8 Strategic Directions and Methods

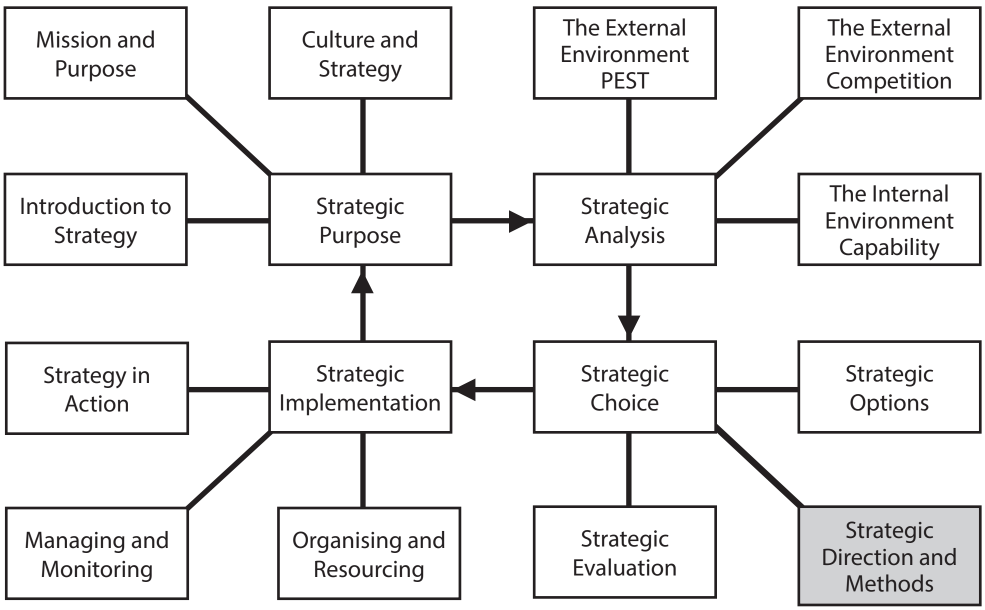

Figure 8.1

Learning outcomes

After studying this chapter and related materials you should be able to understand:

- Strategic directions such as consolidation, market penetration, market development, product development, diversification and withdrawal.
- Strategic methods of growth including internal growth, mergers and takeovers, and joint ventures and alliances.
- Strategic methods of development such as innovation and entrepreneurship.

and critically evaluate, explain and apply the above concepts.

Introduction

Chapter 7 examined the types of strategy a tourism entity could adopt, distinguishing between price competitiveness, value added and hybrid strategies. This chapter follows this up by looking at two key areas that would support these strategies. The first area of analysis here is strategic directions. This examines the products or services and markets that an entity should provide and how these should be developed. The second area of analysis is strategic methods. This in turn divides into three further subheadings. The first of these is strategic growth which analyses how entities themselves can grow, develop and extend their reach. The second subheading under strategic methods is development via innovation and the third is development via entrepreneurship. This underlines the fact that the highly competitive environment that most tourism entities operate in both stimulates and demands successful innovation for entities to maintain their competitive environment.

Case study 8 uses Merlin Entertainment to show how a tourism organisation delivers its strategy through directions and methods that include product development, rolling out its brands internationally and acquisition of other operators in the attractions industry.

Case study 8: Merlin Entertainment

Merlin Entertainment was formed in 1999 and is Europe's leading and the second largest attractions-based organisation in the world (Disney is the first). In 2015 Merlin comprised 110 attractions and operated in 23 countries with over 62 million visitors. It operates under three groups:

1. Midway Attractions. These include 99 indoor attractions with up to two hour visitor stays such as Madame Tussauds, Sea Life, Dungeons, The Eye Brand and Shrek's adventure. They account for just over 40% of revenue.
2. Theme parks. These are outdoor 1 – 3 day visitor stay venues, increasingly with on-site accommodation and divide into:
   - LEGOLAND Parks. These comprise of 6 parks and account for just over 30% of revenue.
   - Resort Theme Parks. These include Alton Towers, Gardaland, Heide Park, Chessington World of Adventures and Thorpe Park and account for almost 30% of revenue.

Merlin's vision:

'To become the worldwide leader in branded, location based entertainment.'

Merlin's strategy:

'To create a high growth, high return, family entertainment company based on strong brands and a portfolio that is naturally balanced against the impact of external factors'.

Strategic directions and methods

Merlin plans to deliver its strategy through six key directions and methods:

1 Growing its existing estate

- It plans regular investment in new rides, shows and themed areas at all attractions to maintain and enhance product quality.
- For example the new roller coaster, 'The Smiler', at Alton Towers and the Madagascar show at Gardaland

2 Achieving strategic synergies

- It maximises marketing, product and cost synergies especially where it has strong market presence such as the UK and Germany. E.g.
  - The Merlin Annual Pass
  - Promotions with strategic partners
  - Procurement savings
  - Clustering of assets
  - Sharing developments over more than one site, e.g. the new 4D LEGO film.

3 Resort destination positioning

- It develops theme parks as short break destinations by adding themed accommodation and other leisure activities. This extends the catchment area and drives new revenue streams, e.g. a 250-room LEGOLAND Hotel opened in California in 2013 and new accommodation at LEGOLAND Florida and Alton Towers.

4 Roll-Out of Midway Attractions

- Merlin's has five chainable Midway brands (SEALIFE, Madame Tussauds, The Eye, The Dungeons and LEGOLAND Discovery Centre) and since 2010, 23 new Midway attractions have been opened in 10 countries further diversifying the portfolio geographically, building clusters such as Dallas and Tokyo, and increasing its concentration of assets in key markets in America and Asia.

Plate 8: The Coca Cola London Eye

- Merlin has identified over 100 potential roll out locations and plans to deliver an average of 6-7 new openings each year.
- Merlin has forged a new strategic alliance with Dreamworks creating a new midway brand, based on Shrek and other Dreamworks' intellectual property. The plan is to develop 6 attractions over 9 years.
- The first attraction 'Shrek's Adventure!' opened in London in Summer 2015.

5 Roll-out of LEGOLAND Parks

- Merlin has recently opened new LEGOLAND parks, in Florida and Malaysia. It estimates there is currently potential for up to 20 more LEGOLAND Park sites worldwide and intends to open a new park every two to three years.
- These include LEGOLAND Dubai (2016 under management contract), LEGOLAND Japan (2017), LEGOLAND Korea (2018).

6 Strategic acquisitions

- The diversified and fragmented leisure market offers scope for consolidation through acquisition and the creation of a diversified portfolio.
- For example Merlin acquired Sydney Attractions Group in 2011 and acquired Living and Leisure Australia in 2012 adding to its portfolio in the fast growing Asia-Pacific region, and creating clusters in Shanghai and Bangkok.
- Its previous acquisitions include LEGOLAND Parks (2005), Gardaland (The biggest theme park in Italy) (2006) and Tussauds Group (2007) which increased the scale of Merlin by over 10 times in three years. The London Aquarium was acquired in 2008.

Directions

Strategic directions: how an entity should develop its products and services as well as the markets.

This section considers the strategic directions an organisation might take in pursuit of its overall strategy. The specific directions referred to relate to how an entity should develop its products and services as well as the markets for these in order to maximise its strategic benefit. The main directions are:

- ◊ Consolidation
- ◊ Market penetration
- ◊ Market development
- ◊ Product development
- ◊ Diversification
- ◊ Withdrawal.

In many cases a combination of these directions will be appropriate.

These directions are summarised and located in Figure 8.2 on the matrix developed by Ansoff (1988). The Ansoff matrix offers a range of alternative strategic directions based on an analysis of markets and products or services. These