TEACHING CASE STUDY

CHALLENGES AND UNCERTAINTIES IN RIO'S HOSPITALITY INDUSTRY: THE CASE OF ASTOR HOTELS

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Abstract

International mega sporting events such as the Olympic Games have been responsible for promoting transformations over the years in the cities they pass through whether through developing economic sectors such as tourism, hospitality, and services or through transforming their urban spaces. The case of Rio de Janeiro in 2016 was emblematic above all for the city's hotel sector, which during the years preparing for the Games saw its offer in the number of beds increase by 76% in a period of just 5 years, which generated a new competitiveness dynamic for the region. The case puts the reader in the role of Federico Gonzales, manager of Astor Mediterranean Rio, a new hotel that opened near the Olympic Park at the end of 2015 and is currently experiencing serious financial difficulties given the drop in demand aggravated by the economic crisis and by the effects of the pandemic. The case is indicated for undergraduate and graduate students from the hospitality, tourism, and strategy courses interested in discussing themes and concepts related to the area of strategic transformation of hotel industry, management strategic decision making, and mega events.
Keywords Olympic Games; Mega events; Hotel management; Tourism; Hospitality.

INTRODUCTION

Born in Buenos Aires in the late 1970s, Federico Gonzales immigrated to Brazil in 2001 after a vacation trip to the city of Búzios. Despite never having worked with tourism in Argentina, Federico had no problem getting a job at the bar of the La Casa Blanca Hotel due to his fluency in Spanish. This hotel has an Argentinean owner, so is famous for receiving many Latin American tourists most part of the year and for offering a level of service considered by travel websites such as Tripadvisor and Booking.com as one of the best in town. Because of his cordiality and good treatment with customers, Federico soon had the opportunity to work in other areas of the 40-room boutique hotel. Due to his commitment and adaptability in performing different administrative activities, in 2006 Federico ended up being promoted to general manager of the La Casa Blanca Hotel, which at the time had a team of 20 employees.

One of the establishment's characteristics was its ability to retain customers due to a differentiated level of service, reflected in its daily rate, which could reach up to R$ 2,000 on a high season weekend. One of these frequent hotel customers was Juan Fabrizio, Brazil's CEO of the Spanish hotel chain Astor. Different from the family management and exclusivity found at La Casa Blanca Búzios, Astor's hotels valued low cost and only essential services combined with a high offer of rooms and geographic permeability. At that time, motivated by the mega events that Brazil and Rio de Janeiro were starting to host with the 2007 Pan American Games, Fabrizio, together with his Spanish headquarters, planned a big expansion for Astor in the country.

In 2009, however, when Rio de Janeiro won the right to host the 2016 Olympic Games, the eyes of major international hotel brands turned to the city and to the opportunities that the Olympics and the economy of mega events could bring to the local tourism industry (Fourie and Santana-Gallego 2011). There were great expectations in the market since for many years the Rio de Janeiro hotel industry had seen a dynamic of high prices and a low level of service, which were sustained basically because of the limited supply of beds in the city. At the time of the election, the city of Rio de Janeiro had no more than 19,000 hotel rooms, a number far below the 40,000 minimum required by the International Olympic Committee (IOC) (Rio Negócios 2016). Given this situation, it was known that the following years would be a period of great expansion for the sector, considered as strategic for the organization of the event and for the local government (Veja 2017).

Knowing of the good work that Federico had performed in managing La Casa Blanca over the last few years as he had been there as a client, Fabrizio invited him to participate in Astor's expansion project in Brazil as general manager of the new Astor Mediterranean Rio. Located in what would be the Olympic Park on the west side of the city, the 490-room hotel promised to be the main investment of the brand in Brazil in the years to come. After a cycle of almost 10 years in Búzios leading the team of a boutique hotel, Federico welcomed the change and saw in the invitation an opportunity to take the next big leap in his career, this time managing an operation about 12 times larger than the one he had at La Casa Blanca. Expectations as to the return of the project in the midst of a new moment of tourism in Rio were very high, but Federico knew that a great challenge awaited him considering that the Rio de Janeiro hotel industry was undergoing a major expansion and requalification process. Would he be able to promote the necessary changes so that Astor's newest venture could stand out against a backdrop of increasing competitiveness in the city?

1. ASTOR HOTELS

Created in 1974 by Paulo Alonso, Astor opened its first unit in the city of Madrid, Spain. With a proposal to offer standard rooms and with limited-service options, the intention was to reach a corporate audience or those with a more restricted budget for accommodations. Despite being considered a two-star category, Astor proposed to offer services above the normal standards of economic categories in the region. As one of the main differentials, the brand positioned itself as a modern, clean, and well-equipped hotel, and soon became one of the references in an industry that at the time had only rural and family inns or luxury hotels.

With the rapid expansion across Europe, by the end of the 1970s the brand had already started to operate in other continents with units in the United States, Africa. and South America. In 1983, two hotel categories were created: the Astor Economy and the Astor Mediterranean. While the first aimed to essentially offer affordable accommodation in a practical and comfortable hotel with limited services, the second already differentiated a little by being an intermediate three-star category, which, despite still offering standard rooms, had leisure spaces and a pool. In the following years, until the early 1990s, the company's strategy was to rapidly expand through the acquisition and conversion of economical motel chains, mainly in North America and Europe.

Since 1991, this acquisition strategy had made the company one of the 10 largest hotel chains in the world with more than 600 properties of the Economy and Mediterranean brands spread across several countries. After the great expansion in the number of its properties until the 2000s, the strategy turned to diversification in the services offered. Once again, through the acquisition of existing chains, the company launched itself into the car rental segment, travel agencies, and restaurants. This combined offer of services caused the average ticket spent by its customers to increase considerably as the company was able to manage the complete travel experience, especially business ones, ranging from the booking of airline tickets and transport services to the accommodation and food. By 2007 the company had reached the mark of 4,000 hotels with the inauguration of its first luxury hotel, the Astor Soft, precisely in the city of Madrid where it all began. Although the chain does not have a DNA of this category, after more than three decades of experience in economic and intermediate lines, the company believed that the next natural step of expansion would be some projects of the Soft brand in cities where Astor already had a strong presence. The following years until 2012 was a period of the brand's consolidation with the inauguration of the Astor Academy, a gastronomy and hospitality school responsible for transmitting nearly 4 decades of knowledge by operating in the sector in an innovative and sustainable way.

In 2015 the company ended up becoming one of the largest hotel chains in the world, valued at more than 10 billion euros. With a presence in 92 countries, the brand also had an operation of 180,000 employees, 495,000 rooms, and 20 million members in its Clube Astor loyalty program. In that same year, the chain presented 5 billion and 200 million euros in sales and profits, respectively, with Spain, France, and Brazil as its largest markets. The brand has been present in Brazil since 1986 with the opening of its first hotel in the city of São Paulo and by 2015, Astor had 220 establishments that together offered around 35,000 rooms in 60 different Brazilian cities, including Rio de Janeiro. Motivated by the great visibility that the country received due to the Olympic Games and other mega sporting events in the period, the company's plan was that in the coming years the number of hotels would be expanded to the mark of 500 establishments.

2. THE TRANSFORMATIONS OF RIO'S HOTEL INDUSTRY

Rio de Janeiro has always been the main tourist destination in Brazil. With about 2.3 million foreign visitors every year (Turismo.gov 2018), the city stands out for its warm climate and unique scenery mixing the blue of the beaches with the green of the Tijuca Forest – the largest urban forest in the world. In addition to all the uniqueness of Rio's geography, the city is famous for its New Year's Eve and Carnival parties when the streets are filled with samba, heat, and high spirits. But despite being the gateway to tourism in the country, the city has historically presented a deficit in the number of hotel beds, which until 2010 was no more than 20,000, a number much lower than other large cities in the world such as London (123,000) or New York (138,000) (The Caterer 2009).

This low offer of beds contributed over the years for the destination of Rio de Janeiro to become one of the most expensive to travel in South America. While the city had an average daily cost per tourist of US$ 77.00, its Argentine neighbor Buenos Aires, in the same period, required only US$ 44.00 for a day of travel (Rocha and Fink 2017). For a long time, this characteristic inhibited Latin American tourists from traveling to Rio, who ended up opting for other more accessible destinations in the same continent. In addition, the low competition caused by the shortage of rooms, especially in more touristy neighborhoods such as Copacabana, meant that the level of service delivered was far below the international standards observed in the main destinations in the United States and Europe.

However, beginning in 2009 when the city gained the right to host the 2016 Olympic Games, it was forced to increase the number of beds available in order to absorb the tourists brought by the events in addition to athletes, technical commissions, and the international press. For this last group called the Olympic family, the IOC required a minimum of 40,000 rooms available during the weeks of the event. Despite the accommodation issue having been identified as one of the weaknesses of Rio de Janeiro's candidacy, the government and local businessmen pledged to carry out investments in a way that could promote an expansion and requalification of the city's hospitality structure (Comex do Brasil 2016). This expansion would in part also attend other mega-events scheduled for the city in the same period such as the Military World Games (2011), the World Youth Day (2013), Rio+20 UN Conference (2013), the Confederations Cup (2013), and the FIFA World Cup (2014) (Lima, Takani and Colantuono 2016).

In the early stages of preparation, the government of Rio de Janeiro passed several city laws that granted a package of fiscal and regulatory incentives so that it could boost the city's construction and hotel sector. As a result of these measures, in 2013 alone, Rio de Janeiro observed the registration of 50 new permits for building new hotels or refurbishing existing ones, a number significantly higher compared to the average of two annual licenses registered in the previous decade. This phenomenon, which took place between 2010 and 2016, was responsible for building 70 new hotels, 5 renovations, and 15 expansions in addition to generating 15,000 new direct and 45,000 indirect jobs, attracting investments of around R$ 6 billion in the sector (Rio Negócios 2016).

Among the incentives granted were measures taken that contemplated the acquisition, construction, and operation phases of hotel projects. The city's main taxes such as IPTU were zeroed for a period of 3 years in addition to which there was a reduction in the construction ISS tax from 5 to 0.5%. Furthermore, hotels that opened by the end of 2015 would earn a 60% reduction in IPTU during the year of the Olympics. Other non-tax incentives facilitated the approval of projects and allowed that up to 100% of the projects in the area be toward bedrooms compared to the 70% previously allowed. This new arrangement made it so that existing hotels could expand their bed offers by up to 25%.

The 123 new hotel licenses for construction, expansion, or remodeling registered between 2011 and 2014 greatly contrasted with the 16 observed between 2002 and 2010 and ended up making Rio de Janeiro arrive on the eve of the Olympic Games with 51,000 rooms and approximately 110,000 beds (Hospitality Net 2016). Despite considering other means of accommodation such as flats, inns, hostels, and motels, the highlight was certainly for hotel rooms, which increased their offer by 76%, going from less than 20,000 rooms to almost 37,000 rooms in a space of only 5 years. These numbers, whose evolution can be seen in Annex 1, disregarded hosting by platform. Airbnb, practically non-existent in the year 2010 when planning began, ended up becoming one of the official sponsors of the 2016 Olympic Games, arriving on the date of the event with more than 33,000 active offers in the city (Airbnb 2016).

Another interesting change also occurred in motels with the conversion of around 1,000 rooms into low-cost hotels responsible for absorbing part of the public at the mega events. The model, which until 2010 had fallen into disuse, ended up taking advantage of the wave of government incentives to change. This adaptation was maintained in most cases even after the Olympics. In addition, the city also observed a great transformation in the geographic offer of beds. The Barra da Tijuca neighborhood, close to the Olympic Park where most of the competitions would take place, saw its market share increase from 19 to 27%, becoming the second region with the highest offer of beds, only behind Copacabana. On the other hand, the South Zone, the city's most traditional and tourist region, saw its share drop from 49 to 41% (JLL 2019). Driven by the large offer of land still free for construction, Barra da Tijuca also ended up receiving most of the Olympic investments, around R$ 7.3 billion compared to R$ 2.4 billion in the other clusters of Deodoro, Maracanã, and Copacabana combined. This geographic distribution can be better observed in Annex 2.

3. THE CRISIS

However, even before reaching the Olympic Games in 2016, what was observed in Rio de Janeiro and Brazil was the beginning of a deep political and economic crisis. In addition to the low economic indicators and rising unemployment rates, the country plunged into a crisis marked by successive corruption scandals in construction contracts revealed by what became known as the "car wash" operation. The investigation's findings ended up generating a large popular mobilization that took millions of people to the streets calling for an end to corruption and the imprisonment of those involved (BBC 2016). As a result, the governor of Rio de Janeiro Sergio Cabral ended up being arrested in 2014 and the in following year, the then President of the Republic Dilma Rousseff ended up giving into pressures and suffered an impeachment process.

Soon after the Olympic Games, in 2017 another important indicator for the tourism industry, public safety, also began to deteriorate with the worst number of violent crimes observed since 2009. Parallel to this, the government of Rio de Janeiro was heavily impacted due to the fiscal crisis that unfolded, causing them to begin to delay and split salaries of public employees, a practice that was very common at least from 2016 to 2018. But it was with the city's next election that the biggest disruption came. After the opposition won the elections, a series of discontinuities in fiscal policies was observed, making evident the city's high public indebtedness. This rupture also meant that entities such as the Rio Investment Agency and Rio Convention, previously responsible for playing an important role in attracting investments, events, and tourists to the city, were emptied and closed their operations.

With the deterioration of the domestic situation, what was observed was a worsening of the country's image and an increase in the insecurity of international investors due to the escalation of the perceived political risk. As one of the sectors that expanded the most in previous years, the tourism and hospitality sector turned out to be also one of the most impacted by this turn in the political and economic situation. The end of incentives combined with a significant increase in the offer in a context of falling demand due to the end of mega events, caused occupancy rates to drop from almost 100% close to the Games to around 51% in 2017. This number was significantly lower than the average occupancy rate of 79% recorded in the years prior to the expansion (Data Rio 2019). Despite the creation of an Olympic Legacy Governance Authority that drafted a legacy plan of more than 100 pages, in practice what was observed was the non-commitment with most of the post-event planning, which among other things lacked a calendar of smaller periodic events that would be able to sustain the flow of tourists for years to come.

As a result, what was observed in the city in the years after 2016 was the closure of several hotels around the city, many of which had just been opened for the Olympics. The greatest example of this was perhaps the case of the National Hotel with more than 400 rooms and a 40-year history. Closed since 1995, Niemeyer's original project underwent a R$ 430 million renovation so that it could reopen to the public. Inaugurated for the Olympic Games in 2016 under the management of the Spanish brand Gran Meliá that took over the operation under a 20-year management contract, ended up closing less than 2 years later in March 2018. Together with the National Hotel, the city saw the closure of another 16 hotels in the same period, which together represented an offer of 2,800 rooms (O Globo 2018).

Among the conjunctural factors portrayed above, another point that ended up exerting great pressure on the hotel sector was precisely the representative increase in accommodations from platforms in the period. This additional offering of more than 30,000 active offers in the city triggered a price war in the hotel industry in order to compete with these platforms that generally had more affordable rates than hotels. Allied to this, as most of the hotels were built on the west side of the city, they ended up being out of the traditional tourist route and so depended greatly on corporate tourism or events. However, due to the lack of a calendar of events that went beyond carnival, New Year's Eve, and Rock in Rio every two years, and also due to the low economic activity and consequent corporate contracts, the new hotels in Barra da Tijuca ended up being those who suffered most from the crisis in the sector.

Due to the difficulty in generating revenue, hotels had to then reinvent themselves in order to offer differentials for attracting tourists even to the more distant regions. As a strategy, many focused on the tourism of experience by offering activities inside and outside their areas capable of bringing the tourist experience closer to the one lived by a local of the city. Even so, because of this diversification, the hotels were also subject to new competitors that traditionally operated with these other services, as in the case of Airbnb Experience, Rent a Local Friend, and travel agencies in general. Still within this diversification process, many of the new hotels had their own convention centers for small and medium-sized events and now needed to find ways to profit from these spaces.

4. CHALLENGES AND UNCERTAINTIES AMID THE NEW MARKET DYNAMICS

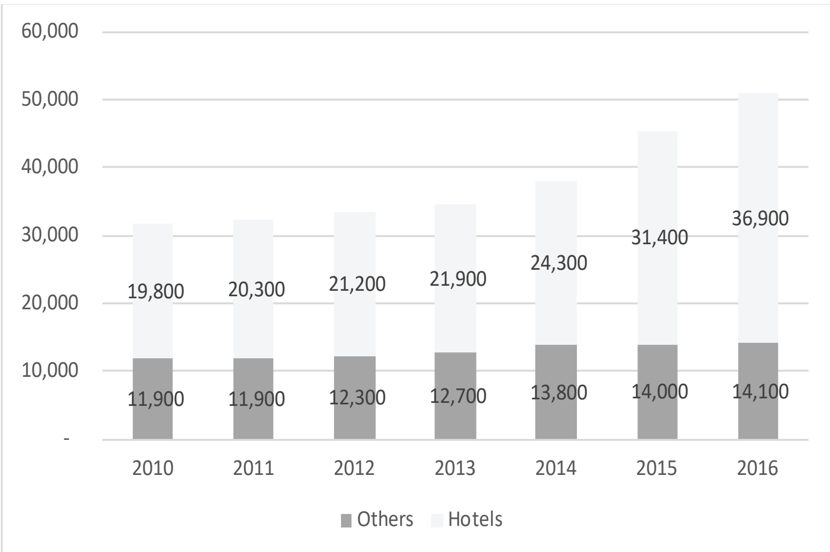
When Federico accepted the invitation to manage Astor's biggest project in Rio de Janeiro, he never imagined that the city's hotel sector, which had everything to be promising, would be going through so many difficulties. After a year of great results in 2016 where they reached an average occupancy rate above 85%, as of 2017 the hotel plunged into a deep crisis along with many of the other new hotels that opened on the west side of the city. Between 2017 and 2019, despite all efforts to offer a differentiated service for a hotel in the Mediterranean category, the average occupancy rate over the three years did not exceed 55%. In addition to having to deal with the city's traditional problems such as public safety and the lack of regular events, beginning in 2020 the situation further deteriorated with the COVID-19 pandemic (El País 2020).

Due to Astor's focus on corporate tourism, the chain had already seen in previous years a drop in the flow of executives and long-term contracts with companies due to the reduction in the number of trips caused by a need to cut costs and also due to technological advances in videoconferencing applications. Another challenge they faced was also with online travel agencies such as Booking and Trivago. Despite these being a business partner and giving visibility to the hotels, they ended up with a good portion of the rate, around 20%. As if these challenges were not enough, the need for social distancing due to the COVID-19 pandemic also led to a drop of around 70% in the flow of tourists and US$ 730 billion in losses for the sector worldwide, a number 8 times greater than that registered from the financial crisis in 2008 (G1 2020). In Rio de Janeiro, with the cancellation of Carnival and New Year's parties, the hotel sector had to lay off 20% of its workforce and about 90 hotels had to temporarily close their doors. Those who managed to remain open registered occupancy rates of no more than 20%.

The hotel sector also believes that many of these changes brought by the pandemic should affect the consumption habits of tourism products permanently. A proof of this is that in Brazil about 50% of companies adopted remote work during the pandemic, of which 63% said they intend to keep the model for part or all of their team even after the COVID-19 crisis has passed (EBC 2020). Even with the vaccine, expectations are that business travel will fall by around 36% in the future due to new work dynamics, affecting not only hotels, but the entire tourism economy such as airlines, restaurants, and services in general.

Due to the new market dynamics and negative results presented by the Mediterranean operation in Rio, Federico received a lot of pressure from Fabrizio and the Spanish board in order to permanently close the hotel's operations. Even amidst the political, economic, and sanitary crisis that the city of Rio de Janeiro is experiencing, Federico really believes in the sector picking up again, which could benefit positively from a pent-up demand for travel after mass vaccination and the reopening of the borders of the countries. However, even if this prediction is confirmed, Federico knows that he needs to propose changes in the business model and in the positioning of the Mediterranean if he wants to prosper in the midst of a city that has undergone several changes in the hotel market over the last decade. As he thinks of a new strategic-operational plan to present to Fabrizio and the board of Spanish investors, Federico knows that the Mediterranean cannot wait any longer and needs to reinvent itself if he wants to survive the next few months.

Annex 1: **Number of beds in Rio de Janeiro over the years**



Source: Adapted from *Rio Negócios* (2016)

Annex 2: **Rio 2016 Olympic Clusters**

Source: Adapted from Destination360 (2016)

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TEACHING NOTES

Teaching Objectives

The case aims to place students in the role of Federico Gonzales, general manager of Astor Mediterranean Rio, so that they can analyze possible scenarios and make decisions about the strategic dilemmas that threaten the closure of the hotel in the city. From the case of Rio de Janeiro, we seek to invite participants to reflect strategically on a structural solution for the business model of corporate tourism, which is at risk in a post-pandemic world due to new trends in remote work, meetings, and digital events. At the end of the discussion, it is also intended that students be able to: (1) analyze aspects of strategic planning in uncertainty scenarios; (2) understand the impacts of competitiveness and political-economic crises on the world of tourism; (3) measure the importance of new technologies in breaking paradigms in hotel business models; and (4) identify, understand, and formulate strategic alternatives that ensure an action plan for the scenarios analyzed.

Target Audience

The case is indicated for undergraduate or graduate students in courses related to the areas of strategy, tourism, and hospitality. Its application is recommended for disciplines in hotel management, marketing, planning, business strategy, and competitiveness that want to deal with concepts such as strategic transformation of hotel industry, management strategic decision making, and mega events.

Case Difficulty

Leenders, Erskine and Leenders (1997) propose a case difficulty analysis based on three different levels with level 1 considering elementary complexity, level 2 moderate complexity, and level 3 greater complexity. These levels would be further distributed along three other dimensions: analytical, conceptual, and presentation, thus allowing different combinations. While the *analytical dimension* concerns the students' task in relation to the main dilemma of the case, the *conceptual dimension* deals with the complexity of the concepts required to solve the case, and the *presentation dimension* refers to the amount of information that is given in the case and how it is presented. Combinations whose sum of difficulty levels are equal to 3 would be considered elementary cases, between 4 and 6: cases of moderate complexity, and between 7 and 9: cases of high complexity.

Table 1: **Astor Hotels Case Difficulty according to Leenders., Erskine and Leenders (1997)**

Dimension	Difficulty Level
Analytical	2
Conceptual	1
Presentation	2
Complexity Level	Moderate

Source: developed by the authors

Information sources

Data collection took place through secondary data sources such as scientific articles, consultancy reports, and journalistic material and also through primary data sources such as semi-structured interviews with individuals occupying middle and top management positions from 7 different hotel chains located in the city of Rio de Janeiro, which expanded their investments during the years leading up to the Olympic Games. Public and private agencies linked to the tourism and local hospitality sector were also visited in order to bring validity to the respondents' discourse. This case emerged from a PhD research paper that gathered the reports of 17 respondents over 14 hours and 16 minutes of recordings and 254 pages of primary data.

Suggested teaching plan

Assignment Questions

1- How was the transformation of Rio's hotel industry in the years leading up to the 2016 Rio Olympic Games?
2- What are the main challenges faced by the Mediterranean Rio after the end of the cycle of mega events in the city?
3- What additional challenges do you believe the COVID-19 pandemic may have brought to Astor and the tourism market in Rio de Janeiro as a whole?
4- If you were Federico, what alternatives would you suggest in order to ensure that Astor's biggest investment in recent years does not close its doors?

Besides being more introductory, these introductory questions intend to help participants identify the key points of the case that will be needed for the main discussion.

Class plan

This teaching plan considers that there has been prior preparation by the students and a 2-hour class, as proposed below:
• Beginning of class and dividing the room into small groups of 4 to 5 students (5 minutes)
• Small group discussions (30 minutes)
• Case presentation (10 minutes)
• Entire class discussion (70 minutes)
• Closing (5 minutes)

Introduction

It is suggested to warm up the discussion by asking students to contribute to the contextualization of the events presented in the case during the first few minutes. At that time the instructor can ask the following question to the class:

Given the situation in which the case occurs, which of the events do you see as trends for the tourism industry in general?

At this point, it is suggested that the instructor take notes on the board, and as the main spaces are filled, the following transition question can be asked:

TQ1 - Given the changes and trends from digitization of work, meetings, and events, how can the survival of corporate tourism be ensured?

After a brief reflection by the students, you will be able to enter the analysis of the case from the answer to the first discussion question below:

Analysis

Discussion 1: How can hotel chains make strategic decisions if they are not sure what the future will be like?

Among the various predictive methodologies already developed, scenario analysis is one of the best processes capable of preparing organizations and individuals for the future (Garvin and Levesque 2006). According to the authors, the first step of this method involves a research interested in understanding the main forces capable of moving the world and business in different directions. Based on this information, it is then possible to start thinking about a small number of possible futures, which will be accompanied by a set of strategic actions that will guide organizations within each of these scenarios.

According to Schwartz (1996), scenario planning was developed to break with uncertainty by designing multiple possibilities that prepare you for the different futures that may arise. Furthermore, the scenario exercise could also act as a catalyst to move the world a little in the direction you want. Schoemaker (1991) also adds to the discussion that, unlike operational strategic planning, which generally presupposes a better option, scenario analysis allows for multiple possibilities. Thus, this technique becomes particularly useful in environments of high change and uncertainty. Companies from many sectors currently use the technique to complement strategic planning, thus improving the decision-making process on investment decisions and competitive moves.

Scenario analysis involves several components that together promote a vision of different futures. The first element starts with choosing a **key focal problem**, which can usually be a significant future decision or a strategic uncertainty that has important and long-term consequences. Many of the key problems take the form of a question, which for this case discussion we can consider as follows: "How could the hotel business prosper without the strength of corporate tourism as it is one of its main sources of revenue?"

Another key component to the model is the **driving forces**. These can be understood as themes and trends that will influence the key problem, which are subdivided into 4 main dynamics: social, economic, political, and technological. Brief comments on how each of these issues behave in the case analyzed can be seen below:

Social: Despite the increase competitiveness having raised the level of service and made the city's hotels more accessible to other national and Latin American tourism audiences, and to Rio de Janeiro locals itself, the need for social distancing with the COVID-19 pandemic generated a significant drop in leisure and business travel numbers, reflected in low occupancy rates and reduced staff at most hotels. It is not yet known the long-term effects of this new social dynamic and whether a supposed repressed demand for travel will be able to reheat the already very fragile sector.

Economic: Even before the sanitary crisis that hit the world in 2020, the economy of Brazil and Rio de Janeiro had already been going through a deep economic and fiscal crisis due to the high expenses with mega events combined with the low level of tax incomes. The hotel industry ended up being one of the main sectors affected due to the great increase in offer of beds in previous years without any change in demand. The appearance of new entrants such as hosting by platform created an even greater pressure on the competition, causing several hotels to close their doors in the years following the Olympics.

Political: Political scandals such as allegations of corruption investigated by the "car wash" operation in construction contracts were one of the main reasons for the economic crisis in the country. The arrest of the governor and the presidential impeachment in the same period contributed to generate a political and institutional instability that increased the country risk and created insecurity in the eyes of investors. More recently, due to the absence of a national political coordination for crisis management, what was observed was an inefficiency in the management of the pandemic by the government authorities.

Technological: Even before the pandemic, which led to an acceleration of the digital transformation process and a new work dynamic, the hotel industry was already suffering pressure from new videoconferencing technologies that ended up having a negative impact especially on corporate tourism. In addition, online travel agencies ended up consuming an important profit margin from the hotels. The way in which new technologies will impact the habits of people and companies in the future, especially in the business world, remains one of the biggest uncertainties for the sector.

The model also predicts that these driving forces differ in terms of uncertainty and predictability with more unpredictable components having the ability to affect more significantly how the future influences the focal problem (Ogilvy and Schwartz 2004). In this sense, the two most influential driving forces would be classified as **critical uncertainties**. Following the line of discussion of the case of Astor Hotels, we could highlight the technological and social variables as critical uncertainties considering that based on their performance, they would have the greatest power to influence the others positively or negatively.

After that, each critical uncertainty would be transformed into an uncertainty axis with opposite cases at each end. The two axes, when combined, would be responsible for forming a 2x2 **scenario matrix** with four quadrants of uncertainty or futures to be explored. Continuing the discussion of the case, the first uncertainty matrix that includes the technological variable could consider the escalation or retraction of the digital transformation in the business world. The second axis of the social variable could be considered the continuity or end of social distancing practices in the world. These two axes, when combined, produce 4 distinct futures.

These different futures, called **scenarios**, are plausible hypotheses of how the world could unfold and are created with the objective to raise risks and opportunities for the organization. According to Wilkinson (1995), there are no good or bad, desirable or undesirable scenarios. They are a mix of both. In the case of Astor Hotels analyzed here, a future in which digital transformation in the corporate world advances along with the maintenance of the need for social distancing, it would be possible to observe a decreasing number of business trips, as well as less on-site trade shows and conventions. On the other hand, if we consider a scenario of deceleration in digital transformation in business and the end of the need for distancing, it could be that an even stronger resumption of corporate tourism could occur due to the repressed demand from previous years.

In turn, Millett (2003) contributed by saying that in order to increase the probability that scenarios are understood as realistic, it is necessary to understand how the world got there. For this, it is important to build coherent narratives or stories free from stereotypes. After creating these narratives, the central question should then be returned, placing the organizations into each of the scenarios in order to explore the **implications** of each. This effort aims to identify the strengths and vulnerabilities responsible for filling the gaps that will support critical business decisions.

Finally, it is also necessary to identify **early warnings**, which are important indicators to highlight the likely emergence of one or another scenario. These signals are responsible for identifying some paths the world is taking and are also important for mid-way reassessments. If carefully selected, these signals can give the organization competitive market advantages by identifying antecedent signals not yet observed by competitors.

After the initial orientation moment where the focal problem is defined as how the hotel business could prosper without the strength of corporate tourism, previously one of its main sources of revenue, the discussion should move to the next stage of exploration where the driving forces are identified and divided between uncertain (technology and social) and predictive (economic and political). With this, now the construction of scenarios and narratives takes place, which will serve as a basis for the options to be considered by the protagonist.

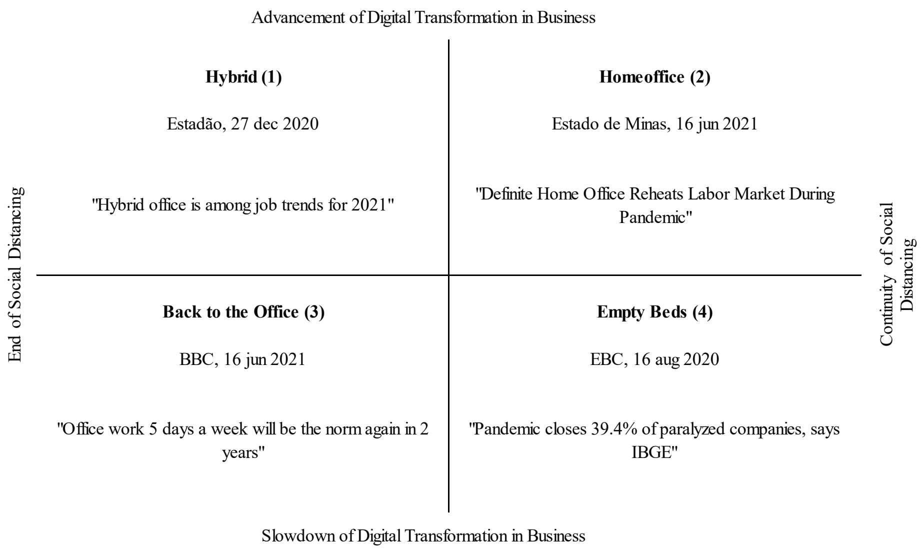
Scenario 1, called **Hybrid**, takes into account the advancement of digital transformation in business in parallel with the end of social distancing. As a form of narrative, we chose the article in the *Estadão* newspaper from December 2020 suggesting that flexibility in the combination of remote and in-person work should be one of the trends for the following year. As with hybrid offices, other business models must follow this same forward-looking bias. One of the main reasons for this trend is the understanding that the flexible model tends to be the best option for people's mental health with positive impacts on productivity and business in addition to reducing fixed costs present in traditional offices. However, this flexibility to attend appointments at a distance could end up negatively impacting corporate tourism.

Scenario 2, called **Homeoffice**, takes into account the same advance of digital transformation in companies, but this time combined with the continuity of social distancing. As a form of narrative, we selected the *Estado de Minas* report from June 2021, which highlights the widespread use of the home office by organizations, which is also one of the reasons for boosting new hires as they are now no longer limited by the geographic issue. This movement is still pointed out as definitive for many companies that have already signaled maintaining the model for part or all of their team even after the pandemic. From the point of view of corporate tourism, this trend ends up being identified as negative, considering that it must be accompanied by less geographic mobility due to online appointments and meetings.

Scenario 3, called **Back to the Office**, combines the end of social distancing, causing a slowdown in digital transformation in companies. As a narrative, we have the BBC report from June 2021 informing that although the world has recently seen alternatives to on-site work, the use of offices in their traditional model, every day of the week, should once again become the norm on a horizon not too far away. As justification, the article points out that long-term remote work has been causing several problems in the mental health of workers, and that the social interaction promoted by the office contributes to creativity and cannot be entirely replaced by technology. If the return to the habits of in-person appointments were proven, it could be seen as positive for corporate tourism, considering that with it there would be a resumption of business travels and a heating up of this tourism segment.

Scenario 4, called **Empty Beds**, takes into account the continuity of social distancing, but combined with the slowdown in digital transformation, especially in specific sectors of the economy, which may affect the corporate tourism segment. To contribute to the narrative, the EBC report from August 2020 was used, which highlights a number of almost 40% of the share of businesses that chose to paralyze their operations at the beginning of the pandemic and ended up having their doors permanently closed. Mostly belonging to the service sectors, these companies include the hotels that were not able to adapt their business in order to deal with the new market dynamics and consumption characteristics, thus having to close down their operations.

Image 1: **Astor Hotels Scenarios**



Source: developed by the authors

In order to continue the discussion, the instructor may ask the following question to the class:

Discussion 2: Given the scenarios that were created, what implications and options do you see for Federico?

The next phase then involves generalizing the implications and options for the case protagonist to consider. This is the moment to place Astor Mediterranean Rio at the center of the model with the aim of reflecting on how each scenario impacts its strategic choices in order to determine gaps, vulnerabilities, and to create a list of options that will guide the protagonist's decision-making process.

Image 2 – Astor Hotels strategic options

Scenario 1 - Hybrid	Scenario 2 - Homeoffice
Implications: Pandemic situation gets better Greater adoption of technological solutions in business Decrease in corporate tourism Mixed economy based on physical and digital **Options:** Focus on leisure tourism Invest in tourism of experience Transform convention centers into co-working spaces Organize fairs and events	**Implications:** Continuity or deterioration of the health crisis Greater adoption of technological solutions in business Almost extinction of corporate tourism Digital business-based economy **Options:** Reposition to a Residential Product Offer spaces for remote work Organize digital events Sub-rent part of the space to other businesses
Scenario 3 - Back to the Office	Scenario 4 - Empty Beds
Implications: Pandemic situation gets better Valuing the social above the technology Resumption of corporate tourism Economic recovery to pre-crisis levels **Options:** Focus corporate contracts Organize on-site events Give greater appreciation of living spaces Provide additional services to increase average ticket	**Implications:** Continuity or deterioration of the health crisis Valuing the social above the technology Momentary stoppage of corporate tourism Fall in economic activity **Options:** Reduce operations and staff Host contaminated people in social isolation Close same brand hotels in nearby regions Close operations

Source: developed by the authors

At this point, it is also important to try to identify the stronger options, which are those that are best suited to a greater variability of scenarios or that may present low cost or risk in order to enable the organization to respond quickly. Thus, the four most robust options from the point of view of adaptability can be identified as follows: (1) focus on leisure tourism; (2) promote external activities with tourism of experience; (3) reposition to a long-stay or residential product; and (4) invest in living spaces that favor coworking.

Van der Heijden (1997) points out, however, that a successful scenario strategy needs to be monitored and revised periodically. Also, because many of the strategies can only be applied in specific scenarios, it would be necessary to create warning signs that indicate the likely tendency of one scenario to the detriment of the other. Some of these signs applied to the case analyzed here could be described as the increase or decrease in the number of cases and deaths from COVID-19 in the world, the number of vaccinated people, the rise of new virus variants, the opening or closing of borders, the increase or decrease in the flow of national and international tourists, companies adopting home office or hybrid work as models for the future, a large number of companies retaking their on-site activities, among others.

In order to propose an alternative tool to the instructor, the elaboration of a product/ market matrix (Meldrum and McDonald 1995) whose objective is precisely to understand the need and the most appropriate product for a given moment in the market, could also be developed in a way that complements the table above. The model proposes 4 lines of strategic actions, namely: (1) Market Penetration – focused on selling your existing products to existing markets with the objective of obtaining growth in market share; (2) Market Development – focused on developing new markets or segments for your existing products; (3) Product Development – focus on developing new products or services for existing markets; and (4) Diversification – focus on developing new products to be sold in new markets as well. Some examples of these possible strategies to be explored with participants in the Astor Hotels Case are presented in the following diagram:

Image 3: **Astor Hotels product/market matrix**

		Products	
		Existing	New
Markets	Existing	Loyalty programs Discount policies Investment in advertising and marketing Reduction of the geographic offer in the city	Tourism of experience Organization of fairs and conventions Long-term stays
	New	Hosting COVID infected Open restaurant to local residents Day use for leisure tourism	Coworking spaces Conversion to residential Organization of digital events

Source: developed by the authors

Closing

At the end, the instructor can also close the case with a poll asking the participants to put themselves once again in the protagonist's position, as suggested:

Abstracting from the context experienced by Federico in the Mediterranean Rio, how do you believe that these scenarios and trends that emerged from the case could end up impacting the hotel business as a whole?

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