
Chapter 15

Marketing planning

Chapter Objectives

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

- Understand the contexts and types of marketing planning in hospitality organizations
- Describe a generic process for marketing planning
- Carry out the research needed to develop a strategic marketing plan
- Explain how analytical tools are used to evaluate a hospitality business's current and potential situation
- Recognize the limitations of marketing planning, and the importance of contingency planning.

Introduction

Planning is widespread in business of all sizes. Larger companies have more formalized planning processes, but smaller companies also perform planning essentials. A plan can be thought of as a set of decisions about what a company wants to achieve and how it is going to achieve it. The essence of a plan is, therefore, a goal with accompanying strategy and tactics. The goal defines what the company wants to achieve, while the strategy and tactics set out how the goal will be achieved. A marketing plan sets out the marketing objectives that a company wants to achieve and the strategy and tactics that will be used to meet the objectives.

In this chapter we will build on your learning from the pre-encounter, encounter and post-encounter hospitality marketing activities discussed in previous chapters. You will see how marketing plans in operational units consist of objectives, strategies and tactics across the three stages of a customer relationship: pre-encounter, encounter and post-encounter.

Contexts of marketing planning

Although unit-level marketing plans are the major focus of this chapter, it is important to acknowledge that marketing planning is carried out at many levels in more complex hospitality organizations.

Corporate marketing planning

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

Divisional marketing planning

A divisional marketing plan focuses on the goals of a major division of a hospitality company. A division is a profit center comprised of one or more core businesses, run by a dedicated chief executive and management team. For example, a major hospitality group may produce marketing plans for its contract catering division, its resort hotels division and its budget hotels division. Each division will set its own goals, often in terms of market share, and develop strategies for goal achievement. These strategies will consist of plans to open (or close) operational units, to focus on particular market segments, to position against named competitors and to compete by employing a particular set of competitive advantages.

Unit marketing planning

An operational unit may be a hotel or a restaurant that competes in a particular market. Strategies focus on issues such as targeting, positioning, and developing strong

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

Departmental marketing plan

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

Types of marketing plan

In general, a distinction can be made between strategic and tactical marketing plans (McDonald, 1999). As the focus of marketing plans shifts from corporate through division to unit and department, plans become much more tactical. Tactical marketing plans are focused on the short term, and generally are developed for a one-year maximum timeframe.

Strategic marketing plans

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

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

Porter

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

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

Overall cost leadership Firms adopting a low-cost position relative to competitors need to pursue a strategy of cost control in every aspect of the business. In hospitality firms, this means that food and beverage costs, payroll costs, energy, maintenance, administration, marketing and distribution overheads, décor, fabrics and furniture costs, are all designed to give the lowest possible running costs; the choice of location should be at the lowest possible land cost, and all these factors are critically examined to achieve and maintain the lowest cost position in the market.

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

Differentiation Porter's second generic strategy recommends that firms adopt a product–service differentiation policy that is perceived by customers as significantly different from competitors. In hospitality, differentiation is closely linked to branding and offer formulation. Firms adopting a differentiation strategy strive to deliver a clearly defined experience that differs from competitors'. We have already discussed the role of differentiation in Chapter 4, and provided examples from the hospitality industry.

Focus The focus strategy, Porter's third generic strategy, suggests that firms should concentrate on one narrow market segment, or one geographic area, or one primary product. The benefits of a focus strategy are derived from serving one target segment very well, and more effectively than differentiated or low-cost firms. A focused firm may adopt a differentiated or low-cost strategy aimed at the chosen market segment. We discussed a focus (or niche) marketing strategy in Chapter 4.

Treacey and Wiersema

Treacey and Wiersema (1995) have also identified three major approaches to marketing strategy that companies can adopt: operational excellence, product leadership, and customer intimacy. They call these market disciplines.

Operational excellence This core marketing discipline calls for doing a limited number of things extremely well. It implies the development of a well-defined value proposition based on clearly understood customer expectations, and the repeated production and delivery of the product-service that complies with exact specifications of a Standard Operating Procedure Manual. Companies like McDonald's, Taco Bell and Pizza Hut fit this model.

Product leadership The product leadership discipline is founded on the belief that relevant, customer-focused innovation will win buyer preference. Companies that stress product leadership nurture ideas, translate them into product–service concepts, and market them successfully. These companies experiment and think

'out-of-the-box'. The fully automated hotel cannot be far away. Some hotels have already done away with check-in, check-out and room-keys.

Customer intimacy The third marketing discipline, customer intimacy, is based upon the provision of solutions that are customized for individual buyers. In these companies, empowerment is pushed to the front line and the company is flexible, doing what it takes to produce satisfied customers. Ritz-Carlton Hotels prides itself on being such an organization.

Tactical marketing plans

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

A campaign is a promotion that runs for a short period of time. Campaigns are generally expressed in carefully targeted and timed customer or prospect communications. A campaign might be a sales promotion designed to fill rooms during the shoulder period, or it might be a sales blitz designed to generated prospects for a salesperson to follow up. Typically, a campaign is designed to produce specific behaviors in the targeted audience – for example, making a reservation, or contacting a call center – in the immediate term.

Event-based marketing is the term used to describe the creation and communication of offers to customers at particular points in time. The event which triggers an offer is typically something that occurs in the customer's personal or business life. For example, an engagement, announced in a local newspaper, might trigger a hotel to offer to host the couple's wedding reception. The scheduling of a 'watch and clock industry' trade show by a city convention center might trigger a timely offer by a hotel chain to house visitors from exhibiting companies. Event-based marketers put together offers that are unique to the event, set the price and promote to a tightly defined target market. The success of an event can only be measured when all the costs and revenues have been compared.

A generic marketing plan structure

In this section we present a generic framework for marketing planning. This offers a structured methodology for establishing marketing objectives, strategies and tactics. Not all of the components of the framework appear in every marketing plan – for example, departmental plans may not incorporate a segmentation, targeting and positioning component. The framework consists of nine major elements:

- 1 Vision, mission, values
- 2 Situation audit
- 3 Objectives

- 4 Segmentation, targeting and positioning
- 5 Marketing mix
- 6 Budgeting
- 7 Implementation
- 8 Controls
- 9 Evaluation

This framework presents an analysis of where the company is now, and provides direction for where the company wants to be at some predetermined future point. It focuses the development of marketing mix strategies and tactics, and addresses the questions of cost, implementation and control.

Vision, mission, values

Many leading hospitality companies have developed vision statements, mission statements, or sets of values. These are enduring statements about what the organization is *en route* to becoming in ten years or more (the vision statement), why the organization exists (the mission statement), and how the organization shall act in relationships with its stakeholders, such as shareholders, customers, employees and local community (the values statement). Many organizations do have policies like these, but merge them into a single generic mission statement that contains elements of all three. These statements serve as both a guide and constraint on marketing planning. If the vision is to be the world's leading themed restaurant chain in ten years' time, then a marketing plan to develop a budget hotel chain, no matter how profitable it might seem, will be ruled out. Corporate values such as respect for the environment might rule out the development of a hotel resort close to an endangered reef. The pursuit of diversity in employment might favor the recruitment of indigenous populations to serve in front-office roles, interacting with Western business guests.

Business mission statements are succinct 'philosophical' statements, at most a page in length. The mission defines the purpose of a business, and the desired benefits that all the stakeholders should enjoy from the business.

Mission statements can be published in annual reports and displayed in prominent places for customers to view – for example, in reception and lobby areas. Mission statements are also given to new employees as part of their induction process. Smaller independent hospitality organizations are less likely to have a formal mission statement, although owners and managers may have a very clear vision of what they want their business to achieve.

The purpose of a mission statement is to enable top management to provide:

- A focus for the future direction of the company
- A link with the company's short- and medium-term objectives, and the long-term goals of the organization
- A tool for communicating top management's perception of the company's future with its various stakeholders.

A mission statement can include the following elements:

- 1 A definition of the broad scope of the business, the markets served, the products and services offered, and the distinctive benefits provided by the organization to its customers



Figure 15.1 Prêt à Manger's mission statement (source: Prêt à Manger)

- 2 A summary of the distinctive competencies the business has developed – for example, a service ethos (Marriott), quality (Savoy), product consistency (McDonald's)
- 3 A description of the desired market position *vis-à-vis* competitors
- 4 A clear statement about the company's values.

The Prêt à Manger mission statement emphasizes the company's environmental ethics and passion for fresh, healthy and natural food compared to their fast-food competitors (see Figure 15.1). Prêt à Manger's packaging emphasizes the natural ingredients provided by named suppliers, and their good environmental practices. This concise mission statement establishes the company's competitive position and clearly provides a strategic direction for future planning.

Activity 15.1

Log onto the following hotel websites and evaluate their mission statements using the criteria outlined above:

- www.ritzcarlton.com
- www.shangri-la.com

The proliferation of corporate mission statements, some of which are bland, lack originality and appear unconvincing, has prompted considerable criticism. Certainly, the development of a mission statement that does not reflect the company's historic values or its distinctive competencies, and which the employees clearly do not endorse, can be legitimately criticized. Meaningless 'motherhood' statements, providing solemn assurances of service and quality, are really faulty exercises in public relations, and do not convince employees or customers.

Situation audit – 'where are we now?'

An early step in writing a marketing plan for a hospitality company is to carry out research into the company, and its environment, to answer the question 'where are we now?' *Hospitality managers must try to be objective and rational about their company when evaluating the business's strengths and weaknesses.* Too often an emotional attachment to the business can influence owners and managers, who see the weaknesses identified by customers as being minor, irrelevant or even attractive, rather than the negative attributes they really are. Although managers normally prepare their own marketing plans, the use of outside consultants can bring impartiality to the marketing planning process. Ideally, the situation audit for a property should be written up as brief factual statements covering all the key aspects of the hospitality business. The two sections of the situation audit are the internal audit and the external audit, and the key issues are summarized in a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis.

Internal audit

The internal audit assesses all aspects of the hospitality unit's operations, with the aim of establishing what the business is doing well – the strengths – and which parts of the business are performing poorly – the weaknesses. Managers can usually identify their business's strengths and, more often than not, know their weaknesses; but the difficulty is recognizing the difference between the symptoms of a problem (for example, low food sales) and the cause of the problem (in this case, unpopular menu items, high prices, poor service, unappealing décor, or a combination of all of these factors). By identifying the causes of the problem, managers can plan action to correct the reasons for the poor performance and improve the offer to customers. Strengths and weakness can be identified in a rigorous way, first by vertical analysis (within business functions – finance, operations, marketing, human resources, for example) and then horizontally, by looking at cross-functional processes and issues such as leadership and culture.

Most medium and larger hospitality companies are composed of a number of strategic business units (SBUs), some of which will be in the early stages of development and some of which will be mature. Some will be heavy users of cash to build market share, others will be powerful generators of cash surpluses. A healthy, well-managed company will have a balanced portfolio of SBUs, and the internal audit should assess the health of the product-service portfolio. One tool that has been developed to help in this assessment is the Boston Consulting Group (BCG) matrix.

The BCG matrix is an analytical model based on a SBU's relative market share and the industry's market growth. The rate of market growth indicates the attractiveness of a market – higher-growth markets are usually more attractive than low-growth markets. Relative market share indicates the degree of dominance a SBU holds in its marketplace, and is the share of the company in comparison to the market leader.

		Relative market share	
		High	Low
Rate of market growth	High	'Star' Cash generated: +++ Cash used: --- Balance: 0	'Question mark' Cash generated: + Cash used: --- Balance: --
	Low	'Cash cow' Cash generated: +++ Cash used: - Balance: ++	'Dog' Cash generated: + Cash used: - Balance: 0

Figure 15.2 BCG portfolio analysis – cash generated and cash used (source: McDonald, 1999, p. 185)

For example, if Company X (the market leader) has a 20 percent market share and Company Y has 5 percent, then Y's relative market share is 0.25. The combination of these factors provides companies with a tool to evaluate possible strategic directions and, most importantly from a marketing planning perspective, to calculate the cash generation and cash usage of each SBU. This model's four quadrants have been labeled as follows, according to the characteristics of the SBU's performance (see Figure 15.2):

- 1 *Star* (high market growth/high relative market share). A star is a hospitality brand that has a relatively high share of a high-growth market. The company will need to reinvest the cash generated from this SBU in order to roll out the brand by acquiring/building additional outlets and to maintain its position. All the cash generated by this SBU is used within it.
- 2 *Cash cow* (low market growth/high relative market share). Cash cows operate in mature markets with low growth rates and high relative market share. They generate cash and high profits, because of their economies of scale and low marketing costs. The profits generated are reinvested by the parent company to fund the development of the next category – question marks.
- 3 *Question mark* (high market growth/low relative market share). Question marks operate in high growth markets, but suffer from a relatively low market share. Most new products start out as question marks. They have a low relative share of a growing market. Companies may develop many new product ideas, and those that are retained require significant marketing support and therefore use more cash than they generate. If they succeed, they can eventually turn into stars and ultimately into cash cows, to support additional innovation.

- 4 *Dog* (low market growth/low relative market share). Dogs operate in mature markets and have low relative market share. These businesses have to be tightly managed to ensure that they do not become a liability. Dogs can be cash-neutral; but if they start to make a loss they need to be disposed of quickly. Dogs are rarely able to generate the profits and growth expected by major companies. Whilst it does not generate sufficient return for its current owners, in the hands of new owners (who might have different performance measures) a dog may make a satisfactory return.

Marketing planners strive to achieve a balanced portfolio of SBUs with sufficient cash cows to generate profits to satisfy shareholders and fund investment in question marks. The disposal of dogs is essential to avoid them becoming a financial and time-consuming drain on the resources of the company.

The BCG model has been criticized because of its narrow focus in only using two factors to assess cash generation and use. The fragmented nature of the hospitality industry also creates market definition problems, and trying to establish the rates of market growth and accurate market share figures is not always easy. *Although the BCG has limited practical use, the language of question marks, stars, cash cows and dogs is used in business, and the principles of cash generation and cash usage are helpful in understanding a multi-product portfolio.*

Marketers writing a group or divisional plan also have to compile information on strengths and weaknesses, based on collecting data from the group's operational units. A key issue for head office marketers is delivering a consistent quality standard across hotels marketed under the same brand. A particular difficulty is when hotels under a single brand are a mix of owned, contracted and franchised units. The group marketing plan will also need to address the effectiveness of group sales and marketing activities in creating brand image and raising brand awareness, as well as building long-term relationships with key account customers and intermediaries.

External audit

Remember, the external environment includes all the factors over which the company has no control. The purpose of an external audit is to identify potential opportunities that might be exploited by the firm, and any threats that might damage the business. The external factors are applicable to all companies operating in the same competitor set. The external influences impacting on a company can be classified under two headings: the macro-environment and the micro-environment.

The macro-environment The macro-environment includes major regional, national and global trends influencing business and society in broad general terms. Earlier in this book reference was made to these PESTE factors, which obviously influence the demand and supply of hospitality services. The macro-environment analysis evaluates current and future PESTE factors to enable the hospitality business to adapt its operations to changes in the needs and wants of customers, and changes in trading conditions.

The micro-environment Broad trends in the micro-environment influence all the players. A hospitality company's micro-environment includes external stakeholders and, most importantly, customers, competitors and suppliers. There is no doubt that local or regional influences in the micro-environment can seriously impact upon a firm's trading situation.

Summary

Although the situational audit requires considerable in-depth research and the accumulation of extensive data about the company, only a summary of the audit needs to be presented in the marketing plan. The situational audit, with commentary, focuses on the key factors influencing the current and future performance of the company. Appendices containing more detailed analysis – for example, the customer analysis, changes in consumer behavior, competitor analysis – can be included. A thorough understanding of ‘where we are now’ forms the basis of effective marketing planning, and this is the function of the situational audit. Table 15.1

Table 15.1 Extract from Hotel SWOT Analysis

	<i>Strengths (internal)</i>	<i>Weaknesses (internal)</i>
Positioning	Brand image rating increased by 3% over key competitor according to independent research	Brand image suffers due to lack of consistency, caused by wide variety of standards in group's units
Location	Most convenient access to motorway network	Problems of noise from passing traffic
Product	Recently refurbished bedroom décor is superior to competitors	Standard bedrooms are smaller than those of two newly-built competitors
Price	Customer questionnaires suggest very high 'value for money' ratings	Leisure-break family inclusive price 10% higher than competitors
Distribution	Continued investment in CRS has ensured quicker response times to enquiries	Conference agents' high commission levels eroding profitability on conference bookings
Marketing communication	Recent advertising and public relations campaign has raised brand awareness by 5% compared to competitor set	Standard hotel brochure format dated compared to new competitors' brochures
People	Key heads of department have worked at the unit for 15+ years	High turnover of housekeeping staff is preventing effective staff training
Processes	Improved check-in/check-out at front desk, according to mystery shopper analysis	Banqueting suite does not have adequate hot food storage facilities
Physical evidence	Excellent landscaping and lighting, and prominent signage on major road	Kitchen waste storage and bin area always untidy
Customer satisfaction	High (and increased) level of repeat business travelers staying compared to two years ago	Customer questionnaires identify problems of inconsistent standards of housekeeping

Table 15.1 (Continued)

	<i>Strengths (internal)</i>	<i>Weaknesses (internal)</i>
Key relationships	Sales manager has successfully built close relationships with three key intermediaries in the conference market	Lost one key account due to inconsistent housekeeping standards, and not price-competitive
	<i>Opportunities (external)</i>	<i>Threats (external)</i>
Political	Changes in licensing law will increase family market for Sunday eating out	Changes in health and safety legislation means that kitchen equipment specifications will have to be adapted
Economic	Increased consumer disposable income will generate more demand for leisure breaks	High exchange rate makes cost of foreign holidays relatively cheaper and negatively influences demand for domestic holidays
Socio-cultural	Demand for vegetarian meals is growing due to increased public concern about animal rights	Sophisticated consumers are bored with hotel restaurants
Technological	Growth of Internet and e-commerce provides opportunity to promote leisure breaks on the Internet	Business travel agents directing web links to corporate client's intranet is eroding customer loyalty to hotels
Environmental	Concern for environmental issues means consumers will value biodegradable packaging for takeaway food	Concern about air pollution might discourage tourists from staying in city center locations

illustrates some of the key SWOT data that can emerge from a situation analysis. In this illustration, the internal audit data reflect only the strengths and weaknesses of the marketing function.

The situation audit helps to identify *critical success factors* (also called *key factors for success*), which are company-specific (see Chapter 4).

Objectives – ‘where do we want to go?’

Having conducted the ‘where are we now?’ audit, the next step in this generic marketing planning process is to set objectives. Objectives are statements that translate the hospitality company’s mission into easily understood goals regarding markets and products, sales, occupancy, and the marketing mix.

Table 15.2 SMART Marketing Objectives

<i>SMART strategic objectives (3–5 years)</i>	<i>SMART tactical objectives (within 1 year)</i>
To increase sales from Eu165 million in the current year to Eu280 million in Year 3	To increase room occupancy from 69% to 70% within 12 months
To acquire 20 upscale, 100-bedroom properties in target European city center locations within 4 years	To acquire 4 upscale properties, with bedrooms ranging from 80 to 130, in Barcelona, Manchester, Prague and Stuttgart within 12 months
To develop a new food and beverage lifestyle concept suitable for residents and non-residents within 2 years	To test-market a new food and beverage lifestyle concept in Sydney between March and September next year
To introduce a 100 percent satisfaction guarantee or money back policy within 5 years	To increase bookings generated through the website by 25% in the next 12 months
To increase brand awareness amongst European conference agents from a current level of 55% to 60%, in the BDRC European Business Travel survey, within 3 years	

Objectives provide answers to the question ‘where do we want to go?’ Objective setting is an essential step in the marketing planning process. Companies that do not have objectives fail to provide managers and employees with a clear direction. Objectives should be Specific, Measurable, Achievable, Realistic, and carried out within a set Timetable (SMART). SMART objectives provide managers with operational targets that measure the performance of the business and act as a control mechanism in determining whether management is effective. Examples of strategic and tactical hospitality marketing objectives are provided in Table 15.2.

SMART objectives are formed using quantifiable measures like money, percentages, and numbers. The timetable can either refer to the time period during which the target should be achieved (‘to achieve £1m sales within the next twelve-month trading period’) or to the date by which a target should be achieved (‘to achieve a Michelin star for the restaurant by June 2005’).

Marketing objectives will vary across the customer relationship from pre-encounter, through encounter to post-encounter. Managers need to think carefully about what is relevant for each stage.

- Pre-encounter objectives focus on achievements such as: raising awareness, generating understanding and knowledge, creating expectations, building interest, and stimulating first purchase
- Encounter objectives focus on generating customer satisfaction, influencing the level of spending, cross-selling, and up-selling
- Post-encounter objectives focus on building repeat purchase intention, growing share of spend, and promoting positive word-of-mouth.

Marketing planning in lifestyle and growth businesses

Marketing objectives will also vary according to whether the business is a lifestyle business that has no wish to grow, or a business with ambitious owners or investors who want to see the value of their investment increase. Lifestyle entrepreneurs are content to see their restaurants busy with regular customers, their staff happy and secure, and enough money coming in to pay the mortgage. Growth-oriented business people are more likely to set ambitious 'stretch' targets that, if achieved, will see the market value or capitalization of their business improve. Two tools enable the growth-oriented business to develop clear objectives and strategies: gap analysis and the Ansoff matrix.

Gap analysis

Gap analysis is an extension of the 'where are we now?' investigation. Company records should tell the marketer the level of sales achieved in the past and those currently being achieved. An examination of the SWOT conditions should give a good idea of what will happen to sales in the future if the identified threats and opportunities do actually impact on the business, and if the company continues to pursue the same strategies. Very often companies find there is a 'gap' between where they want to be in terms of sales objectives, and where a forecast based on the SWOT analysis tells them they will be. Gap analysis is the art and science of computing the size of the gap. For example, a parent company of a budget lodging company could set a divisional objective of increasing room revenues from \$175m to \$300m within three years. The forecast shows that in three years' time sales will be \$200m if the present marketing strategy is pursued. There is therefore a gap of \$100m (\$300m objective less \$200m forecast) that has to be filled through additional revenue generation activity (see Figure 15.3). The four alternative strategies for filling the 'gap' were developed into a matrix by H. Igor Ansoff.

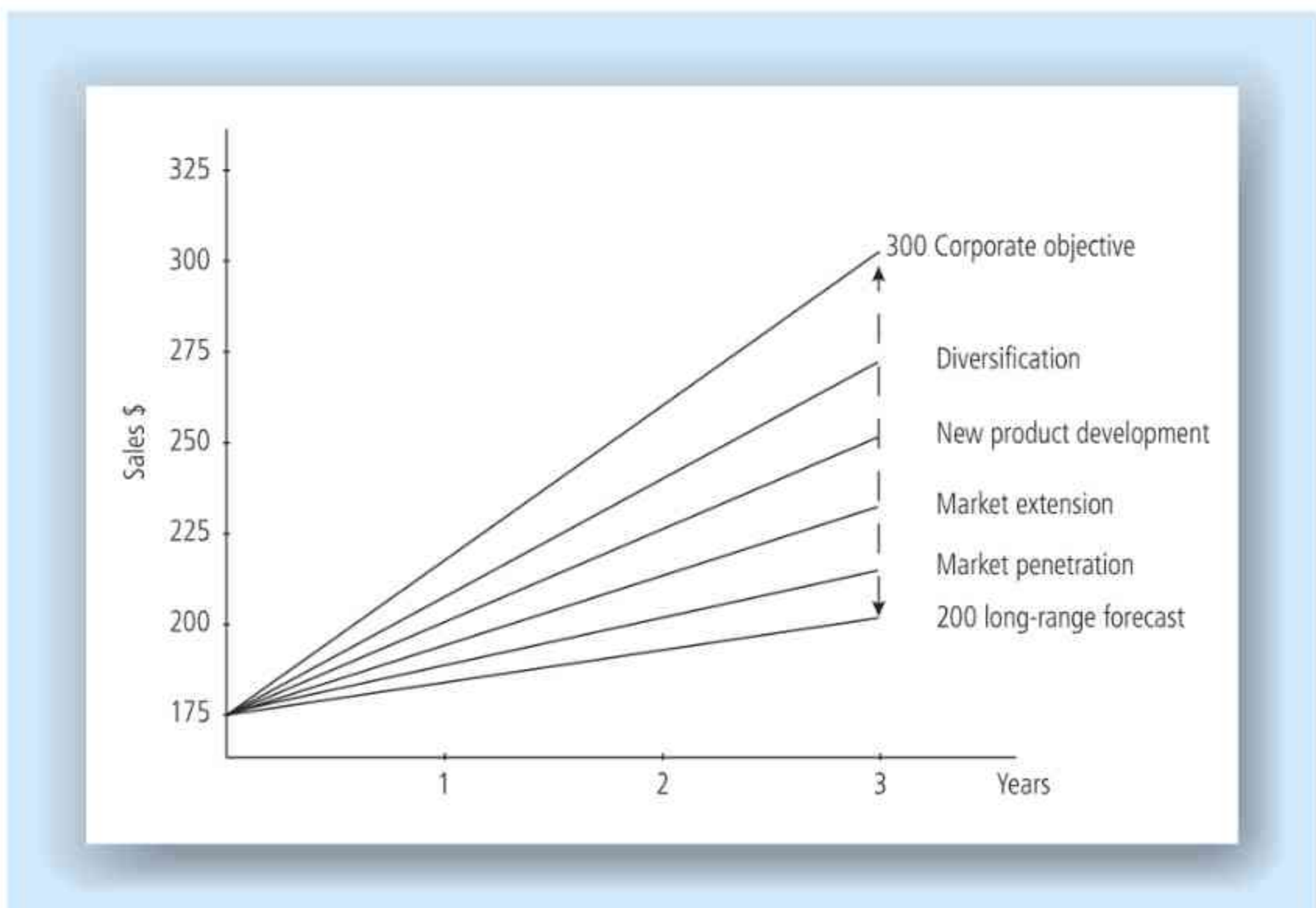


Figure 15.3 Gap analysis (source: McDonald, 1999)

The Ansoff matrix

Ansoff's four strategic options to bridge the revenue gap are:

- 1 Market penetration
- 2 Market extension
- 3 Product development
- 4 Diversification.

Using each of the Ansoff strategies, where appropriate, a company might be able to bridge the sales gaps, but still not reach the objective. If this were to happen then the company would have to re-evaluate the objectives and perhaps set a revised, lower objective.

A similar approach to sales gap analysis can be used to bridge 'profit' gaps. This approach includes an additional 'operational' strategy, improving productivity. The operations gap includes strategies to reduce costs, improve the sales mix, increase prices, and improve profitability by improving productivity.

Ansoff's four growth options are discussed here.

Market penetration strategy – existing markets/existing products This strategy is based on the premise that the target markets are satisfied with the existing offer. A market penetration strategy aims to grow the business by increasing sales of the current offer(s) to current target markets. There are three ways to increase sales to existing markets. The first is to increase the frequency with which customers patronize the establishment (i.e. increasing repeat visits), increase customers' spend (i.e. increasing achieved room and meal rates) or, ideally, both. Another method is to attract your competitors' customers. The third route is to grow the market by convincing non-users to buy the product (Figure 15.4). Examples of strategies and tactics used for market penetration include:

- Brand loyalty and frequent stay programs
- Staff training to 'sell up'
- Sales promotions
- In-house marketing activity
- Advertising and direct mail campaigns targeting ex-customers
- PR events for regular customers.

Providing that the market is not changing rapidly and the company is satisfied with profitability, a market penetration strategy is the safest and least risky strategy to adopt.

The danger of relying on a market penetration strategy stems from the problems caused by dynamic changing market conditions, which can change customers' needs and wants and influence competitor activity, thus eroding a company's position.

Market extension or development – new markets/existing products A market extension strategy features the roll out of existing product-service offers in new markets. In hospitality there are different approaches to market extension, depending upon whether the strategy is focused on growth within existing units or on expanding the number of premises in the group. In existing units, market extension refers to promoting the existing property to new target markets. Most hospitality businesses will target the same primary markets each year, but secondary target markets can change in line with changing market trends. These secondary target markets represent

		Products	
		Existing	New
Markets	Existing	<p>Market penetration or concentration (same markets/same products)</p> <p>Increase market share by:</p> <p>(a) Increase frequency and spend from existing customers (improve internal marketing; brand loyalty programs; frequent-stay promotions; in-house product/price bundles)</p> <p>(b) Attract competitors' customers (promote special offers, raise brand image/brand awareness)</p> <p>(c) Convince non-users to buy products (educate market by informing non-users of the product benefits)</p>	<p>Product development (same markets/new products)</p> <p>Introduce product improvement programs by:</p> <p>(a) Replacement and refurbishment of rooms, food and beverage, and leisure facilities – targeting existing customers</p> <p>(b) Introduction of new technology to improve service quality</p> <p>Introduce product extensions by:</p> <p>(a) Development of new menu items aimed at existing customers</p>
	New	<p>Market extension or development (new market/same product)</p> <p>(a) Target new customers: Identify new target markets and develop marketing communication program to promote existing product, e.g. early-bird diners</p> <p>(b) Target similar customers in different geographic areas: Identify geographic areas with similar demographic profile and roll out existing product</p> <p>(c) Use new distribution channels to reach new markets: e.g. work with intermediaries on joint-marketing initiatives</p>	<p>Diversification and innovation (new market/new product)</p> <p>(a) Intensive (inside the existing firm) Innovative, new bar and food concepts aimed at new target markets, e.g. new leisure center at hotel targeting new local customers</p> <p>(b) Extensive diversification (outside existing firm)</p> <p>Vertical integration (i) Forward (ii) Backward</p> <p>Diversification (i) Horizontal (ii) Concentrated (related) (iii) Conglomerate (non-related)</p>

Figure 15.4 Ansoff or market/product mix

new markets for which the existing product is suitable. Imaginative product/benefit bundles targeting new market segments can highlight the benefits of the company's products. A typical restaurant example is a competitively priced, all-inclusive meal promotion aimed at attracting 'early-bird' diners.

Another approach to market development that is particularly relevant to retail hospitality chains is geographic expansion using existing product concepts. There are numerous examples in hospitality of hotel and restaurant brands seeking to expand by rolling out new-build units. Since the product concept is proven, the key issue in expanding geographically is to ensure that the characteristics of the new target market are similar to those of existing successful markets. Hospitality companies also expand geographically by acquisition, which can be riskier, since the newly acquired properties may not conform to the requirements of the branded hospitality chain.

Yet another approach to market development is to reach new markets via extensions of the distribution channel. Joint marketing initiatives with intermediaries who have access to new markets can be effective. For example, an independent hotel can participate in an established leisure break program, like Superbreaks in the UK, and attract new markets by distribution through the travel trade.

Product development – existing markets/new products Ansoff's product development strategy features enhancement of the product-service offers made to existing customers. Managers in hospitality operations are constantly looking for ways to increase customer satisfaction by improving the product offer. Product development strategies and tactics for existing customer markets include:

- Refurbishment programs to existing operations
- Introduction of new menus
- Introduction of new technology to improve the service operations
- New bar/food concepts aimed at existing customer markets.

Most 'new' product developments in hospitality operations are evolutionary rather than revolutionary. They are product improvements and product modifications, rather than radical new product-service concepts. Many new products are actually line extensions. For example, a new menu item may have been copied from a competitor, because it supplements a company's existing menu. The launch of new products primarily aimed at existing customer markets might also attract new customer groups. Providing the existing markets are profitable markets, product development is a proven strategy to retain customer loyalty.

Diversification – new markets/new products The diversification strategy focuses on creating new product-service offers for new target customers. This is the riskiest growth strategy, since the company has no existing customer or product knowledge to exploit. Diversification within hospitality units is described as intensive diversification, meaning that new products are offered inside the existing unit. For example, intensive diversification might involve the building of a new facility on the premises, designed to attract new markets. Examples of intensive diversification in an existing hotel might include:

- A new restaurant concept aimed at new target markets (e.g. non-resident customers)
- A new bar targeting new markets (e.g. non-resident customers)
- A new leisure complex aimed at people living in the local neighborhood
- New banqueting/conference and exhibition facilities aimed at new target markets.

Diversification outside the scope of the existing firm is described as extensive, and can take many different forms:

- *Vertical backward integration* means acquiring suppliers – for example, a contract catering firm taking over food distributors
- *Vertical forward integration* involves acquiring intermediaries who have a direct relationship with customers – for example, hotel companies acquiring tour operators, and tour operators acquiring travel agents
- *Horizontal diversification* is the acquisition of a competitor operating in the same market – for example, a mid-market hotel chain taking over another mid-market hotel chain
- *Concentric diversification* is the acquisition or start-up of companies that exploit the hospitality company's core competencies – for example, Haley's Hotel & Restaurant in Leeds started up a delicatessen using its kitchen brigade's skills
- *Conglomerate diversification* is diversification into an unrelated area – for example, builders buying hotels.

The Ansoff matrix enables marketers to evaluate systematically the growth options facing the company. When management has decided which market/product options to pursue, then detailed marketing mix strategies have to be developed to achieve the market/product objectives. For example, in competitive hospitality sectors companies strive to obtain competitive advantage by constantly investing in product development and continually improving the offer to customers. Once this strategy has been decided, the detail of the new product development strategies needs to be considered.

Segmentation, targeting and positioning (STP)

Having set objectives, the next step of this generic marketing planning process is to make the core strategic decisions about how to segment the market, which customer segments to target, and how to position effectively against competitors in the same market. These issues have been addressed in earlier chapters, but it is worth stressing a few points here:

- Market segmentation involves dividing up the market into homogeneous subsets so that marketing strategies and tactics can be developed for one or more segments
- Companies that are innovative in the way they segment a market can enjoy first-mover advantage as they exploit opportunities that have not been recognized by competitors
- Companies can choose to focus on one or more market segments, depending upon the attractiveness of the opportunities and the competencies of the company
- Market positioning is concerned with selecting a competitive position in the market and determining how to compete effectively in that position; for most hospitality sectors, this means choosing a competitive group and identifying how to generate sales to customers.

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

Activity 15.2

Log on to the Whitbread website (www.whitbread.co.uk), and at the home page click on 'For Students'. Whitbread provides general information for students about its company history, corporate vision, corporate objectives and strategies.

- Review the data within the context of marketing planning activities, corporate vision and core growth strategies, and markets targeted, as discussed in this chapter.

Marketing mix – 'how do we get there?'

Marketing strategies and marketing tactics are marketing mix decisions made by managers to achieve agreed marketing objectives. Strategies and tactics are deployed to ensure that the company wins sales from the targeted customers (target market segments) against the identified competitors (market positioning).

Marketing mixes for both strategies and tactics will vary according to the stage of the customer relationship – pre-encounter, encounter or post-encounter. Table 15.3 provides a useful framework that can be used to construct appropriate marketing mixes. The eight elements of the hospitality marketing mix are listed vertically and the three relationship stages are listed horizontally. The check marks within the cells indicate the marketing mix elements that are more widely deployed at each stage of the relationship.

Throughout this text we have explained what the responsibility of the marketing team is, and how marketing needs to work with other departments to ensure the marketing offer is consistent and effective. [The marketing team plays a major role in pre-encounter marketing to manage demand for the hospitality offer; and in post-encounter marketing to build customer relationships and generate repeat and recommended sales.](#) During the encounter, although marketing should provide input into the physical environment, service process and internal marketing, the primary responsibilities lie with operations and the human resource functions.

Table 15.3 The Hospitality Marketing Mix Matrix

	<i>Pre-encounter marketing mix</i>	<i>Encounter marketing mix</i>	<i>Post-encounter marketing mix</i>
Product/service offer	✓	✓	
Location	✓	✓	
Price	✓	✓	
Distribution	✓		
Marketing communications	✓	✓	✓
Physical environment	✓	✓	
Process	✓	✓	✓
People		✓	

Table 15.4 Accommodation Strategies

<i>Strategy 1 – Lower occupancy/higher achieved room rate</i>	<i>Strategy 2 – higher occupancy/lower achieved room rate</i>
200 rooms at 50% annual room occupancy and an achieved room rate of £273.90 = £10 million	200 rooms at 80% annual room occupancy and an achieved room rate of £172.23 = £10 million

There are two different approaches to constructing the marketing mix part of a marketing plan. In one approach the strategy for each element of the marketing mix in the unit is discussed in turn – for example, the product strategy, the price strategy, the distribution strategy, the marketing communications strategy. In another approach the marketing mix for each functional area of the unit is considered – for example, the marketing mix for the accommodation, the marketing mix for the restaurant operations, the marketing mix for the conference facilities. Either approach is acceptable.

Strategies and tactics need to be developed for each element of the marketing mix, but marketers must ensure that each strategy complements the other marketing mix strategies – inconsistencies between marketing mix strategies will send the target markets mixed messages, and will inevitably be self-defeating.

Just as there is a choice of different marketing *objectives*, so there can also be a choice of different marketing *strategies* that can achieve the same objective. For example, if an annual accommodation sales objective of £10 million has been set for a 200-bedroom hotel, there are different room occupancy strategies and different achieved room rate strategies that can achieve that sales objective (see Table 15.4).

Unit and departmental marketing plans will normally include the detailed tactics that support the broad strategy. These will include events and campaigns that are scheduled for the year ahead. Sales and marketing personnel implement these tactical plans, which typically include answers to the following questions:

- What action is going to be undertaken? (detailed list of events and campaigns)
- What is the event or campaign designed to achieve? (SMART objectives)
- Where will the actions take place? (locations, units, departments)
- When will the action take place? (timetable)
- How much will it cost? (budget)
- Who will run the events and campaigns? (responsibility and authority).

Table 15.5 illustrates the chart for a tactical marketing plan.

Budgeting

Marketing is not free, and companies need to create a budget for the implementation of their strategic and tactical marketing plans. Budgets include two classes of data: forecast revenues and costs. Revenues are generated by departmental sales (rooms division, food and beverage, entertainment, shops and so on), and these appear as forecasts on the top line of an income statement. The marketing plan needs to identify and quantify the cost elements that will be incurred in reaching the revenue targets. Not all cost elements are regarded as marketing costs – for example, food and

role in it. Chapter 12 emphasized the importance of effective employee/management communications. Involving employees in the preparation of the marketing plan provides a good opportunity to facilitate that communication process. Hospitality employees can – indeed they should – be involved in the situation audit. The employees can provide useful insights into how customers view the facilities and service, and often know the strengths and weaknesses of an operation better than management. Also, employees are very aware of competitors. They may have worked for the competition or have friends working in competitor organizations, or even patronize competitors' food and beverage outlets. Finally, customer-contact employees need to be aware of what is happening during the implementation of events and campaigns, in case customers ask them any questions.

Marketing insight

The Importance of Communicating Marketing Campaigns to Customer-contact Employees

Research revealed that front-desk employees in many group-owned British hotels were not aware of the details of their own company's loyalty scheme (Abram Hawkes plc and ICLP plc, 1998). Clearly, a requirement of the successful promotion of an in-house loyalty program is that front-desk staff should know the details of what they are meant to be selling. The same principle applies to food and beverage staff who have to implement marketing action plans in the restaurants and bars.

External persons and organizations may also need to be educated about their role in the plan's execution – for example, intermediaries, consortium partners, franchisees, management contractors, independent sales representatives, and advertising and public relations agencies. Management also needs to communicate their strategic marketing plans effectively to other stakeholders, especially banks and any institutional shareholders.

Controls – 'how do we know we are getting there?'

The penultimate stage of this generic marketing planning process is to design a system to monitor and control the plan's implementation. The key concerns here are to ensure that there is no unacceptable variance between the plan's revenue targets and anticipated costs, and those that are actually achieved. Control mechanisms are therefore mostly concerned with tactical implementations. Unfortunately, there is no such thing as a perfect marketing plan! External events beyond the marketer's control can have a major impact on both revenues and costs – for example, governments may alter their tax regime, resulting in lower consumer disposable income and reduced expenditure on leisure products; suppliers may increase prices, resulting in higher costs. Internal conditions can also influence performance against plan: key employees might leave the company, or there might be publicity about a company's failure of a kitchen hygiene inspection. **Controls are necessary to detect, correct and prevent unacceptable variances from the plan's objectives and cost profile.** The key to control is setting SMART objectives. Without SMART objectives, managers have nothing against which to compare performance. There are five stages in

the control process:

- 1 Set SMART objectives
- 2 Establish a reporting process to keep management informed of progress against targets
- 3 Monitor performance
- 4 Identify significant variations from target
- 5 Take corrective action.

Control measures can include financial performance – sales, achieved room rate, occupancy and yield; customer mix ratios; changes in market share; changes in brand awareness and brand image; number of enquiries generated and number of hits on the website; number of bookings (the conversion ratio from enquiries to bookings); changes in the customer satisfaction index.

Providing the objectives are SMART, then variance from the plan can easily be detected when it occurs. Marketing managers need to establish whether variance is minor or major, and whether it affects one market segment or all markets. If the variance is a minor underperformance for a short period in one market segment – say weekend leisure breaks in the North, in January and February, due to poor weather – then it might be tolerated. If it is significant and affects all markets, then urgent action needs to be taken. Appropriate actions might include adapting the tactics, revisiting the strategy or, in extreme circumstances, changing the SMART objectives if they are no longer realistic. Overperformance against plan can also be problematic. This happens when there is too much demand on a property. For example, a hotel might have a commitment to a tour operator for a season of bookings, but changes in the exchange rate have made the location more popular than forecast. This could result in an overbooking situation on a regular basis, and lead to difficulties.

Figure 15.5 summarizes the marketing plan.

Contingency planning

Although the generic marketing planning process described above is founded upon a rigorous SWOT analysis, many companies also develop contingency plans. Contingency planning recognizes that the key assumptions upon which the marketing plan is formulated may be incorrect, and contingency plans are formulated on ‘what if?’ scenarios – for example, what if our major intermediary is acquired by a competitor? What if a major tour operator customer that has booked a block of rooms ceases trading? Only the major risks are considered in contingency planning.

Contingency planning has become more important as a result of dramatic events that have had a serious impact on hospitality companies. Health scares caused by epidemics such as SARS and foot and mouth, and terrorist activities like the attacks on American cities on 11 September 2001, temporarily destroy demand for hospitality and tourism in all markets (see Case study 15.1). In these circumstances, public health and safety are the most important issues, and price does not influence demand. Hospitality companies respond to these crises by reducing costs as far as possible – especially pay-roll costs. As consumer confidence gradually returns, companies re-ignite their marketing activity to encourage customers to return, often using price-led promotions. The strategic marketing plan should always include a budget item for contingencies. This provides funds to enable the company to take advantage of an unforeseen opportunity, or to respond to a downturn in demand by increasing marketing activity.

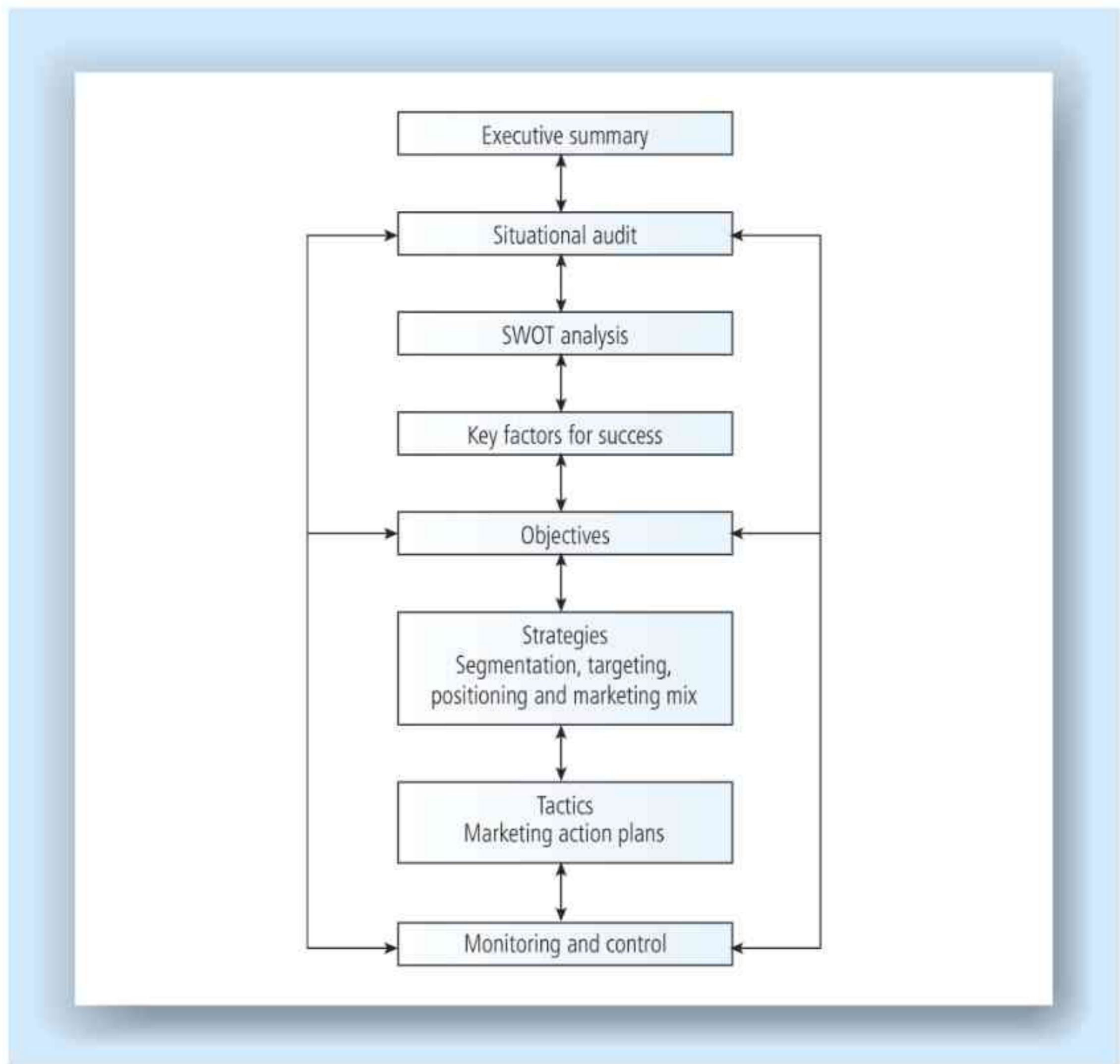


Figure 15.5 The marketing plan (source: McDonald, 1999)

Case study

15.1 Kowloon Shangri-La, Hong Kong

The war in Iraq and the outbreak of SARS caused the high-tariff hotels in Hong Kong to experience a drop in occupancy to 14 percent in April 2003 as travelers avoided flying in the region (Chan, 2003). Restaurants suffered a similar fall in business, as local people were unwilling to meet in crowded places. The Kowloon Shangri-La responded to the crisis by accelerating its refurbishment program whilst the bedrooms and public areas were not busy. The redecorating and 're-imaging' program was brought forward and completed by September. A letter was sent to regular customers explaining the situation, providing reassurance about the stringent hygiene precautions in the hotel (nobody connected to the Kowloon Shangri-La contracted SARS), and looking forward to welcoming them back soon.

Evaluation – ‘how do we know we have arrived?’

This is the final step of the generic marketing planning process. Shortly after the conclusion of a planning period, event or campaign, the marketing team needs to evaluate results. The comparison of actual performance with the SMART objectives across all the areas of the business, with a commentary explaining the reasons why, provides useful information for the preparation of the next marketing plan. Companies repeat the successfully tried and tested tactics of previous years, and aim to learn from less-effective activities. Indeed, marketing is a continuous activity. The cycle of forward-planning the next campaign whilst implementing the current marketing action plan and evaluating recent activity is carried out simultaneously.

Criticisms of marketing planning

Critics of marketing planning claim that the uncertainty of the future makes long-term planning unreliable and costly, and that marketing strategies should emerge as a management reaction to changes in the environment. Clearly, a strategic marketing plan can be completely undermined when disease, terrorism or war suddenly break out. However, the planning methods and tools we cite here can be helpful because they provide a framework for organizing marketing activity on a regular basis. Other critics of formalized marketing planning portray examples of successful entrepreneurs (such as Richard Branson, of the Virgin Group) who use their flair, intuition and vision in building dynamic businesses, and suggest that marketing is all about spontaneous ideas. However, companies cannot rely upon spontaneous thinking to solve all their problems, and the marketing planning process can allow opportunities for creativity and flexibility, via contingency planning, within a systematic framework. A valid criticism of organizational planning is the focus on financial matters. Although companies pay lip service to the concept of a customer orientation, the reality is that budgeting, with its emphasis on sales generation, cost control and profit engineering, is dominant in the hospitality industry – and the influence of marketing always seems to be subordinate to financial imperatives.

Conclusion

Marketing planning provides hospitality companies with a structured approach to planning for the future. Although the future is uncertain, environmental trends can be identified and their impact on the hospitality company can be consequently evaluated. Although marketing planning has its critics, primarily because it can be a costly, time-consuming, bureaucratic process, there is little doubt that such planning in any organization improves the chances of survival and success. However, marketing planning alone cannot be a guarantee of success.

In this chapter, we have explained:

- The contexts within which marketing plans are constructed – corporate, division, unit and department
- Two different types of marketing plan – strategic and tactical; strategic marketing planning typically takes a three- to five-year timeframe; whilst tactical planning covers a twelve-month period or less
- A generic marketing planning process comprising nine stages – setting vision, mission, values; situational analysis; establishing objectives; performing market segmentation, targeting and positioning; developing marketing mixes; creating a budget; organizing the plan's implementation; setting controls; and evaluation of the plan's performance
- That objectives should be Specific, Measurable, Achievable, Realistic, and carried out within a set Timetable (SMART)
- That contingency planning provides an alternative in the event of a major deviation from plan
- The key tools in strategic marketing planning, which include the BCG matrix, SWOT analysis, PESTE analysis, gap analysis and the Ansoff matrix
- Why marketing planning has been criticized as being bureaucratic and pointless, given the unpredictability of the future
- That marketing planning provides a structured approach to organizing marketing activity.

Review questions

Now check your understanding by answering the following questions:

- 1 Discuss the role of marketing planning in hospitality organizations
- 2 Explain the strategic marketing plan process, illustrating your answer with examples from the hospitality industry
- 3 Explain why control is important in marketing planning.

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