

Club Med, Inc.

A Case Study

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INTEGRATION OF MAJOR STRATEGIC ISSUES

Club Mediterranee, SA (CMSA) has many strengths that will help it in its attempt to execute its strategic growth strategy of geographic and product line diversification. CMSA 40 years experience in the vacation industry has allowed it to develop a large and growing network of members (see Appendix #2) for overall growth rates). An adjunct to its large membership is a well recognized name. The Club Med name has become synonymous with fun in the sun vacations. CMSA also has a well trained staff of gentils organisateurs (GOs) and managers who know how to make a vacation memorable. Supporting these is a well capitalized and profitable financial condition.

Although CMSA is generally a strong company certain weaknesses do appear. The name recognition that is a company strength is also a weakness. Current demographic changes mean that older more mature customers will replace the younger ones. Especially in the United States where the baby boomers are getting older and the younger population smaller (see Appendix #3 for population demographics). CMSA is often considered as a vacation spot for "swinging singles." This image may be contributing to the decreasing percent of total and rate of growth of American and Canadian members (see Appendix #2). The problem with declining membership from the American and Canadian attendance is not serious at this time. However, the drop in that market between 1988 and 1989 resulted in a loss of \$29.7

million in revenue (see Appendix #4). Therefore, any competitive strategy should address the needs of this market.

Another CMSA weakness is its unfocused competitive strategy. CMSA currently has five levels of advertising which are 1) low price, 2) classic Club Med, 3) business travel, 4) package country tours, and 5) future technology offering. CMSA has also been developing a ocean cruise business and attempting to cater to parents by developing its mini-clubs for younger children. This lack of focus could be confusing customers as to CMSA's identity. It is not that expanding the breath of products offered by CMSA is necessarily negative but marketing all products under the general CMSA name will cause confusion. In organizing CMSA by geographic area, that administration and marketing of these diverse product line and related marketing may also be causing confusion within the company.

CMSA has two other weaknesses which should be reviewed. First, over the last few years CMSA has suffered from currency fluctuations. This indicates a lack of international financial expertise. These types of losses might be avoidable with proper financial planning and controls. Second, CMSA has been experiencing difficulties in operations and construction due to political unrest. The impact of these types of problems can be minimized with proper environmental scanning techniques.

The maturing customer base may cause a weakness in CMSA's current position but it also represents an opportunity. Older clientele typically have more money to send on leisure goods and activities. If CMSA can adjust its image to capture more of this

growing older population the returns should be considerable. Such a move may also reverse the declining sales in the North American market mentioned earlier. CMSA has already established part of its strategy on penetrating the fast growing cruise ship industry. In 1990 CMSA began offering its luxury packages aboard the s/v Club Med I, the world's largest automated sailing vessel. The general decrease in worldwide airline fares and the increasing frequency of international travels also presents an opportunity for CMSA. Given CMSA's international status it is in the right position to take advantage of both these trends.

While the cruise ship industry presents CMSA with an opportunity it, along with other industries, presents a threat. CMSA is in an industry for which there are many substitutes. Potential customers can choose to stay at luxury hotels while on vacation, visit special theme parks, or work through a tour agency to put together a personalized package. All these substitutes present CMSA with meaningful challenges in attracting vacationers. These available substitutes also put restrictions on the amount CMSA can charge its customers. As has been seen recently in customer price resistance.

These strengths, weaknesses, opportunities, and threats are summarized in the S.W.O.T. table presented in Appendix #1. Synthesizing these items produces several critical issues that must be addressed by CMSA management These are:

1) In a market that offers many substitutes the proper mix of product offerings is an important strategic decision. It is generally not possible for one company to be all things to all consumers. In this type of market an opportunity exist to evaluate product offerings and determine in which areas the company can provide the greatest match between the organization's skills and the customer's needs.

2) In order to effectively service a company's selected markets, it is important that the company's structure and strategy be matched. An opportunity exists to review CMSA's current organizational structure to assure a proper matching between it and the company's diversification strategy.

3) Multinational companies face many risks and opportunities. Some of these risks are controllable. An opportunity exist to review the company's current management methods to minimize these risks.

#### AVAILABLE ALTERNATIVE STRATEGIES

The industry in which CMSA competes can be divided into many subsectors. For convenience these subsectors will be divided into the vacation industry, ocean cruise industry, hotel industry, business conference industry, and the entertainment (theme park) industry. Because of general economic improvement worldwide all these industries have potential. In order to

evaluate CMSA's businesses the BCG portfolio matrix approach (see Appendix #5), which matches the business growth rate with a company's relative competitive position was used. Using this approach the ocean cruise industry and the business conference industry are viewed as highly profitable but with uncertain competitive positions. That is they are question marks for CMSA. The hotel industry and the entertainment park industry are dogs. This is due to CMSA's weak competitive position in these industries. While the vacation industry (CMSA's primary business) is a cash cow. Using this model it appears that CMSA's current vacation business is very important to its success. However, it may indicate that investing heavily here may not provide as great of a return as if the money were used on a question mark. Therefore, rather than expand with 40 new villages CMSA may want to consider increasing its investment in the ocean cruise or business conference industries. The use of CMSA's existing facilities to accommodate travelers in need of lodging may help to fill vacant rooms but as this hotel industry is well saturated, has low growth potential, and CMSA is weak competitively, this should not be a CMSA primary business focus.

In designing its organizational structure a company faces many options. The best structure is of course the one that best allows a company to successfully implement its strategic plans. Currently CMSA has a functional structure. That is, each of the major functional area (i.e. data processing, transportation, marketing and operations, accounting and finance, development, construction and supplies) are grouped together. Marketing and

operations are further subdivided geographically into the American and the Europe/Africa/Far East groups. CMSA could move toward a conglomerate structure which is appropriate for large corporations with many product lines. This organization is a variant of a divisional structure and is like an assemblage of separate firms operating under one corporate umbrella. The advantages of this organization is that each company can focus on its own market and by so doing serve its customers better. The disadvantages are that expenses are increased and that it is difficult to gain synergy among the divisions. The simpler divisional structure is also appropriate for large corporations with several product lines. In this organization employees tend to be functional specialist organized according to product line. Typically, this structure is used when the products offered are related. The advantages with the divisional structure is the same as for a conglomerate. Additionally management can find synergy among divisional activities through the use of horizontal linkages. The disadvantage is increased costs.

Any organizational structure can be made to work with proper management techniques. However, structure can have an impact on the speed and effectiveness of a chosen competitive strategy. CMSA has plans to operate and is operating in several businesses. Some they may want to continue and others abandon. In any case, a competitive strategy must be selected for each. The vacation industry is CMSA's primary business. CMSA must decide how it will market this business. Three options seem evident. First, it can promote itself as a singles get-a-way, a whole family

adventure, or segregate these into two separate businesses and offer both. The first option seems folly as the demographics clearly indicate a trend toward a more mature population. However, this is CMSA current image and might provide a profitable niche. The second alternative would require CMSA to change its image but might, given the demographics, provide for greater future profits. The third option may be possible if CMSA were able to spin off a separate division, perhaps using a name other than Club Med, that would be specially tailored to the more mature market. The business conference and ocean cruise industries present specialized markets for CMSA. The business conference industry could be marketed toward general meetings. This, however, will be competing directly with the hotel conference industry which is highly saturated. CMSA may be able to use existing facilities to accommodate businesses in special combination vacation and business meetings functions. CMSA may also be able to build this option into the new facilities. The ocean cruise business presents CMSA with two options. First, it could be marketed as a combination ocean and land vacation. Using this approach CMSA would sail from one CMSA vacation spot to another. As many CMSA locations are near the coast this is a viable option. Second, CMSA can compete directly with the major ocean cruise lines in their ports of call. Marketing could be developed around a "Club Med on the Ocean" theme.

No matter how CMSA markets its products it must choose one of three generic competitive strategies. CMSA can choose to compete on price, differentiation, or both. In order to compete



on price CMSA must deliver its product for less than its competitors. Given CMSA's current cost structure and image it is unlikely that it will be able to use this competitive strategy in any of its businesses. In a pure differentiation strategy a firm charges more but fills a particular customer need that is not filled by other competitors. Again given CMSA market place and that it has been experiencing some price resistance this may be a difficult strategy to execute. At least in its primary business. The combination price and differentiation would work well with all CMSA businesses. Using these strategy CMSA could differentiate itself as a high quality luxury vacation provider at the lowest possible cost.

As was mentioned earlier multinational corporations face many risks and opportunities. A company can choose to react to risks as they occur and stumble into opportunities or it can project potential risks and find opportunities. In order to project potential risks or find opportunities a company must be able to scan and synthesize the external environment. To accomplish this a company can hire consultants or specialist to do this activity and report their findings. A company may also implement special training for selected employees to help in gathering and evaluating information about the external environment. Organizational structures that empower employees nearer to the market can also help.

RECOMMENDATIONS AND IMPLEMENTATION PLAN

In order to compete effectively in the vacation market, CMSA should modify its current marketing position to emphasize the luxury high quality aspect of its business thus catering to the more mature customer. It should compete less on price and more on the specialized luxury niche. This will require new marketing campaigns to counter the "swinging singles" image and may also require more family related features (e.g. baby sitting services). CMSA should have the current staffing and support in place to execute such a change in directions as this is not a major departure from the present. CMSA should implementing this strategy in stages. Selected market segments that have the most mature customers should be chosen first and matched with the facilities best able to accommodate them. It should be possible to fully convert CMSA's image over a two to three year span. The success of this strategy could be monitored by gathering information on the demographics (age, number of children, etc.) of the customers served. This strategy has the best chance for success because it builds on CMSA's strengths, moves to the growing mature customer market, and allows more flexibility in the prices charged. This focused approach also fits CMSA's current organizational structure. It allows CMSA to continue its expansion plans with only minor changes.

Once CMSA's image as a more mature vacation provider progresses, the venturing into the business conference industry should be more aggressively pursued. This strategy should be

grown along with the image change because combining the two will create a synergistic effect. Special marketing teams will have to be assembled to execute this strategic move. As this business grows CMSA should to break it off into its own division with greater autonomy of action and its own functional support. Upper management could use this opportunity to test such an organizational structure and its ability to implement such a change.

In order to enter the lucrative ocean cruise business, CMSA will have to do many things. First, it will have to assemble and grow the appropriate management expertise and accumulate the necessary financial resources. The best ports of call are those locations where CMSA currently has villages. During the selection of new villages the needs of the future ocean cruise business should be considered. Designing cruises that utilize CMSA villages will generate additional synergistic effects. To build on its sophisticated image, CMSA should offer luxury type cruises perhaps on ocean liners rather than sail crafts. The time frame for this venture should be after CMSA's new image is established and after CMSA has gained some experience in the divisional organization structure through the business vacation conference business. Additionally, the current sail ship operations should be maintained and used as a learning experience and for the training of new management. Then once the management team is established there should be enough support for a new ocean cruise division to be formed that can function independently and effectively service this market.

Finally, it is important that CMSA increase its multinational awareness by increasing training and hiring experts to adequately scan the external environment. Although many opportunities will be found the discovery of risks are perhaps more important. This risk discovery process will allow CMSA to take action (e.g. reduce ticket sales in a certain village) to minimize both its financial risk and inconvenience to its customers. One final note, CMSA should hire an expert in international finance. There are many ways to limit the company's exposure to currency fluctuations and such a person will pay for themselves many times over.

APPENDICES

(#1 through #5)

**Appendix #1**  
**Club Med, Inc.**  
**S.W.O.T. Table**

**Strengths**

Over 40 years of experience in vacation industry  
Large and growing network of members  
Well recognized name  
Staff of well trained Gentils Organisateurs (GOs) and managers  
Financially sound operations

**Weaknesses**

Name associated with "swinging singles"  
Decreasing sales to American and Canadian Customers  
Unfocused competitive strategy  
Organization by geographic location  
International planning skills  
Management continuity not guaranteed  
Construction management

**Opportunities**

Maturing customers  
Cruise ship industry growing rapidly  
Decreasing airline fares  
Increasing international travelers

**Threats**

Competition from various industries (e.g. hotel, cruise ship, theme park)  
Price resistance from consumers  
Political unrest  
Cultural differences

**Appendix #2**  
**Club Med. Inc.**  
**Membership Analysis**

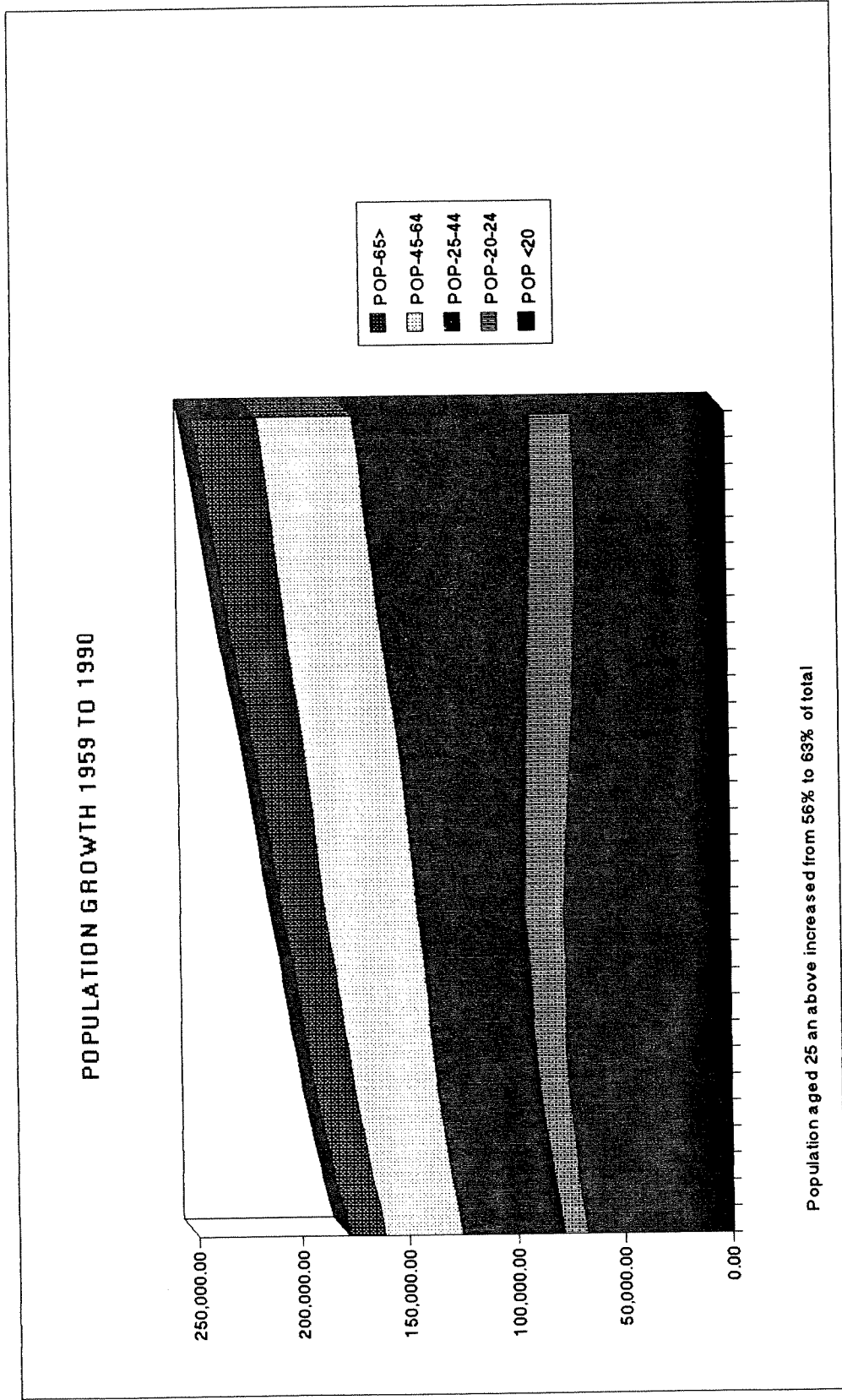
America Zone	1989	% of Total	1988	% of Total	1987	% of Total	1986	% of Total
American and Canadian	215,000	74%	218,100	80%	210,800	83%	220,000	82%
Mexican and Caribbean	18,000	6%	10,500	4%	8,400	3%	20,000	7%
Asian/Pacific/Indian	13,200	5%	12,700	5%	12,500	5%	6,100	2%
French/Other European	38,200	13%	25,500	9%	18,900	7%	17,200	6%
South American	5,000	2%	4,500	2%	3,900	2%	4,400	2%
<b>Total</b>	<b>289,400</b>	<b>100%</b>	<b>271,300</b>	<b>100%</b>	<b>254,500</b>	<b>100%</b>	<b>267,700</b>	<b>100%</b>

Asian Zone	1989	% of Total	1988	% of Total	1987	% of Total	1986	% of Total
American and Canadian	1,200	1%	600	1%	600	1%	300	0%
Asian/Pacific/Indian	113,500	83%	94,300	84%	71,100	74%	55,000	85%
French/Other European	21,400	16%	17,400	15%	24,200	25%	9,500	15%
<b>Total</b>	<b>136,100</b>	<b>100%</b>	<b>112,300</b>	<b>100%</b>	<b>95,900</b>	<b>100%</b>	<b>64,800</b>	<b>100%</b>

American and Asian Zone	1989	% of Total	1988	% of Total	1987	% of Total	1986	% of Total
American and Canadian	216,200	51%	218,700	57%	211,400	60%	220,300	66%
Mexican and Caribbean	18,000	4%	10,500	3%	8,400	2%	20,000	6%
Asian/Pacific/Indian	126,700	30%	107,000	28%	83,600	24%	61,100	18%
French/Other European	59,600	14%	42,900	11%	43,100	12%	26,700	8%
South American	5,000	1%	4,500	1%	3,900	1%	4,400	1%
<b>Total</b>	<b>425,500</b>	<b>100%</b>	<b>383,600</b>	<b>100%</b>	<b>350,400</b>	<b>100%</b>	<b>332,500</b>	<b>100%</b>

Overall Membership Growth Rates	1989	1988	1987	1986
American and Canadian	(1%)	3%	(4%)	N/A
Mexican and Caribbean	71%	25%	(58%)	N/A
Asian/Pacific/Indian	18%	28%	37%	N/A
French/Other European	39%	0%	61%	N/A
South American	11%	15%	(11%)	N/A
<b>Total</b>	<b>11%</b>	<b>9%</b>	<b>5%</b>	<b>N/A</b>

Appendix #3  
Club Med, Inc.  
Population Growth Analysis





**Appendix #4**  
**Club Med, Inc.**  
**Sales Growth 1989 and 1988**

	Sales Growth Rate (sales amounts in millions)	
	1989	1988
<b>North America</b>		
Change from Prior Year		
Dollar	(29.7)	8.5
Percentage	(22%)	7%
<b>Mexico-Caribbean</b>		
Change from Prior Year		
Dollar	23.8	8.0
Percentage	16%	6%
<b>Asia-Pacific</b>		
Change from Prior Year		
Dollar	30.2	25.5
Percentage	24%	25%
<b>Consolidated</b>		
Change from Prior Year		
Dollar	24.3	42.0
Percentage	6%	11%

**Appendix #5**  
**Club Med, Inc.**  
**BCG Matrix**

