

Suggestions to develop hostel business

Case study: Hostel Pisa

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Bachelor's Thesis

16. 05. 2017 Kuopio, Finland

Bachelor's degree (UAS)

Field of Study Social Sciences, Business and Administration			
Degree Programme Degree Programme in International Business			
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Title of Thesis Suggestions to develop hostel business. Case study: Hostel Pisa			
Date	16.05.2017	Pages/Appendices	36/0
Supervisor(s) Petteri Muuruvirta, Abdelazim Hannoura			
Client Organisation/Partners All Done S.r.l (Hostel Pisa)			
<p>Abstract</p> <p>Hostel Pisa is a youth hostel, located in Pisa, Italy. It offers affordable accommodation and all-in-one experience for travelers, with its common areas and in-house café. Hostel Pisa is the biggest hostel in the city, with more than 150 beds; however, it is the second-best hostel according to the ratings on well-known booking sites such as Booking.com, Hostelworld, etc.</p> <p>The purpose of the thesis was to provide suggestions for developing the hostel. Accordingly, one of the objectives was to provide suggestions to boost profit and occupancy rates. Qualitative research and tools such as SWOT analysis were used to implement the project.</p> <p>The report is divided into two parts and begins with the theoretical overview of strategic management, its stages, and tools, which is followed by the overview of the company and SWOT analysis with suggestions feasible strategies.</p>			
<p>Keywords Strategic Management Process, SWOT Analysis, case study, Hostel Pisa</p>			

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1 INTRODUCTION

The following thesis focuses on the topic of strategic management process with a study case on Hostel Pisa, where author completed her basic internship and was working full-time afterward. The following thesis contains an overview of the Hostel's current situation and suggestions for improvement of product/services and marketing tools.

The objective of this bachelor thesis is to get acquainted with the importance of strategic management and to provide ideas and suggestions for hostel development. The following project also includes market analysis summary and SWOT analysis of the hostel. The research will be implemented by using personal working experience, relevant literature and qualitative data gathered throughout the process.

Hostel Pisa was opened in 2010, back then it was just an affordable place to spend the night. In 2014, the hostel was renovated and common area, guest kitchen, and in-house café were opened on the ground floor. Nowadays Hostel is the biggest youth hostel located in Pisa, Italy with more than 150 beds. It is the second best-rated hostel in Pisa with 8.7 rating on Hostelworld (2017) and an 8.2 rating on booking.com (2017).

Accordingly, the main aim of the thesis is to provide suggestions for further Hostel development to boost profit, occupancy rate and ultimately become number one hostel in Pisa. The client organization is the top management of Hostel Pisa and owner of All Done S.r.l company.

The thesis core goals can be described as follow:

- Present the theoretical background of strategic management
- Analyze hostel's current situation
- Prepare a market overview, including competition overview
- Examine main strengths, weaknesses, opportunities and threats using SWOT analysis
- Suggest a business strategy based on findings

The thesis will consist of theoretical part following by practical part based on case company. Theoretical part of the thesis will describe strategic management process, its stages, and definition of SWOT analysis. Practical part will include hostel's current situation, SWOT analysis, market and competition overview.

2 RESEARCH METHODS

This chapter will discuss and clarify types of research methods. In addition, it will discuss and explain the choice of research methods in this project.

There are two major types of research methods:

- Qualitative research

Qualitative research is used to gain an understanding of human behavior, opinion, motivation and its reasons. This type of research is used to uncover trends in opinions and provide deeper knowledge of the problem. Qualitative data is mostly verbal rather than numerical. Data collection methods may vary from unstructured to semi-structured techniques. Focus groups, individual interviews, and observations are some of the common methods of such a research. (Wyse 2011)

- Quantitative research

Quantitative research collects measurable data. It is used to generalize results from a larger sample population. It is used to formulate facts and uncover patterns in research. Data collection process is structured, it may include various forms of surveys, street and or telephone interviews and systematic observations. (Wyse 2011)

The research method chosen for this work was qualitative research. The method best suits the purpose of the study. As stated previously, thesis author completed an internship and was working in Hostel Pisa for a substantial period of time. Therefore, the thesis will include qualitative research in the form of participation and observation.

In addition, interview with client organization was conducted. The interview covered general background information, marketing channels, annual revenues and further statistical information.

Data used to analyze the current situation of case company is primary and comes from the client company itself. However, theoretical part of the thesis mostly relies on secondary data gathered from academic books, web materials, articles, publications, etc.

3 LITERATURE REVIEW

The thesis objective is to provide suggestions on the further development of the hostel. Therefore, a careful analysis of the current situation is required, including industry analysis, strategic management process, and its tools. This chapter will present theoretical knowledge on the matter.

3.1 Strategic management process

Every company has a strategy or a plan, even though it might be unstructured, unofficial, and scattered. Every firm is headed somewhere, unfortunately, some firms do not know where they are going. Strategic management process helps them to determine the destination, take a proactive approach in their industry, and influence, anticipate and initiate events rather than respond to them. (David 2013, 51)

Strategic management is a process associated with management and long terms. That part of management process usually falls within the competence of company's owners and top management team. The process involves making strategic management decisions that determine the long-term development of the organization and reflects the response to occurring events. The purpose of strategic management is to find answers to the main questions:

1. What condition is the company now?
2. What condition does the company expect to be in 3/5/10 years?
3. What company should do to achieve the desired state of affairs? (David 2013, 43)

Strategic management is often referred to as a process. There is a constant need to review company's objectives to fit into current environment making adjustments in the light of all possible internal and external circumstances. (Evans, Campbell & Stonehouse 2002, 3)

There are many benefits of strategic management, they include authentication, prioritization, and exploration of opportunities. A company gets a clearer sense of strategic vision and understanding of the environment, sharpens focus on essentials and improves organizational performance. (David 2013, 16)

However, along with the benefits, strategic management has several drawbacks and limitations.

Strategic management process requires a significant investment of time and recourses for its implementation. A lot of quality time is spent on preparing, researching and informing employees about new management. This may hamper day-to-day operations and distress the business in the long-term. (Wisestep 2016)

Strategic planning does not show an accurate and detailed picture of the future. It provides a qualitative description of the state to which the company should strive in the future and what position it can hold in the market, along with the main question answered: whether the firm will survive in the competition. Moreover, strategic planning does not have a clear algorithm for formulating and implementing the plan. It cannot be reduced to a common system of rules, procedures, and schemes. There is no concept that shows how to solve certain tasks, or and what to do in certain situations. Strategic management is a specific ideology in business and management, which is understood by each manager in his own way.

3.1.1 Stages of strategic management

The strategic management process includes three stages: strategy formulation, strategy implementation, and strategy evaluation.

Strategy formulation includes aspiration to take into account all possible internal and external factors in advance, to ensure favorable conditions for the normal functioning and development of the enterprise. It is to be directed to the optimal use of firm capabilities, including the best use of all kinds of resources and the prevention of erroneous actions. Strategic planning aims to provide comprehensive justification of problems that a company may face in the forthcoming period, based on which the indicators of the company's development in the planning period can be designed. (Wheelen & Hunger 2012, 17)

Formulation stage comprises:

- Evolvement of a vision and mission

This process is to establish the meaning of an existence of a company, its mission, role, and place in a market economy. It characterizes the direction of business to which firms are oriented based on market needs, the nature of consumer product features and the availability of competitive advantages. (David 2013, 40)

- Analysis and evaluation of internal and external environment

Environmental Analysis is usually considered the starting process of strategic management, as it provides a basis for determining the company's mission and goals, and to develop strategies of behavior, which allows the company to carry out its mission and achieve its objectives. (Wheelen & Hunger 2012, 98)

Analysis of the external environment (macro and immediate environment) aims to expose what a firm can expect if it successfully leads the work, and what complications awaits it if a firm fails to avert the negative attacks in time. The macro environment includes a study of the influence of the economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces. The immediate environment is analyzed in the following main components: customers, suppliers, competitors, the labor market. (Wheelen & Hunger 2012, 16)

Analysis of the internal environment opens the possibilities, the potential to which the company can expect to compete in reaching their goals. Analysis of the internal environment also allows a better understanding of the organization's goals, formulate a true mission, i.e. determine the meaning and direction of the company. (Wheelen & Hunger 2012, 16-17)

- Objectives setting

The purpose of an objective formulation is to clarify specific results that an organization seeks to achieve. Objectives should be measurable, quantitative, realistic, consistent, prioritized, and challenging. Objectives should be determined for every department in a firm. (David 2013, 41)

- Development and analysis of strategic alternatives, the choice of strategy

Strategy development is carried out by the highest level of management and is based on solving the above-mentioned objectives. At this stage of the decision, the manager needs to evaluate alternative ways of company's activities and choose the best options to achieve its goals. The main purpose is to select a strategic alternative that will maximize long-term effectiveness of the organization. Adherence to any alternative often limits future strategy, so the decision should be subject to scrutiny and evaluation. (David 2013, 203-204)

Strategy implementation is a critical process, as in the case of a real-life plan, it leads the firm to success. Or, often, a well-researched strategic plan could fail, unless actions are taken to implement it. Successful implementation of the strategy contributes to the following requirements: objectives and activities of the strategy should be well structured, communicated to employees and accepted by them; one must have a clear plan of action for implementing the strategy, the plan ensure providing all the necessary resources. (David 2013, 36)

Strategy evaluation is the logical final process undertaken in strategic management. This process provides a robust feedback between the process of achieving the goals and objectives faced by the organization. The main objectives of the evaluation are reviewing external and internal factors that are the bases for current strategy, measuring performance in accordance with accepted standards, regulations or other benchmarks and identification of the causes of deviations, if any, and taking corrective actions if necessary and possible. (David 2013, 36)

3.2 Competitive advantage

One of the key terms in strategic management is competitive advantage. David (2013, 38) defines it as “anything that a firm does especially well compare to rival firms”. Competitive advantage can be represented as something the form does that other firms cannot do or owns something that others desire (David 2013, 38).

Typically, a company can sustain a competitive advantage over a certain period of time until rival firms weaken that advantage by imitating it. Therefore, it is not enough to simply obtain a competitive advantage. A company should endeavor to achieve a sustainable

competitive advantage by constantly adapting to changes in external events and internal abilities, competencies, and resources; and by effectively formulating, implementing and evaluating strategies that exploit on those elements. (David 2013, 39)

There are two approaches to competitive advantage. The first view is Industrial Organization (I/O) View. It suggests that external factors play more significant role in achieving competitive advantage. It is advocated by I/O supporters that firm's performance will be determined by industry forces. As a base to obtain and sustain competitive advantage, external variables are to be primarily examined. (David 2013, 95)

The second view is Resourced-Based View (RBV). Contrary to I/O, RBV indicates internal resources as a primary competitive advantage source. RBV's advocates claim company's performance will be defined by its internal resources, which can be divided into three groups: physical, human, and organizational. The theory states that company's resources are what helps to take advantage of opportunities and reduce threats. (David 2013, 127)

However, the key to secure and sustainable competitive advantage is an effective and considerate combination of both external and internal factors.

3.3 Strategy Tools

There are many definitions, tools, and techniques that can be applied to strategy analysis. The challenge is to select the best approach/tools/techniques to use given the business problem or opportunity.

This subchapter will discuss some of those tools and its purpose.

3.3.1 EFE & IFE Matrices

EFE Matrix stands for External Factor Evaluation Matrix. It is a strategy tool used to evaluate firm's external environment, reveal its threats and available opportunities. Meanwhile, IFE Matrix is an acronym for Internal Factor Evaluation Matrix and is used to examine company's internal environment, identify its strengths and weaknesses (Jurevicius 2017).

According to David (2013, 110;152), both instruments are used to summarize and evaluate data gathered from firm's external and internal environment analyses. As key factors in the matrices threats, opportunities, weaknesses, and strengths are used.

To create a matrix, 10-20 key factors should be identified for both IFE and EFE Matrices. Each key factor is assigned a weight ranging from 0.0 to 1.0, where 0.0 is low importance and 1 is a high importance factor. Regardless of the number of key factors, the sum of all the weights in external/internal categories must equal 1.0. The weight indicates the importance of that factor to being successful in the industry. Weights have the same meaning in both matrices. (David 2013, 110)

Afterward, each key internal/external factor is assigned a rating. In each matrix the meaning of ratings is different.

The ratings in external matrix indicate how effectively the company's current strategy responds to the opportunities and threats. The numbers range from 1 to 4, where 1 means poor response, 2 – average response, 3- above average response, and 4 – superior response. (David 2013, 111)

The ratings in internal matrix refer to how strong or weak each factor is in a firm. The numbers range from 1 to 4, where 1 means major weakness, 2 – minor weakness, 3 – minor strength, and 4 is a major strength. (David 2013, 152)

As soon as ratings are assigned, each key factor must receive a weighted score. A weighted score is a result of weight multiplied by rating. To determine the total weighted score for the organization, sum the weighted scores for each variable. (David 2013, 152)

The firm can receive a score from 1 to 4, with 2,5 being the average score. A low total score in EFE Matrix suggests that firm's strategies are not capitalizing on opportunities or avoiding external threats (David 2013, 111). Whereas, a low score in IFE Matrix shows that the company is weak against its competitors (David 2013, 152).

Both matrices have several benefits:

- Easily understandable
Key factors have a clear meaning for everyone both inside and outside the company.
- Easy to use
Matrices do not require extensive expertise and time investment
- Focus on key factors
The matrices focus only on key factors that affect company or its strategy
- Multi-purpose

The tools can be further used to build SWOT analysis, IE matrix, GE-McKinsey matrix or for benchmarking. (Jurevicius 2017)

However, there are some limitations to EFE/IFE Matrices. It can be easily replaced with PEST analysis, Competitive Profile Matrix (CPM) and partly some other analysis. Moreover, matrices do not directly help with strategy formulation. Both analyses only identify and evaluate the factors but do not help the company directly in determining the next strategic move or the best strategy. (Jurevicius 2017)

3.3.2 Competitive Profile Matrix

The Competitive Profile Matrix (CPM) is a tool that indicates a company's major rivals and reveals its relative strengths and weaknesses. The tool is used for better understanding of the external environment and competition in a particular industry. The matrix recognizes a firm's key competitors and compares them using industry's critical success factors. The analysis also reveals company's relative strengths and weaknesses against its competitors, so a company would know, which areas it should improve and, which areas to protect. (Jurevicius 2017)

To create a CPM, weights and ratings are assigned to critical success factors (CSF). Weights in CPM have the same meaning as in EFE Matrix. However, CSF include both internal and external issues, therefore, the ratings refer to strengths and weaknesses. The numbers range from 1 to 4, where 1 is a major weakness, 2 – minor weakness, 3 – minor strength, and 4 is a major strength. (David 2013, 113)

The score is the result of rating multiplied by weight. The company with the highest total score is stronger than its competitors. (Jurevicius 2017)

One of the benefits of such matrix is that the same factors are used to compare companies. That makes it more accurate. In addition, information is presented on the matrix, so it is easier to compare companies visually. Moreover, Competitive Profile Matrix facilitates decision-making process. A firm can decide which areas should be strengthened, protected and which strategies firm should pursue. (Jurevicius 2017)

3.3.3 SWOT analysis

Matching external and internal factors is the key to effectively generate feasible alternative strategies. SWOT analysis is one of the matching stage tools, it is one of the most common types of analysis in strategic management.

Above all, few terms should be explained. There are four essential components: strengths, weaknesses, opportunities and threats.

- **Strengths** are characteristics of a project or organization, giving an advantage over others in the industry.
- **Weaknesses** are features that weaken the project.
- **Opportunities** are favorable external factors that can give additional capabilities to achieve one's objectives
- **Threats** external factors that can potentially harm organization. (Wheelen & Hunger 2012, 176)

Thus, SWOT analysis allows to identify and structure strengths and weaknesses of a company, as well as the potential opportunities and threats, further allowing managers to compare the internal factors with the opportunities that the market gives them. Based on the quality of compliance, the direction in which the organization must develop is concluded and the distribution of resources is determined. (Fallon 2017)

Implementing a SWOT analysis, individuals usually form table split up into four columns to list each impacting element side-by-side for comparison. Strengths and weaknesses won't typically match listed opportunities and threats, though they should correlate somewhat since they're tied together in some way. (Fallon 2017)

To select effective strategies corresponding to the internal parameters of the enterprise and its position in the market, SWOT Matrix can be used. Strengths-Weaknesses-Opportunities-Threats Matrix is a matching tool, that helps develop four types of viable strategies: SO (strengths-opportunities), WO (weaknesses-opportunities), ST (strengths-threats), and WT(weaknesses-threats). (David 2013, 206)

The process should look as follows:

- SO Strategies: use internal strengths to take advantage of external opportunities;
- WO Strategies: develop internal weaknesses by taking advantage of external opportunities;
- ST Strategies: apply internal strengths to reduce external threats;
- WT Strategies: reduce internal weaknesses and avoid external threats. (David 2013, 206)

SWOT-analysis is effective in implementing an initial assessment of the current situation, however, the results of SWOT analysis are often presented as quantitative parameters, while to evaluate the whole situation qualitative description is required.

3.3.4 VRIO Framework

VRIO framework is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage. Barney, J. B. (1995) identified four features that company's resources must have in order to become a source of sustainable competitive advantage. The resources must be valuable, rare, imperfectly imitable and non-substitutable. A resource that meets all four requirements can bring sustained competitive advantage for the company. (Jurevicius 2017)

- Value

The first question of the framework is whether the resource is valuable. A resource is considered valuable if it enables a firm to exploit opportunities and/or defend against threats. A resource is also considered valuable if it helps organization to increase the perceived customer value. Resources that do not meet the requirement are considered to be a competitive disadvantage. (Jurevicius 2017)

- Rare

Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. (Jurevicius 2017)

However, if more than few firms have the same resource, it leads to competitive parity. That happens because firms use identical resources and no company can achieve superior performance. Even though competitive parity is not a preferred

position, no firm should neglect valuable but common resources. Those resources are vital for staying in the market. (Jurevicius 2017)

- Imitability

A question of imitability asks how difficult is to imitate the resource. A resource is costly to imitate if other organizations that don't have it, can't imitate, buy or substitute it at a reasonable price. There are two ways to imitate resource: direct imitating/duplicating, or by substituting product/service. (Jurevicius 2017)

Having a valuable, rare and costly to imitate resources, firm can achieve sustained competitive advantage.

There are three reasons why resources can be hard to imitate:

- Historical conditions. Resources that were developed due to historical events or over a long period typically are costly to imitate.
- Causal ambiguity. Companies can't identify particular resources that are the cause of competitive advantage.
- Social Complexity. The resources and capabilities that are based on company's culture or interpersonal relationships. (Barney 1995, 49-61)

- Organization

The question of organization asks whether the resource is supported by any existing arrangements and whether the organization can use it properly. A resource itself does not present any advantage for a company if it is not organized to capture the value from them. A firm must organize its management systems, processes, policies, organizational structure and culture to be able to fully realize the potential of its valuable, rare and costly to imitate resources. (Jurevicius 2017)

3.4 Types of strategies

Strategies that an enterprise can pursue can be categorized into 4 groups: Integration strategies, Intensive strategies, Diversification strategies, and Defensive strategies. Each group has several feasible strategies, and each alternative strategy has countless variations. (Davis 2013, 165)

- Integration Strategies
 - **Forward Integration** is a strategy where a firm gains ownership or increased control over its previous customers (distributors or retailers).
 - **Backward Integration** is a strategy where a firm gains ownership or increased control over its previous suppliers.
 - **Horizontal Integration** is a strategy where a company acquires, merges or takes over another company in the same industry value chain.
- Intensive strategies
 - **Market Penetration** strategy involves focusing on selling existing products/services into existing markets to gain a higher market share.
 - **Market Development** is a strategy that introduces existing products/services into new geographic area.
 - **Product Development** is a strategy that seeks higher sales by improving existing products/services and/or developing new ones.
- Diversification strategies
 - **Related Diversification** is a strategy that focuses on adding new but related products/services.
 - **Unrelated Diversification** is a strategy that focuses on adding new unrelated products/services.
- Defensive strategies
 - **Retrenchment** is a strategy where organization aims to reduce its business operations with the view to cut expenses.
 - **Divestiture** is a strategy when company sells its division or part of an organization
 - **Liquidation** is selling all firm's assets for its tangible worth. (David 2013, 167)

Companies can simultaneously pursue a combination of two or more strategies. However, priorities must be established. No firm can afford to pursue all the strategies that might benefit the company. Organizations have limited resources. (David 2013, 165)

3.4.1 Generic Strategies

Michael Porter introduced generic strategies that are applied at business unit level. Porter argued that strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. (David 2013, 178)

- **Cost leadership** emphasizes producing products at a very low per-unit cost for a given level of quality. The company sells its products either at average industry price to gain higher profit or below the industry price to gain market share.
- **Differentiation** strategy aims at producing unique products/services and targets relatively price-sensitive consumers.
- **Focus** strategy concentrates on producing products/services that fulfill needs of a narrow segment of consumers. (Davis 2013, 178-179)

3.4.2 Levels of Strategies

Strategy selection process does not fall solely on top executives' shoulders, middle-and-lower-level managers also must be involved in the strategic-planning process. There are three levels strategies can be formulated on: corporate, business, functional.

- **Corporate level**
At this level, executives in firms outline general overall strategy, define markets it will operate in, and plan how these markets will be entered.
- **Business level**
At this level, using corporate strategy, specific tactics for each market are defined. Also, it connects how each business unit will meet these planned tactics.
- **Functional strategy**
This level of strategy deals with day-to-day actions and how they meet business and corporate strategies. Moreover, it deals with relationships needed between business units, departments, and teams. And It defines how functional goals will be met and monitored. (Ritson 2011, 19)

4 COMPANY OVERVIEW

Hostel Pisa is a small sized enterprise established in 2010 in Pisa, Italy. It is a youth hostel for travelers and backpackers; there are more than 150 beds available for guests, which are spread among private double/triple/quadruple rooms and 4/6-bed dormitories. The building has 5 floors, with the ground floor being a common area for all the guests. Reception and in-house café/restaurant are located on the ground floor as well. Hostel facilities include guest kitchen, laundry room, storage area and outside area with a big screen, picnic tables and table tennis; and private car and bike parking.

Hostel Pisa, being the biggest youth hostel in Pisa, has an 8.7 rating on Hostelworld (2017) and 8.2 rating on Booking.com (2017). That makes Hostel Pisa the second best-rated hostel in the city after Hostel Pisa Tower. However, Hostel Pisa has more than 11,000 likes on Facebook.com (2017), making it the most popular hostel in Pisa.

Hostel Pisa is positioned to be a place to socialize and have “all in one” experience. The highlight of the hostel is the common area, where travelers from all over the world can meet, talk, socialize, enjoy hostel's utilities and hosteling experience at its fullest. (hostelpisa.it 2017)

4.1 Current situation

To evaluate hostel's current situation, author analyzed occupancy rates, hostel revenues, and guests' reviews.

Occupancy

Hostel Pisa operates from March till October, the rest of the time it is closed, therefore only 8 months are presented in the figure below (FIGURE 2).

According to the line chart (FIGURE 2), July is the busiest month of the year with 91,8% occupancy rate, meanwhile, the least busy month is May with only 59,1% occupancy. The mean occupancy for the whole year is 77,05%, making four months fall under below average: March, April, May, and June. In addition, the range between the most and the least busiest months is 32,7. (Hostel Pisa Statistics 2016)

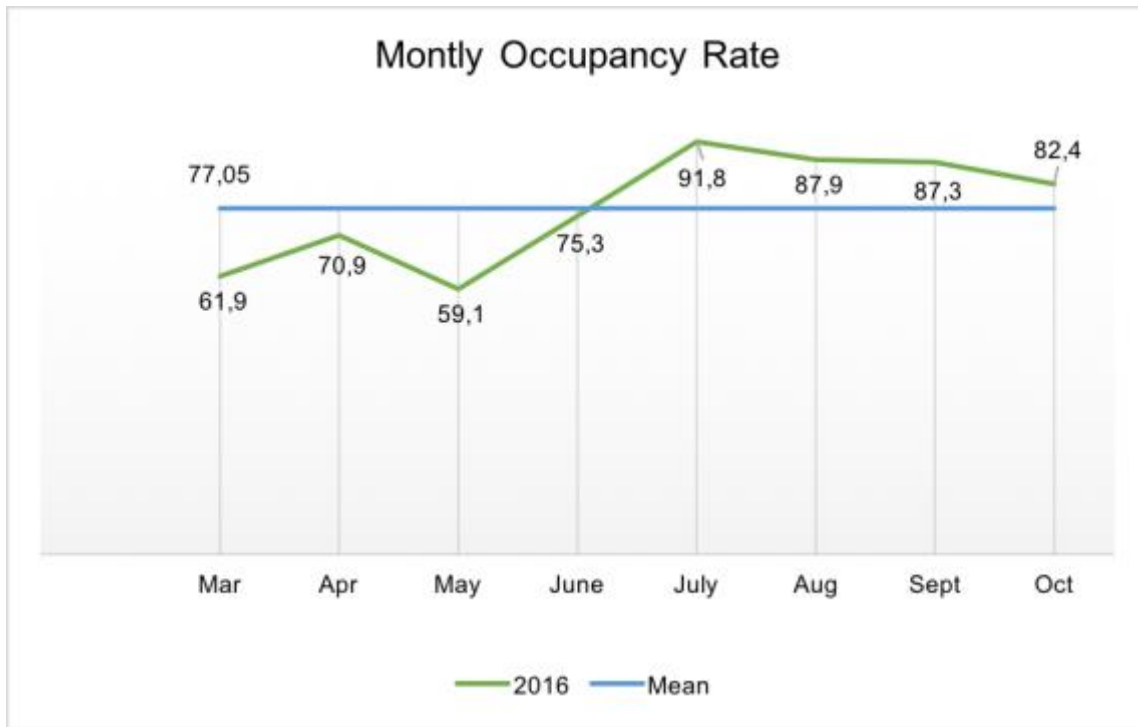


FIGURE 2. Monthly occupancy rate in Hostel Pisa for 2016 (%) (Hostel Pisa Statistics 2016)

Occupancy rates during off-season need improvement, despite the fact that there is a slight increase in April, which can be interpreted by spring break and Easter holidays. However, occupancy rates in March and May are more than 15 points below the average, which can be clarified by study obligations among students, since the majority of Hostel Pisa guests are under the age of 30 (Hostel Pisa Statistics). In comparison to weekdays, second half of the week is generally busier than the first half, making Saturday and Tuesday the busiest and least busiest time of a week respectively (FIGURE 3).



FIGURE 3. Occupancy rate in Hostel Pisa per day throughout 2016 (%) (Hostel Pisa Statistics 2016)

Revenue

Revenue of the hostel is divided into two parts: bar and hostel. Bar revenue includes all food, and drinks, meanwhile, hostel revenue contains revenue for accommodation rent, sales for towels/soaps/maps/etc. As shown on the pie chart (FIGURE 4) below, in the year 2016 the majority (78,4%) of the revenue was gained from the hostel.



FIGURE 4. Hostel Pisa revenue in 2016 (%) (Hostel Pisa Statistics 2016)

A closer look at bar revenues, reveals that several months (March, April, May, June, October) fall below the average point (FIGURE 5).

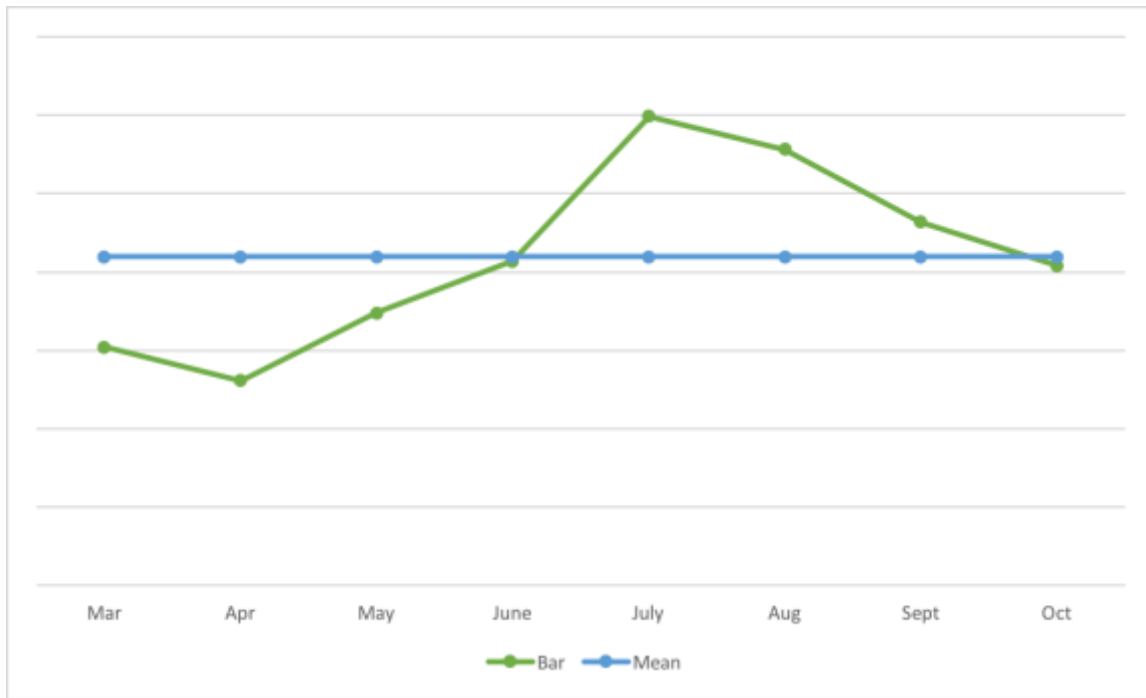


FIGURE 5. Hostel Pisa bar revenue growth in 2016 (Hostel Pisa Statistics 2016)

Hostel revenues are divided into sources of revenue by marketing channels. Hostel Pisa uses its own website, booking.com, Hostelworld, hostelbookers, expedia, hostelclub and gomio sites for reservations. Also, the company accepts walk-ins with no reservations, therefore this category will also be considered as a source of revenue.

The bar graph (FIGURE 6) below shows that the majority of hostel's revenue come from Hostelworld site with 36,5%, following by booking.com and walk-in with 23,3% and 16,2% respectively. In addition, three websites have less than 1% income collectively. (FIGURE 6)

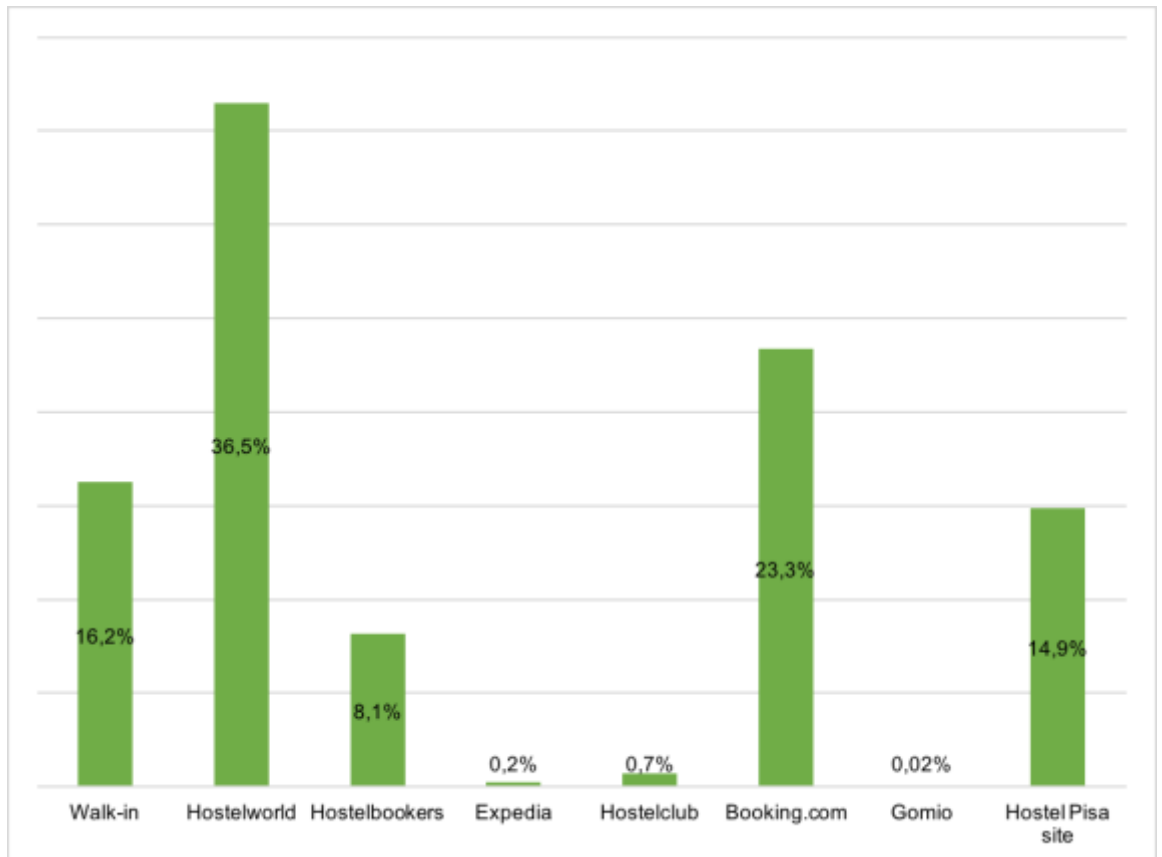


FIGURE 6. Hostel revenue by marketing channels, 2016 (Hostel Pisa Statistics 2016)

Guests reviews

According to a 2016 Local Consumer Review Survey, 68% of consumers read 1-6 reviews about a business before deciding whether to use a business or not. Therefore, it is crucial to sustain an online reputation and keep track of reviews, not to mention written guest comments contain specifics on business development. By eliminating minor defects the overall scores might increase significantly, which in turn will increase the number of consumers.

As part of guests' reviews overview, author took Booking.com and Hostelworld websites, as those websites have a greater impact on hostel than other marketing channels.

Booking.com reviews

Hostel Pisa has an overall 8.2 out of 10 score on Booking.com (2017). The overall score includes individual scores for cleanliness, comfort, location, facilities, staff, and value for money, breakfast and free Wi-Fi (Admin.booking.com 2017).

The sample for the following analysis includes 1035 reviews.

For the past 365 days, 84% of Hostel Pisa guests left a review with score 7 or higher. In addition, only 5% of guests left a review with a score less than 5 points. (FIGURE 7)

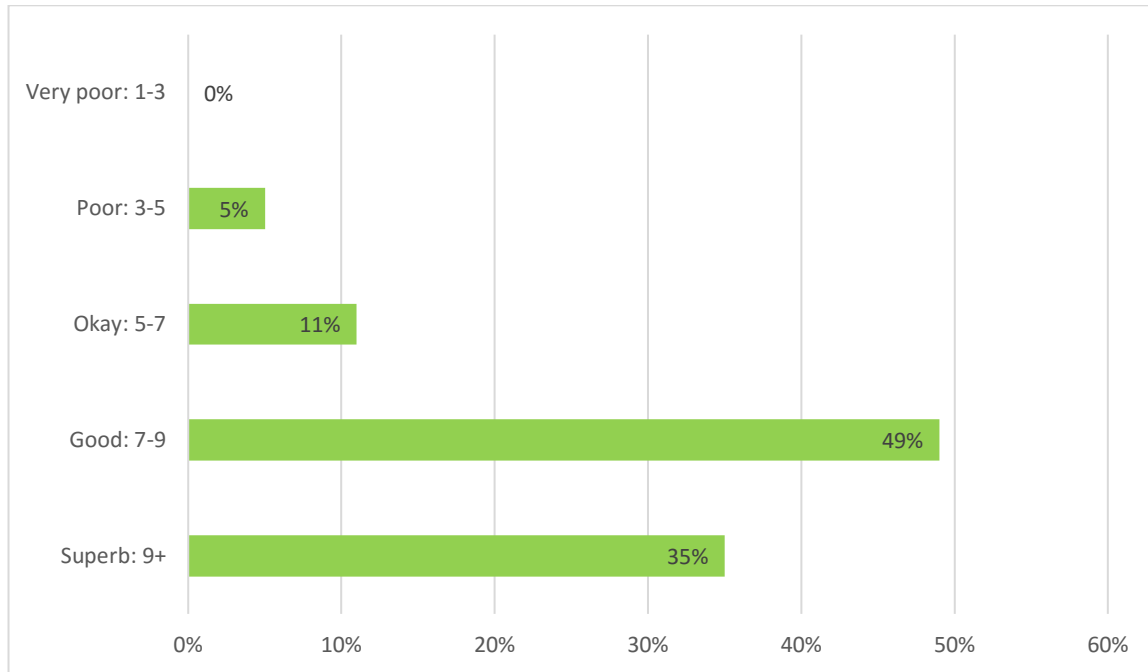


FIGURE 7. Booking.com score review of Hostel Pisa in 2016 (Admin.booking.com 2017)

The breakdown of the overall score shows that the highest score is for Hostel Pisa personnel with 9 points, however, breakfast is only 6,1 points, making it the weakest category lowering the overall score (FIGURE 8).

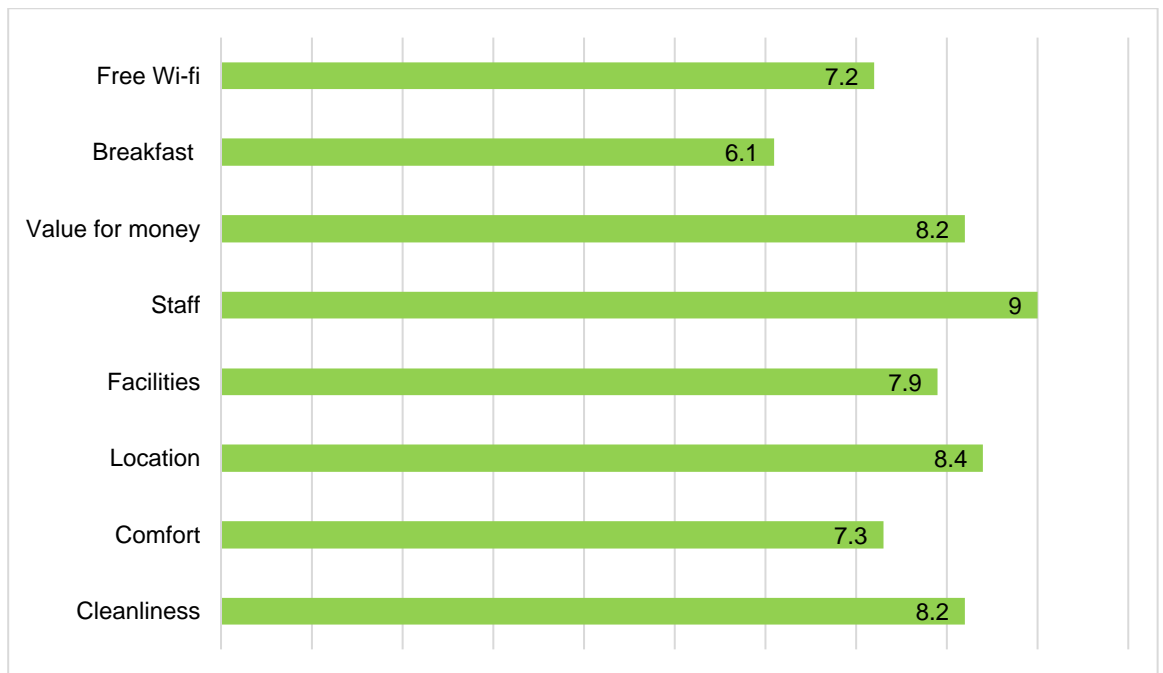


FIGURE 8. Breakdown score review of Hostel Pisa in 2016 by Booking.com (Admin.booking.com 2017)

Hostelworld reviews

Similar to booking.com, Hostelworld has individual scores: value for money, security, location, staff, atmosphere, cleanliness, and facilities; and overall score.

Hostel Pisa is rated 8.7 in overall score (Hostelworld 2017). The breakdown score review shows the highest point is 9,2 for staff, following by 8,8 for cleanliness and 8,7 for both atmosphere and value for money. (FIGURE 9)

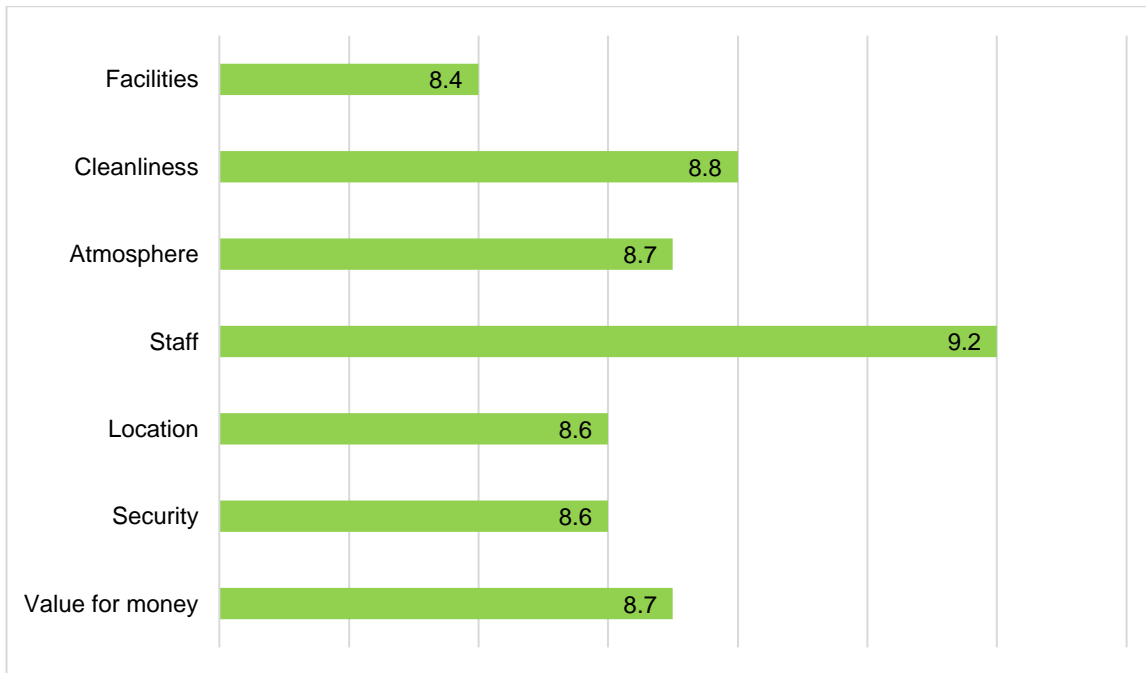


FIGURE 9. Breakdown score review of Hostel Pisa in 2016 by Hostelworld

As for text reviews, both Booking.com and Hostelworld reviews had comments about poor WI-FI, noise, and ability to hear it from ground floor and streets, low-quality beds and other minor separated incidents. Nevertheless, Hostel Pisa personnel was described as “wonderful”, “superb” and “helpful”; location as “great”, “excellent” and “real heart of Pisa”.

Current situation conclusion

Hostel Pisa is already on a good track with ratings, reputation and revenues. However, several factors that need management attention are determined already in the process.

Occupancy rate analysis and revenue analysis shows a pattern of July being the busiest and the most profitable month. Meanwhile, March, April, May and June fall below average points, proving author’s initial hypothesis of spring months’ numbers need improvement.

Furthermore, despite the accommodation being the main service/product offered by Hostel Pisa, it is strictly limited in quantity by its nature. Products/services offered at the bar, however, are not as limited and can be offered even at the event of maximum occupancy capacity. Therefore, bar revenue share needs to be increased.

5 MARKET OVERVIEW

Tourism in Europe is getting more popular day by day. According to UNWTO Tourism Highlights, Southern/Mediterranean Europe represents 19% of international tourists' arrivals in 2015 with an average growth rate of 3,7% per year since 2005. Italy alone has more than fifty thousand international tourist arrivals in 2015 with 8,3% share among European countries (UNWTO Tourism Highlights 2016).

With tourism in Italy being so popular and demanding, there is a great competition for hotels/hostels in every city. Therefore, industry must be analyzed very thoroughly in order to define main competitors and competitive advantage of case company.

5.1 Competition

Pisa is a city in Tuscany with about 90,000 population, according to the demographic data on the 1st of January 2016 (Demo.istat.it 2016). Although the city is relatively small, it is well known for the Leaning Tower of Pisa, and according to various sources is one of the most beautiful Italian cities. Consequently, there is a strong competition in the accommodation business in the city.

Hostel Pisa is positioned to be a place where young travelers and backpackers can socialize. Therefore, hotels, B&Bs, accommodation from Airbnb and other private apartments are not considered to be direct competitors of Hostel Pisa due to lack of socializing atmosphere. Meanwhile, hostels and similar accommodation types are to be taken into consideration.

5.1.1 Hostels

Being the same accommodation type, hostels are the main competition for the company. According to Hostelworld (2017), there are 3 hostels in the city of Pisa, HP being one of them.

Hostel Pisa Tower

Hostel Pisa Tower has an 8.9 rating on the site and is described to have the perfect location, superb staff, and excellent cleanliness. The reception is open from 14 pm until midnight, with a 3-hour lockout in the middle of a day. The breakfast is not included in the

price. There is a five-day cancellation policy. And there are only 4/6-beds dormitories. (Hostelworld 2017)

According to Hostelpisatower.it (2017), the main advantage of the hostel is its location; the Leaning Tower of Pisa is about 500 meters away. However, the main train station and airport are 2.2 km and 2.5 km away from the hostel respectively.

Also, there is no inside café or snack bar in the hostel, and breakfast is not included in the price (Hostelworld 2017). Therefore, guests are not able to grab a midnight snack or breakfast without leaving the premises.

Moreover, due to working hours, there is a 14-hour gap, when guests cannot get a help from members of the staff if needed and those who arrive at the hostel after midnight are not able to check-in.

Station Airport Easy Pisa

Station Airport Easy Pisa has a 7.9 rating and is described to have marvelous staff, excellent cleanliness, and great location features. The Hostel is 4 minutes walking distance from Pisa airport and 7 minutes from the main train station. The cancellation policy is 72 hours before arrival. The breakfast is included in the price. The checkout time is before 10 am and check-in is before 11 pm. (Hostelworld 2017)

The main advantage of the hostel is a free breakfast. However, according to reviews on Hostelworld (2017), the quality of food served could have been improved and left customers disappointed.

5.1.2 Campsites

Camping Village Torre Pendente

Camping Village Torre Pendente has an 8.4 rating on Booking.com and it is located within 1 km from Leaning Tower. The village is divided into 2 areas, one for rooms and caravans, another for tents and trailers. There is a restaurant, a bar, a swimming pool and hot tub on the premises. (Booking.com 2017)

The advantage of the campsite is the swimming pool and a mini market. Also, the proximity to the Tower makes it attractive to tourists. However, there are no single rooms available, an option with a tent requires a 3-night stay minimum and prices are higher than in Hostel Pisa (Campingtorrependente.it 2017).

The campsite was considered to be a competition to Hostel Pisa due to the presence of common spaces and a big number of guests that can be accommodated at the same time. However, after analyzing the products and services offered by the company, the author concluded that the target market is different and Campsite Village Torre Pendente can no longer be considered as a direct competitor, due to lack of popularity of the place (Facebook.com 2017) and high prices.

5.1.3 Conclusion

After analyzing competition in Pisa, author made a comparative table (TABLE 1) of hostels in the city to visualize results.

	Reception 24/7	Rating Hostelworld/ Booking	Cancellation policy	Bar/Café/Snack bar	Common space	Amount of rooms
Hostel Pisa	yes	8.8/8.2	1 day	yes	yes	44
Hostel Pisa Tower	no	8.9/8.9	5 days	no	yes	5
Station Airport Easy Pisa	yes	7.9/7.6	3 days	No (but breakfast included)	no	11

TABLE 1. Hostels in Pisa

Overall, Hostel Pisa is the biggest hostel in the city, that allows accommodating more than 150 people at the same time, making it suitable for big groups and single travelers. Through the variety of rooms and big common space, the hostel is suitable for both seeking for crowd and privacy (TABLE 1).

In addition, the 24-hour reception allows guests to contact personnel anytime one needs. Besides, the 24-hour inside café provides guests with a chance to buy food any time independently of guests' arrival time (TABLE 1).

Furthermore, due to one day cancellation period and no limits on late check-ins, Hostel Pisa is more attractive for impulsive/spontaneous travelers and late arrivals. According to Pisa Airport General Timetable (2017), there are at least 6 flights landing after 11 pm daily, making it improbable to check in before the curfew in hostel Pisa Tower and Station Airport Easy Pisa.

Giving the number of rooms available for guests and availability of common space and in-house café, author concluded that social atmosphere created in the hostel is its competitive advantage. The atmosphere created in the hostel is achieved by big influx of travelers, availability of "hanging out" area aka common space, and friendly international personnel, making internal recourses a source of competitive advantage. In addition, social atmosphere has a potential to become a sustainable competitive advantage due to its complexity to imitate for existing firms due to lack of space.

6 SWOT ANALYSIS OF HOSTEL PISA

The below-presented information was collected through interviews with the owner of Hostel Pisa and its managers. Each interviewee was asked to list hostel's core factors according to their own opinion. Author of the thesis also listed factors that are believed to affect the business during her work experience at Hostel Pisa.

Below the results of Hostel Pisa SWOT analysis are presented.

<p style="text-align: center;">Strengths</p> <p style="text-align: center;">In-house café Personnel Size of the hostel and its premises Location in Pisa</p>	<p style="text-align: center;">Weaknesses</p> <p style="text-align: center;">Physical condition of the building Relatively low marketing expenses Lack of permanent employees</p>
<p style="text-align: center;">Opportunities</p> <p style="text-align: center;">Location in Tuscany Possibility to expand products/services provided</p>	<p style="text-align: center;">Threats</p> <p style="text-align: center;">Competition Weather conditions Unstable economy</p>

FIGURE 9. SWOT Analysis of Hostel Pisa

The first component of SWOT analysis discussed was **Strengths**. In-house café was considered to be one of the core strengths at Hostel Pisa. Other hostels in the area do not have such a feature, that differs Hostel Pisa from its competitors. In addition, having an in-house café keeps guests from leaving hostel to dine outside during their stay. Therefore, guests stay inside, socialize with each other, and most certainly spend money at the hostel in the bar rather than outside.

Furthermore, personnel was listed as strengths due to its internationality. Unfortunately, not every guest speaks/understands English or Italian; some of the guests simply don't feel comfortable/confident to speak broken language. Therefore, speaking many languages in international hostel is a huge benefit. There are few permanent employees on front desk, however, combined they speak fluently 11 languages: English, Italian, German, French, Filipino, Spanish, Portuguese, Romanian, Ethiopian, Finnish, and Swedish. In addition to permanent staff, there are 3-4 interns working at the hostel every year, that adds 2-3 languages to the list.

Moreover, size of the hostel was also listed as strengths. Hostel Pisa is the biggest hostel in the city, that allows hostel to accommodate large groups along with single travelers. In addition, hostel's premises is considered to be an advantage. There is a bike parking space, car parking, outside garden with picnic tables and big screen, table tennis, pool table, and a stage on the premises. All those features help to accommodate guests with comfort and create a comfortable socializing atmosphere.

And finally, location of the hostel in the city. Despite the fact that Hostel Pisa is located across the town from The Leaning Tower, city's main attraction, location of the hostel is still considered to be its strength. Hostel Pisa is located in close proximity to the train station and city airport, on the way to the city center.

The second component discussed was **Weaknesses**. The physical condition of the building was listed as one of core weaknesses. The building has thin walls, allowing guests to hear noises from adjoining rooms and even ground floor. In addition, some of the furniture pieces are not in its best condition, for example, picnic tables outside and bunk beds in rooms.

Moreover, marketing expenses were considered to be a weakness. Hostel Pisa mainly uses online recourses to advertise its services. That leaves out people who do not use social media and/or online reservation services.

Furthermore, as mentioned before, Hostel Pisa only has few permanent employees on front desk and that fact was considered as a weakness by majority of interviewees. In case of sickness or other leave of absence, it leaves hostel with not enough team members to cover all the shifts, especially during high season.

Next component is **Opportunities**. Location of hostel in Tuscany was considered an opportunity. Pisa is located close to the beach, Florence, Lucca, Cinque Terre, Livorno and other cities that attract big influx of travelers, allowing people to stay more than one night to visit places around. Moreover, expansion of product/services is considered as an opportunity to explore.

Finally, there is a **threat** of emerging of small firm competitors reducing market share. Also, unstable economy was listed as threat. In case of increase in prices of services used by the hostel, it will be forced to increase its prices to keep up the profit. And finally, weather conditions are to be considered as a threat. There were several cases of power

and/or water shortage in the hostel due to weather conditions. Power shortage even for half of a day affects hostel's revenues significantly.

6.1 Viable strategies

As a viable SO Strategy, it is suggested to expand offered services by hosting musicians/singers/entertainers volunteers in the hostel to keep up the fun social atmosphere in low seasons, thus using hostel's size as an advantage. Hostel Pisa already has several musical instruments that volunteers can use, not to mention good musicians travel with their own instruments. As an example, workaway.info site can be used. Another suggestion for SO strategy is to expand services offered by investing in bicycles to rent out in the hostel, taking advantage of hostel premises size and location in Pisa. First, hostel already has space to park bicycles for guests, who travel by bike. In addition, renting bicycle in the hostel would be much more convenient for guests; they will be able to rent a bike, cycle all day and then return to the hostel and return the bike, as oppose to walking towards bike rent shop, renting and returning bicycle there, and then going all the way back to hostel after a long day of cycling. Not to mention, it is an additional profit to the hostel.

As for WO strategy, author suggests developing marketing expenses and taking advantage of hostel's location in the region by cooperating with travel agencies, information points, other hostels/low-budget hotels in nearby cities. Since, hostel is big enough to accommodate big groups, in cooperation with travel agencies and local information point, hostel can host school trips, tour groups, etc. during low season to boost occupancy rate. As for other housing providers, in cooperation with another hotels/hostels Hostel Pisa can launch several offers/sale packages benefiting both parties.

Example of hostels to cooperate with are presented below in Table 2.

Name	Address	Contacts
Bigallo Hostel	Via Bigallo e Apparita, 14 Bagno a Ripoli, IT	+39 055 630907
Plus Florence	Via Santa Caterina d'Alessandra 15, Florence, IT	+39 055 462 8934
Academy Hostel	Via Ricasoli 9, Florence, IT	+39 055 265 4581
WoW Hostel Florence	Via Venezia 18/b, Florence, IT	+39 055 579603
5 Terre Backpackers	Via San Michele 5, Corvara di Beverino, IT	+39 349 451 2493
Ostello Tramonti	Via Fabio Filzi 110, Biassa, IT	+39 0187 758507
Grand Hostel Manin	Via daniele manin 8, La Spezia, IT	+39 0187 021442

TABLE 2. Suggestions for Hostel Pisa cooperation

To reduce emerging/existing competition, author recommends developing in-house café and expanding the menu. The café is already popular among travelers, however, there is always place for improvement. Investing a little money into developing the in-house café will suppress competition and add profit to the hostel.

Furthermore, to reduce lack of workforce weakness factor and try to avoid unstable economy threat, it is suggested to hire volunteers and interns instead of hiring new permanent employees, thus cutting costs on salary expenses. Above mentioned workaway.info website can be used as an example.

6.2 Further suggestions

As states in Chapter 4, currently, there are 4 months (March, April, May, June) with below average occupancy rates. To boosts occupancy rates, author suggests advertising local events and offer discounted weekends/holidays packages on hostelpisa.it.

Below are examples of Pisa events:

- Capodanno pisano
It is a celebration of a New Year, held in March

- Easter weekend in April
 - Luminara of San Ranieri
Luminara is an eve of the patron saint's feast day, celebrated on June 16th
 - The Regatta of San Ranieri
It is the feast day of San Ranieri, June 17th. (Ricci 2017)
 - Metarock
Rock music festival in beginning of August (Metarock.it 2017).
 - Turn Off Festival
House music festival in September
- In addition to occupancy rates boosts, advertisement of events on the site may improve SEO and attract more travelers to hostel's web page and profiles on social network. Moreover, Hostel Pisa can find a volunteer through above-mentioned workaway.info site to improve hostel's web page and SEO.

7 CONCLUSION

The purpose of the thesis work was to provide suggestions for developing the hostel. Throughout the process, current situation, competition and company's strengths, weaknesses, opportunities, and threats were analyzed.

The following objectives were achieved as the research proceeded:

- Theoretical background of strategic management was presented
- Hostel's current situation was analyzed
- A market overview, including competition overview, was prepared
- Main strengths, weaknesses, opportunities and threats were examined using SWOT analysis
- Feasible strategies were presented

By working on the thesis, author had an opportunity to demonstrate and apply knowledge gained through study and work experience, in addition, to learn more throughout the process. Working on theoretical part of the thesis, author had a chance to extract data from several sources and study various points of view on the topic, allowing author to deepen knowledge in the area of strategic management, analysis tools and types of strategies. The results of the implemented research are expected to be beneficial not only to the case company but also to the author's self-education and further career growth. To sum up, the ability to work individually on thesis project was a valuable experience.

Throughout the process, author faced several difficulties. While working at the case company it became clear to the author that she would write her final thesis on the company. However, it took a considerable amount of time to specify and narrow down the topic. Once the research on practical part has started, the author encountered difficulties collecting statistical data on the hostel. Due to Italian laid-back attitude, it took author some time and perseverance to get all the needed information from management. Fortunately, none of the difficulties were complicated enough to stop the research. However, author's time management skills are to be improved, so the next time the process will be more systematic.

All in all, the author is satisfied with the research process and results regardless of any difficulties and challenges. Also, final results and suggestions are considered to be trustworthy and valid, since the information was based on several theoretical researches.

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