

Session 1

Macro environment of the tourism and hospitality industry

The macro environment

Macro environment includes the economy, technology, society, government and the competitive environmental factors that can influence an organisation, but that are out of its direct control. However, firms may be able to develop dynamic capabilities to deal with (changing) environments in the political structure.

- **Full employment** - e.g. post war Britain - full employment does not mean that everyone who wants a job has one all the time, but it does mean that unemployment levels are low, and involuntary unemployment is short-term . An increase in employment will create a growth in money supply. You can measure the scale of tourism in a country by
 - *How many people work in the industry*
 - *How much money it makes in the economy*
- **Price stability** i.e. low inflation will have a positive impact on tourism

Economic growth and growth in national income per head of the population; 'growth' implies an increase in national income in 'real' terms, and not caused by price inflation. The leisure, hospitality and tourism industry is one of the largest in the world. Every sector of the industry provides employment.

- **Tourism contributes to the balance of trade** – the balance of payments compares the amount of money people spend on goods and services produced in their own country with the amount they spend on goods and services produced in other countries. When tourists from abroad visit the UK, they spend money here and make a positive contribution to the UK's balance of payments. When people from the UK go abroad they take money out of the country and spend it somewhere else. By doing this they make a negative contribution to the balance of payments.
- **GDP** is the value of goods and services produced by an economy in a given period.
 - Labour earns wages
 - Entrepreneurship earns profit

Tourism is travel for recreational or leisure purposes. The World Tourism Organization defines tourists as people who "travel to and stay in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited." Tourism has become a popular global leisure activity.

- Tourism in the world is dominantly domestic (people travelling in their own country) not international.
- Most tourism journeys in the world are by surface transport (mainly the car) not by air.
- Tourism is not purely for the purpose of leisure. It also includes business tourism, pilgrimages and tourism for health purposes.

Much of tourism activity is a relatively new development. Nevertheless, the tourism industry is of sufficient economic importance and its impacts upon economies, environments and societies are significant enough for the subject of tourism to deserve serious consideration.

Though often referred to as a single industry, travel and tourism is made up of a wide range of very different, but interdependent, activities and operations. These include accommodation, catering, transport, tourist attractions, tour operations, and retail and business travel. It also has a considerable degree of overlap with other leisure and recreation sectors such as sport, entertainment and the arts. Tourists are frequent users of the services and facilities provided by these sectors.

Government and industry reports frequently suggest that the future of the travel and tourism industry in Britain will depend very much on improving the quality of service and the value for money that visitors receive and that this can only be achieved by raising standards of training and professionalism.

When individual purchasing patterns and the influences upon them are aggregated to the national level, it is possible to gain a clearer view as to the influences upon global patterns of demand for tourism. These influences can be summarised as economic, demographic, political and technological.

Background reading

Does tourism spoil our natural heritage?

Dovedale in the Peak district used to receive a million visitors a year— so many people caused damage to footpaths. Most of the visitors used a privately owned car park which had space for 900 cars. There was considerable traffic congestion, and therefore air pollution, on Bank Holidays and at other peak times.

The Norfolk Broads have been a tourist attraction for hundreds of years. Part of the problem is that nitrate run-off from agricultural land has damaged the reed beds which act as a natural filtration system. Continual boat wash exposes them to further erosion. The increased phosphate levels in the water encourage algae which threaten the balance between fish and plant life and some areas of the broads are gradually silting up. The conversion of marshland to arable land and the reduction in planned management of the marshes and woodlands have destroyed a characteristic landscape.

The National Trust, which owns over 3,600 acres (1,450 hectares) of land in the Peak District carries out various kinds of conservation work, including drystone walling, woodland management, moorland restoration and footpath repairs. The most obvious sign of the damage caused to the landscape by excessive numbers of visitors is soil erosion. In the area around Main Tor, which receives an estimated 150,000 visitors a year, the Trust has spent a great deal of money on footpath and erosion repairs. Yet erosion is not the only problem. Wild plants, some of them quite rare, are also disappearing from some sites as a result of being trampled on.

Kynance Cove is a famous beauty spot near Lands End. It is owned by the National Trust and attracts 200,000 visitors a year. A privately owned car-park, shop, café and house are highly visible and out of keeping with the remote and unspoiled character of the cove.

The public and private sectors

Public sector

The aim of public sector organisations is to use public funds to provide facilities and services. Because they are funded by public money from national and local taxation their structures tend to be more rigid than private sector organisations. People who pay taxes naturally expect value for money. To ensure a clear chain of accountability, public-sector organisations usually have a hierarchical structure.

Some examples are:

- Arts centres and theatres
- Libraries
- Museums
- Parks and playgrounds
- Public halls
- Sports centres and swimming pools
- Tourist information centres

Most leisure and tourism facilities are in the private sector. They are privately owned and aim to make a profit. Private sector facilities range from tiny coffee shops run by one person to international travel and hotel chains.

Private sector

Private sector organisations exist to make a profit.

The most common types of private sector companies are:

- Sole traders — owned and run by one person
- Partnerships — jointly owned and run by two or more people
- Private limited companies — owned by two or more private shareholders (people with a direct personal interest in the company like executive and non-executive directors, company staff, friends and family)
- Public limited companies — owned by public shareholders (members of the public, banks, trade unions, insurance companies, pension funds)

Class activity

Business types

Describe and explain the types of business enterprises found in the tourism and hospitality industry. What are their advantages and disadvantages seen from the viewpoint of a manager?

(Comments: The question is looking for an understanding of some of the pros and cons of typical business enterprises i.e. limited companies, partnerships, sole traders. Start by describing each of these organisations.)

Limited Company

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Advantages

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Disadvantages

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Partnerships

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Advantages

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Disadvantages

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Sole Traders

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Advantages

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Disadvantages

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The trading cycle

Trading cycle (also called the **working capital, cash cycle or operating cycle**) in terms of finance is the period of time which elapses between the point at which cash begins to be expended on the production of a product and the collection of cash from a purchaser. Cash budgeting is an important part of short-term planning. Tourism organisations need to be aware of the seasonal variations in their income and plan how to counteract them.

Pricing: Profit-making organisations need to base their pricing strategy on what will:

- Recover costs in the short time
- Generate the most profit over a reasonable timescale.

They also need to take into consideration what their competitors are charging for similar products and services.

Not-for-profit organisations are subsidised by public money.

Special events: Could be anything from a village fete to a national programme of celebrations. Events normally have a planning team which is responsible for making sure that the event runs smoothly and meets the organisation's objectives.

"I am quite wary of running special events- they take so much time and energy to organise. The main one we do is the fashion show during the off-peak periods which is a big thing for us in terms of the amount of organisation it takes and the benefits we get. It is our way of attracting locals and tourists to visit us during the off-peak season. We always get a lot of enquiries and bookings after the show." Manager of a hotel

Forward planning: Planning to counteract seasonal variation should be done months ahead. There are things to do well in advance, such as fix a budget, sort out the venue, publicity, book performers, work out a schedule with the most important dates(sometimes called 'milestones') and allocate resources from the organisation.

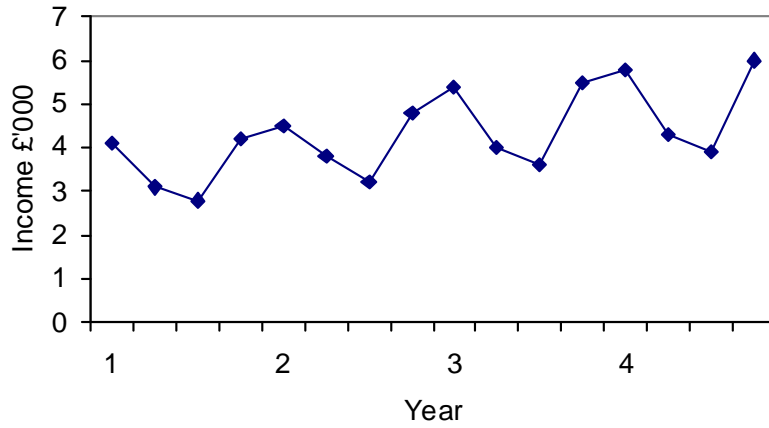
Time management is a set of principles, practices, skills, tools, and systems that work together to help you get more value out of your time with the aim of improving the quality of your life.

Some of the skills associated with time management are:

- Planning
- Goal setting
- Prioritizing
- Decision-making
- Delegating
- Scheduling

Individual activity

The diagram below shows the seasonal variation of income seen in the books of Hotel Seahawk situated within easy access to the seaside in UK.



Give 3 reasons for these changes in income.

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Finance in the tourism industry

Financial performance: Any business, whether it is the private, public or voluntary sector, has to cover its cost and make enough money to survive in the future. That's why it's important to monitor financial performance – watching carefully the money collected and spent.

Solvency: An organisation is solvent if it has the financial resources to cover its debts and costs.

Profitability: Organisations calculate their profit by the total expenditure from their total income.

If this figure is

- Negative the organisation makes a loss
- Positive the organisation makes a profit.

Cash flow: Organisations use cash flow to work out whether there will be enough cash to cover their predicted expenditure over a period of time. It gives them their day-to-day pocket money. Anything stopping the flow, like fall in sales, increase in costs, and late payment from customers may even stop the organisation operating altogether.

Financial targets: Are the amount of money which an organisation aims to make or spend over a period.

Budgets: Are financial plans which show how an organisation intends to spend its money.

Investments: Financial investment could come from shareholders, companies or some person who has won the lottery. It adds to the capital. Investors will generally invest if the organisation is doing well, with the hope of having some share in its profit.

Investing in people is a major part of success in organisations. Developing employee skills to meet business objectives will help to generate profit.

Information technology

Systems used to process information range from a simple card index to a sophisticated expensive computer. Computer systems allow users to sort, store, and retrieve information quickly and easily. Organisations need to be able to process information about themselves and their customers.

For example, a travel centre may have systems for processing:

- Information about running the organisation - staff rota, salaries, training records, health and safety checks, accounts, travel services and so on
- Information about customers – personal details, bookings, mailing list for special offers and so on.

Class activity

Hotel management systems

You are a reception manager in a medium-sized hotel and the hotel owners have said that they are going to install a hotel management system, but have not given you further details yet.

Name five functions that you would expect such a system to do.

For each of your named functions, how will they affect your hotel's guests?

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Session 1 lecture slides

Learning outcomes for this session

At the end of this session students will be able to:

- Understand macro economic policy structures
- Understand what is meant by public and private sectors
- Have a basic knowledge of finance in the tourism industry
- Understand the use of information technology in the tourism industry



Macro Environment of the Tourism and Hospitality Industry

Introduction to Business and Finance –
Session 1



The Macro Economic Policy Structure

- Full Employment
- Price stability
- Economic growth
- Balance of trade
- GDP



PUBLIC SECTOR

- Leisure services
- Tourist boards
- Tourist information offices
- Community facilities and projects
- Recreation centres



PRIVATE SECTOR

- Shareholders
- Private limited companies
- Public limited companies
- Sole traders
- Partnerships



Trading Cycle

- Seasonality
- Pricing
- Special events
- Forward planning
- Time management



Finance in the Tourism Industry

- Financial performance
- Solvency
- Profitability
- Cash flow
- Financial targets
- Budget
- Investment



Information Technology

Access to information on:

- Holiday destinations
- Accommodation
- Carriers
- On-line audits
- Local tourist sites
- Business functions
