

GLOBAL
EDITION



Marketing for Hospitality and Tourism

EIGHTH EDITION

Philip Kotler • John T. Bowen • Seyhmus Baloglu



Marketing for Hospitality and Tourism

Philip Kotler • John T. Bowen • Seyhmus Baloglu
Contributions by Cristian Morosan

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This book is dedicated to Nancy, my wife and best friend, with love.

P. K.

*With love to my wife, Toni, and children, Casey and Kelly.
A special recognition and thank you to my friend and colleague, Jim
Makens, who coauthored the previous seven editions of the book. We
appreciate his contributions to the past editions, many of which live
on in this edition.*

J. T. B.

To my wife, Zerrin, and our two sons, Derin and Deniz, with love.

S. B.



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TO THE STUDENT

Welcome to the eighth edition!

Marketing for Hospitality and Tourism guides you down the intriguing, discovery-laden road to learning marketing. These are exciting times in hospitality marketing. There is an ever-increasing number of tourists, both domestic and international. This coupled with advances in digital technologies have created a new, more engaging and connected world.

Some of the applications you learn today you will use immediately, while others you may not use until later in your career. Thus, it is important that you have an understanding of the marketing theories and concepts. This will allow you to analyze future situations and make proper decisions. Practices and applications are provided to give you examples of how we currently apply the concepts to industry situations. Finally, we have included marketing highlights, opening cases, written cases, color illustrations, and other features to make learning about marketing interesting and enjoyable. Throughout the text, we provide examples to illustrate how companies are using the marketing principles covered in the book.

Marketing is both an art and science. The art adds some ambiguity to marketing, which makes it difficult for some students. We recommend reading each chapter quickly and then going back and reading it more slowly the second time. This will give you a good understanding of the material in the chapter.

The development of each edition has involved students who tell us which illustrations to use, which examples they find interesting, and which ones we should replace when we are writing the newest edition. We strive to develop a book that is student friendly and clearly explains and illustrates the application of marketing concepts. This has resulted in the book being used around the globe in nine different languages.

We hope you enjoy *Marketing for Hospitality and Tourism* and we wish you success.

Philip Kotler, John T. Bowen, Seyhmus Baloglu



■ ■ ■ An Indispensable Guide to Successful Marketing in the Hospitality Industry

This book has been written with you in mind—explaining the how and why of everyone’s role in marketing. Because customer contact employees are part of our product in hospitality and tourism marketing, marketing is everyone’s job. *Marketing for Hospitality and Tourism* gives you an innovative and practical introduction to marketing. Its style and extensive use of examples and illustrations make the book straightforward, easy to read.

■ ■ ■ Text Organization

PART I: Defining Hospitality and Tourism Marketing and the Marketing Process—Introduces you to the concept of hospitality marketing and its importance.

PART II: Understanding the Marketplace and Customer Value—Helps you understand the role of consumer behavior and how it affects the marketing environment.

PART III: Designing Customer Value-Driven Strategy and Mix—Identifies and explains strategies for promoting products, the various distribution channels and the latest developments in digital marketing.

PART IV: Managing Hospitality and Tourism Marketing—Highlights the latest trends in destination marketing, and planning for the future through development of a marketing plan.

■ ■ ■ Special Features: Connecting to the Real World

Chapter Opening Cases

Each chapter opens with a mini case showing you how actual hospitality and travel companies have successfully applied marketing. The cases help you understand and remember the concepts presented in the chapter. For example, Chapter 1 illustrates how catering to the customer experience has helped deliver an authentic customer experience and, in turn, paid big dividends for Indian Hotels Company Limited (IHCL).



1

Objectives
After reading this chapter, you should be able to:

1. Describe the importance of marketing to the hospitality industry and outline the steps in the marketing process.
2. Explain how to analyze customer needs, wants, and demands and the marketplace.
3. Explain how to design a customer value-driven marketing strategy.
4. Describe how to build profitable customer relationships.
5. Discuss the outcomes of creating customer value.
6. Explain the major trends impacting the marketing landscape.

Creating Customer Value and Engagement Through Marketing for Hospitality and Tourism

Indian Hotels Company Limited (IHCL): Delivering an Authentic Customer Experience

Founded in 1968 by Jamsheji Tata, Indian Hotels Company Limited (IHCL) is part of the Tata Group, a global business consisting of over a hundred enterprises. The IHCL's fundamental approach is underlined in August 2022, a three-pronged strategy that aims to establish itself as the most profitable and iconic hospitality brand in South Asia. The three key elements of August 2022 are restructuring, reengineering, and reimagining business interests. At the heart of this approach, launched in 2018, is the company's desire to deepen guest experience while strengthening its position as the market leader and fueling transformative growth and profitability.

The IHCL is the largest hospitality business in South Asia with distinctly Indian origins. Its operations range from hotels to urban leisure and from service retail to travel. Each of the brands—Taj (luxury business and world travelers), SateQions (upmarket), Vivanta (modern travelers), The Gateway (premium brand being replaced by Vivanta), Ginger (millennials), Expressions (hospitality ancillary services), and Tajadis (budget)—serve discrete markets. In 2019-2020 alone, the company opened 12 hotels to total 200 hotels with 25,000 rooms in over a hundred different locations. It is the only Indian hospitality business with key hotels in London, Dubai, San Francisco, and New York.

Boxed Marketing Highlights

The boxed segments introduce you to real people and real industry examples, connecting the chapter material to real life.

Marketing HIGHLIGHT

11.1

Segmented pricing: The right product to the right customer at the right time for the right price

In most hospitality, travel and entertainment products capacity is fixed, but demand varies. In these situations, a common price may result in many people not being able to access the product during prime times and empty seats during off-peak periods. In some products such as airline transportation and events, all seats may not be the same.



Theaters, like the one in the Bellagio Hotel, Las Vegas, where the Cirque du Soleil show "O" is performed, often apply revenue management by charging more for seats with better views and during times when demand is higher.

Live performances, including sporting events, theater, and concerts, will charge more for seats with great views and less for seats farther away from the event. Some airlines charge more for aisle and window seats. Customers wanting better seats with the capacity to pay for these seats will have the opportunity to purchase the seats they want. Those who want to see the event or want to get to a certain destination but want to spend less can purchase less expensive seats. Susan Greco gives an example of an opera company, which went from a single price for all seats to pricing based on the location of the seat, increasing the price for better seats and lowering the price for seats in the back. Seat prices on the weekends were increased and those during the week were reduced. The variety of prices allowed the customers to choose what they would pay and the opera company increased its overall revenue by 9 percent. Some customers who previously could not afford to attend now had the opportunity to attend by selecting tickets further from the stage on weekday nights.

The opera company had introduced a simple form of revenue management. Airlines, hotels, and restaurants call it revenue management and practice it religiously. This allows companies to attract customers by having the right product at the right price for the right customer.

Segmented pricing and yield management aren't really new ideas. For instance, Marriott Corporation used seat-of-the-pants yield-management approaches long before it installed its current sophisticated system. Back when J. W. "Bill" Marriott was a young man working at the family's first hotel, the Twin Bridges in Washington, DC, he sold rooms

Full-Color Visuals

Color format with lively photographs, drawings, and tables will maintain your interest and provide visual aids to learning.

Important Memory Tools

Chapter Objectives

At the start of each chapter, the list will help you focus and organize your thoughts as you are reading. The learning objectives summarize what you need to know after studying the chapter and doing the exercises.

Key Terms

Key marketing and hospitality terms, highlighted and defined in each chapter, provide you with a convenient source for learning and reviewing the professional vocabulary needed for effective communication on the job. These terms are found in each chapter, and a glossary of all the terms can be found at the end of the book.

Chapter Review

At the end of each chapter, a summary of chapter content in outline form helps you review, retain key information, and ties the content of the chapter back to chapter objectives. The format for the chapter review was the suggestion of a student.

■ ■ ■ Applying Your Knowledge

Experiential Exercises

These exercises are designed to provide experiences that will illustrate the concepts presented in the chapter and provide experiences that you can draw on in the future.

■ ■ ■ Applying Your Critical Thinking Skills

Case Studies

The case studies at the end of the book represent real situations that can be used to analyze actual business situations and come up with solutions to your organization's problem. Sometimes, your instructor will use these cases as the basis of class discussions.

In-Class Group Exercises

These end-of-chapter questions will challenge your students to address real-world applications of the concepts presented in the chapter. They can be done in class to supplement the lectures.

We would like to thank the students and instructors who have used this text in the past. Their support has enabled us to publish the eighth edition of *Marketing for Hospitality and Tourism*.

This book is written with the hospitality and travel students in mind. The solicited and unsolicited comments we received from students and instructors have been incorporated into the eighth edition. Students have told us *Marketing for Hospitality and Tourism* is readable and interesting. One student wrote, “I enjoyed reading this book—it didn’t seem like I was reading a textbook.” In this newest edition, we strive to maintain the same tone. For instructors, we have listened to your comments and made the text flow more smoothly from a teaching perspective.

The authors have extensive experience working with hospitality and travel businesses around the globe. Our understanding of the hospitality and travel business ensures that the end result is a book that clearly explains marketing concepts and shows how they apply to real-life situations.

The book has an international focus, which is especially important in this era of increasing globalization. Business markets have become internationalized—domestic companies are expanding overseas as foreign companies seek to enter domestic markets—therefore, it is crucial that today’s students be exposed to business and cultural examples from other parts of the world. Rather than have one chapter devoted to international marketing, we have incorporated examples throughout the text.

This text has truly evolved as a team project. Without the support of our students and faculty at other universities and colleges, this book would not have developed into the leading book in its category. We thank you for your support and acknowledge below some of the people who have been involved in the development of the book.

Instructor Supplements

Instructor’s Manual. Includes content outlines for classroom discussion, teaching suggestions, and answers to selected end-of-chapter questions from the text.

PowerPoint Presentations. Our presentations offer clear, straightforward outlines and notes to use for class lectures or study materials. Photos, illustrations, charts, and tables from the book are included in the presentations when applicable.

To access supplementary materials online, instructors need to request an instructor access code. Go to www.pearsonglobaleditions.com, where you can register for an instructor access code. Within 48 hours after registering, you will receive a confirming email, including an instructor access code. Once you have received your code, go to the site and log on for full instructions on downloading the materials you wish to use.

We Welcome Your Comments, Suggestions, and Questions

We would like to hear your comments on this edition and your suggestions for future editions. Please address comments to Seyhmus Baloglu, seyhmus.baloglu@unlv.edu.

Acknowledgments

We would like to thank the students and the instructors who have used earlier editions of this book and provided feedback that added value to the users of this edition. Thanks go to the following group who provided comments and feedback for this eighth edition: Jamie Cooperstein, Delaware County Community College; Gretchen Friend, Columbus State Community College; Debbie Howarth, Johnson & Wales University; Rick Lagiewski, Rochester Institute of Technology; Mary-Pat Maciolek, Middlesex County College; Melih Madanoglu, Florida Atlantic University; Quantella Noto, Southeast Missouri State University; George Ojie-Ahamiojie Wor-Wic, Community College; Kunsoo Park, South Dakota State University; Joel Reynolds, Niagara University; Gregory Turner, Claflin University; Yasong (Alex) Wang, Indiana University of Pennsylvania; Alvin Yu, St. Cloud State University.



The following people provided reviews of past editions: Tazeem Gulamhusein, University of Houston; Deepak Chhabra, Arizona State University, Tempe; Dan Creed, Metropolitan State University, St. Paul; Jamal Feerasta, College of Applied Science and Technology, University of Akron; Juline Mills, University of New Haven; David Schoenberg, LaGuardia Community College, CUNY; and Nancy Warren, Highline Community College; Jennifer A. Aldrich, Kimberly M. Anderson, James A. Bardi, Jonathan Barsky, David C. Bojanic, Mark Bonn, Jane Boyland, Bonnie Canziani, Harsha E. Chacko, Deepak Chhabra, Dan Creed, Tim H. Dodd, GERALYN Farley, Jamal Feerasta, Andy Feinstein, Michael Gallo, Richard M. Howey, Jeffrey Ivory, Dianne Jolovich, Ed Knudson, Robert J. Kwortnik, Ingrid Lin, Ken McCleary, Juline Mills, H. G. Parsa, Edward B. Pomianoski, Hailin Qu, Allen Z. Reich, Howard F. Reichbart, Joan Remington, Emily C. Richardson, Kisang Ryu, John Salazar, David Schoenberg, Ralph Tellone, Muzzo Uysal, Nancy Warren, Anna Graf Williams, and Gregory R. Wood.

The following people helped with past editions when they were students to make sure the text was student friendly: Shiang-Lih Chen McCain, Jason Finehout, Michael Gallo, Tazeem Gulamhusein, Walter Huertas, Ming (Michael) Liang, Marvel L. Maunder, Tracee Nowlak, Michelle North, Sarah Robinson, and Carrie Tyler.

We appreciate the support and enthusiasm of the companies that provided advertisements and illustrations for this book. These organizations put forth a great deal of effort in finding and providing the materials we requested; working with them was one of the most rewarding parts of producing this book. We would also like to thank our Pearson Team: Daryl Fox, Susan Watkins, and Lara Dimmick. Finally, we would like to thank our families for their support and encouragement.

Global Edition Acknowledgments

Pearson would like to thank Jon and Diane Sutherland for contributing content to the global edition.

Pearson is also grateful to Alison Maton, Coventry University London and Maureen Griffiths, Monash University for reviewing the content for this edition.

What's New in the Eighth Edition

The 8th edition of *Marketing for Hospitality and Tourism* is a landmark entry in the long successful history of the market leader. We've thoroughly revised the eighth edition of *Marketing for Hospitality and Tourism* to reflect the major trends and forces impacting marketing in this digital age of customer value, engagement, and relationships.

- At the end of each chapter we have added a group of In-Class exercises. These are exercises students can perform that reinforce the information being thought in the chapter. They are meant to bring the marketing class to life for the students. They provide an excellent way for instructors to break up their lectures with engaging hands-on exercises to keep the students engaged.
- Cristian Morosan, an expert in digital marketing was brought in to write the chapters on digital and direct marketing and the distribution. There have been sweeping developments in online distribution of hotel rooms, online delivery services for restaurants, and online access to peer-to-peer accommodations. User-generated content on social media can make or break a restaurant, while at the same time providing a useful source of customer information. Listening and gathering data over the Internet has produced large amounts of data, processed by artificial intelligence to give us information that helps us better serve our customers. Dr. Morosan has rewritten Chapters 12 and 16 to include the latest advances in technology and social media.
- One point of differentiation of the text is it has an international focus. The eighth edition provides new discussions and examples of the growth in global marketing. As the world becomes a smaller, more competitive place, marketers face new global marketing challenges and opportunities, especially in fast-growing emerging markets such as China, India, the Middle East, Eastern Europe, and Southeast Asia. In the first chapter, we discuss the growing internationalization of the tourism business. To help your students understand the importance of the global aspect of tourism, we include international examples and illustrations throughout the text. Chapter 9 now includes expanded coverage of branding practices in hospitality on global level and gives examples of generational and lifestyle brands. In Chapter 17, new sections on branding tourist destinations and tourism competitiveness have been added to help students understand how to compete in a global market. The cases include multinational companies and businesses even outside of North America. This international approach makes the text relevant to students all around the world, while showing them that they can find a truly rewarding career in the area of international business.

- The eighth edition continues to track fast-changing developments in marketing communications and the creation of marketing content. Marketers are no longer simply creating integrated marketing communications programs; they are joining with customers and media to curate customer-driven marketing content in paid, owned, earned, and shared media. You won't find fresher coverage of these important topics in any other hospitality marketing text.

The eighth edition continues to improve on its innovative learning design that has made it the market leader. One design feature of the text is the opening vignette that provides an example of how hospitality companies implement principles that will be discussed in the chapter. New chapter vignettes have been added through the text. The chapter-opening objectives have been revised, reflecting what is covered in the chapter. The end of the chapter summaries have been rewritten to mirror and reinforce the opening objectives. The marketing highlights that provide industry examples of the marketing concepts discussed in the chapter have been updated and will continue to be a valued benefit of the text. New cases have been added to the collection of case studies.



ABOUT THE AUTHORS



Philip Kotler is S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He earned his master's degree at the University of Chicago and his PhD at MIT, both in economics. He is the author of *Marketing Management* (Pearson), now in its fifteenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored dozens of other successful books and has written more than 100 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of four major awards: the Distinguished Marketing Educator of the Year Award and the William L. Wilkie "Marketing for a Better World" Award, both given by the American Marketing Association; the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing; and the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. His numerous other major honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; the European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent Forbes survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.

John T. Bowen is Professor and former dean of the Conrad N. Hilton College of Hotel and Restaurant Management at the University of Houston and the Barron Hilton Distinguished Chair. He has presented marketing courses and seminars in Asia, Australia, Central America, Europe, and South America. He is a consultant to both large and small hospitality corporations. Before becoming an academic, Professor Bowen held positions in restaurant management at both the unit and corporate level. He is on the editorial boards of the *Cornell Hotel and Restaurant Administration Quarterly*, *Journal of Services Marketing*, *International Journal of Contemporary Hospitality Marketing*, and *Worldwide Hospitality and Tourism Themes*. He is coauthor of *Restaurant Marketing for Owners and Managers*. He has received numerous awards for his teaching and research, including the UNLV Foundation Teaching Award, the Sam and Mary Boyd Distinguished Professor Award for Teaching, Founder's Award for Lifetime Support of Hospitality Graduate Education, and the Board of Regents Outstanding Faculty Member. The Graduate Education & Graduate Student Research Conference presented him with the Founder's Award, to recognize his contribution to graduate education. The Hotel and Lodging Association of Greater Houston recognized him with their lifetime achievement award. He has been a three-time recipient of the annual award from the International Council on Hotel, Restaurant and Institutional Education (CHRIE) for superior published research in the hospitality industry, and he received the John Wiley Award for Lifetime Research Achievement from CHRIE. He was recently cited as one of the five most influential hospitality management faculty in an article published in the *Journal of Hospitality and Tourism Education*. The Mayor of Houston proclaimed November 21, 2014, as John Bowen Day, in recognition of Dr. Bowen's contribution to the hospitality industry and hospitality education.

Dr. Bowen's formal education includes a BS in hotel administration from Cornell University, an MBA and MS from Corpus Christi State University, and a PhD in marketing from Texas A&M University.

Seyhmus Baloglu is Professor and Barrick Distinguished Scholar at the Harrah College of Hospitality, University of Nevada Las Vegas (UNLV), where he has also assumed leadership roles as associate dean of research and director of Harrah Research Center for 10 years. He earned a BS in hotel administration from Cukurova University, an MBA from Hawaii Pacific University, and a PhD in hospitality marketing from Virginia Tech. He has presented marketing courses and seminars in Asia, Australia, Europe, and the

Caribbean. Before joining academia, he held management positions and had diverse background in the industry, including restaurants, hotels, resort clubs, and travel agencies. He has published extensively in leading journals, including *Journal of Business Research*, *Cornell Hospitality Quarterly*, *Journal of Hospitality & Tourism Research*, *International Journal of Hospitality Management*, *Annals of Tourism Research*, *Journal of Travel Research*, *Tourism Management*, *Journal of Travel & Tourism Marketing*, and *Tourism Analysis*. He received grants, contracts, and consulting projects from tourism destinations, gaming resorts, hotels, airports, nightclubs, and supply-chain organizations. He has been named as one of the significant contributors to the hospitality and tourism literature. His work has been cited extensively across multiple disciplines and fields. His research credentials have earned him both an international reputation and placement on the editorial boards of numerous leading journals. He has presented his work at many national and international conferences, seminars, and symposia and served as keynote speaker and panel participant for numerous international conferences. Other books he has coauthored are *Managing and Marketing Tourist Destinations: Strategies to Gain a Competitive Edge* and *Handbook of Scales in Tourism and Hospitality Research*. He is the recipient of numerous and prestigious teaching, research, and service awards. He has been named as the recipient of UNLV Alumni Association's Outstanding Faculty Member of the Year and the John Wiley & Sons Lifetime Research Achievement Award from the International Council on Hotel, Restaurant and Institutional Education (ICHRIE). His other major honors include annual research awards from ICHRIE, the Sam and Mary Boyd Distinguished Professor Awards, the Ace Denken Research Award, the Claudine Williams Distinguished Chair, and Harrah Distinguished Chair.

Contributor

Dr. Cristian Morosan is an associate professor at the Conrad N. Hilton College of Hotel and Restaurant Management at the University of Houston. Prior to joining Hilton College in 2012, he taught marketing at Temple University, Kansas State University, and University of St. Thomas Houston. His work has been funded by regional organizations such as the Hospitality Financial and Technology Professionals, state and local destination organizations, and universities such as University of Houston and Kansas State University. His research has resulted in over 110 peer-reviewed publications that include book chapters, journal articles, invited articles, and conference proceedings, in journals such as *Tourism Management*, *International Journal of Hospitality Management*, *International Journal of Contemporary Hospitality Management*, *Journal of Travel & Tourism Marketing*, *Journal of Travel Research*, *Journal of Hospitality & Tourism Research*, and *Journal of Hospitality Information Technology*. He is the recipient of several prestigious academic awards, including the Teaching Excellence Award for Innovation in Instructional Technology, Stephen Rushmore/HVS Research Excellence Award, The Provost's Certificate of Excellence in Recognition of Extraordinary Achievements, the Barbara S. Stowe Endowed Faculty Development Award and Big 12 Faculty Fellowship Award. He is a member of the Editorial Board of *International Journal of Contemporary Hospitality Management*, *International Journal of Hospitality Information Technology*, and *Tourism Review International*, and has been recognized by the International Council on Hotel, Restaurant and Institutional Education (I-CHRIE) as an outstanding reviewer in the information technology area. He presented his work at I-CHRIE, the International Federation for Information Technologies in Travel and Tourism, the International Hospitality Information Technology Association (where he received the iHITA Best Research Paper awards in 2015 and 2018), Hospitality Financial and Technology Professionals, and Travel and Tourism Research Association. He has numerous media appearances and invited presentations at conferences, colloquia, and workshops throughout North America, Europe, and Asia.

Dr. Cristian Morosan earned a Bachelor's of Science from University Ștefan cel Mare Suceava Romania, and Master of Science and PhD from Iowa State University.

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Defining Hospitality and Tourism Marketing and the Marketing Process



- 1 Creating Customer Value and Engagement Through Marketing for Hospitality and Tourism
- 2 Services Marketing Concepts Applied to Marketing for Hospitality and Tourism
- 3 Marketing Strategy: Building Customer Engagement, Value, and Relationships

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The Taj Mahal Palace Hotel is a five star luxury hotel located near the Gateway of India and is the flagship property of Taj Hotels, Resorts & Palaces. Courtesy of Joe Ravi/Shutterstock.

Objectives

After reading this chapter, you should be able to:

1. Describe the importance of marketing to the hospitality industry and outline the steps in the marketing process.
2. Explain how to analyze customer needs, wants, and demands and the marketplace.
3. Explain how to design a customer value-driven marketing strategy.
4. Describe how to build profitable customer relationships.
5. Discuss the outcomes of creating customer value.
6. Explain the major trends impacting the marketing landscape.

Creating Customer Value and Engagement Through Marketing for Hospitality and Tourism

Indian Hotels Company Limited (IHCL): Delivering an Authentic Customer Experience

Founded in 1868 by Jamsetji Tata, Indian Hotels Company Limited (IHC) is part of the Tata Group, a global business consisting of over a hundred enterprises. The IHCL's fundamental approach is underlined in Aspiration 2022, a three-pronged strategy that aims to establish itself as the most profitable and iconic hospitality brand in South Asia. The three key elements of Aspiration 2022 are restructuring, reengineering, and reimagining business interests. At the heart of this approach, launched in 2018, is the company's desire to deepen guest experience while strengthening its position as the market leader and fueling transformative growth and profitability.

The IHCL is the largest hospitality business in South Asia with distinctly Indian origins. Its operations range from hotels to urban leisure and from service retail to travel. Each of the brands—Taj (luxury business and world travelers), SeleQtions (upmarket), Vivanta (modern travelers), The Gateway (premium brand being replaced by Vivanta), Ginger (millennials), Expressions (hospitality ancillary services), and TajSATS (catering)—serve discrete markets. In 2019–2020 alone, the company opened 12 hotels to total 200 hotels with 25,000 rooms in over a hundred different locations. It is the only Indian hospitality business with key hotels in London, Dubai, San Francisco, and New York.

Reengineering involves a greater use of technology and investment in employees to help deliver improved customer experience with ease of use and personalization of services. The process also calls for aligning each brand more precisely so that growing market segments can be targeted with efficiency. The IHCL has managed to fuse the warmth of traditional Indian hospitality with the efficiency of world-class service.

Taj Hotel's move into the increasingly competitive digital environment in its hunt to woo millennials is a prime example of reengineering. Recognizing the danger that apps like Airbnb and OYO present to the business, the group is adapting to capture the millennial market, often the only generation consistently spending more on travel. Traditionally, Taj Hotels targets the 35–60 age group, but it is now tapping into a broader market that would normally take two holidays a year, an international one and a domestic one.

To cater to this new market, the hotel chain needed to radically rethink some of its offerings and marketing strategies. Millennials are more interested in hotel and holiday experiences that allow them to be immersed in local culture and interact with local people. For the business, this means creating a blend of luxury and reality. Experiences typically revolve around local cuisine, art and wellness, all of which have been personalized to match the needs and expectations of the customers. A couple on a trip to Puducherry (or Pondicherry) could taste French delicacies or sample the bakeries there, just like someone holidaying in Goa could savor seafood and visit the seaside shacks serving *feni*, a traditional liquor distilled from the fermented juice of cashew apples.

Often, the business wraps up the local experiences with a common thread. In 2018, for example, the theme was “changing relationships.” The idea was to celebrate life, special events, and moments with loved ones on holiday. The hashtag #WeTime was used to symbolize the real emotional impact of spending time with loved ones and how it helped build better relationships and greater bonds. It was an opportunity to reconnect with others. Taj Bekal Resort & Spa in Kerala, for instance, came up with an offer where families could experience traditional village life and enjoy local delicacies together.

The focus on customer value and engagement is a direct reaction to the growing demand for experiential vacations and hotel stays coupled with increased and improved digital connectivity. The millennial market has rising income levels and demands affordable airfare, curated vacation packages, and will expect mobile access to services and information. Taj Hotels has tried to position itself to provide tailor-made services such as personalized dining, excursions, or room service options rather than off-the-shelf packages.

As a broader part of the scheme, to improve the experiences of customers, the IHCL has positioned Taj as a luxury brand (88 hotels in 54 destinations), while Vivanta focusses on the upscale segment (32 hotels in 26 locations), and Ginger covers the lean luxury market (64 hotels in 41 locations). The Ginger brand is particularly popular with the IHCL's newest and youngest customer segments who appreciate the flexibility of the packages and services being offered.

To further enhance its appeal, the IHCL used brand consultants to spearhead a revamp to reflect the changing nature of customer profiles and expectations. Award-winning restaurants were rebranded and four new brands—Golden Dragon, Thai Pavilion, Wasabi, and House of Ming—introduced. These were all placed under the broader brand heading Expressions, which would also take on responsibility for the spas, salons, and lifestyle stores. At the same time, the all-new SeleQtions—launched in 2019 with 12 hotels across India—would be home to IHCL's collection of named hotels, each of them unique and targeting specific customer segments.

The IHCL has also embraced social media for direct interaction with millennials and to ensure that the focus remains on matching their expectations. The brands have active social media accounts with frequent content posts. The Taj Hotel app was created knowing that millennials are, above all, a digitally connected generation. The app allows customers to enjoy guest experience before they even enter the hotel. Customers can plan, book, arrange arrival, browse, and book experiences and then share these with friends.

Perhaps the most revolutionary development was the creation of Taj.Live. This is an industry first for India and is, in effect, the physical space where the business can monitor social media and engage with customers in real time; it handles around 2,000 conversations a day. The IHCL is able to listen and interact with customers and, as a result, is able to enhance the guest experience through all digital contact points (social media and e-mail).

Taj.Live does away with the need to have a dedicated individual at each hotel to deal with social media interactions; instead, the hub is located at the corporate base in Mumbai, allowing swift deployment and involvement of key specialists to handle problems. It also means that the tone and intent of the IHCL's communications are standardized and consistent.

Within three months of the launch of the service in 2018, the IHCL's response rate rose from 39 percent to 85 percent, generating more than 200 sales leads worth nearly \$250,000. More importantly, the process of hyper-personalization to cater for the new generation of guests was established within the context of social media, an integral part of millennial lives.¹

■ ■ ■ Your Passport to Success

As a manager in a global economy, marketing will greatly assist your personal career and the success of the enterprise you manage. In today's hospitality/travel industry, the customer is global and is king or queen. This title is bestowed not because of hereditary rights but because customers have the ability and power to enhance or damage your career through the purchase choices they make and the positive or negative comments they make to others.

The travel industry is the world's largest industry and the most international in nature. International travel has receipts of over \$US1.5 trillion and over 1.33 billion travelers.² China's 1.4 billion people take over 5 billion domestic trips each year, spending \$US700 billion. The rapid growth of domestic tourism in China, combined with over 150 million inbound tourists, has led to a tremendous growth of hotels, resorts, airport facilities, and other facilities to support tourism.³ China's outbound tourists number 135 million and are a target market for many tourist destinations. The title "The World's Best Airport" is not held by an American or European airport but by Singapore. The world's best hotel is Hotel Il Pellicano in Tuscany, Italy. There were 15 countries that were home to the top 20 hotels in the world. The best international airline is Air New Zealand.⁴

The world's travel industry is alive, exciting, competitive, and challenging. Hospitality companies and tourism planning/promotion departments are filled with college graduates from across the globe. Competition is strong and getting tougher each day. Yet opportunities are greater than ever before.

Welcome to marketing! Your passport to success!

Today marketing isn't simply a business function: It's a philosophy, a way of thinking, and a way of structuring your business and your mind. Marketing is much more than a new ad campaign. The task of marketing is never to fool the customer or endanger the company's image. Marketing's task is to provide real value to targeted customers, motivate purchase, and fulfil consumer needs.

Marketing, more than any other business function, deals with customers. Creating customer value and satisfaction is at the heart of hospitality and travel industry marketing. Many factors contribute to making a business successful.

However, today's successful companies at all levels have one thing in common: They are strongly customer focused and heavily committed to marketing. Accor has become one of the world's largest hotel chains by delivering L'esprit Accor, the ability to anticipate and meet the needs of its guests, with genuine attention to detail.⁵ Ritz-Carlton promises and delivers truly "memorable experiences" for its hotels' guests. McDonald's grew into the world's largest restaurant chain by providing its guests with QSC&V (quality, service, cleanliness, and value). These and other successful hospitality companies know that if they take care of their customers, market share and profits will follow.

Singapore's Changi Airport is known for the fantastic interior design, which includes gardens like the one above throughout the airport. Pablo Hidalgo/123RF.





Purpose of a business To create and maintain satisfied, profitable customers. Naruedom Yaempongsa/123RF.

As a manager, you will be motivating your employees to create superior value for your customers. You will want to make sure that you deliver customer satisfaction at a profit. This is the simplest definition of marketing. This book will start you on a journey that will cause your customers to embrace you and make marketing your management philosophy.

Customer Orientation

The **purpose of a business** is to create and maintain satisfied, profitable customers.⁶ Customers are attracted and

retained when their needs are met. Not only do they return to the same cruise line, hotel, rental car firm, and restaurant, but they also talk favorably to others about their satisfaction.

“What about profits?” Some hospitality managers act as if today’s profits are primary and customer satisfaction is secondary. This attitude eventually sinks a firm as it finds fewer repeat customers and faces increasingly negative word of mouth. Successful managers understand that profits are best seen as the result of running a business well rather than as its sole purpose. When a business satisfies its customers, the customers will pay a fair price for the product. A fair price includes a profit for the firm. Managers who forever try to maximize short-run profits are short-selling both the customer and the company. Consider the following episode:

A customer arrived at a restaurant before closing time and was greeted with “What do you want?” Somewhat surprised, the customer replied that he would like to get a bite to eat. A surly voice informed the customer that the restaurant was closed. At this point, the customer pointed to a sign on the door stating that the restaurant was open until 9 P.M. “Yeah, but by the time I clean up and put the food away, it’ll be nine, so we’re closed.” The customer left and went to another restaurant a block away and never returned to the first restaurant.

Let’s speculate for a moment. Why was the customer treated in such a shabby manner? Perhaps

- the employee wanted to leave early.
- the employee was suffering from a headache.
- the employee had personal or family problems.

What really happened in the restaurant episode is that this employee once served a customer immediately before closing time, resulting in the employee working until 10:30 P.M. Instead of the corporate office thanking her for serving the customer and staying late, it reprimanded her for putting in extra time. The corporate office wanted to keep down overtime expenses. The employee’s response was to close the business by 9 P.M. at any cost. Now the corporate office is happy—they just don’t realize they are losing customers and future business. Much of the behavior of employees toward their customers is the result of management philosophy.

The alternative management approach is to put the customer first and reward employees for serving the customer well. Marriott’s vice president of sales and marketing services said, “We used to reward restaurant managers for things that were important to us, such as food costs. When have you heard a customer ask for the restaurant’s food costs? You have to reward for what customers want from your business.”⁷



The restaurant creates value for the customer through good customer service and excellent food. Managers and employees need be rewarded for things that are important to the customer. Ammentorp/123RF.

Look at our balance sheet. On the asset side, you can still see so-and-so many aircraft worth so-and-so many billions. But it's wrong; we are fooling ourselves. What we should put on the asset side is the last year SAS carried so-and-so many happy passengers. Because that's the only asset we've got—people who are happy with our service and willing to come back and pay for it once again.¹¹

Without customers, assets have little value. Without customers, a new multimillion-dollar restaurant will close, and without customers, a \$300 million hotel will go into receivership, with the hotel being sold at a fraction of its book value.

It is wise to assess the customer's long-term value and take appropriate actions to ensure a customer's long-term support. Two studies document this. The Forum Company found that the cost of retaining a loyal customer is just 20 percent of the cost of attracting a new one.⁸ Another study found that an increase of five percentage points in customer retention rates yielded a profit increase of 25–125 percent.⁹ Accordingly, a hotel that can increase its repeat customers from 35 to 40 percent should gain at least an additional 25 percent in profits.¹⁰ The former president of Scandinavian Airlines summed up the importance of a satisfied customer:

What Is Hospitality and Tourism Marketing?

In the hotel industry, marketing and sales are often thought to be the same, and no wonder: The sales department is one of the most visible in the hotel. Sales managers provide prospective clients with tours and entertain them in the hotel's food and beverage outlets. Thus, the sales function is highly visible, whereas most of the nonpromotional areas of the marketing function take place behind closed doors. In the restaurant industry, many people confuse marketing with advertising and sales promotion. It is not uncommon to hear restaurant managers say that they “do not believe in marketing” when they actually mean that they are disappointed with the impact of their advertising. In reality, selling and advertising are only two marketing functions and often not the most important. Advertising and sales are components of the promotional element of the **marketing mix**. Other marketing mix elements in addition to **promotion** are **product**, **price**, and **distribution**. Distribution is sometimes called place, allowing the marketing mix to be referred to as the **four Ps**. Marketing also includes planning, research, information systems, and understanding buyer behavior.

The four-P framework calls on marketing professionals to decide on the product and its characteristics, set the price, decide how to distribute their product, and choose methods for promoting their product. For example, McDonald's has a fast-food product. It uses quality ingredients and has developed products that it can sell at prices people expect to pay for fast food. Most people living in an urban area will not spend more than 15 minutes to travel to a McDonald's restaurant. As part of its distribution plan, McDonald's must have restaurants that are conveniently located to its target market. This is why McDonald's has over 15,000 restaurants in North America. This allows McDonald's to make effective use of mass media, such as television, as they can spread the cost out over many restaurants. The marketing mix must be just that—a mix of ingredients to create an effective product/service package for the target market.

Marketing mix Elements include product, price, promotion, and distribution (place). Sometimes distribution is called place, resulting in the mix called the four Ps.

If marketers do a good job of identifying consumer needs, developing a good product, and pricing, distributing, and promoting it effectively, the result will be attractive products and satisfied customers. Marriott developed its Moxy concept; Daniel Meyer designed the Shake Shack burger restaurant. They designed differentiated products, offering new consumer benefits. Marketing means “hitting the mark.” Peter Drucker, a leading management thinker, put it this way: “The aim of marketing is to make selling superfluous. The aim is to know and understand customers so well that the product or service fits them and sells itself.”¹²

This does not mean that selling and promotion are unimportant, but rather that they are part of a larger marketing mix, a set of marketing tools that work together to produce satisfied customers. The only way selling and promoting will be effective is if we first define customer targets and needs and then prepare an easily accessible and available value package.

■ ■ ■ Marketing in the Hospitality and Travel Industries

Importance of Marketing

Hospitality industry Made up of those businesses that offer one or more of the following: accommodation, prepared food and beverage service, and/or entertainment.

As we have seen, the **hospitality industry** is one of the world’s major industries. In the United States, it is the second largest employer. In more than half of the 50 states, it is the largest industry. In this book we focus on the hospitality and travel industries.

Marketing has assumed an increasingly important role in the restaurant sector of the hospitality industry. The entrance of corporate giants into the hospitality market transformed it from a mom-and-pop industry, where individually owned restaurants and hotels were the norm, to an industry dominated by chains. These chains operate in a highly competitive environment where aggressive marketing skills are used to win customers. Almost one-half of the 650,000 restaurants in the United States are part of multiunit operations.¹³

The hotel industry is undergoing a consolidation, with companies such as Accor, Hilton, and Marriott buying hotel chains and operating different brands under one organization. The marketing expertise of these large firms has created a competitive marketing environment. In response to growing competitive pressures, hotel chains are relying more on the expertise of the marketing director. While the marketing director is a full-time marketer, everyone else must be a part-time marketer. All managers must understand marketing. By applying the principles of marketing to your job search, you will be able to enhance your career opportunities and hopefully end up in a job that you will love.

Tourism Marketing

Travel industry The travel industry includes travel agencies, providers of land transportation for tourists, tour operators, resort retailing, entertainment activities for tourists, and convention centers.

The two main industries that comprise the activities we call tourism are the hospitality and travel industries. The **travel industry**, as we define it, includes those organizations outside of the hospitality industry that provide travel services. These organizations include travel agencies, providers of land transportation for tourists, tour operators, resort retailing, entertainment activities for tourists, and convention centers. Hospitality and travel industries are linked, and thus, making a clear demarcation between the two is difficult. The distinction between the two industries is not as important as realizing both industries are highly dependent on each other. Meeting planners choose destinations based on the cost of getting to the destination, the value of the hotels, the quality of restaurants, and evening activities for their attendees.

The success of cruise lines is really the result of coordinated marketing by many travel industry members. For example, the Port of Boston wanted to attract more cruise line business. Massport (the port authority) aggressively marketed Boston to cruise lines. Having convinced the cruise lines to come, they then promoted Boston to key travel agents. This was critical because travel agents account



Cruise ships, such as this one docked in Cozumel, Mexico, can be a good source of tourists. Tonobalaguer/123RF.

for 95 percent of all cruise line business. Boston realized that if the cruise lines ships were leaving Boston with high occupancy levels, the cruise lines would be happy and add more cruises from Boston. The result was that Boston doubled the number of port calls by cruise lines and added \$17.3 million to the local economy through this combined marketing effort.

That's only the beginning of travel industry marketing cooperation to promote cruise lines. Airlines, auto rental firms, hotels tour operators, restaurants, and passenger railways cooperatively develop packages with cruise lines. This requires coordination in pricing, promotion, and delivery of those packages. Like Massport, government or quasi-government agencies

play an important role through legislation aimed at enhancing the industry and through promotion of regions, states, and nations.¹⁴

Few industries are as interdependent as travel-hospitality. This interdependence will increase in complexity. The travel industry will require marketing professionals who understand the big picture and can respond to changing consumer needs through creative strategies based on solid marketing knowledge.

Marketing Marketing is the process by which companies create value for customers and society, resulting in strong customer relationships that capture value from the customers in return, while creating value for society.

Definition of Marketing

Marketing must be understood in the sense of satisfying customer needs. If the marketer understands customer needs; develops products that provide superior customer value; and prices, distributes, and promotes them effectively, these products will sell easily. Here is our definition of **marketing**: Marketing is the process by which companies create value for customers and society, resulting in strong customer relationships that capture value from the customers in return, while creating

Marketing HIGHLIGHT

1.1

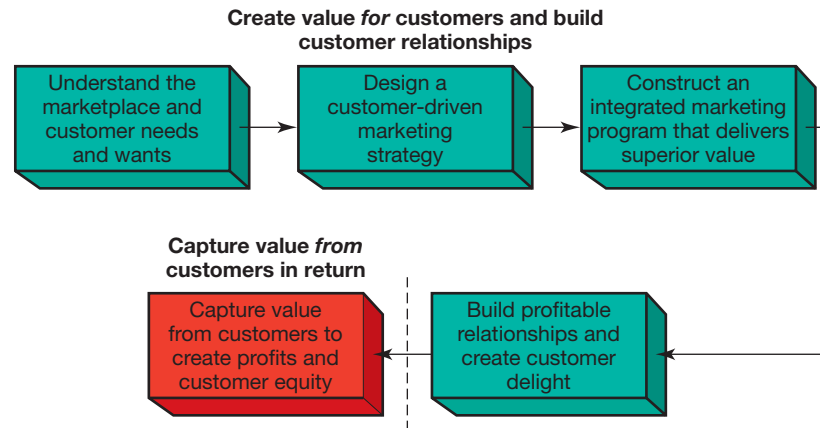
How Four Seasons Hotels and Resorts delights its customers

As the guest's taxi pulled away, Roy Dymont, a doorman at Toronto's Four Seasons, noticed the guest's briefcase still sitting near the entrance to the hotel. Dymont phoned the guest in Washington, D.C., to let him know that he had found the briefcase. He learned that the briefcase contained key documents for an important meeting in the morning. Dymont knew one sure way of getting the briefcase to Washington before the morning meeting—take it himself. He caught a plane and delivered the briefcase. His first concern was taking care of the guest. He didn't worry about getting his boss's approval. Upon his return, instead of getting reprimanded or terminated, he was made employee of the year. Four Seasons is one of the world's great hotel chains that practice the marketing concept. Isadore Sharp, founder and chairman of Four

Seasons Hotels and Resorts, states that the company's top priority is a satisfied guest. Concern for the customer starts with top management and flows through the operation. Four Season's corporate culture encourages employees to go that extra mile and respond with concern and dedication to customer needs. Employees are never penalized for trying to serve the customer.

According to a study by Peat Marwick McClintock, Four Seasons is an oddity because many hotel firms place profitability or growth as their number one goal. This, in part, explains why this hotel company has won an international reputation for customer service. Four Seasons has also shown that putting the customer first leads to profits with above-average financial performance and profit percentages that many hotel chains only dream about.¹⁵

Figure 1–1
A simple model of the
marketing process.



value for society. One addition to marketing that has emerged in recent years is the creation of value for society. Today, with increased pressure on the environment and a growing percentage of people living in poverty, it is important that companies engage sustainable methods and support the communities in which they operate.

The Marketing Process

Figure 1–1 presents a simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, develop a value-driven strategy, create a marketing program that delivers superior customer value, build strong customer relationships, and capture value from customers. In the final step, companies reap the rewards of creating superior customer value through sales, profits, and long-term customer equity.

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants and the marketplace within which they operate. We now examine five core customer and marketplace concepts: (1) needs, wants, and demands; (2) marketing offerings (tangible products, services, and experiences); (3) value and satisfaction; (4) exchanges and relationships; and (5) markets.

Customer Needs, Wants, and Demands

Needs

The most basic concept underlying marketing is that of **human needs**. A human need is a state of felt deprivation. Included are the basic physical needs for food, clothing, warmth, and safety, as well as social needs for belonging, affection, fun, and relaxation. There are esteem needs for prestige, recognition, and fame, and individual needs for knowledge and self-expression. These needs were not invented by marketers, but they are part of the human makeup.

Wants

The second basic concept to marketing is that of **human wants**, the form human needs take as they are shaped by culture and individual personality. Wants are how people communicate their needs. A hungry person in Papua New Guinea needs food but wants taro, rice, yams, and pork. A hungry person in the United States needs food but wants a hamburger, fries, and a Coke. Wants are described in terms of objectives that will satisfy needs. As a society evolves, the wants of its members expand. As people are

Human need A state of felt deprivation in a person.

Human want The form that a human need takes when shaped by culture and individual personality.



A person who needs food in Malaysia may want Asam Laksa, shown below. While a person in England may want fish and chips. The need is the same, but the want is different. Lim_atos/123RF.

exposed to more objectives that arouse their interest and desire, producers try to provide more want-satisfying products and services. Restaurants were once able to serve generic white wine by the glass. Today, customers are more sophisticated; restaurants now serve chardonnay, sauvignon blanc, viognier, and pinot grigio by the glass. Today's restaurant customers want and expect a good selection of wine.

Many sellers often confuse wants with needs. A manufacturer of drill bits may think that a customer needs a drill bit, but what the customer really needs is a hole. These sellers suffer from "marketing myopia."¹⁶ They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.

They forget that a physical product is only a tool to solve a consumer problem. These sellers get into trouble if a new product comes along that serves the need better or cheaper. The customer will then have the same need but want a new product.

The restaurant industry is facing a dramatic shift in the way customers purchase meals. Many customers want the restaurant to prepare the meal, but they want to eat it in their own home. Well over half the meals purchased at the nation's restaurants are "takeouts" or delivery to be eaten at home, the office, in the car, or other locations.¹⁷ This dramatic change in eating habits has caused some restaurants to change their delivery and even food preparation area. It has also created new businesses—Uber Eats, Grubhub, and other food delivery services connect the customer with the restaurant, eliminating the need for the customer to drive to the restaurant or for the restaurant to manage its own delivery service. Newer restaurants and renovated restaurants have developed a separate entrance for pick-up orders, so they do not interfere with service to customers in the restaurant. Grocery stores seized the opportunity to have counters with prepared foods to take home as well as freshly prepared meals in convenient microwave containers. Still other entrepreneurs saw an opportunity to create an experience out of cooking your own meal, by removing the hassle of buying multiple ingredients. They simplified the cooking process and created a fun experience by providing everything you need for a meal, including instructions, delivered to your door. These services include Blue Apron, Freshley, and Plated. As wants change, those who understand the new wants have the opportunity to create value for customers.

Demands

People have almost unlimited wants, but limited resources. They choose products that produce the most satisfaction for their money. When backed by buying power, wants become **demands**.

Outstanding marketing organizations go to great lengths to learn about and understand their customer's needs, wants, and demands. They conduct customer research. Smart companies also have employees at all levels—including top management—stay close to customers. For example, at Southwest Airlines, all senior executives handle bags, check in passengers, and serve as flight attendants once a quarter. All Disney World managers spend one week per year on the front line—taking tickets, selling popcorn, or loading and unloading rides. Understanding customer needs, wants, and demands in detail provides important input for designing marketing strategies. The city of Santa Fe, New Mexico, has a beautiful and historic opera house, but only a small percentage of the population participated in operas. As Catherine Zacher, president of Santa Fe Economic Development, Inc., said, "Most Americans don't enjoy being yelled at in Italian." However, they did want other forms of entertainment. When the opera house was made available for a variety of musical concerts, the demand created for this contemporary entertainment sold all available seats.¹⁸

Demands Human wants that are backed by buying power.



White rafting can create an experience that will be remembered of a lifetime, positive word of mouth about the destination, and a desire to return to the destination. Strahil Dimitrov/123RF.

Customer value The difference between the benefits that the customer gains from owning and/or using a product and the costs of obtaining the product.

Customer expectations Expectations based on past buying experiences, the opinions of friends, and market information.

Market Offerings: Tangible Products, Services, and Experiences

Consumer needs and wants are fulfilled through a market offering: a product that is some combination of tangible, services, information, or experiential product components. We often associate the word *product* with a tangible product or one that has physical properties (e.g., the hotel room or the steak we receive in a restaurant). In the hospitality industry, intangible products, such as customer service and experiences, are more important than tangible products. Managers of resorts realize that their guests will be leaving with memories of their stay. They try to create experiences that will generate pleasant memories. At a Ritz-Carlton resort, every evening at sunset, managers set up chairs on the beach, hire a cellist to play relaxing music, and serve champagne to guests. They realize that this event not only creates value for the guests, but it is also an experience that will create a lasting memory of their stay. Marriott provides Dolphin safaris at its Newport Beach property and a water rafting trip at its Utah property. Marriott uses the resources of the destination to create guest experiences that the guest remembers for a lifetime. More broadly, market offerings also include other entities, such as persons, places, organizations, information, and ideas. For example, San Diego runs a “Happiness Is Calling” advertising campaign that invites visitors to come and enjoy the city’s great weather and good times—everything from its bays and beaches to its downtown nightlife and urban scenes.¹⁹ Consumers decide which events to experience, which tourist destinations to visit, which hotels to stay in, and which restaurants to patronize. To the consumer these are all products.

Customer Value and Satisfaction

Customer value is the difference between the benefits that the customer gains from owning and/or using a product and the costs of obtaining the product. Costs can be both monetary and nonmonetary. One of the biggest nonmonetary costs for hospitality customers is time. Companies are constantly trying to save the guest’s time and create value for the guest. For example, digital check using a smartphone allows the guest to bypass the front desk, and at Starbucks, guests can order ahead on their smartphone and have their favorite drink waiting for them when they arrive. Managers must know their customers and understand what creates value for them. This is an ongoing process, as customers and competition change over time.

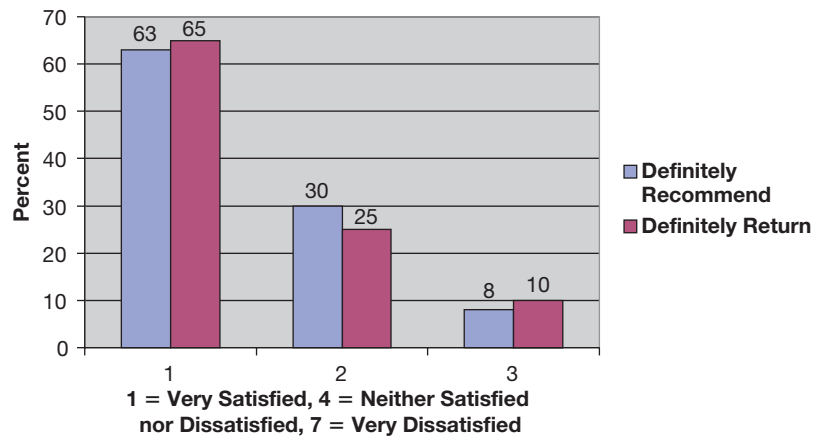
Customer expectations are based on past buying experiences, the opinions of friends, and market information. If we meet customer expectations, they are satisfied. Marketers must be careful to set the right level of expectations. In the hospitality industry, it is easy to set high expectations because guests will not be able to judge the product until after they have consumed it. For example, an owner can advertise that his or her restaurant serves the best seafood in the city. If this is not true, many customers will leave dissatisfied; the experience did not meet their expectations. The result will be negative reviews on social media. We must understand how we create value for our market and communicate that to our customers and potential customers. For example, we might specialize in fresh, locally caught seafood. Customer satisfaction depends on a product’s perceived performance in delivering value relative to a buyer’s expectations. If the product’s performance falls short of the customer’s expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectations, the buyer is delighted. Smart companies aim to delight customers by promising only what they can deliver and then delivering more than they promise.

Managers must realize the importance of creating highly satisfied customers, rather than just satisfied customers. On a 7-point scale, with 1 very satisfied

Figure 1-2

Relationship between satisfaction and loyalty behaviors.

Customers were asked to rate on a scale of 1–7 denoting how satisfied they were with their experience after dining in a restaurant. A score of 1 meant they were very satisfied and a score of 7 meant they were very dissatisfied. Scores of 1, 2, and 3 are all on the satisfaction side of the scale; that is, they are all better than a score of 4 (neither satisfied nor dissatisfied), which is the midpoint of the scale. You can see that satisfying the guest is not enough. Only when guests leave very satisfied they are likely to come back. Your goal is to have all guests leave very satisfied.



Even though 3 is still a “positive” score on the above 7-point scale, few customers giving that rating will return.

and 7 very dissatisfied, most managers are happy to receive a 2. However, from Figure 1–2, which shows the results of a guest survey at a Boston hotel,²⁰ you can see the huge gap between a guest who rates a hotel a 1 and one who rates it a 2. Think of the last time you went to a restaurant and were just satisfied. Would you go back? Probably not. But when you walk out of a restaurant and say, “Wow, that was great!” you will probably return and tell others about your discovery. On social media hundreds or even thousands could see your positive comments.

Exchanges and Relationships

Exchange The act of obtaining a desired object from someone by offering something in return.

Transaction Consists of a trade of values between two parties; marketing’s unit of measurement.

Marketing occurs when people decide to satisfy needs and wants through exchange. **Exchange** is the act of obtaining a desired object from someone by offering something in return. Marketing consists of actions taken to build and maintain desirable exchange relationships with target markets. Beyond simply attracting new customers and creating **transactions**, the goal is to retain customers and grow their business with the company. Marketers want to build strong relationships by consistently delivering superior customer value.

Markets

Market A set of actual and potential buyers of a product.

The concept of transactions leads to the concept of a market. A **market** is a set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing involves managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for them, promote them, and deliver them. Activities such as product development, research, communication, distribution, pricing, and service are core marketing activities.

Marketing management The art and science of choosing target markets and building profitable relationships with them, while creating value for society.

Marketing manager A person who is involved in marketing analysis, planning, implementation, and control activities.

Designing Customer Value-Driven Marketing Strategy

Once marketing management fully understands consumers and the marketplace, it can design a customer-driven marketing strategy. We define **marketing management** as the art and science of choosing target markets and building profitable relationships with them, while creating value for society. The **marketing manager’s** aim is to find, attract, keep, and grow target customers by creating, delivering, and communicating superior customer value. To design a winning marketing strategy, the marketing manager must

answer two important questions: (1) What customers will we serve (what's our target market)? (2) How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

The company must first decide who it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will go after (target marketing). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, Ritz-Carlton Hotels profitably target affluent travelers; McDonald's restaurants profitably target families.

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A company's **value proposition** is the set of benefits or values it promises to deliver to consumers to satisfy their needs.

Such value propositions differentiate one brand from another. They answer the customer's question, "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.

Value proposition The full positioning of a brand—the full mix of benefits upon which it is positioned.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what philosophy should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Often, these interests conflict with each other. We discuss three alternative concepts under which organizations design and carry out their marketing strategies: selling, marketing, and societal marketing.

The Selling Concept

The **selling concept** holds that consumers will not buy enough of the organization's products unless the organization undertakes a large selling and promotion effort. The aim of a selling focus is to get every possible sale, not to worry about satisfaction after the sale or the revenue contribution of the sale.

The selling concept does not establish a long-term relationship with the customer because the focus is on getting rid of what one has rather than creating a product to meet the needs of the market. Restaurants often advertise when sales start to drop, without first analyzing why sales are dropping. They do not try to change their product to fit the changing market. They sell harder, pushing their products on the customer through increased advertising and couponing. Eventually, they go out of business because their product no longer satisfies the needs of the marketplace.

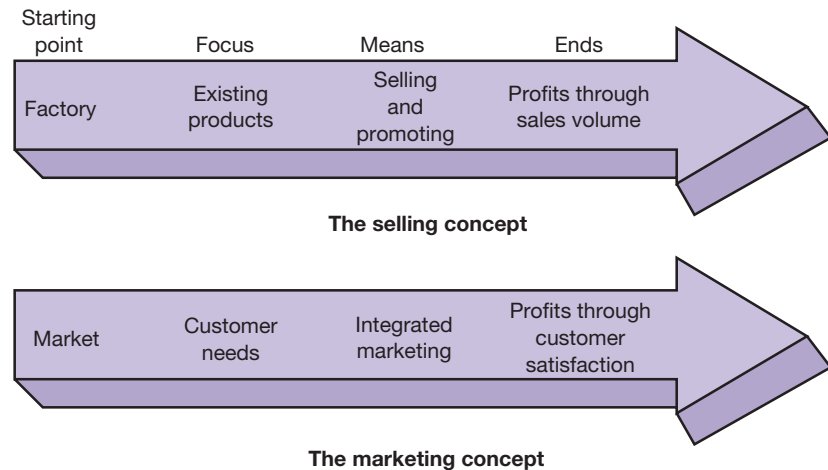
The selling concept exists within the hospitality industry. A major contributing factor is overcapacity. Virtually every major sector of this industry has suffered from overcapacity. When owners and top management face overcapacity, the tendency is to sell, sell, sell. Why do major sectors such as hotels, resorts, airlines, cruise lines, and even restaurants continuously face overcapacity? A few of the reasons are listed below:

- Pride in being the biggest, having the most capacity.
- A belief that economies of scale will occur as size increases.
- Tax laws that encourage real estate developers to overbuild properties because of the generous tax write-offs.
- Failure to merge revenue management with sales/marketing management.
- Poor or nonexistent forecasting and planning by owners, consultants, financial organizations, and governments.

Selling concept The idea that consumers will not buy enough of an organization's products unless the organization undertakes a large selling and promotion effort.

Figure 1–3

The selling and marketing concepts contrasted.



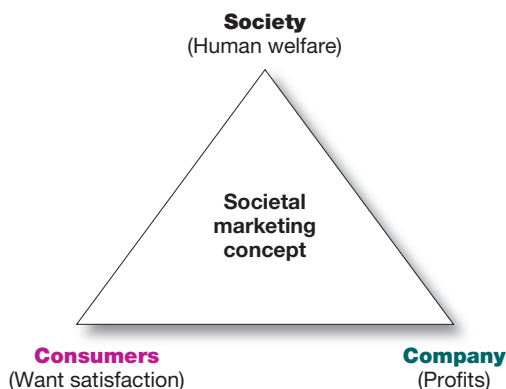
Marketing concept The marketing management philosophy that holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering desired satisfactions more effectively and efficiently than competitors.

Societal marketing concept

The idea that an organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well-being.

Figure 1–4

Three considerations underlying the societal marketing concept.
Source: Kotler, Philip; Armstrong, Gary, *Principles of Marketing*, 16th ed., ©2016, pp. 12, 24, 50. Reprinted and Electronically reproduced by permission of Pearson Education, Inc., New York, NY.



The Marketing Concept

The **marketing concept** is a more recent business. The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors.

Amazingly, niche opportunities sometimes remain available long after suppliers recognize the need. This is probably due to difficulties in changing the behavior of those who supply the products, such as the wait staff in a restaurant. The American Association of Retired Persons (AARP) conducted a survey of readers of its magazine, *Modern Maturity*. Fifty-nine percent replied that they frequently ate in a restaurant alone; another 18 percent replied that they sometimes did. Eighty-four percent replied that the service they receive is worse than if they had other people at the table. Some restaurants have established special seating areas for singles with round tables that encourage single diners to sit together. This provides an opportunity for the diners to engage in conversation with other diners and allows the restaurant to conserve seating space. Other restaurants have deuces that face each other, encouraging conversation if it is desired. These restaurants value the single diner and have built up a profitable segment.²¹ The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. It meets the organizational goals by creating long-term customer relationships based on customer value and satisfaction. As Herb Kelleher, former CEO of Southwest Airlines, stated, “We don’t have a Marketing department: we have a Customer department” (Figure 1–3).

The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what’s best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer’s and society’s well-being. It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. Figure 1–4 illustrates the principles of the societal marketing concept.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of shared value, which recognizes that societal needs, not just economic needs, define markets.²² The concept of shared value focuses on creating economic value in a way



Programs sponsored by a company to such as these employees cleaning up a local park create a team spirit amongst the employees and support the company's and employee's value of being socially responsible. Dolgachov/123RF.

that also creates value for society. A growing number of companies are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, and the economic well-being of the communities in which they operate.

Two of the sustainability efforts of restaurants include reduction of food waste and locally sourced food, eliminating the carbon fuels used to transport foods. The Sustainable Restaurant Association (SRA) has helped create campaigns that reduce food waste and encourage locally sourced food products. The results of their research found most customers do not ask to take

uneaten food home because that 34 percent of the respondents never thought about taking uneaten food home, 25 percent felt embarrassed to ask to take food home, and 24 percent thought restaurants were not allowed to let uneaten food leave the restaurant. Eighteen percent said they would not eat the food at home or thought it was not hygienic. The SRA has been working with restaurants to reduce food waste. Wahaca, a London-based restaurant group, encouraged customers to take home uneaten food through its “Too Good to Waste” campaign. They noticed a 20 percent reduction in plate waste over a six-month period. Pret a Manger, through its “Made Today Gone Today” program, gives over 500,000 meals a year of unsold food to charities.²³

■ ■ ■ Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's marketing mix, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must decide how much it will charge for the offer (price) and how it will make the offer available to target consumers (place). Finally, it must communicate with target customers about the offer and persuade them of its merits (promotion). The firm must blend all of these marketing mix tools into a comprehensive, integrated marketing program that communicates and delivers the intended value to chosen customers. We explore marketing programs and the marketing mix in much more detail in later chapters.

■ ■ ■ Managing Customer Relationships and Capturing Value

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer-driven marketing strategy, and preparing an integrated marketing plan—all lead up to the fourth and most important step: building profitable customer relationships.

Customer Relationship Management

Customer touch point Any occasion on which a customer encounters the brand and product—from actual experience to personal or mass communications to casual observation.

Customer relationship management (CRM) CRM involves managing detailed information about individual customers and carefully managing customer “touch points” in order to maximize customer loyalty.

Customer relationship management (CRM) is perhaps the most important concept of modern marketing. CRM involves managing detailed information about individual customers and carefully managing customer “touch points” in order to maximize customer loyalty. A **customer touch point** is any occasion on which a customer encounters the brand and product—from actual experience to personal or mass communications to casual observation. For a hotel, the touch points include reservations, check-in and checkout, frequent-stay programs, room service, business services, exercise facilities, laundry service, restaurants, and bars. For instance, the Four Seasons Hotels and Resorts, an international luxury hotel and resort company headquartered in Toronto, Ontario, Canada, relies on personal touches, such as a staff that always addresses guests by name, high-powered employees who understand the needs of sophisticated business travelers, and at least one best-in-region facility, such as a premier restaurant or spa.

Sometimes touch points are where you least expect, such as in customer billing. Meeting planners expect to have prompt and accurate billing. Reviewing the bill with the meeting planner during a multiday meeting can help build trust and a strong relationship.

CRM enables companies to provide excellent real-time customer service through the effective use of individualized information. Based on what they know about each valued customer, companies can customize market offerings, services, programs, messages, and amenities. CRM is important because a major driver of a company’s profitability is the aggregate value of its customer base. More recently, CRM has taken on a broader meaning. In this broader sense, CRM is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction

The key to building lasting customer relationships is to create superior customer value and satisfaction.

Customer-perceived value The customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

CUSTOMER VALUE. Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value**—the customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs “accurately” or “objectively.” They act on perceived value.

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. For example, limited-service restaurants serving food selections usually found in more expensive table-serve restaurants have become popular with customers who are willing to stand in line and place their order at a counter. They then have their food delivered to them at the table rather than having a server come to the table to take their order. They save 10–20 percent on an equivalent meal at a full-service restaurant and often will tip less than they would at a full-service restaurant, creating a perceived value for some customers. Other restaurant customers like to relax with their guests, enjoy conversation, and do not want to stand in line to place an order. To these customers, the perceived value of a full-service restaurant is higher than a limited-service restaurant, and they are willing to pay the extra costs of a full-service restaurant.

Customer satisfaction The extent to which a product’s perceived performance matches a buyer’s expectations.

CUSTOMER SATISFACTION. **Customer satisfaction** depends on the product’s perceived performance relative to a buyer’s expectations. If the product’s performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead

to greater customer loyalty, which in turn results in better company performance. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and “customer evangelists” who spread the word about their good experiences to others.

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. A company doesn’t need to have over-the-top service to create customer delight. Chick-fil-A, a fast food restaurant chain, is known for its customer service. Thus, customer satisfaction comes not just from service heroics but from how well a company delivers on its basic value proposition and helps customers solve their buying problems. “Most customers don’t want to be ‘wowed,’” says one marketing consultant. “They [just] want an effortless experience.”²⁴ One of the authors conducted a focus group with hotel business guests. They stated that they just wanted a hassle-free experience. For example, when they turned on the desk lamp, they wanted it to work; when they went to plug in their smartphone on the night plug, they wanted a convenient plug; when they went to take a shower, they wanted the towels to be stocked.

Although a customer-centered firm seeks to deliver high customer satisfaction relative to its competitors, it does not attempt to maximize customer satisfaction. A company can always increase customer satisfaction by lowering its prices or increasing its services. The purpose of marketing is to generate customer value profitably. This requires a very delicate balance: The marketer must continue to generate more customer value and satisfaction but not “give away the house.” As long as a company provides its customer with customer satisfaction that customers value, it will have the opportunity to establish a relationship with those customers.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop basic relationships with them. For example, McDonald’s does not phone, e-mail, or text all of its customers to get to know them. Instead, McDonald’s creates engagement and relationships through product experiences, brand-building advertising, Web sites, and social media. On the other hand, casinos have a close relationship with their best customers. They know what they like to eat, drink, and what type of shows they like.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer frequency marketing programs that reward customers who buy frequently or in large amounts. Airlines offer frequent-flier programs, hotels give room upgrades to frequent guests, and supermarkets give patronage discounts to “very important customers.” These days almost every brand has a loyalty rewards program. Such programs can enhance and strengthen a customer’s brand experience. For example, JetBlue’s TrueBlue loyalty program offers the usual frequent-flier points and rewards but adds some nice enhancements such as no blackout dates and family sharing. More importantly, the TrueBlue program personalizes the customer experience. Each TrueBlue member has customized Web and mobile pages, complete with a dashboard that shows available points, JetBlue activity history, connections with JetBlue rewards partners, and trip- and flight-planning links. The personalized pages not only make it easy for TrueBlue members to manage their points and rewards, but they are also a handy one-stop trip-planning tool, all geared to an individual member’s profile. As one member describes it: “Once you’re an official TrueBlue member, go hog wild filling out your profile. Upload that stunning selfie with the blue filter as your member picture, pick your favorite JetBlue destinations, even create an ultimate dream itinerary to the Blue Ridge Mountains, and add it to your TrueBlue 16 Wishlist.” JetBlue’s pledge to members: “TrueBlue. For your loyalty, we give you ours.”²⁵

Significant changes are occurring in the nature of customer-brand relationships. Today’s digital technologies—the internet and the surge in online, mobile, and social media—have profoundly changed the ways that people on the planet relate to one another. In turn, these events have had a huge impact on how companies and brands connect with customers and how customers connect with and influence each other’s brand behaviors.

Customer Engagement and Today's Digital and Social Media

The digital age has spawned a dazzling set of new customer relationship-building tools, from Web sites, online ads and videos, mobile ads and apps, and blogs to on-line communities and the major social media, such as Twitter, Facebook, YouTube, Snapchat, and Instagram.

Customer-engagement marketing Fosters direct and continuous customer involvement in shaping brand conversations, experiences, and community.

Yesterday's companies focused mostly on mass marketing to broad segments of customers at arm's length. By contrast, today's companies are using online, mobile, and social media to refine their targeting and to engage customers more deeply and interactively. The old marketing involved marketing brands to consumers. The new marketing is **customer-engagement marketing** fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

The burgeoning internet and social media have given a huge boost to customer-engagement marketing. Today's consumers are better informed, more connected, and more empowered than ever before. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are now embracing not only customer relationship management but also customer-managed relationships, in which customers connect with companies and with each other to help forge and share their own brand experiences.

Most marketers now combine their mass-media marketing efforts with a rich mix of online, mobile, and social media marketing that promotes brandconsumer engagement, brand conversations, and brand advocacy among customers. For example, companies post their latest ads and videos on social media sites, hoping they'll go viral. They maintain an extensive presence on Twitter, YouTube, Facebook, Pinterest, Instagram, Snapchat, Vine, and other social media to create brand buzz. They launch their own blogs, mobile apps, online microsites, and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Similarly, almost every company has something going on Facebook these days. Starbucks has more than 37 million Facebook "fans"; Coca-Cola has more than 107 million. And every major marketer has a YouTube channel where the brand and its fans post current ads and other entertaining or informative videos. Instagram, LinkedIn, Pinterest, Snapchat, Twitter, all have exploded onto the marketing scene, giving brands more ways to engage and interact with customers. Skilled use of social media can get consumers involved with a brand, talking about it, and advocating it to others.

Almost every company uses multiple social media. Artseen/Shutterstock.



The key to engagement marketing is to find ways to enter targeted consumers' conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page, or hosting a blog isn't enough. And not all customers want to engage deeply or regularly with every brand. Successful engagement marketing means making relevant and genuine contributions to targeted consumers' lives and interactions.

Consumer-Generated Marketing

A growing part of the new customer dialogue is consumer-generated marketing, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. But increasingly, companies are inviting consumers to play a more active role in shaping products and brand messages. Chili's had a successful campaign on its 40th birthday.

People were asked to sing their version of Chili's baby back ribs and tweet them to Chili's. Chili's assembled a number of the user-generated songs and created a YouTube video, which has been viewed close to two million times.²⁶

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force. Through a profusion of consumer-generated videos, blogs, and Web sites, consumers are playing an increasing role in shaping their own brand experiences. Beyond creating brand conversations, customers are having an increasing say about everything from product design, usage, and packaging to pricing and distribution.

Partner Relationship Management

When it comes to creating customer value and building strong customer relationships, today's marketers know that they can't go it alone. They must work closely with a variety of marketing partners. In addition to being good at customer relationship management, marketers must be good at partner relationship management. Major changes are occurring in how marketers partner with others inside and outside the company to jointly bring more value to customers.

Partners Inside the Company

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. The old thinking was that marketing is done only by marketing, sales, and customer-support people. However, in today's more connected world, every functional area can interact with customers, especially electronically. The new thinking is that—no matter what your job is in a company—you must understand marketing and be customer focused. One CEO said, "Marketing is far too important to be left only to the marketing department."²⁷

Marketing Partners Outside the Firm

Changes are also occurring in how marketers connect with their suppliers, channel partners, and even competitors. Most companies today are networked companies, relying heavily on partnerships with other firms. Their partners include food wholesalers, event planners, bakers, florists, office supply companies, and others who supply products the company needs to carry out its business.

The supply chain describes a channel that stretches from raw materials to components to final products that are carried to final buyers. For example, the supply chain for a seafood diner consists of fishermen, the seafood processor, transporter of the seafood from southeast Asia to the importer, to the food distributors, and to the restaurant that prepares the meal.

Through supply chain management, many companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest not just on how well they perform. Success at building customer relationships also rests on how well their entire supply chain performs against competitors' supply chains. These companies don't just treat suppliers as vendors. They treat both as partners in delivering customer value. Starbucks works with coffee growers by providing them with agricultural expertise, which in turn helps ensure that they have a good yield of quality coffee beans. They also provide loans to growers who need cash to get their next crop produced but do not have the ability to borrow from conventional channels. Starbucks realizes that their business is dependent on a consistent supply of quality beans from growers who are loyal to Starbucks.

Hotels, catering, and event management companies will have external partners who can provide centerpieces, flowers, and linens for their clients. Joshua Rainey/123RF.



■ ■ ■ Capturing Value from Customers

The first four steps in the marketing process outlined in Figure 1–1 involve building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return in the form of current and future

sales, market share, and profits. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Customer Loyalty and Retention

Good customer relationship management creates customer delight. In turn, delighted customers remain loyal and talk favorably to others about the company and its products. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight. Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. We call this stream of purchases the **customer lifetime value (LTV)**. For example, here is a dramatic illustration of the customer lifetime value (LTV). Stew Leonard, who operates a highly profitable four-storey supermarket in Connecticut and New York, says he sees \$50,000 flying out of his store every time he sees a sulking customer. Why? Because his average customer spends about \$100 a week, shops 50 weeks a year, and remains in the area for about 10 years. If this customer has an unhappy experience and switches to another supermarket, Stew Leonard's has lost \$50,000 in revenue. The loss can be much greater if the disappointed customer shares the bad experience with other customers and causes them to defect. To keep customers coming back, Stew Leonard's has created what *The New York Times* has dubbed the "Disneyland of Dairy Stores"—complete with costumed characters, scheduled entertainment, a petting zoo, and animatronics throughout the store. From its humble beginnings as a small dairy store in 1969, Stew Leonard's has grown at an amazing pace. It has built 29 additions onto the original store, which now serves more than 300,000 customers each week. This legion of loyal shoppers is largely a result of the store's passionate approach to customer service. "Rule #1: The customer is always right. Rule #2: If the customer is ever wrong, re-read rule #1."²⁸

Stew Leonard is not alone in assessing customer LTV. Ritz-Carlton Hotels puts the LTV of a guest at more than \$120,000. Domino's Pizza puts the LTV of a customer at more than \$10,000.²⁹ A company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This is one of the reasons successful companies empower employees to resolve customer complaints. The company wants to maintain the relationship with the customer. And that relationship keeps customers coming back.

Growing Share of Customer

Beyond simply retaining good customers to capture customer LTV, good CRM can help marketers increase their **share of customer**—the share they get of the customer's purchasing in their product categories. Thus, restaurants want to get more "share of stomach" and airlines want greater "share of travel." To increase share of customer, firms can offer greater variety to current customers; for example, a coffee house can expand its selection of flavored teas and add smoothies. Or they can create to cross-sell pastries and other snacks and/or up-sell from brewed coffee to blended drinks to market more products and services to existing customers.

We can now see the importance of not only acquiring customers but also keeping and growing them. One marketing consultant puts it this way: "The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. Without customers, you don't have a business."³⁰

Building Customer Equity

We can now see the importance of not only acquiring customers but also keeping and growing them. The value of a company comes from the value of its current and future customers. Customer relationship management takes a long-term view.

Customer lifetime value

(LTV) The customer LTV is the stream of profits a customer will create over the life of his or her relationship to a business.

Share of customer The portion of the customer's purchasing that a company gets in its product categories.

Customer equity The discounted LTVs of all the company's current and potential customers.

Companies want to not only create profitable customers but also “own” them for life, earn a greater share of their purchases, and capture their LTV.

What Is Customer Equity?

The ultimate aim of CRM is to produce high customer equity.³¹ **Customer equity** is the discounted LTVs of all the company's current and potential customers. The best approach to customer retention is to deliver products that create high customer satisfaction and high perceived value, resulting in strong customer loyalty. Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future.³²

Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain?

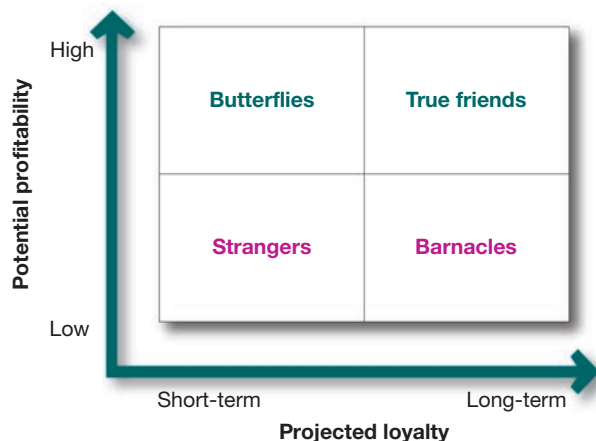
The company can classify customers according to their potential profitability and manage its relationships with them accordingly. Figure 1–5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.³³ Each group requires a different relationship management strategy. Strangers show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Treat them well as a guest but invest in little or no effort in marketing to them. For example, a couple may go out to a nice restaurant twice a year for a special occasion and rotate among their three or four favorite restaurants. In this case, you might want to send an e-mail before their birthday or anniversary offering a complimentary dessert to keep your restaurant at the top of mind. Butterflies are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. An example is someone who is traveling and experiencing different destinations and experiences. They enjoy your restaurant, but then they are off to gain a different experience at another restaurant in a new destination. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should create satisfying and profitable transactions with them, capturing as much of their business as possible in the short time during which they buy from the company. Then it should move on and cease investing in them.

Barnacles are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings. An example is a customer who comes in and orders a sandwich with no sides and no drink. Like barnacles on the hull of a ship, they create drag by taking up space. Barnacles are perhaps the most problematic customers. They should be treated well, as should all guests who are not abusive to other customers or employees. Like strangers, no marketing investment should be made in Barnacles.

True friends are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and engage, nurture, retain, and grow them. It wants to turn true friends into true believers, who come back regularly and tell others about their good experiences with the company.

The point here is an important one: Different types of customers require different engagement and relationship management strategies. The goal is to build

Figure 1–5
Customer relationship groups.
Source: Kotler, Philip; Armstrong, Gary, *Principles of Marketing*, 16th ed., ©2016, pp. 12, 24, 50. Reprinted and Electronically reproduced by permission of Pearson Education, Inc., New York, NY.



the right relationships with the right customers, spending marketing resources on customers for which we can create the most value and these customers in-turn create value for the company. It should be noted that to maintain a service culture we should treat all customers well. It is the marketing expense that will vary across these segments.

The Changing Marketing Landscape

Every day, dramatic changes are occurring in the marketplace. Yogi Berra, the legendary New York Yankees catcher and manager, summed it up more simply when he said, “The future ain’t what it used to be.” As the marketplace changes, so must those who serve it. In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at four major developments: the digital age, the changing economic environment, rapid globalization, and the call for sustainable marketing practices.

The Digital Age: Online, Social Media, and Mobile Marketing

Online

The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop. Welcome to the age of the Internet of Things (IoT), a global environment where everything and everyone is digitally connected to everything and everyone else. More than 4.1 billion people—54 percent of the world’s population—are now online, with 40 percent of the world’s population accessing social media on a smartphone. These numbers will only grow as digital technology rockets in to the future.³⁴ Most consumers are totally smitten with all things digital. Today most travelers in the United States and elsewhere use their smartphone as an alarm clock, making clocks in hotel rooms obsolete. People in the United States averaged more time per day with digital media (6.3 hours) than viewing traditional TV (3.5 hours).³⁵ The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. So, it’s no surprise that the internet and rapid advances in digital and social media have taken the marketing world by storm. Digital and social media marketing involve using digital marketing tools such as Web sites, social media, mobile ads and apps, online video, e-mail, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs, and other digital devices. These days, it seems that every company is reaching out to customers with multiple Web sites, newsy tweets and Facebook pages, viral ads and videos posted on YouTube, rich-media e-mails, and mobile apps that solve consumer problems and help them shop. Beyond brand Web sites, most companies are also integrating social and mobile media into their marketing mixes.

Social Media

It’s hard to find a brand Web site, or even a traditional media ad, that doesn’t feature links to the brand’s Facebook, Instagram, Twitter, Google+, YouTube, Snapchat, Pinterest, LinkedIn, or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.

Some social media are huge—Facebook has more than 1.59 billion active monthly members. Instagram has more than 400 million active monthly users, Twitter has more than 315 million monthly users, Google+ racks up 300 million active monthly visitors, and Pinterest draws in more than 100 million users. Reddit, the online social news community, has 234 million unique visitors each month from 185 countries. But smaller, more focused social media sites are also thriving, such as CafeMom, an online community of 20 million moms who exchange advice, entertainment, and commiseration at the community’s online, Facebook,

Twitter, Pinterest, YouTube, Google+, and mobile sites. Even tiny sites can attract audiences, such as Birdpost.com for avid birdwatchers, a growing tourist market.

Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for real-time marketing. Marketers can engage consumers looking for a restaurant for tonight's meal or using geo-fencing reach out to tourists by way of their smartphone walking by their restaurant. Using social media might involve something as simple as a contest or promotion to gain Facebook likes, tweets, or YouTube postings. Organizations of all sizes use a wide range of carefully integrated social media.

Mobile

Mobile marketing is perhaps the fastest-growing digital marketing platform. Smartphones are ever present, always on, finely targeted, and highly personal. This makes them ideal for engaging customers anytime, anywhere as they move through the buying process. For example, Starbucks customers can use their mobile devices for everything from finding the nearest Starbucks and learning about new products to placing and paying for orders.

Fifty-two percent of online traffic is from smartphones, and this number is growing.³⁶ Four out of five smartphone users use their phones to shop—browsing product information through apps or the mobile web, making in-store price comparisons, reading online product reviews, finding and redeeming coupons, and more. Online purchases from mobile devices are growing faster than total online sales. Marketers use mobile channels to stimulate immediate buying, make shopping easier, enrich the brand experience, or all of these. Geofencing is a mobile marketing technique that can be effective for restaurants and tourists attractions. It allows attractions to target smartphones within a certain distance of their location. A restaurant could alert someone walking near their restaurant of specials they are offering or their popular dishes.

Although online, social media, and mobile marketing offer huge potential, most marketers are still learning how to use them effectively. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix. We will examine digital, mobile, and social media marketing throughout the text—they touch almost every area of marketing strategy and tactics. Then, after we've covered the marketing basics, we'll look more deeply into digital and direct marketing in Chapter 16.

Sustainable Marketing—the Call for More Environmental and Social Responsibility

Marketers are reexamining their relationships with social values and responsibilities and with the very earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called on to develop sustainable marketing practices. Corporate ethics and social responsibility have become hot topics for almost every business. And few companies can ignore the renewed and very demanding environmental movement. Every company's action can affect customer relationships. Today's customers expect companies to deliver value in a socially and environmentally responsible way.

The social responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organized consumer outcries. Forward-looking companies, however, readily accept their responsibilities to the world around them. They view sustainable marketing as an opportunity to do well by doing good. They seek ways to profit by serving immediate needs and the best long-run interests of their customers and communities.

Ben & Jerry's, and others, practice caring capitalism, setting themselves apart by being civic minded and responsible. They build social and environmental responsibility into their company value and mission statements. For example, Ben & Jerry's has long prided itself on being a "values-led business," one that creates "linked prosperity"



Ben & Jerry's three-part "linked prosperity" mission drives it to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company "in innovative ways to make the world a better place" (social mission). Courtesy of John Bowen.

for everyone connected to the brand from suppliers to employees to customers and communities.³⁷

Under its three-part mission, Ben & Jerry's wants to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission), and use the company "in innovative ways to make the world a better place" (social mission). Ben & Jerry's backs its mission with actions. For example, the company is committed to using wholesome, natural, non-GMO, fair-trade certified ingredients and buys from local farms. It employs business practices "that respect the earth and the environment," investing in wind energy, solar usage, travel offsets, and carbon neutrality. Its Caring Dairy program helps farmers develop more sustainable practices on the farm ("Caring Dairy means happy cows, happy farmers, and a happy planet"). The Ben & Jerry's Foundation awards nearly \$2 million annually in grassroots grants to community service organizations and projects in communities across the nation. Ben & Jerry's also operates 14 Partner Shops, scoop shops that are independently owned and operated by community-based not-for-profit organizations. The company waives standard franchise fees for these shops.

Rapid Globalization

As they are redefining their customer relationships, marketers are also taking a fresh look at the ways in which they relate with the broader world around them. Today, almost every company, large or small, is touched in some way by global competition. A wedding venue buys its flowers from a florist sourcing Mexican nurseries. A restaurant chain sources seafood from growers in Costa Rica, while most hotel furniture is made in China.

Quintessentially American McDonald's now serves millions of customers daily in more than 100 countries worldwide. Marriot, Hilton, IHG, and other global brands have developed programs with special amenities designed to attract the growing number of guests coming from the Chinese mainland. These programs are designed to make Chinese guests feel at home and include items such as Mandarin translations services, a welcome note in Simplified Chinese, an electric tea kettle, a Mandarin television station, and a typical Chinese breakfast. The hospitality and travel industries by their very nature have always had an international focus. The growing middle class in developing nations combined with relatively low airfare have resulted in an unprecedented increase in international travel and the internationalization of hotel brands. This has also created an unprecedented opportunity for hospitality and tourism graduates to work across the globe.

Co-Creation

First-time travelers are often not familiar with the offerings of a destination and sadly miss experiences that would have created lifelong positive memories for them. Co-creation involves the hospitality or travel company interacting with the guest to create experiences through this interaction. The interaction can be passive or active. Visit Houston provides an example of passive co-creation. The management of Visit Houston has grouped activities tourists can experience to create lifestyle itineraries, including "Girlfriends Getaway," "Guy's Weekend," several itineraries for families, and a tour of local breweries.³⁸ They have developed a total of 17 itineraries based on the interests of the visitor. Someone who enjoys craft beer could follow the itinerary set by Visit Houston or modify the itinerary based on their time and interests.

Withlocals.com is an organization that works with locals to provide authentic experiences for travelers and opportunities for locals to gain income from tourism. It is an application of the sharing economy co-creating experiences for tourists. For example, you can have lunch or dinner prepared by a local couple in their home in Vietnam. The write-up for the dinner states you can take a 10-minute taxi ride to our home, or we can pick you up on cycles, which takes more time but is more fun. If you want lunch, the hosts invite you to come to the local market with them and pick out the fresh food for lunch, then go back to their home and prepare food. Withlocals.com has a social responsibility focus; the goal is to provide sustainable income for locals through tourism.³⁹ At the same time, it lets tourists co-create experiences they will not forget. Destinations attracting international visitors who possess the self-confidence to spend time with locals will benefit from providing these experiences. The tourist will gain lifelong memories. Memories they will share with others on social media.

Two European researchers provide an example of active co-creation, which results in providing customized suggestions to an individual tourist or group of tourists in real time.⁴⁰ They provide an example of a traveler who is headed to a beach destination, planning to spend a week in the sun. As her vacation date approaches so do storms, ending her dream of spending her days on the beach. Through social media, the destination marketing organization (DMO) of the beach location is able to gain access to the dates the tourist will be in the city, the weather forecast for this period, and what the tourist enjoys besides going to the beach. Using this information, the DMO can develop itineraries the tourist should enjoy. The ultimate goal of co-creation is to create memories. Memories the tourist will have for life and share with others face-to-face and on social media.

The Sharing Economy

The sharing economy is not new to the hospitality and travel industries. For example, fractional or shared ownership in vacation homes is a well-established form of shared ownership. The recent surge in the sharing economy has been in part to individuals sharing talents, time, and tangible assets they own to gain additional income and the internet enabling them to connect with customers. For example, Airbnb created a distribution system allowing individuals to share a room in their house, their entire home, or their vacation home with travelers. Some people are willing to vacate their apartment during a citywide convention, as they can earn the equivalent of several months' rent during a week of high demand for accommodation in their city. Uber and Lyft have allowed individuals to share their time and their car with others by driving others around town. DogVacay is a service provided by people who like dogs and are willing to take care of other people's dogs, either in their home or the client's home. BonAppetour and Eatwith provide a platform for travelers to find locals who will host travelers for a meal in their home, or even cooking lessons on local cuisine. The sharing economy is creating new experiences and conveniences for the traveler and opportunities for income to the provider of the service.

The disruptive sharing economy is also creating challenges. Many hospitality industries such as the restaurant, hotel, and taxi sectors of the industry are highly regulated for the protection of travelers. They often have high taxes to support the promotion of tourism and tourism infrastructure. One source of controversy between conventional providers of hospitality and travel services is that the sharing economy operates without regulation and thus has an unfair advantage. Despite these disputes, some established companies are now joining the sharing economy. Mercedes Benz has created a ride-sharing platform called Car2Go, and Avis recently brought the car-sharing company Zipcar. Couchsurfing provides a platform for travelers to stay with others for free. It pairs people willing to host travelers with willingness to stay on a "couch," the same way they would if they were visiting a friend. As the sharing economy continues to grow, it will create threats and opportunities for the hospitality and travel industries. Managers will need to manage and minimize the threats and take advantage of the opportunities.

Welcome to Marketing: Your Passport to Becoming a Successful Manager

At the start of this chapter, Figure 1–1 presented a simple model of the marketing process. Now that we’ve discussed all the steps in the process, let’s pull it all together. What is marketing? Simply put, marketing is the process by which companies create value for customers and society, resulting in strong customer relationships that capture value from the customers in return, while creating value for society. The first four steps of the marketing process focus on creating value for customers. The company first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer-driven marketing strategy based on the answers to two simple questions. The first question is “What consumers will we serve?” (market segmentation and targeting). Good marketing companies know that they cannot serve all customers in every way. Instead, they need to focus their resources on the customers they can serve best and most profitably. The second marketing strategy question is “How can we best serve targeted customers?” (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver to win target customers.

With its marketing strategy chosen, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements, the four Ps—that transforms the marketing strategy into real value for customers. The company develops product offers and creates strong brand identities for them. It prices these offers to create real customer value and distributes the offers to make them available to target consumers. Finally, the company designs promotion programs that engage target customers, communicate the value proposition, and persuade customers to act on the market offering.

Perhaps the most important step in the marketing process involves building value-laden, profitable relationships with target customers. Throughout the process, marketers practice customer relationship management to create customer satisfaction and delight. They engage customers in the process of creating brand conversations, experiences, and community. In creating customer value and relationships, however, the company cannot go it alone. It must work closely with marketing partners both inside the company and throughout its marketing system. Thus, beyond practicing good customer relationship management and customer-engagement marketing, firms must also practice good partner relationship management.

The first four steps in the marketing process create value for customers and society. In the final step, the company reaps the rewards of its strong customer relationships by capturing value from customers. Delivering superior customer value creates highly satisfied customers who will buy more and buy again. This helps the company capture customer lifetime value and greater share of customer. The result is increased long-term customer equity for the firm.

Finally, in the face of today’s changing marketing landscape, companies must take into account three additional factors. In building customer and partner relationships, they must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act sustainably in an environmentally and socially responsible way. Figure 1–1 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, including how services affect how we market products, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 7 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 8, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 9 through 16 discuss the marketing mix variables one by one. Chapter 17 introduces destination marketing, providing an overview of how those involved in hospitality and travel industries can best interact with organizations promoting the destination in which they are located. Chapter 18 sums up the implementation of customer-driven marketing strategy and creates competitive advantage in the marketplace through the development of a marketing plan.

A technology executive stated, “The pace of change is so rapid that the ability to change has now become a competitive advantage.” Rapid changes can quickly make yesterday’s winning marketing strategies out of date. These are truly exciting times for those entering the hospitality industry, but they are not without their challenges. This book is not just for students who desire a successful career in marketing; it is for students who desire a successful career. An understanding of marketing means understanding your customers, your employees who serve your customer, and the changing environment in which you operate. A knowledge of marketing is a requisite for all managers in the travel and hospitality industries. It is your passport to becoming a successful manager.

■ ■ ■ CHAPTER REVIEW

I. Marketing in the Hospitality Industry

- A. Your passport to success.** Customers have the ability to enhance or damage your career through the purchase choices they make and the positive or negative comments they make to others. Today’s successful companies are strongly customer focused and committed to marketing.
- B. Customer orientation.** The purpose of a business is to create and maintain profitable customers. Customer satisfaction leading to profit is the central goal of hospitality marketing.
- C. What is hospitality and tourism marketing?** Marketing is the art and science of finding, retaining, and growing profitable customers. Elements of the marketing mix include product, price, promotion, and distribution (place). Sometimes distribution is called place resulting in the mix called the four Ps. Marketing also includes planning, research, information systems, and understanding buyer behavior.
- D. Importance of marketing.** All managers must understand marketing.
- E. Tourism marketing.** The tourism sector comprises the hospitality and travel industries which are dependent on each other and cooperate in promotions. Government or quasi-government agencies play an important role in travel industry marketing through legislation aimed at enhancing the industry and through promotion of regions, states, and nations.
- F. Marketing is the process by which companies create value for customers and society, resulting in strong customer relationships that capture value from the customers in return, while creating value for society.**
- G. Marketing process.** The marketing process is a five-step model. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value for customers, they in turn capture value from customers in the form of sales, profits, and long-term customer equity.

II. Understanding the Marketplace and Customer Needs

- A. Customer needs, wants, and demands**
 - 1. Needs.** Human beings have many complex needs. These include basic physical needs

for food, clothing, warmth, and safety; social needs for belonging, affection, fun, and relaxation; esteem needs for prestige, recognition, and fame; and individual needs for knowledge and self-expression.

- 2. Wants.** Wants are how people communicate their needs.
- 3. Demands.** People have almost unlimited wants but limited resources. They choose products that produce the most satisfaction for their money. When backed by buying power, wants become demand.
- B. Market offerings.** Market offerings are some combination of tangible products, services, information, or experiences that are offered to the market.
- C. Customer value and satisfaction.** Customer value is the difference between the benefits that the customer gains from owning and/or using a product and the costs of obtaining the product. Customer expectations are based on past buying experiences, the opinions of friends, and market information. Satisfaction with a product is determined by how well the product meets the customer’s expectations for that product.
- D. Exchanges and relationships.** Exchange is the act of obtaining a desired object from someone by offering something in return. Marketing consists of actions taken to build and maintain desirable exchange relationships with target markets.
- E. Markets.** A market is a set of actual and potential buyers of a product.

III. Designing Customer Value-Driven Marketing Strategy

- A. Selecting customers to serve. The company must select those market segments it wishes to serve.**
 - 1. Choosing a value proposition.** The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A company’s value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs.
- B. A market is a set of actual and potential buyers of a product.** These buyers share a particular need or want that can be satisfied through exchange relationships.

C. Marketing management orientations

1. **Selling concept.** The selling concept holds that consumers will not buy enough of the organization's products unless the organization undertakes a large selling and promotion effort.
2. **Marketing concept.** The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors.
3. **Societal marketing concept.** The societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well-being.

D. Preparing an integrated marketing plan and program. The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's marketing mix, the set of marketing tools the firm uses to implement its marketing strategy. The major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion.

IV. Managing Customer Relationships and Capturing Value

A. Customer relationship management (CRM) involves managing detailed information about individual customers and carefully managing customer "touch points" in order to maximize customer loyalty.

1. **Relationship building blocks: Customer value and satisfaction.** A customer buys from the firm that offers the highest customer-perceived value—the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Companies can build customer relationships at many levels, depending on the nature of the target market. Marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer frequency

marketing programs that reward customers who buy frequently or in large amounts.

B. Customer engagement and today's digital and social media. The digital age has spawned a dazzling set of new customer relationship-building tools, from Web sites, online ads and videos, mobile ads and apps, and blogs to online communities and the major social media, such as Twitter, Facebook, YouTube, Snapchat, and Instagram. The new marketing is customer-engagement marketing, fostering direct and continuous customer involvement in shaping brand conversations, brand experiences, and brand community.

1. **Consumer-generated marketing.** Through a profusion of consumer-generated videos, blogs, and Web sites, consumers are playing an increasing role in shaping their own brand experiences. Beyond creating brand conversations, customers are having an increasing say about everything from product design, usage, and packaging to pricing and distribution.

C. Partner relationship management. When it comes to creating customer value and building strong customer relationships, today's marketers know that they can't go it alone. They must work closely with a variety of marketing partners. In addition to being good at customer relationship management, marketers must be good at partner relationship management to both internal and external partners.

1. **Partners inside the company.** Every functional area can interact with customers, especially electronically.
2. **Marketing partners outside the firm.** Through supply chain management, many companies today are strengthening their connections with partners all along the supply chain.

V. Capturing Value from Customers By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. The outcomes of creating customer value are customer loyalty and retention, share of market and share of customer, and customer equity.

- A. Customer loyalty and retention.** Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. We call this stream of purchases the customer lifetime value (LTV).
- B. Growing share of customer.** Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers to increase their share of customer—the share they get of the customer's purchasing in their product categories.
- C. Building customer equity.** Companies want to not only create profitable customers but also "own" them for life, earn a greater share of their purchases, and capture their LTV.

1. **What is customer equity?** Customer equity is the discounted LTVs of all the company's current and potential customers. One builds customer equity by delivering products that create high customer satisfaction and have high perceived value.
2. **Building the right relationships with the right customers.** The company can classify customers according to their potential profitability and manage its relationships with them accordingly. Strangers show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Treat them well as a guest but invest in little or no effort in marketing to them. Butterflies are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. Barnacles are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings. Like strangers, no marketing investment should be made in Barnacles. True friends are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and engage, nurture, retain, and grow them. It wants to turn true friends into true believers, who come back regularly and tell others about their good experiences with the company.

VI. The Changing Marketing Landscape As the marketplace changes, so must those who serve it.

A. The digital age: Online, social media, and mobile marketing

1. **Online.** Digital and social media marketing involves using digital marketing tools such as Web sites, social media, mobile ads and apps, online video, e-mail, blogs, and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs, and other digital devices. These days, it seems that every company is reaching out to customers with multiple Web sites, newsy tweets and Facebook pages, viral ads and videos posted on YouTube, rich-media e-mails, and mobile apps

that solve consumer problems and help them shop. Beyond brand Web sites, most companies are also integrating social and mobile media into their marketing mixes.

2. **Social media.** Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for real-time marketing. Marketers can engage consumers looking for a restaurant for tonight's meal or using geo-fencing reach out to tourists by way of their smartphone walking by their restaurant.
 3. **Mobile.** Fifty-two percent of online traffic is from smartphones, and this number is growing.⁴¹ Four out of five smartphone users use their phones to shop—browsing product information through apps or the mobile web, making in-store price comparisons, reading online product reviews, finding and redeeming coupons, and more. Online purchases from mobile devices are growing faster than total online sales. Marketers use mobile channels to stimulate immediate buying, make shopping easier, enrich the brand experience, or all of these.
- B. Sustainable marketing—The call for more environmental and social responsibility.** Marketers are re-examining their relationships with social values and responsibilities and with the very earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called on to develop sustainable marketing practices.
- C. Rapid globalization.** As they are redefining their customer relationships, marketers are also taking a fresh look at the ways in which they relate with the broader world around them. Today, almost every company, large or small, is touched in some way by global competition.
- D. Co-creation.** Co-creation involves the hospitality or travel company interacting with the guest to create customized experiences through this interaction. The interaction can be passive or active.
- E. The sharing economy.** The recent surge in the sharing economy has been in part to individuals sharing talents, time, and tangible assets they own to gain additional income and the internet enabling them to connect with customers. As the sharing economy continues to grow, it will create threats and opportunities for the hospitality and travel industries.

IN-CLASS GROUP EXERCISES

**Exercises with an asterisk next to them are suitable for individual homework or online assignments. Students always provide an explanation for your answer.*

1. *You do not plan on going into marketing as a career option. You plan on being a general manager of hotel or restaurant. Why do you need to study and understand marketing?
2. *Many managers view the purpose of business as making a profit, whereas some view the purpose as being able to create and maintain a customer. Explain how these alternative viewpoints could affect a company's interactions with its customers. Use examples to illustrate your answer. If a manager views the purpose as being able to create and maintain a

customer, does this mean that the manager is not concerned with profits?

3. A busy tourist hotel in Bangkok has employed a social media coordinator to deal with news, comments, queries, and reviews across multiple social media sites. The hotel attracts backpackers from over 50 countries, many of who struggle to communicate in English. As a marketing specialist, how would you advise the hotel in terms of handling multiple language social media sites? Explain your answer.
4. *Look at Figure 1–2. Explain why persons who give a business a 2 (a relatively high score) out of 7 are not likely to return?

5. *What is customer equity? How can a company increase its customer equity?
6. Give several examples of hospitality or travel companies you feel are socially responsible. What do they do to make you feel they are socially responsible? Are there any companies that you feel are not socially responsible? What makes you feel this way? Include in your discussion how being socially responsible helps the company.
7. With most customers having a smartphone, mobile apps are becoming an essential tool for hotels and other businesses in hospitality and tourism. If you were an app developer pitching to a hotel, how would you convince them to have one of their own?

■ ■ ■ EXPERIENTIAL EXERCISES

Do one of the following:

1. Visit two restaurants in the same class, such as two fast-food restaurants or two casual restaurants. Observe the cleanliness of the restaurants, in-house signage, and other physical features. Then order a menu item and observe the service and the quality of the food. Write up your observations, and then state which restaurant you feel is more customer oriented. Explain why.
2. Call the central reservation number of two hotels. Request information on room availability, different room types, and price for a date one month from now. (Note: Do not make a reservation.) Write up your experience, including a description of how quickly

the phone was answered, the customer orientation of information provided, and the friendliness of the employee. Based on your experiences, which hotels do you feel had the more customer-oriented reservation system?

3. Other hospitality companies:

If you are interested in another area of the travel industry, you may compare two organizations in that area for their customer orientation using similar criteria, as mentioned earlier. For example, if you are interested in tourism, you may contact two tourism organizations regarding their destinations. This could be a city convention and tourist bureau, or it could be a government tourist bureau.

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2



Martin's Patershof was formerly a nineteenth-century neo-gothic Franciscan monastery, which has now been converted into a hotel, in Mechelen, Belgium. Courtesy of Sergi Reboredo/Alamy Stock Photo.

Objectives

After reading this chapter, you should be able to:

1. Describe a service culture and identify characteristics of service marketing.
2. Explain the service profit chain.
3. Explain management strategies for service businesses.

Services Marketing Concepts Applied to Marketing for Hospitality and Tourism

Martin's Hotels: An Exceptional Heritage Experience

Martin's Grand Hotel, originally a sugar factory, a dairy plant, a garden nursery, and then a film studio, sits in the Walloon Brabant region of Belgium. It is just five minutes from the site of the last and most decisive battle of the Napoleonic Wars, a conflict that changed history, and only 20 minutes from Brussels, the capital of Belgium.

Organic Growth and Diversification

In 1863, the Raffinerie Nationale de Sucre Indigène et Exotique (National Refinery for Indigenous and Exotic Sugar) was established and the site bought to cultivate sugar beet to make sugar. The property changed hands several times and served several different functions until the Louis de Waele Company rebuilt the site in 1989, creating a business center and associated leisure facilities. Three years later, Martin's Grand Hôtel and the La Sucrerie restaurant were established. In 2008, the three-star Martin's Waterloo was added.

Infrastructure and Services

The hotel is not a large one and has only 79 rooms, 4 meeting rooms, a restaurant, and a fitness center. The rooms are geared toward business customers and guests enjoying a weekend vacation, with a distinct English and Napoleonic theme. The hotel offers deluxe accommodation and a premium restaurant. The historically important site of the Battle of Waterloo is within walking distance and the area is popular with golfers. Waterloo itself is a shopping hub with cinema and museums.

Competition and Distinctiveness

There are over 1,000 competitors ranging from top-end boutique hotels to motel-type accommodations within a half-hour drive of the hotel. The hotel has gradually developed a range of services and packages to stand out from the crowd and invite bookings around the year. The location of the hotel has been an important driver in the marketing of the properties to golf enthusiasts and, since 1998, the hotel chain has been one of the first choices for golfers visiting Belgium to play at the numerous courses. The chain launched the Martin's Golf Pass Belgium, which is seen as the premium golfing accommodation package in the country. The hotels are all within a short distance of 18 prestigious golf clubs and are ideally located to reduced travel time and increase playing time.

The pass is part of an all-inclusive package that offers the reservation of green fees (cost to customer for using the course) at a preferential rate, optimized departure times, and the use of a personalized "voucher" that gives each guest the tee-off times and a road book detailing routes between the clubs and the hotels. Each of the hotels is further optimized to provide storage rooms for bags and clubs.

The hotel has been able to strike deals with some of the key courses in Belgium, including the 18-hole Brabantse Golf Club on the main Brussels–Antwerp highway and Brussels Airport; the Golf Château de la Tournette with three courses; Golf Club de Sept Fontaines set in the wooded countryside near Brussels; the Golf Club d'Hulencourt on a seventeenth-century estate near Brussels Airport; the 18-hole Golf Club Enghien; the Golf Club de Louvain-la-Neuve; the Royal Golf du Bercuit; the Royal Golf Club du Hainaut near Mons; the Golf du Château de la Bawette on the outskirts of Brussels; the Golf de Pierpont on the site of the Battle of Waterloo; the Golf de Rigenée and the L'Empereur Relais Golf & Country Club; the 20-year-old Millennium Golf on the Paalse Plas; the 18-hole Mont Garni Golf Club situated between Baudour and Sirault; the Winge Golf & Country Club set in the grounds of a seventeenth-century castle; the Flanders Nippon Golf & Business Club near Hasselt; Maastricht's Golf & Country Club Hoenshuis and located between the Meuse Valley and the Mergelland; the 18-hole Golf Het Rijk van Margraten.

Martin's Red

It is not just golf that is important to the hotel chain. In 2016, Martin's Red opened a four-star hotel close to the site of the Tubize National Football Center. The new hotel has 79 rooms, a fitness center, spa, meeting rooms, bar and grill, restaurant, and a large auditorium. Located in Tubize, a short distance from Brussels, it is the official hotel of the National Football Center. The National Football Center has six full-sized pitches and a beach football area. It is ideally located for the capital and the large number of football teams in the area to provide opposition for friendly practice matches.

Significantly, Martin's Red is at the heart of the packages offered to teams. This sets them apart from other hotels in the area. The bespoke packages include transportation to Brussels and full transportation during the stay, access to all facilities at the National Football Center, and two-hour professional training sessions with official Belgium Football Association coaching staff. The hotel also arranges friendly fixtures against local clubs or academies, all necessary football equipment, and the use of all sport and leisure facilities at the resort. Tickets to professional games can be arranged, each group has a tour liaison officer, and a guided tour of Brussels is available. The hotel serves suitable meals for football teams and can arrange excursions, including bowling and go-karting.

The Martin's Hotel Chain

The chain was born in 1909 when a 23-year-old British brewer, John V. Batthiany Martin, arrived in Antwerp, Belgium. He and his family would become known for popularizing the Guinness and Schweppes brands in Benelux and France. In 1966, John's sons, Andrew

and John James, took over and converted their headquarters into a five-star hotel and conference center and renamed it Martin's Château du Lac. The brand has since grown to 14 hotels, 8 restaurants, and 4 spas.

Key to the development of the brand is the respect for heritage. Each of the hotels and restaurants is located in a historically significant location. The sixteenth-century Maison Morillon was converted into the Martin's Convent, Leuven and the Martin's Patershof in the center of Mechelen is a deconsecrated church.¹

Service culture A system of values and beliefs in an organization that reinforces the idea that providing the customer with quality service is the principal concern of the business.

Intangibility A major characteristic of services; they cannot be seen, tasted, felt, heard, or smelled before they are bought.

Inseparability A major characteristic of services; they are produced and consumed at the same time and cannot be separated from their providers.

Variability A major characteristic of services; their quality may vary greatly, depending on who provides them and when, where, and how they are provided.

Perishability A major characteristic of services; they cannot be stored for later use.

■ ■ ■ The Service Culture

One of the most important tasks of a hospitality business is to develop the service side of the business, specifically, a strong service culture. The **service culture** focuses on serving and satisfying the customer. Creation of a service culture has to start with top management and flow down. The mission, vision, and values of a business, discussed in Chapter 3, should support a service culture. An organization should hire employees with a customer service attitude, and then work with employees to instill the concept of service. The outcome of these efforts is employees who provide service to the customers. In well-run services, the first employees to receive a request from a guest are taught to own it, rather than pass it on and forget about it. For example, a guest requesting towels from the front desk is not just transferred to housekeeping. The request is taken by the employee at the front desk. He will then call housekeeping. But that is not the end of his involvement. He will check back with housekeeping in 10 minutes to make sure the towels were delivered. If they were, he will call the guest to make sure the guest got the towels and ask if there is anything else he can do for the guest. A service culture lets the employees know they are expected to deliver service to the guest and provides employees with the tools and support they need to deliver good service.

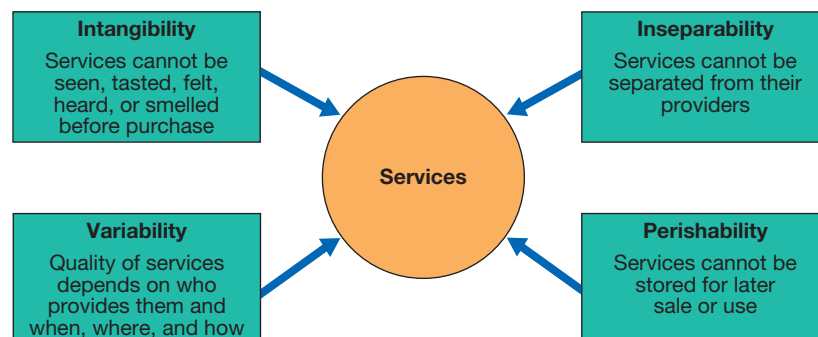
■ ■ ■ Characteristics of Service Marketing

Service marketers must understand the four characteristics of services: **intangibility**, **inseparability**, **variability**, and **perishability** (see Figure 2–1).

Intangibility

Unlike physical products, intangible products cannot be seen, tasted, felt, heard, or smelled before they are purchased. Hospitality and travel industry products are experiential only, and we do not know the quality of the product until after we have

Figure 2–1
Four service characteristics.



experienced it. A restaurant customer will not know how well the meal is prepared until after she has consumed it. Likewise, a family planning a vacation will not know if the destination for their vacation and the choice of their resort was a good one until they have had their vacation experience.

One implication of experiential products is that we take away only the memories of our experiences. Marriott Vacation Clubs International realizes this and has made a deliberate effort to create memorable guest experiences. Marriott knows that a white-water rafting trip can create memories a family visiting their Mountainside Resort in Utah will talk about for years. The fun the family experienced while white-water rafting, along with their other experiences at the resort, will make them want to return. As a result, the staff at the Mountainside Resort promote the activities of the destination as well as the resort. Other resorts create memories. Champagne and music on the beach at sunset or the special and unexpected attention that an employee provides for a guest are other ways. Some hotel managers share notes from guests that mention memorable experiences they received from a staff member. This gives other employees examples of ways to create experiences that result in positive memories.

Because guests will not know the service they will receive until after they receive it, service marketers should take steps to provide their prospective customers with evidence that will help them evaluate the service.² This process is called providing tangible evidence. Promotional material, employees' appearance, and the service firm's physical environment all help tangibilize service. Hospitality companies today include virtual tours and pictures on their Web site. They also take advantage of Facebook, Pinterest, Instagram, and other social media to share photos and videos.

A banquet salesperson for a fine restaurant can make the product tangible by taking pastry samples on morning sales calls. This creates goodwill and provides the prospective client with some knowledge about the restaurant's food quality. The salesperson might also bring a photo album showing photographs of banquet setups, plate presentations for different entrees, and testimonial letters from past clients. For persons having a dinner as part of their wedding reception, some hotels prepare the meal for the bride's family before the wedding day. Thus the bride actually gets to experience the food before the reception so there are no surprises.

The salesperson may be the prospective customer's first contact with the hotel or restaurant. A salesperson who is well groomed and dressed appropriately and who answers questions in a prompt, professional manner can do a great deal to help the customer develop a positive image of the hotel. Uniforms also provide tangible evidence of the experience. The uniforms worn by front-desk staff of the Hotel Nikko San Francisco are professional and provide tangible evidence that the guest is walking into a four-diamond hotel.

Everything about a hospitality company communicates something. The wrappers put on drinking glasses in the guest rooms serve the purpose of letting the guest know that the glasses have been cleaned. The fold in the toilet paper in the bathroom lets the guest know the bathroom has been tidied.

Tangible Evidence

Tangible evidence Tangible clues such as promotional material, employees of the firm, and the physical environment of the firm. Physical evidence is used by a service firm to make its product more tangible to customers.

Tangible evidence that is not managed properly can hurt a business. Negative messages communicated by poorly managed physical evidence include signs that continue to advertise a holiday special two weeks after the holiday has passed, signs with missing letters or burned-out lights, parking lots and grounds that are unkempt and full of trash, and employees in dirty uniforms at messy workstations. Such signs send negative messages to customers. Restaurant managers are trained to do a preopening inspection of the restaurant. One of the things they look for is that all light bulbs are working. A little thing like a burned-out bulb can give a guest sitting near it an impression that the restaurant does not pay attention to detail. Our customers notice details; this is why a consistent message from industry leaders is that managers must pay attention to detail.

A firm's communication should also reinforce its positioning. Ronald McDonald is great for McDonald's, but a clown would not be appropriate as the



The umbrellas, bright colors, and outside seating of this café on the river walk in San Antonio, Texas, create an environment that attracts attention and is inviting to those who want informal dining. Gau Meo/Shutterstock.

Organization image The way a person or group views an organization.

primary mascot of Four Seasons Hotels. All said, a service organization should review every piece of tangible evidence to make sure that each delivers the desired **organization image**—the way a person or group views an organization—to target customers.³

Inseparability

Physical goods are produced, then stored, later sold, and still later consumed. In contrast, hospitality products are first sold and then produced and consumed at the same time. In most hospitality services, both the service provider and the customer must be present for the transaction to occur. Inseparability means both the employee and the customer are often part of the product. The food in a restaurant may be outstanding, but if the employee serving

the food to the customer has a poor attitude or provides inattentive service, customers will not be satisfied with their experience.

A couple may have chosen a restaurant because it is quiet and romantic, but if other customers include a group of loud and boisterous conventioners seated in the same room, these customers will spoil the couple's experience. Managers must manage their customers so they do not create dissatisfaction for others.

Another implication of inseparability is that customers and employees must understand the service-delivery system because they are coproducing the service. The menu or the server should explain menu items to the restaurant guests so they get the dish they expect. This means hospitality and travel organizations have to train customers just as they train employees. A hotel at the Newark Airport is popular with international tourists who have just arrived from overseas. Many of these guests pay in cash or with travelers' checks because they do not use credit cards. On more than one occasion, the front-desk clerk has been observed answering the phone of an upset guest who claims the movie system does not work. The clerk must explain that the guest did not establish credit because cash was paid for his room. She informs guests that they must come to the front desk and pay for the movie before it can be activated. Guests obviously become upset on receiving this information. The hotel could avoid this problem and improve customer relations by asking guests at arrival time if they would like to make a deposit for anything they might charge, such as in-room movies.

Casinos know they must train customers how to play certain table games such as blackjack or craps. Casinos provide booklets on how to play the games and also offer free lessons in the casino. This enables the guest to enjoy the casino resort and creates new customers for the casino. Finally, we often ask customers to coproduce the service they are consuming. This means organizations must select, hire, and train customers.⁴ Fast-food restaurants train customers to get their own drinks. This gives the customer something to do while waiting and reduces the need for employees to fill drink orders themselves. Hotels, restaurants, airlines, and rental car companies train customers to use the electronic check-in and the internet to get information and to make reservations. The customer using these services is performing both the job of customer service agent and reservationist. The benefits provided to the guest by becoming an "employee" include increased value, customization, and reduced waiting time. The characteristic of inseparability requires hospitality managers to manage both their employees and their customers.

Variability

Services are highly variable. Their quality depends on who provides them and when and where they are provided. There are several causes for service variability. Services are produced and consumed simultaneously, which limits quality control. Fluctuating demand makes it difficult to deliver consistent products during periods of peak demand. The high degree of contact between the service provider and the guest means that product consistency depends on the service provider's skills and performance at the time of the exchange. A guest can receive excellent service one day and mediocre service from the same person the next day. In the case of mediocre service, the service person may not have felt well or perhaps experienced

an emotional problem. Lack of communication and heterogeneity of guest expectations also lead to service variability. A restaurant customer ordering a medium steak may expect it to be cooked all the way through, whereas the person working on the broiler may define medium as having a warm pink center. The guest will be disappointed when she cuts into the steak and sees pink meat. Restaurants have solved this by developing common definitions of steak doneness and communicating them to the employees and customers. Sometimes the communication to the customer is verbal, and sometimes it is printed on the menu. Customers usually return to a restaurant because they enjoyed their last experience. When the product they receive is different and does not meet their expectations on the next visit, they often do not return. Variability or lack of consistency in the product is a major cause of customer disappointment in the hospitality industry.

When variability is absent, we have consistency, which is one of the key factors in the success of a service business.⁵ Consistency means that customers receive the expected product without unwanted surprises. In the hotel industry, this means that a wake-up call requested for 7 A.M. always occurs as planned and that a meeting planner can count on the hotel to deliver coffee ordered for a 3 P.M. meeting break, which will be ready and waiting when the group breaks at that time. In the restaurant business, consistency means that the shrimp scampi will taste the same way it tasted two weeks ago, towels will always be available in the bathrooms, and the brand of vodka specified last week will be in stock next month. Consistency is one of the major reasons for the worldwide success of McDonald's.

Here are three steps hospitality firms can take to reduce variability and create consistency:

1. **Invest in good hiring and training procedures.** Recruiting the right employees and providing them with excellent training is crucial, regardless of whether employees are highly skilled professionals or low-skilled workers. Better-trained personnel exhibit six characteristics: *Competence*—they possess the required skill and knowledge. *Courtesy*—they are friendly, respectful, and considerate. *Credibility*—they are trustworthy. *Reliability*—they perform the service consistently and accurately. *Responsiveness*—they respond quickly to customers' requests and problems. *Communication*—they make an effort to understand the customer and communicate clearly. Excellent hospitality and travel companies such as Marriott and Southwest Airlines spend a great deal of time and effort making sure they hire the right employees. But their attention to employees does not end there. They also invest in their employees by providing ongoing training.
2. **Standardize the service-performance process throughout the organization.** Diagramming the service-delivery system in a service blueprint can simultaneously map out the service process, the points of customer contact, and the evidence of service from the customer's point of view. The guest's experience includes a series of steps he must enact while receiving the service. Behind the scenes, the service provider must skillfully help the guest move from one step to the next. By visually representing the service, a service blueprint can help one understand the process and see potential design flaws. Service blueprints include a line of interaction, line of visibility, and line of internal support. The line of interaction represents the guest's contact with employees. The line of visibility represents those areas that will be visible to the guest and provide tangible evidence of the service. The line of internal interaction represents internal support systems that are required to service the guest.
3. **Monitor customer satisfaction.** Hospitality and travel organizations have many ways they can monitor customer satisfaction. They can use a service to monitor customers' comments on social media. These customer comments, when negative, can allow the business to correct the problem before the guests leave. Analyzing customer comments is a great way to see what customers are saying about your property and your competitors. Use suggestion and complaint systems, customer surveys, and comparison shopping. Hospitality companies have the advantage of knowing their customers. This makes it easy to send a customer satisfaction survey after a guest has stayed in a hotel or used its



If an airplane takes off with 60 empty seats, it forever loses the ability to gain revenue from those seats. This is why airlines use revenue management to help manage their demand. Clement Philippe/Arterra Picture Library/Alamy Stock Photo.

Opaque Channel An opaque channel is one where the customer knows the general location and class of the hotel but does not know the specific name of the hotel she is purchasing.

Service profit chain A model that shows the relationships between employee satisfaction, customer satisfaction, customer retention, value creation, and profitability.⁶

service. Hotel companies often hire a third party to send out satisfaction surveys to recent customers of their franchisees to monitor their performance. Travel intermediaries, such as Travelocity.com, contact guests to see how satisfied they were with a hotel they booked on their site. They realize if a customer had a bad experience they may not use their service again, even though they cannot control the service and quality of the hotels they represent. They try to create a consistent experience and set customer expectations by using a star rating system and publishing customer comments. Firms can also develop customer information databases and systems to permit more personalized, customized service, especially online.

Perishability

Services cannot be stored. A 100-room hotel that sells only 60 rooms on a particular night cannot inventory the 40 unused rooms and then sell 140 rooms the next night. Revenue lost from not selling those 40 rooms is gone forever. Because of service perishability, hotels have tightened their reservation policies. Today many brands require a two-day notice, instead of being able to cancel a reservation the same day by 6 P.M., which used to be the standard. Restaurants are also starting to charge a fee to customers who do not show up for a reservation. They, too, realize that if someone does not show up for a reservation, the opportunity to sell that seat may be lost.

Some hotels will often sell hotel rooms at a very low rate rather let them go unsold. Because of inseparability, this can cause problems. Oftentimes, the discounted rate brings in a different type of customer who is not compatible with the hotel's normal customer. For example, one luxury hotel that normally sold rooms for \$300 placed rooms on Priceline's "Name Your Own Price" **opaque channel** for \$80. The guest paying \$80 a night is not likely to use the food and beverage outlets of that particular hotel, but instead will use less expensive restaurants outside of the hotel or come back into the hotel carrying a bag of food from a nearby fast-food restaurant. Revenue managers must be careful that they maintain a brand's image while at the same time trying to reduce unsold inventory. We will discuss techniques for managing demand at the end of this chapter.

The Service Profit Chain

In a service business, the customer and the frontline service employee *interact* to create the service. Effective interaction, in turn, depends on the skills of frontline service employees and on the support, processes backing these employees. Thus, successful service companies focus their attention on *both* their customers and their employees. They understand the **service profit chain**, which links service firm profits with employee and customer satisfaction. This chain consists of the following five links:

1. **Internal service quality:** Superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in satisfied and productive service employees.
2. **Satisfied and productive service employees:** More satisfied, loyal, and hardworking employees, which results in greater service value.
3. **Greater service value:** More effective and efficient customer value creation and service delivery, which results in satisfied and loyal customers.

4. **Satisfied and loyal customers:** Satisfied customers who remain loyal, repeat purchase, and refer other customers, which results in healthy service profits and growth.
5. **Healthy service profits and growth:** Superior service firm performance, which is the end result.

The service profit chains illustrate the importance of employees in creating value for the customer. When properly executed, the service profit chain is self-sustaining. Employees enjoy serving customers who enjoy the product they are delivering, and they become friends with loyal customers who return frequently creating an enjoyable work environment. This example provides an illustration of a well-executed service profit chain. At Four Seasons, satisfying customers is everybody's business. And it all starts with satisfied employees.⁷

Four Seasons has perfected the art of high-touch, carefully crafted service. Whether it's at the tropical island paradise at the Four Seasons Resort Mauritius or the luxurious sub-Saharan "camp" at the Four Seasons Safari Lodge Serengeti, guests paying \$1,000 or more a night expect to have their minds read. For these guests, Four Seasons doesn't disappoint. As one Four Seasons Maui guest once told a manager, "If there's a heaven, I hope it's run by Four Seasons." What makes Four Seasons so special? It's really no secret. It's the quality of the Four Seasons staff. Four Seasons knows that happy, satisfied employees make for happy, satisfied customers. So just as it does for customers, Four Seasons respects and pampers its employees.

Four Seasons hires the best people, pays them well, orients them carefully, instills in them a sense of pride, and rewards them for outstanding service deeds. It treats employees as it would its most important guests. For example, all employees—from the maids who make up the rooms to the general manager—dine together (free of charge) in the hotel cafeteria. Perhaps best of all, every employee receives free stays at other Four Seasons resorts, six free nights per year after one year with the company. The room stays make employees feel as important and pampered as the guests they serve and motivate employees to achieve even higher levels of service in their own jobs. Says one Four Seasons staffer, "You come back from those trips on fire. You want to do so much for the guests." As a result of such actions, the annual turnover for full-time employees at Four Seasons is only 18 percent, half the industry average. Four Seasons has been included for 18 straight years on *Fortune* magazine's list of 100 Best Companies to Work For. And that's the biggest secret to Four Seasons' success.

■ ■ ■ Management Strategies for Service Businesses

Managing Service Differentiation

Service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price.

The solution to price competition is to develop a differentiated offering, rather than starting a price war. Competing by reducing price leads to lowering expenses to offset the price reduction. Cuts to employee expenses result in reduced service levels. Cuts in maintenance result in a facility that becomes worn. The offer can include innovative features that set one company's offer apart from that of its competitors. Companies are constantly competing through creativity and innovation. Still, the service company that innovates regularly usually gains a succession of temporary advantages and an innovative reputation that may help it keep customers who want to go with the best.

Service companies can differentiate their service delivery in three ways: through people, physical environment, and process. The company can distinguish itself by having more able and reliable customer-contact people than its competitors, or it can develop a superior physical environment in which the service product is delivered. It can design a superior delivery process. Finally, service companies can also differentiate their images through symbols and branding. For example, a familiar symbol would be McDonald's golden arches, and familiar brands include Hilton, Shangri-La, and Sofitel.

Managing Service Quality

One of the major ways that a service firm can differentiate itself is by delivering consistently higher quality than its competitors. One can have a number of objective criteria for evaluating a tangible product such as an automobile. For example, how long does it take for an automobile to go from 0 to 60 miles per hour, how many miles to the gallon does it get, and how much leg room does it have. With hospitality products, quality is measured by how well customer expectations are met. The key is to exceed the customers' service-quality expectations. As the chief executive at American Express puts it, "Promise only what you can deliver and deliver more than you promise!" These expectations are based on past experiences, word of mouth, and service firm advertising. If perceived service of a given firm exceeds expected service, customers are apt to use the provider again. Customer retention is perhaps the best measure of quality: A service firm's ability to retain its customers depends on how consistently it delivers value to them. A manufacturer's quality goal might be zero defects, but the service provider's goal is zero customer defections.

The service provider needs to identify the expectations of target customers concerning service quality. In Chapters 4, 5, and 6, we discuss how to obtain information on your customers and how to understand your customers. Knowing your customer is a requisite for delivering quality. Once customer expectations are determined, managers need to develop a service-delivery system that meets the guest's expectations. It is important that the service provider clearly defines and communicates that level to its employees and customers what needs to be delivered to meet customer expectations. Investments in service usually pay off through increased customer retention and sales.

For example, Southwest Airlines has a proactive customer communications team whose job is to find the situations in which something went wrong—a mechanical delay, bad weather, a medical emergency, or a berserk passenger—and then remedy the bad experience quickly, within 24 hours if possible.⁸ The team's communications to passengers, usually e-mails or texts these days, have three basic components: a sincere apology, a brief explanation of what happened, and a gift to make it up, usually a voucher in dollars that can be used on their next Southwest flight. Surveys show that when Southwest handles a delay situation well, customers score it 14 to 16 points higher than on regular on-time flights.

Nowadays, social media such as Facebook and Twitter can help companies root out and remedy customer dissatisfaction with service. As discussed in Chapter 4, companies now monitor the digital space to spot customer issues quickly and respond in real time. For example, Southwest has a dedicated team of 29 people who respond to roughly 80,000 Facebook and Twitter posts monthly. A quick and thoughtful response can turn a dissatisfied customer into a brand advocate.⁹

Studies of well-managed service companies show that they share a number of common virtues regarding service quality. First, top service companies are "customer obsessed." They have a philosophy of satisfying customer needs, which wins enduring customer loyalty. Second, well-managed service companies have a history of top management commitment to quality. Management at companies such as Six Senses Hotels and Resorts, Disney, and Chili's looks not only at financial performance but also at service performance. Third, the best service providers set high service-quality standards. A 98 percent accuracy standard may sound good,

Marketing
HIGHLIGHT

2.1

Service differentiation is harder to achieve, yet some manage through art

Hotels are increasingly using art to differentiate themselves from competition, ensure acceptable occupancy, and profitability. The trending and successful idea sees hotels hosting art installations are beginning to achieve national and international acclaim and recognition.

The five-star boutique-style Exhibitionist Hotel in South Kensington, London, aims to inspire guests with art exhibitions alongside a cocktail bar and restaurant. It bills itself as the coolest art hotel in London and has a Che Guevara portrait in the lobby and individual art exhibitions in the corridors.¹⁰

Swatch Art Peace Hotel in Shanghai, China, is another five-star address that operates as a residence for artists with regular workshops. Each artist leaves a piece of art at the end of the hotel stay. The building that came up in 1908 occupies a corner plot and was originally known as Palace Hotel and then Peace Hotel South Building. It is located at the crossroads of Nanjing Road and the Bund, deep in the heart of the old financial district of the city. The art residency has attracted over 150 artists who have lived and worked in the 18 workshop apartments.¹¹

Madrid's five-star Hotel Puerta América has 12 floors of uniquely different art and design concepts created by 19 of the best architect and designer studios in the world. It features the designs of no less than four Pritzker prize winners. Each of the floors (including the 13th, which houses the restaurant and a penthouse suite) features different room concepts with a variety of colors and materials.

Paradiso Ibiza Art Hotel on Ibiza Island in Spain is a four-star property known for its contemporary art with each room dedicated to an artist. It has special art events every weekend. The hotel is part of the Concept Hotel Group. Each hotel owned by the group has a distinct personality based on art, design, fashion, music, and cinema. It is designed to give guests a genuinely different experience and make them feel like they are part of the evolving story and activities of the hotel. Concept Hotel Group was named the best hotel chain in Balearic Islands 2018 by Expedia. The chain has recently opened another distinctly differentiated hotel, its

sixth on Ibiza, the Paradiso Ibiza in San Antonio, described as a “millennial pink marvel designed for influencers and their Instagram feeds.” This new hotel features Spanish artists Iñaki Domingo and Diana Kunst and the works of more than 60 international artists are on display across the property. Particularly odd is the Zero Suite, a totally glass-walled bedroom next to the lobby, where nothing can be hidden. Ilmiodesign, the Madrid-based Italian design company that visualized most of the concept work, has managed to transform a very ordinary turn-of-the-millennium holiday apartment block into an art deco-style wonder that differentiates in spades.¹²

The four-star Brondo Architect Hotel is housed in a seventeenth-century building in the heart of Mallorca old town. It has 33 rooms, each named after a famous architect. The hotel plays host to art exhibitions and street music. Belmond La Residencia in Mallorca is another five-star hotel known for its guided artistic tours of the neighborhood with five galleries. The hotel also conducts sculpture and portrait classes.



View of the Swatch Art Peace Hotel on the Bund in Shanghai, China, May 27, 2010. Imaginechina Limited/Alamy Stock Photo.

but using this standard, the MGM Grand Hotel would send 50 guests a day to rooms that are already occupied, the Outback Steak house chain would have hundreds of miscooked steaks, and AccorHotels would make hundreds of errors in its central reservation office every week. This level of errors is unacceptable for customer-directed companies. Top service companies do not settle merely for “good” service; they aim for 100 percent defect-free service.

Fourth, the top service firms watch service performance closely, both their own and that of competitors. They use methods such as comparison shopping, customer surveys, suggestions, and complaint forms. Good service companies also communicate their concerns about service quality to employees and provide performance feedback. Ritz-Carlton has daily meetings with its employees to go over customer feedback and to review the guest history of arriving guests. Many quick-service restaurant chains offer customers a chance to win prizes after answering several service-related questions on an internet-based questionnaire.

Managing Service Productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity, which can be done in several ways. They can train current employees better or hire new ones who will work harder or more skillfully. The provider can “industrialize the service” by adding equipment and standardizing production, as in McDonald’s assembly-line approach to fast-food retailing. Finally, a service provider can harness the power of technology. Although we often think of technology’s power to save time and costs in manufacturing companies, it also has great—and often untapped—potential to make service workers more productive.

Services have been successful at getting customers involved in the production of the service by using self-service technology (SST). This includes everything from filling your drink at a fast-food restaurant to choosing your flight, selecting your seat and purchasing your airline ticket online. We will discuss SSTs later in this chapter. As technology advances, we now are seeing the use of robots combined with artificial intelligence in hotels and restaurants. The Henn na Hotel in Japan made history when it staffed its front desk robots. Aloft hotels do not offer room service, but some Alofts have enhanced their grab-and-go foods in the lobby with a robot called Butler, which will bring items to the guest’s room.¹³ Caliburger, a fast-food restaurant, uses a robot to cook hamburgers and place them on buns when they are done. Robots are being used to make coffee drinks, pizza, take orders while offering suggestions, and explaining menu items and delivering food. Proper use of robots can help create customer value if customer service experiences are enhanced.¹⁴

Companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to industrialize a service or cut costs can make a service company more efficient in the short run. But in making them more efficient, they can become less effective. For example, a restaurant that reduces kitchen payroll may find that it cannot keep up with the orders, resulting in long wait times for food and dissatisfied customers. Thus, in attempting to improve service productivity, companies must be mindful of how they create and deliver customer value. In short, they should be careful not to take the “service” out of service.

Resolving Customer Complaints

Many service companies have invested heavily to develop streamlined and efficient service-delivery systems. They want to ensure that customers will receive consistently high-quality service in every service encounter. Unlike product manufacturers, who can adjust their machinery and inputs until everything is perfect, service quality always varies, depending on the interactions between employees and customers. Problems inevitably occur. As hard as they try, even the best companies have an occasional late delivery, burned steak, or a grumpy employee. A company cannot always prevent service problems, but it can learn from them. Good service recovery can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place. Therefore, companies should take steps not only to provide good service every time but also to recover from service mistakes.

To have effective complaint resolution, managers must empower frontline service employees—to give them the authority, responsibility, and incentives that they need to recognize, care about, and tend to customer needs. For example, Marriott places its employees in empowerment training, which encourages them to go beyond their normal jobs to solve customer problems. Empowered employees can act quickly and effectively to keep service problems from resulting in lost customers. According to the Marriott Desert Springs, the major goal for customer-contact employees is to ensure that “guests experience excellent service and hospitality while staying at our resort.” Well-trained employees are given the authority to do whatever it takes, on the spot, to keep guests happy. They are also expected to help management ferret out the cause of guests’ problems, and to inform managers of ways to improve overall hotel service and guests’ comfort.

Marketing
HIGHLIGHT

2.2

Recommendations for improving service quality

Berry, Parasuraman, and Zeithamil, pioneers in conducting academic service research, offer 10 lessons that they maintain are essential for improving service quality across service industries.

1. **Listening.** Understand what customers really want through continuous learning about the expectations and perceptions of customers and noncustomers (e.g., by means of a service-quality information system).
2. **Reliability.** The single most important dimension of service quality. Reliability must be a service priority.
3. **Basic service.** Service companies must deliver the basics and do what they are supposed to do: keep promises, use common sense, listen to customers, keep customers informed, and be determined to deliver value to customers.
4. **Service design.** Develop a holistic view of the service while managing its many details.
5. **Recovery.** To satisfy customers who encounter a service problem, service companies should encourage customers to complain (and make it easy for them to do so), respond quickly and personally, and develop a problem-resolution system.
6. **Surprising customers.** Although reliability is the most important dimension in meeting customers' service expectations, process dimensions such as assurance, responsiveness, and empathy are most important in exceeding customer expectations (e.g., by surprising them with uncommon swiftness, grace, courtesy, competence, commitment, and understanding).
7. **Fair play.** Service companies must make special efforts to be fair, and to demonstrate fairness to customers and employees.
8. **Teamwork.** Teamwork is what enables large organizations to deliver service with care and attentiveness by improving employee motivation and capabilities.
9. **Employee research.** Marketers should conduct research with employees to reveal why service problems occur and what companies must do to solve problems.
10. **Servant leadership.** Quality service comes from inspired leadership throughout the organization; from excellent service-system design; from the effective use of information and technology; and from a slow-to-change, invisible, all-powerful, internal force called corporate culture.¹⁵

Resolving customer complaints is a critical component of customer retention. One study by the Technical Research Programs Institute found that if a customer has a major complaint, 91 percent will not buy from you again, but if it was resolved quickly, 82 percent of those customers will return. The complaint resolution drops the customer defection from 91 out of 100 to 18 out of 100. With resolution of minor complaints, the defection rate can be reduced to less than 5 out of 100.¹⁶ In complaint resolution there are two important factors. First, if you resolve a complaint, do it quickly—the longer it takes to resolve, the higher the defection rate. Second, seek out customer complaints. If you are unaware of complaints, it is impossible to resolve them.

For example, a businesswoman had just returned from an overseas trip. After a good night's sleep in a New York hotel, she was ready for an American breakfast. She dialed room service, and her breakfast was delivered promptly. A cheerful waiter wheeled the table into the room and positioned it so that the woman could look out the window. He opened the heating compartment and pulled out the breakfast that the woman had been waiting for: a full hot American breakfast. The waiter handed the woman the bill, and she promptly signed the bill and added a handsome tip. Now she was ready to start her breakfast.

The waiter said, "I'm sorry, you will have to pay cash." She explained that she did not have any money with her and pulled out her credit cards, offering the American Express Card she had used to check in to the hotel. The waiter called on the phone and after five minutes it was resolved that the woman could use her credit card. The woman, now upset, sat down to a cold breakfast.¹⁷ If the waiter had been empowered to resolve complaints, he would have been able to leave the room, go down to the front desk, and resolve the problem at the front desk while the woman was enjoying her breakfast.

Complaints should be responded to quickly by a personal form of communication. This could be through responding to a complaint on social media, e-mail,

short message service (SMS), or telephone. When responding on social media, try to move the conversation off-line by asking the customer to contact you by e-mail or phone and resolve the complaint. The worst thing a company can do is send out a form of e-mail that shows no empathy to the guest's problem or not respond at all. *Restaurant Business* had an employee contact 25 customer service representatives of restaurant chains, stating she had received poor service. Of the 25 companies contacted, only 15 responded to her complaint. One customer service representative told her, "I'm busy right now, can you call back in a half an hour?" When she called back, the customer service rep said, "Okay, I have a minute now. What's your problem—slow service, is that all? Okay, I can write up a report if you want." Of those restaurants that did respond, only 10 did a good or excellent job of resolving the complaint. The customer service representatives at these restaurants did a nice job of showing concern on the initial phone call and followed up with a letter and coupons. In one case, a regional vice president called the customer back to find out what went wrong.¹⁸

Another critical area in complaint resolution is that most customers do not complain. They do not give managers a chance to resolve their problem. They just leave and never come back. When a customer does complain, management should be grateful because it gives them a chance to resolve the complaint and gain the customer's repeat business. Most complaints come from loyal customers who want to return, but they also want management to fix the problem so it will not occur on their next visit. Managers must develop ways to encourage customers to complain. Services that scan social media can pick up customers that have commented on your restaurant, allowing management to respond. Managers can train employees to look out for guests who look dissatisfied and try to determine their problems. As one restaurant manager observes, if guests are looking around the restaurant, there is something wrong. We need to find out what is wrong and correct it. If we shift our perspective to see complaints as gifts, we can more readily use the information the complaints generate to grow our own business. Customer complaints are one of the most available yet underutilized sources of customer and market information.¹⁹

A club manager told us about a surprise the club had from a truly excellent Christmas party. The staff was proud of the way the evening went because everything went as planned. The manager was truly surprised when a member of many years said he wanted to set up a conference call with the food and beverage manager, chef, and the manager to discuss the shortcomings of the event. The call lasted an hour and a half, with many of the complaints considered frivolous by the management team. Through careful listening, the manager was able to separate the symptoms from the real problem. The manager asked his staff to reflect on the call and set a meeting for the next day. He also asked the food and beverage manager to develop a profile of who came to the event. What they discovered is that most of the people attending the event were older retired members who did not have family in the area and were alone during the holidays. Normally the club's parties attracted 45-year-old members and this party was planned for this group, not the 65 and older group who attended the party. This was the essence of the member's complaint: The menu and theme of the party were developed for a much younger group. By listening to what the member was saying and being open to the member's comments, the club's managers discovered the party was developed for the wrong target market. If the member had not complained or the club's managers were not open to the member's complaint, the holiday party would have continued to be developed for the wrong target audience.

Managing Employees as Part of the Product

In the hospitality industry, employees are a critical part of the product and marketing mix. This means that the human resources and marketing departments must work closely together. In restaurants without a human resources department, the restaurant manager serves as the human resource manager. The manager must hire friendly and capable employees and formulate policies that support positive