

# The Economic Ascent of the Hotel Business

# 1

**Second Edition**

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## **1 Economic Structure**

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# 1 Economic Structure

## Introduction

There are many ways to differentiate economic structures, but in this analysis the most potent approach is to profile the activities in which the population of a country is employed, the numbers employed in each economic activity and how they change over time. In addition, the focus on patterns of consumption, patterns of travel, the main currents in the social and political structures of a country and the economic policies it pursues illuminate the patterns of development in the structure of economies.

Economies can be classified into five segments: agriculture, industry, public service, service business and experience business. A view of the different patterns of consumption that derive from economies with different structures is expressed by Pine and Gilmore's review of the evolution of the birthday cake in the US:

As a vestige of the agricultural economy, mothers made birthday cakes from scratch, mixing farm commodities (flour, sugar, butter and eggs) that together cost mere dimes. As the goods-based industrial economy advanced, moms paid a dollar or two to Betty Crocker for premixed ingredients. Later, when the service economy took hold, busy parents ordered cakes from the bakery or grocery store, which, at \$10 or \$15, cost ten times as much as the packaged ingredients. Now ... parents neither make the birthday cake nor even throw the party. Instead, they spend \$100 or more to outsource the entire event to Chuck E. Cheese, The Discovery Zone, The Mining Company or some other business that stages a memorable event for kids – and often throws in the cake for free. Welcome to the emerging experience economy.

(Pine and Gilmore, 1998)

A more developed version that links economic structure to demand and supply is as shown in Table 1.1.

The more developed the economic structure, the more personal spending there is on hospitality events, the more complex the processes involved and the more frequently people engage in the events. Economic ascent is accompanied by the provision of more facilities, services and products, which are used to create the context in which people experience hospitality events.

**Table 1.1:** Economic structure and the birthday party.

<b>Economic structure</b>	<b>The Birthday Party</b>	<b>The Cake</b>
Experience business	Mum takes the child and 20 friends to McDonalds, which organises the whole event with food, drinks and entertainment. Cost €200	McDonalds provides the cake
Service business	Party at home with 20 of the child's friends and a clown. Cost €50	Mum buys the cake. Cost €15.
Public service	The child invites a few friends home for tea and birthday cake. Cost €10	Mum buys cake mix and bakes the cake. Cost €5
Industrial	Family sings 'Happy Birthday' at evening meal and eats the cake. No party cost.	Mum buys flour, eggs, sugar and makes the cake. Cost €3.
Agricultural	No party. No cost	No cake. No cost

Source: Otus & Co Ltd.

## **The classification of economic activities**

Economic activities have been classified and periodically revised by the United Nations Statistics Division, International Standard Industrial Classifications, into three groups (United Nations Statistics Division, 2006).

- ◆ Primary industries include: cultivation of crops, livestock production, fishing, forestry and hunting.
- ◆ Secondary industries include: construction, manufacturing, mining, quarrying and utilities.
- ◆ Tertiary services include: banking, bars, betting shops, bingo clubs, casinos, cinemas, communications, distribution, education services, financial services, health services, hairdressers, hotels, insurance, personal services, professional services, public administration, restaurants, retailing, security services, sports clubs, storage, transport, travel, theatres, visitor attractions and welfare services. Within each of these activities there are sub-divisions that extend tertiary activities throughout the lives of citizens of advanced economies and establish the tertiary segment as the most diverse and complex of the three economic segments.

Employment in each economic segment is different. It requires different knowledge and skills and it involves different relationships with the land, with machines, with colleagues and with the buyers of their output. As the structure of an economy ascends through the economic stages, so its structure becomes more complex and diverse. At any one time within any economy there are skills and jobs that are in demand to deliver economic output, others that are in decline and vanish and others for which demand has yet to materialise. As a result, the availability of

products and services is not constant and their provision and consumption is not uniform.

Except during the earliest pre-economic period of history, each country had some involvement in primary, secondary and tertiary economic activities and its economic structure was determined by the amount and types of activity in each segment. Historically, tertiary was the least significant activity since most tertiary services existed only as a necessary support to the production, distribution and sale of agricultural and manufactured goods. Personal markets for services were minor in the historic agricultural and industrial economies. As a result, tertiary services were small and grew, generally in line with primary and secondary activities. It was not until after World War II that the US economy reached the stage at which tertiary activities took on a life of their own. Not only did the corporate market for service businesses expand, but the most significant change was the growth in personal demand for services. No longer was their existence dependent on their historic role as support services to primary and secondary activities. This was uncharted territory for economists since new economic activities emerged and others grew to dimensions never previously thought possible.

Tertiary activities are different in kind from primary and secondary activities. At the core of the difference is that tertiary activities are concerned with the provision and distribution of services whereas primary and secondary activities produce durable and non-durable goods. Tertiary activities are more complex than secondary activities, which in turn are more complex than primary activities. Within primary activities the dominant work interaction is between the worker and the land. Within secondary activities the dominant interaction is between the worker and the machine. In tertiary services, the crucial relationship is between people. The operational interaction with colleagues is necessary for the provision and delivery of services as is the interaction between the providers and the consumers of services. Reflecting this, services involve more mental work than the manual work that is characteristic of primary and secondary activities and consequently more white-collar work than blue-collar work.

There has been little confusion about the components of the primary and secondary segments, but there is confusion about the classification of the tertiary activities. Traditionally, economists assumed that the range of tertiary activities is more homogeneous than it is in reality. The diversity and complexity of tertiary services has meant that to understand the role and dynamics of services and to plan and manage them effectively it has been necessary to classify services. The problem has been that most classifications have not been practical. Two examples illustrate the point. One attempt by Banton (1968) was to differentiate the range of tertiary activities between commerce and direct services. Commerce was seen by Banton to include: transport and communication; distributive trades; insurance; banking and finance; and storage, while direct services were seen to include: professional and scientific services; sport and recreation; personal services; and public administration. There is no obvious analytical base for this distinction between commerce and direct services and no more homogeneity within commerce and direct services than there is within tertiary activities as a whole.