CHAPTER 7

Strategic planning and international hospitality enterprises

Chapter objectives

After working through this chapter, you should be able to:

- To define both strategic management in global business environment
- To gain knowledge of the impact of global environmental factors on strategy formulation
- To understand the strategic management process
- To use Porter's five forces model with SWOT and PEST analyses to formulate strategy
- To identify organizations' and countries' competitive advantages
- To understand how to use develop hospitality companies business and corporate strategy
- To consider global strategies when multinational enterprises (MNEs) expand their business overseas

Introduction

Strategic management is a capstone subject for management courses and it has been used by all kinds of enterprises and non-profit organizations. It applies knowledge and skills gained from functional subjects such as marketing, human resource management, accounting and finance. This chapter provides an outline of the strategic planning process and analytical frameworks in international hospitality industry. It enables students to gain an appreciation of the fast changing environment in which hospitality organizations operate, to identify the resources and competences in the organizations, and to evaluate different level strategic options and managerial issues in global environment.

Strategic planning and global strategy

Strategy is a broad and general plan developed to reach long-term organisational objectives. Strategic planning is a long-term planning that focuses on the organisation as a whole. Wheelen and Hunger (2004: 6) define strategic management as "a set of managerial decisions and actions that determines the long-run performance of a corporation". Strategic management has been recognized by managements and economic academics as the most important activity in business management and it is key to modern enterprises' survival and development.

Research indicates that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match between an organization's environment and its strategy, structure, resources and operations has positive effects on the organization's performance. According to Bruce Henderson, founder of the Boston Consulting Group, a company cannot afford to follow intuitive strategies once it becomes large, has layers of management, or its environment changes substantially. Not too long ago, a company could be successful by focusing only on making or providing services within its national boundaries. International considerations were minimal. As the world's environment becomes increasingly dynamic and complex, strategic management has been used by most hospitality enterprises as one way to make the environment more manageable and maintain competitive advantages. Traditionally hospitality industry is a fragmented industry dominated by thousands of independent small firms serving local or national customers, while now the industry is getting consolidated through external chaining and internal growth in order to gain economies of scale and sustainable competitiveness. Strategic management plays an important role when multinational hospitality enterprises expand their business across national borders.

Steps in developing international strategies management are similar to normal strategic management, but need more consideration of global business issues and international competition. Figure 7.1 outlines the elements in the basic strategic planning process that underpins the discussion in this chapter.

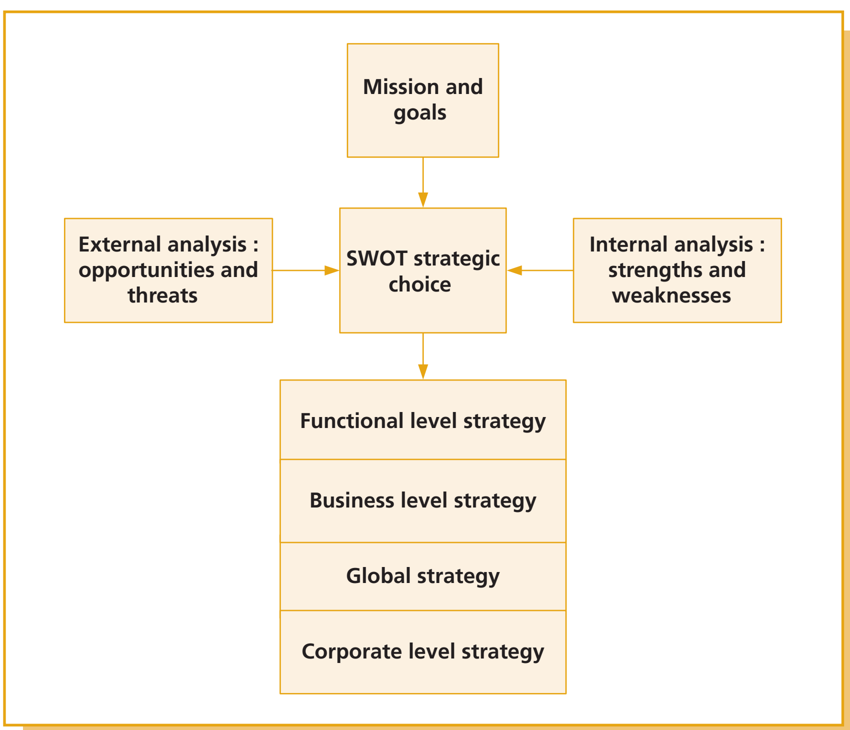

Figure 7.1 The strategic planning process

Mission and objectives

Organizational mission is the purpose for which or the reason why an organization exists. A mission statement is a written document developed by management that describes and explains what the mission of an organisation actually is. The importance of organisational mission is obvious. It addresses that critical question all the businesses need to ask themselves: Where are we going? Mission statement will point out organizational direction in a relative long term. It helps increase probability of an organization's success for several reasons. It helps management to focus employees' effort in a common direction; serves as a sound rationale for allocating resources; it pinpoints broad but important areas within an organization. A company may also design a values code into its mission statement.

John Keane said a strategist need to see the company not as it is … but as it can become. A company's mission statement can focus, direct, motivate, unify and even excite a business into superior performance. The first job of a strategist is to identify and project a clear vision. From the following mission statement examples, stakeholders of these companies will know what they want to become in the international hospitality industry. It is clear that Subway and Marriott want to be undisputable global leaders in their sectors, while Tussauds Group target European market.

- Subway: To provide the tools and knowledge to allow entrepreneurs to successfully compete in the QSR (quick service restaurant) industry worldwide by consistently offering value to consumers through providing great-tasting food that is good for them and made the way they like it.
- Marriott: To be the worlds leading provider of hospitality services.
- Tussauds Group: To deliver real growth in profit to take Europe's leading entertainment worldwide.

Example: Starbucks' principles and mission statement

- Mission statement: Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.

The following six guiding principles will help us measure the appropriateness of our decisions:

1. Provide a great work environment and treat each other with respect and dignity.
2. Embrace diversity as an essential component in the way we do business.
3. Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
4. Develop enthusiastically satisfied customers all of the time.
5. Contribute positively to our communities and our environment.
6. Recognize that profitability is essential to our future success.

ACTIVITY

A Mission statements vary widely from one company to another. Why is one mission statement better than another? Develop criteria for evaluating hospitality organizations' mission statements.

B Using the Internet, find the mission statements of three multinational companies in one hospitality sector. Which mission statement is best? Why?

International hospitality companies need to develop organizational objectives, which reflect and flow naturally from an organizational mission. According to Hill and Jones (2004), well-constructed goals have some main characteristics: they are precise and measurable; they address crucial issues; they are challenging but realistic and they specify a time period in which they should be achieved.

A company's global objectives usually fall into the areas of marketing, finance, profitability, performance and development. Goals for market volume and profitability are usually set higher for international company than for domestic operations because of the allowance for greater risk involved. In addition, financial objectives must consider different tax regulations in other countries and exchange rate fluctuations.

Environmental analysis

After recognizing the corporate' mission statement, the next thing you need to do is environmental scanning. According to Wheelen and Hunger (2006), environment scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation to avoid strategic surprise and ensure the long-term health of the firm. In this unit, we mainly discuss external analysis.

Why we need to do the external scanning, one reason is environmental uncertainty, which is the degree of complexity plus the degree of change existing in an organisation's external environment. It can be argued that without environmental uncertainty, there would be no need for strategic management. The Arab oil embargo in 1970s is the single most influential event causing the formation of strategy departments in many US corporations. The embargo showed managers just how vulnerable their companies were to environmental change. September 11th, followed by Iraq War, are the most significant events that reshape global business environment in recent years. As a key part of strategic management, environmental scanning is a tool used to help avoid strategic surprise and cope with an uncertain environment. In the new century, the global environments become more and more complex and unpredictable. However, those companies which engage in environmental scanning and strategic planning tend to be more successful than their non-planning competitors.

Environmental scanning is the process of information gathering, analysing and forecasting relevant trends in terms of business opportunities and threats. It pinpoints environmental factors that will affect operations in geographic areas of existing home marketing and potential foreign markets.

According to Wheelen and Hunger (2006), there are two layers in external environment: societal environment and task/industrial environment, as shown in Figure 2.1.

Societal environment

General forces that do not directly touch on the short-run activities but often influence its long-run decisions.

Task/industrial environment

This consists of those elements or groups that directly affect the corporation and, in turn, are affected by it. The task environment is the industry within which that firm operates.

Figure 7.2 External environment

As an international organization, the company should choose varying levels of scanning in societal environment: multinational, regional and national. The multinational level of analysis provides a broad assessment of business environment through monitoring, identification and forecasting significant worldwide trends global activities, such as the consequence of rapid growth oil price in 2006. At the regional level, the analysis focuses in detail on critical environmental factors to identify opportunities and risks for international companies in a region where a group of countries share seminar culture, history and geographical features, such as the devastating impacts of 2005 Boxing Day Tsunami and the conflicts between Israel and Lebanon. The national level of analysis focuses on the size and nature of the market, along with any possible operational problems, for example the competition between British cities to host the first Mega Casino.

Example: Tsunami aftermath

Occupancy of hotels in Phuket, Krabi and Phangnga has plunged to 10% in the aftermath of the tsunami and is expected to decline further to single digits, according to the Thai Hotels Association (THA). THA President Chanin Donavanik said the hotels in the six tsunami-hit provinces, particularly in the three major tourist destinations, were facing more cancellations without any new reservations in the first month of 2005.

If the situation does not improve in the next 2 to 3 weeks, some 500,000 people in the hotel and tourism-related industries were expected to lose their jobs, he said yesterday.

Most of the hotels could not afford to pay salaries to their staff and have yet to receive supporting funds from the government due to red tape, as there are nine agencies involved in the tsunami-relief campaign. The THA plans to ask Prime Minister Thaksin Shinawatra to order all of the relevant agencies to speed up the fund disbursement process. The Association of Thai Travel Agents (ATTA), meanwhile, plans to set up a crisis management centre to handle problems affecting the tourism and hospitality industry.

Source: Bangkok Post, January 2005, www.bangkokpost.com

Example: Middle East crisis brings tourism sector to its knees

The serious crisis in Lebanon and Israel in July 2006 bringing the Middle Eastern tourist industry to its knees despite the fact that it has registered the biggest growth in the world in the last decade, the United Nation World Tourism Organization (UNWTO) said in a statement issued by the organization's secretariat in Madrid. The UNWTO recalled that the tourist sector has become a vital part of the social and economic fabric of the region and it is an important component for the livelihoods of its people. While international tourist arrivals worldwide grew at an annual average of 4%, the average growth rate of arrivals in the Middle East during this period was 11%, and the number of arrivals to the region almost tripled, leaping from 13.7 million in 1995 to 39.7 million in 2005.

During the first month of 2006, the key destinations in the region started posting outstanding double digit results. Lebanon posted a 37% growth in the first quarter of the year. Israel too was experiencing similar levels of growth (25%) while Egypt, Jordan and other major destinations in the gulf also showed positive results. The overall problem for tourism in the area given, the current situation is compounded by the destruction of basic infrastructure and the absence of normal transport and communication facilities. As yet no foreseeable time frame for a return to normalcy can be outlined, the UNWTO said. At this point the primary issue for the sector is the safety of tourists and their rapid repatriation from risk zones. "This is yet another example of where tourists and the tourism industry are hostage to global events beyond their control," UNWTO Secretary-General Francesco Frangialli said. "We will work closely with our members to help those who are suffering and to rebuild the tourism economy."

Source: UNWTO 27/07/2006 www.world-tourism.org

There are so many things happening everyday in the world. For hospitality companies, they can choose 5 to 20 issues and assess them by the following steps:

- Identify likely trends and pick up strategic environmental issues from external environments which are closely relevant to hospitality industry.
- Assess probability of trends occurring and list all the probabilities form low to high.
- Ascertain likely impact of trends on your company and make the list from low to high.

Normally societal environmental scanning should cover the topics we considered in the discussion in Chapter 3 about the PEST analysis, with such topics as the political, economic, social and technological areas.

Industry analysis: forces influencing competition

An industry is a group of firms that produces products that are close substitutes for each other. Industry analysis is an in-depth examination of key factors within a corporation's task environment. In an industry, competition drives down the rate of return on invested capital towards the rate earned in a "perfectly competitive" industry. Rates of return greater than the "competitive" rate stimulate an inflow of capital, while those below the "competitive" rate force a withdrawal from the industry and a decline in competition.

Michael E. Porter identifies five forces that influence industry competition: the threat of new entrants, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers and competitive rivalry. The stronger each force is, the more competitive the industry and the lower the rate of return that can be earned. This five-force model was developed in 1980. Until now, it is one of most important tool used in industry analysis.

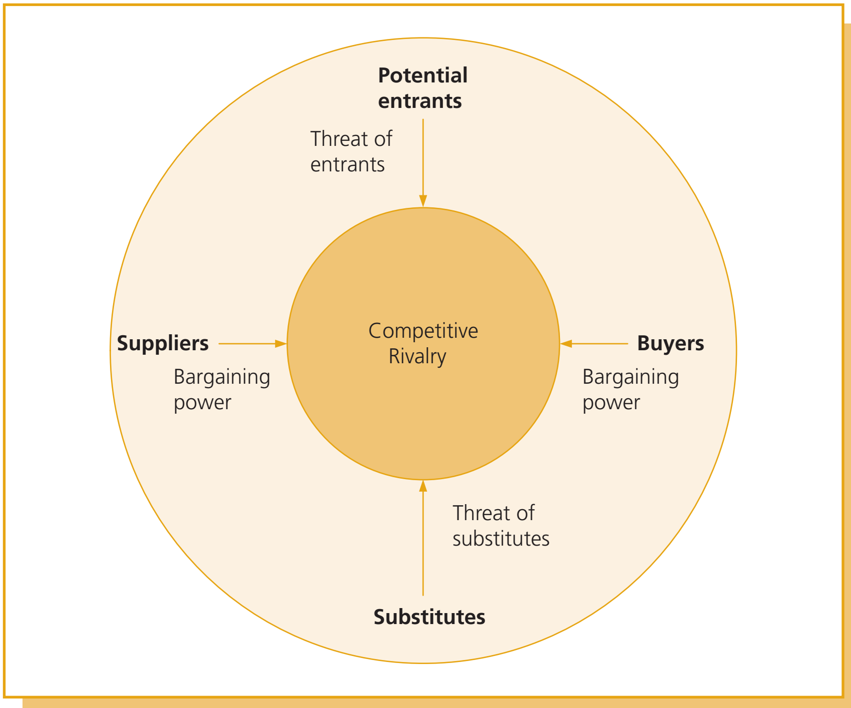

Figure 7.3 Five-force model *Source*: Porter, M. (1980)

Threat of new entrants

New international entrants bring new capacity, a desire to gain market share and position, and new approaches to customer service. New entrants mean prices pushed downward and margins squeezed, resulting in reduced long-term profitability. Whilst hotel chains have been busy spreading their brands over a wide variety of lodging products, some companies in the entertainment, restaurant or luxury product segment have made way into the hotel business attempting to capitalize on an already well-established brand image. For example, Italian jewellery and fashion designers move into the boutique hotel business in 2001, the Palazzo Versace opened its doors on Australia's Gold Coast not far from the renowned "Surfer's Paradise" beach. Built at a cost of US $108 million the luxury resort includes 146 rooms, 59 suites and 72 condominiums. Guests are surrounded at every moment by reminders of the late designer, as they drink from Versace glasses, sit on Versace chairs and dry themselves with Versace towels. Future plans include the development of six more Versace-designed luxury hotels in the Middle East, Asia and North America.

To discourage potential competitors moving into the market, established hospitality companies tend to set Entry Barriers through:

- brand loyalty,
- absolute cost advantages,
- economies of scale,

- customer switching costs,
- government regulation.

Bargaining power of buyers

Buyers are most powerful when a company depends on them for business, but they themselves are not dependent on the company. Because of its huge purchasing power, tour operators like Thomson can decide contract terms when they talk with small and middle size hotels in Greek or Turkish resorts.

Bargaining power of suppliers

Suppliers are most powerful when a company depends on them for business, but they themselves are not dependent on the company. Utility companies have much bargaining power over hotels and restaurants in United Kingdom. From 2005 to 2006, the whole hospitality industry in Britain experiences massive increase of gas and electricity bill.

Threat of substitute products

The availability of substitute products places limits on the prices market leaders can charge. High prices may induce buyers to switch to the substitute.

The modern transportation era means that tourists can have a wide choice of holiday destinations and accommodations. It could be cheaper for a British couple to have 2 weeks holidays in Thailand or Turkey instead of Britain and they can stay in much better hotels and enjoy different food, better weather and personal services.

Rivalry among competitors

Rivalry refers to actions taken by firms in an industry to improve their positions and gain advantages over each other. It is the major force which influences hospitality organization in industry environment. Strong demand conditions moderate the competition among established companies and create opportunities for expansion. When demand is weak, intensive competition can develop, particularly in consolidated industries with high exit barriers.

International market rivalry analysis is one of the most important areas for environmental analysis and strategy formulation. For example, will the infrastructure support new companies in hospitality industry? Is there room for additional competition? What is the relative supply and demand for the proposed product or service? The ultimate profit potential in an industry in a given location will be determined by industry rivalry. Rivalry manifests itself in price competition, advertising battles, product positioning and attempts at differentiation.

Plate 11
Identifying the offer and the rivals
Source: Author's photograph

This is the entrance to Chinatown in Liverpool. It has both a symbolic and a marketing function. It highlights the offer of the area dramatically and marks it off from the rest of the city. Something similar, but interestingly visually different is achieved in Manchester. There is a pattern of identification, of branding, but also a creation of difference.

Case: Five Forces Analysis of Starbucks

Starbucks is now the largest US coffee chain. According to the company fact sheet, as of February 2006, Starbucks had 6,216 company-operated outlets worldwide: 5,028 of them in the United States and 1,188 in other countries and US territories. In addition, the company has 4,585 joint venture and licenced outlets, 2,633 of them in the United States and 1,952 in other countries and US territories. The company is committed to offering the highest quality coffee and the Starbucks experience. Let's have a look of Starbucks' industry environments.

What is the threat of new entrants?

Newly established coffee shops and cafes in host countries could be found in many countries everyday. The new entrants may be retailers, banks, hotels or restaurants.

Starbucks production process is relatively transparent, and potential entrants could easily replicate some of their resources and operation process. Therefore entry barriers into the coffee bar market are not high for both large multinationals or small independent companies.

What is rivalry among existing companies?

Existing international coffee shops in other countries are major competition for Starbucks international, such as Costa or Café Republic. Players in the foodservice industry are increasingly offering more competition, such as McDonald's McCafé.

What is the threat of substitute products or services?
The threat of substitute products is high. Coffee is Starbucks focused product, and there are so many other drinks, especially in countries where tea may be the popular beverage. However, Starbuck's range of teas, different strengths of coffees and iced beverages reduce the risk of substitutes in international markets. In Westernized countries increased health awareness may possibly reduce coffee intake.

What is the bargaining power of buyers?
Buyers bargaining power is moderate. Starbucks does not depend their business on small group of buyers, although ice creams and canned drinks are distributed through supermarkets and cafés are everywhere in major cities.

What is the bargaining power of suppliers?
Starbucks has control over the suppliers. Starbucks good reputation depends on a consistent connection with premium suppliers. As the coffee beans are produced by farmers in less-developed countries they have little power. This explains why the company has given immense support to the farmers. Starbucks is fair-trade certified, which means they encourage farmers to sell their beans at premium price. This not only achieves higher quality coffee but assures that coffee consumed in Starbucks has been ethically produced.

Internal analysis

After the environmental assessment, the second major step in weighing international strategic options is the internal analysis. Internal analysis is extremely important for resource-based approach. Resource-based approach is one of the major approaches used by most companies when they design strategies. This analysis determines which areas of the company's operations represent strengths or weaknesses (currently or potentially) compared to competitors, so that the company may use that information to its strategic advantage. The internal analysis focuses on company's resources and operations, and global synergies. The strengths and weaknesses of the firm's managerial expertise and functional capabilities are evaluated to determine what core competences the company has and how well they can help the company exploit foreign opportunities.

What is resource? There are many definitions. Generally speaking, it is an asset, competency, process, skill or knowledge controlled by the corporation. Wheelen and Hunger (2006) suggest evaluating key resources by VRIO framework:

- Value: Does it provide competitive advantage?
- Rareness: Do other competitors possess it?
- Imitability: Is it costly for others to imitate?
- Organization: Is the firm organized to exploit the resource?

Strategic managers assess its resources, capabilities and key success factors compared to those of its competitors. They must judge the relative current and potential competitive position of firms in that market and location – whether that is a global position or that for a specific country or region. Lasting key resources and competences have high durability and low imitability. Wheelen and Hunger (2006) define durability as "rate at which a company's underlying resources and capabilities (core competencies) depreciate or become obsolete" and imitability as "rate at which a company's underlying resources and capabilities (core competencies) can be duplicated by others".

Most companies develop their strategy around key strengths, or core competencies. Core competencies represent important corporate resources because, as Prahalad and Hamel explain, they are the collective learning in the organization, especially how to coordinate diverse production skills and to integrate multiple streams of technologies. Managers must also assess their firm's weaknesses. Of course, the subjective perceptions, motivations, capabilities and goals of the managers involved in such diagnoses frequently cloud the decision-making process.

The Four Building Blocks of competitive advantage

Competitive advantage exists when there is a match between a firm's distinctive competencies and the factors critical for success within its industry. Hill and Jones' (2004) Four Building Blocks of competitive advantage provides a good model for hospitality companies to identify their distinctive competencies from following Four Building Blocks and then develop matched strategies.

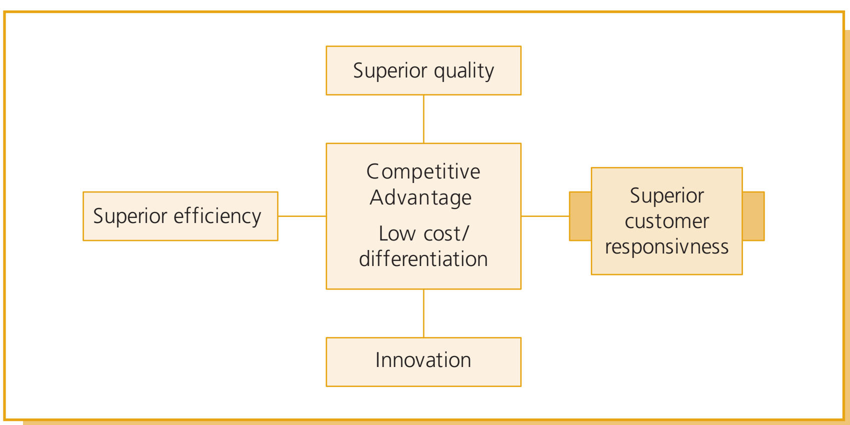

Figure 7.4 Four Building Blocks of competitive advantages *Source*: (adapted from Hill and Jones, 2004)

Superior efficiency

This may be in terms of worker output, average cost per unit. Efficiency is an input/output measure, and does not measure effectiveness or goal-seeking behaviour.

To reduce cost, many companies choose to externalize costs by:

- subcontracting (e.g. companies who contract-out their cleaning and catering).

or reduce costs by:

- Locating work in low-cost areas (e.g. moving hotel group call centre from UK to India).

"Economies of scale" is another key area for superior efficiency in hospitality industries.

Innovation

Innovation refers to the act of creating new products/services or processes.

- Develop new products/services, which have superior attributes to existing products/services, therefore attractive new customers.
- Create new process to produce products/services, which will reduce cost or improve product/service quality. The following case shows that even the most sophisticated technologies can be used by hospitality industry.

Example: Hotel tycoon to test space station technology

A hotel tycoon's dream of building an inflatable commercial space station is taking a step towards reality – with the launch of a satellite to test the technology behind the planned orbital outpost. The fact-finding mission scheduled for this week will explore the feasibility of Robert Bigelow's plan to build a working commercial space complex by 2015. When finished, it will consist of balloon-like modules strung together like sausage links and serve as an orbiting space hotel, college or entertainment venue.

The planned lift off from Russia of Bigelow Aerospace's privately funded Genesis I spacecraft will mark the beginning of the start-up's attempt to break into the commercial spaceflight business. Bigelow, who made his fortune with the Las Vegas-based Budget Suites of America hotel chain, has remained tight-lipped about the exact launch date of its prototype.

Source: AFX International Focus, 12th July 2006.

Superior quality

A product or service is said to have superior quality when customers regard it has greater value compared to the rival products/services.

Superior quality may be an absolute measure, such as the highest specification aircraft/food/hotel, etc. or perceived quality, viewed by customers.

Customer responsiveness

To achieve superior responsiveness to customers, a company should be able to do a better job than competitors of identifying and satisfying customers' needs. Achieving superior quality is integral to achieving superior responsiveness to customers. Another area is to customize goods and services for individual customers, which is especially important in hospitality industry.

Internal Factors (IFAS) / External Factors (EFAS)	**Strengths (S)** List 5–10 internal strengths here	**Weaknesses (W)** List 5–10 internal weaknesses here
Opportunities (O) List 5–10 external opportunities here	**SO Strategies** Generate strategies here that use **strengths** to take **advantage** of **opportunities**	**WO Strategies** Generate strategies here that take **advantage** of **opportunities** by **overcoming weaknesses**
Threats (T) List 5–10 external opportunities here	**ST Strategies** Generate strategies here and use **strengths** to **avoid threats**	**WT Strategies** Generate strategies here that **minimize weaknesses** and **avoid threats**

Figure 7.5 The strategic application of the SWOT matrix *Source*: Weihrich (1982: 60)

Organizations are only successful if they are well-suited to their environment. It is critical for managers to understand the significant forces in the environment which may provide threats or opportunities for their organization. They can then be prepared to cope with the significant environmental influences.

The SWOT matrix illustrates how management can match the external opportunities and threats facing a particular corporation with its internal strengths and weaknesses to yield four sets of strategic alternatives. The real value of this technique is not to suggest a particular strategy the firm should follow, but to act as a brainstorming tool to help create a series of alternative strategies management might not otherwise consider. It forces strategic managers to develop both growth and retrenchment strategies, even though they might not believe that both sets of strategies are applicable to their corporation's situation. The matrix is a logical extension of SWOT analysis and helps keep strategic managers flexible in terms of possible options. The strength and weakness portion of SWOT allows the manager to look at the strengths and weaknesses of the firm – they determine what the organization can do. An analysis of external opportunities and threats tells managers what the company might do. Matching the two segments should provide a reasonable direction for what the firm should do given its particular situation. SWOT analysis allows the manager to match the external environment of the firm with the internal environment. A proper match will allow the firm to be more effective and efficient.

Corporate value chain analysis

Value chain analysis, as proposed by Porter, is a way of examining the nature and extent of the synergies that do or do not exist between the internal activities of a corporation. It was first designed for manufacturing industry, while now service industry also uses it as a tool in internal analysis. The systematic examination of individual value activities can lead to a better understanding of a corporation's strengths and weaknesses. Its advantage over other methods of analysing a company's internal environment is its ability to visualize a company in terms of strings of product value chains which can be tied together in places to achieve economies of scope.

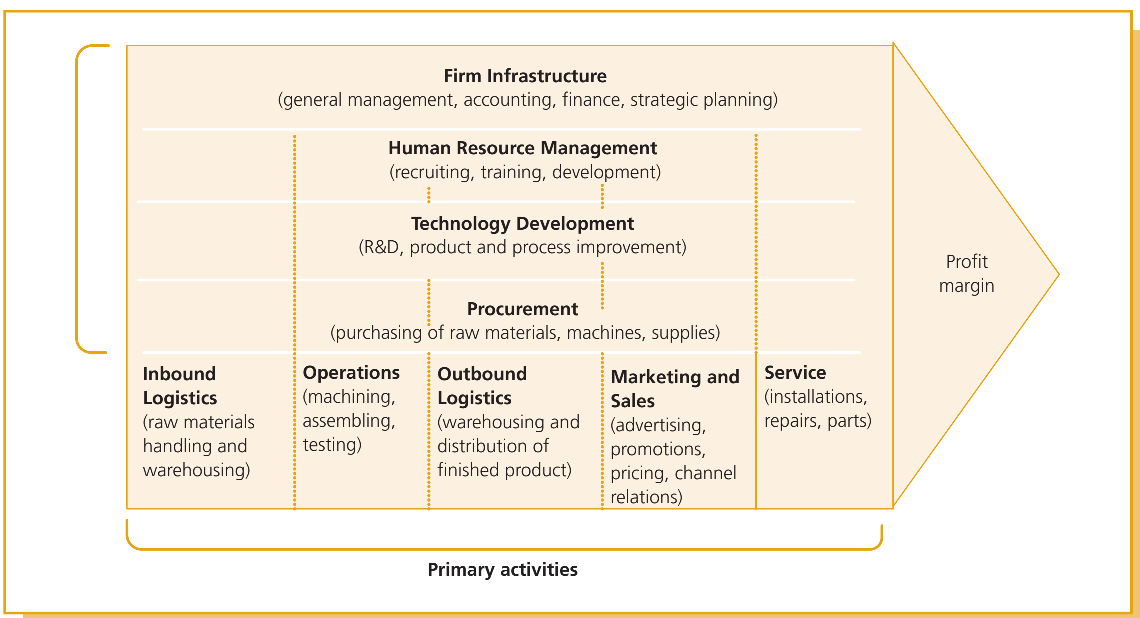

Figure 7.6 The corporate value chain model
Source: Porter, M. (1985, 1988) and Wheelen and Hunger (2004: 86)

Analysis process

- Examine each product/service line's value chain. Core competencies and core deficiencies.
- Examine the "linkages" within each product/service line's value chain. Connections between the way one value activity is performed and the cost of performance of another activity.
- Examine the synergies among the value chains of different product lines or business units.
  Economies of scope.

Strategy options and decisions

After external and internal environment analysis, managers need to make strategic decision at different level. Functional strategy is the lowest level and corporate is the highest level strategy.

Functional level strategy

Michael Porter has developed a framework of generic business strategies based on the two sources of competitive advantage: low cost and differentiation. These sources, combined with the scope of the target market (narrow or broad) or product mix width (narrow or wide), yields four generic strategies: cost leadership, product differentiation, cost focus and focused differentiation.

Achieving competitive advantage demands that the company make choices. There are three methods determining functional strategy:

1. Identify business unit's core competencies.
2. Ensure that competencies are continually strengthened.
3. Manage competencies so that competitive advantage is preserved.

Hospitality companies make functional strategies on marketing, human resource, finance, operations, etc. These strategies have been discussed in other functional management courses. We just want to mention one functional level issue – outsourcing. Outsourcing is purchasing from someone else a product or service that had been previously provided internally. It is important decision no matter the hospitality company want to use cost leadership or differentiation strategy; no matter it is in domestic or international operation.

Hotel operations are notorious for having a high proportion of fixed costs. One way for hoteliers to decrease the overall level of business risk is to render their cost structure more flexible. Outsourcing can often be a solution. For instance, instead of retaining a full-time staff, hotels have the possibility of ordering up staff, on a day-to-day basis, from temporary employment agencies, who maintain a specialized division for the hospitality industry. Another area that is being increasingly outsourced is laundry services, both for the clients and the hotel itself (sheets, towels, curtains, etc.) Many hotels simply rent their linen from a supplier who takes care of washing it.

Food and beverage services are activities that cost hotel managements a lot of time and headaches, but are usually not very profitable (in Europe and North America, not in Asia). Hotel restaurants have a reputation for being stuffy, unexciting and mediocre. For example, in the United Kingdom the value of the hotel catering market increased by only 12% between 1998 and 2002, as compared with a 22% increase of the total eating out market in real terms. Now increasingly, hoteliers from the high end to the low end are engaging in some form of outsourcing of their food and beverage operations. There are several possible structures that can be put in place. Budget hotels simply make it a point to be located near restaurants. An example is the roadside Travelodges in the United Kingdom, which are often situated close to Little Chef.

Strategically, outsourcing value-creation activities to subcontractors is opposite of vertical integration. Any function can be outsourced, if it is not critical to a firm's success (is not one of its distinctive competencies). Outsourcing should begin with an identification of a firm's distinctive competencies (which will continuously be performed within the company). All other activities are then reviewed to see whether they can be performed more effectively and efficiently by independent suppliers.

Advantages of outsourcing

- More efficient at performing (the company may reduce its own cost).
- By outsourcing a non-core value-creation activity to a supplier that has a distinctive competency, the company may better differentiate its final product/service.
- Remove distractions and focus resources on strengthening its distinctive competencies.

Risks linked with outsourcing

- Too dependent on an outsourced activity.
- Loss of control of scheduling.
- Loss of important competitive information.

ACTIVITY

Choose an international hospitality company; explain what kind of activities it can outsource and what cannot outsource. Why?

Business level strategy

Michael Porter has pointed out the generic business strategies. "Generic" refers to the fact that these strategies could be pursued by any company, operating in any industry. Business level strategy refers to the plan of action that strategic managers adopt for using a company's resources and distinctive competencies to gain a competitive advantage over its rivals in a market or industry, such as hotel, restaurant or cruise industry, while corporate strategy can be used among different industries.

The three business strategies are cost leadership, differentiation and focus strategy.

Cost leadership strategy

- A company's goal in pursuing a cost leadership is to outperform competitors by producing goods and services at a lower cost.
- This strategy can lead to above-average profits, especially in competitive market.
- To become the cost leader a company must make choices about its product, market and distinctive competencies. easyJet is an excellent example.
- Competitor's ability to imitate the cost leader's methods easily is a threat to this strategy. Customer satisfaction is another concern, especially in the global market.

Case: Only One Pound from Luton to Nice – Why Not Book easyJet?

easyJet was founded in 1995 when the Greek entrepreneur Stelios Haji-Ioannou leased two aircrafts and introduced scheduled routes from London Luton to Edinburgh and Glasgow. The following year easyJet received its first wholly owned aircraft and introduced new routes including international services to Nice and Barcelona. In 1997 easyJet launched its website, easyjet.com and the first Internet booking was taken 1 year later, in April 1998. As a result of a rapid expansion easyJet acquired 40% of the Swiss carrier TEA Basel AG in March 1998. The growth continued and by the year 1999 easyJet had three base airports; London Luton, Liverpool and Geneva. In the same year easyJet also introduced its first services wholly outside the United Kingdom. The company had now grown significantly and in November 2000 easyJet was listed on the London Stock Exchange. The development continued and in 2001 easyJet introduced a massive route expansion. The following year easyJet acquired British Airways low-cost brand "Go" and became Europe's number one low-cost airline. As a result of the merger easyJet continued on the chosen path and introduced a number of new routes in 2003. In 2004 easyJet launched the accommodation service, easyJetHotels. Today easyJet has a huge presence in Europe with 212 routes across 64 airports. easyJet's head office is located at London Luton airport. In 2005 easyJet had approximately 4,152 employees.

From a strategic point of view easyJet's history can be summarized in one word, expansion. From the beginning easyJet has expanded its operations aggressively by introducing new routes every year and they have recently launched new products and services such as accommodation, travel insurance and car rental. Passenger statistics indicate that in its first full year, 1996 easyJet carried 420,000 passengers and in 2005 this figure rose to 29,558 million passengers.

From the beginning easyJet has adopted cost leadership as their business level strategy and outperformed competitors by providing services at a lower cost. easyJet achieves cost leadership trough eliminating unnecessary costs. This is carried out in a number of ways:

- Using the Internet to reduce distribution costs.
- Maximizing the utilization of each aircraft.

- Ticketless travel.
- No free meals or drinks on board.
- Efficient use of airports.
- Paperless operations.
- Point-to-point short-haul flights.
- No seat assignment on board.
- Outsourcing certain operations such as luggage handling and fleet maintenance.

Even though the use of secondary airports is an important part of easyJet's cost management they still use major airports on some routes. Ryanair on the other hand uses only secondary airports which gives them advantage in terms of keeping the costs to a minimum.

In the beginning easyJet used a single aircraft fleet (Boeing 737) that could be utilized throughout the network, but in 2005 their fleet consisted of 54 Boeing 737 and 55 Airbus A319. Despite two different types of aircrafts easyJet aims to benefit from the "any aircraft, any route" model. This model will reduce the cost of maintenance and spare parts together with enabling the use of an interchangeable crew.

Passenger statistics

Year	Annual total ('000)
1995	30
1996	420
1997	1,140
1998	1,880
1999	3,670
2000	5,996
2001	7,604
2002	11,400
2003	20,300
2004	24,300
2005	29,558

This cost leadership enables easyJet to minimize costs but it also has a few downsides. Such a cost structure reduces easyJet's flexibility (e.g. seat assignment and luggage allowance) which in turn might affect the value perceived by customers. Business travellers are usually ready to pay more for more legroom but easyJet's highly standardized product does not allow this. easyJet mainly uses secondary airports which might significantly increase the travel times and the total travel cost.

This business model has been and still is the backbone of easyJet's success. easyJet and other low-cost carriers realized the dissatisfaction about the high fares charged by mainstream airlines and chose their strategy accordingly. However, cost-cutting has not been the only thing contributing to easyJet's success. The above-mentioned concepts have not only enabled easyJet to radically cut costs, they have also been innovative products and services in the airline industry.

Source: www.easyJet.com, 2006.

Differentiation strategy

- The objective of differentiation is to achieve a competitive advantage by creating a product or service that is perceived to be unique in some way.
- The differentiated company's ability to satisfy customers' needs in a way that its competitors cannot means it can charge a premium price.
- This strategy can lead to above-average profits because a differentiator can charge a premium price rather than by reducing cost.
- Generally, differentiator segments its market into many niches, offering products for many market niches.
- Differentiation can be achieved through quality, innovation responsiveness to customers.

The risks for a differentiator

- The differentiator must maintain its perceived uniqueness in customers' eyes against agile imitation.
- A source of uniqueness may be overridden by changes in consumer tastes and demands.
- A differentiator must be cautious in setting prices.

Case: Differentiation Strategy in Hard Rock Café

The Hard Rock Café (HRC) was the first themed restaurant on a major scale to be established in the UK and proved to be an instant classic, attracting droves of customers with its first rate, but moderately priced casual American fare, warm service and ever present rock 'n' roll music and sensibility. Since the establishment of the Hard Rock organization, the brand has developed a global profile with outlets in many major cities and HRC T-shirts worn all over the world.

The first HRC opened its doors to the public on June 14, 1971, in London, Founded by Isaac Tigrett and Peter Morton, two enterprising and music-loving Americans. The HRC is currently a wholly owned subsidiary of The Rank group which is one of the United Kingdom's leading gaming and entertainment companies. In the past 30 years, The HRC has grown from a modest London pub to a global power consisting of cafes, hotels, casinos, live music venues, a rock museum, an annual 'Rockfest' concert and is one of the most universally recognized trademarks. There are currently 111 HRCs worldwide in 42 countries, of which half are owned and the rest franchised out (Mintel, 2003), this has put the chain firmly in the service industry making it a truly global phenomenon. The HRC offers a special experience to its devoted, ever-expanding clientele and remains conscious to its founding objectives: delicious food, good music and a high-energy atmosphere their guests will never forget.

The Hard Rock's total revenues for 2004 were $426 million versus $382 million for 2003; this shows a growth of 11.5% (Hard Rock International, 2004). Operating profit showed a 35.3% increase with $51.0 million for 2004 versus $37.7 million for the same period in 2003 (Hard Rock International, 2004).

At the Hard Rock, the experience concept is to provide not only a custom meal from the menu, but a dining event that includes a unique visual and sound experience not duplicated anywhere in the world. It is felt that this differentiation strategy has proved a big success due to the fact that the organization is clearly aware who their customer is and what the customers needs and values are.

Source: Hard Rock Café, www.hardrockcafe.com

Focus strategy

- The focus strategy positions a company to compete for customers in particular market segment, based on geography, customer type or market segment.
- Selecting a niche by type of customer might mean serving only the rich, the very adventurous, very young or very romantic customers.
- A focus strategy can be pursued using either a differentiation or a low-cost approach. In essence, a focused company is a specialized differentiator or a cost leader. The following example of the Four Seasons Hotel is about the differentiation focus.

Case: Four Seasons Focuses on Luxury Travellers

Four Seasons is one of the world's leading managers of luxury hotels and resorts. The core goal for Four Seasons Hotel is to be recognized as the undisputed global leader in luxury lodging.

Four Seasons endeavour to offer business and leisure travellers the finest accommodations and experiences beyond compare in each destination in which they operate. Four Seasons has a portfolio of 70 luxury hotel and resort properties (containing approximately 17,300 guest-rooms) several of which include a residential component. These properties are operated primarily under the Four Seasons brand name in principal cities and resort destinations in 31 countries in North America, the Caribbean, Europe, Asia, Australia, the Middle East and South America.

Four Seasons developed a substantial base of knowledge and understanding regarding its customers, who they are, how they live, work and spend their money. More importantly, the company knew how to translate the refinements and desired atmosphere of its customer base to its hotels and resorts. Moreover, it successfully conveyed this translation and concept in its marketing messages from the very beginning. For example, the first advertisement campaign created awareness among its target market and helped define its position in the hotel sector. Further, in order to identify potential customers, Four Seasons identified those companies among the top 1,000 that generated significant amounts of business travel to existing or scheduled locations. The list developed was highly select and the emphasis was on persuading prospects from that list that Four Seasons offered a distinctive product they should try.

Pricing strategies and status management: The pricing strategy, often is one of the highest priced in the market, reinforces its image and positioning. Even in down periods it will offer attractive packages instead of reduced price promotions, which hurt the image. Four Seasons consists of not associating its name with any lower-rated or lower-priced brands to protect the image and preserve the status.

Four Seasons Hotel is the innovator in the industry. Many common practice today has been Four Seasons; innovations. The innovations include: European-style concierge service, private concierge service, home-cooking programme, exceptional restaurants, vegetarian dining, private reserve, executive suites, complimentary newspapers, 24-hour business services, 24-hour room service, digital display for the hearing impaired, complimentary early arrival, bathrooms with phones and high-speed Internet access.

"Create guest experiences beyond compare so that their first choice for luxury travellers" is one of the company's key objective, and clearly you can see it from Four Season's business strategy.

Source: Four Seasons Hotel, 2006 www.fourseasons.com

The risks for a focuser

- high costs,
- the focuser's niche may disappear,
- large differentiators may compete for the focuser's niche if it becomes very profitable.

Strategic failure: stuck in the middle

Michael Porter argues that a business unit which is unable to achieve one of the competitive strategies is likely to be "stuck in the middle" of the competitive marketplace with no competitive advantage. That unit, according to Porter, is doomed to below-average performance. Cost leader or differentiator could be stuck in the middle when business environment changes.

Sustainable competitive advantage in hypercompetitive industry

According to D'Aveni (1994), companies in a hypercompetitive industry learn to quickly imitate the successful strategies of market leaders – making it increasingly difficult to sustain any competitive advantage. As the entry barrier to hospitality industry is fairly low, in certain circumstances, the industry will become hypercompetitive industry. Competitive advantage in a hypercompetitive industry comes from an up-to-date knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage. Companies must thus be willing to upgrade their own successful products or services in order to sustain their competitive advantage. Since hypercompetitive industries go through escalating stages of competition, the only real sustainable competitive advantage lies not in a company's products or services available now, but in its ability to learn and to adapt to constantly changing conditions.

Global competition and national competitive advantage

The strategic choice as to where a company should position itself along the globalization–regionalization continuum is contingent upon the nature of hospitality industry, the type of company and its goals and strengths, and the nature of its subsidiaries. In addition, each company's strategic approach should be unique in adapting to its own environment. Many companies may try to "Go Global, Act Local" to trade off the best advantages of each strategy.

As Yoshino and Rangan explained, global competition occurs when a firm takes a global view of competition and sets about maximizing profits worldwide, rather than on a country-by-country basis. If a company encounters the same rival in market after market, it is engaged in global competition. Global competition is beneficial to consumers around the world (e.g. in the US, foreign companies offered better automobile products, performance and prices). Global competition expands the range of products and services, and increases the likelihood that consumers will get what they want. The downside of global competition is the potential to destroy local brands and some of jobs.

Strategic orientations

When multinationals carry out their global strategic planning, most of them have specific predispositions. According to Chakravarthy and Perlmutter (1985), and Rugman and Collinson (2006), there are four predispositions – ethnocentric, polycentric, regiocentric and geocentric:

1. A multinational with an ethnocentric predisposition relies on the values and interests of the parent company in formulating and implementing the strategic plan. Primary emphasis is given to profitability and the company tries to run operations abroad the way they are run at home. This predisposition is used most commonly by companies trying to sell the same service or product abroad that they sell at home.
2. A multinational with a polycentric predisposition tailors its strategic plan to meet the needs of a local culture. If the company is doing business in more than one culture, the overall plan is adapted to reflect these individual local needs. The basic mission of a polycentric multinational is to be accepted by the local culture, and to merge into the country.
3. A multinational with a regiocentric predisposition is interested in both profit and public acceptance (combining the ethnocentric and polycentric approaches), and uses a strategy that allows it to address both local

and regional needs. The company is less focused on a particular country than on a geographic region, such as South America or East Europe.

4 A multinational with a geocentric predisposition views operations on a global basis. The largest international corporations often use this approach. They produce global products with local variations, and staff their offices with the best people they can find, regardless of country of origin. Multinationals, in the true meaning of the word, have a geocentric predisposition. However, it is possible for a multinational to have a polycentric or regiocentric predisposition if the company is moderately small or limits operations to specific cultures or geographic regions.

Global strategy

Companies that compete in the global marketplace face competitive pressures for cost reductions and pressures to be locally responsive. How to keep multinationals' competitive advantages in foreign markets? According to Hill and Jones (2004), these companies have four choices: international strategies; multidomestic strategies; global strategies and transnational strategies.

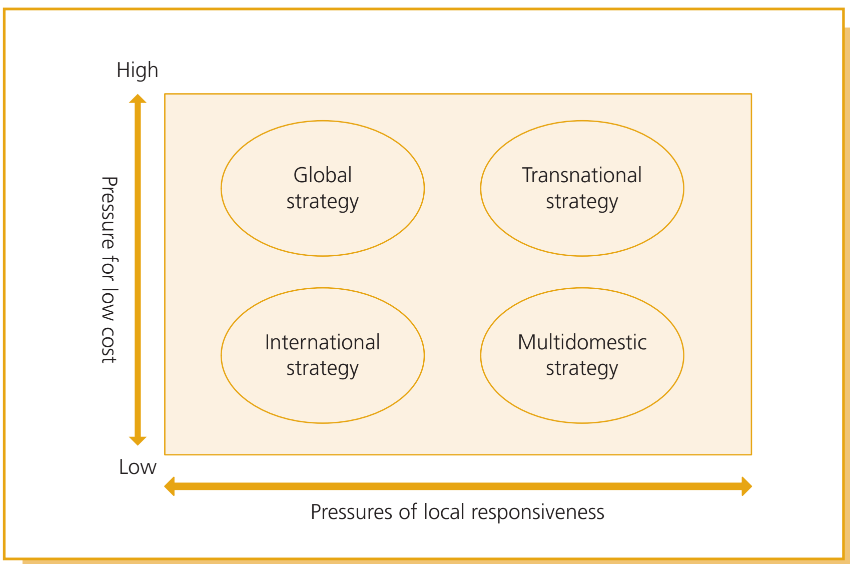

Figure 7.7 Global strategy options
Source: Adapted from Hill and Jones (2004)

International strategy

- Companies pursuing an international strategy transfer the skills and products derived from distinctive competencies to foreign markets, while undertaking some limited local customization.
  Examples: McDonald's, Wal-Mart.

Multidomestic strategy

- Companies pursuing a multidomestic strategy customize their product offering, marketing strategy and business strategy to national conditions.
  Examples: AOL, OK magazine.

Global strategy

- Companies pursuing a global strategy focus on reaping the cost reductions that come from experience curve effects and location economies.
  Examples: Dell computer, Motorola.

Transnational strategy

- Transnational strategy involves a simultaneous focus on reducing costs, transferring skills and products, and local responsiveness.
  Examples: Coca Cola, Sony (try to achieve).

According to Porter (1998) particular attributes in individual countries influences industry development: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. This is often presented as a diamond shape which delimits the environment in which firms compete.

- Factor conditions

Factor conditions refer to a country's endowment with resources and may be divided into five categories – human, physical, knowledge, capital and infrastructure:

1. Human resources: The quantity of workers, their skills, wage levels and the work ethic constitute the human resource factor. Countries with a supply of low-wage workers have an advantage for labour-intensive production. Such countries are at a disadvantage for producing sophisticated products with skilled labour.
2. Physical resources: The availability, quantity, quality, and cost of land, water, minerals, and other natural resources determine a country's physical resources. Size and location fall in this category, since proximity to markets and sources of supply, as well as transportation costs, are strategic considerations.
3. Knowledge resources: The availability of scientific, technical and market-related knowledge endows a nation with knowledge resources. This factor is a function of research facilities and universities. This factor is important for sophisticated products and services and for doing business in sophisticated markets.
4. Capital resources: Countries vary in the availability, amount, cost and types of capital available. The nation's savings rate, interest rates, tax laws and government deficit affect this factor. Firms paying high capital costs are unable to stay in a market faced with competition from a

nation with low capital costs. Firms with the low capital costs keep prices low and force firms paying high costs to accept low returns or leave the industry.

5 Infrastructure resources: Infrastructure includes a nation's banking system, healthcare system, transportation system, communications system and the availability and cost of using them.

Demand conditions

The demand conditions for products and services determine the rate and nature of improvement and innovation. Several characteristics of home demand are important to create competitive advantage.

Composition of home demand determines how firms perceive, interpret and respond to buyer needs. Competitive advantage occurs when home demand sets the quality standard and defines buyer needs. This information is not available to foreign rivals and this advantage is enhanced when home buyers pressure firms to innovate quickly and frequently.

Size and pattern of growth of home demand is important only if home demand is sophisticated and anticipates foreign demand. Large home markets offer economies of scale and learning while dealing with familiar, comfortable markets. America and the United Kingdom are the examples. If home demand reflects or anticipates foreign demand, large-scale facilities and programmes will be an advantage in global competition. Rapid home market growth is another incentive to invest in and adopt new technologies faster, and to build large, efficient facilities.

Case: Starbucks' Global Strategy

'We are building the Starbucks brand and developing the global infrastructure to create a valuable growth vehicle well into the future' (www.starbucks.com).

Companies such as Starbucks Coffee Japan Ltd create new products for their specific market but still provide the standardized products set by the parent company. Products such as a "Jelly Frappuccino" were produced specifically for Japan. In addition some of the countries need different layouts than the standardized designs in USA. Starbucks Coffee Japan have altered counter heights, packaging and merchandise to suit Japanese customers. Starbucks global strategy has enabled reduction in major development and manufacturing costs and other value chain activities, and helps achieve economies of scale as fixed costs are spread over more units of production.

The company has in a sense developed its own language, Mr Schultz comments:

"When we first opened the Starbucks in Japan, the first customer could barely speak English, but without doubt he spoke clearly and said 'Tall caramel Frappuccino' ".

This shows that the products are highly standardized and well-known around the world. Therefore, Starbucks well-designed global strategy has been successful and gained competitive advantage. Starbucks are still certain that their business model works in other business environments around the world.

Source: Griffin and Pustay (2005) and Kotler *et al.* (2003).

ACTIVITY

Visit the Disney website www.disney.com. Explore the international sites related to the company. Think what is the scope of the company? How is Disney positioned internationally? Write a summary that explains how Disney is positioned strategically in its international operations.

Corporate level strategies

The principal concern of corporate strategy is identifying the **business areas** in which a company should participate, the value-creation activities it should perform, and the **best means** for expanding or contracting business, in order to maximize its long-run profitability. We discuss two key issues related to corporate strategy: (1) the firm's overall orientation towards growth (directional strategy) and (2) the industries or markets in which the firm competes through its products and business units (portfolio strategy). Directional strategy is composed of growth, stability and retrenchment. Vertical and horizontal integration as well as concentric and conglomerate diversification are discussed as examples of corporate growth strategies. International entry strategies are also listed as growth strategies. Portfolio analysis is explained as a technique for managing various product lines and business units for their maximum cash flow.

Growth strategies

It is most widely pursued strategies by hospitality companies. Internal mechanism of growth strategy is to grow naturally by the organization itself, while external mechanisms include the following:

- Mergers: Transaction involving two or more companies in which stock is exchanged but only one company survives.
- Acquisition: Purchase of a company that is absorbed as an operating subsidiary of the acquiring company.
- Strategic alliance: Partnership of two or more companies to achieve strategically significant objectives that are mutually beneficial.

Example: Acquisition of First Choice

- In 1998, First Choice acquired two key UK tour operators: The Unijet Travel Group and Hayes & Jarvis. Other acquisitions included Bakers Dolphin and Intatravel.
- In 1999, it acquired premium niche market operators Meon (Meon Villas and Longshot Golf Holidays), Flexigroup (ski holidays and conferences) and Sunsail (leading yacht charter and watersports club operator), and within retail, Ferrychoice.
- In 2000, First Choice announced the acquisition of Holiday Hypermarkets, which now has 36 sites across the United Kingdom.

- In 2001, it acquired the Ten Tour Group's European Tour Operating Businesses and Barceló Travel Division. Following recent acquisitions, First Choice now has a European presence in France, Spain, Portugal, Belgium, Germany, Holland, Austria, Switzerland and Southern Ireland.

Source: First Choice Website www.firstchoice.co.uk/

If companies plan to keep developing their future business in their own products or services in hospitality industry, they can use horizontal or vertical integration. Horizontal growth is the expanding of a company's activities into other geographic regions or by increasing the range of products and services offered to current markets. It often involves the acquisition of another company in the same industry (an example of external growth), but it could also be through the expansion of a company's products in its current markets (e.g. through line extensions) or expansion into another geographic region (an example of internal growth).

The benefits of horizontal integration

- Realize economies of scale.
- Reduce duplication between the two companies.
- Offer a wider range of products for customers.
- Manage industry rivalry by reducing excess capacity in the industry.
- Reduce the number of players in an industry.

Limitation of horizontal integration

- May destroy value rather than create it.
- Protection against the horizontal integration.

Vertical growth, in contrast, involves a company's taking over a function previously performed by a supplier or a distributor. This would typically involve the addition of activities in other industries either forward (downstream) or backward (upstream) on the industry value chain of current products or services. The additions are primary justified in terms of support of the current product lines regardless of their being in other industries (and thus can be argued to be diversification).

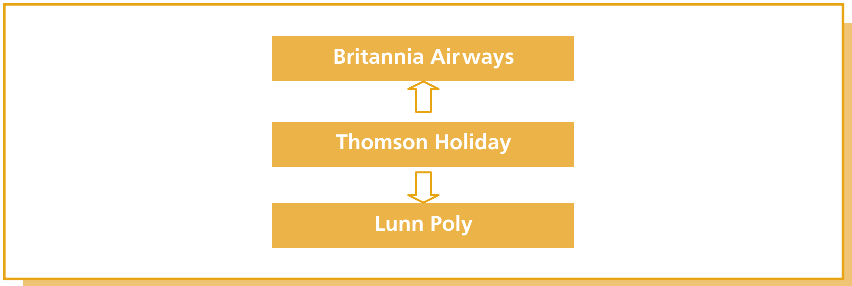

Figure 7.8
An example of vertical integration of Thomson Holiday

Benefits of vertical integration

- Build barriers to new entry, limiting competition.
- Keep the product quality and differentiate the core business.
- Better planning, coordination and scheduling.

Disadvantages of vertical integration

- It may raise costs.
- It may inhibit a company changing its suppliers.
- It may not balance the supplies and demands.
- Bureaucratic costs may be high. (Bureaucratic costs: the costs of running an organization.)

Entering the lodging business was a logical step in Disney's vertical integration, as it enabled the company to earn extra revenues and profits through providing accommodation for its theme park attendees. The first luxury resort complexes were opened in 1971. Since then, Disney has developed individually themed hotels which are segmented into economy, moderate, premium, first class and deluxe price categories. While it owns the hotels at Disneyland and Walt Disney World (apart from two), in Paris, its hotels are operated under management contract, and in Tokyo, they are merely licensed. In all, the company currently owns 15 hotels with a capacity of 19,569 rooms, and manages seven others under contract.

Strategic alliances

Under certain conditions, companies can realize the gains associated with vertical integration without having to bear the associated bureaucratic costs. For example, First Choice announced in 2000 a strategic alliance with Royal Caribbean Cruises Limited. Long-term contracts are useful, but short-term contracts are seen as having very limited value for companies.

ACTIVITY

How does horizontal growth differ from vertical growth as a corporate strategy? Please use hospitality companies as examples.

Diversification

When MNEs grow, they also can use diversification strategies. The businesses grow into related industry or unrelated industry. Financial consideration is one reason and companies also search for synergies between individual businesses. easyGroup is a good case of diversification growth strategy successfully developed by easyJet.

Case: easyGroup: Conglomerate Strategy

Besides budget airline, easyGroup has expanded its brands into the following business areas.

easyHotel

With a market strategy directed towards short-stay consumers who are looking to stay in an international city centre on a budget, the brand has a motto of "the earlier you book, the less you pay" (www.easyHotel.com, 2006).

easyInternetcafe

With the easyInternetcafe's come easy.com manned centres. With a uniformed staff member always available to answer any questions or enquires about any easyGroup companies, staff members are available at hand to also direct consumers to the relevant easyGroup website so that they may purchase the goods or services of their choice.

easyCar

Offering "outstanding value for money [and a] reliable service at a low price" (www.easyCar.com, 2006). The brand implement this strategy by carrying out various techniques that comply with simplifying the product they offer whilst using their purchasing power to benefit the customer. This comes in the form of low-cost support and putting the consumer first.

easyValue

The easyValue website primes itself on online shopping comparisons. In eliminating time, its competitive edge is its ease and convenience in that everything is available in one place. It gives the consumer the top five products within a range of shopping categories that includes appliances, clothing, computers, electronics, home and garden products, and jewellery. Also available is a rating of the product an approximate price range and reviews of the product.

easyMoney

Offers the first online credit cards

easyCinema

Whilst providing knowledge of all UK cinema's, the latest movie news, UK Box Office Rankings, and reviews of latest releases, easyCinema's main aim is to provide a low-cost product to the consumer. In doing so, the brand provide both an online cinema seat booking service along with pay-as-you-go online DVD rental.

easyBus

Focuses on offering a cost effective express minibus service linking London Central and Luton Airport providing high frequency and low-cost services to meet the demand for affordable public transport within this area. This is illustrated through the regularly used principle of "the earlier you book, the less you pay" (www.easyBus.com, 2006).

easy4men

Producing a wide range of toiletries, the easy4men range are aimed at the "no-nonsense man who does not care about expensive advertising featuring professional footballers or other models" (www.easy4men.com, 2006). easy4men also state that their products satisfy the basic grooming of a man "who is happy with who he is".

easyJobs
"A business [that is] easier and cheaper to consumers", easyJobs state that those looking for jobs can browse through a large selection of offers all in one place, whilst simultaneously benefiting employers by reducing recruitment costs.

easyPizza
States that they have "re-engineered the pizza preparation and delivery industry in order to reduce the price of pizzas to consumers" (www.easyPizza.com, 2006). Adding that ultimate quality is also guaranteed, as are consistently high standards.

easyMusic
States that they give the "best value music downloads" (www.easyMusic.com, 2006), adding that they offer a wide selection of current hits and back catalogues that start at 25p a track, the best value in the market according to the easyMusic brand.

easyCruise
easyCruise's main aim is to "offer a unique holiday experience to independently minded travellers in their 20s, 30s and 40s'. Itineraries for travel are flexible over a period of 1 week.

easyMobile
Intends to "bring mobile telephony services to our customers that offer the best mix of quality, service and attractive prices" (www.easymobile.com, 2006).

easyWatch
With a range of 16 watches to choose from the ranges cater for men, women and children and come in various colours (as well as the trademark orange). The brand states that their target market is "today's consumers who travel and enjoy life whilst being smart about the use of the Internet to cut out the expensive margin of the high street watch retailers …" (www.easywatch.com, 2006).

Source: easyGroup, www.easy.com/

Marriott and Howard Johnson are two well-known hotel chains whose origins are in the food and beverage sector. Marriott, a Washington, DC based restaurant chain, whose original brand was called "Hot Shoppes", virtually invented airline catering in the 1950s. The group opened its first hotel near the Washington National Airport in 1957, some 30 years after the company had been founded as a root beer stand franchise. Likewise, Howard Johnson, which was founded as an ice cream stand on the beach in Massachusetts in 1925, opened its first hotel in Savannah Georgia in 1954. Kempinski, the German luxury hotel chain, too, has its origins as a caterer in pre-war Berlin. For the German speakers, the name of the Swiss hotel chain Mövenpick betrays its origin as a restaurant operator in Zurich in the late 1940s. The group only got into the hotel business in the early 1970s when it opened its first two properties. Even today, the name Mövenpick is more widely associated with the group's ice cream business (which has now been sold to Nestlé) and restaurants than with hotels.

Portfolio analysis

Business portfolio analysis is a strategy development tool which utilizes two factors to indicate potential business strategies. The two factors are: (1) relative market share and (2) market growth rate. The appropriate strategy is determined by the organization's position in a four-cell matrix.

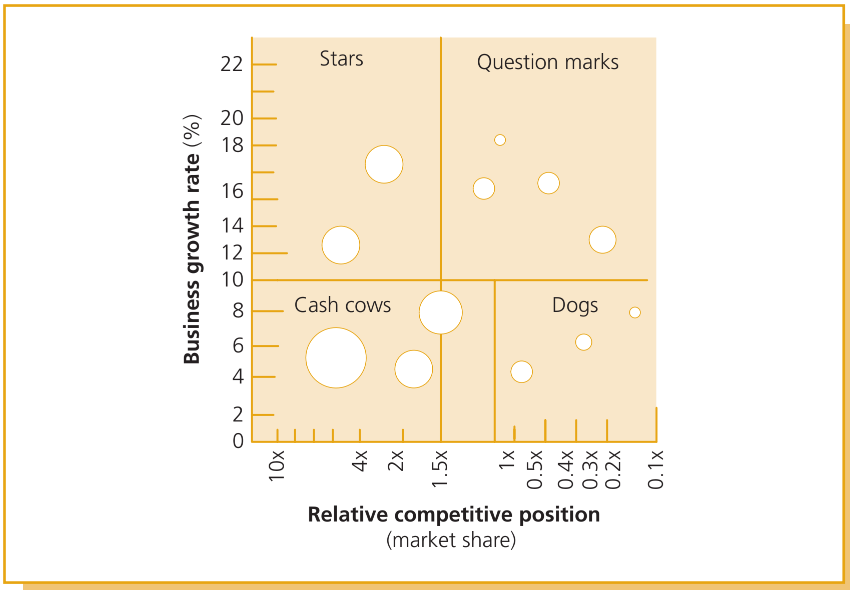

Figure 7.9 The BCG growth-share matrix *Source*: Hedley (1977: 12)

The Boston Consulting Group Growth-Share Matrix includes the following quadrants:

1 Stars are strategic business units (SBUs) having a high share of the high-growth market and typically need large amounts of cash to support their rapid and significant growth. These will someday become the "cash cows."
2 "Cash cows" are units that have a slow market growth rate, but the organization controls a large portion of the market. These units generate large positive cash flows which may be used in other units.
3 "Question marks" are high-growth industries in which the firm is a minor competitor. If the firm can become a major competitor, these units will become "stars."

4 "Dogs" are units which are characterized by slow or no market growth, and the firm is a small competitor relative to the market leader. These units are a drain on organizational resources.

The concepts or assumptions underlie the BCG growth-share matrix

The product life cycle and the experience curve underlie the Boston Consulting Group (BCG) growth-share matrix. The development of question marks into stars and then into cash cows suggests the introduction, growth and maturity stages of the product life cycle. Dogs appear to be those products or units on the decline stage of the product life cycle. The experience curve discussed in unit 4 is certainly key to understanding the implications of the BCG matrix.

BCG matrix is a useful tool, while different products have different product life cycles. What applies to one product probably will not apply to another. Examples can be shown of companies which have supported their products to extend their lives by "putting a tail" on the maturity part of the curve. The experience curve of the industry as a whole or of one company might not hold true for a particular company. The experience curve does not "just happen"; a company has to invest a lot of time and money into getting that experience. You can find many examples of this kind in hospitality industry.

Portfolio analysis has its advantages:

- Top management evaluates each of firm's businesses individually.
- Use of externally oriented data to supplement management judgement.
- Raises issue of cash flow availability.
- Facilitates communication.

The disadvantages are:

- Difficult to define product/market segments.
- Standard strategies can miss opportunities.
- Illusion of scientific rigour.
- Value-laden terms.

The basic theme of portfolio analysis is its emphasis on cash flow. Portfolio analysis puts corporate headquarters into the role of an internal banker. In portfolio analysis, top management views its product lines and business units as a series of investments from which it expects to get a profitable return. The product lines/business units form a portfolio of investments which top management must constantly juggle to ensure the best return on the corporation's invested money.

Portfolio analysis is a popular approach to aid the integration and evaluation of environmental data. It is just as useful for a single business corporation with a number of separate products as it is for a large corporation with autonomous operating divisions. By carefully examining both market or industry factors and business strengths or market share, it is possible to pinpoint factors of strategic importance to corporate or divisional success. Portfolio analysis thus serves as a convenient technique for comparing external opportunities and threats with internal strengths and weaknesses.

Conclusion

This chapter provides an overview of the strategic planning process in the international hospitality industry and should have allowed you to gain an appreciation of the changing strategic directions in which international hospitality enterprises operate. In this chapter, we have explained:

- The definition of strategic management and the general processes of strategic planning.
- The impact of key strategic issues on the management of organizations in the international hospitality industry.
- The strategic role of the analysis of international hospitality enterprises' external and internal environments.
- Functional level strategies and outsourcing.
- Generic business strategies.
- Global strategic orientations and strategic options.
- Corporate level strategy including directional and portfolio strategy.

We have considered how strategic options are formulated and how the range of managerial issues concerned with implementing strategic options are considered. We also introduced some appropriate concepts and frameworks for analysing the case study material drawn from the actual experiences in the industry. This has served as a review of the previous chapters and consolidated the accounts we have given from Chapter 3 onwards.

Review questions

1. How can an international hospitality organization add value to its operations?
2. What are the benefits of using the SWOT matrix?
3. How does cultural understanding impact on the international strategy process?
4. Do Porter's five forces operate the same way in hospitality as they were seen to in other, more traditional industries?
5. Review the factors which make the different growth strategies appropriate at different times for different companies.