



International  
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# Sun International

## Hotel Chains In South Africa



This case highlights the procurement practices of the Sun International group (SI), a multi-national hotel and casino chain located in South Africa, one of the few countries to have legislation that rewards multi-national enterprises (MNEs) for sourcing from SMEs<sup>1</sup>.

### Background

“Travel and tourism” is often cited as a sector that makes one of the greatest contributions to the world economy. Emerging economies are an important player in this market, as they received 45.3% of all international arrivals in 2014. Tourism, then, is seen as a sector that can effectively contribute to poverty alleviation by maximizing local economic impacts. In many cases, though, a large share of the value added is captured outside the country of destination, as value chains in this sector tend to be global. According to the UNEP, “of each US\$100 spent on a vacation tour by a tourist from a developed country, only around US\$5 actually stays in a developing country destination’s economy”. The best way to increase local benefits by ensuring more money stays in the destination country, then, would be to strengthen local linkages and “incorporate local producers into procurement systems

<sup>1</sup> This paper was prepared for the International Labour Office by Carlo Maria Delù based on a case study by Navas-Aleman & Co (Favre, C. 2016. Good Procurement practices and SMEs in supply chains: Lessons learned from the Sun International hotel chain in South Africa. ILO, Geneva) as part of the ongoing research by the International Labour Office’s SME Unit on the impact of MNE’s procurement practices on developing countries’ SMEs. In addition to the case authors, we would like to thank the concerned companies for their collaboration in the data collection phase. Reference to names of firms, their practices, and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, practice, commercial product or process is not a sign of disapproval.

and local supply chains”.

In some cases, national legislation exists to favor the inclusion on local SMEs in MNE's value chains. In South Africa, the Broad-Based Black Economic Empowerment (B-BBEE) framework rewards Multi-National Enterprises (MNEs) for sourcing from SMEs, in particular Black-owned businesses. Seen as a way to re-establish a fairer society, the framework also contributes to enhancing the reputation of the international groups that adopt it.

Sun International, the multinational analysed in this case study, also participates in the program: the group comprises 13 hotels, three casinos and an online gaming site in South Africa. In all, it owns 27 resorts, luxury hotels and casinos across eight countries in Africa and Latin America, with five partners in three more African countries. In 2015, the chain's turnover reached nearly US\$680 million (US\$62 million in profits), 80% of which was generated in South Africa, with gaming representing 82% of total revenue. Additionally, regarding the race of the shareholders almost 43% are Black, and 12.6% are Black female.



## Strategy

SI's procurement strategy focuses on generating positive impacts in the communities where it operates. In 2015, the group's SME sourcing represents 20% of the total procurement budget. SMEs are contracted to supply food and beverages, operating equipment, operating supplies, maintenance and repair services, soft furnishing and service advice (legal, cleaning, landscape), all of the SMEs are locally-owned companies and the group tries to deal directly with producers (60% of the total SME procurement; the remaining 40% is done via a small number of South African distributors that import foreign goods). The choice to procure from SMEs, especially Black-owned enterprises, is largely influenced by B-BBEE. In fact, the B-BBEE grading legally requires that a business spend 3.5% of its net profit on developing Black suppliers. Doing so lifts SI's rating, enabling the company to win government contracts and, more importantly, retain its gaming license.

In this regard, SI integrated an Enterprise & Supplier Development policy into its procurement strategy, and highlighted it as an underpinning component of its 'sustainable approach', which states that *"all South African business enterprises have an equal obligation to redress the imbalances of the past by facilitating constructive participation by Black South Africans at all levels within the economy"*. Further, SI hired a Supply Development Manager (SDM) to specifically help SMEs gain market access, assist them in developing long-term development

plans with SI, and ensure their sustainability. Beyond the incentives of the B-BBEE grading to sources goods and services from SMEs, the SDM expressed that SI also considers SMEs as offering a higher value-added in terms of what they are ready to provide on top of the product or service they make or sell, even if they are not always as price competitive, and perceives supporting the development of SMEs as critical for the overall growth for the economy.

SI uses four main criteria to assess the suitability of an SME: *right product, right price, right service and B-BBEE compliance*. B-BBEE compliance, price and product quality each account for roughly 30% of the decision-making process, with service only accounting for ten percent. In fact, SMEs get contracted first and foremost if they comply with B-BBEE. The B-BBEE framework, moreover, SI offers the option of sponsoring businesses by offering financial and mentoring support. In that context, SI has a responsibility to ensure that the recipient SMEs develop sustainably, and as such will set up targets over three years, that will be regularly reviewed to track progress to ensure it does not become dependent upon the group.

It should be noted, however, that although certain commodities are contracted by the head office to maintain consistency in branding, SI is largely decentralized, and 80% of purchasing is managed directly by the hotels. Only 330 suppliers out of 6,000 are appointed by the head office to supply all of the group's hotels. In some cases, in fact, the group's priorities can conflict with those of the hotel (e.g. the hotel might want to contract an expensive supplier because it delivers food on time and consistently, whereas the group might think that it is too expensive). This issue affects the tourism sector in general, where the hotel chains tend to have little control over the day-to-day management of the property, as most of their locations are managed under franchising frameworks.

To graduate from simple location supplier (i.e. companies that only sell their goods to a single hotel) to full-fledged chain suppliers (i.e. suppliers that have a direct contract with the head office and provide goods and services to all SI hotels), SMEs rely on recommendation from hotels, as the group rarely publishes tenders.

## SME Suppliers

The input from five different SMEs, varying in size, ownership ethnicity and sex, and years of partnership, is included in this case study. These companies reflect the different ways that suppliers can enter SI's value chain: the first two were contracted directly by one of SI's locations, the Maslow hotel, and only supply this location, whereas the last three thus supply various SI properties, and can thus be called "chain suppliers".

- *Tassy's Caterer* has supplied bar snacks to the Maslow since 2014 and is solely owned by a Black female.
- *Gugu & Daughters Farming* grows and sells fruits and vegetables as well as packages, cleans and cuts according to SI's standards. Today, it makes up 50% of the Maslow's fruit and vegetables supplies. It is a family-run business headed by a Black female, with 12 full-time staff, half of which are also female.
- *Casino Specialized Services* has supplied gaming equipment to SI for a year and a half. It is owned by an Indian couple that employ three additional staff. It was originally contracted by Sun International's Sabbaya Casino but has since become a supplier of the whole hotel chain.
- *DSD Shopfitters* supplies freestanding gaming and bedroom furniture to SI. The business is a white-owned family business of about 80 staff. Originally, the company was contracted directly by the Morula Sun hotel in 1996, but after three years graduated to the role of chain supplier.
- *Rand Data Forms*, one of SI's more long-term suppliers of twenty years, offers printing services, including web, digital, litho, and continuous printing. It is 80% owned by the Black-owned Formeset Group and 20% White-owned, with 16 staff, 40% female. The company has always been a chain supplier, as it was

contracted directly by SI's headquarters.

All of the above-mentioned SMEs reported positive outcomes since integrating into SI supply chain, including job creation, increased revenue (of 300% in one case), and expanded customer bases. Product improvement and a widened range of products were also reported to have helped increase competitiveness. The primary challenges that SMEs face relate to growth and sustainability. In some cases, SMEs cannot expand production at the same pace as the growing demand, resulting in lost opportunities. Accumulating capital and gaining access to loans is a large part of the problem. In some cases, moreover, SI will not grow an SME that they feel is not equipped or ready to cope with a potential surge in business, even if that SME complains, as there are fears that quality would not be maintained. For this reason the SME only receives "chunks" of contracts. This might, in fact, represent a source of potential conflict between the SMEs and Sun International.

## Good Practices

Within SI, as in the case of similar initiatives aiming to integrate responsible tourism as a core business principle, commitment at the executive level is an important driver. However, company commitment is usually triggered by one individual, driven by strong ethical values (to make society a fairer place), and his/her ability to make this agenda relevant for the organisation, as well as the resilience and patience to achieve this goal regardless of the objections encountered along the way. Nevertheless, it is the legislation that provides the main incentive for large companies to adopt a pro-SME procurement policy. Without compliance SI would not be able to operate at its current profit levels, so there are strong pragmatic motives for endorsing such a policy. There are, though, a few indicators of good practices that are worth mentioning:

*Verification of compliance:* MNEs should have in place a system that controls compliance to labour and other legal practices for all suppliers, regardless of size, on a yearly basis, that can be checked sporadically. In South Africa, one SME recommended that such checks should at least include a tax clearance certificate, a workman's compensation and an unemployment fund letter of good standing, to prove the business is compliant.

*Legislative incentives:* Not a best practice for lead firms, but rather for governments. This case demonstrates how legislation can be effective in creating incentives for larger firms to promote social upgrading within their procurement practices. South Africa's enabling legislation is the catalyst to changing traditional procurement patterns on a large scale. Both buyers and suppliers recognize the legislation as an extremely positive framework for promoting inclusive development.

The biggest, potential issue in this procurement practice is the conflict between the head office and the single SI location. On the one hand, the head office is trying to put into practice a new purchasing model, based on small, local businesses. On the other hand, though, for the single hotels it might be easier to source from a more limited number of larger companies, as it would be less time-consuming. Furthermore, the hotel managers, when concentrating on the day-to-day business, might find it hard to understand the stakes linked to the compliance with B-BBEE, and might not have the right incentives to put local sourcing into place.

## Conclusion

Based on this information, and the fact that the procurement practice largely stems from the need to comply with local legislation, in order not to lose an important source of income (gaming), the company can be viewed as a provider of medium support for SMEs suppliers. Concerning the "trinity" of good prices, stable orders, and safe factories, some improvements are still needed. The issue of fair prices is not addressed directly by the procurement practice itself, although the SMEs declared that their revenues increased as a result of being integrated in SI's value chain. Regarding stable orders, some steps are being made in the right direction, as the group is creating a centralized order system to better track the degree of purchasing from SMEs.