Importance of choice in the strategy formulation

In recent years, international hospitality industry, like any other industry, has been affected by the effects of globalization, the information technology revolution, and the consumer demand. Hence, the targets in tourism have suffered considerable alterations and forced hospitality managers to re-examine their decision-making plans. Hospitality is difficult to manage and assess as long as it deals with a new awareness and addresses to new demands. Its level can be given through the customer feedback. For tourism to be considered an industry it must have a production process and a generic product mutually and inseparably related. The purpose of this chapter is to focus attention upon the theoretic aspects regarding the strategic choices in this field, the way they are elaborated, implemented, used, and put into practice. To be more precise, the chapter looks at the strategic choices used be Romania and Bulgaria on the sea – side tourism.

2. 2. STRATEGIC CHOICE

2. 2. 1. IMPORTANCE OF CHOICE IN THE STRATEGY FORMULATION PROCESS

Ranking the elements in a strategy formulation process, strategic choice comes third. When there are no choices, there can be little value in considering strategy at all. To be better understood, a definition of strategy is necessary to mention. According to Michael Baker, “ Marketing strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage.”(See Baker, MICHAEL, The Strategic Marketing Plan Audit, 2008, ISBN, p. 3). According to the above definition, any strategy must have a pre – established plan which establishes goals, identifies alternatives, and makes use of intuition and experience. In other words, it includes basic activities on a long term, as well as objectives. In general, small companies are limited by their resources, whereas large ones find it difficult to change quickly. Even when managers seem free to make strategic choices, the results may depend in the same measure on chance and opportunity, as on the managers' deliberate choices. It is proven fact that events, and especially unexpected events, can play a major part in determining results. Any process of choice could be divided into four steps:

Identifying options

Evaluating the options against preference criteria

Selecting the best option

Taking action

In practice, it may be difficult to identify all possible actions at the same time. Sometimes, unexpected events create new opportunities, destroy the foreseen ones, or alter the balance of advantage between opportunities. For these reasons, good strategic choices have to be challenging enough and achievable. And here comes analysis, judgment and skills, elements which make the difference in defining strategies.

2. 2. 2 STRUCTURE OF STRATEGIC CHOICE

The Figure 1. 1 shows how the three logical elements of strategy formulation process interact. The shaded background is a reminder of the importance of context in determining the aspects to be solved by strategic choice.

Figure 1. 2 expands the detail so that to illustrate the significance of the overlaps. The common ground between any two circles is of some interest, but it is only where all three circles overlap that viable options exist. Thus, the chosen strategy is a viable option because it is here where intent and assessment fully meet. Of interest are also the areas where any two circles overlap. So, the criteria for choice derive from intent and assessment.

In practice, the process for choosing a strategy may be structured like in Figure 1. 3. It starts by identifying available options. Any chosen strategy will have to answer the questions ‘ what ‘, ‘ how ‘, why ‘, ‘ who ‘, and ‘ when ‘ in order to provide answers to each of these questions. There are likely to be different kinds of options. Figure 1. 3 shows three types: products/ services / markets, resources/ capabilities, and methods of progress. They are typical but not necessarily exhaustive.

2. 2. 3 OPTIONS FOR MARKETS AND PRODUCTS / SERVICES

The tourism industry is a constellation of businesses, agencies, and non-profit organizations which work together to create products. Thus, the type of option relates to which products or services to offer in which markets. The diagram in Figure 1. 4 structures a certain decision, as it was suggested for the first time by Igor Ansoff . The axes of the diagram represent the product, market needs, and market geography. The last is defined by four cells. The possible choices about products and markets can be represented as movements within or away from these cells. One set of choices is possible within the existing product / market set.

‘ Do nothing’ choice means continuing the present strategy. This strategy compares any proposed change with the ‘ do nothing’ option as a baseline. This option, however, is not often viable for the long term as competitors will be likely to gradually take the market by improving their product, processes, relationships.

‘ Withdraw’ choice is leaving the market by closing down or selling out . This may seem a negative option but necessary to focus available resources into areas of greater strength. It mainly occurs in declining markets.

‘ Consolidate’ choice refers to attempting to hold market share in existing markets. This is a defensive option which involves cutting costs and prices. It mostly occurs in mature markets or ones beginning to decline.

‘ Market Penetration’ choice means increasing market share within the same market. This is a more aggressive option and involves investing in product improvement, advertising, or channel development.

Other possible options are Product Development that is developing and acquiring new products and Market Development, an option which addresses to new market needs. Diversification is another type of option having to do with new products. It may be of two kinds: related and unrelated. Related diversification, in its turn, divides into: backward, forward, and horizontal integration. Any management choice has to focus on the relative attractiveness of available options. Whether the present position is bad enough, even risky alternatives are preferable to doing nothing.

2. 2. 4 OPTIONS IN METHODS OF IMPLEMENTATION

Options are likely to occur in methods of implementation as well. There are four main methods to make companies grow their capabilities: internal development, acquisition, contractual arrangements, and strategic alliances.

Internal development is the most obvious approach to growth. It involves developing the necessary skills among the existing staff and acquiring the necessary production capacity. This method has one disadvantage: it takes time for the competitors to move faster, otherwise opportunities may be lost.

Acquisition is a very common implementation option, used by such countries as the UK and USA. Take – over's and mergers are dominant for this method of implementation. The disadvantage for mergers is that they can cause operational and psychological disorder which distracts the people. Competitors can use this turmoil in their benefit as they are free to concentrate on customers rather than on internal changes. Many acquisitions may be beneficial at the right price, but may also destroy shareholder value at a too high price.

Contract arrangements, regardless of their type, have in common the need for a written contract which binds two or more parties into a clear agreement as to who will do what and pay what. When disputes happen they can be handled in courts by agreed arbitration procedures, or by not renewing the present contract at the expiry. The contract arrangements come in different forms:

Consortia are groups of companies that form a joint entity for a specific purpose. When this purpose is achieved, the consortium breaks up and the separate partners may find themselves competing in different consortia for a new project.

Franchising is common in retailing. The franchisee pays the franchiser a fee for services and royalties. The franchisee is halfway between an employee and an independent entrepreneur. His risk is limited by the previous success of the brand name and the support and advice given by the franchiser.

Licensing allows a small inventive company to license its product to be manufactured and marketed by others. This can determine quick growth by avoiding the need to build manufacturing or distribution capability.

Agents imply doing business in foreign countries or specialized markets where the volume of business is too low to justify a permanent presence. The agent must be familiar with local requirements and calls for additional support from the principal when opportunities arise. There are conflicts among agents which include conflicts of interest.

Strategic alliances and partnerships have come into fashion over the last decade . When there are contracts between the parties, there is a wider intention to cooperate at a strategic level in order to share information and to work together in a way that goes beyond a clear contractual arrangement. It is considered that for a rapidly changing world, strategic alliances are the only way to achieve speed of response and global spread.

2. 2. 5. GROUPING OPTIONS INTO STRATEGIC OPTIONS

Possible options about product / markets, resources / capabilities, and the method of implementation must be combined into a smaller number of strategic options. This may be an up or down process. The bottom -up approach implies linking what might be done in detail into strategies. The top- down approach means testing general ideas of future direction against detailed options.

2. 2. 6. GENERAL TESTS OF STRATEGIC OPTIONS

The tests, important otherwise, cannot be totally objective. Each strategic option has to pass two tests as shown in Figures 1. 2 and 1. 3 . These tests must be:

Aligned in that it conforms to the strategic intent. This test answers the question: Does this option take us where we want to?’

Feasible in that the capabilities and resources needed to get success can be made available. The test answers the following question: ‘ Will it work? ‘

Acceptance is a third test, related to the two mentioned above, asking the question: ‘ Will this option be acceptable? ‘ Acceptable means to win the approval of two groups: those who will have to approve it and those who will have to implement it. Any strategic option has to pass all these three tests. In the case when more than one strategic option passes these tests, they have to be compared with each other to find the best solution, at that particular moment. It is also important to take into account such situations as risks.

2. 2. 7. THEORETICAL FRAMEWORKS FOR ASSISTING STRATEGIC CHOICE

There have been several attempts to provide theoretical frameworks for making strategic choices . One highly influential, was the concept of Generic Strategies, devised in 1985 by Porter. He mentioned that the most important choices dealing with any business are the scope of the markets. It is about how to serve and how to compete in the chosen markets. The scope can be broad- tackling the whole market – , or narrow – tackling one particular part of the market. Companies achieve competitive advantage either by having the lowest product cost or by having products which are different in ways valued by customers. The axes of Figure 1. 5 are the scope of the chosen market and chosen basis of competition. The four quadrants in the same figure suggest four possible strategies. When the scope is narrow, the distinction between cost and differentiation becomes unimportant so Porter mentions only three ‘ generic strategies ‘: coast leadership, differentiation, focus. While differentiation implies a difference in the perception of the product by clients, focus implies a difference in target market. According to Porter, the weakest strategy is b ‘ being stuck in the middle ‘.

Managers were enthusiastic about generic strategies when first published. Gradually, the reality showed a distinction between differentiation and cost. Few companies afford to ignore cost however different their product may be. On the other side, there are very few companies to admit that their product is the same as all the others. Porter’s Generic Strategy Model has been extended into the Strategy Clock (Figure 1. 6)

The important addition is the ‘ hybrid’ strategy, an optional balance between price and the added value perceived by the customer. The offerings may often fall into three categories. There are ‘ cheap offerings’ for those customers to whom the price is the most important aspect. At the other end are the ‘ luxury offerings’ with high quality and appeal to those customers who want the best and most differentiated. In the middle, are the ‘ good – valued offerings’ which compromise between the other two and offer a good trade – off between price and value.

2. 3 STRATEGIC CHOICES USED BY ROMANIA AND BULGARIA

When discussing this issue, it is important to focus upon the targets in tourism, targets that have changed in accordance with the new demands. Among these targets, here are some:

- Increasing visitor satisfaction
- Increasing the amount visitor spend for services
- Delivering the best prices
- Reducing seasonality
- Involving the local authorities to create community

In terms of hotel industry, Romania has inherited a great tourist accommodation capacity from the communist period. Since the 1960s Romania had developed many accommodation facilities, mainly on the sea-side coast of the Black Sea. The low – ranked hotels from this area are convenient for a mass tourism demand. After the 1990s the main tourism indicators have pointed out two distinctive periods on the Romanian market. These are characterized by severe government instability and lack of policies and strategies regarding the tourism industry. During 1990 – 2000 there was a slow intensity of the privatization process, only 55, 3 % of the accommodation facilities were private – owned. After 2001 , Romanian tourism industry has followed and increasing trend due to an accelerated privatization , 92 % of the accommodation facilities have been transformed from state – owned to private – owned . Lots of investments have occurred in modernizing the accommodation structures and increasing the volume of the green – field investments. Elaborating and applying strategies in Romanian tourism companies is a complex process, alive, and in continuing expansion.

Meanwhile, Bulgaria has come in with a dynamic and harsh competition . This has determined the need to change this industry by elaborating new strategies which focus on perspective , positioning , plan , and pattern.

The differentiation strategy, suggested by Porter, is the strategy that the Romanian hotels are following. The Romanian hotel market considers that differentiation can be the result of a strong marketing campaign meant to strengthen the unique characteristics of the product / services within the mentality of the customers.

The hotels in Romanian market are pursuing a focus differentiation strategy. They are producing products and services for the high price market segments. Another strategy used by Romania is the training strategy. Within the service sector, it is of great importance to exist an interaction client – employee. The customers’ satisfaction is given by the behavior of the employees.

The hybrid strategy is pursued by those hotels which envision a decrease f the distribution costs and those that renounce to the unprofitable clients. These hotels attempt to sustain their strategy by the use of the Internet and E- commerce.

The tourism industry in Bulgaria plays an important part in the country's economy. Accession to the UE has had a great impact on its market, as the seaside summer resorts on the Black Sea Coast are the main attraction. One of the strategies used by Bulgarian hoteliers is to base their prices on the product's perceived value . Value – based pricing means that the marketer cannot design a product and a marketing program and then fix the price. Price is a worth value to consider . The company uses the non- prices variables to build in the buyers ' minds a perceived value by setting prices to match the perceived value. (Kotler , 2003). To simplify, hoteliers are aware that consumers must feel as if they get a good deal for their money. Perceived value is the key of any good pricing strategy.

Bulgarians also use the differentiating strategy. Their purpose is to offer unique products and services so as to obtain a price premium. In other words, by implementing differentiated services or personalized services , a company can build its customer loyalty when substitute products or services are not available in the market. In this way, they charge their customers a higher price than their rivals based on the cost of the delivery system and service quality.

The coast- leadership strategy has made the Bulgarian hospitality a name. Researchers in the fields of marketing and strategic management have suggested numerous approaches to help firms achieve cost – leadership. Some of these are using mass – production techniques, achieving economies of scale, adopting a new technology, achieving mass -distribution, reducing input costs , achieving resource, and improving access to raw materials.

2. 4 SUMMARY

Strategic choice is the third logical element of the strategy process, playing a central role. The process of choice is deciding between different options. There are likely to be possible options about a product and services and about market segments defined by both customer' need and geography. Indicators between what is possible and what is required may follow from the results of a strategic assessment. The various options may inter-relate so it is necessary to identify a small number of strategic options made up of appropriately related options. Strategic options have to be aligned, acceptable, and feasible. If here is more than one strategic option, that meets these tests, they need to be compared both logically and politically in order to take a final decision.