# Hospitality Marketing

Principles and Practices

FOURTH EDITION

Dogan Gursoy, Francis Buttle and David Bowie

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"… a must have introductory hospitality marketing textbook for anyone who is new to hospitality marketing. Book clearly explains various hospitality marketing terms, concepts and strategies with clear examples, marketing insights and cases. It is full of important and relevant information for those who are new to hospitality marketing."

– **Professor Fevzi Okumus**, *CFHLA Preeminent Chair Professor, Rosen College of Hospitality Management, University of Central Florida*

"...a well-structured and easy to understand hospitality marketing textbook full of important information for those of us who are new to the topic. The fourth edition of this introductory textbook explains you how to successfully apply the principles of marketing to a real-life work situation within the hospitality industry with examples and case studies"

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"This book with the addition of social media marketing, user-generated content and the role of technology makes it a must-have for hospitality students and a valuable reference for academics in the relevant field."

– **Catherine Prentice**, *Professor of Marketing, University of Southern Queensland, Australia*

"Dogan Gursoy, Francis Buttle and David Bowie have delivered a hospitality marketing book that satisfies my 3Cs: it is complete, current, and comprehensive. The book has everything you need to know about the subject, has lots of current examples and data, and covers each topic very thoroughly. The book is well organized, contains several great case studies, and offers its readers many thoughtful and useful insights."

– **Dr. Chekitan S. Dev**, *Singapore Tourism Distinguished Professor at Cornell University's Nolan School of Hotel Administration and author of 'Hospitality Branding'*

"The fourth edition is current and easy to read, a great resource for hospitality students. The theory is applicable globally, and the case studies illustrate well the points made. Each chapter is laid out clearly and lends itself to guide a weekly learning programme. Formatting the book following the customer lifecycle gives the book a clear progressive flow."

– **Xavier Font**, *Professor of Sustainability Marketing, University of Surrey, UK*

"A well-established as 'essential reading' hospitality marketing book with completely refreshed and updated content, stronger emphasis on social media and online marketing and much wider geographic reach of destination case studies. The logical pre-encounter, encounter and post-encounter marketing structure it offers as well as the exploration of new roles of technology, artificial intelligence, service robots and the metaverse in marketing should appeal to academics, students and hospitality practitioners alike."

– **Alexandros Paraskevas**, *Chair in Hospitality Management, London Geller College of Hospitality and Tourism, University of West London*

"This is an outstanding marketing book dedicated to the hospitality sector – full of thought-provoking insights and practical examples. The logical and accessible way it covers the whole planning, implementation and evaluation process makes this an essential text for students, instructors and practitioners seeking a comprehensive overview of hospitality marketing."

– **Peter Lugosi**, *Professor of Culture and Organisation, Oxford Brookes University*

# Hospitality Marketing

*Hospitality Marketing* is an introductory textbook which shows readers how to apply the principles of marketing within the hospitality industry.

The fourth edition contains examples and case studies exemplifying how ideas and concepts discussed within its chapters can be successfully applied to a real-life work situation, with an emphasis throughout on topical issues such as sustainable marketing, corporate social responsibility and relationship marketing. It also describes the impact that the Internet has had on both marketing and hospitality, using a variety of tools including a wide range of Internet learning activities. This fourth edition has been updated to include:

- New content on social media marketing, user-generated content, group-buying behaviour, franchising, internationalization, non-predictable factors affecting sales and marketing such as COVID-19, the role of marketing in creating a competitive advantage and the role of events and experiences in marketing.
- New extensive exploration of the role of technology in marketing including the use of artificial intelligence, service robots and the metaverse to develop and deliver service and/or to measure customer experience.
- Updated online resources including a PowerPoint deck, a test bank of questions and added links to YouTube and Instagram content.
- New/updated international case studies including many more from Asian and African destinations.

This book is written specifically for students taking marketing modules within hospitality courses and is a valuable resource to promote learning.

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## Principles and Practices

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and David Bowie

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# Contents

# Figures

# Tables

# Case studies

# Marketing insights

# Preface

Most readers of this textbook will be university undergraduate or college students studying hospitality and/or tourism marketing for the first time. Our main objective in writing the book has been to provide you with an easy-to-read text, which presents a review of modern marketing theory in the context of the hospitality industry. The many examples we have included will give you a better understanding of hospitality marketing practice.

The book has the following special features:

- The book's unique structure examines marketing activities before, during and after the customers' experience of the hospitality encounter. This helps you understand what has to be done to attract customers, provide them with an experience that meets their expectations and motivate them to return.
- There are 15 chapters, one for each of the key marketing topics you need to understand.
- Many helpful learning activities such as searches of relevant company websites and visits to hospitality units as a customer to collect information are embedded in each chapter. You will then need to analyze and evaluate your findings.
- A companion website www.routledge.com/cw/gursoy which contains a student section with further information, case studies and hospitality contact details. For instructors, there is a separate section, which provides additional teaching resources.

# Structure

The structure of the book is divided into the following sections:

- *Part A: Introduction*. A single chapter, which introduces the key concepts of marketing in the hospitality industry, including market demand, the marketing concept, the special characteristics of service industries, the PESTE environment and the hospitality marketing mix.
- *Part B: Pre-encounter marketing*. This section consists of eight chapters and discusses all the marketing activities that companies have to carry out to attract customers. Chapters include marketing research; understanding and segmenting customers; competitive strategies; developing, locating, pricing and revenue management, distributing and communicating the offer.
- *Part C: Encounter marketing*. This section comprises three chapters, which are concerned with managing the customer experience while consuming the hospitality offer. They include managing the physical environment, managing the service process and managing customer-contact employees.
- *Part D: Post-encounter marketing*. These two chapters discuss post-encounter marketing and explain the importance of customer satisfaction and developing mutually beneficial longer-term relationships with customers.
- *Part E: The marketing plan*. The final chapter builds on the previous chapters, and explains how to write a marketing plan for a hospitality business.

# Learning features

Each chapter contains the following features to aid understanding:

- *Chapter objectives*: Each chapter begins with bullet points highlighting the main features and learning to be covered in the chapter.
- *Activities*: Short practical activities are located at appropriate 'break' points throughout the chapter, to enable you to assess your understanding and marketing experience.
- *Headlines*: These usefully divide chapters into easy-to-read sections.
- *Marketing insights*: Marketing anecdotes and observations contextualize learning.
- *Case studies*: Illustrations from hospitality companies around the world are used to illustrate how the theories work in real-world situations.
- *Conclusion*: This condenses the main themes of the chapter enabling you to check your learning and understanding.
- *Review questions*: These appear at the end of each chapter allowing you to test your knowledge and understanding, and to put the theory into practice.

Each chapter contains online sources to help students explore the good examples of hospitality marketing in practice.

# Part A

# Introduction

Chapter 1

# Introduction to hospitality marketing

## CHAPTER OBJECTIVES

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

- Define key marketing terms; understand that the role of marketing is to manage demand; and explain the marketing concept
- Describe major environmental influences that impact hospitality businesses and their customers
- Explain the special characteristics of services that influence the practice of hospitality marketing
- Identify the eight elements of the hospitality marketing mix.

## Introduction

In this chapter, you will be introduced to some fundamental principles of marketing. We review several definitions to clarify precisely what we mean by 'marketing'; we define 'the marketing concept' and we show that being 'marketing-oriented' is one of several ways of running a business. We then describe the macro- and micro-environments in which hospitality companies operate, the special attributes of services and the 'hospitality marketing mix'.

Whether we recognize it or not, we are all involved, willingly or unwillingly, passively or actively, in marketing. We encounter marketing practices every day when we are exposed to advertising and product displays, evaluate brands, make buying decisions, shop and consume; we may also

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encounter marketing at work even if we don't have a job in marketing. Although marketing has a powerful and pervasive influence in modern life, it is often misrepresented and misunderstood.

Students learning about marketing for the first time can become quite confused because expert definitions of marketing differ from the everyday use of the term. Many people equate marketing to advertising or selling, but it's much more than that. Confusion grows when you consider that marketing is both a business philosophy and a management practice.

**ACTIVITY 1.1**

Before you read the rest of this chapter:

- Write down what you think 'marketing' means.
- Write down what you think marketers do.
- List job titles that you think involve marketing.

We will review your ideas at the end of this chapter and see whether they have changed!

## What is marketing?

### *Marketing as a business philosophy*

Some experts believe that marketing is primarily a business philosophy that puts the customer first. From this perspective, the primary goal of any hospitality business is to create and retain satisfied customers. Marketers who endorse this 'business philosophy' idea believe that customer focus is not just a marketing responsibility but that everyone in the organization should consider the customer as they make management decisions, whether in operations, finance, human resources or marketing. Adopting this philosophy requires a total management commitment to the customer, and companies that pursue this approach can be described as having a *customer-orientation*.

### *Marketing as a management practice*

An alternative perspective proposes that marketing is a management practice that aims to manipulate customer demand. After a lifetime devoted to developing marketing theory and promoting the benefits of marketing, the celebrated marketing guru Professor Philip Kotler claimed that 'marketing's central purpose is demand management' and marketers need 'to manage the level, timing and the composition of demand'.[1] This perspective on marketing explains most accurately what marketing managers do day to day. Marketing management practice is part art and part science. Marketing is art in the way it uses creativity and innovation to stimulate consumers' imaginations and arouse intentions that ultimately translate into demand. It is also a science in the way that it uses data and customer insight to guide its use of the demand management toolkit known as the 'marketing mix', about which we have more to say later in this chapter.

### *Transactional and relationship marketing*

Marketers work in a variety of contexts that require different demand-management responses. At one extreme, the challenge is to make a one-off sale; at the other, the challenge is to build a long-term relationship with the customer that delivers many transactions over time. These are respectively known as transactional and relationship marketing.

- *Transactional marketing* is associated with hospitality businesses that serve transient or temporary markets. For example, independent food and beverage businesses operating in day-tripper destinations aim to generate sales from customers who are unlikely ever to return. These businesses provide products and services that are mutually rewarding for both parties, generating profit for the seller and satisfaction for the buyer.
- *Relationship marketing* is associated with businesses that have repeated transactions with customers over time. Relationship marketing involves the development of mutually beneficial long-term relationships between suppliers and customers; relationship marketers recognize that the lifetime value of a retained customer can be high, even though the value of each transaction may be relatively low. The major hotel groups stress relationship marketing when striving to build repeat business from guests. Offering added value to these high-value guests is a component of these companies' loyalty or reward programmes.

### *Institutional definitions of marketing*

Two important professional bodies for marketers are the American Marketing Association (AMA) and the UK-based Chartered Institute of Marketing (CIM). They offer these definitions of marketing:

> *'Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.'*
>
> (AMA)[2]

> *'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.'*
>
> (CIM)[3]

The AMA definition stresses the importance of value creation. Customers experience value when they use or consume a product or service. This is known as 'value-in-use'. A restaurant meal or a guest room has no value until such time as customers use or consume them. The CIM definition stresses the importance of satisfying customer requirements. To integrate both definitions we can say that every customer's broad requirement is to experience value. If the customer does not experience value from a hospitality company's products or services then they will not be satisfied; on the other hand, once value is experienced then customer satisfaction is more likely.

These definitions also stress the importance of bringing the voice of the customer into the business. The CIM definition notes the importance of identifying customer requirements. The AMA definition stresses the activities and processes that enable businesses to create offerings that have value for customers. Taken together, these mean that businesses have to monitor markets, customers and competitors for shifts in customer requirements and expectations, and continually adapt offerings to ensure that customers experience value. These monitoring and forward-looking processes mean that the voice of the customer continues to be heard in the business, and that the business is externally oriented towards customers. Marketers become ambassadors or spokespersons for customers and ensure that the organization is always focused on the value-in-use expectations of customers.

### *The marketing concept*

Companies that place a customer at the centre of their thinking, and organize their operations and communications around the value requirements of customers, are said to have adopted the marketing concept. In competitive markets, these companies accept that to achieve their goals, they must be more effective than competitors at creating, delivering and communicating value to their chosen customers. Companies that adopt the marketing concept are said to be 'marketing-orientated'.

### *What is a market?*

Originally, a market was a meeting place where people could buy and sell produce; of course, this type of market still exists today. In modern societies where people connect online, markets can be much more complex, but they still reflect the core principle of bringing together buyers and sellers with common interests. This modern concept of the market is based on groups of people who have similar needs and wants (potential consumers and actual customers), and companies that aim to satisfy those needs and wants better than their competitors (an industry).

*Needs* can range from the basic requirements for survival – food, shelter, safety – to much more complex social needs, such as belonging and recognition. *Wants* are how different people choose to satisfy their needs; wants are shaped by culture, traditional and social media, and personality. People with similar needs, for example, the need to travel for a family event and stay overnight, can have different wants – some will want to stay with relatives while others may want to have the independence of staying in a hotel.

A major limitation on how people can satisfy their wants is the amount they can afford to pay. Consumers have to make buying choices based on their own resources or buying power. Consumers will often buy the best bundle of value-creating benefits provided by a product for the price that can be afforded. The aggregated purchase decisions of *all* the individuals buying a product (or service) are expressed as *market demand*. Market demand is normally measured using two criteria:

1. The number of units sold; this is called the volume.
2. How much people have paid for the product; this is called the value.

Individuals can satisfy similar needs in many different ways. Not everyone wants the same bundle of benefits, and this creates sub-markets, or market segments, within the overall market. In hospitality markets, deluxe, luxury, mid-market, economy and budget market segments represent different bundles of benefits sought by different groups of customers. Over a period of time, the volume and the value of market segments can increase or decrease depending on a wide range of factors.

Market supply can also be measured and this is called the *industry capacity*. In the hotel market, the number of hotels and rooms in an area is called the *market capacity*. If the number of hotels and rooms is increasing, because new hotels or room extensions have been built, then the market capacity increases. In the hospitality industry, market supply is often categorized under the same headings as market demand segments; thus, the luxury, deluxe, mid-market, economy and budget classifications are also used to describe the different types of operations serving those market segments. Other ways of categorizing hospitality market supply include:

- Purpose of travel (e.g. business; leisure)
- Niche markets (e.g. ethnic restaurants; vegetarian restaurants)

- Tourist board, motoring or other organization ratings for hotels and restaurants (e.g. the American Automobile Association – AAA Diamond rating classifications for hotels or the Michelin Guide star ratings for restaurants).

The level of market demand and the amount of industry capacity are crucial factors underpinning the profitability of hospitality firms:

- When market demand is high and industry capacity is low, hospitality businesses should enjoy high sales volume and profitability.
- When market demand falls (e.g. in an economic downturn or recession) but industry capacity remains high, sales and profitability will normally fall.

## Marketing as demand management

We have suggested that one way to think about marketing is to view it as the art and science of managing customer demand. Because demand states vary, so does the task of marketing. Table 1.1 provides a list of eight categories of demand and the marketing response. When demand states 1–4 occur, actual demand is lower than the business's desired level of demand and the hospitality marketer is primarily interested in facilitating and stimulating more demand. Negative demand exists when consumers dislike a product – for example, an unpopular food or drink product. The marketing response is to encourage demand by educating consumers about the positive features of, or benefits from, the product (or by educating operations people in their business to change the product so it does satisfy customers!). You can often witness free tastings of food and drink products in supermarkets and wine outlets, which enable potential customers to see, taste and maybe buy the product.

When there is no demand, the marketing task is to create demand. Raising awareness by outbound communications such as advertising and public relations to demonstrate a product's positive attributes may help to educate consumers and encourage them to try the product.

Latent demand means that demand would exist if there were a suitable product/service. The development of domestic short breaks as a hotel product was originally based on consumers' increasing affluence and available leisure time. When demand is falling, the marketing challenge is to revitalize demand. This situation can occur when a product/service is beginning to lose its appeal. Marketers need to research the reasons why the product no longer

**Table 1.1** Demand management[4]

| | Category of demand | Marketing task |
|---|---|---|
| 1 | Negative demand | Encourage demand |
| 2 | No demand | Create demand |
| 3 | Latent demand | Develop demand |
| 4 | Falling demand | Revitalize demand |
| 5 | Irregular demand | Synchronize demand |
| 6 | Full demand | Maintain demand |
| 7 | Overfull demand | Reduce demand |
| 8 | Unwholesome demand | Destroy demand |

satisfies customers, reformulate the offer and re-launch it to refresh interest and revitalize demand.

Irregular demand is widespread in hospitality; it takes the form of seasonal demand. In these situations, companies strive to develop marketing strategies and tactics to synchronize demand over the high and low seasons, often using price-led promotions. Full demand occurs when actual demand matches the available capacity. Here, the marketing task is to maintain the current level of demand. In hospitality markets, full demand rarely occurs since competitors are likely to enter attractive markets and disturb the equilibrium.

If there is too much (or overfull) demand, the hospitality operation will not be able to cope and there is likely to be considerable customer dissatisfaction. Hospitality marketers respond by reducing demand either by increasing prices or by managing the booking/queuing process to prevent overfull demand. A long-term solution to overfull demand is to increase capacity by building more rooms or extending the seating area in a restaurant, but managers need to be confident that overfull demand will be sustained.

Unwholesome demand can occur when prohibited activities such as drug dealing, gambling or prostitution are taking place on the hospitality premises. Management clearly has a legal and ethical duty to try and inhibit or destroy unwholesome demand; however, this can be a difficult situation when customers are willingly involved.

### *Market demand in hospitality*

Market demand in hospitality falls into four broad categories:

1. Business travel demand includes all those trips business-people take to meet customers and suppliers, or attend conferences, exhibitions and seminars. Business travel does not include the daily trips people make when commuting to and from work.
2. Leisure travel demand includes trips that people take away from home for amusement, entertainment or relaxation – for example, vacations, weekend breaks or same-day visits. A major component of leisure travel is visiting friends and relatives, and this is described using the acronym 'VFR'.
3. Domestic travel demand includes all the travel generated within a country by people living in that country – so, for example, the domestic demand for business travel in the USA is all business trips taken in the USA by people living in the USA.
4. International travel demand includes all the trips taken to a country from people living in other countries. France is the world's most popular tourist destination and attracts international visitors from all over the world.

Some types of travel do not fit easily into these broad categories, for example people who combine business and vacations in the same trip, but these are convenient descriptions that tourist and hospitality organizations use to broadly categorize the major markets – see Table 1.2.

**Table 1.2** Categories of demand in hospitality

| Purpose of travel | Domestic | International |
|---|---|---|
| Business | Domestic business demand | International business demand |
| Leisure | Domestic leisure demand | International leisure demand |

## Management orientations

Not every company is 'marketing-oriented'. Five different management philosophies, or orientations, have been identified in developed economies. Some of these orientations have been linked to specific economic conditions or to certain periods in economic history. Hospitality organizations, like other businesses, could adopt any one of the following orientations, regardless of the economic circumstances.

### *Product or service orientation*

Companies adopting a product orientation believe that their customers can *only* be satisfied with a particular type of product or service and that the foundation of corporate success is product or service excellence. Management may concentrate on developing better versions of the *existing* product, but fail to recognize that customers could be satisfied better by different *types* of products. For example, hospitality companies with a product orientation include the famous restaurants with celebrity chefs, who serve what they think customers should want regardless of what the customers actually want! Product-oriented management is inward looking. Although a company can prosper with a product orientation, changes in consumer tastes and fashion can quickly undermine a product-oriented company as businesses lose touch with changes in customer preferences. Theodore Levitt's famous article[5] 'Marketing myopia' warned companies that a product orientation could lead to failure.

### *Operations or production orientation*

Originally developed by the automobile entrepreneur Henry Ford in the early twentieth century, a production orientation is appropriate when there is a rising demand for strong, innovative products. If demand exceeds supply, management concentrates on producing volume to satisfy the growing demand. Improved technologies generate economies of scale, which allows management to reduce prices further and grow the market.

Production orientation is a good fit for businesses servicing customers who have a narrow range of expectations, and who expect low prices and consistent product quality. This leads to an inward-looking focus as management strives to control costs, standardize quality, enhance efficiency and increase volume. Critically, from a marketing perspective, the needs and wants of customers can be subordinated to the pursuit of operational efficiency. If customers are satisfied with a low-cost, mass-produced product, then a production orientation is appropriate.

There are many examples of product innovation generating strong demand in the fast-food industry. When American quick service restaurants entered the major cities of countries such as China and Russia, they generated high demand for what was considered an innovative foreign food product. This meant that McDonald's adopted a production orientation. McDonald's management's main focus was on achieving operational efficiency by improving their food supply chain and training staff to service the high demand. Airline, contract and welfare food service operations also have a production focus because of the mass markets they serve.

There are also examples of hospitality organizations using a production orientation ineffectively. Sometimes, the standard operations manuals in the large hotel corporations that detail rules and procedures for every aspect of the hotel operation can stifle employee initiatives in customer care. This bureaucratic approach inhibits innovation, making hospitality managers focus on the systems and processes instead of customers. Smaller companies can also neglect customers by adopting an operations focus. Simplifying the production process for operational convenience can lead to limited customer choice – for example, small sandwich shops can easily limit the choice of fillings to reduce waste and thereby lose customers by not offering sufficient choice.

### *Selling or sales orientation*

Companies adopt the selling orientation when their products are competing in markets where supply exceeds demand, and market growth is flat-lining or declining. A critical issue for many hospitality firms is surplus industry capacity combined with a high fixed capital investment in buildings and plants. This combination can force management to focus on achieving high sales volume and adopt aggressive sales promotions to make a reasonable return on investment. Companies with a selling orientation tend to accept every possible sale or booking, regardless of its suitability for the business or other customers. By mixing incompatible customer segments, hospitality companies can fail to deliver customer satisfaction, which is ultimately self-defeating. Long-term, profitable relationships with existing customers can be damaged in the pursuit of short-term sales generation.

The sales orientation is endemic in the hospitality industry, as many marketing programmes are really only sales promotions aimed at filling rooms, bars and restaurants – regardless of customers' needs and wants.

Although selling is a vital element of hospitality marketing, sales strategies should be integrated into marketing plans and should be consistent with a marketing orientation.

### *Marketing orientation*

Marketing-oriented businesses have adopted the marketing concept and put customer focus at the heart of the business. It is an alternative to the selling orientation and designed to cope with similar economic conditions (i.e., surplus capacity leading to a fiercely competitive environment). Companies adopting a marketing orientation recognize that customers have considerable choice. Marketing-oriented businesses accept that to maintain long-term profitability they need to understand and serve customers better than their competitors.

Marketing-oriented businesses carry out marketing research and develop an integrated approach to marketing, ensuring that all marketing activities are coordinated and contribute to the delivery of customer satisfaction. A marketing orientation is an outward-looking management philosophy, which responds to changes in the business environment and considers the business from a customer perspective. As customers' needs and wants change, so the business adapts accordingly.

The advantage of a marketing orientation is that the business focus is on developing mutually beneficial, often long-term, relationships with customers, based on an intimate understanding of their needs and wants and the market-satisfying capabilities of competitors. The adoption of a marketing orientation suggests that companies are seeking long-term profits, as opposed to increasing profits in the short term at the expense of long-term customer satisfaction.

At its most advanced level, a marketing orientation becomes focused on the satisfaction of individual customers, either organizations or people. Companies that tailor their offer to meet the needs of individual customers are said to be practicing one-to-one marketing. In hospitality, databases containing customer-related data such as guest history, demographics, contact details and preferences increasingly enable hotel companies to personalize services and communications to satisfy individual customers.

### *Societal (sustainable) marketing orientation*

The marketing orientation has been criticized for its narrow focus on customers and its lack of concern for environmental and social issues. The societal marketing orientation is a response to these criticisms and recognizes that commercial organizations have a wider responsibility than simply looking after customers. A societal marketing orientation suggests that companies should become proactive in the community, adopting a 'good neighbour' policy and being attentive to environmental, social and cultural considerations, whilst running a sustainable business.

Recently, consumers' concern for environmental and social issues such as animal welfare, climate change, diversity, equity, inclusion and ethical food sourcing has generated considerable interest in companies' sustainable business practices. Marketing responses to environmental and social concerns are often described as eco-marketing, green marketing or socially responsible marketing. There are several examples of smaller hospitality organizations founded by eco-minded and/or socially responsible entrepreneurs who strive to operate on a sustainable and socially responsible basis. The larger hospitality corporations have adopted the concept of 'responsible business' as an umbrella term to reflect their response to broader societal concerns and enhance their credentials as good 'corporate citizens'. These corporations have introduced a range of policies to reduce their carbon footprint and food and water wastage; create more energy-efficient properties, value diversity and equity; and be more inclusive. Many produce annual corporate responsibility reports to explain to their corporate customers, shareholders, the media, environmental lobby groups and grassroots organizations their progress towards sustainability and social responsibility practices. In Activity 1.2, you can explore the webpages of both large hospitality corporations and smaller hotel businesses to compare their different approaches.

#### ACTIVITY 1.2

Compare the sustainability and social responsibility credentials of these two international hotel groups and two hotels on their webpages:

1. Hilton Hotels at www.hilton.com/en/corporate/ under 'About Us'
2. Accor Hotels at https://all.accor.com/usa/index.en.shtml under 'Sustainable development'
3. Kandalama Eco Hotel, Sri Lanka, at www.heritancehotels.com under 'Sustainability'
4. Chaa Creek, Belize, at www.chaacreek.com/ under 'About Chaa Creek'

List the sustainability and social responsibility policies of each company and identify any similarities and differences.

A number of hospitality organizations have genuinely adopted a societal marketing approach. One example is 1 Hotels (see Case Study 1.1). Other organizations may claim to adopt a societal marketing approach, but in reality are only putting a 'sustainability spin' on, or 'greenwashing', their otherwise routine management practices. The distinction between a genuine societal marketing approach and a superficial approach lies in the value-driven practices of the organization. If the organizational culture is clearly committed to a sustainable and socially responsible business model and demonstrates this in all its activities, then it has adopted a societal marketing approach.

A company's orientation may be formally embedded in a written mission statement, informally agreed by the management team or simply implied in the way the business is run. Many hospitality companies may not even be aware of their business orientation. Opinions differ on whether a specific orientation is appropriate for any given economic situation. Some experts maintain that a marketing orientation is the only appropriate orientation, whilst others suggest that competitive and economic circumstances should determine which orientation to adopt. Companies often adopt different orientations at different stages of their growth, and global companies can adopt different orientations depending on which country they are operating in.

## CASE STUDY 1.1

### 1 Hotels

1 Hotels is a nature-inspired luxury lifestyle hotel brand that utilizes sustainable design and architecture to make the buildings environmentally friendly and sustainable while offering extraordinary comfort and an unrivalled level of service. SH Hotels & Resorts, an affiliate of global private investment firm Starwood Capital Group, is the hotel brand management company that operates 1 Hotels.

The 1 Hotels brand was launched in 2015 with the opening of exclusive properties in Miami's South Beach and Manhattan's Central Park. Later, new properties were opened in Brooklyn, West Hollywood, Cabo and Haitang Bay in Hainan Island, China. The company plans to open new properties in Hawaii, London, Melbourne, San Diego, Nashville, Paris, San Francisco and Toronto.

The 1 Hotels concept was inspired by a simple idea that those who travel the world should also care about it; it is, after all, 1 world. As stated by Barry Sternlicht, Chairman, Starwood Capital Group, 'I wanted to capture the beauty of nature in a hotel and commit to safeguarding it as best I can, a responsibility that I believe we all share. It's 1 world. But 1 is more than a hotel – it's a philosophy and a platform for change.' This is clearly reflected in the vision statement of 1 Hotels: 'The future of the world and the future of hospitality are one and the same. 1 Hotels aspires to be a platform to spark conversations, between innovators and guests, that transform the industry and our lives.' 1 Hotels upholds this vision by channelling nature through design and culinary partnerships, while connecting with the local community and taking sustainable steps to make a big difference.

All of 1 Hotels' design, construction and operational decisions aim to ensure successful environmental, social and economic sustainability while providing extraordinary hospitality experiences to customers. In order to minimize its negative impacts on the environment, 1 Hotels has implemented a wide range of energy, water and environmental design strategies to keep their footprint small. In fact, all of the 1 Hotels properties operating across the USA are now certified carbon neutral hotels. The guest loyalty programme offered by SH Hotels & Resorts, the hotel brand management company that operates 1 Hotels, allows guests to direct their loyalty credits to efforts to offset carbon emissions around the planet. Guests can earn rewards worth as much as 4 per cent of the money spent at the company's luxury hotels. The earned credits can then be used to fund forest preservation in the US, wind power projects in India and other environmental protection initiatives. This eco-minded and carbon offsetting focused loyalty programme is a collaboration between SH Hotels and CarbonClick, a company founded to help businesses and customers tackle climate change. In addition to funding various environmental projects, the programme can also help you calculate your 'flightprint', the carbon emissions from your flight, before travelling. So, you'll have some sense for how much 'offsetting' you'll need to undertake to achieve carbon neutrality.

1 Hotels also offers a number of programmes to improve the social wellbeing of its various stakeholders such as employees, customers, suppliers and anyone else who is affected by the operations of 1 Hotels. 1 Hotels human resource management practices are better than most in their sector, including competitive pay and very good promotion prospects. 1 Hotels has ambitious sustainability targets to reduce the business's impact on the environment and is proactive in charity support for various causes. 1 Hotels' advocacy, education and engagement programme aims to initiate conversations about the environment and its role in protecting it. The company organizes volunteer activities and offers paid volunteer days for their teams' advocacy and educational pursuits. The company's focus on human health and wellbeing and food and beverage responsibility initiatives suggest that 1 Hotels is committed to offering environmentally friendly, sustainable and extraordinary hospitality experiences to their customers.

1 Hotels' management orientation is clearly based on a societal marketing approach, and continued expansion and recognitions suggests that its mission works. Due to their sustainability initiatives and implementations, 1 Hotel South Beach was awarded #1 in the top 10 Hotels in Miami in the 2019 Conde Nast Traveler reader's Choice Awards. 1 Hotel Central Park and 1 Hotel Brooklyn Bridge claimed the number 5 and number 8 spots respectively in the Top 50 Hotels in New York City.

*Source*: 1 Hotels – look at 1 Hotels' website for more details, www.1hotels.com/

## The marketing environment

Since marketing is an outward-looking business philosophy, marketers in hospitality companies need to understand and adapt to changes in the marketing environment. Macro- and micro- environmental factors influence consumers, customers and businesses, which in turn influence the practice of marketing. Figure 1.1 provides an overview of the marketing environment in which hospitality organizations operate.

### *The macro-environment*

The macro-environment includes all the political, economic, socio-cultural, technological and environmental (PESTE) forces that impact on its customers and operations. Hospitality companies have limited, if any, control over PESTE influences, but major changes in even one PESTE factor can have a significant impact on the business, either for better or worse. PESTE factors are constantly changing. These changes affect consumers, drive market demand and influence the competitive environment.

### *Political*

The political direction of a country determines how consumers and commercial organizations can act. The political philosophy of government can either stimulate or stifle economic, social


**Figure 1.1** The marketing environment

and technological development. Although Western nations generally foster an open economy, encourage tourism and create a positive climate for hospitality businesses, some countries – for example North Korea – restrict international access and inhibit the development of tourism and hospitality businesses. Political and governmental decisions are constantly changing the environment in which we live and work, and impact on hospitality marketing activity in a variety of ways.

For Americans, the political environment includes the federal government as well as their state and local governments. The federal government only has those powers granted to it in the Constitution while a state government has inherent powers allowing it to act unless limited by a provision of the state or national constitution. For Europeans, the political environment includes the European Union as well as their own national and local governments. Decisions about the Single European Market and the euro currency are examples of European political regulation.

The political environment includes the legal/regulatory environment, which covers any legislation that influences the marketplace. Examples include the following:

- Employment laws and regulations. The U.S. Department of Labor (DOL) administers and enforces more than 180 federal laws, which cover many workplace activities for about 150 million workers and 10 million workplaces.
- Planning regulations (permission for building hotel, restaurant and leisure extensions or developing new properties), which alter the industry capacity.
- Licensing laws, which regulate the opening times of licensed premises.
- Local, regional or national government taxes that impact on prices (taxes on general

merchandise and services like Value Added Tax and the General Sales Tax; taxes on hospitality and tourism services like lodging tax, excise duty on alcoholic drinks and taxes like the Airline Passenger Duty on airline travel). The rate of taxation can significantly influence the demand for hospitality and tourism products – generally, higher taxes have a negative influence on demand.

- Regulation of marketing communications. Different countries have a variety of regulations for online and offline customer communications such as tracking customers' online activities, advertising, sales promotion, sharing customer information, and direct and database marketing. One important concern is the protection of customer privacy, especially the online privacy in the age of data economy.

### *Economic*

The economic environment includes all influences on the wealth and income of the population. Examples of economic influences are

- State of the economy from rapid growth though to recession
- Employment levels and associated wages
- Rate of inflation
- Exchange rate.

These factors combine to influence business and consumer confidence, consumers' disposable income and purchasing power, and business investment, which all play a significant role in changing the supply of, and demand for, hospitality services. When business and consumer confidence is high, hospitality markets thrive; when business and consumer confidence is low, hospitality markets decline and firms are prone to failure.

#### The business cycle

Business cycles have a major impact on demand. Hospitality firms need to understand the business cycle and modify their operations accordingly. Although hospitality businesses all trade at the same stage of the business cycle, firms will respond differently according to their financial and marketing strengths, and their leadership. The stages of the hospitality business cycle (see Figure 1.2) are as follows.

- *Growth*: Occupancy and room rates increase in response to growing demand. There is a strong positive cash flow, which means that capital is available for further investment; property values increase and hoteliers have high business confidence.
- *Peak*: Occupancy and room rates remain strong, and funds are still available for investment; however, customer demand tends to slow.
- *Decline*: Occupancy begins to decrease. If the decrease is gradual, room rates are only increased in line with inflation. If the decrease in demand is dramatic, then investors sense the higher risk in declining occupancy and seek more attractive returns before agreeing to invest in hotel businesses. Property values begin to fall. As the rate of decline becomes more rapid, occupancy falls further, price competition becomes more intense and revenue per available room (RevPAR) falls; if decline becomes faster the industry moves toward recession.

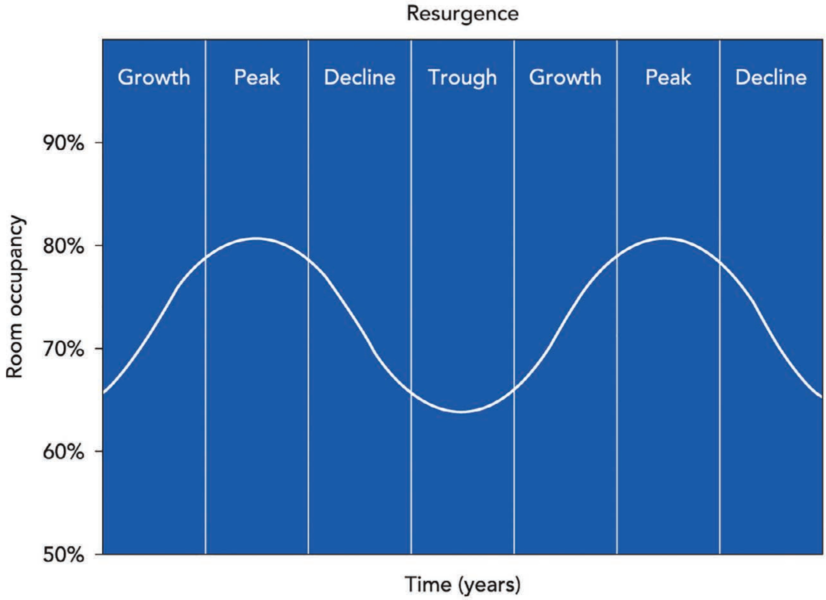


**Figure 1.2** Typical hotel industry cycle

- *Trough*: There is a large imbalance of supply and demand during a recession; low occupancy, low room rates and low RevPAR create a slump in hospitality property values meaning that highly geared (over-borrowed) companies are put into receivership. There is a bottoming out period as demand gradually stabilizes and then slowly begins to increase.
- *Resurgence*: There is a gradual resurgence, and the cycle starts all over again.

A major recurring problem for the hospitality industry is that hotel development projects are funded in the growth and peak stages of the business cycle but, because of the time lag between gaining investment funds and planning permission, many hotels open for business after the cycle peaks. Hence, additional new build capacity is added to the stock just as demand falls, creating further problems for the industry. Capacity does not diminish quickly during periods of declining and low demand. From a hospitality marketing perspective, companies' response to the business cycle during a downturn period and a recession is problematic. Companies engage in major cost-cutting activities; marketing positions and expenditures are often significantly reduced; and financially weaker brands are vulnerable to takeover. During resurgent and growth periods, marketing activity increases as companies respond to the growth in hospitality demand. Although nobody can accurately predict the precise timing of a turning point in the business cycle, it is vital for hospitality managers and owners to understand the implications of each stage.

### *Socio-cultural*

The socio-cultural environment influences consumers' purchase and consumption behaviour. A country's socio-cultural environment is a complex product of its geography, climate, history, religion and ethnic make-up. We are all influenced by the values of our own culture, even though we may not be aware of this. Indeed, cultural differences between regions and countries provide hospitality marketers with some of the greatest challenges when developing global brands.

A person's eating and drinking habits are significantly influenced by culture. Each country and region has developed its own cuisine based on factors such as climate, which dictates what produce is available, and religion, which proscribes what foods and beverages may be consumed. The growth of international travel has widened people's cultural knowledge and encouraged the development of new food and beverage concepts.

Demographic changes (changes in the composition of a population) also make a significant impact on market demand in hospitality. Examples include the following:

- The number of older people living in Western countries is growing, changing vacation preferences, expectations and requirements.
- The increase in the number of single people (caused by people marrying later and more people divorcing) has changed the demand characteristics for eating out.

Hospitality marketers need to be aware of socio-cultural and demographic trends to ensure their companies adapt to changes in markets and remain competitive.

### *Technological*

The technological environment in hospitality is closely associated with innovation and developments in information and communications technology (ICT) and especially the Internet and mobile platforms. Changes in the technological environment influencing consumers and the hospitality industry include the following:

- The rapid adoption of the Internet and mobile technology by consumers searching for and booking hospitality and travel products
- The use of online comparison sites by consumers before making a hotel or restaurant reservation
- Customers' use of social media to share their hospitality experiences with family, friends and their online social networks
- The utilization of inter-connected artificial intelligence powered property management systems, computerized reservation systems, global distribution systems and networks (GDS), the Internet and mobile technologies to facilitate online booking
- The utilization of artificial intelligence powered applications to monitor and reduce energy consumption and improve in-room comfort and security for guests
- Improvements in kitchen equipment which have enhanced food production techniques
- Increasing utilization of artificially intelligent devices in delivery of customer experiences and customer services.

Since the development of the Internet in the early 1990s the practice of hospitality marketing has been revolutionized by technological change, though the core principles of marketing remain the same. Disruptive technologies can cause rapid and dramatic change in the marketing environment. Airbnb was founded in 2008 and describes itself as an online/mobile community and marketplace that connects travellers with hosts all around the world in a sharing economy. Sharing economy platforms such as Airbnb and Couchsurfing have completely revolutionized the hospitality industry by creating a new form of competition or by offering value-added services that are not provided by conventional hospitality companies. For example, Airbnb has become a major competitor for hotel owners. Hosts offer travellers accommodation in their homes and travellers book directly through the Airbnb website. In less than 15 years, Airbnb has signed up more than 4 million hosts (units) over 220 countries and looked after more than 900 million guests. You can read more about Airbnb in Case Study 4.3 later in the book. The current and predicted rate of technological change is super-fast, and new developments are constantly altering the technological environment.

### *Environmental*

Environmental factors have become more important in all parts of the world as people recognize the impact tourism businesses have on the planet. In particular, mass tourism has become controversial. The tourism and hospitality industry is accused of:

- Encouraging inappropriate new hotel and leisure developments
- Eroding natural habitats
- Threatening the integrity of indigenous cultures
- Using scarce resources which local people need
- Generating air, noise and carbon pollution
- Creating waste disposal problems
- Introducing undesirable activities to local communities.

The concept of sustainable tourism is much publicized. Environmental groups lobby government and hospitality companies to improve the industry's environmental policies.

As travellers explore more widely, they become exposed to many different conditions, not all of them welcome. The COVID-19 pandemic, for example, had a significant influence on the hospitality industry due to large-scale shutdown of social activities, lockdowns, stay-at-home orders and travel restrictions.[6] According to U.S. Travel Association reports,[7] travel spending in the U.S. was down by 42 per cent in 2020 compared to 2019. Due to international travel restrictions imposed by many countries, international travel was one of the hardest hit segments of the industry, as it decreased by 76 per cent in 2020 compared to 2019. Meanwhile domestic travel declined by 34 per cent. Business travel was down by 70 per cent, and leisure travel was down by 27 per cent.

### *Interaction of PESTE factors*

Each PESTE element can influence other elements. For example, demographic changes and migration trends are forecast to become a major influence on economic, social and political factors later in the century. National population changes affect a country's economy. Global and national changes in population affect socio-cultural forces and influence the composition and character of travel markets. Countries react politically to migration pressures, especially from economic and political refugees, and demographic changes also stimulate the creation of pressure groups that lobby government on behalf of their interests. Diversity, inclusion and equity movements for a better future are reshaping the hiring, marketing and business practices of all companies. Thus, one driver of change influences several PESTE factors, and each of the PESTE factors interacts with the others.

### *The micro-environment*

The micro-environment includes the people and organizations that a business interacts with in its everyday operations. These include customers, employees, suppliers, intermediaries, competitors and various other 'publics' such as traditional and social media influencers and regulatory bodies. Unlike the PESTE framework for the macro-environment, there is no recognized mnemonic to help you remember the components of the micro-environment.

### *Customers*

Hospitality companies typically target a broad mix of customers, including business and leisure hotel guests; non-resident diners; and convention, meeting and event participants. Managing the customer mix to ensure that all the different types of customers are satisfied or delighted is one of the major challenges for marketing. Over time, customers' needs and wants are likely to change, so companies have to monitor and respond to these changes. Since many consumers share their hospitality experiences with their personal networks through social media platforms, companies also need to monitor and manage their presence online.

### *Employees*

For most hospitality organizations, the local labour market is a key resource. The availability and quality of skilled employees who have been educated and can be easily trained is an important factor in delivering a quality service. Like customers, many current and former employees share their work experiences with a company on social media. Since negative comments about a company's human resources practices can significantly shrink their potential labour workforce, employers, like customers, also need to monitor and manage their social media presence. Because employees interact with customers, they have a major influence on customer experience and satisfaction.

### *Suppliers*

The hospitality company's performance is significantly dependent on its suppliers, for example for delivery of foodstuffs to the kitchen. Although marketers are not directly involved in operational purchase decisions, marketing should have an input in setting quality standards and specifications. The hospitality marketer will certainly be responsible for handling relationships with external marketing communication and marketing research agencies.

### *Intermediaries*

Intermediaries, also called distributors, are those companies who advise, influence and make bookings for customers. They include entities like search engines, travel agents, tour operators, conference placement agencies and specialist online retailers who are known as TPI (third-party intermediaries). Intermediaries are important links in the distribution channel from the customer to the hospitality outlets. Marketing managers need to cultivate good relationships with actual and potential intermediaries.

### *Competitors*

There are several kinds of competitor:

- Direct competitors are businesses offering a similar product or service aimed at the same customer group. Direct competitors operate in the same geographic location and in the same (or adjacent) product category. A three-star provincial business hotel could have a local competitor set including all three-star hotels and possibly some two- and four-star hotels within a 10-mile radius or 15-minute travel time. Watching, knowing and anticipating what your competitors are doing is vital for hospitality marketing success.
- Competitors offering substitute products – these are offers that potential consumers can choose instead of a hospitality product. These competitors satisfy the same need, but in other ways. For example, someone might choose to stay at home and cook a convenience meal instead of going out to a restaurant.
- Indirect competition – this includes all those companies and non-profit organizations that are competing for consumers' disposable income e.g. choosing between buying a new car or going on an exotic holiday.

The competitive environment in many hospitality markets has become more intense in recent years. The actions and reactions of competitors including their level of technology adoption, social media presence and management capabilities have radically changed market structures, influenced consumer behaviour and altered market demand.

### *Publics*

The location of hospitality premises and the size/scale of the company will determine the various publics with which the organization interacts. These publics may include:

- Local government authorities that enforce health and safety, hygiene and planning regulations
- Businesses and people who live or work in the neighbourhood, some of whom may also be customers
- Community, educational, religious, social and voluntary institutions
- Leisure, sporting and tourism organizations
- Media owners and publishers
- Social media and social media influencers.

Local publics can exert considerable influence on a hospitality business. Developing effective public relations and fostering good relationships with local publics is part of the marketing task. Monitoring and managing social media is critical for the success of any hospitality companies these days since most customers pay close attention to social media posts and reviews posted to sites like Tripadvisor.

## Special characteristics of services marketing

Because the hospitality industry is just one of many service sector industries (for example, financial services, distribution services, retailing) we use services marketing principles to underpin our explorations of marketing practice in the hospitality industry. Services such as those provided by hospitality organizations possess a number of special characteristics that present challenges to marketing practitioners. These special characteristics are seasonality, intangibility, perishability, inseparability, variability, interdependence, supply exceeding demand and high fixed costs. You can use the mnemonic SIPIVISH to remember the characteristics.

### *Seasonality*

Seasonality refers to the fluctuations and demand in any given period. In hospitality operations, the impact of seasonality can be felt at different times of the year, month, week or even day.

The demand for business accommodation is highest during the middle of the week and outside the peak holiday periods of religious festivals and summer. Hotels that mainly serve leisure travellers can have a poor mid-week business but achieve high occupancies at the weekends, when hotels that mainly target business travellers can be quiet. Restaurants can be full of customers on a busy Saturday night and empty on Monday lunchtime or evening. Over time seasonality patterns may change in line with consumer trends. For example, many city hotels have recently seen busier weekends due to an increase in weekend conference demand and better marketing of city leisure breaks. Case Study 1.2 illustrates a seasonal business – the Eden Project.

The under- or over-utilization of capacity creates operational difficulties. Sudden unexpected increases in customers can lead to production problems, unacceptable waiting times, negative posts on social media and review sites, and dissatisfied customers. The profitability of hospitality companies suffers during low season periods creating a marketing challenge to increase demand by deflecting over demand from peak periods to the low season.

## CASE STUDY 1.2

### Seasonality at the Eden Project, Cornwall, England[8]

The Eden Project is a unique environmental visitor attraction. The iconic build began in Cornwall in the UK in 1998 in what had previously been an open cast mine for china clay. The attraction officially opened on March 2001 and provides three climatic zones – Temperate, Mediterranean and Tropical – referred to as Biomes. The latter two Biomes are maintained in a greenhouse setting. The Tropical Biome is the largest display greenhouse in the world.

The Eden Project mission is to promote the understanding and responsible management of the vital relationship between plants, people and resources, leading to a sustainable future for all. Therefore, Eden aims to entertain and communicate important environmental messages, provide a memorable day out and inspire visitors. Apart from the natural plant domains, there are a wide range of activities all year round including art and music events and a summer programme for families. The site and seasonal events attract over 1 million visitors annually.

The Eden Project is open every day of the year except the 24th and 25th December. Visitor numbers can range from 300 on a weekday in winter to 14,500 on the busiest day in the summer. Visitor flow is predictable and driven by traditional holiday periods;