
Chapter 3

Understanding and segmenting customers

Chapter Objectives

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

- Understand the core concepts of hospitality consumer, and organizational customers', behavior
- Discuss the role of customer expectations
- Identify the factors that influence the hospitality consumer buyer decision-making process
- Explain the principles of segmenting demand in hospitality markets
- Describe hospitality segmentation variables
- Evaluate the characteristics of hospitality target markets.

Introduction

In this chapter we will review the complex topics of consumer behavior and customer expectations, and then explore the principles and practice of market segmentation and target marketing. Segmentation and targeting are based on two simple facts. First, hospitality consumers are enormously varied in their expectations and requirements. Nonetheless, we can identify subsets of hospitality customers who broadly share similar needs and wants. Secondly, by identifying customers with similar needs and wants, we can design and brand our services in a way that will deliver better customer satisfaction to the targeted customers, and compete more effectively against our competitors.

Consumer behavior

In Chapter 1 we established that marketers manage demand. Demand is a form of behavior. So marketers study consumer behavior to try to understand and predict what customers will buy, how, and why. Marketers need to understand the *process* consumers go through in buying and consuming hospitality products. If we can understand who buys which hospitality products where, when and why, then the probability of success in striving to influence that demand will be enhanced. **By understanding and meeting customer expectations, companies can better deliver customer satisfaction.** Research into this subject area is broadly termed *consumer behavior*. Extensive research has been conducted into consumer behavior in a wide range of social science disciplines, including psychology, social psychology, sociology, anthropology, philosophy, economics and marketing. Each discipline takes a different perspective in seeking to understand consumer behavior.

We will now discuss the influences on consumer behavior and the hospitality buyer decision-making process.

Influences on consumer buyer behavior

The amount of disposable income consumers have to spend varies according to environmental conditions. When countries are at peace, economies are growing and there are many employment opportunities, consumers are more optimistic about the future. These factors create the conditions where consumers can enjoy real increases in disposable income. Consumer confidence is higher, and they are likely to spend more on hospitality products. In developed countries, consumer confidence is tracked on a regular basis to measure the 'feel-good' factor. In market economies, consumers have choice – they can choose to spend their disposable income as they want. In this sense, hospitality competes against other consumer purchases for the consumers' disposable income. A young, newly married couple may have to choose between buying items for their home or going on holiday.

Naturally, individual consumers will choose to buy different products for different reasons at different times. Researchers are very interested in consumer purchase behavior, and carry out research to identify the major influences. These influences on individual consumer buyer behavior can be categorized under three broad headings: socio-cultural influences, individual differences, and contextual circumstances.

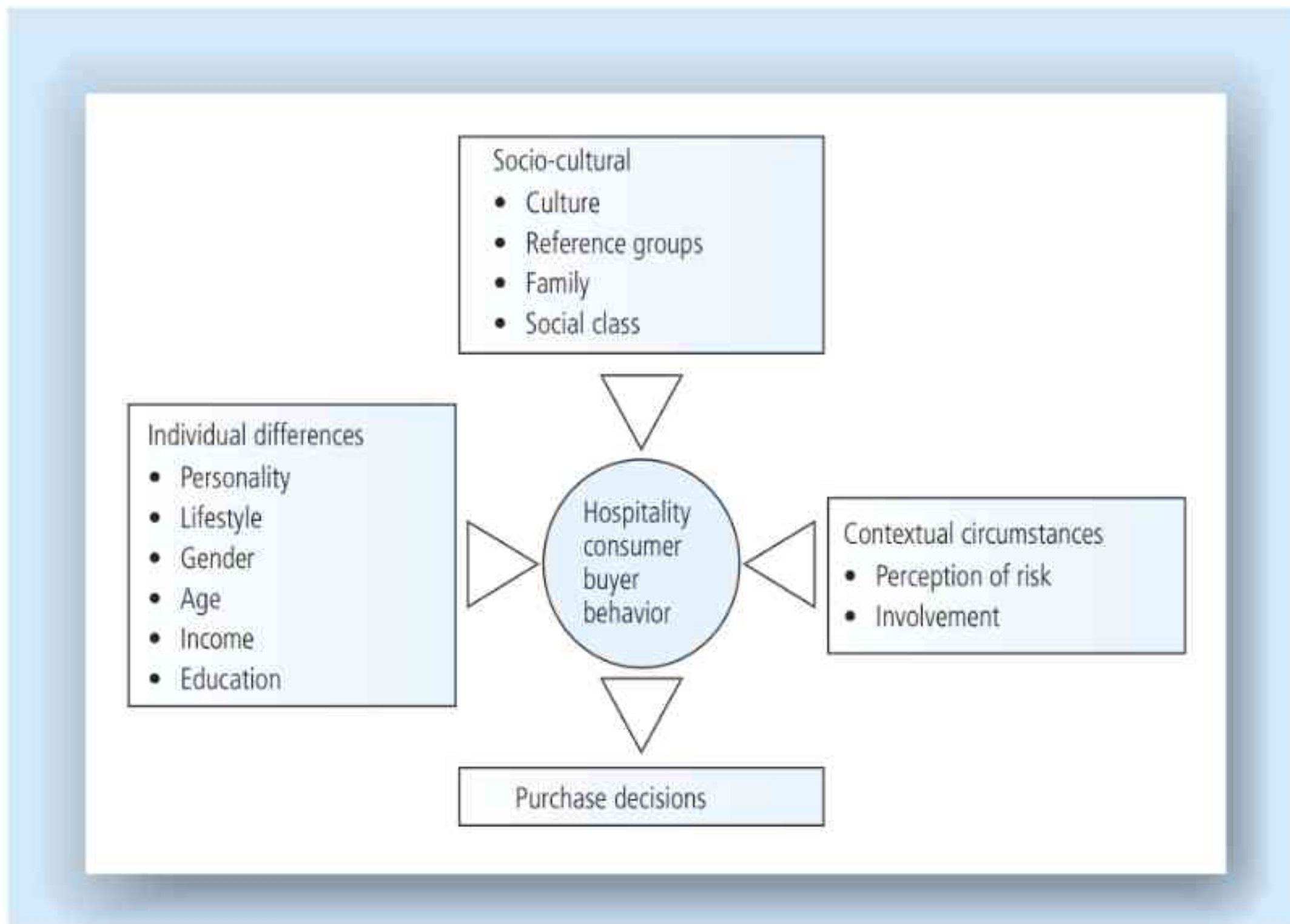


Figure 3.1 Influences on individual hospitality consumers

Socio-cultural influences include culture, reference groups, family and social class. Individual differences include personality, lifestyle, gender, age, income and education. Contextual circumstances include perception of risk and involvement (see Figure 3.1).

Socio-cultural influences

We will now discuss how culture, family, reference groups and social class influence buyer behavior.

Culture All of us are born into a culture. Culture can be thought of as the shared values and beliefs that help individuals to understand how society functions. These values and beliefs provide us with guidelines for behavior. Our culture is expressed in and reinforced by learnt behaviors such as consumer behavior. Culture is passed from generation to generation as part of the socialization process we undergo when growing up. Some of the factors that make up culture include:

Human needs	Geography	Climate
History	Social Organization	Family and food
Language	(individualism versus collectivism)	Education
Religion	Economics	Customs and habits
Art	Architecture	Attitudes

We can all see that people from different cultures behave differently. When we look after foreign customers, whether they are from America, Australia, Britain, China, France, Germany, Italy or Japan, we notice differences that can clearly be attributed to culture.

However, although culture is deeply rooted, it can and does change. You should be aware of the debate about 'globalization' in today's international marketplace. Some academics (Levitt, 1983) suggest that cultural differences are being eroded as consumer markets become more global. Erosion is caused by several conditions, including the emergence of powerful multinational corporations and of technology that enables companies to communicate identical messages worldwide. This homogenization of global consumer needs and wants, called convergence theory, is predicated on the *similarities* that international consumers share. The rapid growth of international business and leisure travel means that hospitality organizations cater for an increasing number of visitors from all parts of the world. If global hospitality consumers have similar needs and wants, then companies can provide a more standardized marketing offer, which is also more cost-effective.

However, critics of convergence theory suggest that postmodern consumers have diverse consumption patterns mixing local and global products and services. Local culture remains an important dimension, which marketers targeting international markets need to understand and respond to (Usunier, 2000). This recognition of the importance of culture in marketing focuses on the *differences* between consumers from different cultural traditions and their buying preferences. If international hospitality consumers have different needs and wants, then companies should adapt their global products and services to local cultural requirements. This local adaptation of the hospitality offer should provide enhanced customer satisfaction, but is not as cost-effective as standardizing the marketing offer.

An interesting example of international consumer expectations for hotels revealed that the top four choice criteria for selecting a hotel by US and Korean business travelers were the same (McCleary *et al.*, 1998). Customers, regardless of nationality, want clean, safe, comfortable hotels with friendly staff. However the bottom four choice criteria had nothing in common. Americans were more interested in non-smoking rooms and family restaurants, whilst Koreans preferred a convenient location and in-room mini bars. This type of research suggests that the primary choice criteria are common to all consumers, whilst culture has a considerable influence on secondary choice criteria.

Family Families have a huge influence on consumer behavior. Our adult preferences for food, beverage and leisure activities are largely products of the influences of our childhood. The stereotypical Western family unit of a working father, stay-at-home mother and two children is no longer dominant. Today, Western families comprise a wide range of different combinations, including dual-earning couples with no children, single working parents, same sex partners, and traditional family groupings. An interesting trend in Western societies is the growing number of people who live by themselves. In Asian countries the extended family plays a much greater role, and many consumer decisions are discussed collectively. The composition of a household affects the amount of disposable income – and, typically, higher disposable income leads to higher household expenditure on hospitality and tourism services.

Reference groups Individual consumer behavior is also influenced by our identification with or membership of groups. A distinction is made between primary groups and secondary groups. Primary groups are those in which we interact face-to-face with other members – for example, family, friends and classmates. Secondary groups, being larger or dispersed, do not experience that face-to-face

interaction; they include cultural and nationality groupings, business associations and alumni. Reference groups can be classified in three useful ways:

- 1 *Membership groups*. These are groups to which we belong. Your choice of holiday destination is influenced by your membership groups of classmates and family.
- 2 *Aspirational groups*. We want to be (seen to be) associated with these groups. If you want to be thought of as a gourmet, you might choose to dine or work at high-priced restaurants.
- 3 *Disassociative groups*. We want not to be (seen to be) associated with these groups. If you do not want to be thought of as a student, you may choose to wear business clothes to functions.

Reference groups perform two functions: they set and enforce standards, and they act as points of reference for individuals to compare their behaviors. Within peer groups and communities, individuals whose opinions are most respected influence others. These people are described as ‘opinion leaders’. In hospitality and tourism, travel writers and food critics are critical opinion leaders whose positive or negative comments in local and national media can boost or destroy demand for individual hotels and restaurants.

Socio-economic class All countries have social class systems (also known as social grading or socio-economic classifications), though some are more formal than others. Class systems are important influences on consumer behavior. Social class is linked to education, occupation and income, and provides a broad segmentation base for market segmentation. In the UK the socio-economic classification system JICNARS (see Table 3.1) is widely used as a descriptor of consumer groups in marketing research, marketing planning, new product development, and advertising media audience profile. However, social class is not strictly homogeneous and there are wide differences in the attitudes, interests, opinions and therefore purchase behavior of individuals within the same social class category.

Table 3.1 Social Class Classifications in Britain (Source: JICNARS)

<i>Social grade</i>	<i>Social class status</i>	<i>Characteristics</i>
A	Upper middle (3%)	Higher managerial, administrative, or professional
B	Middle (14%)	Intermediate managerial, administrative, or professional
C1	Lower middle (22%)	Supervisory or clerical and junior managerial, administrative or professional
C2	Skilled working (29%)	Skilled manual workers
D	Working (18%)	Semi-skilled and unskilled manual workers
E	Lowest income (14%)	State pensioners, widows, casual and lowest grade workers

Individual differences

Individual differences that influence buyer behavior are discussed under the headings of age and gender, education and income, personality, and lifestyle.

Age and gender A person's age clearly influences needs and wants. Young adults have very different interests, tastes and income levels compared with people in their sixties and seventies. Older people tend to think of a 'good meal' in traditional terms and as a formal dining occasion, whilst younger people tend to be much more experimental in their food tastes and look for a more informal dining experience. However, many people who grew up in the 1960s think and act much younger than previous older generations. Marketers realize there is a difference between chronological age (reflected in the passage of years) and cognitive age (what we think and how we act).

Women and men can have different needs and wants, and gender can therefore influence an individual's purchase behavior. Often, women feel less safe and secure than men when traveling and staying in hotels. Men have a different approach to consuming food and beverages (in terms of taste and portion size) compared to women. You can clearly identify these gender differences when viewing adverts on the television and cinema – beer advertisements are sometimes overtly masculine and 'laddish', whilst adverts for drinks like Taboo® are designed for a younger, female market.

Education and income Education influences job opportunities and income, and also shapes our values, beliefs, attitudes, interests, activities and lifestyle. Students who go to university meet a variety of different people, often from foreign countries. They develop their analytical and intellectual competencies and learn a wide range of transferable skills, as well as studying a subject in greater depth. They also gain a broad education, which provides them with enhanced employment prospects. This enables graduates to eventually earn higher salaries in their workplace.

The level of income helps to determine the amount of consumer disposable income available for discretionary purchases. People with higher income levels spend proportionately less on household necessities, and therefore have more disposable income. This has considerable influence on holiday and dining out expenditure patterns.

Personality or psychographic attributes An individual's personality can influence the type of products purchased. People in the same family can, because of their different personalities, have different purchase and consumption habits – especially in more individualistic societies. Research has identified clusters of consumers with similar personality traits. Personalities are often described in terms of the individual's position on a number of scales, such as:

Sociable	__ : __ : __ : __ : __ : __	Shy
High self-esteem	__ : __ : __ : __ : __ : __	Low self-esteem
Assertive	__ : __ : __ : __ : __ : __	Submissive

Some companies evaluate these psychological attributes when developing new product concepts, as personality is closely linked to lifestyle choices.

Lifestyle An individual's lifestyle is a powerful influence on the purchase of discretionary products like travel and dining out. Lifestyle is a reflection of an individual's personality and social influences. Researchers have claimed that we can describe a lifestyle in terms of a person's activities, interests and opinions.

These can be summarized as follows:

- Activities include work, shopping, sport and entertainment, hobbies and travel
- Interests include family, the home and garden, watching TV, food and fashion
- Opinions – about our own culture, other cultures, ourselves (and self-belief), social and political issues, business and economics, and even about the future – inform our lifestyle.

Activities, interests and opinions cross cultural, social and demographic divides – for example, there are supporters of Manchester United Football Club of both sexes, from every continent, socio-economic class and age group throughout the world. A person's passion for sport, music or bird watching will influence how that person spends his or her time and money. Lifestyle has become an increasingly important concept in understanding consumer behavior and predicting consumer purchase and consumption activity.

The New Consumer (Source: Middleton and Clark, 2000)

Marketing insight

As society has become more atomized and less collective, Western consumers see themselves as individuals who are 'more diverse, more experienced, more demanding, more quality conscious and generally more sophisticated' than 25 years ago. Today consumers have more wealth, with high levels of disposable income; are more educated and knowledgeable about food, travel and tourism, both from personal experience and via the media; have more leisure time entitlement (although some consumers are described as cash-rich and time-poor, since the heavy demands of their work means they have limited leisure time opportunities); and are becoming more computer and Internet literate. The 50- to 65-year-olds of today experienced the youth revolution of the 1960s, have traveled extensively to visit many different countries over the past 30–40 years, and have encouraged their children to travel as well. These sophisticated modern consumers are less prepared to tolerate mediocre service, and are more likely to complain if the hospitality standards do not meet their high expectations.

Contextual circumstances

Sometimes, socio-cultural influence and individual differences are less important than contextual circumstances in influencing our behaviors. Two concepts that are helpful for understanding the role of context are perception of risk, and involvement.

Perceived risk A consumer's perception of the risk associated with buying a hospitality product influences the purchase decision. Perceived risk exists when the consumer is uncertain about the consequences of a purchase, or about the decision itself. The perceived risk is higher when a consumer has little experience or knowledge about the product, has low self-confidence about making a purchase decision, or faces significant long-term consequences as a result of buying the product. There are different types of perceived risk, including financial, social and psychological risk:

- *Financial risk* occurs when there is a large amount of money at risk. It is linked to major hospitality purchases – organizing a wedding day or planning a significant

holiday. The larger the amount of money involved, the greater is the perceived financial risk.

- *Social risk* is linked to product symbolism, and relates to hospitality products that have a social significance for the consumer. The choice of where to have dinner sends social signals to the other diner(s).
- *Psychological risk* occurs when consumers perceive a threat to their self-image and self-esteem. In Asian societies the concept of 'face' is very important, so consumers are very concerned about making the correct hospitality purchase decisions to avoid losing face in front of their family and friends.

Involvement Consumers vary regarding the level of involvement they have in purchasing decisions. A highly involved purchase decision is one that is personally significant and relevant for a consumer – for example, most parents consider that their choice of a venue for a child's birthday party is highly involving. On the other hand, the choice of a coffee shop for a quick refreshment may be a low involvement decision. Involvement tends to vary between individuals (some people are highly involved in many decisions), products (some products are more involving than others) and context (the level of involvement can vary across purchasing context). For example, the choice of a restaurant for a lunch break may be low involvement, until a business guest is invited – then it becomes a high involvement decision.

Involvement is an important idea to understand, because the buying process varies according to whether the decision is high or low involvement. **High involvement decisions** (for example, planning a honeymoon or organizing a conference) are more complex than **low involvement decisions** (for example, planning where to meet friends for a drink at the weekend). A high involvement decision will involve much more pre-purchase search for information about alternatives and a post-purchase evaluation of whether the decision was successful.

Buyer decision-making process

If marketers are to influence customer demand, they need to understand how customers make buying decisions (see Table 3.2).

The starting point for decision-making is when a consumer recognizes that he or she has a need that is not currently being satisfied. The need may be caused by internal conditions (feeling hungry) or motivated by external stimuli (seeing an advertisement). If the decision involves a low involvement product, the consumer's response is more likely to be a routinized buying decision – feeling hungry at lunchtime and visiting the local sandwich shop. If the decision involves a high involvement product, the consumer will have to search for a solution. This search process can be internal or external. An internal search uses our memory to recall previous experiences (or information) to provide a satisfactory solution. If the internal search does not provide a solution, then the consumer has to engage in an external search.

Consumers evaluate alternative ways of solving the problem, weighing the alternatives against their own set of criteria. In hospitality, some of the criteria used by consumers include location, quality, convenience, reputation, price and availability. After evaluating options, the consumer makes a buying decision – assuming that the price is affordable, and the time to purchase and consume the hospitality product is available. After the transaction has been completed, the consumer assesses whether

Table 3.2 Hospitality Consumer Decision-making Process for a Complex Product

Hospitality consumer decision-making process for a high involvement or high perceived risk product

Process	Example
Perception of need	Engaged couple planning a honeymoon
Information search	Search travel agents and Internet, ask family and friends for advice on alternative honeymoon holidays in various destinations
Evaluation of alternatives	Agree 'decision criteria' – these include the budget, number of days on the honeymoon, where to go (domestic, short-haul, long-haul), what type of holiday (sun and sea or culture; all-inclusive or go-as-you-please), which destinations
Purchase	Make the decision and buy the honeymoon
Post-purchase evaluation	Upon returning home, evaluate the consumption experience, which will inform future anniversary holiday decisions and whether to recommend the destination and accommodation to family and friends

the product actually satisfied the relevant needs, and this post-purchase evaluation influences the consumer's propensity to repeat purchase and to recommend positively (or negatively) the hospitality product. If a customer who is not satisfied complains and the company is able to recover the situation, the customer can repeat purchase and positively recommend the product. However, if the complaint is not handled effectively, the unhappy customer is likely to tell many more people about a bad experience than a good experience (see Chapter 13). Unfortunately most unhappy customers do not complain, so the hospitality company has no chance to recover the situation.

Understanding customer expectations

An important concept for marketers is *customer expectation*. Customers have expectations of hospitality encounters, which marketers must meet if customers are to be satisfied.

Customer beliefs

Customers form beliefs about what a hospitality experience will be like. Customers' beliefs are formed by a combination of different influences, including culture, reference groups, word-of-mouth, previous experience, marketing communication, and individual personal characteristics. Whilst individual customer beliefs can be idiosyncratic (such customers are often called eccentric because of their unusual behavior), different national cultures have a strong influence on customers' belief systems,

which in turn influence customer expectations. For example, international tourists who come from high service cultures (like Japan and Taiwan) have higher expectations when traveling abroad and staying in hotels, while the expectations of travelers from countries with the limited service culture (like some of the East European countries) have lower expectations.

There have been a number of attempts to understand and classify expectations. One scheme suggest that there are four different types of expectation:

- 1 The ideal level – ‘what can be’
- 2 The predicted level – ‘what will be’
- 3 The minimum tolerable – ‘what must be’
- 4 The deserved level – ‘what should be’ (this is the level that customers think is appropriate given what they have invested in finding and buying the product).

Parasuraman and his colleagues (Zeithaml *et al.*, 1993) have suggested that customer expectations fall within a *zone of tolerance* ranging from ‘what must be’ (minimum tolerable) to ‘what can be’ (desired level). It is also suggested that customers are willing to accept a level of performance that falls within a *zone of indifference*. This zone ranges around the customer’s judgment of what is a reasonable expectation of the supplier.

Zone of tolerance

During and after service performance, customers compare their expectations to their perceptions of the service they have received. However, the special characteristics of service in the hospitality industry mean that the quality of service delivery fluctuates. Customers who are knowledgeable about the variability in hospitality service can have greater tolerance for the variations in a service performance (i.e. a wider zone of tolerance; see Zeithaml and Bitner, 2003). On the other hand, there are customers who are much less sympathetic and therefore have a lower tolerance to service fluctuations. This range of tolerance represents a customer’s propensity to accept variable service standards and still be satisfied with the service offered.

A number of factors influence the customer’s level of tolerance, including the customer’s personality and current circumstances, the importance of the purchase occasion, and the characteristics of the product and the price paid. The levels of perceived risk and involvement can explain variations in the zone of tolerance. Clearly, customers have different levels of tolerance at different times. As individuals we can all have mood swings, and so sometimes we feel more tolerant and relaxed about service quality whilst on other occasions (for reasons we do not always understand) we can be less tolerant and become more easily upset by service quality failings. Customers who have a time constraint will be intolerant of service failure.

Organizational markets

Whilst individual consumers represent a significant proportion of hospitality customers, especially for smaller hospitality companies, the larger hospitality organizations cater for the needs of organizational markets. These include business companies generating corporate travel and corporate meetings; professional and trade associations; convention, exhibitions and trade fairs; tour groups; aircrew; and other miscellaneous types of volume bookings. In tourism and hospitality, some of

these activities are linked under the heading of the MICE market (Meetings, Incentives, Conference and Exhibitions).

Organizations have a different approach to the buying process compared to individual consumers. These differences include the following:

- The number of participants involved in the organization's purchase decisions tends to be greater
- The users are not always the buyers
- The complexity of the arrangements (coordinating hundreds or thousands of people's travel, accommodation, catering and entertainment needs is not a simple task)
- The technical requirements, involving conference and banqueting arrangements, audiovisual and stage facilities, and exhibition stand details, are complex.

Organizational buyer behavior researchers have identified several roles in group purchase decisions: users, influencers, deciders, buyers and gatekeepers. These roles are collectively known as the 'decision-making unit' (DMU):

- *Users* are the guests who actually stay in hotels
- *Influencers* are people who are close to the decision-maker and can influence any part of the decision, such as location, hotel, and food service
- *Deciders* are the people who actually make the decisions – the manager, executive or director
- *Buyers* are the people who make and pay for the booking
- *Gatekeepers* are people who control the flow of information to other members of the DMU – secretaries or personal assistants (PAs) often play a key role as gatekeepers in their organizations.

The buying process in organizations is more formalized, with varying degrees of bureaucratic and/or committee reporting structures. A professional approach is required when discussing or negotiating bookings with these types of organizations. The value and volume of organizational bookings varies, but for many of the major hospitality companies the MICE market represents a key element in their business.

Market segmentation

We have established that understanding individual consumer behavior and organizational market behavior helps us to understand customer expectations. Marketers use this information to identify potential customers having similar needs and wants, and describe these customers as *target markets*. This process of identifying subsets of consumers who have distinct, homogenous demand characteristics is called market segmentation. There is a broad consensus that segmentation is the starting point for developing effective marketing strategies because:

- Trying to target all consumers is not cost-effective (remember, some consumers may never want to buy your hospitality product)
- Identifying the characteristics of target markets enables a company to design and develop the hospitality offer to satisfy customers more effectively

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- Concentrating a company's limited marketing resources on key markets leads to a more focused and cost-effective marketing strategy
- Segmentation improves profitability by maximizing customer satisfaction, and generating repeat and recommended sales.

However, there are difficulties for hospitality firms trying to establish effective segmentation strategies, due to:

- The costs of carrying out marketing research
- The lack of flexibility in hospitality products
- The additional costs of developing and communicating separate offers for different target markets
- The complexity of constantly changing consumer behavior
- The problem of targeting different and often incompatible target markets who use the premises at the same time.

The key point is that market segments are inherently unstable. Their membership, size, value and volume change in response to changes in the PESTE environment.

We will now review the segmentation process, followed by a discussion of key hospitality segmentation variables.

The segmentation process

There is a logical sequence that can be followed during market segmentation. The stages of the segmentation process outlined in Table 3.3 are discussed here in more detail.

- 1 *Specification.* The market to be researched and segmented needs to be clearly identified, taking a broad definition of consumers' needs and wants in the sector.
- 2 *Establish segmentation criteria.* A set of criteria needs to be developed against which the various segmentation opportunities can be evaluated for market attractiveness. Segmented markets should be:
 - discrete – can the segment be described as having a unique set of shared requirements and expectations requiring a specific marketing program?
 - measurable – can the market size be measured in terms of value and/or volume, growth rates and market share of current players?
 - of a profitable size – does the segment have sufficient profit potential to justify the investment? By careful analysis, companies can often identify smaller, more profitable 'niche' markets within larger market segments. For single-unit hospitality companies, the market will primarily be focused on the company's

Table 3.3 The Segmentation Process

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1. Specify the market
 2. Establish segmentation criteria
 3. Generate segmentation variables
 4. Develop and evaluate market segment profiles
 5. Evaluate company's competences to serve selected segments effectively
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micro-environment and depends upon the local characteristics of demand and existing/potential competitors.

- accessible – can the segment be reached via distribution and marketing communication channels? There is no point in targeting a segment if the company cannot communicate with potential consumers.
- compatible – marketers should ensure that any new target markets are compatible with existing target markets.

- 3 *Generate segmentation variables.* Segmentation variables provide the basis for classifying consumers into different market segments. Hospitality segmentation variables include purpose of visit; geo-demographics; buyer, user and lifestyle characteristics; price; and time. In hospitality, a wide number of variables are used to build a more detailed profile of the target markets. The more detailed the segmentation data, the greater the understanding of potential customers.
- 4 *Develop market segment profiles based on segmentation variables.* Detailed market segment profiles include the size of the market in terms of value and volume, customer purchase details (frequency of visit, average room/food/bar spend, number in party), consumer characteristics (benefits sought, price sensitivity), and accessibility/responsiveness to marketing programs.
- 5 *Evaluate the company's competencies.* The company needs to ensure that it has the competencies and resources to serve and satisfy the segment's needs and wants profitably.

This approach suggests that there is a precision in the analysis of market segments, which is not strictly true. Many hospitality markets are fragmented, and it is difficult to calculate the volume and value of a market segment accurately. Market share can be even more difficult to ascertain accurately. The benefit of using segmentation analysis in hospitality operations is to identify consumer trends to establish which market segments will become attractive in the future and which market segments are becoming less attractive now.

Hospitality segmentation variables

Segmentation variables are the basis for classifying consumers into different market segments. Some of these segmentation variables have already been discussed in the consumer behavior and customer expectations sections of this chapter. The segmentation variables form the building blocks in developing target market profiles of customer expectations.

The primary segmentation variable used by virtually all hotel and lodging companies is *purpose of travel*. The three main categories are business, non-business (variously defined as leisure, holiday, personal, or social) and visiting friends and relatives (VFR). Each of these main categories can be further subdivided into several distinct market segments, but a key point to remember is that the *same person* can have different customer needs and wants depending upon whether the purpose of travel is business or non-business. Each micro-segment will have its own market demand factors and individual characteristics with implications for hospitality providers. (See Figure 3.2 for a summary of hospitality market segments.)

Hospitality market segments

Tourist accommodation market		Purpose of visit	Segments	Price	Geographic	Demographic & family unit	Party size	User status
	Business	FIT Corporate Local company Meeting Conference Exhibition	{Management {Sales {Training {Recruitment {Professional advisors {Board	Luxury Mid-market Budget	Domestic Cities Counties States Regions International American British Chinese Japanese	Age: 18-24 25-34 35-54 55-65	Single 2-4 Small group Large group	Non-user Potential First-time Light Medium Heavy Lapsed
	Leisure	Overnight stopover Family holiday Honeymoon Package holiday Leisure break Exotic holiday Go-as-you-please Fly-drive Incentive	{Destination {Activity {Cultural {Event {Relaxation {Sight-seeing {Sand, sea, sun	Luxury Mid-market Budget	Domestic Cities Counties States Regions International American British Chinese Japanese	Age: Under 18 18-24 25-34 35-54 55-70 70+ Family cycle: Young single Young couple Couple & children Older couple Old single	Single Couple 2-6 Small group Large group	Non-user Potential First-time Light Medium Heavy Lapsed

Figure 3.2 Hospitality market segments

Business

Business customers tend to:

- Be less price-sensitive, since the employer generally meets hospitality and travel expenses
- Be more likely to stay for one night, or only a few, on each trip
- Be more frequent, or regular, users of hotel accommodation
- Stay at establishments that are within a reasonable (10–30 minutes) travel time of their place of work – hence the higher demand for business accommodation close to commercial, industrial, and retail areas
- Be less seasonal – business travel patterns are less dependent upon weather and holiday schedules.

The business travel segment contains business trips that are unavoidable, like sales meetings with customers and technical visits to factories by engineers. Other trips are more discretionary, for example attending a conference or exhibition.

Leisure

Leisure customers tend to:

- Be much more price-sensitive than business travelers, since they are paying for the accommodation out of their own taxed income
- Be more likely to stay longer on each trip – short breaks are normally at least a couple of days, two-week holidays are common, and longer holiday periods are not unusual
- Be less frequent users of hotel accommodation (unless they are also business travelers)
- Stay at establishments that are close to leisure amenities and tourist attractions – hence the demand for cultural, rural and seaside resort hotels
- Be much more seasonal, both in terms of climate and the time of year.

There are some business and leisure travel markets that overlap. For example, international conferences and exhibitions often include an element of free time, to be enjoyed as a leisure period. The incentive travel sector uses the appeal of free, and often luxurious or adventurous, leisure travel to motivate and reward performance in business markets.

Visiting friends and relatives

From an accommodation demand perspective, this segment does not generate significant volumes of business for hotels since people tend to stay in the homes of their friends and relatives. This market is more important to tourism establishments in the day-visitor leisure and recreation sectors, and to restaurants and bars.

Geographic

A simple segmentation variable is identifiable from a customer's home address and/or country of origin. National governments require hotels to collect passport

details from international visitors, and these data provide important marketing information about the types of international markets being served. Geographic segmentation variables within a country's domestic market include cities, counties, states and regions.

The benefits of segmenting consumers using geographic variables include the following:

- Hotel guest registration data makes it easy to identify customers' addresses
- Nationality is a universally recognized method of categorizing visitors in international tourism marketing
- The special needs and wants of consumers from particular regions can be researched and products can be specifically developed to satisfy those needs and wants
- Media channels, which depend upon advertising revenues, provide audience statistics and demographic data that profile potential consumers within their catchment area. This data can be used to target marketing communications campaigns cost-effectively.

ACORN (A Classification Of Residential Neighborhoods) is an example of a geodemographic (mix of geography and demography) segmentation tool, commercially available in the UK from the company CACI. All UK homes are allocated a postcode (or zip code), and there are approximately 30 homes in each postcode. Each UK postcode has been classified, in conjunction with the government's census data, according to the type and status of the housing and area. Having identified the clusters of housing, representative samples are regularly interviewed with in-depth personal face-to-face interviews. The research provides a wealth of data about the purchasing habits of people who are representative of their area. CACI has classified British consumers into 17 groups and 54 types based upon this research.

Activity 3.1

- Log onto the CACI website at www.caci.co.uk
- Explore the site and review the research into customer profiling and ACORN – how can this information help hospitality marketers?

Demographic

Demographics is the study of population characteristics, and to a large extent relies on data collected by governments during censuses. Market research companies in developed countries utilize the census data to develop sophisticated consumer profiles. *One of the key influences in changing the demand for tourism products is the change in birth and survival rates, which alters the age structure of populations.* Marketers are keenly interested in the growth of the ratio of older people living in Western populations. This 'grey' market is creating new leisure and tourism opportunities for hospitality companies, while the relative declining youth market creates difficult challenges for companies targeting younger people.

Demographic variables include age, gender, family size and structure, ethnic origin, religion, nationality and socio-economic class.

The Experience Economy (Middleton and Clark, 2000)

The structure of society influences modes of consumption. During the industrial era, the focus of production was on mass standardized goods bought and consumed by mass markets. In hospitality and tourism, this style of consumption was predominant in Western markets during the period 1955–1995. As developed economies shifted from the industrial phase into the service economy, the focus of commercial activity shifted to segmenting markets and delivering a more customized product, based on responding to the benefits that consumers seek. In hospitality and tourism markets, more companies have recently adopted a segmented approach to marketing and strive to customize their offer to niche markets. Pine and Gilmore (1996) postulate that there is an emerging economy, which they have described as the *experience economy*. In the experience economy, companies stage events that offer individual customers memorable and personalized experiences. Innovative hospitality and tourism companies, like Disney and Virgin, focus on the customer experience, and have succeeded in capturing the imagination and loyalty of their target markets.

Age

A comparison of two holiday tour operators, Club 18–30 and SAGA, provides an effective illustration of how companies segment demand, using age as the defining criterion. Club 18–30 only targets young adults interested in holidays abroad in fashionable Mediterranean resorts like Ibiza. The main focus is on a 24-hour, 7 days a week opportunity to party with similar young people. The language of the advertising, brochures and website reflects the young target market, with modern colloquial, ‘in-your-face’ language. The brochure and website carry endorsements by satisfied customers, who send suggestive messages and rave about the events, gigs and reps; photographs of fleshy, nearly naked young people having lots of fun clearly position the offer to the age group. Customers are encouraged to participate, and can enter a competition to become a model in next year’s brochure. Hotels are selected for their proximity to the club scene, bars and beach. The explicit, raunchy messages turn on their young adult target market and turn off family and mature markets.

SAGA targets the over-fifties mature market and originally focused on travel, but now also provides complementary health, insurance and financial services. SAGA offers package holiday and travel services to major tourist destinations in every continent. The holiday product, which is carefully designed for people aged over 50, concentrates on safe traveling. Many of the customers’ grateful comments stress how the SAGA staff solved minor travel problems. The focus is on companionship, excursions with cultural/historic sightseeing and shopping, educational trips – one holiday is called ‘art treasures in Italy’ – and good quality, comfortable hotels. Consumer concerns about help for disabled and elderly people traveling (for example, porters to carry the luggage at airports and hotels) are answered on the frequently asked questions (FAQ) pages on the website. The language in the publicity material and on the Internet is mature and very sympathetic to the needs of older people. Photographs show groups of older people dressed in smart/casual clothes sedately enjoying attractive views of scenic areas. Hotels are selected for comfort

and quality, and are unlikely to be very noisy late at night. The message clearly conveys confidence that SAGA has great experience in looking after older people when traveling and on holiday.

Activity 3.2

- Log on to the websites of Club 18-30 and SAGA (www.club18-30.co.uk and www.sagaholidays.co.uk)
- Compare and contrast the language, products and photographs of each website, and identify the differences between the needs and wants of the different age groups targeted by these companies.

Gender

Some hospitality products may be specifically geared to the needs of men or women. Hotel companies have responded to the expectations of women travelers by providing greater security measures in bedrooms, feminizing the bedroom decor, and offering healthier menu options in restaurants. The provision of Nintendo electronic games in the bedrooms of Jarvis Hotels was intended to cater for the needs of younger male business travelers. However, gender segmentation is not always precise – men can notice and prefer greater security measures, more feminine decor and healthy menus, whilst younger women business travelers can also enjoy playing Nintendo.

Some hotels target the gay market, and there are a number of women-only hotels. In London, the New York Hotel in Earls Court is a small award-winning hotel that is exclusively gay, while the Reeves Hotel in Shepherds Bush is a women-only hotel and is lesbian-friendly.

Family size and structure

The hotel facilities that individuals and couples without children find acceptable are often not suitable for families with several children, and *vice versa*. When Mark Chitty founded Mark Warner, he began by targeting his own age group – people in their twenties. Many years later, when Mark started his own family, he developed a family resort product targeting middle-class, middle-aged parents with younger children. The Mediterranean resorts feature a club hotel with all-inclusive facilities, including a wide range of leisure and sporting facilities, English-speaking qualified nannies who look after the children for up to six hours per day, *al fresco* lunches and evening meals with wine. This family resort product caters for the needs of families, and is unlikely to appeal to individuals or couples without children.

The growth in the number of people living alone, especially through divorce, has created a market for singles clubs and organizations that provide opportunities for single people to meet and socialize.

Ethnic origin, religion and nationality

Ethnic origin, religion and nationality are important demographic variables that are closely linked to each other and to culture. One consequence of these cultural

influences is our very different attitudes to food, and what constitutes acceptable food items. Kosher cuisine is one of the well-known religious food disciplines for orthodox Jews, whilst fasting during Ramadan is equally important for Muslims. The differences between Eastern and Western style cooking are recognized by international hotels in the Far East, who provide both styles of cooking at breakfast, lunch and dinner. Restaurants are typically segmented according to their ethnicity. In the UK there are traditional British, modern British, French, Italian, American (fast food), Chinese, Indian and Thai restaurants in most cities; while almost every cooking style in the world is offered by the London restaurant industry.

Socio-economic class

Hospitality companies may not state explicitly which socio-economic class they target, but this is implicit in their marketing strategies. Ian Schrager, whose 'hip-hotel' empire includes the Mondrian in Los Angeles, Morgans in New York and the Sanderson in London, targets a new generation of affluent consumers who want exclusivity and the opportunity to mix with celebrities. The hotels have accommodation designed by Philippe Starck (pure white, all white décor and stainless steel bathrooms), fashionable restaurants and attractive staff (aspiring actors and models recruited from adverts in *Variety*). The prices are suitably expensive, and only people in the highest socio-economic class can afford to stay in Schrager's hotels.

Butlins, the famous UK holiday camps founded in 1936, clearly target socio-economic groups C1, C2 and D. The product, revitalized at the end of the 1990s with a £139 million investment, provides an indoor all-weather 'sky-line pavilion' which includes entertainment, fast-food outlets (e.g. Burger King and Harry Ramsden's), a 'Splash Waterworld', and a beach nightclub. Accommodation is family budget standard, with a choice of half-board or self-catering; and prices are competitively low. The marketing communications campaign includes advertising in newspapers like the *Sun*, *News of the World*, *Sunday Mirror* and *Sunday People*, whose readership consists primarily of the lower socio-economic groups. Today the three resorts attract over a million guests each year, and in 65 years Butlins, which used to have many more resorts in its heyday, has looked after 105 million customers.

Buyer needs and benefits

The idea of segmenting markets according to the benefits sought from products is well established. Examples of benefits which buyers look for in hospitality products include:

- Convenience – this is often linked to location and speed of service
- Luxury – this is naturally associated with high levels of service and high prices
- Children-friendly accommodation – families traveling have specific needs (like informal, low cost dining facilities)
- Improved health facilities – spa resorts offer exercise and dietary regimens for the benefit of their health-oriented patrons.

A number of different 'benefits' can be combined together to provide the total solution to a customer's set of problems. All-inclusive holiday resort hotels not only provide the accommodation and food elements of holiday, but also all the sporting activities, excursions, leisure and entertainment facilities, and even alcoholic drinks, in a safe environment. This process of creating product/price benefit bundles should be based on a deep understanding of customer needs.

Table 3.4 Typical City Hotel Accommodation – Segmentation by Rate

<i>Hotel accommodation segmentation by rate description</i>	<i>Sales volume (1 = highest volume of sales)</i>	<i>Profit contribution (1 = highest profit contribution)</i>
Rack rate (published in tariff)	6	1
Conference rate	3	2
Corporate rate	5	3
Leisure rate	7	4
Local business discounted rate	1	5
Guests attending a function	10	6
Exhibition	9	7
Walk-in (standby rate)	4	8
Weekend rate	8	9
Group rate	2	10

Price (or rate)

Price sensitivity is a crucial segmentation variable in hospitality markets. Each hospitality market segment has its own specific pricing dynamics, which need to be understood. Research and analysis should determine what consumers can afford to pay and what they are willing to pay. The price consumers are willing to pay plays a key role in determining the design, facilities and amenities, and the standard of décor, fixtures and furniture in planning a new product concept.

In hospitality, the link between price and quality in different product classes is strong. Consumers looking to be pampered in a luxurious environment expect to pay higher prices, while consumers looking for basic products expect to pay lower prices. Whilst the price/quality difference between product class extremes (for example, the expensive, gourmet restaurant versus the cheap and cheerful café) is clearly apparent to consumers, the difference between adjacent product classes (for example, a four-star hotel and a three-star hotel) can be virtually indistinguishable. This can lead to customer confusion, as the relative value for money between competing offers is not transparent.

Many hotel companies describe their segmentation targets in terms of rate. If we look at Table 3.4 and compare the rate segmentation variables for this typical city hotel in terms of volume (ratio of sales generated for each segment) and profit contribution, we can see that the rack rate (which is the highest possible price printed in the tariff) is only the sixth largest in volume terms, whilst the group business (primarily tour operators) delivers the second highest number of customers in volume but generates the lowest profit because of the low prices negotiated to obtain volume sales.

Current user characteristics

Identifying the characteristics of customers who use hospitality products provides marketers with a profile of current users. These customer profiles can then be

analyzed to identify attractive market segments for targeting purposes. There are a number of user characteristics that are important to hospitality operators, and these are described here.

Usage status

This characteristic categorizes consumers into non-users, potential users, first-time users, regular users (who can be either light, medium or heavy users) and lapsed users (see Figure 3.3). Marketing communication campaigns can be developed to target the different user categories, to encourage first-time visits, regular patronage, or repeat visits after lapsed patronage. Understanding the different usage patterns enables marketing communication campaigns to be designed to influence the category of user.

Frequency

In business markets, frequent travelers – people who stay away from home on business travel for five or more trips per annum – are a highly attractive segment because their lifetime value is high. Hotels strive to encourage regular and repeat customers, and over time hoteliers can build strong, long-lasting, special relationships with their ‘regulars’. The importance of repeat and regular business customers has long been recognized by hotel groups. Indeed, 2 percent of Travel Inn’s revenue is from frequent guests who stay for more than 200 nights per year in Travel Inn

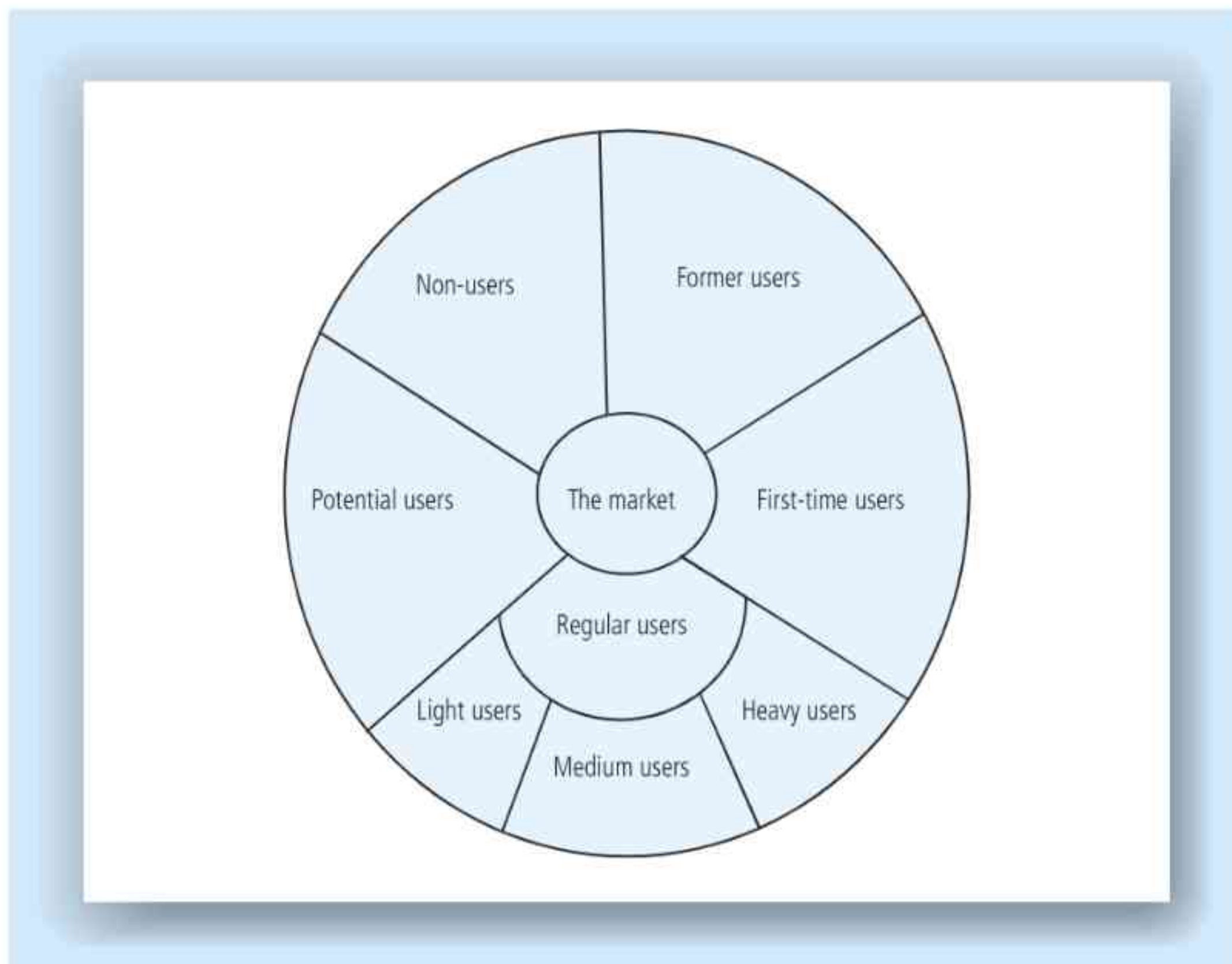


Figure 3.3 Guest usage status (source: Osman, 2001, p. 41)

hotels. Frequent guest promotions, often linked to loyalty programs, have been designed to reward frequent guests for their patronage.

Given the lower frequency of leisure trips, a regular customer might return to a favorite leisure hotel infrequently. A distinction needs to be drawn here between those hotels catering for long stay, long haul holidays and those catering for short leisure breaks within a couple of hours traveling time of the customer's home. The long haul guest might only return once per year, if that – indeed, a highly satisfied customer may only return once every five years – whereas the short break leisure guest might return to a favorite hotel three or four times per year. One consequence of this user factor is that hotels targeting leisure customers need to allocate a higher promotional spend to attract a wider customer base, or distribute their product via tour operators and travel agents.

Brand loyalty

A key objective of frequent guest programs is to build brand loyalty amongst those business travelers who are heavy users of hotel accommodation. Consumers' loyalty to hospitality brands varies. Research suggests that hospitality customers can be categorized in the following way:

Hard-core loyal	Guest only stays at one preferred hotel brand
Split loyal	Guest stays at two or three brands on a regular basis (these customers may have preferred hotels in different locations, which belong to different brands)
Shifting loyal	Guest stays at one brand on a number of visits; then moves to another hotel brand for a number of visits; and then moves to another hotel brand etc.
Switchers	Guest has no loyalty to any brand; these customers may make their hotel choice based on the lowest price available, or best rewards offered at that time, or simply like to stay at different hotels

There has been considerable research into customers' habits in general and loyalty in particular. Customers have become more promiscuous in their shopping habits; indeed, promiscuous consumers might have several different hotel company reward cards. However, the investment in loyalty programs by airlines, hotels, petrol stations and supermarkets suggests that consumers are influenced especially when several complementary service offers are included in the same scheme. In the UK, customers collecting British Airways' Air Miles from multiple sources (hotels, petrol stations, supermarkets) have been shown actively to seek out those retailers offering Air Miles.

Purchase occasion

The type of purchase occasion influences the consumers' needs and wants. Many hospitality banqueting and restaurant products are aimed at the special family occasions that mark every important event in our lives – birth, coming of age parties, weddings, special birthdays, retirement functions, wedding anniversaries and funerals. The honeymoon market is often used as an example of a special holiday purchase occasion.

Size of party

Hospitality managers recognize that party size, which has a considerable influence on the needs and wants of hospitality consumers, can be used as a segmentation variable. Clearly, groups of travelers have different check-in, check-out, dining, drinking, meeting and entertainment requirements compared to individual travelers. Companies that specialize in volume hospitality operations develop the facilities and skills necessary to cater for large-scale events. Sensible smaller outlets should avoid taking bookings from larger parties, which they know they cannot cater for effectively, to avoid alienating their regular customers.

Lifestyle (or psychographics)

Psychographic segmentation is a classification of consumers according to their personality traits and lifestyle. It is based upon detailed marketing research into the activities, interests and opinions (AIO) of consumers, which can be linked to geo-demographic variables to provide consumer profiles. Marketing research analysts combine individual responses to questions about a person's AIO with details about his or her geo-demographic characteristics, and then cluster consumers in to groups with similar responses to form psychographic profiles of market segments. The data collated from each psychographic segment provides a detailed picture of where consumers live; what education, occupation and income they enjoy; what their activities, interests and opinions are; what media they buy; and what products they purchase. There have been numerous studies investigating psychographic consumer profiles, including American visitors to the UK, and the Belgian holiday market (Witt and Moutinho, 1997).

Proponents believe that psychographic segmentation:

- Develops a deeper knowledge and understanding of consumer behavior
- Is a good predictor of consumer behavior
- Enables companies to design products better to meet consumer needs
- Provides the opportunity to develop cost-effective marketing campaigns for selected target markets (see Figure 3.4).

Critics contend that psychographic segmentation:

- Is unable accurately to define lifestyle variables
- Develops lifestyle segments that are not strictly homogeneous
- Is very expensive – research costs are high because of the detailed face-to-face interviewing techniques at home
- Is not effective because people change occupation and move homes frequently.

Time

There are two aspects concerning the role of time as a market segmentation variable. First, from a seasonality perspective, hospitality operators need to understand why consumers patronize hotels in restaurants during quieter periods in order to develop effective marketing campaigns to increase sales during low season periods. Some older people, who do not live with children and have flexible holiday arrangements, enjoy relaxing in a quiet, peaceful environment, and can be considered a potential target market for holiday/hotel organizations in the low season.

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Ticket office: 0113 222 6222 Website: www.leeds.gov.uk/grandtheatre

Stay at • **Best Western Guide Post Hotel, Leeds/Bradford**
A modern hotel in a peaceful village location close to both Leeds and Bradford. The Yorkshire Dales are also just a short drive away.

BIRMINGHAM SYMPHONY HALL, BIRMINGHAM

Right in the heart of Birmingham city centre, this is home to the Birmingham Symphony Orchestra. Since it was opened in 1991 the Hall's superb acoustics have earned it the reputation as one of the world's finest music venues.

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Ticket office: 0131 228 1155 Website: www.usherhall.co.uk

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BRIDGEWATER HALL, MANCHESTER

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Ticket office: 0161 907 9000 Website: www.bridgewater-hall.co.uk

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your refreshingly different stay quoting MBBC
or visit www.bestwestern.co.uk.



Figure 3.4 Best Western advert targeting classical music lovers (source: Best Western Hotels)

The second aspect of time, in this context, refers to the advance booking period – the time between the customer booking and then actually consuming the hospitality product. This time period is an important segmentation variable, because the length, whether it is a couple of hours in advance or several years away, influences the design of the marketing program aimed at capturing the customer. The marketing program targeting a convention planner who is booking an international conference to be held in three years time will be different to the marketing program targeting an impulse diner who wants to eat out this evening.

Hospitality target markets

Companies need to evaluate the potential of market segments using the following criteria:

- 1 *Market data* – size, growth, accessibility, consumer needs and wants and benefits sought, customer power.
- 2 *Competitor analysis* – number of competitors, their market share, capabilities, resources, strengths and weaknesses, differentiators and profitability, and the potential for new entrants.
- 3 *Internal company audit* – capability of servicing the market segment, compatibility with existing and future segments, compatibility with the company's resources and values.

Major hospitality firms planning to enter a new market segment will invest in detailed marketing research to evaluate fully the attractiveness of competing market segments before deciding which to enter. The smaller operator will adopt a less formal process. Once selected, the market segment is defined as a 'target market' for which the company designs an appropriate marketing program. Target markets are groups of consumers, with similar needs and wants, for whom a marketing program is specifically developed to satisfy those needs and wants.

Hospitality companies target several different market segments at the same time, but each target market should have its own marketing mix program. Hospitality operators generally recognize that the 'Pareto Rule' – the principle that about 20 percent of the users of a product account for about 80 percent of volume sales and profits – works for hotel companies. Heavy users of hotel accommodation represent the highest profit potential target market. However, a hotel company's prime target markets are also going to be the competitor's prime target markets, and the relatively small number of heavy hotel users is therefore highly sought after.

Throughout this chapter, we have provided examples of hospitality organizations targeting market segments. There are two broad classes of target markets; consumer markets and organizational markets. Each requires a different marketing approach, because buyer behavior differs between individuals and organizations.

Consumer target markets

Consumer markets can be defined as travelers who use hotels and restaurants, as individuals, couples, families or small groups of people, for business or leisure purposes. Consumer markets have an influence over their choice of hospitality

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provider, set their own budget, and pay from their own resources. Examples of consumer markets include FIT ('free independent travelers' or 'foreign independent travelers'), individual woman business travelers, international travelers, older people, single people, the gay market, and celebrities (the new rich).

International markets

Hotels located in English-speaking countries and targeting significant sales from non-English-speaking markets like mainland China and Japan need to provide the following amenities and services:

- Multilingual front desk staff who can speak Chinese or Japanese
- Hotel information and safety notices written in Chinese or Japanese
- Oriental food options, which are essential (either a Chinese or a Japanese restaurant), and in-room food service options.

Although English is the common language for international business, hoteliers should not assume that all their international customers can understand English.

The seniors market

The senior citizen market is often described as the 'grey' market, and includes people in the following age groups:

- Older people aged between 55 and 64
- Elderly people aged between 65 and 74
- Aged people between 74 and 85
- Very old people aged over 85.

Although this division is somewhat arbitrary, it does help when evaluating the different needs and wants of the sub-segments of the grey market. For example, people over 70 are less interested in participating in leisure and sporting activities, whilst people aged between 55 and 70 are still relatively active and interested in participating in leisure and sporting activities.

The disposable income of the over 55s is higher than that of the general population because they have fewer financial outgoings on expenses like raising a family or paying the mortgage. This provides older people with more money to spend on leisure purchases. We have already identified that one of the characteristics of well-off Western older people is that they are more educated, sophisticated and well traveled than previous generations, and they therefore have higher expectations when staying in hotels and dining out. The special needs and wants of older people include quieter rooms with safety features like bath rails and non-slip shower mats, good portage facilities to help with luggage, early evening dining options, and smaller food portions.

Restaurant and bar target markets

Apart from a small number of high-profile outstanding eating and entertainment establishments (where the reputation is so high that customers are prepared to travel a long distance), customer markets for restaurants and bars are focused on locally defined areas. Market variations occur according to whether the unit is sited in a city center, the suburbs or a countryside location, and are determined by the

different geo-demographic characteristics of the neighborhoods. The characteristics of restaurant and bar target markets are also defined using gender, income and stage in the family life cycle, and using benefit segmentation criteria like service/quality, price/value, and time/convenience.

Research consistently demonstrates that diners look for quality of food, quality of service, value for money, friendly staff and cleanliness. Different target markets will rate the importance of these criteria according to their own needs. For example, price/value and time/convenience are rated more highly by the family eating-out segment, because of the costs of taking a family out, and the need to dine quickly to avoid restless children becoming disruptive. Adults dining out without children can afford the time and money to have a more sophisticated eating out experience. Since the geo-demographic characteristics of an area are the prime influence on potential dining-out target markets, restaurateurs and bar owners need to choose the sites of their operations with great care to ensure they target appropriate customer markets.

Singles market

Single people are a growth market for many hospitality products. The singles market can also be subdivided according to age and lifestyle. Single people who are working and still living at the family home enjoy eating out with friends, while older single people take holidays to meet new people.

Organizational markets

Organizational target markets are groups of travelers who use hotels and restaurants for business and leisure purposes. Individual customers who are traveling as part of a group of travelers have less influence (or none) over the choice of hospitality provider, and will sometimes have to pay for the service out of their own resources. If the organization is a corporate business, then the company (not the individual) will pay and will normally set expenditure limits. Examples of hospitality organizational target markets include corporate travel, corporate meetings, association meetings, conventions, exhibitions and trade fairs, tour groups, and a miscellaneous category called SMERF (social, military, educational, religious and fraternal).

Corporate travel

Corporate travel is a major expense item for national and international companies. Corporations regard the purchase of hotel accommodation in the same way as the purchase of any other commodity item. Companies are aware of their own purchasing power and expect discounted rates. Most hotel groups and larger independent hotels offer a standard corporate rate with a minimum 10 percent discount off the accommodation rack rate, and those companies booking larger volumes of nights negotiate higher discounts. However, if the agreed volume of business is not achieved and the contract is not sufficiently specific, there can be problems between hotelier and corporate client.

One independent British hotelier, Alan Morris, of the 60-bedroom Best Western Westminster Hotel in Nottingham, resolved this problem by agreeing to pay a monthly retrospective discount to companies based on the actual number of the nights sold each month. This same contract rate was available to any company using the hotel. Invoices were based on the rack rate, with discounts calculated on the number of rooms actually occupied by the company during the month.

There is an image of business executives enjoying the most luxurious travel and hotel accommodation, dining out in the finest restaurants and conspicuously consuming the best wines with 'no expense spared'. This might be true for some executives, but is certainly not case for all business travelers. Corporate organizations are hierarchical in design, and most companies agree expense limits according to the position of employees within the hierarchy of the company. Business travel allowances depend upon the corporate culture of individual organizations, which will vary immensely.

Corporate meetings

The corporate meetings market includes company management meetings, planning, recruitment and sales meetings, and training events, in locations that are not company-owned. The number of delegates attending a meeting can range from only two to over a hundred. The market is a major source of revenue for hotel operations, and includes both day meetings and meetings requiring overnight accommodation. Delegates attending such meetings do not have any choice about their participation and are obliged to attend. The company organizing (and paying for) the event needs to achieve its own specific organizational goals for the meeting to be a success.

Organizers and delegates who attend corporate meetings have professional standards and high expectations for service standards. Prior to the meeting, the hospitality venue has to work with the meeting organizer to plan the event and ensure that all the details are carefully agreed. In recent years, the major hotel brands have developed guaranteed conference packages to satisfy the needs and wants of meetings organizers and their delegates.

Association meetings

In addition to corporate meetings, there are a large number of professional and trade organizations that hold regular meetings for members. These voluntary meetings are normally held in the evenings, have a variable attendance, and do not generate significant amounts of accommodation, food or beverage revenue. However, most associations will hold functions such as annual dinners, and individuals involved with the associations may be important potential users of hospitality outlets in their places of work. Examples of such organizations include the Lions, Masonic Lodges, Rotary Club and Round Table.

Conventions, exhibitions and trade fairs

The lead (or booking) time for major national and international events involving hundreds or thousands of delegates ranges from two to more than ten years. The number of venues capable of hosting these events is limited by the large scale of such events. Major convention and exhibition centers are often built by government initiatives in recognition of the economic value these venues can generate in a region in terms of employment, revenue and prosperity. Cities like Birmingham (UK), Milan (Italy) and Dallas (USA) have provided dedicated facilities that attract major national and international events.

Key issues for event organizers include:

- An effective transportation infrastructure (for example, good airport and road connections)
- Provision of modern convention and exhibition facilities of sufficient size

- The availability of a wide range of quality hospitality facilities
- Resort, leisure and recreational amenities.

For international events, climate factors and the relative cost and travel distances are additional influences in deciding which venue to book. There is considerable international competition between the different venues, which has led to the emergence of convention or visitor bureaux linked to tourist information centers and funded by local government and business. The role of the visitor bureaux is primarily to promote the area and act as an information provider. Events may last for several days and, apart from a main event, include several ancillary minor functions.

Event organizers will be responsible for coordinating the booking of the venue, the dissemination of publicity for the event, and possibly some of the catering arrangements. Individual companies and visitors are responsible for making their own travel and hotel arrangements. Individual visitors may see the event as an opportunity to combine work activities with some leisure, relaxation, sporting or sightseeing activities, which explains the appeal of more exotic locations for international events. Examples of organizations booking exhibitions and conferences include professional and trade bodies, and political parties.

Aircrew

An unusual market segment that hotels target in 'gateway' locations is that of airline employees, and specifically airline crew. The high volume of intercontinental, regional and international flights, coupled with the need for aircrew to have proper rest periods between flights, has created a demand for group accommodation for hotels within approximately 15–45 minutes travel time of major airports. Aircrew have special needs and wants, including:

- Efficient 24-hour check-in and check-out procedures
- Bedrooms that are available immediately upon arrival and check-in
- Quiet and dark rooms, preferably with blackout blinds, to facilitate sleeping at any time of the day or night
- A 24-hour food and beverage service, at a reasonable charge, since airline crew have limited expense allowances
- Efficient wake-up calls, since the airline crew must meet their flight schedules on time.

Some years ago aircrew had a glamorous image, appearing to mix well with other guests, and upscale hotels regarded them as a compatible and attractive target market. Today, the growth of mass air travel has led to a less glamorous and more workaday image of airline crew, and the more exclusive hotels are less interested in targeting this market. The Arora Group has opened three hotels, two in Heathrow and one in Gatwick, which primarily target airline crew. Facilities in the bedrooms include triple glazing, full blackout curtains, king-sized beds, air conditioning, 24-hour room service, and interactive TV with Internet, games and video; this provision enables aircrew to sleep, eat, connect and relax in their room at any time of the day or night.

Tour groups

The growth of global tourism has increased the demand for international group travel that is organized by intermediaries. These groups of travelers are provided with inclusive travel and accommodation products and, depending upon the location, food

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service. This is high-volume business, and the hotels interested in this market have to offer low, competitive prices to win the business. Groups need:

- Dedicated, efficient group check-in and check-out procedures and concierge/porters' services
- Good-sized lobby/lounge areas, where members of the tour group can conveniently meet
- Efficient food service, because they are often on a strict schedule and do not want to run late.

Sometimes hotel employees treat tour group customers as the least important of all clients, but in volume terms tour groups represent a significant market, especially in major tourist attractions.

SMERF

SMERF is a North American expression that stands for social, military, educational, religious and fraternal (i.e. family events such as weddings and funerals), and is a convenient heading to discuss all the group market segments not already discussed.

This segment is generally very price sensitive. SMERF organizations are non-profit making, and members/family pay for their event out of post-tax income. Consequently, the organizers of SMERF bookings are inclined to take advantage of low season bargain rates. Although the room rates offered have to be low to attract SMERF bookings, there can be a significant food and beverage spend linked to the event. An exception to these general comments about the SMERF market is the special family occasion, like weddings and wedding anniversaries, which can be less price sensitive.

Intermediaries

The complexity of efficiently arranging group travel has created a role for speciality intermediaries, to act on behalf of organizations in their negotiations with hospitality and travel providers. These intermediaries have become target markets for hospitality companies in their own right. Key intermediaries, who book volume business and expect competitive rates, include:

- Conference and meetings planners
- Travel agents
- Wholesalers and tour operators
- Incentive travel houses.

We will discuss the role of intermediaries in more detail in Chapter 8.

Mixing market segments

A key issue for all hospitality operations is to ensure that the various target markets are compatible. *Mixing incompatible market segments leads to customer dissatisfaction, and serious customer complaints.* In hotels, the imperative of filling rooms in low and shoulder seasons can motivate reservation managers to accept bookings from customers whose needs and wants are not compatible with prime target markets. Examples of mixing incompatible segments include mixing business and leisure customers, mixing elderly tour groups with families and children, and mixing different levels of employees in the same hotel.

Similar problems can arise when hotels cater for banquets, and residents are disturbed by large, noisy, late-night functions with music and dancing. The principle of separating segments with incompatible needs is the answer to this problem. Therefore, accommodation reservation managers need to be aware of the banqueting diary and banqueting sales executives need to be aware of the rooms situation when they are taking potentially disruptive bookings.

Conclusion

Understanding consumer behavior and customer expectations is essential if hospitality managers are to succeed in delivering customer satisfaction. Segmenting markets is the starting point for effective marketing. Marketers need to identify attractive market segments and then develop appropriate marketing strategies to win customers. We will discuss how to develop the marketing strategies in later chapters, but the process should always start with the needs and wants of target markets.

In this chapter, we have explained:

- The different factors that influence hospitality consumer behavior
- Customer expectations and the 'zone of tolerance'
- The hospitality buyer decision-making process
- The importance of segmentation in developing effective marketing strategies
- The segmentation process
- Key hospitality segmentation variables
- How to evaluate potential hospitality target markets
- The characteristics of hospitality consumer and organizational target markets.

Now check your understanding of this chapter by answering the following questions:

Review questions

- 1 Discuss the influences that impact on hospitality consumer behavior. Provide examples to illustrate your answer.
- 2 Evaluate customer expectations and the concept of 'zone of tolerance'. How does this model help explain customer behavior?
- 3 Discuss the consumer buyer decision-making process for hospitality products.
- 4 Describe the segmentation variables that hospitality companies can use to categorize potential customers.
- 5 Evaluate the characteristics of hospitality customer and organizational target markets.

References and further reading

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