

# THE SCEPTICAL ANALYSIS OF THE MARKETING ENVIRONMENT IN THE HOSPITALITY INDUSTRY

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## Abstract

Hospitality enterprises like other enterprises operate in the environment which provides opportunities and threats which affect the achievements of their goals. As for hospitality enterprises, a place where the service is provided and managed is noticeable (a restaurant, a front desk). It is exposed to many factors which cannot be or can be partly controlled (external environment) and to the factors which can be controlled by the management (internal environment). The special relationship between the hospitality industry which provides services and its business (marketing) environment means that it is necessary to understand the environmental influences. SCEPTICAL analysis represents a detailed approach towards this issue. It considers environmental influences in terms of social, cultural, economic, physical, technical, international, administrative and institutional, legal and political factors, communication and infrastructure. Each group of these factors can significantly affect the success of hospitality enterprises. Therefore detailed research and environmental analyses have to be conducted.

**Key words:** SCEPTICAL analysis, SWOT analysis, environmental analysis model

## SCEPTICAL АНАЛИЗА МАРКЕТИНШКОГ ОКРУЖЕЊА У УГОСТИТЕЉСТВУ

Окружење у коме послују угоститељска и друга предузећа пружа могућности и претње које утичу на постизање њихових циљева. За разлику од других предузећа, у угоститељском објекту место где се пружају услуге је приметно (ресторан, рецепција). Оно је изложено деловању различитих чинилаца који се не могу контролисати или се могу контролисати само делимично (спољно окружење) или се могу контролисати од стране менаџмента (унутрашње окружење). Специфичан однос између угоститељске индустрије која пружа услуге и њеног пословног (маркетиншког) окружења подразумева да је неопходно разумети утицаје окружења. SCEPTICAL анализа представља детаљни прилаз овом проблему. Она разматра утицаје окружења с обзиром на социјалне, културне, економске, физичке, техничке, међународне, административне и институционалне, правне и политичке чиниоце, комуникацију и инфраструктуру. Свака група од ових чинилаца може да значајно утиче на успех угоститељских предузећа, стога је потребно свеобухватно истраживање и анализа окружења.

**Кључне речи:** SCEPTICAL анализа, SWOT анализа, модел анализе окружења

## INTRODUCTION

The World Tourism Organization (UNWTO) forecasts that a dynamic growth in international tourism will continue over the next 20 years. Therefore, in 2030, when it comes to international tourism, a number of 1800 tourists could be expected, while the income generated by international tourism might reach 2000 billion USA dollars.

Many factors regarding both demand and supply have contributed to the fact that tourism became a global phenomenon long ago, as well as the generator of the economic growth. Those numerous factors and the dynamic changes in business operations of the tourism enterprises (hospitality enterprises, catering, tourism intermediaries) are the reasons why it is important to constantly track the environment and conduct researches which have to be both systematic and continuous.

When marking target markets and developing the marketing mix concept, marketing managers in the hospitality industry have to confront many variables which are present in the marketing environment.

### SWOT ANALYSIS – INITIAL STARTING POINT FOR ANALYSING THE HOSPITALITY BUSINESS

It is the SWOT (strengths, weaknesses, opportunities, threats) analysis that could be an initial starting point when it comes to analyzing the hospitality business. It represents the key issues regarding business environment as well as strategic capability of an organization which might influence strategy development.

If the hospitality enterprise (or any other enterprise) is to succeed and achieve its goals, a business unit has to monitor key macroenvironmental forces (demographic-economic, technological, political-legal, and social-cultural) as well as microenvironmental forces (customers, competitors, distribution channels, supplies) in order to earn profit in the marketplace. (Kotler Ph., Bowen J., Makens J., 2003:93). While strengths and weaknesses are analyzed internally, opportunities and threats are analyzed externally to the organization. (Nikolić D., 2013:134) That can be illustrated in table format (Table 1).

#### ***Internal Strengths***

- Brand recognition and reputation
- Market share
- Specific expertise (e.g. research and development of new products and services)
- Gaining economies of scale

#### ***Weaknesses***

- Staff turnover
- Declining profitability
- Poor quality service
- Poor location
- Lack of differentiation
- Declining sector life cycle

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## **External**

### **Opportunities**

- New product or service opportunities global recession,
- Market expansion opportunities
  - Geographic markets (e.g. China, East Europe)
  - - Demographic markets (e.g. ageing population)
- Competitors leaving the marketplace

### **Threats**

- Economic factors (e.g. deflation)
- Rising customer expectations
- Rising supplier and distribution costs
- Growing competition
- Threat of substitute products and services

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Table 1.Example SWOT Analysis for a Hospitality Business, taken from Hassanien A. et al. (2010).*Hospitality Business Development*, Elsevier: Burlington p.40

The SWOT analysis enables the hospitality business to make decisions about its future development, based on the areas of strength, as well as the areas of weakness that have to be developed further. Sources of strength and weakness will be estimated based on the resources and capabilities of the hospitality business – e.g. “brand and reputation, the human resources, quality of service, methods and systems of operation, access to financial capital, the physical makeup and location of the hospitality business and so on.” (Hassanien A. et al., 2010:40).

SWOT analysis includes past and present environmental changes, evaluating their causes, identifying the critical factors that could change in the future. (Shock J.P, Bowen T.J., Stefanelli M.J., 2004:27).

Besides understanding that the strengths, weaknesses, opportunities and threats of the hospitality business are based on the strengths and weaknesses of the competitors, the following criteria also influence the application of the SWOT analysis(Hassanien A. et al., 2010:41):

- new competitors and their offers,
- complex nature of factors in the external environment,
- trends in the marketplace (e.g. food trends, demographic shifts in the population),
- new resources such as technologies, food products etc.

The hospitality environment changes, and thus, strengths can easily become weaknesses. For instance, the changing nature of food tastes due to the changing lifestyles, such as a shift away from fast food to the healthy alternatives, impacted those hospitality businesses (mostly fast food outlets) that were selling the food products considered to be unhealthy. However, environmental conditions can create opportunities as well. Namely, the impact of the global recession resulted in opportunities for fast food outlets, due to the fact that the global recession impacted on household expenditure in a way that the households could afford the food that the fast food outlets offer or, in other

words, the products such outlets sell are within the discretionary income of the households. It means that the hospitality businesses need to develop strategies which can always maximize their strengths in any contexts within the external environment. (Hassanien A et al., 2010:41).

#### THE LIMITATIONS OF SWOT ANALYSIS

Besides many advantages of the SWOT analysis there are also certain limitations that should be considered. Firstly, such analysis is based on the competitors' strength and weakness which makes it relative and subjective to some extent. Furthermore, the factors should be prioritized because it is important to know which factors are more important than the others. The factors should not be overgeneralized either. The SWOT analysis, however, doesn't prioritize issues, nor does it offer alternative decisions and solutions.

Such analysis is also limited in its potential to narrowly classify factors that can influence business operations and its development.

The factors in external environment, that may impact the business development and managers' decisions, emerge from the different layers that exist in the external environment. Such factors influence the strategic direction of the hospitality business and, therefore, it is of the utmost importance to understand the external environment of the hospitality industry and its factors in order to make decisions regarding the future business development.

#### SCEPTICAL ANALYSIS OF THE MARKETING ENVIRONMENTAL FACTORS IN HOSPITALITY

One of the simplest methods to be used in analyzing the environment is PEST analysis which analyses political, economic, social and technological factors that may influence business operations.

This analysis is convenient for the businesses and economic sectors which are prone to the changes on the market. Since tourism is, however, very complex and dynamic, such analysis is insufficient when it comes to the hospitality enterprises marketing planning, so many other tools and methods for analyzing the environment have been developed.

One of the most commonly used and the most comprehensive methods of the macro environment analysis in tourism is SCEPTICAL analysis. It is also an alternative way of breaking the marketing environment, which takes into consideration sustainability issues that can be reflected in nine environmental dimensions (Moutinho L., 2005:35,36):

- Social factors
- Cultural factors
- Economic factors
- Physical factors
- Technical factors

International factors  
Communication and infrastructure factors  
Administrative and Institutional factors  
Legal and political factors

In the following section of the article a brief analysis of the abovementioned factors will be presented.

Social factors or forces have a significant impact on the marketing programme and business operations of the hospitality enterprises. Besides knowing the cultural values, the special challenge for the hospitality marketing is also the importance of noticing the implications regarding faster changes in lifestyles, social values and consumers' attitudes.

One of the key social factors is demography. It is estimated that the number of people in the world will reach 9 billion by 2043. Besides the population growth, the following factors would come under the demographic environment: migrations, the increase in number of women tourists, a segment that refers to the "millennial" generation etc.

It is estimated that the market segment of "millennial" generation (the generation of young people born between the 1980s and the early 1990s) will surpass the generation "X" segment (so called "baby boom" generation of people born between 1946 and 1964) as the most dominant consumer group in the world.

The hotel industry has been adapting their offer to the largest market segment in the future, which refers to the "millennial" generation members, taking into consideration their characteristics, requests such as modern design, the importance of experience, mobile applications and smart gadgets etc.

By 2020, 320 million international trips are expected to be made by millennial generation members (Barjaktarević D, Pindžo R, 2016:14). We are witnessing the fact that many leading hotel chains such as the Hilton, the Marriot, the Starwood International etc. have started to adapt their offer to this market segment. For example, the Canopy (a hotel brand by Hilton) offers the welcome gifts from the local bakery's as well as the access to the fitness centers and local beer and wine tasting.

Culture represents the set of the cultural values and attitudes of a person, as well as the behavior, gaining in the process of socialization with other people which influence their habits and behavior when purchasing the products/services. (Milisavljević M., Maričić B., Gligorijević M., 2004: 112)

The hotel marketing managers should be familiar with the specific cultural environment and incorporate it into the marketing tactics and strategies that can be realized. It includes the analysis of the consumers' customs and habits in certain geographic areas.

The values and beliefs vary from culture to culture. For example, the basic cultural values associated with the USA are: freedom, achievements and success, ethics and work ethic, equality, patriotism-nationalism, individual

responsibility and self-fulfillment. (Milisavljević M., Maričić B., Gligorijević M., 2004: 113)

Culture is transmitted from generation to generation and it consists of certain subcultures classified according to the certain common characteristics (nationality, gender, religious and racial background, etc.).

Marketing transfers cultural values by which it influences cultural changes and therefore it influences customers' behavior in hospitality.

It should be pointed out that the cultural environment is in synergy with tourism and hospitality because the culture of some region or destination might be a part of a tourist (hospitality) offer and the reason for tourists' arrivals (e.g. pilgrimage in the world, various festivals etc.). It is also possible to include traditional celebrations, music and film festivals, sporting events, concert and folklore performances and other activities happening in a concrete tourist destination in the cultural "products".

Due to the existence of the cultural differences of some cultural communities, the endeavor to overcome cultural differences should be intensified, consumers should be educated and familiar with the language, rules of conduct and norms of the tourist destination of the specific country.

Economic factors influence the purchasing power of the consumers and their spending structure. Economic environment consists of the factors that impact the level of the discretionary income intended for the fulfillment of the tourists' needs. The changes in the economic environment influence demand in tourism, as well as its volume. When there is a recession, there is a decrease in travel demand for a foreign touristic destination. The changes in credit policy can lead to the increase in purchasing power as well as reduction of taxes. Besides abovementioned, the interest rates, exchange rates etc. represent economic factors which have to be constantly traced and analyzed.

Physical factors of the environment are, nowadays, related to the issues regarding environment, global climate changes, water and air pollution, soil erosion, toxic waste, natural disasters, various diseases etc.

The rise of consciousness that natural environment should be preserved has led to the so-called ecotourism.

Marketing strategies should be focused on natural environment preservation. They should be creating a synergy between the enterprise and the physical environment.

Climate changes, energetic sources, health and safety of the tourists, development of countryside tourism, ecological issues are and will be the most important challenges of the physical environment in the future.

Technical and technological factors (information systems especially) cause changes which are narrowly related to the technological processes.

Those technologies have a dual influence on the future development of tourism and hospitality:

a) on micro level, technology will link the whole enterprise and will enable effective management,

b) on macro level, information technologies will enable diagonal integration of the hospitality industry, through the advancement of the service-production process, distribution and sales of the completed hospitality product.

The role and the importance of the internet in tourism and hospitality are well known.

Blogs, web forums and sites devoted to the consumers and their opinions of products/services (e.g. Trip Advisor), then, Facebook, Twitter, You Tube and other social networking sites have become a new challenge for the marketing and the management team in the hospitality industry and a new problem to deal with. Hospitality enterprises (as well as the other enterprises) have to use all the available media at their disposal. (Tybot A & Calder B.,2010: 307,308)With the appearance of such networking sites, the marketers now have to take advantage of them.

Technological factors have always been present in the hospitality industry and they are ones of its main features. Most of the activities in the modern hospitality industry have been digitized and it is this digitization of the hospitality industry which has introduced the online reservation and booking to the hotel industry that has created more opportunities towards meeting the increasing demands of their guests and visitors as well as the growth of the hotel business. Hospitality enterprises use computerized reservation systems (CRS), global distribution systems (GDS) and property management systems (PMS) in order to manage their operations and distribution networks(Hassanien A. et al., 2010:48).

The international relations of some countries will determine the number of foreign tourists' arrivals in the international tourism traffic. The demolitions of the spatial boundaries and the international barriers as well as creating integrations among countries (e.g.the European Union) favorably influence the tourism development.

Communication and infrastructure factors are related to the infrastructure which enables tourists a lodging, to travel, to go sightseeing, that lead to the more effective connection of the touristic emission and reception areas, that extends free time that tourists-guests have.

Administrative and Institutional factors refer to the greater number of institutions interested in tourism such as the unions, scientific and professional institutions, local authorities, national touristic organizations, consumers' associations, organizations for maintaining peace and order, religious institutions etc.

Legal and political factors refer to the government's attitude towards changes in tourism industry, changes in the subsidies and various regulations, progress in democratic processes, political stability, safe environment etc.

## CONCLUSION

Today, tourism is facing the huge challenges. The issues tourism cannot actively influence are standing out. The demographic movements in the world, accelerated advances in science, technology as well as distribution and application of the information, condition regional redistribution of the international traffic.

The SCEPTICAL analysis represents comprehensive approach to the factors which refer to the macro environment of the hospitality enterprises.

Each of the mentioned group of factors carries certain challenges in separating the elements regarding threats from those regarding opportunities when it comes to the external environmental changes.

All of the market factors mentioned in the article and all of the trends are developing in the dynamic environment which is prone to changes, demanding business reorganization and developing new marketing strategies from the hospitality management.

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