

Analyse the hotel industry in uk tourism essay



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It is very important that in today's competitive environment, (both in terms of business and employability) one has a clear understanding and sufficient knowledge of the sector or industry in which they would be operating.

This report will be looking at, and analysing the Hotel industry in the United Kingdom, examining industry's micro and macro environment. Its purpose is to examine the industry with intention to gather market intelligence that would support prospective managerial development, career aspirations and prepare them for sufficiently informed participation at interviews. Findings from the report should therefore, enhance their business knowledge and employability prospects in the industry.

The report will focus on the last five years which have in fact seen the industry at its best and at its worst in just a few years. A number of different data sources would be utilised such as industry reports, news paper articles and various websites related to the industry.

INDUSTRY ANALYSIS

Industry overview

The hotel industry and tourism in general is one of the world's main growth industries worth trillions of pounds globally. According to a key note report (2009) the hotel industry in the United Kingdom grew by 29. 1% in four years to 2008, reaching a staggering £15. 87 billion. This growth was attributed to a number of factors, such as the high disposable income available to people, introduction of low cost airlines and the rapid expansion of budget hotel sector.

With hotels that opened up to a wide range of customers combined with cheap flights and high disposable income people could have more than one holiday a year. This in turn benefited the hotel industry as a whole from both foreign and domestic tourists.

This vibrant growth, however, has seen a change in its fortunes in the last two years, due to a number of factors but mainly the economical downturn. In 2008 global economy took a turn for the worst and the problem deepened in 2009, leading to recession in most developed economies and UK was no exception. This had an immediate impact on holiday purchasing with research suggesting that a significant proportion of adults thinking of saving money by having a domestic holiday in 2009, while 25% of them were worried they could not afford a holiday at all (KeyNote 10). This has led to many hotels adapting to the situation by reducing prices or offering lucrative promotional deals to meet the market expectations and improve sales.

The hotel industry could be divided into two sectors, corporate and consumer both providing services to meet their particular clients needs. The first one includes accommodations paid by businesses, for business travel purposes and the latter is paid by consumers for non-business reasons.

A grading scale based on a star system is used to classify the quality and range of service provided by the company. The grading is comprised of 1-5 stars, where one star represents simple accommodation with no thrills attached and five stars represent exceptional quality of service with some degree of luxury. In some situations Silver or Gold may be added to Hotels that exceed the requirements under the star system.

It is estimated that 1 one in every 10 people in the UK is employed in the Hospitality industry, in other words over 1.96 million (2007) people working in around 300,000 establishments across the country. Overall employment in this industry grew by 5% in 2007 but the Hotel sector had the lowest growth with only 2.7% adding another 6,500 jobs to the existing 238,500 jobs that existed in the previous year (Table 1.2).

Major cities accounts for the highest concentration of hotels in the UK and are thought to attract the highest level of tourism activity with London leading the way.

Market size & trends

During the economic boom of the late 90's and early part of this decade the Hotel Industry has expanded rapidly benefiting from a number of factors mainly related to economic growth and improved technology. The increasing globalisation of a lot of companies necessitated more corporate travel and accommodation. Being the financial centre of Europe and to some extent the world, London benefited a great deal from this rich consumer source. A lot of hotel groups responded to this by investing in their brands, positioning their portfolios to more upscale four/five star properties. In addition, the budget hotel sector was developed to suit a wider range of consumers as well as businesses. All was made even easier for consumers by the development of the internet. This allowed easy comparison in terms of price and guest facilities on offer, as well as a more convenient way to book them. Internet is now thriving with 34,104,175 or 57.2% of population having access to it in the UK spending an average of ten hours a month online (www.theanswerbank).

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In spite of the healthy growth experienced in the last two decades and the excitement of the coming Olympic Games London 2012, the industry has in 2009 suffered a setback. This was due to the recession that affected almost every developed or developing economy in the world. In the first quarter of 2009, the UK saw a fall in visits by one million, although statistics show that spending remained relatively the same as the corresponding time of the preceding year (table 1. 1). This could be accredited to the weaker pound which slumped at record lows both against the Euro and American Dollar at 75. 86p to the Euro and \$ 1. 375 (bbc. co. uk).

In 2008 there were 31. 9 million visits in the UK producing on average £512 of spending each, generating over £16. 3 billion of revenue for the economy. This however is considerably smaller than the spending generated by the internal visits of UK residents which marked £21. 1 billion for the same period, though slightly down from the previous year. The total spending generated by both UK and Overseas visits for 2008 was just above £37. 4 billion, 0. 4% higher than 2007 (table 1. 1). Hotel industry takes just above 42% of this wealth, in other words £15. 87 billion.

During the peak of recession there was a significant increase on short-term holidays taken domestically. Though, as the economy comes out of recession domestic holidays are predicted to fall by 7. 7% with a similar decline on value between 2009 and 2013. Holidays abroad on the other hand are forecasted to increase by over 16% between those years. (KeyNote)

According to government data turnover in the hotel market gradually increased on average by 6. 6% between 2004 and 2008. Key Note forecasted

a 6.8% (appendix 4) decrease in total revenue for the following year but expects an upward trend from 2010, peaking in 2013 to 4.8% or 16.99 billion in total. Room occupancy which is a key indicator to measure the amount of business carried out by hotels was at 76% in 2007 according to VisitBritain but decreased in the following two years to 68% in 2009.

Economic trends

In the last five years the UK economy has seen some of its best and worst days. After the healthy growth that the economy had enjoyed in the early part of the decade came the downturn that succeeded in the second half of it. As a result of the global credit squeeze, 2007-09 proved to be a bumpy ride for the economy, enforcing banks to take a tougher line on lending. This caused a sharp fall in consumer spending, with unpleasant consequences for most industries. In 2005 research showed that productivity growth had slumped and business investment was at a record low, consequently the British economy was growing at a rate slower than the average growth for other developed economies, falling well short of chancellor's budget prediction.

Table 1.4 shows the GDP performance in the last five years to 2008. It is evident that GDP plunged in 2008 to only 0.7 and performing at its worse in the 3rd quarter of 2008 when the economy fell into a recession registering a -6% drop (nationalstatistics.co.uk). GDP started to recover late in the 4th quarter of 2009 when it was just under stagnation point and first signs of getting out of recession appearing in the first quarter of 2010. According to national statistics growth in the first quarter of this year register a 0.2% increase. The same source suggests that during the same quarter

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distribution, hotels and restaurants fell by 0.7% compared with an increase of 1.9 per cent in the previous quarter. Appendix 1 shows how this recession compares to the previous two in the 80's and 90's. It appears that last recession was the hardest of the three but seems to be the shortest of the three.

High energy prices in the world markets (highest being \$136.24 a barrel, 2008, appendix 2), forced inflation rates rise to record heights in September 2008 to 5.2% well above the Bank of England's target of 2%. This increase forced the Bank to raise interest rates three times since summer 2006 with highest being in July 07 at 5.75% (BBC, 29/11/07). Although, this spike in inflation became less of a concern for the Governor as recession was deemed the major threat to the economy. This then led the Bank England to repeatedly lower interest rates reaching its lowest point at 0.5% in March 09 and hoping for the inflation to melt away. In fact that is exactly what happened with inflation rates falling to 1.1% in September 2009, the lowest since 2004. (thisismoney.co.uk)

Increase in fuel prices is bound to raise travel costs for millions of people. High fuel prices, rise in interest rates and inflation followed with the credit squeeze effects are also leaving people with less disposable income. This is having a negative effect on consumer spending as it is getting difficult for consumers to keep up with credit payments (credit cards/mortgages/loans). Therefore, loss in consumer confidence may result in less spending on holidays consequently impacting on industry profitability.

Competition

According to National Statistics there are 10, 195 hotels in the country and the majority of those establishments generate less than £1 million annual turnover (appendix 5). This has not stopped competition in the industry intensifying in recent years, narrowing the gap between budget and midmarket hotels. However, it's still the large chains/midmarket hotels that win the marketing battle by spending large sums on brand building. This has become a very important feature and most hotels are now seeking to develop stronger identity that would target both consumer and corporate sectors more effectively.

Among others, Premier in was one of the largest spenders on media advertising in 2009, spending over £5. 5 millions on promotional activities followed by Travel Lodge who spent just under £3 million. In addition to this the large chains have focused on seasonal offers and lowering their prices. For example, in autumn 2009 Travel Lodge lunched room sales for the next spring, offering rooms for as low as £12 a night.

Also these midmarket establishments have more flexibility to offer packages or meals to attract a larger, more price conscious market. Low budget hotels on the other hand have responded to this by providing more facilities and services than before as well as including more offers on their websites.

Table 1. 8 shows some of the major players in the United Kingdome and their relative annual turnover. InterContinental Hotels Group PLC seems to lead the way with close to £2 billion annual turnover from which £302 million were pre-tax profit. The company has a number of brands under its umbrella

such as Crowne Plaza, Hotel Indigo, Holiday Inn, Express by Holiday Inn, Staybridge Suites and Candlewood Suites operating in around 100 countries offering 630, 000 rooms.

Second in this list follows, Millennium & Copthorne Hotels PLC with an annual turnover of £703 million and pre-tax profits of £103 millions. The company fosters four different brands including Millennium and Grand millennium Hotels, Capthorn Hotels and Kingsgate Hotels. Recently it has recently expanded with seven new hotels in China and Middle East.

Accor UK Business & Leisure Hotels Ltd is owned by Accor a French based group which has 15 different brands under its umbrella varying from luxury to economy accommodation. The UK based subsidiary generates an annual turnover of £198 million of which £37. 5 million pre-tax profit.

Travelodge which is owned by Dubai International Capital is the next in line generating an annual turnover of £287 million and a pre-tax profit of £16. 5 million. The company is rapidly expanding both in UK and main land Europe, with 29 hotels planed to be built in UK in 2009 and 100 in Spain by 2020.

De Vere Hotels & Leisure Ltd operates two hotel chains generating a total annual turnover of £248 million by combining a 100 bedroom hotels and fitness clubs. The company is owned by Alternative Hotel Group which is aiming to rebrand the De Vere portfolio under Deluxe, Heritage and Venue options, differentiating the accommodation offer.

Tourism

There was a slight drop in the number of overseas residents visiting Britain for business reasons in 2007/8 as a lot of companies tightened their budgets on travel expenditure. This has resulted in low room and bedspace occupancy levels which dropped to a 4 year low (426. 2 million bed nights) with serious consequences for the hotel market. The following year was a very difficult year for tourism, experiencing a significant drop in visit numbers. 2010 is also expected to be somewhat difficult for the industry, with substantial improvement expected to start only in 2011.

However, according to a keynote report on travel and tourism, research suggests that 1/3 adults in the Britain has taken at least one holiday in the last 12 months and 1/5 of them having taken three or more for the same period. Still, the economic downturn forced a lot of suppliers, including the package tour operators, to react by reducing their capacity and cutting the number of holidays on offer.

UK continues to be an attractive place in the international holiday market and this is very important for the long term prospects of the hotel industry. The coming decade which has been described by many commentators as the “ golden decade of sport” because of the many different international events due to take place in UK (table 1. 7) is exiting times for the industry. Overseas spectator numbers to these events will provide a necessary boost for the hotel market. Records based on previous similar events staged by other countries in recent years show that hotel profitability increased as a direct result.

BigHospitality referring to VisitEngland research suggests that tourism industry in the United Kingdom could be worth a staggering £147 billion by 2020 with the potential of creating over 225, 000 new jobs in the industry. This would be a 52% increase from the current estimated value of £97 billion.

Though smaller than the domestic spending in hotel sector, the international tourism is a significant contributor to total revenue. Only London, which earns over £8bn from overseas visitors, depends more on the overseas visitor than on the home market.

Employment and Demographics

According to BBC unemployment in UK continued with its downward trend until August 2007, falling by 5000 in the second quarter of 07 to 1. 65 million where it maintained one of the lowest unemployment rates in Europe at 5. 5% but slightly higher than that of USA. ONS figures also showed that average earnings rose by 3. 7% during the same quarter, beating expectations of a 3. 6% rise. However, these prosperous years were soon over and low unemployment was history.

According to the national statistics, employment has seen a dramatic fall in the last three years reaching its lowest point since 1996 when it hit 72. 1% or 28. 82 million in February 2010 (appendix 3). In the last quarter to February there was a decrease in both part-time and full time employment totalling 89. 000.

The number of people working only part-time because they could not find full time employment increased during the same quarter to reach 1. 05 million, <https://assignbuster.com/analyse-the-hotel-industry-in-uk-tourism-essay/>

the highest figure since 1992. The overall unemployment rate recorded 8.0%, in other words 2.5 million, higher than any time since September 1996.

The inactivity rate in the first quarter of 2010 was at 21.5%, the highest since 2004. This added another 110,000 to the total figure, reaching a record high of 8.16 million people considered inactive in UK. Though, this could be as a result of a relatively large number of young people choosing to go into education after finishing their secondary school rather than go straight to the labour market.

Population in the United Kingdom has continuously increased in recent years reaching 61.4 million in 2008, an increase of over 9% in just five years (KeyNote). This was due to the high influx of migrants from the newly joined EU member states from Eastern Europe. This trend of population growth is forecasted to continue to the end of the century. Britain's population is predicted to reach 71 million within 25 years, 78 million within 50 years and 85 million by 2081 (The Guardian, 28/11/07). This 39.6% growth (from 59,834,300 in 2004) represents an opportunity for steady market growth in UK in the next 78 years. The hotel industry is likely to benefit substantially from this if the lifestyle people have grown to enjoy in the last 20 years continue to be the norm.

SWOT

Strength

UK is seen as a major tourist destination and has in place a good promotional and support system for tourists such as VisitBritain.

The UK market incorporates a number of internationally well-known hotel brands and chains.

Short term leisure breaks have risen due to high disposable income over the last decade.

The development of the budget hotel sector opened the hotel market to a wider range of clients.

The Internet has facilitated easier choice and booking of facilities.

Weaknesses

The industry's performance is highly dependable on the performance of the wider economy.

The market seems to be over supplied in term of room numbers and this seems to keep room occupancy levels rather low at 60% average.

Budget and upscale hotels seems to be putting the midmarket establishments under pressure.

Continuing investment is necessary to maintain properties at a high standard.

Opportunities

A number of international sports event planned to be staged in UK between now and 2019

Western Balkans expected to join the European Union soon which would allow for more tourists from that region visit Britain.

Forecasted growth of inbound visits till 2014

Steady population growth well into the century which would boost demand for travel and tourism and consequently Hotel facilities.

Threats

Some EU economies suffering from high deficits may be forced to freeze or lower wages all together in their public sectors. This could impact the numbers of overseas visits to UK which would adversely affect the turn over and consequently profits in the hotel industry

It may get harder to raise expansion capital due to falling property values.

High unemployment rates in UK could mean that people may not be able to afford holidays.

CONCLUSION/RECOMMENDATION

The success of the industry is dependable on a lot of external factors and this was most clearly evident during the last economic downturn. However, in today's world globalisation plays an important role both in leisure and commerce. Therefore, hotel industry which is now well established will be a sector that would commend high demand for its services in the future.

History shows that hotel industry has bounced back in the past after suffering similar setbacks. This will certainly be the case this time round with the first signs of recovery already in sight. At glance it appears that the industry has learned from previous downturns responding to it by adjusting prices and offers to look more attractive.

Seeing that the largest share of revenue comes from internal visits and many EU economies risking Bankruptcy, it would be wise to try and encourage more British people spend their vacations in the UK. In the meantime the coming decade with its sports events to be held here presents a great opportunity for the industry. Therefore, companies should take advantage of this by planning ahead so they would have sufficient bed/room space to meet the demand. Although trading at the moment is rather low in comparison to pre-recession time and raising capital for further development has become harder. It is worth remembering that hotel projects take a relatively long time to materialise and now may be the time to start thinking for the future.

As the economy recovers the hoteliers should also seek to build occupancy back, perhaps through further competitive pricing and promotional deals with the aim to reinstate RevPar growth.

APPENDICIES AND TABLES

Table 1. 1. Overseas residents' visits to the UK and the expenditure in the UK (Million, £million and £) 2004-09

2004

2005

2006

2007

2008

2008 Q1

2009 Q1

Number of overseas visitors (million)

27.8

30

32.7

32.8

31.9

7.2

6.2

Expenditure (£m)

13.047

14.248

16.002

15.960

16. 323

3. 129

3. 128

Average expenditure per visit (£)

469

475

489

487

512

435

505

UK residents Expenditure (£m)

21, 238

21, 107

Q1- first qarter

â€ - Seasonally adjusted

Note: expenditure figures refer to total spending by visitors not solely accommodation/hotel costs

Source. International Passenger survey (MQ6, Quarter 1 2009) National Statistics

Table 1. 2: EMPLOYMENT IN THE UK HOSPITALITY INDUSTRY 2004-2007

2004*

2005*

2006

2007

Contract food service providers

179, 600

178, 300

182, 600

181, 600

Hotels

247, 100

238, 400

238, 500

245, 000

Pubs, bars and nightclubs

368, 400

333, 900

297, 700

319, 600

Restaurants

518, 700

514, 700

499, 700

526, 700

Hospitality services

402, 100

379, 900

390, 300

417, 400

TOTAL WORKFORCE

1, 917, 300

1, 843, 000

1, 866, 300

1, 960, 700

Source: Labour Force Survey [www. caterersearch. com](http://www.caterersearch.com)

Table 1. 3: UK resident population estimates 2004-08

2004

2005

2006

2007

2008

Population (000)

59, 846

60, 238

60, 587

60, 975

61, 412

% change year on year

—

0. 7

0.6

0.6

0.7

Source: Monthly Digest of Statistics, August 2009, statistics.gov.uk

Table 1. 4: UK GDP at Current and Annual Chain-Link Prices (£m), 2004-08

2004

2005

2006

2007

2008

Current Prices

1,202,956

1,254,058

1,325,795

1,398,882

1,446,113

% change

—

4. 2

5. 7

5. 5

3. 4

Annual Chain-Link

1, 227, 387

1, 254, 058

1, 289, 833

1, 322, 842

1, 332, 652

% change

—

2. 2

2. 9

2. 6

0. 7

Source: Economic and Labour review, August 09, statistics. gov. uk

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Table 1. 5. UK rate of inflation (%) 2004-2008

2004

2005

2006

2007

2008

Inflation (%)

3.0

2.8

3.2

4.3

4.0

Change year on year

—

-0.2

0.4

1.1

-0.3

Source: Monthly Digest of Statistics August 2009, National Statistics website

Table 1. 6: Proportion of nights spent and expenditure on hotels, motels or guest houses and other accommodation in the UK by UK and Overseas residents (%) 2007 & 2008

Nights (%)

Expenditure (%)

2007

2008

2007

2008

UK Residents

Hotel, motel or guest house

23

23

46

48

Other accommodation

77

77

54

52

Overseas residents

Hotel, motel or guest house

23

22

50

50

Other accommodation

77

78

50

50

Source: UK Tourism survey 2007 and 2008, VisitBritain/International
Passenger survey 2007 and 2008, National Statistics.

Table 1. 7: Golden decade of sports

Event

Sport

Year

Location

Ryder Cup

Golf

2010

Wales

Olympic Games

Various

2012

London

Commonwealth Games

Various

2014

Glasgow

Rugby World Cup

Rugby

2015

England

World Cup???

Football

2018

UK

Cricket World Cup

Cricket

2019

England

Table 1. 8: Major Players in UK Hotel Industry

Company

Revenue per year (£m)

Accor UK Business & Leisure Hotels Ltd

198. 3

De Vere Hotels & Leisure Ltd

248. 2

Guoman Hotels Ltd

220. 4

Hilton International Hotels (UK) Ltd

58. 10

InterContinental Hotels Group PLC

1, 850. 00

Macdonald Hotels Ltd

135. 4

Marriott Hotels Ltd

149. 5

Millennium & Copthorne Hotels PLC

702. 9

Premier Inn Hotels Ltd

159. 5

Travelodge Hotels Ltd

287

Source: KeyNote

Appendix 1: The Economy in three recessions (bbc. co. uk)

Appendix 2: Oil price rise 2000-07 (bbc. co. uk)

Appendix 3: Employment (statistics. gov. uk)

Appendix 4: UK Hotel Market Forecast.

Appendix 5: Number of establishments