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# Economic Perspective 1

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## BIG COMPANY INVOLVEMENT IN SCOTTISH TOURISM

John Heeley  
Scottish Hotel School

### 1. Introduction

The UK tourist and leisure industries are diverse and fragmented. A recent report identifies no less than fourteen component sectors ranging from the hotel trade through air transport to libraries, museums and galleries. The two million or so people currently working in these sectors have jobs wholly or partly supported by tourism and leisure spending. It is noteworthy that ten percent of these jobs (208,000) comprise self-employed and working owners: a statistic which testifies to the numerical predominance of the small independent operator. This should not, however, be allowed to obscure the significance of the larger companies who exercise a dominant influence in terms of market shares, employment creation and industry leadership. The portfolios of the big tourist and leisure companies tend either towards specialisation in hotels and catering (eg. Trust House Forte), or towards diversification across a wide tourism and leisure front (eg. Ladbrokes). A handful of these companies have non-leisure and tourism interests (eg. Grand Metropolitan). All of them have a UK/GB or multi-national organisation, and with the exceptions of Stakis and Scottish and Newcastle Breweries, have a central management team based south of the Border.

This paper is based on a wider examination of the UK's largest tourist and leisure companies, and considers the activities of those with an involvement in Scotland's tourism industry (see Table 1). Ten have a gross annual turnover in excess of £500 million, and collectively their annual turnovers in 1985 amounted to over seventeen and half billion pounds. Between the "big 10", on the one hand, and medium-to-small sized businesses on the other, there is an intermediate grouping of largish companies with gross annual

turnovers within the £50-250 million range. Four of these have Scottish interests (see Table 1).

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Table 1 Gross annual 1985 turnovers of fourteen large tourist and leisure groups having direct involvement in Scottish tourism

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	£m
1. Grand Metropolitan	5590
2. Allied Lyons	3175
3. Bass	2411
4. Ladbrokes	1343
5. Trust House Forte	1245
6. Guinness	1188
7. Granada	767
8. Scottish & Newcastle	707
9. Rank	631
10. British Caledonian	527
11. Vaux	145
12. Stakis	143
13. Queens Moat	72
14. Mount Charlotte	60

Source: Annual Reports of the companies concerned

### 2. Commentary

Hotel accommodation is the overwhelming focus of big company interest in Scottish tourism. Nine of the groups have holdings of more than one hotel (see Table 2), while four operate a single unit. Rank has no hotels presence in Scotland. Stakis plc is one of Scotland's largest companies and is easily the country's leading hotels operator. Its Hotels and Inns Division includes 20 hotels located in Scotland which have a combined rooms capacity of 1,700. They are a mixture of (a) mainly 3-star units aimed at the

business traveller and (b) higher quality units to which supporting leisure complexes have been added and which are geared primarily towards holiday traffic. An example of the latter is the Coylumbridge near the Aviemore Centre which as well as having the normal accommodation and catering facilities boasts a theatre, ice rink, leisure pool, park, shops and time share. The Stakis acquisition last year of the Aviemore Centre leisure complex consolidates the group's position as the key private sector force in the tourist industry in the Aviemore and Speyside region.

**Table 2 The UK's major tourist and leisure companies by number of UK hotel rooms and by number of Scottish hotels and rooms, 1986**

Parent company	Brand name of hotel div.	Rooms in UK*	Hotel units in Scotland	Rooms in Scotland**
Stakis		3,000	20	1,700
Mount Charlotte		6,000	10	1,300
Trust House Forte		20,000	11	1,200
Scottish & Newcastle	Thistle/ Welcome Inn	5,000	41	1,000
Vaux	Swallow	3,000	10	900
Ladbroke Group	Ladbroke Hotels	7,000	10	800
Bass	Crest/ Osprey	6,000	9	700
Allied Lyons	Embassy	3,000	7	700
Queens Moat Houses		6,000	3	300

\* to nearest '000

Source: Grievson Grant, Hotel Companies in the UK, Investment Research, London, 1986

Three other big UK tourist and leisure companies - Mount Charlotte Investments, Trust House Forte, and Scottish and Newcastle Breweries - each have a Scottish presence in excess of 1000 hotel rooms. Under the helmsmanship of its Managing

Director Robert Peel<sup>2</sup>, the Leeds-based Mount Charlotte Investments has recently risen from comparative obscurity to become the UK's third largest hotels operator. Its hotels are nearly all in the 3-4 star range, and its Scottish activities were boosted significantly as a result of its £50 million takeover of Skean Dhu plc in July 1984 and subsequent acquisition of the Invercauld Arms and Johnstounburn House Hotel. Trust House Forte - the world's largest hotels and catering enterprise<sup>3</sup> - has eleven Scottish units. The Scottish based Scottish and Newcastle Breweries operate mainly in the north of England and in the home counties. While brewing and beer sales currently form over 80% of company profits, hotels are responsible for the vast bulk of the remainder. Its Thistle Hotels, nine of which are in Scotland, are mostly large city-based concerns which target themselves heavily towards the business community. Welcome Inns - the managed house division of the Scottish Brewers subsidiary of the parent Scottish and Newcastle Breweries - operate 32 predominantly 'wet led' hotels.<sup>4</sup>

The Sunderland based brewery and drinks group Vaux have a 32 strong chain of hotels - Swallow Hotels - which generated 41% of pre-tax profits in 1985. Although Swallow's main trading area is the north east of England, it has a strong secondary concentration in Scotland. Following its acquisition of Comfort Hotels (completed in January 1985), the Ladbroke Group became the UK's second largest hotelier. This gambling, DIY and tourism conglomerate has the bulk of its hotels positioned in the 3-4 star grades, its 10 Scottish units having a considerable emphasis on leisure tourists. Bass - Britain's largest brewing and pub operation - has significant tourist-related trading operations; the Scottish manifestation of which consists of 6 Crest Hotels and 6 Osprey hotels. The former's UK brand image is as the 3-4 star businessman's hotel. Osprey hotels are 3 star units situated in Scotland and geared towards holiday business. The remaining concerns operating more than one unit are Embassy - the hotels arm of Allied Lyons - and Queens Moat Houses.

The latter has grown rapidly since its formation in 1973. Until 1985 its Scottish presence was confined to the

Forth Bridge Moat House at Edinburgh, but recent acquisitions in Glasgow and Renfrew have significantly extended its operations.

Guinness and Grand Metropolitan each run one unit: the prestigious Gleneagles and George Hotel (Edinburgh), respectively. The same is true of Granada and British Caledonian. Granada has recently helped to pioneer the concept of budget-priced hotel accommodation in Britain by building lodges at its Stirling and Exeter motorway service areas. These were opened this Spring, each at a cost of £2.5 million, and provide clean but fairly basic accommodation without catering facilities (which in any case are to be found elsewhere in the motorway service area). Having closed its sales offices in Edinburgh, Glasgow and Paisley, British Caledonian's only direct operational presence in Scotland outside of the airports occurs in respect of Glasgow's Copthorne Hotel. This was acquired towards the end of 1985 by British Caledonian's hotels subsidiary.

The UK's major tourist and leisure companies account for a sizeable proportion of Scotland's officially registered stock of hotel accommodation and dominate the quality end of the market.<sup>5</sup> As such their holdings are in the main efficiently run and they usually generate profits. As real estate they also represent a valuable property asset. As David Nickson, chairman of Scottish & Newcastle, recently suggested:

"Even the most efficient hotels have difficulty in making an operating profit return to compare with, say, brewing. In the short term the investment can, therefore, lead to a dilution of profit.... But, then, hotels are also in the property business. That's the other piece of the equation which is so valuable in the long term."

Although occupancy levels in upper-range hotels located in Scotland are in general significantly lower than those to be found in London (see Table 3), a Scottish presence does enable UK-wide chains to

protect themselves against too great a dependence on London and US business (also see Table 3). Because Scottish-based hotels also have a relatively high proportion of total revenue attributable to beverage sales (see Table 3), they are also attractive to the brewing/drink combines (notably Bass, Allied Lyons, Vaux, and Scottish & Newcastle Breweries) because of the guaranteed sales outlets they represent.

Table 3 Illustrative operating data of UK hotels in 3-5 star range, 1985

	Av. annual occupancy	Beverage sales as proportion of total sales	Origin of guests			Rest of world
			UK	US/Canada	Other Europe	
	%	%	%	%	%	%
Scotland	59	23	63	25	10	2
Provinces	61	20	65	21	9	5
London	81	9	25	43	16	17

Source: Horwath and Horwath (UK) Ltd, *United Kingdom Hotel Industry 1986*, London, 1985

Outside of the hotels sector, the major tourist and leisure companies have a Scottish involvement as providers of other forms of tourist accommodation and of visitor attractions. Guinness operates a health hydro at Stobo Castle and the Rank Organisation - through Butlins - is responsible for running a holiday centre at Ayr with serviced and self-catering modes of chalet accommodation. The latter is one of seven UK centres: the flagship one in Minehead (known as Somerwest World) and two others at Bognor Regis (Southcoast World) and Skegness (FuncoastWorld) are currently the focus of a £100 million capital investment programme. This is designed to introduce new products (eg. water leisure complexes) to help shake off the outmoded "hi-di-hi" image. No plans exist for a fundamental modernisation of the plant at Ayr. In terms of attractions provision, Rank have a marina at Troon, Stakis are managers of the Aviemore leisure park, and Allied Lyons through its Alloa Brewery subsidiary plies the Countess Fiona on Loch Lomond.

### 3. Implications

Scotland's hotel trade is reasonably well served by large tourist and leisure companies: the latter dominate supply at the upper-end of the market and throughout this sector of the tourist industry do much to influence standards and set the pace and style of development and operating practices. As far as any broader involvement in commercial tourist provision is concerned, the picture which emerges is a slight and patchy one. Only a minimal degree of big company involvement is discernible in other (ie non-hotels) aspects of commercial tourist provision. Arguably this matters little in respect of non-hotel categories of tourist accommodation because numerous medium to small-scale private sector operators are to be found. However, this is not so in the case of visitor attractions. The latter are the really central aspects of the tourist industry because, by definition, they have the ability to draw people to them. The addition at an attractive site of ancillary services (notably accommodation and catering) help maximise that enjoyment.

In Scotland a plethora of essentially non-profit agencies such as local authorities, trusts, central departments and universities do provide a variety of site attractions relating to Scotland's scenery and its culture, history and ethnicity. Over 1000 of these heritage/museum sites are listed in an annual Scottish Tourist Board guide to attractions entitled "Scotland : 1001 Things to See". They range from mega-attractions such as the Burrell Collection to a host of lesser known ones. With the exception of Countess Fiona and the Aviemore Centre, none of these heritage and museum attractions are run by plc's. Only a handful are run by smaller private sector companies (eg. Landmark which operates the Landmark Visitor Centre at Carrbridge and the Outlook Tower and Camera Obscura in Edinburgh). Most are small-scale and cash-starved and have tourism as a secondary and even incidental purpose.

Given that there is in Scotland what the Scottish Tourist Board refers to as a "predominance of remote rural tourism coupled to the weakness of local

markets",<sup>6</sup> it follows that many site attractions have great difficulty in generating rates of return sufficient to attract private sector investment. Bearing in mind the existing severe constraints on public sector sources of finance, the paradox for Scotland is that the further realisation of Scotland's tourism potential can only be brought about by a major infusion of private sector money and management expertise: to improve and enliven traditionally non-commercial attractions and to fund and run exciting new ventures. A critical structural weakness of Scotland's tourist industry is that (a) the larger tourist and leisure companies have so far made few attempts to diversify into the attractions sector, and that (b) there are few (if any) equivalents to the private sector attractions specialists emerging south of the border such as First Leisure Corporation, Transworld Leisure, Madam Tussauds, Heritage Projects, and the RMC Group. There are in Scotland as yet no real counterparts to commercial attractions such as Thorpe Park, Alton Towers, Pleasurewood Hills, the Jarvik Viking Centre, the Royalty and Empire Exhibition, and the The Exploratory. Their absence is a major cause of the industry's failure to grow significantly over the past decade.

### 4. Conclusion

At present large plc's trading in Scottish tourism do so in a rather one-sided fashion, being concerned overwhelmingly with hotels as opposed to what might be referred to as the total tourism enterprise of attractions plus accommodation and catering. Bearing in mind the high start-up costs, the long pay-back periods and the lack of established management expertise, their reluctance to expand in this direction is understandable. However, because of the sheer inter-relatedness of what we have termed the total tourism enterprise, there would be a natural logic to their becoming much more involved in attractions funding and management. Indeed, a remarkable feature of the tourist industry over the last few years has been a diversification and broadening of activities by employers. Hotels are now running health clubs, airlines are operating hotels, historic buildings are creating wildlife parks, and theatres are opening their doors to conferences. The challenge is to create

viable development concepts for the attractions sector which take into account both opportunities and constraints peculiar to the Scottish situation. It is a formidable, though not impossible, challenge. Until recently France had no major commercially operated visitor attractions. Now tourist orientated amusement/theme parks and health/fitness projects are proliferating. Ten large schemes are currently proposed including Asterixland, Smurfland and the Euro-Disneyland. It is estimated that the latter project alone will generate several thousand new hotel bedrooms<sup>17</sup>. This striking illustration of the symbiotic nature of the hotels:attractions relationship ought to be food for thought for the UK's giant tourist and leisure corporations and for Scotland's tourist industry leaders.

the North of England. (For Norfolk Capital see Tourism section in Industrial Performance section of the **Commentary**).

6. Scottish Tourist Board, **Tourism in the UK**. Submission to the Trade and Industry Committee, The Board, 1985. p.2
7. See, Horwath and Horwath International, **Worldwide Hotel Industry, 1986 Digest**, 16th Annual Report on Hotel Operations, New York, Horwath and Horwath International, 1986.

#### **REFERENCES**

1. English Tourist Board, **Jobs in Tourism and Leisure**, Report of a study carried out for the English Tourist Board by the Institute of Manpower Studies, London, ETB, 1986.
2. Mr Peel's Haddington father was a businessman who lost his property because of the Suez crisis and turned to being a chef.
3. Its spectacular post-war growth is associated with its current chairman Lord Forte, who was educated in Dumfries. His family owned seaside ice-cream cafes.
4. These focus their main efforts on selling drinks and meals rather than filling bedrooms
5. Burnthills, Goldsmiths, Norfolk Capital and Scottish Highland Hotels Group are the only other sizeable operators in the Scottish economy. Burnthills through Norscot Hotels has twelve Scottish units aimed mainly at leisure tourists, while Goldsmiths through Heritage Hotels has five hotels scattered throughout England and Scotland. Scottish Highland Hotels Group have twelve hotels and self-catering properties in Scotland and