

The uk budget hotel sector literature review tourism essay



**ASSIGN
BUSTER**

The negative connotation, which camped in the thoughts of regulars of small-sized commercial hotels, also known as budget hotels, is being substituted by a perceptual experience of affordability, proficiency and decency (Parsons, G., 2008). The swift shifting market changing aspects has positively affected the budget hotels fragment. This can be observed from the elation amongst local and international hospitality operators of budget hotels. There is a well-defined shape of evolving European vacationer over the direction the hospitality industry is taking (Solomon, M. R., 1992). Budget hotels are in the progression of being redefined with novel models, innovations as well as strategies. With converting mentality of customers and operators, modern-day budget hotels have fully taken a U-turn with unhesitating contrast. Being at a time when mini-full service hotels are acknowledged as business class, budget hotels have a healthy future.

Budget hotels are compacted with simple facilities for apprehensive business travelers, hence targeting a precise market division of middle-rank business executives and price-sensitive corporate. Competitive hospitality entities are sensibly priced while having good service, style, and ambiance, and they manifest professionalism (Deloitte, 2004). A very high growth for budget hotels is envisioned, however the situation would be shrank due to deficit in supply of professional human capital. Nevertheless the encounters lay ahead need to be assumed as the spirit to test and the zeal to outshine continue.

The UK Budget Hotel Sector

In the UK, the budget hotel sector is at a point of exponential growth (McCaskey D., 2000). The branded budget hotel market remains to be controlled by hardly two heavy players. This is in reference to a new study by <https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

TRI Hospitality Consulting. Table 1 below from Budget Hotels 2010 UK show that the leading brand, Premier Inn, owned 41, 511 rooms by the end of 2009, earning it a market share of about 38%; The closest contender to Premier Inn was Travelodge, having 27, 010 rooms by the close of 2009, earning Travelodge a market share of almost 25%. Premier Inn and Travelodge therefore control over two thirds of the budget hotel brands market in the United Kingdom.

Table 1 UK Leading Budget Hotels Operators Source: Budget Hotels 2010 UK

Brand

Number of Hotels

Number of rooms

Premier Inn

582

41 511

Travelodge

377

27 010

Holiday Inn Express

109

12 464

Ibis

53

7 173

Jury's Inn

23

5 828

Innkeeper's Lodge

91

2 652

Etap

17

2 212

Ramada Encore

16

1 947

Days In

30

1 834

Day Hotel

12

1 562

The branded budget sector in the United Kingdom is centered in just a couple of companies. However, the competition keeps on to fly high in the general hotel industry as the budget hotels take over the mid-market hotels and boardinghouses. Jonathan Langston, the managing director of TRI Hospitality Consulting agrees with this observation (Parsons, G. 2008). After 1993, the count of rooms in budget hotel in the United Kingdom has risen by more than 10 times from 10, 555 rooms in 1993 to 109, 528 rooms at the close of 2009. Although Premier Inn and Travelodge control the branded budget market, many new brands have been coming up into the sector (Tri Hospitality Consulting, 2010). The most fortunate competitor to Premier Inn and Travelodge has been Holiday Inn Express which currently runs 109 hotels having 12, 464 rooms (Tri Hospitality Consulting, 2010). However, this is less than 50% of the Travelodge's number of rooms, and less than 30% of Premier Inn.

Recession Impacts on the Budget Hotel Sector

The new study, done by HotStats and issued by industry newsletter Hotel Analyst, as well makes it clear that while robust, the budget hotel sector has not remained unhurt by the economic downturn. Throughout 2009, returns per available room went down by 9. 1%, with tenancy falling by 5. 9% points

<https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

to 67.8% and rate holding up better with a decline of 1.1% to £50.97. The effect of recession on the budget hotel sector was confirmed by Jonathan Langston when he said, "The budget hotel market has truly been the hotel industry's success story of the last decade. While trading has suffered in the recession, new hotels are continuing to open, reflecting the long term viability of the segment," (TRI Hospitality Consulting, 2010, Pp. 1).

The Budget Hotel Market Environment

The UK Budget hotel sphere began in 1985 with the inaugural of the Ibis at Heathrow, as well as Little Chef Travel Lodge. Ten years later, there were about 400 budget hotels having 28,500 rooms in total. As already mentioned in this paper, the budget hotel sector is exponentially growing, becoming increasingly swift; Merrill Lynch forecast the budget hotel rooms to increase from 40,000 in 1999 to 80,000 in 2003 taking a 20% share of the UK hotel market (Deloitte, 2004).

An exploration study by the Henley Centre (2000) Leisure in the New Millennium staged to the Joint Hospitality Industry Congress (JHIC) demonstrated that development in real disposable income was increasing demand. This unrestricted spend had been arising at 2.6% since 1995 and was visualized to speed up its rate of growth to 3.7% Compound Annual Growth Rate by 2005. Leisure consumption was shifting from being looked upon as a luxury to becoming a necessity, in fact, almost an elementary human right. The effect of individuals seeing leisure as part of their run-of-the-mill running expenses should be to cut down the industry's cyclicity. Afore the budget hotel industry's historical perspective as suffering from a

hyperbolized cycle, the realism is that this industry has developed at a similar rate as the GDP since 1993 (McCaskey D., 2000).

There is a lot of evidence to demonstrate that every night budget hotels in the UK growingly affranchise the population into budget hotel use. This must be a wanted shift from the 1960s the time at which fewer than 5% of the population in the UK stayed in UK hotels, to the rates experienced today 21st Century, when more that 50% of the UK's population are active hotel users. Arguably, McDonalds was a chief accelerator in stimulating the development of the UK eating-out market. McDonalds got rid of many of the roadblocks or inhibitions to hotel usage. Several strategic success reasons behind McDonalds's QSCV (Quality, Service, Cleanliness and Value) are very relevant to budget hotels. To protect its name that could be taken advantage of, McDonalds's attorneys had to deter one business from brand-marking its hotel product McSleep (McCaskey D., 2000).

With 80, 000 rooms and 80% tenancy rate, approximations point that, budget hotels will accommodate more than 23, 000, 000 room-nights per year; in other words over 55% of an entire UK PLC demand. Kleinwort, B. (1996) figures demonstrate that back in 1995, UK PLC hotels gave 31. 35 million room nights on sale. Accordingly, these newly lodge formats having low cost base have become a major challenge to two-thirds of the star conventional hotels which incline to having comparatively high costs reinforced into their operations and per se, lack the plasticity to elevate their operation to four-star levels, or to reduce costs to empower them to tie lodge prices. McCaskey, D. (2000) depicted budget hotels as a more and more hungry Pac Man as they cut a strip through the current industry.
<https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

Similar volatile increase in lodge facility in the United States from the mid '60s to the late '70s left many of the US's distracted mid-market hotels in confusion. In the air, Governmental deregulation engendered the development of low cost airlines, a move that served to give rise to the speedy end of Pan Am and TWA. Deregulation is at present in full spate in the United Kingdom and Europe with a radical diminishing effect on costs and subsequent revenues in both airline and hotel industries. In the United States, the waysides and conurbation are now full of supererogatory and peripheral lodge properties constructed all through their boom years while some companies such as Red Roof Inns and La Quinta still record continuing success every year (McCaskey, D., 2000).

The Battle for Market Share

The budget hotel market has all the features of the growth phase in the product/service life cycle, making it an apotheosis. The marketing processes commonly associated with the growth phase are:

The approaches which promote resilient brand loyalty;

The approaches which reinforce market share:

The approaches which improve a competitive status and underline the differentiated benefits.

The marketing activities of Travel Inn brand, owned by Whitbread Hotel Company, stand out to clearly exemplify the above three. Travel Inn brand has been so orchestrated to cut down the risk of a negative client experience and has built a lasting value. Travel Inn conforms to all the standards for

classification as a Leadership Brand, ranked beside other brands including Coca-Cola, Volvo, Disney, as well as Tesco. In other words, Travel Inn and the other four live a sort of Total Brand Management lacking in other organizations. Other budget hotels also need to pursue similar status. The exemplified companies and Travel Inn have a tenacity that communicates all that they do for everybody to know what they can best do for the brand. To affirm this take, Travel Inn competitive advantages have been examined using the 'Seven Characteristics of Leadership Brands' model (Tilley, C., 1999). The Seven are the common elements to be found in all leading brands; they are the ways by which brands regularly and consistently bear their promise.

Travel Inn is the prominent market leader in the mushrooming budget hotel industry; attaining 86% room tenancy, across its 250 outlets, noting that every newly opened Travel Inn operates for about three years before it gains about maximum penetration in its home-grown area. This dilutes Travel Inn's general mean group occupancy. This budget hotel takes another three years to build its regular clientele base. Accordingly, Alan Parker's, Hotel Company's M. D. (Parker, A., 2000) argument that a great number of Travel Inns invariably performed at mid-90% tenancy, can be said of being bold as well as true.

It is evident that Travel Inn is doing what others are not doing in order to successfully remain competent. For instance in 1999, Travel Inn recorded a staggering 78% repeat occupation. Further analysis of Travel Inn's figures staged that 77% of its customers stayed doubly or more throughout a year.

In the meantime, 33% of the budget hotel's customers stayed over 21 nights
<https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

per annum year while more than 15, 000 stayed every single night (Tri Hospitality Consulting, 2010). In contrast to other UK budget hotels, Travel Inn finds another competitive advantage on booking; Travel Inn has a system by which its regular customers are able to book further and further beforehand to secure their spaces.

Competitive Advantage

Success factors held by one budget hotel can be adopted by another. Travel Inn does a number of things that place it at a better place to successfully compete in the market. In reference to Travel Inn, the following strategies have been found to help budget hotels in competing successfully for market share:

1. Competitive budget hotels influence the conducts of their clients instead of following conventions and markets; they create customers.

It is a practice and tradition in the hotel sector to come up a sophisticated rate of discounts. These discounts may be related to the volume of business and booking period among others. This strategy is meant to maintain and generate demand to make the most of tenancy and price. However, some budget hotels run without these incentives abs they still make it in competitive business. This could imply that there are factors other than this that place such brands on a competitive edge. For instance, Travel Inn does not offer such discounts; it neither pays travel agent commissions. As much as these are revolutionary departures from the budget hotel industry norm, Travel Inn still out-performs the occupation averages for the budget hotel

sector. Travel Inn's AARR (average achieved room rate) without discounts is the chain's rack rate.

2. Competitive budget hotels efficaciously make a meaning that is more than just a function of the product or service. The best meanings are grounded on profoundly felt human needs.

A research report on June 29, 2009 by Guy Parson, the Director of Marketing at Travel Inn, indicated that Travel Inn was more welcoming compared to Holiday Inn Express or Travel Lodge. The report also confirmed the speculations that Travel Inn was the first option in cheap accommodation. Very encouraging client gratification surveys as well as mystery shopping rates were being attained throughout Travel Inn and were invariably supervised. From this quantitative and qualitative research it was learnt that clients truly enjoyed their Travel Inn rooms that were new and lively (Parsons, G., 1999).

Travel Inn has a compulsory total renovation after every three years, up to and including the bed. Evidently, there are other budget hotels which are riding on a similar competitive edge. For instance, on September 10, 2009, David Michels (2000) gave a brief biography in which he stated that among his first undertakings immediately after taking over as Chief Executive of the tumultuous Stakis Hotel Group was to make a request to a bank to enable him to buy 4, 000 new beds for the hotel. Michels, D., (2000) acknowledged that the move helped Stakis recuperate. Michels said, " We are after all in the sleep business, it would seem that one of the major components in making this a pleasurable experience is frequently ignored" (Michels, D., Pp.

3). From this proceeding, Paul Slattery's (1995) analysis established that the gap between UK hotels PLC and unquoted firms is daily broadening while the tormenting multitudes of independent budget hotels deteriorate into slums.

How Budget Hotels Achieve Competitive Advantage

Still using Travel Inn as an example, this paper now focuses on how the most successful budget hotels in the UK have achieved a competitive edge.

1. Leadership budget hotel brands stand for meaning everything that they do

According to McCaskey, D. (1999), the Travel Inn line of attack in relation to pricing is totally ethical. Leadership budget hotel brands take a pluralist line, such as an impression that a company's performance ought to be looked at in a much more pluralistic manner than just by the bottom line. Such budget hotels frequently go beyond the minimal demands of Corporate Governance. These budget hotels' policy is an example of good practice. Given tenancy figures and the significant amount of deflected demand, Whitbread could maximize its price easily. Notwithstanding, Whitbread stands for the prices which are conventional, competitive, widespread, logical and fair, which makes it to easily communicate the prices throughout its affiliates.

There are only three classes of prices in the UK budget hotel industry; Roadside, Metro (in City Centre) and Capital (in London). However, leadership budget hotel brands carry out price research to insure that the prices are in line with customer value. It is believed that many of Whitbread's contenders simply follow Whitbread's lead. Though the pricing warfare has for a long time successfully invaded the unjust pricing in retail banking, super-marketing and automobile distribution, there are however too many

<https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

doubtful practices in the UK's budget hotel industry (McCaskey, D., 1999).

These questionable traditions comprise of:

Hyperbolic rack rates;

' Bait and Switch' publicizing promotions;

Single-room supplements, and;

' Over-Riding Commissions' (kick-backs given to agents/ middlemen and their staff.

Given the present-day consumer rights desired order of business, the four questionable practices will unavoidably be disclosed.

2. Leadership budget hotel brands are steady and expressive in every facet of their communication

This strategy ensures understanding. Whitbread's recent innovational TV promotion fully conforms to this approach. A reexamination study staged in April 2000 affirmed that the purposes set for this TV commercial were outmatched. The research's outcomes demonstrated that:

"- Spontaneous awareness had risen from 12% in April 1999 to 26% in May 2000.

- Prompted awareness had risen from 67% in April 1999 to 82% in May 2000.

- New logo recognition rose from 17% in April 1999 to 51% in May 2000.

- Over the campaign period, there was a 16.5% increase in Central Reservation calls

- Over the year there had been a 99% increase in e-mail requests and a 900% increase in Web Site visitors. The site should take interactive bookings shortly.”

(Whitbread Marketing Department August, 2000, Pp. 12)

The Whitbread’s staff handbook on the other hand captures the effect of the brand which is apportioned among team players. These foreshortened extracts from Whitbread’s staff handbook are a model of what ought to be carried out by other UK budget hotels. The book states:

- Dare to care;

Budget hotel staffs need to show considerateness, regard client as special so as to ensure that the brand transcends what is expected.

- Keep it simple;

Budget hotel staffs should not over-complicate matters; Whitbread’s staff are informed that being informal helps them to communicate crush barriers.

- Right first time;

Budget hotel staffs ought to be passionate about the industry standards.

The then Whitbread’s CEO David Thomas (2000) got this Right First Time attribute right with an instance serving as a lesson for the budget hotel

sector. Mr. Thomas said that Most of the budget hotel sector needs continuous investment in people. He said, “ This is an area where I believe we most frequently shoot ourselves in the foot. Putting a raw recruit with little or no training and, no experience, in front of a customer is unforgivable. In the end this is the most expensive option to take - because we then have to find more raw recruits and more customers, because the experience demeans them both,” (Thomas, D., 2000, Pp. 7). Thomas (2000) continued to say that by the budget hotels industry standards, Whitbread had comparatively a low staff turnover.

According to Mr. Thomas, the investment of budget hotels in training and improvement, and competitive pay and considerations, are critical factors in the future of the budget hotel industry. These tools of the trade, Mr. Thomas said, shape the future of this industry.

3. Leadership budget hotel brands are dynamic, invariably adopting to meet new demands and remain pertinent

In a 1998 brand re-launch, Project Catapult, Guy Parsons (1999) clearly redefined the brand proposition. In his speech, Parsons suggested a number of things that ought to be done by UK budget hotels that wish to have a sharp competitive edge. Parsons proposed that UK budget hotels need to have a constant dialogue between the hotel and its customers. A succeeding UK budget hotel in terms of competitive edge should have the following characteristics:

It should fit its general mission statement;

It should be grounded in fact, and there should be evidence to support it;

It should have a good tonal fit in line with the most recent research findings;

It should suggest the audaciousness and confidence of being a market leader

It should state its attention for internal motivation

It should state its clear focus concerning communication

It should bear in mind that price is not the center though value should still be

The UK budget hotel according to Parsons, G. (1999) should use the above measures to draw their competitive strategies.

Budget Hotels' Societal Roles to Achieve Competitive Advantage

Leadership Budget Hotel brands have social responsibilities

According to Whitbread's Chief Executive, David Thomas (2000), during The Joint Hospitality Industry Congress at the Gloucester Millennium Hotel, leadership brands hold beliefs, positions and, conduct which earn the respect of the people outside the brand. A few years before 2000, Travel Inn had been criticized by some players in the budget hotel industry, and by a good number of city market analysts, for missing the chance of making short-term profits in Travel Inn. The analysts attributed the cause to having one national price that Travel Inn applied each throughout the week. After Travel Inn sharpened its strategies, Travel Inn it has since developed to become among the UK's biggest branded hotel chains having 250 hotels and 12, 500 rooms.

As tabled earlier on this paper, Travel Inn's tenancy is increasing across the <https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

brand relative to its returns. Thomas bases Travel Inn's success on a win-win approach between the brand and its clients.

2. Budget Hotel brands' leadership is earned not given

Leadership budget hotel brands percolate the whole establishment; they are not merely the organization's label. Leadership budget hotel brands serve as a living model of how well to carry on, what activity to do to achieve the best, and how to perform into the future. Other UK budget hotel brands need to realize the groundbreaking and innovative strategies developed by Whitbread. In its inauguration, Travel Inn yipped that it was set to start up a totally innovational and path-breaking scheme which would play a role in further differentiating it, give its brand the first mover status as well as maintain its intention as The UK's Favorite place to Stay. Successfully, Travel Inn has lived to live its initiation dream. This thus serves as an example to other UK budget hotel brands; they should set their own societal goals, live by them so as to place them in a better competitive position (Parsons, G., 1999).

The Future for the UK Budget Hotel Sector

Mr. Robert C. Hazard, President Choice Hotels, in the year 1994 was quoted saying, " the period 2000-2010 will be the most competitive in the history of the UK Budget Hotel industry..... every lodge must become more market driven, improving its product to create a unique, sustainable competitive advantage and a perception of greater value amongst its guests" (Porter, M., 1996, Pp. 61). Porter argued that strategic advantage may be earned via uniqueness. He said, " A company can only outperform rivals if it can

establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at lower cost or do both" (Porter, M., 1996, Pp. 67). Porter also acknowledges that through differentiation, arithmetical productivity leads to superior measure and lets a company to charge even higher normal prices per units. It also makes a company get more efficient results even in lower than normal costs per unit and all this enable a company to achieve a virtuous circle.

Today, the quick development stage in lodging services decelerates as the market attains full development and becomes concentrated. Predictions place this development at an infiltration that is approximately between 20% and 25% in the hotel market in United Kingdom. The predictions have mentioned important presence in the developments at the waysides, in the outskirts, in inner-cities and also in London. The hotel market in UK will be noticeably defined by price and quality groupings, from the super- budget to upper-market economic systems. Most hotels that will be the mid-market contributors in the current cluster include, Holiday Inn Express, Premier Lodge, Travel Inn and Travel Lodge. These hotels are expected to have realized their strategic and network aspirations and to have also settled most present matters such as the telephone facilities in the hotel bedrooms, the extra conference and meeting rooms. These improvements should be carefully examined so as to meet the actual customer prerequisites.

Increment in competition is expected over the years and growth in supply is also expected to surpass the growth in demand. The stronger players are gradually expected to battle one another instead of just taking business from the lesser participants as presently (Pricewaterhouse, 2010). In 1998, the <https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

Vice President of Holiday Inn Express, Mr. Shane Harris remarked that, “ The budget sector is over supplied with non-branded, poor quality, inconsistent hotels. These will be overtaken by the branded budgets which are currently undersupplied,” (Harris, S., 1998, Pp. 21). The renowned betting and control organization, Pricewaterhouse Coopers recognize Brands as the large components of an organization’s incorporeal worth (July 2000).

Pricewaterhouse Coopers also influence brands capability to improve stakeholder worth with trademark tactics in formulating competitive benefit. The trademarking idea has changed from product advertising to service advertising. Corporate brands should steadily mirror the capabilities of the particular organization.

Table 2 Literature Review Matrix

Author/Focus

Industry

Recession

Environ

Share

Advantage

Strategy

Social

Future

Deloitte

Kleinwort, B

<https://assignbuster.com/the-uk-budget-hotel-sector-literature-review-tourism-essay/>

McCaskey

Michels

Parker, A.

Parsons, G.

Porter, M.

Pricewaterhouse

Slattery, P.

Solomon, M

Tilley, C.

THC

Whitbread