

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Competitive Strategies Adopted by Hotels in Kenya and Their Effects on Financial Performance: A Case of Serena Hotels

Ngari James Muhinyu

Maasai Mara University, Kenya

Patrick Gudda

Maasai Mara University, Kenya

Abstract.

This review presents a set of competitive strategies adopted by business firms in order to create value to customers and remain competitive in the market, how to create a competitive advantage, and factors affecting competitiveness. The objective of the analysis is to find out the competitive strategies adopted by Serena hotels, enabling them to remain competitive in the turbulent tourism industry. Secondary Data was collected through a theoretical review of reports from the company's annual reports and the previous research studies carried out within the hotel industry in Kenya. Data was analyzed and comparisons made to answer the research question. The study found out that the generic strategies influence the performance of Serena hotels. TPS Serena focuses on strategic locations and products then differentiates its products by continuously upgrading them to meet customers' preferences and expectation. The expansion strategy as well as the human resource management practices has been used to expand Serena's customer base and to enhancing employees' motivation and royalty.

Keywords: *Strategies, capabilities, competencies, competitive advantage*

1. Introduction

A company is regarded to poses competitive advantage over its competitors when it sustains profits that exceed the average within the industry (Porter, 1985). Strategy is a game plan used by management to position the organization in its chosen market arena, enabling it to compete successfully, pleasing customers and achieving good business results (Thompson & Strickland, 1987). According to Ansoff (1987), strategy is a pattern of action and resource allocation designed to achieve the expected goals of an institution. For most of business companies, the overriding goal is to achieve superior performance relative to other competing companies. Superior performance is measured in terms of a company's performance relative to that of other companies in the same or similar kind of business (Kotler, 2011). Highly performing companies are those that are able to use their resources efficiently hence reducing their operational costs and increasing their profitability. Such companies are able to make profits that are higher than the average profits for all firms in the industry.

For an organization such as a hotel to acquire customers, it is important that marketing strategies be employed to improve its own ability to compete with other hotels, gain a competitive advantage and thus retain a greater number of customers (Anderson & Vinze, 2000; Mustart & Petzer, 2000). Competitive advantage is generally defined as the superior financial performance of the firm (Winter, 1995). It can be viewed as the value an organization is able to create to differentiate itself from its competitors (Passemar & Kleiner, 2000). The value that is created by an organization is measured by the price customers are willing to pay for its service (Passemar & Kleiner, 2000). If customers perceive a service as producing the required benefits, they will purchase that service, and will continue to do so over time (Wood, 2004).

Hitt *et al*, (2001) View competitive advantage and sustainable competitive advantage as more or less synonymous and defines it as "something" that occurs when an organization puts a value-creating strategy in place. This should be a strategy whose benefits cannot be copied, or which would simply be too expensive to copy. According to Anderson & Vinze (2000) sustainable competitive advantage is the ability to be successful over time. Sustainable competitive advantage meets current competitive needs without harming the ability of the organization to meet its future needs (Chaharbaghi & Lynch, 1999). Allen and Helms (2006) argue that for a hotel to sustain its performance it must use one or more of the generic strategies otherwise its performance will decline. These generic strategies are cost leadership, differentiation and focus as proposed by (porter 1985).

1.1. Statement of the Problem

Tourism industry has experienced continued growth and Deepening diversification to become one of the fastest growing economic sectors in the world. However, the 2009 global economic crisis significantly impacted tourism, causing a decline in international tourism. The year was characterized by a stalled global economic recovery, major political changes in the Middle East and North Africa and natural disasters in Japan. The Hotel industry in Kenya has also been

facing various challenges among them being globalization resorting to stiff competition in the industry. Hotels such as Hemingway, Kempinski, four points by Sheraton hotel, Tribe hotel, Raddison blue and Sankara among others are hotels which have ventured in the Kenyan market. In spite of these challenges TPS Serena group of hotels has continued to hold its position as market leader not only in the Kenya's hospitality industry but in the East African region as well. This situation leads to the research question, which strategies have enabled Serena group of hotels remain efficient, effective and competent in a volatile and competitive environment?

1.2. Research Objective

The study sought to establish the strategies adopted by Serena hotel, enabling it to remain competitive in the turbulent tourism industry in Kenya.

1.3. Research Question

Which strategies have enabled Serena hotel to remain competitive in the turbulent tourism industry in Kenya?

2. Theoretical Framework

This study is based on the theory of competitive advantage. This theory was beneficial in understanding the decisions made by hotels when they are implementing competitive strategies and the generic strategies embraced in market positioning.

2.1. Pouter's Model of Competitive Advantage

Michael porter (1985) came up with five forces model of competition and suggested that industries profitability is a function of interactions among five forces. But Ireland *et al*, (2008) argues that these forces can affects the whole industries profitability but have no effect on an individual firm's competitive position in that particular industry. The forces include competitive rivalry among firms in the industry, buyers, product substitutability, suppliers and potential entrance into the industry or entry and exit barriers. Porter's model provides valuable tools that enable managers to analyze the competitive market environment and to sketch an effective strategy (Heckman & Guskey, 1998).

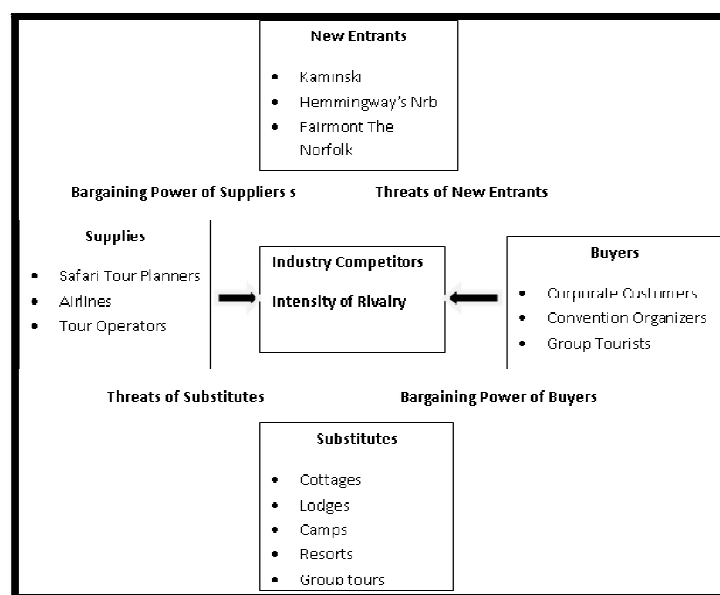


Figure 1: Porters Five Forces Model of Competitive Advantage

2.2. The Generic Strategies

Allen and Helms (2006) argue that for a hotel to sustain its performance it must use one or more of the generic strategies otherwise its performance will decline. These generic strategies are cost leadership, differentiation and focus as proposed by Michel porter.

2.2.1. Cost Leadership Strategy

Cost leadership strategy is an integrated set of actions taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to those of competitors (Ireland *et al*, 2008). Companies using cost strategy aim at becoming low cost producers relative to rivals in the same industry. According to Porter (1980); Alen and Helms (2006) a firm's competitive advantage can be generated when a firm achieves low cost within its industry. A cost leadership strategy is effective when a firm has a distinctive competency in the management of the materials and production process. Firms using the cost leadership strategy commonly sell standardized goods or services.

2.2.2 Differentiation Strategy

In differentiation strategy a product or a service is developed to offer unique attributes valued by customers and perceived to be better than those of competitors (Maoto, 2013). The purpose of pursuing differentiation strategy is to make a unique product or service that is different in some way to what a rival or competitor is offering so as to obtain a price premium. This facilitates a firm's erection of entry barriers and reduces buyers bargaining power through customer royalty and price inelasticity (Porter, 1980). By offering differentiated customized products or services a firm is able to build customer royalty when substitute products and services are available in the market (Allen & Helms, 2006). These unique characteristics of the products and services in the industry enable firms to charge their customers a higher price than their rivals based on the cost of delivery, quality of service, and the process involved in producing their unique products and services (Akan *et al*, 2006).

2.2.3. Focus Strategies

If the business realizes that marketing to a homogenous customer niche would not be an effective line of action for a particular product, it can adopt the focus strategy. Focus strategy entails actions taken to produce goods or services that serve the needs of a particular competitive segment. Focus strategy is most appropriate when firms intend to use their core competencies to serve the needs of a particular industry segment or niche to the exclusion of others. According to Kotler and Keller (2011) the business focuses on one or more narrow market segments rather than going after a large market. The firm gets to know the needs of these segments and pursues either cost leadership or a form of differentiation within the target segments.

3. Methodology

The study employed a desk top analysis of secondary data to examine the competitive strategies adopted by hotels in Kenya focusing on a case of Serena hotel. Secondary data was extracted from TPS Serena's annual reports for the last 10 years, a review of various research studies carried out in the tourism and hospitality industry in Kenya, journals, and text books.

4. Results and Discussion

To win in today's market place, companies must become adept not just in managing products, but to managing customer relationships in the face of determined competition. Kotler and Keller (2011) defines competitive advantage as an advantage over competitors gained by offering greater customer value, either through lower prices, or by providing more benefits that justify higher prices. According to Waruingi (2012) the strategies used by Serena to mitigate the turbulent environment in Kenya and the East African region are; pursuing new business opportunities, constantly improving existing products and services to meet the needs and exceed the expectations of the clients and protect market share, Standardized prices e.g. Serena Kenya Safari Product package price, implementation of appropriate Human Resource practices, and cost reduction on energy use.

According to Ayere (2012) the positioning strategies adopted by 5-star hotels include leadership, personal contact, extensive staff training, quality customer service, physical attractiveness, range of product offerings, unique product features, and information technologies and safety and security systems. According to Waruingi (2012), Serena Group of Hotels, like any other organization, has responded to changes in the business environment through implementation of the response strategies that include cost leadership, differentiation and focus, outsourcing, restructuring, information technology, distribution and product innovation strategies. As a cost leadership strategy, Serena hotel offers the "Serena Kenya Safari product Package" with standardized prices targeting group tours from the international market segment. For instance, in 2011, three properties in Nanyuki, Nakuru and Elmenteita (Lake Elmenteita Luxury Camp), branded as western Kenya safari circuit, were developed to cater for this segment.

Serena Hotels continue to differentiate themselves from the competition through expansion of its operations and geographically positioning itself in strategic locations in the East Africa region such as Lake Victoria Serena resort in Uganda, mountain village in Arusha, Mbuzi mawe tented camp, mivumo river lodge in Tanzania and Lake elementeita luxury camp in Kenya. Serena hotel also undertakes major renovation and refurbishments as a positioning strategy. For example, renovations and refurbishments were carried out at Amboseli Serena Safari Lodge, Kirawira Tented Camp, Lake Manyara Serena Safari Lodge in Tanzania, Kigali Serena Hotel in Rwanda in 2009, extension of the Kampala Serena Hotel in Uganda in 2016 and Serena Nairobi.

Serena Hotel has used focus strategy to focus on certain products or strategic locations for example, focus on luxury camps like Lake Elmenteita Serena camp, western Kenya Serena circuit, Mara Serena safari lodge; focus on city hotel circuit with the acquisition of Dar es Salaam Serena hotel and focus on safari circuit- Lake Elementaita 2013. The above strategies have enabled Serena hotel to overcome the volatile and challenging business landscape in the East African Tourism Industry, enabling it to remain competitive in the turbulent tourism industry in Kenya. The hotel's superior performance is manifested in its continuous and steady growth of the annual turnover as shown in figure 1. The company's turnover increased from 3.6 in 2007 to 6.4 in 2017. In the period between 2011 and 2015, the company through its expansion strategy, used a big part of its annual profits in acquiring and developing new products in East Africa and renovating and refurbishing old properties to match customers' expectations. This led to the downward trend on its profits as indicated in figure 2 below.

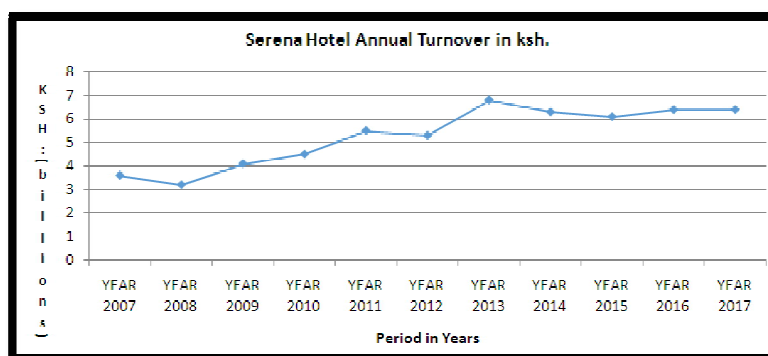


Figure 2: Annual Turnover for Serena Hotels

Figure 2 above shows that the Company recorded a turnover of KShs. 3.24 billion, a decline of 11.7% from the 3.67 recorded in 2007. However, during the first half of 2008 the tourism industry in East Africa encountered various serious challenges as a result of the post-election crisis in Kenya which led to massive cancellations of bookings to Kenya and, to a lesser extent, to Tanzania and Zanzibar too. Arrivals to Kenya dropped by approximately 32% in 2008 compared to 2007 causing a reduction of 24% decline in the number of bed nights at Serena hotel. The crises also caused a considerable slowdown on Kenya's corporate sector with a negative impact on business levels on local markets, particularly Kenyan operations. Other factors which contributed to low business operation includes the recession in many world economies in 2008 and the volatile cost of fuel which caused a ripple effect of increased prices for most commodities worldwide especially food and included travel and in particular air fares.

In the years 2009, 2010 and 2011, Serena's turnover continued on an upward trend despite the challenging operating conditions characterized by inflationary pressures due to increased energy costs, exchange rate fluctuations, and increased interest cost and food insecurity.

Company turnover declined from 5.5 in 2011 to 5.3 in 2012. During the year 2012, TPS Serena, just like other hotels and lodges faced challenging times on the business front due to a combination of factors, such as, the consequences of the Euro Zone crisis, increased energy costs, fragile security and political environments, travel advisories and other forms government agencies (TPS East Africa Limited, 2013).

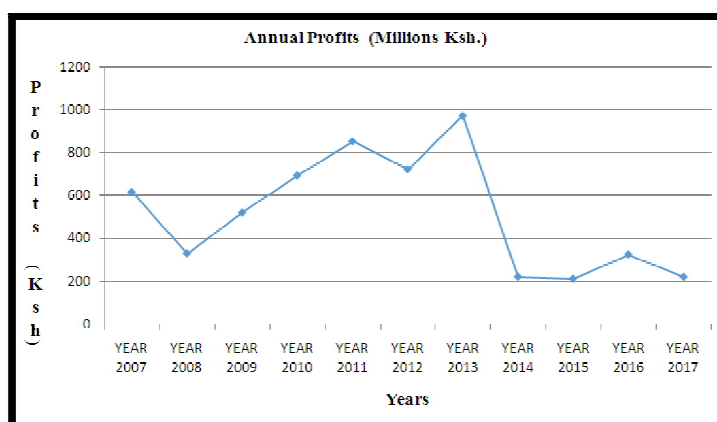


Figure 3: Annual Profits for Serena Hotels

Figure 3 above shows that TPS Serena hotels maintained its profitability in the years between 2007 and 2017. However, the decline from 400 million in 2007 to 219 million in 2008 was partly influenced by the violent 2007 general elections in Kenya. The company was also making hefty investments in the implementation of key plans whose delay would have jeopardized the long-term competitiveness of the Company, for example offering wireless internet for guests at all its branches, data link in the two head offices in Kenya and Tanzania (Serena annual report, 2008).

Despite the challenges associated with the global economic crisis and Euro zone crisis, the Tourism Sector in East Africa witnessed a positive turnaround in 2011 with traditional and new markets performing relatively better than year 2010. During the year, demand for traditional safari and beach holidays steadily increased. Serena profits had been on a downward trend in the period between 2012 and 2017. This is a result of its regionalization strategy that aims at creating a company with operations in the east African block. During this period more fund was put in capital investments such as for example the upgrading and construction of new facilities at Maasai Mara plains in 2013, pursuing new business opportunities in line with its diversification policy and strategy such as in dare s Salaam and Zanzibar in 2013. Serena branches in Uganda, Rwanda were acquired during this period. Such heavy investments reduced the company's annual profits.

5. Summary

The external environment imposes pressure and constraints that determine the strategies that would result in above average returns. The analysis and comparison of various studies and company report reveals that strategic competitiveness can only be achieved when a firm fully formulates and implements a value creating strategy successfully. The ability of a firm to craft such strategies is a function of the Top management's ability to sense and respond appropriately to the dynamic business environment. This calls for people with adequate knowledge and skills in foreseeing and predicting the future Vis a Vis the company's long-term goals, determining short term goals and policies which will guide the business level managers throughout the implementation process. The study also reveals that business firms in the hotel industry formulate and use similar strategies to meet competition from firms offering same or similar goods and services, but it is the implementation part of the strategy which would determine a firm's competitiveness. Employee's knowledge and skills are therefore a fundamental determinant, to a greater part, of the competitive position of a firm. Employees' abilities and willingness amounts to a firm's capacity to deploy other resources purposely integrated to achieve a desired state.

6. Conclusion

It is evident from the review of the competitive strategies and the analysis and comparison of various research studies conducted in the hotel industry in Kenya to conclude that the strategic management model adapted by TPS Serena is that of internal organization which emphasizes on the core competencies as a base for a firm's competitiveness. Therefore, hotels operating in or purporting to venture into Kenya's hotels industry are advised to embrace effective human resource management practices, continuous improvement on existing products and service, improvements at every guest touch point, creating guest's awareness about continued maintenance. of traditional high standards are part of the strategies used to meet competition as well as to position the hotel's brand name in the tourism industry.

7. References

- i. Akan, O., Allen, R. S., Helms, M. M., & Spralls III, S. A. (2006). Critical tactics for implementing Porter's generic strategies. *Journal of Business Strategy*, 27(1), 43-53.
- ii. Allen, R. S., & Helms, M. M. (2006). Linking strategic practices and organizational performance to Porter's generic strategies. *Business Process Management Journal*, 12(4), 433-454.
- iii. Anderson, C. H., & Vincze, J. W. (2000). *Strategic marketing management: meeting the global marketing challenge*. Houghton Mifflin.
- iv. Ansoff, H. I. (1965). *Corporate Strategy* McGraw Hill. New York.
- v. Ayele, G. A. (2012). Positioning strategies adopted by five-star hotels in Nairobi. Kenya, University of Nairobi.
- vi. Chaharbaghi, K., & Lynch, R. (1999). Sustainable competitive advantage: towards a dynamic resource-based strategy. *Management Decision*, 37(1), 45-50.
- vii. Heckman, R., & Guskey, A. (1998). The relationship between alumni and university: toward a theory of discretionary collaborative behavior. *Journal of Marketing Theory and Practice*, 6(2), 97-112.
- viii. Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2001). *Strategic Management: Competitiveness and Globalization 4th Edition; Concepts*. United States of America: Thompson Learning.
- ix. Ireland, R. D., Hoskisson, R., & Hitt, M. (2008). *Understanding business strategy: Concepts and cases*. Nelson Education.
- x. Kotler, P., & Keller, K. (2011). *Marketing management 14th edition*. Prentice Hall.
- xi. Maoto, L. W. (2017). *Strategic Positioning And Total Quality Management Strategies And Their Impact On Performance In Three To Five Star Hotels Headquartered In Nairobi*(Doctoral dissertation, School of Business, University of Nairobi).
- xii. Mostert, P. G., Steyn, T. F. J., & Petzer, D. J. (2008). Competitive marketing strategies of selected hotels: an exploratory study. *Southern African Business Review*, 12(2), 1-22.
- xiii. Passemard, D., & Kleiner, B. H. (2000). Competitive advantage in global industries. *Management Research News*, 23(7/8), 111-117.
- xiv. TPS Eastern Africa Limited: Annual Report and Financial Statements 2013.
- xv. TPS Eastern Africa Limited: Annual Report and Financial Statements 2017.
- xvi. Porter, M. E., & Advantage, C. (1985). Creating and sustaining superior performance. *Competitive advantage*, 167
- xvii. Porter, M. E., & Strategy, C. (1980). *Techniques for analyzing industries and competitors*. Competitive Strategy. New York: Free.
- xviii. Wood, R. (2004). Delivering customer value generates positive business results: a position paper. *Futurics*, 28(1/2), 59.
- xix. Waruingi, N. N. (2012). *Response strategies adopted by Serena Group of Hotels to deal with environmental challenges in East Africa* (Doctoral dissertation).
- xx. Winter, S. G. (2000). The satisfying principle in capability learning. *Strategic management journal*, 21(10-11), 981-996.