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2 — MEETING GUEST EXPECTATIONS THROUGH PLANNING

Hospitality Principle: Focus Strategy on the Key Drivers of Guest Satisfaction

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LEARNING OBJECTIVES

After reading this chapter, you should be able to

2.1   Distinguish between the three generic strategies for positioning products and services.

2.2   Explain how the elements of the hospitality planning cycle result in the establishment of the hospitality organization's overall strategic plan and service strategy.

2.3   Recognize the quantitative and qualitative tools used for assessing the hospitality environment (externally and internally).

2.4   Identify the key internal factors that must be examined for successful planning.

2.5   Describe the importance of a mission and vision statement in focusing the strategic plan on the best way to fit core competencies with strategic premises.

2.6   State the importance of including the key drivers of guest satisfaction when developing the service strategy.

2.7   Describe a planning model showing how components are tied together and action plans are developed.

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INTRODUCTION

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 judgment. Managers of the best 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.

Planning and strategy making are simple to talk about but 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 make a plan to get there in light of those capabilities. 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 systems and create new ones. In other words, people change, their needs and expectations change, the competition changes, the environment changes, and so too must the hospitality organization. Indeed, the most brilliant strategy in the world will fail if the organization can't get those responsible for implementing it to make it work. Finding ways to get employees 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. Wendy's provides speed and price; the Ruth

Chris's Steak House provides quality. In addition to price, quality, and speed, the organization could compete on variety, convenience, friendliness, no-frills, uniqueness, helpfulness, or some other basis. The **service strategy** is the organization's plan for delivering the experience guests expect.

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 find ways to differentiate its product or service from those of its competitors. Third, it can identify and fill a particular market niche or need. Successful hospitality organizations establish a strategy that includes one or more of these generic strategies and stick with it.

A Lower Price

The **low-price provider** tries to design and provide pretty much the same service the competition sells, but at a lower price. Management's focus is on maximizing operational or production efficiencies to minimize the organization's costs. Spirit Airlines focuses on reducing the costs of running the airline (unbundled pricing, single type of plane to maintain and operate, pricing that discourages luggage handling, greater seat density, and so forth) to achieve the lowest production cost per mile in the industry. Walmart focuses on selling for less by controlling inventory and cutting merchandise costs through mass buying. The low-price provider tries to offer the service at a price so low competitors cannot offer the same service and value at that lower price without losing money. Red Roof Inn and Motel 6 are competing with Budgetel and Sleep Inn, not with Ritz-Carlton and Four Seasons. 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 resulting deterioration in the guest experience may decrease the value of the experience to guests and drive them to competitors. Although some are still able to usually offer excellent customer service, such as Alaska Airlines and Spirit Airlines, 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 important. 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—located 200 km north of the Arctic Circle—is constructed each year out of snow and ice, featuring reindeer skin beds, an ice bar, and magnificent ice sculptures in the lobby; it 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, creating a brand identity that is valued

by the targeted customers, or offering special amenities ("Free continental breakfast!" "Gourmet room service!" "Kids eat free!" "Heavenly Bed") that are attractive to that market segment. They hope a potential guest looking for a place to spend the night will remember what the brand stands for, want the amenities offered, and therefore book a room, for example, at a Westin Hotel instead of a Hilton, or vice versa, for what is essentially the same service product: a clean room in which to sleep.

The Nickelodeon Hotels & Resorts—located in at Punta Cana, Dominican Republic—allows guests to stay in SpongeBob SquarePants' pineapple house.

Courtesy of Nickelodeon Hotel & Resorts

For example, the Nickelodeon Hotels & Resorts at Punta Cana, Dominican Republic, differentiates itself from most other hotels by focusing on families with children offering suites themed after Nickelodeon's popular children's characters. In addition to its unique reproduction of SpongeBob's Bikini Bottom home, The Pineapple, it also offers "Slime O'Clock Somewhere" activities, which include an interactive kids-only dinner show with a chance to meet Nickelodeon's characters like SpongeBob SquarePants. The hotel offers a special play area with supervised activities for younger kids, "Just Kiddin'," for parents' peace of mind. This hotel's strategy is to position itself as a unique, family friendly location themed with a readily recognized SpongeBob theme.

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]: the image or icon associated with a specific product, service, or organization, meant to help customers differentiate the organization's offerings from those of competitors. A brand represents a promise to guests of what the quality and value of experiences associated with the brand will offer them, every time and in every place they see the brand.

A strong brand promise reduces customer uncertainty about the hospitality experience the organization offers and, consequently, can create a brand preference and increased customer loyalty. If a strong brand preference is established, it can provide some protection against cost cutting or other competitive strategies that might get guests to switch to other competing products.

A strong **brand name**—the name of a specific product, service, or organization, used to differentiate the organization's offerings from those of competitors—can also extend the company's reach into new markets. Because services are mostly intangible—with no dress, guitar, or SUV 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—a guest can't get beef, but can get the beef-less McCurry Pan in India; beer in Germany; a McRice Burger in Taiwan; and 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 well-established and well-regarded brand name with a positive brand image is a source of competitive advantage. It enables companies like McDonald's, Disney, or Marriott to gain acceptance for any new product or service they bring to the marketplace. Customers will usually be willing to give the new product or service a try simply because 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 Disney would not risk hurting its brand by putting it on something inconsistent with the quality of products and services customers have come to expect from Disney. 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.

Despite its many business advantages, though, having a strong brand may sometimes have drawbacks. When Disney entered the European market by opening Disneyland Paris, it discovered 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. 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, Allegiant, WestJet, and Spirit Airlines all elected to pursue a short-haul, low-fare, high-frequency, point-to-point underserved destination strategy to carve out a specific niche in the airline market. This has been a 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 RyanAir, EasyJet, Wizz Air, and Norwegian Air Shuttle.

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: fractional ownership. The company, 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. By purchasing a NetJets' Share, customers can 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, or pub beers; associating only with a specific group of people, like a university's alumni, families, or members of the LGBTQ community; or exploring a specific culture, ecology, or heritage. The Society for Accessible Travel & Hospitality reports organizations have designed special tours for people living with disabilities, such as the cruises designed for people with visual impairments offered by Mind's-Eye Travel.[4] Theme parks also have increasingly found niches. 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. Others, like Panera, Chipotle, and Zaxby's, have found a new niche by positioning themselves between casual-dining and fast food. Still others, like fast-fine, food trucks, grocery chains' prepared food, and home delivered meal-kits, continue seeking and serving new niches. A Norwegian architectural firm has even designed a fine dining restaurant, Under, that is five and a half meters underwater to reach a niche of customers wishing to dine under the sea. By focusing on one part of the total market, each of these concepts hopes to distinguish itself from other types of eating options. 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, destination cities in meetings, medical needs in tourism, and water parks in parks and attractions. In all these instances, the market niche is carefully defined demographically, psychographically, or geographically. The organization seeks to gain a competitive advantage by creating a top-of-mind awareness with customers in its targeted market by applying Jay Barney's **Resource-Based View (RBV).**[5] The RBV focuses hospitality planners on identifying the unique tangible and intangible resources in the service experience offered to targeted guests, which are unavailable from other providers, are not easily imitated, and for which there are no obvious alternatives or substitutes.

Panera Bread is an American chain of fast casual restaurants, seeking to position itself in the market niche between casual-dining and fast food.

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The distinction between a *differentiation strategy* and *finding a niche strategy* is not clear cut. One way to think of it is that the organization determines the market in which it wants to compete, 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 be the first to move into a market segment to meet an unfulfilled customer need, perhaps a need customers don't recognize until they see the product the innovator offers to fulfill it: home delivery of meals for diners seeking to avoid indoor restaurant or supermarket crowds, a sandwich wrap for drivers eating dashboard cuisine, an Airbnb for more adventurous 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 this combination is the most likely way for managers to determine the specific steps that detail how the organization intends to get from where it is to where it wishes to be to achieve its mission and vision. This **strategic plan** makes an important difference in an organization's success.[6]

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 classify strategies in various ways.[7] 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 30 different lodging brands to fit the various market niches it seeks to reach as well as different 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 when choosing its competitive strategy. Each of these opportunities has advantages and disadvantages that an in-depth review of strategic planning will reveal.[8]

The strategies just discussed are not mutually exclusive. An organization can seek to differentiate its product from all others in the market by positioning the product in people's minds as the best value for the lowest cost. 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 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 try to 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 implementing a strategy are important decisions for any hospitality manager seeking to find the best match of the company's mission with its current and emerging uncertainties. If drastic change is forecast, the organization might even have to reinvent itself and develop new ways to compete more effectively. A strategy might be to become cheaper, or better, or faster. These are all reactive strategies 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 now classic book, *Competing for the Future,* the organization might even need to "lead customers where they want to go but don't know it yet."[9] They "do more than satisfy customers, they constantly amaze them."[10] 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.

No Matter the Strategy, Provide Better Service

In this section, we've discussed three generic strategies—competing on price, differentiating, and finding a niche. Each of these strategies may 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 based on superlative service quality and value. Provide better service and value than the competition does, and they can't beat you. As

author Dr. Tony Alessandra says, "Being on par with price and quality only gets you into the game. Service wins the game."[11] The well-known management writer Tom Peters echoes this idea. He writes, "You can knock off everything… except awesome service."[12]

THE HOSPITALITY PLANNING CYCLE

Outstanding hospitality organizations know their success depends on finding 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. It's because of this process, for example, that Westin Hotels and Resorts believed that it could buck the trend in the hotel business of saving money on bed quality, and instead differentiated its brand by introducing the Heavenly Bed. Knowing what customers want, and knowing if your company can deliver that and ultimately how it can deliver it, is what lets the top hospitality organizations stay outstanding. This requires a thoughtful strategic planning process.

The strategic planning process has two basic steps: assessment (external and internal) and figuring out what to do based on 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 the organization's capabilities.

As seen in Figure 2.1, hospitality planning follows a continuous ongoing cycle that begins at the big-picture level and ends in specific action plans that implement the overall strategy with 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. The cycle renews itself as the performance metrics tell the planners what went right and what didn't. This periodic review is the beginning point of the new planning cycle as one cycle's performance becomes the starting point for the next cycle.

FIGURE 2.1 ■ The Hospitality Planning Cycle
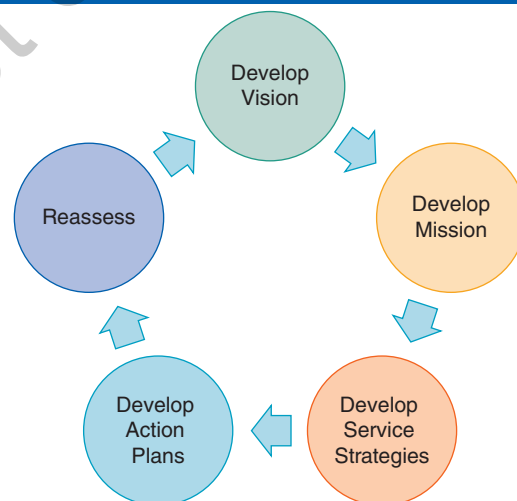
Starbucks, for example, in reviewing its performance metrics in 2022 found that it was producing unhappy customers, frustrated employees, and losing money. Its founder, Howard Schultz, retook the leadership position for the third time to implement a new strategy that he hoped would better position Starbucks for the post-pandemic customer. Realizing customer preferences had shifted to ordering increasingly complex drinks at drive-through windows, Schultz shifted billions of dollars from stock buy backs to employee training, new store design, and better equipment: "Starbucks plans to add around 2000 new stores in the U.S by its 2025 fiscal year. . . . Drive through locations will dominate the company's new stores, with delivery and pick-up only locations making up the rest."[13] The degree to which this strategy worked will be assessed when the next review of results at the end of the current planning cycle takes place. The point is that a strategic planning cycle is dynamic and an ongoing process and not a one-time event.

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 will want in that future environment. They seek to identify what the primary factors within a guest experience valued highly by the guest and leading to guest satisfaction. These **key drivers** determine what 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 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. 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. A visit to its Olive Garden website (www.olivegarden.com/nutrition) shows this information along with a commitment to reduce sodium and enhance the nutritional content of its children's menus.[14]

Looking Within

The **internal assessment**, or the searching look within for strengths and weaknesses, defines the organization's capabilities, and considers the organization's strong and weak points in terms of its ability to compete into 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.

Based on its own internal assessment, for example, Gaylord Hotels realized 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 create 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 roadmap to unite and focus the efforts of the organization's members and get them prepared for the future 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. To successful hospitality organizations, doing nothing to prepare for an uncertain future is not an option.

Food trucks are becoming increasingly popular around the world and part of the pop-up restaurant phenomenon. Food trucks offer a relatively inexpensive way for restaurateurs to quickly enter into the restaurant industry, offering all types of cuisines in various locations.

Vladimir Vladimirov via Getty Images

This is the kind of thinking that encouraged Warren Buffet to invest in NetJets, the cruise industry to build new very large ships, and China to invest in theme parks. No organization can instantly create such magnificent facilities and equipment. 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 implementing a well thought out 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.

Forecasting

Assessing the future requires **forecasting**. Forecasting techniques range from the heavily quantitative tools, which are fairly objective, to the heavily subjective qualitative tools. 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.[15] If a restaurant's customer growth rate has been about 10% per year for five 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% of all visitors who will come into a zoo for that 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% per year for the past decade, then predicting this growth rate will continue for at least a few more years seems reasonable for planning purposes even if history also tells us that hurricanes may occur to disrupt that trend.

The problem with assuming 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 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 coronavirus (COVID-19) pandemic showed to the dismay of many hospitality industry investors, employees, and guests, any forecast based only on the past can be thrown off by unexpected technological, economic, societal, environmental, 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.

ASSESSING THE ENVIRONMENT

Figure 2.2 provides details of each of the steps in the planning cycle. The figure shows 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.
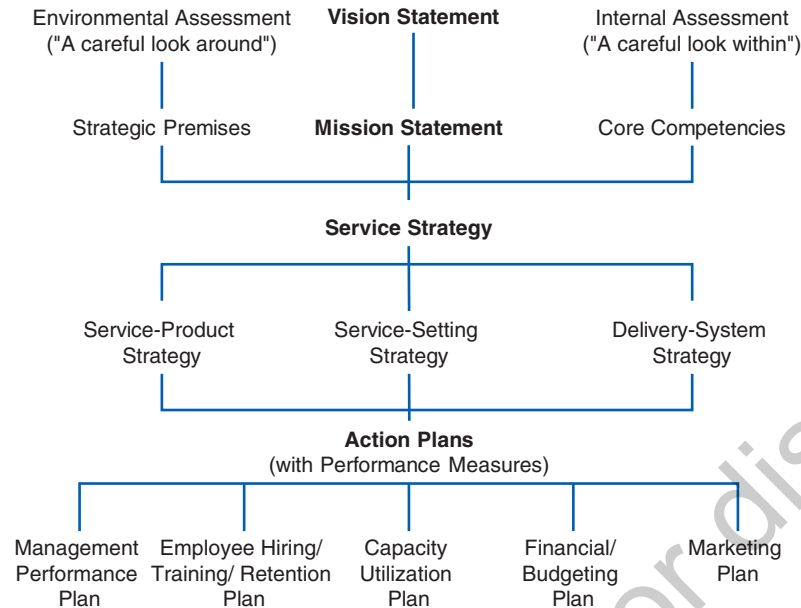
FIGURE 2.2 ■ Detailing the Hospitality Planning Process

Figure 2.3 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.

The Overall Environment

Among the many factors the hospitality organization must forecast for the uncertain future, it must try to predict potential changes in the economy, societal and demographic trends, political leadership, technology, international issues, and even the natural environment, including worldwide diseases, climate crises, wars, and other disasters. All of these environmental factors impact the way a hospitality organization operates, as well as affecting the guests who seek its services.

For example, the organization must consider the effects of local and national governmental economic policies where it operates and markets 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 pandemic caused by COVID-19 continues to have a major impact on the hospitality industry. Not only did it lead to a virtual halt on tourist and business travel, customer visits to hospitality businesses, and new hospitality construction, but it 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 $350 billion in financial subsidies given to the various businesses in the American Rescue Plan of 2021 and The Coronavirus Aid, Relief, and Economic Security Act (2020) and the Coronavirus Response and Consolidated Appropriations Act (2021) led to political posturing and public outrage over any business spending viewed as unfair or wasteful, such as subsidies for airlines and misuses of the Paycheck Protection Plan (PPP) loans. Hospitality organizations increasingly found themselves on the defensive justifying to a skeptical public why these government expenditures made good sense for the overall economy.

FIGURE 2.3 ■ Factors to Include in Environmental Assessment

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 childbearing, 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?

Politics and Changing Social Expectations. What sort of government policy changes regarding antitrust activities, regulation, health care, taxation, depreciation, environmental protection, and foreign trade barriers and inducements can we expect? What political factors or legal constraints will affect international business? How will local, national, and international political divisions impact our business strategy?

Technology. Where is it going? What new products, services, or breakthroughs might we anticipate? To what extent will Artificial Intelligence (AI) become a component of our hospitality product, environment or delivery system ability to deliver an experience our customers expect?

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

International. What are other nations doing or not doing that impact our business either through unique governmental rules, regulations, armed conflicts, or international treaties? How do these apply to different foreign branch locations or affect our supply chain of products, career paths of employees, international travel and tourism mobility, or access to labor, technology, and capital?

The Industry Environment

Changing Competitors. Who will our new competitors be and what will be their competitive advantages? Will technological advances enable them to offset our present market strengths (e.g., economies of scale, brand-name, market niche, availability of capital)?

Changes in Other Relevant Groups

Resource Suppliers. How stable, big, and reliable are our current suppliers? Where do our supplies come from and is there potential for supply chain problems? Might any suppliers become competitors? Are substitute suppliers available? Should we supply ourselves (make versus buy)?

Capital Suppliers. 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 will be the number and skill sets of new entrants to the labor market? Will the same pay and benefit offerings be attractive to next generation of employees? Will there be different expectations in work-life balance for future employees? When are people retiring? What changes are ahead for unions?

The Operating Environment

Strategic Premises. What fundamental assumptions about the industry, market, and environment that the organization has made in the past are likely to change our competitive position in the future? Is the organization offering a service product that customers will continue to need, want, and expect? Will the organization's service product be something customers will continue to demand in the future?

Predicting the Competitive Environment. 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 willing to substitute for human touch in their expected hospitality experience in our competitive market space?

Surprises. Not all changes in the overall environment, industry, or operating environment can be predicted. Nonetheless, Covid-19 and Russia's invasion of Ukraine showed that major as well as minor disruptions are inevitable. Is the organization capable of weathering a major incident, like an environmental disaster, another pandemic, sudden hostilities with a country important to its supply chain, or a terrorist attack? Even if not directly affected by major changes to the operating environment, the indirect effect on the market can be substantial. Organizations need to at least consider how unpredictable future events can impact what customers want and the services the organization offers.

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.

In addition to the financial environment, organizations in the hospitality industry must also consider numerous other economic factors in their strategic planning process. For example, one important consideration is the future directions 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 the euro is less valuable in foreign exchange than the U.S. dollar, foreign tourists will consider going to visit a country in the European Union 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, tax laws, 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.

Society and Demographics

Assessing 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 2023, there are more nearly 335 million people in the United States.[16] Of these, approximately 22% are under eighteen, 36% are between eighteen and forty-four, 25% are between forty-four and sixty-four, and approximately 17% of the population are older than sixty-five. This breakdown includes the Baby Boomers (those born between 1945 and 1964) who represent about 69 million, or 21%, of the total population.

Different generations of customers have different preferences and expectations. Hospitality organizations must make an effort to attract these different groups of individuals.

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Baby Boomers Although Baby Boomers and older Americans as of 2021 were outnumbered by Millennials (those born between 1981 and 1996), 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. While the total number of Baby Boomers will inevitably decline as they

continue to age, many will continue to be active years more than prior generations. According to Pew Research,[17] aging Baby Boomers were retiring at the rate of about 80,000 each day, holding a substantial sum of money available for discretionary use and continue to be a prime target of the hospitality industry. Although many have at least some childcare 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 people 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. Moreover, if they follow the trends set by the generation before them, many will work longer to enjoy the social benefits of working, delay the consequences of their unwillingness to set aside enough wealth to live as they wish in retirement, and fill jobs that require their expertise and experience. Others will use their retirement to seek new and higher-involvement experiences (e.g., voluntourism, adventure tourism, ecotourism).

In other words, many of these people 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. Hospitality organizations may find it desirable to look closely at this labor pool especially as this demographic group's fear of COVID-19 workplace contact eases driven by COVID vaccine availability and declining Polymerase Chain Reaction (PCR) test rates is replaced by the desire to regain both social and economic benefits of work.

Generation X, Generation Y (Millennials), and Generation Z (Next-Gens) The 65.7 million Americans born in the years 1965–1980 make up Generation X. Generation Y (Millennials) Americans are those born in the years 1981–1996, and Generation Z (Next-Gens, iGens,) are those born after 1997 to 2012. In 2023, these segments represented 19%, 22%, and 20%, respectively, of the population of the United States.[18] The generations succeeding the Baby Boomers (Generations X, Y, and Z) have or expect to have few defined benefit retirement plans. Instead, they must worry about the future of Social Security and must depend on their own investment successes (or luck) to build wealth and fund their retirement years. At the same time, they are also in the middle of public health crises with both obesity and opioids, and they are increasingly responsible for their own healthcare expenses and retirement savings in a domestic job market that has fewer full time industrial and more part-time temporary, gig, and contract jobs without benefits. They must also face the prospect of funding one of the largest government debts in American history, incurred because of the large amounts of COVID-related spending, spending on the NATO build up driven by the Russian invasion of Ukraine, the 2017 Tax Reform, new large governmental investments in infrastructure, healthcare costs, and other financial issues.

These generations face the possibility of having a lower standard of living than their parents, working longer before retiring, and paying more for the large number of retirees in Social Security and Medicare, the national debt, and the health care fallout of obesity and drug abuse. Looking at the demographics with relatively large growth in the Generation X and Generation Y numbers translates into important trends in both employment and marketing strategies for the hospitality industry. While the Generation Y Millennials have become an important and unique

force of their own, Generation Z will be even more interesting and unpredictable as it evolves. This generation will be different because the world it is dealing with is quite different from the one its parents faced.

Many future market opportunities can be identified by reviewing information already known about Baby Boomers and the Generation X, Generation Y, and Generation Z segments of the population. Hospitality organizations are attempting to attract these groups of people. For example, hotels seeking to appeal to the Generation Y group of Millennials will offer different amenities and features than those targeting Baby Boomers. Their research shows that Millennials rarely unpack their suitcases and are as likely to work on beds instead of desks. Moreover, over two-thirds of them say that using in-room Wi-Fi for multiple devices influences the hotel selection.[19] Choice Hotels created a new chain, Cambria Suites, to appeal to this demographic. Emphasizing "Upscale essentials for the modern traveler," it offers free Wifi and tech-friendly rooms, contactless concierge and services, spa-inspired bathrooms with Bluetooth mirrors posh gyms, menus that capture local flavors, and bars that feature local craft beers and signature cocktails.[20] Similarly, Aloft, one of Starwood Hotels' newer brands, also targets the Millennial market. "We see millennial travelers more as explorers than tourists," said Brian McGuinness, global brand leader, Starwood's Specialty Select Brands. "Our Aloft hotels are specifically designed with them in mind." Aloft features free Wi-Fi, areas for working poolside or in the bar, and even a robotic bellhop that appeals to this tech-savvy generation. Guests who are too busy to talk to a human can order from an emoji room-service menu by texting a string of emojis with their last name and room number to Aloft TiGi (Text it. Get it.).[21] 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 Changing demographics have several implications for all organizations serving the public, but some will have special impact on the labor-intensive hospitality industry. As aging Baby Boomers press for allocation of more government dollars to their growing healthcare 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 virtual experiences 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 and for creating good will to attract future customers and employees.

Implications of Generation Y (Millennials) and Generation Z in the Workforce Generation Ys (also called Millennials) and Generation Z are the newest entrants to the workforce. Both generations are used to technology being a regular part of their lives, with Millennials being the first generation to grow up with the Internet. Both generations are often referred to as being "digital natives" having grown up with the technology such as cell phones, social media, Google, texting, and Zoom being a common part of their daily lives.

Of course, the generations also have their differences. Millennials have been called the "most praised generation," as their entire young lives have been filled with positive feedback from parents, teachers, coaches, and others.[22] This generation has placed an emphasis on rewards and rapid personal and professional growth in their position. Generation Z, while sharing many of

the same characteristics as Millennials, care more about cultural fit in the workplace, being at a fun place to work, having flexible schedules, and achieving greater work–life balance.[23] Working for a strong brand, and the contribution of the work to the world at large, tends to be emphasized more by Generation Z than their predecessors.

The COVID-19 pandemic forced many employees to learn how to work from home, and many individuals from both generations have come to prefer the flexibility and work–life balance such arrangements provide. Leaders of these employees have had to learn new ways to effectively supervise and lead those now virtual employees individually and while collaborating in teams. In fact, Millennials are now beginning to be in the position of managing the new Generation Z entrants to the workforce. Generation Z employees are expecting their Millennial supervisors to be positive and communicative, provide autonomy, and be supportive of their needs to cope with stress and seek work–life balance in their roles.

Of course, labels like Millennials and Generation Z are generalizations that do not reflect all individuals from those cohorts, and there are important variations within these generations that are highly related to socioeconomic status. The divergence between the haves and the have-nots is already wide among today's school children and tomorrow's workers, and it will likely grow wider as technology usage grows. As technology morphs from being a luxury to a necessity, the chasm between the performance of low-income students and their more affluent peers is a growing concern. Some note the tech movement is further exacerbating the already-large achievement gap; in education circles, this phenomenon is dubbed the "connectivity gap" or the "digital divide." It is estimated that roughly 8% of Americans do not have Internet access, with the greatest lack of connectivity occurring in rural areas.[24]

Today's children, often referred to as Generation Alpha, will be the eighteen to twenty-one-year-old entry workers of 2030 and beyond. Those who enter the workforce without the requisite basic skills, especially technological skills, will represent a major training and development challenge for the many hospitality organizations that depend upon young, eager, tech savvy, and educated employees to provide and ensure guest satisfaction. The challenge for their managers—which will include both Millennials and members of Generation Z—will be to keep this new group of employees, especially the have-nots, competitive with the rapidly emerging, highly educated workforce of countries such as South Korea, Hong Kong, Taiwan, and Singapore, who are now investing heavily in technology, education, and training. The labor pool companies can hire from is rapidly becoming global, and workers from many nations are competing for the same jobs. Advances in technology and communication allow many jobs to be done by remotely located employees, a crowdsourced grouping, or even by robots. Where a person is located has become far less important than what that person can do. When a pizza can be delivered by a robot or room service provided by one of Relay's Autonomous Mobile Robots (AMR), the need to find new hires with improved capabilities becomes obvious. Indeed, the more sophisticated the requirements are for entry employees, the more challenging it will be to sustain the traditional paths of opportunity for the underprepared and disadvantaged in the hospitality industry. The World Economic Forum in 2021 estimated that 85 million jobs worldwide will be lost to AI by 2025.[25] As lower skilled jobs like taxi, delivery truck, and pizza driver get taken over by self-driving vehicles, the ability of hospitality organizations to offer a hand up to new entrants trying to climb the economic ladder declines.

While many may assume Generation Z and Generation Alpha—having grown up with instant technological access to information, as well as experiencing online social life as a normal experience— will have difficulty moving from a virtual entertainment world to the

real world of work, there are reasons to predict 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 gamers consistently outperformed non-gamers on standard tests that measure attention span and information-processing time. Other research has revealed gamers to be significantly more confident, more socially capable, and more creative in problem solving than non-gamers.[26]

What kind of cognitive skills should we expect to find in Generation Z and Alpha? They're going to think well about systems and be used to constant information sharing, but be more skilled in technology-based communication than in-person social interactions. They are going to be more globally aware and be more passionate about justice and social issues but will likely have less workplace experience due to the elimination of lower-skilled and entry-level jobs due to emerging technologies and a simultaneous emphasis on summer education extracurricular activities over employment during their pre-college years. And they are going to need mentoring and development, while also putting a priority on autonomy and non-work factors.[27]

Changing Social and Political 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 two decades ago. Changing social trends led to this new category as very busy families sought a way to find food they could eat in their cars without making a mess. Similarly, a recent concept is the weekly family meal preparation and delivery service like Blue Apron, Factor, and HelloFresh. These services ship to people's homes a week's worth of meals with the fresh ingredients pre-portioned and ready for assembly and cooking. Their target market is busy families who want to prepare meals at home but without the time-consuming inconvenience of gathering the ingredients, prepping, or menu planning. Other families not interested in making their own meals can use home delivery of restaurant meals though such services as UberEats, Doordash, and Grubhub.

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 emergence of Uber and Lyft as alternatives to taxis. The local people transportation business was primarily the domain of taxi companies until the arrival of ride-sharing companies like Uber. This innovation in ride sharing disrupted the local laws and legislation governing the taxi industry and caused significant concerns by these regulated companies in the face of this new and largely unregulated competition.[28] While the final resolution of these concerns remains unclear as local governments continue to sort out the implications of this innovation on laws and regulations, the reality is that people desiring temporary transportation have new options that were unavailable before the invention of ride sharing technology. A second example is Airbnb, which is being challenged by the traditional hotel associations as short-term housing requiring application of the same rules and regulations as they face.

Legislation impacts the way in which hospitality organizations operate, and so do nongovernmental 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 faces a real challenge when every action it takes is so visible to its guests.

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 handheld device were unthinkable only ten years ago. Today, anyone with a smartphone can search (or ask their personal artificial intelligence (AI) assistant to 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 Apple Watch can answer calls, search with Siri, stream music, track fitness, or check in for a flight. The implications of fifth-generation technology and the Internet of Things 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.[29] The rapid growth of cloud computing, which relies entirely on the internet to access both programs and data files, allows unforeseen opportunities for information sharing, collaboration, and networking by people across the globe.

Other aspects of technological change will be equally important for 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 memorable guest experience. The challenge is to substitute technology for labor in ways the guest perceives as either a positive increase in service quality and value or does not perceive at all. One restaurant in the Netherlands has a robot that scales a 26-foot-high bar to tap bottles of homemade gin, whiskey, and limoncello so that bartenders don't have to climb ladders. In Japan these collaborative robots, known as cobots, place takeout dumplings in boxes. Because cobots use AI to complement the work or reduce the skill level required of the employees, they offer new ways to complement employees' task performance that save labor costs by reducing expensive skills and service time, while increasing customer satisfaction by adding time for employees to provide more of the valued human touch.[30] The potential of robots is one way to deliver quality service with a person-like machine either replacing or coproducing a guest experience. Further, advances in virtual reality and the metaverse will inevitably change how conferences, trade shows, and conventions are produced in unforeseen ways.[31]
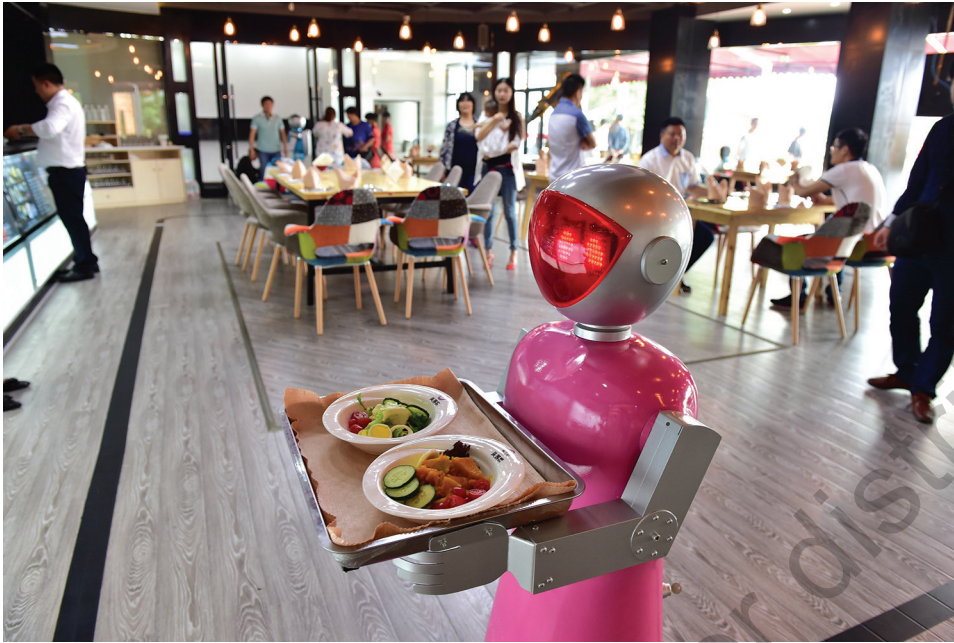
This restaurant with robot servers shows just one way that changing technology can affect the hospitality industry.

VCG/Stringer via Getty Images

Self check-in at hotels or airports is an example of technology with which guests have become 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 of personal service 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.

Ecology

Perhaps no movement has received more attention recently than **sustainability** and the **green movement**. Sustainability refers to the use of resources in a way that protects the future environment and the ability of future generations to meet their own needs. The green movement refers to a diverse set of political, scientific, and social movements advocating for sustainable management of resources and addressing issues of climate change.

Not only has sustainability become a national priority but an international one as well as destinations around the world have enacted legislation and policies to help sustain their tourism resources. Many of these tourist destinations are confronting the conundrum of trying to protect their natural resources, national cultures, and indigenous people's traditions from too much tourism, while also protecting the tourism industry from economic hardship by discouraging or limiting tourist spending. There are few easy solutions to this conundrum and as the world recovers from the travel decline during the pandemic, the trend of increasing travelers is likely to continue. The country of Bhutan passed a law in 2022 to increase its sustainable development

fee for tourists to $200 daily as a way for it to help pay for the costs of preserving its heritage and environment. The tourism industry in Bhutan is, not surprisingly, unsupportive.[32]

Sustainability in 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 climate.[33] Even tourism destinations like Iceland and Venice, Italy, are having discussions among their stakeholders as to the extent to which these places can sustain the volume of tourists now visiting. The issue of sustainability is a politically sensitive conversation in many destinations from the Great Barrier Reef, Australia, to Machu Picchu, Peru, where local environmental groups are confronting the tourism interests over how much the natural attraction can be visited without damage to the ecosystem, native culture, infrastructure, or the attraction itself.

The interest in sustainability and the post-COVID-19 resurgence of tourism and business travel has reawakened interest in how to employ sustainable practices by hospitality organizations, what has been termed the "green movement." This movement has been the subject of industry initiatives across hospitality. Some states, for example, Florida, offer green certification for hotels that implement environmentally friendly practices through its Green Lodging Program. Other organizations across the globe have developed green certification programs, such as GreenGlobe, Europe's Sustainable Tourism Certification, and the USA's Green Seal. There is even a Green Hotels Association, which includes many members of the leading hotel chains.[34] Environmentally Friendly Hotels has a website (environmentallyfriendlyhotels.com) where customers can find lodging that matches their commitment to environmental actions.[35] Being green can involve a wide range of practices (see Figure 2.4). Some hotels only employ basic environmental practices (e.g., a linen reuse program, greater recycling, lower energy consuming light fixtures and appliances), but others employ much more intensive and sophisticated practices. One hotel, for example, 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 ergo-nomically 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." Whether this is motivated by cost savings or a sincere commitment to the environment is immaterial as this represents a way to provide a win-win solution to an environmental issue. The hotel saves money by spending less on soap, while the environment is spared the effects of producing a bar of soap that is only partially used before disposal.

Most "green" programs seek to encourage hotels to engage in environmentally sustainable activities. Their requirements are attempts to have hotels do well while doing good. 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 carbon-neutral vacations, they are trying to appeal to customers who are increasingly demanding this increased level of sensitivity to environmental sustainability while still making a profit. The Playa Nicuesa Rainforest Lodge in Costa Rica, for example, states on its website that it lives in "balance with nature" through its eco-friendly policies. Playa Nicuesa is located on a 165-acre preserve within the lush rainforest of the Piedras Blancas National Park.[36] In addition to claiming a carbon neutral operation, they advertise, "We provide intimate experiences to connect with the natural world of the rainforest and ocean through educational and adventure activities while adhering to the highest level of sustainable hospitality. . . . We strive to offer luxury service in an authentic, sustainable and pristine location. Designed in balance with the land, Playa Nicuesa Rainforest Lodge is truly sustainable from its architectural design to every aspect of your experience. Our Sustainability Coordinator ensures that we honor the environment while staying dedicated to the guest experience."[37]

FIGURE 2.4 ■ Examples of Environmental Best Practices for a Hotel

Fundamentals

- Install insulated windows to reduce heating and cooling costs.
- Monitor electric, gas, water, and waste usage on a monthly and annual basis.
- Use ENERGY STAR certified appliances, equipment, and light fixtures
- Install low-flow toilets, urinals, sinks, and showers.
- Implement a towel and linen reuse program.
- Implement a recycling program for guest waste, electronics, and light bulbs.
- Order in bulk, where feasible, to reduce packaging waste.

Next Steps

- Form an Environmental Committee responsible for developing policies to improve sustainability and reduce environmental impact.
- Use renewable energy where possible.
- Use smart thermostats to adjust rooms' temperatures according to season, time, and occupancy.
- Landscape with native or drought-tolerant plants.
- Ensure that all disposable cups, plates, and utensils are biodegradable.

- Donate overproduced food, compost food waste, and recycle used vegetable oil.
- Change menu seasonally in accordance with regionally fresh foods.
- Develop and implement an environmentally conscious purchasing plan from sustainable sources.
- Recycle and donate unused guest room amenities.
- Utilize environmentally friendly cleaning products.
- Develop, document, and implement a preventative maintenance program.

Innovations

- Reclaim greywater (outflow from sources other than toilets, such as washing machines) for non-drinking use, such as flushing toilets and watering landscapes
- Conduct environmental benchmarking: compare hotel energy and resource consumption to one's competitive set; tie compensation to environmental performance
- Consider a rooftop garden to regulate temperature and provide local (and marketable!) produce for an in-house kitchen.
- Add charging stations for electric vehicles

Hotels and luxury lodges are not the only segments of the hospitality industry interested in the environment. The National Restaurant Association encourages its members to both serve food and operate in ways that are sustainable, and the Destination Marketing Association International has included it in its accreditation process.

At a minimum, those engaged in strategic planning should try to stay aware of shifting social expectations. 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 environmentalists' ideals. Including input from social groups can sometimes enhance the strategic planning process greatly.

The Industry Environment

In addition to the changes in the overall environment that impact everyone, there are industry specific factors that must be anticipated and forecast as well. This includes changing competitors, both for the specific service product and for substitutes for that product. Convention centers must spend time not only forecasting the impact that other convention providers' capacity and marketing plans will have on their own demand patterns but also the impact online virtual meetings will have on demand for all convention space. Changes in other resource providers—such

as for products, labor, and capital—should also be included in the planning cycle. From fish to workers to money, the market will allocate resources to their best and most profitable use. Hospitality organizations must forecast their ability to obtain these resources in the marketplace and have a plan to assure their continuing availability.

Changing Competitors

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

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 indirect competitors 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 meal or food-delivery service. Anyone who can fill the same basic need with an alternative product may be an indirect industry competitor but is still a direct competitor for your customers' business.

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 69 million annual visitors to Orlando the parks depend on as their attendees can go to competitive attractions at other destinations, like Las Vegas (US), Lake Garda (Italy), or London (UK) or stay home as many did during the Pandemic. The Orlando competition includes small 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 who come, those who don't come, and those who don't come back—want to spend their time and money and, ideally, provides 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.

Resources and Suppliers   When Red Lobster adds a new seafood item to its menu, it must first check to be sure the 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 world's supply of that product. If a certain type of shrimp now retails for $13.99 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. Likewise, Hertz and rental car providers must consider availability of charging stations as its suppliers increasingly include electric vehicles in their product offerings. Furthermore, as many

hospitality organizations discovered in the pandemic, you can't sell a product you can't get from your supplier because of supply chain disruptions or business shutdowns caused by a COVID-19 depleted workforce. It's hard to run a bar-b-que restaurant if meat-processing centers that cut your ribs are closed due to COVID-19.

When a restaurant like Red Lobster adds a new item to the menu, it must first make sure that their demand for the product can be satisfied by the current world supply.

Luke Sharrett/Bloomberg via Getty Images

Capital Suppliers   A second major interested group is the suppliers of capital. As the capital market has become more global and electronic transfers make movement of capital easier and quicker, the organization may need to spend more time forecasting the availability and cost 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 investors demand 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 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 will be worthless when no one will provide the funds to execute it.

The Labor Market   A third supplier of a crucial resource is the labor market. An organization needs the right number of employees, with the right skills, hired at the right cost, in order to deliver its service product successfully. The availability of labor depends on many factors, including the demographics of the relevant labor market, the extent to which the company can recruit enough qualified applicants, the wages paid by the company and its competitors, the knowledge, skills, and abilities (KSAs) needed to perform the required work, and the extent to which the company is willing and able to train employees in necessary roles. As an organization considers

how it will implement its service strategy, it must consider very carefully how it will staff, develop, and motivate employees to fulfill the organization's goals.

In the post pandemic labor market of 2020, many hospitality organizations faced major labor shortages as the people laid off or furloughed in the midst of the economic downturn the pandemic caused found other jobs in other sectors (e.g., the rapidly growing delivery companies such as Amazon and UPS) or in service positions where exposure to potential disease spreaders would be minimized (e.g., telephone marketing or outside sales) or would just retire. Even when it was relatively safe to return to guest contact jobs, these former employees stayed away either because they liked their new, better-paying jobs with benefits, discovered they preferred a more stable employment relationship, or they liked being retired. These issues—staffing, developing, and motivating employees—are so critical that we devote Chapter 5 (Staffing for Service), Chapter 6 (Training and Developing Employees to Serve), and Chapter 7 (Serving with a Smile: Motivating Exceptional Service) to them.

The Operating Environment

Changes in the overall environment and the industry impact how the company will compete in the future. These changes affect the fundamental assumptions the organization will make about the future, how it will anticipate changes to its competitive environment, and the potential for surprises that may be major disruptors to the organization and industry.

Hospitality organizations must carefully consider the major aspects of its operating environment to be as prepared as possible for its future.

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 or implement it in an ineffective way. But choosing to do nothing is also a strategy and 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 trends he thought offered him a market opportunity he had the competence to meet[38]:

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 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 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 the 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."[39]

Predicting the Competitive Environment

Changes in the overall environment, the industry, as well as in assumptions made about the operating environment will have varying effects on how the organization competes in the future. 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, fear of contagious diseases, international conflicts, the level of economic activity, consumer confidence, availability of and cost involved in other more attractive destinations, and a variety of other factors.

Complex and unpredictable outcomes are, of course, the hardest to forecast. The rise in drones and driverless cars may lead to radical changes in how taxi services are provided or the way products are delivered, or all the potential ways this new technology may replace human drivers.[40] The changes caused by technological innovations have been and will continue to be remarkable and unexpected. For example, when virtual reality (VR) technology develops to the point that the experience of going to a major attraction or a conference can be duplicated through VR, 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, find restaurants, and buy admissions. As this technology becomes more available, the entire area surrounding the attraction or destination may suffer a severe economic decline. Predicting what economic impact a new technology can have is a major challenge for both hospitality and civic forecasters. The web enabled sharing economy innovations like Airbnb and Uber are only the beginning examples of capacity sharing services. Likewise, major political policy changes can have major impacts on hospitality organizations such as a reduction of guest worker visas making it harder to get summer help on Cape Cod or laws increasing minimum wages that influence the hiring decisions of a local restaurant.

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.

Surprises

The final external issue to address in this long look around at the environment is the potential for surprises. While one cannot often predict real estate or financial market crashes, terrorist attacks, political movements, wars, pandemics, or natural disasters, thoughtful planners consider and prepare for these possibilities. Preparing for such events means having a plan in place 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, and fear on the part of both guests and staff. Although specific events may not be predictable, the better companies are prepared for when some sort of disaster occurs.[41] 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 employees know how to respond should some unforeseen event occur. Two 2017 hurricanes, Irma and Maria, caused incredible devastation on the Caribbean islands of Puerto Rico and the Virgin Islands, and other destinations that depend heavily on tourism for sustaining their economies, jobs for their residents, and their way of life. While devastation of this magnitude is beyond most individual organizations' planning model, a disaster plan developed by a specific hotel or resort could alleviate some of the storm-related issues faced by its guests, employees, and physical plant. Prepositioning supplies, generators, and communication devices, for example, enabled those organizations that planned for disasters to provide for guests and employees until local power and distribution channels could be restored.

Hospitality organizations need to be prepared for surprises—such as major political disruptions, power failures, and hurricanes—both to protect their guests and their own properties.

AP Photo/David J. Philip

As for longer-term implications, hospitality organizations should consider how surprises can affect overall demand for their service product. The meetings industry—a broad range organizers, suppliers, and facilities involved in the development and delivery of conferences, exhibitions, and meetings—came to a near stop in the pandemic as people refused to or were restricted from travel. If most customers have to drive long distances to get to your service setting, your planners should keep in mind that disruptions can be caused by world-wide shocks to the gas supply, such as from instability in or sanctions leveled against critical oil-producing nations. 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, continuing terrorist attacks on places where tourists tend to cluster still impact the hospitality industry. Conventions still struggle with attendees' reluctance to fly in the face of the time-consuming ordeal the Transportation Security Administration (TSA) has introduced to flying as a response to terror threats. Cruise lines face the additional inconvenience of enforcing new passport requirements, and destinations dependent on international travelers suffer from the latter's unwillingness to endure the new security procedures and travel bans for those seeking to enter 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.

ASSESSING THE ORGANIZATION ITSELF: THE INTERNAL ASSESSMENT

On the right side of our planning model shown in Figure 2.2, opposite the long look around, external assessment, is internal assessment, 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.[42] Ford's core competence is the ability to make cars. The core competence of Marriott is the ability to manage excellent lodging facilities. Spirit Airline'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 should we not do because we don't have the competence?

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 include its ability to effectively manage 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 because it decided that IT was not part of its core competence, and it did not believe that allocating resources to acquire that competence should be part of its strategy. The point is that every successful organization has developed a core competence, an ability to do

Hilton

WALDORF ASTORIA

L X R

CONRAD

canopy

Signia by Hilton

Hilton

CURIO
COLLECTION

DOUBLETREE

TAPESTRY
COLLECTION

EMBASSY
SUITES

TEMPO

MOTTO

Hilton
Garden Inn

Hampton

tru

spark

HOMEWOOD
SUITES

HOME2
SUITES

Hilton
GRAND VACATIONS

Hilton
HONORS

Hilton Worldwide has created 19 brands to appeal to a variety of market niches at a range of price points.

Courtesy of Hilton Worldwide

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 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 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 they can focus on the academic issues that are core to their mission.

The internal assessment 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 *Elemental* proved the value of digital animation. Rarely do the internal and external audits lead to such dramatic changes in strategy.

Internal Assets

An internal assessment 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, culture, and competitive advantages based on its technology. It also possesses patents, brand names, copyrights, and customer loyalty, all of which help support 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 the capital support of Marriott ownership. 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.[43]

Likewise, Darden Restaurants understands that one role of planning based on a knowledge of core competencies is to seek business areas 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 available cash, 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, as well as later buy Longhorn Steakhouse and The Capital Grille to expand its penetration of its existing markets. On the other hand, it exited Smokey Bones when its planners determined a sports bar did not fit its core competence of running casual-dining restaurants. As other aspects of the environment and its competitive situation changed, Darden continued to make strategic choices, such as selling Red Lobster and being able to use the cash that such a sale generated to focus on other business needs.

Alternatively, Hilton Worldwide decided to capitalize on its name and core abilities by providing a comprehensive array of service products for segments of the lodging market. This includes timeshares (Hilton Grand Vacations), midscale (Tru, Spark), upper midscale (Motto, Hampton Inn & Suites, Home2 Suites), upscale (DoubleTree, Tapestry Collection, Hilton Garden Inn, Tempo, Homewood Suites), upper upscale (Canopy, Hilton, Curio Collection, Embassy Suites) and luxury (Waldorf Astoria, LXR Hotels & Resorts, Conrad Hotel & Resorts, Signia Hilton). Being a successful multi-brand company requires having the right mix of brands that meet customer demands but also complement each other by facilitating the connection to the overall brand promise of the Hilton organization to the affiliated lodging products. Hilton Worldwide wants customers to be comfortable at any of their brands because the name "Hilton" conveys a level of quality and service no matter what the specific hotel. But the various brands also capture different market segments so that Hilton Worldwide can capture a broad array of the hospitality marketplace.

An unsatisfactory bottom line will motivate a company to take a searching look within. In 2022, Starbucks faced declining profits and increased costs. While some of its problems were related to the COVID-19 downturn in customers and upturn in labor and product costs, the board decided to invite back its founder, Howard Schultz, to lead a strategic revamp. Schultz indicated he was "reinventing the company but we're not reinventing what we do. We're just reinventing how we do it." Inside the 20,000 square foot Try Center, baristas work in a mock-up Starbucks experimenting with new and faster ways to make Frappuccinos and reducing the time to make cold brew coffee. Results have been good with the Mocha Frappuccino now produced in 35 seconds instead of the previous 87 seconds and cold brew coffee made in seconds instead of 20 hours. In addition, Schultz proposed adding 2000 new stores designed to be carryout, delivery, or drive through to better match the new customer demand patterns that evolved during the pandemic, pledged to improve its food menu, and introduced ways to make working for the chain more appealing by providing its baristas with more sick time, increased training, more technological support, and better wages. Schultz realized after looking closely at Starbuck's problems that improving its ability to deliver on its core competencies would revitalize the chain.[44]

VISION AND MISSION STATEMENTS

Figure 2.2 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 (and your employees) don't know what you want to do, how can you (and they) 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 seeks to accomplish. As examples, Hilton Hotels' vision is "To fill the earth with the light and warmth of hospitality—by delivering exceptional experiences—every hotel, every guest, every time," and Visit Orlando's vision is "To be the most visited, welcoming and inclusive travel destination in the world."

Though mission and vision are to an extent overlapping terms, the 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 had 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.

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 for all of the other steps and decisions that put resources in place to fulfill those plans.

The mission statement should guide managers as they allocate resources, focus organizational marketing efforts, and define 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 "Pillars of Service" that are posted in every Four Seasons property. The pillars explain "Who We Are," "What We Believe," "How We Behave," and "How We Succeed." These pillars demonstrate, for all employees and guests to see, the core values, beliefs, principles, and goals behind the award-winning service that Four Seasons seeks to deliver.[47]

Four Seasons Hotels and Resorts:

Our Pillars

Planet (Environment)
As stewards of the ecosystems in which we operate, Four Seasons recognizes our critical role in preserving the planet for future generations.

People (Social)
We believe that the presence of Four Seasons in a community should improve lives, and we are committed to enriching, supporting and elevating our portfolio's employees and their communities around the world.

Governance
Our ESG programs are underpinned by a robust governance structure designed to ensure out program's integration and alignment with the overall corporate strategy and operational needs.

A History of Responsibility
Four Seasons was founded on the principle of the Golden Rule—the simple idea that w should tret others the way we would want to be treated. This guiding principle provides the foundation for our ESG programs.

Industry Collaboration
We are proud to help drive collective action across the hospitality industry through our industry associations.

Four Seasons Hotels and Resorts champions its Pillars of Success, heralding their commitment to people and the planet.

Content from https://www.fourseasons.com/landing-pages/corporate/esg/. Photos courtesy of Four Seasons Image Library

Darden Restaurants states its mission as "To be financially successful through great people consistently delivering outstanding food, drinks, and service in an inviting atmosphere, making every guest loyal."[48] Starbucks defines its mission as "To inspire and nurture the human spirit–one person, one cup, and one neighborhood at a time."[49] The organization's statement of mission often includes its core values. Walmart 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.

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. According to service expert Leonard Berry, an excellent service strategy has four characteristics: quality, value, service, and achievement.[51]

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; time is saved, and the cost is no more than going 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 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, providing employee training programs that emphasize the commitment to service quality, allocating resources to serve the customer, creating performance and reward systems that carefully reinforce the entire workforce's commitment to service, and synchronizing all organizational efforts to support the service mission. The service strategy should ensure everyone in the organization walks the service-quality talk by constantly displaying their 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 the employee group stretches the entire organization to do things no one thought were possible. Taco Bell found a way to stretch its employees so it could operate 90% 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."[52]

The organization must now execute its service strategy by identifying its target market's key drivers, crafting its service product to meet that market's needs, creating the appropriate service environment, and designing the service systems to deliver an excellent service excellence experience to 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.

Determining the Service-Product Strategy

Developing a service-product strategy requires an organization to determine what service product it should provide for its customers. 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 properly aligned with 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 intentions 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 invested its 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. Guest-focused organizations do the same. They find out what key factors drive the experiences of guests, and they work hard to ensure the organization has or develops the core competencies to provide and enhance those key drivers.

Determining the Service-Setting Strategy

Developing a service-setting strategy requires the organization to determine how it is going to provide an exceptional service environment for its customers. This strategy is realized by the way the organization designs and builds the setting in which the experience takes place. The guest must not only feel comfortable in the setting, but the setting should contain clues and cues to help the guest successfully have the experience and realize the quality and value of it. Since the quality and value of the hospitality experience is entirely defined by how the guest sees it, every visual and environmental component should be carefully aligned to reinforce it. Thus, the environmental cues that impact the senses should be assessed to ensure they add value to the guest.

Too hot or cold, too much light or too little, too many things to see or not enough, are only a few of the design elements that need to be considered in creating an environment strategy. Because the hospitality experience is largely intangible, the strategy must include as many cues as possible to communicate with the tangible environment the quality and value of the experience. This topic is so important that we devote Chapter 3 to it.

Determining the Delivery-System Strategy

Once the service-product and service-setting strategies have been defined, the organization possesses the basis for ensuring the customers' key drivers are addressed, by determining what the organization's service product should be and what the service environment in which the service product is provided or delivered should look and feel like. The final step is to determine 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 western Canada, 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 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 the organization has a clear idea of the characteristics of its targeted guests, where, what, and how it wants to serve them, what its strengths and weaknesses are in providing that service to those guests, what its overall mission and goals are, and how it delivers its services through service-product, service-setting, and service-delivery strategies, it can proceed to developing an **action plan**. An action plan is the plan that lays out the specifics of how the organization will operate, what everyone needs to do in the next time period (usually a year), what resources are available to implement it, and, through the assessment metrics, how valuable feedback will be elicited on progress in achieving the plan. An action plan represents 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.

The bottom tier of Figure 2.2 indicates the five key areas in which action plans, performance metrics, and budget allocations 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 a means that is as objective as possible for measuring the degree to which those plans were achieved. They know what gets measured gets managed, so they spend the time and effort to communicate to everyone that their performance metrics are fair and tightly aligned with the plans. Not only must employees understand the direction in which all are supposed to go, but also everyone must know what getting there looks like. The measures ensure 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 appropriate resource allocations and objective measures of achievement so everyone knows how the plans are working.

Management Performance Plans

Action plans need to be translated into management tasks, roles, and responsibilities. Once a strategic plan has been established, managers should be assigned goals and objectives that focus their actions and activities to those that must be done to implement the plan and then hold them accountable for their effectiveness in doing the right things. Typically, what gets measured gets managed and what gets managed gets done. The management performance plans, consequently, must be connected with appropriate measures to the strategy so managers stay focused on and rewarded for executing that strategy.

Employee Hiring, Training, and Retention Plans

A strategic plan will inevitably require employees at all levels to do new things, add new skills, and acquire new knowledge. The action plans for employee hiring, training, and retention should consider several issues before they are established and performance metrics set. If the strategic plan requires new KSAs from existing employees, then a plan is required to develop these. If the strategic plan requires new types or additional numbers of employees at present or future locations, then a plan for recruiting and hiring needs to be created. Finally, if turnover is seen as a critical issue in implementing the strategy, then the plan to retain productive employees is needed as well. The hospitality industry is so dependent on its employees and their ability to successfully deliver the guest experience that we devote a chapter (Chapter 5: Staffing for Service) to this important topic.

Capacity Utilization Plans

There are many tools that can be used to plan the best ways to build and manage capacity. Three in particular that are frequently used in hospitality are design day, yield management, and the related concept of revenue management. Each offers hospitality managers a planning tool to match capacity with guest demand.

The Design Day

A basic problem for many hospitality organizations is that demand is uncertain, and capacity is fixed. 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, at least some of its capacity will exceed demand and be unused. On the other hand, if the facility is designed to meet demand on the slowest day, capacity will not be sufficient to meet demand for the rest of the year and customers will be denied service.

An important concept in capacity planning for hospitality organizations is the **design day**.[53] The design day is the day of the year the organization uses to calculate designed capacity of an attraction or any hospitality facility. Capacity is built to meet or exceed demand at a percentage of the year where management believes the cost of turning guests away is less than the cost of building more capacity.

As an example, a theme park could use past and predicted attendance figures to set the design day at the 50th percentile, so 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 resulting in more times when capacity is underutilized—but yield greater guest satisfaction. For example, if designers choose a 75th percentile design day, the park will exceed wait-time standards on about 90 days of the year; if they choose a 90th percentile design day, they will exceed their wait-time standards on only about 36 days per year.

Hospitality organizations need to plan for the level of expected demand and build a capacity that balances wait time with development costs.

Piter Lenk via Alamy Stock Photo

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, brand reputation, and revenue. Management must balance carefully the trade-off between the increased costs of investment in capacity and dissatisfied guests who dislike waiting.

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. For any hospitality organization, the original design-day decision is based on forecasts of targeted guests' demand, information derived from organizational past experience, market growth patterns, and available 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. 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 the costs of economic realities and the benefits of guest satisfaction is what guestologists do.

Yield Management and Revenue Management

A capacity-management concept that has gained substantial favor in the airline, lodging, restaurant, spa, cruise line, concert, and convention industries is **yield management**—managing the sale of units of capacity to maximize the profitability of that capacity. 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 [54]

A related concept is **revenue management**, which is concerned with maximizing revenue in much the same way as yield management, but also considers the cost of selling the service product and money made from other services. Whereas yield management is specific to setting price for a specific service or product, revenue management considers more of the several factors that comprise the "big picture." So, for example, yield management may be focused on setting the price of a hotel room to maximize room revenue; whereas revenue management takes into account not just revenues from the hotel rooms, but also from other services such as parking, food and beverage revenue, and other services the hotel offers.

Early reservations with restrictions (e.g., no refund fares or paying a high financial penalty for any schedule changes) will yield the lowest prices. Guests who wait until later to make reservations, with fewer restrictions and more flexibility, can expect 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 yield management 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, the yield management program may estimate that 20% 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 pattern that describes how guests make reservations.

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 with 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, a cruise date, convention centers, or even concerts and sporting events. 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.

Financial Budget Plans

The actions and activities identified in the strategic planning process will require resources, and the financial budget plan is where the organization puts its money to make these actions and activities happen. The financial plan that is reflected in the budget represents the way the organization plans to pay for the actions it needs to take, the managers it needs to hire, the employees it needs to train, the capacity it must create, and the marketing it will do to create and fulfill its targeted customers' expectations in the hospitality experience. While some actions can be taken that don't require new funding, such as adding employee recognition to the company newsletter or encouraging guests to choose times when lines are less likely, most activities cost money. These will require creating a budget item that allocates the available funds to those things identified by the strategic plan as important to its guests. Because few organizations have unlimited funds to spend, this allocation process is usually a difficult one. Everyone involved in planning typically has some preference as to how the budget should be allocated. The best planners will start with studying guest preferences and use those data to allocate money to those actions and activities that will yield the most likely improvement in the guest experience.

Marketing Plans

Every strategic plan should result in a marketing plan to ensure the targeted customers (and the employees) know the promised quality and value of the experience the hospitality organization offers. This plan should reflect the planning done to identify the targeted market's key drivers in the service product, service environment, and service delivery system. While a detailed discussion of how this plan should be created and measured is extensively covered in services marketing, it is important for hospitality managers to participate in the promises marketing makes. When a guest enters a hotel, restaurant, theme park or cruise ship, the guest will come with expectations that are largely created by advertising and marketing. If the expectations are unmet and the guest disappointed, it is the organization's management that receives the complaints and its employees who deal with the disappointment. While the marketing plan defines the promises that bring the guests in, it will be how well operations deliver on those promises that brings guests back.

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 considering 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 entire process seen in Figure 2.2 defines hospitality service planning. The plan lays out the necessary steps and identifies the mileposts along the path the organization must follow to fulfill its mission, to achieve its vision. If the organization foresees its future inaccurately, misdiagnoses its core competencies, defines its mission poorly, or chooses the wrong service strategy, it will soon lose its competitive stature.

Involve Employees in Planning

In late December of 2022, Southwest Airlines experienced a major customer service failure where a combination of severe weather, staff shortages, and outdated computer systems caused them to cancel more than 16,700 flights.[55] While the financial implications of the failure itself is devastating, costing perhaps as much as $825 million, the impact on its reputation for customer service may be even more severe and long-lasting. It will be critical for Southwest to figure out how to restore confidence in their brand and win back customers who have lost a lot of faith in the airline.

The situation faced by Southwest Airlines is actually quite similar to a situation faced nearly 15 years earlier by Jet Blue. 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% 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. In addition, 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. 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 could serve as a model for Southwest Airlines to follow. Their approach 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, because they are the ones who guests share their compliments and complaints with and who see guests smile or frown in the hospitality experience. They know 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 commits to its logic. What better way to gain understanding and obtain employee buy-in than to have the employees help develop the plan? There is an old saying that those who plan the battle seldom battle the plan. If employees are involved in understanding 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 Walmart 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 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 Walmart became known for its friendly greeters.

Was this company success the product of strategic planning, or any planning? A Walmart 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 Walmart's willingness to listen to and use 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.

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 they ignore or don't see changes in the marketplace.
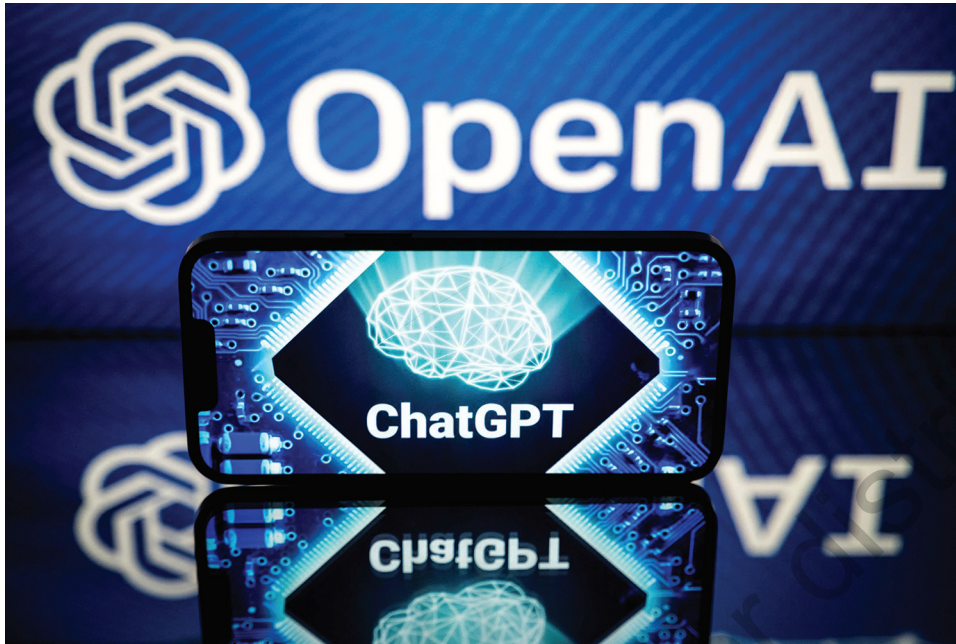
Artificial Intelligence, and programs like ChatGPT, have the potential to radically change in the industry in ways that are not yet even imagined.

Lionel Bonaventure via Getty Images

The strategic planning model in Figures 2.1 and 2.2 are neat and orderly. Unfortunately, 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, a natural disaster, a Pandemic, hostilities with previously peaceful nations, technological developments, or an organizational disaster such as the illness or death of a CEO, a labor dispute, 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 agile in responding to the many uncertainties that can affect their operations and the services they provide. Many create contingency plans, which offer alternative implementation strategies to meet changed circumstances.[57] But since no one can anticipate everything that may happen to an organization, contingency planning can go only so far.

LESSONS LEARNED

LO 2.1   Distinguish between the three generic strategies for positioning products and services.
- The three generic strategies are lower price, a differentiated product, or a special niche. Select the generic strategy that best fits your internal and external assessments and your mission.

LO 2.2   Explain how the elements of the hospitality planning cycle result in the establishment of the hospitality organization's overall strategic plan and service strategy.
- Understand all the elements that need to be assessed and considered when formulating a plan.

LO 2.3   Recognize the quantitative and qualitative tools used for assessing hospitality environment—externally and internally.

- Try to understand the future environment and what it might do to you and your future guests.
- Use appropriate, powerful forecasting tools, but use them to inform, not replace, managerial judgment to determine strategic premises.

LO 2.4   Identify the key internal factors that must be examined for successful planning.

- These key internal and external factors examined for strategic planning are your core competencies and strategic premises.

LO 2.5   Describe the importance of a mission and vision statement in focusing the strategic plan on the best way to fit core competencies with strategic premises.

- Use the organization's vision to define your mission and communicate the mission to everyone inside and outside your organization so they know what you seek to do, who you seek to serve, and where and when you will do it.

LO 2.6   State the importance of including the key drivers of guest when developing the service strategy.

- Strategy starts with the guest. Know what key factors drive the guest's determination of quality and value.

LO 2.7   Describe a planning model, showing how components are tied together and action plans are developed.

- Begin developing your action plan by examining your external environment, knowing your organization's strengths and weaknesses, and understanding the relationship of these elements to your mission.
- Action plans are the result of strategic planning.
- Involve employees in planning. Your employees represent the one competitive advantage that your competitors can't easily duplicate.
- While plans are necessary, companies must recognize that not all contingencies can be anticipated.

KEY TERMS

action plan
brainstorming
brand image
brand name
core competence
Delphi technique
design day
differentiation
econometric models
environmental assessment
focus group
forecasting
green movement

internal assessment
key drivers
low-price provider
market niche
mission statement
qualitative forecasting tools
quantitative forecasting tools
regression analysis
Resource-Based View (RBV)
revenue management
scenario building
service strategy
strategic plan

strategic premises

sustainability

time-series and trend analyses

vision statement

yield management

REVIEW QUESTIONS

1. You are about to start your own restaurant and need to create a strategic plan. Think of five key decisions you need to make and tell how you will make them.

2. How does knowing key drivers help a manager meet guest expectations in a guest experience?

3. 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?

4. 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?

5. 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?

6. 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?

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? Getting something that you don't expect or want?

8. Find the mission and vision statements of a hospitality company. What do these statements do to help the organization focus its efforts?

9. 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?

10. 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?

11. Why do you think getting employee input is important in the planning process? What do line employees know that management may not know?

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 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 travel 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 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. Websites advertising room rates do not specify when additional fees are charged, so customers are making their purchase decisions without knowing 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 STUDY

Case 1: Profit? Growth? Survival? Service? Customers? Environment?

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

Jim said emphatically, "Large hospitality corporations are in business to maximize wealth for their shareholders. No matter if it's food, lodging, or gaming, generating shareholder wealth is their primary goal and everything else is secondary."

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 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?)

Case 2: 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% 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 command, 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?

APPENDIX

Quantitative And Qualitative Tools to Plan For The Future

Table 2.1 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.

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.

TABLE 2.1 ■ 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 and 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

Regression Analysis. In **regression analysis**, the relationship between variables of interest is studied so 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 sodas per visit, determining how much soda syrup, 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 based on other known numbers (probable park visitors) and the known relationships between these numbers and the variable of interest (in this case, soda 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, is a strategic response 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 enough 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 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.

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. 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. The various estimates would then be communicated back to the experts, along with the thinking that went into the estimates. 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 highly valid estimates.

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 VR technology. 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?

Scenario builders often need to act quickly. All one has to do is to look at Wii, PlayStation, Xbox and the other computer games and virtual worlds (e.g., Second Life) that are increasingly available on the web, inexpensive, and extensively used by the iGens 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.

FURTHER READINGS

Further readings on the topics in this chapter are listed in "Additional Readings" on pages 527–528.

End notes for this chapter are provided on pages 559–561.