

доц. д-р ТАНЯ ПАРУШЕВА

УНИВЕРСИТЕТ ЗА НАЦИОНАЛНО И СВЕТОВНО СТОПАНСТВО, СОФИЯ

НОВИ СТРАТЕГИИ ЗА ХОТЕЛСКИ МЕНИДЖМЪНТ

NEW STRATEGIES FOR HOTEL MANAGEMENT

Associate Prof. Dr. TANYA PARUSHEVA

UNIVERSITY OF NATIONAL AND WORLD ECONOMY, SOFIA

Abstract: The disposable income growth and the expanding horizons make traveling accessible to more customers. It also contributes to the growth of hotel chains as well as requires the use of new strategies for the hotel management. Some of the strategies emphasize on the marketing, others on the property and financing, while there are some that stress on the management. However, they all have two important aims to achieve: growth of the business and profit. At the same time, hotels and travel agencies strive to satisfy the increasing customers' needs, which requires marketing research to identify new trends and in this way to offer new profitable products for the managers.

Keyword: hotel chains, management contract, franchising, management structure, a concept of joint management, joint venture.

Travelling has a very long history and always follows human development. Driven ahead by their main demands, the need for food and shelter, and even out of curiosity, people start to expand their horizons. Historians suggest this aimless wander began to have a purpose around 4000 BC. The discovery of the bicycle and the introduction of money in trade are believed to be creation of the Sumerians (ancient Babylonians) who lived in the Eastern Mediterranean. The Ur, a home of Abraham, was part of ancient Babylon and a place where **tourist homes** first appeared. Many of the first trips were by ship. Later **karavansaraites** (a place of rest for the caravans in the East), **estates** (large hotel establishments along the roads of ancient Rome) and **taverns** in Dicken's England¹ appeared in response to the needs of the passengers. Travelling thrives in the Orient and Europe. Although Marco Polo is alleged to have found the way to the East in his shipments, Chinese emperors have travelled from 1000 BC. Over time, the

construction of places of accommodation have flourished.

Today, travellers are still driven by their beliefs and demands, but more than physical needs, as well as political, social and economic. A demand of *new business strategies* is the modern version of the demand of food and shelter. Only around the middle of the XX century, the leaders in hotel business emphasize on the location of the hotel and the access to it.

The traditional focus of the industry to the location has not been abandoned today as well. Modern models that convert the new sensitivity in market forces supplement the old focus rather than replace it. The passenger now can choose not only one direction of travel, but he/she can fly around the globe with the speed of light. The passenger has many opportunities - new and exotic destinations that can be accessed by different vehicles. It is good that *the hotel of XXI century* is rather a **fixed destination** along a route than a fixed direction at a predetermined driveway. Definition, attraction and retention

¹ Hawkins, D., Shafer, E. & Rovestad, J., Tourism Marketing and Management Issues, GWU, Washington DC, 2006, pp. 25-31.

of guests require *new methods* to meet the needs of a client¹.

The match of the abundance of shelters and individual preferences as well as the solvency of tourists is the base on which modern hotel management has stepped. Hospitality industry is an example of the progress in the field of goods and services by providing new products and opportunities. The transition from tradition to *innovation* is done with small, almost imperceptible pace. Some of the new models emphasize on marketing strategies, others pay more attention to the ownership and financing, third - in management². But for all the most important things are growth and profit.

Guests stay at hotels for many reasons, but there are *two main goals*: **the ultimate goal** or just **a stop** that offers them shelter on the road. This is one of the reasons for the existence of *different types of hotels*.

A transit hotel is a temporary shelter. Guests are several types: tourists on a sightseeing, business travellers on their way to corporate meetings, families headed to weddings, sports events and more. This type of hotels rarely accommodates their guests for more than one night. Contrary to those hotels, **ultimate goal hotels** are objective endpoint of the journey. This hotel is a place that houses the participants in business meetings and symposia. This is where a family stays temporarily while looking for a new home at a new place. Final destination hotel is part of a resort complex, just like the Disney property. Location helps to determine the classification of a hotel. Hotels in Atlantic City and Miami Beach undoubtedly belong to this type of hotels. Most motels belong to the transit places to stay. On the outskirts of a town to the highway, the hotel expects a passenger who is headed to the megapolis.

¹ Braudel, F., *The Structures of Everyday Life*, New York: Harper and Row, 2007.

² Loosely K., *The Mind of the Strategist Business Planning for Competitive Advantage*, New York, Plenum, 2007, p. 92.

The role of every hotel changes from the first client to the next. Not always, the ultimate goal hotel is a resort. From a historical perspective, it is clear that it is the contemporary answer to the hostels with rooms for accommodation. Although groups may occasionally temporarily stay in a hotel, they are more likely to use the ultimate goal hotel. Similar to individual travellers, groups may also come as tourists or for business purposes.

With the rise of disposable income and expanding horizons, travelling becomes accessible to more people. With the fall of relative prices of trips, the market increases the pace of development. Tourism and hospitality industry are in pursuit of the same kind of mass production and service.

Group tours are presented in different "packages". In fact, the preparation of **tourist packages** is flourishing. Shelter, food and beverages, entertainment, and in some cases transportation are included along with tips in the total price. The package includes compensation, as the guests do not always eat every meal and drink or use any service included in it. Compensations belong, either to the travel agent or, in some cases to the hotel.

The new entrepreneur appears to cope with the mass movement of tourists. Airlines and hotels do business with the organizer of the group visits rather than with an individual visitor or even a travel agent. Along with the whole package, the price of ticket is much smaller than advertisement fees. Frequent purchases and many sold tickets provide a travel agent a best price on airline tickets, even when the airplane is not fully occupied. Prices of rooms with higher quality and meals are negotiated with the hotel using the same *quantity discounts*. With a promise for year-round, two-way charter flights, a sales manager at a hotel increases sales. One sell books thousands of rooms. One phone call confirms all bookings. One account takes the entire book. This is a good purchase for the holiday-maker, a risk that brings profit for the group tours' agent and a principal occupation of the hotel.

Mass advertising reveals the trip well to many new customers. Some travel, despite the lack of personal service and attention, while others - just because of that. Those tourists who *do not have extensive experience* in travelling, find comfort and security in the group. And those with experience definitely prefer **individual trips**. The massive introduction of *tourist packages* allows customers to use the services of airlines, ground transportation companies, tour operators, hotels and restaurants at prices that differ from the individual. When there is third party mediation there is a loss of identity of customers, and even a sense of reduced responsibility from the hotel. Almost every ultimate goal hotel can accommodate a tourist group if the group can be drawn to the area. It must respond with the right prices on the extremely competitive market, in order to be attractive to the tour operator. The hotel must be large enough to accommodate the group and to be able to cope with the arrival of other guests. **Bus tours** are also very popular, especially for hotels located in more remote locations. They create a wider market as the number of guests is smaller and almost every hotel can accommodate them. With bus tours, the hotel provides an interesting combination of destination with ultimate goal and temporary residence.

The desire to *integrate* various business objectives leads to the creation of a impressive number of organizations. People join for many different *reasons*: business, unions, fraternal, social, historical, veterans, health and medical, educational, religious, scientific, etc. Each classification is represented by numerous organizations, societies, clubs and associations. Every one of them has meetings, presentations and agenda. They function on a local, regional, national and international level and do business with numerous hotels.

There are **business hotels**. Employees from different companies come together to distribute their common goals. They are various as well as the list of associations that have conferences. During the two-

three- or four day conference, different types of debates and speeches are carried out. Some are professional, while others have more unofficial status. Professional conferences may be an informal forum for recruitment. Urban and resort properties compete in this business, and today there is a prevalence of mixed-type facilities. To be competitive, a business hotel should have a variety of facilities, a space with appropriate furniture, as well as a kitchen equipment which is large enough to accommodate groups during banquets. These are only small part of the necessary facilities.

Sports facilities, a change in landscape and escape from the hectic noise of cities, are widely advertised from the sales department at resorts. Urban areas attract with theaters, museums and historical landmarks. They may have the advantage of public meeting rooms. *City hotels* sometimes combine efforts with their competitors who are close to them when a delegation is too big for one hotel. Often the case but not a strict rule, a conference with delegates from 50,000 to 100,000 is registered when it takes place along with trade shows. Trade fairs are representations of product lines from suppliers to potential customers. Often, conferences and trade fairs are held together. The presentation requires enough space, especially if greater machinery or equipment is promoted. Space requirements and the complexity of organizing limits the selection to a small number of hotels. A *city conference bureau* plays an important role. It builds exhibition halls, where events take place, leaving the accommodation and service of the guests to local hotels. Goods with small size, perfume exhibitions, for example, can be carried out in every hotel. Although it is more and more rare today a common practice is to reserve several floors for commercial aim and guest rooms to become exhibition space. The supplier also occupies the room as a registered guest.

In the beginning, the hotel business is created for **the individual guest**. The first resorts flourish, providing rehabilitation and

recreation for individual guests ("individual" could mean family, friends or employees who arrive as a separate community). The preparation of group travel packages gains more popularity every day.

The popularity of **group travel packages** prepared by agents do not get unnoticed by hoteliers. Advertising of inclusive tour (IT) requires communication with travel agents. Sometimes this is done through **direct mail**. Tours are published so that travel agents, airlines and other firms may sell the product. In this case, the hotel is the one which pays the **commission**¹ and realizes sales and compensation. The numbers of IT tours are noted in the hotel folders to identify the package. Some hotels have different IT packages, each with its own pricing structure. The codes are used by agents to book packages. Offering IT packages, a hotel competes with itself, selling rooms with extra services at low price instead of the standard inflated rates for the same rooms.

An individual unit differs from tourist groups or trade fairs and symposia as the prices are formed by the unit itself (company, firm, institution), not by individual customers. It is the same case when it comes to trade fairs. Affinity to the separate unit is reinforced by the individual buyer, while the delegates of the conferences pay for themselves.

However, a hotel offers different types of **group bookings**. An example is a visit of a sports team. Company sales and technical seminars, presentation of a new product line and training illustrate a wide range of options. **Hotel casinos** have their own form of existence - gambling fun. Airlines encourage individual groups for charter flights. Transport organization is not relevant to the hotel, except the time of arrival and departure, which affect the operation of reception and preparation of rooms.

¹ Vallen, G. and J. Vallen, Check In; Check Out: Managing Hotel Operations, Prentice Hall, 2005, p. 52.

There are so called **incentive tours**, which are a special division of the individual units. Different companies and business organizations use this type of tourist programs to stimulate and encourage, for example, their sales department *to achieve the set objectives*. If they are reached, the employees shall receive the prize trip. In most incentive trips, full costs will be paid to the winner. As to hotels these tours include the best ones. Agents prepare these encouraging trips and provide rooms for accommodation. Incentive companies can get a lot of these programs from different suppliers. Hotels feel the same pressure in the organization of the packages, except for the price, which is not of importance for this kind of trips.

Patterns of hotel use from customers are limited compared to the many changes that occur in the hospitality industry. One of the most interesting movements take place in the sphere of ownership and management. Only from World War II, the ownership and management are considered separately. Recently their relationship is reviewed.

The historical review reveals that the era of small inns and individual entrepreneurs has passed. The rise of high and expensive buildings and the competition in what the international market requires - *managerial talent and capital investments* - can only be guaranteed by large public companies or **hotel chains**. Modern business practices give high priority to hotel chains and a opportunity for quick growth in the hospitality industry. Identification of the hotel is important to tourists from foreign countries. Brand recognition and the understanding of the chain and its management contribute to the popularity and growth. *A chain is "any group of two or more real properties that are managed under a common name, owned by a unit"*.² The control over hotel chains dominates in the hotel industry. Around 57% of all hotels (66% of all rooms) are part of one or another chain. One of the most

² Lundberg, D., The Hotel And Restaurant Business, John Wiley & Sons, Inc., 2008, p. 62.

famous hotel chains in the U.S. are: Best Western, Hilton, Marriott, Days Inn, Hyatt, Sheraton, Radisson, Westin etc.¹

The increasingly uncertain market situation makes competent hotel management a necessity. This leads **to the growth of hotel chains**, because they have important **advantages** over independent hotels. *First*, in a hotel chain ownership and management are two distinct and separate functions. *Second*, most hotel chains offer their hotels a famous brand, central reservation system, a product of consistent quality in many places, staff training, professional assistance in marketing, sales and advertising, which aim to increase the market share. *Third*, because of its large scope and financial contribution, traditional hotel chains obtain more easily financing than independent hotels. To gain profit or acquire ownership of another company, hotel organizations have to compete on the market. The competition is a method to reach a new equilibrium.

Value is what customers want. Value is the right combination of quality, demand, expectation and price. Customers use the value as a reason to choose, hold or reject offers. Value is crucial due to the effect it has on the behavior of customers.² From the use of new approaches to routine activities, hoteliers can create value. Marriot maintains its status of a prosperous company, by providing brilliant value to loyal and potential customers and shareholders, responding to their needs. The corporation has a simple rule - provide the best value to the client: "We provide excellent services and products to meet their needs. We use market research to identify needs and to create and offer products that satisfy them. Then we keep these products through friendly and efficient customer service".³

¹ Waters, S., Travel Industry, World Year-Book, 2007.

² Loosely K., The Mind of the Strategist Business Planning for Competitive Advantage, New York, Plenum. 2007, p. 92.

³ Lundberg, D., op. cit., p. 65.

Four Seasons Hotels and Resorts is another corporation that aims to provide customers with value-added service for flawless accommodation.⁴ In 2007, the company has commissioned consultants from Goldfarb to carry out a survey among more than 500 business travellers who have done an average of 20 business trips and 40 nights in luxury hotels during the previous year. The results from the survey confirm the importance of value-added service provided in luxury hotels. They identify the expectations of guests and clearly show that customers appreciate service much higher than the payment of a low price. The exceptional level of service in Four Seasons Hotels and Resorts makes their trip more productive and profitable.

Hotels, which are part of hotel chains, are built by **entrepreneurs** (investors in real property), who usually are not operators, and may not be even owners. This fact shows the importance of the various hotel chains. The developer must have **managerial skills**. These are skills which the credit institution trusts on the likelihood of return. Confusion appears by the number of parties involved in the process. They can reach five. **An Entrepreneur** (first party) sees an opportunity and sets up a plan. The hotel may be part of a shopping center, an industrial park, a housing project or something else. Financing is governed by **a bank, an insurance company or a pension plan** (second party). There is a need for a **management company** (third party) which may be or not a hotel chain to manage the project under contract with the owner. **An owner** (fourth party) may be any of the previous parties or other corporation. No one of the participants are known to the buyers. It is necessary to take **a license for a name** (fifth party) which is popular. If the management company is known to the general public, it will be able to take advantage of the popularity of the name. If the management company is not popular, a franchise name is used. One of the **best hotel management companies** in the U.S.

⁴ Loosely K., op. cit., p. 97.

are: Aircoa, Continental Companies, Landmark, Summit Hotel Management, Westbrooke, Larken and others. Some have hotels and other franchises.¹

Together with the acquisition, merges and risks of accessions, hotel chains are extended on the basis of one or a combination of *three* active forms: *management contracts, franchising and hotel consortium.*

A management contract is an extremely important part in the hospitality industry. It is an *agreement between a property owner* (investor, entrepreneur, a creditor who has regained the terrain back) and a *management company* (an individual representative or a large chain).² A management company acquires executive management responsibilities. The owner agrees to finance, build property (if not yet built) and to pay for management services. Management contracts are complex law instruments. A management company manages the hotel under the restrictions and guidelines specified in the contract. The contractor **enjoys a rapid expansion of the hotel chain** associated with small costs. The positive side is the ability to profit with a minimum risk. The owner requires professional management credit institutions would like to see. An experimental management creates a bigger possibility of lending and profits. The contract may be reviewed at any time. The management company can give expert advice during construction of the entire site if it begins to participate at the beginning of the process. Contracts expire or are terminated and reviewed throughout the life of the property.

Nowadays, **franchising** gets more and more popular. Franchising gives services to both a missing investor and an independent owner. Franchising allows small businesses to remain independent and at the same time to take advantage of the chain. The required fee allows the small business unit to take the name of the franchisor and the trademark and to receive services, including

preparatory procedures for carrying out the process, choice of location, financing, design and planning. Almost all advantages of a chain are available at the franchise fee - large sales, management consulting, media advertising, centralized reservation system and system design. Franchisee and the franchisor are so similar that guests do not make difference between both. This works in favor, but sometimes out of favor for both. Only the **management structure** of ownership is **different**. The chain does not own or manage franchise ownership, while franchise does (in a separate contract, a franchisor may hire the chain to manage its property). The success or failure of the franchisee is still determined by individual business acumen, except that now it has the support of a chain. For this support, a franchisee pays twice - an initial fee and ongoing payments per room per night. But that's not all. A rent for the trademark of the company, a fee on a certain percentage of volume (area based) for advertising, a fee for access to reservation system and a reservation fee for each reserved room is also paid. In addition to this, the parent company always charges the purchase of places of leisure and recreation with the logo of the company.

Franchise and management contracts make terms of ownership and management a little blurred and vague. Sometimes the line between a manager and a guest is indistinguishable. A guest, an owner and a manager may be one and the same person. This happens when a guest becomes part of the joint management (owner), take advantage on the services (guest) and the management of a property (manager) through mutual arrangements with other owners.³ Entrepreneurs see the joint management and temporary allocation of duties in the management as alternative financing options. An organizer accepts them as additional means of raising capital necessary for development of a business object. Buyers who do long-term commitment appear mainly as guests.

¹ Hotels, Annual Survey, 2008

² Hawkins, D., Shafer, E. & Rovestad, J., op. cit., p. 33.

³ Vallen, G. and J. Vallen, op. cit., p. 57.

The concept of joint management originated in the final destination resorts (e.g. Florida and Hawaii) as a temporary government more than two decades ago. The unions of joint management are bought in a public bid and are owned by guests as **a second home**. They are usually ready for accommodation with bedrooms and kitchens. Owners join their units in total trust and share profit based on shares that each possesses. The complex may be part of a large resort, acting as a management company or owners can hire their own personnel to operate and manage. There are countless variations. In the simplest version, a guest shares management, reserve many days throughout the year for personal use and leaves his share in the trust.

The allocation of duties is a cheaper method than the co-management. This is the case as one participant does not purchase a property, but only the right to *use the area during the year for a specified period*. This period varies from 10 to 40 years. The buyer sets a certain date for every year. The more successful a season is, the higher a fee for the spent time is. The developer is entitled to sell each set, which may be no more than a hotel guest room, for 52 weeks per year, for 52 individuals.

Nowadays new management strategies appeared in the hospitality industry like vacation ownership, involvement in clubs or fractions. The desire of inconsistent management and non-distribution of duties in the resorts are among them. There are many advantages to the seller (the resort) and a small risk for a buyer-owner (guest).

As **"the importance of brand"** increases, independent hotels and small lower class hotel chains begin to seek consolidation. As a result, many consortia have grown fast.¹ (See Table 1).

Table 1. Hotel chains and consortia

Company	Added rooms	Total
1 Utell	60.000	1.360.000
2 SRS Hotels Steigenberger	60.000	1.360.000
3 Supranational Hotels	5.832	123.000
4 Leading Hotels of the World	3.049	73.049
5 Concorde Hotels Group	2.677	15.800
6 ILA Chateaux & Hotels	2.110	16.902
7 Associated Luxury	2.077	26.202
8 Preferred Hotels Worldwide	1.500	25.754
9 TOP International Hotels	1.000	20.500
10 Relais & Chateaux	1.000	13.000

¹ Hotels, Annual Survey, 2008.

A consortium, such as Best Western International, offers independent hoteliers a membership in a centralized organization that allows them to remain independent on the market by offering financial and educational services. Best Western International (a brainchild of Gertin, who is an owner of a motel in California) was founded in 1946 when hotel chains have not yet existed. Gertin proves that the success in the hotel industry can be achieved through cooperation of a large number of property owners who set and maintain high standards of guest service. He considers other real properties, chooses motels that are clean, comfortable, and affordable and recommends them to guests. In response the owners of the other property refer their guests to the motel of Gertin. In the 50-ies of the twentieth century, his organization has grown from 50 to 492 real properties. Recognizing the need for marketing identity, the brand "Western Motels" is perceived.

Today there are numerous chains consortia which are based on the same ideas. They offer independent hotels two additional **advantages**: access to the world market via global distribution systems and specialization in a niche on the market. For example, Leading Hotels of the World and Preferred Hotels Worldwide luxury hotels are everywhere. Relais & Chateaux are descendants of small-scale funds for accommodation.¹

Another important management strategy is **joint venture**. Joint ventures are similar in some indicators to partnerships and

profit (or loss) and bear legal responsibility for the company. There are also tax advantages. Usually joint ventures are not taxed.

The rising prices (land and building), large enterprises (super-resorts) and specialization (finance and administration), make joint venture a perfect tool for the present business climate. Joint-venture between Quality International and Aircoa reveals the merits of management. The assessment of real property of Aircoa, with exceptional sales, marketing and the possibility of reservations of Quality, create new forces on the tops of the hotel market.² This is one of the best illustration of the joint venture.

New and creative forms of joint ventures appear on the horizon. Companies in the field of hotel services, restaurants, souvenir shops and entertainment venues can be united. Together their financial and managerial skills will help them to ensure success in the challenging environment.

Nowadays new management strategies in the hospitality industry begin to apply. The main reason for their occurrence is the strong desire of hoteliers and travel agencies to meet the growing needs of customers. Hotels are constantly facing uncertainty. To ensure quick response to unexpected changes in the environment, they seek growth by adapting hotel marketing-mix, develop new products or modify existing, segmentation and consolidation.

REFERENCES:

1. Braudel, F., *The Structures of Everyday Life*, New York: Harper and Row, 2007.
 2. Hawkins, D., Shafer, E. & Rovestad, J., *Tourism Marketing and Management Issues*, GWU, Washington DC, 2006.
 3. *Hotels, Annual Survey*, 2008.
 4. Loosely K., *The Mind of the Strategist Business Planning for Competitive Advantage*, New York, Plenum, 2007.
 5. Lundberg, D., *The Hotel And Restaurant Business*, John Wiley & Sons, Inc., 2008.
 6. Vallen, G. and J. Vallen, *Check In; Check Out: Managing Hotel Operations*, Prentice Hall, 2005.
- Waters, S., *Travel Industry, World Year-Book*. 2007

separate units to invest, to allocate the

¹ Hotels, Annual Survey, 2008.

² Lundberg, D., op. cit. p. 73.