
Chapter 5

Developing the offer

Chapter Objectives

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

- Identify the core, tangible and extended product in hospitality operations
- Describe the function of product/benefit bundles in hospitality markets
- Explain the characteristics of standardized and customized products in branded hospitality chains
- Identify all the stages in the product life cycle and explain the marketing implications of each stage.

Introduction

Although authors discuss the product offer using a variety of different approaches, all agree that the product is a complex combination of tangible and intangible elements. The product/service is the starting point in the development of the marketing offer, and without the product concept, we have nothing to sell. Products simply deliver the basic functional solution to consumers' needs and wants, and must be designed to deliver customer satisfaction to specified target markets. However, there is no reason why consumers should choose one commodity product from another, apart from price. In Chapter 4 we discussed commodity products and branding in detail, and explained that successful brands add value for consumers. In this chapter we will explore the components of the hospitality product, product/benefit bundles, the standardization versus adaptation debate, and the product life cycle.

We can look at the product from two perspectives – first from the customer's perspective as a bundle of benefits that will solve their problems, and secondly from the firm's perspective in terms of what we create for and offer to the customer. It is important to note that the product that marketers strive to create and deliver may be quite different from the hospitality product actually experienced by the customer. Especially in service situations, unplanned elements can dramatically distort and disrupt the experience, leading to unplanned customer dissatisfaction, or, for that matter, satisfaction.

Activity 5.1

Reflect upon your own experiences as a customer eating out.

- Can you identify an 'unplanned' element of the product that led to you being dissatisfied?
- Can you explain what aspect of the experience went wrong?

Defining the product

An important distinction can be drawn between the core product, the tangible product, and the augmented or extended product (Kotler, 2000). Figure 5.1 provides an example of each component of the product for a budget hotel (Horner and Swarbrooke, 1996).

Core product

The core product delivers the fundamental functional benefits that the customer is seeking. In hospitality, a hotel offers a place to sleep, and a restaurant offers somewhere to eat. It is the customer, not the company, that defines the core product. If a customer chooses to stay at a resort hotel for 'rest and recuperation', then R&R is the core product for that customer. Normally hospitality organizations do not compete

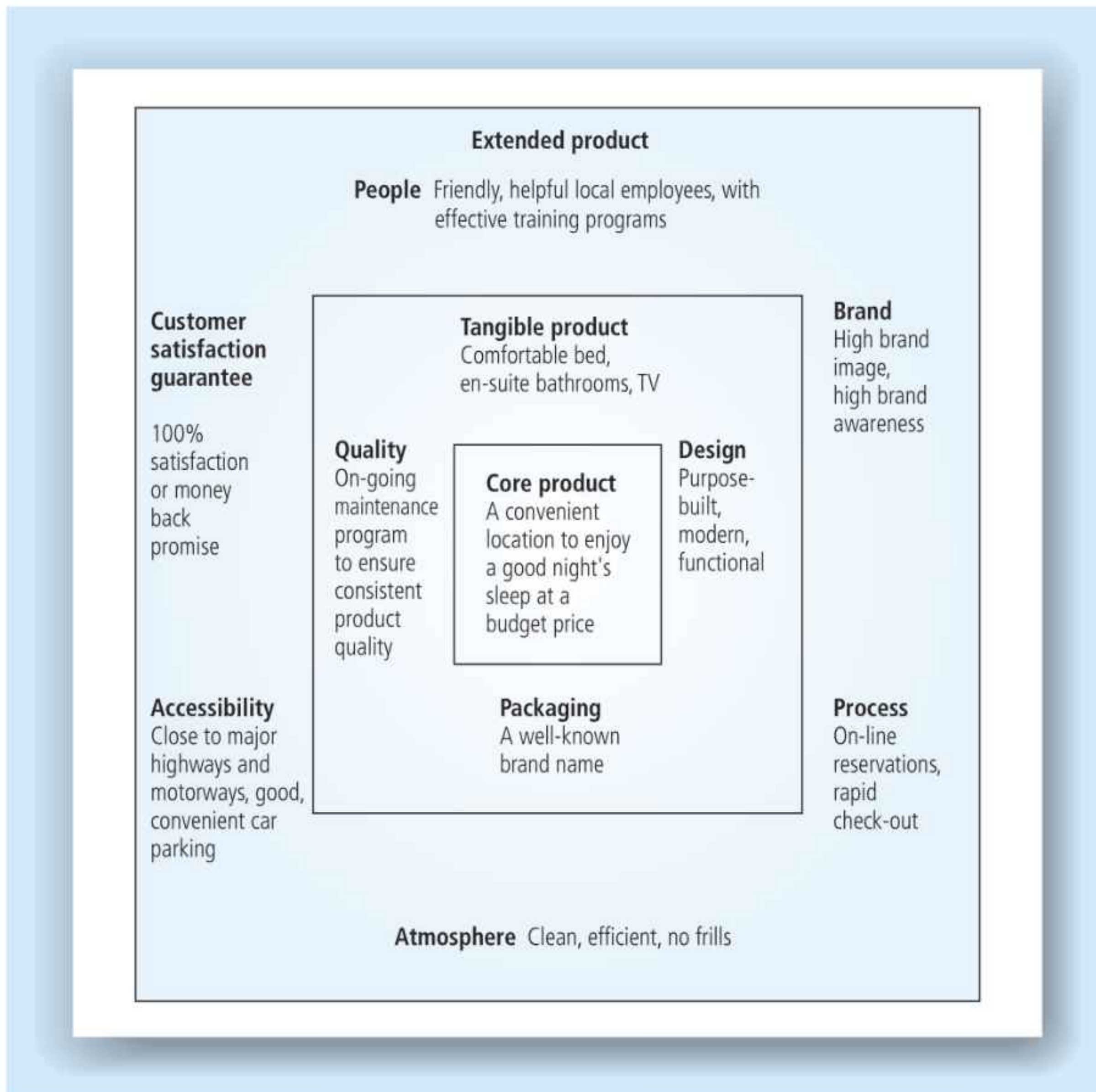


Figure 5.1 Budget hotel example of the core, tangible and extended product

at the core product level; however, companies should ensure that the requisite core capabilities and competencies are in place to deliver the core product effectively.

Tangible product

The tangible product is composed of the physical elements that are necessary for the core product (benefits) to be delivered. The tangible product includes product features (the size and range of facilities), design (external and internal), and quality and service standards. In hospitality, companies can differentiate their offer in the form of the tangible product. Pizza Hut, for example, has introduced an upscale range of 'Gourmet' pizzas to differentiate itself from other operators.

Extended product

The extended product includes intangible elements of the product that can add value, differentiate the offer, and provide customers with additional benefits. The extended product includes:

- The people element of the offer – staff training, courtesy and contact with customers
- Accessibility – this includes location characteristics and opening times
- After sales service – customer billing procedures and complaint handling
- Ancillary or special facilities – for example, business centers and leisure clubs for hotel residents
- Atmospherics – the important sensory element of the hospitality experience
- Brand image and corporate ethics.

In service industries, it is the extended product that delivers what is distinctively different about the customer experience – and this is where competitors in the same product class really compete. Delivering a memorable hospitality experience consistently is a major challenge for hotel and restaurant organizations.

Product benefit bundles

Consumers rarely purchase a single hospitality product in isolation. Customers look for a combination of benefits to satisfy their needs and wants, and hospitality businesses can provide these benefits either independently or in partnership with other organizations. We call these combinations ‘product benefit bundles’. *Within* hospitality examples include:

- Bed and breakfast
- Dinner, bed and breakfast
- Full board (accommodation with breakfast, lunch and dinner)
- Two (or more) nights accommodation with (or without) meals
- Fixed-price menus (inclusive of starter, main course, desert, coffee and tax)
- Restaurant, function and wedding menus with drink packages
- 24-hour conference packages including accommodation, all meals, tea and coffee, hire of meeting room.

Activity 5.2

Obtain a conference or wedding brochure from a hotel and review the different product combinations and prices. What are the benefits of product bundles for:

- The customer?
- The hotel?

In addition, hospitality businesses can work with *external* organizations – for example, local leisure and sporting attractions – to offer inclusive product benefit bundles, like theatre weekends or golfing breaks.

The accommodation, food and drink products offered by hospitality businesses form part of the larger tourism product, either formally through a tour operator or informally through the customer experience of visiting the tourist destination. External

factors, which are outside the control of hospitality operators, can affect the customers' enjoyment during a trip. Typically, the weather influences our holiday experience as well as the service provided by other retail and tourism outlets. Tour operators combine all the essential elements, such as flights, transfers, rooms and food excursions, and offer a combined product in one inclusive package. Tourists buying a package holiday regard the hospitality product simply as one component of the entire package, not as an independent product, and customer satisfaction with the hospitality product cannot always be easily separated from satisfaction with the other elements of the travel package.

This means that hospitality businesses need to work in collaboration with other organizations to have an effective marketing strategy and to ensure repeat and referral business. This collaboration can take different forms:

- Individual hospitality operations formulate, develop, promote and deliver their product as part of the total tourist offer of the destination
- At the destination, hospitality operators work with official tourist organizations who formulate and develop tourism products based on the destination attributes and promote them to target markets
- Tour operators coordinate the products offered by hospitality operators and other suppliers, and then formulate them into a single offer (package) which is promoted to target markets.

Service delivery concepts and the product

Any consideration of the product in hospitality must be based upon a thorough knowledge and understanding of the needs and wants of target markets. Understanding customer needs, within a given price band, is fundamental to successfully providing products which match customer expectations. *One of the most important product decisions facing multiple-unit organizations is how much of the product should be standardized and how much should be customized.* When hospitality organizations aim to standardize a product, the objective is to provide an identical standard service for all customers in every unit. A customized hospitality product deliberately offers a modified product, which can be different in each unit.

Standardized products

The international fast-food restaurant chains provide good examples of standardized hospitality products. They offer the following features in all their restaurants:

- The same menu at the same price
- The same kitchen production process
- The same service delivery process
- The same staff recruitment, training and service standards
- The same layout, seating and internal décor
- The same external frontage, signage and brand logo.

There are advantages to both the consumer and the organization with a standardized product. Customers receive a consistent, reliable product that fulfills their brand expectations. Companies gain significant economies of scale and experience through fully preconfigured design concepts, volume purchasing, reduction in stock levels, lower employee skills requirements, and easier staff training procedures. Service processes can also be blueprinted. Essentially, a blueprint is a flowchart that sets out the various tasks that have to be performed for a service to be delivered to a customer. Blueprints can also identify who is to perform the task and the required performance standards. There are also opportunities to maximize brand awareness through marketing communication campaigns based on promoting the same, standardized product formula.

A precondition for developing a genuinely consistent standardized product in hotel operations is to build new developments instead of adapting existing buildings and structures. The budget hotel chains are more likely to have a standardized product because the accommodation is factory built, with prefabricated bedroom units erected on the building site. As we saw in Chapter 4, hospitality brands offering a standardized product can be described as 'harder' brands. However, trying to adapt older buildings to a standardized brand formula inevitably creates some brand inconsistencies.

Companies with successful standardized offers can expand more easily – every time a new unit is proposed, all the product decisions have already been tried, tested and agreed. This has enabled a small number of standardized hospitality branded products to grow rapidly throughout the world. The standardized product concept is either loved or loathed by consumers!

Customized products

The alternative approach to standardization is to adapt or customize the product according to the needs of niche market segments, and even individual customers. Many European hotel chains offer customized products, which include:

- Individually designed hotels in different sites, often built in different historical periods, offering a different range of services and facilities in different locations
- Restaurants with different menu concepts, and different menus reflecting local ingredients and different cultures of cuisine
- Different décor and different types of furniture
- Staff who are trained to unit standards of operation, instead of brand standards of operation.

An adapted approach to hospitality product development implies higher costs, since there are limited opportunities for economies of scale. Hospitality brands offering an adapted product can be described as 'softer' brands. A good example of a global softer brand operating in the mid-market is Best Western Hotels.

International product decisions

The level of standardization or adaptation is a major product decision in international marketing (Usunier, 2000). The international hospitality product needs to take into account local country cultural differences and make suitable adaptations to gain local consumer acceptance. Identifying target markets is crucial when developing the international product.

If the target market is primarily from the home country, then the product can be standardized using the home country culture. The British-based tour operator, Ski Olympic provides a British skiing holiday product for British customers in the French Alps. The product includes British-style food (porridge and cooked English breakfast, Tetley teabags, evening meals using British recipes), British beers, British television (especially sport and TV soaps), British and Commonwealth staff and management, and even British ski instructors. This British product in France delivers customer satisfaction because the customers are all British.

If the target market is primarily people from the host country, the product should be adapted to take into account local cultural values – for example, McDonald's adapts the meat in its burger products to conform to the cultural expectations of customers in Indian countries, and provides rice as an alternative to fries for Asian markets.

If the target market has regional or global characteristics, then a standardized product should be developed. Scandic Hotels, which is part of the Hilton Hotels group, provides a relatively standardized regional hotel product in the Scandinavian countries of Denmark, Finland, Norway and Sweden. Scandic Hotels incorporates a distinctive Scandinavian atmosphere, décor and design in its product offer, which is strongly influenced by environmentally friendly policies.

In reality, most international hospitality groups have varying degrees of standardization and adaptation (Roper and Brookes, 1996). For hotel companies, accommodation, the range of facilities offered and service standards tend to be easier to standardize, whilst décor, design, staff uniforms and some elements of the food and beverage offer tend to be adapted to reflect local country culture and cuisine. Even the most standardized concepts, like McDonald's, adapt elements of their product offer when necessary, whilst Best Western Hotels – which operates the most heterogeneous brand of hotels on the international arena – strives to standardize the product offer through its quality audit for each property. [The concept of providing international product standards with local adaptations – sometimes called globalization – combines the best of both approaches effectively.](#)

Product life cycle

All products experience a life cycle, which charts their sales and profit behavior from birth, through various stages, to decline and extinction (see Figure 5.2). The product life cycle (PLC) is one of the most well known concepts in marketing theory (McDonald, 1999), and hospitality managers are aware of its importance when developing marketing strategies for their businesses. PLC concepts can be applied to an item on the menu or in the bar, a sales outlet within a hotel (the accommodation, the restaurant, the banqueting), an individual property or unit, a brand or chain of outlets, a destination, and even an industry. The global hospitality industry comprises hundreds of thousands of 'products', all at different stages of their life cycle.

The PLC includes the following stages, but note that the timescale can vary from a very short period of only a few months to a very long period lasting several generations and even hundreds of years (see Figure 5.3):

- *Product development.* During this period the new product concept is conceived, researched, assessed and, in some cases, test-marketed prior to introduction in the

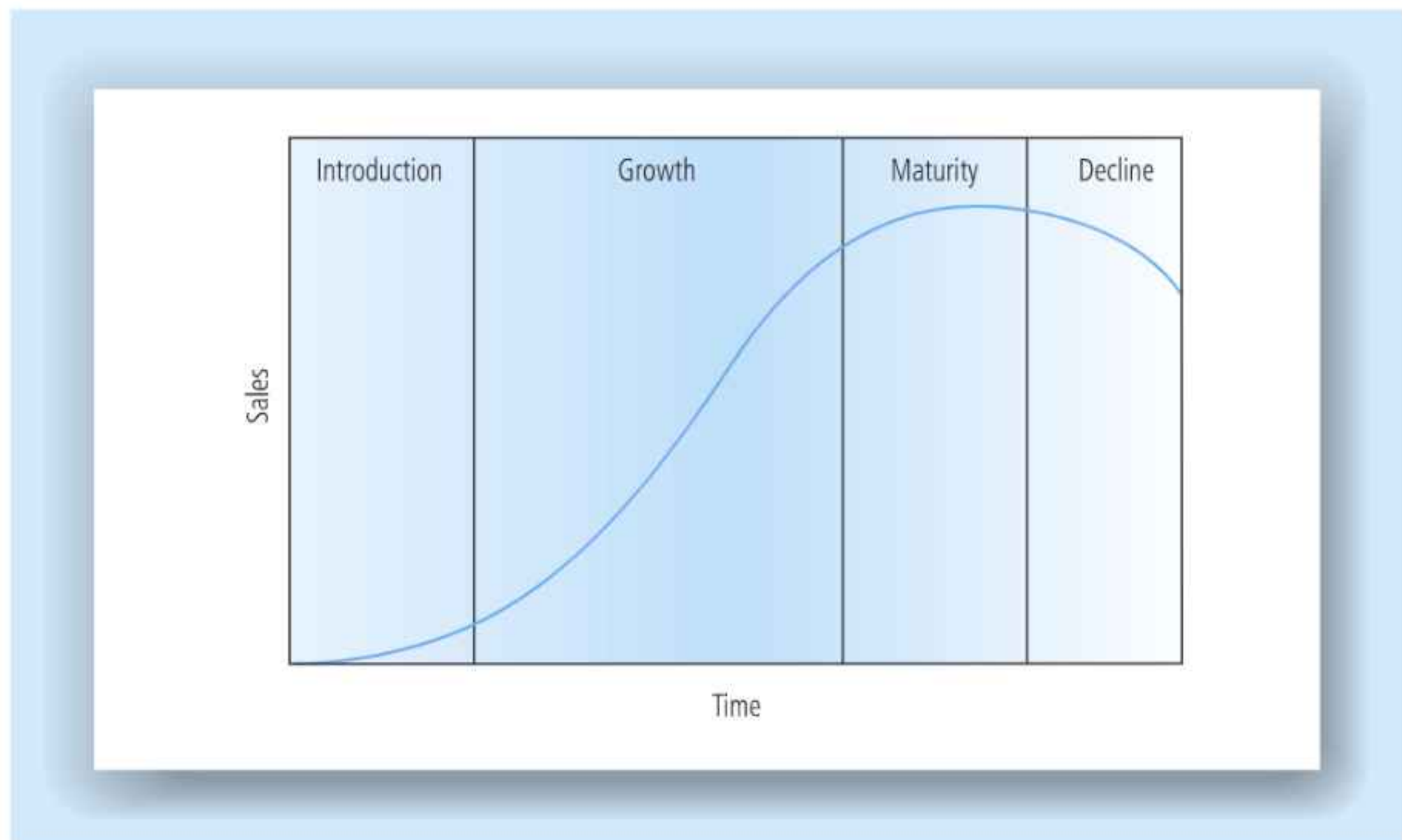


Figure 5.2 The product life cycle

marketplace. Most new product concepts fail at this stage and are never actually launched.

- *Introduction.* This is the launch period, when the new hospitality product is introduced to the market – for example, the opening of a new restaurant.
- *Growth.* This is the period when the new product becomes more widely accepted by consumers, and sales grow as the concept becomes better established.
- *Maturity.* At this stage, the product has reached its potential and growth slows.
- *Decline.* Eventually the product no longer satisfies the needs and wants of its customers, as alternative products/competitors provide better benefits to consumers. Sales fall as the product goes into decline, and the management has to decide whether to retain or dispose of the declining product. However, a product that is in decline for one company can still be highly profitable for a different company. There are many products in declining markets that are still highly profitable – for example, bed-and-breakfast houses in British seaside resorts.

There are a number of criticisms of the PLC. First, it is not always clear where a product is located on the PLC. Secondly, the PLC is not an accurate forecasting tool, and sales may fall due to an economic downturn instead of a change in the stage of the PLC – so if a manager makes a marketing decision based on a faulty analysis of the PLC, then the marketing strategies adopted might be incorrect and damage the business. Whilst accepting these valid criticisms, the simplicity and terminology of the PLC helps us to understand important product development issues, which we will now explore.

New product development concepts

Effective hospitality managers constantly seek to improve customer satisfaction by reviewing their offer. As a result of managers' observations, business performance

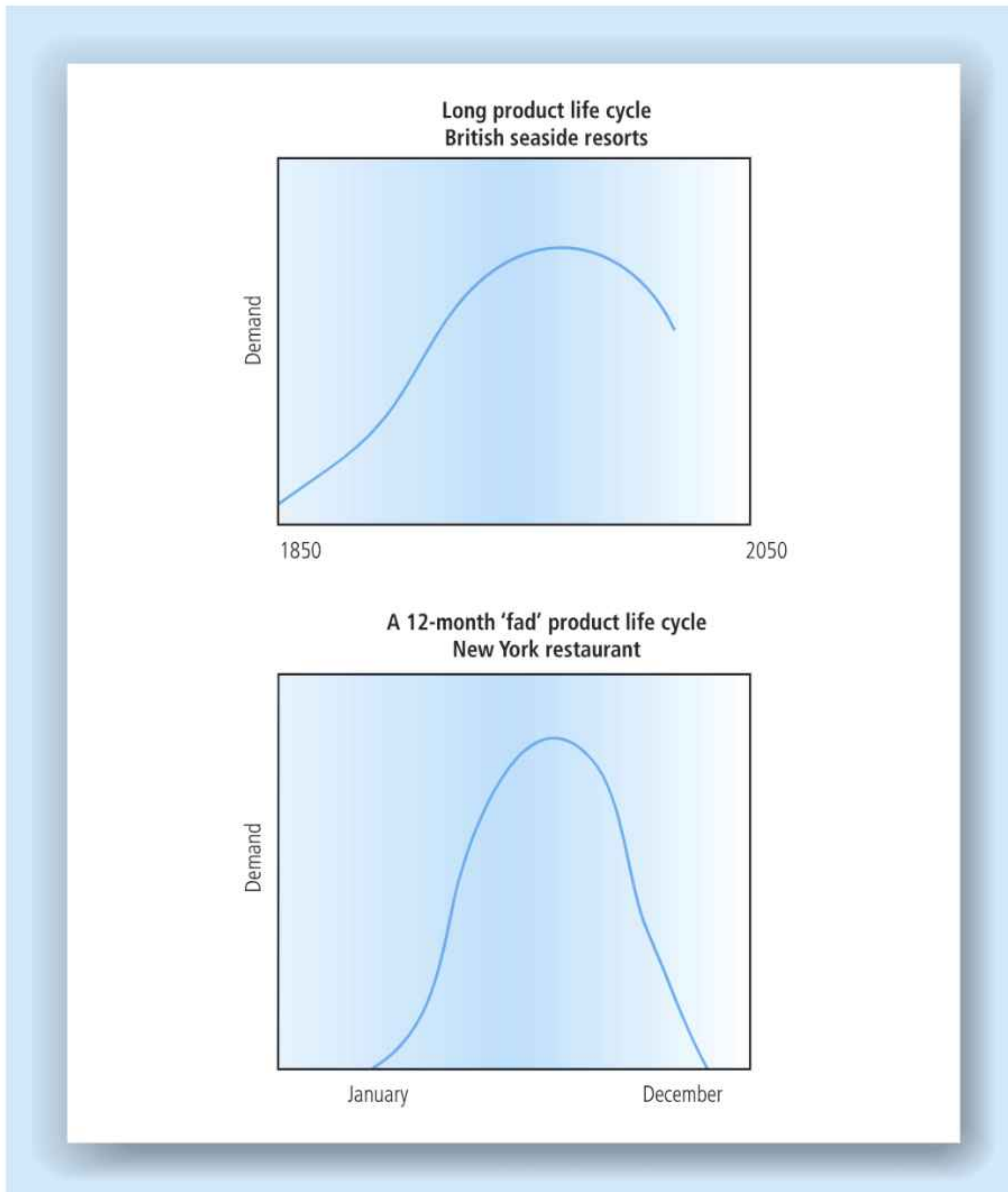


Figure 5.3 Product life cycles for British seaside resorts over 200 years, and for a New York fad restaurant opening and closing in 12 months

and customer/staff feedback, product improvements can be introduced. These can range from minor low-cost enhancements to multi-million pound new-build developments. Clearly many product developments are successful, but the rate of new product failure in hospitality is high – especially in food service. *Unfortunately, many independently owned restaurants open and close within twelve months.* The reasons for the high failure rate of new products in hospitality include:

- Inexperienced and over-optimistic entrepreneurs
- Poor marketing research
- A flawed product concept

Table 5.1 Hotel Product Concepts

<i>Concept</i>	<i>Examples</i>
Exclusive luxury hotels	Dubai’s Burj Al Arab Hotel claims to be the world’s first ‘seven-star hotel’. Built in the shape of a giant sail and taller than the Eiffel Tower, it combines modern architecture, extravagant décor and furniture with state-of-the-art technology, and provides superior service with a six-to-one staff-to-guest ratio
Boutique hotels	These are exclusive hotels that focus on contemporary design as the key factor in delivering customer satisfaction – examples include Ian Schrager’s hotel, The Morgan, in New York; London’s Hempel Hotel; and Sweden’s Icehotel
Convention complexes	The Venetian, Las Vegas, claims to be the world’s largest hotel and convention complex, with 3000 bedroom suites, 120,000 square feet of gaming floors, a massive shopping center called The Grand Canal Shoppes, a luxurious Spa Club, and approximately 500,000 square feet of meeting space. This complex in the middle of the Nevada desert is themed on the old European city of Venice
Mid-market classic contemporary hotels	The Malmaison concept focuses on individually designed, stylish bedrooms complete with modern sound systems, state-of-the-art interconnectivity, and French brasserie cooking at mid-market prices
No-frills budget hotels	Formule 1, Accor’s budget European product, focuses on functionality, with small bedrooms (a double bed and upper bunk bed), shower and WCs that are NOT en-suite, and minimal service levels. There is, however, a high use of technology, with self-cleaning showers and toilets, and automatic computer terminals to provide check-in and billing services when reception is closed

- An inappropriate location
- Competitors’ responses
- Inconsistent service delivery
- Poor interior and/or exterior design
- Limited market potential
- Higher development costs than planned
- Undercapitalization
- Poor timing (e.g. opening during the decline phase of the business cycle).

Innovation

Major hospitality organizations have a wide range of products at different stages of the product life cycle. Since all products decline, there is a constant requirement to research and find successful new product concepts to ensure continuous profits.

Table 5.2 Restaurant Product Concepts

<i>Restaurant</i>	<i>Concept</i>
Conran	Conran's fashionable restaurants combine innovative and stylish design with fine dining on a mass-market scale in London, Paris and New York
Rainforest Café	An environmental concept café based upon the rainforest, with special effects including mist and regular thunderstorms with thunder and lightening, and a Magic Mushroom Bar, operating in North America, Asia-Pacific and Europe
Futurist Diner	An Australian space exploration restaurant, where customers are transported via a 4D-visual reality turbo space ride to Planet XERTS
Brazilian BBQ	Koiti Aida developed the first Brazilian BBQ concept restaurant in Guangzhou, China

Companies use two different methods to find new concepts: they can either *acquire* products that have been developed by others; or they can *develop* their own new products.

Acquisition The bureaucracy of larger organizations can inhibit creativity whilst entrepreneurs, who are often closer to customers, can innovate with much more freedom. In hospitality there are many examples of people with limited work experience in the industry, who develop successful new product concepts based on their 'gut' feeling, their intuitive understanding of customer needs and their entrepreneurial flair. Once a successful entrepreneur has proved the viability of the new product concept, larger hospitality organizations can either imitate the concept or buy out the entrepreneur's company.

Development The alternative route for new product development in larger organizations is to set up a new product in-house development team to generate and evaluate new product concepts formally. The team may be an established part of the organization structure or an *ad hoc* cross-functional group. New product teams need marketing input to ensure that the customer's voice is heard. Most so-called new products are actually product modifications, cost reductions or product line extensions, as opposed to original product concepts.

New product development process

Many companies have a formal new product development process that features some or all of the following stages:

- *Idea generation*. There are several sources for new product ideas, including managers, employees, customers, suppliers, intermediaries and competitors.
- *Idea screening*. Ideas need to be screened to ensure they can be developed further; some ideas lack potential and are immediately discarded; other ideas might be desirable but do not fit the competencies of the company. Screening aims to

eliminate bad ideas quickly so that the costlier stages of new product development (such as concept development) are not required.

- *Concept development and testing.* In this stage the idea is more fully developed into a new product concept with a detailed, workable proposal. Companies then need to test consumers' reaction to the new concept, using marketing research techniques such as focus groups.
- *Marketing strategy.* A marketing strategy statement is developed that describes the innovation's target market, market positioning and marketing mix. Initial costs, sales and profit projections are then formulated.
- *Business analysis.* In this stage the new product is evaluated against company investment and return hurdles. Investment in new product development is a board-level decision when significant capital sums are involved.
- *Product development.* Finally the idea starts to become a reality. Large companies develop a prototype for test marketing. A test market is a limited-scale launch of the product concept to establish the potential for the innovation and the marketing necessary to make it a success. New brand concepts can be experimented in a single unit to gauge customer reactions before rolling out the concept, but smaller businesses cannot afford to test market the concept.
- *Commercialization.* The final decision to proceed is based on the results of the test marketing. Depending upon consumer response and the capital investment/profit return calculations, a final decision will be given to proceed or halt the new product development.

Whilst larger companies have a more structured approach to new product development, smaller hospitality companies are generally more entrepreneurial. A restaurant proprietor can introduce new menu items for a trial period before making the add-or-drop decision. Failed ideas can be dropped without serious cost consequences.

Adoption and diffusion theory

Some new products become popular very quickly, whilst it can be years before others take off. Some never become viable. Researchers have identified a number of different categories of new product adopters, according to whether the customer is amongst the first or later groups to buy. These categories are as follows:

- *Innovators.* These are the first people to buy a product once it appears. In hospitality, they are the first customers to visit a new restaurant when it opens. They are prepared to experiment and take risks, and are an important influence on the next category.
- *Early adopters.* These people respond to good word-of-mouth reports from innovators, and form the next category to try a new product. They are opinion leaders, whose judgment about a product can determine whether it will succeed or fail. If the early adopters endorse the product, it will become more established.
- *Early majority.* These people follow the early adopters, whose opinion matters to them. This group consists of people who tend to conform to social trends, are well-integrated socially and accept change.
- *Late majority.* This group is very slow to purchase new products. They are less responsive to change, are more skeptical, and prefer products they know rather than experimenting.

- *Laggards*. These people are suspicious of change and are reluctant to alter their purchase patterns. They are cautious and conservative, and continue to buy products even when they are no longer fashionable.

New product launch strategies

The introduction stage for new hospitality products includes new-build openings for hotels, restaurants and bars, new brand launches, and re-launches of tired products that have been refurbished and repositioned in the marketplace. For hotels, the time involved in planning, gaining permission, building and completing a new-build project can take several years and substantial capital investment. For restaurant and bar concepts, the lead-time will be shorter and investment costs lower. A common problem is that hospitality new-build and refurbishment programs are rarely completed on time, and often the new hospitality product has to be opened incomplete. Customers experience a distressingly long list of minor problems, such as incomplete décor finishes, that can take several months to complete.

A typical launch strategy will include a 'soft opening', where invited guests stay and/or dine on a complimentary basis. This provides an opportunity to train staff on the job, and test the service process and the equipment before paying customers arrive. Feedback from invited customers and staff helps to identify problems, which can then be resolved. If problems are not identified and resolved in the soft opening, then (especially with new restaurants) a poor reputation can quickly spread – which is often fatal. The marketing communications challenge during the launch period is to establish the market position, and create awareness and interest in the new hospitality product concept in order to generate trial purchases.

During the launch period sales are low and there can be major fluctuations in demand, causing service problems at crucial times. Start-up costs are high owing to the uncertain patterns of demand, staff training and recruitment costs, and the promotional spend to raise awareness. The unit is unlikely to be profitable during the introduction stage. However, the launch period is vital for the new hospitality product because the business needs to generate:

- Satisfied customers
- Positive word-of-mouth
- Repeat sales.

Smaller companies may never recover from a poor launch, since they may not be able to repair the damage from negative word-of-mouth publicity quickly enough. They may run out of working capital. A successful opening means that sales growth will increase, leading to the growth stage of the PLC.

Growth product strategies

In the growth stage, the hospitality product should be earning a good word-of-mouth reputation, the early adopters return and recommend the product to the early majority, who patronize the establishment in growing numbers. Sales grow, but despite this healthy trend there are pitfalls associated with growth. Successful hospitality products are dependent upon a consistent product/service offer, and as the business grows there can be over-demand at peak periods, resulting in either excessive waiting times or having to turn customers away. Hospitality customers

are notoriously fickle, and once they have found another hospitality product that suits them, they may never return. Management can also inadvertently create problems by raising prices on ancillary products to boost profitability (for example on drinks and wines), which might disappoint repeat customers. Arrogant management, thinking that the business is now a success, may start to overlook customers' special requests and even ignore customer complaints.

Marketing strategies that hospitality companies adopt in the growth stage include:

- Relationship marketing to build long-term relationships with customers
- Enhancing the product and service delivery by continuous feedback from customers and staff
- Setting prices to gradually grow the market; this means not raising prices quickly simply because the establishment is becoming popular, and in some cases might involve making minor price adjustments downwards
- Targeting new market segments to grow demand, possibly with minor product modifications
- Continued investment in marketing communications activity, to maintain awareness and build loyalty based on product preference
- Encouraging word-of-mouth recommendation by inviting satisfied customers to refer friends
- Opening additional units in similar geographic and demographic catchment areas
- Building partnerships with other organizations that can generate a stream of customers, such as theaters or hospitals.

The growth stage should be increasingly profitable, since fixed costs are spread over a greater number of customers and, as trading patterns become more established, the management become more experienced at controlling staff rotas to enhance customer satisfaction and reduce wage costs.

Mature product strategies

The majority of hospitality product concepts operate in the mature stage of the life cycle, which can last for a very long period of time. The market for the product is well established, and the product itself is clearly positioned against its competitors. Sales level off, as the business has consistent demand from a loyal customer base. Growth is limited, and is largely dependent upon gaining market share from competitors. The mature hospitality product can suffer from a number of problems, including:

- A dated product concept
- A tired product in need of refurbishment
- Management and staff working in a routinized way and no longer 'wowing' the customers
- More intense competition from newer product concepts, which cater better for customer needs and wants
- Increased segmentation of the market, ultimately with the risk of market fragmentation.

Managers who are aware will recognize these symptoms and take action to avoid

the product entering the decline stage prematurely. Mature product strategies in hospitality include:

- Relationship marketing to nurture and sustain loyal customer segments
- Continued investment in product quality to maintain and enhance service
- Product modifications – for example, introducing new menus/new recipes – which can revitalize a tired hospitality product
- Reformulation of the product concept and/or refurbishment of the premises to re-launch the product
- Adaptation of other marketing mix elements – for example, lower prices, increased promotional activity – and targeting new intermediaries to generate additional sales.

By careful management of the marketing mix, the mature stage can remain profitable for a very long time. Gradually profits will begin to decline as increased investment, with heavier promotional costs to maintain market share, coincides with lower prices. Even major international brands suffer from many competitors nibbling at their leading market share. Eventually the mature stage will enter decline, unless the product has been reformulated and re-launched to start another cycle.

Case study 5.1 provides an illustration of the PLC.

Case study

5.1 Beefeater restaurants

Beefeater, a UK family restaurant chain owned by Whitbread since the 1970s, has been in the mature stage of the PLC for many years. New menu items are continually introduced to revitalize the product offer, whilst retaining popular traditional dishes. There is a continuous investment program to maintain high standards of restaurant décor. Whitbread expects a very good return on capital, and under-performing units are sold. There is a constant drive to offer greater consistency across the brand, and management invests in heavy marketing communications activity to maintain market share. However, following poor trading results over a number of years, Whitbread has undertaken a major review of Beefeater Restaurants. This has included selling off dozens of the less profitable units, re-branding other units under alternative Whitbread restaurant brand names, and further investment in remaining sites.

What stage of the PLC is Beefeater operating in? This is a difficult question to answer. Perhaps Beefeater is still in the mature stage, or perhaps it has entered the decline stage – or maybe Beefeater has been in decline for several years, and the company is now rejuvenating its offer and entering an entirely new PLC.

Declining product strategies

There is no precise moment when a product or brand enters the decline stage, and the decline period can take place over a long period of time or be extremely rapid. Once decline really sets in, then the rate of decline accelerates. The decline stage can be caused by changes in consumer tastes, changes in technology, increased competition causing overcapacity, changes in management personnel, or changes in

ownership. As sales begin to fall, the typical hospitality operator will:

- Aim to cut costs in every facet of the business
- Reduce staffing levels
- Only invest in essential repairs (there will be limited, if any, investment in redecorating or refurbishment)
- Reduce overall product quality by purchasing cheaper food ingredients, bar and housekeeping products
- Take a longer time to pay suppliers.

Disappointed customers, overworked employees and dissatisfied local suppliers can combine to generate powerful negative word-of-mouth publicity. Returning customers will notice the poorer standards of product quality (for example, tired décor and furniture, worn-out crockery, cheaper quality in-room amenities) and stop patronizing the hotel or restaurant. Customer complaints increase, with little prospect of management being able to encourage the unhappy customers to return. The spiral of decline increases in a deadly no-win situation for all concerned. As sales deteriorate faster, more desperate cost-cutting measures are introduced to try and stem the losses, which in turn reduces customer satisfaction.

For larger firms with several hospitality outlets or brands the problem of a unit in decline is exacerbated by the negative publicity, which can damage the overall brand image of successful units in other stages of the life cycle. In addition, the costs of managing a declining brand are disproportionate to the benefits generated. Owners and managers need to decide whether to keep a declining product and harvest it to maximize profits, or whether to dispose of it. If the product is retained, costs have to be reduced and unprofitable segments eliminated, which further reduces sales.

Disposal or rejuvenation

At any one time there are thousands of hospitality businesses that have reached the end of their product life cycles. A declining business that is for sale has similar problems to the decline stage; but if staff and customers know the business is for sale, the spiral of decline accelerates more quickly. Indeed, if a hotel or restaurant is not sold quickly, the business can go bankrupt. The key point to remember is that when a hospitality product is sold, it normally remains in the sector. The new owners can reformulate the product offer and invest in the re-launch of the business, and a new product life cycle starts. In destinations that are in decline, the hospitality product might be bought and converted into other uses – for example, housing and retail outlets.

Alternatively, the existing owners might decide to rejuvenate the product by closing the existing business, investing in a new product concept, and starting the PLC again.

Conclusion

Throughout this chapter we have explored different perspectives of the hospitality product, and emphasized the importance of matching the product to the needs of target markets. Given the intense competition in the hospitality business, it is essential

for marketers to ensure that the product concept is designed to deliver customer satisfaction.

In this chapter, we have explained:

- The complex combination of tangible and intangible elements that comprises the hospitality product
- How products should be designed to cater for the needs and wants of target markets and to deliver customer satisfaction
- That the hospitality product comprises a core product, a tangible component and an extended element
- How hospitality businesses design product-benefit bundles to satisfy a combination of consumer needs and wants
- That multiple chain operations need to decide the degree of standardization and the degree of customization in their branded product
- The product life cycle, which charts the sales and profits during the lifetime of every product
- The five stages in the product life cycle – product development, introduction, growth, maturity and decline
- The high failure rate of new products in hospitality
- The different marketing strategy at each stage of the product life cycle
- That when a product reaches the decline stage of the PLC, management needs to decide whether to dispose of, or rejuvenate, the product.

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

Review questions

- 1 Discuss the tangible and intangible elements of the hospitality product
- 2 Discuss the advantages and disadvantages of standardizing the product offer for a branded hospitality chain
- 3 Evaluate the effectiveness of the product life cycle in marketing decision-making. Illustrate your answer by providing examples from the hospitality industry.

References and further reading

- Bateson, J. E. G. (1999). *Managing Services Marketing: Text and Readings*. Dyrden Press.
- Horner, S. and Swarbrooke, J. (1996). *Marketing Tourism, Hospitality and Leisure in Europe*. International Thomson Business Press.
- Kotler, P. (2000). *Marketing Management*. Prentice Hall.
- Kotler, P., Bowen, J. and Makens, J. (2003). *Marketing for Hospitality and Tourism*, 3rd edn. Prentice Hall.
- Lewis, R. C. and Chambers, R. E. (2000). *Marketing Leadership in Hospitality: Foundations and Practice*. John Wiley.
- McDonald, M. (1999). *Marketing Plans*. Butterworth-Heinemann.
- Roper, A. J. and Brookes, M. E. A. (1996). To standardise or not to standardise? *Marketing International Hotel Groups, CHME Annual Research Conference, Nottingham*.
- Usunier, J. C. (2000). *Marketing Across Cultures*. Prentice Hall.

