Tourism & Hospitality Marketing (Mrkt 322)

Table of Contents

Content

Page

UNIT ONE: INTRODUCTION TO TOURISM & HOSPITALITY MARKETING…….
2

UNIT TWO: HOSPITALITY AND TOURISM SERVICE SYSTEM…….
…….22

UNIT THREE: UNDERSTANDING HOSPITALITY AND TOURISM MARKETING ……..
…..44

UNIT FOUR: STRATEGIC HOSPITALITY AND TOURISM ACTIVITIES…….
…….66

UNIT FIVE: DEVELOPING THE HOSPITALITY AND TOURISM MARKETING MIX……82

CHAPTER ONE: INTRODUCTION TO TOURISM & HOSPITALITY MARKETING

Chapter Objectives

After working through this chapter, you should be able to:

- ✓ Define key marketing terms and understand the 'marketing concept'
- ✓ Describe major environmental influences which impact on hospitality customers and organizations
- ✓ Explain the special characteristics of service businesses to which marketers need to respond
- ✓ Identify the eight elements of the hospitality marketing mix.

Introduction

In this chapter, you will be introduced to the key concepts of marketing. We will start by explaining what a market is, and reviewing different definitions of marketing. We will then discuss the macro- and micro-environments in which hospitality companies operate, the special characteristics of services marketing, and the hospitality marketing mix. Whether we recognize it or not, we are all involved, willingly or unwillingly, in marketing. We come into contact with marketing practice every day as customers making buying decisions and at work, even if we do not have a job in marketing. Although marketing has a powerful influence in modern life, it is often misrepresented and misunderstood. Students learning about marketing for the first time can be confused, because academic definitions of marketing differ from the everyday use of the term. Students can also be

confused about the role of marketing, since marketing is both a business philosophy and a management function.



Activity 1

- ✓ Write down what you think 'marketing' means, before reading the chapter
- ✓ We will review your ideas at the end of this chapter and see whether they have changed!

1.1. Overview of Marketing

What is a market?

Originally a market was a meeting place where people could buy and sell produce, and of course this type of market still exists today. In modern societies a 'market' is much more complex, but retains the core principles of bringing together buyers and sellers with common interests. This modern concept of the market is based on groups of people who have similar needs and wants (actual and potential buyers or consumers), and companies that aim to satisfy the consumers' needs and wants better than their competitors (an industry). Needs can range from the basic requirements for survival – food, shelter, safety – to much more complex social needs, such as belonging and recognition. Wants are how different people choose to satisfy their needs, and are shaped by culture and personality. Hence people with similar needs, for example the need to travel for a family event and stay overnight, can have different wants – some may stay with relatives while others book their own hotel accommodation. Obviously, a major limitation on how people can satisfy their wants is the amount they can afford to pay.

Consumers have to make buying choices based on their own resources or buying power. Consumers will often buy the best bundle of benefits provided by a product, for the price that can be afforded. The combined purchase decisions of all the individuals buying a product (or service) is described as market demand. Market demand is normally measured using two criteria:

- ✓ The number of units sold, which is a reflection of the number of people buying the product or service; this is called the volume
- ✓ How much people have paid for the product; this is called the value.

Individuals can choose different ways to satisfy similar needs. Not everyone wants the same bundle of benefits, and this creates sub-markets, or market segments, within the overall market. In hospitality markets, luxury, mid-market and budget market segments represent different bundles of benefits sought by different groups of customers. Over a period of time the volume and the value of market segments can increase or fall, depending upon a wide range of factors. Market supply can also be measured, and this is called the industry capacity. In the hotel market, the number of hotels and bedrooms in an area is called the market capacity. If the number of hotels and bedrooms is increasing, because new hotels or bedroom extensions have been built, then the market capacity increases. In the hospitality industry, market supply is often categorized under the same headings as market demand segments; so the luxury, mid-market and budget classifications are used to describe the different types of operations serving those market segments. Other ways of categorizing hospitality market supply include:

- ✓ Tourist board, motoring, or other, organization ratings for hotels and restaurants (e.g. star rating classification)
- ✓ Purpose of travel (leisure or business)
- ✓ Niche markets (youth action adventure holidays, conferences or gourmet food).

The level of market demand and the amount of industry capacity is a crucial factor underpinning the profitability of hospitality markets:

- ✓ When market demand is consistently high and industry capacity low, the hospitality business should be operating at high capacity and be profitable
- ✓ When market demand fluctuates and industry capacity is high, the hospitality business will be operating in a highly competitive environment and profitability will rise and fall.

Categories of demand

One way to think about marketing is to view it as the art and science of managing customer demand. Because demand states vary, so does the task of marketing. Where demand states 1–4 occur, actual demand is lower than the desired level of demand and the hospitality marketer is primarily interested in facilitating and stimulating more consumption. ***Negative demand*** exists where consumers positively dislike a product – e.g. an unpopular food or drink product. The marketing response is to encourage demand by educating consumers about the positive features of, or benefits from, the product. You can often witness free tastings of food and drink products in supermarkets and wine shops, which enable potential customers to see, taste and buy the product. Where there is ***no demand***, the marketing task is to create demand. Raising awareness by advertising and public relations activity to demonstrate a product's positive attributes will help to educate consumers, and encourage them to sample the product. ***Latent demand*** means that demand would exist if there were a product/service available to meet consumer needs. The development of domestic short breaks as a hotel product was originally based on consumers' increasing affluence and available leisure time. Where ***demand is falling***, the task is to revitalize demand. This situation can occur when a product/service is beginning to lose its appeal. Marketers need to research the reasons why the product no longer meets consumers' needs, reformulate the offer and re-launch the product to stimulate consumer

interests and revitalize demand. ***Irregular demand*** can be described in hospitality markets as the seasonality of demand. In these situations, companies strive to develop marketing strategies to synchronize demand over the high and low seasons, often using price-led promotions. ***Full demand*** occurs when actual demand matches the desired demand, and the marketing task is to maintain current demand. In hospitality markets full demand rarely occurs, since competitors are likely to enter attractive markets and disturb the equilibrium. If there is too much ***(overfull) demand***, the service operation will not be able to cope and there is likely to be considerable customer dissatisfaction. The hospitality marketer will aim to reduce demand either by increasing prices or by managing the booking/queuing process to prevent overfull demand. A long-term solution to overfull demand is to increase capacity by building more bedrooms or extending the seating area in a restaurant, but managers need to be confident that overfull demand will be sustained. ***Unwholesome demand*** can occur when illegal activities such as drug taking, gambling or prostitution are taking place on the hospitality premises. Management clearly has a legal and ethical duty to try and inhibit or destroy unwholesome demand; however, this can be a difficult situation when customers are willingly involved.



Activity 2.

Explain about demand states and their strategies

Market demand in hospitality

Market demand in hospitality can be broadly described under four key headings:

1 Business travel demand includes all those journeys business people make to meet customers and suppliers, and attend conferences, exhibitions and

seminars. Business travel does not include the daily journeys people make when commuting to work.

2 Leisure travel demand includes journeys where people travel away from home for amusement, entertainment or relaxation – for example, holidays, weekend breaks, or same-day visits.

3 Domestic travel demand includes all the travel generated within a country by people living in that country – so, for example, the domestic demand for business travel in Australia is all business journeys taken in Australia by people living in Australia.

4 International travel demand includes all the journeys generated to a country from people living in other countries. France is one of the most popular tourist destinations, and attracts international visitors from all over the world.

Some types of travel do not fit easily into these broad categories. People often combine business and holidays in the same trip. However, these are convenient descriptions which tourist and hospitality organizations use.

What is marketing?

The philosophy of marketing

One set of marketing definitions suggests that marketing is primarily a business philosophy that puts the customer first. From this perspective, the primary goal of hospitality businesses should be to create and retain satisfied customers. This concept proposes that satisfying customers' needs and wants should be at the center of an organization's decision-making process. Professional marketers believe that this customer focus is the responsibility of everybody in the organization. Adopting this philosophy requires a total management commitment to the customer, and companies that pursue this approach can be described as having a customer orientation.

Definitions of marketing

Early definitions of marketing centered on the exchange/transaction process. Kotler (2000) proposes that in order to satisfy people's needs and wants, products and services are exchanged in mutually rewarding transactions generally, but not exclusively, using the monetary system. Kotler originally suggested that this exchange process, now known as transaction marketing, is a core concept in marketing, and is a 'value-creating process which leaves both parties better off than before the exchange took place'. Another set of definitions suggests that marketing is a management process aimed at delivering customer satisfaction. Examples of this approach include the definitions offered by the Chartered Institute of Marketing, and the American Marketing Association. These definitions introduce a crucial aspect of marketing management – planning, which is discussed in greater detail later but is implicit in all of an organization's marketing activities. These earlier definitions of marketing have been criticized on the grounds that the transactional focus is on generating first-time sales only. Relationship marketing evolved as a response to that criticism, and has become more fashionable as academics and practitioners recognize that the lifetime value of a customer can be high, even if the value of each transaction is relatively low. Relationship marketing is the development of mutually beneficial long-term relationships between suppliers and customers. In hospitality markets, a 'relationship marketing' approach has seen the major hotel groups focus their marketing activities upon frequent travelers in an attempt at encouraging repeat and recommended business.

Delighting the customer

Another view of marketing proposes that satisfying customers is no longer enough in a competitive environment. Companies, striving to develop sustainable competitive advantage, compete by 'delighting their customers' to ensure repeat and recommended business. Albrecht (1992) suggests that there are four product levels that companies can offer

1 At the basic level, a company provides essential core attributes (e.g. a clean bed) that customers need. If this basic level is not provided,

customers will not buy the product – if the bed is not clean, customers will not be satisfied and might check out of the hotel. A hospitality firm that only offers a basic level of value is not competitive, and is unlikely to generate significant repeat and recommended business.

2 At the expected level, a company provides attributes that customers expect and take for granted – for example, efficient check in, a clean bed and availability of a bar/restaurant might be examples of the attributes expected from a mid-scale hotel. A hospitality company providing attributes at the expected level is only providing an average standard service; there is nothing better about the service offer compared to the competition. Customers may only be moderately satisfied, and there is no incentive to return or recommend this company.

3 At the desirable level, a company provides attributes that customers know of but do not generally expect. The friendliness of the staff, the quality of the food and the efficiency of the service are examples of attributes that customers know, but do not always expect. Companies providing the desirable offer are competing more effectively than most of their competitors.

4 At the unanticipated level, hospitality operators offer customers 'delightful and surprising' attributes that demonstrate outstanding service quality. Examples might include imaginative decor and fittings, staff who perform exceptional service, or cuisine with unforgettable taste sensations. Companies operating at the unanticipated level can be said to delight their customers with memorable experiences, and are achieving a significant advantage over their competitors.

The difficulty with providing unanticipated levels of service all the time is that customers begin to expect these delightful surprises, and competitors copy them.

Managing demand

All these different definitions must seem quite confusing, particularly when many people who work in marketing are actually involved with increasing sales via promotional activity. Most hospitality marketers are employees in

sales, sales promotion, print and publicity, direct mail, advertising, public relations, customer relations and marketing research jobs. So how can we bridge the gap between the various philosophies and definitions of marketing with the jobs which marketers do? The key concept that underpins marketing theory and practice is the management of demand. After a lifetime devoted to developing marketing theory and promoting the benefits of marketing, Philip Kotler (1999) stated that 'marketing's central purpose is demand management' and marketers need 'to manage the level, timing and the composition of demand'. This definition of marketing seems to explain most accurately what marketers do, and why they do it.

The marketing concept

To summarize the various approaches and definitions of marketing, the following core principles can be put forward:

1 Marketing is the business philosophy that places the customer at the center of a hospitality organization's purpose. Increasingly, hospitality companies recognize that developing long-term relationships with customers is mutually beneficial.

2 There is an exchange activity between hospitality organizations and their customers, which should be mutually rewarding.

3 The central purpose of marketing is to manage demand.

4 Marketing is a management process that focuses on planning for the future success of the organization.

5 There are a set of marketing tools which marketers utilize in understanding customer needs and wants, and in developing appropriate products and services to satisfy or delight customers.

Companies that place the customer at the center of their thinking are said to have adopted the marketing concept. A key feature of marketing orientated companies is that they have an external focus and are constantly researching their customer needs and wants, their competitors, and the environment in which they operate.

Postmodern marketing

Postmodern marketers (Brown, 2001) have criticized formal academic definitions of marketing and the marketing concept, which are predicated on a rational planning and decision-making process. Most modern marketing theories were developed in a period of stable economic and social conditions in the USAbetween the end of the Second World War and the mid-1980s. The impact of postmodern thinking in the arts, architecture, history, literature and sociology has created considerable interest in marketing practice. Although postmodern criticisms of marketing do not put forward a set of alternative theories, they do challenge the over-reliance on quantitative marketing research, simple geo-demographic segmentation criteria, the concept of a dominant culture being more important than other cultures, and a formulaic approach to marketing planning. Postmodernism in marketing implies recognition of consumers as individuals and the rejection of a coherent marketing theoretical framework. Postmodern marketers suggest that marketing should be more inspirational in connecting with consumers. Whilst these criticisms may be valid, it is important to understand the core principles and practice of marketing. This is our goal.

Management orientations

Five different competing management philosophies have been identified in free market economies (see Figure 1.2). Called ‘orientations’, some of these generic philosophies have been linked to specific economic conditions, and to certain periods in economic history. It should be noted that a hospitality organization could adopt any one of the following orientations, regardless of the economic circumstances.

Operations or production orientation (mass marketing)

Originally developed by Henry Ford, the production concept is appropriate when there is a rising demand for strong, innovative products. If demand exceeds supply, management concentrates on generating volume to satisfy the growing demand. Improved technologies generate economies of scale, which allows management to reduce prices further and grow the market. The production orientation is based on conditions of mass production and

limited consumer choice. This leads to an inward-looking focus as management strives to control costs, improve quality and efficiency, and increase volume. Critically, from a marketing concept perspective, the needs and wants of customers can be forgotten in the interests of organizational efficiency. Providing customers are satisfied with the low-cost, mass-produced product, then a production orientation is appropriate. There are many examples of product innovation generating strong demand in the fast-food industry. When American fast-food operations entered the major cities of countries like China and Russia, they generated high demand for what was considered an innovative foreign food product. This meant that McDonald's adopted a production orientation. The McDonald's management's main focus was on achieving operational efficiency by improving their food supply chain and training staff to service the high demand. Airline, contract and welfare food service operations also have a production focus because of the mass markets they serve, with varying degrees of success. There are also examples of hospitality organizations using a production orientation ineffectively. Holiday Inn used to provide managers with mega-size standard operational manuals detailing the rules and procedures for every aspect of the hotel operation, but such a bureaucratic approach can end up stifling innovation, making hospitality managers focus on the systems and paperwork instead of on customer care. Smaller companies can also neglect customers by adopting an operations focus. Simplifying the production process for operational convenience can lead to limited customer choice – for example, small sandwich shops can easily fall into the trap of limiting the choice of fillings to reduce waste, and thereby losing customers.

Product or service orientation

The product or service orientation is not linked to any specific economic era or to specific market conditions. Companies adopting a product orientation believe that their customers can only be satisfied with a particular type of product. Management concentrates on developing better versions of the existing product, but fails to recognize that customers could

be satisfied better by different types of products. For example, hospitality companies with a product orientation include the famous restaurants with celebrity chefs, who serve what they think customers should eat regardless of what the customers actually want! Chefs like this may lose touch with the question of whether customers actually want to buy the product; they become overly focused on the product. Theodore Levitt's famous article 'Marketing myopia' (Levitt, 1960) warned companies that a product orientation could lead to failure. The product management focus is again inward looking. Whilst a company can prosper with a product orientation, changes in consumer tastes and fashion can quickly undermine a product-led company.

Selling orientation

The selling orientation was developed in the 1920s, when American companies developed efficient production systems and needed to generate more sales to maintain profitability. Companies adopt the selling orientation when their products are competing in markets where supply exceeds demand, and growth is low or declining. A critical issue for management is surplus capacity combined with a high fixed capital investment in the building and plant. This combination can force management to focus on high sales volume and aggressive sales generation to strive to make a profitable return on investment. Despite this external focus on sales generation the management is still inward looking, since it is concentrating on selling the product to potential customers and is not focusing on satisfying customer needs and wants. Companies with the selling orientation tend to accept every possible sale or booking, regardless of its suitability for the business or other customers. By mixing incompatible customer segments hospitality companies can fail to deliver customer satisfaction, which is ultimately self-defeating. Longer-term, profitable relationships with existing customers can be damaged in the pursuit of short-term sales generation. A sales orientation is endemic in the hospitality industry, as many marketing programs are really only sales promotions aimed at filling bedrooms, bars and restaurants – regardless of

customers' needs and wants. Whilst selling is a vital element of hospitality marketing, sales strategies should be integrated into the marketing plan and be consistent with a marketing orientation.

Marketing orientation

The marketing orientation is considered by some authors to be the same as the marketing concept. It is an alternative strategy to the selling orientation, to cope with similar economic conditions (i.e. surplus capacity leading to a fiercely competitive environment). Companies adopting the marketing orientation recognize that customers have considerable choice in the marketplace. Companies aiming to maintain long-term profitability need to understand and serve customers better than their competitors. To achieve superior business performance companies therefore need to identify what customer needs and wants are, and to satisfy them better than competitors. This means that companies need to carry out marketing research and to develop an integrated approach to marketing, to ensure that all marketing activities are coordinated and help to deliver customer satisfaction. A marketing orientation is an outward-looking management philosophy, which responds to changes in the environment and considers the business from a customer perspective. As customers' needs and wants change, so the business adapts accordingly. The advantage of a marketing orientation is that the business focus is on developing long-term relationships with customers, and avoids price competition. The adoption of a marketing orientation suggests that companies are seeking longer-term profits, as opposed to increasing profits in the short term at the expense of longer-term customer satisfaction. At its most advanced level, a marketing orientation becomes focused on the satisfaction of individual customers, whether organizations or people. Companies that tailor their offer to meet the needs of individual customers are said to be practicing one-to-one marketing. In hospitality, the ability of computers to store and retrieve guest history increasingly enables hotel companies to record customer likes and dislikes, and to personalize services and communications to the

needs of individual customers. This one-to-one style of marketing is predicted to become more important in the future.

Societal marketing orientation

In the 1980s, the marketing orientation was criticized for its narrow focus and lack of concern for environmental and social issues. The original marketing orientation ignored the potential conflict between consumers' wants, and societies' needs. The societal marketing orientation was a response to these criticisms, and recognizes that commercial organizations have a wider responsibility than simply looking after customers and staff. A societal marketing orientation suggests that companies should become proactive in the community, adopting a 'good neighbor' policy in their company's best interest. A number of hospitality organizations have genuinely adopted a societal marketing approach. Other organizations claim to adopt a societal marketing approach, but are really only carrying out public relations activity to gain positive publicity. The distinction between a genuine societal marketing approach and a superficial approach lies in the core values of the organization. If the entire organizational culture is clearly committed to an environmental and social awareness in its philosophy, and demonstrates this in all its activities, then it has adopted a societal marketing approach.



Activity 3.

Distinguish between selling and marketing philosophies.

1.2. Marketing in Hospitality and Tourism

In any business, a solid marketing strategy is critical to building a brand, attracting new customers and maintaining loyalty. The hospitality industry is no different. Because customer loyalty is key, marketing managers and executives devote a lot of time and resources to building brand awareness and creating ongoing, interconnected campaigns. These marketing efforts

usually include both print and digital collateral that target former guests while also attracting new clientele. However, this particular industry has a unique set of challenges that must be overcome. Understanding the importance of marketing in the hospitality industry can help you get ahead and stand out in the competitive job market.

The Basics

Hospitality sales are different from consumer goods sales because marketers must sell tangible as well as intangible products. In many cases this means that they are marketing services rather than goods, and success hinges on creating the right *feeling* in the consumer. For example, a resort will want to cultivate a relaxing, fun atmosphere that is recognizable to customers and inspires those same feelings in the consumer.

Because the hospitality industry is mostly made up of tourism and other experiential services, a consistent brand identity is also very important. Marketers want to ensure that brand recognition exists so that customers will use their services again and again. Repeat customers bring in a sizeable portion of revenue, so marketing strategy must be split between maintaining relationships with past customers while seeking out new ones.

Strategies for Success

Companies in the hospitality industry use various methods to develop and maintain an effective marketing plan. The following are some of the general strategies that marketers use for brand success.

Research

Customers choose hotels and other hospitality services for a variety of reasons. From location to facilities and perks, companies have to be sure that they’re providing what buyers are looking for. The role of marketers is to identify what factors make customers choose a particular hospitality service, and this requires extensive research. By speaking to current and former guests, monitoring customer reviews on websites, reviewing

industry data and more, marketing professionals learn what makes a hospitality service stand out, as well as how it can be improved.

Awareness

If potential customers don't know about a service, they can't purchase it. That's where brand awareness comes in. Marketers make sure information on hotels, resorts and restaurants is easy to find and up-to-date. They can do this by buying ad space on relevant travel sites, creating an engaging website and collaborating with other, noncompeting hospitality services in the same market.

Promotion

Another smart strategy for attracting customers is to run promotions during certain times of the year, usually when business is slower. Introducing incentives and offering incentives are just some of the ways that marketing professionals achieve this. Have you purchased a Groupon for a spa weekend? That's promotion at work.

Relationships

To ensure high levels of repeat business, good customer relationships are vital. Not only do repeat customers usually promote a service through word-of-mouth and social media, but they also create a stable revenue base. One way to build relationships is through customer loyalty programs, which reward customers who regularly use a particular hospitality service.

1.3. The component sectors of the hospitality industry

At the beginning of this chapter travel and tourism was identified from the demand side as a total market comprising three main sectors: international tourism, domestic tourism and same-day visits. This section identifies the sectors of supply that are loosely known as the travel and tourism industry.
A major difficulty in understanding and dealing with travel and tourism as a total market or industry is the sheer number of private and public sector enterprises involved in supplying services and the extent to which so many

of them see tourism as only a part of their total business operations. For example, airlines, trains, buses, restaurants and hotels all deal with a wide variety of market segments, many of which do not fall within the internationally agreed definition of travel and tourism. Hotels have local trade for bars and meals, and transport operators carry commuters. Many visitor attractions, such as museums, and most visitor information bureaux also provide services to local residents. This mixture of products designed to serve both tourism and other markets has great significance for marketing decisions.

1.4. The hospitality marketing mix

The term marketing mix is used to describe the tools that the marketer uses to influence demand. The marketing mix is a core concept in marketing. **Product/service offer**

Hospitality products and services are primarily designed to satisfy the needs and wants of business and leisure travelers. Examples include:

- ✓ ***Accommodation*** – a bed, bedroom, cabin or suite, in a hotel, inn, chalet, apartment, time-share, cruise ship, hospital
- ✓ ***Food and beverage*** – a drink, sandwich, fast food, family meal, gourmet dinner, in a café, cafeteria, restaurant, bar or pub, aero plane, motorway service station or ship, at an attraction or leisure center
- ✓ ***Business services*** – a meeting, conference, communication bureau, in a hotel or conference center
- ✓ ***Leisure*** – a short break, domestic holiday or international holiday, in a hotel, resort, self-catering accommodation, camping and caravan site, or a cruise.

Marketing, working with operations, should play a role in developing the product and service offers to ensure that the needs of customers are the focus of planning and product development.

Location

Location decisions are incorporated with distribution under the heading ‘Place’ in the generic marketing mix. Because the choice of location is the

first and crucial marketing decision for hospitality companies, this text includes location as one of the main elements of the marketing mix. Location decisions focus on where the hospitality business should build, buy, franchise or rent the site(s) from which it operates.

Price

The pricing decisions a hospitality organization makes include:

- ✓ Setting the tariff, or rack rates
- ✓ Agreeing the level of discounts for key accounts
- ✓ Pricing all-inclusive packages (conferences, functions and leisure breaks)
- ✓ Developing special priced promotions to increase sales during low season periods.

Pricing decisions influence demand, are crucial in driving profitability, and play an important role in presenting the 'image' the hospitality firms wants to project to customers and stakeholders.

Distribution

In most textbooks, distribution decisions are generally discussed with location under the heading 'Place'. Distribution in hospitality is concerned with how a company can make it timely and convenient for a potential customer to book hospitality products directly from the hospitality company or through intermediaries. The impact of ICT and the Internet has transformed the distribution channel, and is changing relationships between hospitality providers and travel agents, tour operators, conference placement houses and incentive houses.

Marketing communications

Originally called 'promotion' and now popularly described as 'marcom', marketing communication covers all the tools that hospitality firms can use to communicate with customers, employees and other stakeholders. This is the function of most marketing and sales departments. The key elements of marketing communications in hospitality are:

- ✓ Brand/corporate identity
- ✓ Personal selling (the sales team)
- ✓ Print and publicity material (e.g. brochures)

- ✓ Advertising
- ✓ Direct mail (often part of a broader database marketing or direct marketing effort)
- ✓ Sales promotion
- ✓ Public relations
- ✓ Merchandising
- ✓ Sponsorship
- ✓ Website design.

Physical environment

The physical environment (or physical evidence) consists of the tangible features of the hospitality offer – the external appearance of the premises (the landscaping, lighting and signage) and the internal layout (appropriate decor, furniture and furnishings). Intangible factors are intimately linked to physical evidence – the ambience or atmosphere – and clearly the success of a hospitality product is dependent upon the appeal of the physical environment to the customers.

Process

Because of the simultaneous production and consumption prevalent in hospitality services, the processes through which customers buy and consume hospitality products are crucial to marketers. Important processes include booking, checking in and checking out, queuing systems and service operations. Marketers need to ensure that the organization's service delivery processes are efficient, customer friendly and competitive.

People

In the services marketing mix, 'people' includes both customers and employees. We have already discussed how hospitality customers interact with each other whilst on the premises – indeed, in certain hotel and holiday environments a good rapport between customers is an essential ingredient of the successful product. Managing the customer mix and ensuring that target markets are compatible plays a key role in delivering customer satisfaction. Hospitality is a service where the interaction

between customers and employees is also a critical element of the customer experience. Marketing therefore needs to have an input into human resources aspects of the operation, and this is called internal marketing.



Activity 4.

- ✓ Compare what you wrote about the meaning of 'marketing' with the definitions we have presented in this chapter. How different are the academic definitions to popular ideas about marketing?
- ✓ Reflect upon the 'marketing concept' and the eight elements of the marketing mix. Write down a new list of all the activities involved in marketing.
- ✓ Have you changed your ideas about the role of marketing?

1.5. Implementing the marketing approach

Marketing strategy implementation requires a purposeful tactical marketing plan aligned with the core business growth strategies. One of the things that makes Chief Outsiders unique among strategic marketing consulting firms is that we implement the programs we recommend. Implementation needs a broad perspective, which is one key advantage of working with a seasoned executive from outside. Consider the following potential components:

- Go-To-Market Strategy
- New Product Launch Strategy
- Channel Conflict Management
- Return on Marketing Investment

Tourism & Hospitality Marketing (Mrkt 322)

Whether you're taking a new product to market or implementing the annual marketing plan, your "go-to-market strategy" defines how you'll be reaching into the marketplace. It includes a very specific targeting plan for your decision makers and key influencers, the messages for each, and the channels you'll reach them through. The challenge is typically keeping the plan and programs simple and manageable. Simplicity is a challenge because of the appeal of the many vehicles and media to reach your targets. Manageability is a challenge because you need to able to hold each program element accountable. Chief Outsiders' advice for mid-sized companies is to keep the number of initiatives small, but varied, managing to an optimal mix of impact and return on investment.

New Product Launch Strategy & Implementation

Launching new products can be challenging for businesses that don't have frequent product releases to develop true expertise in the discipline. Developing a strategy for product launches requires knowledge of the target customers, the channels for reaching them, the competitive and overall market environment, and an up-to-date, working knowledge of effective marketing and communications tactics. The strategy should be driven by a set of goals which may include sales volume (revenue or units), trial, and adoption or satisfaction metrics (usage, or net promoter score), and market preparation goals (training, merchandising). Not surprisingly, there are tremendous variances depending on the products and markets served. The key discipline for success is alignment (internally within your company, and externally throughout your market ecosystem), which is driven by clarity and frequency of communications.

Channel Conflict Management

Channels help companies bring products into the marketplace where purchase decisions are made. Channel partners are companies made up of

people who typically have competing priorities and make decisions based on two dimensions:

1. Where can they make the most money, and
2. How easy it will be to accomplish

Developing, supporting and encouraging good channel behavior includes creating opportunities, as well as training, arming and incentivizing channel sales teams, including keeping a level playing field. Every channel partner should be motivated by opportunity and not discouraged by competing inefficiently with other company channels. While many companies consider channel partners as largely passive players in the distribution of their goods, the truth is that channel partners make a significant investment in time – which is continuously being reprioritized based upon current opportunities. Managing channel conflict is usually as simple as being intentional and strategic, recognizing and respecting each channel and channel partner's role and needs. The most classic channel conflict is where in-house company sales teams or online offerings compete directly (same territories, same target companies, same products) with the company's channel partners. Even in these situations, the business can reduce or eliminate conflict by competing fairly and openly, not creating undue advantage with discounting or add-ons.

Return on Marketing Investment

There are two primary categories of measurement in marketing: One for reporting and accountability to executive management and the other for operational management. The marketing executive must demonstrate to her peers that she is rigorously and continuously bringing value to the company. Senior executives are less interested in "brand oriented" goals (e.g., preference) or leading indicators (leads), and much more driven by fiscal success (CPG companies being a noted exception). Operationally, the marketing department is managing the performance of tactics in near real-

time. Are we filling the funnel? Driving engagements? Getting conversions? Which media vehicles are strong? Weak? Are our leading indicators succeeding? Are partners and channels being trained? Armed? Incentivized? Key to success is a predefined dashboard and target objectives. Over time, the marketing executive and team can demonstrate incremental improvements on ROMI which will be critical not only for continual success, but to establish and maintain credibility with the CEO and executive team.

1.6. Changing prospects for twenty-first century tourism

Looking back over the last thirty years it is easy to see the key economic and social trends that are transforming the former industrial economies in the developed world into post-industrial societies. On the one hand it is a story of severe economic decline, loss of employment and traditional community disintegration, hastened by the economic crises of the early 1970s, the early 1980s and the early 1990s. On the other hand, it is a story of remarkable economic growth as new forms of economic activity, including tourism, have emerged to replace those that have been lost. Developments of information and communications technology (ICT) and of transport technology have unleashed powerful global economic forces, which have simultaneously speeded the decline of traditional industries in countries that developed them for over a century and facilitated the emergence of new forms of employment. It is in this crucible of change that most developed societies are being redefined, and it provides a fertile and volatile context for the trends that are influencing the future of tourism globally.

As traditional areas of employment decline in the developed world, many of the industries involved are being re-established in the developing world

using the latest technology combined with less costly labour. Such shifts arouse ethical considerations but are expected to promote the economic growth of the developing world and in turn promote further global tourism development.

1.7. Self-check questions

Part I. Multiple choice

1. Which of the following philosophy focuses on production and distribution efficiencies?

A. Selling
B. Product
C. Marketing
D. Societal marketing
E. All of the above
F. None of the above

2. Selling philosophy differs from marketing philosophy in that:

A. The former focuses to satisfy company owners but the later focuses to satisfy customers
B. The former is an out-in approach but the later is an in-out approach
C. The former planning is long-term oriented but in the later it is short term oriented
D. All of the above
E. None of the above

3. When a product's costs are too high, which philosophy of business is appropriate for improving a company's position?

A. The marketing
B. The product
C. The societal marketing
D. The selling
E. The production

4. The business philosophy that seeks a balance between satisfying short-run consumer wants and ensuring long-run consumer welfare is

A. The marketing philosophy
B. The product philosophy
C. The societal marketing philosophy

D. The selling philosophy
E. The production philosophy

5. _____ philosophy of the marketing emphasizes on activities such as intensive personal selling and promotion.

A. The marketing philosophy
B. The product philosophy
C. The societal marketing philosophy
D. The selling philosophy
E. The production philosophy

1.8. Answers for self-check questions

1. F **2. A**

3. B **4. C** **5. C**

CHAPTER TWO: HOSPITALITY AND TOURISM SERVICE SYSTEMS

Chapter Objectives

After working through this chapter, you should be able to:

- ✓ Understand the meaning of Service culture
- ✓ Explain about the characteristics of service and its marketing practices
- ✓ Describe the management strategies for service business

2.1. Introduction

The hospitality industry is a significant player in the part of the economy called the service sector. This sector makes up the greater part of the economy and creates newest jobs. Therefore, service is now amatory catchword for almost all businesses and organizations. Service is defined in Webster‟s New World Dictionary as “the act or means of serving”. To serve is to “provide goods and services for” and “be of assistance to”. In other words, service is an action or set of actions taken by one person for the benefit of another person that meets a need, solves a problem, or produces a positive experience.

Service is an intangible experience of performance that customer receives along with the tangible side of the purchased product. Nowadays it is expected in all business situations. This is especially true in the hospitality industry. Now, what is good service? The answer to this question is not an easy one. Most people only notice service when they do not receive it. However, good service is the

service that satisfies or exceeds customers' needs or expectations. The customers' expectations and perceptions of service are essential to his satisfaction. When customers' expectations are fully met or exceeded, they perceive value in the service received. The customer's perception of the service experience is what matters most as they form an impression about the company. Therefore, a hospitality manager must know what satisfaction really means to his customers. Once the true meaning of customer satisfaction is understood by a hospitality manager, it can be transformed into performance and specific service levels.

2.2. Service Culture in the Hospitality

2.2.1 Culture

Culture is a complex concept, and no single definition of it has achieved consensus in the literature. So, out of the many possible definitions examined, the following definition guides this study: culture is a set of shared and enduring meaning, values, and beliefs that characterize national, ethnic, or other groups and orient their behavior (Mulholland 1991). A culture that supports customer service through policies, procedures, reward systems and actions. Service culture can be implemented:

- ✓ Through employee communication
- ✓ Through company policies
- ✓ Through personal actions
- ✓ Empowers employees to solve customer problems.
- ✓ Has to start with top management and flow down.
- ✓ Organization's culture must support and reward customer needs attention.

The behaviors and beliefs characteristic of a workplace are its culture. The culture and structure of an organization affect one another. A structure appropriate to the organization helps to develop a healthy culture.



Activity 1.
What is service culture?

2.2.2 Customers

A customer (sometimes known as a client, buyer, or purchaser) is the recipient of a good, service, product or an idea - obtained from a seller, vendor, or supplier via a financial transaction or exchange for money or some other valuable consideration (Reizenstein, Richard C. Kendall, Stephanie.D.2004). Customer is a person who makes use of the paid products; this is typically through purchasing or renting goods or services. He usually faces a wide range of goods and services that might satisfy his needs and makes choices based on his perceptions of delivered value. Customer value is the difference between the benefits the customer gains from a good or service and the cost of achieving it. When the customer is satisfied with received good or service, he will purchase it again. Therefore, the customer satisfaction ultimately measures a company's success since the customer is the one willing to pay for its goods and services. For the hospitality industry, it means that if customers are satisfied with their

experience at particular hotel or restaurant they will visit it again. Simply said, customer satisfaction is the deserved outcome of hospitality industry.

2.2.3 Developing a Service Culture

The concept of service culture first appeared in Grönroos‟ (1990) work 20 years ago. As a specialized culture within the broader concept of organizational culture, service culture is defined as “a culture where an appreciation for good service exists, and where giving good service to internal as well as ultimate, external customers is considered by everyone a natural way of life and one of the most important values” (Grönroos, 2007, p.418). Company culture can be defined as a system of shared values held by the members. Differing values distinguish the company from other companies. It is an overall style, feel of a company or set of key characteristics on which the company places value. In its simplest form, it is the way things are carried out in the company based on its values, behaviors, management styles, and written and unwritten policies and laws.Service culture not only refers to organizational practices but also relates to manner, values, and behavior of both the organization and its employees. If an organization has a strong service culture, it will develop employees‟ positive attitudes toward giving service to their customers (Grönroos, 2007). Zeithaml, Bitner and Gremler (2009) further point out that this very rich definition has three main implications for employee service providers. First, service culture exists when there is an appreciation for good service. Second, good service is given to both internal and external customers. Indeed, not only do organizations need to care for their external customers but

they are also required to pay more attention to their service employees (internal customers) who play a crucial role in service delivery. Finally, within service culture, good service is a way of life and provided naturally as it is a crucial norm of the organization. It is like a glue to tick to employees‟ attitudes, behavior and commitment toward giving good services to their customers (Zeithaml, et al.,2009). However, there is some confusion in the literature between service culture, service climate and service orientation.

When we want to know a customer's needs and meet them, we need to develop the service side of the business, specifically a service or customer oriented culture. The service culture focuses on serving and satisfying the customer and is characterized by a strong commitment to service. In a service culture, everyone automatically thinks of the customer before anyone or anything else. In order for a service culture to grow and thrive, management must have a burning desire for it to be that way and the energy to ensure that this desire spreads throughout the company and remains there permanently. Thus, the service culture has to start with the top management and flow down. Everyone, from the top down, must believe that they work for the customer. Customer service is, therefore, the responsibility of everyone in the company, not only the "customer service department".

For example, a well worked out mission statement can help a service culture to thrive because it can provide direction for the company employees and can be a powerful force to clearly define a company's purpose for existence. Therefore, it should be motivating enough to make employees feel their work is significant and contributes to people's lives.

The hospitality employees, especially front line employees are in direct contact with customers and have the ability to strongly effect the customer's experience. For this reason, it is important to weave a service culture into employees‟ education and training as soon as they are hired. The service orientation and professionalism of hospitality employees is the most important and include both the ability to meet customer needs with their knowledge, interpersonal skills, and their professional appearance (including attire and grooming).

2.3. Characteristics of service marketing

How does one go about marketing a service—a pet boarding and grooming service, for example? The challenges associated with marketing a service-based business are quite different from the challenges associated with marketing a product-based business. Service businesses have unique characteristics that should be explored and understood when developing a marketing plan and competitive strategy. The four key characteristics of service businesses are: Intangibility, Inseparability, Perishability, and Variability. Let's take a closer look at each of these qualities so you can apply them to your service business. I will also provide some tips for dealing with the challenges inherent in each characteristic.

1) Intangibility. When you buy a car, you can see it, feel it, and even test it prior to purchase. In other words, products have tangible qualities that provide information to consumers so they can easily compare one product to another. Services, on the other hand, are

intangible. Most services cannot be experienced or consumed until the purchase is made. Customers can easily end up feeling like they have to make a purchasing decision without adequate information.

What is the answer to this challenge? Communicate, communicate, communicate. Communication can come from a variety of sources. The use of customer testimonials and referrals is an excellent way to reduce the level of intangibility for your service. Additionally, you can increase customers' comfort level by explaining your service in as much detail as possible. If you provide your services at one location (e.g. a doggy daycare) you might consider allowing customer preview visits. Here is a tip: a well-designed brochure or website can provide information to customers before they talk to you, improving your overall efficiency and increasing your chances of securing new business.

2) Inseparability. To continue using the automobile analogy, cars are produced at one location, sold at another, and used at yet another location. Services are unique because they are usually provided and consumed at the same time in the same location (e.g. a haircut or car tune-up). Because of the characteristic of inseparability, customers have strong expectations about how a service will be provided, which can lead to disappointment if their expectations are not met.

A solid customer service process is the key to managing this challenge effectively. How do you ensure customer satisfaction? How do you deal with unhappy customers? If you don't know the level of your customers' satisfaction with your service, ask them!

3) Perishability. If a car does not sell today, it can be stored and sold the following day or at some other time in the future. Services, on the other hand, are often perishable, meaning that unused capacity cannot be stored for future use or sale. For example, a restaurant might be full one night and half empty the next. If the restaurant runs with an inflexible staffing model, expenses are the same each night. However, the revenue picture is quite different, which impacts profits. The same is true for Mt. Bachelor – every empty seat on the chairlift is lost revenue.

This challenge can be overcome by carefully managing supply and demand. A restaurant might operate with fewer staff during the week and hire additional staff to cover weekends when demand is higher. This strategy will allow the restaurant to provide the same level of customer service with varying customer demand—and improve productivity. Does your business have peak periods? What can you do to control supply and demand? Tip: Use pricing strategies and promotions to stimulate demand for your service.

4) Variability. Once you have decided to buy a Honda Accord, you know that there will be no variation in the quality of the Accord from one Honda dealer to another. Manufactured goods tend to have automated processes and quality assurance procedures that result in a consistent product. However, the quality of a service can vary by many factors, including who provides it, where it is provided, when it is provided, and how it is provided. The more your business relies on humans to provide services (instead of automation), the more susceptible you are to variability.

How can you manage this challenge? Establishing standard procedures (or checklists) can ensure consistent service delivery. If you have employees, training is essential. Can technology improve an aspect of your business? One obvious example of technology's impact is illustrated by ATMs reducing bank teller service variability for customers. Don't forget the "little things" like invoicing and newsletters. Any time you have a "customer touch" you have an opportunity to demonstrate consistency and professionalism, which will translate into your customer's perception that your service is consistent in quality.

Now put a few of these characteristics together to improve your competitive position. In order to be successful, a small service business must not only attract new customers, but it must also develop long-term relationships with existing customers. Take advantage of the opportunities offered by the characteristics of "inseparability" and "variability" to build trust and satisfy your customers—and earn their loyalty and referrals.

As you explore the unique characteristics of your service business, do not become overwhelmed by the challenges they present. "Challenges" are simply disguised opportunities. Now that you have this information, turn one or more of these service characteristics into a competitive advantage for your business.



Activity 3.

What differentiates service from physical good? Explain

2.4. Management strategies for service business

Many managers of service businesses are aware that the strategic management (by which I mean the total process of selecting and implementing a corporate strategy) of service businesses is different from that of manufacturing businesses. This article discusses how pure service businesses are different from product-oriented businesses and why they require different strategic thinking. A pure service business is one in which the service is the primary entity that is sold.

That distinction is important because everyone in every type of business sells some element of service. In pure service businesses any transfer of a physical or concrete product is incidental to the service—for example, the written report of a management consultant. Examples of pure service businesses include airlines, banks, computer service bureaus, law firms, plumbing repair companies, motion picture theaters, and management consulting firms.

Top managers should ask themselves six questions about strategic management. The questions are fairly common, but the answers for service businesses are often unique. Each question will be raised here and discussed in depth later.

1. Do we fully understand the specific type of service business we are in? Although service-oriented businesses are different from product-

oriented businesses, the nature of the difference depends a great deal on the specific type of service business. I will present a classification scheme to help distinguish between service businesses along some important strategic dimensions.

2. How can we defend our business from competitors? Every business must consider how it can build and protect a strong competitive position. To do this, the economics of the business must be carefully analyzed. Service businesses often require different competitive strategies from those of product-oriented companies. If an enduring institution is to be created, some attention must be given to the management of economies of scale, proprietary technology, and reputation of the company.

3. How can we obtain more cost-efficient operations? Manufacturing companies can improve operating leverage by, for example, purchasing faster and more reliable machinery. But most service businesses are not able to follow this approach. Other methods must be explored.

4. What is the rationale for our pricing strategy? The pricing of services is a nebulous area. Cost-based pricing is often difficult to determine, and there are few formulas for effective value-based pricing. It is important to look at pricing strategy and think about the economic and psychological effects of a change in that strategy.

5. What process are we using to develop and test new services? Every company depends on an ability to renew its franchise in the marketplace. The service-oriented company must pay particular attention to this area because of the difficulty of developing

protectable competitive positions. The process of new-service development and testing must recognize the abstract, perishable nature of services.

6. What acquisitions, if any, would make sense for our company? Once the nature of the current business is understood, the acquisition question can be faced. The acquisition game in the service sector can be dangerous. More than one company has acquired a service business using only criteria that would be used in the acquisition of a product-oriented company. As several of these companies have learned, this type of analysis, although necessary, is insufficient.

Describing Services

In product-oriented businesses, the physical reality of the product provides a simple but powerful base on which to build a business description. The question is far more difficult for service-oriented businesses to answer because services are more abstract than products. For example, it may be difficult to describe management consulting as a business to someone who has never experienced the consulting relationship. What does a consultant do?

One way to deal with the difficulty of describing services has been to talk about them as if they were products. G. Lynn Shostack, a vice president in charge of business planning and analysis at Citibank, has noted:

“Banks often devote significant resources to an activity they call ‘new product development.’ The phrase is so alluring that groups are

regularly set up to create these 'new products.' The realization seldom seems to occur to such banks that they are not in the product *development business at all. In fact, many banks do not seem to have arrived at the insight that* things *are not the basis for their industry. Even marketers in such banks apparently do not understand that they are engaged in perhaps the most difficult and dimly understood realm of business endeavor—the development and marketing of financial services."*[1]

The predominant mental image about "the way things work" in business is a product-based image. This image leads to a product-oriented language, and the language in turn constrains communication in such a way that one cannot develop really innovative approaches to managing the service business.

Because they are often lumped together, service businesses can be misunderstood. As we shall see later, they differ greatly, and an understanding of their differences can help the thoughtful manager to understand the nature of the strategic opportunities in each.

The traditional image of the service business is that the service is "invariably and undeviatingly personal, as something performed by individuals for other individuals."[2] This perspective is erroneous. Automatic car washes, automated banking services, and computer time-sharing are just three of the many examples of service businesses in which the service is provided by automated equipment. The strategic requirements for these businesses are obviously quite

different from those in which individuals perform services for other individuals.

The Exhibit shows one way to separate service businesses into general types, with different strategic management requirements. At the pinnacle of the pyramid is the service that is provided by the business. To place a specific business on the spectrum in the exhibit, it is necessary to answer two questions: (1) How is the service rendered? (2) What type of equipment or people render the service?

Placement of a specific service business along the spectrum may be difficult, but two general observations may ease the difficulty: (1) as service businesses evolve, they often move along the spectrum from people-based to equipment-based or vice versa, and (2) many companies are in more than one type of service business. Virtually all banks, for example, operate multiple-service businesses. Some of these are equipment-based, as in the transfer and storage of funds. Others are people-based, as in the financing of a home, car, or business, because they require judgment about the financial management of funds.

Building Barriers

In product-oriented companies, capital is the most commonly used barrier to the entry of competition. As a product-oriented company

grows, it can take advantage of economies of scale in producing the product, invest in technology that will become proprietary, and offer a differentiated product through product development and marketing. These efforts pay off largely because they are centered on a uniform product that has concrete dimensions and is sold as a package. They are made possible by the fact that the production, distribution, and sale of the product can be uncoupled, often being accomplished by different companies.

Service businesses rarely have this luxury. The service, because it is an abstract, perishable quantity, must be produced and delivered by a single company, often by a single unit of equipment or people. The result is a decentralization of the service production process to the local level and a reduction in the opportunity for developing economies of scale. As a result, location decisions are often very important and multiple locations can serve as a barrier to entry. One example is the car rental business, where a large number of airport locations is very important.

Economies of Scale

Managers of service businesses should not conclude that they have no opportunities for scale economies and the resulting capital barriers to entry. On the contrary, there are many examples of scale economies, especially in equipment-based service businesses. The introduction of wide-bodied jets by the airlines enabled them to fly twice as many passengers with the same number of high-salaried pilots and flight

engineers. Although not on the same scale, other reductions in maintenance and ground handling personnel were possible.[3]

A second example of economies of scale is the multiple-unit motion picture theater that can be found in most suburban locations in the United States. These facilities may have four or five theaters, some of which may be fairly small. The refreshment stands and the ticket selling booths are centralized, thus requiring both less floor space and fewer people to operate them. In some cases, there is a single projection room for more than one theater, and the equipment is almost completely automated. Central heating and air conditioning are provided for the entire building. Obviously, the cost to operate this type of facility is much lower than the cost for an equal number of separate theaters.

Advertising clout is the third example of an economy of scale that service businesses can use as a barrier to entry. Once it achieves a size that makes regional and/or national advertising economically feasible, a service business can use advertising as a competitive weapon to build and maintain market share. O.J. Simpson’s advertisements for Hertz are an obvious example, but other companies such as Orkin, John Hancock, and Finance America also use advertising effectively. Smaller companies simply do not have the capital required to mount a competitive advertising campaign.

With the probable exception of advertising clout, the economies of scale that may provide a barrier to entry exist primarily in equipment-based, and not in people-based, service businesses. Where economies

of scale cannot be developed easily, two other barriers to entry can be used: proprietary technology, and/or service differentiation.

Proprietary Technology

In equipment-based service businesses, proprietary technology is perhaps most commonly used as a barrier to entry. In the computer services industry, the set of “canned” programs that a time-sharing company offers is crucial to the sales effort for the company’s services. So-called raw computer time is a commodity product supplied by many vendors. The purchaser of time-sharing services is interested in knowing what other services the company has which are technologically advanced over the competition. The software provided by the time-sharing company must be technologically advanced in both what it will do and how efficient it is.

Less commonly, proprietary technologies have been developed by people-based service businesses, particularly those that provide professional services. The Boston Consulting Group has developed several proprietary technologies around its experience curve concept, including market segmentation and strategic portfolio analyses.

Service Differentiation

Product differentiation, or as I have called it, service differentiation, is another barrier to entry. In product-oriented companies, the product is developed and marketed in such a way that it attains a brand name identification in the market place. In the more successful efforts, the product’s brand becomes an almost generic name for the class of

products—Bic, Coke, and Xerox, for example. Very few services have developed a brand name identification. Instead, a service business develops a reputation for the type and quality of service it produces. The more abstract and complex the service is, the greater the need and potential for developing a reputation that will serve as a barrier to entry.

Consulting firms illustrate how a reputation can be a barrier to entry. There are many management problems that any one consulting firm could solve effectively. However, the large ones have unique reputations and thus each tends to be called in on different kinds of problems. Such reputations provide some barrier to the entrance of other consulting firms.

Historically, the executive recruiting business, or “headhunting” as it is often called, has had a terrible reputation as a business. There are virtually no capital barriers to entry. All that is needed is a desk and a telephone. Recruiters work on a fee plus expenses basis, with the fee to the employer based on a percentage of the first year’s total compensation to the person recruited. As a result, the business is highly fragmented and somewhat specialized by industry.

Building barriers to entry in service businesses is generally more difficult, or at least must be done in less traditional ways, than in product-oriented businesses. Managers must think less about brand identification and more about the reputation of the company. They must look for areas in which the advantages of economies of scale are

available. Finally, they must seek ways to develop and protect proprietary technology.

Cutting Costs

A common misconception about service businesses is that it is almost impossible to obtain operating leverage and thus to improve profit margins. Operating leverage exists in a business when, through a change in operations, the relative cost per unit of the product or service decreases.

Substitution of capital for labor is the classic method of obtaining operating leverage in both product- and service-oriented businesses. Capital is used to purchase machinery which can produce a product or service at a faster rate with more consistent quality. Many service businesses have followed this path of development. Twenty years ago, virtually all car washes used unskilled labor; today, most are automated.

When the tasks cannot be automated because human judgment must be exercised, cheap labor can often be substituted for expensive labor as a means of obtaining operating leverage. This is often the case in people-based service businesses, and law firms are expert in the practice. A large percentage of the tasks are routine and require little legal expertise. For example, routine and time-consuming research and the preparation of briefs can, in many cases, be done by recent graduates of law school or by paralegal assistants, whose time is less expensive, while partners in the firm work on client relationships, develop legal strategies, and so on.

Other service businesses use the same basic technique in different ways. Consulting firms use teams of consultants who perform different tasks, depending on their skills. Many insurance companies break the sales task into its component parts of initial contact, presentation, and closing the deal, and have different people perform each function. In each case, the service is further broken down, and the aspects that can be performed by less expensive labor are identified. The expensive labor is then free to do those crucial tasks that bring profits to the company.

Value Engineering

The process of value engineering has become popular in many manufacturing companies in the last decade to determine what changes in design and/or manufacturing process can be made to reduce the cost of manufacturing a product without reducing its utility.

A similar process can be used for services. Once again, the service provided must be broken into its component parts. This time, however, the purpose is not to determine how the service is rendered, but rather what service is provided. The goals are to determine what parts of the service are essential, what parts can be eliminated, and what minor additions could greatly enhance the service.

Although they have not called it value engineering, a number of service businesses have used the technique. Perhaps the best current example is provided by Holiday Inns. This company has promoted the service as one that has no surprises. The quality of service has been

set at a level that does not provide the extras that one would find at an expensive hotel. The service is guaranteed to be of consistent quality throughout the country. The company believes that consistent quality with no surprises is more important to its customers than swimming pools and other added services; therefore, the emphasis is on maintaining the quality of the primary service.

A second example is provided by first-class service on the airlines. The quality difference between first-class and coach service was significant ten years ago. Today, although the incremental fare is in excess of 50% for first class, the traveler receives a slightly larger seat, two free drinks, and marginally better food. Yet first-class seats still sell. First-class customers are apparently buying status, not personal service.

Value engineering is somewhat more difficult for a service than for a product, since the physical nature of a product allows a checking of its continued appearance and function. For a service, it is often difficult to know which attribute is most important to the customer's purchase decision.

In sum, it is probably more difficult to obtain operating leverage in service businesses, particularly those that are people-based. The opportunities for finding operating leverage are there, but they require different ways of thinking about operations.

Competing on Price

Virtually all product-oriented companies have ways of determining their product's cost per unit at various volumes. Part of their strategic game is to become the low-cost producer and use this position as a competitive weapon. Other pricing strategies are of course available, such as the premium-price strategy for a premium-quality product.

In service-oriented businesses it is often difficult to determine what a unit of a given service is, much less its cost. In general, it is easier to determine costs in equipment-based service businesses than in people-based businesses. To be converted to an equipment-based service in the first place, the service usually has some routine character that can be analyzed. People-based service businesses, however, are much more complex. Until the theorists and practitioners who work with human resource accounting can refine the art sufficiently, it will be difficult to determine the cost of people-based services accurately on anything but an aggregate basis.

The pricing of services is thus often based on value rather than on cost. Value is generally determined by the customer and to some extent by competition. Customers tend to get a general feel for what they will have to pay for a particular service, but the source of this feeling is often unclear, because comparison shopping is often difficult. Customers will pay whatever they think the service is worth; thus pricing in many service businesses is based on whatever the market will bear.

An interesting game is played in the pricing arena. I have never heard a businessman brag that he had just hired the least expensive

consultant available. People-based service businesses that rely on professionals to provide the service can, by pricing the service too low, create an image that is counter to that necessary for a professional operation that expects to remain competitive. Any good consultant knows that it is easier to sell a recommendation for which the customer has paid a significant amount than when the fee was quite low.

Prices can be set too low in equipment-based service businesses as well. At virtually every airport, one can find a fixed based operator (FBO) who performs one or several functions necessary to the operation of general aviation aircraft. One FBO at a busy municipal airport tried to increase the usage on the aircraft that he rented to local pilots by reducing prices by 5% to 7% throughout his fleet. The result was a decrease in volume. Somehow a rumor had started that the FBO had been able to reduce prices because he had cut back on the maintenance on the airplanes.

Probably less is known about the use of price as a strategic weapon in service businesses than about any of the other strategic variables. One fact, however, is clear. The general manager of a service business must use marketing methods that will enhance the perceived value of the service.

Developing New Services

Virtually all product-oriented companies have some form of research and development effort that is responsible for designing and testing new products and/or modifications to current products. The R&D task

in service-oriented companies is different because it is complicated by the lack of a physical product. A service, especially in people-based businesses, can be a little bit different each time it is rendered.

The entire process of creating such services deals with concepts rather than physical objects. The testing process varies depending on whether the service is equipment-based or people-based, but in either case it is difficult to do test marketing or other types of market research on the new service. Customers must be enticed into experiencing the service, and this often requires major marketing efforts. Thus the cost of introducing a successful new service may be quite high because it is difficult to predict what service concepts will be understandable and attractive to the customer.

An example of a new-service development that most observers agree has stalled—at least for the next several years—is that of electronic funds transfer. Why has it faltered? The reasons are obviously complex and include political, legal, and economic factors. Perhaps most important, however, is consumer resistance rooted in fears about computer errors, invasion of privacy, and changes in lifestyles. It should be made clear that the failure is not one of technology. The technology is available to create the so-called cashless society, but consumers do not want the service.

The example illustrates a major difference between R&D in product-oriented and in service-oriented companies. A product can be shown to a customer who can make some crucial decisions about whether he

or she is interested in trying the product. But how do you test-market the concept of a cashless society?

The difficulty of test marketing can, however, be turned into an advantage. Service concepts, especially in people-based service businesses, are malleable and can be changed even after they have been introduced in the marketplace, and the cost of such a change is often quite low.

Any business must develop new services if it is to survive. This task is quite different from new-product development. It is highly abstract, and the services that are developed require difficult and expensive testing in the marketplace. Thus there is little real innovation and a great deal of imitation of services. For example, airlines and banks are well known for their imitative practices.

Growing Through Acquisition

What is bought when a service business is acquired? There are several answers to this question, depending on the type of service business that is under consideration.

Many managers, particularly those with product-oriented experience, feel most comfortable when acquiring an equipment-based service business. Then the acquisition includes physical assets that can be quite valuable if bought for less than comparable new assets, if there is a limited supply of the assets, or if the business is in strategic locations (for example, a car rental business, or a string of self-service laundries). Unless one of these conditions exists, it is often less

expensive to buy new assets than to buy those of an existing service business.

In people-based service businesses, the acquisition is riskier because people and their skills are the major purchase item. Regardless of the employment contracts and benefits that may be offered, there is always the risk that people will leave and take their skills with them. When physical assets are purchased, they are owned when the papers are signed. Decisions about their use and disposition can be made by the acquiring company. The same is not true of people; they may decide to depart at any time after the purchase is completed.

This lesson was learned by a well-known consulting firm. The firm had been quite successful in the northeastern United States. Being an astute observer of current trends, its president noted that business activity was increasing rapidly in the southern half of the country. Rather than spend several years and a significant amount of money developing a field office, he decided to acquire a small consulting firm in Dallas that had an excellent client list. The acquisition was made, and the president and two vice presidents of the smaller firm were given employment contracts. Unfortunately, four of the better young consultants regarded the president of the new parent firm as a "Yankee carpetbagger." They left, formed their own firm, and within 18 months had acquired 40% of their former employer's clients as their own.

Whenever acquisition of a people-based service business is being contemplated, it is important to ask: "What is the business worth

without the key people?" There are some instances where the "franchise" in a market is worth the price of the business. In other instances, the services provided have some proprietary characteristic that is valuable even without the people in the company. Often, however, the answer to the question is that all one is buying are people. When this is the case, it is usually less expensive simply to hire away the best of these people.

Growth through acquisition in service businesses is a risky proposition, but the risk varies. It is generally riskier as one moves down the spectrum toward people-based businesses, and within people-based businesses the risk increases when the service is provided by professionals or highly skilled persons. Any company that wants to acquire service businesses must make sure that it can attract and keep skilled service-oriented managers to run them.

2.5. Self-check questions

Part I. True or False

1. A common misconception about service businesses is that it is almost impossible to obtain operating leverage and thus to improve profit margins.
2. Inseparability character of service justifies that unused capacity cannot be stored for future use or sale.
3. The more your business relies on humans to provide services (instead of automation), the more susceptible you are to variability.

4. Service culture is defined as a culture where an appreciation for good service exists, and where giving good service to internal as well as ultimate, external customers.

2.6. Answers for self-check questions

1. True **2. False** **3. True**

4. True

CHAPTER THREE: UNDERSTANDING HOSPITALITY AND TOURISM MARKETING

Chapter Objectives

After working through this chapter, you should be able to:

- ✓ Understand about Individual guest behavior
- ✓ Describe corporate buyer behavior
- ✓ Explain about information systems and marketing research

3.1. Introduction

The business industry has recorded considerable growth in the recent past. Businesses in the local and global scene have expanded, with several investors being attracted to some common line of operations.

The increased number of players in the market for a particular product or service has led to the current high level of competition in the markets. In addition, consumers have a wide range of products and services from which to choose in order to satisfy their needs.

This has become a major challenge to business organizations. A business organization that is to survive in the contemporary market must be able to identify, understand, and respond to the needs of clients.

A business organization will often succeed in its operation through effective customer satisfaction if it has a good understanding of buying behaviors of customers. This will enable organizations to channel their production towards products and services that meet these changing needs.

3.2. Individual Guest behavior

Consumer behavior can be defined as customer purchase behavior which is done in order to meet the needs of the consumers. Consumer buying behavior is related with consumption of products and services. It can also be defined as a method of exchange of service in place of money. Consumer behavior is influenced by various factors such as social, cultural and personal factors.

3.2.1. Factors effecting Consumer Behavior

Cultural Factors

Cultural factors are most important in determining the consumer behavior. Cultural is the basic area which affects the human wants. Cultural factor affects the value, perception, liking and behavior of a person. Each culture has smaller sub culture that provides different identification and the method of socializing. Sub Culture includes nationality, religion, racial group and geographical region. As a result of sub cultural multicultural marketing is what is popularized these days. This type of marketing depends on social stratification or classes like lower class, upper lower working class, middle class, upper middle class; lower middle and upper- upper class. These classes affect the customer choice in making the choice of the hotel and the restaurant.

Social Factors

It refers to reference groups, family, social roles and status that affects the consumer behavior. Among these reference group has face to face influence on the attitude of the customer. Some of the most important parts of these groups are family, friends, neighbors and co-workers. Family is the indispensable part in consumer buying behavior. It is depended on family of orientation which consists of parents, siblings and family of procreation which includes spouse and children.

Roles and Status

Depending on the social and the prestigious effects of going to luxury hotels and restaurants, international destination for recreation activities pay ways to develop a good consumer behavior.

Personal Factors

It mainly includes the age and stage in the life cycle, occupational and economic conditions, personality and self-development and lifestyle and values. The recent development in the personal factor is the "LOHAS" which is an acronym of lifestyle of health and sustainability. "LOHAS" segments the markets depending on the estimated price, size, the product and the services provided. All these factors are considered important while deciding about the places to be visited by the consumers.



Activity 1.
Mention the major factors that can affect individual buyer behavior

3.2.2. Consumer Buying Decision Process

Stage 1 – Problem Recognition

The buying process starts when a buyer recognizes a problem of making a choice among the various options available which can satisfy his needs and desires.

Stage2 – Information Search

The major information sources are personal like friends and family, commercial like advertising, websites, display etc., public like mass media, consumer organizations etc and experiential like handling and using the product.

Stage 3 – Evaluation of Alternatives

The choice of the hotel which the consumer will consider is dependent on various factors such as location, price, cleanliness, atmosphere, approachability etc. The consumer will finally short list the hotel which will satisfy all his preferable needs and desires.

Stage 4 – Purchase Decision

The purchase decision of the customer is just on only dependent on his choice but all on the attitude of others and unanticipated situational factors like the price of the product is not worth, the location is beyond approach etc.

Stage 5 – Post Purchase Behavior

Post Purchase Satisfaction is very important factor in customer buying process, if the product falls short of customer expectations the consumer will be disappointed and will lead to dissatisfaction which will not only affect consumer retention but also affects the image of the hotel.

3.2.3. Latest Trends in Consumers Behavior

Internet can be considered as one of the influential technologies that has a great impact over consumer behavior. This has been proven by the fact that most of the hotel are nowadays following Cyber Marketing for their promotions. Maximum bookings are taken through online booking like “Go Ibibo.com, Make my trip, Clear trip, Trip Advisor” etc. Choice of the customers these days is more dependent on convenience, wide range of alternatives, maximum satisfaction of the money spent, easily accessibility rather than cultural, social and personal factors.

Based on above factors one can make the framework of the consumer behavior modelwhich helps in showing the various stimulus in internal and external world which helps in considering attitude of the consumer.

This model consists of three independent variables namely generation of stimulus, information search and service quality evaluation (disconfirmation period) and the dependent variable is taken as consumer behavior in hospitality which is measured by loyalty, satisfaction or dissatisfaction of the customer.

This model shows that desire, influences and interest are major factors which evokes generation of stimulus for a customer as a result of which the customer start collecting information about the services provided and available matching his own desires. Phenomenon of information search is influenced by the awareness generated by the information on the website

The third determinant that is service quality evaluation, it is basically post purchase phenomenon of the product or services which is affected by information search and generation of stimulus. During this period customer tries to compare the services offered by hospitality industry and his own requirements and evaluates on a scale, if it is as per his/her requirements. Service quality is being considered as one of the most necessary and winning phenomenon affecting consumer behavior in hospitality industry and has been stated as having a strong predictive capability for customers' loyalty intentions. The final step of the model is where either the customer is satisfied and

becomes a loyal customer for the future or else attains dissatisfaction and quits taking any further services from the specific service provider. Thus we can see that consumer behavior of a customer in hostels is backed up by services provided to the consumers and their satisfaction level.



Activity 2.

State some of the latest trends in consumer buying behavior**.**

3.3. Organizational Buyer Behavior

Individual consumers are not the only buyers in a market. Companies and other organizations also need goods and services to operate, run their businesses, and produce the offerings they provide to one another and to consumers. These organizations, which include producers, resellers, government and nonprofit groups, buy a huge variety of products including equipment, raw materials, finished goods, labor, and other services. Some organizations sell exclusively to other organizations and never come into contact with consumer buyers.

B2B markets have their own patterns of behavior and decision-making dynamics that are important to understand for two major reasons. First, when you are a member of an organization, it’s helpful to appreciate how and why organization buying decisions are different

from the decisions you make as an individual consumer. Second, many marketing roles focus on B2B rather than B2C marketing, or they may be a combination of the two. If you have opportunities to work in B2B marketing, you need to recognize how the decision-making process differs in order to create effective marketing for B2B customers and target segments.

Who Are the Organizational Buyers?

Unlike the consumer buying process, multiple individuals are usually involved in making B2B buying decisions. A purchasing agent or procurement team (also called a *buying center*) may also be involved to help move the decision through the organization's decision process and to negotiate advantageous terms of sale.

Organizations define and enforce rules for making buying decisions with purchasing policies, processes, and systems designed to ensure the right people have oversight and final approval of these decisions. Typically, more levels of consideration, review, and approval are required for more expensive purchases.

For anyone involved in B2B marketing or selling, it is important to know:

- Who will take part in the buying process?
- What criteria does each person use to evaluate prospective suppliers?
- What level of influence does each member of the process have?

- What interpersonal, psychological, or other factors about the decision team might influence this buying process?
- How well do the individuals work together as a group?
- Who makes the final decision to buy?

Because every organization is unique, the answers to these questions will be different for every organization and every sale. Marketers should understand their target segments well enough to identify commonalities where they exist and then create effective marketing to address the common roles and decision makers identified.

For example, a technology company selling a travel- and expense-management system should expect decision makers from several departments to be involved in the purchasing decision: the HR department (to ensure the system is user-friendly for employees and compatible with company travel policies), the accounting department (to ensure the system is a good complement to the company's accounting and finance systems), and the IT department (to ensure the system is compatible with the other systems and technologies the company uses). Marketers should focus first on managers in the group most responsible for travel and expense policy —typically the HR department. As the company generates serious interest and leads, marketing and sales staff should take the time to learn about decision dynamics within each organization considering the system. Marketing and sales support activities can focus on getting each of the essential decision makers acquainted with the product and then convincing them to make it their final selection.

B2B Buying Situations

Who makes the buying decision depends, in part, on the situation. Common types of buying situations include the straight rebuy, the modified rebuy, and the new task.

The *straight rebuy* is the simplest situation: the organization reorders a good or service without any modifications. These transactions are usually routine and may handled entirely by the purchasing department because the initial selection of the product and supplier already took place. With the *modified rebuy*, the buyer wants to reorder a product but with some modification to the product specifications, prices, or other aspects of the order. In this situation, a purchasing agent may be involved in negotiating the terms for the new order, and several other participants who will use the product may participate in the buying decision.

The buying situation is a *new task* when an organization considers buying a product for the first time. The number of participants and the amount of information sought tend to increase with the cost and risks associated with the transaction. For marketers, the new task is the best opportunity for winning new business because there is no need to displace another supplier (which would be the case for the rebuy situations).

For sales opportunities that are new tasks, there may be an opportunity for a *solution sale* (sometimes called *system selling*). In these opportunities, the buyer may be interested in a provider that offers a complete package or solution for the business problem, rather

than individual components that address separate aspects of the problem. Providers win these opportunities by being the company that has both the vision and the capability to provide combination of products, technologies, and services that address the problem–and to make everything work together smoothly. Solution sales are particularly common in the technology industry.

Characteristics of Organizational Buying

B2B purchasing decisions include levels of complexity that are unique to organizations and the environments in which they operate.

1. ***Timing Complexity***

The organizational decision process frequently spans a long period of time, which creates a significant lag between the marketer's initial contact with the customer and the purchasing decision. In some situations, organizational buying can move very quickly, but it is more likely to be slow. When personnel change, go on leave, or get reassigned to other projects, the decision process can take even longer as new players and new priorities or requirements are introduced. Since a variety of factors can enter the picture during the longer decision cycles of B2B transactions, the marketer's ability to monitor and adjust to these changes is critical.

2. ***Technical Complexity***

Organizational buying decisions frequently involve a range of complex technical dimensions. These could be complex technical specifications of the physical products, or complex technical specifications

associated with services, timing, and terms of delivery and payment. Purchases need to fit into the broader supply chain an organization uses to operate and produce its own products, and the payment schedule needs to align with the organization's budget and fiscal plans. For example, a purchasing agent for Volvo automobiles must consider a number of technical factors before ordering a radio to be installed in a new vehicle model. The electronic system, the acoustics of the interior, and the shape of the dashboard are a few of these considerations.

3. ***Organizational Complexity***

Because every organization is unique, it is nearly impossible to group them into precise categories with regard to dynamics of buying decisions. Each organization has a characteristic way of functioning, as well as a personality and unique culture. Each organization has its own business philosophy that guides its actions in resolving conflicts, handling uncertainty and risk, searching for solutions, and adapting to change. Marketing and sales staff need to learn about each customer or prospect and how to work with them to effectively navigate the product selection process.

Unique Factors Influencing B2B Buying Behavior

Because organizations are made up of individual people, many of the same influencing factors discussed earlier in this module apply in B2B settings: situational, personal, psychological, and social factors. At the same time, B2B purchasing decisions are influenced by a variety of

factors that are unique to organizations, the people they employ, and the broader business environment.

1. Individual Factors

B2B decisions are influenced by characteristics of the individuals involved in the selection process. A person's job position, tenure, and level in the organization may all play a role influencing a purchasing decision. Additionally, a decision maker's relationships with peers and managers could lead them to exert more–or less–influence over the final selection. Individuals' professional motives, personal style, and credibility as a colleague, manager, or leader may play a role. To illustrate, a new department head might want to introduce an updated technology system to help her organization work more productively. However, her short time in the role and rivalry from other department heads could slow down a buying decision until she has proven her leadership capability and made a strong case for investment in the new technology.

2. Organizational Factors

Purchasing decisions, especially big-ticket expenditures, may be influenced by the organization's strategies, priorities, and performance. Generally the decision makers and the providers competing for the business must present a compelling explanation for how the new purchase will help the organization become more effective at achieving its mission and goals. If a company goes through a quarter with poor sales performance, for example, the management team might slow down or halt purchasing decisions until

performance improves. As suggested above, organizational structure plays a central role determining who participates in the buying process and what that process entails. Internal organizational politics and culture may also impact who the decision makers are, what power they exert in the decision, the pace of the buying process, and so forth. An organization's existing systems, products, or technology might also influence the buying process when new purchases need to be compatible with whatever is already in place.

3. Business Environment

B2B purchasing is also influenced by factors in the external business environment. The health of the economy and the company's industry may determine whether an organization chooses to move ahead with a significant purchase or hold off until economic indicators improve. Competitive pressures can create a strong sense of urgency around organizational decision making and purchasing. For instance, if a leading competitor introduces a compelling new product feature that causes your organization to lose business, managers might be anxious to move forward with a project or purchase that can help them regain a competitive edge. When new technology becomes available that can improve products, services, processes, or efficiency, it can create demand and sales opportunities among companies that want the new technology in order to compete more effectively.

Government and the regulatory environment can also influence purchasing decisions. Governmental organizations often have very strict, highly regulated purchasing processes to prevent corruption,

and companies must comply with these regulations in order to win government contracts and business. Similarly, lawmakers or governmental agencies might create new laws and regulations that require organizations to alter how they do business—or face penalties. In these situations, organizations tend to be highly motivated to do whatever it takes, including purchasing new products or altering how they operate, in order to comply.

3.4. Information systems and marketing research

3.4.1. Information Systems in Tourism and Hospitality

Tourism and Information and Communication Technologies (ICTs) are the chief motivators of the emerging global economy. Tourism being an intangible product, has gained a lot from the applications of Information Technology. The Intangibility associated with a tourism product involves the cost incurred, time of travel, dissatisfied customer etc. IT can be used to reduce this intangibility by ensuring that a potential customer is not lost due to lack of communication or transfer of vital information. (Poon, 1993) is of the opinion that a whole system of Information Technologies is being rapidly diffused throughout the tourism industry and no player will escape from the Information Technology impact.

The influence of Information Technology in Tourism, similar to that that in the modern business scenario is tremendous and a diverse range of information systems are being extensively used in it.

The biggest advantage of using an information system is that it can provide the most cost effective resource for an organization.

Information system is also a kind of system where input is data. The input will be collected from external as well as internal sources. A process that involves different activities will transform this data into the form of information as required by the user. For a management information system, the user is basically a manager at different level. The main purpose of information for a manager is to aid in decision making. Information systems are integral part of organizations. Managers cannot ignore information systems since they play a crucial role in contemporary organizations. Organizations are trying to become more competitive and efficient by transferring themselves into digital firms where nearly all core business processes and relationships with customers, suppliers and employees are digitally enabled. There are six major types of systems in contemporary organizations. Transaction processing system (TPS) is fundamental of all these systems. Artificial Intelligence (AI) is an area of great importance in modern day systems. AI includes a variety of systems, in which computer systems mimic human intelligence. Virtual Reality and Recommender systems use AI to a large extent. The user in VR systems are fully immersed in an artificial, three dimensional world that is generated by a computer.

Tourism is an information intensive industry which generates large quantity of information to be processed and communicated. Relevance, role and influence of information systems in tourism sector are very high especially in planning, policy making, management and operations. Airlines were among the first companies to create worldwide electronic networks, not only for selling and distribution,

but also for internal management and operations management. With information technology and technology enabled services and amenities becoming more pervasive, customers and employees expect these conveniences in hotels as well. Specifically, hotels will need to consider IT services which meet and exceed guest expectations at all hotel/guest interfaces, such as public areas and in room, food and beverage outlets. Most travel agencies around the world operate some kind of a reservation systems, mainly through videotext networks or GDSs. GDS terminals provide travel agencies with access to a wealth of information about scheduled airlines, hotel chains, car rentals and variety of ancillary services. The emergence of Internet, extranets and intranets has introduced a wide range of opportunities for tour operators.

3.4.2. Marketing research in Hospitality

Marketing research is an organized information process, which 'has to do with the gathering, processing, analysis, storage and dissemination of information to facilitate and improve decision making' (Seibert, 1973: 128). Although dated, this succinct definition servesto stress that the basic role of marketing research has not changed, although the means of gathering, processing, etc., havechanged enormously with modern ICT. The value of this definition is that itis sufficiently broad to encompass the whole range of systematic informationinputs.

Mostmarketingdecisionsrequireanswersasto'who,what,when, where, how and why'. Marketing research data typically starts with regular analysis of customer databases and flows of 'intelligence' datagatheredbyasalesforce,throughtradepublicationsorthrough

cuttings taken from the travel trade press. It includes evaluation of Web site and call centre data; it proceeds with primary research ranging from focus groups to full-scale sample surveys on a local, national or internationalscale.

Most authors stress that marketing research cannot, as is sometimes supposed, provide solutions to management problems. Research can seldom ensure correct decisions. What it can do, as the quote at the head of the chapter notes, is reduce the amount of uncertainty and risk associated with the results of marketing decisions and focus attention on the probable implications of alternative courses of action.

From observation of the way that travel and tourism businesses are conducted in many countries around the world, it appears to be a distinctive feature of the industry that the use of marketing research is still generally less effective than in other major industries dealing with consumer products. Of course there are exceptions, although they are mainly the very large international corporations in air transport, tour operations, car rental and some hotel groups. The reason for this weakness appears to be rooted in the increasingly irrelevant assumption that research is not needed when producers and customers meet face to faceontheproducer'spremises;andthatthroughsuchcontact,managers 'know'theircustomerswithouttheneedforexpensiveresearch.Thismay still be true for guesthouses, small attractions and neighborhood travel agencies but it was never true for larger businesses, especially those with multi-site operations and management teams not directly involved in daily service delivery. The presence of

customers on the premises is, however,amostimportantmarketingassettobeexploitedsystematically byproducers.

Types of marketing research commonly used Hospitality

Because marketing research has become a large and complex sector of economic activity in its own right, it has inevitably produced its own technical vocabulary. Some of the commonly used in practice are:

- Continuous and adhoc.
- Quantitative andqualitative.
- Primary andsecondary.
- Omnibus andsyndicated.
- Retail audit and consumeraudit.

Continuous and ad hoc

Commercial organizations find it increasingly necessary to measure certain key trend data on a regular or ‘continuous’ basis. ‘Continuous’ in this context typically means daily, weekly or monthly, although the growing use of Internet distribution permits literally continuous data review. Data covering enquiries, sales, booking types and patterns, market shares, customer satisfaction and seat or hotel bed occupancy, are typical examples of ‘continuous’ marketing-research measures in travel and tourism.

There are also many specific problems in marketing that require research relevant to a particular circumstance. For example, could a redesignedguidebookforavisitorattraction,withaprintlifeofsaythree

years, produce extra sales revenue? Would the introduction of a buffet- style instead of full-service breakfast reduce customer satisfaction or increase it? Does the market potential warrant investment in a new hotel and, if it does, what size of hotel and what level of service would be justified? To inform such management decisions a specific or ad hoc investigation would beneeded.

Most marketing research programmes are a mixture of continuous research involving ongoing investment in the monitoring of trends, and ad hoc surveys when the cost of research is justified to illuminatespecific problems or opportunities as theyoccur.

Quantitative and qualitative

Traditionally, most consumer research studies are based on questions identified in marketing decision making to be asked of random samples of existing or potential customers. For example, a coach tour operator may be aware from national surveys that some 60 per cent of adults take a holiday in a given year, of whom a third travelled abroad, stayed an average of ten nights away from home and spent £400 per person. The operator would need to find out what proportion used coaches and cars, how that proportion varied year by year and by month, the profile of coach clients, their preferred destinations and so on. With due allowance for statistical variation all these are quantifiable dimensions that can be projected into percentages and volume estimates for the coach tour market.Hencequantitativeresearch,meaningstudiestowhichnumerical estimates can be attached. Quantitative research is always basedon structured' questionnaires in which every respondent is asked the

same questions. Mostly, because the range of possible answers is also printed on questionnaires drawing on previous experience, variations to suit individual respondents are not possible.

Quantitative methods are often used to give some basic indications of motivations. But generally, research companies cannot predict the ways in which people think about different products and such methods are unsuitable for exploring consumer attitudes, feelings, desires or perceptions. It is always possible to construct hypothetical answers and ask people to agree or disagree, but these may not get at what really matters to prospective buyers.

Qualitative studies commence from the standpoint that there are consumer(orstaff)attitudesandmotivationstobeexploredforwhichthe answers cannot be predicted. How customers feel about Brand A compared with Brand B; what attributes and values are perceived as adhering to Brand A and not Brand B; what sort of people are thought most likely to buy Brand A rather than B, and so on. To understand and communicate positioning and branding values, qualitative research is usuallyessentialforlargercompanies(see,forexample,thecasestudyon Travel Inn in PartSix).

Most qualitative studies commence with exploratory or open-ended research in which small samples of targeted individuals are asked to express their views. This may be done on a one-to-one basis or in a focus group where interaction between individuals is part of the research process.Theinterviewerorfocusgroupleaderistypicallyanexperienced researcher, often with some training in social psychology. He is

responsible for introducing the subjects for discussion and encouraging views but not imposing any preconceived ideas. What emerges,recorded for analysis on tape, is a discussion in consumers' own wordsconcerning what matters to them. Summarizing an hour-long tape and producing two or three pages on the main attitudes emerging is much harder than itsoundsanditinvolvesconsiderableskillsandexperience.

By definition, individual and group sessions cannot be quantitative becausetheideasarenottieddowntostructuredquestionnairesorbased on adequate samples of the target group. They can be used to structure subsequentquantitativesurveys,ortheycanbeusedintheirownrightto help marketing managers understand the ways in which existing and potentialcustomersthink,andwhatmatterstothem.

In recent years, given adequate continuous quantification of the main patterns of visitor behaviour and profiles using databases as explained above,qualitativeresearchhasbeenmorewidelyused.Itisexpensivebut relatively quick to implement and especially useful in designing advertising messages and brochure contents in ways best calculated to communicatewithprospectivecustomersintheirownterms.

Primary and secondary

Primary data, covering both quantitative and qualitative data, is a label applied to marketing research that is specifically commissioned by a businesstocontributetoitsdecisions.Itrequiresthegatheringofdata not available from any other (secondary) source. For example, a

survey commissioned by one airline to study the current attitudes of business travelers towards its own and other airlines competing on the same route, would be primarydata.

Secondary data is information gathered originally for a purpose not related to the needs of a particular business, but which may be used by it aspartofitsmarketinformationsystem.Allpublishedsources,including government statistics, trade association surveys and commercial publishers' market surveys, represent secondarydata.

Common sense dictates that it will always be quicker and cheaper to obtain and use secondary rather than primary data. For any decision requiring research information, initial investigation should always begin at the secondary level before proceeding, if necessary, with primary research. The more efficient a marketing information system is, the less need there may be to commission (and wait for) expensive new data.

Omnibus and syndicated

Not only in travel and tourism, but also in consumer markets generally, there has been a growing tendency for market research companies to operate their own regular (continuous) sample surveys and sell space in them to a range of customers. Such surveys are known technically as 'omnibus' surveys because they are potentially open to all users. Where an organization seeks answers, say, to just four or five key questions, it maybepossibletogetaccesstoanationallyrepresentativesampleof2000

adults for a tenth of the cost of commissioning its own survey. For the price, a client would not only get answers to his specific questions but also fully cross-tabulated data, using profile characteristics, such as age and readership of media, which are a standard part of any 'omnibus' survey. The United Kingdom Tourism Survey (UKTS) is probably the best-known survey of UK tourism. Up to 2000 it was in fact a series of questions regularly asked on an MAI Research Ltd omnibus survey. There are many other omnibus surveys available, covering not only adultsbutmanysegments,suchasmotorists,doctors,businesstravellers, frequentusersofhotelsandsoon.

Syndicated surveys serve much the same purpose as omnibus surveys but are usually commissioned by a group of clients on a cost-sharing basis. The regular survey of customer value for money and satisfaction, coordinated for its members by the Association of Leading Visitor Attractions (ALVA) in the UK since the late 1990s, is an interesting example. Members not only share costs and receive details for their own attraction; they also gain access to relevant comparisons with competitor sectors in the context of overall trends in the attractions market.

Both omnibus and syndicated studies provide cost-effective forms of research, especially for smaller businesses, for whom the costs of an ad hocsurveywouldusuallybeprohibitive.Byusingsuchstudies,firmscan also obtain technical assistance from research agencies with the wording ofquestionsandinterpretationofresults.Theomnibusmethodis especially suitable for achieving quantified results much faster than would be possible with ad hoc surveys.

Retail and consumer audits

Inmanysectorsofconsumergoodsmarketingotherthantravel,themost commonformsofcontinuousmarketingresearchareconsumerandretail audits. It is no accident that two of the largest international marketing research companies, AGB Ltd and A. C. Nielsen, have built their multinational operations on suchaudits.

Initiated as long ago as the 1930s for manufacturers of products sold through grocery/chemist retail outlets, retail audits are based on visiting shops and physically checking and analyzing product stocks, purchases fromwholesalersandconsumersalesinasampleofretailoutletsselected to represent the national pattern. Such audits, carried out atregular monthly or two-monthly intervals in grocery and chemist outlets, can measure the volume of sales by product type, the average sales price, the volume of stocks and the proportion of outlets with stock on display. Of course, most such data are now audited by computers rather than physical checks. The results collected in the sample of audited outletscan be 'grossed up' to project the estimated sales in the total number (universe)ofoutletsfromwhichthesamplewasselected.

In travel and tourism various agencies have audited holiday bookings and brochure display for tour operators, using samples of retail travel agencies. For hotels and other forms of accommodation, room and bed occupancy studies in samples of accommodation units

perform the same 'audit' function for the accommodation sector, and have been used reliably for many years.

Consumer audits follow the same basic principles of regular reporting from nationally representative samples, based in this case on panels of consumers who keep specially designed diaries, in which all purchases are recorded. Since the profile of the samples is known in detail through the process of selection and recruitment, recorded purchases can be extensively analyzed by segmentation data. The use of diary panels to recordtravelandtourismbehaviorhasbeenusedintheNetherlandsby the Central Bureau for Statistics since 1980 to measure holidays of fouror more nights away from home, and it is satisfied with the reliability ofthe methodologyforthatpurpose.InFrance,usingasampleof20000adults, national tourism trends for visits of one or more nights a year have also been monitored monthly by diary panel methods since 1990. The Target Group Index (TGI) Survey operated by the British Market Research Bureau is currently the best-known diary panel omnibus style survey operating in the UK. It covers a wide range of consumer purchases of whichtravel,tourismandrecreationalactivitiesareonlyasmallpart.



Activity 3.

Distinguish between qualitative and quantitative marketing researches .

3.5. Self-check questions

Part I. Multiple choice

1. While shopping for a pair of jeans, you ask your friend "how do I look in these?" This influence on your purchasing decision is a

A. Physical
C. Social influence
B. Personal influence
D. Motivational influence

2. The system of knowledge, beliefs, values, rituals and artefacts by which a society or other large group defines itself is called

A. Culture
C. Law
B. Long term orientation
D. Social identity

3. Which of these is defined as a group comprising individuals of similar social rank within the social hierarchy?

A. Social class
C. Multiculturalism
B. Subculture
D. Reference group

4. _____ is a person's pattern of living as expressed in his or her psychographics, including his or her activities, interests, and opinions.

A. Personality
C. Lifestyle
E. Social class
B. Culture
D. Motive

5. The role of Market Research

A. Enables the business to make managerial judgment on issues faced

B. Allows answers to business questions to appear

C. Should only be recognized as aid to managerial judgment and not a substitute for it

D. It is an accurate form of evaluating a business decision

E. All of the above

3.6. Answers for self-check questions

Part I. Multiple choice

1. C **2. A** **3. A** **4. C** **5. E**

CHAPTER FOUR: STRATEGIC HOSPITALITY AND TOURISM ACTIVITIES

Chapter Objectives

After working through this chapter, you should be able to:

- ✓ Describe about marketing planning
- ✓ Explain about the concept of Segmentation, targeting, and positioning in hospitality industry
- ✓ Understand issues related with ethics, law, and government in hospitality
- ✓ Explain the relevance of entrepreneurship, creativity, and innovation in tourism and hospitality industry

4.1. Introduction

Planning is widespread in business of all sizes. Larger companies have more formalized planning processes, but smaller companies also perform planning essentials.

A plan can be thought of as a set of decisions about what a company wants to achieve and how it is going to achieve it. The essence of a plan is, therefore, a goal with accompanying strategy and tactics. The goal defines what the company wants to achieve, while the strategy and tactics set out how the goal will be achieved. Amarketing plan sets out the marketing objectives that a company wants to achieve and the strategy and tactics that will be used to meet the objectives.

You will see how marketing plans in operational units consist of objectives, strategies and tactics across the three stages of a customer relationship: pre-encounter, encounter and post-encounter.

4.2. Contexts of marketing planning

Although unit-level marketing plans are the major focus of this chapter, it is important

to acknowledge that marketing planning is carried out at many levels in more complex hospitality organizations.

Corporate marketing planning

Complex hospitality organizations such as the Marriott Corporation produce strategic marketing plans at the highest corporate level. These are concerned with major strategic decisions, such as which geographic markets to enter, which hospitality formats to offer in those markets, and strategies for market entry – joint venture, acquisition or organic development, for example. Decisions are also

made on how to allocate resources to support the marketing activities of member divisions.

Divisional marketing planning

Adivisional marketing plan focuses on the goals of a major division of a hospitality company. Adivision is a profit center comprised of one or more core businesses, run by a dedicated chief executive and management team. For example, a major hospitality group may produce marketing plans for its contract catering division, its resort hotels division and its budget hotels division. Each division will set its own goals, often in terms of market share, and develop strategies for goal achievement.

These strategies will consist of plans to open (or close) operational units, to focus on particular market segments, to position against named competitors and to compete by employing a particular set of competitive advantages.

Unit marketing planning

An operational unit may be a hotel or a restaurant that competes in a particular market.

Strategies focus on issues such as targeting, positioning, and developing strong pre encounter, encounter and post-encounter marketing mixes. Goals can be developed for pre-encounter marketing (raise awareness, develop expectations, develop preference), encounter marketing (achieve revenue and average spend targets) or post-encounter marketing (satisfaction, intention to do repeat business, share of customer spend). Overarching marketing goals are also employed at unit level – for example, occupancy levels, yield, and average room rate.

Departmental marketing plan

Within a hotel, different departments (such as the rooms division, or food and beverages)

may produce their own marketing plans. The focus at departmental level is generally much more tactical. The core strategic marketing decisions of segmentation, targeting and positioning will have been made at unit or even divisional level, and departments operate within the parameters of those strategic decisions. For example, the rooms division manager may need to find a solution for an unexpected loss of business. If a tour group suddenly cancels, the manager needs to develop a rapid tactical response to win additional business from targeted customer groups, such as airlines, transients or meetings and conventions.



Activity 1.

Differentiate between unit and divisional marketing planning.

4.2.1. Types of marketing plan

In general, a distinction can be made between strategic and tactical marketing plans. As the focus of marketing plans shifts from corporate throughdivision to unit and department, plans become much more tactical. Tactical marketingplans are focused on the short term, and generally are developed for a one-yearmaximum timeframe.

1. **Strategic marketing plans**

Strategic marketing plans (SMP) are generally established for a minimum three- tofive-year term. They focus on longer-term goals, such as developing market share,building yield, and growing revenues. Core marketing decisions are made about marketsegmentation, target markets and market positioning, and these decisions establishthe foundations on which tactical plans can be built. A company's decision to target,say, aircrew and meetings and conventions, and to position against certain namedcompetitors in each of these segments, will influence the level of investment in developingoffers to appeal to these markets, communication strategies to send messages tothem, and channels to sell to them. SMP decisions have major cost consequences, andare not easy to reverse. A company that changes its strategic position in the marketplacetoo frequently runs the risk of confusing customers and alienating investors.

There are two major theories that have identified major alternative strategies:those of Porter, and of Treacey and Wiersema.

A. Porter

Porter (1980) claims that there are three core strategies for success, whatever theindustry. If firms do not adopt any one of these strategies, Porter suggests that theywill be 'stuck in the middle', losing cost-sensitive business to low-cost leaders andhigh-margin business to firms adopting an added-value, differentiated strategy. Firms stuck in the middle are not as profitable as firms that have adopted one ofPorter's generic strategies.

Porter's three generic strategies are overall cost leadership, differentiation, andfocus.

Overall cost leadershipFirms adopting a low-cost position relative to competitorsneed to pursue a strategy of cost control in every aspect of the business. Inhospitality firms, this means that food and beverage costs, payroll costs, energy,maintenance, administration, marketing and distribution overheads, décor, fabricsand furniture costs, are all designed to give the lowest possible running costs; thechoice of location should be at the lowest possible land cost, and all these factors arecritically examined to achieve and maintain the lowest cost position in the market.

The cost-leadership strategy is most suited to new-build hospitality premises,where the construction of the operation can be designed for maximum efficiency –for example, Formula 1. Companies adopting a cost-leadership strategy need togenerate high economies of scale in marketing and purchasing, which implies thatthe company should be seeking to obtain a high market share. This strategy is mostsuitable for commodity markets like the accommodation budget sector, where thenature of the product is hard to differentiate.

DifferentiationPorter's second generic strategy recommends that firms adopt aproduct–service differentiation policy that is perceived by customers assignificantly different from competitors. In hospitality, differentiation is closelylinked to branding and offer formulation. Firms adopting a differentiation strategystrive to deliver a clearly defined experience that differs from competitors'.

FocusThe focus strategy, Porter's third generic strategy, suggests that firmsshould concentrate on one narrow market segment, or one geographic area, or oneprimary product. The benefits of a focus

strategy are derived from serving onetarget segment very well, and more effectively than differentiated or low-cost firms.

A focused firm may adopt a differentiated or low-cost strategy aimed at the chosenmarket segment.

B. Treacey and Wiersema

Treacey and Wiersema (1995) have also identified three major approaches to marketing

strategy that companies can adopt: operational excellence, product leadership,and customer intimacy. They call these market disciplines.

Operational excellenceThis core marketing discipline calls for doing a limitednumber of things extremely well. It implies the development of a well-definedvalue proposition based on clearly understood customer expectations, and therepeated production and delivery of the product-service that complies with exactspecifications of a Standard Operating Procedure Manual. Companies likeMcDonald's, Taco Bell and Pizza Hut fit this model.

Product leadershipThe product leadership discipline is founded on the beliefthat relevant, customer-focused innovation will win buyer preference. Companiesthat stress product leadership nurture ideas, translate them into product–serviceconcepts, and market them successfully. These companies experiment and think 'out-of-the-box'. The fully automated hotel cannot be far away. Some hotels havealready done away with check-in, check-out and room-keys.

Customer intimacyThe third marketing discipline, customer intimacy, is basedupon the provision of solutions that are customized for individual buyers. In thesecompanies, empowerment is pushed to the front line and the company is flexible,doing what it takes to

produce satisfied customers. Ritz-Carlton Hotels prides itselfon being such an organization.

2. Tactical marketing plans

Tactical marketing plans differ from strategic plans in both their timeframe and their content. The typical tactical marketing plan (TMP) operates within a short timeframe, normally no longer than one year. The TMP is subordinate to the SMP, and therefore operates within the segmentation, targeting and positioning parameters established by the SMP. TMP consist primarily of campaigns and events, which may be unit- or department-specific.

A campaign is a promotion that runs for a short period of time. Campaigns are generally expressed in carefully targeted and timed customer or prospect communications.

A campaign might be a sales promotion designed to fill rooms during the shoulder period, or it might be a sales blitz designed to generated prospects for a salesperson to follow up. Typically, a campaign is designed to produce specific behaviors in the targeted audience – for example, making a reservation, or contacting a call center – in the immediate term.

Event-based marketing is the term used to describe the creation and communicationof offers to customers at particular points in time. The event which triggers anoffer is typically something that occurs in the customer's personal or business life.

For example, an engagement, announced in a local newspaper, might trigger a hotelto offer to host the couple's wedding reception. The scheduling of a 'watch andclock industry' trade show by a city convention center might trigger a timely offerby a hotel chain to

house visitors from exhibiting companies. Event-based marketersput together offers that are unique to the event, set the price and promote to a tightlydefined target market. The success of an event can only be measured when all thecosts and revenues have been compared.



Activity 2.

What are the major strategies suggested by Porter?

4.3. Segmentation, targeting, and positioning

Having set objectives, the next step of this generic marketing planning process is to make the core strategic decisions about how to segment the market, which customer segments to target, and how to position effectively against competitors in the same market.

- ✓ Market segmentation involves dividing up the market into homogeneous subsetsso that marketing strategies and tactics can be developed for one or more segments
- ✓ Companies that are innovative in the way they segment a market can enjoy firstmoveradvantage as they exploit opportunities that have not been recognized bycompetitors
- ✓ Companies can choose to focus on one or more market segments, depending upon the attractiveness of the opportunities and the competencies of the company
- ✓ Market positioning is concerned with selecting a competitive position in the marketand determining how to compete effectively in that position; for most hospitalitysectors, this

means choosing a competitive group and identifying how togenerate sales to customers.

Until the STP decisions are made, companies cannot begin to develop strategies and tactics. Segmentation and targeting strategies are based upon the findings from the situation audit, whilst the positioning strategy provides the core theme for integrating all the elements of the marketing mix to provide a consistent offer.

4.4. Ethics, law, and government

4.4.1. Ethics in Hospitality Industry

There is a growing concern for business ethics in the hospitality industry as hospitality professionals are faced with ethical dilemmas in their daily operations. Complex and interesting ethical issues affect this broad industry whose business ranges from restaurant operations to tourism-based businesses. By virtue of its nature the hospitality industry places customers and employees in tempting situations as well as attracting abuse. Opportunities to steal arise in several occasions mainly because of the widespread cash transactions and the sector’s vulnerability to dishonesty. Some of the ethical challenges faced by hospitality managers today aren’t new and have been taking place for a long time. For instance, in 1898 Caesar Ritz and his Auguste Escoffier manager and chef respectively were discharged from London’s Savoy Hotel for accepting less weighing food deliveries and extorting commissions from suppliers thereby using the hotel for their own gain and profit (Fennel & Malloy, 2008).

Currently hospitality managers keep on facing these and other complex employee honesty issues on a regular basis. Interviews with hospitality managers about the daily challenges they face in their

operations evoke numerous ethical problems between customers and employees, employees and employer and employee and their colleagues. It is important to note that managers face a difficult task deciding what is ethically right and may sometimes be controversial. The increase in diversity as well as multicultural backgrounds in the hospitality industry makes ethical issues even trickier. Managers often face accusations of theft, harassment, discrimination on the basis of age, gender, race and belief often leading to complaints that may result in lawsuits. The cost of legal actions is enormous and time consuming, no hospitality organization wishes to face a lawsuit (Peceri, 2010).

Since the right ethical action is not often clear, hospitality managers must gain a deeper understanding on various ethical issues and learnt different ways of dealing with them when they arise. A lot of people deem unethical or questionable behavior indispensable to get ahead and often makes one feel as if others are dishonest. Researchers have disclosed that some people consider themselves to be more ethical and moral than their colleagues in the workplace. A combination of these factors with the hospitality sector high turnover and regular use of part time employees are indeed a recipe for ethical issues. Concern for ethical behavior in the hospitality sector is quite obvious. The hospitality industry can also initiate considerable changes in the physical environment. World Travel and Tourism Council (20002) clearly identified hospitality industry impacts as involving water consumption, energy consumption, chemical use and atmospheric pollution, purchasing and waste water management.

Impacts of Ethics in the tourism and hospitality industry

Decision making

Ethical decision making is mainly influenced by the type of ethical issue faced; ethical dilemmas are classified according to their strength with participants more likely to respond as per the ethical principle if the dilemma is considered important. In the last few years Europe has increased the recognition that the natural resources are scare which has resulted in the reinforcement of the environmental ethics. Natural environment is known to have inherent value which overshadows its value as a leisure asset. Management greatly influences an organization's ethical performance by establishment of right of way that direct the ethical conduct of the entire organization (Foster &Hegarty, 2009). Management process and in particular setting organizational priority affects the realization of ethical conduct by identifying the values that the management deems as important.

Hospitality managers have the responsibility of maintaining the highest levels of services, guest satisfaction and optimal return on investment. In order to meet these objectives hospitality managers must deliver services that meet customers need. Nevertheless, during their daily operations the management is confronted with a number of ethical issues that can leave a permanent impression either positive or negative in the minds of the management, customers or employees. Generally, hospitality managers are confronted with ethical issues surrounding sexual harassment, departmental relations, yield management, guest rights, empowerment, vendor relationships, equal opportunity and public relations. There is a positive relationship between profitability and ethics. Managers must understand how to

manage the material component of the hotel which include resources and profits and the value component which include morality ethics Managers are daily faced with the dilemma of either giving priority to the guest or profits. Although the main goal of the hospitality managers is to generate profit they however, must do so in within the framework bearing in mind that they must offer customers value for their money. Hospitality training basically focuses on foreign languages and economic, it fails to focus on ethics and morality. Hospitality managers must have certain personal traits which include honesty, integrity, loyalty, trustworthiness, fairness, respect for others, leadership, accountability, reputation and commitment to excellence. Mangers must reflect on their daily decision as well as their behavior to the business partners and clients (Wallace, 2008). Hospitality revolves around relationships between two persons one who requests and expects a quality and honest service and the other person expected to meet that request in a professional manner.

Quality

Hospitality establishments and their management should always ensure the quality of their guests and employees. Quality is only achievable through maintaining hotel standards; it is not an occurrence but a habit. It involves a proper estimate of guest desires, expectations and requirements and establishing of suitable standards. Quality is made up of good employees who respect ethics and morality in both their work and in life. Therefore, ethics should be part of every activity in the hotel with definitions according to particular responsibility and work of every department. Ethics should cut across housekeeping, front office, security, food and beverage, marketing,

purchasing, yield management and public relations departments. Excellent hospitality leaders ensure that the vision, mission, values as well as the ethics of the hotel reflect a socially responsible culture (Smith & Colman, 2006). Ethical leaders lead by example in restoring trust in business by stimulating ethical conduct of all the employees and having a clear understanding of ethical quality and progress of the hotel and taking necessary measures on the basis of facts.

Employee Turnover

Hospitality organizations that are socially and ethically responsible can attract as well as retain quality workers because the company's practices and values are direct to the values that such employees hold, which decreases the intention to leave the company. Service employees' turnover is directly related to the hospitality organization's ethical environment, high ethical practices reduce stress, increases trusts between employees thereby reducing conflicts and increasing job satisfaction. As opposed to other sectors the hospitality sector is very diverse; it involves employees and managers from every social, cultural, age, racial, educational, sex and religious background (Vallen&Casado, 2000). The industry also embraces a wider spectrum of ethically acceptable behavior and beliefs. Therefore, hospitality employees and managers need an international understanding of what is acceptable and wrong. Adopting and implementing ethical values helps people realize their organization fit as well as influencing employee's affections for the company. Unethical environment or practices often lead to extra organizational costs, thus there is a need for hospitality businesses to promote an ethical climate in the working place to avoid this.

Employee Satisfaction

One of the most important assets of any hospitality business is its employees; as a result, hospitality organization should take good care of their employees. It is the role of the management to know what the employees think, how they perceive the company culture, what they think of their working environment and whether they are satisfied with the existing procedures and policies. When employees are satisfied, their retention rate is high while the turnover rate is significantly low. Hospitality managers should take a leading role in encouraging ethical behavior in their organizations (Smith & Colman, 2006). Ethical leadership includes personal competencies; nevertheless, those managers who lead by example have a greater impact on ethical actions of their subordinates. Studies have revealed that hotel industry employees require a higher ethical perception than other industries and a stronger capacity to judge ethical issues as per the policies of the organization.



Activity 3.
What are the major impacts of ethics in tourism and hospitality industry?

4.4.2. Laws in the Hospitality Industry

The hospitality industry encompasses arts, entertainment, recreation, accommodation and food services. Industry laws relate to guests and employees, and include legislation on employee health and safety,

labor laws, environmental protection, hygiene, alcohol licensing regulations, negligence, privacy and contracts. It is important for industry entrepreneurs and managers to know these laws to promote employee welfare, ensure adequate service to guests, manage business exposure to risk, and maintain complete compliance with state and federal laws.

Employee Welfare

Service providers ought to be well-versed with all labor laws, given the unique employment attributes in the hospitality industry. Unique challenges exist due to the nature of the work and the variety of employees that exist in the industry. There are permanent and seasonal workers regulated differently under the law. The hospitality industry also takes on underage workers who work part-time and have specific protections under the law. Considering that the hospitality industry tends to operate 24 hours a day, throughout the year, entrepreneurs and managers have to guard against violation of wage and overtime laws, which guard against overworking and underpaying employees. It is also important to know about the occupational health and safety laws that protect employees at work.

Client Service

Operators in the industry are expected to ensure clients' welfare and are legally liable when they fail to meet it adequately. Client services range from food preparation and service; ensuring general hygienic conditions, and offering adequate security to prevent criminal activity, which includes assuring the safety of guests and protecting their privacy and confidentiality. Operators need to know their legal duties

and refrain from placing clients at risk of injury, illness, embarrassment or loss due to ignorance or negligence.

Risk Exposure

Because offering hospitality spans a wide array of services, it is important to know all the laws that apply to manage the industry's exposure to risk. Hospitality industry service providers face the risk of lawsuits based on breach of contract arising out of relationships with suppliers and guests, tortious claims such as when a guest gets injured due to negligence, and bankruptcy when the business is not making enough to pay the bills. The industry is also vulnerable to risks arising out of gambling and liquor licensing laws that regulate when and where alcohol can be served and the legal drinking age, as businesses can be held liable even when it is their guests who breach the law. Therefore, industry entrepreneurs and managers need awareness of laws to avoid exposure to risk that can lead to disruption or even closure of the business.

Legal Compliance

State and federal laws prescribe standards for every industry, and in the hospitality realm, there are a number of relevant laws that service providers must follow. Laws on guest-tenant relationships, maintenance of public health through the creation of smoke-free zones and food hygiene standards apply directly to the industry. Legislation on consumer safeguards, such as protection from misrepresentation and false advertising, as well as disability discrimination due to lack of access, also affect the industry. Service providers require comprehensive knowledge of all applicable laws to

effectively manage all the legal issues that arise in the course of operating their business.

4.5. Entrepreneurship, creativity, and innovation

Creativity, innovation and entrepreneurship are slogans that have become an integral part of modern tourism economy. Creativity and innovation of tourism economy as well as the meaning of creativity in tourism business are intensely discussed. Today, creativity is being frequently analyzed as a basic feature of actions performed on a daily basis in terms of both personal and professional life, a feature that every employee is required to possess. It means that employers and, above all, the education system must feel it necessary to develop certain conditions in which human creativity can be shaped, which is understood as a system that enables us to adjust to constantly changing environment and take a risk to apply new solutions to particular problems.

In recent years creativity has seemed to be a significant aspect in processes of initiation, realization and commercialization on the market of innovation. The expressions of innovation and creativity are misquoted with each other. We can briefly say that creativity means an idea, whereas innovation denotes an idea including its value. Being creative is an ability to imagine things that have not existed so far. It also means searching for new solutions using new forms of labor. Creativity may stop at the level of human mind. Innovation, however, must bring a measurable effect.

This, obviously, does not mean that the two terms cancel each other. According to Altshuller, innovation is a complex phenomenon, a set of abilities, a different way of organization, synthesis and expression of knowledge, perception of the world and creation of new ideas, perspectives, reactions and products. The author sees a necessity of creative processes in innovation and stresses the relation between innovation and creativity (Altshuller, 1986, p. 6).

Creativity is a relational and context phenomenon – both its chances of forming and later demonstration as creative and innovative actions take place in interactions with other people and the context of action. In order to ensure that creative actions are taken in a great scale and result in innovations, it is necessary to have certain conditions that encourage people to think this way – “an atmosphere for creativity”, without which there is no real chance to apply innovation actions and make them last.

Therefore, creativity is a source of innovation, and its development is fostered by a proper organizational culture of an organization that should be open to any changes and new ideas of its employees, accept the right to make mistakes and become ready to take a risk related the creation of a new innovation value chain. Toyota is a perfect example of an enterprise where such culture has been successfully implemented. A model of Toyota organizational culture prefers creativity and eventually innovation that is strictly connected with the Japanese philosophy of Kaizen, focusing on an approach to continuous improvement of all processes within an organization. What is important, it applies to each member of the organization – from a manager to a front-line employee (Liker and Hoseus, 2008, p. 135).

This forms the basis of the Kaizen philosophy and Toyota's huge success was built on is a conviction that everyone has some unused skills and abilities, discovery and application of which may bring some rational profits for the company.

More and more tourist businesses realize how important an organizational culture that encourages development of creativity is. The leaders in the field are especially big businesses that are applying employee gratification programs that reward employees for their good and valuable ideas. Hunting and motivating the most skilled and developmental employees to improve their qualifications, pointing the path of development and a possibility of further education, e.g. trainings, studies or training programs at home or abroad, they all serve to develop creativity. As it may appear, small and medium-sized businesses have limited possibilities in this respect. However, their size and thereby a fewer number of employees should give supremacy in development employees creativity and hunting the most talented ones.

4.6. Self-check questions

Part I. True or False

1. A divisional marketing plan focuses on the goals of a major division of a hospitality company.
2. Market targeting means choosing a competitive group and identifying how to generate sales to customers.
3. The focus strategy, Porter's third generic strategy, suggests that firms should concentrate on one narrow market segment, or one

geographic area.

4. Because offering hospitality spans a wide array of services, it is important to know all the laws that apply to manage the industry's exposure to risk.
5. Tactical marketing plans differ from strategic plans in both their timeframe and their content.

4.7. Answers for self-check questions

1. True **2. False** **3. True** **4. True** **5. True**

UNIT FIVE: DEVELOPING THE HOSPITALITY AND TOURISM MARKETING MIX

5.1. Introduction

Although authors discuss the product offer using a variety of different approaches, all agree that the product is a complex combination of tangible and intangible elements. The product/service is the starting point in the development of the marketing offer, and without the product concept, we have nothing to sell. Products simply deliver the basic functional solution to consumers' needs and wants, and must be designed to deliver customer satisfaction to specified target markets.

However, there is no reason why consumers should choose one commodity product from another, apart from price.

We can look at the product from two perspectives – first from the customer's perspective as a bundle of benefits that will solve their problems, and secondly from the firm's perspective in terms of what we create for and offer to the customer. It is important to note that the product that marketers strive to create and deliver may be quite different from the hospitality product actually experienced by the customer. Especially in service situations, unplanned elements can dramatically distort and disrupt the experience, leading to unplanned customer dissatisfaction, or, for that matter, satisfaction.

5.2. Developing the offer

Defining the product

An important distinction can be drawn between the core product, the tangible product, and the augmented or extended product (Kotler, 2000).

Core product

The core product delivers the fundamental functional benefits that the customer is seeking. In hospitality, a hotel offers a place to sleep, and a restaurant offers some-where to eat. It is the customer, not the company, that defines the core product. If a customer chooses to stay at a resort hotel for 'rest and recuperation', then R&R is the core

product for that customer. Normally hospitality organizations do not compete at the core product level; however, companies should ensure that the requisite core capabilities and competencies are in place to deliver the core product effectively.

Tangible product

The tangible product is composed of the physical elements that are necessary for the core product (benefits) to be delivered. The tangible product includes product features (the size and range of facilities), design (external and internal), and quality and service standards. In hospitality, companies can differentiate their offer in the form of the tangible product. Pizza Hut, for example, has introduced an upscale range of 'Gourmet' pizzas to differentiate itself from other operators.

Extended product

The extended product includes intangible elements of the product that can add value, differentiate the offer, and provide customers with additional benefits. The extended product includes:

The people element of the offer – staff training, courtesy and contact with customers
Accessibility – this includes location characteristics and opening times
After sales service – customer billing procedures and complaint handling
Ancillary or special facilities – for example, business centres and leisure clubs for hotel residents

Atmospherics – the important sensory element of the hospitality experience Brand image and corporate ethics.

In service industries, it is the extended product that delivers what is distinctively different about the customer experience – and this is where competitors in the same product class really compete. Delivering a memorable hospitality experience consistently is a major challenge for hotel and restaurant organizations.

Product benefit bundles

Consumers rarely purchase a single hospitality product in isolation. Customers look for a combination of benefits to satisfy their needs and wants, and hospitality businesses can provide these benefits either independently or in partnership with other organizations. We call these combinations 'product benefit bundles'. *Within* hospitality examples include:

- ✓ Bed and breakfast
- ✓ Dinner, bed and breakfast
- ✓ Full board (accommodation with breakfast, lunch and dinner) Two (or more) nights' accommodation with (or without) meals
- ✓ Fixed-price menus (inclusive of starter, main course, desert, coffee and tax) Restaurant, function and wedding menus with drink packages
- ✓ 24-hour conference packages including accommodation, all meals, tea and coffee, hire of meeting room.



Activity 1

Obtain a conference or wedding brochure from a hotel and review the different product combinations and prices. What are the benefits of product bundles for:The customer? The hotel?

In addition, hospitality businesses can work with *external* organizations – for example, local leisure and sporting attractions – to offer inclusive product benefit bundles, like theatre weekends or golfing breaks.

The accommodation, food and drink products offered by hospitality businesses form part of the larger tourism product, either formally through a tour operator or informally through the customer experience of visiting the tourist destination. Externalfactors, which are outside the control of hospitality operators, can affect the customers' enjoyment during a trip. Typically, the weather influences our holiday experience as well as the service provided by other retail and tourism outlets. Tour operators combine all the essential elements, such as flights, transfers, rooms and food excursions, and offer a combined product in one inclusive package. Tourists buying a package holiday regard the hospitality product simply as one component of the entire package, not as an independent product, and customer satisfaction with the hospitality product cannot always be easily separated from satisfaction with the other elements of the travel package.

This means that hospitality businesses need to work in collaboration with other organizations to have an effective marketing strategy and to

ensure repeat and referral business. This collaboration can take different forms:

- ✓ Individual hospitality operations formulate, develop, promote and deliver their product as part of the total tourist offer of the destination
- ✓ At the destination, hospitality operators work with official tourist organizations who formulate and develop tourism products based on the destination attributes and promote them to target markets
- ✓ Tour operators coordinate the products offered by hospitality operators and other suppliers, and then formulate them into a single offer (package) which is promoted to target markets.

Service delivery concepts and the product

Any consideration of the product in hospitality must be based upon a thorough know-ledge and understanding of the needs and wants of target markets. Understanding customer needs, within a given price band, is fundamental to successfully providing products which match customer expectations. One of the most important product decisions facing multiple-unit organizations is how much of the product should be standardized and how much should be customized. When hospitality organizations aim to standardize a product, the objective is to provide an identical standard service for all customers in every unit. A customized hospitality product deliberately offers a modified product, which can be different in each unit.

Standardized products

The international fast-food restaurant chains provide good examples of standardized hospitality products. They offer the following features in all their restaurants:

- ✓ The same menu at the same price
- ✓ The same kitchen production process
- ✓ The same service delivery process
- ✓ The same staff recruitment, training and service standards
- ✓ The same layout, seating and internal décor
- ✓ The same external frontage, signage and brand logo.

There are advantages to both the consumer and the organization with a standardized product. Customers receive a consistent, reliable product that fulfils their brand expectations. Companies gain significant economies of scale and experience through fully preconfigured design concepts, volume purchasing, reduction in stock levels, lower employee skills requirements, and easier staff training procedures. Service processes can also be blueprinted. Essentially, a blueprint is a flowchart that sets out the various tasks that have to be performed for a service to be delivered to a customer. Blueprints can also identify who is to perform the task and the required performance standards. There are also opportunities to maximize brand awareness through marketing communication campaigns based on promoting the same, standardized product formula.

A precondition for developing a genuinely consistent standardized product in hotel operations is to build new developments instead of adapting existing buildings and structures. The budget hotel chains are more likely to have a standardized product because the accommodation is factory built, with prefabricated bedroom units erected on the building site. Hospitality brands offering a standardized product can be described as ‘harder’ brands. However, trying to adapt older buildings to a standardized brand formula inevitably creates some brand inconsistencies.

Companies with successful standardized offers can expand more easily – every time a new unit is proposed, all the product decisions have already been tried, tested and agreed. This has enabled a small number of standardized hospitality branded products to grow rapidly throughout the world. The standardized product concept is either loved or loathed by consumers!

Customized products The alternative approach to standardization is to adapt or customize the product according to the needs of niche market segments, and even individual customers. Many European hotel chains offer customized products, which include:

- ✓ Individually designed hotels in different sites, often built in different historical periods, offering a different range of services and facilities in different locations
- ✓ Restaurants with different menu concepts, and different menus reflecting local ingredients and different cultures of cuisine Different décor and different types of furniture
- ✓ Staff who are trained to unit standards of operation, instead of brand standards of operation.

An adapted approach to hospitality product development implies higher costs, since there are limited opportunities for economies of scale. Hospitality brands offering an adapted product can be described as ‘softer’ brands. A good example of a global softer brand operating in the mid-market is Best Western Hotels.

International product decisions

The level of standardization or adaptation is a major product decision in international marketing (Usunier, 2000). The international hospitality product needs to take into account local country cultural differences and make suitable

adaptations to gain local consumer acceptance. Identifying target markets is crucial when developing the international product.

If the target market is primarily from the home country, then the product can be standardized using the home country culture. The British-based tour operator, Ski Olympic provides a British skiing holiday product for British customers in the French Alps. The product includes British-style food (porridge and cooked English breakfast, Tetley teabags, evening meals using British recipes), British beers, British television (especially sport and TV soaps), British and Commonwealth staff and management, and even British ski instructors. This British product in France delivers customer satisfaction because the customers are all British. If the target market is primarily people from the host country, the product should be adapted to take into account local cultural values – for example, McDonald's adapts the meat in its burger products to conform to the cultural expectations of customers in Indian countries, and provides rice as an alternative to fries for Asian markets. If the target market has regional or global characteristics, then a standardized product should be developed. Scandic Hotels, which is part of the Hilton Hotels group, provides a relatively standardized regional hotel product in the Scandinavian countries of Denmark, Finland, Norway and Sweden. Scandic Hotels incorporates a

distinctive Scandinavian atmosphere, décor and design in its product offer, which is strongly influenced by environmentally friendly policies. In reality, most international hospitality groups have varying degrees of standardization and adaptation (Roper and Brookes, 1996). For hotel companies, accommodation, the range of facilities offered and service standards tend to be easier to standardize, whilst décor, design, staff uniforms and some elements of the food and beverage offer tend to be adapted to reflect local country culture and cuisine. Even the most standardized concepts, like McDonald's, adapt elements of their product offer when necessary, whilst Best Western Hotels – which operates the most heterogeneous brand of hotels on the international arena – strives to standardize the product offer through its quality audit for each property. The concept of providing international product standards with local adaptations – sometimes called globalization – combines the best of both approaches effectively.



Activity 2.

What do we mean by international product decisions in hospitality industry?

Product life cycle

All products experience a life cycle, which charts their sales and profit behavior from birth, through various stages, to decline and extinction. The product life cycle (PLC) is one of the most well-known concepts in marketing theory (McDonald, 1999), and hospitality managers are aware of its importance when developing marketing strategies for their businesses. PLC concepts can be applied to an item on the menu or in the bar, a sales outlet within a hotel (the accommodation, the restaurant, the banqueting), an individual property or unit, a brand or chain of outlets, a destination, and even an industry. The global hospitality industry comprises hundreds of thousands of 'products', all at different stages of their life cycle. The PLC includes the following stages, but note that the timescale can vary from a very short period of only a few months to a very long period lasting several generations and even hundreds of years:

- ✓ ***Product development***. During this period the new product concept is conceived, researched, assessed and, in some cases, test-marketed prior to introduction in themarketplace. Most new product concepts fail at this stage and are never actually launched.
- ✓ ***Introduction***. This is the launch period, when the new hospitality product is introduced to the market – for example, the opening of a new restaurant.

- ✓ ***Growth.*** This is the period when the new product becomes more widely accepted by consumers, and sales grow as the concept becomes better established.
- ✓ ***Maturity***. At this stage, the product has reached its potential and growth slows.
- ✓ ***Decline.*** Eventually the product no longer satisfies the needs and wants of its customers, as alternative products/competitors provide better benefits to consumers. Sales fall as the product goes into decline, and the management has to decide whether to retain or dispose of the declining product. However, a product that is in decline for one company can still be highly profitable for a different company. There are many products in declining markets that are still highly profitable – for example, bed-and-breakfast houses in British seaside resorts.

There are a number of criticisms of the PLC. First, it is not always clear where a product is located on the PLC. Secondly, the PLC is not an accurate forecasting tool, and sales may fall due to an economic downturn instead of a change in the stage of the PLC – so if a manager makes a marketing decision based on a faulty analysis of the PLC, then the marketing strategies adopted might be incorrect and damage the business. Whilst accepting these valid criticisms, the simplicity and terminology of the PLC helps

us to understand important product development issues, which we will now explore.



Activity 3.

Do you think all products of hospitality pass through all the stages of product life cycle? Justify.

New product development concepts

Effective hospitality managers constantly seek to improve customer satisfaction by reviewing their offer. As a result of managers' observations, business performanceand customer/staff feedback, product improvements can be introduced. These can range from minor low-cost enhancements to multi-million pound new-build developments. Clearly many product developments are successful, but the rate of new product failure in hospitality is high – especially in food service. Unfortunately, many independently owned restaurants open and close within twelve months. The reasons for the high failure rate of new products in hospitality include:

- ✓ Inexperienced and over-optimistic entrepreneurs
- ✓ Poor marketing research
- ✓ A flawed product concept
- ✓ An inappropriate location
- ✓ Competitors' responses

- ✓ Inconsistent service delivery
- ✓ Poor interior and/or exterior design
- ✓ Limited market potential
- ✓ Higher development costs than planned
- ✓ Undercapitalization
- ✓ Poor timing (e.g. opening during the decline phase of the business cycle).

Innovation

Major hospitality organizations have a wide range of products at different stages of the product life cycle. Since all products decline, there is a constant requirement to research and find successful new product concepts to ensure continuous profits. Companies use two different methods to find new concepts: they can either acquire products that have been developed by others; or they can develop their own new products.

Acquisition The bureaucracy of larger organizations can inhibit creativity whilst entrepreneurs, who are often closer to customers, can innovate with much more freedom. In hospitality there are many examples of people with limited work experience in the industry, who develop successful new product concepts based on their 'gut' feeling, their intuitive understanding of customer needs and their entrepreneurial flair. Once a successful entrepreneur has proved the viability of the new product concept, larger hospitality organizations

can either imitate the concept or buy out the entrepreneur's company.

Development The alternative route for new product development in larger organizations is to set up a new product in-house development team to generate and evaluate new product concepts formally. The team may be an established part of the organization structure or an ad hoc cross-functional group. New product teams need marketing input to ensure that the customer's voice is heard. Most so-called new products are actually product modifications, cost reductions or product line extensions, as opposed to original product concepts.

New product development process

Many companies have a formal new product development process that features some or all of the following stages:

Idea generation. There are several sources for new product ideas, including managers, employees, customers, suppliers, intermediaries and competitors.

Idea screening. Ideas need to be screened to ensure they can be developed further; some ideas lack potential and are immediately discarded; other ideas might be desirable but do not fit the competencies of the company. Screening aims toeliminate bad ideas quickly so that the costlier stages of new product development (such as concept development) are not required.

Concept development and testing. In this stage the idea is more fully developed intoa new product concept with a detailed, workable proposal. Companies then need to test consumers' reaction to the new concept, using marketing research techniques such as focus groups.

Marketing strategy. A marketing strategy statement is developed that describes theinnovation's target market, market positioning and marketing mix. Initial costs, sales and profit projections are then formulated.

Business analysis. In this stage the new product is evaluated against companyinvestment and return hurdles. Investment in new product development is a board-level decision when significant capital sums are involved.

Product development. Finally, the idea starts to become a reality. Large companiesdevelop a prototype for test marketing. A test market is a limited-scale launch of the product concept to establish the potential for the innovation and the marketing necessary to make it a success. New brand concepts can be experimented in a single unit to gauge customer reactions before rolling out the concept, but smaller businesses cannot afford to test market the concept.

Commercialization. The final decision to proceed is based on the results of the testmarketing. Depending upon consumer response and the capital investment/ profit return calculations, a final decision will be given to proceed or halt the new product development.

Whilst larger companies have a more structured approach to new product development, smaller hospitality companies are generally more entrepreneurial. A restaurant proprietor can introduce new menu items for a trial period before making the add-or-drop decision. Failed ideas can be dropped without serious cost consequences.



Activity 4.
Describe the steps in the new product development process.

Adoption and diffusion theory

Some new products become popular very quickly, whilst it can be years before others take off. Some never become viable. Researchers have identified a number of different categories of new product adopters, according to whether the customer is amongst the first or later groups to buy. These categories are as follows:

Innovators. These are the first people to buy a product once it appears. In hospitality, they are the first customers to visit a new restaurant when it opens. They are prepared to experiment and take risks, and are an important influence on the next category.

Early adopters. These people respond to good word-of-mouth reports from innovators, and form the next category to try a new product. They are opinion leaders, whose judgment about a product can determine whether it will succeed or fail. If the early adopters endorse the product, it will become more established.

Early majority. These people follow the early adopters, whose opinion matters tothem. This group consists of people who tend to conform to social trends, are well-integrated socially and accept change.

Late majority. This group is very slow to purchase new products. They are lessresponsive to change, are more skeptical, and prefer products they know rather than experimenting.

Laggards. These people are suspicious of change and are reluctant to alter theirpurchase patterns. They are cautious

and conservative, and continue to buy products even when they are no longer fashionable.

New product launch strategies

The introduction stage for new hospitality products includes new-build openings for hotels, restaurants and bars, new brand launches, and re-launches of tired products that have been refurbished and repositioned in the marketplace. For hotels, the time involved in planning, gaining permission, building and completing a new-build project can take several years and substantial capital investment. For restaurant and bar concepts, the lead-time will be shorter and investment costs lower. A common problem is that hospitality new-build and refurbishment programs are rarely completed on time, and often the new hospitality product has to be opened incomplete. Customers experience a distressingly long list of minor problems, such as incomplete décor finishes, that can take several months to complete.

A typical launch strategy will include a ‘soft opening’, where invited guests stay and/or dine on a complimentary basis. This provides an opportunity to train staff on the job, and test the service process and the equipment before paying customers arrive. Feedback from invited customers and staff helps to

identify problems, which can then be resolved. If problems are not identified and resolved in the soft opening, then (especially with new restaurants) a poor reputation can quickly spread – which is often fatal. The marketing communications challenge during the launch period is to establish the market position, and create awareness and interest in the new hospitality product concept in order to generate trial purchases.

During the launch period sales are low and there can be major fluctuations in demand, causing service problems at crucial times. Start-up costs are high owing to the uncertain patterns of demand, staff training and recruitment costs, and the pro-motional spend to raise awareness. The unit is unlikely to be profitable during the introduction stage. However, the launch period is vital for the new hospitality product because the business needs to generate:

- ✓ Satisfied customers
- ✓ Positive word-of-mouth Repeat sales.

Growth product strategies

In the growth stage, the hospitality product should be earning a good word-of-mouth reputation, the early adopters return and recommend the product to the early majority, who

patronize the establishment in growing numbers. Sales grow, but despite this healthy trend there are pitfalls associated with growth. Successful hospitality products are dependent upon a consistent product/service offer, and as the business grows there can be over-demand at peak periods, resulting in either excessive waiting times or having to turn customers away. Hospitality customersare notoriously fickle, and once they have found another hospitality product that suits them, they may never return. Management can also inadvertently create problems by raising prices on ancillary products to boost profitability (for example on drinks and wines), which might disappoint repeat customers. Arrogant management, thinking that the business is now a success, may start to overlook customers' special requests and even ignore customer complaints.

Marketing strategies that hospitality companies adopt in the growth stage include:

- ✓ Relationship marketing to build long-term relationships with customers
- ✓ Enhancing the product and service delivery by continuous feedback from customers and staff
- ✓ Setting prices to gradually grow the market; this means not raising prices quickly simply because the establishment is becoming popular, and in some cases

might involve making minor price adjustments downwards

- ✓ Targeting new market segments to grow demand, possibly with minor product modifications
- ✓ Continued investment in marketing communications activity, to maintain aware-ness and build loyalty based on product preference
- ✓ Encouraging word-of-mouth recommendation by inviting satisfied customers to refer friends
- ✓ Opening additional units in similar geographic and demographic catchment areas
- ✓ Building partnerships with other organizations that can generate a stream ofcustomers, such as theatres or hospitals.

The growth stage should be increasingly profitable, since fixed costs are spread over a greater number of customers and, as trading patterns become more established, the management become more experienced at controlling staff rotas to enhance customer satisfaction and reduce wage costs.

Mature product strategies

The majority of hospitality product concepts operate in the mature stage of the life cycle, which can last for a very long period of time. The market for the product is well established, and the product itself is clearly positioned against its

competitors. Sales level off, as the business has consistent demand from a loyal customer base. Growth is limited, and is largely dependent upon gaining market share from competitors. The mature hospitality product can suffer from a number of problems, including:

- ✓ A dated product concept
- ✓ A tired product in need of refurbishment
- ✓ Management and staff working in a routinized way and no longer 'wowing' the customers
- ✓ More intense competition from newer product concepts, which cater better for customer needs and wants
- ✓ Increased segmentation of the market, ultimately with the risk of market fragmentation.

Managers who are aware will recognize these symptoms and take action to avoid the product entering the decline stage prematurely. Mature product strategies in hospitality include:

- ✓ Relationship marketing to nurture and sustain loyal customer segments
- ✓ Continued investment in product quality to maintain and enhance service
- ✓ Product modifications – for example, introducing new menus/new recipes – which can revitalize a tired hospitality product
- ✓ Reformulation of the product concept and/or refurbishment of the premises to re-launch the product

- ✓ Adaptation of other marketing mix elements – for example, lower prices, increased promotional activity – and targeting new intermediaries to generate additional sales.

By careful management of the marketing mix, the mature stage can remain profitable for a very long time. Gradually profits will begin to decline as increased investment, with heavier promotional costs to maintain market share, coincides with lower prices. Even major international brands suffer from many competitors nibbling at their leading market share. Eventually the mature stage will enter decline, unless the product has been reformulated and re-launched to start another cycle.

Declining product strategies

There is no precise moment when a product or brand enters the decline stage, and the decline period can take place over a long period of time or be extremely rapid. Once decline really sets in, then the rate of decline accelerates. The decline stage can be caused by changes in consumer tastes, changes in technology, increased competition causing overcapacity, changes in management personnel, or changes inownership. As sales begin to fall, the typical hospitality operator will:

- ✓ Aim to cut costs in every facet of the business
- ✓ Reduce staffing levels Only invest in essential repairs (there will be limited, if any, investment in redecorating or refurbishment)

- ✓ Reduce overall product quality by purchasing cheaper food ingredients, bar and housekeeping products
- ✓ Take a longer time to pay suppliers.

Disappointed customers, overworked employees and dissatisfied local suppliers can combine to generate powerful negative word-of-mouth publicity. Returning customers will notice the poorer standards of product quality (for example, tired décor and furniture, worn-out crockery, cheaper quality in-room amenities) and stop patronizing the hotel or restaurant. Customer complaints increase, with little prospect of management being able to encourage the unhappy customers to return. The spiral of decline increases in a deadly no-win situation for all concerned. As sales deteriorate faster, more desperate cost-cutting measures are introduced to try and stem the losses, which in turn reduces customer satisfaction. For larger firms with several hospitality outlets or brands the problem of a unit in decline is exacerbated by the negative publicity, which can damage the overall brand image of successful units in other stages of the life cycle. In addition, the costs of managing a declining brand are disproportionate to the benefits generated. Owners and managers need to decide whether to keep a declining product and harvest it to maximize profits, or whether to dispose of it. If the product is retained, costs have to be reduced and unprofitable segments eliminated, which further reduces sales.

Disposal or rejuvenation

At any one time there are thousands of hospitality businesses that have reached the end of their product life cycles. A declining business that is for sale has similar problems to the decline stage; but if staff and customers know the business is for sale, the spiral of decline accelerates more quickly. Indeed, if a hotel or restaurant is not sold quickly, the business can go bankrupt. The key point to remember is that when a hospitality product is sold, it normally remains in the sector. The new owners can reformulate the product offer and invest in the re-launch of the business, and a new product life cycle starts. In destinations that are in decline, the hospitality product might be bought and converted into other uses – for example, housing and retail outlets. Alternatively, the existing owners might decide to rejuvenate the product by closing the existing business, investing in a new product concept, and starting the PLC again.

5.3. Hospitality and tourism pricing strategies and tactics

In this section, we will review the significance of pricing in the pre-encounter marketing mix and examine how companies set prices. We will then look at the external and internal factors that influence pricing decisions, and explain the pricing techniques that are especially relevant to hospitality

organizations. Pricing is the tool that matches supply and demand. Price influences the demand for a product, which in turn determines volume sales. Therefore, setting an appropriate price is one of the most critical factors in demand management and in generating revenue. Price is the only element of the marketing mix that is not a cost, because price generates revenue. Pricing decisions contribute to product and brand image, and product and pricing decisions are therefore inseparable.

5.3.1. Significance of pricing in the pre-encounter marketing mix

There is a clear link between the price a customer pays and the customer's quality expectations. The higher the price, the greater the expectations of a high quality hospitality experience. Price is an indicator and a measure of quality, particularly in the absence of other cues. If a high quality gourmet restaurant was routinely to offer cheap menus, or a five-star hotel was continually promoting budget holidays, customers would be confused and suspect that the product quality offered was not genuine. Price plays an important part in establishing customers' perceptions of a product and of a company's position in the marketplace. Over time, brands often become associated with particular value propositions, which become fixed in the consumers' perception of that brand. McDonald's brand values are firmly placed in the fast

food, family, and lower spend position. Although price is the easiest variable of the marketing mix to change, it is the most complex and least understood of the variables. In hospitality, short-term tactical price changes are often not consistent with strategic objectives, and can send out strong negative messages to consumers with damaging, long-term consequences. Price is: the summation of all sacrifices made by a consumer in order to experience the benefits of a product. This definition includes both financial and other sacrifices, such as time and effort. It is a broad definition, because monetary price is not the only consideration consumers have to think about when making purchase decisions. In many countries, some consumer groups are described as ‘money rich and time poor’. These affluent consumers have busy lifestyles with limited time to enjoy discretionary purchases. ‘Time is money’ is an appropriate expression for these important target markets. One of the first questions customers ask before booking a hotel or restaurant is ‘how much is a room?’ or ‘how much is the price of a meal?’ Although the reply will be given in money terms (and customers quite sensibly want to know if the room or meal is affordable), what they are really interested in is value, not price. Customer value is found in the relationship between costs incurred (cash, time, effort) andbenefits enjoyed (food, beverage, service, entertainment, atmosphere, experience). If costs rise without enhanced benefits for the customer, then

value falls. If additional benefits can be included for the customer, without increasing price, then the customer enjoys better value. An important distinction to recognize is that consumers' perception of the value/price of a product is strongly linked to their perception of the product concept. Product concepts are targeted at selected market segments with different needs and wants. Two very different product concepts are those that cater for special occasions and those that provide convenient solutions to consumers' everyday needs. The price band for dinner at a luxury gourmet restaurant, a special occasion, is at the top end of most consumers' affordability, whilst the price band for a self-service meal, often a convenience purchase, is at a much lower price point. Consumers form expectations of what they will have to pay for a gourmet meal, and compare competing gourmet restaurant price/product offers. Equally, consumers choosing a self-service restaurant have price expectations of what to pay for a self-service meal, and compare competing self-service price/product offers. Consumers tend not to compare the value/price offer between different product concepts; whereas they do compare the value/price offer within the same and adjacent product classes. In most cases, branded hotels are able to charge a higher price than independently owned, non-chain hotels. Consumers seem to be prepared to pay more to stay in a branded hotel, which

guarantees a familiar product standard, rather than risk staying in an unknown, non-branded hotel.



Activity 5.

- ✓ Contact hotels in the same competitor set in a city or town you know, and establish the prices for a room in each hotel for the same night.

5.3.2. Stages in setting prices

Kotler (2000) proposed a generic pricing model that recommends eight stages in setting prices:

1 Select pricing objectives

2 Assess the target market's ability to afford the purchase price and consumers' perception of the price/product offer

3 Determine the potential demand, including the price elasticity of demand

4 Analyze the demand, cost, volume, price and profit relationships; businesses need to understand their fixed and variable costs

5 Research competitors' price/product offer

6 Select a pricing strategy

7 Select appropriate pricing methods

8 Set specific prices for rooms, food, beverages, conference and leisure products, and for special product-price bundles.

This approach requires a considerable amount of consumer, competitor and internal company research. Major companies are in a position to adopt this approach. One example is the large tour operators, who monitor their unsold capacity and competitors' prices on-line on a daily basis and alter their pricing schedule up or down accordingly.

The managers of smaller hospitality companies adopt a much simpler approach to setting prices, based upon a combination of historical factors and the current economic situation. The process of setting prices might be as follows:

1 Review last season/year's prices and business performance

2 Review current and potential cost increases.

3 Take into account current and forecast inflation

4 Take into account the general economic situation, and factors likely to influence customers' attitudes to prices

5 Check competitors' current prices

6 Set prices by adding a percentage (for example, 5 percent on the tariff of each room price) or a fixed amount (add £1 to each *à la carte* menu item) onto the current prices.

Marketing-orientated managers will try to find out what competitors are intending to charge next year, before

setting their own prices. Although this process is flawed, managers of smaller businesses set prices using the historic price, plus or minus a sum, because it is simple and easy to adopt.

5.3.3. Factors influencing pricing decisions

Factors that influence price decisions can be sorted in to two major categories (Kotler, 2000):

1 External environmental factors, over which companies have little (if any) control

2 Internal factors, over which companies have a considerable amount of control.

1. External factors

There are five environmental variables thatimpact on pricing decisions – demand, inflation, industry structure, competition,and legal/regulatory factors.

A. Demand

In this section, we willreview price elasticity, business and consumer confidence, exchange rates and themicro-environment within the context of pricing.

Price elasticity of demandUnderstanding the price elasticity of demand is essential to making good pricing decisions. The sales volume of a product that has *inelastic* price demand does not vary significantly when price changes. In hospitality, the business market for

accommodation traditionally considered to be more priceinelastic in its demand schedule. Conversely, the sales volume of a product that has an *elastic* price demand varies significantly when prices change. Traditionally, leisure products are considered to be more price-elastic in their demand schedule because they are discretionary purchases. A simple way to understand the price elasticity of demand is to consider essential purchases as being price-inelastic, and non-essential purchases as being more price-elastic. The price elasticity for generic products can change over the long term, as products that were originally considered to be 'nonessential' become an 'essential' part of consumers' lifestyle. For example, many consumers now regard holidays abroad as an essential purchase.

Business and consumer confidence we have already discussed the business

cycle and its impact on business and consumer confidence. During periods of economic growth, there is rising confidence and less price-sensitivity from business and consumers. This means there is less resistance to price increases. However, during a recession, the loss of business and consumer confidence significantly reduces demand. Both corporate and individual consumers become much more price-sensitive, and there is resistance to price increases – indeed, customers will expect price discounts.

B. Inflation

Inflation is the rise in the average price of goods and services, measured over a period of time. Different countries have different rates of inflation; developing countries generally experience a higher rate of inflation than more developed countries. In countries with high inflation rates, like Argentina, international markets are quoted room prices in American dollars. A country's domestic inflation rate impacts on the entire national economy and affects businesses and consumers.

Companies have to factor the rate of inflation into their pricing policies.

Exchange rates Exchange rate fluctuations present unique pricing difficulties for hospitality operators catering for international group markets, as contracts between hotels and tour operators can be negotiated eighteen months in advance of customers actually taking a package holiday. Factoring exchange rate movements into the pricing contract, with possible surcharges if the rate moves unfavorably against the hotel, is essential – but unpopular with customers.

Micro-environment Micro-demand is dependent upon the local characteristics of the area – the number, scale and buoyancy of local manufacturing and service industries; the image and appeal of local tourism amenities; and the density, wealth and purchasing characteristics of the local population. All of these factors will influence both group-

owned and independent units within the area. Typically, most of the businesses in an area with buoyant demand will be prospering, whilst businesses in an area suffering from poor demand will generally all be suffering.

Popular destinations can charge higher prices, and less popular destinations use pricing to attract price-sensitive markets.

C. Type and structure of industry

Structural factors that influence the pricing dynamics in hospitality sectors include the cost structure, number of players, and capacity of the industry.

Cost structure Different hospitality sectors have different cost structures, which impact on pricing policies. A five-star luxury hotel requires a high investment in the building, décor, facilities and staffing ratios compared to budget hotels constructed with pre-fabricated standardized bedrooms, in secondary locations, offering minimal staffing levels and no ancillary facilities. The pricing policies of the five-star hotel sector must reflect the higher investment and operating costs, whilst the pricing policies of the budget sector should reflect the lower investment and operating costs.

The sourcing of produce in remote destinations increases the cost structure – for example, hotels in the Seychelles

have to fly in food produce that is not available locally, increasing food costs significantly.

Number of players If the sector is highly concentrated and dominated by a small number of very large players, the sector's overall profitability is dependent upon players *not* adopting price competition to gain market share. The impact of genuine price competition results in all players cutting their prices to prevent a loss of market share, thus leading to erosion of the sector's profitability. In this case, competition should be based on product differentiation rather than price. The rivalry between McDonald's and Burger King in the fast-food sector is primarily based on product differentiation, not price. Where there are a large number of players, and no firms are dominant, the opportunity for players to adopt different pricing strategies is greater.

Capacity Given sufficient demand, limited capacity will enable firms to charge higher prices; while sectors with lower demand and 'over-capacity' will suffer from intense price competition. Because of the relatively low start-up costs, the restaurant market also suffers from excess capacity and remains intensely price competitive.

D. Competition

If the competitive environment is benign and the intensity of rivalry gentlemanly, industry pricing policies should enhance profitability. However, if the competitive environment is fierce and the intensity of rivalry bitter; industry pricing policies can adversely affect profitability.

E. Legal/regulatory

National government taxation policies, like Value Added Tax (VAT), tourist taxes levied by a charge on letting bedrooms and excise duties imposed on alcoholic beverages, impact on the prices charged by the hospitality industry. Since each country sets its own taxation policies, companies operating in countries with lower taxation policies can gain a competitive advantage over companies operating in higher-taxed countries.

Governments can impose regulations on companies, which increase the costs of running a business. For example, the European Union directives on minimum wages, health and safety have forced hospitality companies to introduce new work practices and equipment/maintenance schedules, which has often led to companies having to increase prices to help pay for these regulations.



Activity 6.

✓ Evaluate the reasons why hotels in the same product

class charge different prices. For example, normally the branded hotels will charge a higher rate than similar standard independents – but a prime location carries a price premium

2. Internal factors

There are seven internal factors that affect the pricing decision: pricing objectives, costs, company resources, positioning, customers, product, and channel.

A. Pricing objectives

Price objectives are dependent upon marketing objectives, which in turn are dependent upon corporate objectives. Organizations often have long-term strategic price objectives, and short-term tactical price objectives; crucially, pricing objectives need to be consistent with the objectives of the other elements of the marketing mix.

Pricing objectives should be SMART – Specific, Measurable, Achievable, Realistic, and within a set Timetable.

Pricing decisions are linked to the financial and marketing planning process of setting sales, cost and profit budgets. In some instances, the corporate objectives very clearly dictate pricing objectives – a corporate objective to maximize profits in the short term leads to a marketing objective of

setting prices designed to maximize current cash flow, regardless of the type or suitability of the sales generated. Pricing objectives can be classified into the following categories: marketing-orientated, financial-orientated, and competitor-orientated.

Marketing-orientated pricing objectivesMarketing-orientated organizations try to understand how price influences customers' perception of their product offer, and develop pricing objectives using a customer's perspective.

Market leaders in high quality hospitality markets, such as luxury hotels, gourmet restaurants, first-class travel providers and luxury cruise ships, adopt a 'prestige' or premium pricing objective (that is, to charge the highest prices for the highest quality service), and must ensure that the customer perception of their service matches the premium prices charged.

Hospitality operators adopting the 'best value for money' objective in a given productclass monitor customers' perception of their product value, scanning competitors'price activity and ensuring that their offer delivers the best perceived value for money.

Another marketing-orientated pricing objective is to encourage trial or repeatpurchases. When launching a new hospitality concept, marketers need to generateinterest in the new venture, and one of the tools used is a free sample

or discountedtrial purchase. Repeat visits can be encouraged using price promotions.

Unfortunately, hospitality companies seldom commission in-depth psychologicalresearch regarding customers' perceptions of their product/price offer and aretherefore rarely able to set optimum prices that are acceptable to customers whilstdelivering the maximum contribution to the company.

Financial-orientated pricing objectivesThe majority of for-profit hospitalityorganizations focus on financial objectives rather than marketing-orientated objectives.*Profit-orientated pricing objectives* focus on the company's profit requirements andinclude survival, target return on investment, skimming, optimal current profit andharvesting. Profit-orientated pricing objectives are effective for setting managementperformance targets, but typically fail to take in to account the external environment,competitor and customer factors. A typical profit-orientated pricing objectivewould be: 'to set prices to achieve a 15 percent return on investment, per annum,over a five-year period'.

Competitor-orientated pricing objectivesIt is easy for hospitality companies to find out competitors' published and quoted prices; and many do. Competitors' prices establish a benchmark and range for players in the same and in

neighboring product classes. When competitors' prices change, market followers will simply move their prices up or down in line with them to maintain the same price differential as before. The problem with this 'me-too', follow-the-leader strategy is that the cost base of competitors might be very different, and the policy does not take in to account what customers might be prepared to pay.

B. Costs

A major input into the pricing decision is the cost of producing and marketing the product. Marketers need to understand the nature of the costs in hospitality products (Harris and James, 1999). *Fixed costs* do not vary with sales volume – examples include rent, property taxes, salaries of permanent staff, insurance, and depreciation.

In some companies, bank interest and loan repayments are considered to be

fixed costs. The key feature of fixed costs, given the seasonality of hospitality products, is that they do not vary and must be paid on a regular monthly or quarterly basis. *Variable costs* vary in proportion to sales – examples include food and beverage purchases, and laundry usage. *Semi-fixed costs* vary in sympathy with, but not in proportion to,

sales volume – examples include energy costs (light, heat, airconditioning and cooking) and part-time wages.

In hospitality businesses, a high proportion of costs are fixed or semi-fixed. This is partly due to the high level of capital invested in buildings, equipment and refurbishment.

Although the total capital investment is usually smaller in catering establishments, the predominance of fixed assets is similar.

There are several difficulties associated with the incorporation of cost considerations into pricing decisions. Cost-based pricing techniques are essentially retrospective – that is, prices tend to be based on costs that are known because they have already been incurred. Yet companies need to recover future costs, which may be quite different. Most companies do not try to apportion indirect costs, but assess departmental performance on a gross profit or contribution basis.

Whatever prices are set, they must recover the long-term total costs of being in business. In the short term, however, companies can use marginal costs to set prices. The *marginal cost* is the cost to the company of making the last sale – for example, letting the last room. If a room is unoccupied there is no margin earned; if the room is occupied at any rate above the marginal cost, there is a contribution to fixed costs.

C. Company resources

The size and financial assets of a company influence the pricing decision.

International hospitality companies operating with strong brands in many countries have easy access to a variety of capital markets, and develop a strong resource base.

They enjoy economies of scale and better purchasing, which reduces operating costsand improves profitability. Larger companies have more business experience, andcan afford to experiment with different pricing policies in selected outlets. They canalso tolerate short-term losses during the launch of a new product concept and, ifthe product concept fails, they can afford to write the investment off and learn fromthe experience.

Single-unit, privately owned operations do not have significant financial

resources, and a single pricing error can seriously (perhaps even fatally) damage asmaller business.

D. Positioning

Prices must accurately reflect the property's desired position, be consistent acrossthe range of products offered, and match the target market's expectation of qualityand value. The relationship between the price and the product quality is symbiotic,in that the price charged has to cover costs, generate company profits and reflect thepositioning

strategy. In planning new hospitality concepts, the price the targetmarkets are prepared to pay is a key determinant in the sales volume/cost/profitrelationship, and helps to shape the product format.

E. Distribution channel

When setting prices, hospitality operators must understand their channels of distributionand factor in the costs of intermediaries. The minimum commission paid totravel agents is 8 percent and the norm is 10 percent, but on certain products (for
example, weekend leisure breaks) the commission can rise up to 30 percent. Thetransaction charges of computerized reservation systems and credit card paymentsincur additional costs, which the business has to cover. Credit card commission canvary from less than 1 percent for major international companies to over 5 percent forsmaller operators.

F. Customers

Customers' response to pricing, and changes in prices, is complex. Customers notonly judge the total bill in determining whether they have enjoyed value for money,but may also focus upon its component parts. High individual drink prices cangenerate dissatisfaction, even when the overall bill is regarded favorably. As part ofan effective positioning strategy, we should emphasize the dangers

inherent inmixing incompatible market segments. In attempting to maximize sales, hospitalitymarketers' use of discounted prices can attract and encourage the 'wrong' type ofcustomers.

G. Product

Characteristics of the hospitality product that influence pricing policy include the product class, the stage in the product life cycle, the production process, and the level of people-skills involved in producing the product. Different classes of hospitality products are sold within different price brackets, which determine the boundaries for setting prices.

5.3.4. Pricing strategies

Having established the price objectives, hospitality companies need to consider pricing strategies, which must be linked to the quality standards offered by the operation. In hotels, consumers often associate star ratings with quality standards.

Alternative pricing strategies include the market leader and market follower

options but there are also unsustainable pricing strategies, which are ultimately self-defeating.

A. Market leader strategies

Well-established hotel companies, with a loyal customer base and a strong brand image, can adopt *market leader strategies* where the prices are aligned with service quality. These strategies are suitable for:

_ The most exclusive, luxurious, 5-star hotels in the world; they deliver the highest quality customer experience, and can justify charging premium and prestige prices

_ Traditional 3 star, well maintained hotels, in good locations and with a high level of loyal customers and repeat business, offering appropriate value for money and competing effectively with a mid-market pricing strategy

_ Budget hotels and motels charging relatively low prices for a product offering fewer facilities and delivering value for money.

B. Market follower strategies

New entrants and less established hotel brands, seeking to build market share by penetration pricing, adopt a *market follower strategy*. A market follower strategy offers similar quality but pitches prices lower than the market leader in order to be more competitive, attract customers and grow market share. These strategies are suitable for:

_ High quality 4/5 star properties, seeking to grow market share by exceptional value pricing

_ Mid-market hotels competing against more established properties; or aggressive chains, and individual properties,

seeking to increase room occupancy and build market share by offering exceptional value pricing.

C. Unsustainable strategies

Unfortunately, some hotels implement *over-priced* strategies, which are unsustainable as a long-term proposition. These companies charge rates higher than the quality can justify. Some of these hotels might have myopic management who unknowingly have become over-priced. As customers recognize the poor value for money, the reputation of the business will rightly suffer. Either the company will have to adopt a more appropriate balanced strategy, or be forced in to either selling or liquidating the business.

- ✓ Old-established, grand 3/4 star hotels, which are no longer as luxurious as they used to be, and whose facilities no longer match the price charged; these properties are trading on an historic image as they gradually decline; they will eventually either have to re-invest in their facilities or reduce their prices
- ✓ Once glorious, now shabby hotels, possibly in good locations, which only generatepassing trade and charging high prices; this rip-off value will lead to a poorreputation, and limited – if any – repeat and recommended business

- ✓ Mid-market hotels with falling standards but still maintaining a medium pricingstrategy, which does not represent value for money
- ✓ Budget operations, which have gradually increased prices to pay for 'amenitycreep' items, and are no longer competitively priced.

Finally, some hotels can adopt an unsustainable price/quality strategy, where theprice offered is too low to support the product/quality offer indefinitely.

- ✓ High-quality 4/5 star properties charging unsustainable prices either because oflow season or due to a decline in the destination's popularity
- ✓ Mid-market hotels operating in highly competitive environments and offeringbudget hotel prices without reducing quality standards.

Companies need to adopt a pricing strategy, which takes into account their relativequality compared to the competition. Table 7.1 provides several examples of hospitalityproducts combined with price objectives, strategies and tactics.

5.3.5. Pricing methods

The next aspect of pricing is to review how prices are calculated in the hospitality industry. Pricing methods can be classified under similar headings to pricing objectives:

cost-led, profit-led, competition-led and marketing-led. Here is a summary of the main features of each pricing method:

- ✓ ***Market-led***– the highest price that customers are willing to pay; considers the competition, demand and profitability, and sets the ceiling for prices
- ✓ ***Competitor-led***– prices simply follow competitors; fails to take in to account customers' willingness to pay, return on investment goals, and company costs
- ✓ ***Profit-led***– return on investment target provides internal goals to motivate managers; fails to take in to account customers and competitors
- ✓ ***Cost-led***– cost-based is the lowest pricing level that a company can charge to remain viable; fails to take in to account customers' willingness to pay and return on investment goals; sets the floor for prices.



Activity 7

Compare the menu prices of two fast-food restaurants and two fine-dining

restaurants.

- ✓ Identify the similarities and differences in pricing between the two fast food menus.
- ✓ Identify the similarities and differences in pricing between the two fine dining menus.
- ✓ Can you find examples of product/price bundling, price-

led promotionsand prestige pricing?

5.4. Distribution systems and networks

In this section we will explain the channel options available to hospitality operators, define the role of intermediaries, and review how technology is changing hospitality and tourism distribution systems. The concept of a distribution channel is relatively simple, but in practice can be extremely complicated, especially for large organizations. The role of distribution is to help customers find information about products and to make purchasing easy. Intermediaries, for example travel agents and tour operators, help customers to choose hospitality and travel products. They are normally paid by charging a commission to the hotel that receives the booking. Since hospitality products are perishable, it is crucial to generate advance bookings. Major hotel companies with thousands of bedrooms to fill in hundreds of locations need to use a wide range of distribution channels to reach all their potential customers. The relationship between channel players is complex, especially if a hospitality organization becomes dependent upon high volume sales generated by intermediaries. You will obviously be aware of the information communications technology (ICT) revolution, with the growth

of the Internet and the development of powerful computerized systems. This revolution is changing the mechanics and tools of the distribution channel. However, the principles of distribution remain the same, regardless of the technology.

5.4.1. Channels of distribution

When we discuss the theory of distribution, we describe airlines, hospitality organizations, car hire firms and leisure attractions as principals. Principals provide the core product, which customers consume. Without principals there is no product. However, principals, especially in leisure travel markets, need intermediaries to package a combination of travel products and sell the total package to consumers.

Channel 1: Direct-to-customer

In the first channel, hospitality organizations and customers communicate directly with no intermediaries. This is called direct marketing. Principals use a combination of direct distribution methods, primarily online reservations, and marketing communications activity to reach potential customers. Direct marketing is particularly effective when targeting repeat customers. Since there are no intermediaries taking a commission, this channel can be the most cost-effective for principals.

Channel 2: Referral network

Branded hotel and restaurant chains, whether corporate-owned, franchised or members of voluntary associations, use each individual retail outlet to market the other properties in

the chain. No intermediaries are involved and, providing customers are satisfied with the hospitality offer, the 'referral network' is another cost-effective distribution channel. Hospitality chains provide brochure racks, often close to reception, and place hotel directories, which describe other hotels in the group, in the bedrooms. Customers can book directly for themselves, or at reception desks, via the hotel chain's computerized reservation system (CRS).

Channel 3: Travel agent as intermediary

In tourism distribution, travel agents perform the role of a retailer stocking a range of hospitality and travel products. Information about principals' products and prices is stored in databases and manual directories, and is provided via brochures. The travel agent advises customers on all aspects of travel. Agents make bookings, collect payments, provide tickets and accommodation vouchers, and over time develop a close relationship with regular customers. The travel agent works on the customers' behalf, and will take up customer complaints with the principals. In leisure and most business markets, the travel agent does not charge the customer for this service; instead, the principal pays the travel agent commission.

Channel 4: Tour operator as intermediary

Tour operators are wholesalers in the travel and tourism industry. A tour operator negotiates bulk allocations of seats from charter airlines and bulk accommodation from hotels,

and then develops a packaged product, which is marketed to consumers directly. The tour operator does not charge principals a commission; insteadit agrees discounted prices with the different principals involved, and makes a profit by charging the customer an inclusive price for the package holiday.

Channel 5: Tour operator and travel agent as intermediaries

This channel is similar to channel 4, with one major exception: tour operators often use travel agents to promote their all-inclusive travel products. In this situation, the tour operator has to pay the travel agent a commission for any bookings. If there are more intermediaries in a channel there can be a problem for the principals, because each intermediary needs to make a profit for the service provided. This means that there are greater pressures on the principal to keep prices low.

5.4.2. Benefits and disadvantages of distribution channels

From a hospitality perspective, the benefits of distribution channels include:

- ✓ More effective demand management for perishable products
- ✓ Convenient global/local access points for customers away from the hospitality location

- ✓ The provision of relevant information and guidance to potential customers by knowledgeable travel experts
- ✓ The bundling of hospitality products into combined travel packages
- ✓ An advance reservation and payments system
- ✓ The opportunity to work with specialist intermediaries who understand the dynamics of their own markets.

The disadvantages for hospitality organizations using intermediaries include:

- ✓ The loss of margin paid to agents through commission
- ✓ The loss of margin caused by charging tour operators low accommodation rates for volume business
- ✓ The loss of control of a key element in the marketing mix (the distribution channel), which can lead to an unhealthy dependence upon intermediaries (for example, large travel agency chains will not allow principals to promote their own products at point-of-sale)
- ✓ Intermediaries can be closer to the end user, taking 'ownership of the customer' away from the hospitality organization.



Activity 8

Think about booking a package holiday in a hotel in a foreign

country. List all the organizations, intermediaries, principals and any others who might be involved in making, paying and delivering the packaged travel product. Note what each organization provides in the delivery of the holiday.

5.4.3. Intermediaries

The structure of the travel and tourism industry is continually evolving. In Europe, change drivers include the deregulation of air travel and the growth of Internet technologies, which can deliver economies of scale and cost savings to the larger tourism organizations. Whilst the vast majority of intermediaries are small, independent bodies, major international companies have emerged, which dominate the package holiday market. Intermediaries can be categorized under the following broad headings:

- ✓ Travel agent T
- ✓ Tour operator
- ✓ Conference and meeting planner
- ✓ Corporate business travel agent
- ✓ Incentive travel house
- ✓ Representative agent
- ✓ Internet web portal and virtual travel agent.

Small-scale intermediaries normally focus on a specific leisure or business sector, whilst the large-scale organizations provide both leisure and business services.

Travel agents

Travel agents primarily rely on computer systems to make bookings, either directly to the hotel chain or through tour operators. Agents are dependent upon hotels paying commission, and obviously prefer prompt payment. The lowest hotel commission paid is 8 percent and the norm is 10 percent, with certain hotels paying up to 30 percent commission on specific products available during the low season. Hotel groups use the following tactics to target travel agents:

- ✓ Advertising in the travel trade press – e.g. the Travel Trade Gazette in the UK
- ✓ Hotel newsletters and direct mail promotions
- ✓ Sales visits to head office and individual retail outlets
- ✓ Incentive promotions, with rewards for the most successful staff
- ✓ Familiarization trips to the group's hotels (although the effectiveness of 'fam' visits by travel agent staff is debatable).

The sales team of the hotel chain negotiates with the head office of the retail travel agent chain on a regular basis. They review sales figures, discuss customers' complaints and guest satisfaction surveys, and negotiate commission rates and the racking of brochures on shelves. Individual hotels rarely

target travel agents, since their product offer is too narrow and localized to be of interest.

Tour operators

Tour operators devise inclusive holidays, combining the travel and accommodation elements with varying degrees of food, beverage, activities, entertainment and sightseeing. Some tour operators specialize in particular products (ski packages) or destinations (South-East Asia); others offer a wide range of tours. Tour operators generally work on volume sales, offering attractive, all-inclusive prices to generate high sales, with low margins. This formula implies a high break-even point, which makes tour operators financially vulnerable. Hotels wanting to target tour operators must be prepared to offer low rates, and accept that the additional spend in the bar and other areas can be low. To protect themselves hospitality operators, need to transact business with tour operators who are covered by recognized trade indemnity policies, and make sure they are paid on a regular basis. A driver and/or tour guide/tour leader/rep acts as a representative for the tour operator throughout the holiday, and plays a key role in supporting the relationship between tour customers and the hotel. Much tour operator business is booked into hotels for a set number of nights – five, seven, ten or fourteen nights are popular blocks – to coincide with working consumers' holiday patterns. However, the senior citizens' market can book for months during the low season in large holiday hotels. Another option

is booking on a series basis. An example of a series schedule is a weekly coach tour of Scotland, departing every Saturday with approximately 40 customers, on an agreed itinerary staying at the same hotels each day of the week for a sixteen-week season. This type of group travel appeals to older people.

Conference and meeting planners

These specialist agencies provide venue search and selection services and expert advice in event management. The meeting planner does not normally charge the client a venue-finding fee; instead, the venue will pay the meeting planner a commission on the business booked. Meeting planners justify their role by:

- ✓ Providing impartial advice as to the suitability of the venue
- ✓ Negotiating the contract between the client and the venue
- ✓ Ensuring that the venue delivers what the organizer is looking for.

Meeting planners adopt a professional approach to the business, especially since their customers can be high-spend, frequent users. They will often personally inspect alternative venues, and develop considerable expertise about the conference and meetings market. All the major hotel groups regard conference and meeting agencies as a priority target market.

Corporate or business travel agents

Business travel agents focus on service quality, in addition to price, in dealings with corporate customers. They arrange air travel and car hire as well as hotel bookings. The globalization of business has increased the demand for corporate travel, but at the same time the cost of traveling and staying in hotels has become a significant cost item. An American Express survey revealed that travel-for-business is the third highest item of controllable costs for companies. Whilst smaller business travel agents still rely on commission payments, the largest have reinvented themselves to provide their clients with cost-effective travel advice. These business travel agents are not interested in collecting commission from hotels; instead, they charge their clients a management fee for providing a travel management service – just like any other professional organization charges for a service. Business travel agents are keenly interested in negotiating competitive rates with the hotels that their clients want to use, to demonstrate that they are delivering better value to their clients.

Incentive travel houses

Companies often use travel as a reward to motivate customers, dealers, distributors, salespeople, staff and managers. This concept has developed into a major sub-sector of the tourism business, and is called ‘incentive travel’. The demand for incentive travel has increased dramatically during the past twenty years, and specialist incentive houses have

developed expertise in this market. To be a successful motivator and 'incentivize' the target audience, the reward mechanism should be highly desirable, often foreign, frequently unusual and especially exotic. This specialized market is not suitable for all hotels; however, exclusive hotels in idyllic locations can seriously target the incentive travel market. Incentive houses carefully check the facilities and quality of service of hotels in appropriate destinations. Since the promoters of incentive schemes are always looking for unusual themes, quality venues can help incentive travel houses by packaging distinctive, interesting programs that are suitable for well-traveled, sophisticated consumers. Some incentive packages involve large numbers of winners all traveling in one party at the same time; others are designed for couples, and can be booked on an individual basis as and when it suits the winners.

Representative agents

Representative agents are another type of intermediary who link hotels, travel agencies and customers. These are independent companies with their own sales teams. The largest representative agency in the world is Utell, which books millions of room nights each year into the hotels they represent. Utell connects 5000 hotels, including many of the leading brands and independents, to 450,000 reservation terminals in travel agencies everywhere using the Global Distribution System (GDS). Utell also has its own sales force,

which negotiates competitive rates for corporate clients and provides incentives to travel agents to book via Utell.

Virtual travel agents

Virtual travel agents are travel agents who only take bookings on the world-wide web. Unlike high street bricks-and-mortar travel agents, a virtual travel agent does not have any travel shops for customers to visit; all transactions are conducted on the Internet (see Case study 8.1). Major corporations own some of the largest virtual travel agents. Expedia is owned by Microsoft and Travelocity is owned by Sabre, one of the four Global Distribution System companies.

5.5. Integrated Marketing Communications mix

In the marketing mix, communicating the offer is variously known as promotion, the promotion(al) mix, communication, the communication mix or marketing communication (which is sometimes abbreviated to Marcom). The public knows it as advertising and selling. We mentioned in Chapter 1 that there is much more to marketing than simply advertising and selling. By now you should be aware of the importance of each of the other elements of the marketing mix, and that effective marketing is dependent upon marketing research, segmenting markets, understanding customers, designing hospitality products at the right price for appropriate target markets, finding the most suitable location(s), and using the

distribution network to reach target markets. Providing the pre-encounter marketing mix has been designed to provide an attractive offer, then communicating that offer should raise awareness, influence expectations and ultimately increase sales and profits. However, sometimes companies think that marketing communication campaigns can compensate for deficiencies in other elements of the marketing mix. If the offer does not satisfy customers, then investing in marketing communications is a waste of resources, which can lead to serious problems with unhappy customers, and negative word of mouth. Companies used to consider promotion as a tool to communicate with customers, but today they realize that communication with customers should be a two-way dialogue. Companies are interested in feedback from customers, and modern marketing communication strategies recognize this. For example, companies can use contact centers and websites to interact with customers. We will now discuss the role of marketing communication and review the different elements of the marketing communication mix.

5.5.1. The role of marketing communication

The end goal of most marketing communications is to influence demand and generate sales. To influence demand and generate sales successfully, Marcom needs to raise the target audience’s awareness of the hospitality brand and help form their expectations of the hospitality experience.

Marcom's end goal can be achieved in different ways, depending upon the characteristics of the target audience and their knowledge of hospitality companies' brands and products. There are three main communication strategies – to inform, to persuade, and to build relationships with target audiences.

Inform communication strategies

Companies need to ensure that potential customers are aware of their marketing offer. This is partly about building brand awareness and partly about developing product knowledge – both of these help the prospective customer to form expectations. Brand awareness for the major hospitality brands is continually researched in company marketing research and omnibus surveys. For companies with low brand awareness, a typical marketing communication objective is to raise brand awareness so that more potential customers actually recognize and learn the brand name. Companies also need to ensure that target audiences understand what the marketing offer represents. Companies who have successfully communicated their marketing offer to target audiences develop stronger reputations. A company with a weaker reputation has not conveyed an appropriate message in the marketing communication activities; however, trying to change consumers' beliefs about, and attitudes towards, a brand is a very complex task, particularly when these beliefs and attitudes are deeply held.

Persuade communication strategies

Consumers who are brand aware and have a favorable perception of the brand still need to be persuaded to buy the company's hospitality product. We have already discussed how consumers have choice, and that there are many types of different competitors competing for consumers' disposable income. Hospitality marketers therefore need to persuade target audiences to buy their product instead of the competitors' offer. Marketers stimulate buyer behavior by offering attractive inducements and incentives to book now rather than later – or never at all.

Relationship communication strategies

We mentioned in the introduction that, increasingly, hospitality companies want to build long-term relationships with target audiences. Generating repeat and referral sales is crucial in most hospitality markets. Major hospitality companies use computerized databases, which hold relevant customer information (including membership details of loyalty clubs), to communicate with customers. When this is linked to automated marketing processes, for example within a customer relationship management software suite, this is known as campaign management. Smaller hotel companies compile mailing lists of their customers to send out mail shots. Both approaches can be effective in building closer relationships with customers. Throughout this discussion, we

have been using the expression ‘target audience’. The starting point for any communications activity is to establish who the target audience is. In hospitality, the target audience might be end users, intermediaries, or key people in the decision-making unit. Each of these different target audiences has different characteristics, and therefore different types of communication activities need to be used to communicate effectively with each audience. By stimulating demand and creating consumer awareness, marketing communications is also establishing customer expectations. This creates a dilemma in the planning of marketing communication campaigns. Companies’ marketing communication activity must attract the target audiences’ attention, stimulate interest and, most importantly, persuade them to buy, without over-promising what can really be delivered. Unfortunately, because of competitive pressures some hospitality marketing communication campaigns exaggerate the quality of the promised service and raise customers’ expectations beyond what can be delivered. Customers who book in good faith, believing the promise, end up being disappointed when they actually experience the hospitality service. Many ordinary restaurants make exaggerated claims about the quality of their cooking, which then disappoints discerning customers.

5.5.2. The marketing communication process

Typical communication tasks in hospitality include:

- ✓ Raising awareness about the launch of a new product
- ✓ Promoting a low season price offer
- ✓ Creating publicity as part of a repositioning campaign
- ✓ Sending out a newsletter to regular customers.

Ultimately, the goal of most Marcom is to persuade target markets to purchase the hospitality product. However, this goal is not as simple as it sounds, because consumers in modern societies are bombarded with thousands of competing messages from hundreds of different organizations every day. We call this interference 'noise', and noise disrupts a company's communication with potential customers. The simple model of the communication process comprises a sender, a target audience (or receiver), noise in the communication environment, message, medium and feedback process.

- ✓ The sender is the hospitality organization that wants to communicate with target audiences.
- ✓ The target audience (receiver) consists of the end users, influencers, decisionmakers, gatekeepers, or intermediaries. The target audience must be precisely defined to ensure that the marketing communication campaign reaches the right people cost-effectively.
- ✓ Noise comprises all the communications from other sources, including both people and organizations, which compete for the target audience's attention and interfere with the sender's message.

- ✓ The message is the content that the sender wants to communicate to the target audience.
- ✓ The media are the various communication tools that senders can use to communicate with target audiences. Media include personal communication (such as sales visits) and non-personal communication (printing brochures, placing adverts in newspapers, and public relations activity).
- ✓ Feedback from the audience tells the sender whether the communication objectives have been achieved.

A crucial stage in the communication process is to develop an effective message to communicate the marketing offer. Some marketers use a framework called AIDA to ensure that the message and media choices lead to an effective outcome. AIDA stands for:

- ✓ Attention – the message should grab the target audience's attention
- ✓ Interest – the message should arouse the target audience's interest
- ✓ Desire – the message should stimulate desire so that the target audience wants to experience the product
- ✓ Action – the message should encourage the target audience actually to buy the product now.

Different communication tools may be needed at each stage of AIDA– for example, advertising can stimulate attention and sales promotions can generate action. Before constructing messages and choosing communication media, marketers

need to be clear about their communication objectives. Generally, these can be split into three categories. Communicators want their targeted receivers to learn, feel or do something. Examples include:

- ✓ Learn: raise awareness of a new product launch; recall the brand name; recognize the company logo
- ✓ Feel: develop a positive attitude to the company; prefer the brand to competitors
- ✓ Do: telephone the contact center; ask for a brochure; make a booking; pay in advance.

Messages need to be constructed so that they achieve the specified communication objectives. In devising the message, marketers have to decide what to say (message content) and how to say it (message format).

Messages need to be constructed so that they achieve the specified communication objectives. In devising the message, marketers have to decide what to say (message content) and how to say it (message format).

Message content

The message content depends first upon the objectives of the campaign and then on the characteristics of the target audience and their knowledge and understanding of the hospitality product. A campaign for a new brand will most likely stress information that builds awareness and influences expectations – for example, the brand name, location and a description of the customer experience. For an established

brand aiming to fill rooms in the low season, the focus will be on price and availability. Audiences who are already aware ('Attention' in the AIDA model) are at an advanced stage of readiness to buy. Message content for them can be more attuned to interest, desire and action outcomes. Different members of the decision-making unit may be at different AIDA stages, and therefore need different messages.

The marketer then needs to decide what type of appeal to use in the message – rational, emotional or moral.

- ✓ ***Rational messages*** appeal to the target audience's practical mindset. This approach is effective in markets where the end user has a set of tangible requirements. A rational message can provide the factual answers, which reassures the audience. 'Just 50 meters from the beach' and 'Close to the airport, but quiet' reassure leisure and corporate markets.
- ✓ ***Emotional messages*** are explicitly designed to arouse consumers' passions, interests and activity. This approach is effective in dining out and leisure markets. Appeals to book a table for two in a restaurant on Valentine's Day, or to take a relaxing weekend leisure break, are popular examples of emotional messages in hospitality. Restaurants that promote non-genetically modified or organic food appeal to consumers' core emotive values.
- ✓ ***Moral messages*** are linked to consumers' belief and value systems. There are a number of religious organizations that arrange holidays for members of their faith, and some faiths have even bought their own hotels to cater for their

members. These organizations, which provide dedicated facilities for their fellow believers, still need to carry out marketing communication activities, and their moral message is essentially a spiritual one.

Message format Messages are communicated using one or more of our five senses – sight, sound, smell, taste and touch. Message format depends upon the choice of communication channels, and refers to the actual design of the advertisements, brochure, public relations activity, and/or sales visits. Examples include the layout, copy and illustrations in an advertisement or brochure; the gimmick and storyline to create interest in a public relations campaign; food samples from the restaurant; and the design of the hotel's conference laptop presentation. Attention to detail in designing the appropriate message format is time-consuming, relatively expensive, and crucial.



Activity 9

Review the advertisements for hotels and restaurants in one local newspaper, one national newspaper and one magazine. Who is the target audience for these adverts? How emotional and how factual are the adverts? Is there a difference between adverts placed by well-known brands and by independent operators?

5.5.3. Communication channels

There are two main classes of communication channels; personal and non-personal. Personal communication refers to people who are directly talking to each other, face-to-face in a meeting, or on the telephone, or via video-conferencing. It can also include personal correspondence by mail, fax or email. The advantages of personal communication are primarily the 'personal contact' that such communication allows. By directly talking with customers and influencers the hospitality organization creates the opportunity for a dialogue, so that the customer can ask questions about the hospitality company's brands and products. The customer is also able to give feedback on the company's performance. Non-personal communication channels refer to mediated and publicity events, and include all print, broadcast and display tools. The main differences between using personal communication and mass media/publicity channels is that the latter do not provide a personalized message, and so they are not guaranteed to capture the attention and respond to the specific concerns of the target audience. The design and production of mediated communications requires support from specialist suppliers like design companies, advertising agencies, print companies and public relations agencies. These agencies develop expertise in visual imagery, copywriting, photography, radio

and television advertising, and nurture useful contacts in the media for publicity purposes. They provide important advice and a professional service in delivering a marketing communication campaign.

5.5.4. Integrated marketing communications (IMC)

The global hospitality giants, like McDonald's, Burger King, Accor, Hilton, Marriott and ICHG, invest billions of dollars, pounds, euros and yen in promoting their products and brands to millions of customers in different target audiences around the world. This creates enormous marketing communication and organizational difficulties. Cultural differences and regulation in different countries are the major barriers to effective marketing communication. First, there is the issue of language. Some languages need more copy space than other languages – for example, written French and Italian need up to 25 percent more space than written English, whilst written German and Scandinavian languages need up to 30 percent more. This creates different page layout requirements from a visual design perspective. When translating the meaning of a phrase from one language to another, for example an advertising message, it is very difficult to convey an accurate interpretation, especially if humor is involved. Humor often involves a play on words, which does not have the same meaning in a second language. Secondly, there is the issue of cultural symbolism, where different colors and different traditions mean that consumers have different interpretations

of the same communication. Finally, there is the problem of different governmental approaches to regulating marketing communication activity. Even a relatively simple pan-European sales promotional campaign targeting families with children can be difficult to implement because of the different national government restrictions on promotions to young people (see Table 9.1). Major hospitality organizations employ their own marketing specialists working in sales, sales promotion, public relations and advertising in their national, regional and international offices. They also have to work with external advertising, public relations and design agencies in several countries. With so many marketing communication specialists working on a range of campaigns, but all involved in delivering the global company's branded message, it is easy to see how it is difficult to maintain a consistent message. The concept of integrated marketing communications is the response to this confused approach to organizing the international marketing communication function. Major international advertising agencies like Saatchi & Saatchi acquired other specialist agencies in the fields of public relations and self-promotion, in capital cities all around the world. Their aim was to create a global one-stop shop for all the marketing communication activities a global client needs, and provide an integrated service for international campaigns. Whether a hospitality corporation uses a global one-stop shop or continues to use specialist agencies and their own in-house

marketing specialists, the important point is that effective international marketing communication campaigns need to be coordinated across all countries, and all elements of the marketing communication mix, to provide a consistent branded message to the target audiences. The recent development of Internet technology has enabled the hospitality chains to develop intranet solutions to the problem of delivering brand-consistent Marcom collateral across all the units in the company. The brand manual and brand standards are provided on the intranet in a digitalized format, with standardized layouts for adverts, print material and signage, a photographic library, and a history of successful marketing campaigns and press releases to help support marketing activity. Links are provided to external suppliers such as advertising agencies, designers and printers like Kall Kwik, which has local printing shops in many key locations. A unit planning to develop a Marcom campaign can access the intranet and customize the promotional material, inputting the menus, prices, dates and address/contact details on its PC. The artwork is sent on-line to the corporate head office for approval, which is much quicker than relying on snail-mail. Once approved, the artwork can then be sent to the commercial printers on-line. This use of technology is cost-effective, and allows the corporate head office much greater control in delivering consistent brand standards in Marcom materials.

5.6. Self-check questions

Part I. True or False questions

1. Services do not contribute to a country's economy as they do not result in any net increase in wealth.
2. Increases in leisure time are one of the reasons behind the growth of service industries.
3. Products can be categorized as either goods or services. Very few have significant elements of both.
4. 'Promotion' and 'Marketing Communications' are interchangeable terms.
5. Advertising is generally a better promotional tool than sales promotion when it comes to closing a sale

Part II. Multiple choice questions

1. What are the typical characteristics of services?

a. Services confer benefits; are tangible; are time- and place-dependent; are consistent; cannot be owned; and providers and consumers form part of the service.
b. Services confer no benefits; are intangible; are time- and place-dependent; are inconsistent; cannot be owned.
c. Services are intangible; are time- and place-dependent; are inconsistent; cannot be branded; and providers and consumers form part of the service.

d. Services confer ownership; are intangible; can be consumed at any time or place; are inconsistent; and providers form part of the service.
e. Services confer benefits; are intangible; are time- and place-dependent; are inconsistent; cannot be owned; and providers and consumers form part of the service

2. There are 7Ps in the services marketing mix. What are the additional 3Ps?

a. people, physical evidence and process
b. peripheral products, packaging and people
c. people, physical evidence and presentation
d. physical evidence, presentation and process
e. process, pricing and packaging

3. A concert ticket is primarily an example of which element of the marketing mix?

a. process
b. physical evidence
c. packaging
d. price
e. place

4. What is a pull strategy?
   a. a communications strategy aimed at distributors
   b. a marketing strategy with a customer focus
   c. a communications strategy aimed at consumers
   d. a hard sell marketing strategy
   e. a low-budget corporate strategy
5. What is a distribution channel?
   a. a group of distributors
   b. a shop or other retail outlet
   c. a product's route through the supply chain
   d. an electronic network
   e. a means of transporting goods (e.g. lorry or train)

5.7. Answers to self-check questions

Part I. True or false

1. **False**
2. **True**
3. **True**
4. **True**
5. **False**

Part II. Multiple Choice

1. **E**
2. **A**
3. **B**
4. **C**
5. **C**

References

Anderson, B., International *Graduate School of Management, University of South Australia, GPO Box 2471, Adelaide, SA 5001, Australia.*

Brown, M., Tiscover *AG, Travel Information Systems, Maria-Theresien-Strassen 55-57, A-6020 Innsbruck, Austria.*

Buftalis, D., *Centre for eTourism Research (CeTR), School of Management, University of Surry, Guildford GU2 7XH, UK.*

Cooper, M.J., International *Cooperation and Research, Ritsumeikan Asia Pacific University, 1-1 Jumonjibaru, Beppu-shi 874-8577, Japan.*

Deery, M., Centre *for Hospitality & Tourism Research, Victoria University, PO Box 14428, Melbourne City, MC 8001, Australia.*

Erfurt, P.J., *Ritsumeikan Asia Pacific University, 1-1 Jumonjibaru, Beppu-shi 874-8577, Japan.*

Getz, D., *Haskayne School of Business, University of Calgary, Canada.*

Hudson, S., *Haskayne School of Business, 2500 University Drive NW Calgary, Alberta T2N IN4.*

Jago, L., *CRC for Sustainable Tourism, C/- Centre for Hospitality and Tourism Research, Victoria University, PO Box 14428, Melbourne City MC, Victoria, Australia 8001.*

Kandampully, R., 265 *J Campbell Hall, 1787 Neil Avenue, Ohio State University, Columbus, OH 43210-1295, USA.***Karcfter, K.,** *Tiscover AG, Travel Information Systems, Maria-Theresien-Strasse 55-57, A-6020 Innsbruck, Austria.*

Kftan, M., *Room 565, Hospitality Program, Dept.of Management, School of Business, Howard University, 2600 6th Street, NW, Washington, DC 20059, USA.*

Krebs, L., *Department of Geography, University of Waterloo, Waterloo, Ontario, Canada N2L 3G1.*

Laws, E., *Adjunct Professor, James Cook University, Cairns, Queensland, Australia. E-mail: e.laws@runbox.com*

Le Pelley, B., *Guernsey Planning Department, UK. E-mail: barbara.lep@ guernsey.net*

Miller, G.A., *University of Surrey, UK.*

Moscardo, G., School *of Business, James Cook University, Townsville, QLD 4811, Australia.*

O'Neill, M., *Dept.of Hotel and Restaurant Management, College of Human Sciences, 328B Spidle Hall, Auburn University, Auburn, AL 36849, USA.*

Pegg, S., *School of Tourism & Leisure Management, Faculty of Business, Economics &Law, Ipswich Campus, The University of Queensland, 11 Salisbury Road, Ipswich, QLD 4305, Australia.*

Prideaux, B., *James Cook University, PO Box 6811, Cairns, Queensland 4870, Australia.*

Renolds, R., *Embry-Riddle Aeronautical University, College of Business, 600 S. Clyde Morris Blvd, Daytona Beach, FL 32114, USA.*

Rftoades, D., *Embry-Riddle Aeronautical University, College of Business, 600 S. Clyde Morris Blvd, Daytona Beach, FL 32114, USA.*

Santos-Arrebola, J.L., *Catedratico de Universidad, University of Malaga, Spain.*

Waguespacft, B., *College of Business, 600 S.Clyde Morris Blvd, Daytona Beach, FL 32114, USA.*

Weiler, B., *Department of Management/Tourism, Monash University, Berwick Campus, Victoria 3805, Australia.*

Williams, F., *Land Economy Research, Scottish Agricultural College, Craibstone Estate, Aberdeen AB21 9YA, UK*