TOURISM LEVEL 1 / 2

Unit 2 – The Business of Tourism

Explanation of Terms
Tourism Level 1/2

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Explanation Of Terms

The following explanations are by no means absolute as other sources will offer slight variations. However, the explanations provided should support centres and their learners when studying this unit.

LO1 Understand tourism organisations’ objectives.

AC 1.1 Describe forms of ownership for tourism organisations.

Sole trader
A sole trader is a business that has one owner and is the simplest form of tourism business organisation. Any income or profit earned is the owners. However, a sole trader is open to unlimited liability which means that they are personally responsible for any debts and creditors (e.g. banks) will have a claim on your business assets and any personal assets you may have (e.g. your house, car).

A sole trader doesn’t necessarily work alone and often employ staff. Many sole traders will operate on a local level; often their main aim is to provide a good product or service to the local community and provide customer satisfaction. Examples could include guest houses, restaurants, small attractions and an airport taxi business.

Partnership
A partnership must have at least two owners but can have many more. In a business partnership the partners personally share responsibility for the tourism business. They can share all the business’s profits between the partners. Each partner pays tax on their share of the profits. However, all partners are responsible for debts - a partnership also has unlimited liability. Examples could include independent travel agents, tour operators and hotels.

Limited companies
A limited company consists of shareholders who provide money and invest in the company, a board of directors who run the company and employees who carry out the work. Any profit made is owned by the company. After paying Corporation Tax a business can then share its profits.

Types of limited company are:

- **Private Limited Company** (Ltd) - A private limited company is one where the liability is limited. Unlike a sole trader where the liability is unlimited, with a limited company the liability is limited to the value of the shares issued. This means that any debts are debts of the company and not of the owners. Private limited companies can vary significantly in size. Examples could include a small family run hotel or Virgin Group Ltd (which is a private limited company majority owned by Richard Branson).

- **Public Limited Companies** (PLC) - Like a private limited company, a plc has shares, but the key difference is that these shares can be bought by anyone freely on a stock exchange. Ownership is therefore open to anyone who wants to buy shares. PLCs have legal requirements in that they have to produce annual reports and accounts and file them with Companies House. Examples could include easyJet plc and Merlin Entertainments PLC (the company’s attractions include Alton Towers, Warwick Castle and Legoland).
Not for profit
A not-for-profit organisation is a public or voluntary organisation that does not earn profits. All of the money earned by or donated to a not for profit organisation is used in pursuing the organisation's objectives. Examples could include the National Trust, the YHA, Cardigan Castle Cadwgan Trust, county councils, cooperatives (e.g. The Cooperative Travel) and Tourism Concern. All areas of the UK will have good examples of small, local voluntary and public sector organisations.

AC1.2 Explain objectives of tourism organisations.
An objective is a specific result that a tourism business aims to achieve within a time frame and with available resources. Different tourism organisations will have different objectives.

Economic
An economic objective may relate to a tourism destination or the whole of the UK. Examples of economic objectives for tourism businesses and organisations (public, private and voluntary) might include:
- increasing profits
- increasing growth
- increasing turnover
- increasing sales
- reducing costs
- increasing employment levels
- increasing foreign currency earnings
- increasing visitor numbers
- increasing visitor spending.

Social
A social objective is a statement that can be related to individuals, local communities or a nation.

Examples of social objectives might include:
- a tourism business sponsoring a local football team in order to make a positive link with the local community
- business carried out in an ethical manner which is linked to a corporate social responsibility
- a restaurant or hotel using Fairtrade Foundation products and / or locally produced products and services
- a tourist attraction employing people from the local community
- improving the quality of life, e.g. education and leisure facilities.

Political
The UK’s national and local governments can have an influence on the tourism industry through their policies and their investment in infrastructure such as new roads, rail networks and airport terminals.

Political objectives might include:
- improving the image of an area (regeneration)
- creating a regional or national identity (food, drink, sport, architecture, winter sports)
- economic objectives (see page 4)
- social objectives (see page 5).
Environmental
Environmental objectives are concerned with the protection of the natural world of air, land, sea, plants and animals. Tourism activities can have both positive and negative environmental impacts on a destination and as a result environmental objectives could include:
- protection of animal habitats
- protection of the natural environments such as rivers and forests
- conservation of ancient buildings
- environmental educations (e.g. signs, information centres and leaflets)
- regeneration of an area (e.g. docklands, buildings and nature reserves)
- increasing waste recycling
- reducing carbon footprint
- reducing water usage
- reducing energy usage.

AC1.3 Explain methods used by tourism organisations to achieve objectives.

Marketing initiatives
A marketing initiative is essentially anything that is clearly defined as a marketing effort by a tourism business. Examples could include:
- a series of TV commercials that use a specific character or funny situation over and over (e.g. the Premier Inn TV advert)
- direct emails to potential customers
- using social media such as Facebook and Twitter in order to make potential customers aware of special offers or events
- loyalty schemes to retain customers and increase spend (e.g. air miles)
- hotels offering 3 nights for the price of 2.

Diversification
Diversification by tourism businesses can help them re-invent, improve or expand the present range of products and / or services offered to customers.

Examples could include:
- an airline offering improved in-flight entertainment
- a tour operator increasing its range of destinations
- a traditional caravan and camping site introducing new forms of accommodation such as log cabins and glamping
- a theme park increasing its range of rides
- a restaurant introducing a winter menu.

Staff training
This is training to improve the performance or knowledge of the employees working for a tourism business in order to meet set objectives.

Examples could include:
- visitor attraction staff attending a Welcome Host training course in order to improve customer service levels offered to visitors
- a tourism destination recruiting people to complete the Blue Badge Tourist Guide course so that they have the skills to guide tourists around the destination
- a museum’s management team holding training days for its staff in order to improve their knowledge of what the museum offers to its visitors.
Use of new technologies

The introduction of new technologies, such as physical equipment or software, can help a tourism business achieve its objectives.

Examples could include:
- a travel agent investing in new software to improve the service it offers customers
- an airline investing in new aircraft which would reduce its carbon footprint and offer customers more comfortable seating
- a tourism destination promoting its attractions, range of accommodation and transport providers through a new app
- a museum introducing new interactive screens.

Improvement to facilities

This might include new facilities being built. However, some tourism businesses cannot afford new facilities and therefore decide to improve their current facilities.

Examples could include:
- a guest house improving its bedrooms with new beds and duvets
- a small hotel investing in new outdoors signs and painting of the exterior
- a hotel building a healthy and beauty spa
- a county council giving planning permission for a new marina in a coastal resort.

Expansion

This is a business strategy in which growth is obtained by tourism businesses increasing products and services available to customers.

Examples could include:
- a hotel chain buying another company’s hotels
- a cruise company ordering a new ship
- a small coach operator investing in new retail channels such as its own website or through a third party website such as Facebook.

LO2 Understand the business environment in which tourism organisations operate.

AC2.1 Explain how the UK business environment affects tourism organisations.

Business environment refers to the combination of internal and external factors that can affect a tourism business in many ways, such as profits, sales, visitor numbers, passenger numbers and marketing initiatives. Examples of factors include:

Economic factors

The following economic factors (internal and external) can have positive and negative impacts on the UK’s business environment.
- Disposable income – the money that people have available to spend after tax, pension contributions etc. have been paid.
- Tax rates – e.g. income tax, VAT, road tax, Corporation Tax.
- Inflation – a general increase in prices over a period of months or years which is reflected in the reduced purchasing value of money – people and businesses often have less disposable income.
- Exchange rates - price for which the currency of a country can be exchanged for another country’s currency
- Recession – this is when an economy (UK or worldwide) is in temporary decline (e.g. unemployment levels rise, people have less money to spend and businesses have less money to invest).
Environmental factors
Tourism organisations and their customers are increasingly aware of the environmental impacts of tourism activities

- **Sustainability** - examples of these issues are the recycling of used products, whether products are bio-degradable, the disposal of industrial waste and many other issues (see page 3).
- **Legal requirements** - regulating business activities is one way government agencies protect the environment. Businesses must meet certain standards that help to reduce any adverse effects a company's activities have on the environment. As a result, natural environmental factors, such as clean water and clean air, dictate how companies conduct their day-to-day operations. New environmental laws and regulations often mean increased costs for tourism businesses. This can result in reduced profits and higher prices for customers.

Social factors
These are factors that affect a person's lifestyle. Tourism businesses need to be aware of these factors in order to meet the needs and expectations of tourists.

Examples include:
- **Demographics** – this refers to the characteristics of a population such as age, sex, education level, income level, marital status, religion, birth rate, death rate, and average family size.
- **Employment levels** – this refers to the percentage of the UK's workforce that is employed. The employment rate is one indicator that tourism businesses monitor to see if the economy is weakening or growing.

Technological factors

**Internet** – the internet has had a huge impact on the UK’s tourism industry.

Examples include:
- the creation of new communication channels (marketing) which tourism businesses use to contact actual and potential customers as well as other businesses, e.g. Facebook. TripAdvisor.
- the processing of financial transactions between tourism businesses and their customers. E.g. booking a flight.
- the improving broadband speed for businesses and customers
- the increasing percentage of the population with a PC, laptop, tablet and / or smartphone.

Transport technology
This refers to forms of transport used to move tourists from one location to another – planes, trains, cars, trams, buses and bikes. In recent years transport providers have become more aware of their environmental responsibilities and the rising expectations of their customers. Developments in transport technology can increase the appeal of a destination or type of holiday.

Examples include:
- the size of new cruise ships and their fantastic facilities
- the increasing use of 'green' buses in London
- the Metrolink (light rail and trams) in Manchester
- reduced CO₂ emissions for the planned HS2 rail line.
AC2.2 Explain effects of employment rights and responsibilities on tourism organisations.

**Rights** – principles or benefits you are entitled to exercise or claim - a moral or legal entitlement.

**Responsibilities** – duties employees and employers are expected to fulfil.

Candidates should focus on employee rights and the responsibility of employers to comply with the UK’s laws and regulations. For Level 1 / 2 candidates are not required to study the various acts of parliament.

- Types of employment contracts – e.g. full-time, part-time, zero hour and fixed term.
- Working hours – e.g. maximum weekly working hours and night time hours.
- Rates of pay – e.g. national minimum wage rates, living wage, equal pay and maternity pay.
- Holiday entitlement – e.g. working 5 days per week and working part-time.
- Health and safety – e.g. the responsibility of employers to protect employees and the public from work activities. Employers and employees have to comply with any legal requirements.
- Equal Opportunities - e.g. age, sex, religion and race.
- Maternity leave - e.g. eligible employees can take up to 52 weeks, paternity leave and shared parental leave.

LO3 Be able to review options for solutions to issues.

AC3.1 Analyse issues faced by tourism organisations.

This requires the study and explanation of economic, environmental, social and technological issues (see LO1 and LO2) facing the UK’s tourism industry.

AC3.2 Interpret data.

This requires the study of data such as visitor numbers in order to identify trends, complete calculations and / or explain their significance to tourism organisations.

AC3.3 Review options for solutions to issues.

This requires using the analysis of issues and the interpretation of relevant data so that realistic solutions might be proposed. The solutions could be used to reduce a problem or enhance a current situation.

Examples could include:
- reducing air pollution in a tourism destination
- building a new attraction in a coastal resort to attract more visitors
- introducing a local tourism tax which is to be used to improve facilities for tourists and locals.
- refurbishing a hotel with the aim of raise its classification from a 3* to a 4*.