

## **BUSINESS STRATEGIES ADOPTED IN RESPONSE TO NATURAL DISASTERS: A CASE STUDY OF A HOTEL IN INDONESIA**

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### **Abstract**

This paper analyses several business strategies implemented by a medium enterprise hotel, Bambu Resort, after two major natural disasters, i.e. earthquake in 2006 and volcanic eruption in 2010 which hit Yogyakarta, Indonesia. Bambu Resort, located in the heart of Yogyakarta, which overlooks the beautiful Merapi Mountain, was badly impacted by such disasters. Bambu's business strategies are being examined using business models such as Ansoff Matrix, Service Marketing Mix and also using Porter's Generic Model. A Contingency Planning Model also been used to discover the preparedness of Bambu Resort before, during and after the disaster take place. In addition, SWOT and TOWS analysis are also been applied to examine the hotel's internal and external strategies to analyse how the hotel performs after the disaster. Bambu Resort can be improved further so that the business can sustain for a longer term even though they have high potential to be affected by natural disasters such as volcano eruptions and earthquakes. New ideas and recommendation are given in order for Bambu Resort to achieve a higher business entity in the near future.

**Keywords:** Natural Disaster, Hotel, SWOT, TOWS, Indonesia

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### **1. Introduction**

Disaster is an adverse incident by force of nature which results to non-favourable consequences. Based on Annual Disaster Statistics Review (ADSR), the top 5 countries that are most frequently hit by natural disasters are China, United States, Indonesia, India and Philippines (ADSR, 2012). Indonesia is one of the country with natural beauty attractions and famous for cultural tourism but, unfortunately, this country often experiences natural disaster phenomena. Yogyakarta, which is situated in the Central Java, is one of the most attractive and ancient historical city because of its juxtaposition to Borobudur and Prambanan Temple, tourist hotspot (Yogyes, 2013). The attractiveness of Yogyakarta creates essential demands towards hotels industry particularly on the Small Medium Enterprise (SME) hotels. Yogyakarta's SMEs account for more than 90% of all firms and thus, they are the biggest source of employment, providing livelihood for over 90% of the country's workforce, especially women and youths (Tambunan & Feng, 2009).

National Agency for Disaster Management (BNPB) of Indonesia has stated that Yogyakarta experienced a few major disasters such as an earthquake in 2006 and, most recently, a volcanic eruption in year 2010. These disasters significantly impact the hotel industry due to a reduction in tourist visits during the phenomena (Mandasari, 2012). The SME hotels in Yogyakarta faced a lot of issues in operating their business after the post disaster scenario (Mandasari, 2012). Bambu Resort & Spa is one of the SME hotels in Yogyakarta which is situated at North Kaliurang, nearby the volcano area. The hotel experienced the disaster in year 2010 and faced several challenges during the recovery period. Therefore, the groundwork of this case study constructs the strategy approach of Bambu Resort & Spa after disaster period, business performance and challenges as a SME hotel in the demanding tourism sector in Yogyakarta.

## **2. Issues faced by hotels after disaster**

Many tourists cancelled their plans to visit Yogyakarta due to disaster “fear” and the ash trim also was very disturbing at that moment, particularly at the attraction areas. According to the local news, the adverse impact of the eruption on the hospitality sector in Yogyakarta is due to reduced tourist visits or partly postpones the visit because considered disaster-prone areas are still at it (ANTARA News, 2010). The hotel industry in Yogyakarta, particularly the SME hotels faced major losses on their business, such as lack of customer in regarding of the disaster (Sri, Wahyu & Edi, 2012).

The after-disaster impacts on hotel sector constructs even a stronger competition among the SME hotels with larger hotels Big star hotels and international franchised hotels are able to sustain their business due to high capital resources compared to SME hotels. The larger hotels have its own capacities and networks to recover its financial distress after disaster. SME hotels focus on lower price strategy with providing a standard hospitality while big hotels attract customers by offering their best quality and comfort to their customer with exclusive pricing (Mandasari, 2012).

According to Mandasari, (2012), due to lost in customers after the disaster, the big hotels intend to use the lower pricing strategy to attract customer. This implementation creates threat among the SME hotels. Consequently, SME hotels were losing more customers and some of the hotels end up in resulting poor business performance. Hence, curiosity arises on how SME hotels are able to continue their business after the disaster. This indication also creates the doubt of business sustainability of SME hotels for long term. SMEs, overall, indicate a poor business strategy because it has lack of financing, low productivity, lack of managerial capabilities and technology (Jaafar, Ing & Zaleha, 2011).

A study by Reynolds (2008), found that among the problems faced by the small business in hospitality industry were financial management and liquidity, management inexperience and incompetence, sales marketing, poor or non-existent of books and records failure and to seek and use expert advice. Therefore, without a proper strategy implication, any businesses would face issues in operating their businesses. Moreover, the scenario of business performance of SME hotels will be worst after any natural disaster impact. Hence, SME hotels need a proper business strategy implementation after disaster and for long term business sustainability.

## **3. Business Strategy**

Business strategy is primarily concerned with how a company will approach the marketplace as in “where to play” and “how to win” (Thompson, Strickland & Gambles, 2009). The authors further explained that, “where to play” answers questions like, which customer segments will we target, which geographies will we cover, and what products or services will we bring to market. “How to win” answers questions like, how will we position ourselves against our competitors, what capabilities will we employ to differentiate us from the competition, and what unique approaches will we apply to create new markets. Based on the above indicator, business strategy analysis can be looked upon business expansion of service or market, competitive advantage and marketing strategy. Risk management planning is regarded as business strategy since disaster takes over (Sheehan, 2010). This case study analyses business strategy of Ansoff Matrix Model, Porter’s Generic Model, Marketing Mix and Contingency Planning.

#### **4. Ansoff Matrix**

Ansoff Matrix is used to classify a company's growth strategies in terms of product specification, market expansion and diversification of a company's strategy. The Ansoff Matrix is divided into four quadrant, which are market penetration, product/service development, market development and diversification.

The first quadrant, "Market Penetration" explains the business strategy adopted by a company if the company maintains its current product or services in the existing market without any changes. According to Jobber (2006), companies intend to increase its market share without changing or introducing new products via market penetration.

The second quadrant illustrates the "Product or service Development" which means that the company produces new products or provide new services, but with the existing market. Jobber (2006), explains that the new product or services are basically creating or coming out with something really new or by improving the present product or services.

The third quadrant explains the "Market Development" strategy, which company maintains its existing product or services while penetrating into new market. Demographic analysis plays a major role in determining the new market penetration (Tores & Kline, 2013). Finally, the forth quadrant, is the "Diversification" strategy. This strategy is a total makeover of a company because the strategy focuses on both the product and market.

There are three types of diversification, concentric, horizontal and conglomerate. Adding new product or services with related business is widely called concentric diversification. Horizontal diversification strategy involves the creation of products that may not be directly related to current products offered to consumers, but that are highly likely to still appeal to the company's existing client base. Anitsal, Girard and Anitsal (2012) explains conglomerate is a type of diversification whereby a firm enters through merger or acquisition an entirely different market that has little or no synergy with its core business or technology.

#### **5. Porter's Generic Model**

Competitive strategy is the long term plan a company adopts in order to gain its company's competitive advantage. The strategy can be looked into three types of competitive advantage, which are cost leadership, differentiation and focus strategy (Porter, 1980). A cost leadership strategy is based upon a business organizing and managing its value adding activities so as to be the lowest cost producer of a product (good or service) within an industry. A successful cost leadership strategy is likely to rest upon a number of organizational features (Prince & Khaleq, 2013).

A differentiation strategy is based upon persuading customers that a product is superior in some way to that offered by competitors. In differentiation strategies, the emphasis is on creating value through uniqueness, as opposed to lowest cost (Xiao, O'Neill & Matilla, 2012). A focus strategy is aimed at a segment of the market for a product, rather than at the whole market. Firms pursuing focus strategies have to be able to identify their target market segment and both assess and meet the needs and desires of buyers in that segment better than any other competitor focus strategies can be based on differentiation or lowest cost.

## **6. Marketing Mix**

Looking at a company's business strategy, marketing strategy plays an important role to determine and evaluate the product or services in a company. The fundamental key concept of marketing mix is the 4Ps, "Product", "Price", "Place" and "Promotion". Involvement of service sector in industry has got the expansion of 4Ps to 7Ps, adding "People", "Process" and "Physical Evidence". Analyzing a company's marketing strategy enables them to access the position of their product or services in the current and future market.

Product's fundamental classification is tangible and obtains ownership whereas, for service sector, the type of services offered is the product of the company and classified as intangible without any ownership. Price is best described as the amount paid by customer when they purchase a product or service (Tores & Kline, 2013). In other words, the worthiness of a product is entirely depends on how much a customer is willing to pay.

A place plays an important role in business strategy because it is a key determinant for service and service providers. In the hotel industry, ultimate focus is placed on the location of the hotel. When a company tries to communicate to the outsider via advertisement, this is personal selling, called the promotional mix. According to Silverman (2007), hotel industry massively promotes their hotel in various ways, such as by price war, facilities, addition services (shuttle service, holiday's packages) and special attention for regular customers.

People play a very vital role in any business. People are referred to those who have a direct involvement with the business such as front line employees (Tores & Kline, 2013). Process is the way of how a service is been performed from the beginning till the end. Likewise, in the hotel industry, process can be in terms of customer checked in till customer checked out and also other processes in between such as customer service handing and so on (Naidoo, Munhurrun & Seetaram, 2011). Services are intangible and customers are only able to experience and feel services after they purchase it.

## **7. Contingency Planning**

Contingency planning is also known as 'business continuity plan' or 'disaster recovery planning' on how a company prepares themselves from unexpected disaster (Rao, Singh & Sajit, 2009). The unexpected disaster can bring distressing effect on any business operation (Danese, 2011). Volcano eruption, a type of geophysical disaster is the focus of this case. The worst case scenario of these events may lead to business shutdown or discontinuity.

However, an effective contingency planning may help the business to minimize the potential disaster. There are four types of contingency planning, first, identifying the potential disaster that could affect the business, second, assess the like hood of these occurring, then minimize the potential impact of crisis and finally the plan for continued operation of the business (Sharma, Correa & Manzanares, 2007).

The first key step a company should take is to identify the potential disaster that could likely affect the business. Disaster can be in terms of natural or negligence of human behavior such as fire (Rao, Singh & Sajit, 2009). Therefore, companies will make some estimation on the possible disaster based on several factors such as, geographic research, past experiences and other conceivable disasters.

After searching the list of potential disasters, companies will narrow down the possible disaster to occur from the very likely to happen to the least likely to happen. Based on the screening down process, companies able to identify and prepare them for the worst (Sharma, Correa & Manzanares, 2007).

Once the company screen down the most possible disaster, this step will ensure them prepare necessary plan and precautions to minimize the potential impact. Sharma, Correa and Manzanares (2007) explain that certain companies will safeguard those important assets of their company such as documentations and IT recovery. Finally, the business will make planning on post disaster agenda to restart back the business.

### **8. Bambu Resort and Spa Business Strategies**

Bambu Resort & Spa was established in year 2007 by Mr. Handoko Budikusuma and his business partner, Mr. Rijanto Adjie, from the Javanese Buddhist community. They initially started as a restaurant, Bambu Restaurant then slowly developed into accommodation provider. Bambu Restaurant was famous for Javanese fine dining restaurant located near the volcanic mountain. Everything was favorable to Bambu Resort until the 2010 “Merapi” eruption, which has impacted the hotel badly.

Based on Bambu Resort’s after disaster analysis, the business had a total makeover in terms of its exterior and trend. With the existing market and services, they initially maintained the restaurant, as it was very popular for authentic Javanese cuisine. New product and service development was done by introducing new services and expand the size of the hotel such as from 13 superior rooms they constructed a total number of 51 rooms.

The hotel also focused on the landscaping part, whereby their missions aim to provide a greenish surrounding. Besides that, the hotel also provided various facilities to its customers. Facilities, such as a meeting room, was provided for those corporate people whom wants to conduct gatherings, meetings and team building activities. New services such as pre-wedding photo shoots also been launched by the company to expand its business.

Concentric diversification was implemented as the hotel has expanded its business by providing more facilities to its customers. Horizontal diversification also is assessed here since the hotel has expanded its services by starting pre-wedding photo shoot.

Bambu resort can be categorized under the strategy of differentiation focus because they act as a service provider mainly for corporate groups in locals with a resort concept. The hotel was not attracted by any foreigners because they tend to be pricy for Yogyakarta’s standard and it was mostly meant for relaxation. Hence, corporate gathering and local party were more favourable as the business target group.

Based on the 7Ps marketing mix analysis, price of rooms in Bambu resort is to be said a little pricy comparing with Yogyakarta’s standard and being a medium enterprise. Bambu Resort and Spa is located in North Kaliurang, km 19.2, very nearby to Merapi Mountain. Since the place is very near to Merapi Mountain, the weather is extremely cooling; it reaches about 18 Celsius and cozy. Since the hotel is very nearby to Merapi Mountain, the risk that the hotel faces is also enormously high. The distance of the hotel to city center and airport is approximately 30 to 40 minutes’ drive. Unfortunately, Bambu Resort does not have its own transport pickup service for its customer.

Bambu Resort & Spa only uses brochure and internet sources to promote their hotel and services. Looking into their advertising strategy, they were keener in using brochures to advertise their hotel promotions. Brochures were only obtained at their hotel and not anywhere else. Bambu also uses online hotel websites such as Tripadvisor, Booking.com, and Agoda to advertise their hotel. The people that are directly involved with the hotel service are the front line employees. In this case, it is the receptionist who works in Bambu Resort & Spa. There were altogether four receptionist works for Bambu Resort, according to their shift timing. Each shift will be in charged by one receptionist except for the night shift, two receptionists, which are one male and one female.

Looking into Bambu's physical evidence after disaster would be not so favorable compared to before disaster. According to the Duty Manager, he claims that, the customers were more customers and always write those feedbacks as in they enjoyed the food and praise those employees who have served them. If he compared now, he did say, majority tourist from local, and some of them are those who came for corporate retreat, do comment positively about their hotel and facilities but, hardly sees feedbacks from tourist. The process of every hotel is almost about the same including Bambu Resort as well. As usual, booking for the accommodation can either be purchased online, telephone and walk in, sometimes cannot be promised.

Bambu Resort & Spa initially for the first time faced the disaster with a very less resources to be prepared for the 2010 disaster. The hotel was launched in year 2007, right after the 2006, Yogyakarta earthquake disaster. The duty manager explained that they choose the place even though the location is nearby Merapi because, they are confident that they can prevent the business, employee and guest without any injuries and this would be the best view any hotelier wants to have. He also added that, none of their employees or guests got injured during the merapi incident, as the moment they receive signal from the Merapi signal stimulator, they prepare transportation to move out from the area without any hassles and interruptions. But, he did mention that they did lose some equipment due to unsure of the ashes accumulation.

### **9.Challenges faced by Bambu Resort & Spa**

After the disaster, the whole north Kaliurang road will be closed. None of the people can actually access to the road since it will be blocked by the authorized state government and the shutdown will take almost two to three months until the volcano seismology station ensures that the volcano eruption is fully recovered. This is constraining for Bambu Resort as they can't even access to their hotel for business operation. This is basically big challenge for Bambu Resort to sustain their business without any revenue generates. It is definitely not easy for any business to sustain without revenue generation for at least two to three months. The employees find it very difficult to sustain their families since this was their only source of income.

SME are financially not as strong as large corporations. Bambu Resort was lucky enough for some financial support from bank loans and directors but, unable to fulfill for their overall business needs. Due to financial constrain, it took another 8 months extra to complete the whole hotel, so they only launched the hotel halfway complete. Ibu Anita, general manager explains that, being a SME company is not easy to run a business, especially after the disaster. In fact, the insurance took almost two years to pay them but, it was still not sufficient enough to repay their debts.

## **10. Bambu Resort & Spa's Performance**

### **Strengths**

Location of the hotel was the most important strength of the hotel is the first strength of Bambu Resort & Spa. It is situated in a very popular area of Yogyakarta, very near to Merapi Mountain. Secondly, the hotel's lavish green landscape is the next strength of Bambu Resort. The resort emphasized on providing the customers purely relaxation with their very beautiful landscape. Thirdly, services were also listed as strength by looking how they handle things. Services of the hotel include: authentic Javanese restaurant, meeting rooms, corporate retreat activities service, cozy and comfortable rooms and villas, spa and reflexology, provide refreshment drink upon arrival, pre-wedding photo shot and most of all, lavish landscape for relaxing. None of the medium enterprise hotels in that area can provide so many services for their customers.

### **Weaknesses**

Transportation to the hotel was the biggest issue. Knowing the location of the hotel is extremely outskirts and it is not easy to find the exact place of the hotel. Many times taxi misplaced the route to the hotel and customers end up paying more taxi costs. The price of the hotel is actually very expensive for a medium enterprise in Yogyakarta even though it is a resort concept. Besides that, the hotel is got a very lack of promotion exposure. Many people probably would know even know the existence of this hotel due to its exposure. Bambu has got a very beautiful greenish landscaping, but the rooms are not as classic and modernist upon the price they offer. Certain rooms look old and need to refurbish and since not many customers come there, some rooms are not occupied for quite some time; therefore some bad smell arises when the room is opened. The exterior building looks really good but, interior is not as convincing for the price they quote.

### **Opportunities**

Finding new distribution channels is a very good marketing plan. Nowadays, most of the people use the internet, especially networks like Facebook, Twitter, YouTube. These could be some of the possible new distribution channels used by the hotel to attract new customers and at the same time keep the old customers up-to-date and interested in the hotel. Diversifying the hotel to other location would be another good opportunity for Bambu expands their market. Bambu Resort can launch a new hotel with a different strategy in a strategic location where people can easily get accessed to. This may further develop their marketing strategy upon reaching customers and an alternative way to run their business when disaster occurs.

### **Threats**

The concept of all-inclusive is a threat to Bambu, where beverages and food are offered to the customer without limitations, is an innovative way of attracting tourists and it is very popular even among the young customers. Foreigners are afraid to travel to a country with disaster environment problems and instability, so that in turn brings less income to the whole tourism industry.

## **11. Recommendation**

The diversification strategy of Ansoff Matrix should be implementing in Bambu Resort. The TOWS analysis suggest that, first of most, Bambu resort can expand its business further if the business can be diversified. Bambu should use concentric diversification, by starting a budget hotel in city center. This implementation can enable them to sustain and run their business during disaster. Horizontal diversification can be done if Bambu Resort starts its own tour and travel agency accommodating with its hotel. Bambu resort can expand their business by using a

conglomerate diversification by penetrating into new market and customers. Consumer product industry will be very promising during the disaster period.

The service development in the Ansoff matrix also should be executing in Bambu Resort due to its threat of competitor hotels offering the all-inclusive concept in their services. When a hotel can provide as much service as possible to customer, this can increase the service popularity level of the business. Bambu resort is using a strategy of being different on a focused group with a high pricing rate in Yogyakarta. Bambu resort can maintain with such strategy but it has got to adjust a little on price or increase the level of service or facilities provided.

The contingency planning that was analyzed in Bambu resort must be improved a little more such as handling things more calmly without getting panic, which in other words, prepared in advance. The employees and top management is aware about the identification of potential disaster but lack of preparation in advance. The managers should instruct and prepare the employees on “how to react”, “what to do” during the emergency occurs.

Based on the previous disaster, the hotel does lose a lot of their resources for lacking in safeguarding. The hotel must build a safe yard place or compartment to keep all those things safely before the disaster gets worst. During the disaster, ideas were given above by diversifying the business in other location so that the business can be operated. Manager should allocate certain funds from the business for emergency purpose so that once the disaster recovers, the funds can be used for refurbishing. Besides that, the manager should contrivance an after disaster planner with a minimum timeline needed in order to restart the business as fast as possible. This method enables customer attraction faster when other hotels in the location still in recovery period.

### **Conclusion**

Bambu Resort plays a role of medium enterprise in Yogyakarta, faced many issues, challenges due to disaster impact. Based on the research done, Bambu Resort has adopted a few strategies based on business strategy model, but some improvement would help the hotel to achieve a good standing. As an overall, Bambu Resort has an average performance in Yogyakarta. There are many opportunities overlooking for Bambu Resort such as business expansion via the tourism industry. Bambu Resort has got uniqueness on its location wise by providing the best scenery from the room window to look upon the beautiful Merapi Mountain.

Bambu resort was able to improve its current strategy via diversifying its business to other location by expanding its business, provide transportation shuttle to guest since the location is very complicated, provide additional services has been suggested to compete with its competitors and prepare a structured contingency planning in order to manage well during the disaster occurs. As a conclusion, Bambu Resort & Spa can be developed further so that the business can sustain for a longer term even though they have a high risk potential by natural disasters such as volcano eruption and earthquakes.

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