

The Core Competences and Strategic Management of Raffles — A Case Study of Singapore Hotel Industry

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Abstract—The Hotel industry has been dramatically driven by tourism industry during the past few decades. Facing an intensive global competition, hotels are required to offer not just a place to live, but a kind of customer satisfaction through standardized services. Raffles Hotel Singapore is one of the interesting cases within the luxury hotels sector. Being a leader in the upscale hotel industry, it stands in a unique position, but still faces competitions from its rivalries. This paper performed a SWOT analysis, identifying the external and internal business environment of the Singapore Hotel Industry; the core competences of the Raffles; the strategic directions and the implementation of the key strategies. The aim is to improve the efficiency of Singapore Hotel Industry and address the Hotel Industry sustainability in facing a new challenge.

Indexed Terms—Core competences, Innovation and business sustainability, Singapore hotel industry, Strategic management.

I. INTRODUCTION

The Raffles Hotel was established in 1887 in order to commemorate Stamford Thomas Raffles who established free trade policy in Singapore for the British East India Company in 1819. It is one of the few remaining 19th century hotels in the world and became a National Monument upon its centenary in 1987. More a legend than a hotel, Raffles Hotel Singapore is much heralded as a tourist attraction [8]. The Raffles Hotel Singapore is the flagship hotel among twelve luxury hotels that operated by Raffles International Limited and recognized as core business to provide capital for group expansion. It is consistently rated as the best hotel in the world, but now is challenged by the turbulent market [8]. Hotel industry relies heavily upon tourism. Those visitors from traditional high-yield market such as US, UK, Japan has declined because of the economic downturn in these countries. Strong Singapore currency, however, is likely to increase the cost of traveling and tends to either shorten tourists stay at hotel or demand cheaper accommodation. The shock of Sept 11, world economy inevitably falls into recession. Many hotels slashed their prices by almost 50 % [13]. As of 2004, hotel industry is recovering, but not so optimistic for the Singapore hotels due to the effect of South-East Asian bombing. Hotel industry especially upscale category is income elasticity of demand which means, as incomes rise, more consumers are capable of seeking luxury hotels, and there is more opportunity for luxury hotel to take advantage of the situation [13]. Technology is definitely the driving force of today's hotel industry. With

Internet, online reservations, credit card payment, and diversified online services just need few mouse clicks. Hoteliers are forced to think about how best use technology as a fundamental part of business and driving force of competitive advantages [8]. The luxury hotel sector represents the highest level of standards in terms of quality services, staff excellence, and business diversity. Raffles Hotel Singapore is one of the interesting cases within the luxury hotels sector.

II. RAFFLES CORE COMPETENCES

Raffles Hotel is unique because of its rich history. The building standing there tells us Singapore's prosperity and declining in different stages. It is colony civilization background shaped and formed Raffles Hotel distinct competency and makes hotel outstanding. Even Westin Stamford, the tallest hotel in Asia standing beside it, still has to bend down under Raffles—the grand old hotel [2]. The amazing thing is Raffles Hotel makes the history which is dead become alive. They translated Singapore's colonial era lifestyle into architecture, decoration, cuisine, art, staff's uniform, and even into service. The original colonial architecture of the three-story building, ivory-colored Raffles has appeared on many stamps, postcard and picturesque. Raffles' suites, decorated as the 19 century's style; Raffles staff, wore colonial military uniforms and batik clothes with orchid; Raffles service, an old world nostalgia service; Raffles culture, "the older the better"... all these evoke memories of Raffles' early heydays and differentiate itself from most luxury hotels [10]. Raffles believes it has strong brand leadership in hotel segment. The strength is evidenced; it is consistent ranked the best hotel in the world and Asia-Pacific region [6]. It was rated highly for its historical landmark, excellent and professional service, security, and amenities. It benefits from customers penetration and customer loyalty as a result of highly branding recognition.

The competencies represent the personality, ability, knowledge and the skills factors [16]. Raffles Hotel emphasizes on personalized services and insists on a high staff to guest ratio of 2:1 [10]. By providing sufficient resources, the hotel's management ensures that the staffs are not overstrained so that the high level of customer care expected from them is not compromised. Staffs are encouraged to interact with guests in order to get to know each guest's preferences and needs, so as to deliver personalized services. They are also trained to observe and attend to the smallest needs of guests. For example, a painting in a suite will be taken down if it is observed that a guest dislike it [10].

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TABLE I.

<p>Strengths</p> <ul style="list-style-type: none"> • Top market presence • Well educated skilled Staff • High quality service • Strong facilities capacity • Management control and discipline 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Challenge from price war • High labor turnover • Low motivation in service providing • Old building constrains • Over rigid management
<p>Opportunities</p> <ul style="list-style-type: none"> • Primary market from Asian Pacific Region • Emerging markets in China and India • Internet-eHotel 	<p>Threats</p> <ul style="list-style-type: none"> • Traditional tourists market declined • Changing in customers' needs for cheap hotels • Strong Singapore currency

III. RAFFLES CORPORATE STRATEGIES

According to [1], the hotel industry is a mature industry shows zero or little growth. The possibility for continued growth is diversification, utilizing existing capabilities and competencies to allow hotel gain competitive advantage over substitutions, and thus attract new customers coming into the market.

In 2001, Raffles holding acquired Swissotel and diversified its branding to four star deluxe branding. This strategy is successful because Raffles Hotel picked the right point to start differentiation. Accordingly, differentiation strategy for service industry should be designed as late as possible in the value chain, it is most effective when delivery directly to the customers [17]. Raffles Hotel employed differentiation-based focused strategy targeting at upscale customers. This strategy is successful because the target market niche is wealthy enough to be profitable and offers good growth potential. They are extremely rich and will not consider other top-end hotels to be alternatives. They are willing to pay a big price premium for the very finest items and top service available.

The strategy is successful also because it picks a niche that is well suited to its resource strengths and capabilities. Raffles' core competencies and unique capabilities in serving the target market niche provide the strongest and most dependable basis to against challengers, also act as an entry barrier to dissuade potential new entrants. Even if some niche customers have substantial bargaining leverage, their power is blunted somewhat by the downside of shifting to rival hotels which less capable to meet their expectations.

But how long Raffles Hotel will sustain in this niche market? Raffles Holding realized group long term profitability shouldn't rely solely on this small upscale group of customers that Raffles Hotel attracted. In particular, they launched a related-diversification strategy as corporate level strategy, and started to diversify its business to four star hotel business and hotel management business.

IV. RAFFLES INNOVATION AND FUTURE SUSTAINABILITY

Raffles Hotel has succeeded in formulating the strategies which fit them the most; however, several problems arise in implementing these strategies. Firstly, strategies are all about people. But Raffles HR finds difficult to attract and retain good staffs to support and complete designed strategic

process. To make the job attractive, HR has signed a bonuses and incentive programs for those who work over one year. In 2000, Group established the Raffles International Training Center in Singapore, all new staff now can receive ongoing quality training there [15]. Secondly, innovation was neglected in previous strategic implementation. Raffles management was not particular keen in hotel's R&D and innovation; instead the whole implementation was a process of promoting an "old world charm". When Hyatt Regency started their "new-concept" 24-hour coffeehouse to follow casual dining trend; Shangri-La installed a S\$1.2 million computerized hotel management system; Ritz-Carlton first time introduced club-level accommodations as a incentive awards programs to Singapore hotel industry, Raffles Hotel rule of thumb "the older the better" was shaking [10].

Accordingly, Strategy may fail because of failures in strategy implementation [4]. Further, the failure to implement strategy is often a result of failure in developing a strategy-supportive culture, creating an effective organizational structure, flexible leadership and linking employee to the implementation process [3]. The effectiveness of strategies cannot be fully realized if the strategic implementation is not properly done. According to [5], the success of implementation depends on the following factors: the organization structure must be appropriate, management system must be sufficient to the task, management style must be suitable to the circumstances and values must be shared and well managed. For Raffles, it has to consider ten issues discuss in the following section to ensure that the strategic initiatives move the organization toward its goals.

The congruence between organization culture and the staff's attitude is very important for Raffles hotel to achieve its mission. Organization culture cannot be built by only rely on physical things such as the building or the uniforms that staffs wear. Recently, Raffles hotel has experienced with the problem of staff's motivation. The problem was not arisen from the compensation, but the staffs were not proud of what they were doing. The work motivation program such as job enrichment and employee empowerment which encourage self-efficacy may improve the employee's attitudes toward their job [12].

Due to the hotel operated in high turbulence environment, this requires the flexible and flattens organization structure to support the initiative ideas and strategies. The appropriate structure will complement the personalized service strategy. Flexible and flatten organization structure allow the hotel to response to change and to make decisions more quickly which lead to superior services. In addition, the nature of hotel business is highly interactive with its customers. To response the needs quickly, this requires the decentralize authority. For Raffles hotel, it has to move its rigid and hierarchical structure to more flexible and flatten structure. This change is a must for Raffles if it wants to pursue its strategies successfully and to survive in the highly volatile environment.

The well established systems are crucial to the well being of the Raffles hotel. The more effective information systems will help management to make quick and accurate decision to counter with rapid change in the external environment. With

niche market strategy, the marketing department also relies on the information system to keep contact and build relationship with this small group of customers. Additionally, as one of the key successes of hotel depends on the energetic and enthusiastic staffs, the appropriate reward systems must be in place to motivate staffs. Therefore, the management has to balance the rewards by focusing more on the intrinsic rewards in order to shape the attitude of staffs toward their jobs.

With the philosophy of creating the life style, Raffles has continuously bought the distinctive services to its customers. The levels of innovation are emerging from the grand innovative ideas such as theater playhouse, museum, culinary academy, a number of luxurious brand name shops and, more recently, the Raffles Amrita spa to more detail innovative ideas such as providing designer toiletries. All of these innovations allow Raffles hotel to distinguish itself from its rivals which directly support differentiation strategy. Innovations are vital for Raffles hotel as the average room rate in Singapore has declined. This puts the pressure on the room rate of Raffles. Therefore, Innovations are both the new source of income and the source of competitive advantage.

As discuss, Innovations are, on one hand, serving as a tool to differentiate Raffles hotel from its rivals. On the other hand, it also increases operating cost. Raffles management must ensure that consumer perceived values from its innovations are justified with their costs. For example, its 70 brand name stores have suffered from low sale turnovers. Either the low perceived value by customers or the insufficient number of customers due to the limited number of guests that hotel can accommodate may be accounted for this situation. It also faced the difficulty to attract the customer from outside due to the hotel architecture and land cape that obscured the stores from the public sight. Therefore the management must ensure that customers perceive the values from innovations and a sufficient base of customers exist.

As internet become part of people life, online internet channel is, therefore, an indispensable tool in marketing and cost saving program for hotel business. Raffles has extended its distribution channel to include internet channel. It develops its own website (www.raffleshotel.com) to communicate and to provide information to its customers and at the same time, it also form partners with many online travel agencies such as yahoo travel to market its rooms. This type of channel made it easier and less costly for Raffles hotel to reach the potential customers in emerging markets such as South East Asia countries, India and China that its traditional sales and marketing network are not currently served.

Raffles group also seeks to further save cost by acquiring 10% stake in ORACLE for enabling it to jump-start its business to business hotel e-commerce initiatives. This allows Raffles to tap into the knowledge and technological expertise of ORACLE. A developed e-procurement portal enables the cost-saving for the group.

Raffles should continuously place the emphasis on innovation. The competitive position of Raffles cannot be sustained if Raffles cannot come up with the superior offer to its customers. Some of initiative ideas may include hotel management school and training course. In this way, Raffles

can utilize its core competencies and cope with the staff's shortage as well as ensure capability of staffs. Additionally, this will broadcast the expertise in management and communicate the quality of service to the public. Raffles hotel can pursue total quality management (TQM) to improve the involvement of frontline employees. The search for strategic competitive advantage in the hotel industry has been focused on product and service [10]. However, achieving the new standard of quality on a consistent and low cost basis has proven to be an obscure target. To achieve these goals, many manufacturing and service industries, including the hotel industry have increasingly focus on TQM. Quality management not only will change the behaviour of the staffs, but also has a profound impact on their work attitude and belief [7]. Thus, by adopting TQM, this program will reinforce "the personal touch" strategy and will increase job satisfaction of employees.

The nature of work in hotel tends a routine job which creates little challenge to staffs and results in the growing number in staff's turnover rate. In order to create more challenging work, Raffles may encourage work motivation programs such as job enrichment and employee empowerment. These programs encourage self-efficacy and improve the employees' attitudes toward their job [12].

V. CONCLUSION

The consistency of strategies has accounted for the past success of Raffles hotel. The differentiation and niche market strategies have worked well throughout the time. However, in the beginning of 2000s, the management envisaged the changing in future trends such as the change in customer needs and the more consciousness on price. Raffles decided to expand its business to serve business travelers under Swisshotel brand. This reflects how well the management has responded to the threats and opportunities. Even though Raffles are quite successful in formulating and implementing strategies in the past, there are some key areas that have to improve as discussed in implementation issues which include staff's attitude and organizational structure. Some recommendation has been made in this paper to aid the management to improve the effectiveness and efficiency in doing business. In the future, as Raffles operate in highly turbulent market, the management has to concentrate on envisage the change in any relevant trends and, at the same time, must continuously improve internal capabilities in order to response to those changes quickly and effectively to ensure the successfulness of the hotel. In addition, effective strategies rely on the organization learning by doing. If it is to sustain performance in the even turbulent future environment, Raffles will have to become learning organization capable of continuous adaptation. "Managing today from tomorrow", therefore, is the key.

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