

# The macro environment of the tui



TUI illustrates one of the most amazing and successful strategic changes of a firm among the largest European companies . From 1997 to 2003, its management turned one of the oldest steel and mining conglomerates known as pressaug into TUI, the undisputed European leader in the tourism industry -a fast growing but very volatile and competitive industry. Putting a smile on people's faces - was TUI's mission. And this is they have worked for employing 65, 000 people around the world work day after day to create unforgettable holiday experiences for our over 30 million customers.

As an integrated travel group, brands offered by TUI are the complete range of services associated with holiday and travel. Headquartered in Crawley, near Gatwick airport in the UK, company mainly serves the leisure travel customer and is organised and managed through four business sectors: Mainstream, Specialist & Emerging Markets, Activity and Accommodation & Destinations. In the financial year ended 30 September 2008 TUI Travel had revenues of £13. 9bn and an underlying profit before tax of £320m.

According to Phil Kelly (2009), the analysis of the external environment may be described as an external audit. To analyse the macro-environment of the TUI, this report utilises three tools namely; PESTLE analysis, five forces framework and Opportunity and Threat from the SWOT analysis. This report includes only critical issues from the current macro-environment whereas detailed analysis of PESTLE.

## **PESTLE Analysis**

### **Political Environment: These include**

Tax policy: Tourists contribute to sales, profits, jobs, tax revenues, and income in an area. According to (Dye, 1992) the tourism tax policy is to ensure that the nation adopts the “ right” policies to achieve the “ right” goals”. To diversify the currency and geographical risk of the TUI group.

KEY DRIVER'S TO CHANGE - TUI embarked on steady programme of major acquisitions while divesting the noncore businesses. TUI group is also listed on London Stock Exchange. These strategic moves gave TUI group protection from devaluation of the currency and more access to capital market. But this strategy also exposed TUI to the high taxation policies of the developed economies. These high taxes could minimize the profit after tax of TUI.

Political stability: Presently TUI is focussing on the markets of developing economies by using the cash from developed markets. Developing markets have high growth rate but this could be affected by the political instability in developing economies. Political instability in many parts of the world, increased risks of terrorism have a significant adverse impact on TUI Group's financial condition and results of operations. New political crises, terrorist attacks, wars and other hostilities could cause a significant decrease in demand for travel and tourism.

Economical Environment: The most direct effects occur within the primary tourism sectors lodging, restaurants, transportation, amusements, and retail trade. Through secondary effects, tourism affects most sectors of the economy. An economic impact analysis of tourism activity normally focuses

on changes in sales, income, and employment in a region resulting from tourism activity.

**Economic growth:** The importance of channelizing the cash generated from developed markets to innovate new services and to invest it in high growth markets (Ghoshal, 1987). Spending on travel and tourism is discretionary and price sensitive.

**Interest rate:** Many of the tourists prefer to take bank travel loans or holiday loans . so if the bank rates are high then tourist will really think twice before going on holiday this might have a great impact on tourism industry.

**Inflation rate:** TUI customers may reduce or stop their spending on travel or opt for low-cost offers, in particular during periods of economic slowdown. TUI results were negatively affected in 2002 and 2003 by the general economic slowdown in our source markets. Although their tourism business improved considerably in 2004, their future economic downturns may cause significant reductions in demand for travel and tourism.

**Exchange rate:** The exchange rate is commonly considered a determinant in the estimation of tourism demand and it is introduced either as an independent variable or by including it in the relative prices (Crouch, 1994). In this sense, Sinclair and Stabler (1997) argue that tourists consider the exchange rate since they have limited knowledge about relative prices. Thus exchange rate regimes with low uncertainty could promote tourism.

**Socio-cultural Environment:** Social factors include the demographic and cultural aspects of the external microenvironment . These factors affect

customer needs and the size of potential markets . some social factors associated with TUI are as follows Emphasis on safety, Health consciousness and age distribution, Change in lifestyle, Higher life expectancy.

Technological Environment: TUI launched virtual tour operator TOUROPA.COM in Germany selling not only online but through travel agents, television and call centres. Hence TUI became European leader in direct sales of travel product with turnover of € 2. 6 billion.

Environmental: The environmental issue like global warming has led to the environmental protection laws such as carbon emission limits. This law limits the amount of carbon to be emitted by TUI Airlines which could affect the overall customer service in a particular region/country.

Legal Environment: In the European countries in which TUI airlines operate, an air carrier is permitted to operate airline services only if it is majority owned, and effectively controlled, by member states of the European Economic Area (" EEA") or their nationals. The carrier must be able to prove this at any time. Failure to do so may result in withdrawal of, or a refusal to issue, the carrier's operating license or route licenses. Accordingly, TUI must remain majority owned and effectively controlled by EEA member states or their nationals in order for their airlines to maintain their operating and route licenses. In addition, there may be national ownership restrictions applicable to the grant of route licenses to TUI airlines.

PORTER FIVE FORCES FRAMEWORK (also diagram please refer Appendix 3)

Threat of new entrants: Low-cost airlines compete successfully on many routes against TUI charter airlines. For example, established low-cost airlines have gained significant market share on certain flight routes, in particular, routes between the United Kingdom and Spain. In response, TUI had introduced low-cost airline Hapag-Lloyd Express in Germany in December 2002 and introduced TUI low-cost airline Thomsonfly in the United Kingdom in April 2004. If TUI is unable to maintain a competitive cost structure for their airlines as compared to low-cost carriers, their airline and hotel utilization rates could decrease.

Threat of substitutes: The entry of new players in the tourism industry is of very minimal threat to the market share of TUI Group. In developed market these new players are not highly preferred by the customers hence addressing this issue is of least strategic importance for the TUI.

Competitive rivalry for TUI: There is high competition in tourism industry. This competition is fierce not only in developed market but also in developing market where TUI had a started a new cost cutting programme targeting a yearly saving of around €260 million and €100 m for 2004. The implication is to diversify in the world market and in new services to compensate the down trend in developed markets (Dickson, P. & Ginter, J, 1987).

Buyers: Due to high competition in tourism industry, the customers in tourism industry have high bargaining power. High bargaining power of buyer raises the importance of the marketing for TUI to create customer

loyalty and price inelasticity in consumers to maintain high margin of its brands (Miller, D. 1988).

Suppliers: The bargaining power of suppliers is very low because TUI enjoys the benefit of backward integration.

## **Strengths**

TUI already acquired established players

TUI has well established distribution channels.

TUI took several measures to improve customer services

TUI offers wide range of products.

Backward integration because TUI has its own suppliers.

Economies of scale benefits

## **Weakness**

TU I has £900 million share holder loans.

TUI has no cheap accommodations

## **GENERIC STRATEGY – Cost Leadership**

TUI's primary goals is to expand tourism business, grow their container shipping business, complete divestment program and improve financial risk profile.

The business strategy for TUI's tourism division includes the following key elements:

**Expand tourism business.**

TUI intends to capitalize on strong brands and market positions to expand tourism business, both in absolute terms and in terms of market share. TUI's growth strategy reflects belief that the quality of products, the strength of business model and ability to react to new market trends at early stages of development both in existing European source markets and in selected new source markets, such as the emerging markets of Eastern Europe, including Russia, Hungary, Slovenia and Slovakia, and Asia, including China and India. As part of the same strategy, we may divest assets or business units where appropriate returns cannot be earned in the foreseeable future.

**Exploit synergies and cost efficiencies across markets and products.**

TUI intend to take advantage of remaining synergy and efficiency opportunities to further optimize operational procedures and integrate tourism businesses at each stage of the value chain. TUI has started to integrate and optimize their maintenance, administration, IT network management and purchasing functions and have completed this process for their airlines by establishing a centralized airline management to ensure maximum utilization of airlines' capacities.

**Continue to leverage the benefits of integrated business model and wide distribution network.**

TUI intend to continue to develop fully integrated business model to take advantage of new developments in the tourism industry in order to ensure the continued attractiveness of core products and to attain high utilization of own flight and hotel capacity. This strategy helps to maximize the utilization



of own capacity at each stage of the value chain and provides considerable flexibility in making contractual arrangements for additional capacity with third parties. In addition, through TUI's multi-channel distribution network, they are able to initially funnel tourism products into their own tour operators, airlines and hotels and only subsequently into flight and hotel capacity that they purchase from third parties.

### **Identify new trends and exploit developments in the tourism industry.**

The travel and tourism industry is changing rapidly. Recent trends are not only providing travellers new options but also providing industry participants with new opportunities. Recent trends include the growing customer demand for modular products, the growth of low-cost air carriers and the increasing availability of tourism information over the internet. TUI intends to continue to develop business model to take advantage of new developments and to ensure the sustained desirability of their core product offerings.

TUI also intend further to align the activities of their airlines with each other to benefit from the generally high passenger load factors in the charter flight sector and the cost advantages of some of their own airlines. TUI believes that they can promote new products more effectively and profitably than non-integrated competitors through their presence at each stage of the value chain.

VALUE CHAIN (for diagram please refer Appendix 4)

With TUI's fully integrated business model, tourism division operates at all major stages of the tourism value chain:

Retail sales. TUI is the largest distributor of package holidays in Europe based on number of travel agencies, with 3, 399 travel agencies in source markets. They also distribute products through independent travel agencies and direct sales channels, such as internet sites and travel television.

Tour operators. TUI tour operators in Europe sold approximately 18. 4 million travel packages in 2004, approximately seven million of which were sold through their own distribution channels and approximately 11 million through third-party distribution channels.

Air transportation. In 2004, TUI own airlines flew 22. 6 million passengers (based on one-way trips) who had purchased one of their tour packages or flight-only products. TUI flew approximately 65% of package holiday customers on their own airlines, with the remainder flying on third-party airlines. Based on total passenger kilometres flown, their combined aircraft fleet was the fourth largest airline in Europe and the fifteenth largest worldwide (Source: Airline Business, August 2005. The Airline Rankings, Passenger Analysis).

Destination services. TUI destination services are provided by 41 incoming agencies at major destination areas in 25 countries.

Hotels. TUI owned, leased or managed a portfolio of 285 hotels and 162, 800 beds worldwide as of September 30, 2005. At the end of 2004, TUI was the 12th largest hotel chain in the world based on number of hotels and bed capacity. (Source: Hotels Magazine, Industry Survey, July 2005).

## **Future implications of the changing business environment**

General economic and political conditions affecting the tourism industry.

Adverse effects on TUI's business arising from terrorist attacks or the threat of terrorism, outbreak of Diseases and natural catastrophes.

TUI's ability to remain competitive in the markets for their products and services.

Changes in international legal, tax, administrative, regulatory or economic conditions.

Risks associated with TUI's structure, the Bonds and their other indebtedness.

The impact of exchange rate fluctuations.

The impact of TUI's acquisition of CP Ships Limited and the related acquisition financing.

## **Opportunities**

Customer needs are changing

TUI has flexible travel experience with wide range of experience

Expanding the group and creating values through acquisition

## **Threats**

Economic conditions

Restricted capacity management

Own very few budget hotels.

Lower job security.

## **ANSOFF MATRIX**

Market penetration strategy: is the least risky since it leverages many of TUI's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth and exists opportunities to dominate the market if competitors reach capacity limits. However, it has limits, and once the market approaches the saturation stage, another strategy must be pursued to continue expansion.

Consolidation: Consolidation means focussing on current market and current products. There is also mention in the annual report of 2005 to focus on consolidation rather than acquisition and geographic diversification in order to defending market share and downsizing.

Market development options include the pursuit of additional market segments or geographical regions. New market developments for a product may seem to be a good strategy if TUI's core competencies are related more to the specific product than to its experience with a specific market segment. This strategy possesses more risk than the market penetration strategy as TUI expands into a new market. It seems appropriate to adopt this development strategy as it relates TUI's strengths to its specific customers rather than to the specific product itself.

Diversification is the most risky of all the growth strategies since it requires both product and market development activities and may be outside the

core competencies of TUI. Diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. As from the case study in TUI group started a new cost cutting programme targeting around €260 m in 2003 and around €100 m for 2004. Then in april 2004 TUI opened its first low cost travel agency in hamburg germany with Touristik Express to sell low cost holidays. The optimal bases on which segment the market depend on the particular situation are determined by marketing research, market trends, and managerial judgment

### **Limitations to ANSOFF matrix**

Ansoff matrix, particularly focuses on growth which may not be appropriate in some circumstances.

### **Uses and Limitations of Tools Applied**

This analysis is useful in understanding the market growth or decline, business position and direction for TUI (Kotler, P., 1990). The result of the PESTLE analysis can be used to take advantage of the opportunities and to make plans to tackle the threats. It also ensures that TUI's performance is aligned positively with the powerful forces of change (Byars, L., 1992).

### **Uses of PESTEL**

1: Identifying past trend in the macroeconomic variables based on which future trends can be identified.

2: Identify the key scenarios affecting the strategy.

3: Identification of key scenarios help in taking right and informed decision.

4: Effective policy formulation.

However, one of the disadvantages of this analysis arises from the issues of reliability, validity and relevance of the information from the secondary sources. Also the past data and past events has to be checked and be applied to the current business conditions. While considering the disadvantages of the PESTLE analysis, managers should understand that it is just a strategic starting point hence conclusions and findings of this analysis should be tested against the reality.

### **Limitations to PESTEL**

- 1: The variables in this model are highly speculative so analysis of past may not be the indication for future.
- 2: The analysis will be based on predictions so it may not be accurate.
- 3: It is practically difficult to analyse unlimited macro-economic factors.
- 4: It is difficult to identify the level of uncertainty.

### **Limitations to Porter's Five Forces**

The assumption that the organization's own interest comes first for some charitable institutions and government bodies may be incorrect. It assumes that buyers have no greater importance than any other aspect of the micro-environment. But the customer is more important than other aspects of strategy development and is not to be treated as an equal aspect of any analysis. It considers suppliers and buyers as threats to be tackled by the organisations, but some companies such as TUI found it useful to engage in closer co-operation with suppliers; such a strategy may be excluded if they

regarded purely as threats. It ignores human resource aspects of strategy that might connect people to their own and other organisations.

## **Uses of Porters Five Force Analyses**

1: It helps to analyse the dynamics of industries or sector.

2: It helps to analyse the profitability of the industry as a whole. The high level of these forces denotes that industry is highly competitive and may not be attractive to compete in as hyper competition might prevail in the industry.

## **Limitations of Porters Five Force Analyses**

1: Five forces helps in identifying the industry structure but it may not remain fixed, as different strategies might change the structure. The acquisition of competitor might help to reduce the hyper competition and that might in turn increase power over buyers and suppliers.

2: Five force analyses takes into consideration industry as a whole but it does not segregate different segments. The individual analysis of each of the segment can be of much assistance than industry as a whole.

## **Conclusion**

This period of recession and peoples incomes are curtailed . though there is a setback in the growth and profitability there is a tremendous potential in the tourism industry.

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## **Appendix 1**