
Chapter 4

Competitive strategies

Chapter Objectives

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

- Understand how the hospitality industry has developed in different regions of the world
- Carry out a competitive analysis, using the Five Forces model
- Explain segmentation, positioning and differentiation strategies in the hospitality industry
- Understand the role of branding in hospitality organizations.

Introduction

In this chapter, we will examine how the hospitality industry has evolved in different regions of the world, and look at the characteristics of hospitality firms – especially the differences between large-scale companies and smaller independent operators. We will discuss the ‘five forces’ that influence an industry’s competitive environment, and finally we will explain how companies develop their segmentation, positioning, differentiation and branding strategies. The competitive environment for hospitality companies can be described as dynamic, intense and turbulent, since most markets have excess capacity. Competition is fierce, and knowing their competitors is of crucial importance to hospitality marketers.

Development of the hospitality industry

The hospitality industry has evolved with different structures in different parts of the world because each region has experienced economic development during different periods of history. Hotel market demand is strongest in Europe, North America and Asia Pacific. We will now look at how the industry has evolved in these regions (Todd and Mather, 1998).

In Europe the hotel industry has origins dating back more than 500 years, and there are many historic old town hotels and highway inns. The European industry is dominated by independent, family owned and managed small hotels. France, Germany, Italy and the UK are dependent upon domestic markets, while other European countries have a higher proportion of international customers. There is a low penetration of branded hotel chains in Europe. Although the UK has the highest concentration of brands, approximately 70 percent of British hotels still have less than fifteen bedrooms.

In the USA and Canada, hotel development coincided with economic and social development in the nineteenth and twentieth centuries. Since 1945, American hospitality entrepreneurs such as Conrad Hilton, Bill Marriott and Ray Kroc have pioneered the development of branded hotel and restaurant chains, which today dominate both American and international hospitality markets. Over 60 percent of North American hotels with 20-plus bedrooms belong to a branded chain, and there are over 200 such hotel brands in the USA. Demand is dependent upon domestic customers and, despite the relative young age of the industry compared to Europe, the North American market is the most mature and sophisticated in the world. However, European companies have bought leading USA hotel chains – Ladbroke bought Hilton International and later changed the corporate name to Hilton; Accor bought Motel 6 and Red Roof Inns; and Bass (now InterContinental Hotels Group) bought Holiday Inn and InterContinental Hotels.

In Asia Pacific, hotel development, linked to dynamic regional economic development and growth in leisure travel, grew exponentially in the last quarter of the twentieth century. Major hotel building was originally designed to cater for the needs of international business and leisure travelers and focused on the upscale market, with four and five-star international branded hotel products. These hotels include the best

elements of American, European and Asian hospitality traditions. Recently Asian chains have targeted a growing mid-market segment, whilst the budget hotels primarily target domestic markets.

International expansion

Another feature of the latter part of the twentieth century was the rapid internationalization of supply in hotel markets. International hotel companies expanded at an exceptional rate. For example:

- Marriott Hotels spread from 29 countries in 1996 to 56 countries in 1999
- Best Western Hotels expanded from 63 countries to 84 countries in the same four-year period
- InterContinental Hotels Group (formerly Bass) and Starwood emerged as major hotel competitors.

In due course, virtually all of the major hotel companies will have a presence in every country where it is politically possible to operate.

The characteristics of a hospitality company's home country play a central role in determining how successful its international expansion is. In particular, the nature of demand and competition in their domestic market shapes the culture of the management team – indeed, the core competences and competitive advantages of international firms are first developed in the home environment. For example, Accor's French origins and Marriott's North American origins clearly influence their different approaches to managing hospitality operations in other parts of the world. A typology of firms' different approaches to managing international operations is frequently used to describe a company's activities (Perlmutter, 1969), and this is described here.

Ethnocentric

Companies taking an ethnocentric approach to their international hospitality operations are adopting a *home country orientation*. Home country operating systems and procedures are set up in their international subsidiaries (the host countries), and a home country 'knows best' culture is implied. This approach is suitable if the domestic marketing strategies are applicable in the foreign countries, or if the company is targeting home country customers. An all-inclusive holiday resort operated by a British home country tour operator (like Mark Warner Holiday Villages) in a host country like Greece, and targeting British customers, could adopt an ethnocentric approach. However, because host country cultures can be very different from the domestic country culture, the ethnocentric approach is not suitable if the target markets comprise large numbers of host country residents.

Polycentric

Companies taking a polycentric approach to their international hospitality operations are adopting a *host country orientation*. The home country management recognizes that managers in the host country know their own culture better than the home country managers, and local operating systems and procedures are retained in foreign markets. This approach is suitable if the host country marketing strategies are targeting host country customers. It is based upon the premise that there are

fundamental differences between domestic and foreign marketing, and that local managers understand their customers better than does the international head office. The marketing of Best Western Hotels is typically polycentric; each country has considerable autonomy in devising its own marketing campaigns, which are developed for host country consumers.

Regiocentric

Some hotel operations are geared towards a particular continental region, which has a similar culture and is at a similar stage of economic development. The Scandinavian countries of Denmark, Finland, Norway and Sweden have a strong regional identity. A similar marketing offer can be developed for a hospitality brand operating in Scandinavia, which is culturally suitable for all Scandinavian consumers. Indeed, Scandic Hotels used to operate on this basis before the company was bought by Hilton International. One advantage of a regiocentric approach is the cost and marketing benefits of standardizing the offer. One of the largest regiocentric hotel companies in the world is the Hong Kong-based Shangri-La Hotels in Asia.

Geocentric

A geocentric approach implies a world-wide orientation that does not favor either the home or the host country. This is often called a global approach to management. The company adopts a positive attitude towards other cultures, and borrows what is best from many countries. 'Global consumers', who have similar consumption patterns regardless of where they live, are an attractive target market for companies seeking to adopt a geocentric approach. However, many of the international hospitality companies who claim to be 'global' still retain elements of their ethnocentric origins.

None of the international hospitality firms operates purely in an ethnocentric or a polycentric or geocentric style, but firms do exhibit ethnocentric, polycentric and geocentric management tendencies.

Characteristics of hospitality firms

We will now discuss the characteristics of hospitality firms that impact on marketing. These include ownership and size, ownership and affiliation, and hotel classification schemes.

Ownership and size

Virtually all hospitality firms started as single-unit enterprises – Americans use the term 'Mom and Pop firms' to describe these small businesses – and most remain single-unit operations throughout their commercial life. The characteristics of small, single-site hospitality firms include the following (Morrison and Thomas, 1999):

- The owner and management roles are combined
- Owners are close to the customer

- Owners can be more entrepreneurial and innovative, responding quickly to changes in the PESTE and micro-environments
- There is a focus on operations and the immediate issues facing the business
- There is a short-term planning timeframe.

Firms have a life cycle, and can develop from a single-site owner/management business operating in a simple environment to multi-site, multiple business units with hierarchical corporate organizations, operating in a complex environment. As organizations grow, decision-making often becomes more remote from the customer and frontline staff. Hotel groups rarely own small hotels, and one- and two-star hotels also tend to be privately owned. Small hotels do not deliver the required revenue and profitability expected from a group-owned hotel.

In hospitality, large firms tend to manage the larger-size units and have a higher proportion of hotel bedrooms and restaurant seats compared to small firms. For example, the top 25 British hotel chains control 33 percent of all room stock with only 4 percent of properties (Jones, 1999). This trend towards concentration of ownership is likely to continue. Whilst the three-star market incorporates both privately owned hotels and mid-market chains, larger upscale and luxury units tend to be owned by large organizations.

The characteristics of larger hospitality firms include the following:

- The separation of ownership and management – typically the general managers and directors of a hospitality corporation will only own a token share holding or share option
- Ownership is normally diffused across a large number of shareholders, although financial investment companies may hold larger stakes in the business
- Multiple-site operations – the largest hospitality corporations comprise thousands of geographically dispersed units, across dozens of countries in all continents, under a complex combination of different brands, targeting a variety of markets, using a range of business formats (ownership, franchising, management contract) and employing hundreds of thousands of staff
- Employment of professionals to manage at both the unit level and at head office – these professionals have developed considerable expertise in hospitality operations management, as well as the functional disciplines of finance, human resources and marketing management.

Large firms enjoy significant advantages in terms of:

- Economies of scale, giving cost savings in purchasing
- Economies of experience (this comprises the accumulated managerial experience that large companies enjoy)
- Access to financial markets, which provide significant financial resources for investment
- Being powerful and popular brands
- Powerful computerized distribution systems
- Access to specialist agencies like financial consultants, design consultants, and advertising and public relations agencies
- The focus on long-term strategic planning

But:

- Management procedures are more formalized and bureaucratic
- Management is much more remote from the customer.

Although smaller, single-site, owner-managed hospitality units can give regular customers a more personalized service, it is more difficult to reassure visiting tourists who do not know the unit that the service quality is good. However, powerful hospitality brands do provide the reassurance that customers are looking for when traveling. These brands dominate the marketplace and the competitive environment.

Hospitality ownership and affiliation

There are at least six forms of hospitality ownership and affiliation, and these are described here.

Owned

A company, partnership or individual can own the freehold property. Ownership enables the organization to develop the property without constraints (subject to planning controls and permission). The organization may borrow funds from lenders to purchase or develop the business. Ownership of freehold property ties up capital within the business.

Leased

A company, partnership or individual can lease the property from a landlord and pay commercial rents. The landlord has to approve structural alterations, and lease contract details can be complex. In recent years, major hospitality companies have sold their freehold properties and then leased them back to continue to operate the hotel business. This has released funds to help fuel the expansion of hospitality corporations.

Management contract, with an equity stake

Specialist hotel management companies take an equity stake in the property, which demonstrates a long-term commitment to the landlord and the business. This type of management contract enables the management company to share in the profits of any property inflation.

Equity-free management contract

Specialist hotel management companies can be responsible for the entire operation of a hotel property on behalf of the owners. This type of management contract is less complex than an equity-stake contract.

Franchise

In franchise operations, the franchisor (the company who owns the franchise) will offer a branded concept to a franchisee, who operates the business according to the standards set by the franchisor. The franchisee buys the franchise and pays a commission on turnover to the franchisor for continued marketing and organizational support. Franchising has been an extremely successful concept for companies like McDonald's, which wish to expand rapidly. It enables the franchisor to grow the business without needing too much capital, since the franchisee pays to buy a franchise and also for the business start-up costs. The rapid increase in the number of outlets in a country or region enables the franchising company to gain a critical

mass, which funds heavy investment in advertising and promoting the brands. A frequent cause of tension in franchising is the relationship between the franchisee and franchisor. The franchisor needs to have consistent brand standards, and will monitor each unit to check conformance. Franchisees often expect more investment in advertising and product development from the franchisor, and this can also become a source of conflict.

Activity 4.1 Cendant – the world’s largest hotel franchisor

Cendant claims to be the world’s largest franchisor of hotels. It owns nine hotel brands – Amerihost Inn, Days Inn, Howard Johnson, Knights Inn, Ramada, Super 8, Travelodge, Villager, and Wingate Inns – with approximately 6400 hotels and nearly 540,000 rooms throughout the world.

- Log onto the Cendant website, www.cendant.com, and read about its hotel brand franchising opportunities.

(Source: Cendant)

Consortium

Independent hotels seeking the benefits that group-owned chains enjoy can affiliate to a hotel consortium. Membership of a hotel consortium enables independent hoteliers to retain their entrepreneurial freedom and to:

- Link to global computerized reservation systems
- Buy into an international or domestic brand
- Participate in the consortium’s national and international marketing communication campaigns
- Extend their distribution channels
- Enjoy discounted prices when purchasing, due to the consortium’s bulk purchasing power
- Belong to a group of similar independent hoteliers, and share management and marketing information.

Case study 4.1 describes a successful hotel consortium.

Case study

4.1 Best Western Hotels – the largest consortium in the world

Best Western International is the largest hotel company operating under a single brand name, with more than 4000 independently owned and operated hotels. Based in Phoenix, Arizona, Best Western offers over 300,000 bedrooms in 78 countries. Best Western Hotels is a membership organization which gives hoteliers the opportunity to remain independent whilst also providing the benefits of a full-service, international hotel group with a global reservations system, marketing, advertising, purchasing, training and quality standards.

(Source: Best Western Hotels, www.bestwestern.com)

Implications of ownership/affiliation

Independent operators typically own or lease their property. Although many have joined consortia like Best Western Hotels to maximize their marketing efforts, most independent hotel owners remain unaffiliated apart from in the USA. The branded hotel chains utilize all forms of ownership – companies like Hilton, Marriott and InterContinental Hotels Group use a combination of ownership, lease, management contract and franchise to operate properties throughout the world. The fast-food chains like Burger King and McDonald's use franchising as a marketing tool to grow their business.

Hotel classification schemes

The World Tourist Organization and most national tourist boards use the internationally recognized star rating system to classify hotels. The scheme is as follows:

One-star	A budget market hotel with limited facilities, offering bed, breakfast and evening meal, and characterized by informal standards of service to residents
Two-star	An economy market hotel with limited facilities, offering more extensive dining facilities, and characterized by informal standards of service to residents
Three-star	A mid-market hotel with more extensive facilities, offering a full range of dining and bar services, with professional standards of service, to residents and non-residents
Four-star	An upscale hotel offering formal standards of service, with extensive facilities and services to residents and non-residents
Five-star	A luxury hotel offering 'flawless' service standards, with professional multilingual staff, and a full range of facilities of the highest quality

Many motoring organizations also use the star rating system but add their own awards, like the Automobile Association in the UK and the *Michelin Guide* from France. Consumer groups have also developed a variety of classification schemes for hotels and restaurants using their own criteria. From a marketing perspective, schemes like the AA Red Star hotel and Restaurant Rosette Awards provide quality standards which discerning customers understand. These endorsements reinforce the quality image projected in letterheads and brochures, and can be used in public relations campaigns to generate publicity.

Understanding the competition

Although some hoteliers and restaurateurs claim their product is so unique that they 'do not have any competitors', the reality is that all hospitality businesses compete against a variety of different types of competition. A broad distinction can be made between macro-competition and micro-competition.

Macro-competition

Macro-competition comprises all those industries that are competing for the consumers' disposable income, including hospitality. Examples of these indirect competitors include:

- Major household purchases – for example, a new bathroom or motorcar – compete with luxury holidays in exotic hotels and on the cruise ships
- Shopping for clothes and accessories competes with visits to health and sports clubs
- Supermarket outlets, with their pre-prepared, easy-to-cook meals, compete with restaurants and takeaway shops
- Shops that sell alcohol for consumption at home compete against bars and pubs.

Before examining micro-competition, we discuss Porter's Five Forces, and Competitive Environmental Analysis, which are tools used in the analysis of industry competition.

The influence of Michael Porter's generic marketing theory on both practitioners and academics has been significant. Porter (1980) proposed that firms benefit from understanding the forces that drive competition and profitability in their industry, and that firms should explicitly formulate a competitor strategy. To understand the competition, a competitive analysis needs to be undertaken. Porter's model is often referred to as the *five forces competitive analysis*.

The five forces driving industry competition

The external PESTE environment impacts on the general hospitality industry and affects all competitors. Porter identified five macro factors that influence industry competition:

- 1 *The bargaining power of customers (buyers)*. This force reflects the strength of the bargaining position, particularly regarding price, which customers have over suppliers. Customers who purchase larger volumes of bed-nights and seats and who have low switching costs (i.e. it is easy to change the supplier) leverage a strong bargaining force in the competitive environment. For example, tour operators, who book thousands of customers in to hotels, have a strong bargaining position and can demand lower prices from hotels. Customers have a weaker bargaining position if demand is high and capacity low, but when demand is variable and capacity high the customers have a stronger bargaining position. However, individual customers who book and consume hospitality products have limited or no bargaining power.
- 2 *The bargaining power of suppliers (including employees)*. Suppliers, including employees, can influence the attractiveness and profitability of a sector by increasing their prices (or wages) and thereby increasing industry costs and reducing profit margins. Powerful suppliers are those organizations that control the supply of goods and services to the hospitality industry. This varies from country to country. Examples include monopoly suppliers controlling electricity, gas, or water supplies; oligopoly suppliers, which are concentrations of only a few major suppliers (as in the UK brewing industry); and powerful trade unions, which can negotiate improved pay and conditions on behalf of the workforce.
- 3 *The threat of new entrants*. The threat of new entrants is dependent upon the barriers to entry into an industry. These include the ability to generate economies of scale and experience, the opportunities for product differentiation, the amount of capital required to buy into the industry, and access to distribution channels. In hospitality, there are low barriers to entry in most sectors.

- 4 *The threat of substitutes.* Substitute industries provide competing product offers that perform the same function. An example is the convenience eating-out market, which competes against substitute convenient eat-at-home products marketed by supermarkets. Continual developments in technology keep changing the potential threat from substitute products. The rapid development of video-conferencing is a substitute product for the hotel meetings market.
- 5 *The intensity of rivalry between competitors.* Rivalry varies between industries and sectors. The character of rivalry varies, and includes conflict (efforts to destroy competitors), competition (to provide better solutions to customer problems), co-existence (rivals allow each other to operate in different segments), cooperation (rivals cooperate in some activities such as purchasing) or collusion (illegal cooperation to fix prices and produce a managed market). The rivalry is dependent upon the number of dominant players, the level of industry profitability, levels of demand and capacity, and the personalities of competitors. In hospitality markets, whilst competition is intense, most people working in the industry have good personal relationships with rivals working for competitors.

The first step in a competitive analysis is to agree a relevant definition of the market sector, which sets the parameters for analysis – for example, the fast-food market in central London, the budget hotel market in Germany, the luxury hotel market in Europe. Each of the five forces is then evaluated using the information collected in the PESTE analysis. The five forces analysis identifies major opportunities and threats facing the company from the macro-environment. Figure 4.1 illustrates Porter’s Five Forces using a full-service hotel example.

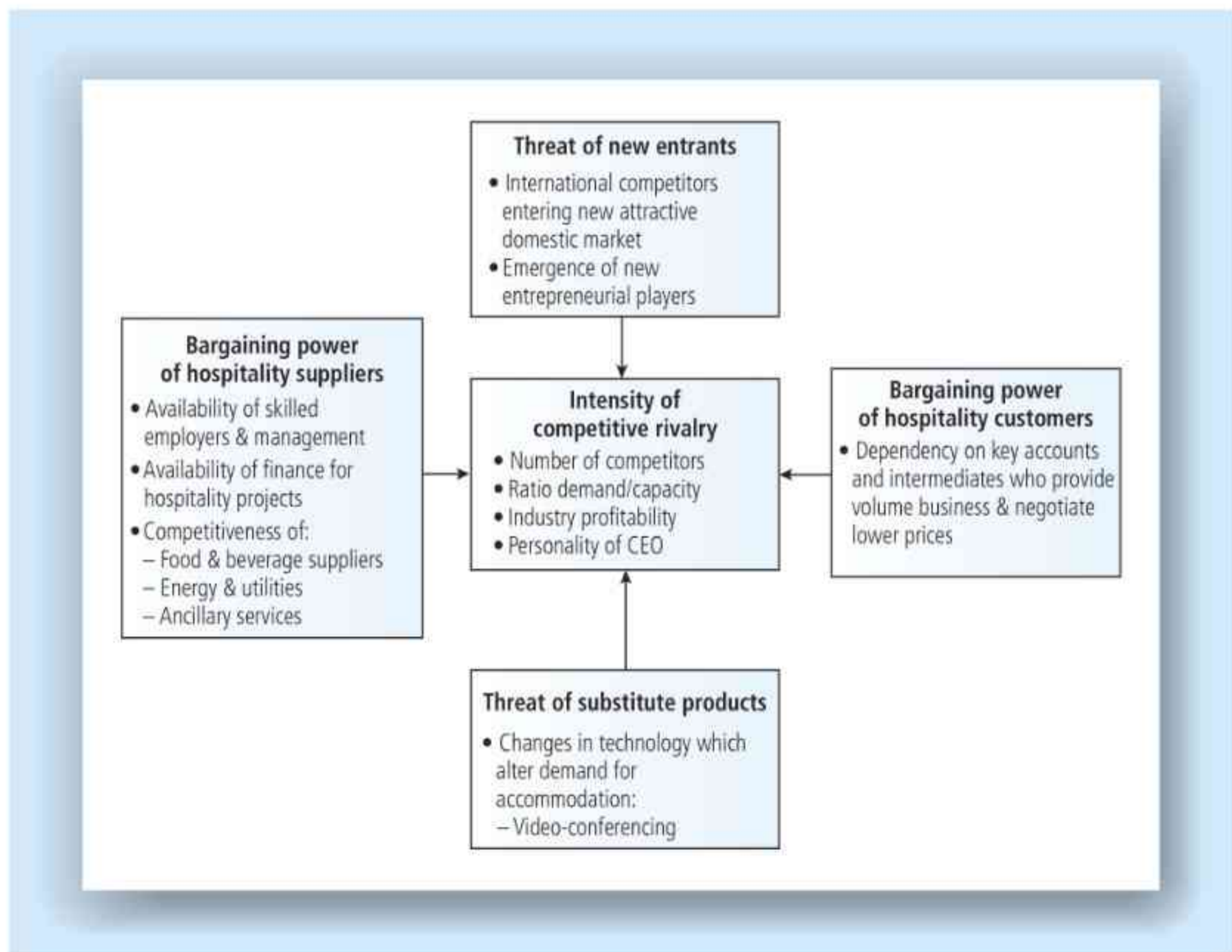


Figure 4.1 Five Forces Analysis (source: Porter, 1980)

Competitive environments

The Five Forces analysis evaluates the nature of the competitive environment in an industry. Another framework developed by Porter for analyzing the competitive environment of an industry identified four generic categories, which are described as fragmented, niche, volume and stalemate. Each of these competitive environments (except stalemate) is common in hospitality, and this language is regularly used to describe the characteristics of hospitality sectors.

Fragmented In a fragmented competitive environment, no firm has a significant market share. The industry has low entry barriers, with high product differentiation and low economies of scale. Profitability is unrelated to size; this means that large firms are not more profitable than small firms. A fragmented market comprises a large number of small- and medium-sized businesses. In hospitality, examples of a fragmented market include the Italian hotel market (which is dominated by small privately-owned family run hotels) and British ethnic/fast-food restaurants (such as fish and chip shops, and Indian and Chinese restaurants).

Specialized or niche In a specialized or niche competitive environment, there are many ways of achieving competitive advantage. Companies focus on serving specific market segments and become specialized businesses. The marketing objective is to be best in class, and a price premium is charged. Image, quality and service are important factors in serving customers in a niche market. There are many examples in the hospitality industry – Gleneagles Hotel in Scotland has a niche market in the luxury leisure golfing market.

Volume The volume competitive environment is characterized by mass players serving mass markets. There is a limited number of ways to achieve competitive advantage, and control of costs is a key factor for success. Economies of scale, experience and technology are used to reduce the cost base. The marketing objective is to be the cost and volume leader. Examples of volume businesses in hospitality include brewing, contract catering and tour operators. In Norway, three companies (SAGA, Star Tours and Ving) dominate the travel industry.

Stalemate The stalemate competitive environment is characteristic of industries in the mature or declining stages of the life cycle (for example the European steel industry) with a commodity product and limited opportunities for differentiation. This type of competitive environment is characterized by a small number of very large players which dominate their industry. There are few competitive advantages, so the focus is on large-scale production and improving productivity. Stalemate industries suffer from excess capacity, limited innovation and high barriers to entry. There are few examples of a stalemate industry in hospitality.

Micro-competition

Micro-competition comprises the branded and independent hospitality units that compete directly with a similar product and similar price, and target the same customer in the same location. This type of direct competition, which is normally local depending upon the product category, is also described as *product form* competition. First, a company needs to identify the brands/establishments in its competitor set.

Criteria that can be used to define a competitor set include competitors who are:

- Patronized by your target customers
- In the same product class
- Within a specified geographic area
- In a similar price category.

An effective marketing research technique adopted by the Marriott County Hall Hotel, London, is to ask residents where they would be staying tonight if the Marriott were full. The customers' replies help to establish which hotels are in the competitor set. Desk research and local knowledge can establish which businesses compete in the same product, geographic and price set. Examples of direct competition include:

- Five-star international hotels in Shanghai
- Pubs and bars on West Street in Sheffield
- Restaurants clustered around Circular Quay in Sydney Harbour.

Once the competitor set has been established, marketers need to carry out research by visiting their competitors and evaluating their marketing offer. One of the best ways to analyze competitors is actually to use their facilities as a paying customer, staying in the bedrooms, having a drink in the bar and dining in the restaurant. The desk and primary research should include assessment of the following:

- The size, quality, décor and facilities of the bedrooms, public areas
- Food and beverage facilities
- The staff and their approach to customer service
- The price and value offered
- The marketing communications and the service promise in print and advertising
- The image projected by the brand signage and physical appearance.

Although managers should be aware of any competitor developments on an ongoing basis, the preparation of an annual marketing plan provides an obvious opportunity to revisit competitors and monitor their activity.

International competitor sets

There is also strong competition on both macro- and micro-levels between the major global and international hospitality brands. Examples include:

Luxury	Four Seasons against Ritz Carlton
Upscale	Hilton International against Marriott
Mid-market	Best Western against Holiday Inn
Budget	Motel 6 against Super 8

However, competition also depends upon the number and type of brands an international hospitality company owns. Some companies compete in several mass markets on a global scale – Accor, Marriott and the InterContinental Group all own a range of budget, mid-market and luxury brands – and are striving to build global demand. There are a small number of hotel companies that operate on a global scale with a single brand, and these brands can be described as operating in niche markets. Four Seasons is a luxury niche operation, whilst Best Western is a mid-market niche operator. In many countries, the international brands also face domestic competitors.

Table 4.1 International Competitive Strategies

	<i>Mass market</i>	<i>Niche market</i>
Global coverage	Global/regional high market share (InterContinental Hotels Group)	Global/regional niche (Four Seasons Hotels)
National coverage	National high market share (Whitbread–Marriott franchise and Travel Inn)	National niche (Hotel du Vin)

A domestic competitor can own several brands in one country, and therefore competes in mass markets (a UK example is Whitbread), whilst a domestic competitor who focuses on a single market can be described as a domestic niche operator (another UK example is Hotel du Vin). Table 4.1 provides a summary of this scenario. Companies choose the markets in which they want to compete, and in that sense we can say that they choose their competition. Equally, if companies find they are not competing effectively in a marketplace, they can choose to exit and sell their units and/or brands.

Sustainable competitive advantage

Companies are constantly striving to compete more effectively. However, not all factors are equally influential, and some can be regarded as more important in achieving competitor advantage than others. These *critical success factors* (CSFs) – also called *key factors for success* – need to be identified so that a company can ensure that it delivers value that meets and exceeds the expectations of its targeted customers better than competitors. The process of analyzing critical success factors includes:

- Researching customer expectations (e.g. consistent food quality)
- Identifying the key components of the offer that create value for customers
- Identifying four to six potential critical success factors that impact on satisfying these expectations (e.g. close relationships with suppliers of fresh produce, efficient batch production operations)
- Analyzing company competencies that underpin the key factors identified
- Scrutinizing the list of critical factors to ensure that superior performance will deliver a competitive advantage
- Identifying the performance standards that need to be achieved to outperform competitors
- Assessing the ability, competencies and resources of the company to achieve the required performance standards
- Assessing the ability of competitors to imitate improved performance on the critical success factors.

International hospitality companies initially start developing their own unique competences in their domestic market as a response to consumer needs, competitor activities and the environmental situation.

Defining the CSFs in a market enables a company to understand its market position *vis-à-vis* competitors, and helps to build competitive advantages. CSFs need to be identified that deliver the experiences and attributes most valued by customers. Examples of critical success factors in the hospitality sector include:

- Lowest cost base for chain budget hotels
- High brand image and high brand awareness for international hotel luxury chains
- Technical superiority in food production processes for fast-food chain restaurants
- Consistent standards of service in standardized hospitality branded concepts
- Easy to find locations and secure parking facilities for provincial business hotels competing in urban locations
- Superior service, provided by well-trained and highly motivated personnel, in luxury country house hotels.

Whilst the most successful hospitality companies have clearly defined competences and understand the critical success factors in their competitive environment, many hotels and restaurants are not so aware. These companies often fail to understand their own competitive strengths and do not analyze their competitors for weaknesses, and thus they lose an opportunity to develop a competitive advantage.

Competitive advantages that are easily copied have limited value. 'Amenity creep' can become a serious problem for hospitality competitors when striving to gain a competitive advantage. When a company starts to offer customers additional product enhancements in an attempt to gain competitive advantage, this is called amenity creep. For example, if a hotel chain starts to offer customers additional complimentary in-room amenities (chocolates on the pillow, turning the bed down, providing more luxurious bathroom products, increasing the reward benefits on a frequent guest program) to try and increase customer loyalty and repeat business, this is called amenity creep. Since each added amenity is easily copied by competitors, and also significantly increases room costs and prices, chains using this tactic are unable to develop a genuine sustainable competitive advantage. Amenity creep can also inadvertently alter the positioning of the brand and lead to inappropriate pricing policies that erode the original market position.

For hospitality companies the reputation and image of a business is built up over many years, and a distinctive brand can become a focus for sustainable competitive advantage. Hotels like the Savoy in London, the Marriott chain of international hotels, and McDonald's fast-food restaurants have all developed strong and sustainable competitive advantages, based on a deep understanding of key factors for success in their market segments. Success factors change over time. New competitors can seize a sustainable competitive advantage by recognizing – earlier than their established competitors – environmental factors that alter the structural dimensions of the market.

Measuring competitive success

Key measures of competitive success for publicly quoted companies include operating statistics such as sales revenue increases, profit margin increases, room occupancy, achieved room rate, and yield. Market share is another important criterion. Hotels

in the same local competitor set (branded chains and independents) sometimes exchange room occupancy and achieved room rates to enable each hotel to benchmark its performance against competitors. The Leicester Association of Tourist and Conference Hotels carried out a market share analysis, which provided all participating hotels with important market data. To calculate market share, the following information is required for each hotel:

- Number of rooms available for letting
- Rooms sold during the given period.

The fair market share is calculated by dividing the number of bedrooms available in each individual hotel by the total number of bedrooms in the competitor set. For example, Hotel A has 100 rooms available and the total number of rooms in the competitor set is 1000. To calculate the fair market share:

$$\frac{\text{Number of bedrooms available in Hotel A}}{\text{Total number of bedrooms in the competitor set}} = \frac{100}{1000} = 10\%$$

When each hotel provides the actual number of rooms sold in the period, the market share of each hotel can be calculated by dividing the actual number of rooms sold by the total number of rooms sold. Again, using the same example, the actual market share can be calculated as follows:

$$\frac{\text{Number of rooms sold in Hotel A}}{\text{Total number of rooms sold in the set}} = \frac{70}{600} = 11.6\%$$

Finally, the difference between each hotel's actual market share and their fair market share can be calculated by subtracting the actual market share from the fair market share. In this example, Hotel A's actual market share is 11.6 percent and its fair market share should be 10 percent; therefore Hotel A has achieved 1.6 percent above its fair market share. This means that Hotel A has over-performed in occupancy terms compared to its competitors.

Market share analysis provides each hotel with important information concerning its actual performance against competitors, and can be used to monitor the effectiveness of marketing campaigns aimed at increasing market share. However, occupancy can be manipulated by lowering room rates, so managers are also interested in comparing achieved room rates. Increasingly, hotels are interested in using room yield as the benchmarking measurement for accommodation performance. Essentially, yield is a measure of the productivity of a company's assets. In hotels, yield is measured by comparing the actual revenues generated by rooms with the potential revenues that could have been yielded at full occupancy (see Chapter 7 for more details).

Hotel managers track their hotel's statistics month by month (see Table 4.2), and aim to improve their hotel's performance compared to competitors. When all the hotels in the competitor set experience an increase or fall in business the change can be attributed to factors in the external environment, but if one hotel's performance is consistently better (or worse) than its competitors', this indicates that local competitor factors (as opposed to external environmental factors) are responsible for the difference in performance. Thus performance needs to be placed within the context of the micro- and macro-environments, and reasons for inferior or superior performance need to be identified.

Table 4.2 Market Share Analysis

	<i>Rooms available</i>	<i>Fair market share</i>	<i>Rooms let</i>	<i>Actual market share</i>	<i>Achieved room rate</i>
Hotel A					
Hotel B					
Hotel C					
Hotel D					
Total					

Segmentation strategies

In Chapter 3 we discussed hospitality segmentation variables and target markets in detail. There are significant differences between the segmentation strategies of large hospitality organizations with multiple sites and those of independent, single-site operators. For larger organizations there are three alternative strategies: mass marketing, differentiated marketing and focused marketing (see Figure 4.2).

Mass marketing

Companies that adopt a mass marketing (or undifferentiated) strategy are responding to the *similarities* of consumers' needs and wants in large markets. They develop a single product to satisfy those customers. The benefits to the company include a standardized single product operation, leveraging significant savings in purchasing, production, staffing and promotion via massive economies of scale. The most visible example of mass marketing in hospitality is the fast-food market, although even here it is possible to detect marketing responses to segmentation variables. For example, McDonald's has developed special breakfast menus (a time-based market segment) and adapted the ingredients of their burgers in India (an ethnic/religious market segment).

Differentiated marketing

Major hospitality organizations adopting a differentiated segmentation strategy identify the *differences* between the needs and wants of various market segments, and develop individual marketing programs to satisfy the needs and wants of each market segment. An example of an international hospitality company that has successfully differentiated their marketing offer is Accor, which has developed specific international brands each catering for distinct market segments. The advantages of a differentiated approach, compared to mass marketing, include the opportunity to increase sales and market share by providing more bedrooms in several different hotels in the same location, with each hotel serving different market segments. The development of specific marketing programs for each segment should enable hospitality operators to satisfy customers better than a mass marketing approach, and generate higher repeat and recommended sales.

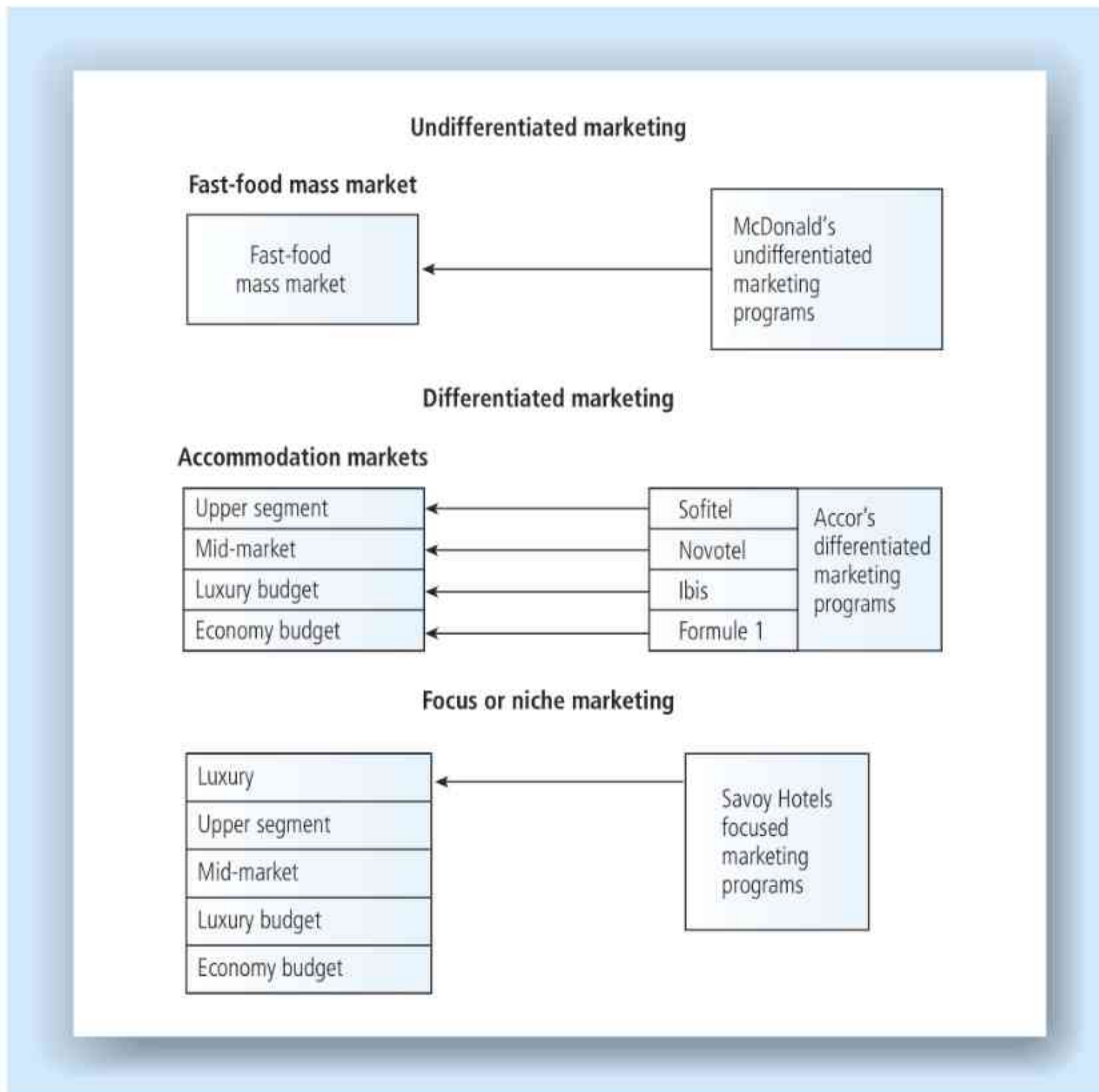


Figure 4.2 Segmentation strategies in hospitality

In the long term, organizations that have developed a portfolio of companies serving different segments of the market are less reliant on any particular segment, thus reducing the financial risk to the group. The disadvantages of a differentiated strategy are mainly cost-based. The cost of developing different marketing programs for separate market segments is higher with separate design and build costs, different purchasing schedules, more specialized staffing and different marketing communication activities.

Focused, concentrated or niche marketing

Hospitality companies that concentrate their marketing programs on a single market segment adopt a concentrated or focused segmentation strategy. This strategy can also be called a niche marketing strategy. Hospitality operators can either focus on a specific market segment, for example the luxury leisure market, or adopt a geographic concentration where all the company's outlets are focused within a specific geographic region. Because of their focus on a single segment, this strategy enables hospitality operators to really understand the needs and wants of their customers in that market segment.

Over time, the company builds up greater expertise in serving its customers and in delivering customer satisfaction, as well as enjoying greater operational efficiency and potentially enhanced profitability. The main disadvantage of this strategy is the over-reliance on one market segment, which makes the company extremely vulnerable to any decline in that segment's purchasing power. Companies that only own exclusive resort hotels serving the luxury leisure market can experience severe trading difficulties during recessions, compared to companies who have adopted a differentiated strategy. Sandals, a company with twelve luxury leisure Caribbean resorts for couples only, is an example of a focused strategy in terms of both the market served and the geographic concentration.

Single-site businesses

The segmentation strategy adopted by individually owned/managed units is inter-linked with the property's character, location, catchment area and competition. Most hotel properties within a product class, including chain-owned branded properties, need to target several different market segments to ensure the operation trades profitably. The seasonality of hospitality markets means that operators have to target different segments at different times of the day, week, or month. Few hotels can afford to only target one market segment, and even unique, individual leisure destination hotels will normally target several sub-segments of the market. Typically hotels will target business market segments for midweek occupancy and leisure market segments at the weekends.

Targeting, positioning and differentiation

The selection of target markets provides a focus for the development of positioning and differentiation strategies. It is difficult for companies to compete effectively in today's crowded, media-dominated marketplace, where consumers are bombarded by thousands of messages from hundreds of commercial, non-commercial and government organizations on a daily basis. This intense competitive environment forces hospitality firms to try and create a distinctive marketing offer that will help the company to stand out and be noticed by its target markets. *The dilemma for hospitality operators is that there are virtually no real differences between the core product offered by rivals in the same product class.* Generic products, which do not have any real differences, are described as commodity products. The original commodity products were items like table salt and drinking water. In hospitality, the tangible elements of a hospitality experience – a bed, a meal, a drink – are so similar that they can be considered commodity products, and this means that it can be extremely difficult to provide a product offer that is genuinely different to that of your competitors. An innovation or improvement which one company introduces is often quickly copied or imitated by the competition.

However, hospitality consumers do recognize that some products and companies have very distinct images compared to their rivals, and those companies have worked hard to cultivate that image. This process, the design and maintenance of a distinctive position in the minds of target markets, is the focus of a positioning strategy.

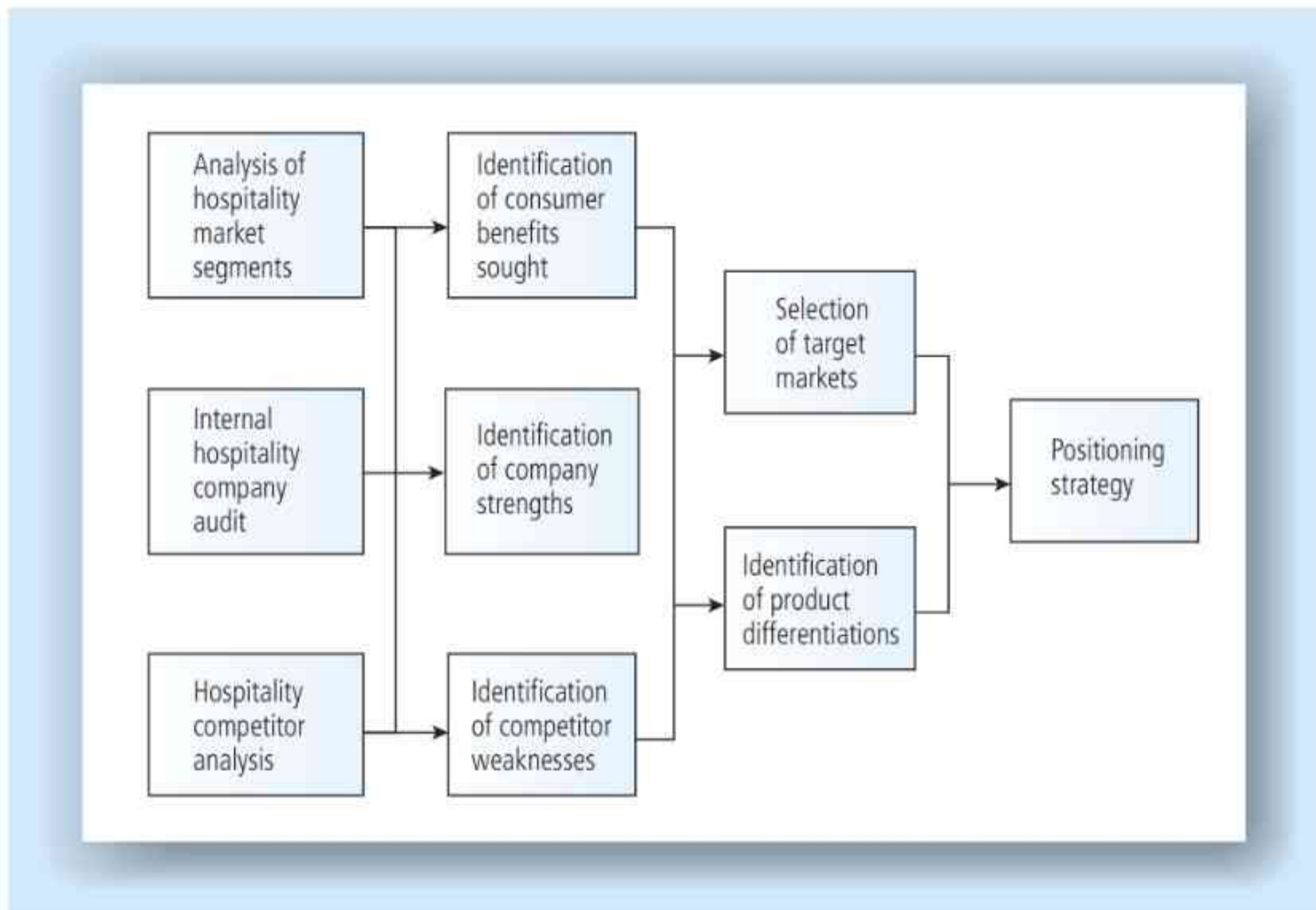


Figure 4.3 The process of segmentation, targeting and positioning in hospitality (adapted from Lovelock, 2002)

Positioning strategy is the process whereby hospitality companies try to develop a distinctive and favorable position in the minds of target markets, compared to competitors. The purpose of positioning is to ensure that target markets clearly understand what the product, service or brand stands for in the marketplace. Figure 4.3 demonstrates the link between segmentation, targeting and positioning.

Marketing research and analysis of the market segments should lead to an understanding of what consumers really want. The internal audit should identify the company's strengths, which can be developed into product or service differentiators. The competition analysis should identify competitors' weaknesses and possibilities for effective product or service differentiation. The marketer then evaluates the three separate analyses, with the aim of establishing a match between the benefits sought by consumers, the strengths of the company, and the weaknesses of competitors. The process culminates in the articulation of the company's desired position in the marketplace, which is designed to produce a competitive advantage.

Product or service differentiators are tools used by hospitality marketers as part of the positioning process. Product or service differentiation helps to distinguish between the tangible (and/or intangible) product characteristics of the service offer from competitors in the same product class. Again, the purpose is to create a competitive advantage attractive to selected target markets. The attributes that hospitality companies seek in order to differentiate themselves from competitors include location, quality, price, range of facilities and services, parking, safety/security, and, for frequent travelers, reward programs. The product or service differentiators may only be minor in nature – they may not even be real – but when articulated effectively over a period of time, they help the brand to stand out from competitors in the mind of the target markets.

There are two different approaches to positioning: objective and subjective (Ries and Trout, 1986).

Objective positioning

Objective positioning refers to the tangible, real or physical attributes that a hotel or restaurant offers customers. Attributes like the size of a budget motel bedroom, the facilities in a luxury hotel bathroom and the menu items on a fast-food restaurant menu are objective. The purpose of objective positioning is to use a tangible attribute as the main differentiator to distinguish your offer from competitors. Looking at the examples of attributes – the bedroom, the bathroom facilities, the menu – it is easy to see that any positioning statement based on these commodity product attributes can be easily imitated by competitors in the same product class. For this reason, objective positioning is not considered to be an effective long-term differentiator.

However, surveys of hospitality advertising reveal that all sectors of the industry, from international luxury hotel chains to local independent restaurants, use objective positioning images in their promotional campaigns. Unfortunately, managers fail to understand that pictures of their empty bedrooms and restaurants – or, even worse, pictures with their staff pretending to be customers – look the same as thousands of other hotel bedrooms and restaurants.

Subjective positioning

Subjective positioning focuses on the intangible aspects of the offer or experience. It is important to note that the perceived image of a hospitality company may not necessarily reflect the true or real state of the product or service offered. What matters is the customer's perception of the service. If the customer believes that a company's hospitality offer is high quality, with exceptional value, then the customer is right – and the offer is high quality, with exceptional value, to that target market. Subjective positioning offers hospitality operators more opportunity to position their company effectively because the basis of the positioning strategy is linked to intangible attributes, which are more difficult for competitors to imitate.

There are two approaches to subjective positioning, and the approach selected depends on whether the product is more tangible-dominant or intangible-dominant. Where hospitality products are tangible-dominant (for example, the hotel bedroom) and there is little if any difference between the competitors' offers, marketers aim to differentiate their product by stressing intangible attributes. This is not an easy task.

Marketing insight

'Selling The Sizzle'

One technique adopted by advertising copywriters to overcome the difficulty of positioning tangible-dominant products is to 'sell the sizzle, not the sausage!' Instead of promoting the tangible facts about a sausage – its ingredients and dimensions – the copywriter strives to conjure up a mental picture of people enjoying the tempting smells of the sausage being cooked, the sound of the sausage crackling under the grill, the sight of a beautifully cooked sausage with appropriate garnishes and relish, the anticipation of a great tasting sausage! Copywriters really do promote intangible benefits by 'selling the sizzle'. McDonald's, for example, has run many advertising campaigns in which the tangible product, the burger, is of secondary importance. One campaign featured the golden arches as a wonderful place to meet and mingle after school; here, the benefit sold was sociability.

The second approach to subjective positioning focuses on intangible-dominant products. The intangible attributes of hospitality are the service, the atmosphere, the reputation, the history, the impressions, the image. Given that these attributes are abstract, how can hospitality marketers position their intangible products positively in the minds of consumers? One answer is to 'tangibilize the intangible' – in other words, to provide tangible evidence that reinforces the position the company is aiming to attain. Hyatt's subjective positioning strategy aims to create an exotic, grand, majestic and distinctive image for its hotels by focusing on innovative modern architecture in the building of their atrium-style hotel lobbies. This relatively minor product differentiator was consistently used in Hyatt's promotional campaigns, and succeeded in positioning Hyatt, in the minds of consumers, as a more exotic hotel than its competitors. Today, many hotels in the Hyatt's product class provide spacious atrium-style lobbies, but Hyatt still maintains its original and distinctive image.

Positioning strategies

Positioning strategies are designed from answers to two basic questions:

- 1 Against whom should you position? These are usually other brands in the same competitive group – for example, Burger King positions against McDonald's. They will be competitors against whom you can demonstrate competitive advantage.
- 2 How should you position? This provides the basis for your competitive efforts. Burger King, for example, positions itself as a healthier burger option because its burgers are flame broiled, not fried.

The following positioning strategies in hospitality companies have been identified:

- *Product feature or special attributes.* This strategy focuses on a tangible-dominant feature – for example, the largest function suite in the area might position a company in terms of space, grandeur and style.
- *Price/quality.* This positioning strategy for a luxury property might focus on the high quality, high price, exclusive image; for a budget property, the focus might be a standard quality at a lower price, implying better value for money in the economy product class.
- *Customer benefit.* This type of positioning proposes solutions to solve customers' problems – for example, Seoul's Hotel Shilla advertising campaign emphasizes the quality, choice of menu, convenience and efficiency of their 24-hour room service to international business travelers.
- *Use or usage.* This is a positioning strategy that focuses on the reasons why consumers use a product, and is often targeted at specific markets – for example, a resort hotel with a championship golf course targets executives who enjoy mixing business with sport.
- *User.* This positioning strategy focuses on the class of user – for example, families, younger people, religious people, well-off older people – and emphasizes the product's appeal to the class of users; it will often feature endorsements by celebrities pertinent to the target market.

Positioning new hospitality ventures

In new hospitality ventures there is likely to be a much greater focus on the positioning strategy, in part because financial backers will expect the marketing plan to be well formulated before advancing any loans. A new venture provides the hospitality

company with the opportunity to plan the new concept using marketing research methods, and then to position the offer more effectively.

Positioning existing properties

In hospitality, there is a key difference between developing positioning strategies for existing properties and those for new ventures. In existing hotel and restaurant operations, a number of factors are fixed. These include the location, the geo-demographics of the catchment area, the property's current facilities, size and standards, the customer mix, and the property's historic image. These fixed factors are not easily changed, and the positioning strategy must take into account which strategy best fits the needs of the business and potential markets.

Repositioning

It is not unusual for hospitality operations to re-examine their current position in the marketplace and decide to reposition their property. The reason for repositioning may be:

- Falling sales (often a symptom of customer dissatisfaction)
- An opportunity to service an emerging market segment
- The threat of competition eroding market share.

The process for developing a repositioning strategy is similar to that of developing a positioning strategy for a start-up operation, with one caveat. In trying to reposition a hospitality property, there is the danger of sending out confusing signals to existing and potential target markets. This can damage the business by alienating existing customers, who do not like the changes. They might even abandon the property. If the lost customers are not replaced with new customers quickly enough, the business can rapidly lose sales and profitability. Repositioning can involve the company in significant capital expenditure to alter the physical product, and may require changes in the personnel to implement the new strategy. For these reasons, repositioning can be a risky strategy, but the alternatives are either to continue trading in a deteriorating, downward spiral, or to dispose of the property.

Positioning maps

Positioning maps, also called perceptual maps, are tools used by marketers to plot consumer evaluations of competing hospitality products using two or more attributes. The attributes used to map competitors are variables that are important to consumers, and can include price, quality, location, reputation, value for money, quality of food and service, conference and banqueting facilities, and availability of car parking (Dev *et al.*, 1995). Quantitative research using websites, guidebooks, hotel tariffs and brochures provides useful competitor information. Qualitative consumer research can be undertaken using focus groups of hotel users to evaluate the quality of food, personnel and service items amongst competitors.

Sophisticated statistical packages analyze the data and draw up a series of perceptual maps using two or more dimensions as the axes. Positioning maps are used to identify the strengths and weaknesses of hotels and their competitors over a series of measures. Figure 4.4 provides an illustration of a positioning map using hotels' quality and price points from budget to luxury. Note the relationship between quality and

Branding and multiple brand positioning

While the segmentation, targeting and positioning (STP) process identifies target markets, differentiates the product offer and positions the company or offer in the minds of consumers, it is the brand that is the most overt manifestation of STP strategy. A hospitality brand immediately distinguishes one company's product from competitors'. Branding is a core concept in hospitality marketing. Brands help customers to identify what the product or company stands for. There is considerable evidence to support the view that successful brands enhance company profits. When consumers perceive that one brand offers superior value to competing brands, they not only purchase that brand but are also prepared to pay more for it. Successful brands not only differentiate themselves from competitors, but also add value by meeting the consumer's psychological needs. Even though most of the discussion and research into hospitality branding relates to multi-unit chain operations, many of the principles of brand management apply equally to individual properties. In this sense, individual hospitality outlets can be perceived as brands.

Defining the brand

At its simplest, a brand is a specific name, term, sign, symbol, design or a combination of these characteristics applied to a product or organization. Brands function in a number of ways (de Chernatony and Dall'Olmo Riley, 1998), including:

- As a legal instrument – companies value the ownership of the brand name, logo and design, and protection of the brand from imitators leads to the prosecution of companies infringing on the trademark
- As a logo, which differentiates the offer with a visual identity and name, providing customers with quality assurance
- As an integral part of a company image, reflecting the culture, people and personality of the company
- As a shorthand symbol that is easily recognized by consumers
- As a risk reducer, giving consumers confidence that their expectations will be fulfilled – the brand as an unwritten contract
- By adding value to the customer's subjective experience.

Over time, the marketing investment in brands is rewarded by consumer goodwill and loyalty. This investment is sometimes reflected in a company's balance sheet.

Brand awareness and brand image

Two key measures are used to monitor the effectiveness of brands: brand awareness and brand image. Public and target-market awareness of a brand can be measured using marketing research techniques. In brand awareness surveys, respondents are asked to name any brands they know. This is called unprompted awareness. Respondents are then asked if they know the names of specific named brands; this is called prompted awareness. High brand awareness means that the brand is well known and enjoys a high profile; low brand awareness means that consumers do

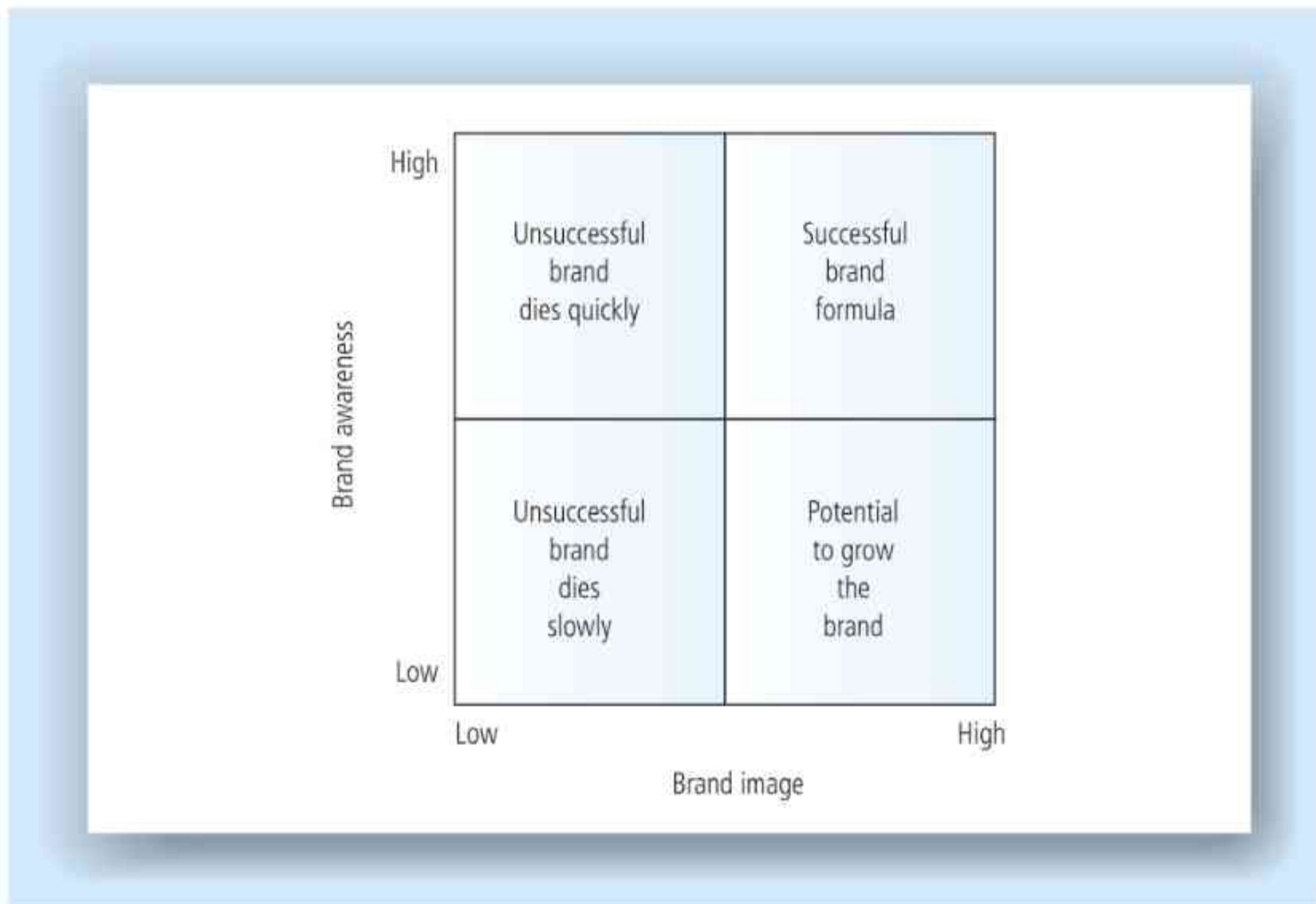


Figure 4.5 Brand awareness and brand image

not know the brand. Brand image is a measure of the brand's reputation – a high brand image means that the brand has a very good reputation, and a low brand image means that the brand has a poor reputation.

In Figure 4.5, brand awareness and brand image are plotted against each other. A brand's position in this matrix is indicative of its future fortune:

- Brands that have low awareness and a poor image are fortunate that their reputation is not well known. They have time to improve their performance. However, if no action is taken then the brand will gradually lose sales and become unprofitable.
- Brands with low awareness and a good image have the potential to grow, if brand awareness is increased.
- Brands with high awareness and good image are successful brands that need to be protected and nurtured.
- Brands with poor image and high awareness are in a difficult situation. If action is not taken quickly to improve the brand image, then the brand will die quickly.

Benefits and disadvantages of branding

It takes a long time to develop a positive brand image in the minds of consumers. Many of the top hospitality brands have been around since the end of the Second World War; and some of the exclusive, grand old European hotels date back for more than a hundred years. Brands provide consumers with quality assurance, and this is especially the case in an industry like hospitality, where consumers are primarily looking for a good night's sleep in safe, comfortable accommodation, and good food and drink efficiently served by friendly staff. Once consumers have

experienced and liked a hospitality brand they will be more likely to use the other outlets in the chain, since the brand promises to reduce the risks for the customer when traveling away from home.

There are both financial and operational disadvantages associated with branding. Consistency in delivering service is the principle problem in hospitality. Customers develop quality expectations based on previous experience and the brand's reputation, regardless of where the outlet is in the world. Companies have to set and monitor operational standards to ensure consistent brand performance, but enforcement is not easy and can be costly. Delivering brand conformance in service operations and marketing programs requires costly administration procedures, quality assurance programs and inspections. Some brands operate in franchised and management contract formats, making control and consistency even more problematic than for owner-operated properties. The cost of maintaining and further developing a brand is high. It cost one hotel company the equivalent of building a new 100-bedroom full service, mid-market hotel to introduce a new corporate identity, with the design costs, exterior and interior brand signage, and publicity material.

Multiple branding

The history of many hospitality companies reveals a typical development process based upon a founding entrepreneur who gave his name to the company – Ritz, Hilton, Marriott, Forte. It's interesting to note just how many new chains still use the founder's family name when developing their corporate identity. Starting with one or a few properties, the founder grows the business, often focusing on a specific market segment and offering his or her single 'branded product'. The commercial pressure to continue growth, and to protect the company from relying on a single market segment, eventually leads to the development of multiple branded hospitality companies targeting a wide range of market segments. Multiple branding has become the preferred development strategy for the major hotel groups. Indeed, Best Western is the only single branded company in the top ten global hospitality corporations.

The way in which the hospitality corporations have introduced branding has varied. Some have retained the original name and added brand extensions to distinguish the various branded concepts – Marriott Hotels, Marriott Suites, Courtyard by Marriott; Holiday Inn, Holiday Inn Crowne Plaza, Holiday Inn Garden Court, Express by Holiday Inn. Other hotel groups have ensured that each brand name is completely distinct from the other brands in the group – for example, Accor with their Formule 1, Motel 6, Ibis, Etap, Mercure, Novotel and Sofitel brands.

The advantages of multiple branding include:

- Increased market share
- Less dependency upon the volatility of a single market segment
- Reduction in financial risk.

The main danger of multiple branding is the potential to 'cannibalize' the company's sales by encouraging the company's existing customers to trade down and stay at a cheaper brand of lodging facilities also owned by the same company. This criticism is particularly directed at corporations who have retained one family name for the entire range of lodging brands. This strategy gives lower graded accommodation the badge of approval from a higher graded brand.

Harder or softer hospitality brands

Multi-unit hospitality operations have considerable difficulty in delivering a uniform, consistent standard of product and service because:

- Inconsistent service personnel and erratic customer behavior changes the customer experience
- Refurbishment schedules mean the product varies enormously between the most recently redecorated unit and the most tired unit
- There are differences in the seasonality of demand and in the different locations of the units in the chain
- There are differences in local and regional, planning and building legislative requirements.

Hospitality chains have responded to the inherent inconsistencies in hospitality operations by developing different approaches depending upon the type of product class, and the age, design and style of properties in the portfolio.

A hospitality brand seeking to establish a standardized product/price formula, in similar locations and with a consistent customer experience throughout the chain, is described as a 'harder' brand. A collection of hospitality units being marketed under the same brand name but with limited emphasis on standardization can be described as a 'softer' brand. There is no absolute hard or soft brand, since all chains incorporate elements of standardization and elements of adaptation, and there is nothing inherently better about a harder or a softer brand. However, it is essential that softer brands are not promoted as harder brands, since they will not be able to deliver the standardized offer that customers expect from harder brands. Table 4.3 provides details of 'harder and softer' marketing strategies.

Examples of harder hospitality brands include Burger King and Travel Inn. They have purpose-built properties, using standardized design, décor and food offers. Examples of softer hotel brands, or collections of hotels which have been individually built in different styles during different historical periods and offer an eclectic choice of dining, include Best Western and Relais et Château.

Table 4.3 Harder and Softer Hotel Brands (adapted from Connell, 1992)

<i>Factor/strategy</i>	<i>Harder</i>	<i>Softer</i>
Use of same brand name across hotels	Yes	Yes
Level of physical product consistency	Higher	Lower
Level of service range consistency	Higher	Lower
Consistency in pricing	Higher	Lower
Level of national coverage	Higher	Lower
Consistency in type of locations	Higher	Lower
Emphasis on national advertising & promotion	Higher	Lower
Reliance upon growth through acquisition	Lower	Higher
Emphasis on product planning & development	Higher	Lower
Markets targeted	National/specific segments	Local/range of segments

It should be pointed out that there is nothing inherently better between hard or soft brands. However, problems will be experienced if a soft brand is promoted as a hard brand

Hotel–restaurant co-branding

Co-branding is the pairing of two or more recognized brands in the same space (Boone, 1997). The principle of linking well-known brands in marketing activities has been well established in hospitality. The benefits to both brands include greater exposure to a wider market, and a proportionately greater impact than a single brand's activities. Examples of co-branding include serving branded coffee in restaurants (Starbucks coffee is served in Sheratons); providing quick service food kiosks in hotel lobbies (Pizza Hut in Marriott) and leasing hotel restaurant space to branded restaurants (TGI Friday's in Carlson and Marriott).

The development of co-branding between American hotel chains and American restaurant chains was an appropriate strategic response to one of the endemic problems for hotels – the poor performance of their restaurant operations. Research into the effectiveness of hospitality co-branding demonstrates increased sales not only in the branded hotel restaurant, but also in the hotel accommodation. This suggests that both hotel residents and non-residents accept and patronize branded food concepts that they recognize, thus generating significant increases in restaurant sales. Other advantages included better cost control, improved staff training, and greatly increased operating profits.

There are disadvantages to leasing out restaurant operations to external partners, and these include the following:

- Lack of control, inflexible menus and food concepts
- Restaurant opening hours may not suit hotel guests
- Lack of cooperation between the restaurant management and the hotel management.

Criticisms of branding

Branding, and in particular the proliferation of hospitality brands, has been criticized. One of the criticisms of branding is that hospitality companies have used purely descriptive criteria for segmenting markets. This product-orientated approach has led to inaccurate positioning strategies, resulting in consumer confusion over the lack of perceived differences between competing brands.

The example of Choice Hotels, one of the innovators in multi-brand development, supports the critics' argument. Choice Hotels currently promote thirteen different products under seven brand names, but all are marketed under the Choice corporate name, with similar logos and collateral, and one toll-free call number for reservations. This has led to a confused product offering, where consumers are not clear which Choice brand stands for which lodging offer.

Conclusion

Segmenting markets to identify profitable target markets, developing a differentiated offer to deliver enhanced customer satisfaction, and positioning the hospitality brand against competitors are essential components in the development of marketing strategies to compete effectively.

In this chapter we have explained:

- How the hotel industry has developed in different ways in different regions of the world
- Different forms of ownership and affiliation, including ownership, lease, management contract, franchising and consortia
- The four industry competitive environments – fragmented, niche, volume and stalemate
- The Five Forces competitor analysis
- Three segmentation strategies – undifferentiated, differentiated and niche
- The difficulties of differentiating the hospitality product
- The criteria for successful positioning a hospitality offer
- The benefits and disadvantages of branding in hospitality.

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

Review questions

- 1 Analyze a hospitality industry competitive environment using Porter's Five Forces model
- 2 Discuss differentiation and positioning strategies in the hospitality industry
- 3 Discuss the advantages and disadvantages of branding in hospitality:
 - from a customer's perspective
 - from a company's perspective.

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