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The Formulation of Alternative Competitive Strategy for Budget Hotel in Surabaya: Blue Ocean Strategy Approach Sellyna Wardhani, Serli Wijaya Faculty of Economics and Business, Petra Christian University, Surabaya Indonesia sellyna.wardhani@hotmail.com serliw@petra.ac.id

ABSTRACT The unbalanced number of hotel growth and visitor growth in Surabaya created a pressure between hotels which targeting the same market segments. The highest growth of hotel numbers was found in budget hotels level, which means that the properties need to have a winning competitive strategy. This study aimed to analyze the existing competitive strategy that is generally used by budget hotel, and to find an alternative strategy to help budget hotels to compete using blue ocean strategy approach. The research method was a qualitative exploratory and descriptive, employing semi-structured interviews with hotel managers of three budget hotels in Surabaya. The results showed that in general, budget hotels still used red ocean strategy to compete. The techno-sustainable hotel concept was eventually proposed as a result of alternative competitive strategy that could be implemented but hotel industries. Keywords: Budget Hotel, Blue Ocean Strategy, Competitive Strategy, Techno-sustainable hotel, Surabaya

Introduction During the past five years, the accommodation industry in Indonesia has been growing significantly. East Java has become one of the provinces whose the accommodation industry's growth rate was the highest, ranging from 12% to 15% in

2013 and 2014, respectively (BPS, 2014). Surabaya, as the capital city of East Java province has experienced the highest growth of its two and three-star hotels. In 2015, there were about 30 three-star hotels and 20 two star hotels in Surabaya, compared to only 11 three-star hotels and 3 two-star hotels in 2012. Unfortunately the increased supply capacity is not supported with the growing number of travellers visiting Surabaya, resulting more fierce competition to win the market. Cachon and Terwiesch (2011) stated that excessive demand would lead to the increased price, while on the contrary; excessive supply would make the price drops. Such a condition will create unhealthy price wars amongst the players in the industry. To survive and improve their competitive ability, businesses need an effective strategy that can be adjusted to keep pace with changes in the business world (Walker, 2010).

> **Blue Ocean Strategy** concept that **was** initially **introduced by Kim and Mauborgne** | 15 |

(2005) focuses on the principle that rather than being head-to-head with the competitors in the existing market, companies should choose to create an

> **uncontested market space that makes the** competitors **irrelevant** | 12 |

and thus, offers new consumer value while staying focus on low cost strategy. Adopting blue ocean strategy concept, this study had two objectives. First, to portray the current strategies implemented by budget hotels in Surabaya to compete in the industry. Second, to formulate alternative competitive strategies of which the budget hotels can select to employ. Given the facts described above, the level of competition amongst two and three-star hotels in Surabaya is pretty much intense, these star levels were selected as the unit of analysis of this study. Comment [SW1]: Not in the reference list Literature Review Wheelen and Hunger (2008) explained that strategy plays a role for improving a company's competitive advantage within an industry. This is achieved by formulating a comprehensive plan and state how the company will achieve its mission and objectives. According to Pearce and Robinson (2013, p.231), "business that create competitive advantage from one or both of these sources (differentiate and low cost structure) usually experience above-average profitability within their industry". From the above statement, it can be concluded that the integration of differentiation and low cost, can be a way to excel in the competition, which leads to higher profit levels.

> **Kim and Mauborgne** (2005) used **the** term **'blue ocean' strategy** as a goal **and** | 16 |

strategy of the company that aim to create new value for customers as well as to offer to the market without competition. Good value for a product or innovation, have the same influence on the value or excellence of a company. In addition, both value of product and value innovation become an important component of blue ocean strategy, which would extend the boundaries of an existing industry. Value innovation (Figure 1) is seen as a new way to think and doing strategy leading to the creation of blue oceans and leaving the competition. Figure 1. Value Innovation Source : Kim & Mauborgnee (2005, p.36) Further, Kim and Mauborgne (2005) further described that the

> **value innovation is** a **strategy** related **that** encompasses to **the entire system of company's activities. Value innovation** [11]

can change the cost structure and value proposition for buyers in positive. Cost saving could be achieved by eliminating or reducing the unnecessary or irrelevant factors in the industry competition. Buyer value is improved by adding and creating elements that are currently not offered by the company. Buyer value come is obtaineds from the utilities benefits a buyer would get that equals to and the price offered charged by the company to their buyers. Values obtained for the company than the price offered to the buyer and the company's cost structure. Value innovation is achieved when the overall system utility factor buyer, price, and support each company charges the right direction.

> **There are six principles** in performing **blue ocean** s **strategy,** [12]

namely:.

> **1) reconstruct market boundaries; 2) focus on the big picture** and **not** on **numbers; 3) reach beyond existing demand; 4) conduct a series of** strategic properly; **5) overcome major obstacles in the organization;** and 6) **integrate execution into strategy** [2]

The first four principles is considered as the principles of strategy formulation, whilst the remaining two principles are treated as These six principles are divided into two groups, namely four first principles (numbers1-4) that are categorised as the principle of the formulation, while the remaining two principles (numbers 5-6) are part of the implementation of the principle strategy. These six principles are as follows:

> **reconstruct market boundaries; focus on the big picture** and **not** on **numbers; reach beyond existing demand; conduct a series of** strategic properly; **overcome major obstacles in the organization;** and **integrate execution into strategy** [2]

(Kim and Mauborgne, 2005). Methodology This study employed a qualitative approach and the primary data was gathered by conducting in-depth interviews with five informants (Table 1) who were the managers of three participating budget hotels in Surabaya. The interview data obtained was subsequently analysed following two main required steps of blue ocean strategy analysis. First, canvas strategy and value curves analysis were prepared to portray the current performance of each hotel. The hotel performance was assessed based on the thirteen competitive factors of both hotel products and services namely: physical building, food and beverage outlets, guestrooms, and hotel business management (Figure 2). These thirteen factors were adopted from the Ministerial Decree of Tourism and Creative Economy of the Republic

of Indonesia Number Pm.53/Hm.001/Mpek/2013 about the standard components of hotel business in Indonesia. Once the canvas strategy of each hotel was set up, the value curve analysis was then used as tools to formulate alternative strategies of four actions framework (Figure 3). As shown in Figure 2, canvas strategy analysis was performed by plotting scores of hotel's competitive factors on the X and Y axes. The X shows the list of hotel competitive factors while Y-axis (ranged from scores 0 to 10) illustrates the score or rating that is used to determine hotel's competitiveness upon each factor. Value curves show the linkages of the given scores. Once all informants completed the canvas strategy analysis, they were required to formulate four possible strategies that can support the provision of hotel's value innovation. This process was accomplished by employing the Four Action Framework (see Figure 3). In addition to the interviews to the five informants, field observation was conducted to record the data that might not be revealed in the interviews. The observation was intended to support the information that has been obtained related to the canvas strategy and value curve made by informants. Pictures of hotel facilities such as the hotel exterior, front office, bedroom, and restaurant were documented. Table 1. Informants List of Interview Method Research Object Informant Position 1. Hotel Ibis Surabaya City 1. Mr. L. P. Sales Manager Center 2. Ms. D. E. Front Office Manager 2. Hotel 88 Embong Malang 1. Mr. D. S. A. Hotel Manager Surabaya 2. Ms. F. A. Sales Manager 3. Best Zodiak Hotel 1. Mr. M. L. HR Manager Comment [SW2]: I don't think we need to rev the informants' In addition to the interviews to the five informants, field observation was conducted to record the data that might not be revealed in the interviews. The observation was intended to support the information that has been obtained related to the canvas strategy and value curve made by informants. Pictures of hotel facilities such as the hotel exterior, front office, bedroom, and restaurant were documented. 10 9 8 7 6 5 4 3 2 1 0 Figure 2. Canvas Strategy as an Analytical Tool (developed by the researchers) As shown in Figure 2 that canvas strategy analysis was performed by plotting the X and Y axes. The X shows hotel competitive factors that were analysed while Y-axis illustrates the value that used to determine hotel's competitive rate of each factor. Value curves show the linkage of given Formatted: Caption, Centered, Space After pt, Line spacing: single, Pattern: Clear value. Besides semi-structured interviews to the five informants, field observation was also conducted to record the data that might not be revealed in the interviews. The observation was intended to support the primary information related to hotel strategies that has been obtained related to the canvas strategy and value curve made by from the informants. Observation was completed in all three participating budget hotels by documenting Pictures of hotel facilities such as the hotel exterior, front office, bedguestroom, and food beverage facilitiesrestaurant were documented. To check the validity of the data, second in-depth interview was undertaken to all informants. The interviews functioned both as triangulation and iteration process. The triangulation process was employed to get agreement or disagreement statements, and the reasons for the informants to the advice given by the other informants. Formatted: Font: Font color: Auto Figure 3. Four Action Framework Source : Kim & Mauborgnee (2005, p.53) To check the validity of the data, second in-depth interview was undertaken to all informants. The interviews functioned both as triangulation and iteration process.. The triangulation process was employed to get agreement or disagreement statement, and the reasons for the informant to the advice given by the other informants. Results The interview results revealed from all informants showed that three hotels analysed adopted a red ocean strategy to compete in the industry. Figure 4 illustrates Supported by the results of canvas strategies and value curves analysis of the three hotels perceived by the managers. It shows the positions of each hotel in Formatted: Normal, Justified, Space After: pt, Line spacing: single, Pattern: Clear the industry from the viewpoint of the informants. Overall, all informants gave a relatively high score for their respective hotel, in which the score fell between 7 and 9. Compared to the other two hotels, Ibis, however, had the highest scores in almost all hotel competitiveness factors. This could be seen as the strength point of being part of one of the largest hotel company which is Accor. Hence, the business management and operational standard have been relatively

well established. On the contrary, Best Zodiak Hotel was found to be having a relatively lower score particularly in business management factors (human resources and organization factors, score 6 out of 10), and operational aspects of food and beverage and waste management factors (score 6 out of 10). Overall, (Figure 7), iit was also revealed that the hotels mostly relied on their low-pricing strategies in order to attract as many customers as they could. Meanwhile, the services offered were also relatively similar amongst the three participating hotels. As revealed in the interviews, all informants' perceptions about budget hotel concept is merely related to physical aspect of the hotel, which is, minimalist building, where the design of the building exterior and interior are simple. Designed furnishings accentuate its function optimally without much ornamentation. Existing facilities at the hotel is also limited. The services provided were relatively similar and limited amongst the hotels. Budget hotels not only focus on the sales room, but also the use of meeting room. In terms of hotel target market, all informants stated that the target market of budget hotels are businessmen, company, travel agents and the distribution channel business guests of the hotel. The interview results revealed from all five informants showed that three hotels analysed adopted a red ocean strategy to compete in the industry. Most of hotel efforts and energy were spent on becoming the winner in the price competition by offering discount either for the rooms or the hotel services. Formatted: Font: 9 pt 10 9 Formatted: Centered 8 7 6 5 4 3 2 1 0 Notes : Ibis has 8 polinbtissc(omreeafonr sBcuoirledi)ng (product),HForotenlt 8O8ff(icmee(aPnrosdcuocrt)e,)and Food & BBeevsetrZagoed(iParko(dmucet)an score) Figure 4. Canvas Strategy and Value Curves of Three Hotels as Assessed by the Informants Techno-sustainable hotel was therefore proposed as an adequate alternative competitive strategy that the hotels could apply. Techno-sustainable hotel leads to the hotel's ability to involve a technology-based system to support the operations of the hotel and nature conservation activities. It focuses on: building design that promotes natural lighting and good air circulation; procurement of energy sources from the property itself

Pattern: Clear (White) with utilize the waste generated; manufacture of systems, such as online check-in system as it is enabled to support the efficiency of the staff, so a process that used to take time to do site, can be performed earlier than wherever guests are; service or food and beverage outlets were able to attract buying interest guests staying, as well as guests who do not stay; removal in-room minibar assessed not support other goals, namely the high investment, the cost of electricity, disturb the work efficiency of staff, where the function in-room minibar can be transferred to in-room service; procurement and increased guest experience as a form of loyalty to the hotel guests. Table 12 shows the results of the application of the four actions framework in the first interview process. The reduction process was taken to see the results of the first interviews became more obvious, and adding the results of the analysis the authors, coming from observations and opinions of informants. The framework focuses on four main questions containing namely: 1questions related to) what factor in the hotel that could to be: 1) eliminated; 2) reduced; 3) raised; and 4) created. The first factor is a factor to be eliminated. By studying six ideas submitted to each informant, 4 out of 5 informant selected food and beverage as a factor that was eliminated. The second factor is those could be reduced. Three out of the five informants chose the reduction of electrical energy consumption to be applied in budget hotels. Although the iteration process was taken place at different times, almost all informants had the same opinion relating to the factors that must be improved. Four of five informants agreed to improve the services to the guests. The last factor was factor that should be new products or services that were not previously offered by other budget hotels. To these factors, the opinion delivered by the informant was more diverse than the previous factors. Two out of five informants chose to create an

online check-in system. The other two picked to create something new in the area of food and beverage. Meanwhile, one informant chose the creation of the aspect of the service in budget hotels. Formatted: Justified Moreover, tThe process of iteration and triangulation samples was completed in the second interview. The process of iteration and triangulation samples was taken in order to gain a more objective, get a wider opinion related to the ideas offered, and to test the validity of the data. Most of the ideas were approved by other informants, however some opinions were getting less approval. There were three ideas which got less approval: 1) the elimination of manual information system; 2) the provision of hotel's internal laundry facility; and 3) the creation on business center which has been overlooked by the hotel guests.informant interpretation of the concept budget hotels, related Formatted: Justified, Space After: 12 pt physical form, which is of minimalist building, where the design of the building exterior and interior are simple adopted by the three hotels. Designed furnishings accentuate its function optimally without much ornamentation. Existing facilities at the hotel also limited. Budget hotels not only focus on the sales room, but also the use of meeting room. Furthermore, in accordance with the statement of the five informants, that the target market of budget hotels are businessmen, company, travel agents and the distribution channel business guests to the hotel. Through interviews and analysis, the authors found that businesses in three hotels are still adopting a red ocean business strategy. It was aimed at price competition which was strictly for the rooms and the services provided. The services provided are also relatively similar and limited between the hotel. Formatted:

(Default) Arial Unicode M 4 14 pt 3 2 1 0 Ibis (mean score) Hotel 88 (mean score) Best Zodiak (mean score) Notes : Ibis has 8 point score for Building (product), Front Office (Product), and Food & Beverage (Product) Figure 7. Canvas Strategy and Value Curves of Three Hotels as ssessed by the Informants Table 1. . Data Reduction of Four Steps Framework Development Formatted: Font: 9 pt Formatted: Font: 14

12 pt If required a new strategy as a form Blue Ocean Strategy, what informant answers on the following four questions when associated with each of the divisions within the company: Formatted: Font: (Default) Times New Rom Queston

Summary of the informants' responses

a Which of the factors that the hotel **industry takes for granted should be eliminated?** `1`

Stall Bar, because of the design was not attractive enough to attract people come and do some consumption. In room minibar, because most of the guests request to take out the in room minibar, even they have not come yet Initially, informant get difficulties to answer. By having some discussion, informant stated to eliminate manual information system Initially, informant have nothing to eliminate because the minimum service provided. In the discussion, informant realize the possibility to eliminate their focus on human resouce, by cut off the number of permanent staffs Initially, the informant difficult to answer because it seems nothing could be eliminated. In the discussion, informant realized that unefficient working time should be eliminated, by reducing the human resource. Eliminate all manually information system process, such as paper usage, and move to digital technology

b Which factors should be reduced well below the hotel **industry's standard?** `1`

Reduce the number of breakfast menu and cut off restaurant space Bellboy service, because most of the guests do not bring a lot of luggages, and prefer to bring it themselves All the services not provided directly, but guest will be given chance to choose the service needed. Reducing the quantity served for every menu in breakfast time, without reducing the number of menu itself Informant suggest to reduce electricity and water usage. By shutting down some facilities in midnight or off hour Narrowing the front office counter areal and use the space for information centre

c Which factors should be raised well above the hotel **industry's standard?** `1`

In room facilities Hospitality services, which can provide customer needs for 24 hours Personalize service to create homey environment, by building a good communication within their stay period Providing wider car park, to anticipate the needs while having any MICE activities Focus on internal activities rather than outsource, i.e. laundry Increasing service spreed by doing all the preparation in advance

d Which factors should be created that the hotel **industry has never offered?** `1`

Coffee shop or coffee corner Business center or business corner which has been forgotten Internal saving system, without disturbing customer's right. The saving can be either water dicharge and electrical activation automatically Comfy atmosphere in every room, to upgrade the value of customers' stay better than a minimalist and monotonous design Live music entertainment as a refreshment show and the way to increase food and beverage department revenue Creating integrated online check in system, completed with mobile application

2. Data Reduction of Four Steps Framework Development with next If required a new strategy as a form blue ocean strategy, what informant answers on the following four questions when associated with each of the divisions within the company: Questions

Informant 1 Informant 2 Informant 3 Informant 4 Informant 5 | 8 |

a Which of the factors that the hotel industry takes for granted should be eliminated? | 1 |

Stall Bar, because of the design was not attractive enough to attract people come and do some consumption. In room minibar, because most of the guests request to take out the in room minibar, even they have not come yet Initially, informant get difficulties to answer. By having some discussion, informant stated to eliminate manual information system Initially, informant have nothing to eliminate because the minimum service provided. In the discussion, informant realize the possibility to eliminate their focus on human resouce, by cut off the number of permanent staffs Initially, the informant difficult to answer because it seems nothing could be eliminated. In the discussion, informant realized that unefficient working time should be eliminated, by reducing the human resource. Eliminate all manually information system process, such as paper usage, and move to digital technology

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Coffee shop or coffee corner Business center or business corner which has been forgotten Internal saving system, without disturbing customer's right. The saving can be either water dicharge and electrical activation automatically Comfy atmosphere in every room, to upgrade the value of customers' stay better than a minimalist and monotonous design Live music entertainment as a refreshment show and the way to increase food and beverage department revenue Creating integrated online check in system, completed with mobile application Formatted: Normal (Web), Centered, Space After: 7.5 pt, Pattern: Clear (White)

Discussion From the assessment given the informants in the canvas strategy, a lot of similar values and the information provided by the informants, and as a result, it gave a clearer picture of the three hotels' position as budget hotel. After looking at the informants' responses and novel ideas, similar opinions were merged.

blue ocean strategy, techno-sustainable hotel was therefore proposed as an adequate alternative competitive strategy that the hotels could apply. Table 3. The Creation of Techno-Sustainable Hotel Concept as Alternative Competitive Strategies for Budget Hotel: Applying Blue Ocean Strategy Approach Formatted:

Techno-sustainable hotel concept is taken from two words of technology and sustainable. Heinich, Molenda, and Russell (1985, p. 102) explained that the term 'technology' can be seen as one of these three points. First, it is a systematic process on scientific applications or other knowledge to practical tasks, processes designed reliable and can be done repeatedly to resolve the problems. Second, it can be both hardware and software as a result of the application process on the technology itself. Last, technology is mix of products used or processed several incidents in which

as well as a separate process from the product. Meanwhile, Sheth, Sethia, and Srinivas (2011) wrote that the word 'sustainability' is frequently associated with various terms such as:

> **corporate social responsibility, green reporting initiatives, responsibility** to the environment, **social responsibility, sustainable development, sustainability, corporate citizenship, green marketing, green economy and** the **triple bottom line.** `7`

According to Jayawardena, Pollard, Chort, Choi, and Kibicho (2013), the concept of sustainability has become a new standard for the accommodation business for reducing the emissions produced, such as designing a sustainability support building. Techno-sustainable hotel leads to the hotel's ability to involve a technology-based system to support the operations of the hotel and nature conservation activities. It focuses on: building design that promotes natural lighting and good air circulation; procurement of energy sources from the property itself with utilize the waste generated; manufacture of systems, such as online check-in system as it is enabled to support the efficiency of the staff, so a process that used to take time to do site, can be performed earlier than wherever guests are; service or food and beverage outlets were able to attract buying interest guests staying, as well as guests who do not stay; removal in-room minibar assessed not support other goals, namely the high investment, the cost of electricity, disturb the work efficiency of staff, where the function in-room minibar can be transferred to in-room service; procurement and increased guest experience as a form of loyalty to the hotel guests. Further, techno-sustainable hotel concept leads to the hotel's ability to involving technology-based systems built to support the operations of the hotel and nature conservation activities. The systems are intended to support and carry out the tasks that were once done by humans. Under this concept, the hotel increasingly focused on the assignment of human resources for the purpose of increasing guest experience in all aspects of the hotel. This can be done through the provision of essential tasks to be done by the direct interaction between guests and staff. Services that are personal and have not been able to be done by the system, analysis of the levels of guest satisfaction, and to build systems that work to support hotel operations will be intensified. Table 3. Creation Concept Techno-Sustainable Hotel as Alternative Competitive Strategies for Budget Hotel with Blue Ocean Strategy Approach Techno-Sustainable Hotel Definition: The concept of the business in the provision of accommodation and service that puts hotel ability to involve technology-based systems to improve work efficiency and nature conservation, and increasing focus on the guest experience creation. Created 1 - The building design prioritizes natural light and good air circulation. - Making its own energy supply system, using waste water as an energy source that is processed by the property 2 Integrated online check-in system addressed to member of the hotel chain Service or food and beverage outlets are able to meet the needs of guests in the room, or 3 to meet the needs of guests, a comfortable space which is acceptable by many circles at competitive prices Raised 1 Value intensified environmentally friendly 2 - Speed of service through the implementation of an online system 3 - Able to increase guest loyalty through in room service to meet the needs of guests - Revenue of food and beverage department can be improved Formatted: Normal (Web), Right: 0", Spac After: 7.5 pt, Pattern: Clear (White)

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Reduce 1 Electricity usage, for example to light in the morning and afternoon 2 - Guests' waiting time at counters to do check in - The time required by staff to collect information related to guests staying 3 The possibility of selecting a restaurant outside the hotel area Eliminated Removal in room minibar, eliminating investment in freezer, cost electricity, the 1,3 process of checking and inventory in room mini-bar TTo achieve the second goal of the resehe proclaimed writer needed concept of techno-sustainable hotel as an alternative to the competitive strategy The concept technosustainable hotelrequires hotel business to focuses on: building design that promotes natural lighting and good air circulation; procurement of energy sources from the property itself with utilize the waste generated; manufacture of systems, such as online check-in system as it is enabled to support the efficiency of the staff, so a process that used to take time to do site, can be performed earlier than wherever guests are; service or food and beverage outlets were able to attract buying interest guests staying, as well as guests who do not stay; removal in-room minibar assessed not support other goals, namely the high investment, the cost of electricity, disturb the work efficiency of staff, where the function in-room minibar can be transferred to in-room service; procurement and increased guest experience as a form of loyalty to the hotel guests.

Right The proposed concept of techno-sustainable hotel wasare an evident as to how an alternative strategy (i.e. blue ocean strategy) that could be executed by budget hotels in Surabaya. Through the use of canvas strategy and the value curve analysis, these two analytical tools provided assistance for hotel managers to know the level of the industry and how the hotel has presented its business to the market. However, to be effective, budget hotels should not focus on cost reduction only since such as strategy could lead to the reduction of the quality. Moreover, hotel should engage with its guests in keep cost that issued

by the hotel by giving value such additional forms of environmental concern. The concept of techno-sustainable hotel expected to be adopted as an alternative strategy to compete for budget hotel, such as the use of solar panels and ancillary systems other efficiencies. From the data analysis, there are some number of conclusions: 1. To achieve the goal of the first study, the authors conclude informant interpretation of the concept budget hotels, related physical form, which is of minimalist building, where the design of the building exterior and interior are simple adopted by the three hotels. Designed furnishings accentuate its function optimally without much ornamentation. Existing facilities at the hotel also limited. Budget hotels not only focus on the sales room, but also the use of meeting room. Furthermore, in accordance with the statement of the five informants, that the target market of budget hotels are businessmen, company, travel agents and the distribution channel business guests to the hotel. Through interviews and analysis, the authors found that businesses in three hotels are still adopting a red ocean business strategy. It was aimed at price competition which was strictly for the rooms and the services provided. The services provided are also relatively similar and limited between the hotel. Blue ocean strategy will continue to evolve as an alternative strategy chosen by the hotels. Research in this area is still need to be developed. As a descriptive research, this study contained limitations specifically related to the difficulty to obtain the ideal informants who are capable in formulating hotel's strategies. The results of this study can be categorized as an attempt to innovate, where the creation and impact of innovation can not only be seen from one point of view, such as angle of view the product provider. Further research therefore can be developed by adopting or adapting different viewpoint of the consumer or stakeholder in order to obtain more valid results.

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