket prices	3
Outreach and education programs for locals wanting to become involved in tourism	3
Authentic and reliable tourist information on Khayelitsha	2
Convenience for travelers	2
Needs of the local community	1
Mobility	1
Acceptance of tourists by locals	1
Effective marketing	1
Showcasing what the township has to offer	1

Table 2 Respondent s' Concerns the Express Train Should Address

To manage this potential conflict, it is recommended that a second study is commissioned to engage with operators. The engagement should result in developing guidelines and building understanding and consensus on potential license requirements and operating arrangements that can be used in a call for proposals for a licensed operator.

5 Quantitative Assessment

This section outlines financial contributions of each key city partner that has been used to help develop baseline financial models. Annex 4 contains the full financial report.

5.1 Metrorail's Contribution

The financial information supplied by Metrorail for recording train costs is summarised in Table 3 and used in the financial spread sheet as a 'Live' model on CD attached to this report. For every 34 km return trip to Khayelitsha (Table 3) Metrorail essentially provides a non-cost recovery contribution of R6166 on weekdays, R9695 on Sundays and R10 872 on public holidays.

Table 3 Financial Contribution from Metrorail

Cost item	Description	Cost
Rolling stock maintenance	R12.36 per km	R 420
Energy cost	R7.05 per km	R 240
Driver and guard cost	R200 per hour each	R 2 800
Light train cleaning	R187 per day	R 327
Insurance	R800 per day	R 800
Administration cost	R250 per hour	R 1 000
Shunting cost	R250 per hour	R 1 000
Security	1 per coach at R12 per hour	R 288
Supervisor	R74 per hour	R 296
Manager	R83.73 per hour	R 355
Total for midweek trip		R 6 166
Total for Sunday trip		R 9 695
Total for Public Holiday trip		R 10 872

5.2 City of Cape Town's Contribution

The City has taken a leading role in facilitating this initiative and funded this study. Further contributions are estimated at R200, 000 to help ensure that the project is taken from this baseline study to implementation which will culminate into a launch function. The estimated R200, 000 is expected to cover the following:

- Setting up of the Khayelitsha Route
- Facilitating sessions and meeting with tour operators and tour guides to introduce product
- Launch function
- Facilitate meetings with industry bodies and associations

Lookout Hill

- An activation strategy is being implemented together with the improvement of Lookout Hill infrastructure. Part of the activation strategy will be the opening of a restaurant which serves as a central feature for Lookout Hill and its strength as an attraction in Khayelitsha. Future events and activities will be planned at Lookout Hill especially with the introduction of the operator for the exhibition hall. Attention is being given to the repair of the boardwalk since it is an important draw card to most visitors to Lookout Hill.

Khayelitsha as a destination

- Mapping of Khayelitsha tourism products on a printable map
- Installation of signage in key attractions and products.
- Supporting Cape Town Tourism which results in the establishment of a Tourism Visitor Information Centre in Mew Way. The Centre was also temporarily accommodated in Lookout Hill until September 2009

5.3 Cape Town Tourism & Cape Town Routes Unlimited's Marketing and Business Support Contribution

From preliminary information provided by CTT and CTRU a combined marketing and business support contribution of R187, 000 would be available to support the train initiative. Table 4 describes the nature of the marketing and business support offered. It should be noted that the table provides a starting point for further discussion and clarity on what the actual interventions could be leading to a marketing action plan for the product. This would form part of the memorandum of understanding required as recommended earlier.

It should be noted that this support is in the short term and intended to kick start the initiative. The financial model presented here includes marketing as part of the annual operational costs to the business entity. As a pro-poor approach is preferred, consideration should also be given to longer term business support. As indicated earlier the Khayelitsha products are not well frequented or an “easy sell” and thus require extensive and ongoing marketing. From the surveys conducted visitor numbers for accommodation in Khayelitsha in 2008 were only as high as 150 for locally based establishments and 500 for locally based tour operators (Figure 8).

The business model for Lookout Hill developed in 2005 by Ishabi recommended 3 phases of development. Firstly a jump start phase in the first year with 20,000 visitors expected. Secondly a build up phase, to result in 60,000 visitors and a lastly a mobilised phase after year 3 aiming to reach 100,000 visitors per annum. Our limited survey responses and available statistics indicate less than 12,000 visitors may have visited Lookout Hill in 2008.

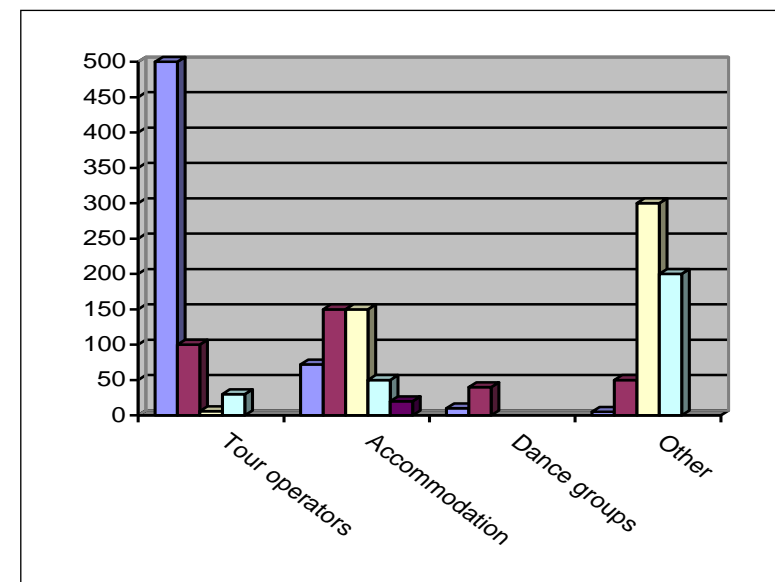


Figure 8 Visitor numbers for Khayelitsha Based Tourism Operators and Establishments 2008 (NB Others include craft, restaurants and catering supply)

Table 4 Marketing and Business Support Contributions from CTT and CTRU

Marketing Related Item or Tool	Description of Marketing idea (CTT)	Potential Cost value as Contribution to the Product from (CTT)	Description of Marketing idea (CTRU)	Potential Cost value as Contribution to the Product from (CTRU)
Brochure / Travel Guide	Marketing support and advice on brochure design (excluding print run and design costs)	Time R10 000.00	A4 book & cd Broad international distribution — distributed at travel shows, travel agencies, embassies, etc.	Approximately R 2000 (quarter page which is negotiable)
Using CTT and CTRU Websites	Mini-webpage	Time, content, design and maintenance R70 000.00	E-business portal Link listed on website with information, allows direct bookings and direct contact	Approximately R 3 500 (one page site)
Launch of train	Communication to industry and PR support	Time, content, design and communication tools used R15 000.00	Align with tourism month (Sep) which already has a high profile from the media). CTRU can profile/feature express train in media releases, visits from ministers, etc.	If in tourism month, it will fall within domestic marketing budget. Cost for the launch Website feature Approximately R 10 000
Visitor services	Adding onto information database and training team on product	Time, content, verification and maintenance. Training costs. R1 500.00		
Reservations	Standard 11% commission for any bookings made by our reservations team		Service available at CTRU Gateway centres throughout the Province for e.g. V&A Waterfront, Cape Town International Airport	Costs and process yet to be determined
Membership	Complimentary membership	Attraction category R1560.00	N/A	N/A
Other advertising	Visitors guide content or advert	Advert R15 000.00 Content R1 500.00	As part of portal Link listed on website as a route with information, allows direct bookings and direct contact	Approximately R 3 500 (one page site)
2010 linkages	Linking webpage for train to 2010 mini-website	Time, maintenance R5000.00	To link with MATCH accredited accommodation establishments Beyond the 90 minutes campaign	To be confirmed
Possible operator support	Members networking session to introduce the train concept and package options for tour operators to re-sell	Time, facilitation costs R10 000.00	Can refer to DEDT SMME support CTRU's own SMME support programme, guest relations programme – trade shows-host journalists, agent's familiarisation trips.	Approx 35 – 40 K per person
TOTAL VALUE		R128,000		R59,000

The lesson learnt from several community focused initiatives is that developing marketing tools like those listed in table 4, does not necessarily mean that they will be applied in a proactive manner. A simple comparison would be to expect a mechanic who is given basic spanners to be able to fix all types of cars and problems.

Roles and responsibilities will need to be defined with CTT and CTRU requiring a mandate to be proactive regarding product marketing rather than their standard focus on destination marketing. In order to achieve success the marketing of the train product in the long term ultimately needs to be under the control of the product and license owner. The product or license owner however may not possess the experience, knowledge, skills or contacts to realise what a difficult, costly and high skilled activity marketing is. Thus a business support intervention or other process is required to allow the entrepreneur to see the need to be up-skilled, hire or to outsource this most important of business activities. A description of such a business support programme is provided in Annex 5.

It is recommended that a longer term view to business support is provided that goes beyond the development of marketing tools listed above. The nature of the support however will need to be matched to the level of business sophistication of the potential train and tour operations license holder.

6 Selection of an Appropriate Business Entity

Annexure 6 provides a more detailed discussion on the strengths and weaknesses of various business entities that could be applied to the Khayelitsha Express. The following discussion provides a brief overview of the reasons why key ones are not recommended such as public private partnerships, public companies and business trusts. The following discussion also provides reasons why others business entities are possible such as a section 21, a co-operative and private business.

Public Private Partnership (PPP)

Whenever a state asset is utilised by a private entity for gain by the private entity, the rules and regulations associated with Public Private Partnerships may be adopted to regulate the relationship between the private and public partners. A PPP transaction is however a very expensive and prolonged process that may take years to complete, making only substantially valued transactions worth while for consideration to be part of a PPP transaction. Given the foreseen empowerment nature and small turnover in the discussed project, the PPP action is not recommended as a suitable transaction structure for the proposed Khayelitsha express transaction.

Major Legal Entities

The following major legal entity structures for business purposes are generally acknowledged in South Africa:

- ▶ The Public Company;
- ▶ The Company incorporated in terms of section 21 of the Companies Act;
- ▶ The Inc. Company;
- ▶ The Private Company;
- ▶ The Close Corporation;
- ▶ The Co-operative;
- ▶ The Sole Proprietor;
- ▶ The Business Trust;
- ▶ Partnerships;
- ▶ Subcontract relationships; and
- ▶ Joint ventures.

Not Recommended: It is recommended that the sole proprietor, the business trust, simple partnerships or joint ventures not be considered as possible business entities for the Khayelitsha Express since these enterprise forms do not offer their owners/investors juristic protection (referring to the establishment of a juristic legal entity, separate from the identity of its owners and/or investors). The absence of juristic protection identity means that the owners/investors may be held personally liable for the debts of the business entity.

So called Inc. Companies, are also not suitable for empowerment purposes, due to the fact that this form of company has been incorporated specifically with the intention to accommodate companies consisting out of professionals, such as doctors, attorneys and accountants, where the members to this company are held liable, to a limited degree, for the losses of the company, due to the members' professional status. The establishment of a Public Company pre-empts the listing of shares on the Johannesburg Stock Exchange and a recognised and well established business that would attract public investment, a situation not foreseen with the current business proposal. The Close Corporation is a highly suitable business entity for small business enterprises, but will be phased out with the enactment of the new Companies Act, and is therefore not recommended as a suitable business entity for purposes of this discussion.

Recommended: Four models, in our opinion, present the most opportunities for success, namely (i) a private company model and/or (ii) a co-operative and (iii) a close corporation or a section 21 company model or a specialised adopted version of any of the above.

Private Companies

A private company may be suitable as a proposed business entity due to the fact that this business entity is a tried and trusted business form, with well defined rules and checks and balances. Since a private company trades for gain, any funding associated with this business enterprise form would in general have to be raised in terms of normal business practices or by bidding for government projects if state funding is required.

Co-operatives

The co-operative, in its present form, is a relatively new addition to South African environment, having been introduced in terms of the Co-operatives Act, 2005 (Act 14 of 2005) and may be a suitable business entity for the Khayelitsha Express due to its added simplicity in comparison to the private company. It should however be noted that the decision making body and structure of the co-op (overly democratic) may hamper complicated business decisions to be taken by a co-op. This also a new corporate structure and its success has not been tried or tested.

Two possible business enterprises models, the first being a business model utilised not for gain, namely a section 21 Company and the second being a possible business model for gain that will allow for direct community financial interest in the Khayelitsha Express if required, are therefore recommended.

For Gain Private Company or Co-operative

In this model the Khayelitsha Express is a business structure for gain, such as a private company or co-operative. This means that the Khayelitsha Express owners will have to trade in terms of ordinary business principals with government funding normally obtained by means of open participation means such as bids, providing monetary incentives to the business owners to grow and follows good business practices. Both the business formats of private company and co-operatives allows for easy business.

Section 21

In this model the Khayelitsha Express is a business structure not for gain, such as a section 21 company. This means that the Khayelitsha Express will be able to more regularly access grant, transfer and donation funding, even from state funds. This model is generally problematic since there is no direct monetary incentive for section 21 companies to be productive and grows and the expertise to attend to the day to day management of these entities is generally lacking due to a shortage of funds. Participants to section 21 companies are generally also business or career people in their own right with busy schedules that hampers proper time allocation to the management and administrative needs of these entities. If it is the intention of the parties to conduct business with the direct distribution of wealth through the business entity, this business format is not desirable.

Important Consideration

Since section 21 companies do not allow for shareholding with monetary value, it is more likely that local business interest will be served by partnership or co-operative agreements entered into between the Khayelitsha Express and local business owners such as B&B owners and restaurants.

Due to the challenges faced with tourism and local economic development that has been arguably promoted as needing to be government enabled, private sector driven but

community focused the potential exist to be further explored that the Khayelitsha Express could be established as a co-operative that would help build understanding of the value of the train.

It is important to note that the co-operative's decision making structure leans towards consensus, rather than majority voting. This makes a co-operative a suitable option for small upstart community type projects, but the moment the business grows into a more complicated business enterprise, the management model may prove to be inadequate and problematic, stalling business growth rather than assisting. Hence the cooperative will need to be collapsed into a private company to enable entrepreneurial drive in order to grow the business.

7 Financial Assessment of Options and Management Model

Two general options are proposed in this report and illustrated in Figure 9. Firstly a short term option with regard to being met by the licensed operator in Khayelitsha followed by a standard vehicle tour. The second option involves utilising Lookout Hill as an “event” and as part of a package using larger volume of visitors. This can be used as a short and long term option which would greatly assist the revitalisation and management of Lookout Hill. A combination of both is possible with the two options presented here providing a foundation to build on. Both financial models discussed below are included in the attached financial spreadsheet on CD. This also provides a tool that can be used for subsequent and more detailed business planning.

The first financial model presented here investigates the feasibility of larger volumes of visitors as part of a package and event at Lookout Hill. The model for the Khayelitsha Express Train tourism package has been split into two stages. The first stage is to determine the direct revenues and costs per trip and then to extrapolate these results across various pricing and passenger volume alternatives. Stage two is then to link this to the costs of operating an organisation to support the package.

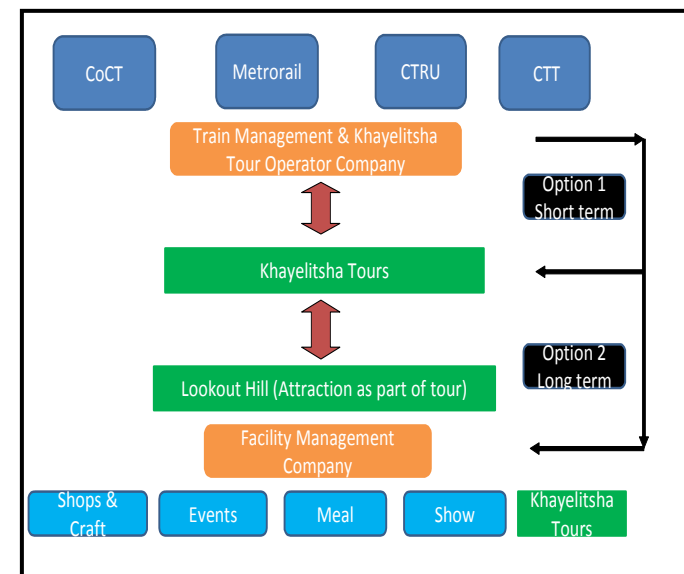


Figure 9 Proposed Management Model and Operations Option

Revenue

Passenger Numbers

The maximum capacity of the train has been taken as 300 paying passengers. The model has been based on the range from 10 to 300 passengers to determine the breakeven point in terms of passenger numbers depending on the various costs and ticket values.

Price per ticket

The price range for the tickets has been modelled from R300 to R450 per ticket. The pricing is based on the current market price for coach and mini coach township tours. The price of these tours are averaged at a gross price of about R350 per person for half day tours, exclude a lunch and show but including other site visits within Khayelitsha e.g. “shack and shebeen” tours. The pricing is thus supply driven and not driven by demand from the market. It is assumed that 25% of the tickets are sold by Cape Town Tourism which retains 11% of the value, 60% of the tickets are sold by Operators who retain 25% of the value and 15% are sold gross.

Costs

The costs for each train trip to Khayelitsha have been taken from the values supplied by Metrorail as shown previously in Table 3.

Tour and Package Costs

The tour costing basis is reflected below in Table 5 The costs are all variable costs and are dependent on passenger volumes. The table uses 200 passengers as a cost example. The only fixed cost is for the show which is costed at R1 500 per show (small song and dance routine). Additional transport fees will need to be supplied by the licensed operator and is not shown in table 5. However hire values of R700 per 10 pax have been included in the financial model as an excel spreadsheet attached to this report.)

Table 5 Tour Costs

Cost item	Description	Cost e.g. 200 pax
Refreshment	R8.00 per pax	R 1 600
Train waiters	1 per coach at R34.73 per hour	R 834
Train Guides	1 per coach at R250 per 4 hr trip	R 6 000
Cleaners	R150 per trip	R 150
Walkabout guides	1 per 10 pax at R150 per hour	R 6 000
Lunch at Lookout Hill	R70 per pax	R 14 000
Total for midweek trip		R 30 084
Total for Sunday trip		R 35 321
Total for Public Holiday trip		R 36 249

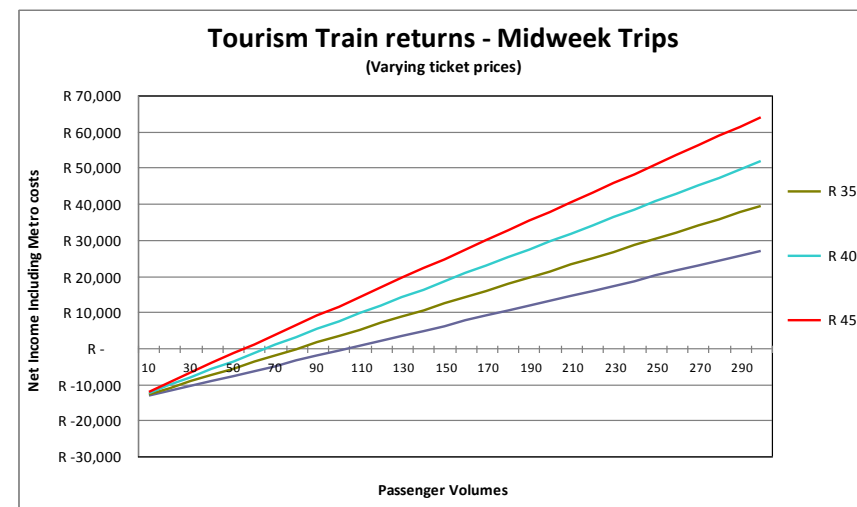
Results

Gross returns

The graphs in Figure 10 (midweek and weekend trips) show that based on the various scenarios the breakeven point is at 35 passengers at the lowest point and 190 passengers at the highest point (starred below). The 35 passenger breakeven is a weekday trip where the ticket price is R450 and Metro is funding the cost of train operation as described earlier.

Net returns

In addition to the direct costs of the train trip and the events there will also be marketing and operational overheads. These operational overheads costs would include for example payroll costs, office administration costs, ticket administration, call centre costs and focussed marketing. From the returns reflected in the graphs for each trip and depending on the number of trips run per year, the pricing and the passenger volumes. The graph in Figure 11 reflects two scenarios:



Scenario 1

- 50% capacity on the coaches i.e. 150 pax
- A midweek trip
- Tickets priced at R400 (R350 per the coach tours plus R150 for the lunch and show less R100 for not doing a “shack and shebeen” tour.
- Metro funding the train costs
- CTT & CTRU funding all the start up marketing costs as outlined in Table 4.
- Operational overheads of R50 000 for 11 months plus one month of R75 000 i.e. total per annum of R625 000
- The direct return for this scenario is R19 429

Scenario 2

- 80% capacity on the coaches i.e. 240 pax
- A midweek trip
- Tickets priced at R400 (R350 per the coach tours plus R150 for the lunch and show less R100 for not doing a “shack and shebeen” tour.
- Metro funding the train costs
- CTT & CTRU funding all the marketing costs as outlined in table 4
- Operational overheads of R50 000 for 11 months plus one month of R75 000 i.e. total per annum of R625 000
- The direct cost for this scenario is R44 556

Important additional cost incurred for scenario 1 and 2 relate to the transport of visitors in combis at a fee of R700 per 10 pax if vehicles were to be hired. It is assumed in these models that vehicles will be supplied by the operator. The financial spreadsheet on CD attached to this report includes this additional cost.

Feasibility Conclusion

Scenario 1 reflects a breakeven volume of 33 trips and scenario 2 reflects a breakeven volume of 15 trips. However these volumes need to be considered in

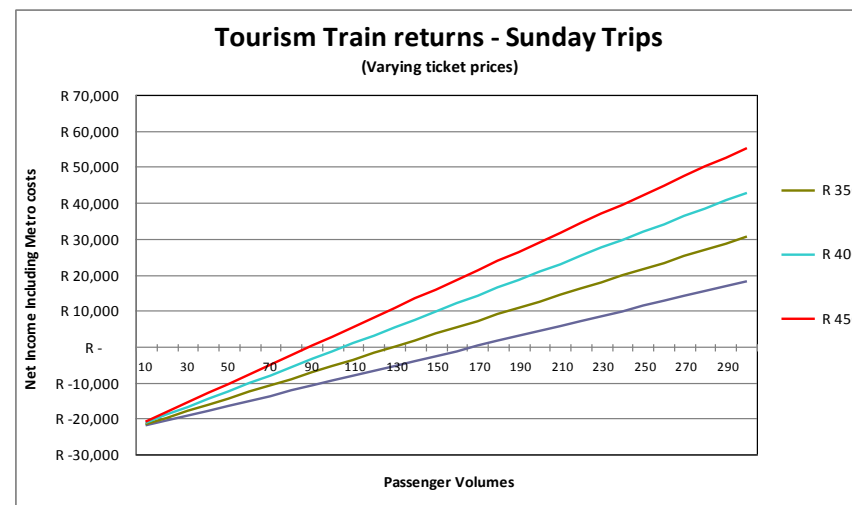


Figure 10 Train Returns Based on Variable Ticket Price Volumes (Weekdays above, Weekends below)

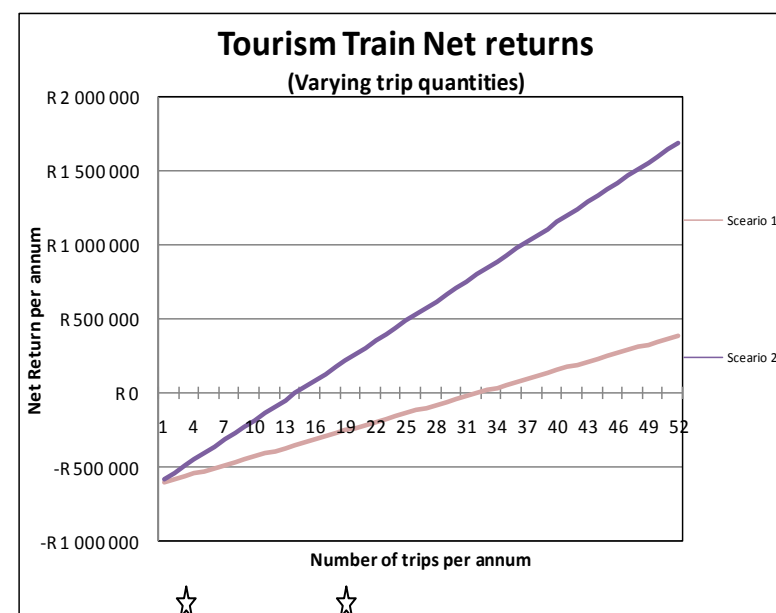


Figure 11 Net returns of two operating scenarios compared with the number of trips per annum

relation to the Khayelitsha tourism market. The 33 trips at 150 pax per trip equates to 4 950 passengers per annum and the 15 trips at 240 pax per trip 3 600 passengers per annum.

Considering the limited current operator volume to Khayelitsha (estimate of less than 12,000 visitors p/a) to make the returns shown in Figure 11 would require the capturing of approximately 80% of the entire Khayelitsha market which is an unlikely target. Hosting quarterly events would be a more realistic and achievable target for this option.

The second financial model presented here considers the current limited market and makes similar projections based on the minimal cost of operating the train as a free transport platform with a second form of transport being used on arrival at Khayelitsha station.

Revenue

The passenger numbers are shown to a maximum of 100 pax and the ticket prices range from R300 to R350 per ticket. The ticket prices have been left at the lower range as no food or show is included in the price. The same assumptions have been made in respect of CTT and operator commissions.

Costs

The only costs are for a train guide (1 per 50 pax), coffee and coach hire. The vehicle hire is based on R700 per 10 pax.

From the graph (Figure 12) one can see that the model does generate a return even where only 10 pax are doing the trip as the costs are minimal. However one would have to consider the viability of using two, or maybe even three, forms of transport for a township tour compared to the option of a door to door coach or minibus.

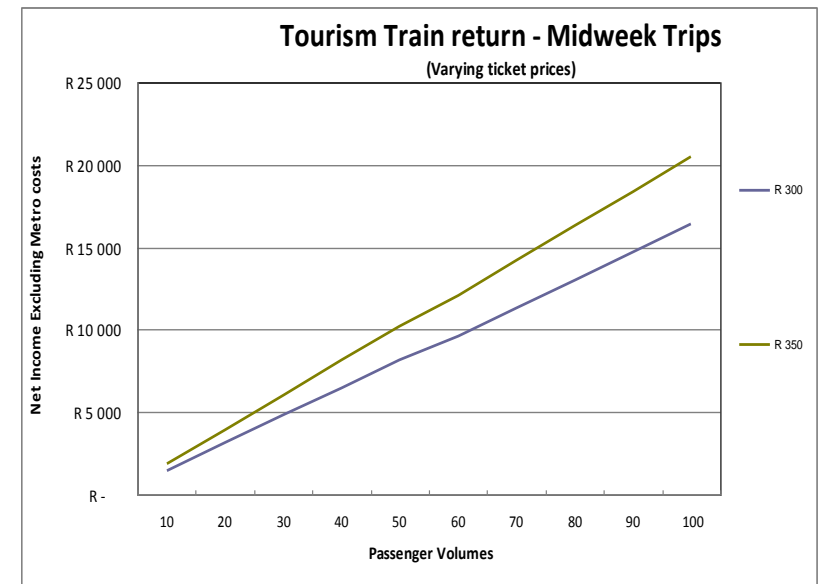


Figure 12 Returns on no-cost items and limited visitor numbers

8 Conclusions and Recommendations

Due to the low cost recovery requirements of Metrorail, operating a tourism train, even for small numbers of visitors can result in a significant return for local operators through the formation of a train operations business entity and associated license being granted. Due to logistical time constraints, a direct train connecting Cape Town to Khayelitsha should be the first route established. Vehicles are needed to conduct subsequent tours to most Khayelitsha products with a limited possibility to conduct a walking tour to Lookout Hill. It should be noted that the use of vehicles in addition to the train as a form of transport will make on selling to existing tour operators difficult.

A Memorandum of Understanding needs to be developed among the City role players to clarify and finalise their preliminary contributions outlined here. It will be important that license conditions are discussed as well as issues related to establishing a mandate for establishing long term (5 year) product focused marketing and business support mandate, as well as addressing the risk of possible changes in Metrorail's cost recovery requirements,

It should be noted that the nature and value of marketing and business support will need to be matched to the level of business sophistication of the potential train and tour operations license holder. It should also be noted that the current market demand does not indicate that large numbers of visitors are likely to be an ongoing short to medium term occurrence. An events approach (quarterly) could be used and serviced by the train to help revitalise Lookout Hill.

Ongoing engagement with Khayelitsha product owners and operators is also needed with regard to establishing co-operation and the increased understanding needed for an eventual license holder and to assist the management of industry expectations. Depending on the level of consensus and cooperation between Khayelitsha tourism stakeholders it is recommended that either a co-operative business entity or private business entity be established as the appropriate mechanism for operating the train.

It is envisioned that a co-operative is developed to provide a period where understanding and product development options such as walks are further developed among Khayelitsha tourism stakeholders. Ultimately the co-operative will need to be collapsed into a private company to unlock entrepreneurial drive.

Further and ongoing engagement with Khayelitsha products will also minimise the risk of conflict over the potential license or tour operating business entity. This intervention should help to build understanding and consensus regarding the benefits attached to the train and proposed operating business entity.

Conclusions and Recommendations Summary

Conclusions

- To develop significant returns the tourism train would need to capture 80% of the existing market of 10 to 15,000 visitors that undertake a trip to Khayelitsha.
- The need to use vehicles reduces the convenience and increases the competitiveness and partnership potential with existing market and mainstream operators
- In terms of targeting new markets and due to low cost recovery requirements there is a significant return for operating a tourism train and benefits for local Khayelitsha products
- Using the train as a quarterly event could help the re-vitalization of Lookout Hill
- Utilisation of the train for “other events” such as Spier winery trips and sport can assist viability
- There is divergence in opinion from mainstream operators and local operators on the need to use the train
- Product based marketing and business support will need to be long term and needs to be institutionally unlocked
- Public private partnerships, the sole proprietor, the business trust, simple partnerships or joint ventures are not well suited as possible business entities

Recommendations

- First route to be established – direct connection between Cape Town and Khayelitsha
- Memorandum of Understanding needed between city partners to discuss and secure financial and human resource commitments
- License to operate used as a method of operating train as basis to increase Khayelitsha product co-operation and business entity formulation
- Conditions and issue of license to be clarified in Memorandum of Understanding
- Further engagement with Khayelitsha based and City based product owners and operators is required to establish if a pilot co-operative ownership structure could work as a pilot phase.
- Pending operator engagement a co-operative business entity or private business entity should be used as a business entity

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