

# OPTIMAL STRATEGY DETERMINATION FOR THE HOTEL ENTERPRISE MANAGEMENT

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## Abstract

This article is devoted to the management approaches of an effective strategy development in the hotel enterprise. On one hand, based on the need to find the optimal state between the resources available at the enterprise and opportunities for their use, on the other - satisfaction of market requests and requirements. Acceleration of changes in the environment, emergence of new inquiries and change of the consumer position, resources competition increase, internationalization of business, emergence of new unexpected business opportunities are opened by the achievements of science and technology, development of information networks that make possible the rapid expansion and receipt information, wide availability of modern technologies, changing role of human resources and a number of other reasons have led to a sharp value increase in the strategic management. The insufficient use of the strategic approach advantages in domestic hospitality enterprises caused not only by the instability of the political and economic situation in the country, but also by the inconsistency of the philosophy in market conditions. Domestic hotel industry companies use short-term development plans, which based on many factors: lack of strategic potential, financing, imperfection of state economic policy, etc. In Ukraine the hotel industry is developing at a slow pace, the obstacle is the political and economic crisis. In crisis conditions, the mechanism of using investment resources aimed at developing a strategy is even more complicated. Therefore, given the current state of the hotel industry, it is substantiated that the strategy for further development of the hotel enterprise (based on the example of the Poseidon hotel complex), which underlies the formation of a portfolio set of corporate strategy. By building the GE / McKinsey matrix, it is determined which competitive strategy to choose for the more successful development of the Poseidon Hotel. To determine the strategic directions for improving the competitiveness and efficiency of the hotel, was conducted a SPACE analysis. The characteristic features of the Poseidon hotel environment are an attractive and relatively stable industry. The hotel company was offered to use an aggressive strategy that involves taking new positions in the market while maintaining its existing market share and finding new competitive advantages.

Based on the portfolio implementation set of the corporate strategy on the example of the Poseidon hotel, modern methods combination of leadership and management of the hotel enterprise.

**Keywords:** development strategy, management, hospitality, SPACE analysis, GE / McKinsey matrix.

## INTRODUCTION

Existing development strategies require significantly different systems and management structures; their formation is driven by the appropriate organizational style of behavior. On the basis of achieving unity actions and processes of management in the foreign and internal policy, it is possible to achieve managerial synergy in the management system and to obtain greater effect from the use of the staff forces, to eliminate gaps in strategies, to create the necessary prerequisites for active business activity. In addition, there is another important factor in determining the competitiveness of hospitality businesses – segmentation. Each market sector

needs its own specific strategy and capabilities, respectively, and the sources of competitive advantage in these sectors will also be different [5; 7].

## **RESEARCH RESULTS AND DISCUSSION**

The implementation of strategic approach [8] to the hotel management industry in modern Ukrainian realities is slow enough, due to lack of proper staff experience and qualification, lack of scientific and methodological, information support of strategic management, etc. Therefore, it is relevant today to use foreign experience in the development and implementation of a portfolio set in corporate hotel enterprise strategy, which would be based on the fundamental principles of strategic management theory [1; 10].

In spite of the fact that hospitality industries throughout the world gives rather fast return of the invested funds, in Ukraine it is developing slowly. The obstacle to this is the political and economic crisis that is why the mechanism of using investment resources aimed at developing a strategy for the hotel industry was further complicated. Therefore, given the current state of the hotel industry, we substantiate the strategy of further development on the example of the hotel and restaurant complex "Poseidon". For this purpose we will define the main stages of development and implementation of the portfolio set in corporate strategy [6]:

1. Adjustment of the existing mission, goals and objectives according to the structure of the chosen model.
2. Determination competitive position of the hospitality enterprise and its main strategic business units (SBU).
3. Alternative strategies using SPACE analysis is chosen.
4. Optimal strategy is determined.
5. Substantiation of the portfolio set in the context of its strategic economic zones (SEZ) and SBU [4].
6. Formation of strategic plan on the indicator "profitability of the hotel enterprise" using the methods of strategic planning.
7. Strategic plan implementation (or plan for changing the existing strategy) of a hotel enterprise.

We use the model of forming a strategic portfolio set for HRC "Poseidon". The first step in the development of the strategy is to adjust the existing mission, since the company already applies certain elements of strategic management, formulate the vision of the hotel "Poseidon": "We tailor our services to the wishes of consumers, creating quality and comfortable conditions of stay in HRC "Poseidon".

For the development of a competitive management strategy in the second stage, a method based on expert and factor estimates will be used. Strategic zones (Figure 1) and strategic business units of Poseidon Hotel (Figure 2) were selected for evaluation: SBU 1 – catering services, SEZ 2 – accommodation services, SEZ 3 – additional services (conference room, services) laundry, dry cleaning, etc.) [9].

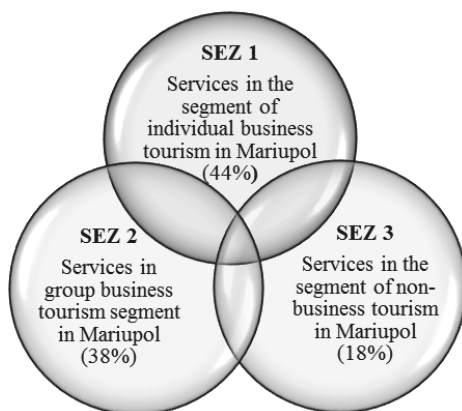


Figure 1. Structure of strategic management zones in the hotel complex “Poseidon”

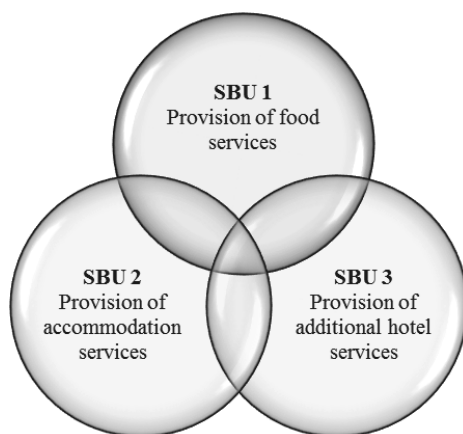


Figure 2. Types of strategic business units of HRC “Poseidon”

We identify the opportunities and threats (tables 1 and 2) for each strategic business unit (SBU) of the Poseidon Hotel Complex on the basis of expert assessments on a four-point rating scale.

Table 1. Potential threats assessment of HRC “Poseidon”

Potential threats	SBU 1	SBU 2	SBU 3
Changes in legislation and policy	3	3	2
Force majeure	4	4	3
Changes in consumer demand	2	3	2
Inflation	3	3	2
Reduced quality of services	1	2	1
The emergence of a larger competitor	4	1	1
Disruptions in supply	3	2	1
<i>Total</i>	<i>20</i>	<i>18</i>	<i>12</i>
<i>GPA</i>	<i>2,86</i>	<i>2,57</i>	<i>1,71</i>
<i>Threat rate</i>	<i>2,38</i>		

The potential threat factor is 2.38, which means that the degree of external factors influence beyond the control of the organization is negligible. But these factors should not be overlooked and should be constantly monitored.

Table 2. Assessment of HRC “Poseidon” possibilities

Possibilities	SBU 1	SBU 2	SBU 3
Enter new markets	2	3	3
Expanding the range of services	3	3	4
Improving the quality of services	3	4	3
Staff training	3	3	2
Reputation, image	2	2	1
Implementation of innovations	3	4	3
Accelerating competitors	4	4	3
<i>Total</i>	<i>20</i>	<i>23</i>	<i>19</i>
<i>GPA</i>	<i>2,86</i>	<i>3,28</i>	<i>2,71</i>
<i>Threat rate</i>	<i>2,95</i>		

Opportunities are factors that contribute to an organization's activities. Their ratio is 2,95, the degree of opportunity for enterprise development is quite large and these factors must be used to the full.

The next stage of strategy development is to determine trends in sales volume, cost and profit by calculation method and expert.

For the analysis of the strategy, we use the General Electric / McKinsey matrix, where the competitive status of the company and the attractiveness of strategic management areas are determining factors (tab. 3, tab. 4).

The attractiveness is calculated by the formula (1):

$$P = L \cdot G + B \cdot R + Y \cdot Q - H \cdot T, \quad (1)$$

where

L, B, Y, H – indicators of growth prospects, investment, opportunities and threats respectively;

G, R, Q, T – the respective weights.

The growth attractiveness rate of the business unit is quite high, due to the fact that the hotel is designed for middle-class people and business clients. Hotel rates correspond to the level of customers who use the services of the establishment. The hotel provides a wide range of services, which more than meets the needs of customers. Investing in hotel advertising is high enough, marketing efforts make sure that customers always have access to the full information about the hotel and the services provided in it. Advertising has an impact on customers through the media: newspapers, banners, online sites, and more.

Table 3. Calculation of attractiveness SBU for the Poseidon Hotel

Criteria for attractiveness	Factors weight	SBU 1	SBU 2	SBU 3	Final SBU score 1	Final SBU score 2	Final SBU score 3
The growth rate of attractiveness	0,30	8	7	7	2,4	2,1	2,1
Investing in advertising	0,25	6	7	6	1,5	1,75	1,5
External factors risks(political, economic, investment)	0,25	8	8	6	2	2	1,5
Positioning a hotel product in the mind of the consumer	0,20	6	9	7	1,2	1,8	1,4
					7,1	7,65	6,5

Given that political, investment and economic situations in the country affect the level of wages and the incomes of the population, investment and development of the hotel business are important factors for attracting new customers.

Table 4. Competitiveness assessment of HRC “Poseidon” services

Competitiveness criteria	Factors weight	SBU 1	SBU 2	SBU 3	Final SBU score 1	Final SBU score 2	Final SBU score 3
Innovative technologies	0,15	6	7	6	0,9	1,05	0,9
Meeting the needs of the target audience	0,15	7	8	6	1,05	1,2	0,9
Sufficient resources for the enterprise	0,10	7	8	6	0,7	0,8	0,6
The level of competition in the segment	0,2	9	9	8	1,8	1,8	1,6
Brand strength, image, high skill level, audience loyalty	0,15	6	9	9	0,9	1,35	1,35
Hotel location	0,05	8	8	8	0,4	0,4	0,4
The price of services compared to other hotels	0,2	9	8	7	1,8	1,6	1,4
					7,55	8,2	7,15

After the calculations, we will construct the GE / McKinsey matrix and determine what competitive strategy should be chosen for the more successful development of the HRC “Poseidon” (Figure 3).

The attractiveness of segment	High (8-10 points)	Growth zone	Growth zone	Selective development zone
	Medium (4-7,99 points)	Growth zone	Selective development zone SBU 1 SBU 3	Harvesting area SBU 2
	Low (0-3,99 points)	Selective development zone	Harvesting area	Harvesting area
		Low (0-3,99 points)	Medium (4-7,99 points)	High (8-10 points)
<b>Competitiveness of services in the segment</b>				

Figure 3. Determination of Positions for Security Service of Hotel and Restaurant Complex "Poseidon"

According to Figure 3, SBU 1 and 3 are in the sampling area and SBU 2 is in the harvesting area. Due to the fact that in SBU 2 the competitiveness of services is higher, the market attractiveness is kept at an average level, but the advantages of SBU in this market are also strong. For SBU 2, first of all, it is necessary to identify the most attractive market segments and invest precisely in them, to develop their advantages and to resist the influence of competitors.

Next, we identify the most feasible options for the future strategic development of the Poseidon Hotel based on the SPACE method [3], which is based on the analysis of companies position and its conditions of operation in four coordinates: the competitive advantage of the company, its financial position, attractiveness of the industry and the stability of the economic environment.

Each hotel business must properly evaluate its competitors and their interests, the industry in which it operates in order to develop the most effective competitive strategies that would ensure its high competitiveness [2]. Let's perform a point of criteria evaluation by the method of SPACE analysis for the hotel complex "Poseidon". Each of the indicators will be assigned a score from 1 to 10. To summarize the information provided, we form a Table 5, with the results of the point scores. To do this, we introduce weights and get a weighted estimate for each indicator.

When justifying the strategic choice according to the presented method, it is necessary to:

1. Identify the critical factors (criteria) of the enterprise assessment by the specified groups (in this case 4-5 criteria are selected for each of 4 strategic choice factor groups).
2. Conduct a weighted average assessment of all 4 groups in confidence intervals, also using analytical information.
3. Determine the range of recommended strategies in the selected coordinate system by constructing a "triangle of recommended strategies".

Table 5. Calculation of a weighted criteria evaluation for choosing a Poseidon hotel strategy using the SPACE method in confidence interval format

Criteria	Score, number of points		Weight	Weighted score, points	
<b>Internal indicators</b>					
<b>1. The financial strength of the Poseidon Hotel (FS)</b>					
Asset turnover	5	6	0,2	1,0	1,2
Financial stability	6	7	0,25	1,55	1,75
Liquidity indicators	6	7	0,25	1,5	1,75
Return on assets	5	6	0,3	1,5	1,8
<i>Total</i>		-	<i>1</i>	<i>5,55</i>	<i>6,5</i>
<b>2. Competitiveness of Poseidon Hotel (CP)</b>					
The coefficient of the structure range	6	7	0,2	1,2	1,4
Average Price Index	6	7	0,25	1,5	1,75
Quality of basic services	6	8	0,2	1,2	1,6
Image and corporate identity	5	7	0,15	0,75	1,05
Customer loyalty	6	7	0,2	1,2	1,4
<i>Total</i>		-	<i>1</i>	<i>5,85</i>	<i>7,2</i>
<b>External indicators</b>					
<b>3. Attractiveness of the hotel industry (AI)</b>					
The level of industry's profitability	7	8	0,25	1,75	2
Life cycle stage	5	6	0,2	1	1,2
Easy market access	6	7	0,3	1,8	2,1
Competition state in hotel industry	6	8	0,25	1,5	2
<i>Total</i>		-	<i>1</i>	<i>6,05</i>	<i>7,3</i>
<b>4. Industry Stability (SG)</b>					
Profit stability	6	7	0,25	1,5	1,75
Development level of innovative activity	3	8	0,15	0,45	1,2

Continuation of the table 5					
Marketing and advertising opportunities	6	9	0,2	1	1,8
Inflation rate	8	9	0,25	2	2,25
Price elasticity	2	5	0,15	0,3	0,45
<i>Total</i>		-	<i>1</i>	<i>4,5</i>	<i>6,7</i>

The use of deterministic numbers in strategic analysis does not always make it possible to assess the situation correctly, especially when the level of environmental uncertainty is high. An alternative way of representing numbers is the confidence interval format, which painlessly adapts to most strategic analysis tools, including the SPACE method.

To determine the recommended strategy in the chosen coordinate system instead of a vector, we construct a triangle whose vertices will be the origin and the points P1 (x1, y2), P2 (x2, y1). We transform the above formula for confidence intervals:

$$[x_1, x_2] = [AI_1, AI_2] (-) [CP_1, CP_2];$$

$$[Y_1, Y_2] = [FS_1, FS_2] (-) [SG_1, SG_2].$$

As a result of the calculations the obtained values are presented in Table 6.

Table 6. Calculation of two-year intervals

$X_1$	0,2	
$X_2$	0,1	
$Y_1$	1,05	
$Y_2$	-0,2	
$P_1$	0,2	-0,2
$P_2$	0,1	1,05

According to the above calculations, we construct the coordinate plane (Figure 4) and find the points  $P_1$  (0.2; -0.2),  $P_2$  (0.1; 1.05).

Thus, point  $P_1$  is in the right upper quarter of the coordinate plane, this corresponds to an aggressive strategy and point  $P_2$  corresponds to the competitive strategy of the hotel enterprise. Competitiveness estimates of the hotel are in line with the strategy recommendations in the SPACE coordinate system:

1. The industry is attractive.

2. The atmosphere where Poseidon Hotel is located is relatively stable.

3. The financial condition of the hotel is quite stable: all the analyzed indicators are within the norm or significantly exceed it. But the hotel needs to keep in mind that these figures are gradually declining, so special precautions should be taken.

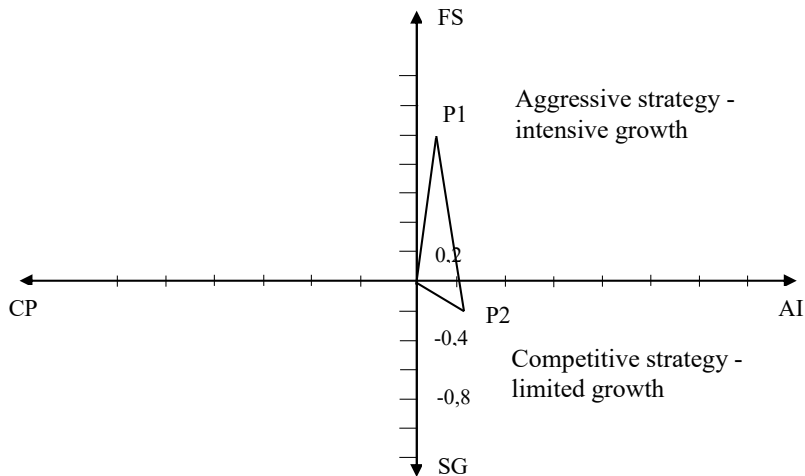


Figure 4. Recommended strategies for Poseidon Hotel in the SPACE coordinate system

Based on the HRC “Poseidon” SPACE simulation, it is advisable to choose an aggressive strategy above all and focus on intensive growth in the volume of core and ancillary services or a competitive strategy aimed at limited growth. Moreover, the company has more opportunities to implement a rather aggressive strategy.



Based on our research and forecasts, we will form a portfolio set of corporate hotel strategy for 2019-2020, which is shown in Figure 5.

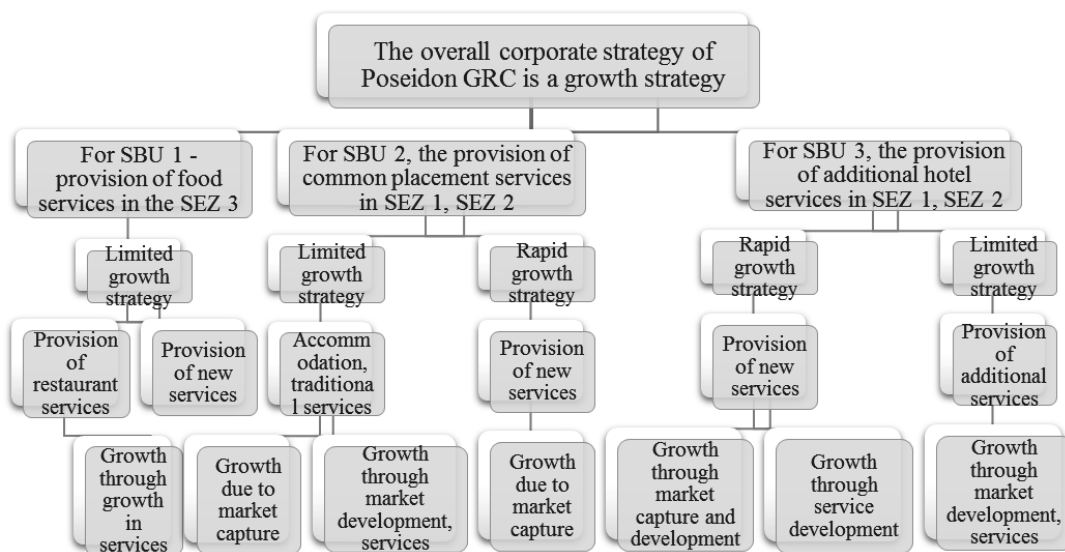


Figure 5. Portfolio set substantiation of corporate strategy for managing the Poseidon complex for 2019-2020

SPACE analysis has identified the characteristics of the environment in which the Poseidon hotel complex operates: an attractive and relatively stable industry. The competitiveness of the hotel compared to its competitors is higher than average. In such circumstances, the hotel company is encouraged to use an aggressive strategy that involves taking new positions in the market while maintaining its existing market share and finding new competitive advantages to complicate competitors' activities.

## CONCLUSION

The scientific result is portfolio set implementation to the corporate hotel business strategy based on the Poseidon Hotel, which, unlike the existing approaches, combines modern methods of leadership and management of the hotel industry. This revealed the competitive advantages and offered a portfolio of corporate hotel strategy for 2019-2020.

The possibility of gradual implementation for proposed methodological approach in practice will reveal the competitive advantages, taking into account the possibility to adjust the portfolio set of the hotel corporate strategy and thereby attract a certain category of consumers.

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