Strategic Analysis for the Hospitality Industry

Hospitality executives must analyze both external factors and internal resources to develop a strategic plan.

BY JEFFREY S. HARRISON

In a recent worldwide survey of firms from a variety of industries, 81 percent of companies reported conducting strategic planning. Furthermore, executives reported a higher level of satisfaction with strategic planning than with most other management tools.[1] The increasing popularity of strategic planning in recent times can be attributed to accelerating changes in industries and economies and increasing global competition,[2] as well as the rapid development of strategic-planning methods that executives find useful. Firms that engage in strategic planning tend to have higher performance than those that do not.[3] For example, a recent study of hotels in the United Kingdom found that business performance was positively associated with the thoroughness, sophistication, participation, and formality of strategic-planning processes.[4]

Strategic analysis, that is, the systematic investigation of a firm and its environment, is the foundation of the strategic-management process. A recent example demonstrates how strategic analysis can help guide business strategy. Jack in the Box recently announced plans to open 100 to 150 restaurants combined with convenience stores over the next five years.

[1] D. Rigby, "Management Tools and Techniques: A Survey," *California Management Review,* Vol. 43, Winter 2001, pp. 139–160.

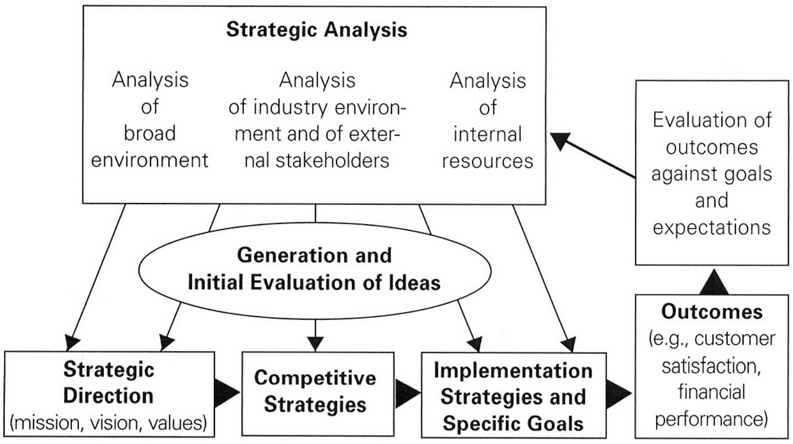
[2] R. D'Aveni, "Coping with Hypercompetition: Utilizing the 7Ss Framework," *Academy of Management Executive,* August 1995, pp. 45–57.

[3] C.C. Miller and L.B. Cardinal, "Strategic Planning and Firm Performance," *Academy of Management Journal,* Vol. 37, December 1994, pp. 1649–1665.

[4] P.A. Phillips, "Strategic Planning and Business Performance in the Quoted UK Hotel Sector: Results of an Exploratory Study," *International Journal of Hospitality Management,* Vol. 14, No. 4 (1996), pp. 347–362.

EXHIBIT 1

The strategic-management process



The stores will feature full-size restaurants and also sell gasoline and other typical convenience-store items such as bread and milk. How did Jack in the Box arrive at this decision? According to the company's CEO, Bob Nugent, an analysis of the convenience-store market indicated that there was plenty of opportunity, primarily because no individual company dominates. The largest player in the convenience-store industry, 7-Eleven, Inc., controls slightly over 4 percent of the market. Compare this to fast foods, where McDonald's controls 43 percent of the market and Jack in the Box a mere 4.6 percent. Nugent also justifies his decision on the basis of research which indicates that "a convenience-store customer is twice as likely to eat fast food as a non-convenience-store customer."[5] Strategic analysis can provide excellent information on which to base long-range decisions such as this one.

Knowledge is one of the most important competitive weapons your firm can possess.[6] As the Jack in the Box example illustrates, detailed knowledge about your firm and its environment can be used to generate new ideas for business strategies and to evaluate the feasibility of ideas before they are actually implemented. Strategic analysis also allows your firm's managers to become more aware of the company's strengths and weaknesses and to understand the reasons behind successes and failures. Knowledge about the competitive environment can help you anticipate and plan for changes and predict how competitors or other stakeholders such as customers or suppliers will respond to new strategies or other organizational activities. Strategic analysis can also open up channels of communication between high-level managers and subordinates, allowing them to share ideas and perspectives. This participative process can help subordinates accept changes more readily after decisions are made.

Strategic Analysis as a Foundation for Strategic Management

Exhibit 1 provides a basic model of the strategic-management process. Although strategic management should be ongoing, a logical place to start the process is with strategic analysis. You can use knowledge gained from strategic analysis to generate and evaluate ideas that result in an overall direction for your firm. Strategic direction is manifest in the firm's mission, vision, and values. Your strategic direction, combined with the knowledge gained from strategic analysis, can then be used to develop competitive strategies, as well as plans for implementing them. Goal setting should occur at some point, and a logical place to do it is during implementation planning. At the appropriate times, goals are compared against results such as satisfaction levels of customers, shareholders, employees, and other stakeholders, as well as quantitative performance measures such as income and sales. These outcomes become feedback that is incorporated into strategic analysis, as the cycle continues.

The focus of this article is on the research components of strategic management, as outlined in Exhibit 2. At the center of the model, internal analysis of financial, human, physical, knowledge and learning, and general organizational resources

[5] S. Leung and A. Barrionuevo, "Fast-food Chain Makes a Move Out of the 'Box,'" *Wall Street Journal,* October 29, 2002, p. B1.

[6] D.J. Teece, *Managing Intellectual Capital* (New York: Oxford University Press, 2000), p. 3; see also: R.M. Grant, "Toward a Knowledge-based View of the Firm," *Strategic Management Journal,* Vol. 17 (Special Issue, 1996), pp. 109–122.

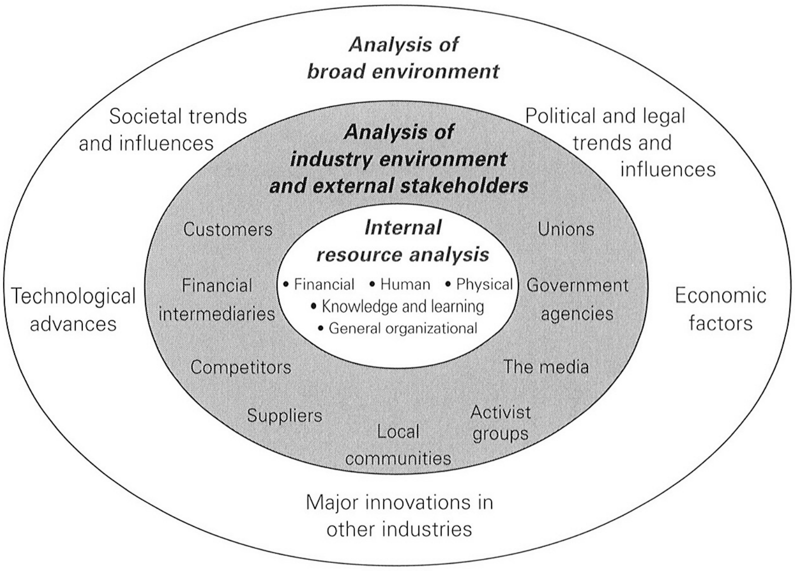
can help managers determine a firm's potential or realized sources of competitive advantage. Also critical is a thorough review of what may be referred to as the task environment or the operating environment, so called because it contains stakeholders such as customers and suppliers with whom the firm regularly deals.[7] The broad environment constitutes the context in which the firm and its industry operate. The environment's components include societal influences and trends, economic factors, technological advances, political and legal influences and trends, and major innovations in industries other than those in which the firm is already operating.[8] Major innovations in other industries often represent opportunities for innovation in the home industry.

One should differentiate between the broad environment and the task environment, because each typically requires different types of strategies. In general, strategies for dealing with the task environment can be more proactive than strategies for responding to the broad environment. For instance, a single firm typically has little influence on general trends in the economy or society as a whole. Consequently, it is more reasonable to predict and adapt to broad trends rather than considering ways to change them. On the other hand, most firms can have substantial influence on stakeholders in their task environments, such as customers or competitors. Consequently, strategies for dealing with these stakeholders can be proactive. For example, a firm might form an alliance to create a better relationship with a difficult competitor or participate in a local charitable event to foster a more favorable climate in a particular local community.

The primary objective of this article is to raise awareness of the various aspects of strategic analysis that should be incorporated into strategic planning in hospitality firms. While almost all large firms participate in a process they refer to as strategic planning, I believe that few firms conduct complete strategic analysis. Leaving out any part of the analysis limits its effectiveness.

EXHIBIT 2

Components of strategic analysis



[7] J.S. Harrison, *Strategic Management of Resources and Relationships* (New York: John Wiley and Sons, 2003).

[8] Harrison, *op. cit.*

EXHIBIT 3

Examples of questions to answer regarding the broad environment

Societal trends and influences

- What currently are the hot topics of debate?
- What is the societal attitude with regard to the environment, corporate integrity, labor, and other management issues?
- Are current policies or behavior of your organization likely to be offensive?
- Are there any emerging attitude changes?
- Are there any demographic shifts?
- What are the new fads?
- What changes are occurring regarding public opinion?
- Who are the emerging public-opinion leaders and what are they saying?

Economic factors

- How fast is the economy growing? What is the economic forecast over the next 12 months?
- Is inflation-adjusted disposable income per capita growing or shrinking?
- Is the target economic group growing or shrinking (e.g., middle class, wealthy)?
- What are current interest rates? Are they expected to move upward or downward?
- What is the inflation rate? What is the expected inflation rate over the next 12 months?
- What is the rate of increase in the cost of various factors of production (e.g., wages, supplies, real estate, building materials)?
- Are foreign-currency exchange rates influencing sales? What are the expectations for the future?
- Does the nation have significant international trade deficits? What is likely to happen with the United States trade balance?

Technological advances (worldwide)

- What new service-production processes are being developed?
- Are there any new manufacturing-process advances that might be relevant to hospitality?
- What are the new service and product ideas?
- Are there any current research efforts that deserve examination?
- What scientific discoveries are likely to have an effect on hospitality in the future?

Political and legal trends and influences

- What new laws are relevant to the hospitality industry?
- Are there any new regulations?
- Are there any governmental policies that offer advantages to the hospitality industry?
- Are there any governmental policies that present challenges to the hospitality industry?
- Are any wars (current or expected) likely to influence the hospitality industry?
- Is the party in control of your local, state, or federal government likely to maintain power over the next year or two?
- Are any international pacts or treaties (current or expected) likely to influence the hospitality industry?

Major Innovations in other industries

- What is happening in other industries that might be applied in the hospitality industry?

The Broad Environment

In this section I review some of the advantages of evaluating each component of the broad environment and explain how this information can be used to create competitive advantages. Some of the essential questions that should be answered about the broad environment are contained in Exhibit 3.

Societal Trends and Influences

One should begin strategic analysis by identifying societal trends and influences to look for opportunities. For example, the aging of the baby-boom generation represents an opportunity for hotel companies to become involved in operating residential villages for retirees—usually in conjunction with support services (e.g., ranging from recreation to food service to nursing care). Marriott, well aware of this trend, has made considerable investments in housing for individuals who believe that they may want to use some form of assisted living as they age.

Awareness of societal values can also help you avoid problems associated with being labeled as a bad corporate citizen. As Joseph Neubauer, CEO of Aramark Worldwide, put it: "It takes a lifetime to build a reputation and only a short time to lose it all."[9] Denny's made a fundamental error by ignoring public attitudes about discrimination, for instance, and drew public approbation as a result.[10]

Economic Factors

Economic factors are particularly critical to the success of firms in the hospitality industry. Thus, your firm should gather economic information and incorporate it into the strategic-planning processes. The first step in gathering economic information is determining which factors to track. Exhibit 3 contains a list of factors that are worth considering. Careful observation over time will help executives determine which factors have the greatest effects on operations in a particular business, industry, region, or country. Economic information for advanced economies is reported

[9] N. Byrnes, "The Good CEO," *Business Week*, September 23, 2002, p. 80.

[10] F. Rice, "Denny's Changes Its Spots," *Fortune*, May 13, 1996, pp. 133–134.

regularly and made available to the public. In developing nations, on the other hand, information may be unreliable and infrequent. Firms that are active in nations without reliable reporting systems may need to buy economic information from a research firm or hire consultants to gather or process needed data.

Since strategic management deals with planning for the future, it is especially important to anticipate likely economic changes. By anticipating changes in the economy one can devise strategies for dealing with those changes. For example, a hotel company may adjust its pricing strategy or its marketing strategy on the basis of anticipated consumer demand. Private investment and consulting firms often provide economic information and forecasts in their newsletters. Economic information, including measures such as the gross domestic product, is more readily available than information about other aspects of the broad environment. Consequently, one has little excuse for not including economic factors in the planning processes.

Technological Advances

The key to using technology is to consider, in a deliberate way, which technological advances might be applicable to your operation, while not becoming distracted with irrelevant developments.[11] Managers should be asked to stay alert for advances that might be applicable within the firm. They should be rewarded when an idea is used to guide strategy or improve operations.

In hospitality businesses, technological emphasis should rest on the way services are produced and delivered. It would be incorrect, however, to assume that manufacturing technologies do not apply to the hospitality industry. Consider, for example, the effect of computer technology on hotels' or airlines' distribution. Certainly, Sabre and similar GDS reservation systems revolutionized the industry even before the internet blossomed.[12] GDSs remain active, while the web has fundamentally changed the way many people make reservations for hotels, airlines, and car rentals.

Current technology has made it much less expensive to implement a wide range of service procedures. Rather than use file cards (as occurred in an earlier day), hotels can maintain customer profiles on computer. Ritz-Carlton, for instance, tracks the tastes and preferences of its regular visitors. Ritz-Carlton properties use their guest database to good advantage by arranging for express check-in for regular guests, who need only to call and say when they plan to arrive. All is in readiness when they drive up to the curb.[13] The technology to track this sort of information was not affordable even a few years ago—and the size of the market made manual operations infeasible. Hotel companies can also use technology for data mining, the intensive search for and compilation of information found in databases, as explained in a companion article in this issue of *Cornell Quarterly*.[14] In another example, Wingate Inns drew attention to its debut as a chain a few years ago by installing free high-speed internet connections in every room. That differentiation strategy helped Wingate to expand rapidly by appealing to value-conscious business travelers who, at that time, were known to patronize such well-established operations as Hampton and Courtyard.[15]

Political and Legal Trends and Influences

Assessment of the political and regulatory environment is vital to planning for the future, as demonstrated by the effects of deregulation on U.S. airlines (and other common carriers). Although restaurants and hotels have never had to face as overwhelming a change in competitive environments as the airlines did after deregulation, government actions still resonate with these

[11] For a cautionary tale regarding internet use, see: Jamie Murphy *et al.*, "The Bandwagon Effect: Swiss Hotels' Web-site and E-mail Management," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 44, No. 1 (February 2003), pp. 71–87.

[12] R.L. Scheier, "Technology Takes Flight," *Computerworld*, September 30, 2002, pp. 34–45.

[13] See: Judy A. Siguaw and Cathy A. Enz, "Best Practices in Hotel Operations," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 40, No. 6 (December 1999), pp. 42–53.

[14] See: Vincent P. Magnini, Earl D. Honeycutt, Jr., and Sharon K. Hodge, "Data Mining for Hotel Firms: Use and Limitations," on pages 94–105 of this *Cornell Quarterly*.

[15] M. Rowe, "Wingate Sets a New Standard," *Lodging Hospitality*, October 1999, pp. 47–48.

industries. The 1991 war in the Persian Gulf caused a sudden retrenchment in travel that left many hotels empty until that brief U.S.-led war ended and travelers again ventured forth. Also, some government leaders are more protectionist than others, which has a direct effect on such things as tariffs and foreign trade. In general, it is a good idea to keep track of the attitude of political leaders with regard to business factors, as well as any indication with regard to their attitudes about particular industries. With regard to foreign investments, it is important to evaluate the stability of the government regime, as well as its attitude toward foreign investors.

Major Innovations and Trends in Other Industries

As a final category, you should also track major innovations and trends in industries other than the ones in which you are currently operating. Competitive advantages seldom come from imitating the innovations of other firms in the same industry. Following the initial example of Choice Hotels, most hotel companies now operate a spectrum of brands, each one usually using a different, but associated, brand name. Although operating in several hotel tiers may still be an idea worth pursuing, at this point it does less to create competitive advantage than to match the competition. On the other hand, a company that is the first to successfully apply an innovation from another industry usually enjoys a first-mover advantage that competitors are sometimes hard pressed to imitate. While it is true that most hotel-industry innovations can easily be copied, examples of ideas that sprang directly from innovations and trends in other industries include locating hotels in large shopping malls, locating branded fast-food restaurants in gas-station convenience stores, offering personal video screens for every seat of an aircraft, and locating business-service centers inside hotels.

Having completed an analysis of the broad environment, one must examine the task environment. The broad environment forms the context in which the firm, its industry, and other external stakeholders exist. In contrast, the task environment includes external stakeholders with which the organization interacts on a fairly regular basis, particularly customers and suppliers.

External Stakeholders

Michael Porter proposed that the nature of competition in an industry can be defined by the market power of customers and suppliers, the level of interfirm rivalry, and the strength of substitutes and entry barriers.[16] Although this so-called "five forces" model has stood the test of time, its practical limitations are also apparent. For example, although Porter's five-forces approach helps to define competition through customers, suppliers, competitors, substitutes, and entry barriers, it does not include an evaluation of other important stakeholders that have a bearing on industry and firm performance, such as unions, financial institutions, the media, and local communities. Also, the model does not incorporate political factors. Starting with Porter's five forces, Exhibit 4 contains a more complete description of the task environment.

Strategists gather information about external stakeholders for a variety of purposes, many of them self evident. If you manage a hotel firm, for instance, it makes sense to track frequent guests' preferences to meet their needs more effectively. Also, you should study competitors to look for innovations in products, services, processes, and strategies. In fact, excellent ideas can come from virtually any stakeholder. The hotel and restaurant industries are clearly adept at this aspect of observing the task environment.

An important analysis is one that assesses competitive influence, which stems from economic power and political power (see Exhibit 4). Powerful stakeholders with great competitive influence require more attention in the strategic-planning process than do those with less influence. The more powerful the stakeholder the greater the influence on the strategies you select and the more you should try to anticipate that entity's reactions to any changes you might consider. Powerful stakeholders are attractive candidates for partnerships.[17] The end of this section

[16] M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

[17] See: Judi Brownell and Dennis Reynolds, "Strengthening the Purchaser–Supplier Partnership: Factors that Make a Difference" (Ithaca, NY: Cornell Center for Hospitality Research, 2003); www.chr.cornell.edu.

includes a table that presents tactics which your firm can consider to form partnerships with a variety of stakeholders (see Exhibit 5).

Economic Power

The influence of external stakeholders on a firm's ability to compete is partially a result of the economic power that those stakeholders possess. As Porter pointed out, economic power gives a stakeholder the ability to extract profits or other advantages at the expense of the subject firm.[18] The first column in Exhibit 4 provides examples of the factors that give various stakeholders economic power. For purposes of illustration, I will elaborate briefly on some of these factors for customers, suppliers, competitors, and unions.

Customer and supplier power. A firm with few customers runs the risk of considerable revenue loss should a single customer depart. Such a situation gives a customer economic power. In general, customers are relatively powerful if they are few or if they make large purchases. By the same token, suppliers tend to have great economic power if there are only a few suppliers that provide the precise type of good or service that is needed. They are also powerful if there is a high level of differentiation across suppliers, or if they are not particularly concerned about selling to you because you are not a large customer to them.[19]

Competitor power. Competitors have economic power based on their ability to compete. Competitors with disproportionately strong resource bases can be aggressive and create a strong rivalry.[20] It is important to define the nature of rivalry in each market, as well as the industry as a whole. The key to rivalry in some hotel markets is pricing, for example, whereas in others it may be brand differentiation. In still other markets a key to success is locating near existing hotel properties. Firms that have multiple properties in different markets are often competing

EXHIBIT 5

Examples of tactics for working with external stakeholders

Stakeholder	Traditional management	Alliance strategies
Customers	Customer-service departments Marketing and marketing research On-site visits Toll-free numbers Long-term contracts	Involvement on service-development teams Joint-planning sessions Joint-training and -service programs Financial investments Appointments to board
Suppliers	Purchasing departments Encourage competition among suppliers Sponsor new suppliers Encourage long-term contracts	Shared information systems Coordinated quality control Appointments to board (potential for interlocking directorate)
Competitors	Direct competition based on differentiation Intelligence systems Corporate spying and espionage (ethically suspect)	Joint ventures or consortia for research or marketing Alliances to pursue a variety of objectives Trade associations for information sharing and collective lobbying Informal price leadership or collusion (legally suspect)
Government agencies and administrators	Legal, tax, or government-relations offices Lobbying and political-action committees Campaign contributions Personal gifts to politicians (ethically suspect)	Joint or government-sponsored research Joint foreign-development projects Problem-solving task forces on sensitive issues Appointment of retired government officials to board
Local communities	Community-relations offices Public-relations advertising Involvement in community service Donations to local causes	Task forces to work on special community needs Cooperative training and educational programs Development committees and boards Joint employment programs
Activist groups	Organizational decisions to satisfy demands Public- and political-relations efforts Financial donations	Consultation with representatives on sensitive issues Joint research-and-development programs Appointments to the board
Media	Public- and political-relations efforts Media experts and press releases	Exclusive interviews or early release of information (alienates those left out) Inclusion in social events and other special treatment
Unions	Union cooperation through excellent treatment of employees Hiring professional negotiators Mutually satisfactory labor contracts Chapter XI protection to re-negotiate contract	Contract clauses that link pay to performance Joint committees on safety and other issues Joint industry–labor panels Inclusion on management committees Appointments to the board
Financial intermediaries	Financial reports Close correspondence Finance and accounting departments High-level financial officer Audits	Inclusion in management decisions requiring financing Contracts and links with other clients of financier Shared ownership of projects Appointments to the board

Adapted from: J.S. Harrison and C.H. St.John, "Managing and Partnering with External Stakeholders," *Academy of Management Executive,* May 1996, p. 53. Used with permission.

[18] Porter, *op. cit.*

[19] *Ibid.*

[20] K.G. Smith, W.J. Ferrier, and H. Ndofor, "Competitive Dynamics Research: Critique and Future Directions," in *The Blackwell Handbook of Strategic Management,* ed. M.A. Hitt, R.E. Freeman, and J.S. Harrison (Oxford: Blackwell Publishers LTD, 2001), pp. 315–361.

against some of the same firms in several markets, a situation called multi-point competition.[21] In that situation, it is important to evaluate the effects of strategic moves in one market on possible competitor responses in other markets.

Labor power. Unions have more economic power when labor is highly organized. Unions have tremendous economic clout in Germany, for example. The nature of unions' work-related actions (such as strikes and slowdowns) also gives unions economic power, which may be exercised during contract negotiations. To some extent, the size of a union's budget is also a factor in the power it possesses. Large unions with big budgets can engage in activities to protect their members.

Political Power

Political power can be defined as the ability to persuade lawmakers, society, or regulators to take steps that influence a firm's actions or performance. For example, a politically strong customer group might influence government to enact legislation to protect its rights, or a politically strong media participant may be able to influence people to avoid certain restaurants or hotels. When Arizona's governor announced that his state would not honor the Martin Luther King holiday, several groups announced their intentions to cancel conventions that were to be held in the state (and encouraged other groups to do likewise).

Organization increases stakeholders' power.[22] For example, customers that have organized into buying groups have more power. Similarly, suppliers often organize into trade groups that lobby politicians based on an agenda that is friendly to their industry. Competitors may also combine for lobbying or other political activities. Japan's Keiretsu, which often include dozens of organizations with common interests and joint ownership, are extreme forms of organization. They are effective at determining the nature of the political (and economic) environment in Japan.[23]

Government leaders' attitudes toward particular groups also influence their political power. Some politicians favor a well-organized labor force, while others side with free labor markets. On a similar note, leaders have different views on freedom of the media, acceptable levels of government interference, and the importance of various industries to the national (and local) economy. The second column of Exhibit 4 outlines these and other influences on the political power of various external stakeholders.

Use of Task-environment Information

As explained above, information from analysis of the broad and task environments can help generate ideas for competitive tactics that your firm might pursue. However, analysis of the task environment can also help you to determine which stakeholders are attractive for alliances. Fierce global competition has brought companies together to share resources and pursue joint activities.[24] Managers realize that cooperation and sharing bring great benefits to organizations. Today alliances of all types are being formed in increasing numbers on a worldwide scale.[25]

Although alliances are common in hospitality businesses, that does not mean your firm should necessarily form one with every stakeholder. Alliances have costs, such as contracting and administrative expenses, and alliances also entail the risks associated with potential loss of private information, employees, customers, or technology. In considering alliances, one should create a priority list of stakeholders based on such factors as economic or political power or access to resources.[26]

[21] *Ibid.*

[22] W.R. Scott, *Organizations: Rational, Natural, and Open Systems*, third edition (Englewood Cliffs, NJ: Prentice Hall, 1992).

[23] C.T. Edwards and R. Samimi, "Japanese Interfirm Networks: Exploring the Seminal Sources of Their Success," *Journal of Management Studies*, Vol. 34 (1997), pp. 489–510.

[24] B.R. Barringer and J.S. Harrison, "Walking a Tightrope: Creating Value through Interorganizational Relationships," *Journal of Management*, Vol. 26 (2000), pp. 367–403.

[25] See: J.F. Preble, A. Reichel, and R.C. Hoffman, "Strategic Alliances for Competitive Advantage: Evidence from Israel's Hospitality and Tourism Industry," *International Journal of Hospitality Management*, Vol. 19 (2000), pp. 327–341; A.C. Inkpen, "Strategic Alliances," in Hitt, Freeman, and Harrison, pp. 409–432; and Barringer and Harrison, *op. cit.*

[26] J.S. Harrison and C.H. St. John, "Managing and Partnering with External Stakeholders," *Academy of Management Executive*, May 1996, pp. 46–59.

EXHIBIT 4

Influence of external stakeholders

	Economic power	Political power
Customers	• How many? • How large are their purchases? • Are they hard to please?	• Are they organized into buying groups? • Do they have special relationships with legislators?
Suppliers	• How many suppliers do you use? • Are there differences across suppliers? • Are they concerned about keeping your business? • How motivated are they to keep your business?	• Are they organized into trade groups? • Do they have special relationships with legislators?
Competitors	• Level and type of rivalry • Relative size of major competitors • Pre-emptive alliances? • Retaliation?	• Are they organized for political action? • Do they have special relationships with legislators?
Unions	• What is the extent of union organization? • What is the size of their budgets? • How active are they within the hospitality industry?	• What is society's view of unions? • What is government's view of unions? • What is their level of organization in the country?
Financial institutions	• How large are financial institutions? • How many sources of financing are there? • How prominent are banks as sources of investment capital as compared with other market sources?	• Do existing regulatory influences favor financial institutions or business consumers?
Government agencies	• What is the level of governmental interference in business? • What is the proportion of assets owned by governmental agencies?	• What are the attitudes and opinions of current political leaders regarding governmental intervention and regulation?
Media	• What is the size and concentration of the broadcasting industry? • What is the broadcasting industry's ability to influence consumer preferences?	• How comprehensive are the laws that ensure freedom of the press? • What are the attitudes of current political leaders regarding media issues?
Activist groups	• What is their ability to influence consumer preferences?	• Do they reflect or represent community values? Society's values? • How active are they?
Local communities	• Are your local citizens and government officials regular customers? • Are your local citizens and government officials able to withhold needed resources?	• What are the attitudes of local leaders toward business and development?

Stakeholders that have high economic or political power are likely candidates for an alliance, because such a partnership can reduce uncertainty in the external environment or enhance a firm's ability to be a high performer. For instance, if one of your suppliers is powerful because it has a resource that is in limited supply, creation of an alliance with that supplier can help your firm ensure access to that resource. One example of this would be building a hotel through an alliance with a property owner who owns a prime piece of real estate. Also, difficulties with a powerful union can sometimes be mitigated by including a union leader on the hotel's board of directors.

Some potential partners may offer intangible resources, chiefly knowledge or technical ability.[27] For instance, many hotel and restaurant companies enter foreign markets through joint ventures because by themselves they have neither resources in nor sufficient knowledge of the host country. Exhibit 5 (on the previous page) contains examples of tactics firms can use to ally themselves with attractive stakeholders, as well as traditional techniques for managing stakeholders that are not a high priority for partnerships. Of course, these tactics can be combined.

To conclude this section, I will review some of the economic factors that must be analyzed to complete a strategic analysis.

Evaluation of Economic Variables in the Industry

Major economic factors that should be evaluated include entry barriers, industry growth, and industry concentration. Entry barriers include anything that discourages new competitors from entering the industry.[28] Examples are economies of scale, product differentiation, threat of severe retaliation against newcomers, high costs of capital, exclusive contracts, and government regulations that favor incumbents. When entry barriers are high, existing firms enjoy a measure of protection that can inhibit rivalry and enhance profits. In the hospitality industry, entry barriers are not particularly high. Opening a restaurant requires a relatively modest investment, for instance, and even a would-be hotel operator can usually find financing through a separate entity such as a REIT. Deregulation lowered entry barriers for airlines—at least initially—and some operators began operation by simply chartering one plane. Because entry barriers are not naturally high, some hospitality firms have tried to make it harder for newcomers to enter by aggressively promoting their own brands, in hopes of creating differentiation and consumer loyalty.

Industry growth also influences industry rivalry.[29] Rivalry, or competition, generally strengthens as demand for services slows. In that situation, one should look for opportunities in niche markets where growth can still be realized without severe competitive retaliation. Also, slow growth often means that firms should look for ways to cut costs. Some hotel firms have been able to maintain fairly steady levels of profitability in the aftermath of September 11 by cutting costs as revenues have fallen.[30]

Industry concentration is measured by determining the percentage of sales held by a small subset of competitors in an industry. Although there are some major players, no firm dominates any of the hospitality industry's segments, with the possible exception of the airlines. Before 9/11 the airline industry ran as an oligopoly (a few large players), but upstarts such as JetBlue and Southwest have made serious inroads. Even though regulatory barriers are diminished, the airline oligopoly (or monopoly) still exists on a market-by-market basis, however, since a few large airlines tend to dominate each market.

Although the airline industry has operated as an oligopoly, it was never well organized, in the sense of demonstrating a high level of cooperation among major competitors. Such cooperation can take the form of avoiding head-on com-

[27] Barringer and Harrison, *op. cit.*

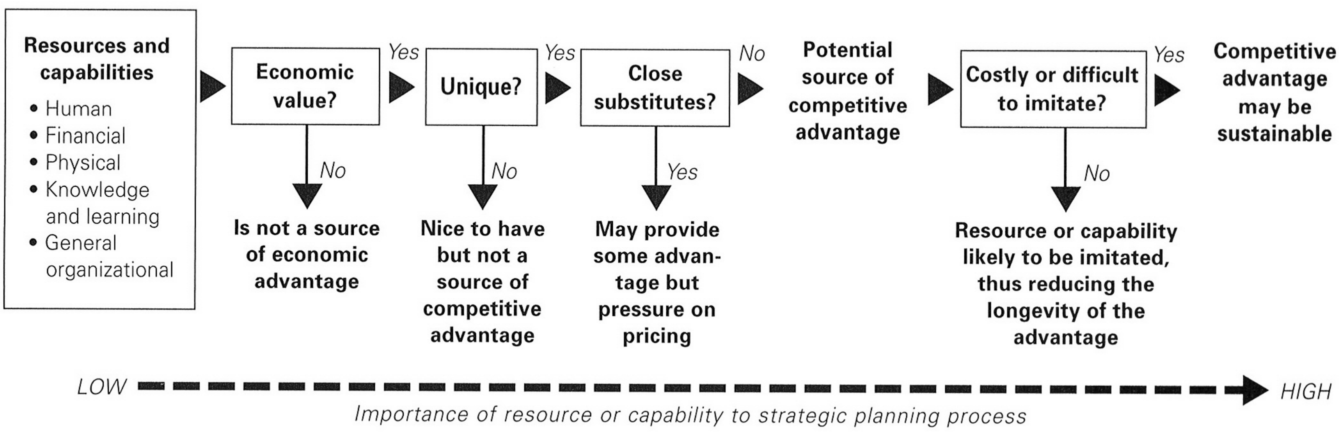
[28] See: J.S. Bain, *Barriers to New Competition* (Cambridge, Massachusetts: Harvard University Press, 1956); and K.R. Harrigan, "Barriers to Entry and Competitive Strategies," *Strategic Management Journal,* Vol. 2 (1981), pp. 395–412.

[29] Porter, *op. cit.*

[30] D. Sherwyn and M.C. Sturman, "Job Sharing: A Potential Tool for Hotel Managers," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 43, No. 5 (October 2002), pp. 84–91; also based on unpublished analysis of industry data presented at the School of Hotel Administration, Cornell University.

EXHIBIT 6

Analysis of organizational resources and capabilities



petition by focusing on different market segments, forming alliances, price leadership, or even collusion. In recent years, airlines have tried to become more organized by forming alliances such as code-sharing agreements.

Internal-resource Analysis

Strategic analysis also includes the firm's internal environment. Organizations are made up of resources and capabilities.[31] As already noted, most resources fall into the general categories of human, financial, physical, knowledge and learning, and general organizational. Strategy is developed in the context of the resources a firm possesses or can acquire. Consequently, resource analysis is a vital part of strategic analysis. This section begins with a brief description of the resource categories that a firm should evaluate, followed by guidelines to use in determining how an organization can determine the value of various resources in developing a competitive advantage. Exhibit 6 provides an outline of this section.

Resource Categories

It is part of the hospitality industry's character that among the most important resources a hospitality firm possesses are its human resources.[32] As a consequence, human-resources analysis should be conducted at all levels, starting with regular evaluation of top managers' performance.[33] Moving one level down in the hierarchy, executives should evaluate the skill levels, training, experience, and performance of supervisory personnel. Moreover, an organization should continuously evaluate the effectiveness of its training programs and policies, as well as its employee-reward systems.

Financial resources. Strong financial resources allow your firm to develop or acquire strong resources in other areas.[34] Also, if your firm is in a strong financial position it can be relatively aggressive in implementing costly or risky strategies that have a high potential payoff. Financial-

[31] E.T. Penrose, *Theory of the Growth of the Firm* (New York: Wiley, 1959). An excellent review of the resource-based view of the firm is found in: J.B. Barney and Asli M. Arikan, "The Resource-based View: Origins and Implications," in Hitt, Freeman, and Harrison, pp. 124–188.

[32] J.B. Tracey and A.E. Nathan, "The Strategic and Operational Roles of Human Resources: An Emerging Model," *Cornell Hotel and Restaurant Administration Quarterly,* Vol. 43, No. 4 (August 2002), pp. 17–26.

[33] See: S. Chatterjee and J.S. Harrison, "Corporate Governance," in Hitt, Freeman, and Harrison, pp. 543–563; and J.L. Johnson, C.M. Daily, and A.E. Ellstrand, "Boards of Directors: A Review and Critique," *Journal of Management,* Vol. 22 (1996), pp. 409–438.

[34] Harrison, *op. cit.*

ratio analysis helps your firm determine which of its strategies are working and highlights those areas that require attention. Some basic ratios such as return-on-assets for profitability and debt-to-total-assets for leverage offer a good barometer of financial health overall.[35] Airlines pay special attention to load factors, for instance, while RevPAR is important for hotels. The key is to conduct financial analysis regularly to evaluate those ratios that are most appropriate for a particular company.

One of the great challenges associated with strategy creation is determining which resources are of greatest value in creating competitive advantage.

Physical resources. Physical resources include all of a company's tangible assets—usually land, buildings, and equipment. The location of property is especially critical in the hospitality industry. McDonald's is well known for selecting outstanding locations for its restaurants, as is Four Seasons in the hotel industry. For airlines, characteristics of a hub can make a huge difference. For example, United Airlines has had to overcome serious problems and high costs at its hub in Denver.

Knowledge. A firm's organizational knowledge and learning systems also should be evaluated regularly. People skills and intellectual assets are among the most vital assets of all healthy organizations. The most effective organizations tend to be those that can learn.[36] Indeed, your firm should monitor its own knowledge-creation systems to determine where its knowledge comes from, how it is recorded, and how it is distributed to appropriate parts of the organization. It's also worth noting whether the organization is developing innovative knowledge or is constantly playing catch up (by copying other firms' innovations). Being a follower is not necessarily a bad strategy unless it has developed unintentionally. Among the most important managerial tasks are facilitating knowledge (1) creation, (2) retention, (3) sharing, and (4) use.[37]

General organizational. General organizational resources include such things as brand names, trade marks, reputation, patents, culture and structure, and management systems. Those resources are usually difficult to imitate. As the next section will demonstrate, this aspect of imitability can make distinctive resources valuable to a firm in developing and executing successful strategies.

The Value of Resources

Not all resources are equally valuable to the creation of a firm's strategies or to its performance. One of the great challenges associated with strategy creation is determining which resources are of greatest value in creating competitive advantage. Exhibit 6 outlines a series of questions that you can use to help answer this important question.[38]

Creating value. The first question in Exhibit 6 deals with a resource's ability to create economic value. A hotel may install a full-feature phone system, for instance, but if guests do not perceive the system as adding value, it probably isn't a source of competitive advantage. Many resources are wasted in creating assets that do not add economic value. However, sometimes the value is hidden or is found in unexpected places. For example, if the same phone system also enhances job-related communication among employees and makes them more productive, it might still have economic value. Thus, it is important to use multiple perspectives to determine the actual value of resources.

Uniqueness. The second question asks whether a particular resource is specific to the firm. Some resources are necessary to conduct business, but their possession does no more than

[35] For example, see: Daniel H. Lesser and Karen Rubin, "Rates of Return on Hotel Investments," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 34, No. 3 (June 1993), pp. 83–89.

[36] D.M. DeCarolis and D.L. Deeds, "The Impact of Stocks and Flows of Organizational Knowledge on Firm Performance," *Strategic Management Journal*, Vol. 20 (1999), pp. 953–968.

[37] *Ibid.*

[38] These questions are based primarily on information found in: J.B. Barney, "Looking Inside for Competitive Advantage," *Academy of Management Executive*, November 1995, pp. 49–61.

bring a firm up to the industry's status quo. For example, restaurants need resources such as cash registers, servers, and kitchen equipment. Although these resources are necessary, possessing them brings a firm up to the status quo. Even if a firm is able to acquire a special kind of kitchen equipment that reduces energy consumption and food-preparation time, such equipment would lead to competitive advantage only if other firms do not acquire the same equipment. Once most restaurants possess the resource, it becomes the status quo. Therefore, competitive advantage can result only from resources and capabilities that are relatively rare.

Substitutions. Resources that cannot be duplicated are valuable and can lead to a competitive advantage when there are not close substitutes. Therefore, the next question deals with substitutability. For example, in a push for efficiency some airlines have eliminated the presentation of movies on cross-country flights. On the other hand, JetBlue has gone in the other direction by providing personal-entertainment screens for each passenger.[39] JetBlue is betting that even though all airlines may return to showing movies on their long flights, consumers will not perceive the movies as close substitutes for personally selected entertainment. The in-seat entertainment systems would also be expensive for competitors to imitate and, at present, are unusual among domestic airlines. Consequently, these systems have the potential to differentiate JetBlue in consumers' minds for several years.

Many resources that are valuable and hard to imitate are general organizational resources. For example, a brand name, such as Hilton or Starbucks, cannot be imitated. Similarly, the warm, personal culture found at JetBlue apparently is difficult to reproduce elsewhere.

Resources and capabilities that are most valuable for strategy development are those that can lead to competitive advantage. Such resources have economic value, they are at least somewhat distinctive, and there are no readily available substitutes. If a resource or capability is also costly or difficult to imitate, then the competitive advantage may be sustainable.

[39] C. Daniel, "Start of a Longer Haul into the JetBlue Yonder," *Financial Times*, August 26, 2002, p. 8.

Strategies should be developed that take advantage of such resources. In addition, strategies should not be pursued if they will in any way damage a resource that is at the heart of competitive advantage.

The Importance of Strategic Analysis

Strategic analysis can be a costly and time-consuming process. It is easy to become discouraged and give up, especially if you are part of a small firm with limited resources. Small firms can benefit from conducting strategic analysis just as much as large firms. In this regard, three essential principles are paramount. First, small firms require less analysis than do large companies, since small firms' environments are relatively less complex than those of large companies. Second, someone in the firm should be assigned to make sure that strategic analysis is ongoing and that the information generated from the analysis is used to guide the strategies of the firm. Third, most of the information required for an effective analysis already exists—within the firm. Along that line, the process of generating strategic information does not have to be expensive, as I discuss next.

Obtaining Information for Strategic Analysis

Most strategic information can be found within your organization—in people's minds and in the files. However, many firms rarely tap this information. A good starting point for strategic analysis is to gather top managers and ask them questions about such things as sociocultural influences, new technologies, competition, and internal resources. After some discussion a fairly accurate picture should emerge. Financial information tends to be readily available, but an effort must be made to consolidate and analyze it. Excellent industry and economic information is also available through a variety of professional sources (e.g., Smith Travel Research) and various periodicals and financial papers. Much useful information can also be acquired through the internet or surveys of customers, suppliers, employees, and other stakeholders.

Outside help. If you are part of a large firm with a reasonably generous budget, consultants can be helpful in guiding your firm through the analysis and can provide supplemental information to round out the findings and prescriptions. However, be sure to chose a consultant who fits with your development and learning needs.[40] Consultants should be interviewed to determine what approach they will use. For purposes of strategic analysis, a consultant should act to facilitate the firm's own analytical processes and should help the firm establish a system that can be maintained without continuous external support.

Applying Strategic Analysis to Guide Strategy Development

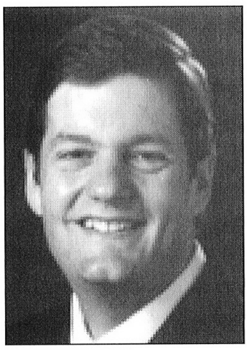
Strategic analysis can be used to generate creative ideas. The following questions demonstrate some of the ways this can occur:

- How can the firm take advantage of changes that are expected to occur in society? (The same question is asked for technology, the economy, political and legal influences, and trends in other industries.)
- How can the firm use its relationships with customers to maximize its position in existing or future businesses? (The same question is asked for suppliers, competitors, unions, and other external stakeholders.)
- Are there any stakeholders that should be seriously considered for partnerships? If so, what form might those partnerships take?
- Does the firm possess any resources or capabilities that are likely to lead to competitive advantage? If so, is the firm taking maximum advantage of those resources and capabilities? If not, how can the firm make better use of them?
- Are there any resources or capabilities the firm should consider developing to achieve competitive advantage?
- Can the firm form joint ventures or other alliances with competitors or other stakeholders to acquire valuable knowledge, skills, or other resources?
- Are there any resources or capabilities the firm does not possess, the absence of which might put it at a competitive disadvantage? If so, how can this situation be remedied?
- Are there any looming threats in the broad environment that the firm should consider in developing its strategies?

All of the above questions can be answered with information gathered from the strategic analysis. Answers to the questions are the building blocks of competitive strategy. Furthermore, you can use this information to help evaluate the potential of whatever strategic options your firm is considering.

Go and Do It!

Little of what I have written here will be of use to your firm unless it is put into practice. Begin by reviewing what is currently being done in the firm and then develop a plan for improvements. It doesn't really matter whether strategic analysis begins from the inside out or proceeds from the outside in. The key is to collect information on internal resources, the task environment, and the broader environmental context in which the firm and its task environment exist. This information becomes knowledge that can be used to help develop strategic direction, competitive strategies, and plans for implementing those strategies. Internal-resource analysis will help you and other managers become aware of the sources of realized and potential competitive advantage. External analysis provides information needed to anticipate and plan for changes. Evaluating external stakeholders on the basis of their power and possession of needed resources can provide direction with regard to formation of strategic alliances. These research activities are the foundation of the strategic management process.



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[40] K. Walsh, "Service-delivery Strategies: Three Approaches to Consulting for Hospitality," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 43, No. 6 (December 2002), pp. 37–48.