

Recession in the hotel industry



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A marketing environment comprises of macro and micro elements.

Marketers should consider both internal and external environments to understand the whole of the market in which they want to sell their products or services (Masterson and Pickton, 2004).

Normally, in a time of recession, customers do not spend too much money on overseas holidays (Mintel, 2009), because they see them as a luxuries. One could expect, therefore, customers would prefer take short city breaks or a domestic holiday. Businessman also may choose budget priced accommodation for their business trips.

Moreover, consumer-spending power has diminished, as they have had to 'draw-in' their purse strings, although levels of personal disposable income have been maintained to a degree because of historically low interest rates. Mintel(2010) estimates that personal disposable income stagnated between 2004 and 2009. The hotel industry has been notably affected by the recession.

Environment analysis using such models as, PRESTCOM, Porter's Five Forces, SWOT Analysis and Segmentation can be used to examine the effect of the recession upon the hotel industry and for this reason models will be used in this report.

2. 1. 1 POLITICAL

Up to 1978, the hotel industry developed rapidly but after that date, the economy increasingly became market-oriented. This improvement created a much better environment for the industry in which to develop (Hornsby, 1990).

According to Kotler (1996), the political environment strongly affects the hospitality industry. The political environment is comprised of laws, government agencies and pressure groups that influence and limit the activities of various organisations and individuals in society.

Furthermore, the EU has proposed plans to sponsor holidays for individuals who do not have enough money to travel. According to Travel Weekly (2010), these plans assist many customers with financial problems to have a holiday. For example, young persons aged from 18 to 25, disabled people and pensioners, etc. The idea to help these people travel was put forward by Antonio Tajani, the EU Commissioner for Enterprise and Industry, who declared that a holiday is a human right.

Therefore, this proposal could actually stimulate consumption and offer individuals more opportunities to have holidays. Perhaps this might be good news for the hotel industry during the recession.

2. 1. 2 REGULATORY

An environment that is regulated protects companies from each other. While most businesses praise the virtues of competition, they try to counteract it when it affects them. Another way is try to restrict a company's unfair dealings and illegal transactions. Furthermore, regulation also aims to protect consumers from unfair business practices. If unregulated, firms might provide unsafe, low quality products, poor services, be untruthful in their advertising or deceive through packaging and pricing.

VisitBritain, the body, which aims to promote UK tourism, has launched a £6.5 million advertising campaign outside the UK to promote the affordability of <https://assignbuster.com/recession-in-the-hotel-industry/>

Britain as a destination. However, it calls for this investment to be matched by the UK government have so far been unsuccessful (Intel, 2009).

Moreover, hotel and restaurant taxes have become a popular source of revenue for local government. Hotel taxes are supposed to be used to support tourism; however, how this money is spent has been subject to liberal interpretation. Therefore, hotel managers should make sure that these taxes, which are designated to promote tourism, are used properly and effectively.

2. 1. 3 ECONOMIC FACTORS

One factor that complicates the situation is the weakness of the pound against the Euro and Dollar. Sterling has lost value rapidly over the last year. In July 2008, one pound would still buy \$2 but by November 2008, it was worth only \$1. 48, the lowest level for 6 years. Similarly, at one point the pound was almost equal in value to one Euro. While this is bad news for people buying goods or travelling outside the UK, it also means that UK goods and services become more attractively priced from the point of view of Euro Zone or USA travellers (O'Grady, 2008)

The economical environment is comprised of the following factors:

Wage inflation: During a recession wages might increase. It is depends upon decisions to cut or increase wages that are made by employers. Therefore, hotel managers should pay more attention to income distribution as well as average earnings.

Price inflation: In a recession, if the economy declines then commodity prices will rise. This factor will influence the decisions customers make whether to travel or not.

Gross domestic product per capita (GDP): The most important economic factors are customer's purchasing powers and spending patterns. GDP can indicate the magnitude of these factors, because total purchasing power depends on current incomes, prices, savings and credit. Hotel managers, therefore, must be aware of major trends in income and changing consumer-spending patterns.

Exchange rates: The UK economy has weakened, the value of the pound against the Euro has decreased and therefore, customers might choose domestic tourism for their holidays.

Even during a recession, customers still holiday but prefer to take short breaks to reward themselves. Mintel's Annual Survey of Spending Priorities in 2009 showed that holidays remain the leading concern for consumers, despite the recession.

Furthermore, all other leading consumer priorities showed little change compared to pre-recessionary times.

Specifically, hotels in the UK appear relatively cheap since the fall in the value of sterling and hence more attractive to inbound travellers and tourists. At the same time, this means it is less attractive for UK holidaymakers to travel to the Euro Zone or USA and more attractive to stay at home.

2. 1. 4 SOCIAL FACTORS

The age profile of the UK population is increasing. Furthermore, Mintel's (2009) exclusive consumer research reveals that older adult usage of budget hotels is slightly below the national average; however, it is somewhat more than for young people.

However, even during the recession, some people remain unaffected and they still stay in luxury hotels, such as, the Ritz or the Hilton. They do not care about the cost because they lead a luxurious lifestyle. Although these people have not changed their pattern of consumption, however, most customers will be affected by the recession and they might prefer to choose budget and not mid-range hotels when they travel.

2. 1. 5 TECHNOLOGICAL FACTORS

Technology has significantly affected the hotel industry in many ways, for example, Travelodge launched a free iPhone application that allows users to locate their five nearest Travelodges by GPS. They can see the availability, prices and book rooms. Moreover, customers can reserve their accommodation or check-in by via internet. In addition, they can obtain information via new platforms, such as, Facebook or Twitter. These and other technological advances help companies to become more effective in the marketplace, however, internet penetration levels and demographic breakdowns might make operators use of this distribution channel ever more viable. If firms adopt useful technological advances, they will gain a competitive edge.

2. 1. 6 COMPETITION FACTORS

Since hotels are a service industry, human resources have become an indispensable element of the market. If the turnover ratio of employees is low, the centripetal of employees will be strong. As a result, the company will have the advantage of competition.

The main substitutes who could replace the customers' decision in the UK hotel market are those from other countries. Foreign customers may plan to visit the UK from places where they live, such as, France and Spain.

However, Country House or Bed & Breakfast hotels and so on which could also threaten substitutes in the UK domestic hotel industry.

Hotels find themselves with different problems compared to their entrants. These problems include a high barrier of exit and entry costs with the investment. Thus, the large capital investment required to build a hotel represents a sunk cost.

Hotels may not meet all their debt payments, taxes and other fixed costs but they can produce enough profit to cover their costs. Even they are perhaps prepared to operate at a loss rather than close their doors completely.

However, when there is an oversupply of hotels but the total number of rooms remains the same, the result will be a price war within the industry.

2. 1. 7 ORGANISATIONAL FACTORS

A Hotel manager should decide how to engage with the process of hostelry management using his/her capability and skills and be able to adjust and develop it to adapt to customer needs and preferences. For example, if a hotel could provide a high quality service or promote a particular customer-

desirable activity then client return ratio will be increased. However, the problem that faces the hotel industry is recruiting qualified staff that can satisfy the standard of service required by customers. Most service employees lack the knowledge and skills to provide a service that meets international standards. This may be because employees have not received adequate training in the skills that are required.

For instance, Whitbread has decided to open 1, 700 Premier Inn rooms across the UK during 2009 and 2010. Whitbread is planning to increase their market share of the UK hotel industry. It will attempt to achieve this by building up its market position and providing customers with cost-effective packages (Mintel, 2009). It also plans to develop their booking platform, enhance their sales and put into place the next phase of its revenue management system.

2. 1. 8 MARKET FACTORS

In the market sector, the most important thing is the customer; firms should affirm the clients they want to reach and their market segmentation.

At the end of 2007, the UK hospitality as well as the hotel industry worldwide had been hardly affected by the recession and many commentators predicted that this would last until at least 2010. In the course of a few months, by early 2009, consumers had radically changed their attitudes and consumption. The optimism that had been expressed earlier could not be sustained (Mintel, 2009).

The number of business travellers choosing budget hotels for their commercial trips is increasing. Moreover, the start of this trend corresponds <https://assignbuster.com/recession-in-the-hotel-industry/>

to the beginning of the recession in 2008. Many companies have reduced their budget for commercial travel in response to recessionary conditions; therefore, commercial travellers now use budget hotels rather than mid-market ones.

‘ Green holidays’ and the effect of frequent air travel upon the environment are being raised as concerns (Bainbridge, 2009). Customers who want to reduce the effects of their pollution upon the environment choose to holiday within the UK (Bainbridge, 2009). However, these concerns are not entirely beneficial for the UK hospitality industry because overseas tourists share these beliefs, so this could reduce inbound tourism into the UK.

Saving the environment, however, is currently a relatively low priority for most consumers but studies indicate that ‘ green issues’ will gradually become more important in the future (Key Note, 2009).

A previous study has claimed that more customers prefer to holiday in the UK because of ‘ green’ considerations and as an alternative to flying abroad. Therefore, in 2008, travellers might choose the ferry to holiday as a ‘ greener’ alternative (Key Note, 2009).

Budget hotels have made important investments in order to close the gap with mid-market brands. The three top most improved brands in terms of advertising awareness are Premier Inn, Travelodge and Holiday Inn Express.

2. 2 SWOT analysis

2. 2. 1 Strengths

The UK, like many other countries, after rapid economic growth with an open policy has now become one of the world's most attractive places for travellers. On a positive note, the hotel market in the UK is a strong and sophisticated one that offers a wide range of options, which could meet different types of customer needs. This includes internationally famous brands as well as smaller individual enterprises. Moreover, there is a powerful promotion and support system in place for tourists through organisations, such as, VisitBritain.

Moreover, the range of hotels offering different prices could meet individual consumer needs. Luxury, middle range, budget and even the country house hotel could satisfy every consumer. In addition, the growth of the budget hotel sector opened up a wider range of clients to the hotel market.

In the past ten years, due to the rise in the level of consumers' disposable incomes, the short – break leisure market has grown. This phenomenon has allowed customers to have more domestic holiday choice and encourage travel within the UK. This trend has proven very positive for the hotel industry.

Another factor that has strengthened the hotel market is the online reservation system. Customers are able to search for information, accommodation and book rooms online. This system is not only convenient for customers it is also efficient.

2. 2. 2 Weaknesses

Profitability is a major concern for hotels. They worry about losing money during the course of chain operations. In addition, there remains an absence of an efficient system to monitor hotel management, which includes employees and retired employees etc (Gavin, 1997).

The existing weaknesses in the hospitality industry are described below.

Recession has been the influential factor from 2004 to 2009. As noted by Keynote (2010), the number of visits peaked in 2007 but fell during 2008 by one million.

In the face of room oversupply, occupancy rates averaged approximately sixty percent but this figure fell by eight percent during 2007 to 2008 (Keynote, 2010). In an attempt to counter this fall, prices were reduced but this may diminish profitability.

Mid-market hotels are coming under pressure, being squeezed, between budget and luxury hotels. Competition in the mid- and budget hotel market is becoming more intensive and probably there will be a price war.

The performance of the global economy has a direct influence on the cost of hotel equipment. These costs have been rising and consequentially the financial burden has become heavier.

2. 2. 3 Opportunities

Many tourist and hotel officials now believe that the UK will become the world's most attractive visitor destination by 2011. This is considered an encouraging sign and a great opportunity for those who want to expand their

hotel business in the UK. Any expansion is anticipated to be within the mid- or low-grade hotel sector. The demand for high star rated luxury hotels among the various hotel management groups is not expected to rise (WTO, 1999).

In late 2008, the pound fell against foreign currencies and was very nearly equal to one Euro. This means that UK services, including hotels and tourist attractions have become more attractive to overseas tourists as they get more value from their Euros or dollars.

The development of a global online reservation system will not only make hotels easily reachable but also provide an opportunity to access a wider client base.

According to Keynote (2008), the age profile of the UK population is increasing. Many consumers that belong to this enlarged senior sector of the population have disposable assets, which they use to enjoy their leisure. In addition, the number of retirees is rising, which will have a positive effect upon the hotel market.

In the next decade, due to a number of organized activities, such as, the 2012 London Olympics, more attention will be paid to the UK by the international market and it is anticipated that this will promote a growth in demand from overseas visitors for accommodation.

Few leisure facilities, for example, restaurants and bars can cope with any extra business and, therefore, they are unable to create potential sales from the local area and hotels.

2. 2. 4 Threats

Since 2004, the long-stay leisure market, that is, stays involving five nights or more has been in decline. Moreover, the number of long-stay hotel rooms booked in 2008 decreased by more than a half compared to 2006, at eleven million (BMRC, 2009).

The threat of terrorist activities could discourage overseas travellers to stay in the UK.

The success of the budget hotel sector is a threat to mid- and upmarket hotel chains. During the recession, customers may choose low price accommodation for their tourism. For example, self-catering and other less expenditure styles of accommodation manifest a big threat at this time.

Some budget airline companies that offer low-priced flights to travellers for short weekend breaks may compete with domestic travel in the UK.

2. 3 Porter Five Forces

The structure of the hotel industry strongly affects competition between its members, which in turn directs decisions about the choice of strategies that are used by them. Therefore, Porter's Five Forces analysis will be used to investigate the industry.

New Entrants

Government policies against entrants

Fixed cost is huge

Hard to access further credit

Investments cannot be recovered immediately

Buyers

Large hotel, power low; Small hotel, power high

Customers as a group have more power

Sign contract gain more bargaining power

Suppliers

Bargaining power depends on the size of the hotel

Unique technology and resources

Switching costs

Competitors

Competition within luxury, mid-market and budget hotels

Customers change consumption to budget hotels.

Little effect on luxury hotels

Substitutes

Camping, caravan clubs, B&B and country houses etc

Camping and Caravan clubs had their best ever year in 2008

An attractive option for the budget conscious consumer

The analysis includes the threat of new entrants, competitive rivalry within the industry, the threat of substitutes and the bargaining powers of buyers and suppliers.

2. 3. 1 The threat of new entrants

Suitable hotel sites are not easy to find and building costs are very high. Furthermore, investments cannot immediately be recovered, especially during the period of construction. This factor represents a strong barrier to entering this market. The UK has enjoyed some of its highest periods of growth in property prices in recent years. The construction industry has been badly affected by the latest recession.

Developers are hardly able to gain credit to support large scale building schemes; therefore, many hotel projects have stalled (Blitz, 2009).

Aside from new developments, hotel managers who are unable to access further credit are finding things more difficult. Larger operators and branded chains are able to look to the medium and long-term over which a boom for hotels and travel are predicted due to emerging markets but smaller operators have less access to the resources that they will need in order to survive the next couple of years (Blitz, 2009). As a result, the threat of new entrants into hospitality industry is limited.

2. 3. 2 The competitive rivalry within industry

In economic downturns, competition occurs within upmarket, midmarket and budget hotels. Mid-market hotels usually cater for tourists who do not travel a lot; also, their rooms are priced much higher than in budget hotels. In general, when the economy is in recession, consumer-spending power is

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less, therefore, they might choose lower priced accommodation. At the same time, budget hotels continue with their strong development plans to offer extra rooms through the expansion of new property. The development of budget hotels has eroded the mid-hotel's market sector.

However, the upmarket hotels have been little affected. Their customers are less likely to change their consumption patterns. The lifestyles of these customers engender very high consumption. Their expenditure would not change because they are not price sensitive. That is to say, no matter how prices changes, they will continue consuming.

2. 3. 3 The threat of substitutes

There are some substitutes in this market, such as, camping, caravan clubs and B&B and country houses. Mintel (2009) predicted that these holidays are an attractive option for budget conscious consumers. These substitutes will benefit from an increase in the number of families who because of financial reasons elect to stay in UK in 2009 and 2010. The Camping and Caravan Club market had their best ever year in terms of recruitment during 2008 (Mintel, 2009). Camping holidays are predicted to do rather better over the next few years before the long-term trend towards decline is re-instated. However, growth in this area might not be good news for the hotel industry, as by definition ' a stay in a hotel' does not count as such for this type of holiday.

2. 3. 4 The bargaining power of buyers

The hotel industry is faced by fierce competition. Companies will possibly sign a long-term contract with consumers to retain their customer base.

Therefore, customers possess a strong bargaining power.

Behind large hotel groups, there are large amounts of capital to support them to buy land and build new hotels. Consequently, the bargaining power of consumers is quite low with respect to these large hotel groups.

Conversely, for small hotels, the bargaining power of consumers is much greater, which means these establishments might find it harder to fulfil customers, expectations.

However, customers will segregate into two sectors, namely, individual and group.

Customers as individuals: This sector will divide into business travellers and individual tourists. Business travellers may have a long-term contract with a hotel, therefore the price for them could be pre-negotiated but for individual tourists, their bargaining powers are almost none.

Customers as a group: Groups usually book rooms through travel agencies, involving a large number of rooms and the travel agent takes the profit.

However, the price is still much cheaper than for the individual. That is to say, their bargaining power is more than the independent tourist is.

2. 3. 5 The bargaining power of suppliers

There are two main bargaining powers in the industry, one is furniture and fittings and the other is food and cigarettes. They are outlined below.

Furniture and Fittings: When hotels purchase furniture; they typically establish criteria that they use. The number of pieces of furniture purchased is usually in bulk rather than separate items. Thus, orders must be relevant to the number of rooms they operate. For this reason, furniture is supplied by specialist contract providers, which are dedicated departments of businesses that already cope with the domestic market as well.

Food and Cigarettes: Many food and cigarette manufacturers have their own specialised sector that supply and deal with the demands of the hotel industry.

However, bargaining power is dependent on the size of the hotel. If a company has very many hotels then its bargaining power with its suppliers is enhanced. Conversely, if the company has few hotels then its bargaining power will be limited.

2. 4 STP process—Segmentation, Targeting and Positioning

2. 4. 1 Segmentation

According to Swarbrooke and Horner (1999), the tourist market is divided into demand characteristics within a number of the different segments, which are described below.

Family market: The definition of family means two parents with one to three children. The preference of many families is to minimise the cost that is required to meet their desire to have a vacation. However, these needs will depend on those of their children.

Hedonistic tourist: According to Kozak and Andreu (2006), the number of hedonistic tourists has increased in recent years. They prefer a place with sun, sand and sea, such as, Ibiza. In fact, they have a desire for physical pleasure and a social life.

The backpacker market: Backpackers generally keep their expenditure to a minimum; they have the time and want adventure as part of their holiday. Moreover, this tourist usually travels independently rather than in a group.

VFR (visiting friends and relatives): People do not stay in commercial accommodation and usually domestic travel is involved (Swarbrooke and Horner, 1999). This form of tourism could also relate to weddings and funerals. In particular, their budget is limited in a similar way to that of a normal holiday.

Excursionists or day-trippers: In general, these travellers do not travel far and it involves domestic transport. They would do not usually stay overnight.

Educational tourists: They usually travel to other countries, for example, for foreign culture, student exchanges or attending language classes.

Religious tourist: This form of tourism can be seen as obligation or duty for those who have faith and belief but recently traditional religious tourism has become, in part, a sightseeing tour, which visits churches and cathedrals (Swarbrooke and Horner, 1999). However, they usually visit the place at a specific time, such as, the Haj.

The snowbird market: The 'snowbird' refers to a tourist that travels during the winter, in order to avoid the cold weather. Retired people normally take this type of vacation because they have the time to travel.

Tourists with disabilities: According to Swarbrooke and Horner(1999), there are many kinds and degrees of disability, which include the following:

Mobility problems: These individuals are confined to a wheelchair and may have difficulty in climbing stairs.

Sight problems: These individuals have minor eye impairments and unclear vision.

Hearing difficulties: These individual have injuries to their ears and their hearing is impaired.

It is important that hotels have regard for these conditions and have someone available to assist them.

The short break market: This means tourists use their two-day weekend to have a vacation. According to Mintel (2007), the short break market is continuing to grow despite an overall stagnation in the growth of domestic tourism. It is forecast that the volume of the short break market will increase to 9.5 million and its monetary value will be £2.5 billion by 2011.

Commercial travellers: They usually travel for business and generally involve domestic travel.

2. 4. 2 Targeting

In order to relate to the research objectives of this report as described in earlier in this chapter, the researcher will inquire into the budget hotels to investigate their target market.

Budget hotels focus upon three types of domestic tourists during economic downturns: commercial, family and short break. Budget hotel characteristics are relevant to these three types of tourists in terms of limited cost, clean and comfortable accommodation in which to live. In addition, the fact that there many chains are available in this sector means that travellers can be reassured regarding expectations and quality as they are buying into a brand name (Brotherton, 2004).

2. 4. 3 Positioning

According to Baines, Fill and Page (2008), positioning is important for a business because it differentiates it from other competitors. As Mintel (2010) argues, the first physical attributes of budget hotels for customers is that they have quality standards, consistent service and are located in many places, which are convenient to access. According to (Brotherton, 2004), the second positioning elements for budget hotels as perceived by customers are value for money, cleanliness and have a great brand reputation.

Marketing communication can be used to position brands as a strategy to attract customers (Shimp, 2003). Budget hotels position their brand, products and services via three basic consumer needs, such as, functional, symbolic and experiential (Keller, 1993). These are described below.

Functional needs: Budget hotel marketers adopt new technology and season sales to appeal to consumers' needs for convenience, value for money, physical comfort, etc. These wants can meet consumers' functional needs and brand satisfaction.

Symbolic needs: Budget hotels appeal to symbolic needs with their desire or self-image to associate with the brand. For example, tidiness, cleanliness and efficiency, etc.

Experiential needs: Budget hotels use quality standards for accommodation to address the experiential needs for consistency and hygiene.

For a marketer, it is important to recognize that brands benefit by fulfilling these needs, even by a combination of any two. This project will investigate consumer attitudes toward the budget hotel market during a time of economic downturn and analysis how the recession affects consumers' consumption patterns and budget hotel strategy.