

Hospitality Marketing

An introduction

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For Julie, Olive, James
and Rowan, Cherry and James
DB

For my parents Bill and Mary, and Dale and Nick
FB

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Preface

Most readers of this textbook will be university undergraduate or college students studying hospitality and/or tourism marketing for the first time. Our main objective in writing the book has been to provide you with an easy-to-read text, which presents a review of modern marketing theory in the context of marketing the hospitality industry. Examples from the industry are provided to illustrate real-life practice and give you a better understanding of hospitality marketing.

The book has the following special features:

- A unique structure, which divides marketing activities into before, during and after the customers' experience of the hospitality encounter. This helps you to understand what has to be done to attract customers, provide them with an experience that meets their expectations, and motivate them to return.
- Fifteen chapters, one for each of the key elements you need to understand about marketing.
- Each chapter contains learning activities, which include Internet searches of relevant company websites and visits to hospitality units as a customer to collect information – you will then need to analyze and evaluate your findings.
- Its own website (<http://books.elsevier.com/companions/0750652454>), which contains a student section with further information, case studies and hospitality contact details. For tutors, there is a separate section, which provides additional teaching materials.

Structure

The structure of the book is divided into the following sections:

- *Part A: Introduction.* A single chapter, which introduces the key concepts of marketing in the hospitality industry, including market demand, the marketing concept, the special characteristics of service industries, the PESTE environment and the hospitality marketing mix.
- *Part B: Pre-encounter marketing.* This part of the text consists of eight chapters and discusses all the marketing activities which companies have to carry out to attract customers to experience the hospitality offer. Chapters include marketing research; understanding and segmenting customers; competitive strategies; developing, locating, pricing, distributing and communicating the offer.
- *Part C: Encounter marketing.* This section comprises three chapters, which are concerned with managing the customer experience, while consuming the hospitality offer. They include managing the physical environment, managing the service process and managing customer contact employees.
- *Part D: Post-encounter marketing.* These two chapters discuss post-encounter marketing and explain the importance of customer satisfaction and developing mutually beneficial relationships with key customers.
- *Part E: The marketing plan.* The final chapter builds on the previous chapters, and explains how to write a marketing plan for a hospitality business.

Learning features

Each chapter contains the following features to aid understanding:

- *Chapter Objectives:* Each chapter begins with bullet points highlighting the main features and learning to be covered in the proceeding chapter.
- *Activities:* Short practical activities located at appropriate 'break' points throughout the chapter, which enable the reader to assess their understanding and marketing experience.
- *Headlines:* Highlights, appearing in blue type, throughout the chapter, which bring important points to the attention of the reader.
- *Marketing Insights:* Marketing anecdotes and observations to contextualize learning.
- *Case Studies:* International companies and scenarios are used to illustrate how the theories work in real world situations.
- *Conclusion:* Condenses the main themes of the chapter enabling the reader to check learning and understanding.
- *Review Questions:* Appear at the end of each chapter allowing readers to test their knowledge, understanding and to put the theory into practice.

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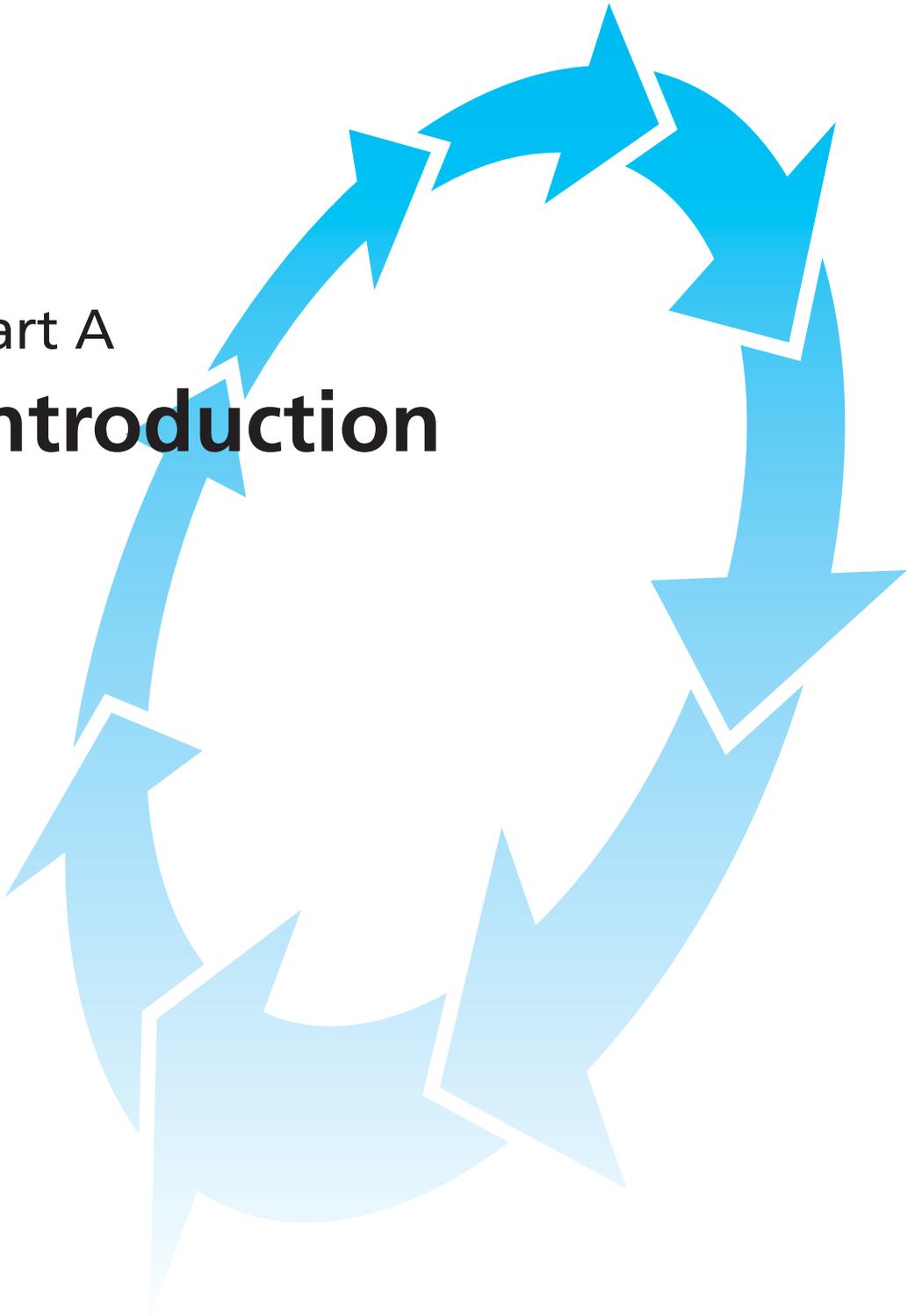
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Part A

Introduction



Chapter 1

Introduction to 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 1.1

- Write down what you think 'marketing' means, before reading the chapter
- Write down what you think marketers do
- List the jobs that you think marketers are responsible for.

We will review your ideas at the end of this chapter and see whether they have changed!

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:

- 1 The number of units sold, which is a reflection of the number of people buying the product or service; this is called the volume
- 2 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.

Table 1.1 provides a list of eight categories of demand and the marketing response. 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

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Table 1.1 Demand Management (source: taken from Philip Kotler, Marketing Management, 11th edn, 2003, p. 6)

	<i>Category of demand</i>	<i>Marketing task</i>
1	Negative demand	Encourage demand
2	No demand	Create demand
3	Latent demand	Develop demand
4	Falling demand	Revitalize demand
5	Irregular demand	Synchronize demand
6	Full demand	Maintain demand
7	Overfull demand	Reduce demand
8	Unwholesome demand	Destroy demand

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 (or 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.

Table 1.2 Categories of Demand in Hospitality

	<i>Domestic</i>	<i>International</i>
Business	Domestic business demand	International business demand
Leisure	Domestic leisure demand	International leisure demand

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. Table 1.2 summarizes these descriptors of market demand in hospitality.

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

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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.

Marketing insight

Different Perspectives of Marketing

'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.'

(Chartered Institute of Marketing, UK)

'Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.'

(American Marketing Association)

'In services, every contact between customers and employees includes an element of marketing.'

(Jan Carlzon, 1987)

Relationship marketing aims to 'identify and establish, maintain and enhance, and where necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfillment of promises.'

(Christian Grönroos, 1994)

'Marketing's central purpose is demand management ... and marketers ... need to manage the level, timing and composition of demand.'

(Philip Kotler, 1999)

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 (see Figure 1.1):

- 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.

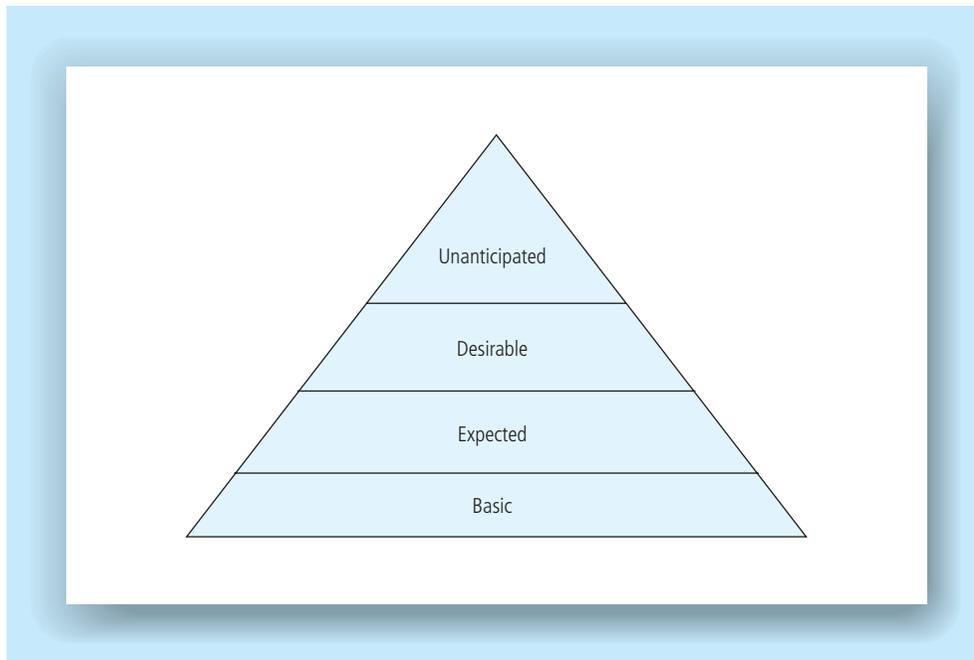


Figure 1.1 The hierarchy of customer value (adapted from Albrecht, 1992)

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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.