



## HOSPITALITY INDUSTRY: AN OVERVIEW OF STRATEGY, STRUCTURE AND GLOBALIZATION

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### **ABSTRACT:**

*Hospitality Industry is booming like never before. The academic literature available related to this industry mainly deals with the technical and operational aspects only. Especially in India; there is no discussion in the literature on the strategic management aspects of this Industry. This article shall discuss the expansion of Industry and need of the strategic management principles after second world and the developments that have taken place since then. The aim of this article is to study the extent to which the strategic management principles are used by Hospitality Industry and to discuss the structure of this industry. Also, this article aims at discussing the globalization of the Hospitality Industry and modes of entry of Hospitality companies in the International markets. This article shall use the existing strategic management literature, the research already done in the area and the corporate communication of the top hospitality companies to meet its objectives.*

**Key words :** Hospitality industry, strategy, globalization.

### **Introduction:**

This is a boom time for Hospitality Industry world wide. India as well is reaping the benefit. There has been transition in the image of the Industry from being old fashioned to modern in outlook. This article aims at understanding whether the strategic management has influenced this industry and whether it has an important role to play as well, like in the other Industries.

Hospitality Industry is complex because it is extremely complex. These complexities arise because of the Fragmented nature of this Industry and the subsequent strategy of the Hospitality establishments for a bigger market share, growth and entering foreign markets. These strategies include Strategic alliances, Consortium, Franchising, Management contracts, multiple branding etc. These strategies represent the concern for the growth

and survival of the business units. This article provides a clear picture of the Hospitality Industry in terms of the nature of the Industry, competitive advantage, threats, opportunities and challenges.

### **Traditional Versus Modern View of Hospitality:**

Hospitality has been referred to be an immediate paradox between generosity and the market place. Lashley (1999) explained this concept by giving the example of Harvester Restaurant where the instruction to the front of the house personnel is “Treat the customer as though they were guests in your own home”. The key to successful hospitality business thus is to make the giving seem like an act of real generosity rather than a formulaic ‘give away’. The modernization and technological innovation of the present times have changed the whole view of this industry, which has influenced it to follow the pattern of other businesses. Barge (1998) explained that the new owners of the Hospitality companies have a strategic view of the business, understanding that the value requires operations ability and investment acumen. Creating the competitive advantage is one of the most important research topics in the Strategic Management field. Many writers have emphasised the importance of the internal characteristics of the firm and its external factors in sustaining its competitive advantage. Moingoen et al (1998) argued that creating and sustaining the competitive advantage must be firmly based on the dynamics of how the firm’s resources are acquired and managed. The resource based view leads to the relationship between the organizational learning and competitive advantage, which requires the greater degree of the integration between the strategy and structure.

### **Industry Structure:**

The success and survival of the Hospitality unit is extremely dependant on the structure of the Industry within which this unit competes. Hospitality Industry is a Fragmented industry as per Porters Industry analysis. Porter (1982) defined Fragmented Industry as one where companies compete for relatively small market share and no company has a big market share. He recommended that the limitations of the Fragmented Industry could be overcome by cost leadership or differentiation strategy. For example, Hunger (1999), explained that until Pizza Hut used advertising to differentiate itself from its local competitors, the Pizza fast food business primarily comprised locally owned Pizza parlors, each offering its own distinctive product and services. In comparison, Dominos used the cost leadership to achieve the market share in US.

Fragmentation is overcome as the industry matures and the industry tends to become more consolidated, and therefore dominated by a small number of large companies. The strategic alliances and hotel consortium in case of the Hotel Industry represents this consolidated structure. The structure of an Industry, which comprises of five competitive forces determine the profitability of industry. These five forces are existing competitors, threat of the new entrants, suppliers, buyers and substitutes (Knowles 1994).

The key sectors of the Hospitality Industry are becoming more concentrated. Morrison and Thomas (1999) found that the evidence of growth of multiples in fast food and accommodation over recent decades is incontrovertible. They discussed that the domination of the market shares by these multiples at the cost of the small firms, and referred it as questionable, on the basis of unavailability of accurate statistics of the Industry structure.

### **Industry Expansion and The Need for Strategy:**

Ingram (1999) explained that after Second World War, the practice of Hospitality became professional and wide spread so it sought to acquire a knowledge base through which it could improve its operations and develop the managers of the future. Mintzberg (1994) proposed the softer, contingency approach to Strategic planning, which was well received by the researchers of the Hospitality Management. Commenting on the contribution Strategic Management can make in Hospitality Industry and the reason for being used in this industry, Webster and Hudson (1992) explained that it is important for this Industry as much as it is important on the other industries as well. While reaching a stage in the life cycle where decisions of a strategic nature become increasingly important can be one of the reasons for the Hospitality Industry to accept the Strategic Management.

The Hospitality industry by nature is labour intensive, spatially disintegrated and fragmented, operating in a complex and dynamic environment, predominantly composed of small independent enterprises. To make the sense of these characteristics, and to maintain the equilibrium between stability and instability, Edgar and Nisbet (1996) explained that the long term strategic planning is of little use for the Hospitality establishments and further that the managerial focus should be on the creative and innovative practices to achieve the competitive advantage.

### **Business Format and Complexities:**

The business format of the International Hospitality Industry is diverse which include direct ownership by the chains, franchising, management contracts, and consortium. Olsen and Merna (1998) discussed that the international dimension or the globalization of the hospitality Industry has added to its complexity. These complexities arise because of difference in the legislative framework from country to country, economic and financial factors and market conditions. In response to these complexities, the multinational Hospitality companies have subscribed to the following generic strategies.

1. Export of the Brand that has been well developed in the home country, for example McDonald's, Accor, Forte', Marriott, and Oberoi's etc.
2. Broad based competitive positioning by the Hospitality Industry on account of the homogeneous needs and reason for the travel of the international customer.
3. Management expertise export by the multinational Hotel companies to enter markers with the minimum investment, which describes the current competitive approach of the lodging firms.

Olsen (1998) concluded that to succeed in the long run, the right kind of the strategies are required to be chosen by the effective management to react quickly to the threats and opportunities in the environment, which shall be a challenge to the Hospitality Industry is very complex and it has a potential to change at very fast speed.

### **Globalisation and Growth Strategies:**

The increase in the Global travel, market and environmental trends led to the Internationalization of the Hospitality Industry. Between the periods of 1950-1995, International travel has grown by 21 times (WTO-1992) and this led to the considerable growth in Hotel Industry. Zhao and Merna (1996) explained the Globalization of the Hospitality and Tourism Industry has accelerated under pressure of advances in Technology, communication and transportation, deregulation, elimination of the political barriers, socio cultural changes, and global economic development, as well as growing competition in the Global markets.

In case of Hotel Industry specifically, the Internationalization has been based on the North American branded, relatively up market and business-

travel oriented provisions (Littlejohn 1997). The tendency of the individual groups to develop a range of brands where different product and services specifications are intended to meet different market segments was reported to be yet another feature of the Industry evolution by Alexander and Lockwood (1996), Littlejohn and Roper (1991).

Furthermore, growth in the Hospitality Industry as explained by Olsen, Crawford and Tse (1994) followed an overall strategy of concentrated growth (directing the resources to the profitable growth of a single product, in a single market, with a single dominant technology) on account of the various trends of the 1980's and 1990's. Olsen et al suggested that the various forms of the concentrated growth practiced by the Hospitality Multinational Companies are strategic alliances, franchising, management contracts, joint ventures and acquisition, all of which reflect the pure competitive status of the industry and which has resulted in the complete restructuring of the Hospitality Industry.

### **Strategic Alliances:**

The strategic alliances help the Hospitality Managers to concentrate on the core activities by centralizing their marketing activities and provide them the competitive strength and financial stability to stay in the business. The strategic alliances have been very effective for small establishments, especially Hotels. Morrison (1994) argued that these establishments choose the most beneficial configuration, which can provide them the maximum returns.

Anderson Consultancy and New York State University conducted a survey to identify major trends and Strategic issues that will shape the industry for the future. They concluded that the strategic alliance is the number one growth strategy in the Hospitality operations followed by mergers, joint ventures, franchising, management contracts and the new developments (Su 1998).

### **Franchising:**

Franchising is an important option of the firm to expand its market. Business format franchising is predominantly used by fast food operators like McDonald's, conversion franchising the popular example of Best Western Hotels, which implies the affiliation between the hotel group and individual hotel. The growth in the fast food sector has been predominantly as a result of franchising.

### **Branding And Positioning:**

The multiple branding also drives the growth of the Hospitality companies. Marriott developed Courtyard (midprice), Fairfield Inn (budget) and initiated J.W. Marriott, as upscale Luxury Hotels. The advantage of the multiple branding is that apart from the growth, it provides competition from the single brand (Lewis and Chambers 2000). The restaurant industry too uses multiple branding heavily. Darden Restaurants of US owns Red Lobster, Olive Garden and Bahamas Breeze. Tricon Global owns Pizza Hut, Taco Bell and KFC and Brinker International have eleven different restaurant brand concepts.

### **Management Contracts:**

Management contract pioneered by Hilton Corporation, proved to be extremely cost effective method of entering the new markets as compared with the asset acquisition growth strategy. Knowles (1998) explained that there are expectations on both sides. From the Management point of view, the Hotel property has to conform to its portfolio requirements and the Management has to prove its competitive strength through the sophisticated pricing and marketing efforts.

### **Mergers and Acquisitions:**

Mergers have been generally used for gaining from the valuation discrepancies between company stock market price and what is perceived to be their true value, capitalising on inefficient management, achieving product line diversification, benefiting from economies of scale, and other synergetic benefits, taking advantage of the unused tax shields, avoiding bankruptcy for the acquired firms, etc (Kim and Arbel1998). They argued that the merger decision is like any other investment decision and should appeal to the long-term goal of maximising shareholder value.

The major change in the ownership pattern occurred in the Hospitality Industry because of opportunity of the large cash flow available with some of the big companies (Barge 1998). In the UK, for example the acquisition of Swallow Hotels by Whitbread in 1999, that of Holiday Inn by Bass, the brewing company is the examples of change in the ownership of big Hotel companies.

In America as well, the Entertainment and Gaming companies have discovered that taking over some Hospitality business as well can improve their return on investment (MGM Resort Annual Report 2000). The

philosophy behind the acquisition of Mirage Resorts by MGM Grand, the US based gaming industry was the Industry Leadership, which the company believes is determined by the size alone. Thus the presence of the big entertainment and gaming firms in the list of the best performing Hospitality Industries should not be a surprise to the reader.

Similarly, Hilton International is a subsidiary of Ladbroke Group plc, and owns the Hilton brand name outside US and is separate company from Hilton Hotel Corporation. Ladbroke acquired 92 Hilton Hotels, in 1987 for \$1.2 billion. Ladbroke, like MGM of US is yet another biggest European gaming company.

### **Conclusion:**

The Hospitality Industry like any other industry is competitive, innovative and is being swept by the wave of modernization in operations and outlook. The strategic practices for planning the growth and for increase in the return on investment are being utilised effectively. There have been severe changes in the Hospitality structure due to the changing Global trends especially related to Travel, business pattern, social and other technological trends. The wave of change in the ownership of the Key Hospitality firms has added complex dimensions to this otherwise fragmented Industry. It is clear from the discussion that more growth in this sector is expected in the future and to cope up with this growth, the best strategic management practices shall be required by this Industry.

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