

Small firm co-operative marketing in a peripheral tourism region

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Tracks the evolution of a small hotel firm marketing consortium from 1990 when Scotland's Commended Hotels, now called Scotland's Hotels of Distinction (SHD), was formed. It can be described as an association of individually-owned and managed country and town house hotels from 3-star to 4-star levels in terms of the Scottish Tourist Board grading and classification scheme. It currently has 62 members, which represent 1,116 bedrooms, giving an average size of 18 bedrooms. Key aims of SHD are to: maintain its position as the leading professional consortium for Scottish hotels which meet membership criteria; and to be active in marketing terms on behalf of members. This involves seeking opportunities to maximise profitable returns by accessing domestic and overseas markets which would otherwise be difficult on an individual small firm basis. In addition, SHD promotes co-operation to enhance inter-member referral business. The unification of such a peripheral segment of the hotel industry sector enables effective marketing of a tourist destination to the potential business performance benefit of individual member small firms.

Introduction

This paper examines the profound challenges confronting small hotel firms in peripheral tourism destinations and proposes the adoption of a strategy of marketing consortium membership as one means of accentuating the positives and ameliorating the negatives. The benefits of such a strategy are illustrated within the case of Scotland's Hotels of Distinction which represents a small hotel firm marketing consortium located in a peripheral tourism destination.

The small hotel firm sector in the UK

The small firm continues to play a significant role within the hotel industry internationally. It has been defined (Morrison, 1996a) as: ... financed by one individual or small group, directly managed by its owner(s) in a personalised manner and not through the medium of a formalised management structure. It may or may not be affiliated to an external agency on a continual basis for at least one management function. In comparison to the largest unit of operation within the hotel industry it is perceived as small, in terms of physical facilities, product/service capacity, and number of employees (p. 19).

It has been identified (Sheldon, 1993) that in excess of 90 per cent of tourist accommodation establishments worldwide are represented by such small firms, and a similar dominance is reflected within the UK where owner-operators account for 85 per cent of all hotels (MSI, 1996). Wanhill (1997) indicated that certain weaknesses are associated with

Alison Morrison has been directly involved in researching SHD since its conception in 1990. She has been instrumental in their strategic planning process to date, including the strategy which is projected to the year 2000. Thus, this article provides a significant longitudinal account and analysis of an organization, as it has evolved in response to the changing industry structure and characteristics, and the factors at work in the marketplace and the wider environment.

small and medium-sized tourism enterprises (SMEs) in general. These include:

- supply dominated by family businesses;
- a lack of entrepreneurial drive owing to non-economic motives of business operation;
- limited skills of marketing, quality assurance, pricing policy, cost control and re-adjustment and a shortage of financial resources.

In order to better understand the nature and characteristics of small firms within the UK hotel industry, Morrison (1998) drew on information from the Employment Department, Department of Enterprise, Small Business Research Trust, Hospitality Training Foundation, Kleinwort Benson Securities, and Keynote Publications. Statistics related to UK small firms in general, and those specifically related to small hotel firms, were compared, as shown in the following list:

Small hotel firm sector policy and strategy issues

- Assets are under-utilised by approximately 55 per cent annually
- Average number of bedrooms per small firm is nine.
- Average number of employees is 50 per cent less than the small firm sector norm.
- Continuing growth in the number of liquidations affecting the small firm.
- Losing market share to large firms and corporate groups.
- Majority operate at the low budget market level in secondary/tertiary locations.
- More sensitive to occupancy and seasonal fluctuations than large firms.
- Profit margins 40 per cent less than corporate-owned budget-style accommodation.
- Self-employment is 57 per cent higher than the small firm sector norm.
- VAT registration peak (1990) was 22.3 per cent less than the small firm sector norm.
- Volume of UK hotel accommodation is shrinking at the expense of the small firm.

This presents a predominantly negative profile of the small firm in the UK hotel industry. It is one that is heavily-dependent on the self-employed and minimal employer, within an industry sector that is shrinking in general, and mainly at the cost of the small firm.

Furthermore, a reconfiguring industry structure is increasingly being dominated by corporate groups and their competitive practices, which are eroding small firm market share. Finally, the small firms are struggling, financially, against under-utilisation of assets and declining profit margins.

Thus, it is clear that the small hotel firm sector in the UK is confronted by a number of profound challenges of an operational, financial and managerial nature which are intensified, given the exacting competitive environment in which it currently exists.

Peripheral tourism destinations

When the nature and characteristics of small firms are combined with those which are generally associated with peripheral tourism destinations, the challenges to successful business development are accentuated. Specific features, and positive and negative consequences, distinctive to small firms located within peripheral tourism destinations have been identified (Baum, 1997; Boniface, 1997; Butler, 1994; Go and Pine, 1996; Wanhill, 1997) and are presented in Table I.

An example of a peripheral tourism destination is Scotland which exhibits the range of features and consequences as identified in Table I. It actively seeks to attract tourists through promoting the positive consequences of peripherality, alongside those of a non-peripheral nature such as heritage, festivals,

sporting activities, and returning expatriates.

Scotland has traditionally been a destination which has experienced strong seasonal fluctuation patterns in tourism demand, characterised by a distinct and limited season dominated by summer peaking of visiting (Butler, 1994). This remains the situation as can be observed from Table II (Scottish Tourist Board, 1996).

Furthermore, occupancy varies according to geographic location with hotels in cities/towns experiencing 77 per cent annual occupancy, while inland/country hotels only reach approximately 48 per cent (Scottish Tourist Board, 1997a). This highlights the relativity of peripherality of, and within, a destination. However, average annual hotel occupancy has strengthened over the period 1992 to 1996 (Table III).

Within the UK, the main markets for Scotland are the North of England and the South of England. Overseas, the USA, Germany, France and The Netherlands are the key target markets, with European Union countries in total accounting for almost half of overseas trips to Scotland. Table IV (Scottish Tourist Board, 1997b) indicates that the Scottish and English, markets have been fluctuating but on the whole have declined by 4 per cent and 6 per cent respectively, while the Wales/Northern Ireland market is static. The overseas market has strengthened by 8 per cent over the period 1991-1996, with a general overall increase in demand.

Table I
 Peripheral tourism destinations

Feature	Positive consequence	Negative consequence
Climatic	Distinctive natural climate and seasons	Weather not conducive to all-year-round tourism, causing seasonality demand effect restricting length of stay and season
Demographic	Low concentration of population attractive to those who seek solitude	Scarce and variable quality of human resources for tourism employment
Geographic	Features such as remoteness, landscapes, seascapes, dramatic physical characteristics and strong natural environment	Remoteness from mass markets and gateways, and the consequent distance which often entails high transport and time costs
Industry structure	Firms predominantly small and medium-sized offering a differentiated, authentic local product	Fragmented in market terms and lacking in dynamics which make small firms
Management	Frequently family dominated, offering personalised, customised service	Low barriers to entry, variable quality and capabilities of management, comparative lack of innovation, technological transfer, and development of market research
Markets	Added value and attraction of perceptions and reality of the qualities of a periphery location, and growing attraction of the green product abroad	Weakening business growth opportunities in home markets encouraging participation in international markets
Public policy	Government involvement in promoting economic and tourism development, providing hard and soft support	Danger of a dependency on support culture, which may lead to a lack of entrepreneurial drive

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Table II

Monthly hotel accommodation room occupancy in Scotland (1996)

January	February	March	April	May	June	July	August	September	October	November	December
%	%	%	%	%	%	%	%	%	%	%	%
41.0	48.0	53.0	58.0	70.0	77.0	74.0	83.0	78.0	67.0	55.0	44.0

Table III

Annual hotel accommodation room occupancy in Scotland, 1992-1996

1992	1993	1994	1995	1996
%	%	%	%	%
54.0	57.0	58.0	59.0	62.0

Table IV

Value of all tourism in Scotland, 1991-1996

	1991	1992	1993	1994	1995	1996
From Scotland	£404m	£410m	£582m	£455m	£438m	£389m
From England	£898m	£845m	£875m	£746m	£827m	£973m
From Wales/ Northern Ireland	£71m	£100m	£89m	£61m	£73m	£131m
From overseas	£578m	£684m	£718m	£816m	£890m	£935m
Totals	£1,951m	£2,039m	£2,265m	£2,078m	£2,228m	£2,428m

In 1997, there were 2,424 hotels in Scotland officially registered with the Scottish Tourist Board (STB), accounting for a total of 46,725 bedrooms (Scottish Tourist Board, 1997b). This represents 0.9 per cent of all hotel accommodation in Britain (British Hospitality Association, 1997). The largest proportion of bed spaces is located in the Highlands of Scotland (18 per cent) and Greater Glasgow and Clyde Valley (15 per cent) tourist board areas. Corporately-owned room stock tends to be concentrated around the cities of Aberdeen, Edinburgh, Glasgow and, in lesser quantity, Dundee. This reflects both leisure and business demand patterns. Other sites which attract corporate groups are primarily associated with developed leisure/holiday markets. These hotel groups (Litteljohn, 1996) account for 34 per cent of total bedroom stock, have an average bedroom size of 92, compared with the Scottish average of 21, and dominate larger, up-market/high spend hotels in Scotland. A significant characteristic of the stock is that it reflects a strong degree of local ownership and management. Furthermore, the STB (Scottish Tourist Board, 1997b) found that the best-performing hotels were those with more than 100 rooms, while the poorest performers were small hotels with between five and nine bedrooms.

The current strategic focus of the STB is to:

- increase visitor expenditure;

- develop all-year-round tourism;
- develop tourism outside the main tourism areas; and
- promote high quality in all tourism facilities and services.

In addition, the national economic development organization, Scottish Enterprise, plays a key role in the training for, and business development of, tourism enterprises providing both "hard" and "soft" support.

From the foregoing information, it can be identified that the following marketing challenges confront the hotel industry in Scotland:

- seasonality results in an under-utilisation of assets by 34 per cent, as demand peaks during May to October leaving adjacent months weak;
- hotel stock is predominantly small with an average room size of 21, and corporate groups dominate primary tourism locations operating at the top end of the market;
- there is a strong degree of local ownership, and the poorest performing hotels are in the five- to nine -room range;
- the domestic market is static or declining, and the overseas market has strengthened; in particular the European Union countries represent strong and potential growth markets; and
- government bodies actively involved in promoting and supporting tourism development.

Strategic approaches

The simplistic conclusion arrived at is that small firms in peripheral tourism destinations should formulate strategies which will accentuate the positive and neutralise the negative consequences of their location. Specifically, there is an urgent need to strengthen their marketing competencies and scope. A number of overlapping approaches have been proposed in literature including:

- explicit differentiation of periphery as a powerful, attractive and contrasting alternative to "centres" (Butler, 1994);
- innovative product extension in tune with market trends and destination constraints (Boniface, 1997);
- market diversification which recognises that different seasons create demand for

different products, with alternative presentation, packaging and pricing (Baum, 1997); and

- flexible specialisation offering a wide and changing range of customised products to the appropriate market segment (Wanhill, 1997).

Furthermore, Boniface (1997) adds the following viewpoint:

The essence of periphery is that it does not have the power, importance, location or relevance of the mainstream. In this situation, it is easy for the periphery in its tourism activity to accept for itself a role of pale significance, weak contrast, faint standard and poor emulation. But the opportunity exists to take more positive and innovative action should the desire be there (p. 13).

Thus, it would appear that, as a consequence of peripherality, the small hotel firm owner/operators require to take positive, innovative action to formulate and implement strategies of product differentiation and extension, market diversification and flexible specialisation. This is to be achieved against a small firm back-drop of:

- increasing market dominance and erosion by corporate groups;
- under-utilisation of assets, declining profit margins, and general shortage of financial resources;
- static/declining domestic markets and the need to reach the overseas market; and
- limited quality and capability of business and management skills!

The question is how?

Affiliation and co-operative practices

One answer could be that of small hotel firms adopting affiliation and co-operative practices. This is supported by Butler (1994) who argues that SMEs in periphery regions cannot stand alone and hope to succeed. Moreover, the peripheral nature actually magnifies dependencies. From the perspective of independent and local firms, it is asserted (Go and Pine, 1996) that they will:

... increasingly attempt to become part of a network to benefit from the scale effects brought about by configuration to ensure survival (p. 270).

Indeed, literature (Buhalis, 1994; Butler, 1994; Morrison, 1996b; Wanhill, 1997) unanimously supports the potential of affiliation and co-operative practices, at both national and international levels. Furthermore, in 1997 approximately 1 million hotel bedrooms globally were members of the major hotel market-

ing consortia (Murray, 1997), defined (Morrison, 1996a) relative to the tourism industry in general as:

... co-operation between one or more tourist product providers, whereby each partner seeks to add to its marketing competencies by combining some, but not all, resources with those of its partners for mutual benefit.

Justification for a strategy of consortium membership is summarised in Figure 1. The merging of small firm weaknesses with peripheral negatives emphasises the plight of an independent operator and suggests that affiliation and co-operative practices may present one means of addressing the weaknesses to a moderate degree. Consortium membership has the potential to facilitate access to:

- networking opportunities;
- certain economies of scale;
- professional marketing expertise and strategy;
- technology and distribution networks;
- educational and training support; and
- pooled financial resources.

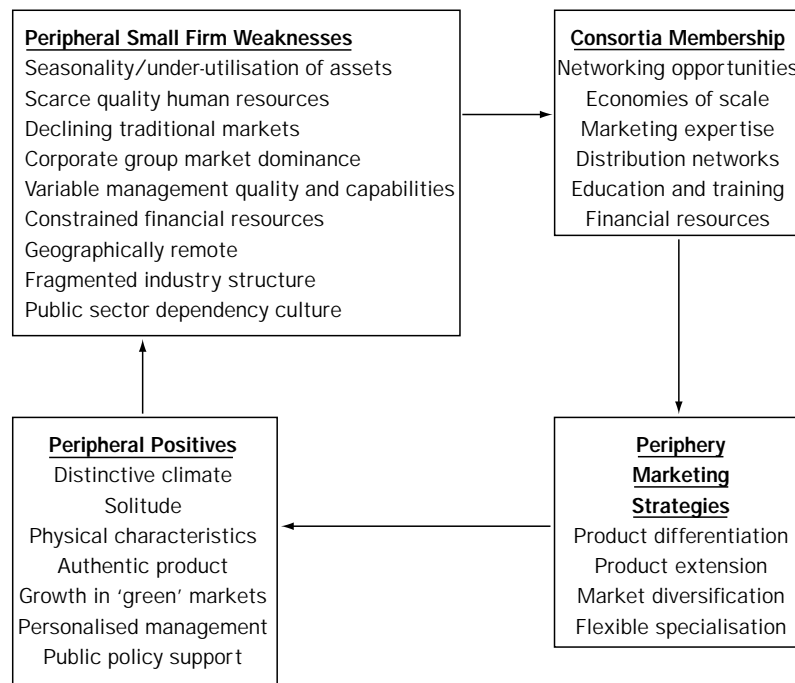
These combined strengths can then be brought to bear on the formulation and implementation of appropriate peripheral tourism destination marketing strategies. These are aimed at accentuating the peripheral positives, with consequential rewards with which to ameliorate small firm weaknesses and peripheral negatives. In this way, the small firm moves from a dependent or reactive "powerless" position, to one that is more proactive, entrepreneurial and collectively "powerful" to the benefit of the tourism destination as a whole.

The case of Scotland's hotels of distinction

An example of a small hotel firm marketing consortium representing peripheral tourism destinations is Scotland's Hotels of Distinction (SHD), which was established in 1990. Currently, it is the largest marketing consortium of independently-owned country and town house hotels in Scotland with 62 members, six of which are located in cities/towns and the remainder in peripheral inland/country locations. The collective membership represents 1,116 bedrooms, giving an average hotel size of 18 bedrooms. In terms of the STB grading and classification scheme, it operates at the three- and four-star market level. For an average 18-bedroom hotel joining SHD in the year 1997/1998, membership amounted to £3,068. This corresponds to approximately 1.5 per cent of total

Figure 1

Justification for small firm consortia membership in peripheral tourism destinations



turnover. It is composed of a one-off joining fee of £1,000, an annual subscription of £1,600, and room levy of £26. In 1995 SHD secured a £75,000 grant from Scottish Enterprise to fund the three-year appointment of a business development manager to work on behalf of the consortium.

The mission statement and corporate objectives of SHD for the period 1998 to 2000 are: Scotland's Hotels of Distinction – chosen for the ability to consistently provide a warm welcome, personal attention, great comfort, really good Scottish food and value for money in charming and relaxed surroundings. Each hotel has character and stylish elegance only achieved by owners who set out to create a unique experience.

Thus, SHD's corporate objectives are to:

- sustain and grow its reputation as the leading professional consortium for Scottish hotels holding these values;
- be progressive and innovative, developing business on behalf of, and in partnership, with its members; and
- seek marketing, training and purchasing opportunities to maximise profitable returns to members.

Marketing activities take the form of the production and distribution of printed materials, joint marketing ventures and special promotions, overseas representation, computerised central reservations office (CRO),

representation at travel fairs, and intra-SHD referral business.

During the period 1995-1997 SHD achieved the following benefits:

- each member on average received c. £12,500 worth of business annually; when related to the proportion of fees spent on marketing for a member hotel this represented a return of £7.80 for each £1 invested;
- sponsorship income averaged approximately £400 per hotel, per year;
- during the period January to June 1997 the combined efforts of overseas agents sourced c. £76,000 worth of business, mainly directed at the summer months. Of this, 22 per cent of the membership accounted for 52 per cent of the business, i.e. an average of £3,029. For the remaining 78 per cent the average earnings were £783.
- domestic marketing initiatives produced approximately £400,000 of business annually for SHD, primarily generated in the form of short-breaks, e.g. STB's Autumn Gold, joint ventures, e.g. Scottish salmon growers, consumer promotions, e.g. country living, and sporting activities, e.g. play golf and stay; and
- an extensive social programme served to more closely "bond" members. Spin-off effects are evidenced in the form of increased intra-SHD referrals, access to informal professional advice and general peer support. In addition, it provided relief from the "isolation" aspect characteristic of

independent hotel ownership, and offered a mechanism to avoid a potentially introverted approach to business management.

For the period 1998 to 2000 SHD has adopted three strategic objectives:

- 1 Members' fees are to be mainly applied to participation in sectoral initiatives and to position the consortium within main STB and British Tourist Authority promotions, to support a vigorous short and special breaks campaign, and, to build the consortium brand within member establishments and to improve both member networking and internal monitoring systems;
- 2 overseas business will be mostly generated through the SHD's agents and the CRO, with members paying agent commissions over and above their membership fees; and
- 3 the main thrust of the SHD's marketing plan is on the promotion of short and special breaks with this being subsidised by core fees but topped up by further member contributions.

In order to effectively achieve the 1998-2000 objectives SHD is combining four strands into its marketing strategy. These are:

- 1 explicit differentiation;
- 2 market mining;
- 3 innovative product extension; and
- 4 market diversification.

Together, they have the potential to achieve an umbrella strategy of flexible specialisation, innovatively and proactively offering a wide and changing range of distinctive, customised products to the appropriate market segment. It is estimated that each £1 invested in this marketing strategy will yield £12.50. Each strand is now briefly discussed:

- *Explicit differentiation*: emphasis is on building and establishing the brand, which is a combination of member hotel characteristics and the "pull" of Scotland as a peripheral tourist destination. The aim is to enhance the profile of SHD, define and sell the benefits of the individual products and the tourism destination as a whole. At the same time, the individuality/distinctiveness will be maintained in delivering SHD's key characteristics; its assured quality, unique experience, and variety of independent members.
- *Market mining*: despite the fact that the domestic markets are declining or static, it is recognised that there is potential to mine these markets more effectively in order to profit from the core of committed tourists in and to Scotland. Specifically, off-peak domestic business will be targeted. First, core direct response advertising campaign

will be undertaken aimed at filling bedrooms as cost-effectively as possible during the whole October to May period. This campaign consists of targeting Scottish residents with two bursts of press advertising. It has a budget of £30,000 and is targeted to generate c. 1,200 bookings and £390,000 of income. The second activity is a complementary direct response advertising campaign targeting centres of population in England and Ireland near to airports with budget flights to Scottish destinations. A total of £10,000 is allocated to a pilot campaign in autumn 1998, with the objective of stimulating 200 bookings and c. £65,000 of income.

- *Innovative product extension*: promotion of an added-value romantic breaks product through autumn to spring in the UK through press advertising, direct mail and a reader promotion offer. This is planned as a year-round promotion of premium-priced added value one- or two-night breaks with the package being sold from £80 to £120. This initiative will cost c. £30,000 and is designed to generate c. 1,200 bookings worth £600,000 in revenue to participating establishments.
- *Market diversification*: golf breaks campaign, aimed at generating business for participating hotels during October and April/May. This will be achieved through three initiatives:
 - 1 specialist magazine advertising;
 - 2 January/February issue reader offer in one of the specialist magazines; and
 - 3 a postcard mailer targeting SHD's and STB's relevant databases. The cost of this initiative is c. £10,000 and is expected to generate c. £87,500 in income from 175 bookings.

Conclusions

Unquestionably, small firms differ from large ones. They are distinctive across a wide range of characteristics, but particularly in their generally weak managerial, financial and human resource base. Furthermore, it is clear that this weakness is exacerbated owing to the negative consequences of peripherality. This clearly magnifies the need for, and benefits of, networking through a consortium-type of organisation.

On the basis of the past positive performance and the future marketing strategy of Scotland's Hotels of Distinction, it would appear that small firm membership of an appropriate marketing consortium has the collective potential to realise a wide range of benefits to the ultimate profit of the individ-

ual small firm. In particular, it facilitates an enhanced profile of both the individual small firm and the destination through branding, pooled marketing, managerial and financial resources and enables effective domestic and international marketing strategies, and collective entrepreneurship fuels the innovative capacity of the organization. However, it would be misleading to conclude without admitting that such an organization is extremely complex in nature, and represents a formidable management challenge. Furthermore, the volume of benefits which accrue to the consortium is directly influenced by:

- member behaviour and characteristics;
- the achievement of a strategic fit between the small firm and the consortium; and
- the practices and procedures implemented by management over time.

Within their individual contexts, small firms in peripheral tourism destinations will need to assess if the benefits of affiliation and co-operative practices are sufficiently significant to outweigh the negative aspects.

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