

Competing Successfully with Other Hotels: The Role of Strategy

Cathy A. Enz

Strategy may be one of the most misunderstood business concepts, but it's essential for people at all levels of the organization to understand what strategy is and how it affects their jobs. Regardless of your position in your organization, your company's strategy is a critical element of your job. Even if your job mostly involves tactical decisions, such as daily rate setting, you are still enmeshed in the company's strategy. Not only that, but as I explain the nature of hospitality strategy in this chapter, you will see how your everyday actions contribute to the business strategy. In fact, if you think strategically, you will experience a deeper understanding of your operation and your firm's external environment, so that you'll have an integrated perspective for the operation.

Whether you are currently a manager in a hospitality firm or hoping to redirect your efforts to become one, understanding the strategic management process is important to achieving performance. Hospitality firms' performance is linked to the thoroughness, sophistication, participation, and formality of strategic planning processes.¹ In fact, a study of leadership competencies found that strategic positioning was viewed by senior industry leaders as more important for future leaders than was industry knowledge.²

This chapter explores the major strategic responsibilities that you must assume when serving as a business unit manager. After reading this chapter, you will be able to evaluate and develop an overall direction for your organization, deploy strategic tools to conduct an ongoing analysis of the changing business situation, select a competitive strategy, and understand the resource capabilities needed to build a competitive advantage. Let's start by defining strategy so that you can see the difference between strategies and operational plans.

What is Strategy?

Strategy focuses on the long-term direction of your company. The foundation of a strategy is the development of a strategic orientation, which is akin to developing a perspective or a way of coming to envision future business decisions and discerning present actions. Your strategy provides guidance for

the preparation of short-term plans and integrates functional plans into an overall scheme for the organization. In contrast to the long-term focus of strategy, tactical thinking is short term and should be based on the business strategy.

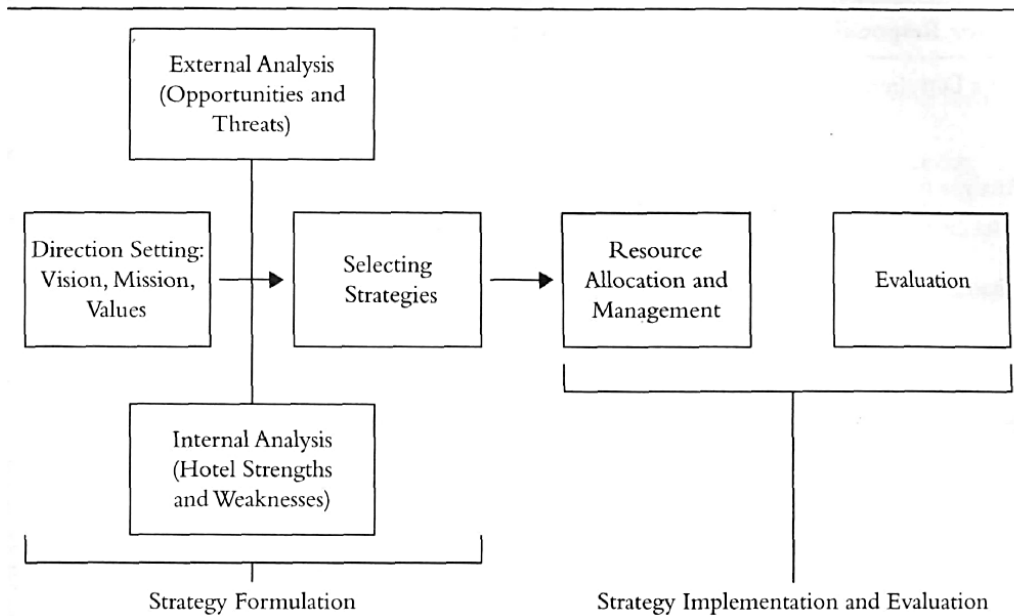
People often confuse short-term budgets and functional area plans with strategies, and the term *strategy* is used loosely to mean almost any document or action involving the overall business. Strategy is not a response to short-term fluctuations in operations or the environment—that involves tactical thinking. Similarly, strategy is not a set of numbers that merely project out three to five years into the future, nor is it a functional plan—even a long-run plan—such as a five-year marketing plan or a seven-year capital budget. Those, too, should flow from your overall strategy and not the other way around.

Building a Strategy

Engaging in the strategy-development process involves proactive analysis and learning about your competitive environment and your internal operation. You establish a strategic direction, create strategies that are intended to move the firm in that direction, and implement those strategies, all in an effort to satisfy key stakeholders. The process begins with an analysis of your firm's organizational strengths, weaknesses, opportunities, and threats (known as *SWOT analysis*). *SWOT analysis* is intended to help you select strategies that (1) take advantage of organizational strengths and environmental opportunities or (2) neutralize or overcome organizational weaknesses and environmental threats.³ Strengths are resources and capabilities that can lead to a competitive advantage, like a great location or extraordinary service delivery. Weaknesses are resources and capabilities that your firm does not possess, and their absence puts the company at a disadvantage. Opportunities are positive conditions in the broad and operating environments, such as favorable tax incentives. Threats are conditions in the broad and operating environments that may stand in the way of competitiveness such as a shift in consumer preferences.

After strategies are formulated, plans for implementing them are established and carried out, as shown in Figure 15.1.⁴ To become a successful manager in the hospitality industry, you need strategy to help chart a course, coordinate others, and conserve energy. Without a long-term strategic direction, your operation will drift and your management team will make inconsistent decisions, thereby wasting both energy and resources.

Figure 15.1
Strategic Management



Source: C. Enz, *Hospitality Strategic Management: Concepts and Cases*, 2nd ed. (Hoboken, NJ: Wiley, 2010).

As a hotel property manager, your major strategic management responsibilities include establishing the overall direction of the business unit, ongoing analysis of the changing business situation, selecting a competitive strategy and the specific tactics needed to carry it out (strategic posture), and managing resources to produce a sustainable competitive advantage (see Table 15.1).

Set a Direction

Your company's strategy begins with a clear understanding of the business, including who is being satisfied, what is being satisfied, and how customer needs are satisfied. Strategic direction, including values and principles, forms the foundation on which plans of action are developed. Hotel Indigo, a brand of Intercontinental Hotel Group (IHG), for example, defines itself as a lifestyle boutique hotel designed to appeal to the middle-market, style-savvy guest who desires affordable luxury, genuine service, and an alternative to traditional "beige" hotels without sacrificing any of the business amenities guests expect.⁵ In defining who they are, Indigo's managers pinpoint the middle-market, style-savvy guest who is trading up to higher levels of quality and taste but still seeks value. What is being satisfied is the traveler's desire to experience affordable luxury and style instead of the "beige" hotel. Finally, the

how is accomplished through a retail service model in which changes are made throughout the year to keep the hotel fresh, similar to the way retailers change their window displays.

Table 15.1
Management's Strategic Responsibilities

Major Responsibilities	Key Activities
Set a Direction	<ul style="list-style-type: none"> • Create and share the mission, vision, principles, and long-term goals of the hotel • Create and communicate shorter-term goals and objectives
Analyze the Business Situation	<ul style="list-style-type: none"> • Perform a SWOT analysis • Examine your competitors and the broad environment • Assess the hotel's internal resources
Choose a Competitive Strategy	<ul style="list-style-type: none"> • Select a generic approach to competition—low cost, differentiation, focus, or best value • Develop specific strategies to carry out the business strategy
Deploy Key Resources	<ul style="list-style-type: none"> • Acquire and deploy the resources and capabilities to assure competitive advantage • Develop functional strategies (e.g., HR and marketing) • Use performance metrics to ensure the strategies produce results

Source: C. Enz, Hospitality Strategic Management: Concepts and Cases, 2nd ed. (Hoboken, NJ: Wiley, 2010).

One of the most common ways you can communicate your hotel's strategic direction is to write a mission statement, which is a brief statement of the hotel's purpose that defines the scope of the operation. Mission statements often include information on markets served, customers, products, services, employees, location, and strategic features. To give you an example of a thorough mission statement, Adare Manor Hotel & Golf Resort, in Limerick, Ireland, communicates its ideals and direction in the mission statement shown in Table 15.2. This luxury castle hotel rests amid 840 acres of formal gardens and features a Robert Trent Jones—designed golf course and several fine restaurants. Adare has devised a mission statement that communicates its ideals and a sense of direction to both internal stakeholders (such as employees), and external stakeholders (notably, customers).⁶

As you see, a mission statement is more than just what your hotel does. Instead, to begin setting a clear direction, you should think in terms of the resources the hotel owns and the knowledge people hold. The following are guidelines for preparing mission statements:

- Use terms that are understandable to employees.
- Word your mission to inspire the human spirit. A person should read the statement and feel good about working for the hotel.

- Catchy (but not cliché) slogans can help people remember the mission.
- Keep the mission statement as short as possible.
- Widely distribute the mission.
- Communicate the mission to employees regularly.

Table 15.2
The Mission Statement of Adare Manor Hotel & Golf Resort

Adare Manor Hotel & Golf Resort Mission Statement
We are built on tradition . . .
We are committed to providing our guests with standards of excellence that surpass their expectations.
We take seriously our responsibility to map out the future development and continuous improvement of our product.
We encourage our employees to learn and teach, creating an environment that is pleasant, safe, and happy.
We will fulfill our commitment to the community and environment at all levels to ensure harmony.
We welcome feedback in all forms. Guest comments provide us with an invaluable tool assisting us in our strides to progression and the enhancement of the guest experience.
We cherish our reputation as one of the finest five-star establishments in Europe providing a welcome and service to rival all competition.
As a family-run hotel, our hospitality is not the product of a corporate mission statement but of a well-built tradition that we are proud to call our home.

Source: Adare Manor Hotel & Golf Resort Web site.

While often confused with a mission statement, a vision is an ideal and unique description of the future for your hotel. The forward-looking statements of a vision convey a sense of what might be. A well-understood vision can help your managers and employees see that their actions have meaning. To enhance your ability to communicate a vision you should ask, "How do I passionately convey our dramatic difference to our customers?" Be sure that the housekeepers, wait staff, desk clerks, reservationists, and others buy into the vision.

Analyze the Business Situation

As a strategic thinker, you need to become a trend watcher so that you can continually analyze your business situation and ensure that your strategy is still effective. One element of analyzing the situation is to look at the most important forces in the broad external environment and how your company and competitors will respond to these forces. The external environment includes groups, individuals, and forces that affect the hotel from outside the organization. Key external influences can be grouped under the acronym PEST, as follows:

- Political—governmental laws, regulations, and policies
- Economic—overall economic activity, including inflation, trade deficits, exchange rates, and interest rates
- Sociocultural—population size and content, as well as consumers' attitudes
- Technological—equipment innovations, and new products or processes

As with SWOT analysis, opportunities and threats are conditions in the broad environment that help or hinder a firm's efforts to achieve competitiveness.⁷ Key opportunities and threats may come from unlikely sources, and often can be viewed as two sides of the same coin, meaning that an opportunity that competitors exploit can become a threat. Using the PEST rubric, you can analyze trends in the broad environment. Table 15.3 depicts a PEST analysis. On the left, you can describe the nature of each trend. The columns in the middle can be used to identify each trend as an opportunity, a threat, or as neutral to your hotel. The last column should list possible actions you could take to respond to the opportunities and threats.

The internal organization includes all of the stakeholders, resources, knowledge, and processes that exist within the boundaries of the hotel. You also need to examine your hotel's resources and capabilities and match these strengths to emerging opportunities in the broad environment. This analysis is the basis of strategy formulation.

Your hotel enjoys a competitive advantage when it has a long-lasting business advantage compared to rival firms that offers it a significant edge over the competition. Usually, this means that the hotel can do something competitors can't do or has something competitors lack. While it is extremely difficult to sustain a competitive advantage, hotels work to create advantages through the development of resources and capabilities. For example, Starwood has identified several capabilities that they believe lead to a competitive advantage, as stated in Table 15.4.⁸

You can begin your internal analysis by listing your hotel's resources and capabilities. Include on your list both tangible resources (such as the physical property or financial assets) and intangible resources (such as brand or organizational culture, and human, innovation, and reputation resources). Focus on the things your hotel can do that its competitors can't or something your organization has that its competitors lack. What you are developing is a list of resources that together create a competitive advantage; by itself, a single resource is not sufficient for this purpose.

Taken together, these resources and capabilities are the source of your hotel's core competencies, which form the basis of your competitive advantage. Here are two examples of how that works. The core competencies that Ryanair assembled to accomplish its business strategy of being a

low-cost carrier included acquiring a fleet of easy-to-maintain aircraft, flying into regional airports, controlling customer service costs, and selling primarily through an online distribution channel.

Table 15.3
Evaluating the Environment—PEST Analysis

Trend	Opportunity	Threat	Neutral	Your Response, If Any
Political Influences				
• New laws				
• New regulations				
• Current government policies				
• Government stability				
• International pacts/treaties				
Economic Influences				
• Economic growth				
• Unemployment				
• Interest rates				
• Inflation				
• Foreign-exchange rates				
Sociocultural Influences				
• Attitude changes				
• Demographic shifts				
• New fads in food/culture				
• Public opinion about travel/entertainment				
Technological Influences				
• New products				
• New processes				
• Scientific discoveries				

Source: C. Enz, Hospitality Strategic Management: Concepts and Cases, 2nd ed. (Hoboken, NJ: Wiley, 2010).

As an example from the hostels segment of the industry, Chic & Basic, a Barcelona-based hotel company, created a competitive advantage for its business by offering a differentiated product.⁹ Breaking with tradition, the company developed a broad definition of the "hostel customer" and incorporated a modern and hip design along with special amenities. The bundle of complementary resources included carefully chosen low-cost locations, a distinctive physical space, efficient staffing, and amenities not commonly found in hostels. Figure 15.2 depicts the way Chic & Basic built its differentiation strategy (i.e., a designer look at a low price) on four core competencies that are, in turn, composed of a bundle of distinctive resources.

Table 15.4
Starwood's Key Capabilities

Six capabilities provide a foundation for Starwood's strategy:

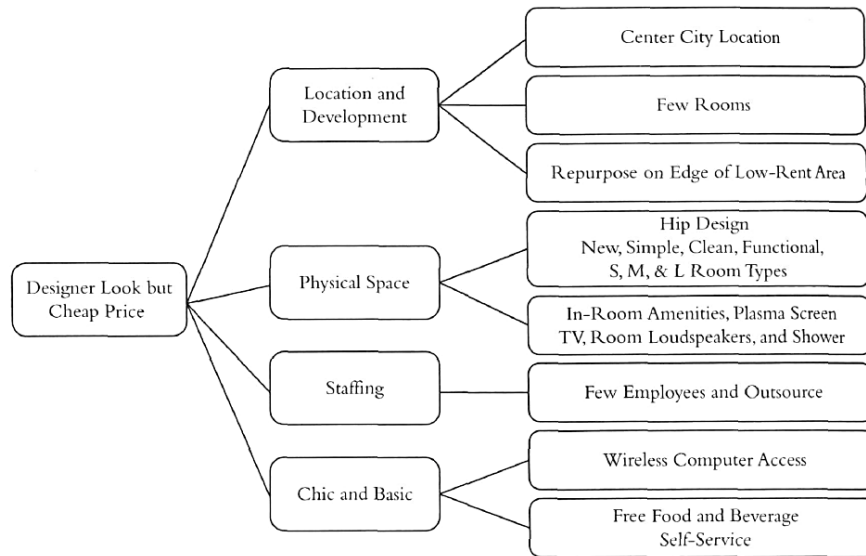
1. *Brand strength.* Our superior global distribution, coupled with strong brands and brand recognition.
2. *Frequent guest program.* Our loyalty program, Starwood Preferred Guest® (SPG).
3. *Significant presence in top markets.* Our hotel and resort assets are primarily located in major cities in which the supply of sites suitable for hotel development has been limited and in which development of such sites is relatively expensive.
4. *Premier and distinctive properties.* We control a distinguished and diversified group of hotel properties throughout the world.
5. *Scale.* As one of the largest hotel and leisure companies focusing on the luxury and upscale full-service lodging market, we have the scale to support our core marketing and reservation functions. We also believe that our scale will contribute to lower our cost of operations through purchasing economies in areas such as insurance, energy, telecommunications, technology, employee benefits, food and beverage, furniture, fixtures and equipment, and operating supplies.
6. *Diversification of cash flow and assets.* The diversity of our brands, market segments served, revenue sources, and geographic locations provide a broad base from which to enhance revenue and profits and to strengthen our global brands. This diversity limits our exposure to any particular lodging or vacation ownership asset, brand, or geographic region.

Source: C. Enz, *Hospitality Strategic Management: Concepts and Cases*, 2nd ed. (Hoboken, NJ: Wiley, 2010).

Choose a Competitive Strategy

Your choice of strategy is based on the analysis of your competitive situation, strengths, and weaknesses, and opportunities as they relate to those of competitors. Although no two business strategies are exactly alike, we can classify them into just a few generic types to identify common strategic characteristics. The classic strategy taxonomy was developed by Michael Porter in 1980.¹⁰ Porter advanced the idea that a sustainable competitive advantage is related to the amount of value a firm creates for its customers. According to Porter, firms create superior value for customers either by offering them a preferred product or service at a somewhat higher price (where the additional value received exceeds the additional cost of obtaining it) or by offering them a basic product or service that is produced at the lowest possible cost. He suggested the following strategy types: differentiation, low-cost leadership, and focus, which he divided into differentiation focus and low-cost focus. Finally, he proposed that a company that is following none of those generic strategies is "stuck in the middle."¹¹ According to Porter, these uncommitted firms should have lower performance than committed firms should because they lack a consistent basis for creating superior value.

Figure 15.2
Chic & Basic's Bundle of Resources and Capabilities



Source: C. Enz, Hospitality Strategic Management: Concepts and Cases, 2nd ed. (Hoboken, NJ: Wiley, 2010).

The first option, referred to as differentiation, requires the company to distinguish its products or services on the basis of an attribute such as technology embodied in design, location, or the skill and experience of employees. The second option, called low-cost leadership, is based on efficient cost production. For example, a restaurant that is trying to achieve a competitive advantage by producing at the lowest cost will seek some combination of efficiency, low levels of overhead, and high volume. Porter's third strategic option, called focus, involves targeting a narrow segment of the market through either low-cost leadership or differentiation. JetBlue Airlines pursues a strategy of low-cost leadership for a broad market, for example, while Four Seasons Hotels and Resorts relies on a strategy of differentiation. An example of a differentiation focus strategy would be the gay and lesbian hotels developed by Milagro Properties. Some hotel firms have succeeded at melding cost leadership with differentiation. I'll discuss this strategic hybrid, called best value, in a moment, after we cover Porter's classic strategies.

Although each brand should be associated with a particular strategy, a hotel company that operates several brands can pursue several business-level strategies simultaneously through its different brands or business units. Intercontinental Hotel Group is one company that owns many brands that pursue a wide variety of strategies. The company's prestige brand, Intercontinental Hotels and Resorts, uses a differentiation strategy by offering outstanding facilities and superior service within unique local contexts and cultures. At a different price point, the Holiday Inn brand offers full-service comfort and

value to a broad market, while Candlewood Suites offers a focused strategy in a hotel experience created for stays of a week or longer. As I described earlier, Hotel Indigo is another focused brand, while Crowne Plaza puts its attention on the convention and meetings business. The strategy of Holiday Inn Express is probably best described as low-cost leadership because of its broad appeal to the mass market and emphasis on limited service, cleanliness, timelessness, and cost efficiency. I should emphasize that low-cost leadership does not mean low quality. So, in one company, we have brands that illustrate Porter's archetypal strategies. Let's look at each of those strategies.

Creating a Differentiation Strategy

A differentiation strategy focuses on offering products or services that customers perceive to be different and better than the offerings of the competition. This strategy is popular in the hospitality industry, primarily because hospitality services are complex and satisfy self-identity and social affiliation needs, thus creating tremendous opportunities for differentiation. However, while the potential for differentiation is great in service businesses, the ease of imitation can make it likely that several brands will attempt similar strategies, a situation known as competitive convergence. Despite each chain's effort to differentiate, many brands become enough alike that consumers cannot truly distinguish them from each other.

Differentiation is a strategic choice, not a feature of the market, and as such needs to be based on creating a bundle of resource capabilities. Service experiences that complement consumers' lifestyles, and brands that communicate their aspirations may allow the firm that creates these products and services to set itself apart sufficiently that it can charge a premium price. The higher price is necessary to cover the extra costs incurred in offering the unique experience.

To understand and profit from a differentiation strategy it is important to understand customer lifestyles and aspirations, so that the hotel's distinctive offerings are valued by customers.

Differentiation can be achieved in an almost unlimited number of ways, including:

- Product features
- Complementary services
- Technology embodied in design
- Location
- Service innovations
- Superior service
- Creative advertising

- Better supplier relationships leading to better services

Certain resources are more effective as a source of sustainable differentiation than others. Reputations and brands are difficult to imitate, for example, whereas particular service features may be easy to imitate. In general, intangible resources such as a high-performance organizational culture are hard to imitate and are a stronger basis of competitive advantage, whereas a tangible resource such as the fixtures and furnishings in a hotel are easy to imitate. So creating value extends beyond just the product, as Four Seasons has illustrated with its fostering of a service culture.¹² Among other distinctive resources, Four Seasons has built its strategy of providing genuine and innovative service on a careful employee selection process and the development of flexible standards to deliver personal service to guests.

The key to success when deploying a differentiation strategy is that customers must be willing to pay more for the service than it cost your hotel to create it. Therefore, a critical aspect of the differentiation strategy is to keep costs low in the areas that are not directly related to the sources of differentiation. Chic & Basic, for example, differentiated on design while keeping staffing costs low. Many large hotel companies avoid investing in real estate so that they can focus their efforts on brand and franchise differentiation. This "asset-light" strategy is common throughout the hotel industry.

Creating a Low-Cost Strategy

Firms pursuing cost leadership set out to become the lowest-cost providers of a good or service. For instance, both Etap and Motel 6 are pursuing low-cost strategies and do not offer significantly more than the basics: simply furnished rooms with a bed, shower, and toilet. Ryanair and JetBlue provide no-frills flights at the lowest prices possible. Burger King and Taco Bell work on value pricing to deliver food quickly to those who want convenience and low price. Management in these companies is good at minimizing costs so that they can keep prices low and attract a wide segment of the market interested in an inexpensive product or service offering.

Theoretically, hotels that are able to achieve the lowest cost do not have to charge the lowest price. In other words, a cost leader does not have to be a price leader. If a hotel is able to achieve the lowest cost but charge a price that is the same as competitors charge, then it will enjoy higher profits. As a practical matter, however, there are few barriers to switching. If the low-cost leader's price is the same as or higher than the price others charge, customers seeking low prices will be just as likely to switch to a competitor. Consequently, many low-cost leaders try to underprice competitors slightly in

order to give customers an incentive to buy from them and to keep their volumes high enough to support their low-cost strategy.

Let's examine the tactics typically used by companies pursuing a low-cost strategy. As you will see, these tactics are applicable for any strategy, but are particularly designed to drive down costs. They are as follows:¹³

- High capacity utilization (occupancy management)
- Economies of scale
- Benefits from learning-curve effects
- Technological advances
- Outsourcing

High Capacity Utilization Effective capacity utilization is particularly important in the hotel industry because fixed costs represent a large percentage of total costs. This is the reason that many hotels focus so tightly on maintaining high occupancy levels, using better demand forecasting in the revenue management process, expanding capacity conservatively, or pricing aggressively. Hotels that maintain high occupancy will be better able to maintain a lower cost structure than a competitor of equal size and capability but with lower occupancy.

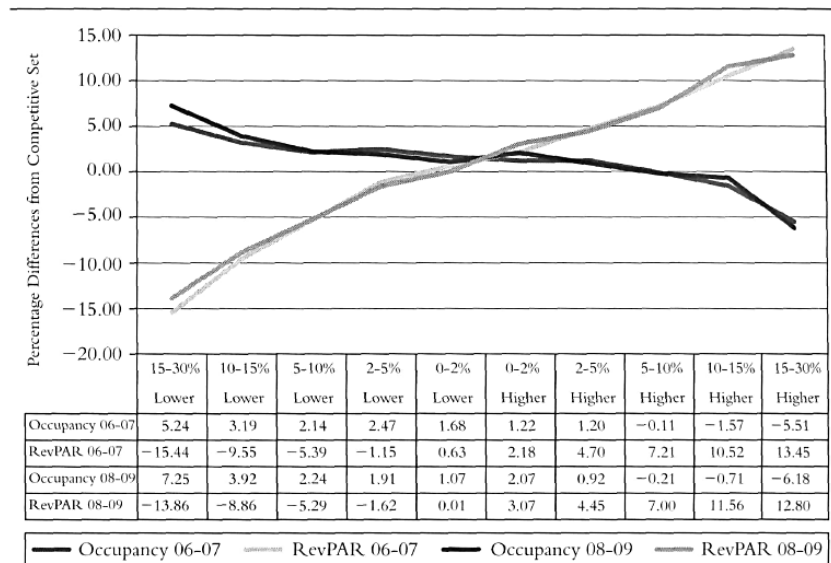
The potential problem with the industry's focus on occupancy is that hotels often sacrifice rate to maintain occupancy. As you have read in other chapters, research has demonstrated that massive price cutting in the face of falling demand does not stimulate sufficient sales to make up for the loss in average rate. I've been involved with several studies that have revealed that customer demand does not appear to be easily stimulated by price reductions.¹⁴ Take a study that I did with Linda Canina, of Cornell, and Mark Lomanno, of STR, that compared one hotel's rate and occupancy results with those of its competitors. Figure 15.3 shows how customer demand (occupancy levels) remains constant (flat) for hotels in Europe even when the hotels price below their competitors. The figure also shows that revenue per available room (RevPAR) rises when hotels price higher than their competitors do and falls when hotels price below their direct competition.¹⁵ We also found this to be true in U.S. hotels, again during both good times and bad. Careful revenue management can help you maximize revenue by knowing when to raise or lower prices according to occupancy levels. In short, while hotel demand (occupancy levels) cannot be stimulated easily, you can engage in dynamic pricing to effectively manage inventory.¹⁶

Economies of Scale Many of the largest hotel companies view their scale of operations (as distinct from capacity utilization) as a key competitive strength. This is the basis for the industry

consolidation that has been led by several firms. Starwood Hotels and Resorts Worldwide, for example, states in its corporate overview that its scale contributes to lower costs of operations through purchasing economies.¹⁷ The central principle of economies of scale is that costs per unit are less when a hotel expands its scale or size of operation, whether at the chain level or the property level. At the property level, the cost of constructing a 200-room hotel will probably not be twice the cost of building a 100-room hotel, so the initial fixed cost per unit of capacity will be lower, and it will not cost twice as much to operate.

Large hotel brands take advantage of economies of scale through frequent traveler programs, reservations systems, and global sales and marketing programs. The large brand can spread its marketing costs over a greater range of properties. Additionally, owners and franchisees of large hotel companies can enjoy advantages from economies of scale. Owners and developers who select a well-regarded brand may find that they can obtain lower interest charges and have access to a greater range of financial instruments because of the size of the brand. Owners will also benefit from managerial specialization of the brand company in hotel development and renovation projects. Support in the areas of architectural and interior design, project and construction management, and procurement related services can reduce the long-run average cost of running an individual hotel.

Figure 15.3
European Hotel Pricing Dynamics in Good Times (2006–2007)
and Bad Times (2008–2009)



ADR Percentage Differences from Competitive Set

Source: C. Enz, L. Canina, and M. Lomanno, "Strategic Pricing in European Hotels, 2006–2009," *Center for Hospitality Research Report 10*, no. 5 (2010).

Learning-Curve Effects Creating systems that are as simple as possible allows low-cost providers to benefit from the learning-curve effect. A simple system does not require as much repetition in the learning process. However, hotels with complex systems can overcome a steep learning curve by offering strong training programs. In either case, you help employees along the learning curve by creating an environment that is favorable to both learning and change and then rewarding employees for their productivity improvements.

Technological Advances Investments in cost-saving technologies are often viewed as a trade-off between increasing fixed costs for a reduction in variable costs. If technological improvements result in lower total-unit costs, then hotels have achieved a cost advantage from their investments, referred to as *economies of technology*.¹⁸ The reservation systems maintained by the major lodging companies represent investments in technology that reduce overall costs and provide information control. For example Marriott's reservation network and demand management tool (MARSHA) was integrated with the company's Internet technology platform and other inventory applications and marketing programs to provide the necessary technology infrastructure to provide a competitive advantage.

Outsourcing—Make versus Buy Purchasing value-creating activities through outsourcing can increase a firm's flexibility "while reducing risk and costs. However, it does require effective coordination, and you have to select the "right" activities to outsource. Increasingly, hotel companies are realizing that sometimes another company can more efficiently handle a service than they can. When thinking about outsourcing, you should keep in mind that hotels have begun to subcontract a wide variety of activities, including accounting, reservations, information systems, and even hotel management. Individual hotels have also effectively outsourced food and beverage, janitorial, airport shuttle, valet, human resource, and even housekeeping services. The key to success is whether the outsourced service delivers on both the cost savings you hoped for and the level of performance you require.

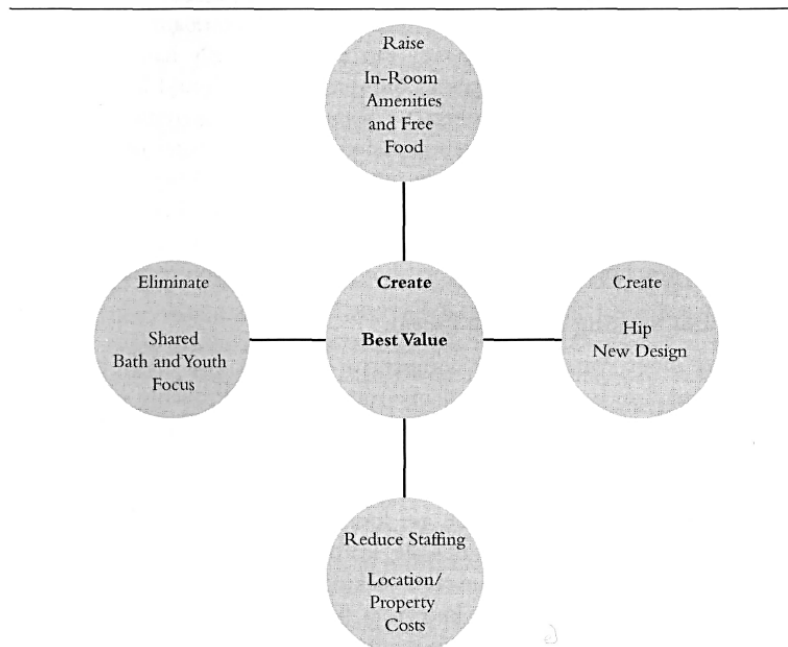
Best Value: Seeking the Blue Ocean

In reading about Porter's classic competitive strategies, you might be thinking that your firm is drawing elements from each one. Probably so, and that approach of combining strategic elements from both differentiation and low cost is known as a best value strategy. Best value is about making sure that the things that provide the most perceived value to a customer are done very well, while at the same time you are looking for -ways to keep costs low through technology, economies of scale, learning, or reducing waste.

The best value strategy also involves seeking the least crowded competitive position, an approach popularly known as the *blue ocean strategy*. It's hard to believe that there are open niches in the hotel industry, but innovative hoteliers have found them, including Marriott with Courtyard and Starwood with W. The rest of that metaphor is to avoid a red ocean, or a crowded competitive position. While a red ocean is crowded and competition turns the ocean bloody red, a blue ocean is undiscovered, vast, and deep.¹⁹ So think of the blue ocean strategy to seize growth opportunities, while you apply a best value strategy in which you create a new value proposition for the customer.

Chic & Basic is an example of a blue ocean or best-value strategy. It borrowed from the traditional hotel concept and offered a low-cost hostel concept in which design elements were created that had never been offered in this segment, along with such amenities as personal showers and private rooms—almost unheard of in the hostel segment. Figure 15.4 provides a summary of the four factors identified in a blue ocean strategy to increase value as they apply to Chic & Basic. This concept demonstrates the principle of creating high value by enhancing some items and controlling costs by reducing or eliminating other elements. To simultaneously compete on price, quality, service, and innovation, you must strip out costs permanently, eliminate what doesn't add value, and focus on what does.

Figure 15.4
Eliminate-Reduce-Raise-Create Blue Ocean Framework
for Chic & Basic



Source: C. Enz, *Hospitality Strategic Management: Concepts and Cases*, 2nd ed. (Hoboken, NJ: Wiley, 2010).

Deploying Key Resources

One of your most important roles is to acquire, develop, manage, and discard resources. Your business strategy will guide you in making those determinations. Your goal is to make sure your hotel has "superior resources" that confer competitive advantage.²⁰ Superior resources are valued by customers, possessed by only a small number of hotels, and are not easy to substitute. If a particular resource is also costly or impossible to imitate, then the competitive advantage may be sustainable—at least for a period of time. Unfortunately, most hospitality innovations are easy to imitate, and this type of competitive advantage is fleeting. Westin responded to an unspoken customer need with its "heavenly bed," but eventually competitors copied the concept and reduced that competitive advantage.

Building Your Competitive Advantage

A successful hotel manager is able to build a sustainable competitive advantage by capitalizing on the resources of the hotel. Over a long period of time, a sustainable competitive advantage may lead to higher-than-average hotel performance.²¹ To determine whether your hotel has resources and capabilities that yield a sustainable competitive advantage you should ask yourself the following six questions:

- 1. Does the resource or capability have value in the market?**
Valued resources allow you to exploit opportunities and/or neutralize threats.
- 2. Is the resource or capability unique?**
If your hotel is one of very few with a particular resource or capability, then it may be a source of competitive advantage. The uniqueness dimension also implies that a resource or capability is not easily transferable or readily available in the market for purchase.
- 3. Is there a readily available substitute for the resource or capability?**
If a competing hotel has easy access to another resource or capabilities that will help them accomplish the same results, the resource has substitutes.
- 4. Do organizational systems exist that allow the realization of potential?**
For potential to be realized, your hotel must also be organized to take advantage of it.

5. Is the organization aware of and realizing the advantages?

You must be able to identify sources of competitive advantage and take positive actions for potential to be realized.

6. Is the resource or capability difficult or costly to imitate?

The more difficult or costly a resource or capability is, the more valuable it is in producing a sustainable competitive advantage.

Positive answers to the first two questions and a negative answer to the third question means that a resource or capability has the potential to lead to a competitive advantage for your hotel. However, that potential is not realized unless questions four and five are also answered in the affirmative. At this point, your hotel is using its systems and knowledge to take advantage of a unique and valuable resource or capability. However, resource advantages may not be sustainable. The final question regarding imitation determines the long-term value of a resource or capability.

Going Forward with Strategic Thinking

The nature of the hotel operation often runs counter to the need to be a strategic thinker. Since hotels are always open, it's easy to focus on daily operation and tactics. Moreover, hotel managers are frequently rewarded for putting out fires. Reacting to problems crowds out time that might otherwise be available for thinking and devising strategies. You can break free of this reactive style by following a strategic management process, as outlined in this chapter. First, create a new mission statement for your hotel. Analyze the environment and list both opportunities and threats that are facing your property. Identify your hotel's resources and capabilities. Give thought to ways of both differentiating and also cutting costs—seek out that blue ocean. Finally, devise your own unique property level strategy and then deploy your resources to accomplish the ongoing task of implementing your strategy.

It's possible that your strategy will be adopted by your entire firm. This is what happened at the Willard Intercontinental, when its then—general manager Hervé Houdré devised a sustainability strategy to set his hotel apart from the many hotels in Washington, D.C.²² His sustainability program was so powerful that IHG has adopted many elements of the Willard's strategy.

Begin now to think about your operation. What is your company really good at? How do you compare to your competition? Who are your most important customers? When you carve out time for reflection, you begin the process of seeing your hotel differently. Taking time to reflect creates an opportunity for insight, and with insights shared with your staff, you can begin to change your own

habits and actions and those of others. Now is the time to become a strategic thinker. Blame nobody, take ownership, and create a great future!

¹ Study results for hotels in the United Kingdom support this linkage; see P. A. Phillips, "Strategic Planning and Business Performance in the Quoted U.K. Hotel Sector: Results of an Exploratory Study," *International Journal of Hospitality Management* 14 (1996): 347-362.

² See B. G. Chung-Herrera, C. A. Enz, and M. J. Lankau, "Grooming Future Hospitality Leaders: A Competencies Model," *Cornell Hotel and Restaurant Administration Quarterly* 44(3) (2003): 17-25.

³ M. D. Olsen and A. Roper, "Research in Strategic Management in the Hospitality Industry," *Hospitality Management* 17 (1998): 111-124.

⁴ Adapted from C. Enz, *Hospitality Strategic Management: Concepts and Cases*, 2nd ed. (Hoboken, NJ: Wiley, 2010).

⁵ Intercontinental Hotel Group, www.ichotelsgroup.com/h/d/6c/l/en/c/2/dec/6c/l/en/ob.html, May 28, 2010.

⁶ Adare Manor Hotel & Golf Resort, Mission Statement, www.adaremanor.com/mission-statement, May 25, 2010.

⁷ Enz, 2010.

⁸ Enz, 2007.

⁹ For a detailed discussion, see C. Enz, R. Verma, K. Walsh, J. Siguaw, and S. Kimes, "Cases in Innovative Practices in Hospitality and Related Services: Set 3," *Center for Hospitality Research Report* 10(10) (2010).

¹⁰ M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980).

¹¹ Ibid.

¹² B. Talbott, "The Power of Personal Service," *Center for Hospitality Research White Paper* (2006): 1.

¹³ This discussion of factors leading to cost savings is based, in part, on material found in Enz, 2010, and derived from M. E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985) and R. W. Schmenner, "Before You Build a Big Factory," *Harvard Business Review*, 54 (July/August 1976), 100-104.

¹⁴ For a detailed discussion see C. Enz and L. Canina, "Competitive Pricing in European Hotels," *Advances in Hospitality and Leisure* 6 (2010); C. Enz, L. Canina, and M. Lomanno, "Competitive Pricing in Uncertain Times," *Cornell Hospitality Quarterly* 50(3) (2009): 325-341; C. Enz, L. Canina, and M. Lomanno, "Why Discounting Doesn't Work: The Dynamics of Rising Occupancy and Falling Revenue among Competitors," *Center for Hospitality Research Report* 4(7) (2004); and L. Canina and C. Enz, "Why Discounting Still Doesn't Work: A Hotel Pricing Update," *Center for Hospitality Research Report* 6(2) (2006).

¹⁵ C. Enz, L. Canina, and M. Lomanno, "Strategic Pricing in European Hotels, 2006-2009," *Center for Hospitality Research Report*, 10 (5) (2010).

¹⁶ L. Canina, and C. Enz, "Revenue Management in U.S. Hotels: 2001-2005," *Center for Hospitality Research Report* 6(8) (2006).

¹⁷ Starwood Hotels, Company overview. Starwood Hotels and Resorts Web site, http://www.starwoodhotels.com/corporate/company_info.html. (accessed February 1, 2011).

¹⁸ Schmenner, 1976.

¹⁹ W. C. Kim and R. Mauborgne, "Blue Ocean Strategy: From Theory to Practice," *California Management Review* 47(3) (2005): 105—121.

²⁰ B. Wernerfelt, "A Resource-Based View of the Firm," *Strategic Management Journal* 5 (1984): 171-180; and J. B. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17 (1991): 99-120.

²¹ J. B. Barney and A. M. Arikan, "The Resource-Based View: Origins and Implications." In M. A. Hitt, R. E. Freeman, and J. S. Harrison, eds. *The Blackwell Handbook of Strategic Management* (Oxford, UK: Blackwell, 2001), 124-188.

²² See H. Houdré, "Sustainable Hospitality: Sustainable Development in the Hotel Industry," *Cornell Hospitality Industry Perspective* 2 (July 2008), Cornell Center for Hospitality Research.