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Business Analysis and Decision Making in Hospitality Industry

When it comes to discussing the performance of hotels in the hospitality industry over the past two decades, a few words come to mind: competitive advantage, globalization, and business survival. All three aspects of the hotel industry point in one direction i. e. increased competition faced by all hotels. This competition exists for both hotels operating locally only as well as multinational firms looking to expand into different geographic markets. In an improved effort to increase or regain profitability, hotels are looking towards differentiating themselves (Jeffery, Barden, Buckley and Hubbard, 2002). This differentiation could be anything such as creating a more visitor focused package and providing creative value added services.

The author believes that hotels, especially those in the international industry find themselves in a situation otherwise characterized by Charles Darwin for humans. In other words, only the fittest hotels will manage to survive in this industry; and the biggest factor that determines is financial performance. Contrary to the fact that a small hotel, in the UK for example, is preferred or well liked by some or only a few loyal customers, the hotel’s existence ultimately depends on its ability to ensure a high enough occupancy rate.

Financial performance and sustainability are the outward tangible results of a strong performing hotel. However, we wish to examine the role of an overarching aspect behind the key differentiator between good and bad hotel performance i. e. marketing and management. Based on research from various sources (Ward, 1997; Jeffery, Barden, Buckley and Hubbard, 2002) branding has been identified as the key differentiating factor between the success andfailureof hotels in the UK. The UK will be the primary geographic focus in this paper; however, Ingram (1995) argues that the problems faced by hotels are similar and becoming more common all over the world. This assumption will be followed in this paper because much of the articles published in the International Journal of Hotel Management show that hotels are increasing becoming international and that the problems they face are quite similar as well (Ingram, 1995).

The author argues that hotel branding, as a sub theme of marketing and management will ultimately determine the success of any operating hotel in the UK. Also, this argument can be applied to at least, other European countries of equivalent economic and social prosperity. This argument is being based on the research of Trevor Ward (1997) and Jeffery, Barden, Buckley and Hubbard (2002). While the focus of both the papers is quite different, both papers find that branding is the most important success factor for hotels in the industry. This is not to say that environmental factors such as proximity to a major tourist attraction or metropolitan city do not play a role in determining the financial success of a hotel. This is to say that, based on all the aspects that will be covered in this paper, hotels will become profitable and competitive if smart management techniques will be employed, past trends are incorporated in the business plan and possible future uncertainties are taken into account for any hotel. Although HRM and IT are the not the core focus of this paper, the author believes that the two subjects nonetheless can not be ignored. Therefore, their impact on hotel competitiveness and contribution to management objectives will be discussed but not in great detail.

Based on the 15 year UK hotel occupancy analysis by Jeffery, Barden, Buckley and Hubbard (2002), this paper suggests that there is a strong link between the success of a hotel and its occupancy rate over a considerable time period; high performing hotels or those rated as hotels with good management and marketing practices are shown to have a consistently strong or above par occupancy rate compared to other competitors in the locality. The research provided some interesting initial findings; on a basic level, two major segments were identified i. e. the leisure and business market. For both segments, hotels that were successfully able to maintain high occupancy rates possessed a combination of the following qualities:

·         Good location compared to competitors

·         Historic or romantic image

·         Successfully attracted foreign visitors

·         Good conference facilities

·         Wide range of rooms with facilities

·         Central London location

·         Member of a marketing consortium

Also, hotel occupancy showed a great amount of seasonal variation. The business segment generally preferred to use hotels in the mid week whereas the leisure segment showed greatest preference at the end of the week; mostly higher quality hotels with substantial marketing budgets and variable pricing policies were able to successfully attract the leisure segment.

On a more specific level, each hotel with a strong occupancy result was compared to other comparable hotels in terms of size, location, situation/events. These comparisons showed a clear correlation between the success of the hotel and its management practices. Some of the important management implications and practices that were observed in the more successful hotels and found lacking in unsuccessful hotels are as follows:

·         Use of various tools and techniques customized to each segment; Market Intensification or expansion of market segment in which the hotel achieves some success

·         High emphasis on staff service that results in high frequency repeat visits by customers

·         Hotels tried to spread or increase off-season demand by creating special pricing packages

·         Databases were used to target the segmented markets by sending package offers by mail to previous guests

·         Hotels provided the maximum number of booking channels for example, internet booking that was offered by some hotels in the mid 1990s

·         Successful hotels were aware of seasonal and variable trends in occupancy they also had a finely tuned sense of awareness about environmental factors determining these occupancy rates

These findings show what sets apart a successful hotel from other hotels i. e. a keen focus and reliance on marketing techniques. This can be supported by the fact that even though high occupancy hotels may have a combination of qualities as mentioned earlier, what sets the successful hotels from poorly performing ones is the use of segmentation and targeting, highly trained staff and ability to detect and adapt to environmental factors such as the economy or even major international events such as the Olympics.

The use of databases and IT to support the above discussed marketing efforts or Customer Relationship Management (CRM) provides a competitive advantage that can make a difference between a successful and poorly managed hotel. Enterprise Resource Planning software like SAP, for example, provides numerous benefits such as identifying the most profitable segments and even the exact revenue increase due to a decrease or increase in price. Using this information, hotels can more actively pursue this segment i. e. use market intensification. One way of doing this is to provide discounts to these segments that will add greater value to the hotel product and also ensure that the resulting fall in revenue is offset by greater repeat visit by customer or positive word of mouth to other potential customers. These ‘ best’ practices are generally missing from the poorly performing hotels in the UK (Jeffery, Barden, Buckley and Hubbard, 2002). These hotels were found relying on very few marketing tools with no quantifiable results; most resorted to expensive local newspaper advertising but did not have an idea of which specific segments they were targeting. Pricing was also used on ad-hoc basis with no specific strategy in place. Most hotels changed or matched price to those offered by hotels with similar services. There was no initiative or control by management to create special offers for customers; often third parties such as national tour operators negotiated significantly lower prices that increased occupancy but came at the cost of much lower revenue.

CRM can make all the difference between a successful and unsuccessful hotel. John Riddel, Senior VP Pricing at PROS revenue management brings to attention a concept known as price optimization. According to Riddel, “ pricing is currently a commodity type of pricing, where a customer that has stayed 100 nights is quoted the same rate as one that only one night over a peak time(Riddel, quoted by Milla and Shoemaker, 2007).” The point being made here is obvious: any successful hotel must understand CRM; it must understand that profits will not be sustainable until consumer relationships are created and valued. A greater understanding of consumer needs and an ability to provide an exceptional brand experience can undoubtedly sustain a hotel business, even if the the market is extremely competitive.

Another strategic area where the low occupancy hotels were found lacking was that they lacked a clear sense of direction and awareness of theenvironmentand competitive industry. These hotels blamed the receding economy, their locality and price competition by budget hotels as reasons for low occupancy. While these factors may have some weight, they clearly do not provide enough reason to counter the fact that the UK hospitality industry has been in a very stable and growth oriented position since the mid 1990s (Ward, 1997). It becomes clear then that the crucial difference between the successful and unsuccessful hotels is more a case of management and adaptation to the quickly changing and increasingly competitive industry.

The role of marketing has been discussed in great detail; what also needs to be considered is a subset of management i. e. human resource management. The author reflects the argument of Jamal Feerasta (2007), who states that a hotel’s promise is only as good as the people that provide it. In other words, the essence of marketing is lost unless the ‘ people factor’ is clearly understood i. e. people (employees) are the key to upholding the brand image of any hotel. It stands true because the most important aspect of a hotel is the service it provides to its consumers. Watson and Green (1996), develop this argument further by showing that a clear correlation exists between creating a positiveculturevia HRM and its significantly positive impact on success in the hotel industry. Crawford and Hubbard (2007), also show a clear positive impact of goal setting on employee service and performance in hotels. All the above mentioned research on HRM shows how HRM can be instrumental in making any hotel a success along with the use of other key management and marketing efforts (as discussed earlier).

This paper has therefore provided a clear case of what it set out to do i. e. to provide insight into what is the core success factor of hotels in the UK. The decisive role of management and marketing has clearly made a difference in the success of hotels in the UK hospitality industry. Using more examples and research from cases of different countries and hotels and with the inclusion of HRM, CRM and IT to the essential managerial and marketing perspective, this paper adds to the research of Jeffery, Barden, Buckley and Hubbard (2002) that showed that only management and marketing were the key success factors. Concerning HRM, goal setting and other motivational techniques and its precise impact on carrying the brand promise can be an area of further study. Similarly, a greater insight into the shift from revenue management to customer relationship management can again help the hospitality industry to apply these concepts with great success.

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