

# Establishment of tui in european tourism



**ASSIGN  
BUSTER**

TUI is the established market leader in the European tourism industry catering to over 25 source markets globally with a product portfolio of more than successful brands. Since its inception the management has steadily developed a robust business model to pursue its vision of being the market leader in the European tourism market. The business level strategy of the group from its commencement was to acquire operators along the entire supply chain and incorporate all tourism related services under one global umbrella. This innovative strategy enabled TUI to integrate its supply chain, to stream line and harmonise operations, thereby achieving a lower cost base in comparison to its competitors. Backward integration helped TUI develop core competencies which were inimitable by competitors, which enabled it to deliver high quality services to all its target customers. Their ability to deliver services valued by customers at an efficient cost and their strategy of being a one stop shop for all services has facilitated TUI to sustain its leadership in the European tourism industry.

## **INDUSTRY OVERVIEW:**

Tourism is the world's largest industry and one of the most dynamic and fastest growing sectors of the economy of many nations. The potential of tourism as a socio-economic development tool has been acknowledged. In particular, the critical role of tourism in achieving several of the United Nation's Millennium Development Goals, such as poverty alleviation and employment creation opportunities has been stressed (United Nations World Tourism Organisation, 2006 cited in Saffu et al, 2008). The tourism industry in Europe has undergone many fluctuations and periodical variation in the last decade or so. TUI started with a binge of acquisitions to establish itself in

the industry, thereby changing industry dynamics. By this strategy TUI reduced its competition to a meagre three to four major players like Thomas Cook. The introduction of the Dot com companies brought the concept of online booking along with them, consequently forcing major players to adapt, thus making it the most profitable channel of selling in the industry.

### **ENVIRONMENTAL ANALYSIS:**

An environment is what gives an organisation their means of survival. Analysis for business strategy development is done in light of both the external and internal environment.

Source: Adapted from Johnson et al, 2008

### **EXTERNAL ANALYSIS:**

Provides frameworks for analysing factors affecting business at the macro level and which are external to firm.

### **PESTLE ANALYSIS:**

The “ radical and ongoing changes occurring in society create an uncertain environment and have an impact on the functions of the whole organization” (Tsiakkios, 2002). A number of checklists have been developed as ways of cataloguing the vast number of possible issues that might affect an industry. PESTEL analysis is one of them that are merely a framework that categorizes environmental influences as political, economic, socio-cultural, technological, environmental and legal forces. Kotler (1999) claims that PESTEL analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

**Political:**

TUI travel is a leading international leisure travel group, and has 200 brands across the globe, operating in 25 source markets. As the organisation has a presence worldwide, it needs to be aware of the political scenarios and government policies in each of its source markets for sustainable growth.

Tourism being one of the most promising industries in the late nineties underwent a period of flattened growth due to various terror attacks in New York (2001), Djerba (2002), Bali (2003) and Madrid (2004), giving rise to general insecurity and uncertainty among international tourists. Terror attacks are one of the major threats to global tourism and governments around the world should strive to ensure tourist protection and safety for stable tourism revenues

A good prosperous relationship with different tourism boards across target markets has facilitated proper market penetration and has helped TUI achieve sustained market leadership.

The levy of Hotel luxury tax by certain governments like France post 2005 has affected the tourism industry by eating into their margins and increasing their costing structure (Propertywire, 2008).

**Socio-cultural:**

The cultural motives of tourists have been central to their cause since the inception of the industry. The ability to seek and understand new cultures is what has drawn tourists to various landscapes, along with a rapidly increasing appetite for historical sites. Increased life expectancy due to rapid advancement in the medical field has catalysed retired people to tour and

<https://assignbuster.com/establishment-of-tui-in-european-tourism/>

explore new terrains. Increasing participation rates of women have provided a boost to tourism, because two income families have higher discretionary income. The Demographic profile of TUI customers varies from college students to retired individuals. They have customised travel packages for families, individuals and different social groups (As per Exhibit 3).

The economic downturn has had a significant impact on the lifestyles and travelling patterns of people. Due to a lower disposable income and reduced employment, there is a marked change in the selection of holiday package durations. Post recession tourists prefer shorter and cheaper packages to suit their budget constraints. Since the advent of the downturn there is an increasing trend towards domestic travel rather than international excursions. This could result in tourist migration to smaller hotels and lodges (Guardian 2009). Another growing social dimension of tourism is the attraction to terror hit spots like THE WORLD TRADE CENTRE after 9/11 (For further analysis refer to Appendix 1).

### **LIMITATIONS OF PESTEL:**

Although this model gives a useful insight into some of the important functionalities, it has some limitations. PESTLE does not allow you to identify the real strategy. When looking at socio-cultural factors, there are differences in ethnic and social groups, not all groups have the same attitudes and this influences how they view various products and services. Its investigation of forecasting future trends cannot be very accurate.

## **PORTER’S FIVE FORCES:**

In essence, the job of the strategist is to understand competition and cope with it. Yet competition for profits goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants, and substitute products. The extended rivalry that results from all five forces defines an industry’s structure and shapes the nature of competitive interaction within an industry. A healthy industry structure should be as much a competitive concern to strategists as their company’s own position. Understanding industry structure is also essential to effective strategic positioning. As a focused market leader TUI should strive to defend against the competitive forces and shape them in a company’s favour to support overall strategy (Porter, 2008). (For further analysis refer to Appendix 2).

## **LIMITATIONS OF PORTER’S FIVE FORCES:**

Porter’s Five Forces model based originally on the economic situation in the eighties assumes relatively static market structure and hence it is not able to take into account new business models and the dynamism of the industries, such as technological innovations and dynamic market entrants from start-ups that will completely change business models within short times. Therefore, it is not advisable to develop a strategy solely on the basis of Porter’s Model, but to examine it in addition to other strategic frameworks of SWOT and PESTEL analysis.

## **STRATEGIC GROUP ANALYSIS:**

Porter (1979) defined a strategic group as a set of firms within an industry that are similar to one another and different from firms outside the group on <https://assignbuster.com/establishment-of-tui-in-european-tourism/>

one or more key dimensions of their strategy. For Porter, strategic groups are persistent structural features of industries that are bounded by mobility barriers. Mobility barriers (a generalization of the concept of entry barriers) limit entry into the group by retarding imitation (Dranove et al, 1998).

Analysis of the tourism industry on the basis of strategic groups reveals that TUI is a full range service provider on account of its wide product portfolio and global presence. TUI has established a global penetration due to timely mergers and acquisitions aided by backward integration through acquiring its suppliers. TUI has a broad product portfolio encompassing all travel services and endeavours to provide all travel related services under one umbrella.

BROAD

## **PRODUCT RANGE**

NARROW

NARROW

## **GLOBAL RANGE**

BROAD

Source: Adapted from Johnson et al, 2008

## **LIMITATION OF STRATEGIC GROUP ANALYSIS:**

Is a useful strategic tool if the industry is fragmented, rather than when it is concentrated.

**INTERNAL ANALYSIS:**

It deals with analysing the resource base of TUI and how it uses them to develop core competencies and achieve sustainable competitive advantage.

**SWOT ANALYSIS:**

Balamuralikrishna and Dugger (1995), state that SWOT analysis can generally help to portray a strategic organizational situation and to identify what information is needed and what decisions are likely to be made on a personal as well as an organization level (cited in Chermack & Kasshanna, 2007). This tool helps look at the organization's current performance (strengths and weaknesses) and the organization's future (opportunities and threats) by accounting for the factors that exist in the external environment. SWOT is a powerful and sometimes highly successful technique that can be applied to individuals, groups, teams, organizations, or even plans (David, 1997 cited in ibid). Hence, according to SWOT thinking, managers should start by identifying and evaluating those factors that help or hinder the company in reaching its potential (Chandler, 1962 cited in Chermack & Kasshanna, 2007). (For further analysis refer to Appendix 3).

**LIMITATIONS OF SWOT ANALYSIS:**

A number of critics however have claimed that the output from a SWOT analysis is often either trivial or so broad as to be relatively meaningless in the context of making actual marketing decisions. Mintzberg (1990), for example, states that the assessment of strengths and weakness may be unreliable, being bound up with aspirations, biases and hopes.



One of the historical deficiencies of SWOT analysis was the tendency to rely on a very general, categorical assessment of internal capabilities. The resource based view came to exist in part as a remedy to this void in the strategic management field.

Swot analysis is often inconsequential or so broad, that it seems futile in the perspective of making critical strategic decisions.

### **RESOURCE BASED VIEW:**

Strategy has been defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment. Recently there has been a resurgence of interest in the role of the firm's resources as the foundation for firm strategy (Grant, 1991). The resource-based view emphasizes the internal capabilities of the organization in formulating strategy to achieve a sustainable competitive advantage in its markets and industries. Its internal capabilities determine the strategic choices it makes in competing in its external environment (Henry, 2007). Therefore, the RBV emphasises strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximise returns (Fahy, 2000)

Strategic capability of an organisation is the resources and competencies needed for it to survive and compete (Johnson et al, 2008).

Resources: Resources may be thought of as inputs that enable an organization to carry out its activities. They may be threshold or unique.

### **Threshold Resources:**

The resources needed to meet customers minimum requirements and therefore to exist. The threshold tangible resources required by firms like TUI to survive in the tourism industry would be IT Hardware, Financial resources like capital and liquid working capital, human resources and tour operators or agents to service customers and complete the supply chain. The intangible component would pertain to having online booking facilities and human capital with basic industry competence which is imperative in a knowledge driven business.

### **Valuable and Unique Resources:**

According to Barney (1991) a firm's resources can be a source of sustained competitive advantage, when they are rare, valuable, imperfectly imitable and non- substitutable. The tangible unique resources for TUI would be the hotels, low cost airlines, restaurants and various other assets it acquired to integrate its supply chain. The intangible resources would be strong brand loyalty, goodwill in industry on account of responsible tourism and eco friendly tourism and integrated ERP software like CRM to integrate information across the value chain. Tacit knowledge about value chain synergies is an important asset for TUI. Knowledge for achieving operational synergies and providing quality differentiated services provides TUI with the right platform for innovation and sustained competitive advantage.

### **Competencies:**

A competence is the attributes that firms require in order to be able to compete in the marketplace. In this respect, all firms possess competencies. It is a prerequisite for competing within an industry. However, competencies

<https://assignbuster.com/establishment-of-tui-in-european-tourism/>

in themselves do not confer any competitive advantage for the organization (Henry, 2007).

### **Threshold Competencies:**

Competence required by an organisation to compete in a marketplace.

Threshold competencies for the tourism industry would be an efficient and user-friendly online booking facility to service target customers and an effective customer feedback and re-addressable system. Establishing proper links with various service providers in the supply chain is critical for service delivery in the tourism industry. Corporate tie ups with suppliers for package dealers will give customers proper options to choose from.

### **Core Competencies:**

Prahalad and Hamel (1990) argue that the critical task of management is to create an organization capable of creating products which customers need but have not yet even imagined. To achieve this management must successfully operate across organisational boundaries rather than focus on discrete individual strategic business units (SBUs). Thus a core competence or strategic capability can be thought of as a cluster of attributes that an organization possesses which in turn allows it to achieve competitive advantage. It may simply be that the organization has configured its collection of resources in such a way that allows it to compete more successfully. Core competencies derive from the collective learning of individual members within an organization and their ability to work across organizational boundaries (Henry, 2007).

TUI has achieved core competence in providing valued holiday packages at a low cost by integrating its supply chain through backward integration. The way TUI has configured its value chain, and the operational synergies achieved due to it, has enabled them to achieve sustainable competitive advantage. Acquisition of ERP software has facilitated proper information flow through the supply chain of TUI and has helped integrate geographically dispersed information across functional silos. An ERP system helps create a central repository for data storage accessible to all departments at all times, thus enabling cross functional integration and to inter departmental coordination (Davenport 1998). CRM as an ERP module helps gauge customer responsiveness, by tracking consumer buying behaviour through purchase patterns, thereby enabling them to provide customised packages.

## **LIMITATIONS OF RBV**

First, the various contributions lack a single integrating framework.

Second, little effort has been made to develop the practical implications of this theory (Grant, 1991).

## **STRATEGIC CLOCK:**

The strategy clock framework develops and adds to Porter's original model, and consequently some aspects are open to similar criticism. However, it is a more sophisticated approach, which recognises and deals with some of the criticisms of Porter and in particular recognises that in certain circumstances a 'hybrid' combined strategy can be successful (Evans et al, 2003). (For further analysis refer to Appendix 4).

## **LIMITATIONS OF STRATEGIC CLOCK: .**

Contradicts Porter's assumption that no organisation can follow two generic strategies simultaneously, without concrete empirical evidence.

## **VALUE CHAIN ANALYSIS:**

The value chain is a systematic approach to examining the development of competitive advantage. The chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organisation. Value chain analysis can help an institution determine which type of competitive advantage to pursue, and how to pursue it. There are two components of value chain analysis: the industry value chain and the organization's internal value chain. The organisation value chain is split into 'primary activities' and 'support activities' (Porter, 1985).

The primary activities of TUI consist of inbound services provided by the suppliers the hotels, low cost airlines and the restaurants which in this case have been acquired by TUI to integrate its business model. The operations stage deals with assembling these fragmented supplies into consolidated package tours for customer servicing. The outbound logistics of TUI deals with the sourcing the package deals to end users through the use of intermediary channels like the internet, TV stations or the telephone or through middlemen like tour operators or travel agents. The offering is positioned to the intended user through various modes of marketing like online marketing, viral marketing, social marketing or by word of mouth. The after sales support to customer at TUI is provided through call centres and customer addressable modules like CRM.

The secondary activities start with the procurement of inputs through backward integrated supplies. The technology developments for TUI are through the use of internet for booking facilities and CRM for tracking customer buying patterns. The human resource management component deals with identifying unique resources and using them to develop core competencies which are ably supported by the vision statement. The firm infrastructure consists of an internet based business module supported by information systems to aid strategic planning at TUI. (Refer to Appendix 5).

## **HOW TUI ACHIEVED AND MAINTAINED LEADERSHIP:**

TUI's original vision statement incorporated the goal of achieving leadership in the industry, hence the business model and the business level strategy was developed accordingly. Their strategy entailed acquiring established tour operators to operate with a recognised brand, inherit valuable business relationships and gain access to a rich database of customers. TUI developed its strategic capabilities to obtain strategic fit with its vision.

The unique resources were used to maximise on operational synergies achieved due to backward integration of the supply chain and core competence was developed around this framework. An integrated supply chain helped TUI leverage benefits of economies of scale and bring down their overall cost base helped it achieve market leadership. Operational synergies established as a result of integration, facilitated quality service delivery at a low cost, which in turn was inimitable by rival firms like Thomas Cook. Its value chain configuration was built around its unique resources to achieve sustainable competitive advantage, which led to development of a

robust business model. These factors aided by a supportive management helped TUI tide over the downturn with too many adverse affects and helped it sustain its market leadership

## **FUTURE IMPLICATIONS:**

Amalgamation of more countries into the European Union may enhance business prospects for major players like TUI, by simplifying the visa issuance process and by making it more efficient.

The Impact of the imposition of luxury tax for accommodation providers may eat into the margins of small players but may further enhance profitability for major players like TUI by providing opportunities for leveraging economies of scale through backward integration.

The exponential growth of global terrorism would have severe implications on the tourism sector as safety and well being of visitors is one of the key parameters for selection of travel destinations thereby increasing risk component of TUI as a package deal provider

De regulating FDI in tourism by governments of prospering third world countries like China and India provides TUI with opportunities to penetrate further which in turn would enhance their global presence

Fluctuation of frequently traded currencies like Euro and Pound would influence the dynamics of inbound and outbound travel, like a stronger pound would stimulate outbound travel from UK, calling for a change in packages provided by organisations like TUI

Frequent oscillation of fuel prices might affect the margins of TUI adversely and force it to restructure its cost base, consequently increasing product prices.

Post recession well packaged extended luxury tours maybe a lucrative option for TUI as there might be a significant shift in demand patterns facilitated by increased buying power.

Increased threat of pandemics like Swine Flu would affect tourism as a whole and would inhibit further growth of TUI in affected areas

As promoters of responsible tourism TUI could focus on accelerating business growth in underdeveloped countries where tourism is a major contributor to the gross domestic product (GDP)

With a fleet of 150 aircrafts and cruise ships, TUI should look to further reduce its carbon footprints and promote eco friendly tourism

TUI should also look at the extent of water pollution in its accommodation services to contribute towards curbing rising concerns about ecological imbalance and global warming

TUI should look to capitalise on technological innovations like Location based services by incorporating them in their business model to device innovative modes of advertisement, thereby exploiting the first mover advantage

TUI should guard against too many mergers and acquisitions as they will find it difficult to establish further synergies, which may impair their competitive advantage and they should be wary of monopolistic trade practises



TUI should be aware and conscious of competitive cycles to protect new entrants from targeting its softer segments

With an imminent threat of substitutes since the onset of recession, TUI might have to adapt its business model and strategy to sustain its market leadership

The potent threat posed by the emergence of large cap dot com organisations like Expedia may warrant a more focused strategy for every profitable segment

TUI should guard against, major competitors like Thomas Cook trying to replicate its business model and imitate strategy for competitive advantage.

## **CONCLUSION:**

This report analyses the business level strategy followed by TUI to pursue its vision of sustaining market leadership in the tourism industry. Analysis of the strategy followed contingent on three levels of study macro analysis, micro industrial analysis and assessing internal strategic capabilities. It was found that TUI has stronghold in the European Tourism market on account of its dynamic capabilities and core competencies established through operational synergies of its processes. Considering its strategy of backward integration TUI has strived to bring down costs and achieve a sustainable competitive advantage through it. With a robust business model and investment in valuable acquisitions TUI has ridden over the economic downturn to sustain its market leadership in the European tourism industry