

# **THE CLUB MED'S STRATEGY**

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# INTRODUCTION

In a sector of the uncertain tourism and in trouble since 2001, the supply had to adjust their strategy to stay competitive. The “Club Méditerranée” is among first world developers of vacation villages and is considered as a reference in the tourism sector. Unfortunately, even if they had realized a 1,67 billion euro turnover in the term of its exercise 2005/2006, this French company suffers to external events and risks. To raise, they had to change their management policy in changing their principal strategy which represented a comparative advantage. Indeed, the diversification strategy has been really little profitable if it is not overdrawn and to grow up their results they have adopted a new market position in other words a new positioning. What are the impacts of the diversification and the new location on the company’s profits, and which are the risks of the Club Med group led by its strategic choices, in a sector in trouble?

# 1. INTRODUCTION ON THE CLUB MED AND GENERAL INFORMATION.

## HISTORY

The Club Méditerranée is born in 1950. In the past, Gérard Blitz and Gilbert Trigano create a non-profit association and build the first vacation village in the Balearic Islands by launching the concept of vacation villages combining a camping, a bar and sports activities. The success is immediate; the Club the Mediterranean Sea opens from 1956 its first winter village and it quickly becomes established in the most beautiful places of the planet.

In 1957, the association is dissolved and the Club Med becomes a limited company and Gilbert Trigano becomes a CEO in 1963, while the company develops especially on the European market. In 1966, the company is introduced in the Paris Stock Exchange. During the 1970s and 1980, the Club Med becomes established successively in the United States, in Japan, in Asia and in South America.

Philippe Bourguignon becomes President of the Directory then Henri Giscard d'Estaing succeeds him in 2002.

Today the Club Med is present around 40 countries and it welcomes 1 650 000 customers a year. It employs 18622 persons and realizes a 1 590 million euro turnover.

## THE SWOT ANALYSIS OF CLUB MED

On the market

Opportunities	Threatens
<ul style="list-style-type: none"> <li>➤ Strong development of the tourism sector</li> <li>➤ Search for flexibility of the offers by the customers</li> <li>➤ Possibility of innovating</li> <li>➤ Greater development of the e-</li> </ul>	<ul style="list-style-type: none"> <li>➤ World Competition</li> <li>➤ Reproduction of the offers</li> <li>➤ "more and more wild" Competitors</li> <li>➤ Search for specialization</li> <li>➤ Search for supply's customization</li> </ul>

tourism ➤ Requirements of the consumers	
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On the product

Opportunities	Threatens
<ul style="list-style-type: none"> <li>➤ Diversification of the supply</li> <li>➤ Annual evolution of the product</li> <li>➤ Complete infrastructures satisfying the customers</li> <li>➤ Decorations of villages been looked after and appreciated by the customers</li> <li>➤ Very varied and strategic setting-up of villages</li> </ul>	<ul style="list-style-type: none"> <li>➤ Produced not accessible to all</li> <li>➤ Some problems of accessibility to infrastructures (schedules of opening)</li> </ul>

On the price

Opportunities	Threatens
<ul style="list-style-type: none"> <li>➤ The price "all inclusive" allows the customer to know exactly what it is going to spend during its stay</li> </ul>	<ul style="list-style-type: none"> <li>➤ Lack of Flexibility</li> </ul>

On the communication

Opportunities	Threatens
<ul style="list-style-type: none"> <li>➤ Renewal of the communication campaign on display, posting and Internet</li> </ul>	<ul style="list-style-type: none"> <li>➤ High cost</li> </ul>

## THE DIVERSIFICATION STRATEGY OF THE CLUB MED

In a sector very competitive as we shall see it in the part following and very sensitive to the macroeconomic events, the Club Med tried to redeploy towards other activities of leisure activities, in order to avoid being dependent on only one activity.

At the same time as the activity villages, the Club Med launched in 1990 the Med One club, in the time the biggest sailboat with sails of the world, then in 1992 the Med Two club. However, the Med One club will be acquired by Carnival in 1998, the number 1 of the market and the Club Med does not possess more than a boat. It allows to have an additional supply with regard to vacation villages however, the resale of the first boat indicates that the Med club does not intend to develop on the cruises market.

The diversification strategy of the Club Med's activity is especially going to assert itself in 1999 under the presidency of Philippe Bourignon. When he take back the direction of the group in 1997, the Club Med goes badly: most of the villages are old and do not correspond any more to the standards of comfort for which expect from it the customers, the management is chaotic and the losses are enormous (17 million euro in 1997).

He is then going to present a recovery plan in three years which passes first by the renovation of vacation centres, the reduction of the costs and the wasting and the seat reorganization and in the second time, by the declension of the Club Med brand and the extension of its activities. And it had for objective to become the first group of leisure activities of the world.

The diversification's strategy crosses by the repurchase in 1999 of Jet Tours, the 4th French tour operator for 74 million euro. This repurchases answers among others a desire to strengthen its position on a strategic market, France, which concentrates 40 % of the group's turnover (585 million euro).

In 2000, the diversification continues with the creation of the Club Med World to Paris-Bercy. The idea is to create a place in city Center which allies business, pleasure and entertainment. The Med World club indeed includes 2 restaurants, 2 bars, a discotheque, rooms of seminaries, shop, activities for young and a big and naturally, travel agency.

In May, 2001, the Club Med acquires Gymnasium Club for 270 million francs is 41 million euro. The Club Med thus turns to the market of the reshaping by acquiring in one shoot six brands: gymnasium Club, Vitatop, Waou Gymnase, Gymstreet, Gymnasium Entreprises et Moving club and becomes an owner of 200 renamed sporting rooms Med Gym club.

The strategy of diversification is thus clearly recognizable, but that they are the motivations?

The diversification's idea is on one hand to live Club Med in the everyday life and either 3 weeks a year but also joins in a logic of search for new activities. This big ambition is moreover a necessity, because the Club cannot find any more relay of growth in the opening of villages, very too expensive to build. And, as the capacities of development of the existing installations were pushed at the maximum, the diversification appeared as a necessity.

## 2. THE NEW MARKET POSITION

### HOW DID CLUB MED REPOSITION ON THE MARKET ?

The new location of the Club Med concerns mainly its vacation villages which disappeared and the passage in 3 and 4 tridents for all the villages by renewing them. The proposed supply is more and more innovative, personalized and aims the comfort of demanding customers. Indeed, the aimed target, since the arrival of Henri Giscard d'Estaing in 2002, is the population which have the biggest incomes, that means 2 million prospects in France.

Let us see how the Club Med proceeded for this retraining.

#### ➤ The rise in range<sup>1</sup>

About the villages, Henri Giscard d'Estaing stake on the luxury: he sold the unsuitable villages and renews the more profitable, foremost Clubs. So, between 2002 and 2005, 20 villages were created, 20 villages rose in range, 70 villages were renewed, while 50 villages situated in places non-strategic were closed.

Then, concerning the products, they are developing new activities as the Mini Club, the school of circus, the sporting trainings and the Spa and one packages "Club med and Spa ". Villages dedicated to the young people such as Punta Cana, allows them to meet themselves between them and to organize their days as they want.

Moreover, they launched some innovative and attractive options like the "Total All Inclusive" in the United States to relaunch the American market and the Booking bonus. Total All

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<sup>1</sup> Please find at the end a picture of the rise in range.

Inclusive includes the price of the stay as well as the snacking, the bar and the infrastructures in rooms. The Booking bonus is a system which offers preferential rates to those who reserve early their stay (economy of an euro a day and a person for any booking made more than three months before the departure) .This offer aims at a younger and more family clientele.

➤ The communication<sup>2</sup>

In 2004, the web sites were renewed in a lot of countries: France, Belgium, Switzerland, Great Britain, Italy, Netherlands, the United States and Canada. This main objective was to give an upscale image to the Club Med.

Furthermore, the CM adopted a new signature:" There are so many worlds to discover" who reminds the notion of conviviality to which the CM turned. Indeed, the term "world" is to be taken with a double meaning; it is about places but also about persons of meeting. This signature also aims at underlining that new villages have to be discovered.

➤ The launching of agreements with partnerships

Firstly, the partnership with AIR FRANCE is very strategic for the Club Med because it is made with a company which detains too many competitive advantages. Air France is the first world airline company and is known by the quality of its services and its reliability, what goes with the policy of rise to range of the CM.

Secondly, the alliance with Jet Tours, first French tour operator, is a good strategy of climb in range for the CM because this one is the tour operator "The most successful of Europe ". Indeed, in 2002, it is the only Tour Operator to show profits in progress on the tourism market.

## WHY DID CLUB MED MAKE A REPOSITION MARKET ?

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<sup>2</sup> Please find at the end a picture of the new communication

➤ The evolution of the demand and the market

The French tourist industry knows a 1 % growth; however, the arrival of emerging countries such as the Asian countries and the Eastern European countries on the market of the tourism dope the growth

With the increase of the leaves, the customers reserve more and more for the last minute and are even more demanding, they bet more on the comfort, the safety and the innovation than on the price. For example, they wish also more service as a daily cleaning of residences or the swimming pool. That is why numerous suppliers of residences of tourism propose not only an extension of their accommodation capacity but also a renovation of residences to position on an "up-market" segment very upscale.

Regarding to the Club Med, the closure of villages 2 Tridents is bound to the fact that the GM (meaning "Nice Members") customers of villages 3 and 4 Tridents are more satisfied, more faithful and more profitable.

This repositioning was made to release itself from the image conveyed by the famous French movie "Les Bronzés" which sent back to a downmarket or average range offer for a excessive price.

However, the Club always tries to group together communities but between them. That is why the catalog proposes " six pleasures of holidays which correspond to six personalities of villages: " the "pashas" who try be spoiled will book in "live the exceptional " or " get fresh ideas". The "adventurers explorers ", allergic to the fact of tanning idiot, will choose "to discover" Louxor or Bali in small groups. "Clubbers" will return to dance to Djerba the sweet or to Cancun to find, maybe, the "passionate persons" there who like "living in 200 %" by tasting the extreme sports. "

### 3. ALTERNATIVES AND RECOMMENDATIONS



Globally, as we saw it during the previous parts, it seems that the strategy of the Club Med presents a certain coherence, and in known how to recognize, for some years, the errors of past, notably for the diversification. So we can recommend to the company to continue on its launched.

More exactly, several movements which were begun must be strengthened; so it is the new policy of the Med to be any more owners of the walls of its villages. Indeed, this orientation has the double advantage to improve the flexibility of the set and to kick away financial resources to pursue its recovery.

What brings us to the second point: the strategy of rise in range that is the new location. This one, which requires all the same important financial resources, by the renovation of villages and opening of new sites, is the heart of the strategy of recovery, and seems effective and coherent. What explains partially the powerful arrival's shareholders in the capital of the company, as well as the rise of the participations as well as that of Richelieu Finance, looking for the financial profitability above all.

The last communication campaign, as well as the change of the website much more profitable compare to the travel agencies, was effective too.

However, this new location raises another problem: the satisfaction of the customers. Indeed, this strategic reorientation aims clearly at the highest Social groups, and seems to go against the requirements of the "believers" of the Club Med, which looks for above all the conviviality. So as it is spoken about loss of spontaneity, and thus about the spirit of the Club.

We are thus in the presence of a duality of the demand. So this new location does not have to lead to an abandonment of the original spirit, which establishes the trademark of the Club. Indeed, it is partially for that that Accor arrived in the capital: to benefit from the know-how of the Club Med in animation and in conviviality, big comparative advantage of the group. So, we have here one of the new challenges of the Club Med in its recovery.

As regards the diversification, the partial disengagement of the Club Med World, with a centring towards the professional customers (organization of seminaries), countered inevitable. Indeed, they "relay of growth" do not show the hoped profitability, and has totally no effects expected in term of fame.

As for the Club Med Gym, the reshaping sector is interesting, what lets think to a resumption stable future (3 million profits in 2005). Especially since it coincides perfectly with the brand image of the Club Med. However, at the moment it is located only in the Paris region, and it

seems neither necessary nor advisable to widen to the regional markets, given to the strong competitive context.

Another possibility is situated in the Eastern Europe. Indeed, the Club Med is not yet implanted in the emergent countries of this region. Now, it is about rapidly expanding economies, which establish destinations appreciated in Western Europe (Croatia for example). It could raise problems at the level financing. Nevertheless, the new Club Med possesses a quite recent skill to make in this domain, which allows him not to have to finance the all of new site.

➤ Pay attention on the Macroeconomics risks

The Club Med is sensitive to three types of macroeconomic shocks, which may affect strongly its activity: the pandemic, the acts of God, and the geopolitical incidents. Now its strategies of management must be in adequacy with the current economic environment.

#### The Pandemic

Today, the risk of a pandemic, that is the contagion of a disease at the level of one or several continents, is an impact on the sector of the tourism is rather easy to guess: catastrophic. Indeed, the activity of the sector would fall appreciably not only by the risk of being contaminated which would slow down the consumers, but also by the measures of the reactions foreseen by the national authorities, as the closure of the borders and the stop of the public transportation. In the presence of a world pandemic, we would have then the cessation of any activity of tourism, as long as the virus would not be stopped (even if it is the most catastrophic scenario, and by the way the least likely).

From then on, what is the sensibility of the Club Med at this risk? In the blackest scenario, as all the sector of the tourism, the company would hard be touched. Indeed, 79 % of its CA turnover comes from the activity of exploitation villages, which would be most hard weakened. We can thus think that the Club Med would get up all the more with difficulty as would last the pandemic.

However, on the short term, any appearance of the disease, and whatever are the means of defence put place, will affect the morale of the households and the sale of journeys, and by the way the activity of the company.

## The acts of God

Before any thing, it is to note that the risk of this type of macroeconomic shock is very difficult to measure. Indeed, who would have been able to plan the tsunami which ravaged Asia in December, 2004, or still cyclones which ravaged the United States in 2005?

So, in spite of the investments made for the safety in villages, especially following Tsunami, the Club Med is very sensitive to these disasters. Indeed, if the disaster with place in a region where the Club Med possesses villages, infrastructures will be got, what represents not unimportant costs, in the same time reduced by the new policy of the Club Med not to be any more an owner of its walls. In every case, it will have a strong impact, at least on the short term, on the sector and on the company. However, as we said it higher, the risk of a natural disaster of the scale of those of Tsunami and cyclones of 2005 is with difficulty measurable; and furthermore, in every case, its effects would be felt strongly only in short or middle term, and especially locally (let us remind that Europe is little touched by the disasters of this type with regard to Asia, and Europe represents 59 % of its turnover

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We could even say that because of its rise in range, and of the sale of its walls, it would be less touched by a natural disaster, so directly as indirectly.

## The geopolitical incidents

During the last years, there were several geopolitical important incidents: attacks of New York on September 11th, attacks of Madrid on March 11th 2003, and attacks of London in August 2005 are so many events which have very negative effects on the sector of the tourism, and thus on the Club Med. So, to give only an example, the share's price in September 2001 had plummeted from about 60 euro to 30 after attempts. If we can deduce that it was also a period of recession, we cannot however explain a fall so important.

The Club Med possesses an advantage in its protection at the geopolitical risks: its geographical diversification. Indeed, by being present in around forty different countries, the

risk of being touched by such an event is more important, but its impact will there be all the less important on the global structure of the Club Med.

Last point, which went into none of the last subjects: that of the economic situation. Indeed, the Club Med goes into the category of the cyclic companies, in other words, when the economy is healthy, the company also, and conversely. Currently we are in this situation: the economy is well, and it all over the world. From then on, we can think that the Club Med is again going to take advantage of the world situation during still some time.

## CONCLUSION

Thanks to the repositioning, to the diversification and on the way up in range, the Club Med manages to raise its margins, and to improve appreciably its bottom line result, certainly helped by the exceptional profit, but also amputated by 5 of its villages among the most profitable, destroyed by Tsunami, and at present in renovation.

If we add a probability of a brought up enough takeover bid on behalf of Accor, as well as an exhibition at the averages macroeconomic risks for a tourism sector's company and a favourable economic situation, the share of the Club Med turns out to be a rather good acquisition; however, at the moment, the share's price is raised, and it would be wise to wait for a decline before buying. Attention however on the results 2007, which could fill the share, if the recovery was not consolidated.

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## The rise in range



### LE NOUVEAU VISAGE DU CLUB MED S'AFFIRME À MARRAKECH

Ouvert en juin, le Village "3 en 1" de Marrakech s'affirme comme la vitrine du nouveau Club Med haut de gamme, convivial et multiculturel... et toujours pionnier. Là, le concept de vacances de luxe conviviales, inventé par le Club Med prend tout son sens : à la piscine ou au bar, de vastes espaces dédiés au repos côtoient des aires plus animées pour que le client puisse profiter de ses vacances comme il l'entend. Autre innovation, le concept "Trois en Un" a pris toute son ampleur avec la rénovation de la Médina et le lancement du Riad. Le Club Med à Marrakech propose trois façons de vivre et de profiter de cette ville d'exception. Façon "loisirs" à la Palmeraie, qui

offre une palette très riche d'activités sportives, façon "découverte" à La Médina, située dans le cœur historique de la ville et façon "prestige" au Riad. Des navettes relient régulièrement les sites entre eux pour que les clients puissent profiter librement des infrastructures, des services et des animations complémentaires des deux sites.

**An advertising for the new communication**

