



COMPETITIVE STRATEGY TRENDS AMONG THE THREE AND FOUR-STAR RATING HOTELS OF TRI CITY: A STRATEGIC GROUP ANALYSIS

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Abstract

Purpose: The purpose of the study is to understand the various strategies followed by the three and four-star rating hotels of tri city (Chandigarh, Panchkula & Mohali) by taking into account Porter's generic strategies as it remains one of the most widely accepted typology of strategic options for businesses. Using a survey, a sample of 90, three and four-star rating hotel managers from tri city (Chandigarh, Mohali & Panchkula) were questioned about their current strategic practices.

Design/methodology/approach: Firstly, hotels were chosen from various websites like Goibibo.com, Makemytrip.com and trivago.com under the three and four-star rating and then random sampling method is adopted for getting the questionnaire filled.

Findings: A factor analysis revealed that hotels are pursuing only two strategies that can be identified as those of Porter where as some new type of strategies evolved through analysis. Hotels mainly three star and four-star rating follows cost leadership and differentiation strategy but don't have focus strategy orientation.

Research Implications: This study has its aim to analyze the strategies used in the tri city hotel industry and to determine if there is any evidence that could link these strategies to the generic strategies developed by Michael Porter.

Limitations: The limitation of the study is that it is confined to a small sample of tri city i.e. Chandigarh, Panchkula and Mohali.

Keywords: Generic strategies, strategic management, tri city, three and four-star rating hotels



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1. INTRODUCTION

The Tri city hotel industry primarily three and four-star rating hotels which includes the restaurant, accommodation, entertainment and transportation businesses is facing fiercely competition. Accordingly, the approaches that the hotels take in making strategic choices need careful consideration if they are to gain or retain competitive advantage. The literature suggests that two main perspectives shape understanding of strategy and strategic choices: the industrial organization (I/O) perspective and the resource-based view. As strategic group assessments identified clusters of businesses employing similar strategies, researchers were

beginning to categorize similarities within strategic groups across studies. In the past several generic strategies have been developed and utilized as the main basis for identifying strategic groups in industries.

Although it is thought that strategic groups are an industry specific phenomenon, many strategic group researchers began to utilize approaches believed to be generalizable across industries, specifically those proposed by Porter and by Miles and Snow. This theoretical extension across industries is important for considering strategy typologies as a conceptual bridge between the I/O and resource-based approaches.

The city Chandigarh is chosen as it is the only city in India which is the capital of two Indian states, Haryana and Punjab. It is also a union territory and is counted amongst some of the finest examples of well-planned cities with good quality modern architecture. It is situated at the foothills of Shavlik's, the city is known for its picturesque location, beautiful surroundings and gardens, thus attract travellers from various corners. It is also referred to as 'The City Beautiful' due to the central grid of gardens. Chandigarh tourism offers some tourist interest places such as Sukhna Lake, International Doll Museum, Rock Garden, Sector 17 Plaza, Government Museum and Art gallery etc. It is the first planned city of India after independence and is known for its urban design and architecture. The sloping plain on which the city is located was a lake surrounded by marshy land. Thus, lots of investments have been made for modernizing the accommodation structures and to increase the volume of the green-field investments. Within the context of hotel industry from tri city, recent changes have seriously affected industry profitability, forcing hotels to adopt a variety of business strategies. For that reason, the research focusses to find hotels (3 & 4 star rating) pursuing Porter's generic strategies in both a mutually exclusive manner, as well as in hybrid forms. Although various studies have examined the application of Porter's strategies to different industries, no study has examined to what extent the various strategic types are prevalent in the tri city in three and four-star hotel industry.

Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three/four generic strategies, either lower cost, differentiated, or focus. A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope.

The concept was described by Michael Porter in 1980. Porter's generic strategy matrix, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate competitive strategy for the last 30 years. According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the market target pursued, as the key determinants of choice. Porter's generic strategy typology remains one of the most notable in the strategic management literature. A business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Any organization that fails to make a strategic decision to opt for one of these strategies is in danger of being "stuck in the middle". The organization in failing to decide, tries both to be the cost leader and differentiator and achieves neither, and in the process, confuses consumers. Porter claimed that a company must only choose one of the three or risk that the business would waste precious resources. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies of porters. Achieving competitive advantage requires a firm to make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. The two basic types of competitive advantage [differentiation and lower cost] combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation and focus.

This study has its aim to analyze the strategies used in the tri city hotel industry and to determine if there is any evidence that could link these strategies to the generic strategies developed by Michael Porter. The relevance of the study lies in the fact that it simplifies the complex reality of the three and four-star rating hotels identifying the way in which managers make use of the business strategies they implement. The paper is organized as follow: second section discusses the theoretical background and extant literature related to Porter generic strategies; third section shows the data sources and methodology for analysis purpose; fourth section shows the empirical results and discussion.

2. LITERATURE REVIEW

Cost leadership or "low-cost" strategy put emphasis on organizational efficiency. This strategy involves the process through which the company is able to produce or distribute goods and services at a lower cost than competitors within the industry. Porter defines strategy of cost leadership as trading standard products (Porter 1980) combined with

aggressive pricing (Porter 1985). Cost leadership strategy is proposed by Porter (1985), as a successful way to achieve sustainable competitive advantage by reducing and controlling the costs. Some of the ways to realize low cost strategy and achieving the required performance are: economies of scale, control and reduction of administrative costs, the curve of experience, technology. *Differentiation strategy*. Differentiation refers to the development of a unique product or service (Porter, 1985). These products are seen as such when compared with competing products because of the distinguished features. There are many ways and dimensions by which firms can differentiate themselves and their product from rival companies.

First, the company's image and customer perceptions are important elements (Allen & Helms, 2006) during differentiation strategy because the perceived difference or distinguishing features make the customer more sensitive toward the buying process. *Second*, the differentiation created by the relationship between the company and buyers through product personalization and adaptation to the buyers' characteristics. *Third*, differentiation can be achieved by focusing on connections between departments or other company's relationships such as mix product, distribution channels and after-sales services. Firms that differentiate their product/service successfully set a higher price than competitors to justify the high costs of being unique or different. According to Porter (1985), the advantages that benefit firms implementing differentiation strategy refers to the realization of higher income compared to competitors due to brand loyalty, quality and lower demand elasticity of consumers. *The focus strategy*, another strategy proposed by Porter (1985) is the strategy of focusing. Through focus strategy, the company aims to serve the customers in a narrow market segment through low cost or differentiation (Porter, 1985). Developing the studies about Porter's competitive strategies, a focused strategy aimed at securing a competitive edge based on either low cost or differentiation becomes increasingly attractive as more of the following conditions are met (Thompson, 2008):

1. The target market niche is big enough to be profitable and offers good growth potential.
2. Industry leaders do not see that having a presence in the niche is crucial to their own success
3. It is costly or difficult for multi segment competitors to put capabilities in place to meet the specialized needs of buyers comprising the target market niche and at the same time satisfy the expectations of their mainstream customers
4. The industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource strengths and capabilities

A. Cost Leadership Strategy within the Three and Four-star Rating Hotels

A cost leadership strategy is based upon a business organizing and managing its value adding activities so as to be the lowest cost producer of a product (good or service) within an industry (Brotherton, 1999). A successful cost leadership strategy is likely to rest upon a number of organizational features. Attainment of a position of cost leadership depends upon the arrangement of value chain activities (Evans, 2006). The broad scope of cost leaders means that they attempt to serve a large percentage of the total market. Companies pursuing a low-cost strategy will typically employ one or more of the following factors to create their low-cost positions according to Porter.

- 1) accurate demand forecasting combined with high capacity utilization,
- 2) economies of scale,
- 3) technological advantages,
- 4) outsourcing, or
- 5) learning/experience effects.

Many hoteliers would bristle at the thought that they are pursuing a low-cost leadership strategy. Rather, they envision their firms as pursuing some sort of balance between low-costs and differentiation (Borza & Bordean, 2012). Hotels like **Ashiana, city Inn, Hill view, Punjab palace** do not offer significantly more than the basics. Management in these companies is very good at keeping costs at a minimum. Consequently, they can keep prices low and attract a wide segment of the market interested in an inexpensive room

B. Differentiation Strategy within the Three and Four-star Rating Hotels

A differentiation strategy is based upon persuading customers that a product is superior in some way to that offered by competitors. In differentiation strategies, the emphasis is on creating value through uniqueness, as opposed to lowest cost (Hill, 1988). Uniqueness can be achieved through service innovations, superior service, creative advertising, better supplier relationships leading to better services, or in an almost unlimited number of ways (Harrison, 2005). The key to success is that customers must be willing to pay more for the uniqueness of a service than the firm paid to create it. Firms following a differentiation strategy can charge a higher price for their products. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product (Pretorius, 2008).

Hotels like **Peninsula, The Toy Hotel, Hotel KLG** are pursuing a differentiation strategy by providing very high-quality quest experiences that appeal to both business and personal travellers.

C. Focus Strategy within the Three and Four-star Rating Hotels

A focus strategy is aimed at a segment of the market for a product rather than at the whole market (Murray, 1988). Firms pursuing focus strategies have to be able to identify their target market segment and both assess and meet the needs and desires of buyers in that segment better than any other competitor (Peter, 1993). Focus strategies can be based on differentiation or lowest cost. There is much debate as to whether a company can have a differentiation and low-cost leadership strategy at the same time. It is argued that a focus strategy emphasizing lowest cost is rare in the hotel industry as it is hard to please a particular guest segment without some form of differentiation (Kotha, 1995). One can find many examples of companies in the hotel industry that are following a focus strategy based on the differentiation advantage. For example, **Aroma, The Golden Tulip, Aasma** (revolving hotel) focuses on different kind of segment

3. RESEARCH METHODOLOGY

The data for this study have been collected from the managers of various three and four-star rating hotels situated near Chandigarh. The selection of hotels is done from the Goibibo, Make my trip and trivago websites particularly choosing three and four-star hotels and then random sampling method was adopted to select the hotels. The primary research question of the study is to determine the strategies used by the tri city hotels and to investigate if there is any link between these strategies and Porter's typology. Given the gap in the literature on this perspective, this study intended to address the proposed hypotheses as follows:

H₁: Three and four-star rating hotels of tri city are pursuing Porter's strategies.

In order to address the questions of the study, previous researches are used and a questionnaire is prepared. A total of 20 planned items are adapted from previous studies (Stalk, 1988; Walters, 1989; Bush and Sinclair, 1991; Wright 1991; Parker, 1992; Robins 1995 Miles 2003) for the competitive business level strategy construct. Respondents are asked to determine how frequently their firm uses the various strategic practices. Five-point Likert scale is designed so respondents can provide quantifiable information on how extensively their organizations uses each of these practices. The questionnaire was administrated to the managers of the hotels situated in the Chandigarh, Mohali and Panchkula. It was determined that respondents must hold top management position in the hotels in order to have adequate organizational knowledge to accurately complete the questionnaire. Usable responses included 90 questionnaires retrieved from the hotels. The majority of the respondents had been working for the hotel for more than one year. The sample included mainly senior managers.

4. DATA ANALYSIS

In order to test Hypothesis, the 20 strategy practices were subjected to a factor analysis to test whether the items naturally grouped into any of Porter’s generic strategies. Using SPSS principal component analysis with a Varimax rotation, a nine-factor solution emerged explaining 67.129% of the variance.

Items loading at .4 or greater were included in the resulting nine factors. Three of the original 20 items did not load strongly onto a single factor and were excluded from further analysis, leaving 17 strategic practices. The items and factor loadings are summarized in Table 1.

Table 1: Rotated Component Matrix

	Component								
	1	2	3	4	5	6	7	8	9
Building positive reputation within the industry	.823								
Focusing on building brand identification	.772								
Providing outstanding customer service	.741								
Focus on refining existing products and services	.489								
Extensive training to front line personnel		.906							
Extensive training to back line personnel		.861							
Focus on improving operational efficiency			.839						
Minimizing distribution costs			.801						
Focus on utilizing advertising				.719					
Extensive training of marketing personnel				.604					
Intensive training of marketing personnel				.539		.437			
Dropping unprofitable clients					-.727				
Focus on partnership with suppliers					.653		.441		
Focus on developing a broad range of products /services				-.477	.493			-.435	
Producing products /services for high price markets						.749			
Targeting a specific market						.749			
Providing speciality products/services							-.732		
Building high market share							.707		
Focus on forecasting new market growth								.873	
Innovation in marketing technology and methods									.916

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization. ^a

a. Rotation converged in 12 iterations.

The resulting three factors were then further interpreted for their meaning. Based on the items comprising the factors, two factors represent Porter generic strategies: Low cost strategy and differentiation strategy. The focus strategies were not represented. Two alternative strategies also emerged from the factor analysis: the former was identified to be a so-called “Training Strategy” and the latter was a “Marketing Strategy”. In conclusion, it is affirmed that Hypothesis was partially supported. The firms in the tri city hotel industry are following at least two of Porter’s generic strategies.

The Cronbach Alpha for the first component i.e. Differentiation Strategy (Building positive reputation within the industry, focusing on building brand identification, providing outstanding customer service) comes out to be .725

Table 2 Reliability Statistics

Cronbach's Alpha	N of Items
.725	3

Similarly, for Cost Leadership Strategy (Focus on improving operational efficiency, minimizing distribution costs) comes out to be .650

Table 3 Reliability Statistics

Cronbach's Alpha	N of Items
.650	2

For Training Strategy (Extensive training to front line personnel, Extensive training to back line personnel) comes out to be .793

Table 4 Reliability Statistics

Cronbach's Alpha	N of Items
.793	2

Since one of the items i.e. Innovation in marketing technology and methods is loaded individually on a single dimension, that is why we are considering it and calling it as marketing strategy

For other strategies either the multiple loading is taking place or Cronbach alpha is coming out to be lower than .5, that is why we are omitting them and considering only the above said strategies.

Low Cost Strategy is one of the strategies that three and four-star hotels are focussing. They try to tap that market of the segment which is price conscious. Hotels are reducing their cost

by focusing more on operational efficiency, economies of scale and reducing down their distribution cost and thus passing this savings to their customers

The differentiation strategy was found to be one of Porter's strategies that the tri city hotels are following. In the case of the Chandigarh three and four-star rating hotel market it is believed that differentiation can be the result of outstanding customer service designed to strengthen the positive reputation within the industry and building an identity of brand. The name and the brand are the strong differentiation elements within such a strategy.

Another strategy that resulted from the factor analysis is the training strategy which does not appear within the generic strategies developed by Michael Porter. Within the service sector it is of utter importance the interaction between the client and employee, as this is the case of the hotel industry where customer's satisfaction is influenced by the behaviour of the employees. That is one of the reasons for which the Tri city hotel managers put a great emphasis to the extensive training of both front-office and back-office personnel.

We entitled the fourth strategy that resulted from the factor analysis *the marketing strategy* as it has no connection with Porter's typology of strategies. It is pursued by those hotels which spends money in innovation in marketing technology and methods and forecasting new market growth.

5. DISCUSSION & CONCLUSION

The hotel industry of tri city basically follows the cost leadership strategy which comprises of hotels like Maharaja, Comfort Inn, Punjab Palace, all the OYO rooms which offers nothing but just a basic place to stay and to have basic amenities like food, laundry, bar at nominal rates but some of the hotels like Shivalik view, Parkview, they are trying to follow differentiation strategy by focusing more on building brand value and good reputation in the industry by focussing on creating large customer value. They are doing differentiation by providing more facilities like Gym, Spa, Reading room, swimming pool, 24*7 cafe service, Taxi service. But the Porter third generic strategy i.e. focus strategy is not being observed in case of three and four-star hotels of tri city rather they try to tap large segment of customers and want to build high market share. The hotels that follow a focus strategy were more into concentrating on a narrow segment of the market by trying to address a specific customer segment formed by those people interested in specialty products and services and who are not price sensitive, are not the case of three and four-star hotels of Tri city. A new kind of strategy i.e. Training strategy is also being followed by these hotels in which they try to provide proper training to the frontline as well as the backline employees of the hotel. Apart from this they also believe in giving commissions to taxi drivers, petty agents who bring

customers to their hotels and continuously spending money in innovation in marketing technology and methods.

6. LIMITATIONS AND DIRECTIONS FOR FURTHER RESEARCH

The limitation of the study is that it is confined to a small sample of tri city i.e. Chandigarh, Panchkula and Mohali. The study discussed about the various strategies followed by the various three and four-star rating hotels. A few managers of hotels were reluctant to share their views on the strategies adopted. Hence, the results obtained may have been affected by the respondent bias in revealing accurate information. Further research can be undertaken for investing the determinants of the various strategies adopted in the Hotel industry and how these strategies add value to the hotels.

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