Club Mediterranée (Club Med), a corporation in the all-inclusive resort market, manages 140 resort villages in Mediterranean, snow, inland, and tropical locales in more than 35 countries. Its resorts do business under the Club Med, Valtur, Club Med Affaires (for business travelers), and Club Aquarius brand names. Club Med also operates tours and two cruise liners: Club Med 1 cruises the Caribbean and the Mediterranean, and Club Med 2 sails the Pacific. The company also arranges specialized sports facilities. Club Mediterranée’s clientele is about 1/3 French, with the rest being mainly from North America and Japan.

Club Med found that its all-inclusive price is not as widely accepted as it has been in the past. The firm has found that consumers’ preferences have changed. Vacationers are not willing to spend large amounts of money for vacations that include many activities that the vacationers are not using as much as they had been in the past. This change in preference poses a problem for the company because Club Med’s competition has been able to customize travel packages for each consumer at prices that vacationers feel more comfortable with.

Though it appears easy for Club Med to also customize travel packages, the company is at a disadvantage compared to its competition. Most of the competitors are found in a small number of locations, while Club Med has resorts scattered all over the world. Currency devaluation and political boycotts are some of the situations that Club Med faces worldwide on an ongoing basis. These external factors are reducing the company’s ability to increase sales and gain new customers.

BACKGROUND AND HISTORY

Club Mediterranée, otherwise known as “Club Med,” was originally founded by a group of travelers, headed by Gerald Blitz, in 1950. However, through the years, as this group was increasing in size, it was becoming increasingly more difficult to manage. Blitz, therefore, took the opportunity to turn this “association” into a business, with the aid of Gilbert Trigano, in 1954. Trigano sought to establish this organization, and by 1985, Club Mediterranée S.A. was transformed into a publicly traded company on the Paris Stock Exchange. Club Med Inc. became the U.S.-based subsidiary of Club Mediterranée, headed by Trigano’s son Serge. Today, Club Med encompasses over 114 villages, on six continents, and thirty-three countries (see Exhibit 1). In addition, Club Med has two cruise ships.

The Club Med style can be best described by the sense of closeness found among the managers. All managers are former village chiefs and are therefore knowledgeable of the company’s everyday operations. This immediately reflects on the “friendly” relationships that the GO’s (Club Med-speak for assistants) and GM’s (Club Med-speak for guests) have with each other, making every vacationer’s experience a memorable one. A distinguishing feature of a Club Med resort is the living area, which is much simpler than that of a typical hotel chain. Rooms are sparsely decorated (i.e., no phones, televisions, etc.). This simpler approach has made Club Med very successful. Another key to success was Club Med’s image as a place to go when you want to escape. Finally, unlike typical hotel chains, Club Med measures its capacity in each resort by the number of beds, not the number of rooms, since singles have roommates.

INDUSTRY STRUCTURE

Until 1986, Club Med had a very strong position in the all-inclusive resort market. The corporation’s level of bargaining power with buyers, suppliers, and labor was high (see Exhibit 2). During that time period a client interested in duplicating “the Club Med experience” would have had to pay an additional 50 percent to 100 percent to have an identical experience at other resorts (see Exhibit 3). With regard to suppliers, companies that provided vacation-related services, such as airlines, were willing to give Club Med significant discounts in exchange for mass-bookings. Finding labor was not a problem for this resort chain because thousands of people were interested in working at such a pleasurable location.

This case was prepared by Karen Bartoletti; Alexandra Doiranlis, Steven Kustin, and Sharon Salamon of New York University’s Stern School of Business and updated by John Graham of Temple University under the supervision of Professor Masaaki Kotabe for class discussion rather than to illustrate either effective or ineffective management of a situation described (July 2000).
As of 1986, Club Med began facing competition. This company was no longer the only all-inclusive resort. Many of the firm’s competitors were realizing similar success. In 1986, most of the all-inclusive competitors had adopted Club Med’s style of recreational activities with staff members acting as directors of these organized games. By then, the only major difference that Club Med maintained was the fact that their price did not include drinks.

One competitor, Jack Tar Village, the Jamaica-based company, operates resorts located mostly in the Caribbean. Jack Tar positions the resorts as more glamorous and modern than those of Club Med. This can be seen in advertisements where the company implicitly criticizes the spartan rooms and methods of Club Med. Jack Tar’s claim to fame in relation to Club Med is its open bar policy.

Another competitor that the firm must consider is the SuperClubs Organization, which operates four resorts in Jamaica. These resorts have reputations for being the most uninhibited and sexually oriented resorts. SuperClubs also follow a system of having drinks included in their price, but the other distinction from Club Med is the vacation’s packaging and distribution. Club Med bundles the ground transportation with the rest of their
packages while air transportation was to be distributed directly to consumers or travel agencies. SuperClubs, on the other hand, bundled ground transportation packages to be sold through large tour wholesalers, who, in turn, grouped these packages to be sold to the travel agencies.

Activities that Club Med and their competition offer are similar, but the way they are offered is somewhat different. Club Med’s competitors offer the same activities but do not include them in the initial price of the vacation. A few of SuperClubs’ activities that were included were tennis, basketball, and exercise rooms, but jet-skiing and parasailing were available for an additional fee. This allowed Club Med’s competitors to offer lower prices and take away potential clients from Club Med.

This concept has worked for the competition because consumers find that they are not using all the activities offered. Therefore, there is no reason to pay an all-inclusive price. Club Med, on the other hand, suffers from ecological, economical, and political constraints that prevent the firm from using this individual pricing method, which could lead to customized packages for vacationers.

THE SERVICE CONCEPT

Club Med’s worldwide presence in the resort vacation business has allowed the firm to grow and dominate this industry. The original mission statement includes the idea that the company’s goal is to take a group of strangers away from their everyday lives and bring them together in a relaxing and fun atmosphere in different parts of the world. This feeling can be expected in any of the 114 resorts. This mission is the key to Club Med’s competitive advantage. Consumers anywhere in the world know they will get the same preferential treatment while they are in the Club Med villages.

The company’s strategy of keeping members coming back is carried out by having their guests join a club as members with an initiation fee as well as annual dues. With the membership, they receive newsletters, catalogs featuring their resorts, and discounts on future Club Med vacations. This makes people feel more like a part of the Club Med and creates strong brand loyalty. In fact, an average Club Med vacationer revisits four times after their initial stay at one of its resorts.

All Club Med villages are similar in their setup regardless of what part of the world they are in. The resort sites are carefully chosen by taking into consideration the natural beauty (i.e., scenic views, beachfront, woodland, no swampland, etc.), good weather, and recreational potential. Each resort has approximately forty acres to accommodate all the planned activities: windsurfing, sailing, basketball, volleyball, tennis, etc. The resorts’ secluded atmosphere is further exemplified by the lack of daily “conveniences” such as TV, clocks, radios, even writing paper. This is done to separate individuals from civilization so they can relax as much as possible.

Club Med organizes everything in a manner that encourages social interaction between guests. The rooms are built around core facilities such as the pool. Meals
are done buffet style and the tables seat six to eight people so guests can sit and meet with many different people at every meal.

All activities and meals are included in the fee paid before the vacation begins. The only exceptions are bar drinks and items purchased in the small shops; those items are put on a tab and paid for at the end of the vacation as guests check out. The goal behind this all-inclusive price is to limit the amount of financial decisions made by the guests so, once again, they do not have to think of the pressures of the “real world.”

Each day the guests have a choice of participating in a variety of activities. As evening sets in there are choices for after-dinner activities like dancing and shows. All activities are designed to encourage guests to join in. Even the shows allow for audience participation.

PROBLEMS

Until recently, Club Mediterranée was predicted to have strong sales growth due to successful market penetration in other countries. Now, however, that same expansion which helped the firm become famous may be the cause of the firm’s disadvantage in relation to its competitors. Club Med does not have as great of a sales increase as it had anticipated. This is due to economic and ecological disasters in countries where Club Med resorts are located. This makes it difficult for Club Med to maintain its beautiful resorts in countries that suffer from such disasters.

With this knowledge taken into consideration, contracts are drawn up between Club Med and the government of the corresponding country. The key clause in these contracts states that if Club Med is allowed to enter the country, the firm will increase tourism in the area. In turn, the government will provide financial aid to help pay for the costs of maintaining the new resort facilities.

Joint ventures with host governments have proven to be not as profitable as expected. An example of such a disappointment is when the Mexican government agreed to maintain Club Med’s facilities if the corporation would increase Mexico’s tourism level. However, unexpected occurrences, such as depreciation in the country’s currency, limited the amount of capital the Mexican government could allocate to maintain the resort’s facilities. This put Club Med in a difficult situation when the firm had to suddenly maintain its facilities with less government funds than expected. Though Club Med’s resorts are very profitable in Mexico, the devaluation of the peso has caused Club Med’s maintenance costs to rise dramatically. This, in turn, prevents Club Med from reducing its prices and offering customized packages to its vacationers.

A second example of how international resorts reduce the firm’s ability to compete effectively is Club Med’s penetration into France. The resorts in the area had been doing well until March 1996. At that time, it became known that France had been conducting nuclear tests in the South Pacific. This caused Club Mediterranée to receive less bookings than expected in its Tahiti-based resorts. These resorts were avoided by tourists due to riots among residents concerned about the testing; this resulted in negative publicity in this part of the world. The riots, which occurred often in airports, deterred potential tourists from flying into this region.

The effects in one area where Club Med is based often indirectly affect other Club Med resorts as well. With a lower clientele in its Tahiti-based resorts, and in the surrounding territories, Club Med experiences lower revenues and, therefore, acquires less money to maintain these resorts. As a result, the firm compensates for such losses by using the profits from other resorts that have not suffered from similar disasters. Problems such as these prevent Club Med from reducing prices by implementing a customized travel package, which would enable the firm to compete more effectively in the vacation resort market.

WHAT LIES AHEAD?

Club Med fell on hard financial times through much of the 1990s, a result of rundown properties, a reputation for mediocre food and amenities, the aging of the baby boomers, a backlash against the sexual revolution, and an inconsistent message that was filtered through eight advertising agencies in different countries.

In 1998, Philippe Bourguignon, who is credited with turning around Euro Disney, was brought in as new chairman to stem the decline. He immediately instigated a $500-million, three-year rescue program. Unprofitable villages and some sales offices were closed, and older resorts are being refurbished. Thanks to the new chairman’s leadership, Club Med is making a comeback. Attendance is rising, the company turned a modest profit last year, and 74 villages are undergoing a $350 million restructuring. Recently, the stock bounced back from a twelve-month low of $63.67 to close at $84.17 in April 1999. Occupancy rose to 72.3 percent last year, up from 69.1 percent in the 1997 fiscal year and 66.9 percent in the 1996 fiscal year. In fiscal 1998, attendance at Club Med rose 5 percent, to almost 1.6 million, although it is still well below the record 1.8 million set in 1989. Equally important, after huge losses in both 1997 ($215 million) and 1996 ($130 million), the company earned $30 million in revenue on $1.5 billion in sales. While there are still many problems confronting the resort club, such as a 10 percent loss of room space due to renovations, Club Med appears to be back on track to success.

Current management is well aware of the strong brand recognition that Club Med holds. It is synonymous
with the pursuit of pleasure. However, management would like to alter this perception. It would like to eliminate the perception of Club Med as a “swingers” paradise. Even if Club Med wanted it to be such a resort, it would be virtually impossible to compete with resorts that have sprung up in Europe, Asia and the Caribbean in recent years catering exclusively to hedonistic lifestyles. But Club Med has not just been renovating properties. A big change is the decision to concentrate its sales and marketing efforts on France, the United States, Canada, Belgium, Japan, Italy, Germany, and Switzerland. These countries account for 74 percent of visitors.

With Japan in an economic slump and American attendance lagging for the last six years, Club Med’s financial turnaround last year came largely from European vacationers. But with its millions of people with abundant disposable incomes, the United States is Club Med’s No. 1 target. Combined United States and Canadian visitors totaled 189,000 in 1998, far behind the 598,200 visitors from France. This is the lowest total in the last six years.

To increase U.S. visitors, Club Med is considering building another village in Florida, to complement its family village at Port St. Lucie, and plans to build its second United States ski resort in Colorado or Utah.

It has invested millions into advertising to rejuvenate its strong brand name, which has been misunderstood because of poor advertising campaigns. Each village is now ranked with two, three, or four tridents, based on amenities and comfort level, with the result that the thirteen budget Club Aquarius villages are being folded into the two-trident category. A major expansion is underway around the Pacific Rim, including new resorts in Indonesia, China, the Philippines and Vietnam. By 2003, Club Med intends to open minicenters in fifteen cities, including Paris, Singapore, Brussels, Montreal, and Barcelona, Spain, to give local residents a daylong sample of the Club Med experience and to reacquaint former customers with that experience.

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**HISTORY**

Starbucks Coffee Company was founded in 1971 by three coffee aficionados. Starbucks, named after the coffee-loving first mate in *Moby Dick*, opened its first store in Seattle’s Pike Place Public Market. During this time, most coffee was purchased in a can directly from supermarket shelves. Starbucks’ concept of selling fresh-roasted whole beans in a specialty store was a revolutionary idea.

In 1987, Howard Schultz, a former Starbucks employee, acquired the company. When Schultz first joined Starbucks in the early 1980s as director of retail operations, Starbucks was a local, highly respected roaster and retailer of whole bean and ground coffees. A business trip to Milan’s famous coffee shops in 1983 opened Schultz’s eyes to the rich tradition of the espresso beverage. Schultz recalls, “What I saw was the unique relationship that the Italian people had with the ubiquitous coffee bars around Italy. People used the local coffee bar as the third place from home and work. What I wanted to try and do was re-create that in North America.” Inspired by the Italian espresso bars, Schultz convinced executives to have Starbucks’ stores serve coffee by the cup. And the rest is history!

Starbucks went public in 1993 and has done extremely well in turning an everyday beverage into a premium product. The green and white mermaid logo is widely recognized; the brand is defined by not only its products, but also by attitude. It is all about the Starbucks experience, the atmosphere and the place that is a refuge for most people to get away from everyday stresses. The average customer visits a Starbucks eighteen times in a month, and about 10 percent of all customers visit twice a day. They have created an affinity with customers that is almost cult-like. Today, Starbucks is the leading roaster and retailer of specialty coffee in North America with more than 1,000 retail stores in thirty-two markets.

**MISSION STATEMENT**

Starbucks’ corporate mission statement is as follows: “Establish Starbucks as the premier purveyor of the finest coffee in the world, while maintaining our uncompromising principles as we grow. The following guiding