

The international business environment

Key concepts

The main concepts covered in the chapter are:

- The macroenvironment including political, economic, social and technological factors
- The microenvironment including the nature and structure of the organisation itself, suppliers, marketing intermediaries, existing customers and competitors
- Factors that may potentially make the international business environment more homogeneous.

Introduction

This chapter looks at the business environment in which leisure and organisations operate today. It examines the forces and factors that are in action within this environment, currently, and assesses their likely impact on these sectors.

Where appropriate, the authors will highlight those areas where there are differences between these sectors and between different countries, in relation to the business environment.

For the purposes of this chapter, the business environment will be split into two parts as follows:

1. The *macroenvironment* which is made up of societal forces that cannot be controlled by organisations. They can only try to anticipate them and respond to them as effectively as possible. We will consider these factors under four headings, namely political, economic, social and technological.
2. The *microenvironment* consists of those factors that are within the immediate business environment of the organisation. As such, they are capable of being either controlled or influenced by the organisation. We will consider these factors under five headings. In other words, the organisation itself, suppliers, marketing intermediaries, existing customers and competitors. The organisation must seek to manage those factors in line with its objectives.

However, it is important to note that the two are interrelated. For example, the relationship between an organisation and its suppliers and marketing intermediaries is partly influenced by a political factor, namely government legislation on contract law, to give just one instance.

The macroenvironment

The macroenvironment has an impact on the three elements of the marketing system: the product, the market and the ways in which the product is marketed to the consumer.

Furthermore, in the context of this chapter, it is important to recognise that macroenvironmental factors operate at three geographical levels, at least, namely:

1. The *national level* where the factor is purely significant for organisations operating within the domestic market of that one country. Nevertheless, this could also mean foreign companies who sell their product in that country. For example, a change in German tax law would have an impact on a French hotel chain that operates units within Germany.
2. The *European level* where the factor is significant within Europe specifically. Given that Europe does not exist as a single political or economic entity at the moment, any such factors are likely to be confined to the member states of the European Union only. An example of this is the Package Travel Directive.
3. Those issues which exist on a *global scale* and have an influence which is on a scale greater than that in Europe. An example of this is the computer reservation systems (CRS) which are becoming increasingly global in nature.

Clearly there are two sides to this set of factors. In other words, there are those which originate in Europe and go on to influence countries outside Europe, and there are those which, though non-European in origin, have an impact on the European business environment.

Many argue that, currently, leisure organisations are living through a period when their business environment is particularly volatile. This perceived volatility has underpinned many developments in management thinking, such as the concept of 'Thriving on Chaos' championed by Tom Peters.

We will now begin to look at the current macroenvironment to attempt to see how volatile it is in reality. Certainly, it is a truism that the macroenvironment is always undergoing some change. It is therefore obvious that any discussion of it in this book can only ever be a snapshot taken at a specific time.

Political factors

Europe is clearly in a period of rapid political change, which is of great significance for the European leisure sector.

On the *national level* there are a number of political factors that influence the product, market and marketing activity within these sectors. A few examples will illustrate this point.

- *Government policies* on topics as diverse as the following:
 - governmental financial assistance for the leisure sector;
 - the funding levels enjoyed by local government;
 - individual and corporate taxation;
 - state ownership within the economy, including the privatisation of state-controlled industries;
 - social security policies;
 - the quantity and dates of public holidays;
 - the curriculum in schools;
 - the conservation of historic buildings;
 - border controls and the freedom of movement granted to the citizens of a country;
 - relations with particular foreign countries.
- *Government legislation* on a range of issues including:
 - health and safety at work;
 - consumer protection;
 - advertising;
 - holiday entitlement;
 - transport operations.

These lists, in relation to government policies and legislation, are both short and selective but they do give an impression of the breadth of influence governments may have over these sectors.

Government policies and legislation are notoriously unpredictable as they usually reflect short-term domestic political factors, such as election campaigns.

- *Political stability* is crucial, given that leisure activity only tends to flourish when the political situation is stable. Instability can take a number of forms, including:
 - Politically motivated strikes and demonstrations which can disrupt tourism sectors, by closing down airports and rail networks, for example. Given the importance of the leisure industry to many national economies, as well as the importance which citizens attach to their holidays, trade unions realise that disrupting tourism can give them a powerful weapon. Air traffic controllers, for example, have used this tactic successfully in recent years.
 - Terrorism, where in some countries, tourists have become deliberate targets. Terrorist groups, who wish to undermine governments, seek to harm the national economy which may well mean attacking tourism, given that in many countries, tourism is a crucially important sector of the economy. In other cases, tourists may be attacked because of their perceived lack of moral values, by terrorists whose motivation is both religious and political.
 - It is often the perception of terrorism rather than the reality that has the greatest impact on tourism sectors. For example, although tourists were never deliberately targeted during the years of conflict in Northern Ireland, the perception of the situation undoubtedly harmed the development of tourism in the region.
 - The terrorist attacks in 2002 in Bali and Kenya have demonstrated the catastrophic effect that terrorist attacks can have on the leisure and tourism market in destinations.

- The events of September 11, 2001 in the USA also showed the disastrous impact terrorism could have on people's general willingness to travel worldwide.
- Wars which make leisure activities impossible for the local population and make it unattractive or impossible for outsiders to take trips to the war zone. A sad example of this is the former state of Yugoslavia, where civil wars seriously damaged the once booming tourism and hospitality sectors. Only when war ceases can such places begin to rebuild their tourism and hospitality sectors as we have seen recently in Croatia, for instance.
- The extent to which governments are seen to be in control of the country, so that law and order can be maintained, rather than day-to-day life being largely determined by groups who are not part of the state. This is clearly a problem in Russia, with the rise of powerful organised crime syndicates.

A few examples will demonstrate that while the impact of national political factors is predominantly domestic, they do have an influence on people and organisations beyond the national boundaries. These examples include:

- the civil war in the former Yugoslavia which forced foreign tourists and tour operators to seek alternative destinations, both within and outside Europe;
- the package of financial and nonfinancial assistance offered by the French government which helped persuade the Disney organisation to site Disneyland Paris in France;
- the growing freedom of movement of citizens of the former communist countries of Eastern Europe which is leading, slowly, to more of their population taking holidays in Western Europe and beyond.

If we turn our attention now to political factors which exist at a *European level*, the most important one clearly relates to the European Union.

The European Commission affects tourism, leisure and hospitality, within member states, in a wide variety of ways, including:

- Legislation such as the Package Travel Directive which sought to improve consumer protection, in the field of package holidays, across all member states.
- The activities of its directorate, DG XXIII, which is charged with developing tourism within the European Union.
- The funding of tourism projects through a range of schemes, including the European Regional Development Fund, for example. It is probably not an exaggeration to say that in some countries, such as the UK, more public funding for tourism has come from the European Commission than from national governments in recent years.
- European Union-wide tourism marketing campaigns on themes such as cultural tourism, involving organisations such as the European Travel Commission.

The current area of enlargement of the European Union means that these influences are encompassing more and more countries.

At a pan-European level, the Council of Europe continues to play a role in leisure through its work in the field of conservation.

If we look at political factors on the *global scale*, we can see that they operate in two directions as we noted earlier. First, there are those factors which originate outside Europe, but which influence European consumers and organisations.

For example, there are the policies and legislation of non-European governments. This includes the attitudes towards tourism of the governments of the main destination countries

for European tourists such as the USA, Egypt, Israel, Kenya and Thailand for example, together with that of other generating countries such as the USA and Japan.

Conversely there are those European factors that influence consumers and organisations outside Europe, such as the European Commission's campaign to attract non-European tourists to visit Europe to arrest the decline seen in recent years in Europe's position in the global tourism market.

The only agency operating on a global scale in leisure is the World Tourism Organisation (WTO) based in Madrid. It brings together governments from around the world and is particularly active in the areas of global policy, data collection and training.

However, today, the major political factor in the global business environment for leisure is terrorism which is a truly global phenomenon. The activities of the terrorist groups together with the so-called 'war on terrorism' are felt worldwide.

Economic factors

Mirroring the structure of the last section, we will begin by looking at economic factors at the *national level*. These include the following:

- Interest rates which affect both market demand and investment in new physical products such as hotels, theme parks and leisure-shopping complexes.
- Inflation figures, given the higher level of inflation, the more difficult it is to engage in long-term financial planning.
- Levels of unemployment, as these affect overall demand.
- Social security benefits which, if they are low, may mean that many people who are jobless, elderly or sick may be unable to afford the products of the leisure sector.
- The distribution of wealth in society, in other words, is a small group rich while the majority are relatively poor, or is wealth more evenly distributed? This has an impact on the value and nature of demand and is largely influenced by taxation policies.
- Salary levels, which if high may encourage companies to try to find ways of reducing the labour needs of their operations.
- Currency-exchange rates which affect outbound tourists and those organisations which service their needs.
- Countries with balance of payment deficits in general, or specifically in relation to tourism, may be motivated to bring in policies designed to boost tourism and leisure spend.

Clearly, these factors have implications beyond the national frontiers. For example, if a country has relatively high wage rates, hotel chains may seek to recruit staff from countries where pay rates are lower. Thus, German hotel companies recruit Turkish workers, while many London hotels recruit staff from the Philippines, for example. Likewise, low interest rates and a buoyant economy in a country may encourage investment from foreign companies.

At the *European level*, the key economic factors are increasingly those which are being influenced by the actions of the European Commission. As these are politically motivated, they were outlined in the section on political factors. They include:

- the abolition of duty-free sales between member states;
- the idea of harmonising sales taxes, both in terms of the rate and the goods and services on which they are levied;
- deregulation and liberalisation of markets that have been largely regulated by individual national governments, such as air travel.

Perhaps most significantly, there is the Euro Zone within the European Union. While fraught with difficulties, this project has already had a marked effect on the leisure market in the 12 countries currently using the Euro.

The tourist flows between member states which have always been influenced by currency exchange rates, have been encouraged by the removal of uncertainties in exchange rates. It has also made forward planning by the tourism industry a much more practical activity. It will also increasingly take away the income as many travel agencies and some hotels and airports earn from currency exchange transactions.

At the supranational but sub-European level, Eastern Europe again stands out as a distinctly different region. Its relatively low level of economic development makes it attractively inexpensive for Western Europeans; hence the popularity of skiing holidays in Bulgaria and Romania. On the other hand, the lack of economic stability and high inflation rates put off potential foreign investors.

Within the overall pan-European context, differential levels of economic development and wealth between countries are still a motivator for flows between certain countries. It is one of the reasons, along with others, why more Swedes visit Greece than vice versa.

On the *global scale*, the only real truly global economic factors are, perhaps, the trade treaties like the GATT agreement and the continuing moves that are increasing the power of transnational, vertically and horizontally integrated corporations. Europe is playing a leading role in this trend through hotel chains such as Accor with its ownership of the Motel 6 chain in the USA. However, Europe is also affected by this trend in reverse; hence the growing presence in Europe of McDonald's over the years.

Finally, on the global scale, differences in levels of economic development are still a motivator for trips to certain regions. This is particularly true of tourist flows from Europe, where places such as Thailand, Goa Beach, Dominican Republic and Cuba are becoming particularly popular for sun and sand holidays, because they are inexpensive for most Europeans, due to their relatively low level of economic development.

Social factors

These can, somewhat subjectively, be divided into several categories, namely:

- demographic factors, in other words, those concerned with population structure in terms of characteristics such as age, sex, religion, race, education, and birth, death and fertility rates.
- social concerns like crime, health and environmental issues.
- the emergence of distinctive subcultures within societies that share certain values, and perhaps, characteristics as consumers. It could be argued that these are the core of the 'lifestyle marketing' which we have increasingly seen since the late 1990s.

At the *national level* the most important *demographic characteristics* include:

- The age structure of the population which is important both in terms of the target markets for an organisation's marketing, and its recruitment policies.
- The role and influence of women in society and their participation in leisure activities, tourism for pleasure and business travel. In some countries, including most of those in Western Europe, women are already important markets in leisure.
- The existence of ethnic minority communities within individual countries who may well differ from the majority of the population in terms of race, language and religion. These groups may provide well-recognised valuable niche markets for airlines, who can sell tickets between the country where the person lives and the country where their

families originally lived, or still live. This is seen in relation to Turkish people living in Germany, for example.

The other side of the coin is where attempts are made to encourage people from ethnic minorities to take part in leisure activities in their country of residence. For example, great efforts have been made in the UK to encourage people from the Asian and Afro-Caribbean communities to experience countryside recreation.

If we look at these same three factors at the *European level*, we will see there are large differences between individual countries.

People in Western Europe have been told they are living through an explosion of the so-called 'demographic time bomb' where populations will become increasingly aged. This growth in older people reflects improved health care, for example, and is clearly being seen in countries like Germany and the UK.

However, in other parts of Europe, the main characteristics of the population in terms of age is that of a youthful population. This is true not only in terms of numbers, but also spending power. Spain provides a good illustration of this point.

While the role of women in societies in Europe is, apparently, slowly becoming increasingly similar between different countries, there are still differences between some countries of Europe such as Norway and Greece, for example.

Finally, some European countries have large ethnic minority communities, largely as a result of immigration, while others have relatively small such population. Generally, those countries with strong colonial traditions, such as Britain and France, and those where the demand for labour has outgrown indigenous supply, such as Germany, tend to have the largest such communities. Conversely, smaller countries with no such colonial tradition such as Ireland tend to have small ethnic communities.

However, in some countries, there are minority groups which are long established and are not a result of immigration, yet they remain culturally distinct from the rest of the population. This is true of the Walloons in Belgium, the Basques of Spain and the Corsicans in France.

In terms of the *global level* in relation to demographic factors, the main link between Europe and the rest of the world is principally a matter of demographic change in countries outside Europe where European transnational corporations sell their product.

Let us now turn our attention to *social concerns*, beginning with the *national level*. We will focus on the following concerns, which all have an influence on leisure.

- Crime discourages people from visiting places which develop a particularly bad reputation in terms of crime generally, and crime against tourists more specifically. On the other hand, if the appeal of the place is strong enough, it may simply result in tourists exercising more caution. Some Italian cities, have suffered in this respect, for instance.
- Health issues, which can be both a threat and an opportunity, for tourism sectors. The threat is posed if countries, or parts of them, are perceived to represent risks to visitors' health in some way. For example, many beaches in the UK are perceived to be a health threat because of pollution. Other health threats present in some European countries include rabies, a water-borne virus in St Petersburg and a relatively high risk of food poisoning in some of the hotter countries. In early 2003 we also saw how the SARS virus decimated the inbound tourism market and the domestic leisure market in China and Singapore. In every country, skin cancer and AIDS are now widely recognised to be tourism-related diseases.

However, health concerns are also an opportunity for tourism sectors as is evidenced by the growth of leisure facilities within hotels, the resurgence of many spa resorts and

the opening of numerous health farms. They have also provided new opportunities for caterers to develop new menus and themed restaurants.

- Lastly environmental issues, which again represent both threats and opportunities for tourism sectors. The threats relate to the concerns with what tourism can do to the physical environment in particular, such as high-rise development in coastal resorts and the waste in hotels in terms of everything from water to packaging material. These concerns might theoretically result in consumers rejecting organisations that they believe are involved in harming the environment. There is also a danger that governments will legislate if public concern reaches a serious level. Much of the industry is therefore currently engaged in attempting to regulate its own behaviour to prevent both threats becoming reality.

The opportunity is the fact that many consumers, in some countries, will pay a premium price for a more environmentally friendly product or will show brand loyalty to a company which they believe shows a responsible attitude towards the environment. A frequently quoted single example from the hospitality sector is the Hotel Ariston in Milan.

Again, if we consider these three issues on a *European level* we can see that there are substantial differences between individual European countries.

Crime, for example, is not perceived to be on any significant scale in Scandinavia, even in the capital cities. Conversely, in Russia, for example, crime against tourists is almost an accepted part of life.

There are also situations in Europe where certain nationalities develop a reputation for criminal activities they perpetrate on tourists, rather than they themselves suffering from criminal activities. An example of this is the reputation which – rightly or wrongly – British ‘lager louts’ have in the islands of Greece.

Across Europe there are also large variations in what is considered criminal activity that needs to be suppressed by the authorities. In cities like Amsterdam, for instance, organised prostitution is not only tolerated, but it has almost become an accepted part of the tourism product, just another aspect of the city’s heritage. Meanwhile, in other European countries, prostitution is perceived as a serious problem, to be actively discouraged.

When we move on to look at health issues, there are also large national variations. Again, Scandinavia is seen to be a place with few of the health risks outlined earlier, while countries like Russia are seen to be relatively much less healthy.

Finally, concern over environmental issues is far more highly developed in the countries of Northern and Central Europe, than those in Southern and Eastern Europe, generally. Maybe this reflects the fact that the former were industrialised and urbanised relatively early and so have had to face the resulting problems, for longer.

There are also variations between countries in terms of what are considered to be the most important environmental issues. In some it is industrial pollution, while in others it is waste and recycling. Wildlife protection is a major political issue in some countries and of little significance in others.

Interestingly, in the three issues we have focused on here, there appears to be something of a division in Europe, between North and South, and East and West.

If we look at these issues on a *global scale* what is instantly clear is that the differences within Europe appear minor compared to those between Europe and the rest of the world.

Europe, for instance, has no country where street crime and random killings reach the level found in many cities in the USA, while levels of assault and robbery in the street come nowhere near those found in many cities in Africa and South America. On the other

hand, there are regions of the world where the level of casual street crime in Europe might appear high, such as much of the Middle East.

In terms of health, the differences are even more dramatic, with large areas of Africa and Asia subject to the risk of Malaria, Yellow Fever, Hepatitis, Typhoid and Cholera. However, again, there are also countries as healthy or even healthier than Europe as a whole, for example, Canada.

In relation to environmental issues, there are also some variations. In some countries, rampant development is the order of the day with little concern for the environment. Examples of this include the Amazonian rain forest in South America, and some of the newly industrialised countries of Southeast Asia. However, there are also many examples of countries with a strong environmental ethos outside Europe, like Canada again.

Lastly, there are the *subcultures*. These are interesting because many of them appear to cross national boundaries. It is therefore largely irrelevant to seek to divide them into *national level*, *European level* or *global level* factors, as we have done elsewhere in this section. These subcultures include:

'Euro-students' who go to other countries to study
 animal rights campaigners
 teenage consumers
 Internet users
 participants in fashionable sports such as snow-boarding.

Three points can be made about these subcultures in relation to marketing as follows:

- (i) Each subculture is reflected in lifestyles, so that when targeting these market segments, marketers need to adopt a lifestyle-based approach to their marketing.
- (ii) Most of these subcultures are dominated by younger people.
- (iii) They are found in all or most countries of Europe to a greater or lesser extent. Perhaps these subcultures are the forerunners of the much-vaunted 'Pan-European Consumer'.

The four groups outlined earlier all have a relevance to marketing in tourism sectors. 'Euro-students' are major customers for packages such as the 'Inter-Rail' scheme, while animal rights campaigners are a threat to some types of visitor attraction like zoos or bullfights. Teenage consumers are increasingly being offered the chance to take holidays separately from their parents, usually based on activities or special interests.

Internet users may be the first to start using home-based new technology to access tourism products, thus bypassing the travel agent. The final group are niche markets for the growing range of activities and special interest holidays. However, it is also interesting to note that most of these subcultures probably originated outside Europe, particularly in the USA.

Perhaps they are thus not a result of the development of a 'Euro-youth' subculture, but rather are evidence of the growing power of American global power in the media and consumerism.

This global marketing power of brands has been seen particularly strongly in the leisure industry through brands as diverse as Reebok, Nike and Manchester United Football Club.

Technological factors

The last of the four macroenvironmental factors that influence the business environment of leisure is also the one for which national boundaries are the least relevant. It could be argued that new technology is the key to the growth of the 'global village', which is making

national boundaries appear less and less important for industries. This is clearly the case in leisure where technology is a catalyst for globalisation. This is partly because the cost of developing these technologies is so great that cooperation between major national corporations in different countries is required, while the developments in communication technology are making communication on a global scale easier all the time.

We will, therefore, simply discuss each of the most significant technological developments and their implications for leisure marketing. They can be divided into several categories, namely:

- operational technologies
- communication technologies
- transport technologies
- product technologies.

Let us begin with the *operational technologies*. These include:

- Computer reservation systems which are becoming ever more sophisticated. At one time, most related just to the product of one company such as an airline or a hotel chain. Now there are, increasingly, Global Distribution Systems (GDS) which are worldwide in coverage and link together the products of a large variety of suppliers. This makes it possible to put together ever more complex packages, but it also offers potential for travellers or travel agents to put together tailor-made individual itineraries.
- Smart Cards, which can store a multitude of information and can be used for a range of purposes already, even at their current relatively low level of sophistication. They can function as keys to help guests gain access to hotels, individual bedrooms and health clubs. In addition, airlines are experimenting with their use instead of tickets.
- Computer databases which can increasingly handle more and more data, so that marketing messages can be targeted more precisely to various target markets.
- Computer-based management information systems which provide managers with up-to-date information on matters as diverse as stock levels, visitor numbers, financial performance and information on guests' tastes and preferences.
- Food production and service technologies which are being utilised to reduce labour input and thus hold down costs.

Then there are the *communication technologies*, which leisure in particular is beginning to exploit, including the following:

- (i) Multimedia systems such as CD-ROM which can give consumers direct access to three dimensional images – and sounds – in relation to leisure products. In theory therefore, a guest might call up an image of a resort that a tour operator is featuring, and then go on to study an image of the beach. They would then look at images of the hotel facilities such as the restaurant and swimming pool. Finally, they would look at the interior of the specific room they would be allocated, and the view from the window.

This way the visitor would have realistic expectations and this should lead to less complaints from those consumers who believe that they have been misled by the traditional brochure.

Some operators are beginning to install multimedia kiosks in some branches, but multimedia systems are also increasingly being bought by people for installation in their own homes.

- (ii) Interactive television, which allows people to not only receive information via their television, but gives them an opportunity to take action in response to this information.

In other words, a consumer is able to call up information on their television screen and then make a booking via the television.

- (iii) Internet and other data services provided through computers, which give consumers access to information on a worldwide scale. The Internet has become a major factor in both distribution and promotion in leisure, and has brought new organisations into the leisure industry such as Microsoft with its Expedia online travel organisations.
- (iv) The well-established Mintel system in France which is an interactive system linked to the telephone. People in France, who have this system in their home, call up information on rail services and holidays, for example, and then make direct bookings via the small computer which is linked to their telephone.

All four of these developments in communication technologies have had, and will continue to have dramatic effect on the distribution chain in the leisure sector. They give the consumer the potential ability to access information and book directly without the need for a marketing intermediary.

Amongst the areas where the Internet has become important in leisure marketing are:

- reserving theatre tickets
- booking airline tickets
- booking a package holiday
- purchasing tickets for sporting events.

The relevant intermediaries, including theatre booking agencies and travel agents, could thus be eliminated from the transactions. This has attractions for the theatres, hotels and tour operators, who would no longer have to pay commission, usually around 10 per cent, to these intermediaries. Thus they could either reduce their prices and/or increase their profit margins.

However, this scenario could fail to develop further for a number of reasons, including:

- intermediaries responding by emphasising personal service and reducing commission rates;
- consumers' resistance to using the new technologies;
- those who control the technologies deciding not to feature their competitors' information to prevent potential competition.

It is interesting to note that both the operational and communication technologies we have discussed could have another dramatic impact on the distribution of products in leisure specifically. Many of them, such as smart cards, will also increasingly be introduced by companies in other industries, food and clothes retailers and banks, for example. It is possible that these latter types of enterprise will increasingly use these technologies to begin to act as travel agents, selling package holidays. Thus, in the future, the premises of such businesses may offer the ultimate package holiday, and the consumers may not only book the holiday there using the smart card and a multimedia system, for example, but may also purchase their clothes, suntan creams and insurance, as part of the package using credit offered by the store or bank.

The last type of communication technologies, we will consider, relate specifically to the business travel sector. It is argued that a number of ongoing technological innovations will reduce the need for business travel. These include:

- E-mail
- Video conferencing
- Computer conferencing.

However, while these will undoubtedly have an influence on business travel, they are unlikely to reduce it dramatically, given that business travel is thought important for two main reasons, namely:

- it is seen as a 'reward' by staff or as a 'perk of the job';
- it is often essential for sales people to meet their customers face to face and socialise, before the latter will agree to purchase.

Transport technologies have always been important, particularly to leisure, and at present, the following seem to be the main relevant areas of innovation:

- Fast trains, particularly the French TGV, with the introduction of a train capable of covering 500 kilometres in an hour. This will lead to increased competition on short-haul routes in Europe for airlines and could also stimulate the weekend break market, where speed is of the essence, as time is limited. This fast train network will spread across Europe over time, until we have a pan-European fast rail service network.
- The development of larger aeroplanes and faster aircraft. These could reduce per capita costs and thus prices, while also making longer-haul destinations more accessible for short break holidays.
- In-car navigation systems that can provide tourists travelling in a foreign land with a print out of a route to their chosen destination. They will also help motorists avoid traffic jams.
- Faster ferries, both conventional and those based on newer methods of propulsion and innovative design. These may speed up loading times which should make them more competitive.

In terms of *product technologies* the most important current development must be the field of virtual reality. Some people are claiming that virtual reality could destroy leisure by taking away people's motivation to travel for pleasure.

The argument is that virtual reality will offer people such incredible simulated experiences in their own homes or in high street arcades and centres that they will have no desire to travel to undergo the authentic experience.

Virtual reality uses sensations that are transmitted through gloves, helmets and complete suits to give the consumer a multimedia sensual experience that mimics reality.

Thus, in the future, the consumer may be able to enjoy a range of virtual reality experiences, including:

- 'attending' a Pavarotti concert any night you want rather than having to wait until a concert is scheduled near your home town;
- feeling the sun on your face, and hearing the waves lapping the shore as you lounge on a beach on a deserted Pacific Island;
- enjoying a meal in a three-star Michelin restaurant in your own home.

The list of potential virtual reality experiences is almost endless.

But virtual reality is not only striving to be as good as reality, it aims to be even better than the real thing.

For example, its interactive nature means you can do things you would never be allowed to do in real life, such as pilot a jet fighter or shoot someone in a gunfight in a Western saloon. It also allows you to be good at activities that in the real world are beyond your abilities, such as playing football for your national side or windsurfing when you cannot swim, or are frightened of water.

Some have even suggested that virtual reality could be a valuable tool in the development of sustainable tourism. Even if people can be given a good simulated experience at

home, they may choose not to seek the equivalent authentic experience. In other words, a virtual reality trip around Venice may deter someone from making the trip to the real place. This could be a good way of reducing numbers of visitors to sites and cities that are already receiving too many visitors.

However, this ignores the factors that motivate trips, which would not be met by virtual reality substitutes, namely:

- social contact with local people and other tourists;
- the status value attached to visiting the authentic place.

It is also true to say that virtual reality is currently only at a very early stage in its development, such that it is still dominated perhaps by products aimed at younger males. While visual images are often good, the other senses are not well catered for, particularly smell and touch. It is largely too, more of an individual than a group activity. Nevertheless, virtual reality will be both a serious threat and a huge opportunity for leisure sectors in the years to come.

In addition to virtual reality, there are other product technologies which are influencing leisure, including:

- improved in-flight entertainment systems in airlines;
- increase in our ability to create 'artificial environments' such as the domes at Center Parc, which may one day lead to underwater holiday centres, for example;
- new sports based on technological innovations.

The macroenvironment and leisure

There is no doubt that the key factors in the macroenvironment for different types of organisations within the leisure sector are different. This is illustrated in Table 5.1 which outlines what the authors consider to be key issues in the macroenvironment threats and opportunities for six types of organisations. Only one threat and opportunity are listed for each organisation, although in reality there are clearly a number for each organisation. While this is a highly simplistic and generalised picture, a number of points do emerge, including the following:

- Some factors are highly relevant to more than one sector, for example – virtual reality.
- A factor which is an opportunity for one type of organisation (recession for a mass market, low price tour operator) can be a threat for others (such as international hotel chains). Likewise, new communication technologies allows tour operators to bypass travel agents so that they represent opportunities for the former, but threats for the latter.
- Some factors can be both potential threats and opportunities for an organisation. Virtual reality could thus be a threat for a theme park, if it were introduced by competitors, but an opportunity if the theme park was first to introduce virtual reality. Whether a factor is an opportunity or a threat, therefore, is often a function of how the organisation responds.

Clearly the table is highly subjective, but hopefully it does give an impression of the diversity of the business environment and the different ways in which the environment might affect different types of leisure organisations.

Perhaps we should conclude the section by trying to make some general comments about the macroenvironment in relation to leisure organisations.

Area of the business environment sector	Political		Economic		Social		Technology	
	Opportunities	Threats	Opportunities	Threats	Opportunities	Threats	Opportunities	Threats
Local authority sports centre	Government policies to encourage people to exercise for the sake of their health	Government control on local authority expenditure	Economic recession	Growth of private sports centres and health farms	Growing concern over health	If medical opinion changes on the health benefits of exercise	New types of exercise equipment	Virtual reality
Private-sector theme park	Reduction in corporate taxation	Stronger health and safety at work legislation	Growth in disposable income	Rise in interest rates	An increase in young people as a proportion of the population in some countries	A reduction in young people as a proportion of the population in some countries	Virtual reality	Virtual reality
International hotel chain	Political change in eastern Europe, the Middle East and southern Africa	Strong labour protection laws in the countries in which they hope to expand	Low interest rates	Recession	Environmental concerns about design, waste disposal, pollution and energy	Environmental concerns about design, waste disposal, pollution and energy	New food production service systems	New communication technologies such as e-mail and computer-and video-conferencing
Major European airline	Deregulation and liberalisation of the skies	Increased competition due to deregulation and liberalisation of the skies	Reductions in fuel prices	Recession	Growing number of women business travellers	Environmental concerns over noise and pollution	New operational technologies such as smart cards	New communication technologies such as e-mail and computer-and video-conferencing

Table 5.1 Key issues in the macroenvironment by different sectors

Continued

Area of the business environment sector	Political		Economic		Social		Technology	
	Opportunities	Threats	Opportunities	Threats	Opportunities	Threats	Opportunities	Threats
Major mass volume, low price tour operators	Single European currency	Further European Commission consumer legislation	Recession	Major fluctuations in currency exchange rates	A growth in the number of students and families who are likely to be major customers for their products	Fear of skin cancer and AIDS in mass-tourism destinations	Interactive television which will allow them to sell directly to consumers	Virtual reality
Small independent travel agencies	Reductions in corporate taxation	Single European currency which will reduce currency transactions on which commission is earned	Rise in disposable income	Recession	Growing number of older people who may want to buy high value holidays such as cruises	Any trend towards more independent travel	New GDS installed in agencies	New GDS accessible directly to consumers in their own home

Table 5.1 Key issues in the macroenvironment by different sectors (*Continued*)

First, it appears there may well be a difference between organisations in leisure and those in tourism or hospitality. Many leisure organisations are affected mainly by factors that are mostly domestic in nature, rather than is the case for most tourism and hospitality factors, where international factors are often very significant. For example, in terms of political factors, the most important one for leisure organisations is probably domestic government policy on health and local government spending, for example. The most important factors for most tourism and hospitality organisations, on the other hand, will probably be international, such as the price of raw materials, such as food and fuel which are sourced from abroad, global distribution systems and the impact of political change in other countries on market demand. Secondly, there are differences between the three sectors in terms of which category of factor is of most significance. For leisure organisations, social and economic factors such as health concerns and recession are very important, while for tourism and hospitality, political factors and technological factors are of crucial significance.

There are clearly also differences in the macroenvironment based on other criteria, such as whether organisations are in the public, private or voluntary sector, and their size.

Meanwhile, it is time to switch our attention to the microenvironment.

The microenvironment

We will consider the microenvironment under five headings as follows:

1. the nature and structure of the organisation
2. suppliers
3. marketing intermediaries
4. existing customers
5. competitors.

These are the elements which are important in the microenvironment of organisations in leisure, and over which the organisation in question either controls or influences.

Each of the five elements will be considered in relation to the following questions:

- How do they vary between organisations in the leisure sector?
- How, if at all, do they differ between different European countries?

The nature and structure of the organisation

There are a number of aspects of the nature and structure of the organisation which have a direct bearing on its marketing function. These include:

- (i) The range of products the organisation offers, the market segments at which they are targeted and the way in which the marketing function is organised to communicate with these markets.
- (ii) Whether the organisation is in the public, private or voluntary sector. Stereotypically, public-sector organisations have a complex set of objectives, rather than simply commercial success. Local authorities, for example, often use tourism as a tool for urban regeneration or development, and as a way of improving infrastructure and amenities which are also of benefit to residents. They are controlled by politicians rather than by managers and boards of directors so that their decisions are often made for political reasons.

Private-sector companies tend to have a more straightforward set of objectives, namely profit maximisation and increasing market share. Decisions are usually taken on the basis of financial considerations, such as the reduction of costs and increasing income.

For voluntary-sector bodies, tourism is often a means to an end. In the case of the National Trust in the UK, for instance, the money generated from tourism is used to further the conservation work which is carried out by the National Trust. It is therefore often a matter of these bodies encouraging tourism, but not when it may conflict with the organisation's main interest, which in this case is conservation.

This issue of the sector in which an organisation exists is an influencable and controllable matter, so that it is appropriate to include it in a section on the microenvironment. For example, some local authorities in the UK, while being in the public sector, have transferred their museums to voluntary-sector trusts. A number have also placed the promotion of their area as a destination in the hands of private-sector companies, which they have set up with commercial partners. In both cases, the main reason for this was to remove them from the bureaucratic restrictions that public ownership can entail.

- (iii) The structure of the organisation, in other words, whether it is monolithic or is subdivided into smaller units. If the latter, these units might be based on functional factors, as is the case with strategic business units (SBUs) for example, or geographical factors, such as regions or countries. The choice of structure has implications for the nature of the product and the marketing function, as well as the market.

Also important, in relation to this subject, is the power of different departments within the organisation, and whether or not it is a marketing-centred organisation or one where the finance department is all-powerful and marketing is merely a small separate department.

- (iv) The decision-making structure of the organisation is also highly significant from a marketing point of view. Sometimes, decision-making is highly centralised, with all major decisions being taken by a head office that could be thousands of kilometres away from the place where the impact of the decision will be felt. Such geographical isolation of decision-making can lead to problems where centralised decisions do not make sufficient allowance for cultural differences between places.

There is undoubtedly a trend towards decentralised decision-making where decisions are taken locally by people who live in the area. While this can be very good, from a local morale point of view, it can also lead to fragmentation.

- (v) Corporate culture is an important factor and has been receiving increasing attention from management theorists in recent years. Cultures can vary in a range of ways, including the following characteristics:
- entrepreneurial or bureaucratic
 - aggressive or defensive
 - dynamic or inert
 - risk-taking or cautious
 - outward-focused or inward-focused
 - backward-looking or forward-looking.

Most corporate cultures, of course, fall somewhere between these extremes.

- (vi) Linked to corporate cultures is the issue of management styles, which do vary. These are often characterised by the terms 'old' manager and 'new' manager. The main differences between both types of managers that are relevant to the marketing function are outlined in Table 5.2.

This is clearly an oversimplistic view and most managers fall between these two extreme positions. It is also possible for someone to be an 'old' manager on one issue and a 'new' manager on another.

The old manager	The new manager
Believes in ad hoc tactical marketing	Believes in strategic marketing planning
Practises crisis management	Practises forward planning
Makes decisions based on judgement, experience and intuition	Makes decisions based on marketing research and factual information
Does not delegate very much to subordinates	Constantly delegates appropriate work to colleagues, wherever possible
Sees himself as a leader making all the key decisions and issuing orders	Sees himself as a team manager, working with the rest of the team and managing through consensus
Believes in experience rather than educational qualifications and training	Believes in experience, educational qualifications and training
Responds to functional problems by cutting costs	Responds to financial pressures by trying to boost income

Table 5.2 The old manager and the new manager

The nature and structure of organisations does vary between tourism, leisure and hospitality, and between countries. However, great differences are also seen between organisations in one sector within a single individual country.

Nevertheless, there are a few generalisations we can make, which although oversimplistic, do contain an element of truth. First, the organisations in the private sector – hotels, tour operators and privately owned airlines – do tend to be more entrepreneurial and dynamic than those in the public sector, including municipal tourist offices, state airlines and sports centres.

Secondly, management decision-making strategies and styles are, perhaps, more centralised and formal in Southern Europe than in Northern Europe, although this situation is slowly changing.

The suppliers

The relationship between a producer and its suppliers is crucial to the quality of the final product. This is true whether the suppliers provide goods or services to the organisation. The supply function also influences the organisation in terms of its costs, and thus its pricing policies, and ultimately, its profit margins.

In leisure, links with suppliers are becoming ever closer, due to two main factors, namely:

1. The growing emphasis on quality, where the quality of the final product is largely dependent on the quality of goods and services provided by suppliers. For example, tour operators are reliant on the quality of rooms allocated to their clients by hotels while restaurant meal quality is partly dictated by the quality of the ingredients chefs receive from their suppliers.
2. Product liability legislation which makes producers responsible for the product they sell, including any defect in it that may be the responsibility of the organisation's suppliers. Under the EC Package Travel Directive, UK tour operators are held legally responsible for the death of a client in a fire in a Spanish hotel, if this were due to negligence on the part of an hotelier.

For these reasons, more and more organisations are seeking to develop closer and closer links with suppliers, to enhance product quality and reduce the risk of legal action.

At one end of the scale this can mean tight controls and occasional inspections by the staff of the organisation. However, in extreme cases, it may mean organisations take over their suppliers through vertical integration, or simply set up operations so that they can supply themselves. Hence, some hotel groups have food production facilities to produce ingredients and meals for its hotel restaurants.

In some cases, vertical integration can be a defensive tactic in a field where particular suppliers are essential. For example, tour operators often buy up or establish their own charter airlines, so they are not dependent, for flight seats, on other carriers which may be owned by their competitor. For, if a tour operator cannot obtain seats on flights, there will be no product for them to sell.

However, we must recognise that the supplier network in many leisure organisations is incredibly complex as can be seen from Table 5.3. These networks can incorporate dozens or even hundreds of suppliers, large and small, at home and abroad.

A private hotel	A local authority museum
Food and drink supplies, both raw ingredients and preprepared meals and drinks	Other departments of the local authority who supply financial, personnel and building services to the museums
Launderers	Consultants who advise the museum on specialist matters
Uniform suppliers	Food or drink for sale in catering outlets
Builders	Souvenirs for sale in retail outlets
Landscape contractors and gardeners	Dealers from where they buy artefacts
Professional advisers such as accountants	Members of the public who donate artefacts to the museum free of charge
The schools, colleges and professional bodies that train their personnel	The schools, colleges and professional bodies that train their personnel
Equipment suppliers in relation to kitchens, for instance	Contractors who make exhibition cases
Furnishers, in terms of chairs and beds, for example	Equipment suppliers who provide tills for the catering or retail outlets, for example
Interior decorators	Furnishers in relation to the museum displays and its offices, for instance
Printers who produce their promotional literature	Printers who provide their guides and catalogues and promotional literature
Computer and telecommunications companies that install and maintain computers	Stationers
Stationers	
Investors who supply capital	

Table 5.3 A private hotel and a local authority museum

There can be differences in supplier–producer relations between countries, based either on law or custom and practice. For example, in some countries, bills are expected to be settled immediately while in other countries, payment is often made some time after the goods and services have been provided.

The supply chain in leisure can be very complex and individual organisations can function both as producers and suppliers, simultaneously. For example, a resort hotel is a producer in relation to some customers, while for a tour operator, putting together a package, it is just another supplier.

Marketing intermediaries

The same complexity is true also for marketing intermediaries, namely those organisations which provide the interface between the producer and its customers.

Interest in marketing intermediaries has also been growing in recent years in leisure for the same reasons as was the case with supplier relationships, namely:

- quality, given that the messages given to potential customers by marketing intermediaries about the organisation's products will affect the market image of the product;
- product liability legislation by which the producers may be held accountable in law for misleading representations of their product, through the EC Package Travel Directive, for example, in the case of tour operators.

Many leisure organisations use an enormous range of marketing intermediaries, through both formal and informal relationships. Figure 5.1 illustrates the range of marketing intermediaries that may be used by a large hotel chain.

As shown in the figure, most of the links with marketing intermediaries are two-way, or at least they should be, for they should also provide information on consumer feedback for the hotel.

This diagram leaves out one vitally important set of marketing intermediaries, namely past customers. There is much research to show that in leisure, many people make purchase decisions based on word-of-mouth recommendations from other people, or their own past experience.

The marketing intermediaries will vary depending on the type of customer being considered. Most business travellers are reached through their employers and specialist business travel agents, for example, while package tourists are communicated with through travel agents. Independent travellers, on the other hand, may rely heavily on tourist information centres and the media.

There are some differences between the intermediaries used by leisure organisations and by those in hospitality and tourism. The main one appears to be that the ones used by leisure organisations tend to be much more local than those used by tourism and hospitality organisations. This may reflect the fact that leisure products often have a much more local market than their hospitality and tourism counterparts. Therefore, while leisure products such as local authority sports centres use local newspapers, their neighbourhood hotel may be using nationally distributed directories and airlines will be making use of national newspapers in other countries.

There are also some national differences in relation to the use of certain types of marketing intermediaries. For example, in France, travel agents are not as important as intermediaries for tourism products, as they are in the UK.

As we noted at the beginning of this section, organisations can both be marketing intermediaries and use marketing intermediaries themselves at one and the same time. For

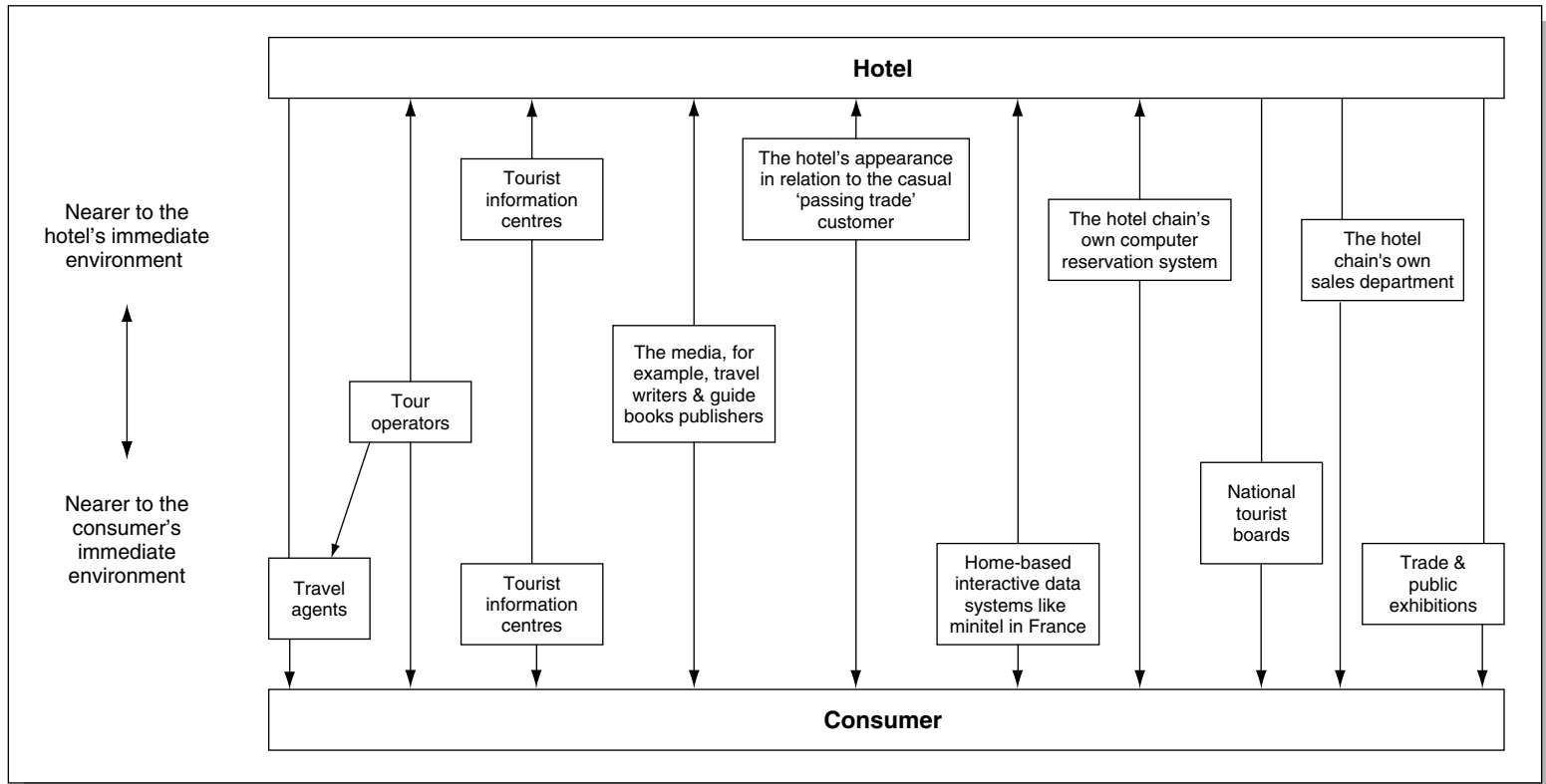


Figure 5.1 The marketing intermediaries of a large hotel chain

example, a tour operator can be an intermediary for a hotel, but also needs intermediaries himself. This also illustrates that there can be more than one layer of intermediaries, in other words, the hotels' message may well reach consumers via both tour operators and then the travel agents which are used by the operator.

Finally, the degree of control and influence an organisation can exercise over its intermediaries does vary dramatically. For example, a hotel has far more influence over the way it is promoted by the company's own sales people than it does over guide books where everything is based on objective inspections.

Existing customers

Existing customers are an important element in the microenvironment of organisations in leisure, because the organisation can influence them in ways which can enhance the effectiveness of its marketing activity.

These ways include:

- Impressing first-time visitors to a theme park, for example, by the quality of product and service offered so that they wish to visit again in the future.
- Encouraging satisfied customers to persuade their friends and relatives to visit a particular hotel or resort, for instance.
- Using incentive schemes to encourage increased use of the organisation's products by existing customers. This is the rationale behind the 'Frequent Flyer Programmes' of airlines and the season tickets offered by some attractions.
- Obtaining valuable data on the nature of the current market for the organisation, from existing customers, which can be used to improve either the product or the way it is marketed, or both.

As these examples illustrate, the relationship between the organisation and its customers is two-way where both influence each other.

Failure to successfully 'manage' existing customers can cause problems for organisations, particularly those which rely on repeat visits. There are times when the wishes of the existing customers can come into conflict with an organisation's desire to attract new customer. For example, removing underoccupied first-class carriages on a train and replacing them with second-class ones because the existing second-class accommodation is not adequate, may upset the loyal first-class passengers who are regular users. This could lead them to changing their mode of travel to the airlines, with a loss of that premium price business for the railway.

The importance of keeping existing customers happy is summed up by the oft-quoted phrase that while a satisfied customer might tell five people about a product, those who are not satisfied will probably tell twenty-five people about their dissatisfaction!

In recent years, the concept of relationship marketing has grown up in leisure as in other industries, in recognition of the importance of managing existing customers effectively.

Competitors

There is a complex interrelationship between an organisation and its competitors. They influence each other in a number of ways including:

- price levels
- product development
- distribution systems

- promotional techniques
- operational practices
- corporate structure and culture.

Strategies in relation to competitors vary between organisations. Some aim for market leadership through innovation while others are content to follow where others lead and learn from their mistakes. Some decide to compete on price while others focus on product differentiation.

While some organisations seem obsessed by their competitors, others seem unaware that they have any competition!

However, for this to be relevant, there has to be competition in the market and that is not true in some sectors of leisure.

Examples of this include:

- The European scheduled airline market where, in spite of the European Commission's 'liberalisation' of the market, there is still no true and full competition. This is partly because many airlines are still in the ownership of the state and receive large public subsidies.
- Local authority leisure provision which is limited by local government boundaries so that one authority will not offer a product in the area of a neighbouring authority. However, there can be limited competition from commercial-sector operators.
- There can also be informal price-fixing in sectors such as hotels in some resorts and urban centres, for instance.

Finally, even if a market is competitive, it is not always easy to identify precisely who its competitors are.

A theme park, let us say Parc Asterix in France could be said to have a myriad of potential competitors, including:

- All other theme parks in the country (Disneyland Paris and Futuroscope, for example), and even theme parks in adjacent countries such as De Efteling in the Netherlands.
- Other attractions in the Ile-de France which are aimed at a similar market, namely families. These might include special events like travelling fairs and circuses or permanent attractions such as La Villette.
- Activities which appeal to families, although they are not formal attractions, and provide opportunities for them to spend their leisure time and disposable income. Such activities might include eating out, strolling in the park or even playing in the garden or on computer games at home.

Furthermore, an organisation might have different competitors for different market segments. For instance, Eurotunnel is probably competing against the cross-channel ferries in the leisure market and the airlines in the business market. The same may well be true in the case of Eurostar.

The microenvironment and national differences

There are some striking national differences in relation to microenvironmental factors. Where they do exist, they are often seen in the following fields:

- Management styles and decision-making structures which are more formal in some countries like Spain, perhaps, than in Scandinavian countries like Sweden, for example. However, this difference is perhaps lessening as modern theories on management style gain broad acceptance across Europe.

- Some elements of the supply chain where differences may reflect differences in contract law and business practice.
- The issue of competition, between countries with different levels of state intervention in the market. The UK for example has consistently, over recent years, reduced its role in the ownership and control of rail travel while in other countries rail operators are still totally state-controlled.

We need to recognise that the microenvironment of organisations has been influenced in recent years by thinking from different parts of the world, including:

- the writings of American management theorist researchers, such as Tom Peters, on corporate culture and structure;
- Japanese theories on supply chain management;
- developments elsewhere in the world, such as the deregulation of the US airline industry in the 1980s which has provided some lessons for the liberalisation of the European air-travel market.

The link between the macro and the microenvironment

There are clear links between the macro and the microenvironment. A few examples will illustrate this point adequately as follows:

- Corporate culture, ideas on management styles and organisational structures are often influenced by social and cultural change such as the growing role of women in business and demographic change.
- Technological developments are often a means by which some organisations can seek to gain an advantage over their competitors.
- Problems with the relationship between suppliers and producers and the need to protect existing customers can lead to political action in the form of legislation, hence the EC Package Travel Directive which was designed to protect consumers and make both suppliers and producers liable for the product they sell.
- Economic recessions can change the basis of competition in a market, where price becomes more important, and can also make organisations more concerned about building brand loyalty amongst their existing customers. It is often more cost-effective to do this than to try tempting people to become new customers in a very competitive market.

Conclusion

The business environment is so complex and diverse that the drawing of all-encompassing conclusions is neither desirable nor possible. The authors will therefore limit themselves to some observations.

- Any picture of the business environment is, like the one presented in this chapter, by definition, dated even on the day when the book is published. The macroenvironment, in particular, is changing dramatically at present, particularly in relation to political change and technological innovation. We may simply be living through an era of rapid change and soon the pace of change may slacken or maybe the business environment of today is the shape of things to come and rapid change is going to be the order of the day in the future.
- At the moment, business environments, particularly the macroenvironment, also vary in many ways between different countries. However, within the European Union, there

are forces at work which are bringing them closer together. Nevertheless, as far as leisure is concerned it is probably still a case of the business environments of Europe rather than the European business environment.

- There are subtle differences between the business environment of tourism and hospitality organisations on the one hand, and leisure organisations on the other. However, overall there are probably more differences between organisations based on their size and type of ownership rather than to which of these three sectors they belong.
- There are many factors at play in the European business environment which have their origin outside Europe. The actions of European leisure organisations are also affecting the business environment in non-European countries.
- Many of the factors in the business environment of leisure organisations are also influencing other sectors of the economy. They are particularly relevant to industries like food manufacturing and retailing, for example, or even education.

These last two points are particularly important, for we should never forget that leisure is a global activity and is part of the broader consumer society as a whole.

Discussion points and essay questions

1. Discuss the current impact of European Commission policies and directives on leisure in Europe, and examine whether or not its influence is likely to grow in the future.
2. Evaluate the factors in the macro or microenvironment which have encouraged some leisure organisations to adopt strategies involving vertical integration.
3. Discuss what you consider will be the three most important factors in the macroenvironment, over the next five years, for *one* of the following organisations:
 - (i) Center Parcs, UK
 - (ii) TUI, Germany
 - (iii) Accor, France
 - (iv) Real Madrid, Spain
 - (v) Disney World, USA
 - (vi) McDonald's, USA.

Exercise

Choose a specific organisation within *one* of the following sectors:

- tour operation
- airline
- accommodation
- arts
- fast food
- sport.

For your chosen organisation, produce a model of its current business environment, including both its macro and the microenvironment.

Bearing in mind its current policies together with trends in the sector, and the world as a whole, produce another model of what you believe its business environment may be in ten years time.

Finally, on one sheet of A4 paper, you should outline the assumptions and evidence on which you have produced this second model.