CHAPTER 4

Exploring the international environment

After working through this chapter, you should be able to:

- Chart the international operating environment of hospitality organizations
- Undertake situational analyses of the internal environment of companies
- Undertake PEST analyses of the external environment
- Recognize and understand the critical issues and trends in hospitality industry that are likely to impact on the future of hospitality

■ Introduction

This chapter introduces you to the ideas of exploring and assessing the wider environment in which organizations operate. We are concerned to explore the play of resisting and supporting forces that can be found and suggest two techniques for identifying them accurately. Without accurate identification, the rest of the management function would be flawed and recommendations based upon inadequate data. We make no apology for presenting the two most popular techniques for you to consider, partly because they are the ones you will come across most frequently when you look at the industry and partly because they perform their job very well. We will highlight some thoughts about their future prospects and what may affect the industry's development over the next decade will be identified and discussed. Having considered the structures of the international hospitality industry, we will also focus on the environment in which those organizations operate. This means looking at the conditions behind the companies and the factors which influence their performance and set the context for their decisions. This will mean considering a number of factors and looking at examples of the way these factors can impact on future developments. You will be introduced to two models that allow you to explore the working environment of a company, both internally and externally.

■ External environment analysis

The reasons for wanting to undertake analysis of the operating environment should be fairly clear if you have followed the arguments in the previous chapters. For readers joining us at this point, we can summarize the major arguments for looking at the external environment in the following points:

- International hospitality operates in an environment of constant change and often these changing forces are completely beyond the control of the destination.
- Events in neighbouring countries, other regions or even worldwide can have profound effects on the level and nature of tourism demand.

- It is crucial to anticipate threats and attempt to minimize them, and identify opportunities and capitalize on them through the use of available resources (destination strengths).
- A situational analysis is the process of combining internal examination (resource analysis) and external information gathering (environmental analysis), and this is usually conducted along the lines of a SWOT analysis, which examines the strengths, weaknesses, opportunities and threats pertaining to any product (Kelly and Nankervis, 2001).
- Planning strategically and managing proactively in such an environment is daunting but necessary.

■ Situational analysis

Any planning relies upon accurate and thoughtful analysis of both the current state of the environment and the desired future state, that which the organization is aiming to achieve. Without understanding the forces at work in the environment, any planning or decision-making is at best guess work. We would also argue that understanding the complexity of the international hospitality environment is important in shaping the direction of the organization. Moreover we would argue that standing still is almost never an option that leads to strategic success as perhaps this example demonstrates. Examine the following example and note the problems that would be encountered by stasis.

Example: The ethnic sector is the most vulnerable to changes

Although there are some operators within the ethnic sector (most notably the Indian food sector) who have developed their offer, it is generally the lack of dynamism within this area that has seen its share being eroded. Intensifying competition means that the ethnic sector will continue to lag behind if key changes are not initiated. Meanwhile, this sector faces a clear challenge from the ready meal sector, which now boasts an array of ethnic options. Multiple grocers are attempting to emulate the take-away experience by packaging their products in a similar manner to that traditionally found on the high street.

This is one of the most popular aspects of the food service industry in the United Kingdom and strongly based on the entrepreneurial activities of small businesses, the sector still finds itself threatened by changes in the market and the competitive environment. The wide range of these threats underlines the importance of undertaking analysis and being open to the consideration of issues which may traditionally have been out with the scope of the core business. Here, for example, restaurateurs will have to consider the challenges from within the retail food sector.

The most common of all approaches to the analysis of the competitive environment is what is usually referred to as the SWOT analysis, although some people call it TOWS – which is exactly the same thing but with the elements in a different order!

SWOT stands for Strengths, Weaknesses, Opportunities and Threats and should be compiled for a specific organization at a given point in time as changes in the environment may change the content of the SWOT. It is often described as a snap shot of a particular moment and this accurately captures the static nature of the analysis offered through a SWOT. The strengths and weaknesses come from the consideration of the internal position of the organization with opportunities and threats coming from a consideration of the external environment. One of the most important distinctions between strengths and weaknesses and the opportunities and threats is the degree of control that managers within an organization can have over them. Strengths and weaknesses derive from internal conditions and therefore, theoretically at least, are within the control of the organization managers. For instance, if the analysis reveals that there is a skills gap in the organization then the problem can be addressed immediately by the management. However if the threat to the organization comes from the prospect of international terrorist attack then the response of local managers may only go part of the way to presenting a solution to the problem. Addressing internal security measures may seem to address the threat but will not deal with the root causes of the threat which will remain even if the likely impact has been reduced (Figure 4.1).

	Factors which help the organization to achieve its objectives	Factors that prevent the organization for achieving its objectives
Internal factors under the control of the organization's managers	STRENGTHS	WEAKNESSES
Internal factors under the control of the organization's managers	OPPORTUNITIES	THREATS

Figure 4.1
Building a SWOT analysis

You may notice some similarities here with the idea of enabling and resisting forces that we identified in the model for this book. In traditional approaches to SWOT these are characterized as helping or preventing an organization but we would encourage you to think about the wider constructions and include cultural factors in developing your approach to SWOT analyses.

The value of the SWOT will only ever be as high as the quality of the data and opinions collected to complete it. Asking an organization about its own performance is subject to the problems of interpretation – some managers are naturally optimistic and err on the side of exaggeration whilst others are more pessimistic and underestimate the situation. Both errors impact on the validity of the SWOT and every effort must be made to check the data that you are using are reliable. We were commissioned to compile a SWOT for a city in the United Kingdom where the responses indicated that the floral displays in the city were either a strength or a weakness. The opinions of the respondents were based on the assessment of the same flowers – but were interpreted differently because of their expectation levels. It is also not impossible for them both to be correct assessments – the floral displays could be very good but at the same time they could be improved. In looking at the SWOT it is worth considering whether some of the points overlap or repeat issues raised already – combining them makes the SWOT easier to read and may give a clearer impression of the priority that should be given to the issue.

There should be a clear point in undertaking the analysis – assessing strengths and weaknesses and opportunities and threats are relative judgements and the point of comparison has to be clear for those undertaking the analysis. It is sometimes difficult to establish at what level staff turnover becomes a weakness, for instance. The focus of the SWOT should be on those factors which have had a major impact on the organization's performance or are likely to in the future. It can also be a useful tool for identifying what distinguishes the organization from others.

The points recorded in the SWOT should be concise indications of the topic. Any justification that it is felt necessary to add should be provided in a separate commentary that can accompany the SWOT matrix. This means that the SWOT should not just make empty claims – such as "strong financial position" or "sound human resource systems" – without being able to support the claim from the appropriate financial or personnel documentation.

A case to consider is offered below, drawing on the analysis of a destination but concentrating on the hospitality issues. Note that we have presented the rationale for the claim alongside the statement of the issue. This is to allow you to see the sort of evidential claim that would merit inclusion, not necessarily a model for you to copy in your own work. As we observed above, it is more common to see the listing in the SWOT as simple statement of the claim with the justifications supplied in an accompanying document.

A working case is as follows.

Dubai's Strengths and Weaknesses

Strengths		Weaknesses	
Strategic location	Dubai's strategic location midway between Europe and Asia makes for easy accessibility, with London a mere 7 hours away by air, Frankfurt 6, Cairo 4 and Hong Kong 8. Great potential as a short-break stopover destination.	Exploitation of migrant workers	Although they benefit from jobs, the poor conditions and wages have resulted in revolts. These revolts may be targeted at tourists in an attempt to gain recognition.
Support from local government	The Dubai government offers a great deal of support to the tourism industry and enlists the help of other public and private sector organizations.	Rapid population growth, potential of overcrowding	The influx of young workers, its cultural preference for large families coupled with its improved medical care have all contributed to the large and rapidly growing population, the majority of which are young people. The young migrant working population is growing rapidly due to the lack of labour force among the UAE citizens.
Attractions: A variety of attractions showcasing its history and culture	Forts and museums (e.g. Dubai museum reportedly the oldest building, or Sheikh Saeed Al Maktoum's House) Heritage and diving villages Archaeological sites at Al Ghusais, Al Sufooh and Jumeirah Burj Nahar (Dubai towers) The Godolphin Gallery Gold and diamond park Spectacular desert scenery	Pollution: Noise, environmental and aesthetic	Noise, environmental and aesthetic pollution as a result of the ongoing building works taking place in the city, which could affect people's holidays.
Events: Renowned in the region for its sporting events and facilities which are among the best in the world	Emirates International Trophy for rugby The Rugby Sevens The Desert Classic Golf Tournament Dubai Tennis Championship		

Strengths		Weaknesses
Shopping: Dubbed the shopping capital of the Middle East shoppers can buy in comfort and style	Arabic market stalls	
	Mall of the Emirates with 350 shops and ski slope	
	BurJuman mall for designer labels	
	Dubai Shopping Festival (DSF) in January	
	Dubai Duty Free's reputation	
Accommodation: Some finest hotels in the world	Large luxurious beach front hotels mostly five-star standard and above	
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State of the art infrastructure: Continuous development	The Dubai International Airport	
	Island resorts (e.g. the palm and the palm jumeriah)	
	Numerous landside developments (e.g. Palazzo Versace Resort and the Jumeirah beach residence)	
Meeting facilities: A prime conference destination with several state-of-the-art venues	Dubai World Trade Centre	
	Airport expo	
	Dubai cruise terminal	
Dining and entertainment: Remarkable variety of food and beverage outlets (F&B)	With an inherently multicultural environment and a melange of nationalities, it is only natural that the choice of food in the emirate should be wide and varied	
Numerous transport links	There are approximately 115 scheduled flights from the United Kingdom to Dubai every week. Source: TTG (Travel Trade Gazette).	

Dubai's Threats and Opportunities

Threats		Opportunities	
Congestion	Arising from the growing population of migrant workers into the city seeking jobs in construction. More transport networks have to be created to deal with the capacity. This leads to a vicious cycle as more workers will be needed to do so, which will in turn compound the congestion issue.	Jobs	The creation of jobs in the city and environs has provided a livelihood for many families of workers in neighbouring countries and regions. These people hopefully live a better standard of life.
Terrorist attacks	At present Dubai enjoys a politically stable environment and is virtually crime free, other countries in the Middle East are experiencing political unrest and war which may eventually extend to Dubai and damage its tourism industry.	Short-break stopover market	Due to its strategic location and the combination of city and beach makes Dubai a great destination for a short break whilst on route to or from another destination. It's a great opportunity to break the monotony of long-haul travel from destinations in the Far East or Australasia. Dubai shouldn't only invest on capturing this market but also establishing the destination for longer stay tourists.
Erosion of culture/values as Dubai becomes a cosmopolitan city	Dubai is attracting residents and expatriate workers from nearby regions due to the relaxed attitudes towards alcohol and partying. This may be taken advantage by the migrant workers, thereby eroding their culture, with the potential to filter down to the young UAE nationals thus causing controversy.	Developing the spa tourism niche market	The exceptional spa facilities available in Dubai are being capitalized on by the DCTM as they have released a brochure encouraging this type of tourism in 2004.

Threats		Opportunities	
Competitors (e.g. Abu Dhabi, Qatar, Jordan, Oman and Egypt)	Dubai operates within an environment of strong competition posed by its neighbouring emirates, neighbouring countries and other destinations offering similar products. Hence the need to differentiate itself from its competitors (similar Strengths).	Bad weather in other countries (e.g. Western Europe)	This poses a great opportunity for Dubai as they benefit from 365 days of sun, sea and sand, and is therefore an alternative for those seeking to escape bad weather.
Culture	The culture of other destinations may appeal to a wider range of travellers; this may be a deterrent to some who wish to visit Dubai.	Liberalization of visas	The liberalization of visas in 2001 which has afforded Dubai the opportunity to capture a wider market. This seems to be responsible for generating an increment of up to 475,000 visitors per year during the period 2001–2003.

The restaurant sector

This sector is normally seen as being made up of three main segments in the restaurant business:

1 Fine Dining, such as El Bulli (which we considered in the previous chapter). The fine dining restaurant is characterized by a high level of attentive table service, expensive-looking furnishings and decorations, and fine cuisine. Sometimes, this category of restaurant is referred to as "white tablecloth" but now that might not accurately describe some of the furnishings. Prices lie at the high end of the market, with guests paying $50 to $100 or more.

2 Theme restaurants take a different approach to providing a distinct dinning experience. These restaurants seek to provide diners with an experience that evokes other times, places and people. The Hard Rock Cafe chain is a good example.

3 The third one is Casual dinning restaurant, such as FGI Fridays. Casual dining restaurants seek to attract middle-income customers who enjoy dining out but wish to avoid high prices and the formality they feel may characterize the fine dining restaurants.

Think through the SWOT analysis for these three variants within the restaurant classification. You will find that there are many similarities but also some very important differences in your presentations. This will help you to recognize the need for specificity in the preparation of your analyses.

Could you see the reasons for Hard Rock's decision to open a Cafe in Mumbai?

Example: Hard Rock Cafe opens first restaurant in India

January 26, 2006 – Hard Rock Cafe International, Orlando, Fla, has opened its first restaurant in India – a 6,000-square-feet, 169-seat cafe in Mumbai, India. "India has meant so much to rock music over the years that I couldn't be more excited to finally open Hard Rock Cafe in Mumbai", said Hamish Dodds, President and CEO of Hard Rock International, in a statement. "Hard Rock was actually founded on principles from Indian culture. 'Love All, Serve All,' the motto on the wall of each and every Hard Rock, is derived directly from our founder's long love affair with India. So, in a sense, the opening of this new Hard Rock Cafe feels very much like coming home."

Could your SWOT help to justify this decision to promote Middle East expansion?

> **Example: Macaroni Grill heads to Middle East**
>
> Casual dining leader Brinker International Inc. is confident that its brand of pasta, brick-oven pizza and tiramisu will win over Middle Eastern taste buds.
>
> The second-largest casual restaurant operator in the United States, behind Florida-based Darden, has signed an agreement to take its Romano's Macaroni Grill to the Middle East.
>
> The deal will put Macaroni Grill eateries in Egypt, Jordan, Kuwait, Qatar and the United Arab Emirates, among other countries.
>
> Most importantly, it will bring the casual dining giant closer to its goal of quadrupling its international revenue to 20% of its total revenue in less than 5 years, says Charles Sonsteby, Chief Financial Officer for Brinker International Inc.
>
> "Just as we pioneered casual dining, we intend to be pioneers in other parts of the world that will generate growth for a long period of time", Sonsteby said.
>
> Since opening its first restaurant outside this country in Canada in 1991, Brinker's international revenue has grown to 5% of the company's total revenue. Brinker generated revenue of $3.9 billion in 2005, up from $3.7 billion in 2004.
>
> In addition to 238 Macaroni Grill locations, including locations in six foreign countries, the company owns, operates or franchises a total of 1,130 Chili's Grill & Bar outlets, 141 On The Border Mexican Grill & Cantina locations and 37 Maggiano's Little Italy stores.
>
> Of its more than 1,550 restaurants, 119 are in foreign countries. "Our international strategy has definitely evolved", Sonsteby said.
>
> The Dallas-based restaurant operator (NYSE: EAT) is stepping up its international efforts "based on the incredible success" of franchise partners in the Middle East and Latin America and in Pacific Rim countries such as Taiwan, Japan and South Korea, Sonsteby said. The fact that some of Brinker's international restaurants are experiencing double-digit same-store sales growth also caught the company's attention, Sonsteby said. The company plans to double its number of global outposts in the next 2 years. In 2008, it plans to open 80 new restaurants outside the United States. Through the Middle East agreement, Brinker will have three franchise partners for 14 Macaroni Grill stores to be completed by 2009.

■ Environmental analysis

When we begin to look at the operating environment, we rapidly become aware that we are dealing with a complex context. In order to deal with this complexity, the analytical framework has been subdivided to facilitate the analysis. However it should be remembered that this is an analytical

separation and the elements are constantly involved and interact across the categories. The division proposed here is that of a traditional PEST analysis – Political, Economic, Social and Technological. We recognize that more sophisticated tools have been proposed, such as SCEPTICAL – Social, Cultural, Economic, Physical, Technical, International, Communications and infrastructure, Administrative and institutional, and Legal and political. However we feel that the elaboration into nine components (some of which are actually combination of forces that could be further divided, for instance legal and political could well be treated separately) adds to confusion rather than precision. This is especially true where the analysis comes to reintegrate the elements. As you will see it is difficult enough to reintegrate a four-way separation, let alone attempt a nine-way reunion. Further we feel that we can use the PEST categories to good effect if we reinforce the context of this book throughout the four areas, that is to say all the analytical factors are constituted in terms of an awareness of international culture.

One other note has to be registered before considering the operation of the categories and that has to do with the broad nature of the hospitality field. There are potential changes in legislation (part of the political consideration) that would affect the food industry but would not affect the whole of the hospitality sector. To make the analysis relevant, the key operational objectives must be clear and inform the selection of factors for the analysis. Some changes would clearly affect the whole of the hospitality sector and so would be common to any PEST analysis but in order to make the analysis relevant, the specific factors affecting the case must be addressed within the framework (Figure 4.2).

Benefits	Dangers
Increased awareness of environmental changes	Limited by availability of information
Increased understanding of the context in which hospitality organizations operate	Static picture in a changing world
Increased understanding of multinational contexts	Closed to new sources of data
Increased sensitivity to changes in the environment	May be disconnected from the rest of decision-making
Prioritizes factors	Uses the past to inform the future but is that always reliable?

Figure 4.2
Environmental analysis: benefits and dangers

We were taken by the optimism shown in the following report by Kim Sengupta about investment plans for Iraq. Do keep reading as the final sentence contains a vital piece of information that may not have been properly factored into the decision-making process.

> **Example: Iraq plans hotel and theme parks for a tourism boom**
>
> By Kim Sengupta in Baghdad, 7 November 2005
>
> A £48 million, five-star, 23-storey hotel rising in the city centre; an opulent palace complex being turned into a theme park; cheap flights to the picturesque "Venice of the East" all the trappings of a country gearing up for a tourist boom.
>
> Except the country in question is Iraq. With a new constitution and elections in the offing, officials insist there is a new beginning. The tourist board has 2,400 staff and 14 offices. There has been a rise in the volume of travellers, with Iraqis either leaving or expatriates returning for visits. And there is also the continuous and steady number of foreigners, mainly contractors, coming in for the huge wages they can now command for working in such a risky environment.
>
> The planned hotel is very much at an embryonic stage. The land "in the heavily guarded Green Zone" has been donated by the Iraqi government, and the finance is being provided by an Iraqi businessman.
>
> Thair Feeley, of the Iraqi Commission for Investment, insists everything is in place. "It is not true that it will be a five-star hotel", he says with a flourish, "but a seven and half stars one".
>
> The hotel is intended to have the usual accoutrements: plush suites, business centres, conference halls and a golf range. However, this is Iraq and Mr Feeley is not keen to make more details of the structure public for "security reasons". Nor is he willing to reveal the name of the businessman, again for "security reasons".
>
> The building will have to be built to withstand mortar and rocket attack, just as the one major existing hotel in the Green Zone, Al Rashid, was built to do. Despite the carnage outside and its shabby appearance, the Rashid can still charge $150 (£86) a night.
>
> Another plan is to turn Saddam Hussein's former palaces at his home town of Tikrit into a themed tourist destination. The complex, which contains 18 palaces and 118 other buildings, is surrounded by rolling gardens overlooking the Tigris.
>
> Mohammed Abbas, a Regional Official, said: "Ordinary Iraqis were never allowed into these palaces. It will be an opportunity for them to see how their money was spent. International visitors will also be able to see the kind of lifestyle Saddam enjoyed."
>
> Basra in the south has already officially declared itself open for tourism. But, says an official: "Tourists should dress like locals and maybe dye their hair. And they should have armed guards and they should be always vigilant."

PEST

In the beginning the consideration of a PEST analysis, is often useful to take stock by outlining the factors that have impacted on the organization

in broad or general terms before going on to explore the issues more thoroughly. This overview can often provide a feel for the position of the organization and help to provide a focus for the analysis that follows.

As with the SWOT analysis, we provide a worked case of a PEST to outline some of the features that you would expect to see in the presentation. There are other fuller examples provided on the website but this brief PEST for McDonald's is illustrative.

The broad environment

In recent years, McDonald's has faced two major types of threats from the broad environment: socio-cultural forces and political forces. Socio-cultural forces are related to social responsibility and health, while political forces are related to issues of obesity, trans fat labels, and – after 11 September – to issues related to bad corporate practices.

The changing international environment has proved to be a constant threat to the public image of the company. Marketing, future strategies and public relations initiatives have all aimed to counteract public opinion from the issues described.

Political factors cover the range of governmental, party political and legislative issues that affect our industry. This will consider the Government system, its bureaucracy, and the rules or laws that society's members must follow. Consideration will also be given to the level of political stability, within the country and within the region.

However increasingly this category must also include consideration of non-democratic politics – historically the concerns over labour relations would be debated here but in these days of security threats and terrorist alerts, we have to recognize the political reality of these tensions as well. In some countries, governments also own businesses in the hospitality industry and these would have to be considered in terms of the political influence on their future developments. There are also countries where there are restrictions or limits on local ownership of business operations.

Again this section used to focus on domestic legislation but increasingly we must be aware of supranational bodies that intervene in hospitality – be it the World Tourism Organization (WTO) or the European Union. Equally, if we are operating in different countries we must be as aware of likely changes in policy in those countries (markets) as are in the domestic one. Similarly government policy used to be a narrowly focused area of concern for the hospitality industry but now alongside domestic regulations and taxation policies, there must be a concern for international policies such as exchange rate issues (even within the Euro zone), international trade policies and also foreign policies, which may generate impacts either in the domestic or foreign markets the organization is operating in.

Even apparently obvious events in the operational environment may not have the effect that one would expect. For instance the political analysis of a city affected by widespread and long lasting riots would normally suggest that hotel accommodation would become less popular and bookings would decline. However as the report below shows, things are not always as the analysis would suggest.

Example: French riots haven't hit bookings so far

This is based on a report by Aude Lagorce, for MarketWatch

Current situation
Eleven nights of rioting in France have yet to affect travel bookings, a leading European operator said on Monday. "We are seeing normal booking conditions", said a spokesman for Tui AG, a German tour operator that sells trips to Paris, Nice and Strasbourg. Although he noted that the agency had received calls from guests enquiring where their hotels were located.

International positioning
The US State Department on Friday issued a cautionary statement against travel to some parts of the city.

"Americans should avoid the affected areas that include the northern suburbs and also Trappes in the southwest of Paris, and should move quickly away from any demonstrations that they may encounter", it said. But despite the recent warning, the impact is still expected to be mild.

"We believe the terrorist attacks in the UK and Spain had much more of an impact", said a spokesman for Travelpress.biz, the world's largest publisher of travel news. "The recent riots may hurt France's image a little bit, but it's such a powerful tourist destination that we don't expect a real impact. Of course the events are still enfolding, so it's hard to predict what the ultimate impact will be", he said.

The overall economic impact
Marc Touati, an economist with Natexis Banques Populaires, said the news hasn't hit the Euro zone's second-largest economy – as yet. "There's nothing to panic about right now, but if things continue this way, there'll definitely be cause for concern. Unfortunately, this is happening just as we were seeing a slight pickup in investment due to the lower Euro", he said. "A climate of fear and pessimism could stop the recovery dead in its tracks if the situation continues to worsen", he added.

The head of France's main business group, Laurence Parisot, on Monday warned of the consequences of the violence for the French economy, notably on tourism and investment. "France's image has been deeply damaged", Parisot told Europe 1 radio.

Political response
President Jacque Chirac made his first public address on the riots on Sunday, in an attempt to reassure the population. "The law must have the last word", Chirac said after a security meeting with top ministers. France is determined "to be stronger than those who want to sow violence or fear, and they will be arrested, judged and punished".

The belief in Paris seems to be that the image of stability and civility that the French capital has long enjoyed will offset the short-term effects of the rioting. This is a very good example of having to undertake the analysis of elements in the specific context in which the events have to be understood. Few other destinations would have a strong enough image in order to position themselves in this way to resist the negative publicity.

Health

Another major political issue in the industry concerns health issues, which is expressed both in terms of an active lifestyle agenda but also focuses on healthy diet and nutrition. This has become a big issue for contract caterers in the public sector. The issue of health and healthy eating has permeated every aspect of food preparation and menu development. Healthy eating is a big political issue and of late, meals served in schools and hospitals have been subjected to much criticism and scrutiny. In the United Kingdom, even the celebrity chef, Jamie Oliver, has entered the debate- making a television series about school meals and trialing new menus in the schools, which he claimed remained within the existing budget but offered an improved nutritional and dietary balance for the school children. Contract caterers are at the forefront of this issue. Changes are being made not just within the commercial sector but also within the education and healthcare sectors where action is being made whereby caterers are introducing more organic and locally produced food. On a wider scale the incidence of saturated fats and salt in processed foods is of concern and again these are often products that are offered by contract caterers in both public and private contracts. As well as government pressure to act, consumers are realizing for themselves the importance of healthy eating and are looking for caterers to offer the appropriate products.

However this is not just an issue of governmental concern and demonstrates the way politics is also being shaped by extra-parliamentary pressure groups. This next example not only highlights the issue of concern to the pressure group but also demonstrates the power they have, as it highlights the way in which the group may or may not initiate legal action against other firms.

Case: KFC Gets Fried. Is Starbucks Next?

Kate DuBose Tomassi, 21 June 2006, 1:10 PM ET

When KFC was hit with a lawsuit last week over its use of partially hydrogenated oil, the question on many lips was "Who's next?" But despite a flurry of reports pointing at Starbucks, the Center for Science in the Public Interest (CSPI) says it has no immediate plan to sue the ubiquitous coffeehouse.

That's not to say that CSPI, a consumer action group that describes itself as an "advocate for nutrition and health, food safety, alcohol policy and sound science", isn't eyeing Starbucks. It

is. Michael Jacobson, CSPI's Executive Director, says Starbucks is one of a number of other major chains the centre is looking at for their use of partially hydrogenated oil, such as Burger King Holdings, McDonald's, Applebee's International, Denny's and Darden Restaurants' Red Lobster. Partially hydrogenated oil is a so-called trans fat, which has been linked to heart disease.

So why is the coffee seller among the more often demonized fast food chains on CSPI's hit list? Jacobsen says Starbucks sells an apple fritter that has 12 grams of trans fat, almost the healthy limit for an entire week, and almost as much as a three-piece chicken combo meal at KFC. He says people don't necessarily expect to be consuming something so unhealthy at Starbucks, which, he notes, bills itself as "socially responsible".

But CSPI's plans may be just so much hot foam. The legal barrier to such suits is high, and Starbucks is already taking steps to eliminate the problem fat.

"CSPI has enormous legal hurdles in this type of litigation", says Jane Thorpe, a partner in the Atlanta office of Alston & Bird in the firm's product liability group.

First, these plaintiffs can't show they've suffered any actual injury from eating a fried chicken leg or apple fritter, Thorpe says. And even if they were to get over this fundamental hurdle, they'd have to show, under most state consumer statutes, that the restaurant had engaged in an unfair and deceptive practice, which could be tough, since most people know that fried foods aren't healthy – be it a fritter or a drumstick.

"What CSPI is trying to do is enter an area which is the proper jurisdiction of the experts and the government", says Thorpe. And CSPI doesn't necessarily disagree. Jacobson says that if the US Food and Drug Administration (US FDA) were to act by "revoking its acceptance" of partially hydrogenated oil, the centre wouldn't need to sue company by company. Since the FDA hasn't acted, litigation and threatened litigation have become part of CSPI's strategy to force companies to practice what it deems honest labelling and marketing.

On 13 June CSPI filed a complaint against KFC (formerly known as Kentucky Fried Chicken), owned by Lexington, KY-based Yum! Brands The class-action litigation, filed in a superior court in the District of Columbia, is part of the consumer group's multipronged strategy to get KFC and the entire restaurant industry to stop using partially hydrogenated oil, said Jeff Cronin, a spokesman for CSPI, in a phone interview last week.

In an e-mail statement, KFC said, "This is a frivolous lawsuit completely without merit, and we intend to vigorously defend our position. All KFC products are safe to eat and meet or exceed all government regulations, and we take health and safety issues very seriously."

Whether Starbucks is next to be slapped with a lawsuit remains to be seen. In an e-mail, a company spokesman noted that "At Starbucks, we have always offered a wide variety of options, for both beverages and food, which meet the needs of our diverse customer base. For example, we offer more than 73,000 beverage combinations to our customers." Specifically, the company says, it offers reduced fat and fat-free baked goods, and lower-fat and -calorie Frappuccino drinks.

The company also pointed out that nutritional information is available in stores and on its website, and that the company is in conformance with FDA packaging requirements, which have required the inclusion of trans fat amounts since 1 January.

And it's important to note that at least for Starbucks, its targeting may become moot. In its e-mail statement, the company said it's working with regional bakeries "to help them focus on reducing and removing trans fats" from baked goods, and has committed to eliminating all trans fats in its national promotional offerings by this fall.

There are very interesting lessons to be drawn from this case. Firstly, the legal challenge has a legal force, with the chances of CSPI winning its case being determined by the judicial process. The consequences could be very severe for the whole industry if the case was successful as the precedent set would be binding throughout the sector and would have international repercussions as other governments came to review standards on the issue. However the political significance does not end with the judicial process. It is clear that the case is being presented as much outside the court in the public arena of the mass media as within the legal arena. The consequences of this are much more open and are not necessarily dependent upon the outcome of the judicial process. The raising of concerns and the making of allegations is sometimes enough to create the effect that the campaigners were hoping to achieve. This is an area of the political aspect which is very important in maintaining and enhancing the reputation of the organization and its products and services.

McDonald's political

The company is suffering from political threats from wars between countries where the company operates, as well as from governments now adding legislation to force them to put health warnings on their products. They have also become a symbol of capitalism and Americanism – meaning that they have now become the target of terrorist groups and attacks. McDonald's has no control over these political factors which are making the company suffer greatly. They can only leave war stricken countries, or places where terrorism is a threat. This means a loss in revenue, as well as the company becoming smaller and therefore weaker.

Economic

This section identifies the factors in the economic environment that will impact on businesses and their customers. You will want to be uncovering data about the predicted economic growth rates (usually given as percentage changes in the gross domestic product or as GDP per capita), levels of income in the economy and the likely movements in exchange rates and any indications of currency instability. Levels of unemployment and inflation may also be considered as they impact on the market's ability to purchase services along with wage rates for those in employment. When considering international investments, the balance of payments of the countries involved may be important and concern may be expressed for information about the levels of productivity in the destination. This would also cover questions of income elasticity, income inequality, and the availability of substitute products and cultural factors. These are relative factors and the analysis would have to be grounded in such a way as to recognize the local and the international significance of the figures being considered.

Some attempt should be made to map the potential in the market using notions such as market size, market intensity and market growth. These could be addressed with general economic data but it is also worthwhile looking for hospitality specific data such as average occupancies, achieved room rates and yield, visitor arrivals and visitor spend. The fast food sector seems to offer good examples of the sort of trends the analysis should highlight. Chicken outlets have benefited from the downturn in the popularity of burgers and new menu and product developments, which have helped to rejuvenate brands. This segment is dominated by takeaway sales, which accounted for 80% of the £908 million sales in 2004. The sector is expected to continue to grow faster than the overall eating out market largely due to the development of mobile or small-scale outlets such as takeaway kiosks and drive thru' restaurants.

Generally, this sector has been looking to broaden the appeal of its products by making them more portable and to compete directly with sandwich and coffee shops as well as supermarkets for the lunchtime trade. For instance, KFC re-introduced the "Mini Fillet", a snack-sized chicken burger, in early 2005.

Like the burger bar market, this sector is also trying to appeal to the more health conscious consumer by offering grilled as well as fried chicken options. The main player in the United Kingdom, KFC, is currently planning to introduce grilled chicken concept outlets called "Grillz" that will appeal to consumers looking for healthy and convenient eating options. The concept was tested in Japan during 2004, and in March 2004, Yum! Brands, the owners of KFC, registered the brand name in the United Kingdom, with the group anticipating a rollout either in 2005 or 2006. KFC's standard menu has expanded to include healthier alternatives such as salads as well as a chicken rice bowl.

Nando's, the Portuguese chicken restaurant is now one of the fastest growing chicken eat-in restaurants within the United Kingdom. It currently operates 103 outlets within the United Kingdom compared to just 23 in 1999, around half of which are located in London. Seven more outlets are in the pipeline at the time of writing.

Over the last 4 years, growth in the fast food sector, especially burgers and fried chicken bars, has outstripped that of the restaurant sector, which encompasses pubs, in-store outlets as well as hotel catering. Indeed some sectors of the eating out market have actually declined or remained static since 2000. This includes hotel catering, roadside catering and ethnic restaurants.

The market is increasingly competitive and continues to offer an ever-broadening choice of outlet types, yet the number of restaurants in the United Kingdom has remained fairly similar since 2000. This is indicative of an active turnover rate of restaurant types as a new cuisine takes hold or as consumers grow tired of a concept that does not adapt quickly enough to consumer trends. Mintel estimates, based on current government data, show that there are around 26,000 restaurants within the United Kingdom in 2005, a rise of just under 2% over 2000.

The British Hospitality Association (BHA) estimates that around 70% of restaurants are still owner operated and therefore despite the presence of a number of chains, the restaurant market is still characterized by numerous small businesses.

As the competition intensifies, operators are finding it difficult to widen their profit margins. According to the BHA, the average mark-up for restaurants is now 2%. Wages are rising, not only because of inflation, but also because of the increase in the minimum wage. Alongside this, food costs are also rising as operators seek to improve the quality of supply and to meet all the necessary regulations. There is little scope for prices to rise as consumers can readily demonstrate their resistance to price rises by going elsewhere. At the same time, consumers are looking for the right levels of ambience and service, therefore leaving little scope for widening profit levels.

Using the analysis internationally also causes complications. For instance, there is criticism of the wage rates paid to some levels of employee in the hospitality sector but when these rates are transferred to developing countries the wage scales in hospitality can begin to look very attractive to the local labour force. In fact one of the impacts rapid hospitality can have on local economies can be seen in the shift of employment within the economy as more traditional forms of employment are rejected in favour of the hospitality industry.

When you are considering economic factors, you have to be careful not to double-count issues that you may have addressed in other areas of the PEST analysis. For instance, a government's decision to protect its currency or to let it float against other currencies is an economic consideration but the rationale for the government's decision may well be a political one. In one sense it does not matter where you locate the factor in the analysis but if you do place it in two areas, it may appear to have greater significance than you would want to ascribe to it.

One other comment about this aspect is that it is sometimes too easy to concentrate on the limits and the restrictions that apply here. The use of the concept economic almost suggests a review of what is in short supply and cannot be afforded. However shortage of resources is not the only source of problems, the opposite – an embarrassment of riches – should also be considered in this category. Following on from the SWOT we worked through on Dubai, it is possible to see the abundance of wealth as a potential problem as there appear to be few limits on the developers' imaginations as they struggle to meet the increased tourism demands. Dubai's programme of rapid hotel construction has seen it become a building site. During 2002 the construction industry was undoubtedly booming and in the hotel sector alone there were plans to build 150 more hotels over the next 5 to 7 years, thus taking the number of hotel rooms from 20,000 in 1990 to 55,000. Source: AME info Online. Although Dubai's modern infrastructure has made it popular, the environmental and aesthetic pollution that accompanies it may also disadvantage the destination as some travellers may be deterred from visiting.

McDonald's economic

McDonald's are experiencing economical problems. They have found a recent slump in sales from its fast food business, suggesting customers want more freedom of choice, something which they may not get at McDonald's. To combat this McDonald's have bought out other companies, such as Prêt á Manger. By diversifying the company they aim to increase sales again by offering the customer more variety, as this seems to be what consumers are demanding. The Prêt á Manger chain does not benefit from McDonald's company name, or reputation, and therefore must rely on its own brand name and image.

Social factors include both objective and subjective elements about the socio-cultural forces such as language, work habits, customs, religion and values. The factual data about social trends, including demographic details, would be considered here. However this element also includes the more subjective questions of how values and beliefs will impact on the organization. This is the obvious place to explicitly address cultural issues and to look at the multicultural aspects we considered earlier. The shift towards social responsibility is one aspect of this element which has come to have great significance for the hospitality industry as we shall see in the penultimate chapter of this book.

Demographic trends are important for projecting targets not only for customers and market niches but also for looking at the potential workforce. We can identify measurable characteristics of populations: income, population size, age distribution, gender, marital patterns, family size, educational attainment and occupation for example. These demographics may be supported by studies of psychographics (values, attitudes and lifestyles) and behavioural characteristics. The size and age structuring of the populations will determine the scale of particular segments in future periods. This may influence the selection of target markets in particular countries or influence the way international marketing appeals to potential customers. It may also cause concerns in human resource departments as particular categories of recruits may become scarce (or vice versa). For instance, graduate recruitment relies on the adequate supply of graduates, which in turn presumes a higher number of students entering higher education and by looking at the demographic trends it is possible to anticipate peaks and troughs in the labour supply.

The "grey pound"

The most obvious example there is for us to consider here is the inevitable "time-bomb" of an ageing population, which will be composed of Baby Boomers who have grown up in the era of eating out regularly, and who will look to continue this habit in appropriate places, making informed choices about hotels and restaurants for instance. Third agers, in particular, are becoming increasingly more active during this stage of their lives and are likely to intensify their impact on the eating out market going forward, resulting, for example, in more all-day dining options as well as lighter meals.

Sexuality

Social values are changing everywhere. For example, consider the public's view to homosexual, which has become much more open now.

Example: Holiday firm ends ban on gay couples

A holiday company which turned away gay couples from its resorts unexpectedly lifted the ban last night in the face of a campaign by an ex-government minister and sexual equality groups.

Sandals, the Caribbean resort company, announced it was lifting its ban on same-sex couples from 13 resorts, just before a spokesman was due to appear to defend its policy with the former minister, Barbara Roche, on BBC Radio 4's Today programme this morning. The company has resorts in Jamaica, St Lucia, Antigua and Bahamas.

Sandals was under commercial pressure from London's Mayor, Ken Livingstone, who had banned its advertisements from the tube because of its homophobic attitude to clients.

Think about the cultural impact to the industry. Is it opportunity or threat?

Source: *The Guardian* (12 October 2004).

Social structure is one part of demography but is concerned with the way in which social groups are organized in the society. Patterns concerning education, employment and social acceptability have all changed over recent years and are continuing to change. One of the changes to have impacted on the hospitality is the shift in the social structure that allows and accepts change in traditional patterns of employment in developing countries. The pattern of agricultural employment, the shift to two-job economies (helping with agriculture but employed in hospitality) and the presence of women in the workforce are all significant changes. They contribute to the changing patterns of employment in hospitality that would not have been found in traditional societies 30 years ago.

McDonald's social

McDonald's has faced a number of difficult charges from consumers, governments and other groups in recent years. The Environmental Protection Agency took on McDonald's in 2003 for the "Fluorinated telomeres" in their packaging material which were deemed to be indestructible pollutants. Other issues – ranging from the use of antibiotics in livestock to animal welfare – have also been raised with the company. In an attempt to reduce the terrible publicity and to alter the public's perception of the company as a bad

corporate citizen, McDonald's have taken the following steps. The following statements are from the company's "2003 Social Responsibility Report".

- In 2002, McDonald's purchased more than $460 million of recycled packaging materials reducing packaging by an additional £35 million.
- McDonald's entered into a new collaboration with the Centre for Environmental Leadership in Business, a Division of Corporation International, to promote conservation and sustainable agriculture in global food supply chains and address issues related to sustainability in the fishing area.
- McDonald's announced new global healthy lifestyle initiatives, including the commitment to develop new Happy Meal options and to help educate consumers about the role of nutrition and fitness in maintaining good health.

ACTIVITY   Lifestyle issues are included in this section of the analysis but they are notoriously difficult to predict and to analyse. We offer a simple, but telling example to demonstrate with two extracts dealing with one of the lifestyle trends that is a major concern to the industry at the meeting. Consider the two reports carefully and think how you would use them to support your recommendation to a hospitality company.

On the one hand:

Summary: Healthier Eating Out Is the Main Trend to Watch

This survey of opinion, combined with the other consumer research findings earlier in this report, means that the eating out market will continue to drive the market going forward. The obesity issue will continue to be the dominant trend curbing fast food trade and influencing children's menus in general, food miles, provenance, fresh and locally produced and seasonal grown ingredients will remain influencing factors for the restaurant market. The growing healthy eating trend of the last 10 years has now reached a point where the quality of food consumed has now been reinstated as the most important aspect of eating out, whether it is as a fast food option or a formal dining occasion.

On the other:

Health Is Not the Only Future Trend

While healthy eating will continue to have a large influence over some sectors over the next few years, many customers come to a restaurant to escape from the day-to-day considerations about watching waistlines and taking exercise.

Innovation will become increasingly influential as the eating out market becomes more and more competitive, with customization, lighter meal options and sharing plates cementing themselves as "must-have" menu formats within the mid-market sector in particular.

The next 10 years will also see further developments being made between the Internet and eating out venues becoming increasingly mainstream as an advertizing medium. As most operators already show case menus and nutritional information on websites, in the future this may well extend into online bookings, pre-order meals or even choice of table through seating plans, generally culminating in more interactive websites.

More attention to the drinks component of the meal is also likely to be an increasingly important component for both operators and consumers as the range of soft drinks and premium alcoholic beverages widens. This also includes a growing trend for operators and waiting staff to offer consumers more knowledge of drinks choices (e.g. local bottled spring water, adult soft drinks, real ales or ciders).

The two comments are not actually mutually contradictory and can be taken together to inform a recommendation about the need for quality and difference within the offer. Customization and information can also be applied to the fast food sector and may be a way for that sector to move forward. And it is worth remembering that health concerns may not dictate all customer choice on every occasion.

But eating out is still a luxury

Although healthy eating is a dominant trend within the industry, at the end of the day eating out is still essentially a treat, be it a break from washing up or to celebrate a birthday for example and this is unlikely to change in the future even though eating out is now a regular lifestyle choice. As such some operators are now finding a balance by offering indulgent main courses with the option of a wide range of side dishes so that consumers can increase their intake of vegetables if they choose. Examples of these more diverse and innovative dishes include roasted vegetables, French beans and shallots or artichoke hearts. However, in other areas of the market venues will continue to choose not to follow the healthy eating trend as although Middle Eastern, Japanese or Italian cuisine easily lend themselves to lower-fat options, cuisine such as French fare is dominated by more rich and often cream-based flavours. Furthermore, as consumers increasingly concentrate on eating a balanced diet within the home, it almost becomes more desirable to indulge in less wholesome fare when they do choose to eat out.

French fries and milkshakes

Elsewhere in the burger market, albeit on a much smaller scale, there is evidence that consumers are trading up to premium burgers. Premium burger chains include the Gourmet Burger Kitchen (GBK) and the Fine Burger Company, both of which are concentrated in London. The Clapham House Group, a private equity firm, purchased GBK in November 2004 for £2.6 million, with plans to expand the number of GBK outlets. The number of premium burger bars is expected to grow in the near future, albeit on a small scale.

Sources: Adapted from Contract Catering, UK, December 2004 and Hotel Catering, UK, September 2005.

We would also remind you that we said that we took the role of international cultures and concern for the natural environment as part of all of the categories. However whilst we have drawn on a number of cultural examples, we have not addressed the natural environment as such. It has become such a strong feature of debate that we could argue that we now see there being a "green consensus" that informs these debates. This is not to say that everyone has subscribed to these views and certainly not that everyone has acted upon them but that the questions are now being asked of developments. We shall say more about this in the chapter on Social Responsibility towards the end of the book. However, there is now a sufficient movement for organizations to recognize a lifestyle force towards environmentally friendly policies. This social force can be realized within politics (through pressure for regulation and intervention to protect the natural environment) or economics (through the consumer decision-making process giving greater weight to green issues). The natural environment is a great asset for the hospitality industry and therefore its protection is also important.

Another point to remember in putting together the analysis is that innovation is also relative. What is "old hat" or taken for granted in domestic markets may look like innovation when introduced to a different market. Consider this example from KFC.

Example: KFC expansion: New Delhi, May 11 (Xinhua)

KFC, the world's largest chicken restaurant chain, Thursday announced its expansion plan to have up to 28 outlets in the country by the end of 2006, Indo-Asian News Service reported.

"We plan to expand to wherever our customers are and there is no limit to our expansion. By the year-end we will have anywhere between 25 and 28 outlets", said Sandeep Kohli, Managing Director (Indian subcontinent) of Yum! Restaurants International (YRI), whose flagship brand is KFC.

The fast food giant had opened its first restaurant in Bangalore, capital of south India's Karnataka in 1995 and now has 15 outlets, including five in Bangalore, three in Delhi, two in Pune and one each in Mumbai, Kolkata, Chandigarh, Ludhiana and Hyderabad.

Each outlet has handled round 2,000 customers every day in the country, Kohli said in Mumbai.

With global sales of US $13.2 billion, company officials view India as a key strategic market with immense potential for future growth.

But the company's expansion plan has roused protests of animal protection activists in Mumbai.

Activists of the People for Ethical Treatment of Animals (PETA), a non-government organization, demonstrated against KFC's maltreatment of chickens in front of the new restaurant in Bandra, a suburb of Mumbai.

KFC today has more than 12,300 restaurants in more than 80 countries.

Source: KFC (2006).

One example which links to our final aspect of the PEST as well will suffice here. The old tried and tested method of disposing of waste from ships was to dump it off the ship and into the water, be it river, lake or ocean. This practice still continues in many places but pressure on companies has brought a design innovation, made possible by advances in technology, but enacted to answer growing customer pressure. The P&O cruise ship, the Oriana, contains no fewer than four sewage plants on board, to ensure that as much waste material as possible is processed and returned to port where it is disposed of safely into containers.

Technological

The growth of the Internet has been a worldwide phenomenon, in the United States alone in 2001 there were an astounding 95 million users. Access to the web is spreading and expanding rapidly and produces a range of opportunities and threats that make it impossible to ignore. The technological environment has been a particularly significant area within the development of hospitality as many have seen the industry to be at the forefront of technology, both in terms of development but also in terms of implementation (Zongqing, 2004). Clearly, hoteliers have an interest in promoting the Internet channel, as it is far cheaper, especially where there is the facility for direct booking on the hotel's own website. A WTO report on e-commerce estimated that the cost of direct reservations by traditional means could be as much as 300% more than processing the same reservation through the global distribution systems (GDS). Furthermore, most reservations, passing through the GDS, are generated by travel agents who charge an average fee of 10%. Bookings via a chain central reservation system cost the hotel $6 to $10, while the cost of a direct online reservation on a hotel property's own site is only about $1.50.

For analysis purposes, the scoping should include operational processes, information and communications technology (ICT), logistics, products and services, and the social context in which these developments are taking place. Information technology (IT) has been taken into the heart of the industry with computer reservation systems (CRS) and global distribution systems (GDS) becoming indispensable parts of the hospitality system. There are of course still significant challenges ahead, such as the utilization of ICT and the developments in personal computing.

We have seen IT presented as a way of driving down costs and increasing value to both businesses and consumers. At the heart of the hospitality industry there has been a debate about the role of traditional intermediaries, such as travel agents, in a world where access to the Internet has increased so rapidly. When this was first considered it was thought that it could spell the death sentence of traditional high street travel agents as their customers took to researching and booking their own journeys. However, the reality has seen a slightly different future emerge, which may better be described as re-intermediation. What we see with re-intermediation is a redrawing of the roles and an extension of e-services. The travel agents still have an important role in promoting trust and face between the

destinations and the customers, even though their customers may have briefed themselves by searching the www before venturing to the high street. Some business has been transferred directly to the Internet, but this has largely been offset by the increases seen in the marketplace. Re-intermediation also occurs on the e-commerce sites as well, with the linking of sites of hotels with car rentals, insurance and other additional services. We are looking at the development of value-added service chains created through e-commerce, with a dynamic that allows both service delivery to the traveller at point of demand as well as service information updates for the businesses.

Case: Fewer Consumers Using Internet to Make Travel Plans in 2006

Read the case and think about the link between travel plan and external economic factors.

US consumers are still largely satisfied with making travel plans online, but fewer are using the Internet to meet their travel needs than 2 years ago, according to the latest Consumer Internet Barometer, released on June 2006. The Barometer is the world's largest custom research company, covers 10,000 households across the country.

Only 28% of all men and 25% of surveyed women plan to research airline rates and availability online over the next 3 months, compared to 41% of all men and 25% of women in 2004. More men are using the Internet to make travel arrangements, with more consumers going online to research travel options and opportunities than to actually book trips.

"Vacation plans may have fallen victim to higher gas prices, rising travel costs and an increasingly uncertain economic outlook", says Lynn Franco, Director of The Conference Board Consumer Research Center. "The latest consumer confidence survey shows consumers' vacation intentions are at a 2-year low and this slowing in the rate of travel-related activity online only adds to overall concerns."

Source: The Conference Board (2006).

For instance this review of British Airlines demonstrates how a technological change available to everyone in the industry led BA to specific innovations. It is widely recognized that the CRS has played a very important role in the provision of airline services. Late in the 1990s, the CRS was integrated with a revenue management system and car rental and hotel booking systems were introduced with some other added functions (Chang *et al.*, 2003). The entire system has thus turned into a global distribution system (GDS), which is still the main idea behind current travel websites on the Internet. These systems have not only reduced airline operating costs, but also represented the globalization of the air transportation industry (Chang *et al.*, 2003).

For these reasons, British Airways upgraded and enhanced *ba.com* in order to encourage e-ticketing by providing simplicity and richer customer experience throughout the website. According to *Innovations for Our Customers* (Park-Smith, 2004, he was the Head of e-Commerce for BA), British Airways strategic priorities were based on simplicity.

BA set out on a programme called *Customer Enabled BA*, and the point of the programme and the vision that British Airways strive for is to make BA, an easy company to deal with. It also stated that this strategy for simplification and a richer customer experience would simplify the way BA do business. It would provide a cross-functional programme that covered the end-to-end customer experience, bringing consistency to BA delivery and removing duplicate processes. It was forecast that this would help to deliver at least £100 million savings within the organization, created by the simplicity and by the self-service.

In order to make their presence in the international market effective, the company instituted the following principles and actions:

1 British Airways have targeted the simplification of their online fares.
2 BA have provided an enhanced fare explorer.
3 BA e-ticketing is end-to-end self-service experience (e.g. research and book → pay and get ticket → follow-up and pre-airport queries → check-in and fly → arrive home and check miles).
4 BA has improved the facility for customers to change and update bookings on *ba.com*.
5 The website allows BA to do more up-selling.
6 BA have launched a new way of manage bookings.
7 *ba.com* provides a popular facility to select seats.
8 BA have launched home-printed boarding passes for Internet check-in.
9 BA have renewed their estate of self-service kiosks.

Already 50 % of BA's UK short-haul leisure business was booked on *ba.com, with an* e-ticket facility. This has contributed to a reported 50% reduction in the number of fares being delivered to their customers and it has seen a doubling in usage of e-tickets since the e-mail facility was delivered.

E-commerce strategy could be said to be a strategy that promotes the use of the Internet to join together all the elements in the business – linking the suppliers with the companies and the companies with their customers. From within the hotel industry, Hyatt offer a good example of what IT can do for an international organization and demonstrate the benefits of implementing a global e-commerce strategy

Hyatt's E-Commerce Business Strategy

Hyatt uses a business to customer (B2C) e-commerce business strategy. They use a combination of selling tangible and intangible products and services on a global scale. Hyatt has identified the need to use global e-commerce strategy to reach out to their customers worldwide. "Customers expect interactive capability wherever possible, in their own language and culture and adapted to their own environment" (Doole and Lowe, 2004: 424). The affect on Hyatt's marketing has had a promising influence. They strive to provide in-depth information to their consumers; this includes information on their resorts, what offers they have and about the company itself.

Hyatt as innovators

Hyatt sees themselves as innovators when it comes to technology. Mintel (2003) argued that recent examples of this included the introduction of "E-Folio" (an expense management tool for the business traveller) and the installation of high-speed Internet in all their hotels' meeting rooms.

The main website offers a range of information to the customers that visit the website. This has been designed to keep their customers interested in the website and the company. It focuses on informing and offering customers the chance to visit every hotel, at any location with the click of a button.

Hyatt also uses this e-commerce strategy to sell rooms wherever possible and helps to inform customers of the other services they provide.

Hyatt customer expectations

The opportunities for exploiting e-commerce by companies are truly international and this favours global players. So for Hyatt this innovation allows them to meet what they see as their consumers high expectations of service quality and image from the ways in which they conceptualize, sell and deliver their products and services.

Therefore they have recognized the need to constantly update their website and to constantly review how they sell their products and services. Hyatt has identified the needs of its consumers and has implemented this on every hotel page they operate, even offering the guest a number of things including the option to download a hotel brochure for themselves. Using the latest techniques for selling through the Internet, Hyatt are ensuring that their customers can find them, get to know them and purchase products and services that are relevant to their needs whenever and wherever at the click of a button.

The next set of examples may seem to come from an unlikely source for high-technology solutions, but the report serves to demonstrate how far reaching ICT has become and the multitude of areas in which it can be applied.

28 March 2006, 7:53 AM EST

New York (CNNMoney.com) – New technology innovations could soon force the restaurant industry to rejigger an often-used acronym – *QSR*, or quick-service restaurant – to *SSR*, or self-service restaurant, instead.

Self-service kiosks and computerized table-top ordering screens are just two of the trends that will be on display at the National Restaurant Association's (NRA) upcoming industry show this May, an annual event that showcases the latest offerings in technology, menu items, uniform fashions and restaurant designs.

"The restaurant industry is the most labour-intensive industry in the country", said Hudson Riehle, Senior Vice President of research with NRA, adding that it currently employs about 12.5 million workers in over 925,000 restaurants and is projected to grow by 2 million workers over the next 10 years.

"When you introduce technology into restaurant operations, whether these are fast food operators or family dining chains, you are able to get above-normal productivity increases", he said.

For example, industry insiders said franchisees of fast food leader *McDonald's* (*Research*), sandwich chain subway and restaurant operator Arby's have tested self-service kiosks.

Juan Perez, President of Adusa Inc., said his company, in partnership with IBM, has developed kiosks that allow consumers to self-order in grocery stores (Kroger is Adusa's biggest customer) and restaurants.

Said Perez, "Our kiosks are already in the pilot tests in grocery stores. A customer walks up to the kiosk and places an order to the deli or the bakery. They can pick up the order after they're done with the rest of their shopping." Moreover, customers can also use the kiosk to get information on wines or look up recipes, he said.

Customers in QSR will use the kiosks to order food and pay with a credit or debit card, Perez said, avoiding both misorders and long lines at the counter.

"It lets consumers feel more in control because they're getting exactly what they ordered. Businesses can deploy the staff elsewhere and refocus on speeding up order delivery", said the NRA's Riehle.

Likewise, casual dining order systems are undergoing an evolution of their own. Chosen Media will debut a table-top touch screen order system at the show.

"Customers can place their menu order through the system, they can ask for refills, call the waiter to their table and pay for their meal using a credit or debit card", said company manager Calvin Watkins. The system also acts as a personal jukebox.

McDonald's technological

McDonald's technology trials over the past few years have resulted in big failures. The company has made a variety of technology investments with mixed results, some of the results costing the company billions of dollars like the "Innovate" scheme designed to allow McDonald's management, at some point in the near future, to see just how many billions of burger patties, buns and chicken nuggets were being consumed at any or all stores at any time of the day. This real time digital network represented the most expensive and extensive IT project in the company's history as well as McDonald's corporate website – a glossy, expensive attempt to counter McSpotlight but many complaints have been received that there is no e-mail address for visitors to send in their opinions. To date, McDonald's attempts to use technology to put its products in the hands of hungry consumers faster have been largely unsuccessful. The company's failure to find a way to improve customer service is compounded by a lack of creativity like these there are other McDonald's technology experiments that have been more low key.

Having considered the elements, it is important to note that the analysis may not produce a simple and obvious answer that can be operationalized with a guarantee of success. So many of the variables considered can change so quickly that it is difficult to predict outcomes with any certainty.

We also hope that we have given you a clear idea about the purpose of analytical separation, whilst underlining the need for a synthesis of these factors in the final presentation. They are separable but they are also interconnected.

The scanning and reporting process is generally seen as consisting of five stages:

1 Scanning and monitoring of the operational and competitive environments for possible changes in the PEST areas.
2 Assessing the relevance of this information in the context of the international market for the organization.
3 Evaluating the changes and working through the relevant ones in detail.
4 Constructing relationships between the areas and evaluating the cumulative assessment of the environment.
5 Assessing the potential impact for the organization and its competitors.

Outcomes of PEST

The sorts of report that can be presented vary from those produced for specific in-company developments to ones that attempt to portray the picture for the whole of the industry. We have taken the highlights from two of the latter to demonstrate to you the scope of such exercises.

For instance, Poon (2003) split the report to the Berlin International Travel Show about the future of the international hospitality industry into supplier, consumer and destination trends, and suggested the likely outcomes of the trends they presented.

● Supplier Trends
  1 Cheaper, Shorter, Faster
  2 Closer to Home
  3 Information Technology is IT
  4 Increased Polarization
  5 Travel Agents Reinvent Themselves

– Big > Bigger
– Small > Niche Players
– Middle > Disappearing
– Mass Tourism > Mass Customization

● Consumer Trends
  1 Maturing Travellers
  2 Independent Travellers
  3 Rise of the Bourgeois Bohemians
  4 Body, Mind and Soul
  5 Value for Money is King

– Bargain Hunting > Value-Seeking
– Long and Expensive > Cheaper, Faster, Shorter
– Long-Haul > Short-Haul

- – Hippies and Yuppies > Bourgeois Bohemian
- – Baby Boomers > Ageing Travelers
- – Physical > Spiritual
- – Early Booking > Late Booking
- – Group Tours > Independent Travel

- Destination Trends
  1 Enough is Enough
  2 From Products to Experiences (Poon, 2003, The Berlin Report)

- – Mass Destruction > Enough is Enough
- – Products > Experiences

Further research into the hospitality sector suggested a range of key issues that should be considered in looking at the future of the industry.

■ Key issues influencing the hotel industry

The hotel industry operates in a complex international environment, and is subject to most of the same trends that affect business and the economy in general. The following key issues influencing the industry's development have been identified:

- hotel grading standards,
- trends in marketing and distribution channels,
- guest loyalty programmes,
- in-house design and technology,
- spas and wellness,
- environment and sustainable development.

Hotel grading standards

Hotel grading standards seem to be largely taken for granted by both guests and the industry. Yet, they serve as a first indicator to the prospective client or travel intermediary of the level of service and comfort to be expected whilst staying in a hotel. Indeed, given the importance of hotel classification as a marketing tool, it has received scant attention. The hotel industry faces a fundamental problem: guests are sometimes disappointed by their stay in a particular hotel because their expectations are not met. These expectations may derive from experiences obtained in another hotel with the same number of stars.

However, the organization did qualify its position by noting that if the idea of an EU-wide system is pursued, consideration should be given to a scheme which would limit itself to establishing equivalences amongst national and regional classification norms. In such a case, the EU or

international classification system would adapt itself to what already exists. Nevertheless, according to Ms Marguerite Sequaris, Secretary-General of HOTREC, there is no plan for a Europe-wide classification of hotels at present, as discussions continue as to the desirability and feasibility of such a project.

Besides the problem of the lack of uniform standards, there is the major question of whether grading criteria measure the features that guests appear to value most, such as employee attitude, check-in and check-out efficiency, or enhanced security, which is particularly desired by the increasing number of lone women travellers. Typically, existing grading standards are largely based on physical attributes of a property, such as the number of restaurants, or the size of guestrooms, which admittedly are objectively verifiable criteria. Intangible, service-oriented attributes are often subjective in nature, and hence more difficult to evaluate fairly.

At the high end of the accommodation business, particularly, clients are not buying just a bed in a room. The intangible service aspect is also highly important, especially for winning client loyalty. Therefore, to better meet customer expectations, grading standards must become more comprehensive so as to monitor the service aspect more effectively. Leading Hotels of the World (LHW) is a private independent marketing affiliation, regrouping some of the world's most prestigious upscale establishments. It provides a clear example of how to approach the evaluation of a hotel's attributes, putting maximum emphasis on service delivery.

Distribution channels

The predominant distribution channel for hotels remains direct contact with the property (via telephone, fax or e-mail), which, according to the last edition of Horwath's *Worldwide Hotel Industry Study*, accounted for 34% of all advance reservations in 2002, but which is down from 38% in 1995. This proportion varies between 27.5% for hotels in Africa and the Middle East and 40.5% for hotels in Europe. Even in the United States, about 70% of reservations for most hotels are still made directly to the hotel location, compared with the 30% that is now split between toll-free call centres and Internet reservations, according to Don Farrell, Founder and Chairman of Signature Worldwide, a consulting and training company. The world's leading franchisor, Cendant, estimates that 70% of its room nights are generated by walk-ins.

Indeed, according to KPMG's recent "Global Hotel Distribution Study 2004", the most efficient channel, overall, in terms of time taken to complete a booking remains calling the hotel direct. However, the time necessary to complete a call was found to vary significantly according to region.

The KPMG study found that generally by calling the hotel direct, the customer receives an accurate picture of availability and is able to get detailed information about the hotel and its facilities. The property-based reservation agent was more knowledgeable and proactive than call centre employees, and therefore better able to negotiate other options for the

customer's stay at the hotel. One regional difference noted was the high level of automation when calling some hotels, particularly in Canada.

Hotels' in-house or outsourced central reservations offices (CROs) represent approximately one-quarter of advanced reservations (including call centres and hotel representatives). The KPMG study found that the service provided by CROs varies depending on the brand rather than the region, and that the level of automation and availability varies considerably globally. Several advantages to CROs were noted, such as availability, friendly and fast service, the ability to offer alternatives if the first option is not available and good product knowledge. Nevertheless, several drawbacks of CROs were identified by the study: agents generally are not from the country of the caller (e.g. some Europeans indicated that they had to speak English when calling the CRO); slowness in retrieving information (e.g. agent put the caller on hold to call the hotel to obtain information); systems problems (e.g. the caller was advised to check the hotel website or to call back later); and in some cases, incorrect CRO telephone numbers had been posted on the chain's website.

Nevertheless, there seems to be a trend towards consolidating property-based reservation desks into centralized units. According to an April 2005 report in *The Guardian*, Hilton Group (UK) has announced a £26.4 million investment in a central reservation system, which is to replace the reservation function at the front desk of the chain's roughly 400 properties. A network of centralized call centres will handle all calls from customers with operatives able to offer the caller another hotel within the Hilton group if the customer's first choice is unavailable. Hilton estimates that cross-selling between hotels would be a bigger boost to the bottom line than the cost savings. Tim Davis, Hilton's head of distribution and online, has suggested that such a centralized system could improve revenues by 9% at a hotel which lost its in-house reservation desk.

Traditional high street travel agents and tour operators are becoming increasingly redundant, both in the business and leisure travel segments. A survey by management consulting group, Accenture, of more than 550 business travellers in the United States found that 71% book their business travel primarily online, a trend that has been increasing in the 3 years since Accenture began fielding the survey. In contrast, only 22% of respondents reported that their preferred booking method is by telephone with a live agent, down from 36% in 2003. A similar study that polled 450 business travellers in the United Kingdom, confirmed the trend. In 2004, 53% booked their business travel primarily online, up from 47% in 2003. Only 27% said their preferred booking method is by telephone with a live agent, down from 41% in 2003. The greatest number of respondents in the United States (33%) and 31% in the United Kingdom ranked proximity to meetings or office as the top requirement in their choice of hotel rooms. In addition, in the United Kingdom, even more respondents (42%) ranked price as the most important hotel selection criterion. Only 15% of the US and 19% of the UK respondents cited the availability of high-speed or wireless Internet as a main criterion.

Hugh Morgan, Overseas Purchasing Director for the British tour operator, Cosmos, stated at a conference in April 2005 that by the summer of

2006, Cosmos would have stopped negotiating guarantees with Spanish hoteliers. Whereas 6 or 7 years ago, 80–85% of the group's Spain programme would have been on guarantee, Cosmos' accommodation-only site (www.somewheretostay.com) is currently providing beds for 100,000 passengers a year, although its stock does cover other city and beach destinations not located in Spain. Lowcostbeds, which was launched in October 2003 by Paul Evans, formerly Head of retail sales at First Choice, the British tour operator, currently provides beds to 3,500 UK travel agents and wholesalers, and also sells direct. Whilst the website currently focuses on beach destinations, it will add long-haul, ski and city properties, bringing its number of directly contracted hotels from 1,500 to 3,500.

According to TravelCLICK's eMonitor, room nights booked via third-party electronic channels (GDS as well as Internet intermediaries) increased by 7.5% worldwide in 2004. This year-on-year growth was fuelled by a 10.6% increase in Internet room nights booked through third-party websites powered by either GDS or Pegasus (which powers several of the top third-party hotel booking sites, such as Hotwire, Expedia.com, ebookers.com, Orbitz and Travelweb.com).

Further analysis reveals that travel agents' online bookings remained the dominant source of GDS and Pegasus hotel e-business in 2004, representing 80.6% of total room nights. In addition, the travel agent component of 2004 GDS bookings was responsible for driving a 6.6% increase in ADR over 2003 rates, confirming that travel agents continued to be a key driver of higher-rate business for hotels. The average rate for room nights booked through travel agents was 31.2% higher than room nights booked online by consumers. These statistics confirm the ongoing relevance of online bookings by travel agents. Internet (consumer online) room nights for 2004 grew by 10.6% over the 2003 level, as ADR rose by 10.2%, thus leading to a 21.9% increase in revenue for 2004. Whilst third-party website bookings rose by 10.6% in 2004, as noted above, Internet reservations received at the CROs of major hotel brands grew by 31.9%, or almost the triple rate of increase, according to TravelCLICK's eTRAK report. Indeed, in 2004, branded websites gained substantial share, compared to third-party merchant and opaque websites. eTRAK data show that branded websites were the source of 71.4% of the brands' centrally booked Internet reservations, compared to 66.5% in 2003. Merchant websites, such as Expedia, Orbitz, Travelocity, etc., were the source of 8.6% of Internet reservations. Merchant web operators buy hotel rooms outright and then offload them for the highest price they can get, thus pocketing the difference. Bookings via these channels grew by 9% over 2003. Opaque websites, such as Priceline and Hotwire, increased by 16% and sourced 7.5% of the brands' centrally booked Internet reservations in 2004.

Guest loyalty programmes

A February 2003 study conducted by InterContinental Hotels (then Six Continents) found that loyalty programmes are the most important driver of repeat customer business. In any case, whatever the merits or demerits

of loyalty programmes, hotel chains that wish to remain competitive have no choice but to offer such incentives to their regular guests, especially given the present difficult market environment with hotel chains fighting desperately for market share.

Preferred treatment for long-standing guests, particularly of prestigious palace hotels, existed well before hotel chains appeared on the scene. Formalized loyalty programmes in the travel industry, however, were first developed by airlines and are widely used by retailers. Indeed, guest loyalty programmes are extremely popular in the travel and tourism industry and almost every travel business nowadays has some sort of frequent guest programme. From redeemable points to gift certificates to partnerships with airlines and car rentals, guest loyalty programmes can take many different forms. And, now, in view of technological advances, some observers tout these programmes as an excellent source of information about a hotel chain's client base. For instance, the programmes can be used to target market-specific demographic segments of the clientele.

In early 2004, InterContinental introduced its first two local-language Priority Club websites – in French and German – which allow members access to all online services in their own language. These sites include the following functionality:

- Quick enrol: Issues a membership number instantly upon signing up, enabling a member to immediately earn points on his first booking.
- Ability to redeem rewards online.
- View an account and review current reservations.
- Store personal information, preferences such as favourite destinations, room rates, room type and credit card information.
- Change points or miles earning preference – change earning preference from points to miles or vice versa.

In August 2004, in recognition of the huge growth potential of the Chinese travel market, InterContinental has created a third local-language Priority Club website in Chinese.

In-house technology and design features

Technology is not only important for hotels at the distribution level – Internet, GDS, etc. Technological advances and trends in design also have a big influence on the basic hotel product, including customer Internet access, PMS (property management systems), entertainment, rooms, bathrooms, F&B outlets, etc.

In 2002, Hotel Technology Next Generation (HTNG) was formed as a self-funded, non-profit organization association, whose mission is to develop technology solutions for the hospitality industry. HTNG comprises members from hotel and hospitality companies, technology vendors to hospitality, and other industry members, including consultants, media and academic experts. HTNG's executive board represents a "Who's Who" of leading hotel companies including: Hyatt, Four Seasons, Wyndham,

Mandarin, MGM Mirage, Destination and Marcus. HTNG's members participate in focused workgroups to identify solutions for specific business problems for the hospitality market. Currently more than 150 companies and individuals from across the spectrum are active HTNG members.

By using Internet-based technologies, hotels will, in many cases, be able to leverage the scale of the Internet to drive down the price points of technologies and services that are used in both hotels and in other industries – such as PABXs (private automatic branch exchanges), access control/locking systems, handheld devices, CCTV security systems, pagers, life safety and building management systems. Furthermore, the HTNG workgroup has the objective of identifying a set of fundamental hospitality features for telephony, including both Voice-Over-IP and other IP-based services.

This team will examine opportunities to integrate not only fixed devices provisioned to the room (such as entertainment systems, telephones, energy management systems, locking systems and minibars), but also devices carried by the guest, such as notebook computers, mobile phones, PDAs, Portable Media Centres, iPods, MP3 players, video cameras and portable DVD players.

For example, many hotel guests now have Personal Video Recorders (PVRs) in their homes, such as TiVo, and have become accustomed to being able to replay live broadcasts. However, there is no such device that addresses the unique requirements of a hotel guest, whose programme preferences can change every night, and where the desired viewing content may have been aired whilst a prior guest was still occupying the room. Similarly, the workgroup noted the need for simple, elegant IP-capable telephones appropriate for a bedside or bathroom, which do not currently exist.

The new SMS|Diplomat technology provides for interoperability between vendors. Instead of one vendor sending a message and waiting for a response, vendors have direct access to both data and business rules in other systems, and can proactively access what they need. Not only does this make it much easier and more efficient to communicate between systems, but it also allows guests and users to interact directly with SMS|Host system through in-room devices like telephones and televisions.

General Dynamics Interactive (GDI), the leading provider of digital video-on-demand for the luxury hotel market, deployed its Intrigue® Multimedia System entertainment-on-demand solution on Mandarin Oriental's high-definition LCD televisions. Thus, Mandarin Oriental guests are welcomed by name on the customized Intrigue television user interface from information provided by the SMS|Host Hospitality Management System. If the guest expresses a preference, Intrigue will turn the television on automatically in the guest's favourite language. If the guest has a voicemail or a fax message, a notification is displayed on the guest's television screen, and the guest can retrieve it from Percipia Networks, and either play the voicemail in "surround" sound through the Intrigue entertainment-on-demand system or view the fax on the television. A parallel interface with Intrigue's entertainment-on-demand feature allows guests to review all of their voice, fax and text messages from a single convenient web page accessed from Mandarin's in-room TV system.

Even as traditional an area as F&B services has felt the winds of change brought by technological evolution. "Smart" equipment and networked kitchens that speak multiple languages contain recipe files and can alert chefs to maintenance issues before they become a problem – these are some of the new features in this domain. Early adopters of the technology are seeing the biggest ROI (return on investment) with food safety issues. To maintain safety standards, traditionally an employee walks around with a clipboard and a pencil and manually records and monitors temperatures – what temperature food is cooked at, stored at, etc. Now equipment is there that will alert kitchen staff to a problem and maintain HACCP logs. (Hazard Analysis Critical Control Points, the HACCP is a system that was developed to ensure the safety of food for US astronauts nearly 30 years ago.) This can add up to better efficiency and some significant labour savings. The network also helps managers better monitor their equipment, by alerting the manager immediately if, for example, there is a repair issue or a cooler breaks down.

Spas and wellness

One feature that hoteliers and their guests increasingly see as a necessity, especially in upscale resort properties, is a spa or wellness centre. The word "spa" has evolved from its traditional meaning, which signified a resort with mineral water springs or therapeutic mud. In a modern hotel context, the term can mean anything from a small fitness room to an elaborate facility with pools and waterfalls. The most common industry definition is a facility including exercise equipment, a pool, whirlpool, steam room, sauna and treatment rooms offering massages, facials, manicures and pedicures. The majority of hotel spas occupy from 900 to 3,600 square metres.

In a survey of 30 resort-based spas in 1999, Health Fitness Dynamics (HFD 2001, "The Impact of Spas on Resort Occupancy"), a Florida-based spa consulting group, general managers and directors of operations were asked whether spas enhance or increase the following items listed below. The percentages of "yes" answers were as follows:

- Marketing advantage: 97%
- Revenue/occupied room: 83%
- Occupancy: 73%
- Perceived value for room rate: 70%
- Room rate: 57%
- Length of stay: 43%
- Number of people/occupied room: 27%

According to Judith Singer, HFD's President, the future of the spa industry will be in the creation of the "hybrid spa" – the resort/hotel spa that caters to lodging guests who want something as simple as taking an *à la carte* treatment to those who want to spend a few days on a special, spa-specific, multiday getaway. In order to maximize the revenue and profit-generating capability of the spa, the local community should be invited to use it on designated days. Some spas may even have a membership component.

Environment and sustainable development

So far, most hotels and major chains have done little more than pay lip service to the objectives of preserving the environment and promoting sustainable development, but three factors are making hoteliers sit up and take notice. First of all, it has been demonstrated in numerous cases that environmental practices can save money at an operational level and in the short term. The second point is that hoteliers, especially those in prime leisure destinations, are realizing that they must preserve their principal demand driver, which is the physical environs of the property. Finally, there is growing awareness that consumers and travellers are starting to use evidence of environmentally sound behaviour as a selection criterion for their holidays and lodging facilities.

In order for the industry to move forward in this domain, collective action is necessary. With this in mind, the International Hotels Environment Initiative (IHEI) was created in 1992, as a non-profit organization when a group of chief executives of 12 multinational hotel companies joined forces to promote ongoing improvement in environmental performance by the hotel industry worldwide.

IHEI focuses exclusively on hotels and how to improve their environmental management. Over the years this has been done through the development of industry-specific tools such as benchmarkhotel (www.benchmarkhotel.com), publications and a quarterly magazine called *greenhotelier* (www.greenhotelier.com). IHEI has also forged partnerships with other environmental bodies and associations, and provides a speaking platform where members have the opportunity to attend and speak about their experiences and achievements.

In recent years, hotels have broadened their perspective on environmental issues to include notions of community service and social responsibility.

India, interestingly, in February 2003, the government promulgated measures to encourage eco-friendly practices and facilities for the handicapped as a necessary requirement for all approved projects and classified hotels. Under the rubric of eco-friendly practices, the following points were noted:

● Energy conservation: It is necessary that all star-category hotels should have energy conservation lamps. The use of solar energy, timers, etc. is desirable.
● Water conservation: Water-saving taps and showers are necessary for five-star and five-star deluxe hotels, and desirable for one- to four-star and Heritage hotels.
● Waste management: Solid waste management and recycling of garbage should be undertaken. Garbage should be separated into wet and dry elements that which can be recycled or re-used. The wet garbage areas must be air-conditioned for three- to five-star deluxe categories, and is desirable for one- and two-star hotels. The aim should be to achieve a "zero garbage policy", by utilizing all the organic waste.

Potential for cost savings:

- Water accounts for 15% of total utility bills in many hotels.
- Most hotels pay twice for the water they consume – initially to purchase fresh water, and then to dispose of it as waste water.
- Many hotels pay to heat a proportion of their water, and so a water management programme will bring energy savings.
- Hotels pump fresh water and add chemicals to it, so, again, a water management programme will reduce these costs.
- A hotel that has a good water management programme will use as little as half the volume of water per guest per night than a hotel that has few manual or automated controls on water usage.

Evidence is gathering that consumers are demanding more environmentally friendly practices from tourism service providers, including hoteliers. A working paper, published in January 2004, entitled *Consumer Demand and Operator Support for Socially and Environmentally Responsible Tourism* (prepared by Zoë Chafe, and edited by Martha Honey of the Center on Ecotourism and Sustainable Development (CESD) in The International Ecotourism Society in Washington DC) recorded the following survey results:

- In the United States, more than three-quarters of travellers "feel it is important their visits do not damage the environment", according to a 2003 study. This study estimates that 17 million American travellers consider environmental factors first when deciding which travel companies to patronize.
- A separate study found that over 80% of American travellers believe it is important that hotels take steps to preserve and protect the environment, but only 14% ask hotels they are using if they have an environmental policy.
- In Britain, 87% of tourists interviewed in 2002 stated that it was either "very important" or "fairly important" that their holiday did not damage the environment; this was up from 85% in 2000. Additionally, 66% of British travellers said that they had placed importance on trips specifically designed to cause as little damage as possible to the environment.
- In a 1997 survey, 18% of British tourists said that a hotel's lack of concern for the environment would prevent them from returning to the same place again.

A 2002 survey found German tourists were expecting environmental quality, 65% want clean beaches and water, 42% "think that it is particularly important to find environmentally friendly accommodation" and 19% "would welcome it" if these accommodations were clearly listed in catalogues and guidebooks.

Chapter case study: Shangri-La Hotel

Introduction

Shangri-La Hotels & Resorts is the largest deluxe hotel group in the world, providing a wide range of business and recreational facilities and services, such as business centres, function rooms, Internet broadband and tea- and coffee-making facilities throughout the Asian region. It is also considered as one of the best hotel management companies with a high reputation all over the world. Nowadays, the Shangri-La group owns 44 deluxe hotels and resorts with more than 20,000 rooms in key cities of Asia and the Middle East and some famous leisure destinations. There are about 23,500 employees working for the group. Read the following account and try to develop your own situational analysis of the company and evaluate the descriptions you will find about what they are doing.

The history of Shangri-La

The first deluxe Shangri-La hotel was established in Singapore in 1971 by the Kuok Group (owned by a Malaysian Chinese family), a multinational conglomerate and was managed by Westin until 1983. Additionally, the company's name was changed to Shangri-La International Hotel Management Limited in 1983. In 1989, it developed its sister brand – Traders Hotels, which was first established in Beijing, and this was designed to deliver high value and quality accommodation to the business traveller at reasonable prices. In 1997, Shangri-La Hotels & Resorts (as it was then known) was bought by Shangri-La Asia.

Ownership

Shangri-La Asia Limited is a Hong Kong-based company, and it is the parent company of Shangri-La Hotels & Resorts which is a public company listed on the Hong Kong Stock Exchange (with subsidiaries also listed on the Singapore, Thailand and Kuala Lumpur exchanges). The Kuok Group also holds a controlling share in Shangri-La Asia Limited.

Vision and mission of Shangri-La

Shangri-La wants to be "The first choice for customers, employees, shareholders and business partners." To achieve this, it determines to "Delight customers each and every time." "Expanding the Shangri-La brand globally and exploring opportunities to operate hotels in gateway cities and key resorts around the world under management, equity participation or ownership" are Shangri-La's strategic objectives.

Shangri-La corporate culture

Shangri-La has clear corporate vision, mission and philosophy. It has 23,500 employees altogether. They all believe in one philosophy – "Shangri-La hospitality from caring people", "people" here includes customers, employees, shareholders and suppliers. Its core value also indicates that Shangri-La will devote itself to developing good relationship with people, maximizing customers' satisfaction, upholding shareholders' and suppliers' benefits and creating a prospective environment for employees. Moreover, the most important characteristics of Shangri-La are based on the Asian of style hospitality and this is combined with the local special culture in each and every Shangri-La Hotel & Resort. According to Tang Xiaoyao (2005) who is

the CEO of Dalian Shangri-La Hotel, Shangri-La hopes all their employees will take pride in the achievements that this organization has earned in the industry, but they should be modest in their performances and provide the best services to every customer with sincere and warm attitudes.

There are some weaknesses of Shangri-La. First of all, it has a limited market. Shangri-La focuses its business on Asia, especially in the mainland of China. On the one hand, it has not followed the trend of globalization. Global business and global awareness may require Shangri-La to extend its global market, and this may reinforce its competitive advantage and brand influence, and increase market share in the global hotel market. On the other hand, China is the primary target for other big international hotel groups, such as Marriott, Hilton and Accor. Even though Shangri-La has had relative market share in China, its market may become smaller with the increase of other international hotels and the change of consumer's various demands. On the whole, Shangri-La should base on Asian market and extend globally. Secondly, it has single hotel type. There are 32 luxury hotels and only 5 traders hotels in Shangri-La Hotel group. As the development of tourism and global business, there is a variety of consumer demands. Especially the economic type – mid-level and budget hotel is dramatically growing. For Shangri-La, it is necessary to develop diverse hotel types. It may attract more customers, meet their demands and then improve it competitive advantage. In mainland China, it may reinforce its competitive position if it develops more hotel types.

Shangri-La's external context

After the financial crisis in 1997, the economy of Asia Pacific has gradually recovered. Most countries' GDP keep increasing trend. In 2000, South Korea grew 8.3%, following by Singapore, Malaysia, the People's republic of China and Taiwan whose growth rates were above 6%, and Thailand, Indonesia and Hong Kong's rates were between 4% and 5%, finally the Philippines was 3%. In 2005, most East and South Asian countries have achieved even better GDP growth, such as 7.5% in India and 9.5% in China. Although the 9/11 in 2001 and SARS in 2003 dramatically hit this region's economy, the global business development and booming exports encourage the regional economy upturn. Moreover, in order to stimulate economy recovery many countries have changed to relaxed monetary policies in the form of lower interest rates and relaxed investment policies for foreign investors. A good case in point is the People's Republic of China which has changed the limitation of direct investment by foreigners in 2002. These kinds of preferential policies may greatly encourage more and more international hotel groups to invest in this region.

In addition, every country in Asia Pacific experienced an increase in tourist arrivals from 1998. According to the Pacific Asia Travel Association (PATA), the average increase of this region was 9% from 1998 to 1999. Especially in 1999, the People's Republic of China increased 18.76%, followed by Hong Kong (11.5%), Singapore (11.4%) and Thailand (10.3%). In spite of the sharp downturn in 2001, the tourist arrival sustained increase in this region. As a result of the development of tourism, the demand of hotel may have significant increase.

Main market

There is evidence of an oversupply of hotels in some cities. Overbuilding is a current phenomenon in their hotel industry. Take China as an example, Beijing and Shanghai had negative growth in revenues per available room (revPAR), which were −14% and −17% (Andersen,

1999). This is because the Chinese market is the fastest developing market in this region, and being the capital city and financial centre cities – Beijing and Shanghai are the primary choices of global hotel chains. The supply of hotel has been over the demand. However, Shangri-La has 37 hotels in Asian region, and more than half (18) hotels are in China. Chinese market is Shangri-La's most important market. The negative growth may influence its hotel performance in these two cities.

Main competitors in China

Moreover, as the opening market and relaxed foreign investment policies in China, the entry limitation is greatly decreased, so more and more international hotel groups will enter Chinese market and reduce Shangri-La's market share. Firstly, Six Continental has the most hotels in China with the number of 36, following by Marriott (26) and Accor (23). Six Continental and Marriott focus on luxury hotels, and Accor cover both luxury and economic hotels. They are the close rival of Shangri-La. Consequently, the increasing hotel suppliers may enhance hotel consumer's bargaining power; meanwhile, the suppliers of hotel may also raise their bargaining power because of the increasing number of hotels. Secondly, due to the development of global business, there is an increasing demand of economic and mid-level hotels by business travellers. However, most Shangri-La hotels are deluxe hotels. There may be the threat of substitutes like mid-level and budget hotels. A case in point is Accor in China; its marketing strategy is focusing on the development of mid-level and budget hotels, such as Mercure and IBIS.

Shangri-La performance

At the end of 2002, Shangri-La owns 37 hotels including 18 in China, with total 19,109 rooms in China, Singapore, Malaysia, Indonesia, Philippines, Thailand, Fiji and Myanmar. The majority hotels are under the Shangri-La brand, with five hotels flagged as Traders brand. The brand of Shangri-La in hotel industry is equal to the luxury and top service quality, and it is Shangri-La's best competitive advantage. Every Shangri-La hotel has splendid decoration and elegant environment. It is regarded as one of the finest hotel group in the world.

Additionally, Shangri-La has stable positive profit. Even though with the influence of 9/11 event, the global downturn, Shangri-La's turnover was 58.3% and operating profit increased by 49.8% from 1998 to 2002. Besides, although it was affected by the SARS in 2003, Shangri-La conducted a plan and some useful measures for preventing the virus, and they were considered as a model for the hospitality industry. This implementation encouraged the hotel industry to conquer the shade of the SARS.

Shangri-La's strategies

Functional strategies

Human resource strategy

Shangri-La has extensive training programmes to improve service skills of its line staff and professional skills of other employees. Its in-house training programmes emphasize service attitudes, organizational values and job enrichment. The majority of Shangri-La's managers are from western countries or having western education background. The CEO of Shangri-La

Group (2005) said that the success of Shangri-La is focusing on the quality of service. The group considers the training of employee is the chief task. It invests a significant number of fees on training professional employees from knowledge and skills. As a result, Shangri-La becomes one of the most popular employers.

High service quality is the most important asset of the hotel. It is not easily copied by competitors. Hotel can keep longer competitive advantage with excellent service quality provided by loyal employees. Shangri-La is well known for providing cordial and considerate services.

Technology strategy

Shangri-La initiated an upgrade of its hotel reservation system to a state-of-the-art central reservation and information system (Merlin) in 2003, which was supplemented by strategically located voice reservation centres serviced by free-phone numbers.

Technology is more and more concerned as the development of computer techniques and the popularity of family computers. It is also seemed as an important competitive advantage for a hotel. Nowadays, online booking is widely adopted by customers. Shangri-La should not only provide multichannels of reservation, such as by Internet, by telephone, by fax and by post, but also improve the technology to reduce the booking time and procedures.

Renovations

Shangri-La has implemented an extensive renovation programme for its major hotels to ensure that they are in excellent condition to retain their competitive advantage and preserve the integrity of the group's brands. In 2004, it constructed the state-of-the-art spa facility in the Shangri-La Hotel, Bangkok. The group constantly strives to new concepts.

Business level strategies

Marketing strategies

In relationship marketing, Shangri-La has a loyalty programme called Golden Circle, which offers a series of rewards in three levels – Classic, Executive and Elite according to customer's accumulated stays in hotel including targeted programmes such as the current (up to 40% discount) "Rate Break" promotion. It operates 12 sales and marketing offices in Guangzhou, Shanghai, Beijing, Hong Kong, Singapore, London, Los Angeles, New York, Melbourne, Sydney, Tokyo and Dubai. Besides, it has established partnerships with almost 30 airlines.

Loyalty programme is a helpful and extensively used relationship marketing measure in hotel and airline industries. It helps retain old customers and attract new customers. However, it is easily imitated by competitors. Therefore, it requires Shangri-La to segment its market and conduct accordingly loyalty programme. For examples, Hilton Hotel has the senior loyalty programme which is only for the old market (age above 62 years). Marriott separates the governors and military as a segmented market and offers special discounts for them.

Management strategy

Shangri-La segments its business into three types: hotel operation, which relates to the ownership and operation of hotel business; hotel management, which means providing hotel management and related services; property rentals, which having the ownership and lease office, commercial and service apartments. In addition, Shangri-La has developed management contracts in its hotels owned by third parties, and in 2006, based on contracts executed to date, there will be 16 hotels operated by the Shangri-La group but owned by the third parties, comparing with 3 hotels in 2003.

Using diverse business and management strategies may reduce the business risk and save the cost of labour. Renting the property will add to the income of the company. However, the profit of Shangri-La will decrease because of not having the full ownership. Sometimes a hotel's reputation may be negatively affected because of the failing business of the owner(s).

Focus strategy

According to the chairman's statement (2004), Shangri-La will continue to invest, expand and build its brand strength in mainland China and continue to see it as their most important market. It will add seven new hotels in China (Figure 4.3).

Hotel	City	Country	Opening
Shangri-La Hotel	Zhongshan	China	December 2003
Shangri-La Hotel	Zhengzhou	China	2004
Shangri-La Hotel	Fuzhou	China	October 2004
Traders Fudu Hotel	Changzhou	China	July 2004
Shangri-La's Sunny Bay Resort	Sanya	China	January 2005
Pudong Shangri-La (extension)	Shanghai	China	May 2005
Jingan Shangri-La	Shanghai	China	2007

Figure 4.3
Shangri-La Hotels, pipeline growth, 2003–2007
Source: Mintel (2003)

The Chinese market is undoubtedly a market with great potential and given the readings of the international tourism and business trends, Shangri-La should be active in its global market development and exploring new products to satisfy various demands and expand its market.

Global strategy

Shangri-La also plans to expand the Shangri-La brand globally, reviewing opportunities to operate hotels in gateway cities and key resorts all over the world by management agreements, equity participation or ownership. Additionally, it will continually to develop the Chinese market. It is reported that Shangri-La Hotels & Resorts has opened a training centre in Beijing for staff working at its Chinese hotels. It plans to increase its presence in China from 17 sites to 32 by 2007.

As the market in China becomes more and more open, more and more international hotel brands will enter China and also attempt to enlarge their Chinese market. This situation may be a big threat for Shangri-La, which has always focused on the Chinese market and has the majority of its properties in China. It demands that Shangri-La group should extend global market to sustain its competitive ability and long-term development.

Shangri-La's future challenges

China's entry into the World Trade Organization in 2001, the awarding of the 2008 Olympic Games and the 2010 World Expo bring great opportunities for Chinese economic growth and for tourism and hospitality development. With its primary focus on the Chinese market, the Shangri-La group is optimistic about the future of the hotel industry in Mainland China and its share of that market.

Nevertheless, Shangri-La may face to some challenges in future. Firstly, the more relaxed market brings both advantages and disadvantages for the Shangri-La group. Shangri-La might extend its Chinese market share with less limitation, for example, it may be allowed to have single venture in China as a foreign company. However, the easier entry opportunities for the Chinese market may attract a significant number of international hotel brands to start or expand their Chinese operations. Most of them focus on the luxury hotel, such as Hilton, Marriott and InterContinental. As a result, Shangri-La meets more close competitors and it may hinder its Chinese market development. Secondly, Shangri-La has the awareness of global development. However, it mainly operates deluxe hotels and pays special attention to the Asian market. It might be difficult for it to extend into the global market, especially the European and the US markets where economic and budget hotels are very popular and have different cultures compared to the Oriental culture. Moreover, Knowles and Egan (2002) point out that there are some weaknesses of the hotel market in Asia Pacific Region. For example, hotels do not tend to use the data about customers very well and hotels are very reluctant to share knowledge. They suggested that hotels should pay more attention to the overall performance of the hotel, develop effective distribution and revenue management practices, undertake positive good relationship management and share business knowledge with each other.

In conclusion, Shangri-la should consolidate in the Chinese market and explore the global market more fully; meanwhile, it will need to develop effective strategies and consumer relationship programmes, and create new products and hotel types to keep its competitive advantage and expand into new markets.

■ Summary

- The hotel business worldwide recovered from 2004, and the outlook is positive for the next 10 years.
- There is widespread selling of hotel property by the major chains, while private equity funds have emerged as the most important buyers of major hotel properties, portfolios and chains from 2002. Most large hotel groups are focused on franchising and management contracts. Hotel chains are continuing to grow at a more rapid pace than independents.
- East Asia and the Middle East continue to have the most rapid expansion in capacity of any region, especially China, India, Vietnam, Hong Kong, Dubai and Egypt. Gaming centres, such as Macau and Las Vegas, are also preferred locations of hotel expansion.

● Internet distribution is growing rapidly but electronic travel agencies are losing share to the hotel chain branded sites.

■ Conclusion

In this chapter we have outlined the ways in which it is possible to analyse the internal and external environments of international hospitality organizations. The basic tools are simple but the effective use of the techniques requires a great deal skill and knowledge. Not everything is knowable but the greater the complexity of the analysis undertaken the less the impact of the unexpected should be on the conclusions drawn from the analysis. We hope that the practical examples we have given will help to contextualize the processes we have outlined and make them more meaningful for you and easier for you to use in your own work. The complexities of the international hospitality industry complicate such analyses but also make them more important if we want to fully understand the ways in which we can deliver improved performance. This is a theme we will take up in the next chapter which looks at international marketing.

■ Review questions

1 Do you consider companies make full use of situational audits and environmental analysis in their decision-making?
2 How far can companies respond to changes in the operating environment?
3 What sorts of information would make you advise against developing a hotel in a new country that you have no direct experience of?
4 Why do we strive to know all we can when we know we cannot know everything and can control even less?