

Strategic management case study in the hotel industry

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Having experienced the SARS, July 7th, 2005 terrorist attack, and the Bird Flu, which have slowed down the UK economy and had an adverse effect on the hotel industry, there are now clear signs of recovery. This report will first examine the UK hotel market, discuss the major industry players and demonstrate the relative importance of key issues. Furthermore, it will explore the UK consumer trends, present the diversity of backgrounds of investors and provide a future outlook along with a forecast which has been developed to illustrate the industry and the factors affecting TTS development and future.

In conclusion, it will comment on short-term and long-term investment as well as recommending an outcome for the investor. The UK Hotel Sector The current position A hotel, according to the E, is defined as ' a collective accommodation establishment, typified as being arranged in rooms exceeding a nationally specified minimum and as providing common services, including room service'. Generally, the UK definition is made according to the holding of a license to sell liquor. Lawson, 1998) According to the latest preliminary figures from the Watchmakers Survey by Dolomite, the UK hotel industry has proven to be the strongest performer in Europe in the first six months of 2004, with revenue per available room (repay) rising 11 percent against the same period in 2003, resulting from a balanced mix of rising occupancies and average room rates. London, which is the leading performer in the 1.

K, experienced a 6% increase in average room rate year on year. The key players The I-J hotel industry is made up of several key players. Including: *

Boutique Hotels * Mid-range Hotels * Budget Hotels Bed and Breakfast roving
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an exceptional and personalized level accommodation, services and facilities. Mid-range Hotel is a standard room with added facilities, commonly classified with 3 or 4 stars. Budget Hotel is on the whole purpose-built, branded accommodation unit with a minimum of 50 rooms and standard low prices.

Individual units are often known as lodges, inns or – less commonly now – motels. Bed and Breakfast is a private residence, several rooms of which are set aside for overnight guests whose paid accommodations include breakfast. The American Heritage Dictionary of the English Language) The competitive environment There is always strong competition among the key players within the UK Hotel Industry: From the Smith Travel Research where the grand demand for the Residence Inn was at 30% and the supply was only at 8%. TheMarriottPL has developed a new category called “ Residence Inn” to adapt this large market demand.

I-J middle market hotel brand, Thistle, is launching a luxury global sister – Gunman, which is set to spread globally.

In order to grow the brand Thistle intends to upgrade some existing properties in the UK and launch an “ ambitious acquisition strategy” broad. Whitehead has made the decision to reduce their exposure to (and ultimately exit from) the full-service hotels sector where they are the I-J operators of the Marriott brand, due to the low returns from this franchised business. The company also acquired Premier Lodge from Spirit Group for IEE million, and combining Travel Inn and Premier Lodge and marketing them to the I-J consumer under on brand.

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Hilton International has outlined an aggressive e-commerce strategy since 2002 to build a series of Web sites for its largest markets including the I-J, Germany, and Japan.

The effort resulted in the creation of eight localized Web Sites representing seven different languages. Environmental Analysis The main external factors affecting the hotel industry, both now and in the future, are listed below:

Political Disability Discrimination Act - came into force in 2004 meaning that service providers and businesses must take reasonable steps to allow for disabled access.

This particularly effects small business and may have some serious implications for the leisure and tourism industries. Migrant workers - As more countries join the EU, workers from the new countries will help ease staff shortages. Economic Olympic - London has won the competition to host the 2012 Olympic Games, which will boost tourism revenues owing to increased visitor numbers.

London hoteliers have agreed to provide 40, 000 affordable rooms for London 2012.

Euro - Following the government indecision on the Euro, hotels are split on their opinions on joining the single currency, 52% of hoteliers were against adopting Euro. Interest Rates - were at a 40-year low during 2003; however, the Bank of England has slowly increased the rates in order to curb high levels of consumer debt. In May 2004 interest rates rose to 4. 25%, the third rise over the last seven months.

Social The domestic holiday market – The rate has increased in 2003 and 2004, due to apprehensions about traveling abroad during the Iraq War and the natural disasters.

Growth in total expenditure has continued to rise by 16% between 2000 and 2004 but basically only in nominal (not adjusted for inflation) terms. (Detail to see Appendix- Domestic holidays and expenditure by I-J residents, 2000-05) Significant growth in key socio-economic groups – There has been a significant shift over the last few years towards the higher socio-economic groups, suggesting a better-educated and more affluent population, already backed up by rising levels of disposable income which is an advantage to the hotel industry.

Technology The development of various technologies over the last decade has had a significant effect on the way hotels are booked, as well as the facilities that are provided within hotels, such as broadband Internet and digital TV. According to the Minute Report, internet penetration appears to be far from slowing, reaching 57% of the UK population in April 2004, with broadband and interactive digital TV having both online booking systems as well as providing Internet access within their hotels.

Thus, customers have the opportunity to retain their home-from-home comforts, or in the case of business guests, office-from-office facilities and amenities.

(Details see Appendix 2 – the penetration levels of technologies affect the hotel industry) SOOT Analysts Strength * Networks between corporations

encourages travel * Increase in budget airlines * Comprehensive rating system across England, Scotland and Wales * Diversifying service into other income streams. Weakness * Profit has been minimized resulting from 9/11, July 7th terrorist attacks * No control on external factors e. G. FM, CARS, Bird Flu * Unpredictable British weather Opportunities * Growth in domestic travel due to weakening pound against the Euro * Increase room rates to prior of 9/11, July 7th terrorist attacks * More business from people with higher disposable incomes * Expected increase in inbound tourism Visas within 24 hours for Chinese travelers and increase in flights Threats * Always the chance of terrorist attacks such as July 7th 2005 London Bombing * FM, CARS , Bird Flu, etc Iraq war pulled down 2003 profits due to uncertainty of war - The Barriers Entry to the market is High - The Buyers Power are strong - The Suppliers Power are low - The Substitutes Threat are low Therefore, the UK hotels are in low competitive market.

Future Development Profitability gains from rising rates rather than occupancy While hoteliers have held occupancy relatively steady during the downturn by cutting rates in the past, the recently strengthening demand indicates that rates can now be raised. Thus, while hotel revenue figures are likely to see a period of continued growth over the short to medium term, it is likely that this growth will stem from rising room rates while occupancy levels will remain fairly constant.

According to the TRIP Hospitality Consultant's forecast of I-J chain hotel performance that London is going to continue to lead the growth of the hotel industry with revenue increasing by a forecast 22% until 2006 compared to a

9% increase in the provinces. See Appendix 3- TRIP Hospitality Consulting forecasts of UK chain hotel performance, 2004-06) Plantations According to Intel' s Budget Hotels - I-J, Leisure Intelligence, April 2003, the budget tool is predicted to show 40% growth between 2002 and 2007, and will be worth just over £1 billion in 2007. This translates into real growth of 23%, after the effects of inflation over the next five years have been taken into account. However, at the other end of the market strong growth is forecast to continue within the upscale hotel of the hotel industry.

The domestic market is crucial With consumer confidence rebuilding in the I-J, growth within the hotel industry will be sustained by the domestic market, driven by the growth of domestic short breaks. The weakening Pound against the Euro, as well as ongoing fears of global terrorism will help maintain the market.

Consumer Trends economic group and region", May 2004 (Detailed Figures see Appendix 4&5), the consumer trends can be seen as follows: * There are 25% more people go on for leisure trips than business trips. * Men are not only more likely to stay in a hotel on business, but they also show a slightly higher propensity to towards leisure than women. * Business use is dominated by 35-44-year-olds at 19% but leisure use is more evenly spread amongst a wider base of 20-64-year-olds. Respondents from the higher socio-economic groups not surprisingly dominate hotel usage with nearly a quarter of ABS having stayed in a hotel on business over the previous year compared with just 2% of Sees.

ABACI dominance is also prevalent within leisure usage of hotels; however, the disparity between the groups is not as prominent as it is for business use.

Acts of God, such as natural disasters and the spread of contagious diseases, in locations where the business is, manage or franchise significant properties and areas of the world from which it draw a large number of customers can cause a decline in the level of business and leisure travel and reduce the demand for lodging. Wars, terrorist activity, political unrest and other forms of civil strife and geopolitical uncertainty can have a similar effect. Any one or more of the above events may reduce the overall demand for hotel rooms, mishear units and corporate apartments, or limit the prices that the business is able to obtain for them, both of which could adversely affect the revenues.

Conclusion and Recommendation By analyzing the UK hotel sector, its market future development and customer trend, a conclusion can be draw which is as follows: - The market's popularization into the budget sector and market sector for special occasions is expected.

There is rapid growth and gains in market share of the budget hotel sector and this can be explained by the fact that budget hotels give the customer what he/she really operator to charge a reasonable, competitive price. - However, the popularity of boutique and niche hotels highlights the demand for the top end of the market, results from the response from people towards being prepared to pay extra for higher quality, particularly for a special occasion. When investing into a business, investors should not only look at the market demand for that certain type of business, but also need to

investigate into the financial ratios of that business, which would assess the business performance from different aspects.