A SWOT ANALYSIS OF THE GLOBAL HOSPITALITY INDUSTRY

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Abstract:

The customer experience is the lifeline of all hospitality providers, and therefore, require special attention to the exact talent domains that are necessary for competitive existence in the highly fragmented market place. Robust training and continuing education are necessary elements to maintain employee readiness and competitiveness in most industries and business sectors. Understanding the most critical needs for operational improvement, aligned with the components that determine good and bad service, are critical touch points for hospitality managers.

Key words: *hospitality industry*

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Introduction:

Around the world, the hospitality industry has, in recent decades, grown in many countries and contributed greatly to economic and social progress, and has a direct input into GDP creation and employment, thereby strengthening national economies (Cut-Lupulescu, Dincu, and Borlovan, 2014). For example, Europe is one of the major attractions geographically around the world. Looking at just one small European country, Portugal, for example, in 2014, the direct contribution of Travel and Tourism to GDP was €10.4bn (5.9% of GDP), and its total (direct and indirect) contribution was €27.3bn (15.7% of GDP).

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The strengths of the hospitality industry [S]

Over the past six years, the hospitality industry, worldwide, when factoring in travel and tourism reached total revenues of $7.60 trillion, with a compounded annual growth rate of 8.1%; thus, making this industry a solid investment and employment target (Statista, 2017). Tourism is larger than even the oil and automobile industries. In 2011, tourism contributed 9.1% of global GDP, with the auto industry accounting for 8.5%, the banking sector accounting for 8.5%, and tourism employment at 258 million, or 8.3% of total global employment (Xia, 2015).

Moreover, in Portugal for example, Travel and Tourism directly accounts for 7.4% of total employment, 337,000 jobs, and its total contribution to overall employment statistics, including jobs indirectly supported by the industry, was 18.4% (831,500 jobs) (World Travel and Tourism Council, 2014; Knoema, 2015). Considering this scenario, in 2014 Portugal had a total of 1,723 establishments of which 71% were hotels. These numbers grew to 1,729 establishments in 2015, 73% being hotels. All in all, these numbers demonstrate the importance of the industry to the Portuguese economy and similar results are found all around the world; just one example of the revenue is generating power worldwide for the hospitality industry.

Hospitality service firms and companies are aware of the revenue generating potential and for years have built their very existence on understanding their product delivery, their customer and the employee that provides that customer. Each of those components is built around around people. People as customers, employees, and Managers. Especially for managers, their ability across the six domains of leadership and management, problem-solving, interpersonal skills, business, technical and personal awareness are paramount to the result, a successful organization generating profits today and into the future.

Today more than ever, it is important for hospitality organizations to know how to manage and keep their customers involved throughout the product life cycle and developing services to meet their changing needs. Hospitality firms that lead have found success doing just that. One of the major focal points involves knowing what customers want, what they think and their impressions of their interaction with the firm. Many companies have taken the bull by the horns and created avenues and forums for customers to be engaged and take ownership of the brand. For example, Marriott's '*Travel Brilliantly*' (https://travelbrilliantly.marriott.com) asks guests to help "shape the future of

travel" by sharing groundbreaking ideas about how to improve the modern travel experience, whether through design, cuisine, wellness or technology. Members of such platforms derive benefits from interacting with like-minded peers and gaining mutual assistance. The resulting social relationships create a sense of community (Gebauer et al., 2013).

Companies have also developed and engaged social media to influence and engage customers. Groups of advocates, brand ambassadors, and emotionally loyal customers have been sought out, rewarded and are the most strategically significant customer brand enthusiasts available to any company. They have high-value potential to return and often spend more than they would have to in other companies; they not only buy more themselves but also influence others' behaviors and willingness to buy more by endorsing the firm's products and services through positive word of mouth (Bijmolt et al., 2010).

These interactions, create more meaningful, deeper relationships that would have otherwise existed in customer feedback and customer loyalties (Kumar et al., 2010a, 2010b). Customers expect to learn about products and services from their experienced peers, and they rely heavily on online reviews during their decision-making process. Because greater customer loyalty aligns with positive emotions, such that it stems from consistently positive emotional experiences, customer engagement in personalized interactions (whether face-to-face or online) is helping companies create an emotionally loyal customer base. More and more companies have understood this phenomenon and have created entire departments to engage, foster and track customer ambassadors.

The weaknesses of the hospitality sector [W]

One of the major growing challenges today is how to differentiate. Most hospitality firms offer more or less identical or comparable products and services, which appear simply as commodities to the market as a whole and its customers (Victorino et al., 2005). Because product and service features and enhancements no longer create separation adequate to constitute and determine loyalty, the customer as a brand ambassador has become the most important asset central to a firm's success (Solnet and Kandampully, 2008). Customer word of mouth, comments and feedback online or offline, positive or negative, is closely reviewed by prospective customers, making it a powerful marketing tool (Brown et al., 2007; Khare et al., 2011) whether or not wanted by the company. Knowing how to deal with, support and gain the confidence of these people is thus critical to the result.

What historically has been the driving force in building the brand no longer provides the strength needed for many customers to return, or at least return with frequency and loyalty. Pricing and customer commentary lead the marketing strategy needs analysis for companies and customers to possess more power than ever before. Competitiveness among firms has also intensified the importance of customer loyalty as a means to achieve long-term competitive advantages (Aksoy, 2013). More than ever before, managers must implement innovative strategies to gain the trust and loyalty of their existing customers (Dominici and Guzzo, 2010). Managers must entice them to engage in positive word of mouth (Reichheld and Sasser, 1990) and to find ways to understand the expectations of the customer.

Failed expectations (Blum, 1996) summed up service failures in the hospitality industry as follows: "*How management defines quality service is insignificant; how the customer defines it is paramount*" (p. 25). Failing an individual's sense of justice, or in the case of hospitality, receiving service that has not met their expectations, may adjust their beliefs, so that they value their outcomes as equal to those of the other group. In other words, they may rationalize differences by belittling the service provider (Stone-Romero & Stone, as cited in Beldona & Namasivayam, 2005). Receiving poor service may cause customer reactions that include decreased satisfaction and loyalty, as well as a higher propensity to switch service providers and in the current environment, make those service failures well known using online public comment sites.

Customer attitudes lead to behavioral reactions, such as negative word-of-mouth and a customer who simply will not come back (Beldona & Namasivayam, 2005). That said, one of the best times to measure and examine customer reactions is when service has gone bad, and companies that harness this attitude internally and seek comments will more than likely be the ones that act on feedback and garner customer positive reactions. Now faced with competition stronger than ever before, many service companies recognize the importance of building strong relationships with their existing customers (Morgan and Rego, 2006), being excellent in problem-solving and having all staff trained in interpersonal skills. For the hospitality industry, this realization of the need for strong relationships comes with many challenges (Kandampully and Hu, 2015).

The industry is fundamentally aware that hospitality is all about the people, the people involved in providing the service. With growth around the

world, the importance of finding, retaining and keeping people can help to increase the competitiveness of organizations and has become a crucial factor in the success of hospitality industry. It is also becoming increasingly important how companies and managers lead and supervise the service providers (people) who often demand special attention and are deserving due to the critical nature of the face to face nature of service. People are critical, and managing the human talent plays a central role in the services sector. A significant reason for this is that services are inseparable from their provider. It is the provider delivering the service that is the essence of tourism/hospitality in the first place.

Hartline and Keith state that in this context, if employers make it better for the employee; that will transfer to the employer. An increasing in job satisfaction, growing commitment to the organization and ways of motivation will not only help the desired behavior of the employees, but it will also contribute to the increased competitiveness of organization and lead to better future performance. Especially in the service industry where much of the 'product' itself is the people, evidence suggests there is a strong tie between job satisfaction (how the employee feels about their job) and the performance of those employees. Researchers found a significant positive relationship between employees' fulfilment and customer perceptions of service quality performance (Hartline and Keith, 1996). Fulfilled employees will engage in better service delivery (Schmit and Allscheid, 1995) and this will positively influence customer confidence and word-of-mouth and as well as contribute to achieving customer loyalty.

The challenge becomes how do companies motivate these service providers when they can often be some of the lowest paid employees. According to Nadiri and Hussein (2005), if employees do not believe they are being treated fairly, they will not demonstrate behaviors that provide a positive impact on customers even if management attempts to keep them satisfied. Feeling unwanted, untrained or the like may also lead to increased turnover of employees. Thus, high turnover may result in a decrease in service quality. Employees are simply that most important factor as it relates to the production and service, and they play a significant if not irreplaceable role in the effectiveness and sustainability of organizations. Creating a sense of belonging to the organization with loyal employees and fostering loyalty among employees can be a competitive advantage in today's business world.

For example, Halil Nadiri and Cem Tanova found that managers must understand that in the hospitality industry employees need to see rewards.

"Studies *show that employees not only look to see fair processes in place for rewards, but the actual fairness of the distributed rewards are also critical in both voluntary turnover decisions and organizational citizenship behaviors.*" It is not enough for managers to create fair and equitable human resource management procedures, but it is also important that the results of the procedures are as fair as possible, and that required perception of the employees/service providers is positive.

Based on growing trends and the massive revenues within the industry, opportunities present themselves in many ways across the hospitality industry. In a study conducted by Farouk Saleh and Chris Ryan (1991) , research was done to determine customers perception of the service received compared to how Managers believed they were delivering the service. They found that each service organization maintains procedures and systems to provide the service they deliver continuously and efficiently to the customer. The system established by management will permit a flow of services in such a manner that no single part of the system is over-worked, and this system delivers the service at the exact time the client requires it; kind of a just in time theory.

This delivery requires, in turn, two components. First, service exists based upon an anticipation of customer's needs. For example, the hotel guest need not ask for the menu in the restaurant; it is there ready for use as it should be. The customer should not have to ask. Second, the method service provides flexibility and can accommodate customer requests. Such flexibility exists due to the system possessing both communication and feedback mechanisms between the customer and management, while the whole system, to operate, requires supervision. Throughout each of these procedural elements of the service delivery system, the client will warm to the provider of the service through the 'friendliness' of the service, that is the customer reacts to the attitudes, behaviors and verbal skills of the service provider.

One study by Fourek and Saleh found executives did not understand:
1) what features connote high quality to consumers in advance.
2) what features a service must have to meet customer needs.
3) what levels of performance on those features are needed to deliver high-quality service and give customers that warm feeling.

The difference between the perceived service provision and expectation is itself a measure of satisfaction. It can be argued that the same applies to other 'perceptual gaps,' and that these are effective measures of quality, in that in the ideal environment guest expectations are high, are

correctly identified by management and are in fact met: that is, a congruence occurs. The wider the gaps that exist between expectations of the customer and what those expectations are perceived to be by management create a service result less satisfying to the customer.

The opportunity exists for companies to understand better their customer and the expectations of the customer and by doing so create and sustain market share. It doesn't matter what the perceived expectations of customers are in the eyes of management; what matters is exceeding customer's expectations. The challenge and opportunity for managers are to learn their customers, empower employees on the front line to engage customers and ultimately determine appropriate methods of tracking those interactions and results so that they apply to future planning and hiring.

In the past, brand management was a firm's primary task in its effort to gain a superior market image and customer loyalty (Allaway et al., 2011). Today, the strategic focus must be beyond mere customer loyalty, but rather must find positive ways to engage the customer to become an ambassador and take ownership of the brand/company. With loyalty being the result, companies must develop and engage customer strategies in encouraging them to be brand ambassadors (James, 2013). It is critical to grasp the facets of how to measure business performance and the levels that persuade customers to become repeat purchasers, to exhibit behavioral loyalty (Wilkins et al., 2010) and to enhance their engagement with the firm.

Research has indicated that value, as perceived by the customer, is inextricably linked to customer loyalty and that perceived value (what the customer thinks) is central to inducing positive responses from consumers. High-quality services are important for businesses, generally, in the hospitality arena and specifically, where it relates to tourism. Customer satisfaction leads to customer loyalty, which helps to preserve the success of a company (Moutinho, 2000).

Opportunities of the hospitality industry [O]

According to Hemington (2007), there are five key dimensions of hospitality, as a commercial experience: 1) host-guest relationship, 2) generosity, 3) performance, 4) the small surprises, and 5) safety and security. The idea is that customers do not buy service delivery, they buy experiences; they do not buy quality services, they buy memories; they do not buy food and

drink, they buy flavor. As such, it stands to reason that *delivering the dream* is, largely, if not wholly, dependent on the deliverer. When the dream does not materialize, there exists a 'gap' between expectations and delivery. According to King (1995), there are five potential gaps in the hospitality services:

1. *The gap between customer expected services and management perception of customer expectations;*
2. *The gap between management perception of customer expectations and service, quality specifications;*
3. *The gap between service quality specifications and service delivery;*
4. *The gap between services provided and services promised; and,*
5. *The gap between perceived service and real services.*

For the customer service value is defined two ways: economic, or transaction, value, which pertains to the perceived price, and psychological value, or the emotional and cognitive aspects of the product/service choice (Gallarza and Gil Saura, 2006). As an important component of customer relationships, the value is an important component of customer relationships: it reflects the firm's commitment to its customers while simultaneously establishing a point of differentiation and competitive advantage.

Continually innovating and developing value-enhanced products and services, however, is not easy, so firms collaborate with and enter into multiple relationships with other firms (often through extended networks of partners), which helps them to offer more valuable benefit to the customer (Kandampully, 2000). The firm's competitiveness depends on the value it can create through networks, or constellations of relationships in which multiple, interdependent service providers combine to offer customers complementary value and synergetic benefits.

And in competitive markets like today, customers often have multiple watered-down loyalties. Companies can learn how to understand where customers are 'sharing' their loyalty, opportunity to expand revenue share with already existing clients grow. Companies don't have to create new customers as much as creating an opportunity for existing customers to use them more. McKinsey & Co. reports that improving customers' share of wallet and customer retention can produce ten times more value for a company than focusing on customer retention alone (Coyles and Gokey, 2005). The challenge for leadership and management becomes figuring out how to get customers engaged and open to sharing those times when they choose another provider of a similar service and why. Every person in the delivery chain will need to be

problem solvers, have outstanding interpersonal skills and be empowered to make it happen for the customer.

Another opportunity centered on customer loyalty is the relationship between loyalty and willingness to pay more. Goldsmith revealed that customers who are loyal to a company express lower price sensitivity than non-loyal customers (Goldsmith et al., 2010) and are more willing to pay a higher price to stay with that company as their preferred service providers. They are also more likely to make positive comments online which in turn is marketing for the company for prospective future new customers.

The threats of the hospitality industry [T]

As Evanschitzky et al. (2012) illustrate, these loyal customers create and use emotional attachments to their companies of choice, which attachment motivates them to stay in the relationship. The opposite would be the non-loyal customers who only focus on the money; the economic benefits of purchasing from one company and the primary focus becomes price. Loyal customers consider these emotional benefits they obtain from using their preferred company, rather than incur additional search costs.

This concept of customer loyalty is central to understanding marketing and attracting new customers and retaining existing ones (Toufaily et al., 2013); from a practitioner's perspective, it is among the most enduring assets possessed by a company. Creating and maintaining customer loyalty helps companies develop long-term, mutually beneficial relationships with customers. The expectation of those customers returning in turn, these loyal customers exhibit attachment and commitment toward the company, and are not attracted to competitors offerings. Furthermore, loyal customers are often willing to pay more due to an assurance of expectations being me, express higher buying intentions and resist switching (Evanschitzky et al., 2012). In this sense, it is imperative for firms to have loyal customers to establish and maintain a sustainable operation.

In addition to changing loyalties and a fickle customer, perhaps the main threat to traditional hospitality providers is that of online marketplaces. The private rental of accommodations, together with fundamental changes to consumer lifestyles (shorter vacations for example), which have forced organizations that want to survive to change the way they conduct their business and their level of service. In particular, researching ways to increase consumer knowledge of and demand for superior service, together with the acceptance

and widespread use of information technology, mobile devices, the Internet and social media, require that firms rethink their business environment. Business models have changed over the years. Consumer's expectations are different, and the companies that can adapt and change will have an advantage in market penetration and market share.

According to Zervas and Proserpio, Airbnb is one of the main threats to the traditional hospitality forum; and is an online community marketplace that focuses on short-term private rentals ranging from shared accommodations to entire homes. Airbnb has contributed more than ten million worldwide bookings to the so-called sharing economy. Airbnb derives revenue from both guests and providers. They charge guests a $9 - 12\%$ service fee at the time of reservation and depending on the length of the reservation, and they charge hosts a 3% service fee to cover the cost of processing payments. Airbnb's business model operates with minimal regulatory controls in most locations, a clear but probably short-term benefit to these types of rentals.

Airbnb has built an online comment system that enables and encourages each guest and host to leave a review upon completion of a stay. Much like larger brand companies that need similar feedback, Airbnb encourages and promotes the use of comments as its primary method of rating. Guests use star or other factor ratings to grade features of their stay, e.g., cleanliness, location, and communication, while both guests and hosts may provide other information about aspects of the stay, including personal comments.

Since its beginning in 2008, the Airbnb online marketplace has experienced significant growth, with more than four million guests and over ten million nights of cumulative bookings at the end of 2012. Airbnb is now being used by over 50,000 renters per night and had a market cap of $2.5 billion after its most recent funding round, late in 2012. Today, according to DMR stats, Airbnb has 150 million users, 640 thousand hosts, and 3 million registered listings. It averages 500 thousand stays every night and is active in 65,000 cities and 191 countries. The top active city is Paris, estimated at 24 million users in Europe alone by 2020.

Zerbas and Proserpio ask this question, "*to what extent are Airbnb stays serving as substitutes for hotel stays, and what is the impact on the bottom line of affected hotels?*" The study and focus was in Texas. They estimated that a mere 1% increase in Airbnb listings in Texas results in a like time 0.05% decrease in quarterly hotel revenues. Impacts are distributed unevenly across

the industry, with lower-end hotels and hotels not catering to business travelers being the most affected. Airbnb is real and a challenge to the hotel industry.

Profound changes in consumer lifestyles, especially as the next generation (Millennial) and buying behavior highlight the need for firms to adapt to their customers' new mindsets. The ability for consumers to 'talk to each other' on sites like Travelocity has created threats that didn't exist even five years ago. And while these customers are most often total strangers; there exists a level of trust in the comments presented. Customers engage each other and make plans based on that engagement.

The new paradigm then consists of factors not known, available or understood until recently and changing more quickly than ever before. Customers' extensive use of technology and online communication channels, such as social media and customer communities, provide customers with new roles (Wirtz et al., 2013). As such they assume they can make a significant contribution to service value, determine a firm's technology adoption and bring online communication and communities to life. The challenge and threat grows as more and more customers engage and become active in these sites and more and more dependent on them as an integral part of the decision they make.

The role of customers, therefore, is now far beyond anything that has existed before, and customers potentially possess the power to determine the future of companies. It is then easy to see how critical it is to understand customers while meeting and exceeding their expectations. The tenacity and timeliness of feedback are paramount as customer interaction, and problem resolution will happen either quickly enough to garner a positive response or too slowly such that negative comments exist online. In essence, the customer function has become one of co-ownership of the brand and its potential success. Loyal customers will go above and beyond in their loyalty and offended or hurt customers the same in their angst towards companies online. It has become easy to put forth opinions in an environment void of penalty or the ability to determine the integrity of any comment made.

In the past, brand management was a firm's primary task, in its effort to gain a superior market image and customer loyalty (Allaway et al., 2011). Today, the strategic focus must be beyond mere customer loyalty, but rather must find positive ways to engage the customer to become an ambassador and take ownership of the brand/company. With loyalty being the result, companies now must develop and engage customer strategies in encouraging them to be brand ambassadors (James, 2013). It is critical to grasp the facets of how to

measure business performance and the levels that persuade customers to become repeat purchasers, to exhibit behavioral loyalty (Wilkins et al., 2009) and to enhance their engagement with the firm.

Evanschitzky prefers above loyalty per se, a measure he calls 'share of wallet.' The measure refers to how consumers divide their purchases across competing firms (Evanschitzky et al., 2012). Xie calls the share of wallet the value of a customer's business at one hotel, as a percentage of the total value of the customer's business at all other hotels (Xie and Chen, 2014).

Conclusions

In competitive markets like today and especially with the introduction of Air BNB and the like, customers often have multiple watered-down loyalties. The share of wallet then offers an increased and important means for the company to learn (if it can) how its customers divide their purchases across competing firms and what strategies it might adopt to increase its share of total purchases. This knowledge would have a significant impact on the bottom line, arguably a greater financial impact than a focus on customer retention. In support of this assertion, McKinsey & Co. reports that improving customers' share of wallet and customer retention can produce ten times more value for a company than focusing on customer retention alone.

Hospitality and tourism remain the largest revenue generator as well as the largest employer consistently around the world. Globally and locally in countries like Romania, how companies handle the demand, marketing, and the delivery of the level of service using the people and talent available to them will make the difference directly to the bottom line. It's all about the people.

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