South Carolina Competitiveness Initiative
Project Overview and Hospitality and Tourism Cluster

INNOVATION
ECONOMIC PERFORMANCE
BUSINESS ENVIRONMENT
CLUSTERS
COLLABORATION

PRODUCTIVITY
ECONOMIC COMPOSITION
SPECIALIZATION
STRATEGY

Governor's Conference on Tourism and Travel
Hilton Head, South Carolina
February 4th, 2004

Agenda

- **Overview of the South Carolina Competitiveness Initiative**
- Findings for the State of South Carolina Overall
- Findings and Implications for South Carolina's Tourism Cluster
- Next Steps for South Carolina

Introduction

Special thanks to . . .

- Palmetto Business Forum
- Palmetto Foundation for the Economic Development of South Carolina
- Palmetto Institute
- South Carolina Chamber of Commerce
- South Carolina Department of Commerce
- South Carolina Department of Parks, Recreation and Tourism; and…
- Several hundred people who participated in our surveys and interviews

Surveys

Web-based survey: 443 executives

- 42 from the automotive cluster
- 43 from the chemical products cluster
- 52 from the textiles cluster
- 80 from the hospitality and tourism cluster
- 226 executives from other clusters

Interviews

111 regional and cluster experts

- 59 Cluster interviews
  - 7 automotive
  - 9 chemical products
  - 9 textile
  - 34 hospitality and tourism
- 62 Non-cluster interviews
  - 19 Private sector
  - 8 Academic
  - 4 Government
  - 8 Rural
  - 23 Economic development orgs

Source: Monitor in-depth interviews and survey of key industry, academic and government leaders; June–September, 2002

Why This Initiative?

Key Issues:

- Average wages in South Carolina were 80.5% of the U.S. average in 2001
- South Carolina's wage growth was 3.6% from 1990–2001, vs. 3.9% for the U.S.
- Unemployment in the state was 7.1% in October 2003, vs. 6.0% for the U.S.
- The rise of many low cost competitors (e.g., China) means that these trends will persist unless South Carolina moves away from its traditional low cost positioning

Project Objectives:

- Bring together the relevant stakeholders in the region
- Assess the competitive position of the state and selected clusters
- Identify key challenges, opportunities, and new strategic directions
- Install a process to act on the findings from the study and measure progress

What Is Competitiveness?

- Competitiveness is **not low wages or low taxes**
- Competitiveness is **productivity:**
  - Productivity depends on both on the **value** of products and services (e.g., uniqueness, quality) as well as the **efficiency** with which they are produced
  - Productivity is not measured as units produced per worker, but as **value produced per worker**
  - It is not **what** industries a region competes in that matters, but **how** firms compete in those industries
  - Productivity sets a nation's or region's **standard of living**
  - It is highly productive workers that will **attract companies** to a region, allow **existing companies** to grow, and lead to job creation in that region

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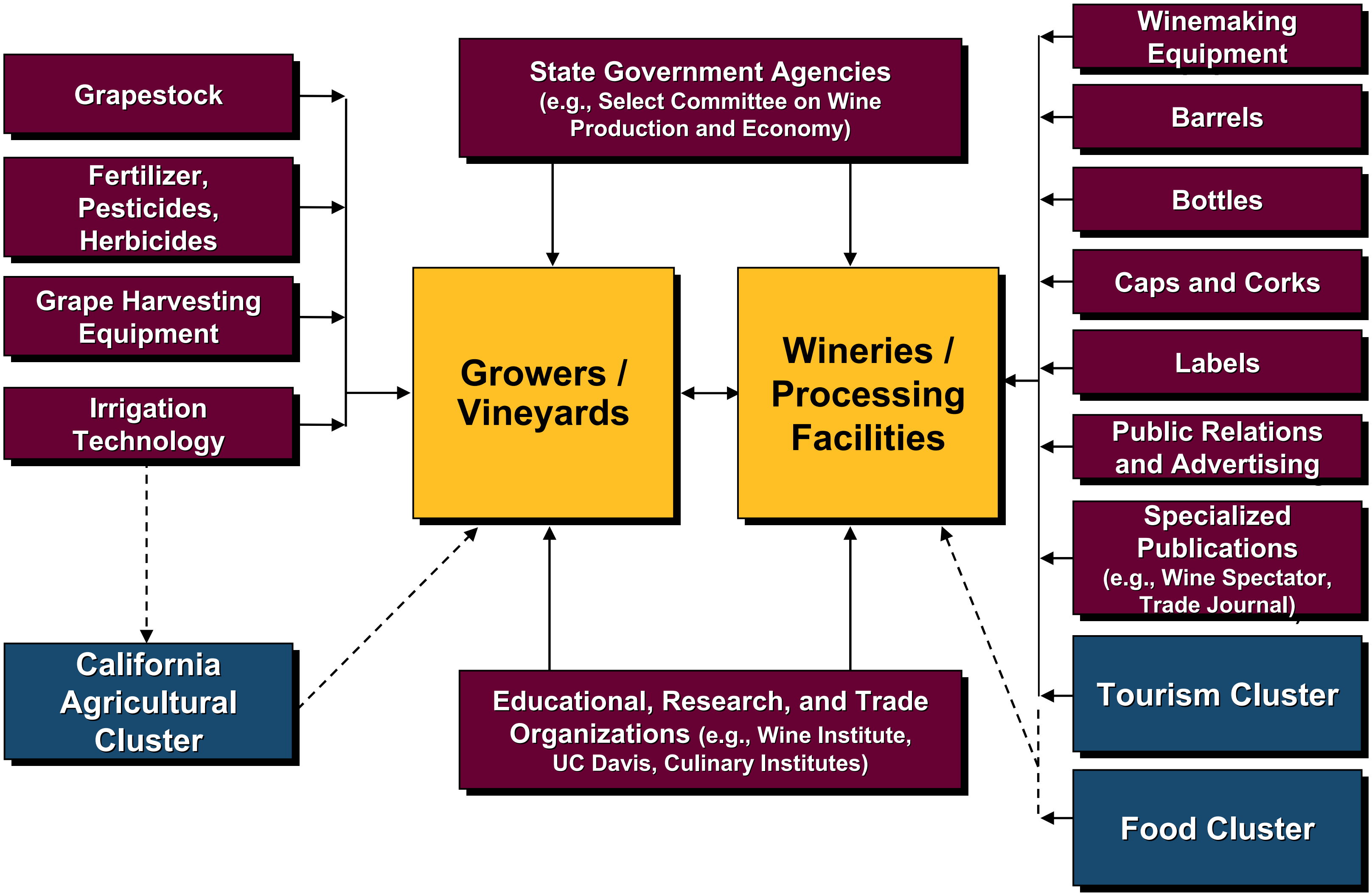
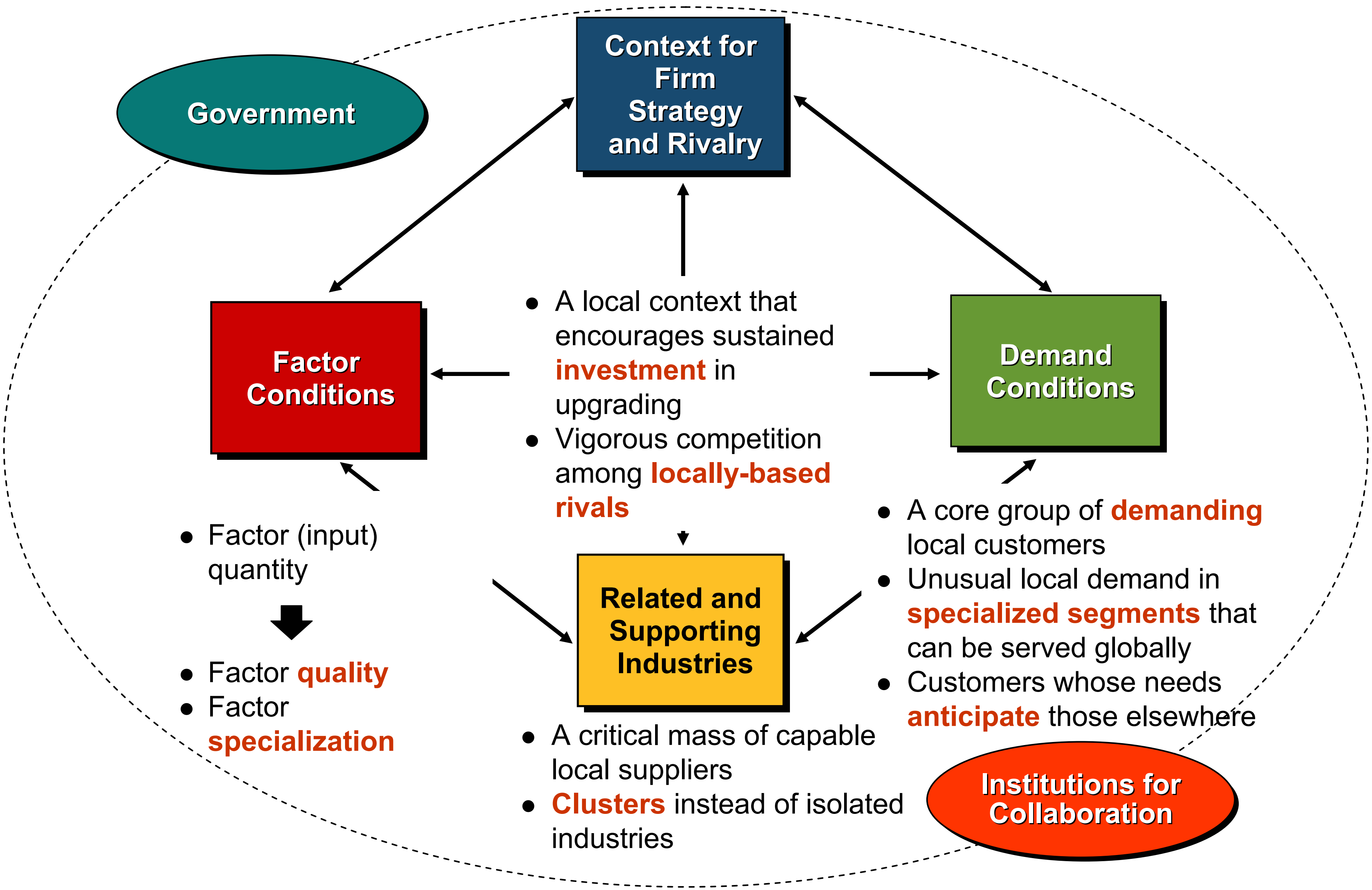
- Nations or regions compete in offering the **most productive environment** for business

The California Wine Cluster



Source: California Wine Institute, Internet Search, California State Legislature. Based on Research by MBA 1997 Students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda

The Business Environment and Innovative Capacity



Shifting Responsibilities for Economic Development

Old Model	New Model
• **Government** drives economic development through policy decisions and incentives	• Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

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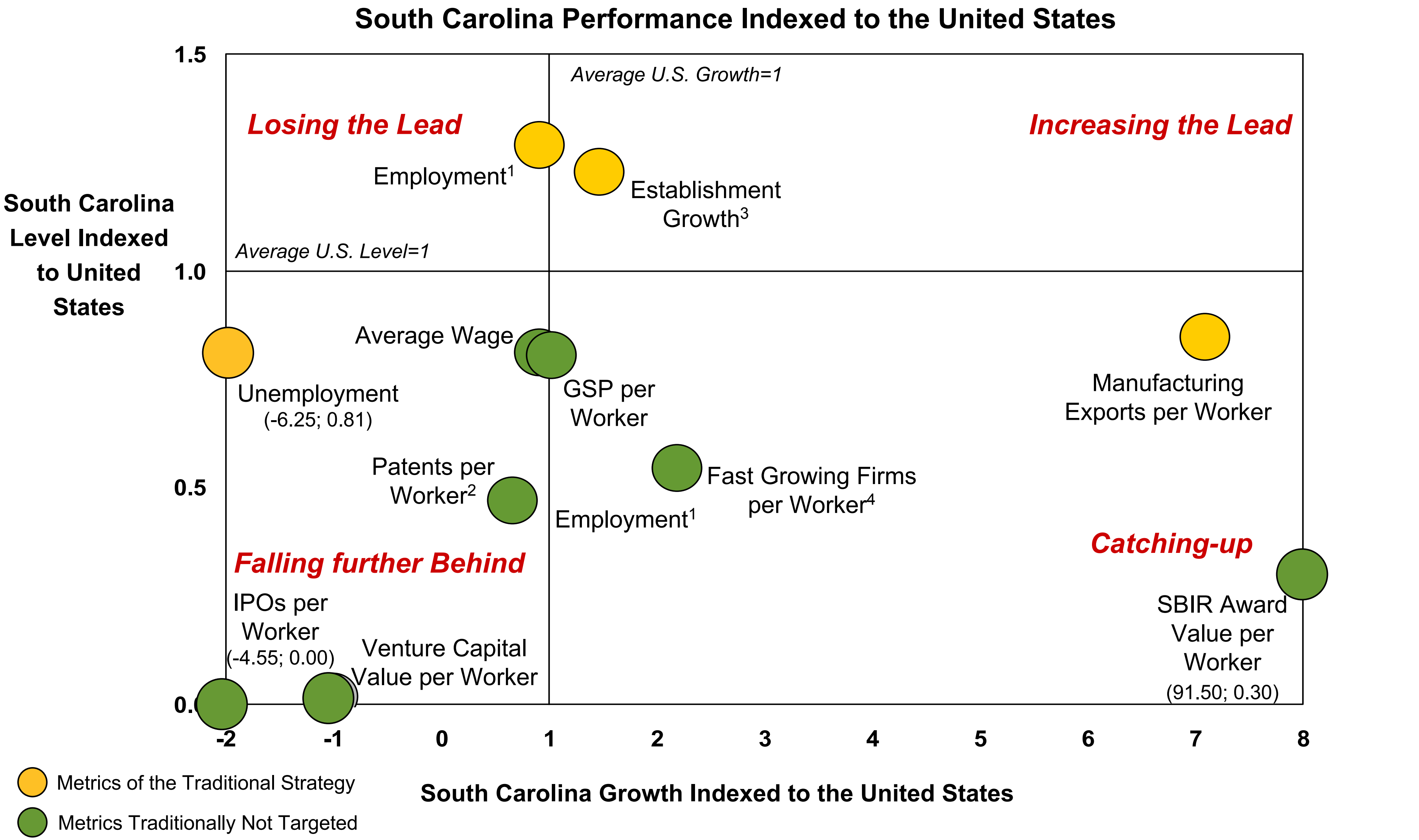
- Next Steps for South Carolina

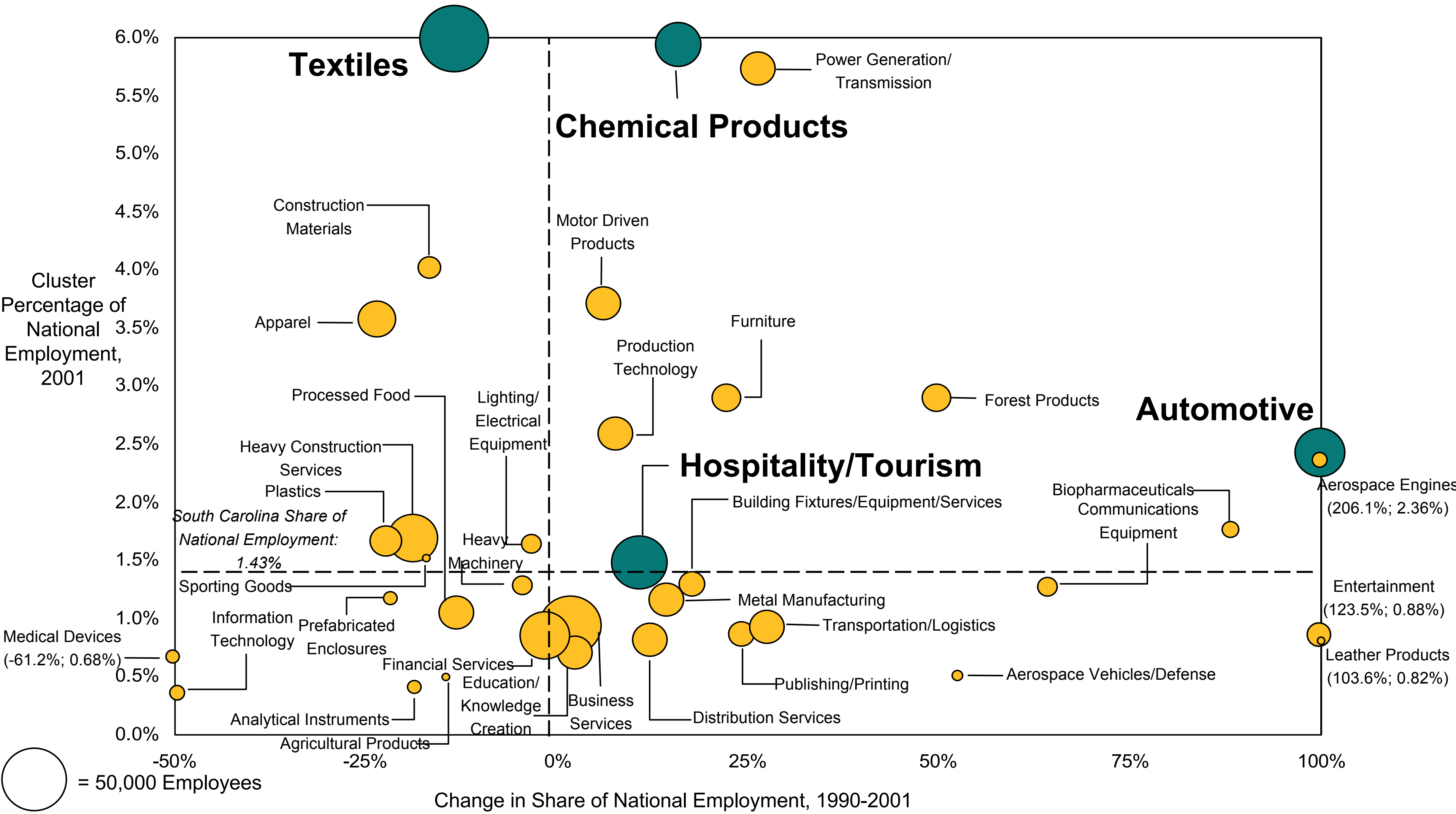
South Carolina Economic Performance and Innovation Output Overview



Note: [1] South Carolina employment level indexed to the U.S. level by using growth over past six months as a proxy. [2] "Growth" is patent growth, not patent per worker growth. [3] Same as "employment" except using past two years' growth. [4] Fast growing firms "most recent value" and "growth" for South Carolina measured relative to seven southern states used in previous analyses.

Specialization by Traded Cluster
South Carolina Share of National Employment and Share Growth

South Carolina Share of National Employment by Employment Share Growth 1990-2001



Note: Traded clusters with less than 1,000 employees in South Carolina are not displayed. These clusters are Oil & Gas Products & Services; Tobacco; Fishing & Fishing Products; & Footwear. Clusters located out of scale have been placed on the border with coordinates labeled (% change in national cluster employment share; % of national cluster employment).

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

Economic Performance in South Carolina
Common Perspectives

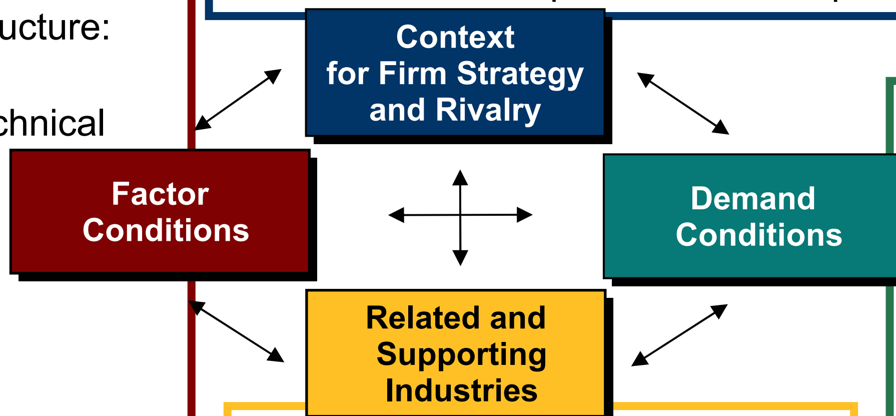
It is often believed that average wages in South Carolina are lower than for the US because of:

- A few large, low wage cluster;
  - *But, the data indicate wages are relatively low across almost all of South Carolina's clusters;*
- The relatively large rural population;
  - *But, the data show that lower wages in South Carolina metros explain far more of the gap between South Carolina and the US;*
- Lower per capita income in the relatively large African-American community;
  - *But, data indicate that per capita income in South Carolina is relatively low across all demographic groups*

What accounts for South Carolina's lower average wages?

- **Competitiveness**
  - ***Average wages are lower because of lower value created per worker per year in South Carolina***

South Carolina Business Environment
Findings from the Survey and Interviews



Factor Conditions

Advantages:
- Low cost of doing business: wages, taxes, rents, utilities
- Flexible, hard working labor force
- High quality of life along some dimensions
- Good transportation infrastructure: seaport and interstates
- Responsive, high quality technical colleges
- Proximity to assets in Georgia and North Carolina (e.g., capital, air and seaports, research)

Disadvantages:
- Relatively few advanced degree holders: scientists and engineers
- Limited supply of skilled workers: technicians, advanced metal workers
- Relatively weak K-12 and advanced educational systems
- Lack of first-tier research universities
- Limited air access: few direct flights

Context for Firm Strategy and Rivalry

Advantages:

Disadvantages:
- Limited local competition
- Difficult environment for start-ups
- Few local headquarters or core operations

Demand Conditions

Advantages:
- Sophisticated (albeit few) manufacturers across many clusters
- Frequent feedback between end-user manufacturers and suppliers

Disadvantages
- Consumers are not as sophisticated and trend-setting as in other states

Related and Supporting Industries

Advantages:
- Presence across numerous manufacturing oriented clusters

Disadvantages:
- Few high quality, specialized suppliers
- Limited interaction with local suppliers on product and process development

Source: Monitor Regional Competitiveness Survey, Interviews, Monitor Analysis

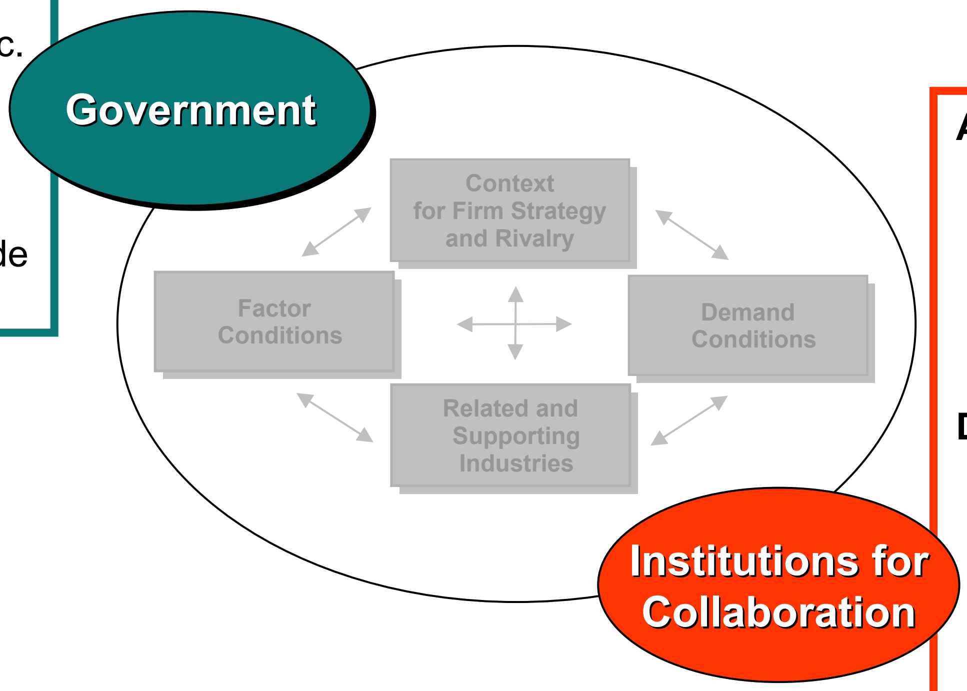
South Carolina Business Environment
Findings from the Survey and Interviews

Advantages:

- Historically responsive to needs of relocating companies: e.g., rapid set-up times, worker training packages, etc.

Disadvantages:

- Incentives and attention skewed to attracting large outside firms to the state



Advantages:

- Many effective organizations for marketing South Carolina, and selling companies on the state

Disadvantages:

- Limited coordination between universities and companies
- Few cluster-specific institutions for collaboration
- Few organizations working to upgrade the quality of all elements in the business environment

Source: Monitor Competitiveness Survey, Interviews, Monitor Analysis

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South Carolina's Hospitality and Tourism Cluster
Past Studies Reviewed

- 2003 Governor's Quality of Life Task Force Report
- 2003 The Contributions of Travel & Tourism to South Carolina's Economy
- 2002-2003 South Carolina Department of Parks, Recreation, and Tourism Marketing Plan
- 2002 The South Carolina Challenge: Regional Economic Analysis
- 2002 The New Challenge for the Charleston Region: Building an Innovation Economy
- 2001 South Carolina Tourism Report Series (various)
- 2001 South Carolina: WTTC's The Impact of Travel and Tourism on Jobs and the Economy
- 1999 A Vision for the Future of South Carolina's Tourism Industry As Envisioned by the Tourism Industry

Source: Monitor analysis of select studies, and Monitor interviews of private and public sector leaders

Building Competitive Advantage in South Carolina
Hospitality and Tourism Cluster Interviews

We have conducted 34 interviews of regional leaders in the tourism cluster

Private Sector

- Scott Blue - Sales and Marketing Director, South Carolina Aquarium
- Andy Cajka - General Manager Southern Hospitality Group
- John Curry - President, The Curry Company
- Prem Devadas - Managing Partner, Kiawah Island Golf Resort
- John Durst - Vice-President of Strategic Planning/Public Affairs, C.C. Riggs
- Paula Ellis - Publisher, The Sun News
- Mary Eaddy - Wordsmith, Inc.
- Shep Guyton - Silver Carolina Development
- Andrew Gurtis - President, Darlington Raceway
- Satch Krantz - Director, Riverbanks Zoological Park
- Peter MacIntyre - General Manager, Ripley's Aquarium

Private Sector

- Mickey McCamish - Myrtle Beach Golf Holiday
- Frans Mustert - President & CEO, Patricia Resorts
- Michael Poynter - Vice President and General Manager, Radisson Plaza Hotel
- Bettis Rainsford - President, Rainsford Development Company
- Ed Riggs - Director of Sales, Charleston Area Convention Center
- Dick Rosen - FHTP Production
- Dennis Wade - President & CEO, The Jackson Companies
- Douglas Wendel - President & CEO, Burroughs & Chapin Co., Inc.
- Steve Wilmot - Director, Heritage Classic Foundation

Source: Monitor interviews of private and public sector leaders

Building Competitive Advantage in South Carolina
Hospitality and Tourism Cluster Interviews (cont.)

Academia

- Carl Boger - Chairman, School of Hotel, Restaurant and Tourism
- John Crotts - Director of Hospitality and Tourism Program, College of Charleston
- Cate Ferriera - Associate Professor, Horry Georgetown Technical College)
- Gary Loftus - Director, Center for Economic Coastal Carolina University
- Frankie Miller- Dean of Hospitality, Trident Technical College
- Pat Moody - Dean of the College of Hospitality, Retail and Sport Administration
- Al Parish - Director of the Center of Economic Forecasting, Charleston Southern University

Cluster-Specific Organizations

- Helen Hill - Director, Charleston Area Convention and Visitors Bureau
- Tom Sponseller - Executive Director, Hospitality Association of South Carolina
- Chris Stone - President, Greenville Convention and Visitors Bureau

Government

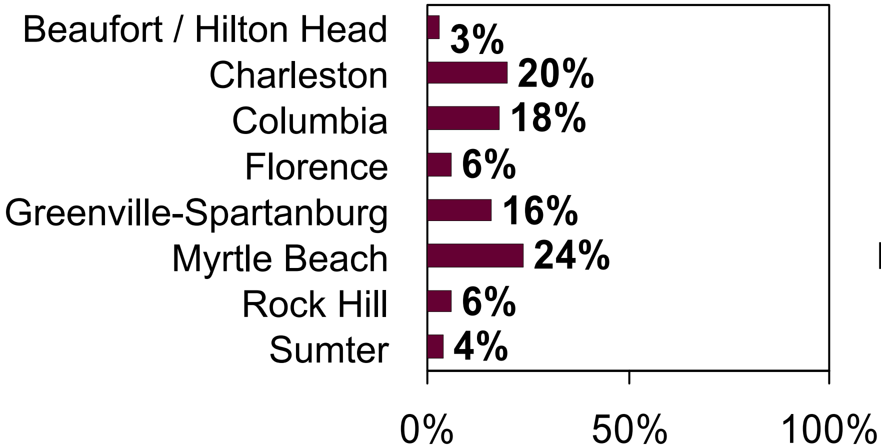
- Mike Flack – Executive Director, Columbia Metropolitan Airport
- Julie Flowers - Senior Research Manager, South Carolina Department of Parks, Recreation and Tourism
- Isabel Hill - Director of Policy and Research, South Carolina Department of Parks, Recreation and Tourism
- Chad Prosser - Director, South Carolina Department of Parks, Recreation and Tourism

Source: Monitor interviews of private and public sector leaders

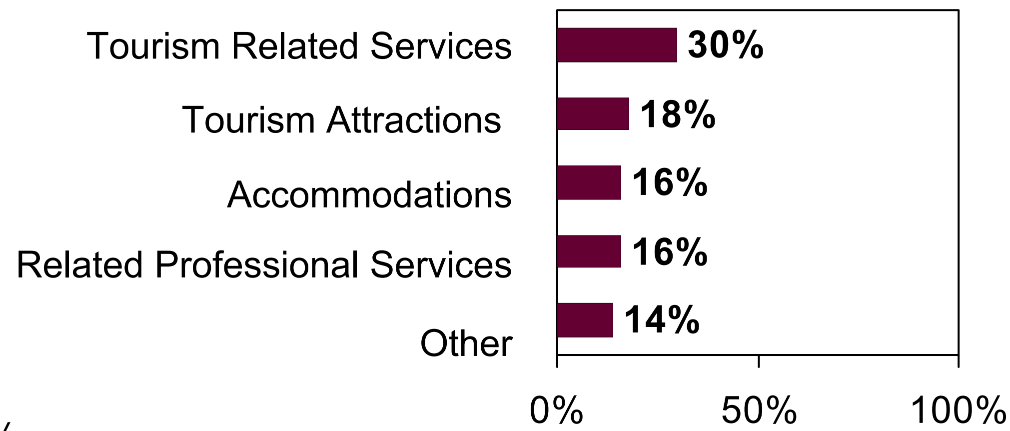
Work Plan and Progress
Preliminary Demographics from the Hospitality and Tourism Survey

We have also surveyed 80 private and public sector leaders in the cluster

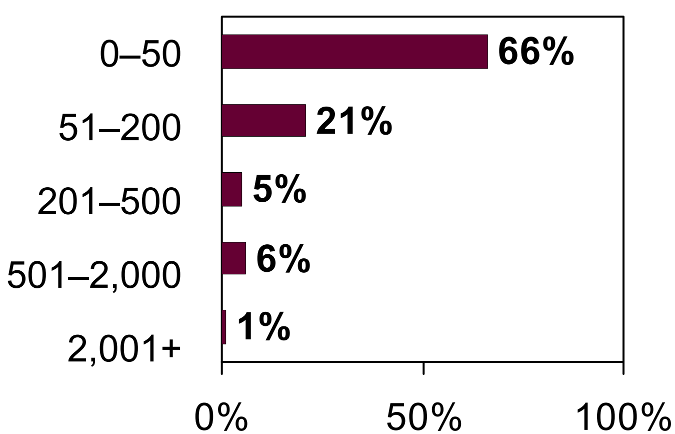
Where is Your Company Located?



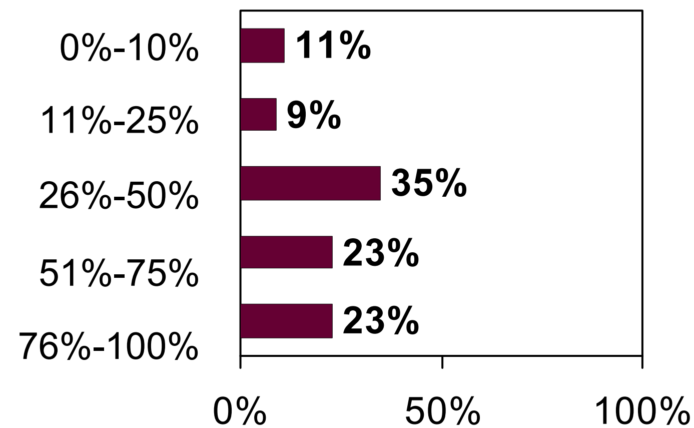
What type of business are you in?



How Many Employees are There?



What percentage of your sales are to South Carolinians?



Source: Monitor Regional Competitiveness Survey

Note: this presentation includes survey response data from 80 tourism private and public sector leaders

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  - **Implicit Strategy**
- Next Steps for South Carolina

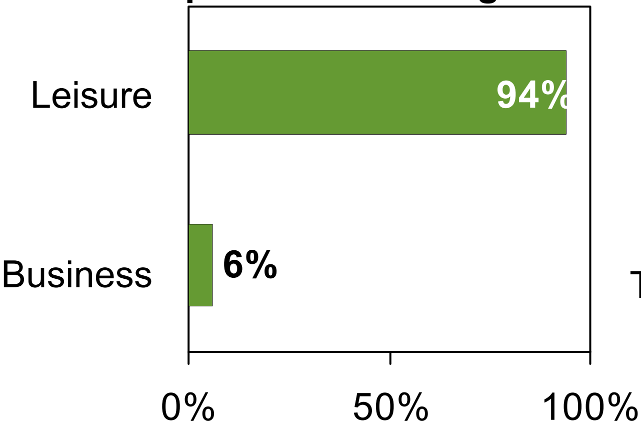
South Carolina's Hospitality and Tourism Cluster
Implicit Economic Strategy

Components of a Strategy	South Carolina's Current Implicit Strategy:
Objectives	• Increase the number of visitors to South Carolina
Positioning	• Family relaxation for drive-in, out-of-state tourists
Value Proposition	• Long, unspoiled coastline with both upscale and low-cost offerings • Southern Hospitality
Assets	• Accessible beaches and beach-front communities • Charleston historic district and military history sites • Numerous world-class golf courses
Organization	• Relatively fragmented tourism promotional system with power at local levels • Government-led tourism strategy and promotion • Limited number of statewide institutions for collaboration

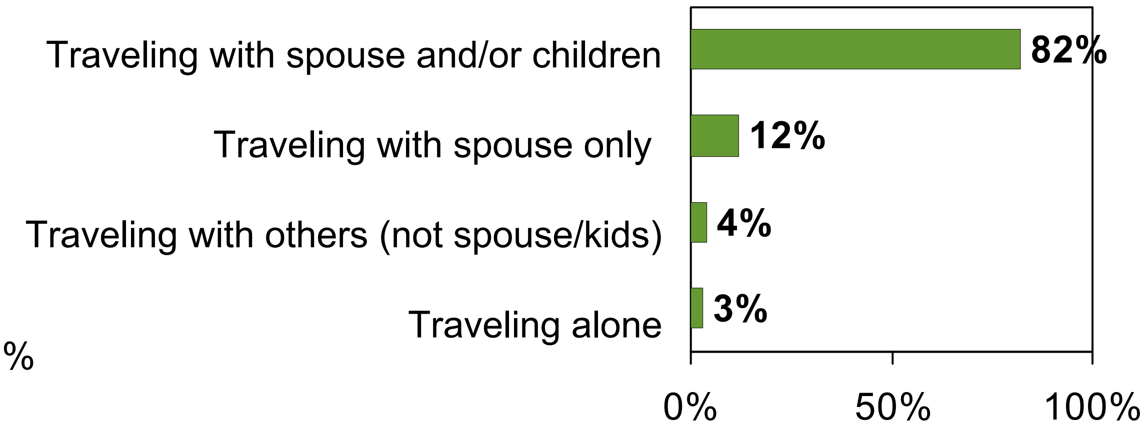
Source: SCPRT FY 2002-2003 Marketing Plan; Monitor analysis and interviews of private and public sector leaders

Survey Results
Type of Tourist South Carolina Should Prioritize and Target

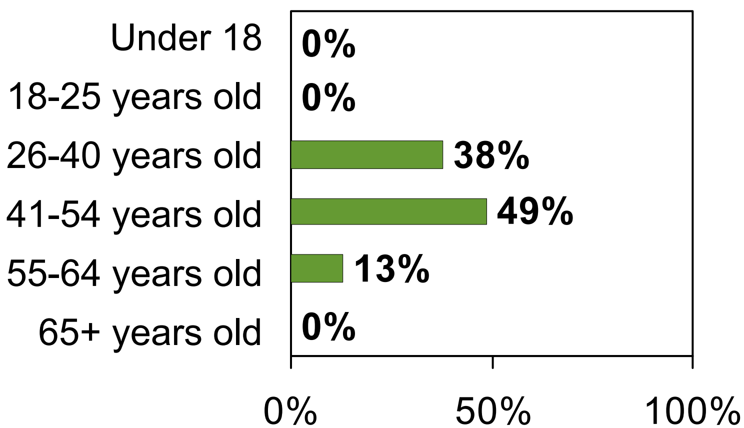
What type of tourist / trip should South Carolina prioritize and target?



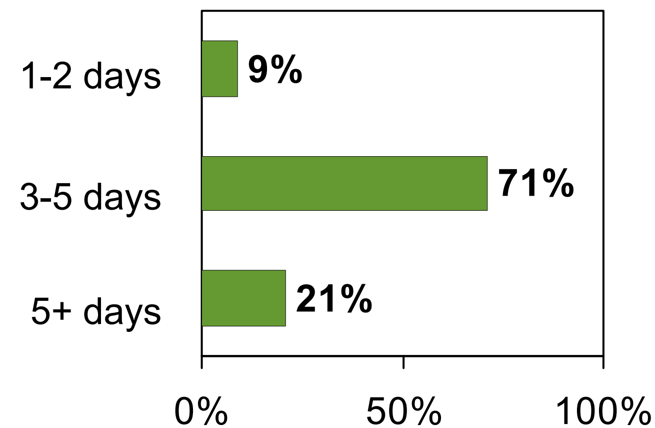
What is the traveling profile of the type of tourist that South Carolina should prioritize and target?



What age group should South Carolina prioritize and target?



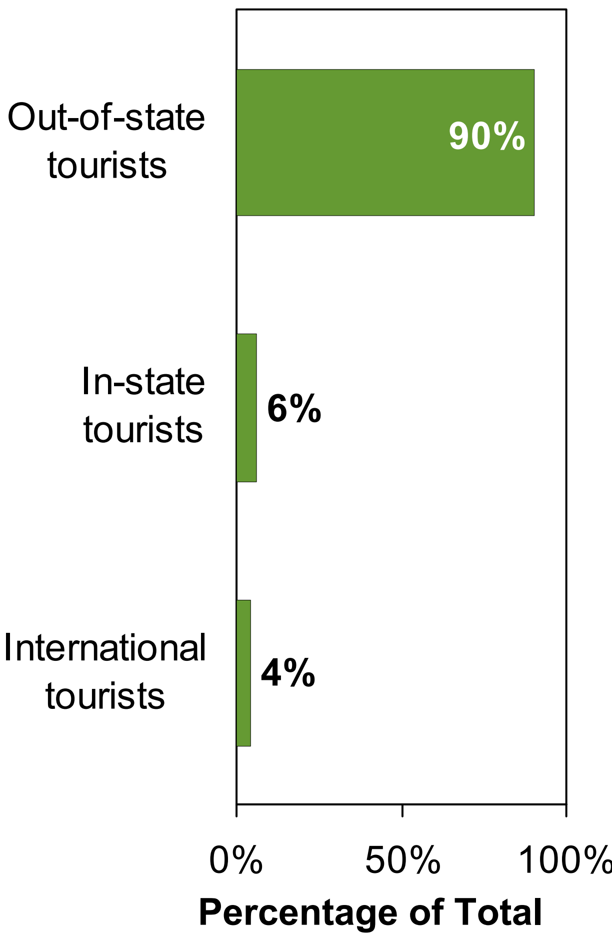
What is the length of stay of the type of tourist South Carolina should prioritize and target?



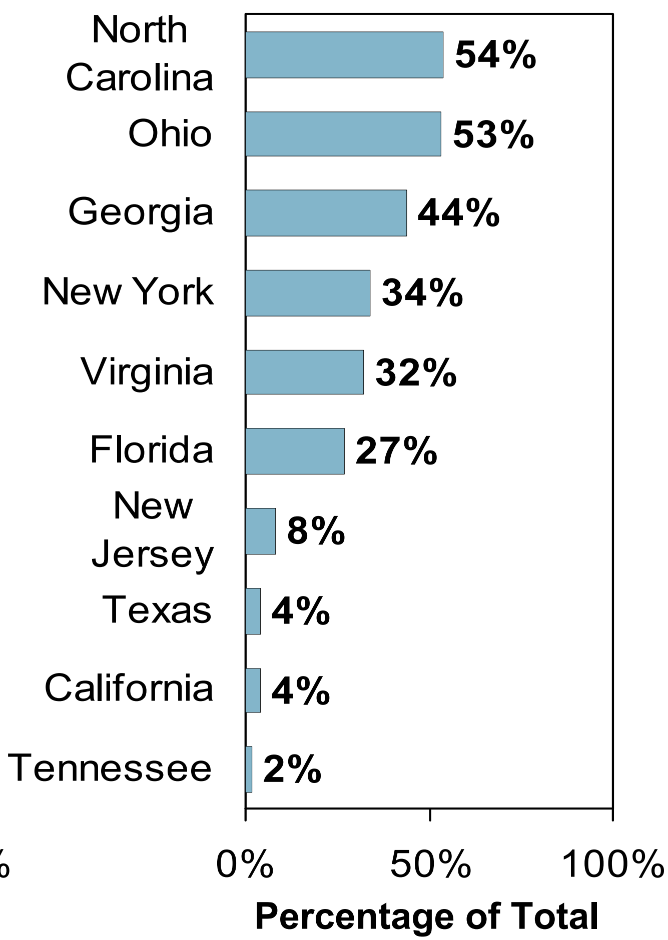
Source: Monitor Regional Competitiveness Survey

Survey Results
Type of Tourist South Carolina Should Prioritize and Target

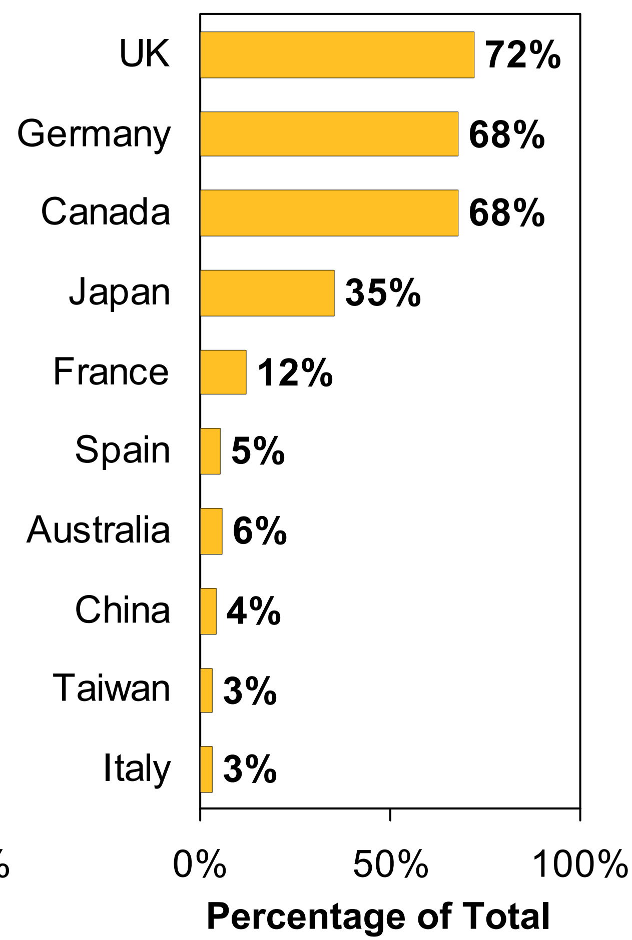
Origin of the type of tourist South Carolina should target



Top three states South Carolina should target



Top three countries South Carolina should target

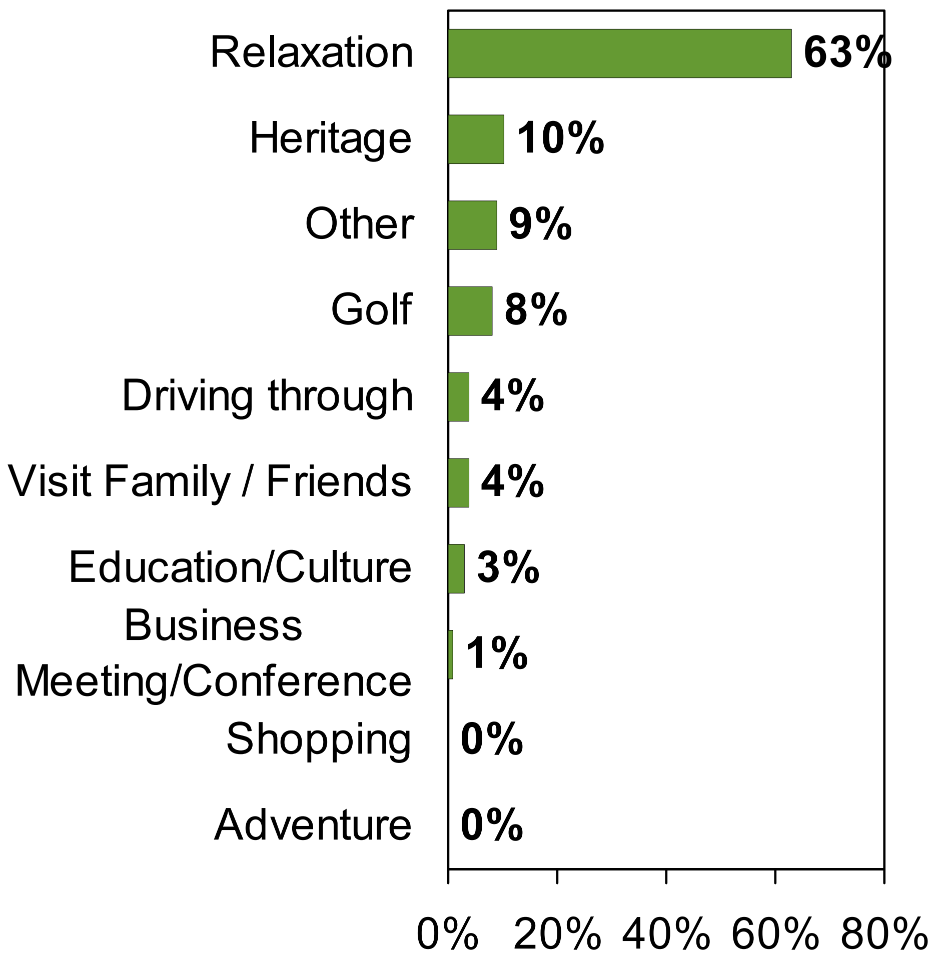


Source: Monitor Regional Competitiveness Survey

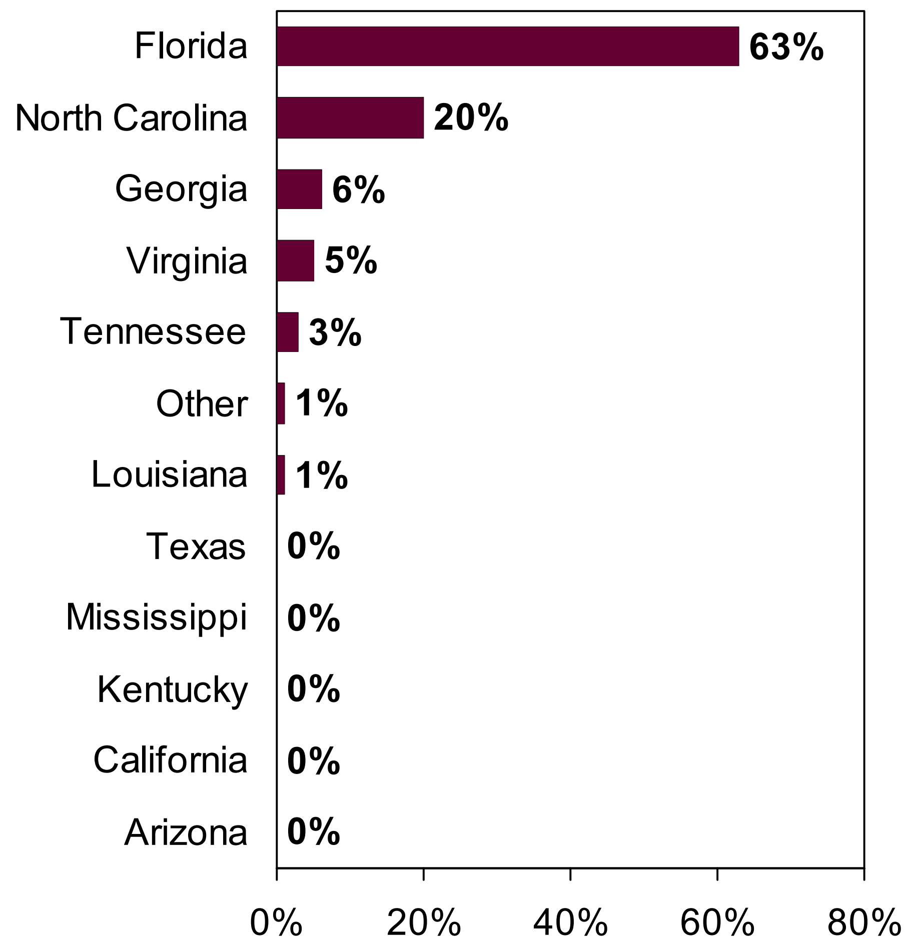
Survey Results

Reasons for Coming to South Carolina and Main Direct Competitors

Main reason tourists come to South Carolina



Top direct competitor to South Carolina in attracting tourists

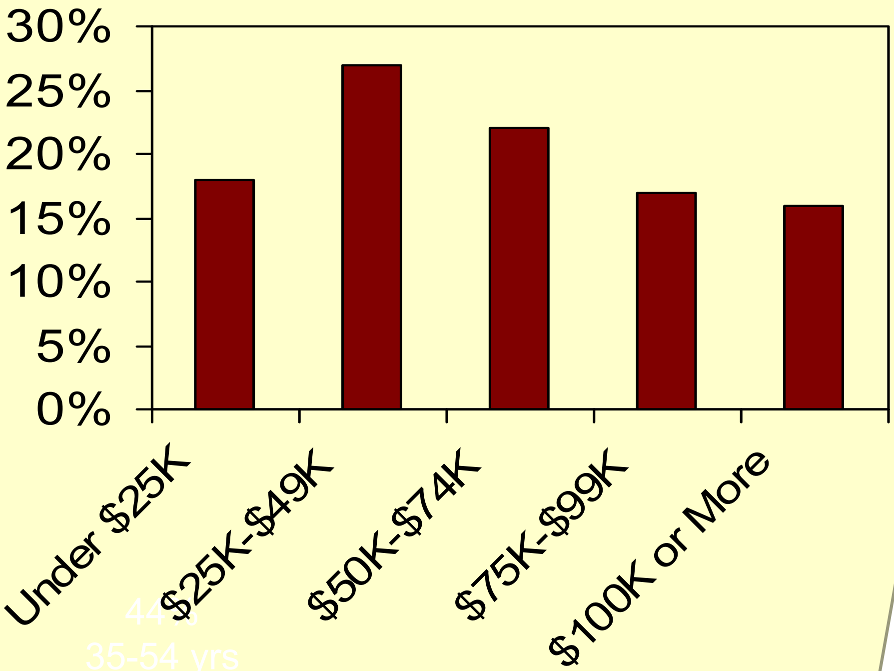


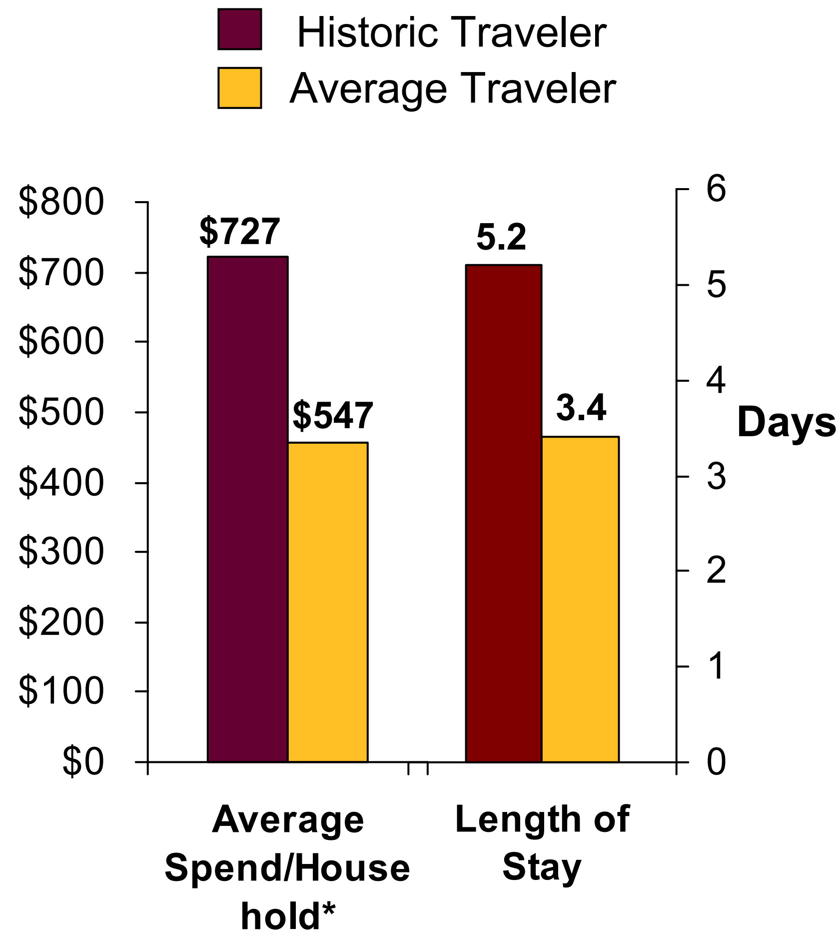
Source: Monitor Regional Competitiveness Survey

Historic Traveler Composition and Trip Characteristics

There are 98.9 million historic travelers accounting for 141.7 million person-trips

Annual Household Income of Historic Travelers



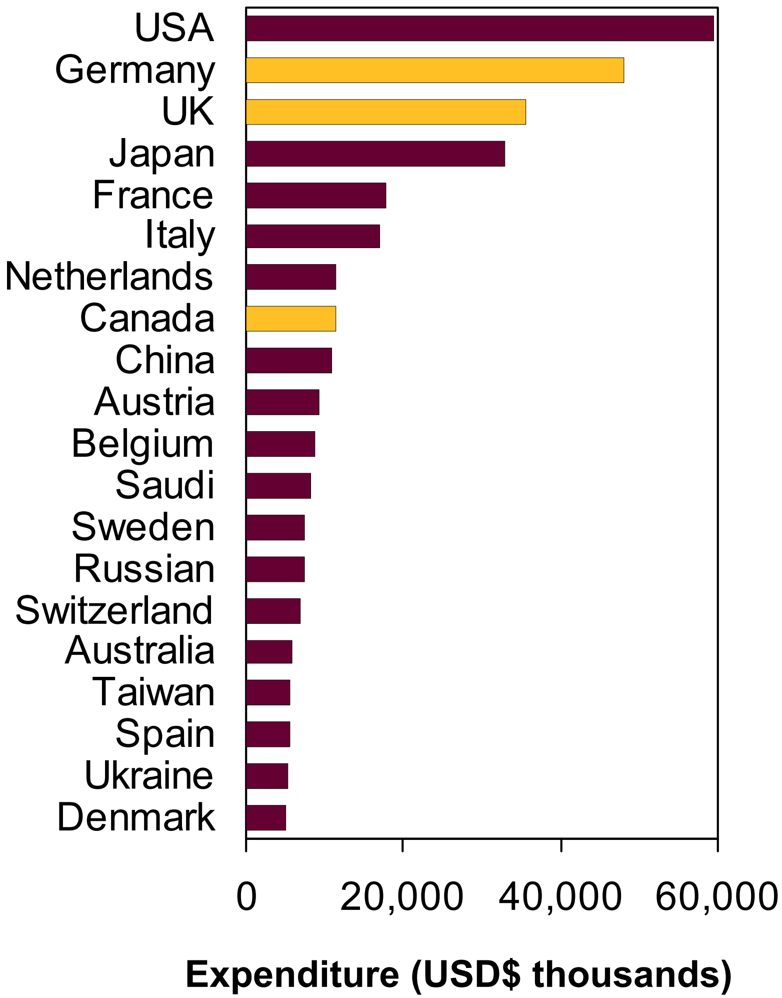


Note: Spend does not include transportation to/from destination

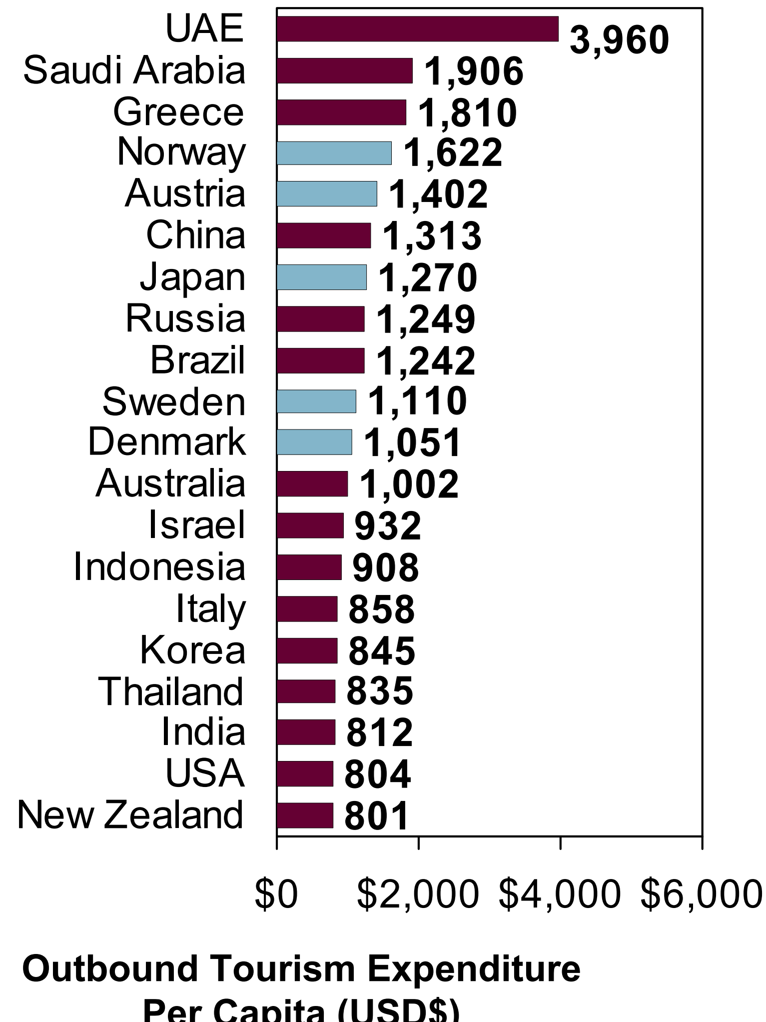
Source: Travel Industry Association, 2001; Monitor analysis

Largest Countries by Number of Outbound Trips, Expenditure, and Expenditure Per Capita on Outbound Tourism

Top 20 Countries by Total Expenditure on Outbound Tourism, 1999

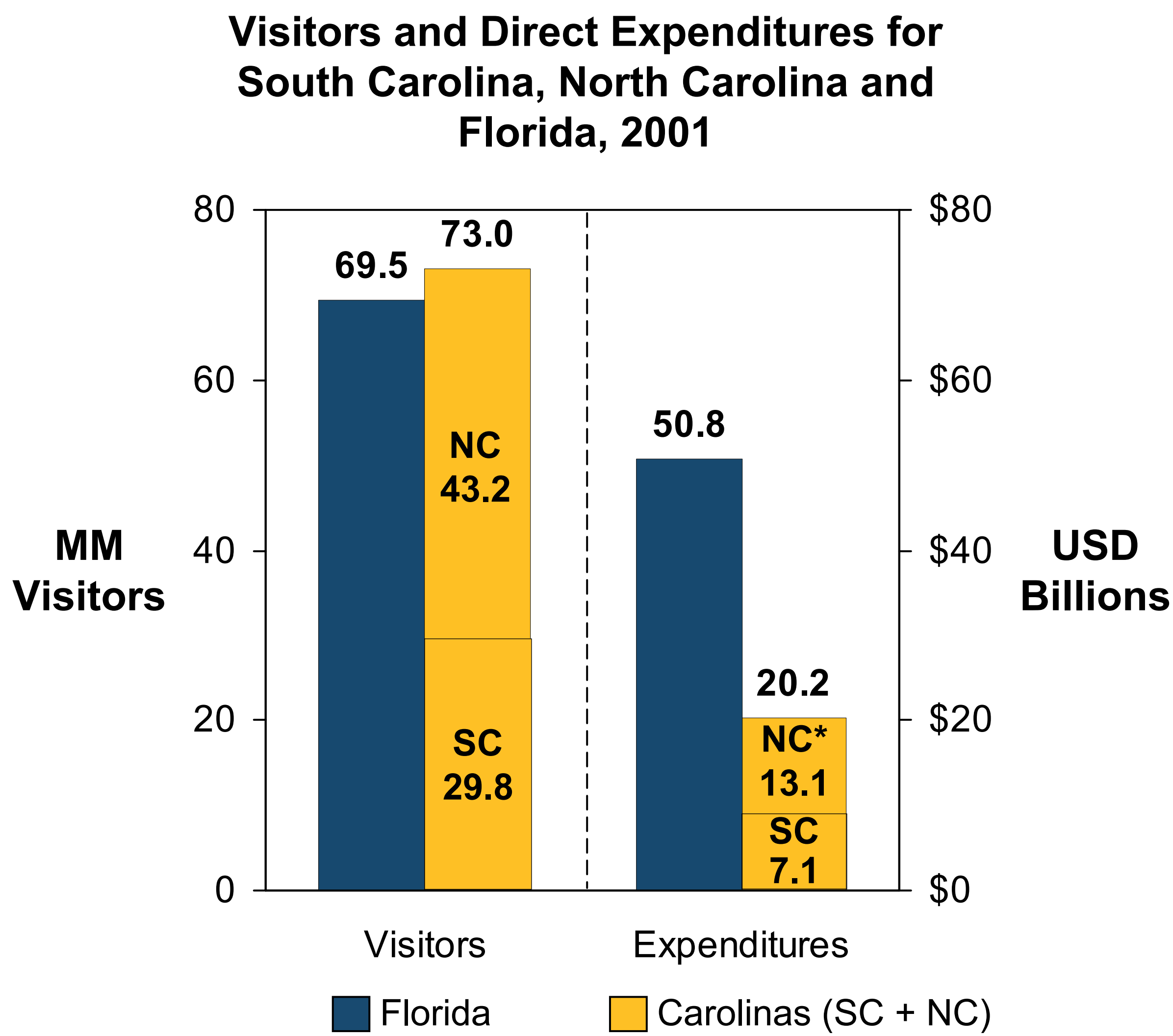


Top 20 Countries by Outbound Tourism Expenditure Per Capita, 1999



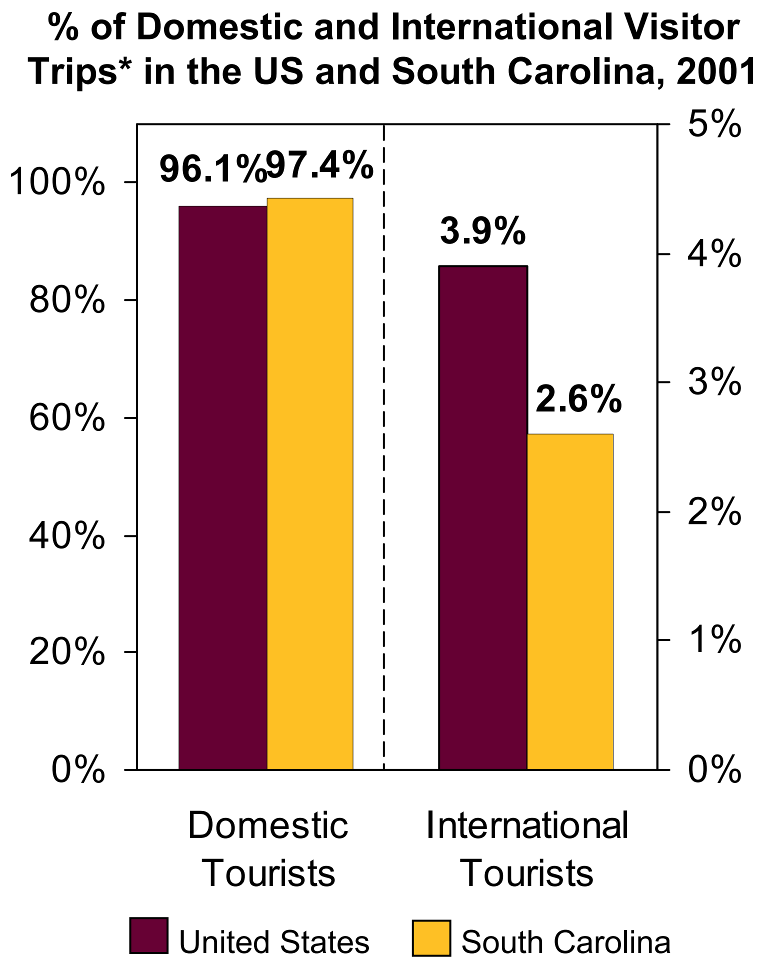
Source: World Tourism Organization, 1999; Monitor Analysis

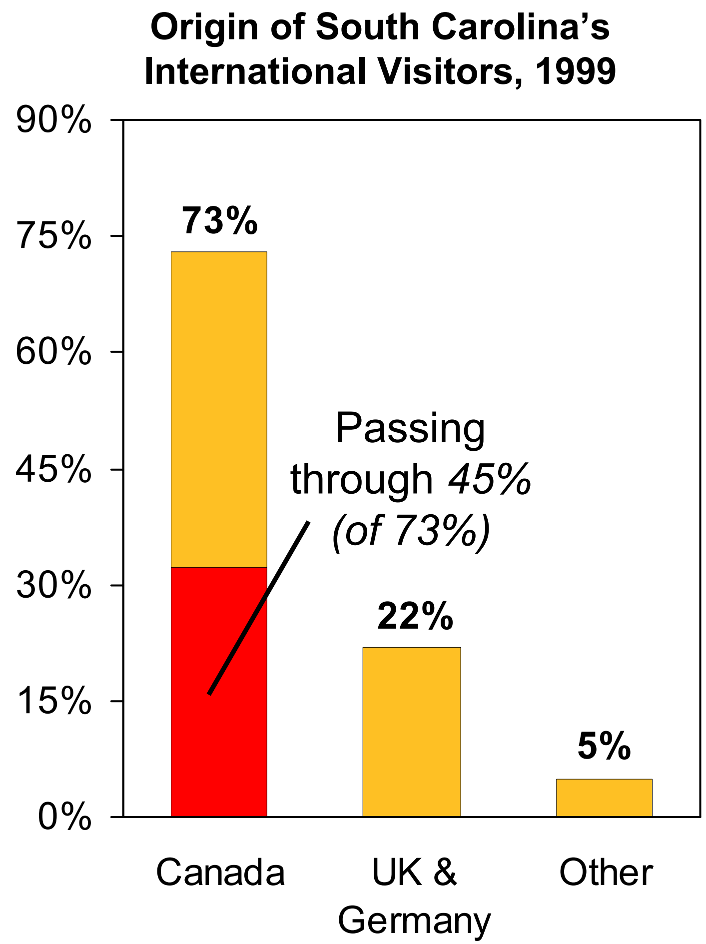
Domestic and International Tourists
Florida vs. Carolinas Visitors and Expenditures



** North Carolina expenditures for 2001 include estimated expenditures of international visitors
Source: TIA May 2003 Forecast Summary, SC PRT, FL 2002 Governor's Conference on Tourism; Monitor Analysis

Domestic and International Tourists
U.S. and South Carolina International Visitors

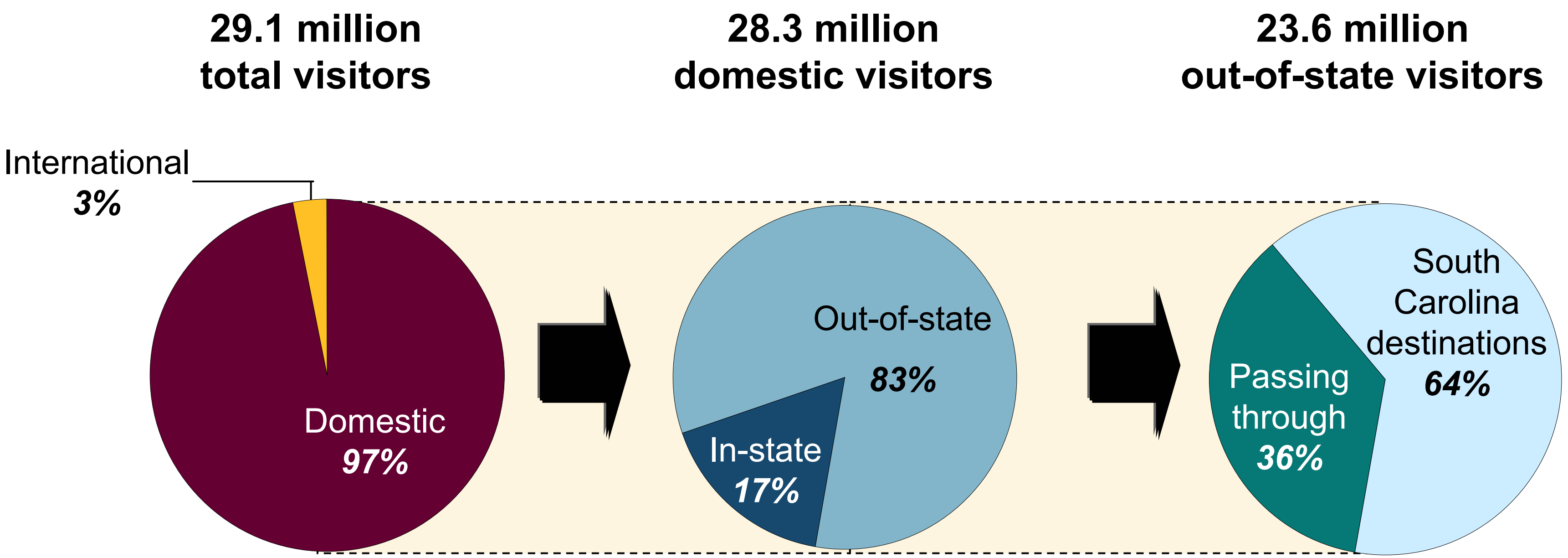




* Visitor Trips exclude 'pass through' visitors to make SC comparable to the U.S.
Source: TIA May 2003 Forecast Summary, SC PRT, FL 2002 Governor's Conference on Tourism, WTTC South Carolina Report; Monitor Analysis

Domestic Tourist Volume and Composition

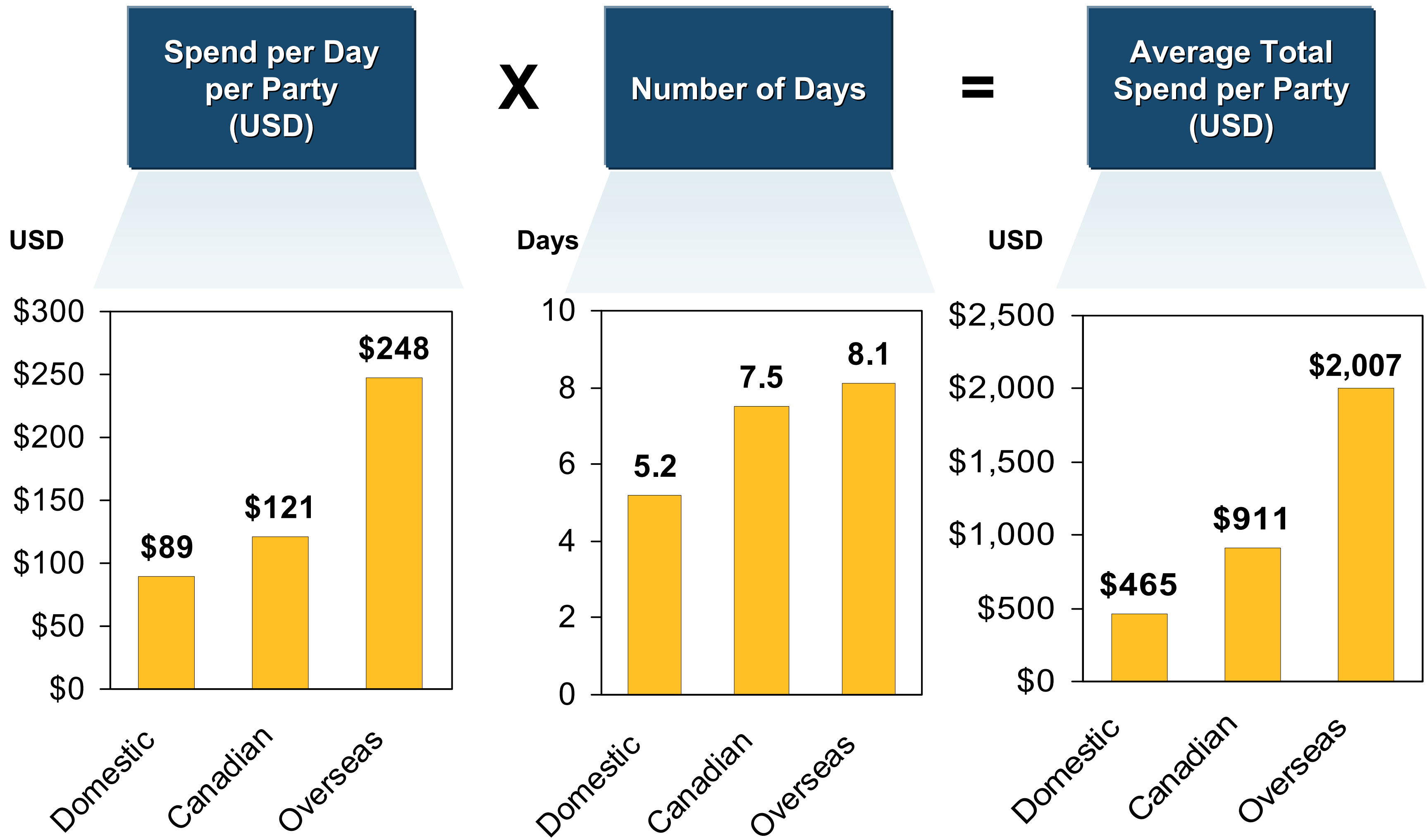
South Carolina's Domestic Tourist Volume, 1999



Source: WTTC South Carolina Report, 2000; Monitor Analysis

Domestic and International Tourist Average Expenditure in South Carolina

Average Total Spend per Overnight Tourist Party by Origin, 2001



Source: WTTC South Carolina Report, 2000; SC PRT; Monitor Analysis

Summary of Tourism Trends Analysis

Tourism Trends

- Travel is increasingly year-round
- Shift towards more active, adventurous travel
- Family vacations are increasing as a percentage of total trips
- Travelers increasingly looking for an ***experience***
  - Historic/Heritage travelers
- Key small countries exhibit higher spending per tourist than traditional large countries
- Long-haul visitors spend more per trip than drive-in visitors

Implications for South Carolina

- Broaden and increase attractiveness of off-season offerings
- Leverage diversity of natural preserves
- Further attract families by continuing to develop and upgrade related attractions
- Numerous historical assets can be leveraged in combination with other draws
  - Charleston, historic sites, plantations
- Develop a comprehensive segmentation of international markets
- Measure success by spending per visitor rather than number of visitors

Source: Monitor analysis

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  - **Competitiveness and Economic Performance**
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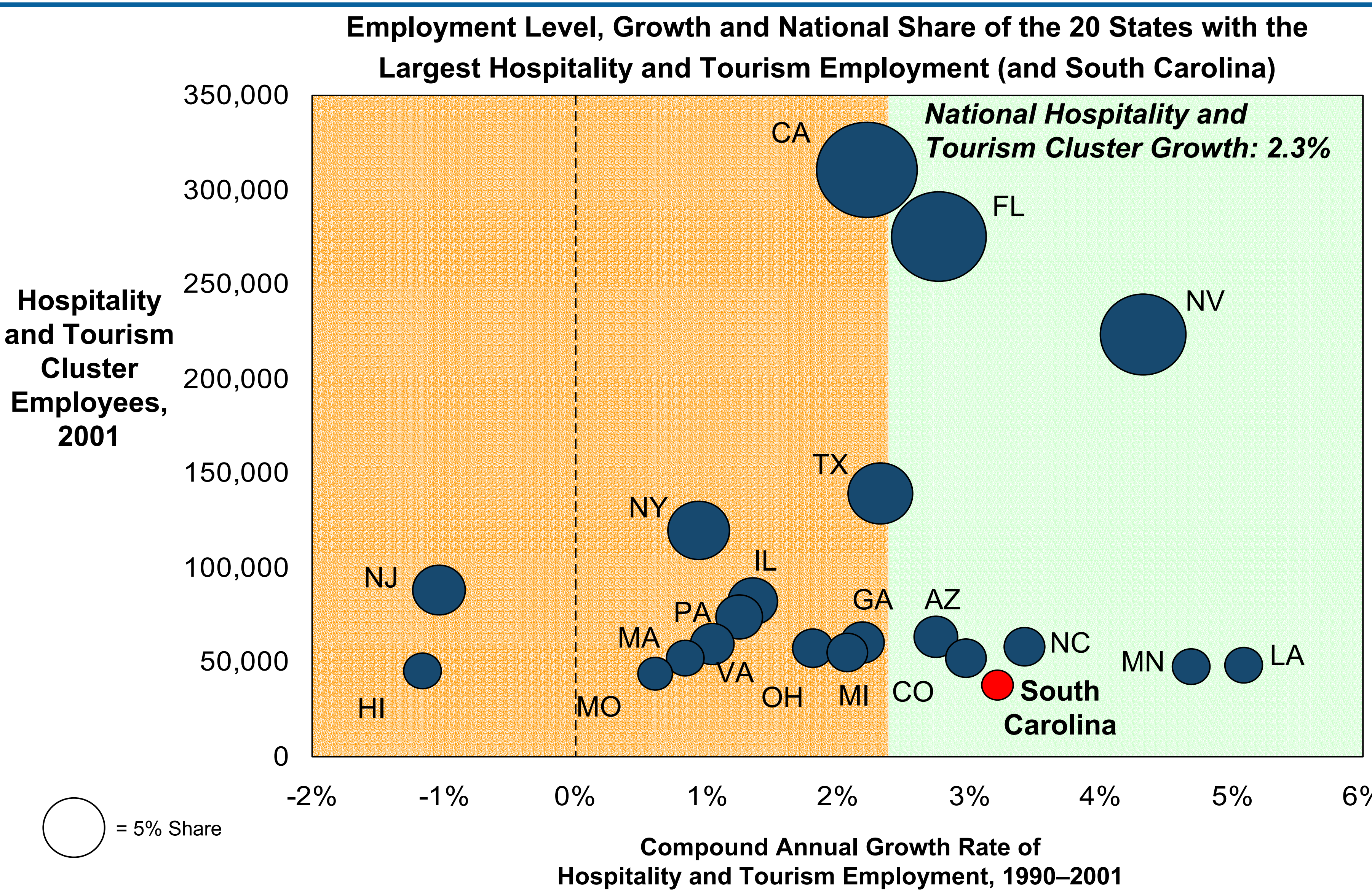
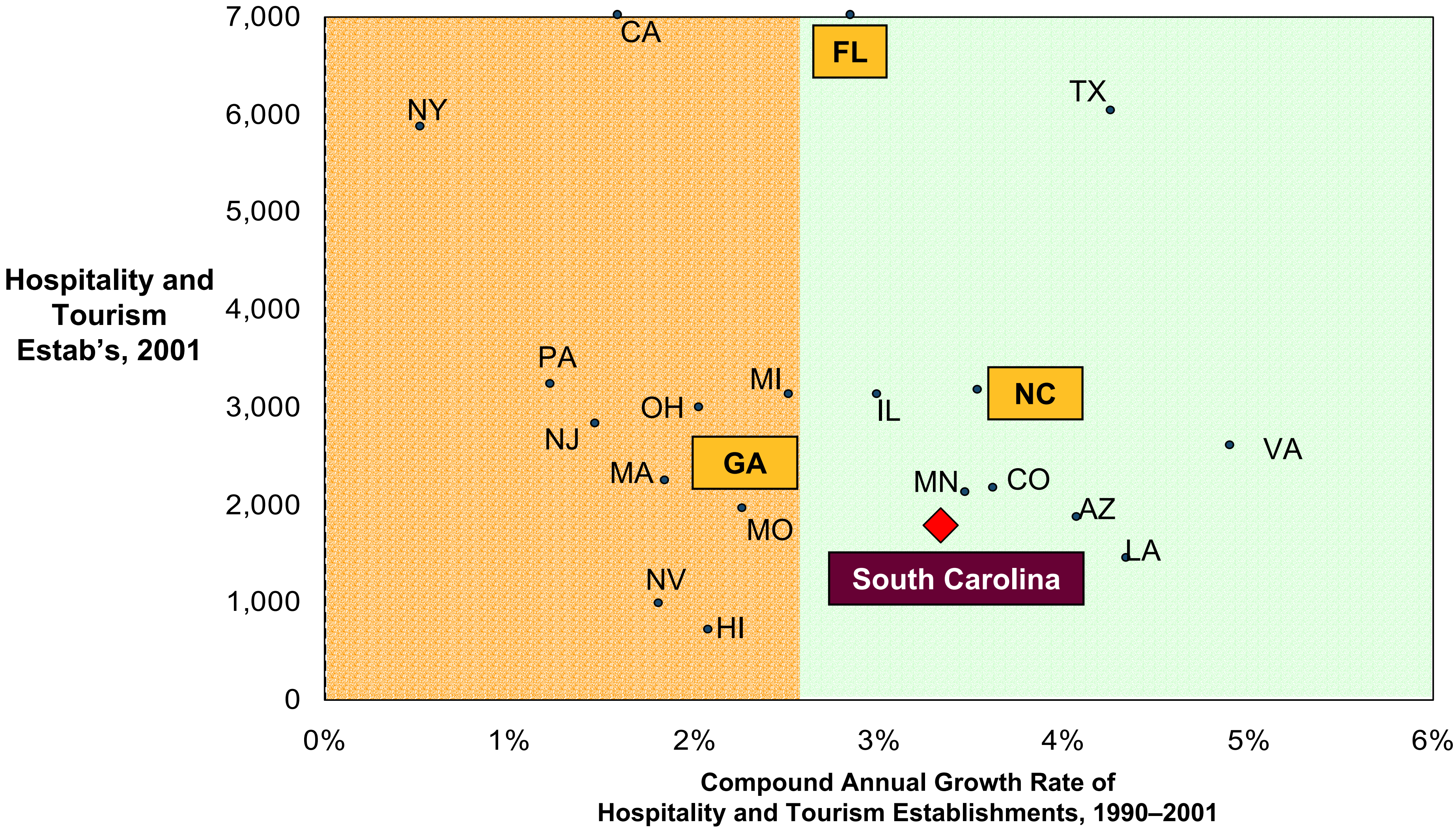
Hospitality and Tourism Employment
Employment Level, Growth and National Share



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

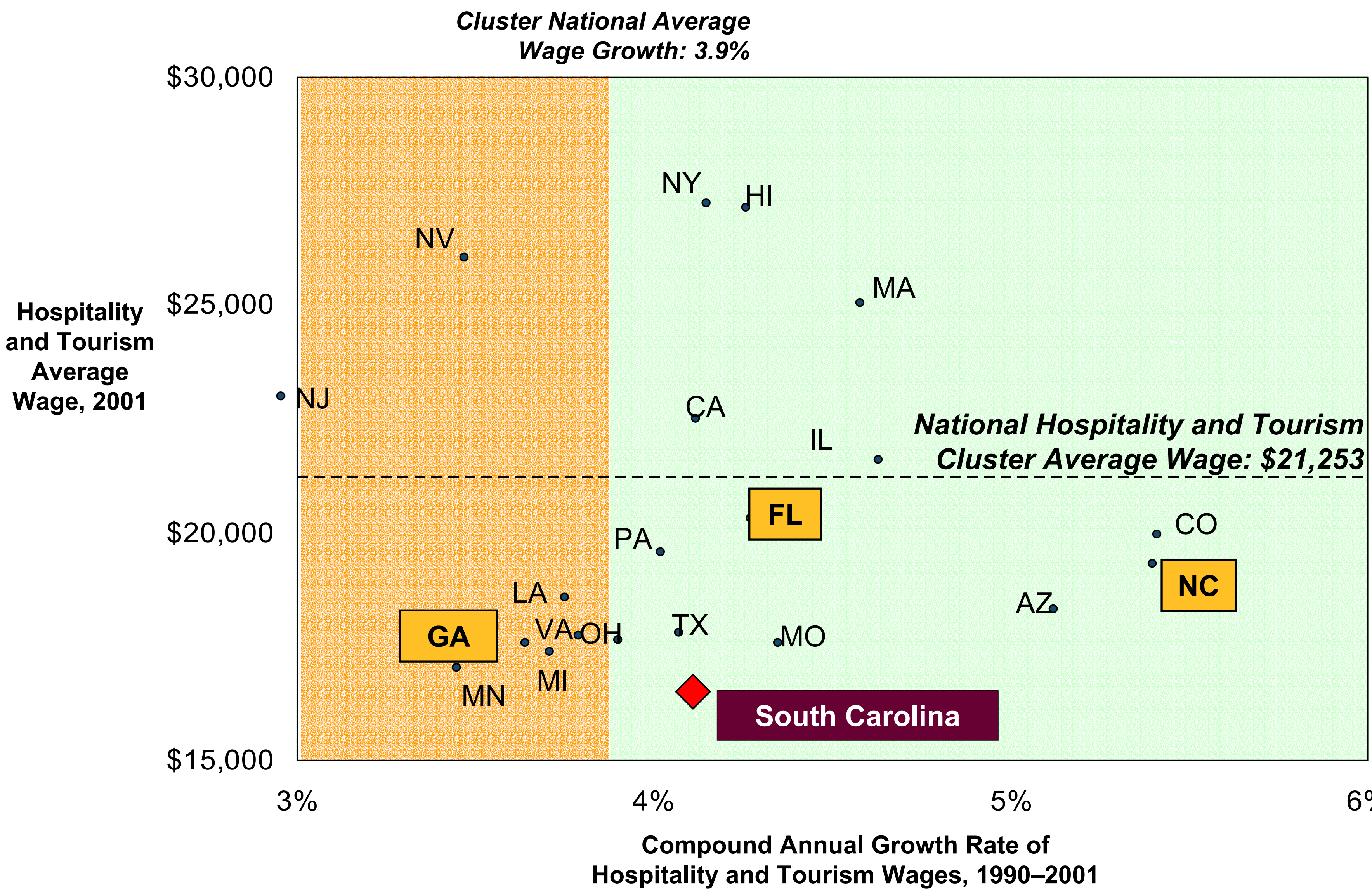
Hospitality and Tourism Establishments
Number and Growth of Establishments

National Hospitality and Tourism Cluster Establishment Growth: 2.6%



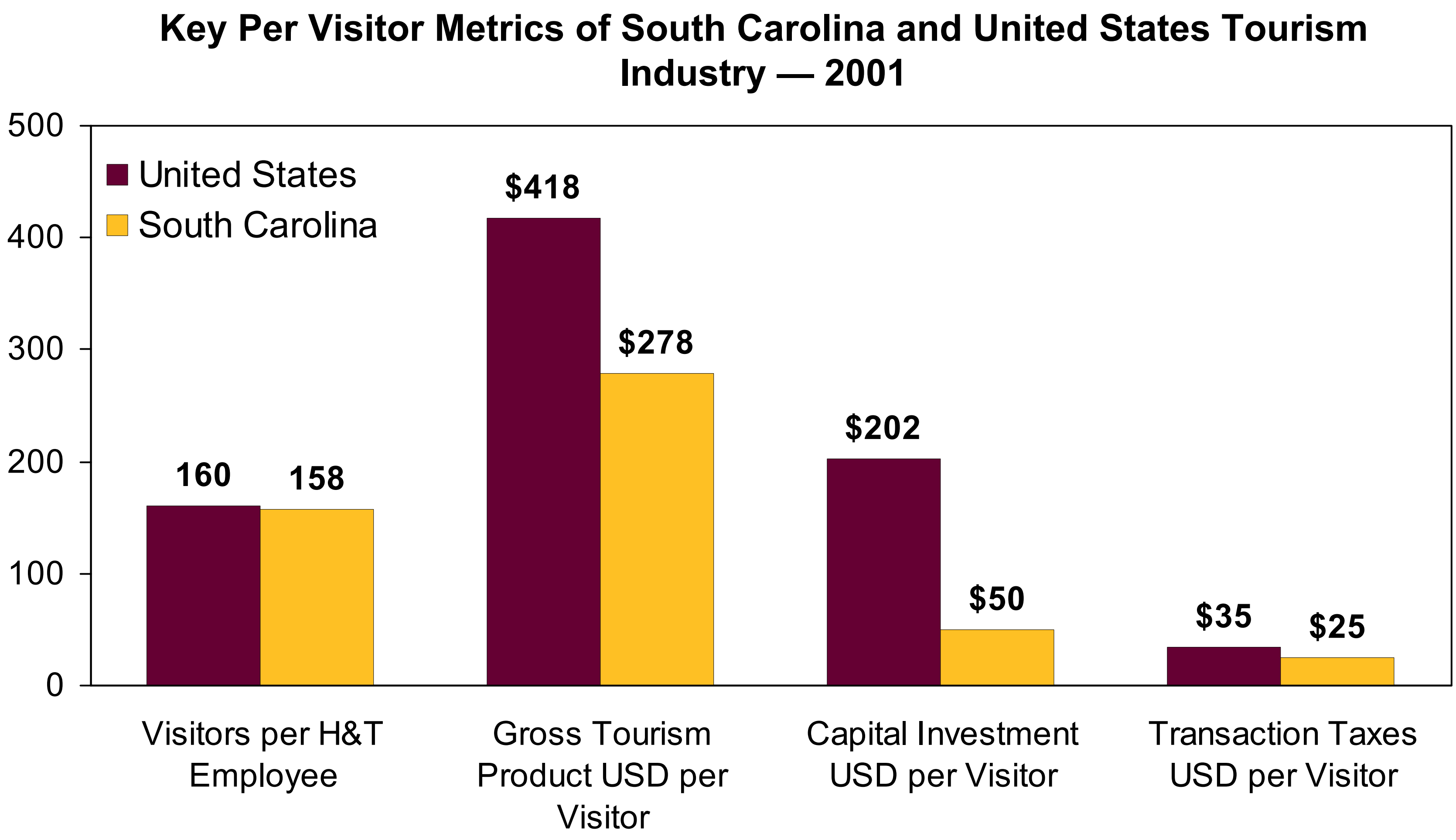
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Economic Performance of Select Hospitality and Tourism Clusters
Average Wage and Changes in Average Wage



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

Tourism Industry Benchmark Metrics per Visitor
U.S. versus South Carolina



* 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

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South Carolina's Hospitality and Tourism Cluster
Issues Emerging from the Interviews

Strategy	"More tourists are not always better. We should do more strategic planning on what segments do we want to promote." "The problem is that we don't think strategically, we think politically."
Collaboration	"We do almost no packaging here, no collective marketing. Each company/region can stand alone, but stands to gain much more if they would work together." "We need to cooperate more with other regions inside and outside the state. Nine to thirteen days European visitors don't go to just one destination. PRT would be a good catalyst for that."
Product	"People are hungry for historical places - I really believe it is a great opportunity if we are able to develop a meaningful tourism experience." "Most of our off-season marketing has been based on price, instead of making an exciting product offering."
Labor, Education, and Research	"We have the chance of making South Carolina a total model of what should be done in H&T education, involving high schools, colleges, universities and industry in topics from workforce training, to grad level education and research." "There is no reason why our universities could not be the premiere research center for tourism in the US, why they could not take the lead in setting metrics and standards. We should have a world class H&T Program here."

Source: Monitor interviews of private and public sector leaders; Monitor analysis

South Carolina Tourism Business Environment
Findings from the Surveys and Interviews

Advantages:

- Intense local competition

Disadvantages:

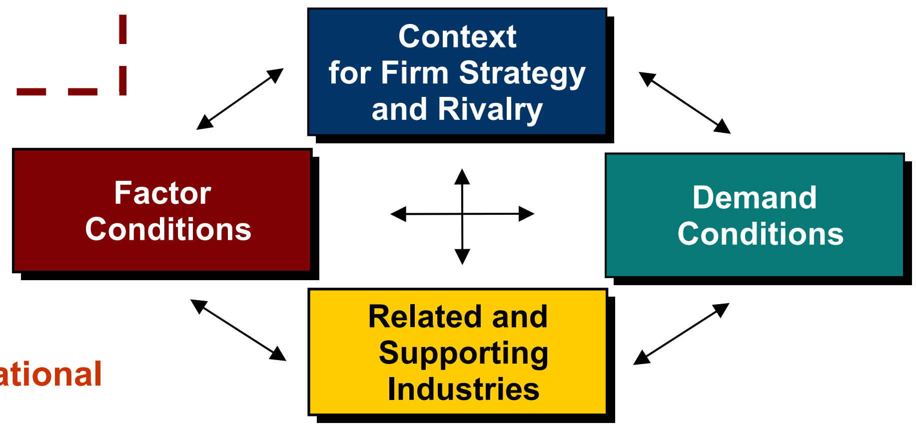
- **Few local** headquarters of core operations
- **Limited collaboration between firms on development of integrated product offerings**
- **Highly fragmented industry lacking major anchor organizations**

Advantages:

- Relatively high number of airports
- Active technical college system
- Attractive assets, including climate, golf courses, coastline, mountains
- 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:

- 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

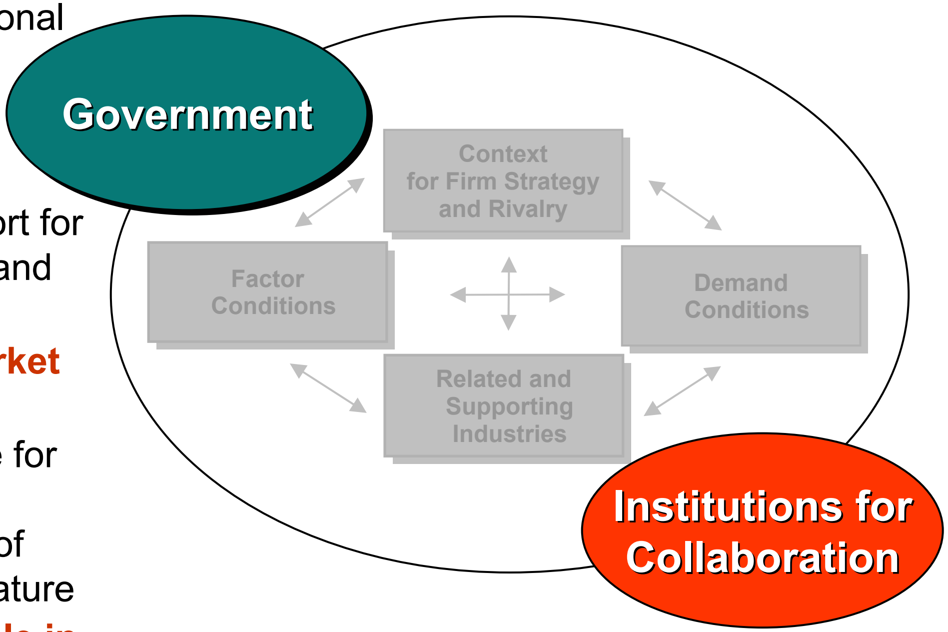
South Carolina Tourism Business Environment
Findings from the Surveys and Interviews (Cont.)

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
- **Historically 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 bold letters illustrate key themes; Dotted boxes indicate potentially leverageable assets
Source: Monitor Competitiveness Survey, Interviews, Monitor Analysis

South Carolina's Hospitality and Tourism Cluster
New Directions

Visitors

Identify attractive segments using key criteria:

- 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 and create assets that set South Carolina apart:

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

Agenda

- Overview of the South Carolina Competitiveness Initiative
- Findings for the State of South Carolina Overall
- Findings and Implications for South Carolina's Tourism Cluster
- **Next Steps for South Carolina**

New Directions for South Carolina

Traditional Strategy		New Directions
• **Create Jobs:** traditional objectives were to create jobs and attract capital investments	→	• **Raise Prosperity:** new objectives should be to raise the prosperity of South Carolinians
• **Low Cost:** South Carolina has competed as a low cost location using: – Tax breaks and incentives; – Abundant labor; and – Good physical infrastructure		• **High Value:** South Carolina must begin to compete by enabling firms to create higher value, which will: – Raise prosperity; *and* – Lead to job creation, and capital investments
• **Recruit Companies:** efforts targeted outside operations based on the number of jobs and size of investments they would bring		• **Build Clusters:** efforts should include: – Upgrading business environment to retain and grow companies; *and* – Recruiting companies based on fit with existing clusters and assets; *and* – Investing in new assets to seed clusters
• **Government in the Driver's Seat:** government has led with effort and skill from the executive branch, and tax incentives and regulatory policy from the legislative branch		• **Public-Private Collaboration:** development should be a collaborative process involving government at multiple levels, as well as firms, teaching and research institutions, and institutions for collaboration

Eight Campaigns to Reach the Economic Vision

To achieve this vision South Carolina should pursue several campaigns, including:

Campaign 1: Activate and Upgrade Clusters

Campaign 2: Continue to Enhance Education and Workforce Training

Campaign 3: Invest in Research and the University System

Campaign 4: Increase Support for Start-ups and Local Firms

Campaign 5: Create an Explicit Economic Development Plan for Distressed Areas

Campaign 6: Create New Institutions to Support Economic Development

Campaign 7: Launch Internal and External Marketing Campaigns

Campaign 8: Measure Progress

An Integrated Process with Multiple Working Committees Accountable for Specific Results

South Carolina Council on Competitiveness

- Co-chaired by Governor Sanford and Ed Sellers
- Executives from business, academia, government (executive and legislative branches)
- About 30–40 individuals

Executive Committee

- Business, academic, and government leaders
- About 10-12 individuals

Coordinating Staff

Supporting Institutions:

- Dept of Commerce
- PBF
- Palmetto Inst
- SCEDA
- SCMA
- SCRA
- Etc.

Working Groups

Campaign 1: Activate Clusters

- Autos
- Chemicals
- Textiles
- Tourism
- Others

Campaign 2: Education / Workforce

Campaign 3: Research / Universities

Campaign 4: Start-ups / Local Firms

Campaign 5: Distressed Areas

Campaign 6: New Institutions

Campaign 7: Marketing Campaigns

Campaign 8: Measure Progress

South Carolina Competitiveness Initiative
Project Overview and Hospitality and Tourism Cluster

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

- PRODUCTIVITY
- ECONOMIC COMPOSITION
- SPECIALIZATION
- STRATEGY

Governor's Conference on Tourism and Travel
Hilton Head, South Carolina
February 4th, 2004