

CHAPTER 2

Meeting Guest Expectations through Planning

HOSPITALITY PRINCIPLE: FOCUS STRATEGY ON THE KEY DRIVERS OF GUEST SATISFACTION

High performing organizations design work processes from the customer backward to ensure a flow that makes sense from a customer's perspective. Internal cross-functional relationships and structures are organized around customer needs. High performing organizations ensure that they are able to respond quickly to customer needs and adapt to changes in the market place. They anticipate trends and get in front of them. Innovations in processes are developed to make it easier for customers to do business. This creates constant innovation in operating practices, market strategies, products, and services.

—Ken Blanchard, Jesse Stoner, and Scott Blanchard, *Serving Customers at a Higher Level*, in Ken Blanchard's *Leading at a Higher Level*

LEARNING OBJECTIVES

After reading this chapter, you should understand:

- The three generic strategies for positioning products and services.
- The organizational planning cycle and how its different elements result in the establishment of the hospitality organization's overall strategic plan and service strategy.
- The basics of how organizations plan and design the guest experience.
- The key external and internal factors that must be examined for successful planning.
- The quantitative and qualitative tools used for forecasting in the hospitality environment—external and internal.
- The process to determine core competencies.
- The importance of including the key drivers of guest satisfaction in the planning process.
- The importance and value of product and service branding.
- A planning model, showing how components are tied together and action plans are developed.

KEY TERMS AND CONCEPTS

forecasting	key drivers	mission statement
low-price provider	quantitative forecasting tools	design day
differentiate, differentiation	qualitative forecasting tools	yield management
market niche	scenario building	revenue management
brand image	Delphi technique	econometric models
brand name	strategic premises	regression analysis
strategic plan	internal audit	time-series and trend analyses
action plans	core competence	brainstorming
environmental assessment	vision statement	focus groups

When guests show up at a hotel, restaurant, or any other hospitality service provider, they have certain expectations of both what will and will not happen. To give guests what they expect requires research to determine exactly what those expectations are. Translating those expectations into a service product that aligns or fits the organization's mission and values takes detailed planning, **forecasting**, and sound intuitive judgment. Managers of excellent hospitality organizations try to mix all three together into a strategy that allows them to give guests exactly what they expect and even a bit more. Guests will return only if their experiences meet, if not exceed, their expectations. The service strategy is the organization's plan for providing the experience that guests expect.

Planning and strategy making are simple to talk about and difficult to do. In theory, all one has to do is to assess the environment within which the organization operates, assess the organization's capabilities, decide where the organization wants to go within that environment and in light of those capabilities, and then make a plan to get there. Unfortunately, the needs, wants, capabilities, and expectations of real customers change; competitors find ways to duplicate the firm's strategic advantage of the moment; governments pass new laws; and advances in technology require the firm to scrap its old delivery system and create a new one. In other words, people change, their needs and expectations change, the competition changes, the environment changes, and so must the hospitality organization. Finding ways to deliver what customers expect in light of the many uncertainties created by such changes is a major challenge.

THREE GENERIC STRATEGIES

A saying in business is, "Price, quality, speed—pick any two." The implication is that no organization can do it all, so no customer should expect it all; the organization must determine the basis on which it hopes to compete. McDonald's gives you speed and price; the Four Seasons Restaurant gives you quality. In addition to price, quality, and speed, the organization could compete on variety, convenience, friendliness, no-frills, uniqueness, helpfulness, or some other basis.

According to strategy scholar Michael Porter, an organization usually employs one or more of three different generic strategies.¹ First, it can aim to be the low-cost producer and **low-price provider** in its industry, area, or market segment. Second, it can **differentiate** its product or service from those of its competitors. Third, it can fill a particular **market niche** or need. Successful hospitality organizations establish a strategy that may include one or more of these generic strategies and stick with it.

A Lower Price

“We will not be undersold!” The low-price provider tries to design and provide pretty much the same service that the competition sells, but at a lower price. Management’s focus is on maximizing operational or production efficiencies to minimize the organization’s costs. Southwest Airlines focused on reducing the costs of running the airline (turnaround times, loading and unloading, food service, and so forth) to achieve the lowest production cost per mile in the industry. Wal-Mart focused on selling for less by controlling inventory and cutting merchandise costs by mass buying. The low-price provider tries to offer the service at a price so low that competitors cannot offer the same service and value at a lower price without losing money. Red Roof Inn and Motel 6 are competing with Budgetel and Sleep Inn, not with Ritz-Carlton and Hyatt. Of course, all hospitality organizations are cost conscious, but some focus on offering bargain prices to reach a wider market rather than focusing on differentiating their service in a wide market or meeting the special needs of a narrow market.

Companies employing the low-price strategy must recognize that if they reduce prices to customers by reducing their own costs, the deterioration in the guest experience that results may decrease the value of the experience to guests and drive them to competitors. Although some are still able to offer excellent customer service, such as JetBlue and Southwest, it is through the delivery system (e.g., employees, scheduling, and standardization of aircraft) that they add value and not through offering a more expensive service product or employing more staff.

A Differentiated Product

All hospitality organizations practice product **differentiation** to an extent; all want to be perceived as offering a service product—the guest experience itself—that is different in ways their customers find favorable. Many try to attract guests by emphasizing these differences rather than by offering low prices.

Differentiating one’s product in the marketplace results from creating in the customer’s mind desirable differences, either real or driven by marketing and advertising, between that product and others available at about the same price. In an era when so many hotel rooms of different brands look so similar, the Ice Hotel in Jukkasjärvi, Sweden—a hotel constructed each year out of snow and ice, featuring reindeer skin beds, an ice bar, and magnificent ice sculptures in the lobby—certainly provides a unique experience that differentiates it from every other hotel in the world.

While not all hotels strive to be as unique as the Ice Hotel, hotel companies do try to differentiate themselves in the marketplace by advertising that can create a brand identity that is valued by the targeted customers or offering special amenities (“Free continental breakfast!” “Kids sleep free!”) that are attractive to that market segment. They hope that a potential guest looking for a place to spend the night will remember what the brand stands for, want the amenities, and therefore drive into, for example, a Holiday Inn instead of a Ramada Inn, or vice versa, for what is essentially the same service product: a clean room in which to sleep.

For example, the Nickelodeon Suites Resort at Lake Buena Vista, Florida, differentiates itself from most other hotels by focusing on families with children offering suites themed on Nickelodeon’s popular children’s characters. Besides its unique Kidsuites, it offers a Nick After Dark program, which is an interactive kids-only dinner show with a slime experience, special weekend packages themed on Nickelodeon’s characters like SpongeBob SquarePants, gated access to the property and kids’ wristbands for parents’ peace of mind, and even a kid’s spa.

The Ice Hotel, in Jukkasjärvi, Sweden, offers a service product that is clearly differentiated from other hotels.



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The Brand Image

A major way to differentiate one's service from those of competitors is through the creation of a strong **brand image**.² A brand represents a promise to guests of what the quality and value of experiences associated with that brand will offer them, every time and every place they see the brand. A strong brand promise reduces customer uncertainty about the hospitality experience that the organization offers and, consequently, creates a brand preference and increases customer loyalty. Once a strong brand preference is established, it can provide some protection against cost cutting or other competitive strategies that can get guests to switch to other competing products. The strong **brand name** can also extend the company's reach into new markets. Because services are mostly intangible—with no dress, guitar, or minivan to touch and try out before buying—brands are particularly important in both adding value to the guest experience and differentiating it from competing services. Even producers of mostly tangible products, like detergents and autos, know the value of a brand and work hard to protect its integrity and image. The Golden Arches is a brand worth a great deal as a symbol of quality and value, and it provides McDonald's with a tremendous competitive advantage. The McDonald's brand communicates a certain consistency in quality, price, and type of food served. Although specific menu items may vary worldwide—you can't get beef, but you can get the Maharaja Mac in India; you can get beer in Germany; you can get your Big Mac on a pita in Greece; and you can order Gallo Pinto (rice and beans) in Costa Rica—the mission of each restaurant is the same: to “be our customers' favorite place and way to eat.” A McDonald's restaurant is instantly recognizable, and thus any of its restaurants anywhere in the world is immediately differentiated from any other fast-food operation. McDonald's works hard to protect the valuable symbol of its brand logo and maintain the reputation for which it stands.

A high-quality brand image enables a company like McDonald's, Disney, or Marriott to gain acceptance for anything new it brings to the marketplace. Customers will usually be willing to give the new product or service a try on the basis of the brand's reputation.

For example, thousands of people, many of them families that had never before felt comfortable going on a cruise, booked trips on the Disney Magic even before the ship was launched. They knew that Disney would not risk hurting its brand by putting it on something inconsistent with the customer's expectation of what Disney stands for. A brand represents a powerful marketing tool to communicate a promise of quality and value for any experience with that brand. Therefore, companies spend a lot of money to create and protect their brands.

Having a strong brand may sometimes be a disadvantage. When Disney entered the European market by opening Disneyland Paris, it discovered that the Disney brand was not seen favorably by some, who associated the brand with promoting American values. Furthermore, fear of hurting the brand image may unnecessarily inhibit a company from exploring new market opportunities or putting its name on a potentially profitable product or service just because doing so may seem inconsistent with the brand image. However, compared to the advantages of instant and favorable product differentiation, this disadvantage is small, and most companies with strong brands are happy to pay this price.

A Special Niche

Finally, an organization can try to find and fill a particular market niche or gap. It can focus on a specific part of the total market by offering a special appeal—like quality, value, location, or exceptional service—to attract customers in that market segment.

The airline industry is one that is constantly seeking to create and fill niches. For example, JetBlue, WestJet, and Southwest Airlines all elected to pursue a short-haul, low-fare, high-frequency, point-to-point strategy to carve out a specific niche in the airline market. This has been a fairly successful strategy, allowing them to achieve success in comparison to the legacy carriers using a hub-and-spoke, business-class traveler-focused strategy. This strategy has been replicated in Europe as well, with the creation of easyJet and other discount carriers.

Warren Buffet, the legendary chairman of Berkshire Hathaway, has taken the airline niche strategy further by investing in what may become a new type of airline travel: The company is NetJets and the concept is called fractional ownership. NetJets owns its aircraft, flies anywhere in the world, adheres to rigorous safety and maintenance standards, and uses a high-tech operations center to keep an eye on every plane in its fleet. But the resemblances to traditional carriers end there. NetJets' customers travel on their own schedules, avoid check-in and security lines, stretch out in comfort in spacious cabins, and fly with only the passengers they choose.³

There are many other examples across the hospitality industry where companies have sought niches that will appeal to specific groups of potential customers. For example, the niche tour industry now includes specialty tours focused on people who want to combine a tour experience with such activities as bicycling; walking; volunteering; golfing; sampling wines, cuisines, pub beers; associating only with a specific group of people, like a university's alumni, families, or gays; or exploring a specific culture, ecology, or heritage. The Society for Accessible Travel & Hospitality reports organizations that have designed special tours for the disabled, such as the walking tour for people with visual impairments offered by Waymark Holidays, a UK walking tour company.⁴ Theme parks also have increasingly found niches. Now customers can choose among Christian (Holy Land), kiddie (Wannado City), heritage (Wild West City, Dollywood), water (Aquatica), animal experience (Marineland, Discovery Cove), human bodies (Corpus), and other niche theme parks.

In the fast-food market and budget-hotel market, the competitive positioning of a McDonald's or Day's Inn is to be the low-cost producer in the budget segment of the market. Casual-dining restaurants like Olive Garden and Chili's have tried to position themselves in the dining-out market by offering price and food values at a point above fast-food and below fine-dining restaurants. By focusing on one particular part of the total market, they hope to distinguish themselves from other types of eating places. Other market niches that have been identified and used as a focus for organizational strategies are the healthy-eating niche in restaurants, convention hotels in lodging, and water parks in parks and attractions. In these instances, the market niche is carefully defined demographically, psychographically, or geographically. The organization seeks to build a top-of-mind awareness within customers in its targeted market as to how unique the experience provided is and how, by focusing on that one market segment, it uniquely meets their particular needs. The distinction between *differentiation* and *finding a niche* is not clear cut. One way to think of it is that the organization determines the market at which it wants to aim, the niche it hopes to fill, and then uses strategies to differentiate itself from other organizations in that same market or niche. The most common strategy is to try to differentiate its product or service from similar products or services.

The organization that concentrates on filling niches is often a market innovator seeking to meet an unfulfilled customer need, perhaps a need that customers don't recognize until they see the product that will fulfill it: a high-priced luxury airline for rich people, a sandwich wrap for drivers eating dashboard cuisine, the W hotel for contemporary luxury travelers, or any other of the thousands of innovative products and services brought to the marketplace each year. This unfulfilled need might be identified by careful market research, serious study of population and demographic trends, a lucky guess, or an intuitive combination of these approaches. Some researchers argue that this combination is the most likely way for managers to develop a **strategic plan**, especially those that make a real difference in an organization's success.⁵

The differences between these three competitive strategies—lower cost, product differentiation, and defined market scope (niche vs. broad market reach)—are illustrated in these three restaurant examples. The fast-food, limited-menu restaurants like McDonald's compete on price, Red Lobster differentiates itself from other full-service restaurants by specializing in seafood, and Dave and Buster's fits into a niche, the "eatertainment" restaurant. The differences between the three strategies, however, are not always clear and many authors use a fivefold classification that combines them in their various ways.⁶ Consider the Hyatt hotel company. Does it seek to compete on a niche (high-end business and convention traveler) or on price (the best price in its market segment)? Marriott has developed several brands to fit the various market niches it seeks to reach as well as the price points within those segments. It differentiates its brands on the basis of both price and targeted market niche. The point is that a number of strategic opportunities exist for hospitality organizations to consider. Each of these opportunities has advantages and disadvantages that an in-depth review of strategic planning will reveal.⁷

Combining Strategies

The strategies just discussed are not mutually exclusive. An organization can seek to differentiate its product from all others in the market (Strategy 2) by positioning the product in people's minds as the best value for the lowest cost (Strategy 1). This combination of strategies requires the organization to use both effective marketing techniques that reach this best-value, lowest-cost market segment and operating efficiencies that allow it to make money at the low price. Successful theme parks seek to apply this combination by



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The Hard Rock Cafe is a themed restaurant, aimed at filling a particular niche in the restaurant industry.

advertising a park visit as a high-value, low-cost, family-entertainment experience while keeping their costs, especially labor costs, low. JetBlue and Southwest Airlines follow the strategy of offering both low prices and excellent service to provide a high-value, low-cost experience in the airline industry to the broadest array of customers possible.

Reinventing the Industry

Picking and following a strategy is an important decision for any hospitality manager seeking to find the best match of the company's mission with present and emerging uncertainties.

If drastic change is forecast, the organization might even have to reinvent itself and learn new core competencies. A strategy might be to get cheaper, or better, or faster. These are all reactive operational strategies that most organizations could adopt as circumstances change.

Most companies listen to their customers and then respond to their articulated needs. But some rare, highly creative organizations can actually create the future for themselves and their industries. Organizational strategists Gary Hamel and C. K. Prahalad note in their book *Competing for the Future* that the organization might even need to “lead customers where they want to go but don’t know it yet.”⁸ They “do more than satisfy customers, they constantly amaze them.”⁹ In other words, they will need to be capable of reinventing their industry through constant innovation.

The creation of Disneyland Park is a great example of a visionary leader reinventing an industry by leading customers to a place they didn’t know they wanted to go. Disneyland was an attempt to move beyond the Coney Island amusement park concept to something new, cleaner, more organized, and safer. Instead of a disjointed array of amusement rides, barkers, and arcades, Walt Disney created within a single setting the feel of being actual participants in a motion picture. The traditional amusement park was embellished in creative ways with new technology and the introduction of theming to become an experience: The theme park didn’t exist until Disney and his creative team imagined it and built it.

Providing Superior Service Quality and Value

These three generic strategies—competing on price, finding a niche, and differentiating—may each work for a while, but they also have potential shortcomings. If you compete on price, somebody is eventually going to undercut your price. Also, the costs associated with establishing a close and lasting relationship with guests are difficult to cover if you stress your low price. If you find a niche and succeed there, an imitator eventually will join you in the niche, and soon it will be just another market segment. If you differentiate successfully, somebody will copy your differentiation feature. Many successful service organizations have found that the best way to succeed in the long term is to differentiate on the basis of superlative service quality and value. Provide better service and value than the competition does, and they can’t beat you. As Chris Fraser, managing director of multiple award winner HotelConnect, said after winning a customer service award, “Excellence in Customer Service is our competitive advantage within the market; it is at the core of our culture, and affects every area of our business.”¹⁰ The well-known management writer, Tom Peters, echoes this idea. He writes, “You can knock off everything ... except awesome service.”¹¹

THE HOSPITALITY PLANNING CYCLE

Leading guests to where they want to go but don’t know it yet is how the truly outstanding hospitality organizations become and stay outstanding. The focus of this chapter is to help readers appreciate how service organizations find a way to give guests what they want, when they want it, even if they don’t know yet exactly what they want. The organization gathers as much information as it can on what its present customers want, need, and do, tries to imagine what kinds of experiences their future guests will find satisfying, and then plans ways to deliver them. For example, Walt Disney planned out a theme park that he knew would wow park visitors long before they knew what a theme park was. As a more recent example, bank customers didn’t know they needed debit cards (on which expenditures are deducted directly from the customer’s checking account) until banks

offered them. Similarly, phone customers didn't recognize their need for a single telephone number that can be used anywhere and includes texting, picture taking, e-mail, GPS, and Internet capabilities until wireless companies made them aware of how convenient such services could be. Hospitality organizations did not know they needed a Web site until the idea was introduced.

The way to reach these outcomes is through the strategic planning process. The process has two basic steps: assessment (external and internal) and figuring out what to do on the basis of that assessment. The external assessment of environmental opportunities and threats leads to the generation of strategic premises about the future environment. The internal assessment of organizational strengths and weaknesses leads to a redefinition or reaffirmation of organizational core competencies.

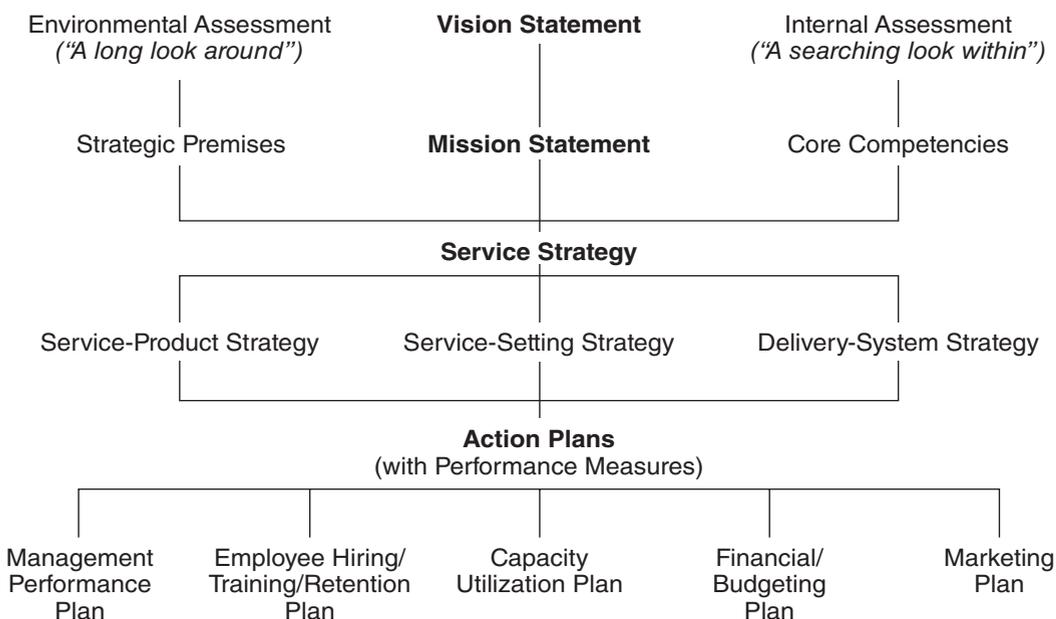
As seen in Figure 2-1, hospitality planning follows an ongoing cycle that begins at the big-picture level and ends in specific **action plans**, departmental or project budgets, and individual yearly objectives that can be tested against performance metrics. Typically, such planning is done annually and begins with management's simultaneous consideration of three elements: the external environment with its opportunities and threats, the internal organization with its strengths and weaknesses, and the relationship of these elements to the statements of organizational vision and mission.

Looking Around

The **environmental assessment**, or the long look around for opportunities and threats, in turn defines the strategic premises. These premises are the beliefs of the managers assessing all long-term aspects of the external environment and trying to use them to discover what forces will impact their business in the future and especially what customers

FIGURE 2-1 The Hospitality Planning Process

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will want in that future environment. They seek to identify what the **key drivers** or value drivers of guest satisfaction will be in the intermediate-term and longer-term future. Although guests will not always know what the key drivers of their future satisfaction will be, the guestologist will try to find the critical aspects of experiences that guests think will satisfy them in the future.

For example, in response to its recognition of growing concerns over the public health issues with obesity and public interest in calories found in restaurant meals that led to a number of local laws, Darden Restaurants led a restaurant industry proposal for legislation requiring nutrition information to be posted somewhere in chain establishments. It sensed its customers were increasingly interested in having access to that information and, as one of the largest restaurant chains in the United States, it knew the importance of listening to what its customers were asking it to do. Although the entire industry initially opposed any federal regulation, it proposed the Labeling Education and Nutrition (LEAN) Act in 2009. Darden chose to show its support for this act by immediately posting online the nutritional values and calories for each of its menu items. As reported in the Orlando newspaper, “The outcry among consumers demanding to know what, exactly, they are eating in the face of an obesity epidemic became too loud for Orlando-based Darden to ignore any longer.”¹²

Looking Within

The internal assessment, or the searching look within for strengths and weaknesses, defines the organization’s core competencies and considers the organization’s strong and weak points in terms of its ability to compete in the future. It is here that the organization determines what it does well, what it does not do well, and how its strengths and weaknesses pair with what it wants to accomplish.

On the basis of its own internal assessment, for example, Gaylord Hotels realized that it needed to develop a stronger guest focus among its employees. Gaylord Hotels wanted to compete by providing exceptional service; yet, it did not feel it had a corporate culture that helped to direct all employee efforts to fulfill this goal. Using a strategic approach to creating a guest-focused culture, it was able to overcome this internal weakness, develop a strong service culture among its employees, and transform it into an area of strength.

The Necessity for Planning

The process described in Figure 2-1 seems to many like an attempt to apply rationality to an irrational world and to predict an unpredictable future. It will, therefore, lead to errors, wasted time, and frustration. Nevertheless, the planning process is worthwhile. There is an old saying that those who fail to plan, plan to fail. Every hospitality organization needs a road map to unite and focus the efforts of the organization’s members and get them prepared for the future that the organizational planners predict. Everyone makes decisions today that they must live with in the future, and most managers want to make those decisions as rationally as possible. Even though no one, including planners, knows what the future will bring, only by creating and implementing plans can we communicate to those both inside and outside the organization where we want to go, what criteria we should use to allocate our scarce resources, and which activities we should pursue or avoid.

This is the kind of thinking that encouraged Warren Buffet to invest in NetJets, the gaming industry to invest in new hotels and casinos in Macau, and China to invest in theme parks. No organization can instantly create such magnificent facilities and equipment.



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The Grand Lisboa, whose casino opened in 2007, was part of a new wave of casinos that were developed in Macau during the 2000s.

The only way it can get to the future it envisions is to invest today. Although no one's foresight as to what customers of tomorrow will want can be perfect, everyone must make decisions today that anticipate the future they expect to see. Creating and following a careful strategic plan is the best known way to do so.

Once the hospitality planning process is complete, the cycle should begin again in some predefined time frame. The planning process should never stop because the world in which any organization operates never stops changing. Moreover, the assessment of the performance metrics associated with each action plan will offer valuable feedback to the organization's leadership as it reviews its strengths, weaknesses, opportunities, and threats in the next cycle of the planning process.

ASSESSING THE ENVIRONMENT

As shown in Figure 2-1, the hospitality planning process begins with a long look around the environment. Here, the organization carefully studies the opportunities and threats the future holds for both it and its industry. Figure 2-2 presents the three categories of factors that should be included in an environmental assessment: those in the overall environment, the industry environment, and the company's operating environment.

Assessing the future depends on a chosen forecasting process. Forecasting techniques range from the heavily quantitative tools, which are objective, to the highly qualitative tools, which are subjective. The **quantitative forecasting tools** include the powerful tools of statistical forecasting. The **qualitative forecasting tools** include **scenario building**, the **Delphi technique**, and pure creative guesswork. Most forecasting techniques are based on the idea that the future is somehow related to the past, that what has already happened has some predictable relationship to what will happen.¹³ If a restaurant's customer growth rate has been about 10 percent per year for thirty years, then forecasting that this growth rate will continue next year seems reasonable. If records show that by 10 A.M. on an average day 20 percent of all visitors who will come into a zoo for that

FIGURE 2-2 Environmental Assessment Factors

The Overall Environment

The Economy. What do we project for economic growth, inflation, interest rates, capital and credit availability, consumer confidence, consumer purchasing power? How will changes in the global market affect our business?

Society and Demographics. How will shifts in social attitudes/values regarding child-bearing, marriage, family-work balance, lifestyle, racial equality, retirement, pollution, etc., affect us? How will shifts in population characteristics, language, age distribution, educational backgrounds, health, ethnic mix, cultural values, etc., affect us?

Ecology. Are there foreseeable natural or man-made caused disasters ahead? Environmental legislation?

Politics. What sort of government policy changes regarding antitrust activities, regulation, foreign trade, health care, taxation, depreciation, environmental protection, and foreign trade barriers can we expect? What political factors or legal constraints will affect international business?

Technology. Where is it going? What new products, services, or breakthroughs might we anticipate?

The Industry Environment

New Entrants. Who will our new competitors be? Will technological advances enable them to offset our present competitive advantages (economies of scale, brand-name differentiation, market niche, availability of capital)?

Bargaining Power of Suppliers. How stable, big, and reliable are our current suppliers? Might any become potential competitors? Are substitute suppliers available? Can we supply ourselves?

Substitute Products or Services. Are alternatives to our service product likely? Can we compete with price, brand loyalty, new product offerings, and/or advertising?

Rivalry Among Existing Firms. Is market growth slowing or is competition becoming fiercer? Is there excess capacity in the industry? Can our competitors withstand intensified price competition? Can we better exploit/protect core competencies?

Bargaining Power of Buyers. How big are buyers? Any who might become competitors? Are there intermediaries between us and our ultimate customer and how do they impact the way the industry does business?

The Operating Environment

Competitive Position. What moves are competitors expected to make, inside and outside of our existing markets? How do we compare in customer awareness/preferences on key drivers? Is the competitive behavior of our competitors predictable?

Customer Profiles and Market Changes. Which customer needs are not being met by our or competitors' existing products? Are R&D efforts underway to fill these needs? What marketing and distribution channels should we use? How will demographic and population changes affect our markets? Any new market segments? What technologies are customers using to experience hospitality products in our competitive market domain?

Supplier Relationships. Should we expect cost increases because of dwindling supplies? Will sources of supply, especially of energy, be reliable? Do we anticipate major changes in cost or availability of needed suppliers? Which alternative suppliers in which country might be desirable to use? How can we help our critical suppliers?

Creditors. Will we have enough credit to finance growth? Will we stay worthy of credit? Do we have enough cash if we need it?

Labor Market. Will we have enough employees, with the right skills, when and where we need them? What are the skill sets of new entrants to the labor market? When are people retiring? What changes are ahead for unions?

Source: Adapted from Pearce, J. A. II & Robinson, R. B. Jr. 2009. *Strategic Management: Formulation, Implementation, and Control*. New York: McGraw-Hill, pp. 121–122. With permission of The McGraw-Hill Companies.

day are already on the grounds, then the day's total attendance can be reliably forecasted by 10:15 A.M. On a grander scale, if the growth rate of tourists coming to a Caribbean island paradise has been 10 percent per year for the past decade, then predicting that this growth rate will continue for at least a few more years seems reasonable.

The problem with assuming that the past can be used to predict the future is that all too frequently the assumption does not hold true. In the early days of the telephone, the ratio of phones to operators was very small. If only population trends and that ratio had been used to predict the number of telephone operators to be needed in the distant future, the prediction might well have been that half the people in the United States would now be working as telephone operators. Major improvements in technology and work productivity have greatly increased the ratio of telephones to operators. As the bursting of the housing bubble and the subsequent financial meltdown of 2008 showed to the dismay of many investors and retirees, any forecast based only on the past can be thrown off by unexpected technological, economic, societal, or political changes.

Forecasting techniques are useful to capture the impact of current trends on future business. However, they are only one source of input into the creative process by which thoughtful hospitality managers develop strategic plans. The appendix at the end of this chapter offers a review of the more popular quantitative and qualitative tools such as **econometric models, regression analysis, time-series and trend analyses, brainstorming, and focus groups**; the reader is encouraged to review them.

WHAT THE FUTURE MAY HOLD

Among the many factors that the hospitality organization must forecast for the uncertain future, it must try to predict potential changes in demographics, technology, social expectations, economic forces, competitors, other relevant groups (suppliers of resources, capital, and labor), and surprise factors.

Changing Demographics

Assessing future demographic trends and their effects may require both qualitative and quantitative forecasts. Hospitality organizations already know a lot about their future guests since so many of them are already here. As of 2010, there are more than 300 million people in the United States.¹⁴ Of these, 59 million (approximately 20% of the population) are older than age sixty-three. Add this to the 77 million baby boomers (those born between 1945 and 1964, representing another 26% of the U.S. population) who are nearing or at retirement age. This large group of aging people has had and will continue to

have a major impact on the hospitality industry as customers, investors, and employees. As of 2008, the fifty-plus age group had a combined annual income of more than \$900 billion and accounted for 80 percent of the nation's savings. Baby boomers and older Americans outnumbered teenagers in 2008, and most will continue to be active twenty to thirty years more than seniors a generation or two ago. The aging baby boomers retiring early with a substantial sum of money available for discretionary use will continue to be a prime target of the hospitality industry. Although many will have at least some child care responsibility for their single-parent children's children, they have the time, money, and physical ability to travel and participate in many guest experiences unimaginable to their parents at comparable times in their lives.

This group of seniors now either in retirement or nearing it will continue to change the workforce and the marketplace for hospitality organizations. They are healthier, financially better off, more willing to travel, are more used to having things “their way,” and generally have higher expectations than their parents had. They have the money, time, energy, and inclination to do what they want to do. The hospitality industry will benefit from this large group of potential customers. Moreover, if they follow the trends set by the generation before them, many will work longer in order to enjoy the social benefits of working, delay the consequences of their unwillingness to set aside enough wealth to live as comfortably as they wish in retirement, and fill jobs that require their expertise and experience. Others will use their retirement to seek new and higher-quality experiences (e.g., voluntourism, adventure tourism, ecotourism).

In other words, many of these seniors not only will stay in the workforce longer compared to their predecessors but also may change jobs to pursue an encore career in an entirely different profession, set up entrepreneurial ventures to do something they always wanted to do, or take jobs like teaching and in not-for-profits that their family financial commitments would not have allowed them to take earlier in their lives. There are stories told of people who retired and moved to Orlando to work for Disney because they had always wanted to work in a “magical” place. Likewise, there are people who have always wanted to run a restaurant, open a bed and breakfast, become a full-time meeting or event planner, or cruise line lecturer. Hospitality organizations may find it desirable to look closely at this labor pool.

In contrast, the generations succeeding the boomers (Generations X and Y) have few defined benefit retirement plans. Instead, they must worry about the future of social security, must depend on their own investment successes (or luck) to fund their retirement years, are in the middle of a public health crises with obesity, must prepare for a world that has fewer domestic industrial jobs, and face the prospect of funding one of the largest government debts in American history, incurred as a result of the 2008 financial meltdown, spending on the Iraq and Afghanistan conflicts, and investments in health care and infrastructure. These generations face the possibility of having a lower standard of living than their parents, working more years before retiring, and paying more for the large number of boomers in social security and Medicare, the national debt, and the health care fallout of obesity.

Generation X, Generation Y or the Millennials, and the Next-Gens

Many future market opportunities can be identified by reviewing information already known about baby boomers and the Generation X and Generation Y segments of the population. The 46 million Americans born in the years 1965–1976 make up Generation X. Generation Y Americans are those born in the years 1977–1997, and Generation

Next (Next-Gens) are those born after 1997. In 2008, these segments represented 15, 27, and 13 percent respectively of the population of the United States. The roughly 81 million Americans of Generation Y, also called the Millennium Generation, between the ages 13 and 33, represent a significant demographic category and constitute the current entry-level workforce. What education and training these people have had or are having will determine the entry-level employee competence and the emerging customer expectations for hospitality experiences. Looking at the demographics, the relatively larger-sized bulges in the postwar baby boom and Generation Y will continue to translate into important trends in both employment and marketing strategies for the hospitality industry. While Generation Y has become an important force of its own, Generation Next will be even more interesting as it evolves. This generation will be different because the world it has to deal with is quite different from the one its parents faced.

Hospitality organizations are making attempts to attract these groups of people. For example, hotels seeking to appeal to a Generation Y group will offer different amenities and features than those targeting boomers. Choice Hotels created a new chain, Cambria Suites, to appeal to this demographic. Its theme is, “Where style, form and function meet.” It offers all suite rooms, high-speed Internet, posh gyms, and retail shops that emphasize health foods. To make sure their emphasis is missed by no one, they call their exercise rooms “Refresh,” their restaurants “Reflect,” and their shops “Renew.”¹⁵ Similarly, W Hotels, one of Starwood Hotels’ brands, targets the Generation Y market. It attempts to appeal to a younger demographic by making its hotels “unique and individual expressions of modern living, reflected in the brand’s sensibility to a holistic lifestyle experience with cutting-edge design, contemporary restaurant concepts, glamorous nightlife experiences, and signature spas.”¹⁶ Hotel companies realize that not all generations of guests want the same experience, and so they market different products to appeal to different groups.

Demographic Implications

These statistics have several implications for all organizations serving the public; some of them will have special impact on the labor-intensive hospitality industry. As aging baby boomers press for allocation of more government dollars to their growing health care and retirement needs, funding for education has come under pressure. In this scenario, agile hospitality companies can define themselves as white knights to schools and their students by finding innovative ways to promote their products and services while helping schools achieve their educational mission. The production of support lesson plans, videos, edutainment, and electronic media will represent prime opportunities for companies to do good things for school systems and for themselves. Organizations that have a fundamental appeal to children, like those running theme parks or makers of children’s products, can seize these opportunities in education as a cost-efficient and focused marketing strategy for reaching this market estimated to be worth \$100 billion per year.

Managerial Implications of Generation Y in the Workforce

Generation Ys are young people who have been called the “most praised generation,” as their entire young lives have been filled with positive feedback from parents, teachers, coaches, and others. They won soccer trophies as children just for showing up, ribbons for participating in school events, and were routinely told they were special. Now as members of the labor force, they require different strategies to manage; as customers, they require different strategies to satisfy.¹⁷

The characteristics of Generation Y have other important implications for managing the workforce of hospitality organizations. The divergence between the haves and the have-nots

in this Information Age is already wide among today's school children and tomorrow's workers, and will likely grow wider. It can be seen even at the elementary-school level, where those children who have access to computers are educationally outpacing those who don't.¹⁸ Today's children will be the eighteen- to twenty-one-year-old workers of 2018 and 2020. Those who enter the workforce without the requisite basic skills will represent a major training and development challenge for the many hospitality organizations that depend upon young, eager, capable employees to provide and ensure guest satisfaction. The challenge for managers will be to keep this new group of employees, especially the have-nots, competitive with the rapidly emerging, highly educated workforce of the Asian rim countries, who are now investing heavily in education and training. The labor pool that companies can hire from is rapidly becoming global, and workers from many nations are competing for the same jobs. Advances in technology and communication make where a person is located less important than what the person can do.

These new workers will be different in other ways as well. As the first generation to have easy access to instant and almost constant worldwide communication through the Internet, social media, texting, and twittering, Generation Ys define their friends and their interests globally instead of restricting themselves to the neighborhood. This trend will be both bad and good: The power of neighborhood and community over individual beliefs, values, and behavior will decline while these people will be more inclined to have a global perspective and the diversity of thinking that such a perspective creates. Finally, and more importantly, Generation Ys have grown up expecting to find anything they need—products, knowledge, and services—on the Web. Google and Wikipedia provide a means to access information instantly. Web sites like eBay and craigslist sell everything imaginable and other sites provide instant hotel, restaurant, or conference reservations. They learn online from educational institutions, news sources, and blogs, they entertain themselves online through music and video access, they create online content through YouTube, and they connect online. This is truly a digital generation and the next generation will be more so.

A Different Way of Thinking

In school and preparing to enter the workforce are the Next-Gens. Here, a child's waking moments are carefully scheduled and planned by "helicopter parents," who hope that by packing their kids' days with soccer practice, tennis lessons, foreign language lessons, extra math tutoring, and judo, they can ensure their children's future success. Moreover, today's students spend more time doing homework than previous generations, despite a large body of research that shows that homework not only robs children of precious free time but also fails to accomplish the goals it purports to achieve, namely, promoting higher achievement, reinforcing learning, and teaching both study skills and responsibility.¹⁹

Grandparents remember how they used to play outside with neighborhood friends, and parents remember how they spent time in front of the television. Today's children pick up their Wii for play in the little time left to them after their working parents pick them up from after-school day care. The impact of such trends on both the future customer and on employee creativity and ability to develop new ideas may be profound. The real question is, how do these generational differences in the amount of free time children have—and in how they use what free time they have—affect what kinds of knowledge, skills, and abilities they will bring into the workplace?

Conventional wisdom would have us believe that when a child has a handheld game console or computer with fantastic games and graphics, the motivation to stretch and grow one's own imagination and creativity is limited. However, numerous studies conducted by

cognitive scientists, psychologists, and neurologists point to just the opposite conclusion: Time spent watching TV and playing computer games actually enhances creativity, patience, social competence, cognitive abilities, including pattern recognition, strategic thinking, priority setting, interpretive analysis, plan formulation and execution, and the ability to adapt rapidly to change.²⁰ While many may assume this generation will have difficulty moving from a virtual entertainment world to the real world of work, there are reasons to predict that this generation of workers will actually be quite well prepared.

For example, cognitive scientists have found that video games exploit the “regime of competence” principle, carefully balancing reward and frustration, demanding that players work at the very limit of their levels of competence. One study showed that gamers consistently outperformed nongamers on standard tests that measure attention span and information-processing time.²¹ Other research has revealed gamers to be significantly more confident, more socially capable, and more creative in problem solving than nongamers.²²

What kind of cognitive skills should we expect to find in Next-Gens? James Paul Gee, an expert in linguistics, literacy, and learning, says, “They’re going to think well about systems; they’re going to be good at exploring; they’re going to be good at reconceptualizing their goals based on their experience; they’re not going to judge people’s intelligence just by how fast and efficient they are; and they’re going to think nonlaterally. In our current world with its complex systems that are quite dangerous, those are damn good ways to think.”²³

Changing Technology

Several developments other than the population trends that are changing the workforce and customer base will affect the strategies of hospitality organizations. Dramatic changes in technology will continue to have a major influence on both organizations and the industry. While many demographic trends shift slowly, changes in technology, especially information technology, occur rapidly, and so they and their impact are difficult to forecast.

The communications and computing power now found in a notebook computer were unthinkable only ten years ago. Today, anyone with a smartphone can search for the lowest airfare to a destination, make a plane reservation, book a hotel room, reserve a rental car, get recommendations on a destination from other travelers, or even take a virtual tour of a hotel, theme park, or destination, all at the same time they are talking. Yesterday’s comic-strip fantasy was Dick Tracy’s two-way wrist radio. Today, anyone with an iPhone, iPad, or numerous other competing products can download or send text and pictures to others over the Internet, book hotel rooms, or even video conference, over Skype. The implications of fourth-generation technology capabilities for travel agents, hotels controlling their room inventory, and other existing—and yet to be created—parts of the travel, tourism, and other hospitality markets are enormous.²⁴ The growth of cloud computing, which relies entirely on the Internet to access both programs and data files, will allow unforeseen opportunities for information sharing, collaboration, and networking by people across the globe.

Other aspects of technological change will be equally important to managing the hospitality organization. The need to blend innovative high-tech solutions into high-touch service situations will be increasingly recognized as a competitive strategy and, when done successfully, rewarded in the marketplace. Hotels, restaurants, and other guest service organizations will find new ways to substitute technology for people, to reduce their dependence on this expensive and increasingly scarce resource. At the same time, these same organizations will need to find ways to maintain the high level of personal contact that defines a positive guest experience. The challenge is to substitute technology for labor in

It is difficult, if not impossible, to predict how technology will shape the future of the hospitality industry.

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ways that the guest perceives as either a positive increase in service quality and value or does not perceive at all.

Self check-in at hotels or airports is an example of technology with which guests feel increasingly comfortable. While most luxury hotels still check in guests wanting this personal service, they also offer the technology for those who prefer the convenience of checking in themselves. Self check-in is more convenient for those comfortable with the technology, usually takes less time, and is considerably cheaper for the hotel than staffing up to check in guests manually. For some people, the substitution with technology can increase their perception of service quality and value. In contrast, others may want to have a person to talk to and check them in. For these guests, technology decreases their perception of service quality and value rendered by the organization. The point is that some guests like technology and some do not. It is the task of the guestologist to find ways to use technology when it meets guests' needs and not use it when it does not.

Changing Social Expectations

Another factor in an organization's long look around is society's changing expectations for all its institutions, including those in the hospitality industry, as well as emerging social trends and institutional changes. "Dashboard cuisine" with its use of wraps did not exist

as a food-service category until recently. Changing social trends led to this new category as very busy families sought a way to find food that they could eat in their cars without making a mess. Similarly, a recent concept is the weekly family meal preparation facilities, where people can go and make a week's worth of nutritious meals at one time. These stores provide the raw materials, necessary utensils, and expert supervision while the customer does all the preparation and packaging work. This enables a busy parent to feed a family for an entire week with meals "like mom used to make" at one time.

Some changing expectations are expressed through trade associations that monitor social trends and their impacts on the industry. Others wind up in the political process and result in new laws, rules, or regulations. An example is the Sarbanes-Oxley Act of 2002, as a response to citizens' lack of trust in the way corporations were governed. Under this act, CEOs and CFOs are required to certify their financial statements as well as the internal controls of their company quarterly. This means they must take much greater responsibility than before to ensure that the company's annual and interim financial statements are fairly represented. Beyond increasing management accountability, Sarbanes-Oxley also requires companies to define, document, and test their internal control structure.²⁵

Legislation impacts the way in which hospitality organizations operate, and so do non-government organizations (NGOs) and interest groups. Because they are so dependent on maintaining a good relationship with the public, hospitality organizations are especially vulnerable to protests or demonstrations by interest groups that object to management policies or business decisions. If a hospitality organization has any thoughts of building a major facility in a historically significant area, it can expect that groups wanting to preserve the area in its present state will generate negative publicity. Even if constructing the facility is a good business decision, public opposition may make it a bad customer-relations decision. Any hospitality organization dependent on a broad customer base has a real challenge when every action it takes is so visible to its guests.

Perhaps no movement has received more attention recently than the green movement. Not only has it become a national priority, but it has been the subject of industry initiatives across hospitality. The American Hotel and Lodging Association (AH&LA) has established a Green Resources Center that tells hoteliers how to employ best practices in environment and sets Green Guidelines (see Figure 2-3). Some states, for example, Florida, offer green certification for hotels that implement environmentally friendly practices. Other organizations across the globe have developed green certification programs, such as GreenGlobe, Europe's Green Tourism, and the USA's Green Seal. There is even a Green Hotel Association, which includes many members of the leading hotel chains and has a Web site (environmentallyfriendlyhotels.com) where customers can find lodging that matches their commitment to environmental actions. Being green not only includes the obvious practices like those detailed in the AH&LA guidelines. One hotel offers a bar of Waste Reducing Exfoliating Body Cleanser that has a hole in the middle as its green replacement for the traditional soap bar. Its box proclaims, "This innovative ergonomically shaped 'waste reducing' soap has been designed to eliminate the unused center of traditional soap bars. This soap is cruelty free and contains no animal fat or byproducts. The carton is made from recycled packaging and printed with soy based inks." The degree to which this is a cost-saving move versus an attempt to protect the environment is immaterial to our discussion.²⁶ Most "green" programs seek to do both to encourage hotels to engage in environmentally beneficial activities. Their requirements are attempts to have hotels do well while doing good.²⁷ Thus, when a Hyatt or Marriott saves one shift of laundry workers plus the soap, water, and electricity by not cleaning sheets and towels for those guests in stay-over rooms, it is doing both. Likewise, when resorts offer

FIGURE 2-3 American Hotel and Lodging Association Environmental Guidelines

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1. Each hotel should form an Environmental Committee that is responsible for developing an Environmental Green Plan for energy, water, and solid waste use.
2. Manage your hotel's environmental performance by monitoring the electric, gas, water, and waste usage information on a monthly and annual basis.
3. Replace incandescent lamps with compact fluorescent lamps wherever possible.
4. Install digital thermostats in guestrooms and throughout the hotel.
5. Implement a towel and/or linen reuse program.
6. Install 2.5-gallons per minute showerheads or less in all guestroom baths and any employee shower areas.
7. Install 1.6-gallon toilets in all guestrooms.
8. Implement a recycling program – including public spaces – to the full extent available in your municipality; document your efforts.
9. Implement a recycling program for hazardous materials found in fluorescent bulbs, batteries, and lighting ballasts through licensed service providers.
10. Purchase Energy Star labeled appliances and equipment.
11. All office paper products should have 20% or more post-consumer recycled content

carbon-neutral vacations, they are trying to appeal to customers who are increasingly demanding this increased level of environmental sensitivity while still making a profit. The expensive King Pacific Lodge in British Columbia, for example, refused to give a corporate customer three separate boats for his seven guests on a fishing trip as it would waste fuel and contribute to global warming. The Lodge states that its goal is to halve its emissions of carbon dioxide in the next decade.²⁸

Hotels are not the only segment of the hospitality industry interested in the environment. The National Restaurant Association has developed an environment program called Conserve/EPA Energy Star Challenge, and the Destination Marketing Association International has included it in their accreditation process. Greening of hospitality is a big issue today and will only become more so in the future as more stakeholders and customers show their concern for the devastation of the rain forest, the melting of the glaciers, and the changes in the earth's environment.

At a minimum, those engaged in strategic planning should try to stay aware of shifting social expectations. Including input from social groups can sometimes enhance the strategic planning process greatly. When planning began for Disney's Animal Kingdom theme park, the organization invited representatives of environmental and animal-rights groups to help in the development process. By working with them, Disney was able to develop a park consistent with the environmentalist's ideals. Similarly, as noted earlier, because of

increased attention to health issues and particular concerns about obesity, Darden Restaurants posts nutrition information for its restaurants (e.g., Olive Garden, Red Lobster, Bahama Breeze) online. Although laws are being passed in various states to require this action, Darden took the lead in making this information available to its consumers and even helped lobby for the passage of such legislation. Restaurants need to keep pace with more than just changing customers' preferences for food. They must also monitor broader trends that influence consumer behaviors.

Changing Economic Forces

Many environmental factors already covered have an economic aspect. Economics is such an important issue, however, that it deserves special discussion. The organization must consider the effects of governmental economic policies on its suppliers of capital, the ability of its customers to buy the service, its own cost structure, and direct and indirect competitors' ability to compete. The economic meltdown of 2008 had a major impact on the hospitality industry. Not only did it lead to a virtual halt on new construction but also directly influenced consumer confidence and willingness to spend on vacations, time shares, second homes, and other hospitality and tourism services. Likewise, the resulting governmental intervention and financial subsidies given to the financial and industrial sectors led to public outrage over any business spending viewed as excessive or wasteful, such as resort hotel golfing retreats, meetings in Las Vegas, first class travel, luxury boxes, and premium entertaining. Hospitality organizations serving these governmentally subsidized businesses increasingly found themselves on the defensive justifying to a skeptical public why these expenditures made good business sense.

Perhaps one of the most interesting aspects of the financial market crisis in 2008–2009 was to cause many in the hospitality industry to reevaluate their organizational goals and priorities. The emphasis on investing in real estate and increased debt financing caused many organizations to become distracted from their core competence of managing hospitality operations and instead to focus on the financial aspects of the business, especially real estate. During the middle of the first decade of the twenty-first century, articles appeared in the *Wall Street Journal* that reflected the impact that soaring real estate prices had on the hospitality industry. Articles such as those that wondered where the dude ranches had gone²⁹ or what happened to bed and breakfasts³⁰ or what the future of ski resorts might be³¹ keyed on the cost of the land. The expectation of ever increasing real estate value and other financial strategies like marketing hotel rooms or housing communities to consumers as time shares offered developers a chance to cash in on the cheap money-fueled market demand for any real estate. A *Wall Street Journal* article in 2006 talked about the rising number of condo-hotels that made up approximately 11 percent of the new hotel market. It noted that condo-hotels were popular among developers because having individual owners not only changed the financing strategy for building new hotels but also cut the costs of maintenance and utilities.³²

When the real estate markets collapsed and the financial industry stopped loaning money, the wisdom of the financially driven strategies was called into question. In the gaming industry, for example, Harrah's and MGM Mirage nearly collapsed under their debt burdens.³³ Sysco had to initiate various support strategies to help keep its restaurant customers afloat.³⁴ Financially strapped customers stopped eating out, causing layoffs and closures across the restaurant industry, from the upscale Ruth's Chris to casual-dining Chili's to coffee bar Starbucks.³⁵ Golf and country clubs scrambled to adapt in the face of membership loss.³⁶ Conventions attracted significantly fewer attendees, especially in

destinations like Las Vegas and Orlando, which might be perceived as places where attendees might be playing instead of taking care of business. Airlines flew empty seats, busses got busier,³⁷ and barge tours in Europe went on two-for-one sales. In other words, the lack of clear forecasting of the downside of the business cycle and overreliance on a continuing upside caused many financial challenges and employee hardships for all parts of the hospitality industry across the world.

Organizations in the hospitality industry must also consider, besides the influences from the financial environment, numerous other economic factors in their strategic planning process. For example, one important consideration is the future direction of the local, regional, national, and even international economies and how these directions will influence the demand for hospitality services. Consider foreign currency exchange rates. If China's currency is less valuable in foreign exchange than the U.S. dollar, foreign tourists will consider going to China rather than coming to the United States. In the labor-intensive service sector, the influence of inflation on competitiveness is especially important. If inflation rates move up or down, the organization's cost of capital—its ability to expand the business, buy new equipment, and keep up with rising wage expectations—will be affected. Other economic factors would include productivity growth, income distribution, and stage in the business cycle. Most hospitality organizations are more sensitive to variations in general economic health than organizations making and selling necessities. When the economy is in a downward cycle, so too is the travel and tourism industry. People must buy groceries and clothing; they don't have to take vacations, go to meetings and conferences, or go out to eat.

Changing Competitors

An organization has existing competitors, potential competitors, and indirect competitors that offer customers a substitute or alternative service. These competitors can be local, national, or even international.

Existing competitors have an established position in your market niche. If you are a small corner restaurant, your competitors are all those other restaurants in the same market area. Since most people go to restaurants within a short drive from their home, these competitors are easy to identify. Potential competitors are those who are likely to enter your market area. The sign may be up, the building begun, and the “buy one, get one free” coupons distributed to mark the existence of a potential competitor to your restaurant. The alternative or substitute providers include anyone who sells food. They can range from Weight Watchers, which provides its own branded food products to dieters, to the local grocery store, to a food-delivery service. Anyone who can fill the same basic need with an alternative product is a competitor.

In the theme park industry, a competitor is not only anyone that can offer a more attractive use for a guest's funds in the destination but is also anyone who can encourage customers to spend their leisure dollars at some destination besides yours. Because Orlando visitors and locals can spend money in a wide variety of alternative ways, Orlando theme parks are especially sensitive to this competitive market reality. And, of course, people can choose not to come to or stay in Orlando at all; the over 64 million annual visitors that the parks depend on can go to competitive attractions at other destinations, like Las Vegas, Spain, or Branson, Missouri. The in-market competition includes other theme parks, dinner theaters, civic museums, art galleries, factory-outlet stores, or even a trip to the beach. It even includes noncustomers who stay away from parks entirely and watch videos at home or in a motel room. The guestologist tries to find out how guests in the

organization’s target market—those that come, those that don’t come, and those who don’t come back—want to spend their time and money, and if possible provide them desired options rather than letting customers go to competitors.

Changes in Other Relevant Groups

In addition to the various factors and groups we have already discussed, several other groups in the organization’s external environment must be included in any environmental forecast: the suppliers of resources and raw material, capital, and labor.

Resource Suppliers

When Red Lobster adds a new seafood item to its menu, it must first check to be sure that demand for it doesn’t exhaust the world’s supply of that item. Because Red Lobster has so many restaurants, adding or removing a menu item can have a major impact on the supply of that product. If a certain type of shrimp now retails for \$9.99 per pound, how much will the price change if Red Lobster buys up half of the world’s supply next year? Obviously, the planning process needs to take such supply-related issues into consideration.

Capital Suppliers

A second major interested group is the suppliers of capital. As the capital market has become more global and the availability of electronic transfers makes movement of capital easier and quicker, the organization may need to spend more time forecasting the availability of capital for its business and industry. If capital availability is driven by the next quarter’s financial report, the impact on the organization’s decision-making and planning horizon will be considerable. If Wall Street demands a certain short-run return on investment, finding the extra resources to develop a new service or to take a chance on a new concept or location may be difficult. The airline industry undergoes a periodic



Photo courtesy of Darden Restaurants.

With more than 680 restaurants in the United States and Canada, Red Lobster must carefully forecast the potential supply of any seafood item it might want to add to its menu.

devaluation of its stock prices as the capital market expresses its opinion about the industry's overcapacity problems and how much it will cost to fix them. No matter how good a strategy an organization has, if it can't convince the capital market or if the capital market is unwilling to take the risk, the strategy may be worthless.

The Labor Supply

A third supplier of a crucial resource is the labor market. It is so important that we devote Chapter 5, on staffing, to it.

Surprises

The final external issue to address in this long look around at the environment is the potential for surprise. While one cannot often predict real estate or financial market crashes, terrorist attacks, wars, volcanic eruptions, earthquakes, tsunamis, or other natural disasters, thoughtful planners consider these possibilities. Preparing for such events means having a plan to deal with the immediate consequences (such as on the day of the disaster) and the longer-term implications.

Many "unique" disasters have certain commonalities: loss of power, inability of guests to leave while new guests are arriving, failure of communication networks, fear on the part of both guests and staff, and so forth. Although specific events cannot be predicted, the better companies are well prepared when some sort of disaster occurs.³⁸ This involves having a plan for where guests will go or stay, what to do with food in the refrigerators without power or knowing how long the generators will last, what circuits are connected to them, and so forth. A well thought out disaster preparedness plan can help make sure that employees know how to respond should some unforeseen event occur. The disruption of air travel across the world resulting from the volcano eruption in Iceland's Eyjafjallajökull made it clear that no one had planned on how volcanic ash would shut down air travel, strand passengers across the world, and generate unexpected economic impacts on hospitality organizations, travelers, and countries alike.

As for longer-term implications, hospitality organizations should consider how surprises can affect overall demand for their service product. If most customers have to drive long distances to get to your service setting, your planners should keep in mind the gas supply problems that intensifying instability in the chief oil-producing nations might create. If your airline serves or your hotel chain is located in an area that seems liable to be a target for terrorist attacks, you need to have a contingency plan. While the terrorist attack of 9/11 may seem like a distant historical event now, its impact has left a lasting impression across the hospitality industry. Conventions still struggle with attendees' reluctance to fly in the face of terror threats and the time-consuming ordeal the Transportation Security Administration (TSA) has introduced to flying. Cruise lines face the additional inconvenience of enforcing new passport requirements, and destinations dependent upon international travelers suffer from the latter's unwillingness to endure the new security procedures for entering the United States. While hoping and planning for the best, strategic planners must realize that any number of unpredictable future events can have a severe impact on how many customers want or need the service the organization offers and plan for them.

The Impact of Change on Strategic Premises

All the changes described above will have varying effects on the organization. But not all factors are equal in either their impact on the organization or in terms of our ability to

forecast them fully. Some are predictable and simple, such as the estimated number of teenagers available for work in ten years. Since they have all been born already, predicting the number available in ten years is a straightforward calculation. Some other factors are simple but unpredictable. Using demographics again, estimating the number of skilled and trained employees who will be available in Pocatello, Idaho, in twenty years is a simple number to calculate, but the calculations rest on unpredictable information such as unknown changes in family formation, net migration into southwestern Idaho, local economic changes, and other factors.

As was true of simple future elements, complex future elements are either predictable or unpredictable. Once a certain number of people are in a destination market, a relatively predictable percentage will come to any given tourist attraction on any given day. Calculating the number of people who will be in the market, however, is a complex process; it depends on airline routes and fares, propensity to travel by people all over the world, the price of gasoline, foreign exchange rates, the threat of terrorism, the level of economic activity, consumer confidence, availability of and cost involved in other more attractive destinations, and a variety of other factors.

The complex and unpredictable outcomes are, of course, the hardest to forecast. An example would be changes in technology. If technology develops to the point that the experience of going to a major attraction or a conference can be duplicated through virtual reality, then people won't have to go through the trouble and expense of coming to the site of the attraction or conference to rent cars, stay in hotels, and buy admissions. If this happens, the entire area surrounding the attraction or destination will suffer a severe economic decline. The impact of the financial bailout following the meltdown in 2008 on conference destinations was enormous, with meeting planners switching locations from the ones that were previously desirable because of the extras available, for example, Las Vegas and Orlando, to those that were instead viewed as places to stay focused on strictly business. Predicting what economic impact an event can have is a major challenge for both hospitality and civic forecasters.

Some forecasts are easy, because the elements comprising them (which are themselves forecasts) are predictable and the calculations simple, and others are difficult. Guestologists must try to make the forecasts relevant to their organization's future, regardless of ease or difficulty, and include them in their strategic planning processes. Since things that can be counted are often more comfortable to deal with than those that can't, managers are sometimes tempted to emphasize those factors that are numerical while ignoring those that cannot be easily measured. Unfortunately for those managers, in real life the crucial factors are usually those to which we can't apply numbers.

Strategic Premises

The hospitality organization draws conclusions about the future of its industry and market from its environmental assessment, and then uses this information to make the assumptions, called **strategic premises**, on which its service strategy is based. Strategic premises are educated guesses. The organization's planners may guess wrong; even if they guess right, they may devise the wrong strategy. But not to guess at all means reacting day to day to whatever seems to be going on, without a plan or a focus for organizational activities.

Dave Thomas, founder of Wendy's, told how his environmental assessment led to certain premises on which Wendy's corporate strategy was based. When creating his new

restaurant in 1969, he identified five trends³⁹ he thought offered him a market opportunity that he had the competence to meet:

1. *People wanted choices.* They were tired of living in a prepackaged world; they wanted some influence over the products they were buying in the marketplace, and they wanted something new.
2. *People were fed up with poor quality.* He saw a big interest in things that were fresh and natural.
3. *People were trying to adjust to a newer, more complicated way of life.* Older people were looking for relief from the many social and political changes occurring during the 1960s, and young people were looking for changes that they could handle. Thomas notes, “In a funny way, the old fashioned decor and the Tiffany lamps provided a novelty for the young adults and nostalgia for the older generation at the same time.”
4. *People were on the move.* Any business had to accommodate this restless mobility.
5. *People were ready for an upscale hamburger place.* He felt that many people had grown up loving hamburgers but were not satisfied with the product generally available at fast-food outlets.

Thomas wrote, “Knowing these five trends allowed Wendy’s to focus on the right market. My bet is that if you looked at any successful business, you would find factors very much like these behind that business’s success. If you’re going to bet your bankroll on a business concept, you had better be able to understand those forces. If you can’t describe them, you had better feel them so clearly in your gut that you know you’re right.”⁴⁰

ASSESSING THE ORGANIZATION ITSELF: THE INTERNAL AUDIT

On the right side of our planning model shown in Figure 2-1, opposite the long look around, is internal assessment, or **internal audit**, the searching look within. The hospitality organization cannot plan with any confidence until it admits its weaknesses and identifies its central strengths, frequently termed its core competencies.

Core Competencies

The definition given by management strategists Hamel and Prahalad is helpful: An organization’s **core competence** is the bundle of skills and technologies that gives the organization an important difference in providing customer benefits and perceived value.⁴¹ Ford’s core competence is the ability to make cars. The core competence of the Marriott is the ability to manage excellent lodging facilities. Southwest’s core competence is to have efficient operations while maintaining superior customer service. Knowing its areas of competence will enable an organization to make a key strategic decision: What shall we not do?

If a company has proven it has the ability and technology to combine the merchandising of consumer goods, entertainment, and an eating experience in a striking setting, then it can do what Rainforest Cafe and most other theme restaurants have done: Seek to expand the variety of consumer goods it sells alongside its restaurant operations. In contrast, while Darden’s core competencies have to deal with its supply chain and restaurant operations, it does not have a core competency in the area of information technology. As a result, Darden outsources its IT system maintenance, because it decided that IT was not part of its core competence and it did not believe that pursuing IT should be its mission. The point is that every successful organization has developed a core

competence, an ability to do something very well. As long as it sticks to activities appropriate to that core competence, it will probably continue to succeed. When it strays from its core competence, it may find itself pitting its weaknesses against the strengths of other organizations.

This is why many organizations seek to outsource activities and functions that they believe are not their core competence to another organization that has a core competence in those activities and functions. Forming strategic alliances with these organizations allows that outsourcing organization to gain the competence of another organization instead of trying to do everything itself. An airline, for example, will outsource its fueling function to another organization so that it can retain its focus on those things that are core to its business and let others handle those things that are not core. Schools and universities outsource their food service to Aramark or Sodexo so that they can focus on the academic issues that are core to their mission.

Successful managers must have two skills or qualities: management ability and expertise in a specific industry or functional area. They know, just as successful organizations know, that they should focus on developing their management ability and industry or functional expertise, which as a bundle comprises their core competence. A factory manager and a hotel manager may have many of the same managerial skills, but the successful factory manager may fail as a hotel manager. The core competence leading to success, for managers and for organizations, will be different in the two industries.

The internal audit tells the hospitality organization where it stands now, what new strengths it must develop, and what weaknesses it must eliminate to build the core competence it will need to succeed in the future industry it foresees. If an organization accurately perceives itself to be the dominant force in entertainment and foresees the future of entertainment in electronic media, then that company should probably set its sights on dominating any electronic medium that develops and delivers entertainment. Such reasoning is, of course, what made Wall Street applaud Disney when it bought Pixar. For Disney, the fit with its core competence and industry vision was perfect. Pixar had successfully used computers to replace hand-drawn animation, which most, including Disney, had not thought possible. The purchase of Pixar represented a capitulation of Disney's commitment to hand-drawn animation as the future of entertainment in this electronic medium. The success of *Toy Story*, *Finding Nemo*, and *Up* proved the value of digital animation. Rarely do the internal and external audits lead to such dramatic decisions.

Internal Assets

An internal audit includes an assessment of all the organization's internal assets. Each organization has a reputation, a pool of human capital (its employees), managerial capabilities, material resources, and competitive advantages based on its technology. It also possesses patents, brand names, copyrights, and customer loyalty, all of which help define its core competencies.

The Ritz-Carlton, for example, is generally considered to be one of the world's most able lodging organizations. It knows what it should do to sustain its core competence of providing service excellence in the lodging field. It has a unique, well-established, loyal customer base, a committed pool of employees, strong culture, well-trained management, a strong brand image, and a well-maintained capital base. In an assessment of its own internal strengths and weaknesses, The Ritz-Carlton builds upon its core abilities—by not only acknowledging them as an organizational strength but also incorporating its gold

standard into its business plan as a marketable product, to be shared with others through seminars offered at the Ritz-Carlton Leadership Center on how to manage for service excellence.⁴²

Likewise, Darden Restaurants understands that one role of planning based on a knowledge of core competencies is to seek business areas that the organization should be in and avoid or exit those it should not. When a company perceives it has reached a critical point in penetrating a market segment, it seeks new segments to satisfy customers or new ways to expand its reach or penetration of its current market segment. If a company achieves great success and finds itself with a lot of cash on its hands, as Darden did with the success of Olive Garden and Red Lobster, it is tempted to try new lines of business because it can afford to and its shareholders expect it to grow. What Darden did was to open Bahama Breeze, Smokey Bones, and Seasons 52 and buy The Capital Grille to expand its penetration of its existing markets. On the other hand, it exited Smokey Bones when its planners determined that a sports bar did not fit its core competence of running casual-dining restaurants.

Alternatively, Marriott provides an example of an organization that reached a critical point in its airline catering and restaurant businesses, which it had operated successfully for sixty years. Marriott's forecasts for future growth in those areas were not promising, so Marriott sold these businesses in spite of their central importance in the early development of the company. At about the same time, the organization realized that the market for its core competence—running large, full-service Marriott hotels—was limited. The company decided to capitalize on its name and core abilities by moving into other segments of the lodging market: small-sized, medium-priced Courtyard by Marriott, economy-priced Fairfield Inn by Marriott, and extended-stay Marriott Residence Inn,

Marriott International offers a number of hospitality products, all strongly tied into the overall, and highly recognizable, Marriott brand.

Courtesy of Marriott International.



Springhill, and TownePlace Suites. It also acquired the Renaissance and Ritz-Carlton chains and created the JW Marriott for more upscale travelers and conventions. Finally, it added the Execustay and Executive Apartments for the transferred or longer-staying executive and Vacation Club International for the time share market.

An unsatisfactory bottom line will motivate a company to take a searching look within. For years, McDonald's focused on selling hamburgers. Falling sales and the public's obvious desire for healthier foods convinced the company that it had to change the way it executed its core competence: making and selling hamburgers quickly. The company added salads. Executives were aware of the risk but took a chance on capturing that part of its market that it felt it had lost to the more upscale Panera and Cozi, both of which had got the baby boomers eating salads and chicken. After posting losses in 2003, McDonald's offered a \$4.50 California Cobb salad with grilled chicken and a new \$3.89 grilled chicken club sandwich. Given the historical price points of its product, this seemed to be a risky strategy. It worked: The average check value grew in 2005 by 5 percent to \$5. The strategy fueled three years of growth, with salads accounting for between 15 and 20 percent of same-store sales growth.⁴³ More recently, McDonald's set its sights on Starbucks, by opening up a McCafe in all its 14,000 stores. McCafe's target is the Starbucks customer who felt the pinch of the 2008 economic downturn but still liked good coffee. After beating out Starbucks in a *Consumer Reports* review of coffee in March 2007, McDonald's added specialty coffee drinks to compete on both quality and price for the cappuccino, latte, and mocha drinkers. Starbucks, attacked by this competitive effort and hit by the economic downturn in late 2008, closed 900 of its stores worldwide. Its response has been to seek ways to reinvent the "Starbucks experience." Among other changes, its baristas now grind coffee each time a new pot is brewed because, according to its chairman, Howard Schultz, "preground coffee had taken the 'romance and theatre' out of a trip to Starbucks."⁴⁴

Vision and Mission Statements

Figure 2-1 shows that a vision statement and mission statement are key parts of the hospitality planning process. Most organizations spend a great deal of time trying to articulate these concepts, and the reason is clear: If you don't know what you want to do, how can you decide how to do it? Most companies wind up writing mission and vision statements—and other statements such as credos, beliefs, and values—but not all need to; often, smaller organizations have leaders who know what they are doing and where they are heading without writing it down. Vision and mission statements vary from the simple to the complex, but in general, the simpler the better.

The Vision Statement

A **vision statement** articulates what the organization hopes to look like and be like in the future. Rather than presenting specific principles, goals, and objectives, the vision presents hopes and dreams; it creates a picture toward which the organization aspires; it provides inspiration for the journey ahead. It depicts what the organization hopes to become, not what the organization needs to do to get there. The vision statement is used to unite and inspire employees to achieve the common ideal and to define for external stakeholders what the organization is all about. For example, "McDonald's vision is to be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile."

Though mission and vision are to an extent overlapping terms, the corporate vision is the really big picture of hopes for the future. Hamel and Prahalad call this vision

definition the “quest for industry foresight,” as the organization defines what its future could be and works backward to what it must do today to make that future happen. The creative imagination of management and the entire organization needs to be focused on articulating the vision and how to achieve it. Hamel and Prahalad describe the difficulties involved in getting from here to there, from today to tomorrow:

Although potentially useful, technology forecasting, market research, scenario planning, and competitor analysis won't necessarily yield industry foresight. None of these tools compels senior management to preconceive the corporation and the industries in which it competes. Only by changing the lens through which the corporation is viewed (looking at core competencies versus focusing on only strategic business units), only by changing the lens through which markets are viewed (functionalities versus products), only by broadening the angle of the lens (becoming more inquisitive), only by cleaning off the accumulated grime on the lens (seeing with a child's eyes), and only by occasionally disbelieving what one sees (challenging price-performance conventions, thinking like a contrarian) can the future be anticipated. The quest for industry foresight is the quest to visceralize what doesn't yet exist. ... Having imagined the future, a company must find a path that leads from today to tomorrow.⁴⁵

This ability to imagine a future market opportunity that is currently unpopulated with competitors is the focus of a term called blue ocean strategy.⁴⁶ This is the idea that the truly innovative organizations seek new market spaces that allow them to operate in a wide open ocean of opportunity because there is no existing competition or there is nothing like it in the marketplace. An example should make this strategy clear. Cirque du Soleil is neither a circus nor a theatrical show but is instead a combination of the two that is unlike anything that has ever been seen before. By eliminating the costs of a circus and embracing the entertainment focus of a themed theatrical show, Cirque du Soleil made something entirely new. It found a blue ocean opportunity that has been very successful.

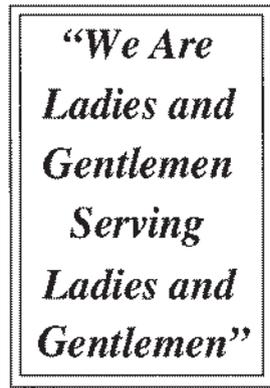
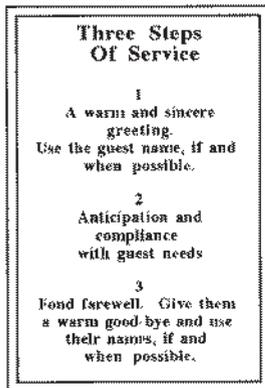
Sometimes an organization is created to fulfill a personal vision. Walt Disney wanted to build his theme park, Disneyland, so badly that he was willing to borrow against his insurance policy to begin it. He had a vision to fulfill. Selling others on the same vision was a difficult challenge. After all, who else could imagine a theme park built on 182 acres of citrus grove in the middle of then-undeveloped Anaheim, California? The park would wind up costing \$17 million to build, far exceeding the original estimates. While Disneyland was a visionary project, it pales in comparison with the vision required to conceive a Walt Disney World Resort and bring the park into being. Disney bought nearly 28,000 acres, mostly citrus groves, near the quiet town of Orlando, Florida, on which to build his dream. It included not only an expanded version of his Disneyland theme park but also hotels, restaurants, and even Epcot, the city of the future. Epcot was originally envisioned as a complete, self-contained city with its own schools, apartments, and shopping facilities. The development of the Celebration community brought to fruition this final part of Walt Disney's grand vision.⁴⁷

The Mission Statement

An organization's **mission statement** articulates the organization's purpose, the reason for which it was founded and for which it continues to exist. The mission statement defines the path to the vision, given the strategic premises and the organization's core competencies. The mission statement is a guide to defining the how, what, who, and where for the organization's overall service strategy that in turn drives the design of the service product, service environment, and service delivery system. These definitions form the basis of action plans and lead to the other steps and decisions that put resources in place to fulfill those plans.

The mission statement should guide managers as they allocate resources, focuses organizational marketing efforts, and defines for all employees how they should deal with guests and customers. A typical mission statement will include at a minimum the following three elements: (1) What you do (What is the product or service you are providing to the customer?), (2) Who you do it for (Who is the targeted customer?), (3) How or where you do it (Where is the product or service going to be provided to the targeted customers? Place, niche or market segment?)

An example would be the simple but elegant motto statement of The Ritz-Carlton Hotel Company, L.L.C., a two-time winner of the Malcolm Baldrige Quality Award: “We are Ladies and Gentlemen serving Ladies and Gentlemen.”⁴⁸ Every day, employees go over one of the company’s twenty basic service standards; the same one is discussed again twenty days later. The purpose of this ritual is to keep Ritz-Carlton’s philosophy—its gold standards—in the forefront of employees’ minds.



The Ritz-Carlton Credo.

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The Ritz-Carlton® Basics

- 1 The Credo will be known, owned and energized by all employees.
- 2 Our motto is: “We are Ladies and Gentlemen serving Ladies and Gentlemen.” Practice teamwork and “lateral service” to create a positive work environment.
- 3 The three steps of service shall be practiced by all employees.
- 4 All employees will successfully complete Training Certification to ensure they understand how to perform to The Ritz-Carlton standards in their position.
- 5 Each employee will understand their work area and Hotel goals as established in each strategic plan.
- 6 All employees will know the needs of their internal and external customers (guests and employees) so that we may deliver the products and services they expect. Use guest preference pads to record specific needs.
- 7 Each employee will continuously identify defects (Mr. BIV) throughout the Hotel.
- 8 Any employee who receives a customer complaint “owns” the complaint.
- 9 React quickly to correct the problem immediately. Follow up with a telephone call within twenty minutes to verify the problem has been resolved to the customer’s satisfaction. Do everything you possibly can to never lose a guest.
- 10 Guest incident action forms are used to record and communicate every incident of guest dissatisfaction. Every employee is empowered to resolve the problem and to prevent a repeat occurrence.
- 11 Uncompromising levels of cleanliness are the responsibility of every employee.
- 12 “Smile-We are on stage.” Always maintain positive eye contact. Use the proper vocabulary with our guests. (Use words like- “Good Morning,” “Certainly,” “I’ll be happy to,” and “My pleasure”).
- 13 Be an ambassador of your Hotel in and outside of the work place. Always talk positively. No negative comments.
- 14 Escort guests rather than pointing out directions to another area of the Hotel.
- 15 Be knowledgeable of Hotel information (hours of operation, etc.) to answer guest inquiries. Always recommend the Hotel’s retail and food and beverage outlets prior to outside facilities.
- 16 Use proper telephone etiquette. Answer within three rings and with a “smile.” When necessary, ask the caller, “May I place you on hold?” Do not screen calls. Eliminate call transfers when possible.
- 17 Uniforms are to be immaculate. Wear proper and safe footwear (clean and polished), and your correct name tag. Take pride and care in your personal appearance (adhering to all grooming standards).
- 18 Ensure all employees know their roles during emergency situations and are aware of fire and life safety response processes.
- 19 Notify your supervisor immediately of hazards, injuries, equipment or assistance that you need. Practice energy conservation and proper maintenance and repair of Hotel property and equipment.
- 20 Protecting the assets of a Ritz-Carlton Hotel is the responsibility of every employee.

Red Lobster, part of Darden Restaurants, couches its vision and mission in terms of its passion, dream, and goals: “Our passion is hospitality, over-the-top performance, and creating a legacy of greatness that endures and prospers for generations to come. Our dream is to be a world-class company of restaurants that our stakeholders—customers and guests, crew, suppliers, communities, and Darden Restaurants—are proud of. Our goals are to earn a sterling reputation for measured excellence in everything that we do and to retain the loyalty of our stakeholders for life.”⁴⁹ These somewhat general statements are made specific in the eight principles tied to them under these headings: hospitality, fairness, caring, respect, fun, quality, zip, and balance.

The Olive Garden restaurants (another Darden organization) have a seven-point vision statement and also a simple five-point statement that provides guidance for employees:

1. Hot food hot
2. Cold food cold
3. Know your product
4. Clean rest rooms
5. Money in our bank

These points provide focused and clear guides to employee decisions.

The organization’s statement of mission often includes its core values. Wal-Mart founder Sam Walton combined mission and values when he said, “We put the customer ahead of everything else.... If you’re not serving the customer, or supporting the folks who do, we don’t need you.”⁵⁰ All these organizations recognize the importance of providing straightforward guidance to all employees as to how the organization expects them to act in their jobs.

Southwest Airlines started out in 1971 with this mission: “Get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it.”⁵¹ Here is the Southwest mission statement of today⁵²:

The mission of Southwest Airlines is dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

To Our Employees

We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

DEVELOPING THE SERVICE STRATEGY

Once the external and internal assessment factors have been examined in light of the corporate vision and mission, the hospitality organization is ready to define its service strategy. This strategy is critical to any service organization’s success because it provides guidance in how to make every organizational decision, from capital budgeting to handling a customer complaint. Defining and creating the service strategy are as much art as science and should involve the voice, ideas, and enthusiasm of its many stakeholders. The organization must now define its market’s key drivers, craft its service product to meet that market’s needs, create the appropriate service environment, and design the service systems to reach the target market. In Chapter 1 we discussed these key components of the hospitality organization, and this is when the strategy must be translated into

specific actions. If the company mission is to deliver a service product to an upscale, educated, retired socioeconomic group, then the service delivery system should be high touch, and the service environment should be elegant and congruent with what an upscale market wants. Knowing what any market wants takes us back to an important point from the first chapter: Ask the customer.

Asking Customers What They Want

Usually, the best way to know what your customers want or expect is to ask them. The organization should not only look inside to evaluate its core competencies but must also ask its customers to determine the key drivers of customer satisfaction. Customers can tell the organization what they really value, and these values should drive the decision process on resource allocations. The customers will tell the organization if its core competencies are important to providing customer value and satisfaction, and excellent hospitality organizations measure these key drivers carefully and frequently.

As a true believer in identifying key drivers, Disney surveys its guests constantly. On one such survey, Walt Disney World Resort guests were asked a variety of questions about their experiences and how those experiences related to both their intention to return to the parks and their overall satisfaction with Walt Disney World Resort. Fast food in the parks received relatively low ratings. However, analysis of the data revealed only a weak statistical relationship between these low ratings and both intention to return and overall satisfaction with Walt Disney World Resort. The quality of the fast food did not seem to matter all that much. On the other hand, ratings of attractions, entertainment, and fireworks were strongly related to both the return intention and the satisfaction measure.

Guided by the survey results, Disney decided to invest available funds in new attractions, entertainment, and expanded fireworks displays. Although the organization felt competent to improve fast food, it allocated scarce resources to improving areas of key importance to guests. The strategic planning process did not just involve managers introspectively looking at organizational core competencies. It incorporated the wishes and expectations of guests into these decisions. Most other guest-focused organizations do the same. They find out what key factors drive the experiences of guests, and they work hard to ensure that the organization has or develops the core competencies to provide and enhance those key drivers.

The Excellent Service Strategy

Berry's Four Components of Excellent Service

Service expert Len Berry suggests that an excellent service strategy has four characteristics.⁵³

First, the excellent strategy emphasizes quality. Without a commitment to *quality*, nothing else matters. Any hospitality organization can write a mission statement, but those truly committed to excellence start by committing the organization to providing the customer with a guest experience of high quality.

Second, an excellent service strategy emphasizes *value*. It commits the organization to providing customers with more benefits from the guest experience than their costs. Recall that value and cost cannot be defined solely in monetary terms. If “time is money,” organizations can provide value by saving time for customers. Organizations doing so fill a significant market niche. The many people who pay extra for personal shoppers in retail stores believe they receive good value in time saved for the money they spend on having

someone shop for them. Home-delivered pizza is even a better value; you save time, and you pay no more than if you had gone to the restaurant. Organizations must budget funds for measuring the perceived value of their services to customers. No matter what the service costs, customers must believe that they are getting significant value for their money.

The third characteristic of an excellent service strategy is that it focuses the entire organizational effort on *service*. This strategy commits the organization to hiring people who believe in service, employee training programs emphasize the commitment to service quality, resources are allocated to serving the customer, the performance and reward systems carefully reinforce the entire workforce's commitment to service, and all action plans support the service mission. The service strategy should ensure that everyone in the organization walks the service-quality walk by constantly reflecting total commitment to service excellence.

Finally, the service strategy should foster among employees a sense of genuine achievement. It should stretch and push every employee to grow and develop so that the employee group stretches and develops the entire organization to do things no one thought were possible. Taco Bell found a way to stretch its employees so that it could operate 90 percent of its company-owned restaurants without a full-time manager. According to Berry, "These locations are team managed by their mostly younger person crews who order inventory, schedule work hours, and recruit and train, among other functions."⁵⁴

Supporting Strategies: Service Product, Environment, and Delivery System

Once the service strategy has been defined, it provides the basis for ensuring that the customers' key drivers are addressed, by determining what the organization's service product should be, what the service environment in which the service product is provided or delivered should look and feel like, and how the service delivery system makes the service product available to the guest.

If the organizational mission, for example, is to create and sustain a low-cost airline to serve the budget market in the western United States, the service product must be designed to meet that market's expectations, the service environment must be designed to fit the product and match or exceed the guest's expectation of how this type of airline experience should look and feel, and the service delivery system must be designed to ensure that the service product is provided to the guest in a way that is congruent with how the guest expects to experience that service. The joint consideration of these three guest-experience components leads to the short-run action plans that can support and implement the components and thereby achieve the organization's mission.

ACTION PLANS

Once this point in the hospitality planning process is reached, action plans can be developed because the organization now has a clear idea of who it wants to serve, what it wants to serve, where the market for that service is, where the company wants to go, and how it intends to get there. The action plans along with appropriate measurement metrics represent the leadership's decisions on how to best implement the service strategy in specific terms that will motivate and guide the rest of the organization's members toward accomplishing the overall service strategy and organizational mission. These plans lay out the specifics of how the organization will operate, what everyone needs to do in the next time period, usually a year, and, through the metrics, how valuable feedback will be elicited on progress in achieving the plan.

Key Action-Plan Areas

The bottom tier of Figure 2-1 indicates the five key areas in which action plans should be established: management, staffing, capacity utilization, finance, and marketing. Benchmark organizations not only develop plans in each of these areas but also make sure each area has an appropriate means for measuring the degree to which those plans were achieved. Not only must employees understand the direction in which everyone is supposed to go but also everyone must know what getting there looks like. The measures ensure that the right actions are taken, the right goals are achieved, and the employees can see how well they're doing as they work toward achieving the goals of the action plans. Good plans are accompanied by good measures of achievement so that everyone knows how the plans are working.

Types of Capacity Utilization Action Plans

The Design Day

A basic problem for many hospitality organizations is that demand is uncertain and capacity is fixed. An important concept in capacity planning for hospitality organizations is the **design day**.⁵⁵ Whenever a new restaurant, hotel, theme park, cruise ship, or other service facility is created, management must determine how big to build it. How many people should the new physical facility be able to handle at one time? It should not be designed to accommodate demand on the busiest day of the year, because for the other 364 days, its capacity will exceed demand. On the other hand, if the facility is designed to meet demand on the slowest day, capacity will not be able to meet demand for the rest of the year. The idea of a design day is to decide which day of the year to consider when determining the design capacity of an attraction or facility.

As an example, a theme park could use past and predicted attendance figures to set the design day at the 50th percentile, so that overall park demand (and demand for particular rides and attractions) would exceed capacity on about half the days, and about half the time capacity would exceed demand. But a successful park does not want guests to experience excessive wait times for half the days of the year. The park designers must decide what percentile level they want to establish for their design day. The higher the percentile level chosen, the lower the number of days the organization will exceed its design-day standards for guest wait times. However, higher demand days cost more—greater capacity must be built—but yield greater guest satisfaction. For example, if they choose a 75 percentile design day, the park will exceed wait-time standards on about 90 days of the year; if they choose a 90 percentile design day, they will exceed their wait-time standards on only about 36 days per year.

The design-day percentile is a critical management decision for any hospitality organization. A higher percentile day means increasing capital investment to increase park, restaurant, cruise ship, convention center, or hotel capacity. Building physical capacity based on selecting a lower percentile day will cost less to build and sustain during the nonpeak times, but guest dissatisfaction will likely be higher during peak times. Once the design-day capacity is exceeded, the quality of the experience will be diluted for guests. They will be forced to wait a greater length of time or abandon the idea of experiencing what the organization offers. In either case, customers may be dissatisfied. This dissatisfaction will have a negative impact on repeat visitation, long-term attendance growth, and revenue. Management must balance carefully the trade-off between the increased costs of investment in capacity and dissatisfied guests.

Every hospitality organization uses some method to plan its capacity and decide how big to build its physical facility. The design-day concept is one way to find the best balance between investing in and carrying the costs of excess capacity and ensuring the quality and value of each guest's experience. Costs are associated with buildings, grounds, staff, and inventory. But customers expect the service to be available to them when they want it; otherwise they are dissatisfied with the quality and value of their experience. Finding the best balance between economic realities and the guest satisfaction strategy and mission is what guestologists do.

Consider a theme park with numerous rides and other attractions. Once the design-day decision has been made that is consistent with its mission, the park management can calculate how many demand units (people per time period per attraction) will be in the park to consume or enjoy the capacity available. Thus, if the park attendance on a design day is 18,000 people and a new ride or attraction that takes thirty minutes is expected to capture 3 percent of this capacity per hour, the capacity of the ride has to equal 270. With this capacity and assuming a continuous flow of people coming to enjoy an attraction, no one will have to wait more than thirty minutes. As the ride or attraction begins, the first of the next 270 people wanting to enjoy it will start forming a new waiting line. As soon as the ride gets back to its starting point or the show ends, the 270 people who have been waiting for varying lengths of time will enter the ride or show, and a new waiting line will start to form. If the design-day decision includes allowing guests to wait for a fixed amount of time (e.g., an average of 15 minutes across all park attractions), the actual capacity of the new attraction can be less than 270 because the capacity will assume a certain acceptable number of people waiting in line. The point is that this important capital-allocation decision—how big to build a new ride or other attraction—can be based on straightforward calculations that are themselves based on design-day decisions made long ago, which are in turn based on the organization's estimates of what quality and value customers expect.

For any hospitality organization, the original design-day decision is based on forecasts of guest demand, information derived from organizational past experience, and perhaps from knowledge of similar facilities. Once real information can be gathered through real experience with real people or some other change occurs, the design-day decision can be refined. Because most hospitality organizations would rather add capacity than tear down existing capacity or let it stand idle, the original design-day decision for a new facility should probably use conservative estimates.

Yield Management

A capacity-management concept that has gained substantial favor in the airline, lodging, restaurant, spa, cruise line, and convention industries is **yield management** (YM)—managing the sale of units of capacity to maximize the profitability of that capacity. Also called **revenue management**, yield management involves selling the right capacity to the right customer at the most advantageous price, to maximize both capacity use and revenue. This concept is based on the idea that guest demand patterns can be predicted to some extent and those predictions can be used to allow the hospitality organization to charge different rates to different people (or groups) based on (1) when reservations are made and (2) the capacity projected to be available at any given time. Early reservations with restrictions (e.g., airline passengers staying over Saturday or paying a high financial penalty for schedule changes) might receive the lowest prices. Guests who wait until later to make reservations, with fewer restrictions and more flexibility, can expect and are usually willing to pay more. Balancing capacity, demand, and price is primarily the task of job revenue managers, often with the aid of (and sometimes substituted by) a computerized yield-management system.

For example, a sophisticated YM system will predict the demand pattern for reservations on a specific flight from Los Angeles to New York four months from now, and then price each seat in a way that exactly meets the forecasted demand for travel on that flight. That is, the airline will know how many seats it should set aside on that flight for full-fare guests (who will book their reservations late and will expect to pay more) and how many it must sell at lower prices. Using historical data, for example, the YM program may estimate that 20 percent of the flight's capacity should be reserved for full-fare guests who book late. It may also forecast or calculate a pick-up rate indicating how additional passengers will book reservations from now until the plane flies four months from now. This rate, also based on historical experience, can be a smooth curve or any other distribution that describes how guests make reservations.

The airline's goal is to sell as many seats as possible at the highest rate possible. It will start by setting aside the expected full-fare capacity and then calculate the capacities to be set aside at each successively lower rate. As every traveler knows, the farther out from the flight date the reservation is made, generally the lower the ticket price. The closer to the actual date of the flight, generally the higher the ticket price. The yield-management process is designed to set aside seats at each price level in such a way as to sell each seat at the highest possible price. The airline might set aside the 20 percent mentioned earlier at full fare, 30 percent at a 10 percent discount, 40 percent at a 20 percent discount, and 10 percent at half price. If the airline's predictions are accurate, the bargain hunters will make their reservations early and fill up the half-price seats, followed by the later bargain hunters who were not willing or able to commit to the flight soon enough to fly at half price. They will be disappointed that they can't get the 50 percent off fares but are happy with a 20 percent discount anyway. The guests who commit even later can't get the 20 percent discount but are still relieved not to pay full price. People paying full price are those who have no choice but to travel on that particular day or business travelers who must book their flights close to the actual departure date.

The reservation process is dynamic, and an effective yield-management system will continuously compare the actual reservation rate to the forecasted rate. The number of seats set aside in each price category or the price of seats in each category can be modified based on the actual, evolving relationships between the supply of that flight's seats and the demand for those seats. If the pick-up rate prediction is incorrect, the airline can always advertise the empty remaining seats on its Web page at a substantial discount that still covers its direct costs and contributes to the flight's total revenue, or it can sell the seats to a consolidator.

A good yield-management model can maximize the revenue on every flight by filling up every seat at a price that perfectly balances seat supply and passenger demand. Yield management is an important capacity-planning device not only for airlines but also for other organizations that have both capacity limitations and a perishable commodity, like a room for the night or a cruise date. Because the organization's salespeople must have accurate and timely information about guest demand and available capacity, yield management can hardly be accomplished without the power of computer analysis but still relies in many instances on a person's judgment. In the hotel industry, for example, it is usually one person at a resort hotel who makes the decision as to how many rooms to assign to Hotels.com or to Priceline.com for a given night. While the statistics from data mining the historical demand patterns are a critical starting point, that person will have the responsibility of assessing the usefulness of the predictions based on real-time judgment.

Action Plans as an Integrated Whole

All action plans need to be considered as a whole and individually. No marketing plan or capacity utilization plan, for example, should be set without also taking into account the financial budgeting plan. Similarly, no managerial performance plan can be set without carefully planning for the necessary resources that will allow managers to reach their targeted goals. Just as it makes no sense to put a lot of resources into a marketing plan that will draw many customers without considering the capacity decisions, it also makes little sense to develop performance targets for managers without also considering what physical, financial, marketing, and human resources they will need to reach their targets. This process defines hospitality service planning. The plan lays out the necessary steps and identifies the mileposts along the path that the organization must follow to fulfill its mission, to achieve its vision. If the organization foresees a wrong future, misdiagnoses its core competencies, poorly defines its mission, or chooses the wrong service strategy, it will soon lose its competitive stature.

THE UNCERTAIN FUTURE

Of course, unforeseen developments may disrupt or overturn even the best laid plans. Good plans attempt to bring rationality and stability to the organization's operations and efforts, but organizations seldom operate in purely rational or stable situations. Indeed, the very plans that made a firm competitive under one set of circumstances may make it uncompetitive if managers get so wedded to the plans that they ignore or don't see changes in the marketplace.

The strategic planning model in Figure 2-1 is neat and orderly. But the world is not a neat and orderly place. The cycle of planning may be deftly tied to a yearly calendar and duly placed on everyone's time management screen. But the plans laid out in August may be turned totally upside down in September by such external events as competitors' innovations; terrorist attacks; financial meltdowns; technological developments; or an organizational disaster such as the illness or death of a CEO, a prolonged strike, or an unfavorable judgment in a lawsuit. If such events occur, the organization cannot wait until next August to revise its plan.

Plans are designed to be flexible guides along the path between today and tomorrow, not the final word on everything. Effective hospitality organizations stay nimble in responding to the many uncertainties that can affect their operations and the services they provide. Many create contingency plans, which offer alternative strategies to meet changed circumstances. But since no one can anticipate everything that may happen to an organization, contingency planning can go only so far.

INVOLVING EMPLOYEES IN PLANNING

In February 2007, JetBlue created a major customer service failure when it was forced to cancel 250 flights in the wake of a major ice storm that closed down New York City. The next day was even worse, as the disruptions of the storm were compounded when the airline was unable to fully recover in the days that followed. JetBlue, which books 80 percent of its tickets online, did not have enough reservations agents on its toll-free line to handle all the rescheduling. At Kennedy Airport, there was not enough trained staff to work on rebooking. And the unit in charge of locating pilots and flight attendants and assigning them to their next flight was overwhelmed. In effect, the airline had to shut down and restart the entire airline. One plane that sat for 10 hours on the New York tarmac became a symbol of the whole mess. Across the system, there were numerous customer complaints, national news (and late night comedian) coverage and the recognition that its then President

and CEO, David Neeleman, should issue a public apology. The carefully built reputation for excellence in customer service that was the pride of the employees and a competitive advantage was severely damaged in a few hours. The customer relations fallout as well as the employee morale impact of this mistake led the company to undertake a top-to-bottom review of how it ran the airline. One of JetBlue University's leaders was tasked with organizing and interviewing groups of employees at several of the major destinations JetBlue served. The question he asked was, "What are we doing wrong and how do we fix it?"

Over the course of four months, the employees generated about 25 action items that were then presented to management for implementation. These included relatively simple things such as reorganizing the crew scheduling organization, creating a new division to manage transportation and accommodations for flight crews away from home base, redesigning training programs for crew scheduling and operations, and more complex things like whether to upgrade or replace the information systems used to track airplanes and crews. JetBlue's leadership reviewed these items, recognized their worth, and put most of them in place. Things immediately improved, as seen in both employee morale and customer satisfaction scores.

The JetBlue example reinforces the need to plan for the probable and to be nimble enough to react quickly and appropriately if the improbable occurs. Increasingly, hospitality organizations are including their employees in the planning processes. They have learned that good things come from widespread employee participation. First, the frontline employees know more about guests than anyone else does. They understand what makes guests happy and what doesn't. They also have ideas about what products or services the organization could add, redesign, or delete to add value to the guest's experience or to reduce costs. Second, to implement any strategic plan requires that everyone understands it and be committed to its logic. What better way to gain understanding and obtain employee buy-in than to have the employees help develop the plan? After all, if they understand the need to plan and how the plan will help the organization solve problems and reach the future, why wouldn't they support it and try to implement it? Most managers have learned the hard way that the best plan in the world is worthless unless those who have to make it work want to make it work.

A Wal-Mart store in Louisiana had a shoplifting problem, so the manager stationed an elderly man at the door to "greet" customers as they entered and left. Potential shoplifters learned that someone would be observing them directly as they left, but even more significantly, honest customers were impressed by this friendly touch. The idea spread to other stores, and Wal-Mart became known for its friendly greeters.

Was this company success the product of strategic planning, or any planning? A Wal-Mart executive of that time said, "We live by the motto, 'Do it. Fix it. Try it.' If you try something and it works, you keep it. If it doesn't work, you fix it or try something else."⁵⁶ The Louisiana manager tried it, and it worked far better than the manager thought it would, so the whole company kept it.

That's one way to run an organization, and Sam Walton built a hugely successful company. Hospitality organizations can learn from Wal-Mart's use of employee ideas. When everyone is responsible for thinking strategically about how to fulfill the organization's mission, the power of individual creativity can be unleashed in very positive ways. A planning process should include the people who must make the plans become reality or the effort will be at least partly wasted. The best plan in the world is worthless without implementation, and the benchmark organizations have learned the power of employee participation in planning to achieve implementation more smoothly and efficiently.

LESSONS LEARNED

1. Strategy starts with the guest. Know what key factors drive the guest's determination of quality and value.
2. Try to understand the future environment and what it might do to you and your future guests.
3. Use appropriate, powerful forecasting tools, but don't let them replace managerial judgment.
4. Know your core competencies, why they are your core, and why you are competent in them.
5. Know which core competencies you need to build for the future.
6. Use the organization's vision to define your mission.
7. Prepare for the unexpected.
8. Involve employees in planning.
9. Compete on value, not on price.
10. Your employees represent the one competitive advantage that your competitors can't easily duplicate.

REVIEW QUESTIONS

1. You are about to start your own restaurant and need to articulate a strategic plan. Think of five key decisions you need to make, and tell how you will make them.
2. List a few necessary core competencies for successfully operating a fast-food restaurant versus a fine-dining restaurant versus a casual-dining restaurant.
 - A. Why are these competencies core?
 - B. Why do they differ from one type of restaurant to another?
3. How does knowing key drivers help a manager meet guest expectations in a guest experience?
4. Think about kids in junior high school today; they will be part of tomorrow's workforce and customer base. What management and guest-service changes will hospitality organizations have to make if they want to succeed with these future employees and customers?
5. Think of a hospitality organization that you are familiar with.
 - A. What seem to be the key drivers of the guests in its target market?
 - B. How do these key drivers influence how the organization operates?
 - C. How should they influence how that organization operates?
6. Think of a product, service, or brand to which you are loyal. Why are you loyal to that product, service, or brand? What did the organization do to acquire your loyalty, and what has it done to maintain it? Based on the reasons for your loyalty, what one piece of advice would you give to future hospitality managers?
7. How do you define *service*? What are the components of good and bad service? Which components of bad service are due to not getting something that you expected or wanted but don't get? Getting something that you don't expect or want?

8. If an organization like an airline uses yield-management techniques, guests end up paying different prices for what is essentially the same service. What are the implications of that difference, if any, for guest expectations, service quality, value, and guest satisfaction?
9. Consider the expression “Price, quality, speed—pick any two.” Do you think a company strategic planner said it, or a customer? Is the expression fair and accurate in today’s business world?

ACTIVITIES

1. In the chapter appendix, there are four qualitative techniques that can be used for forecasting: brainstorming, the Delphi technique, focus groups, and scenario building. Divide up into groups and, as your instructor directs, come up with a forecasting problem that a local hospitality organization might face and try to arrive at a conclusion about it by using one or more of the techniques. Different groups might use different techniques for the same problem to see if they come up with the same conclusion or problem solution.
2. Find a hospitality organization that uses forecasting techniques. How does the organization use them to predict its staffing and product supply needs, or for other purposes? How does the organization gather data? Does it use prediction models and statistical techniques, or is forecasting done mainly by the seat of someone’s pants?
3. This chapter suggests that an organization should focus on its core competencies, not spread itself into areas in which it may not be competent. Some competency pairings are generally accepted, like bar and grill. Others might reflect an organizational intention to operate in unrelated areas, like college and fish camp or blacksmith and nail care. Look for unusual competency pairings in business names you come across and report them back to the class.
4. Go on the Web or across your community and see what the companies you find claim as their mission. What is your estimation of how well this mission helps define strategic decisions they make?

ETHICS IN BUSINESS

The Kelilah Hotel, an independent four-star property, like most of its competitors, advertises on the Web. It knows from asking its guests that most customers compare prices on distribution Web sites like Orbitz, Travelocity, and Hotels.com to find the best rates for a hotel at their desired destination. While customers do check out online ratings of prospective hotels, they largely select the cheapest listing in the desired hotel category. The Kelilah Hotel has taken a page out of the airlines’ pricing strategy in the face of their customers’ changing behavior with the new technology and now lists the lowest price they can. What they do when the customer checks in is to add fees to make up the difference in their revenue stream from lowering prices. Thus, they now charge a wireless fee, a parking fee, a health club fee, a fee for a view room, and a few other fees that they have added to increase revenue on the low-priced rooms. When asked why they use all these fees, they respond that it is a competitive necessity. Web sites advertising room rates do not specify when additional fees are charged, so customers are making their purchase decisions without knowing that these additional fees are present. It is unclear what fees, if any, The Kelilah Hotel’s competitors are charging. What are the ethics of charging all these additional fees?

CASE STUDIES

Profit? Growth? Survival? Service? Customers? Environment?

Six hospitality management students were having a discussion at the Student Center about the primary goal of hospitality organizations.

Jim said emphatically, “Large hospitality corporations are in business to make as much money as they can. No matter if it’s food, lodging, or gaming, profit maximization is their primary goal, and everything else is secondary. Businesses exist to make a profit.”

Will agreed, up to a point: “If the hospitality organization is a public corporation, profits are a necessity, but the primary goal of any business is to grow. No business wants to stay small and unimportant. Company officials and stockholders want growth, for the feeling of progress and accomplishment it brings and for the profits that will eventually accompany growth.”

Jane said, “There’s something to what you both say. Any company needs profits, and any company would like to grow. But survival is the primary goal, because without it you can’t have profit or growth.”

Sally said, “Any hospitality organization’s goal had better be to give good guest service. If the organization achieves that goal, all the rest will fall into place. If they don’t, they have no chance anyway.”

Spiro said, “My dad owns a restaurant, and he agrees with my professor who said that the main goal of any business is to get and keep customers. No customers, no nothing. I agree with my dad.”

Betty said, “No matter what you learned in class, you are all kidding yourselves. Primary goals are just for looks anyway. No matter how specific an organization’s goals, no matter how carefully it plans, no matter how hard it works to meet those goals, the environment within which the organization markets its product or service will determine the organization’s destiny. Organizations react to environmental forces, regardless of goals. To succeed, a business organization doesn’t need to establish goals; it needs to be lucky enough to be in the right place at the right time and take advantage of the opportunities presented to it.”

1. With whose position would the company’s stockholders most likely agree?
2. What do you think the CEO would say? The employees? The guests?
3. Where do you stand on the issue? (Or do you have an even different view?)

Economy Airlines

Minor Hamblin had a humanistic dream: to found a company in which every employee would be an owner/manager, a company in which people really would work together. Hamblin started the revolutionary low-fare, no-frills Economy Airlines. Within a few years, Economy was the fifth-largest U.S. passenger carrier. The company had no unions. New employees had to buy and hold 100 shares of Economy common stock, offered at a 70 percent discount. Profit sharing regularly added substantial amounts to their paychecks. Hamblin believed that participatory management was the style that best suited contemporary employees. One university professor wrote that Economy Airlines was “the most comprehensive and self-conscious effort to fit a business to the capabilities and attitudes of today’s workforce. Economy Airlines is doing everything right.”

Economy had a flat structure with only three management levels. In terms of the organization chart, pilots and flight attendants were on the same level and had the same clout. The company had no secretaries; managers did their own typing and answered their own phones.

The company rapidly expanded its routes and schedules. Unfortunately, traffic growth failed to keep up with expansion. Other airlines adopted the low-fare, no-frills approach and even attacked Economy directly in their advertising campaigns. Economy’s stock plunged from over 100 to 8. One employee observed, “When stock prices were high, profit sharing and stock ownership were great. Now they aren’t so great.” The Air Line Pilots Association began a drive to unionize Economy’s pilots. New government regulations made Minor

Hamblin wonder if he could even keep Economy's flying certificate.

Hamblin had a renewed realization that a company can't always control its own destiny. "That professor said I was doing everything right. Now I'm in danger of going belly-up." He wondered if he should convert Economy over to a more traditional structure, with more management layers, a clearly defined chain of com-

mand, and specialized employee tasks. Or perhaps he should sell out.

1. What caused Economy's problems?
2. Do you see any way that Economy could have avoided those problems?
3. What steps should Economy Airlines take now?

The Diamondback Plaza Hotel

Dwight Robinson owns The Diamondback Plaza, a large hotel in a popular vacation area. Robinson tries to maintain a reputation of casual elegance for his hotel and is known among local hoteliers for his dignified advertising and for sticking to the "rack rate." He feels that to do otherwise is not fair to guests paying full price. Robinson is happy about all aspects of his hotel operation except his average nightly occupancy rate of 68 percent. The average for his geographic area is 78 percent.

In an attempt to improve his results, Robinson has hired a consultant who, after studying the situation, has presented the following recommendation:

Mr. Robinson, your rooms are not yielding the income that they might because you establish one price for your rooms and then sit back hoping people will stay with you. In today's market that strategy won't work; you have to manage your situation to improve your yield per room.

You need to use all available means to lure travelers into your hotel. When you see at a certain time in the evening that your hotel is not going to be full, you have to cut prices until you sell out. You may not be able to sell every room every night, but don't be satisfied until

your occupancy rate is over 95 percent. Follow this principle: Don't go to sleep yourself until you get people to sleep in all your rooms.

Your debt relative to your property value is low; you don't have high interest charges to cover. So you can offer lower room prices than your competitors and still make a profit.

Put a big flashing sign outside your hotel. If people aren't checking in and you foresee vacancies, start that sign flashing at \$59.95. If you can't fill up at that figure, drop it to \$39.95 or even \$29.95. Anything is better than nothing.

First thing every morning, check the previous night's records. If the Diamondback wasn't sold out, ask your night manager why! She'll soon get the message.

Sure, your average daily room rate will drop, but so what? That's just a prestige number to brag about when you get together with other local hotel owners. By managing the yield on each unit, you'll maximize your profits, and isn't that why you're in business?

Should Dwight Robinson take the consultant's advice?

APPENDIX

QUANTITATIVE AND QUALITATIVE TOOLS TO PLAN FOR THE FUTURE

Figure A2-1 presents and briefly describes some popular quantitative and qualitative forecasting techniques and indicates their cost/complexity. We shall discuss some of the more important techniques.

Quantitative Forecasting Tools

Statistical techniques used for forecasting are of several types: econometric, regression, time series analysis, and trend analysis. Each is based on the idea that definable and reliable relationships exist between what the organization wishes to forecast and some other variable.

FIGURE A2-1 Popular Approaches to Forecasting the Future.

TECHNIQUE	SHORT DESCRIPTION	COST/COMPLEXITY
Quantitative-Causal Models		
Econometric models	Simultaneous systems of multiple regression equations	High
Regression analysis: Single & multiple	Variations in dependent variables are explained by variations in one or more independent variables	Medium/high
Time series models	Linear, exponential, S-curve, or other types of projections	Medium
Trend analysis	Forecasts obtained by linear or exponential smoothing or averaging of past actual values	Medium
Qualitative or Judgmental Models		
Brainstorming	Idea generation in a noncritical group situation	Medium
Delphi technique	Experts guided toward consensus	Medium
Focus groups, customer surveys, market research	Learning about intentions of potential customers or plans of businesses	Medium/high
Scenario building	Impacts of anticipated conditions imagined by forecasters	Medium

Source: Pearce, J. A. II & Robinson, R. B. Jr. 2009. *Strategic Management: Formulation, Implementation, and Control*. New York: McGraw-Hill, pp. 121–122. With permission of The McGraw-Hill Companies.

Econometric Models

Econometric models are elaborate mathematical descriptions of multiple and complex relationships that are statistically assembled as systems of multiple regression equations. If a chain of movie theaters in New England wishes to predict the relationship between theater attendance and the level of economic activity in New England, the chain would use a complex econometric model built to describe how New England's level of economic activity and the amount of personal discretionary income allocated to entertainment purchases relate to movie theater admissions.

Regression Analysis

In **regression analysis**, the relationship between variables of interest is studied so that they can be statistically associated. If statistical studies of a theme park's visitors show that in July and August visitors consumed an average of 1.5 Cokes per visit, determining how many Cokes, cups, servers, and how much ice will be needed on a particular day in those two months is a straightforward calculation. Using regression analysis, we can further predict sales on the basis of other known numbers (probable park visitors) and the known relationships between these numbers and the variable of interest (in this case, Coke sales). If we know that a convention is bringing 15,000 visitors to a city in a certain month, we can predict through regression analysis the number of rooms a hotel is likely to sell, the number of meals that will be consumed at a restaurant, and the number of taxi rides that will be taken in that time period.

Time-Series and Trend Analyses

Time-series and trend analyses are other ways to extrapolate the past into the future. If we know how much our market has grown every year for the last ten years, a time-series forecast will project that rate of growth into the future to tell us what our park attendance, hotel occupancy rate, or covers (the number of meals served at a restaurant) will be in a given future year. These numbers can be adjusted for changes in the economy, seasonal fluctuations, revised assumptions about tourism and population growth rates, or what the competition is doing.

The opening of Walt Disney World Resort's fourth park, Animal Kingdom, changed the historical visitor's patterns in the Orlando area in a major way, so the historical time-series and trend-analysis statistical formulae also had to change. If, for example, visitors to Orlando spend their average five-day visit on Disney property (or connect to Disney Cruise Lines), the number who have extra days to go to Universal Studios, Sea World, or Gatorland drops significantly, unless the number of tourists or average length of stay rises. These other attractions have had to create new strategies to market themselves and all of Orlando as a destination separate from Walt Disney World Resort. If they can convince travelers that there are good ways to enjoy a wonderful family vacation in Orlando besides visiting Walt Disney World, they can attract a new market of visitors who are not planning to visit Walt Disney World Resort or who have been there and done that and are looking for something new to do. The creation of the Universal Studios/Islands of Adventure/Sea World/Aquatica/Wet'n Wild combination ticket (Orlando Flex Ticket) that offers both Universal Orlando Resort's second theme park, Islands of Adventure, and Sea World's water park, Aquatica, are strategic responses to the important changes in visitor patterns created by the opening of Disney's Animal Kingdom. These other theme parks had to define and attract a new market segment by opening up new facilities that would redefine how visitors saw Orlando as a destination that was more than just Disney World.

Qualitative Forecasting Tools

While objective forecasting tools offer many advantages, they require a sufficient quantity of relevant data. Sometimes, particularly when trying to forecast demand for new products and services, relevant data simply do not exist. Here, other forecasting tools can be used to make more qualitative or subjective forecasts. Among them are brainstorming, the Delphi technique, focus groups, and scenario building or war gaming.

Brainstorming

Brainstorming is a well-known strategy of asking a group of people to ponder the future and what it may mean, based on what they already know. Brainstorming can be formal and structured, requiring participation from everyone, or very informal and unstructured. As a forecasting tool, it assumes that everyone has some degree of creativity, that people will voluntarily contribute their ideas in an open group discussion, that the sharing of those ideas will spark others to generate even more new ideas, and that the sum total of those ideas will be a more comprehensive forecast than that of any one person. Although these sessions often yield good new ideas, these assumptions do not always hold up. Many participants forced to brainstorm often view the time spent as wasted in aimless discussions dominated by a few who loudly express their ideas and convince others to keep their ideas to themselves.⁵⁷

The Delphi Technique

The Delphi technique is a more structured process for tapping into the knowledge of experts to create a forecast of future events that are unknown or unknowable. For example, if one wanted to know the market potential of tourism in Botswana, one could empanel a group of experts on the most probable scenario for the future of the tourism and hospitality industry in that country.⁵⁸ Likewise, if a convention center wants to know what percent of its center capacity will be filled at this time five years from now, the Delphi technique offers a good tool to use. A group of industry experts would be asked to make individual estimates for five years from now, and the estimates would be combined or averaged. That average estimate would then be communicated back to the experts, along with the thinking that went into the estimates above and below that average. The experts would then be asked to consider this new information and invited to offer a second round of estimates. After several iterations of this procedure, the typical Delphi process tends to yield a fairly tight estimate of the future—in this example, the capacity utilization of the convention center five years from now.

Even though this process cannot guarantee a forecast of such future unknowables as precisely how many Kiwanis Club members will attend a national convention or exactly how many meals will be eaten away from home next year, combining expert estimates can yield the best estimate possible.

Focus Groups

Focus groups are asked to concentrate on an issue and discuss their thoughts about it with a trained group-discussion leader. Focus groups, which will be discussed in more detail in a later chapter, are perhaps most frequently used in assessing the quality of service already rendered and identifying customer key drivers. They can also be helpful in forecasting what innovations people are apt to like and not like about a service experience. If an organization has an innovation in mind, it can form a focus group that is demographically and psychographically representative of its target market and see how the group reacts to the innovation. For example, groups of young teens living in trend-setting areas are frequently used to predict clothing fashion trends that retailers use to order clothing inventories.

Scenarios

Scenario building, or war gaming, has become a fairly popular subjective forecasting technique. We assume a certain future situation or scenario, and then try to assess its implications for our organization. If a hospitality organization has a major investment in Florida and California theme parks, a future scenario of concern might be the rapid developments that are occurring in virtual-reality technology.⁵⁹ If this scenario occurs, making quick and easy access to virtual theme parks possible for millions of people, what will its impact be on the willingness of people to travel to distant, fixed-site locations for actual theme park experiences?

Convention centers might try to forecast their future by creating scenarios that embody the new technological advances in teleconferencing. If people can sit in their own offices and experience the feel of being in a crowded meeting at a distant location, will demand for convention centers and planners continue to exist on the present scale?⁶⁰

Scenario builders often need to act quickly. All one has to do is to look at Wii and the other computer games and virtual worlds (e.g., Second Life) that are increasingly available on the Web, inexpensive, and comfortably used by the Millennium Generation to see the potential threat and opportunity they represent for the hospitality industry. Scenario builders are in danger of looking up from their industry scenarios or service simulations to find that the scenario is already here, online, and free.

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