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Strategic Options

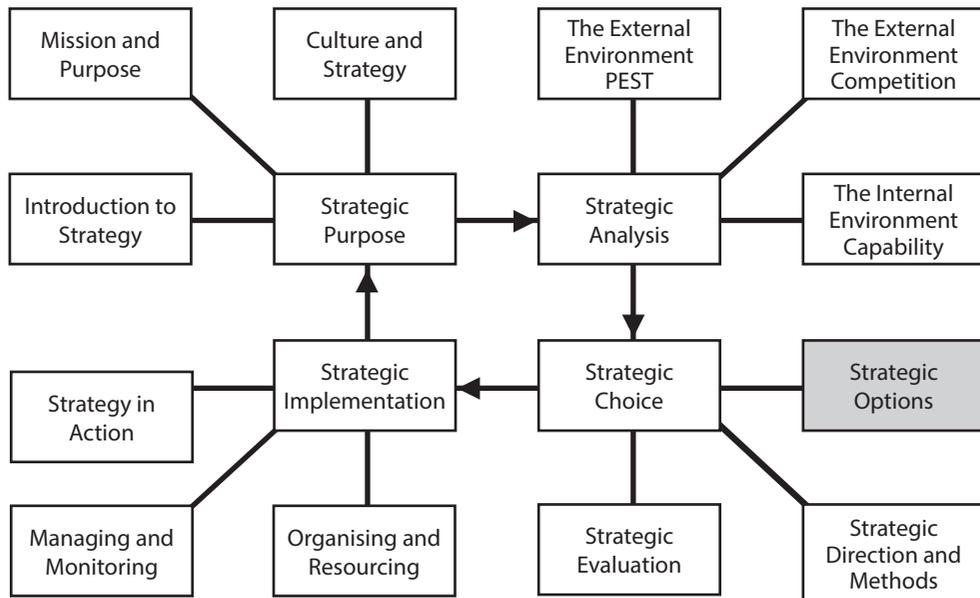


Figure 7.1

Learning outcomes

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

- Porter's generic strategies
- Critiques of Porter
- Price-based strategies
- Differentiation-based strategies
- Hybrid strategies
- Focus strategies
- Elasticity and margins
- Sustaining competitive advantage
- Game theory

and critically evaluate, explain and apply the above concepts.

Introduction

This chapter examines the strategic options available to tourism entities in order to obtain competitive advantage or some alternative mission. The chapter starts by looking at Porter's (1998) generic strategies. It then considers some of the criticisms made of Porter's framework and introduces a framework that adapts Porter using the work of Bowman (Bowman and Faulkner, 1995). Using this framework, possible strategies are characterised as those which are price-based, differentiation-based or a hybrid combination of these. Additionally, the option of a focused strategy is discussed. Elasticity of demand is then introduced to understand the logic of the two basic strategies. Finally, pursuing a strategy will cause reaction from competitors. Here game theory can help the understanding of possible outcomes and ways of sustaining competitive advantage are discussed.

Case study 7 illustrates how Accor Hospitality pursues price-based, differentiation-based and hybrid strategies through its different groups of brands.

Case study 7: Accor Hospitality

Accor Hospitality is a global player with around 50 years of expertise. Its corporate history began in 1967 when the first Novotel was opened in Lille Lesquin, France. In 1974 the first Ibis opened in Bordeaux and this was followed by the acquisition of the 3-star chain Mercure in 1975 and the 4-star Sofitel group in 1980. The Accor group was consolidated in 1983 and a new budget chain Formule 1 was launched in 1985. Since then Accor's history had been one of key acquisitions and disposals. The Accor group's values are "a spirit of conquest, imagination, trust, respect and performance – and the sense of hospitality and service that underpin Accor's reputation throughout the world". Three core management principles support these values.

- ◆ **Agility:** enhance teams' agility and ability to call themselves into question, both internally, thanks to the constant search for innovation, flexibility and responsiveness, and externally, vis-à-vis competitors, investors and partners.
- ◆ **Clarity:** demonstrate clarity, by placing the emphasis on simplified practices, streamlined decision-making processes and practical approaches, and by precisely defining everyone's roles and responsibilities.
- ◆ **Accountability:** encourage employee accountability at every level of the business and give greater freedom and autonomy to teams."

Accor is organised around its two core businesses of HotelInvest, its owner and investor business, and HotelServices, its hotel operator and franchise business.

- ◆ HotelInvest comprises the 1,400 hotels that AccorHotels owns or manages via leases. Its mission is to streamline and manage its existing asset portfolio through disposals and acquisitions based on three criteria: margin, cash generation and location. Its goal is to establish itself as the leading hotel investor in the economy and midscale segments

in Europe, focus on cash-flow generation and reduce result volatility, optimize CAPEX (Capital Expenditure) allocation strategy and support Accor Hotels' development by investing selectively in properties.

- ◆ HotelServices encompasses the 3,700 hotels and 480,000 rooms operating under the Group's brands. Its mission is to manage operations at its branded hotels and provide the best choice of services for partner hotel owners (for example including strong brands and a powerful distribution system). Its goal is to maximize fees, speed up Customer Relationship Management (CRM) and loyalty-building drives, shift the group deeper into the digital realm, and roll out a strategy in each segment to bolster the Group's brands.

Accor operates in 92 countries with more than 180,000 employees and its brands represent around 3800 hotels and provide 500,000 rooms. Accor occupies a unique position as a hotel operator that covers all the main market segments. The three segments and associated hotel brands are:

- ◆ **Luxury and Upscale:** Sofitel Legend, Sofitel Luxury, Pullman, MGallery
- ◆ **Midscale:** Novotel, Mercure, Mama
- ◆ **Economy:** Ibis, Ibis Budget, Hotel Formule 1

Luxury and Upscale

Accor's unique expertise in the luxury and upscale segment comprises 341 hotels with 71,081 rooms. Sofitel Legend hotels are often set in classic heritage buildings that have been renovated by celebrated designers. For example the Sofitel Legend People's Grand Hotel in Xian, China is set in a landscaped garden that once belonged to the Imperial Palace. It blends French and Chinese traditions to hospitality offering a butler service, six restaurants, a ballroom, a Grand Theatre, a private museum and a pool, a gym and a private spa. The Sofitel Legend Metropole Hanoi was ranked the top hotel in Southeast Asia by *Condé Nast Traveler* readers.

Sofitel Luxury has the slogan 'Life is Magnifique'. The aim of Sofitel is to deepen its positioning in the luxury market and one key to this is its emphasis on unique, non-standardised luxury hotels. These are decorated by well-known designers and aim to echo the history and environments of their locations, mixing authenticity and tradition. Other features of this brand are a commitment to exceptional service, high specification multimedia equipment and state of the art health and fitness amenities. Sofitel also puts a strong emphasis on the comfort of its beds and its gastronomy where it has forged links with Michelin star chefs. A development priority for Sofitel is to have a presence all major destinations and international capital cities.

Midscale

At the heart of the midscale and economy segment are Novotel and Mercure. Novotels emphasise reliability and quality, and are located in main international destinations and focus on business and leisure travellers. Their standardized offer includes spacious, adaptable rooms, meals available 24/7, meeting rooms, fitness centres, and areas specifically designed for children.

Mercure is one of the largest hotel networks in the world with an expansion strategy aimed at creating a strong network in each country where it operates with a particular emphasis on expansion in Europe and new markets in Asia. Each of these midscale brands offers quality standards and value for money.

Budget

Ibis is the European leader in economy hotels and the economy hotel brand of the Accor group, offering quality accommodation at competitive local value. Its slogan is "Wellness at the right price!" It underlines its commitment to quality with its "15 minute satisfaction guarantee" where the hotel team gives itself 15 minutes to find a solution to any room malfunction, failing which the guest stays for free. It also has its "Sweet Room" concept offering basic but well-designed rooms and comfortable beds and bedding. The Ibis budget brand describes itself as "Basic comfort at an affordable price". It offers a standardised and no-frills product at competitive prices. The Ibis growth strategy is to concentrate on emerging markets, particularly in Asia and Latin America.

Formule1 was established in France in 1985 and introduced the low-cost hotel model to Europe. Since then it has had many imitators. Its hotels are functional and cheap, the low price coming from a standardised offering in clean but basic accommodation in sub-prime locations operating through management agreements. Its target customer base is young people and workers and its triple room costs less than €10 per person when three people are sharing. It also offers a budget buffet breakfast where its guests can enjoy a full breakfast buffet with hot drinks, fruit juice, fresh bread, brioche and cereals for only €3.50.

Typical prices (\$US) for rooms in Accor branded hotels (one month advance booking) are:

Hotel	London	Beijing	Sydney	Paris
Sofitel	551	151	316	613
Novotel	387	95	236	261
Ibis	267	58	146	169

Source: <http://www.accorhotels-group.com/>

Porter's generic strategies

Generic strategy:

a strategy of a particular type or form designed to promote a lasting competitive advantage.

A generic strategy is a strategy of a particular type or form designed to promote a lasting competitive advantage for an organisation. According to Porter (1998), organisations are able to secure a competitive advantage by choosing a generic strategy that fits best with its situational position in terms of its external environment and resource capabilities. It should then organise its capability to best deliver and support the chosen strategy.

Porter (1998) identified three generic strategies that organisations could use to achieve competitive advantage. He argued that it was important for organisations to be clear about which strategy was being followed and that lack of a clear strategy could result in muddle and confusion.