



## STRATEGIES OF CHANGE FOR THE HOTEL INDUSTRY. PORTER, KOTLER, BOWMANN POSITIONS

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**Abstract** *The hospitality industry is defined as the provision of accommodation, catering and leisure facilities, which include but are not limited to hotels, motels, restaurants, clubs, casinos, cruise ships and theme parks. History of hospitality industry begins in 1794, during the period when the first colonial hotel "City" was opened in New York City. The industry began to develop between the '50s and '60s, transforming into a dynamic industry we know today. The World Tourism Organization (World Travel Organization) forecasts that the hospitality industry will triple its size by the year 2020, making it one of the largest industries in the world. Also at this time the travel industry means 8 percent of jobs in the world and has the highest growth potential among all global industries. This increase will provide more employment opportunities for people with the right qualifications. Career options in the hospitality industry continues to multiply with the industry*

**Key words:**

Strategy, Hotel, Change, Career

**JEL Codes:**

Z32, M53, M10

### Introduction

The concept of tourism marketing is the most important component of the tourist product is the human element, those who organize and run the programs. National and international experience has demonstrated that, given the intensified competition, service providers offering destinations with identical characteristics about the success of commercial tourism product can no longer be ensured only by components and attractiveness of the tariffs. That success depends largely on training personnel engaged in tourism activity, their spirit of hospitality, conscientiousness and diligence with which reacts to the demands of tourists, the quality of services provided.

Hospitality management is a broad term that includes many different types of careers. However it would be different in terms of responsibilities, all these careers have in common the fact that offers specialized services to the people. Road quarrying is carried out on several levels: entry level (entry-level): experience and skills which builds up in the positions of this sort will prepare learners for career advancement; specialized level (skilled-level): this is the next step where they can develop specific skills and competencies that can be transferred from one position to another; managerial level (management level): at this level, experience, preparation and initiative are combined to create the ability to lead and manage business employees.

Today, Travel & Tourism provides immense personal value, offering up opportunities for cultural adventure, engagement with nature, and time for rest and

rejuvenation. At the same time it develops trade, creates links and understanding between people and places and ultimately drives new business. The sector also tells a compelling story of continued economic growth and employment – growth that has been faster than most of other sectors and ahead of the global economy. In 2014 Travel & Tourism generated nearly 10% of global GDP, 7.6 trillion US dollars, and the sector's contribution to the world economy is forecast to grow 3.7% in 2015. Around the world, Travel & Tourism directly employs 105 million people, and looking further into the supply chain, the wider impacts of Travel & Tourism support 277 million jobs, or 1 in 11 jobs on the planet.<sup>1</sup>

In Europe, home to some of the world's most iconic tourism sites, Travel & Tourism generates 9.2% of GDP and 9% of jobs. And, despite the economic challenges of the past 5 years, the sector has grown faster than the wider economy in the region. In Spain, which received 65 million international visitors in 2014, the third highest in the world, Travel & Tourism contributes a full 15.2% of GDP and 15.3% of employment and has been the key driver in its economic recovery over recent years.<sup>2</sup>

### 1. Tourism careers

The hospitality and tourism industry is taking place in a highly competitive environment. That is why it is important for those who want to pursue a successful career in this field, he began to develop business skills and customer service. Although the hospitality and

tourism industries were what were traditionally focused on practical experience, competitive nature of these industries requires a combination of experience and

university education. Some specific career opportunities that can be get in the hospitality industry are:

Table 1. Some Hotel and Catering careers

Hotel	Catering
Hotel Manager/Director of hotel	Restaurant Manager
Manager reception-booking	Chef-event Coordinator
Human Resources Coordinator	Manager of bar/club
Events Manager	Cook, linecook, prepcook
Other units	
<b>Travel Agency</b> (Tour Consultant, Tour Guide, Tour Manager, Tour Promotions, Travel Agent, Travel Manager)	<b>Airline agency</b>
Financial/Banking Company	Travel Journalism

Source: <http://www.kent.ac.uk/careers/sitestourism.htm>

This industry is becoming more complex with the growing emphasis placed on specialized training. Demand is growing for people with special abilities acquired in vocational schools, technical institutes and colleges. The programs vary in duration from several months to several years. However, the programs and the master's degree in hospitality management or hospitality management provide the strongest foundation for a career as a hotel manager. Graduates of such programs are search by employers, especially if they have carried out internships during their studies. New graduates often pass through training and at work before being awarded a number of responsibilities. In the end, they accede the easiest and faster in top management positions in international hotel chains.

Although delegates to the 2015 Summit, were reassured that the world is "a safer, more prosperous and peaceful place than ever before" [Richard Fenning, CEO, Control Risks], there are valid concerns that some of the geo-political shocks are becoming more prevalent and disruptive. As national politics become more insular and focused on the short term, governments lose their mandate to act decisively beyond their borders. Distrust at the inter-governmental level is causing increasingly fractured international relationships and far less expectation on the part of citizens that the world's problems will be solved by collective government action.

While inter-governmental action falters, multi-national businesses are increasingly working across country boundaries, forming geo-marketplaces that need to attract the best talent, capital, consumers and technology, regardless of nationality. The concern for businesses, therefore, is how they weave their way through the growing threat of clashes due to governments' curbs on policy freedoms and continued and excessive regulatory interventions. Within the UK,

a complete lack of decision on extra runway capacity in the South East, while in Europe, the continued resistance to a single European skies air traffic control system and the obstacle of visa entry in place for foreign tourists, were shown to be prime examples of this lack of coordination – and worse, will – from governments, to solve fundamental inefficiencies and to remove barriers to future Travel & Tourism growth.

Within Europe, the painful structural economic reforms taken in many countries on the back of the deep recession are starting to show positive outcomes, however, more needs to be done. The European Union may be both bigger and more united than it's ever been [José Manuel Barroso, President, (2004-2014), European Commission], but the region will need to stay strong and united to compete with the US and China, and it must increase its productivity. For a region comprising 7% of the world's population but 56% of the world's social welfare expenditure, the current systems in Europe are not sustainable over the long term.<sup>3</sup>

There are known several types of strategies, as mentioned in tourism literature and practice.

## 2. Generic strategies in tourism

A generic strategy is a strategy of a particular type or form designed to promote a lasting competitive advantage for an organization. Porter (1980)<sup>4</sup> identified three generic strategies that organizations could use to achieve competitive advantage. He argued that it was important for organizations to be clear about which strategy was being followed. Porter's generic strategies are:

- cost leadership;
- differentiation;
- focus.

*Cost leadership*

This strategy involves an organization becoming the lowest cost provider in an industry. One of the key ways to achieve this is by offering a basic, standardized, mass-produced, no-frills product or service with inessential aspects stripped out. A cost-focused organization will be engaged in a perpetual struggle to minimize costs of inputs -mainly labor and raw materials. Economies of scale can also be an important element in cost leadership so that market share may be fought for to achieve the size that brings lower average production costs. Porter's logic for this strategy is that if a firm can charge industry-average prices, but sustains below industry-average costs it will be an above average performer.

#### *Differentiation*

A differentiation strategy is where an organization seeks product uniqueness. It will attempt to establish real (by product design) or perceived (by advertising) differences between its products and those of its competitors so that a premium price can be charged without loss of customers.

Porter's logic for this strategy is that an organization will be an above industry-average performer if the price premium exceeds the extra costs of providing differentiation.

#### *Focus*

A focus strategy occurs where strategy is tailored towards a particular market segment rather than to the whole market and may take the form of cost focus or differentiation focus.

Kotler (1988)<sup>5</sup> and Bowman (1992) have sought to rework Porter's typology of generic strategies to take into account some of the issues raised above<sup>6</sup>. In particular the typology is adapted to reflect the consumer view of things. Thus consumers are more sensitive to prices than costs and consider perceived quality or value added rather than differentiation. Price-based and differentiation strategies may each be focused on a particular market segment and it is increasingly common for organizations to seek to serve a number of different market segments. Where this is the case it is important to identify distinct products or services so that there is no leakage between low price and high quality services.

#### *Price-based strategies*

Price-based strategy is similar to cost leadership, but emphasizes the fact that low costs are passed on to the customer in the form of lower prices. Products are thus likely to be standardized and unnecessary but costly extras will have been stripped away.

#### *Differentiation-based strategies*

This is similar to Porter's differentiation strategy, but with an emphasis on providing extra qualities which are valued by the consumer. This value added may be provided by: design, exploitation of the value chain and advertising.

Investment in research and development is a route to providing products which are different from those of competitors in terms of better design or quality and durability.

The value chain can be used to indicate the range of activities associated with the delivery of a service or product where distinctive extras can be built in.

Advertising is an important tool in communicating product or service distinctiveness to consumers. It may emphasize real features (witness the advertisements comparing seat space for premium airline travel) or a particular brand image. The key to product differentiation is thorough market research to discover and deliver product differences which are important to the consumer.

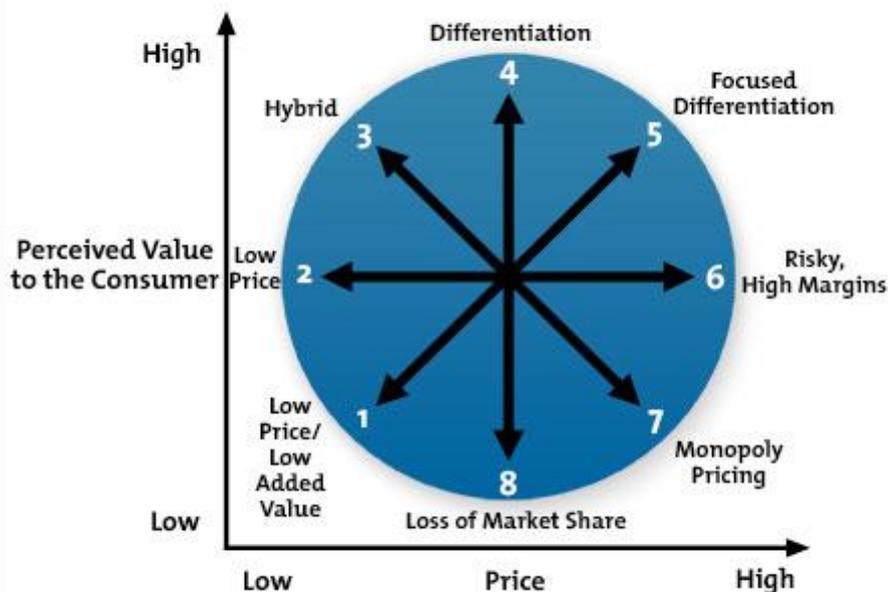
#### *Hybrid strategies*

A hybrid strategy is an attempt to provide quality products and services at low prices. It seems contradictory because adding value adds to costs which should preclude low prices. The key to a successful hybrid strategy is therefore to reduce average costs.

*The first route to this is achieving economies of scale*, where average costs fall as output increases. Mass production, bulk buying, labour specialization and economies of increased dimensions become significant as output increases. Economies of scale are therefore open to firms which can achieve high market share and a virtuous circle, as illustrated in Figure 5.3, may become established. *The second route*, important to service providers such as tourism organizations, is to ensure high load factors. Hotels, airlines and attractions all face high fixed costs and a perishable product. An unfilled room is revenue lost forever. Computerized reservation systems can help achieve high load factors and thus dissipate fixed costs, bringing average costs down.

Looking at Porter's strategies in a different way, in 1996, Cliff Bowman and David Faulkner developed Bowman's Strategy Clock. This model of corporate strategy extends Porter's three strategic positions to eight, and explains the cost and perceived value combinations many firms use, as well as identifying the likelihood of success for each strategy. Figure 1 below, represents Bowman's eight different strategies that are identified by varying levels of price and value ([https://www.mindtools.com/pages/article/newSTR\\_93.htm](https://www.mindtools.com/pages/article/newSTR_93.htm)).

Figure 1 – Bowman's Strategy Clock



From 'Corporate Competitive Strategy' by Cliff Bowman and David Faulkner. © 1997. Reproduced with permission from McGraw-Hill Companies, Inc.  
 Position 1: Low Price/Low Value  
 Position 2: Low Price  
 Position 3: Hybrid (moderate price/moderate differentiation)  
 Position 4: Differentiation  
 Position 5: Focused Differentiation  
 Position 6: Increased Price/Standard Product  
 Position 7: High Price/Low Value  
 Position 8: Low Value/Standard Price

Bowman's Strategy Clock is a very useful model to help you understand how companies compete in the marketplace. By looking at the different combinations of price and perceived value, you can begin to choose a position of competitive advantage that makes sense for you and your organization's competencies. This is a powerful way of looking at how to establish and sustain a competitive position in a market driven economy. By understanding these eight basic strategic positions, you can analyze and evaluate your current strategy and determine if adjustments might improve your overall competitive position.

### 3. Competition and strategy in tourism industry

The degree of competition within an industry will influence the position adopted by an organization. The greater the competition, the more an organization will be forced to deliver greater value added and/or lower. This section considers the strategic directions an organization might take in pursuit of its overall strategy.

The main directions are: withdrawal, consolidation, market penetration, market development, product development, and diversification. In many cases a combination of these directions will be appropriate.

#### *Withdrawal*

It involves neither new nor current markets nor products, but rather a position of retreat. There are some cases in which an organization may withdraw from a particular market. These might include: de-cluttering, contracting out, and raising money, legal compliance, competition, market decline/economic prospects, liquidation, privatization.

*De-cluttering* occurs where an organization has grown into a range of diversified areas and now seeks to concentrate its efforts in its core business. For example, in 1994 Scandinavian Airline Systems (SAS) sold its travel group SAS Leisure to Airtours of the UK; its catering unit SAS Service Partner to Swissair's catering division; and Diners Club Nordic to Sweden's Skandinaviska Enskilda Banken. It intends to concentrate on its core businesses of airlines and hotel management. Similarly, Kaufhof, Germany's second biggest retailer, sold its 50 per cent stake in Kuoni travel to Swiss business interests in 1995.

- *Contracting out*, enables the service to be more flexibly provided.
- *Raising money* may be used to raise money for expansion elsewhere or to fight off a take-over bid.
- *Legal compliance*: monopoly or anti-trust legislation may require an organization to divest its holdings if it is acting against the public interest.

- *Competition* in an area may be so strong as to force an organization out of this particular market.
- *Market decline/poor economic prospects* for a particular market may cause an organization to make a partial or wholesale tactical withdrawal.
- *Liquidation* due to an untenable loss.
- *Privatization*, when the government may wish to sell assets as part of a privatization programme.
- *Consolidation* implies a period of concentrating an organization's efforts on existing products and existing markets. It may result from a period of rapid change to enable an organization to settle down or may result from a lack of resources to pursue a more active policy. This may result from lack of profits in the private sector or lack of government grants to a public sector organization such as a national tourism organization.

#### *Market penetration*

Market penetration involves increasing market share and is an important aim of generic strategies previously discussed. In the short-term, market penetration may be won by reducing margins and prices, but sustainable market penetration can only be achieved by price-based strategies that are coupled with cost reductions, or by differentiation or hybrid strategies. The exception to this is if a price war is successful in forcing a weaker competitor out of business.

#### *Market development*

Market development generally involves an attempt to take the existing product range into new market areas which can include new geo-graphical areas and new market segments. It may be that some product development is required to adapt the product range to the new market areas.

#### *Product development*

Product development encompasses the development of existing products and the development of completely new products. The continuing development of existing products is almost an essential strategy in the dynamic environment which organizations operate in. For differentiation strategies, product development is necessary to maintain differences as competitors imitate previous innovations. Equally, price-based strategies require product development in order to maintain low production costs and even budget products or services must eventually incorporate recent innovations or they will fail to sell even at low prices. New product development is a more risky strategy since research and developments costs are expensive and only minorities of new products reaches the market and succeed.

#### *Diversification*

Diversification involves an organization moving into completely new products and markets which are unrelated to its present portfolio. The motives for this may be first, to take advantage of a new growing market - particularly if an existing product has a static or declining market. Second, diversification allows an organization to spread its risks. Third, economies of scope may be achieved. These are reductions in average costs that result from provision of a range of different goods and services. Such economies result from sharing marketing, or brand names, or customers, or outlets. The diversification may be obtained by: internal growth, mergers and take-overs, joint ventures and alliances.

#### **4. Strategies of the hotel market in Bucharest**

Like other capital cities, Bucharest is seeing a decrease in the revenue per available room (RevPAR) and occupancy due higher capital costs and frozen credit markets. In 2014 the economic slowdown trend continued and the business travelers, the main market for Bucharest's hotels, reduced their length of stay and travel expenses. Bucharest's hotel supply has around 12 045 rooms distributed in 180 hotels of 5\* to 1\* ranking. In 2014 the supply increased with around 14% compared with the previous year. The new hotels opened in 2000-2014, with more that 100 rooms were Rin Grand (1480 rooms), Bucharest Radisson SAS (424 rooms), Ramada Plaza (300 rooms) and Hello (156 rooms). Most hotels that are being built in Bucharest have an average height up to five- six floors. After a turbulent time for the hotels, during which the occupancy degree fell dramatically on the background of the financial crisis, that determined companies to cut the business trip budgets, the hotel market shows signs of recovery. The financial crisis has affected differently the 3, 4 and 5 star hotels.

The 5 star hotels were the first that reacted to the sudden decline of the occupancy degree and started the rate cut, followed by the 4 and 3 star hotels. The negative effects of this strategy will be obvious when the hotel market resumes growth and the hotels will need a long time to get back to the initial prices. The city faces a shortfall of boutique hotels. Outside of the luxury market, there are few unique concepts in interesting locations where every room offers a different experience and the hotel becomes a destination in itself. The difference between a four and a five-star room is determined mainly by the room size and facilities. Abroad, Sofitel tends to be a five-star hotel – but in Romania has only four, while Howard Johnson Grand Plaza is a four-star hotel abroad, but in Bucharest boasts an extra star. To gain a rating, each hotel has to fill in a form detailing the size of the rooms

and the facilities on offer, which then add up to a series of 'points'. A hotel with more points wins a larger number of stars.

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<sup>1</sup> <http://www.wttc.org/summits/the-global-summit-2015/>

<sup>2</sup> <http://www.wttc.org/summits/the-global-summit-2015/>

<sup>3</sup> <http://www.wttc.org/summits/the-global-summit-2015/>

<sup>4</sup> [https://www.mindtools.com/pages/article/newTMC\\_08.htm](https://www.mindtools.com/pages/article/newTMC_08.htm)

<sup>5</sup> <http://www.slideshare.net/yahyaalavi/marketing-management-14th-edition-by->

<sup>6</sup> In 1980, Michael Porter published his seminal book, "Competitive Strategy: Techniques for Analyzing Industries and Competitors", where he reduced competition down to three classic strategies: Cost leadership, Product differentiation, Market segmentation. These generic strategies represented the three ways in which an organization could provide its customers with what they wanted at a better price, or more effectively than others. Essentially Porter maintained that companies compete either on price (cost), on perceived value (differentiation), or by focusing on a very specific customer (market segmentation). Competing through lower prices or through offering more perceived value became a very popular way to think of competitive advantage. For many business people, however, these strategies were a bit too general, and they wanted to think about different value and price combinations in more detail ([https://www.mindtools.com/pages/article/newSTR\\_93.htm](https://www.mindtools.com/pages/article/newSTR_93.htm))