

The report of hots simulation tourism essay



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The main purpose of this report was to create a marketing strategy to increase the profit of the hotel. The hotel faced some difficulties with their operation and management. In order to improve those problems, the marketing plan needed to be identified and some market strategies should be formulated. The report comprised the marketing strategic plan for five years, which had been created after SWOT analysis. According to the strategies, the marketing plan had be designed an action plan which would specify activities implemented to accomplish the goals of organization. Through identifying and analyzing marketing strategic plan, the hotel could overcome their difficulties more smoothly.

2. 0 Introduction

2. 1 Company Background

The traditional hotel was built in the 1950s and located on the seafront in a town, close to other hotels and a short distance from the main shopping centre and the nearest airport. There were good road, rail and bus links to major cities and other resorts. The hotel had 250 guest rooms with large, comfortable and vary in decorative style and standard. The hotel also provided several leisure facilities, 24 hours front desk, car parking. However, the business experienced its reduction stage by its inappropriate marketing strategy. Moreover, the business was greatly affected by competitive environment and high turnover rate of employee.

2. 2 Competition Information

There were three direct competitions existing in this area and competing for the same market. The Table 2-1 showed the information below.

Table 2-1: General hotel information

Hotel

Star Rating

Rooms

Service

Our Hotel

None

250

A full service restaurant

Pub bar with snack service

A small swimming pool

Car parking

The Palace Hotel

4 Star

150

À la carte Restaurant and Coffee Shop

Two bars

Health Club

Conference and Business Bureau

Car Parking to rear

The Park Hotel

3 Star

200

Restaurant

Bar

Small Health Club

Conference Facilities and Business Services

Ample Car Parking

The Mariner

2 Star

70

Restaurant

Bar

Two Conference Rooms

Car Parking

Source: HOTS background document

Table 2-2: Price information

The Palace Hotel

The Park Hotel

The Mariner

Weekday Room Price

£125. 00

£89. 00

£69. 50

Weekend Room Price

£90. 00

£42. 50

£65. 00

Lunch Price

£33. 00

£25. 00

£19. 75

Dinner Price

£59. 75

£43. 50

£36. 75

Tours Price

£67. 50/person

£46. 25/person

£41. 50/person

Source: HOTS market research

These properties provided similar facilities and service. Furthermore, they also focused on business needs providing conference facilities, and incorporate more leisure facilities than our hotel provided.

2. 3 Aims and Objectives

Aim: The aim of this report was to reduce the level of staff turnover and increase the revenue of hotel.

Objectives

To identify current approaches to reduce staff turnover.

To determine marketing strategy to increase hotel operating margins

To make conclusions and recommendations for further operation.

3. 0 Strategic Planning Process

Olsen (2007) mentioned that in order to create company strategic plan, it was necessary to go through the strategic planning process, including several important steps and activities. Although each company had different situation and challenge, strategic planning mode was appropriate to deal with complex work including forecasting and scheduling (Wheelen and Hunger, 2006). According to the book of Marketing Management, it provided a strategic planning process which consists of several steps such as SWOT analysis, goal and strategy, programme formulation and feedback and control, respectively (Kotler and Keller, 2009). A simplified view of the strategic planning process was shown by the following figure:

Figure 2-1: Strategic planning process within a business unit

Source: Adapted from Kotler and Keller (2009)

3. 1 SWOT Analysis

According to the strategic planning process, in order to analyze the hotel environment, SWOT analysis should be adopted in this report. Glaister and Falshaw (1999) mentioned that SWOT analysis has been ranked as the most frequently used approach for analyzing the environment. The value of SWOT analysis has been promoted because of its effectiveness in identifying the main problems concerning the organization and the simplicity of its execution (Hill and Westbrook, 1997). The main purpose of implementing a SWOT analysis was usually to offer a strategic direction for organization practices (Pickton and Wright, 1998). Moreover, Dyson (2004) claimed that the ability of SWOT analysis to integrate internal and external environments

of an organization allows competitive strategy formulation more easily.

Other benefits of SWOT analysis include its ability to organize information, enhance a manager's understanding of the business and factors affecting its performance, and improve strategic plans for the business (Pickton and Wright, 1998). The following analysis demonstrated the internal strengths and weaknesses of the hotel and the opportunities and threats facing the organization in the external environment.

Table 3-1: SWOT analysis

Strength

Weakness

A short distance from the main shopping centre.

The rooms are large, comfortable and vary in decorative style and standard.

Near airport.

Good road, rail and bus links to major cities and other resorts.

Good conditions on refurbishment of rooms.

Enclosed garden with a small swimming pool.

Old building.

No Leisure Facilities, Business Services, Conference Facilities or Meeting Rooms.

Not have a star rating or AA Diamond rating.

Serious staff turnover problem.

Opportunity

Threat

The local authority decided to offer economic relocation package to small and medium size firms.

The resort had become a popular location for conferences.

Different kinds of popular festivals and well established tourist events were often held in the town.

Convenient transportations.

Too many hotels entered this market.

Source: HOTS background document

3. 2 The Goal of Hotel

After environment analysis, the hotel's goals were set up.

Short-Term Goals

To reduce staff turnover rate.

To increase customer satisfaction.

To achieve lower overall costs than rivals.

To increase public awareness by advertising.

To change the advertising strategies according to the environment changes.

Long-Term Goals

To achieve a bigger market share.

To achieve lower costs relative to competitors.

To achieve a stronger reputation with customers than rivals.

To increase hotel operating margins.

To improve the quality of hotel facilities by doing refurbishments.

To improve the quality of staff services by providing training programs.

Intended Strategy Selection

Because of competitive environment in this area, the hotel should consider strategies for gaining a competitive advantage. This section was going to list several strategies for the hotel to achieve its aim and goals.

4. 1 Competitive Advantage

Due to the high expenditure of hotel, it should apply Porter's generic strategy theory. Porter argued that core capabilities and intangible asset resources could formulate exhilarating competitive advantage for companies (Porter, 1980). Hofer and Schendel (1978) suggested that at the business level, the most vital component of strategy was competitive advantage, which was defined as the unique positions an organization develops vis-a-vis its competitors through its pattern of resource deployment and decisions of scope. Porter introduced three types of generic strategy for creating a defensible position and outperforming competitors in a given industry, included overall cost leadership, differentiation, and focus. After SWOT

analysis and competition information, the hotel should effectively utilize overall cost leadership to create defensible positions against other competitor forces. A cost-leadership strategy could offer the hotel above-average returns because it enables firms to lower prices to match or beat their rivals and still earn profits (Philips, Chang and Buzzell, 1983). Moreover, from the perspective of customers, a cost-based marketing strategy was effective because lower price offerings appeal to customers in competitive environment (Li and Li, 2008). Through the influence on a hotel's competitive advantage, it could allow hotel to reach its goals (Amit, 2006).

4. 2 Promotion

But, how do customers choose the hotel? It was not enough for the hotel to have good products sold at attractive prices. To generate sales and profits, the advantages of products had to be communicated to customers (Sunday and Bayode, 2011). In marketing, this was commonly known as promotion. Utilizing all possible tools for promoting the product and service was known as its promotion mix. Proper implement of promotional mix could increase the market share and improve organisation growth in the face of strong competition. (Sunday and Bayode, 2011) also claimed that the promotion mixes had a stage at which it would be most effective and advertising as well as publicity were usually suitable for all stages. Considering customer requirement in different quarter, advertising and publicity were usually adopted. Through market research, the information regarding seasonal demand and advertising effectiveness were obtained. The advertising campaign was changed which was based on these two pieces of information. When there were high requirements on a particular item, the campaign

would be focused on this particular item in order to draw more public awareness since there were several choices existed in the market. For instance, conference business, meal and liquor would be the hotel main advertisements during from Quarter 1 to Quarter 1 since it was one of the peak periods for business traveler (Figure 4-1).

Figure 4-1: The hotel advertising decisions

Source: Adapted from HOTS simulation

4. 3 Internal Marketing

High employee turnover was one of the most serious phenomena in the hotel. Arnett, Laverie and McLane (2002) pointed out that successful internal marketing strategy could lead to important payoffs for an organization. The value of internal marketing stem included low employee turnover rates, an increase in service quality, and high levels of employee satisfaction. The reduction in employee turnover could decrease the cost of recruiting and training and increase their level of job satisfaction. Furthermore, it also could increase employee satisfaction and motivate staffs to be more engaged and, as a result, they were more likely to take actions that result in improved customer satisfaction and hotel profitability.

4. 4 Employee Training

Employee training also could improve this problem and provide other benefits. The positive relationship among employee training, job satisfaction and intention to stay had been established (Conrade and Woods, 1994; Heskett et al., 1994; Roehl and Swerdlow, 1999). Training had been linked to improve self-esteem, reduce turnover, better product and service

consistency, higher satisfaction of customer, reduce cost of business, and greater job satisfaction (Roehl and Swerdlow, 1999). Through employee training, the hotel could not only build customer satisfaction and loyalty, but increase the impact on profitability and growth, which was created by satisfied, loyal, and productive employees (Chiang, Back and Canter, 2005).

4. 5 Balance Scorecard

Successful performance resulted from goals achievement and strategy implementation (Wu and Hung, 2008). However, the main weaknesses of strategic management practice were usually associated with the stage of implementation. Actually, Mintzberg (1994) asserted that more than half of the strategies formulated by organizations were never actually implemented. Therefore, successful strategy implementation was not only dependent on effective strategy, but also management as well as control systems. Without control systems it was argued strategy implementation would not be implemented successfully. It had been suggested that the framework of performance management such as the Balanced Scorecard could, by forming the basis of strategic control systems and offering an important link between strategy and action, assist companies to accomplish effective strategic implementation.

The Balanced Scorecard took into consideration the vision and strategies of company, focusing on both financial and non-financial performance. It monitored short-term financial performance while also highlighting the benefit of long-term financial metrics and competitiveness (Kaplan and Norton, 1992, 1996, 2001). This strategic control system ensured that the hotel effort put into preparing lengthy and detailed strategic plans was

completely translated into action (Bungay and Goold, 1991). The scorecard measured firm performance across four balanced perspectives: financial, customers, internal business processes, and learning and growth (Atkinson, 2006).

Figure 4-2: The Balanced Scorecard four main perspectives

Source: Adapted from Atkinson (2006)

The Balanced Scorecard could offer specific targets so that the hotel could know what to do (Corboy and O'Corrbui, 1999); could motivate down the line leadership (Beer and Eisenstat, 2000; Alexander, 1985) and could clarify strategic intent into clear managerial actions (Reed and Buckley, 1988). If the Balanced Scorecard was executed completely itself, it could implement management in an evaluation of the strategic strategy and thus avoid planning errors and prevent oversight.

5. 0 Performance Measures

5. 1 Financial Performance

First of all, training cost was one of the important elements for the hotel bankrupt. A wrong decision was made as mentioned. High training cost had been spent in Year 2 because employees always complained such as " The training here is worse than the last place I worked". After increasing this cost, it did not take a turn for the better. Employees still unsatisfied and turnover rate were still high, so several weeks later, the hotel decided to increase the training spending per person, and this action leded high expenditure. The full training spend was shown in Appendix 1. Second, advertising cost was a major expenditure in the hotel. A large amount of <https://assignbuster.com/the-report-of-hots-simulation-tourism-essay/>

money was put into sales and marketing for the purpose of advertising. In low seasons, a cost control was conducted strictly. A cheaper advertising media was preferred rather than posting advertisement in Sunday Newspaper. For example, Local Weekly Newspaper for liquor advertisements was selected as promotion medium during five years. During peak season, more money was allocated in order to increase business traveler awareness. The most effective and efficient medium with higher costs would be chosen, such as Business Press for weekday and weekend room. Final, in the first week of Year5, a negative net income was occurred. The hotel was almost broken and running out of cash since conference facilities were conducted. A great amount of money was put into this facility (Appendix 2). This issue indicated cost control was not well in the hotel.

According to the balance sheets of 5 years, a total current liability fluctuated significantly, but the total asset and the owners' equity of the hotel decreased steadily from year1 to year5. The table of those items was shown down below:

Table 5-1: Annual balance sheet

Year 1

Year 2

Year 3

Year 4

Year 5

Total asset

£3, 611, 471

£3, 125, 194

£2, 568, 502

£1, 883, 081

£1, 011, 426

Total current liabilities

£85, 464

£106, 929

£84, 000

£104, 693

£64, 390

Total owner's equity

£3, 526, 007

£3, 018, 265

£2, 484, 502

£1, 778, 388

£947, 036

Source: Adapted from HOTS simulation report

The Table 5-2 and Figure 5-1 showed that the revenue was declining from year 1 to year 5. It was because after the hotel spent lots of money in the hotel rooms, facilities and promotion tools, customers still unsatisfied the service and usually ignored it. It was hard for the hotel to build up customer loyalty and receive more revenue.

Table 5-2: Annual total revenue

Year 1

Year 2

Year 3

Year 4

Year 5

Total Revenue

£1, 839, 580

£1, 238, 893

£1, 097, 280

£949, 309

£910, 448

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Source: Adapted from HOTS simulation report

Figure 5-1: Annual revenue and profit

Source: Adapted from HOTS simulation report

For net income, due to the increase in cost of sales, marketing, net income was decreased from year 1 to year 5. Moreover, the hotel had built many facilities to fulfill the market demands, a great amount of maintenance fees occurred. It caused a decrease in the hotel net income. It also conveyed that the hotel did not perform as well as previous, the profitability was decreasing.

Table 5-3: Annual net income

Year 1

Year 2

Year 3

Year 4

Year 5

Net Income

£341, 988

£-507, 742

£-487, 182

£-706, 114

£-831, 352

Source: Adapted from HOTS simulation report

In the past 2 years, total room revenue was increased by £189, 910 from year 1 to year 2. It indicated that the hotel could attract more customers successfully. However, between year 3 and year 5 the revenue was decreased (Table 5-4). It conveyed that there were several problems existed such as customer had walked past it but they had never noticed it.

Table 5-4: Annual room revenue

Year 1

Year 2

Year 3

Year 4

Year 5

Total Rooms Revenue

£463, 547

£653, 457

£595, 299

£543, 476

£523, 456

Source: Adapted from HOTS simulation report

F&B department was the second largest revenue generator. It contributed almost 50% of total revenue of the hotel from year 1 to year 5. The table demonstrated a big increase from year 1 to year 2 as cost leadership strategy was adopted in year 1. However, in the following 3 year, no new strategies were applied and F&B department revenue was decreased continually as the same as room department revenue (Table 5-5).

Table 5-5: Annual food and beverage revenue

Year 1

Year 2

Year 3

Year 4

Year 5

Total Food and Beverage Revenue

£349, 009

£542, 118

£459, 638

£365, 980

£348, 745

Source: Adapted from HOTS simulation report

As the Table 5-6 showed, occupancy rate was increased steadily from year 1 to year 5. The occupancy rate was only increased by 11% from year 1 to year 2. Besides, average room rate was decreased slowly from year 1 to year 5 since environment became more competitive. In order to compete with our competitors and increase occupancy rate, declining room rate was a must. Moreover, REVPAR had also increased slowly from £15. 9 to £17. 9, and the main reason was the effect of the competitive environment. What the hotel could do was to adjust the average room rate in order to control the hotel business.

Table 5-6: Annual occupancy rate, average room rate and REVPAR

Year 1

Year 2

Year 3

Year 4

Year 5

Occupancy rate

27. 1%

38. 2%

37. 0%

34. 5%

32. 7%

Average Room Rate

£58. 76

£58. 74

£55. 31

£54. 16

£54. 82

REVPAR

£15. 9

£22. 4

£20. 4

£18. 7

£17. 9

Source: Adapted from HOTS simulation report

5.2 None-Financial Performance

Training was an important section in the hotel operation. Decisions were made according to different periods and market needs to allocate the numbers of staff in each department. And the range between the increase or decrease number of employee was ± 3 . To the payroll of the employee, except the department heads were Brand 2 payments, the others were set as Brand 1. And this strategy was used from the first year to the fifth year. However, in week 62, all Brand 1 payments were changed in to Brand 2 in order to increase the employee satisfaction and reduce staff turnover. Training affected the employee quality in terms of the input of the training cost. Overall the five years operation time, training cost kept increasing each year. The hotel wanted to provide excellent service to their customer by increasing the staff quality. Better qualities of staff and service led to have positive feedbacks from hotel customers such like "Service could not be improved much". Therefore, more positive feedbacks led to greater market awareness and share (Appendix 3).

The hotel had serious staff turnover problems in several years and received not good comments from the customers such as "You never see the same member of staff twice". However, after the hotel implemented the internal marketing and training, the staff turnover rate decreased significantly from 123.8% to 54.2% (Table 5-7).

Table 5-7: Annual staff turnover rate

Year 1

Year 2

Year 3

Year 4

Year 5

Staff Turnover

123.8%

65.0%

76.5%

118.2%

54.2%

Source: Adapted from HOTS simulation report

6.0 Conclusion and Recommendations

After spending 5 years to run the hotel, it was realized that there were many unpredictable incidents coming up, the management-team lacked flexible response to the upcoming challenges. Although the hotel finally bankrupted, the statistics demonstrated that the strategies had ever helped the hotel performance well in Year 2 and earned profit. The hotel market share also increased during a five-year period. Moreover, the management team solved the problem of employee turnover by increasing the training expense and salary. For future action, it suggested that due to the town had become a popular location for conferences, conference room should be built at first rather than the last year. This strategy could attract more businessmen and

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increased hotel competitiveness in this area. Furthermore, building conference room also had another advantage for the hotel, which provided extra facilities for customers to increase their satisfaction.