

# Strategic direction analysis in hospitality industry



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Hospitality is a very essential component of the service industry in any country's national economy. When a domestic hospitality company decides to expand its operation into a foreign country, its overseas development is recognized as international business and its business revenues generated from overseas operations are described as a service export. Thus far, the term hospitality industry is used to encompass all facets of the business that cater to travelers' needs when they are away from home.

Hospitality industry is defined as the spatial movement of travelers, and the reception and entertainment of travelers from their home countries (Yu, 1999 4). The term hospitality industry serves as an overarching label for businesses whose primary purpose is to offer food, beverage and accommodation for sale on a commercial basis. The main activities or sub-sectors in the International Standard Industrial Classification of all Economic Activities (ISIC) Division 55 (Hotels and restaurants) are hotels, restaurants, bars (including pubs and clubs) and (contract) catering (International Labour Organization (ILO) (Lucas, 2003 307).

As far as the market history is concerned, the concept of this industry has dealt tremendous marketing and economic competition in the field of hospitality and tourist earnings. The competition is brought by varying and contributing external and internal factors that specifically influence the trends of tourism and the tourism itself, such as the availability of offers, environmental aspects involving the culture of the area, the exotic traditions, the natural attractions, traditional food and beverages, etc. Two of the theories provided to explain the competency behind are Porter's forces theory and SWOT framework.

Michael Porter's Five Forces model is one of the best means to enhance an idea of market dynamics. The Five Forces model helps lay out the true dynamics of the market, which consequently helps to identify the key aspects of the market; entry barriers, supplier power, rivalry, substitutes, and customer power. The theory encourages the strategist to look outside the small circle of current competing rivals to other actors and influences that determine potential profitability and growth. Porter described the competitive forces shaping an industry in his five forces model of industrial competition.

Porter argued that strategy equates to how the firm competes against other firms in its business. Porter argued that strategy is not just a series of models at the corporate level of strategy. He noted that strategy includes analyzing potential entrants, suppliers, buyers, substitutes and competitors (Stahl and Grigsby, 1997 145). On the other hand, SWOT analysis is a universal tool in strategic planning wherein planners assess the strength, weakness, opportunities and threats facing the specific organization of industry.

The theoretical framework also serves to provide information that is helpful in matching the resources and capabilities to the competitive environment in which it operates. Once the environment has been scanned, background documents gathered, patron surveys conducted, and all the relevant data reviewed and synthesized by team members, the SWOT analysis is usually initiated (Marke and Sloane, 2000 29). Clearly, management, talent, and education are critical to the survival of the industry.

It is therefore essential to address the changed in human resource practice, especially at a time when the hospitality industry is facing stiff global competition for the best of the generational workers from other sectors that offer attractive conditions and pays. Discussion The complex and diverse industry of hospitality industry can be divided into three distinctive yet mutually inclusive components: (1) originating market, (2) international transportation, and (3) receiving destination (Yu, 1999 10).

The tourism industry has grown rapidly since the advent of mass travel in the 1960s and it continues to grow steadily, albeit at a lower rate, with new markets constantly developing. Even so, there is still greater hospitality supply than demand, which is evident if the number of seats that organizations are licensed for in any given period and the actual number of passengers are compared (Pender and Sharpley, 2005 57). Key movements in the international hotel industry resulted in the respondent's reporting that branding and restructuring have impacted upon their demands for unit manpower.

Each company acknowledged that stronger brand definitions, the result of increasing industry competition, had meant career opportunities had been opened in some cases and closed in others, to manpower with specific skills and backgrounds. For any hospitality business to perform effectively; however, interdependent individuals and groups within them must establish working relationships across those boundaries that exist. Individuals and groups depend on one another for information and support facilities so that action can be coordinated and complementary (Pizam, 2005 53).

The hospitality industry has been slow to adapt to change and is currently trying to come to terms with managing the process. In the future, it will have to respond quickly and effectively. It is vital, therefore, that those involved in the development process gain a clear understanding of the complex issues that need to be integrated in any form of hospitality development (Yu, 1999 10). Porter's Five Forces Analysis: Applications, Advantages and

### Disadvantages of Utility

Porter's model has been one of the most widely used models in strategic management. By analyzing the five forces, one can assess the forces driving competition in an industry and evaluate the odds of a firm successfully entering and competing in an industry. Thus, one can measure the industry's attractiveness for entry or exist, analyze competitive trends, and plot future strategy (Stahl and Grigsby, 1997 145). The external business environment of the firm is most often largely uncontrollable by management.

Factors, such as demography, economic conditions, level of competition, industry structure, social and cultural forces, political and legal forces, and technological level impact on the ability of the firm to provide its services to its intended clients and to sustain its internal business environment (Pizam, 2005 53). The five forces are: potential entrants with their threat of entry; buyers with their bargaining power; suppliers with their bargaining power; substitutes with their threat of substitute products or services; and industry competitors with their rivalry among existing firms (Stahl and Grigsby, 1997 145).

Each of these five forces is based on structural features or dimensions, which collectively impacts the profit potential. All five forces jointly determine the intensity of the industry competition and profitability. The strongest forces become crucial from the point of view of strategy formulation

(Mohammadian, 1999 519). Buyers and bargaining power: Buyer power is the capability of buyers, purchasing agents, and customers of the industry to influence the price and the terms of the purchase. If buyer power is high, then the profit margins of the incumbent firms tend to be low.

If there are only a few buyers, or if the buyers are well organized, then buyer power may be increased. The industry is unattractive to potential entrants who are considering entry if buyer power is high (Stahl and Grigsby, 1997 146). Customers who purchase larger volumes of bed-nights and seats, and who have low switching costs leverage a strong bargaining force in the competitive environment. However, individual customers who book and consume hospitality products have limited or no bargaining power (Bowie and Buttle, 2004 93).

Potential entrants and entry barriers: The subject of creating and maintaining market entry barriers has received considerable attention from executives. If the incumbent firms in the industry can keep potential entrants from executives. If the incumbent firms in the industry can keep potential entrants at bay and dissuade them from ever entering the industry, the entire subject of competition and its impact on incumbent firms' profits becomes moot (Stahl and Grigsby, 1997 146). There are the important structural components with an industry to limit or prohibit the entrance of new competitors.

The major components are scale economies (advantage of experience, learning and volume), differentiation (brand image and loyalty), capital requirements (new entrants will face a risk premium), switching cost involved by the customer, access to distribution channels and cost disadvantages (Mohammadian, 1999 519). The threat of new firms to enter an industry is low if the incumbent firms have high power to influence prices, control resources, and shape the nature of competition within industry (Stahl and Grigsby, 1997 146).

Suppliers and bargaining power: Suppliers, including employees, can influence the attractiveness and profitability of a sector by increasing their prices and thereby increasing industry costs and reducing profit margins (Bowie and Buttle, 2004 93). Supplier power is the capability of suppliers to decide the price and the terms of supply. Suppliers include vendors of labor, raw materials, and capital goods. If supplier power is high, then the profit margins of incumbent firms in the industry tend to be low.

Such low profit margins make an industry less attractive to potential entrants evaluating an entry decision (Stahl and Grigsby, 1997 146). Powerful suppliers are those organizations that control the supply of goods and services to the hospitality industry, which varies from country to country (Bowie and Buttle, 2004 93). A rough measure of supplier power is the number of suppliers in the industry; hence, the existence of many suppliers typically indicates low supplier power, and vice versa (Stahl and Grigsby, 1997 146). Substitute products and services: Substitute industries provide competing product offers that perform the same function.

Continual developments in technology keep changing the potential threat from substitute products. The rapid development of video-conferencing is a substitute product for the hotel meetings market (Bowie and Buttle, 2004 93). The availability of substitutes for an industry's products and services alters the power on incumbent firms. As the availability of substitutes rises and as the ease of substitution increases, the power of incumbent firms to control prices and the terms of the business decline (Stahl and Grigsby, 1997 146).

Threat of new entrants: The threat of new entrants is dependent upon the barriers to entry into an industry. These include the ability to generate economics of scale and experience, the opportunities for product differentiation, the amount of capital required to buy into the industry, and access to distribution channels. In hospitality, there are low barriers to entry in most sectors (Bowie and Buttle, 2004 93-94). Competitors and rivalry: Competitive rivalry among existing firms in an industry is the extent to which firms respond to competitive moves of other incumbent firms.

In some industries, an implicit "gentlemen's agreement" seems to exist in which firms respect one another's market niches and follow a "live and let live" strategy. In other industries, a "dog eat dog" idea prevails, cutthroat competition is the rule, and competitive moves are vigorously countered (Stahl and Grigsby, 1997 146). Rivalry varies between the industries and sectors. The rivalry is dependent upon the number of dominant players, the level of hospitality profitability, levels of demand and capacity; and the personalities of competitors.



In hospitality markets, whilst competition is intense, most people working in the industry have good personal relationships with rivals working for competitors (Bowie and Buttle, 2004 94). On the other hand, some authors consider that Porter's five forces model fails to take into account modern business conditions; however, as with any model or theoretical framework, using Porter's model as a guideline to be adapted as appropriate for the situation or conditions that are analyzed, it provides a useful basis for understanding the salient characteristics of the hospitality industry.

The level of relevance of individual components depends on the nature of the industry and its prevailing conditions (Pender and Sharpley, 2005 56). The theoretical framework of Porter possesses the advantage of detailed and comprehensive strategical marketing considering variant and vast factors that contribute to the scale basis. On the other hand, the concept of Porter has the disadvantage of irrelevant considerations on technological revolution and those contributing factors that possess dynamic character and continuously interacts within the marketing environment.

SWOT Analysis: Applications, Advantages and Disadvantages of Utility The business environment for those firms, government departments, and associations engaged in the hospitality industry is, as might be expected, similar in its generic aspects to that faced by any other industry, while containing a few specific components relating to the nature of hospitality industry itself.

These generic aspects are the macroeconomic environment, market opportunities, the political environment concerning enterprise and

competition, policies towards foreign investment, trade, and exchange controls, taxes and financing, and the social environment including labor markets, physical and social infrastructures, and regional cultures (Pizam, 2005 53).

Through comprehensive and detailed strengths, weaknesses, opportunities, and threats analysis of internal and external environments, SWOT analysis, and hospitality firms will be able to make decisions that will enable it to create a defensible and competitive position in its operating industry. Furthermore, SWOT analysis provide the company imperative information on how to adapt to its environment (Jafari, 2000 113).

The SWOT analysis is the archetypal approach to a strategic evaluation where it can form an important analytical tool from a cruise operator's perspective when examining a port or destination in the context of an itinerary, current and nascent factors that are likely to affect on future performance, and factors that render the organization distinctive from the competition (Gibsonl, 2006 73). Conducting an effective SWOT analysis requires the necessary information, people, and time. The information required already been obtained from conducting the external environmental scanning and the product analysis.

The people required include a moderator and enthusiastic committee members. If the SWOT analysis is to be successful, the time required will be at least a complete day. Before the SWOT analysis is conducted, the information obtained from the environmental scanning and the product analysis should be summarized into one document that is then distributed to

all committee members who will be involved in the SWOT (Kolb, 2006 83-84). The process of SWOT analysis initially require the listing of strengths that can be obtained in strategical formulation in regards to hospital industry characteristic in a given area at specific period of time.

The strengths are listed down and evaluated appropriately considering the extremes and ranges involved, the strength characteristics and the specific and probable enhancement procedures to further exemplify these strengths. Strength analysis of hospitality industries should include the character of the population or the tourists, which are the primary demand modifiers, and the characteristics of the area, which is the prime contributing variable for supply (Gibson, 2006 73).

Weakness, the second phase of SWOT analysis, comprises the analysis of tourists' viable response in meeting the presence of supply, the negative aspect of demand character, environmental influences on both demand and supply infrastructure (e. g. seasonal variances, cost-supply equilibrium, etc. ), and the total marketing nature of the given location of industries and individuals involved (Kolb, 2006 84). Weakness analysis obtains the data gathered from past-records, community perceptions, societal standards and expectations, and tourist demands.

Hospital industries may possess varying characteristics both internally and externally; however, the contributing factors will always affect the end outcome of strategies imposed in every marketing plan involving economic stands of hospitality firms. Lastly, opportunities and threats are the last variables evaluated in SWOT analysis, which are of grave importance since

these variables are the practical advantage and probable hindrances that should require absolute considerations.

In opportunity assessment, the interest of the people residing in the area of industrial locale, popularity of the area and industry itself, as well as the attraction or any further enhancements greatly provide the opportunistic angle, which influences competition in the area (Kolb, 2006 84). On the other hand, threats involving the competition, the hindrances or negative angles in both external and internal character of the hospitality firms (e. g. location, travel time required, local economy, etc. , political and social situation, and other factors that may affect the demand count should also be considered in all angles (Gibson, 2006 73; Kolb, 2006 84).

**Conclusion** The Five Forces analysis evaluates the nature of the competitive environment in an industry. Each of these competitive environments is common in hospitality, and this language is regularly used to describe the characteristics of hospitality sectors. In a fragmented competitive environment, no firm has a significant market share.

The industry has low-level entry barriers, with high product differentiation and low economies of scale. Profitability is unrelated to size; this means that large firms are not more profitable than small firms. SWOT (strengths, weaknesses, opportunities and threats) analysis provides broad description of strategical management, which is the perceived downside of the procedure; however, SWOT methodology still provides wide range of considerable factors unlike Porter's five forces in which the variables are very much detailed and specific in nature.