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Kaunas hotel: Maintaining market leader position

Case study

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**REVIEWING *HOTEL KAUNAS* MARKETING STRATEGY: HOW TO ASSESS
MARKET OPPORTUNITIES MAINTAINING MARKET LEADER POSITION**

1. Introduction

Hotel Kaunas director Šarūnas Mereckas and marketing and sales manager Giedrė Cipkutė have been sitting in a conference room analyzing the data of *Hotel Kaunas* last quarter financial and client survey results. Due to the increased number of the tourists that come to Kaunas city with *Ryanair* Šarūnas was planning a flow of transient tourists to *Hotel Kaunas*. However, that did not happen. Similarly, the client survey results disappointed the marketing manager as she realized that most of the clients come to *Hotel Kaunas* only once. It meant client loyalty problems. Šarūnas and Giedrė decided to make a thorough analysis of opportunities and prepare an operations plan to keep the hotel fully booked, increase turnover and revenue. How can transient tourist be attracted? How to keep the hotel fully booked at weekends? How to keep recent customers loyal and increase repeated stays? What are competitors doing to keep their clients loyal? Šarūnas and Giedrė agreed on the next meeting date when Giedrė will have to present adjusted marketing strategy for *Hotel Kaunas*.

2. About *Hotel Kaunas*

Hotel Kaunas is a four star hotel in a beautifully renovated building located in the central pedestrian avenue *Laisvės Alėja* (*Liberty Avenue*). The pedestrian street is a bustling 1 km long avenue with cafes, restaurants, offices and retail shops. There are annual events held in this avenue – traditional farmers' and handicraft markets. It is the living artery of Kaunas city therefore hotel rooms with a view to the avenue are preferred by the hotel guests. A central location is the biggest advantage of the hotel.

Hotel Kaunas was established in 1999 and currently employs 54 employees. There are 85 rooms in two buildings. Building A is a renovated building with original architecture with most of its rooms heading to *Laisvės* avenue. B building is a modern building built on 2003 with a view to surrounding houses. There are 5 types of rooms in the hotel (see Table 1): 33 standard rooms (single and double occupancy), 43 deluxe rooms (single and double occupancy), 3 suites, 3 executive suites, 2 connecting rooms and 1 triple room. There is also a restaurant, a bar with outdoor terrace, conference halls, sport facilities, including swimming pool, sauna and mini golf on the building roof.

Types of rooms		Standard rates LTL/EUR
Standard	Single	255 / 74
	Double	310/90
Delux	Single	310/90
	Double	350/101
Suite	Single	350/101
	Double	420/122
Executive suite	Single	420/122
	Double	490/142
Connecting rooms	4 persons	560/162
Triple	3 persons	390/113

Table 1. *Hotel Kaunas* room prices

Hotel restaurant named *55^o* offers catering services for 84 guests. Additional 30 guests can be served in the bar on the ground floor. The restaurant is famous for the original Lithuanian homemade Vodka called *Samané* (it means moss in the forest where Lithuanian homemade vodka has usually been made). There is *Samané* brewery in the restaurant premises and paintings on the walls that tell the story of how the original Lithuanian vodka has been made. Restaurant guests can taste freshly brewed *Samané*, and hotel guests get a *welcome drink* card to taste the original Lithuanian drink for free.

3. Hotel guests

80 percent of the hotel guests are corporate clients. Therefore hotel is fully booked on weekdays and has more vacancies at weekends. The hotel has made agreements with Lithuanian companies that accommodate their guests in *Hotel Kaunas* (85 percent of the clients).

20 percent of the hotel guests are transient tourists, that come for recreational, leisure or other purposes with a bigger than average income. Most of the transient tourists come to Kaunas city from Germany. However, the statistics can vary depending on *Ryanair* flight destinations at *Kaunas Airport*.

According to the hotel guest survey, 26 percent of the hotel guests come from Scandinavian countries and 21 percent from Germany (see Table 2).

Scandinavian countries	26,25%	Finland	12,50%
		Sweden	8,75%
		Norway	5%
Germany			21,25%
The Baltic States	11,25%	Lithuania	5%
		Latvia	5%
		Estonia	1,25%
	41,25%	Russia	6,25%
		Denmark	3,75%
		UK	3,75%
		Slovakia	2,50%
		Croatia	1,25%
		China	1,25%
		France	6,25%
		Belgium	3,75%
		Austria	2,50%
		Italy	2,50%
		Turkey	1,25%
		Portugal	2,50%
		Poland	1,25%
		Switzerland	1,25%
		USA	1,25%

Table 2. *Hotel Kaunas* guest statistics

71,25 percent of *Hotel Kaunas* guests are men and 21,75 percent women.

Hotel guests by age groups: 18-25 years old - 9 percent, 26-35 years old - 30 percent, 36-50 years old - 37 percent, 50 and older – percent. As we can see the largest segment of the guests are 36-50 years old.

Lithuanians comprise just 5 percent of the hotel guests. There are special weekend offers for Lithuanians – a price bundle of accommodation with theatre tickets.

Hotel Kaunas marketing strategy has been directed towards corporate clients. As *Ryanair* opened direct flights to Kaunas city from 23 European cities, foreign tourists have flooded Kaunas city. However, the tourists did not reach *Hotel Kaunas*.

Hotel Kaunas offers free snacks for the clients who come by *Ryanair* as flights are usually late at night. Such an initiative made an impression on hotel clients.

4. Competitor analysis

There are 3 thousand accommodation places in Kaunas city hotels and guest houses (information for 2012 II H). At least 3 big hotels (more than 80 rooms) opened in Kaunas city during the last 4 years, others joined international hotel chains (Park Inn, Europa Royale).

There are 10 four star hotels in Kaunas city: *Daugirdas, Europa Royale, Amberton Cozy, Park Inn, Sfinksas, Hermis, Perkūno namai, Daniela, Santakos viešbutis (Best Western) and Hotel Kaunas*. The hotels which joined international hotel chains have better awareness. Hotels compete with low prices, active advertising, and additional services.

Competitor analysis is one of the most important parts of the marketing strategy. Superior knowledge of rivals offers a source of competitive advantage.

4.1 Competitor profiling

The strategic rationale of competitor profiling is powerfully simple. The raw material of competitive advantage consists of offering superior customer value in the firm's chosen market. The definitive characteristic of customer value is the adjective, superior. Customer value is defined relative to rival offerings making competitor knowledge an intrinsic component of corporate strategy. Profiling facilitates this strategic objective in three important ways. First, profiling can reveal strategic weaknesses in rivals that the firm may exploit. Second, the proactive stance of competitor profiling will allow the firm to anticipate the strategic response of their rivals to the firm's planned strategies, the strategies of other competing firms, and changes in the environment. Third, this proactive knowledge will give the firms strategic agility. Offensive strategy can be implemented more quickly in order to exploit opportunities and capitalize on strengths. Similarly, defensive strategy can be employed more deftly in order to counter the threat of rival firms from exploiting the firm's own weaknesses. (Fleisher and Bensoussan, 2007)

Clearly, those firms practicing systematic and advanced competitor profiling have a significant advantage. As such, a comprehensive profiling capability is rapidly becoming a core competence required for successful competition. An appropriate analogy is to consider this advantage as akin to having a good idea of the next move that your opponent in a chess match will make. By staying one move ahead, checkmate is one step closer. Indeed, as in chess, a good offense is the best defense in the game of business as well. (Fleisher and Bensoussan, 2007)

A common technique is to create detailed profiles on each of your major competitors. These profiles give an in-depth description of the competitor's background, finances, products, markets, facilities, personnel, and strategies. This involves:

Background

- location of offices
- history - key personalities, dates, events, and trends
- ownership, corporate governance, and organizational structure

Financials

- P-E ratios, dividend policy, and profitability
- various financial ratios, liquidity, and cash flow
- profit growth profile; method of growth (organic or acquisitive)

Services

- services offered and service portfolio balance
- new services developed, new service success rate, and R&D strengths
- brands, strength of brand portfolio, brand loyalty and brand awareness

Marketing

- segments served, market shares, customer base (target market), growth rate, and customer loyalty
- promotional mix, promotional budgets, advertising themes, ad agency used, online promotional strategy
- distribution channels used (direct & indirect), exclusivity agreements, alliances, and geographical coverage
- pricing, discounts, and allowances

Personnel

- number of employees, key employees, and skill sets
- strength of management, and management style
- compensation, benefits, and employee morale & retention rates

Corporate and marketing strategies

- objectives, mission statement, growth plans, acquisitions, and divestitures
- marketing strategies

4.2 Media scanning

Scanning competitor's ads can reveal much about what that competitor believes about marketing and their target market. Changes in a competitor's advertising message can reveal new product offerings, new production processes, a new branding strategy, a new positioning strategy, a new segmentation strategy, line extensions and contractions, problems with previous positions, insights from recent marketing or product research, a new strategic direction, a new source of sustainable competitive advantage, or value migrations within the industry. It might also indicate a new pricing strategy such as penetration, price discrimination, price skimming, product bundling, discounts, or loss leaders. It may also indicate a new promotion strategy such as push, pull, balanced, short term sales generation, long term image creation, informational, comparative, affective, reminder, new creative objectives, new unique selling proposition, new creative concepts, appeals, tone, and themes, or a new advertising agency. It might also indicate a new distribution strategy, new distribution partners, more extensive distribution, more intensive distribution, or exclusive distribution. Little of this intelligence is definitive: additional information is needed before conclusions should be drawn.

A competitor's media strategy reveals budget allocation, segmentation and targeting strategy, and selectivity and focus. From a tactical perspective, it can also be used to help a manager implement his own media plan.

Other sources of corporate intelligence include trade shows, patent filings, mutual customers, annual reports, and trade associations.

5. How Kaunas city is attractive to foreign tourists?

Kaunas city is the second largest Lithuanian city, first mentioned in written sources in 1361 and built at the confluence of two biggest rivers Nemunas and Neris. During the Middle ages, as well as Soviet times, Kaunas city was well known trade and industry city. After regaining the independence in 1990, a lot of factories were shut down, sold or moved out of the city. According to statistical data, in 2011, out of all operating enterprises 80 percent were services enterprises. Nowadays Kaunas city is a bustling city known for education institutions – there are 5 universities, 4 university departments, and 4 colleges.

European largest budget carrier *Ryanair* came to *Kaunas Airport* on May 2010. *Kaunas Airport* is the only European airport that has been increasing passenger number for 9 years. In 2011 *Kaunas Airport* passenger number increased by 7,77 percent, more that 872 thousand passengers used *Kaunas Airport*. During summer season of 2012 *Kaunas Airport* would operate flights to 24 European cities: Palma de Mallorca, Alicante, Rode, Kos, Cyprus, Malta, Reykjavik, Frankfurt Hahn, Oslo, Tampere, Edinburg, Stockholm, London (Stansted, Gatwick, Luton), Liverpool, Leeds Bradford, Birmingham, Brussels, Bristol, Dublin, Brussels (Charleroi), Leeds (Bradford), Liverpool, and Moscow. With the increasing route network, *Kaunas Airport* is used not only by Lithuanians, but also by Latvians, Byelorussians, Kaliningrad and north Poland citizens.

From autumn 2012 some of *Ryanair* flights are moved from Kaunas city to Vilnius. “We can feel the tendency that *Ryanair* is moving flights from Kaunas city to Vilnius. In Kaunas there will be only flights for emigrants and summer destinations to Greece and Spain resorts. There are no tourists from Barcelona and Milan anymore”, - says Evgenijus Brišas, the manager of the guest house “City Hostel”. “When at the end of March 2012 flights to Paris have been moved from *Kaunas Airport* to *Vilnius Airport*, the number of French tourists has been noticeably decreased”- regrets the manager. In 2012 decreased numbers of foreign tourists have been reported by big Kaunas city hotels as well.

According to *Kaunas City Tourist Department*, more tourists come to Kaunas city when international events, traditional festivals and sports events are held.

Most of the tourists that come to Kaunas city are Germans, British, Spanish, Russians, Byelorussians, and Polish. More tourists are recently coming from Scandinavian countries. Tourists are interested in national festivals and cultural events, Lithuanian customs and traditions, handicraft markets, Lithuanian traditional sauna and even traditional medicine.

Tourists are searching for historical connections with their own countries: French are looking for the places that are connected to France and try to visit all the places visited by Napoleon. Jews visit *Vilijampolė* district, Synagogues, the museum of *IXth Fort*. Japanese are interested in the House of Ch.Sugihara, Russians visit the forts. Spanish are seeking for everything connected with basketball. They usually visit the old Kaunas city Sports Hall and the new *Žalgiris* arena. Tourists are also seeking for extreme sports: a ride with go-cart, hot air balloon, small plane, a jump with a parachute, water attractions. One of the most wanted attractions – a several hour tour on a ship, yacht or boat on *Kaunas Lagoon* (lith. *Kauno Marios*). Tourists are also delighted by Lithuanian national food and drinks – they taste Lithuanian mead, other national spirit drinks, beer. “Beer route in Kaunas city” is one of the most popular excursions for foreign tourists.

6. Hotel loyalty programs

Hotel loyalty programs are increasingly becoming one of the primary reasons for selecting a particular hotel. Loyalty programs now rank fourth among reasons why consumers select a hotel (the top three reasons are “Location”, “Price”, and “Past Experience”). In the USA hotel loyalty program membership is on the rise and the percentage of “Elite” members in these hotel programs rose sharply in 2011 (up to 5 percent). This is good news for hotels because members of these programs are more likely to recommend the hotel, spend more per room, and are less sensitive to price increases compared to non-member guests.

In 2009, 32.7 percent of guests said that the loyalty program was a primary reason in deciding where to stay. That number has grown to 34.5 percent in the first half of 2011. Industry wide, approximately one of every three members of a hotel loyalty program said their membership was “Very Important” in hotel selection.

Hoteliers in one camp believe travelers are burned out on points and that what they really want from a loyalty program is access to special perks and experiences they wouldn't be able to get on their own. In the other camp, hoteliers believe travelers still want points but are frustrated by the redemption process, which often involves complex reward charts or blackout dates. Guests love Marriott's rewards program. For example, Marriott rewards are easy to redeem, have no blackout dates and can be used for airlines, cruises, car rentals and more.

Other hotels reward frequent guests with insider experiences instead of points. At the same time, some major chains are tweaking their loyalty programs and introducing new rewards. Hilton has been de-emphasizing points and focusing on vacation experiences in an effort to rebrand its loyalty program, HHonors. The tag line: “Turn points into experiences worth sharing.” Hotels offer free Internet access, bottled water and other special activities upon their next stay, like a personalized brewery tour, earlier check-in times, and later than usual check-out time. For example, guests who stay more than 30 nights earn a special status, which comes with earlier check-in times (9 a.m. instead of 3 p.m.), and 6 p.m. checkout time.

Loyalty programs are offered not only by chain but independent hotels as well. Independent high-end hotels in the USA offer Stash Hotel Rewards program which lets you earn points toward free stays at any of 100 independent high-end hotels in the U.S. The program is exceptional as it does not have date restrictions redeeming points to free nights.

7. Balanced scorecard analysis to measure hotel performance

7.1 Theoretical background

Traditional management systems place so much emphasis on current financial monitoring that company's overall strategy does not receive sufficient attention. If management is preoccupied with monitoring cash flow and absorbed in fine-tuning daily operations, it will overlook the company's true drivers of success. Kaplan and Norton provide a useful mental framework for managing the overall enterprise- balanced scorecard. Future financial performance is the result of both financial and nonfinancial decisions. Therefore companies have to measure not only financial, but also customer factors, internal business factors, and learning and growth perspectives and measures. The Balance scorecard (BSC) has been widely adopted by manufacturing, service, nonprofit, and government organizations around the globe.

The BSC approach, which can be applied at different levels (total organization, strategic business unit, individual operational units or even to individuals), involves identifying key components of operations, setting goals for them, and finding ways to measure progress towards their achievement.

Balanced scorecard provides a monitoring system that communicates both financial and nonfinancial measures using a combination of lagging and leading indicators while addressing long-term and short-term objectives.

Traditional financial measures, viewed as lagging indicators of performance, are balanced with non-financial measures, which are lead indicators and serve to drive future performance. The measures are not to be viewed merely as a collection of various metrics, but instead they are selected to show cause and effect in the implementation of the company's mission and organizational strategy. An important preliminary step prior to choosing the scorecard goals and measures is to "map" the strategy in detail, a process that Kaplan and Norton describe in some detail.

Organizational success can best be achieved and measured when viewed objectively from four perspectives (see Figure 1): financial, customer, internal business processes, and innovation/learning.

Financial Perspective: The most important lagging factor, which acts as a system of checks and balances.

Customer Perspective: What do customers think makes the business successful? Measures should capture customer opinion. They can be general (e.g., customer value and customer retention) or more specific (e.g., product/service quality, flexibility, cost, and response time).

Internal Business Processes: What must be done internally to meet and exceed customer needs? These are predominantly nonfinancial measures (e.g., measures of quality that are time based and flexibility orientated).

Innovation and Learning: What needs to be done on a continuing basis to delight and retain customers? The focus should be on the future rather than current capabilities. Measures should relate to issues such as new product development, percentage of sales from new products, and process improvement rates. This can also relate to human resource measures.

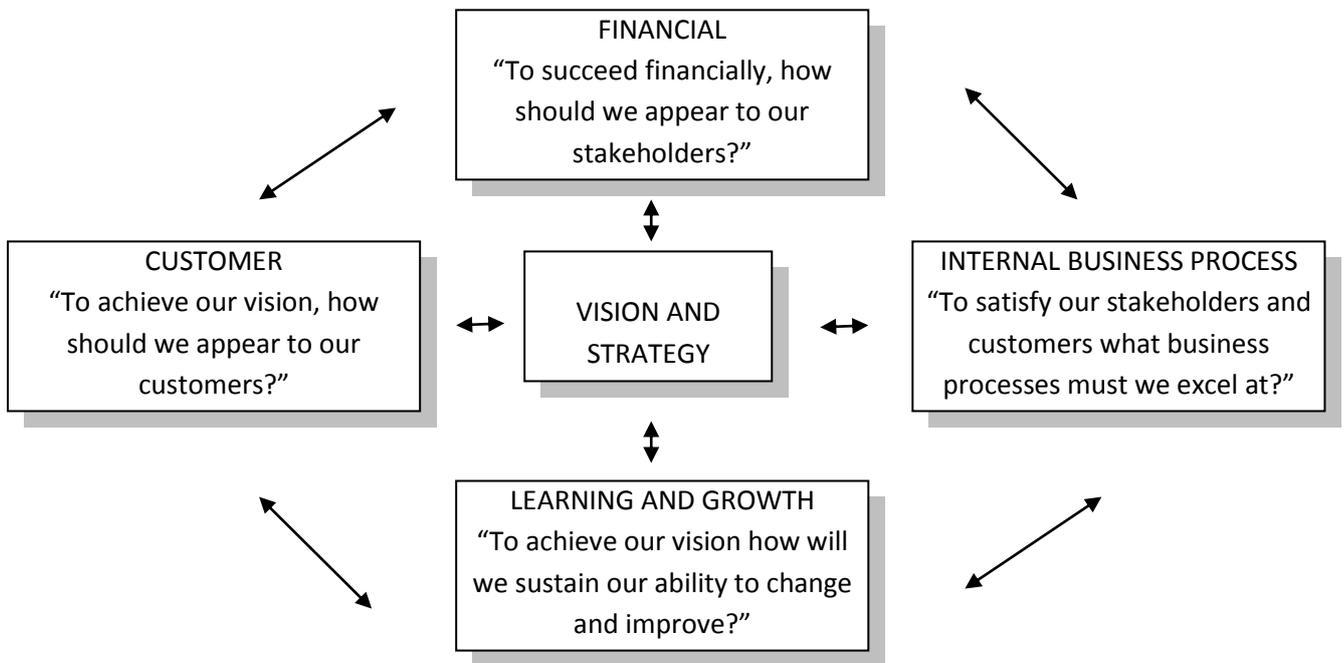


Figure 1. Balanced scorecard: four perspectives

Source: Kaplan and Norton (1996)

The BSC has evolved to fulfill two control roles within organizations at strategic and operational levels. At the strategic level, the focus is to determine what the organization is trying to achieve, while at the operational level, the focus is to determine the salient processes to be monitored. The BSC aids strategic thinking, fosters teamwork, and encourages learning (Kaplan and Norton 2001).

The BSC can facilitate a meaningful link between strategy and measurement while communicating the strategy to everyone in an organization. The first step in developing the balanced scorecard is to translate the company's vision and strategy statements into an integrated set of objectives and measures that describe the long-time drivers of success.

If performance measures are to be successful, an attempt must be made to review them on a regular basis and in a systematic manner. A successful BSC implementation should enable organizational change, not solely measurement for measurement's sake.

7.2 Hotel performance evaluation with balanced scorecard

Balanced scorecard (BSC) method has been adapted to measure hotel performance. An exploratory case study approach using the balanced scorecard as the theoretical framework was taken to explore and elicit critical success factors in performance measurement within 10 best practice United Kingdom's hospitality and leisure organizations. A balanced scorecard template for hotels was presented.

Case study results revealed that four key concepts drove measurement and performance evaluation systems across the sample. These were:

- the exercising of **budgetary control** with a view to increasing total revenue,
- the undertaking of **customer relationship management** as a means of improving quality of service and customer retention,
- the necessity for **strategic management** in managing internal business processes, and
- **collaboration** (both inter and intra) to drive innovation and learning.

In terms of managing the customer relationship, hotels place an emphasis on quality of service. Direct dialogue between the customer and staff is encouraged, and the notion of customer profiling is becoming increasingly important. Hotels appear to place an emphasis on having clear business objectives and then implementing, tracking, and evaluating those objectives through the staff, who also act as drivers of innovation. Hotels invest heavily in motivating, training, and retaining their staff to achieve good results.

The priority factors identified in the hotel business (budgetary control, customer relationship management, strategic management, and collaboration) are slightly different from Kaplan and Norton's (1992) perspectives, which are financial, the customer, internal business processes, and innovation and learning.

Table 3 illustrates a hotel BSC based on the aggregation of metrics used by the two hotel case organizations. The level of IT-based, integrated financial reporting systems within the hotel industry is a significant driver for the control of supply and demand. Hotel operators value the accuracy and speed of information retrieval attained through digitization. Profitability is an important factor, as is forecasting.

The majority of hotels also actively measure their revenue per available room (RevPar, a standard industry measure) on a daily or weekly basis, and most hotels measure their costs relative to budget either weekly or monthly. Other financial measures are used far less frequently. Quite a large number of hotels never compare their financial performance with that of local competitors.

From the customer perspective, respondents actively consider customer satisfaction ratings and the number of complaints, with the vast majority considering these aspects at least monthly. It is somewhat surprising that quite a large number of hotels never consider important benchmarking measures such as mystery guest assessments, returning guests and their share of local markets.

Category	Critical success factor	Key performance indicators
Financial	Profitability	Gross operating profit Net operating profit Sales achieved
	Budgetary control	Adhering to budget Meeting financial targets Achieving predicted room and occupancy rates Revenue per available room Cash flow
Customer related	Quality of Service	Guest surveys Mystery guest Participation in grading schemes
	Customer relationship management	Anecdotal feedback via staff Customer satisfaction levels Average spend
	Customer profiling	Customer satisfaction levels Customer retention rate
Internal business	Having clear objectives	Meeting financial targets
	Tracking objectives	Internal auditing Completion of capital projects
	Investing in staff	Staff satisfaction surveys Staff development reviews Staff retention rate percentage
	Productivity	Wages (%) to achieve turnover Staff incentive schemes (e.g., performance-related pay)
Innovation/learning	Staff as drivers of innovation	Number of new products/services Process improvement initiatives
	Cross-sector comparison	Networking relationships Membership of trade/professional bodies Participation in grading schemes
	Encouraging teamwork	Courses completed by staff Level of multiskilling Productivity

Table 3. A balanced scorecard template for hotels

Employee turnover, a key issue in such a labour-intensive industry, is also measured actively by respondents but rather less frequently. The payroll and revenue segment is also obviously actively considered by most hotels.

Atkinson and Brander Brown (2001), in a study of UK hotels, report that such hotels predominantly focus on financial performance dimensions, and that they focus on the short term with little strategic use of the information.

The findings seem to indicate that there is a relationship between both the size of hotel and whether it is independent and the level of activity with regards to performance measurement, although this was not tested statistically owing to the limitations in the sample size. Larger and chain hotels appear to be more actively measuring their performance in a formal way, utilising a range of variables.