

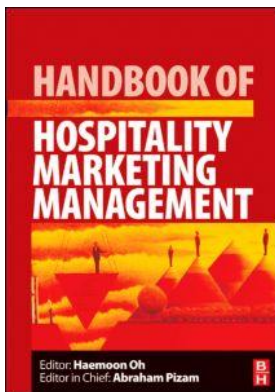
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### **Hospitality marketing mix and service marketing principles**

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CHAPTER 3

# Hospitality marketing mix and service marketing principles

David Bojanic

## Introduction

The concept of marketing is based on the premise that firms should determine consumer wants and needs before designing products and services. This consumer-orientation results in greater demand for a firm's products and services and higher levels of customer satisfaction after the purchase. Marriott International followed this approach in developing their Courtyard and Residence Inns hotels. For example, the Courtyard concept is supposed to attract business travelers and transient customers who do not really like staying at hotels (Wind et al, 1992; Hart, 1986). The researchers recruited individuals for focus groups representing these two market segments to determine the hotel attributes that were most important to them. Next, a tradeoff analysis was performed on a larger sample of people from the target groups to determine the utility, or value, placed on each of the attributes and its possible level. The final result of this study was the concept of a hotel that would have a high level of appeal to the target markets, created using consumer inputs.. The hotel possessed all of the attributes that were important to the target market in adequate levels, at a price they were willing to pay.

This chapter focuses on the marketing mix and its use in contemporary marketing. The traditional marketing mix, also referred to as the four Ps of marketing or the marketing program, consists of: price, product, place, and promotion. These four components of the marketing mix represent the decision-making variables that are available to marketing managers. In other words, decisions concerning the marketing mix are controlled by the firm that is marketing the product or service in question. However, all firms operate within an external environment that is dynamic and cannot be controlled by the firm or its employees. The external environment can be divided into five areas: economic, social, technological, political and legal, and competitive.

There have been alternatives to the traditional marketing mix offered in the marketing literature in response to differences that exist between tangible products (i.e., goods) and services. Services have four major characteristics that affect the design of marketing programs: intangibility, inseparability, perishability, and variability. These characteristics led to the creation of an expanded marketing mix for all services with 7 Ps (the original 4 plus physical evidence, participants/people, and process) and a hospitality marketing mix that is thought to be more relevant for hospitality services firms, tourism organizations, and other travel-related firms. The three components of the hospitality marketing mix are the product–service mix, the presentation mix, and the communication mix. The similarities and differences between the traditional marketing mix and the hospitality marketing mix are discussed later in this chapter. In addition, the criteria used by consumers to evaluate services are introduced and explained in detail using real world examples.

## Marketing mix

### Traditional marketing mix

The concept of a marketing mix originated in the 1950s and was first published in the marketing literature in the 1960s (Borden, 1964). However, the most common form of the marketing mix (i.e., four Ps) used in most textbooks was developed by McCarthy in the 1970s (McCarthy, 1975). McCarthy's four Ps consisted of price, product, place, and promotion. The overall marketing process involves the use of the four decision-making variables within the context of the firm's macro-environment, while focusing on the target market(s). The marketing mix is controlled by the firm, while the macro-environment cannot be directly controlled. The main objective for the firm is to determine a 'mix,' for each product, that satisfies consumer wants and needs and affords the firm a unique position in the marketplace. Firms try to develop marketing strategies utilizing the marketing mix that will establish sustainable competitive advantages leading to long-term growth and profitability. Figure 3.1 is a diagram, used by Reid and Bojanic (2006) in their textbook, that provides a visual presentation of the marketing process.



**Figure 3.1**  
The marketing mix and external environments

*Price.* Price is the value placed on a product or service. Other terms that can be used to refer to the price component of the marketing mix are: fee, rate, tuition, premium, and toll. There are non-monetary elements to price as well as the more obvious monetary elements. Some examples of non-monetary price are the time it takes to search and evaluate alternative products or services and the convenience of location. If a consumer drives to several locations to shop for a product or service, then there are costs associated with time, gas, and depreciation on the car. Also, there could be tolls for highways, bridges, or subways. In the end, it is the perceived price or the perceived value the consumer associates with a product or service that influences the purchase and the level of customer's satisfaction. Value is the tradeoff between price and quality – the benefits the consumer receives for the price paid.

Some of the other variables, in addition to the list-price, that are considered are discounts, allowances, and payment options. Some of the possible reasons for price segmentation and offering discounts include purchase quantity (i.e., volume), time of purchase (e.g., early-bird specials), buyer identification (e.g., AARP, AAA, etc.), purchase location, and bundling (e.g., vacation packages) (Nagle and Holden, 2002). Allowances are most prevalent in the business-to-business part of the channel of distribution and are common in the travel sector between hospitality suppliers (e.g., hotels) and tour operators or travel agencies. Finally, the most popular payment options for large ticket purchases are credit cards and/or the ability to pay over time. For example, it is often necessary to book a cruise several months before the scheduled departure date, requiring the consumer to purchase the service well in advance of its consumption. In response, cruise lines allow passengers to make a small deposit in lieu of paying the entire amount. The remainder of the cost is due on the date of departure.

*Product.* The product element of the marketing mix includes the tangible good and all of the services that accompany that good to produce the final product. A product is a package, or bundle, of goods and services that comprise the total offering. For example, the purchase of a hotel room includes the guest room, fitness center, pool, restaurants, valet service, concierge, housekeeping service, etc. A restaurant meal consists of the actual food, host/hostess, and waiters, etc. Finally, a travel experience consists of a chain of products and services starting at the time of purchase and ending upon returning from the trip. Everything in between, such as hotel service, restaurants, and transportation (including taxis and buses), affect the overall experience.

Some of the variables that are part of the 'product' decision include variety, quality, design, features/amenities, brand name, packaging, supporting services, and warranties. As stated earlier, the decision regarding the proper mix of goods and services is based on the wants and needs of consumers (the concept of marketing). A tradeoff must be

determined that provides the most utility for consumers at a price that is profitable for the firm offering the product. Hotels are segmented, by the level of amenities and services offered, into full service and limited service. Limited service hotels lack services such as restaurants, valet parking, and concierge. There is also a designation that separates hotels, motels, and inns based on the size of the property and the available amenities. Similarly, restaurants are segmented into quick-service, casual, and fine-dining based on the atmosphere and the level of service. Quick-service restaurants do not have waiters, and customers are often required to perform some of the service (e.g., get their own drinks). Finally, travel agents and tour operators create 'bundles' or 'packages' by combining the services of different vendors into products with various levels of quality.

*Place.* The place element of the marketing mix includes the distribution and logistics of producing a product or service and making it available to the final consumer. The location of a manufacturing or wholesaling facility is determined by considering the costs of resources such as labor, raw materials, and real estate. In addition, it is necessary to have access to the preferred mode(s) of transportation for delivering the products to wholesalers and retailers. The location of a retail establishment is based mainly on accessibility to the final consumers. Services have relatively short channels of distribution and focus most of their efforts on finding retail locations that are convenient for consumers. For example, restaurants tend to choose high traffic areas close to shopping and other attractions. Similarly, hotels locate their facilities in areas such as airports, urban centers, industrial centers, and tourist attractions that are accessible to their respective target markets.

Some of the variables that are part of the 'place' decision include the type of channel, location, assortments, coverage area, inventory, and transportation. Many service providers overlook the importance of this variable in the strategic planning process. The channel of distribution tends to be shorter for the marketing of services than that for goods, and most service providers act as manufacturer and retailer. Many managers in service firms assume that once the initial location is determined this variable diminishes in importance. However, hotels and restaurants do switch their operations to a more favorable location on occasion. This is a major decision involving company time and resources, but it can result in long-term growth and increased profit if handled properly. Another good example of a 'place' decision for a hotel is the Harborside Hyatt in Boston, Massachusetts. The hotel is located near the airport and the normal route to the downtown area that serves as a tourist attraction, government center, and financial district is to fight airport traffic. The hotel decided to offer a boat shuttle to take guests to the downtown area in an attempt to 'improve' the guests' perceptions of the hotel's location. Finally, Internet travel agents like Expedia and Travelocity have provided hotels

and restaurants, especially independent operators, with an alternative channel for delivering their services.

*Promotion.* The promotion element of the marketing mix includes all of the communications associated with marketing a product or service. The promotion mix consists of four elements: advertising, personal selling, publicity, and sales promotion. Advertising and publicity are forms of mass communication using a variety of mediums such as television, radio, newspaper, magazines, direct mail, and the Internet. Advertising is a paid form of mass communication with an identified sponsor, while publicity is a non-paid form of mass communication without a sponsor (i.e., it is free and objective). Personal selling is a form of interpersonal communication sponsored by the firm. Sales promotion is a short-term inducement to purchase a product or service. Some examples of sales promotions are contests, sweepstakes, premiums, and product bundles.

Hospitality firms determine their promotion mixes based on their clientele and trading areas. Restaurants tend to draw customers from the local, or regional, population and benefit from using local media such as newspapers and radio stations. Only large chain restaurants, owing to their wide geographic coverage, can benefit from national advertising in magazines and on television. Conversely, hotels tend to draw customers more from regional, national, and international markets. Therefore, most hotels advertise in national media such as magazines and television, unless they are marketing their restaurants on weekend packages. However, the advent of the Internet has provided the smaller, independent hotels and restaurants with a cost-effective medium to reach international audiences. There are also differences based on the market the hotel is targeting. For example, larger hotels market their meeting and banquet facilities to meeting planners using sales people, direct mail, the Internet, trade shows, and trade magazines. In contrast, it is not cost-effective to use some of these same means for transient customers (e.g., personal selling), and the promotion mix is focused mainly on advertising and some sales promotions.

## Marketing environment

Environmental scanning is an important element of any firm's strategic planning. The components of the marketing mix (i.e., the four Ps or marketing program) are controlled by the managers within the firm. However, the external environment cannot be controlled by the firm, and changes in the environment result in both opportunities and threats. Savvy firms are able to take advantage of the opportunities and minimize the threats. The external environment consists of five basic areas: economic, social, technological, political and legal, and competitive.

*Economic Environment.* The economic environment consists of factors that affect consumer's purchasing power and spending patterns. Purchasing Power Parity (PPP) is a measure used to compare incomes across countries by examining the prices for a group of standard products using the exchange rate with the US dollar. Most service firms, especially hospitality and travel, rely heavily on consumers' disposable and discretionary incomes. Disposable income represents the amount of income left after the consumer pays his taxes and other required deductions. Discretionary income represents the amount of disposable income left after the consumer pays for other necessities such as housing, food, and clothing. Consumers in developed countries have higher standards of living and more discretionary income than those in developing or under-developed countries.

Spending patterns are also important and they differ by country and/or culture. For example, people in the United States save much less of their income than people in Asian countries like Japan or South Korea. In addition, US consumers tend to have high debt-to-income ratios resulting from expenditures on housing and transportation (i.e., automobiles). This willingness on the part of US consumers to spend their discretionary income and incur debt identifies them as good prospects for hospitality and travel services. However, these consumers are also susceptible to changes in the economy leading to inflation or a recession. For example, recent increases in gasoline prices have led to reduction in discretionary income and the ability to purchase travel services. In some cases, it results in decreasing the level of quality and taking cheaper vacations, while in other cases the result is eliminating travel altogether.

*Social Environment.* The social environment consists of the changing trends in the population in terms of demographics and cultural norms. According to the US Census Bureau, the world population is currently estimated at approximately 6.5 billion in 2006, and it is expected to increase to approximately 7.9 billion by 2025, with the current annual growth rate being 1.14%. Most of the increase is expected in developing or under-developed countries in Asia, Africa, and Latin America. Many companies from the United States, Japan, Korea, and Western Europe are targeting high-growth countries like China and India. The average age of the population is also expected to increase, and there is an anticipated shift from rural to urban areas. It is important for firms to determine how these changes in demographics and living conditions are going to affect their businesses. For example, hospitality and travel firms can focus resources on marketing to the aging population.

This social environment is probably the least dynamic of the external environments. In other words, most of the changes take place over a long time period and do not require immediate attention. The values and norms of cultures and subcultures have been developed over hundreds, or thousands, of years and are not likely to change drastically



over short time periods. However, some of the recent trends that affect the hospitality and travel industry include healthier diets, women's roles in society, physical fitness (especially for seniors), and concern for the environment. This has led to restaurant menu changes and alliances (e.g., Weight Watchers and Applebee's), 24-hour room service, an increase in motor-coach tours, and eco-tourism.

*Technological Environment.* The technological environment consists of factors that change the way consumers live and the production and delivery of products and services. The changes in the technological environment over the last 50 years have been remarkable, and the rate of technological change has been increasing. These changes have resulted in more product variety and convenience for consumers. The areas with some of the most technological advances include electronics and telecommunications. For example, hotels, restaurants, airlines, and rental car agencies have all seen improvements in reservation management and point-of-sale systems in the form of computer software programs that streamline the process and provide information for revenue management.

In particular, the advent of the Internet has had a profound effect on hospitality and travel firms. As mentioned earlier, the Internet offers hospitality and travel firms a way to reach new target markets (e.g., price-sensitive consumers). In addition, firms can create databases and e-mail lists in an effort to increase consumer loyalty. Finally, the new technology as allowed firms to relinquish some of the service responsibilities to consumers, while at the same time giving them a sense of control. For example, once an airline ticket is purchased, consumers can choose their seats and print boarding passes through Internet web sites. Consumers also benefit from the convenience of using the Internet for information search, comparing alternative products, and making hospitality and travel purchases.

*Political and Legal Environment.* The political and legal environment consists of the government, lobbyists, and other individuals and groups involved in the creation and implementation of laws and regulations. Government legislators create laws and regulations to avoid unfair competition among firms, to protect consumers from unfair business practices, and to make sure products and services are safe. However, many critics feel that too much government regulation can lead to an unnecessary financial burden on firms, barriers to entry for competition, and/or a lack of choice for consumers, resulting in higher prices. In addition to regulating industries, the governments have had to deregulate some industries in the past. For example, in the United States the airline industry was deregulated in the late 1970s in an attempt to increase competition, lower prices, and increase overall volume.

Government regulations affect many industries by setting tariffs and quotas for imports and exports and by regulating taxes. Hotels in the

United States face taxes from the state and local governments that can range from single-digit percentages to the high teens when combined. In particular, this affects a city's ability to attract large meetings and conventions. The restaurant industry in the United States has been affected by changes in tax credits for business meals and non-smoking regulations. Obviously, these industries cannot control the government's decisions in these areas, but they are able to influence these decisions through lobbying. Most industries have trade associations like the American Hotel and Motel Association (AHMA) and the National Restaurant Association (NRA) that employ paid lobbyists, whose sole mission is to maintain a favorable operating environment for their members.

*Competitive Environment.* The competitive environment consists of all individuals and organizations that are marketing similar, or substitute, products and services to the same target markets. These firms compete for resources such as labor and supplies, as well as for sales volume and revenue. There are basically four possible competitive structures:

- Pure monopoly – one seller and many buyers
- Oligopoly – a few sellers and many buyers
- Monopolistic competition – many sellers with differentiated products and many buyers
- Pure competition – many sellers with similar products and many buyers

The most common competitive structure in developed countries with a capitalist economy is monopolistic competition. Pure monopolies and oligopolies normally require favorable government regulations (or lack of regulations), in order to exist. Pure competition is more prevalent during the maturity stage of the product life cycle when industry sales has stagnated and weaker competitors are forced into decline.

Firms must be able to identify indirect, or 'latent' competitors, as well as their direct competitors. There are threats from potential new entrants and substitute products that should not be overlooked. For example, restaurants face competition from other restaurants, but there is also competition from convenience stores and supermarkets that offer sandwiches and prepared meals. Similarly, hotels might analyze their competition from other hotels, but they might underestimate the potential threat from motels, inns, bed and breakfasts, and time-shares. Finally, major airlines must monitor the activities of budget and regional airlines, trains, buses, and rental car agencies as well as of other major airlines. The Internet has leveled the playing field for smaller, independent operations, and this form of electronic commerce has also made it easy for firms and consumers to compare the alternatives.

## Applying the marketing-mix concept

It is necessary with any concept or theory that purports to be an abstraction of reality that it demonstrates an ability to be applied in practice. Shapiro (2001) suggests that the marketing-mix concept must be used to answer the following questions:

- Are the marketing-mix elements consistent with one another?
- In addition to being consistent, do the elements add up to a harmonious, integrated whole?
- Is each element being given its best leverage?
- Are the target market segments precisely and explicitly defined?
- Does the total program meet the needs of the target market segment?
- Does the marketing mix build on the organization's strengths and compensate for its weaknesses?
- Does the marketing mix create a distinctive competitive advantage?

These questions are based on Shapiro's discussion of the interaction within the marketing mix. Specifically, there are three degrees of interaction: consistency, integration, and leverage. Consistency refers to the logical and useful fit between two or more of the marketing-mix elements. Integration refers to an active, harmonious interaction among the elements (in addition to the coherent fit implied by consistency). Leverage is the use of each element to the best advantage of the overall marketing mix. Finally, in addition to the relationships between the elements within the marketing mix, it is important to evaluate the relationship of the marketing program with the market, the company, and the competition.

### *Marketing-mix customization*

The paradigm shift from transaction marketing to relationship marketing has led many firms, especially service firms, to involve their customers in the product development process. The advances in technology (i.e., computers and telecommunications) have enabled firms to create databases that are used to contact consumers via the Internet, telephone, or direct mail. This personal information and access to consumers allow firms to customize their marketing programs. Table 3.1 is a framework for marketing-mix customization adapted from an article by Logman (1997).

The first column in Table 3.1 lists the four elements of the marketing mix. The second column identifies whether the customization is handled by the company, or left to the consumer. The third column lists the possible types of customization for each of the marketing-mix elements. The fourth column includes hospitality examples of the types of customization. These are just a partial list of customization options and

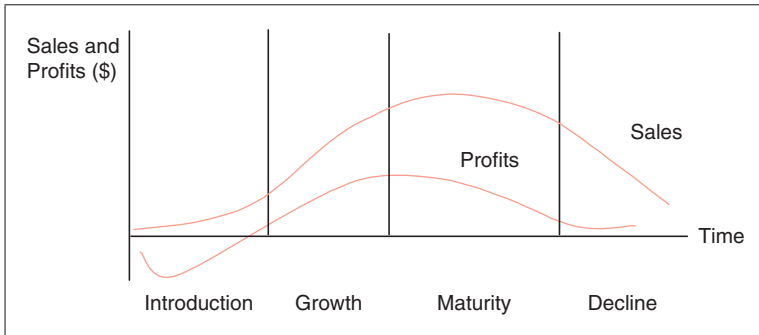
**Table 3.1** Marketing-mix customization and customizability options

Marketing-mix elements	Focus	Type of customization/customizability	Hospitality examples
Product	By Company	<ul style="list-style-type: none"> <li>Offering enhanced and/or bundled products</li> </ul>	<ul style="list-style-type: none"> <li>Buffets, vacation packages</li> </ul>
	By Customer	<ul style="list-style-type: none"> <li>Offering products with different options</li> <li>Offering a menu of product components</li> </ul>	<ul style="list-style-type: none"> <li>Rental car agencies</li> <li>Online travel agencies</li> </ul>
Price	By Company	<ul style="list-style-type: none"> <li>Offering segmented price discounts</li> <li>Offering a customized product</li> </ul>	<ul style="list-style-type: none"> <li>Group business, seniors</li> <li>Fast food 'value' meals</li> </ul>
	By Customer	<ul style="list-style-type: none"> <li>Offering a customizable product</li> <li>As a result of bargaining power</li> </ul>	<ul style="list-style-type: none"> <li>Banquet/catering menus</li> <li>Meeting planners</li> </ul>
Promotion	By Company	<ul style="list-style-type: none"> <li>Use one-to-one communication tools</li> </ul>	<ul style="list-style-type: none"> <li>Frequent flyer programs</li> </ul>
	By Customer	<ul style="list-style-type: none"> <li>Offering an interactive information network</li> </ul>	<ul style="list-style-type: none"> <li>Hotel web sites</li> </ul>
Place	By Company	<ul style="list-style-type: none"> <li>Offering multiple channels and locations</li> </ul>	<ul style="list-style-type: none"> <li>Online hotel reservations</li> </ul>
	By Customer	<ul style="list-style-type: none"> <li>Offering an interactive distribution network</li> </ul>	<ul style="list-style-type: none"> <li>Online airline check-in</li> </ul>

examples used as an introduction. There is more detailed information on the customization process in the original article (Logman, 1997), and there are more examples pertaining mostly to tangible products, or goods.

### *Managing the marketing mix over the product life cycle*

The dynamic nature of the marketplace for products requires firms to continually monitor the environment and adapt the marketing mix to take advantages of opportunities and minimize the impact of threats. In addition, products move through a 'life cycle' that takes them through four stages: introduction, growth, maturity, and decline (see Figure 3.2). The elements of the marketing mix are adjusted



**Figure 3.2**  
The product life cycle

throughout the product's life cycle, based on changes in the marketplace (Bass, 1969).

*Introduction.* New products enter the market with low sales volume and accumulated costs in the form of research and development, capital costs for buildings and supplies, production, etc. This leads to negative profits, and firms often use a 'price skimming' strategy that results in larger profit margins because of the higher price. The higher price is justified if the product is unique and/or the level of quality is high. At this point, there are few, if any, substitutes or competitors. There are typically a small number of distribution outlets (i.e., selective) and the main objective of the promotion mix is to create awareness and trial.

*Growth.* The next stage occurs once the level of awareness and trial has increased and the sales volume begins to grow. The accumulated sales volume and the high profit margins result in positive profits. However, this profit potential attracts more competitors and prices start to decline (as do costs per unit). The firm increases the number of distribution outlets, including direct mail and Internet web sites, and enhances the product by offering more features and options. The focus of the promotion mix is on continuing to educate consumers about the benefits of the product and starting to differentiate it from the competitors' offerings.

*Maturity.* Most products are in the maturity stage of the product life cycle (PLC), evidenced by a large number of sellers with relatively similar products. At this stage, the number of distribution outlets is at its peak (i.e., intensive) and the heavy competition keeps prices low. The overall sales for the product category becomes 'stagnant' and the growth rate levels off. Competitors with weaker positions begin to leave the marketplace, and the product and promotion strategies focus on differentiating the firm's product from those of its competitors.

*Decline.* The final stage of the PLC is the decline stage. The market growth rate for the product category is negative, improvements in technology are limited, and the profit margins are low. Only the strongest competitors remain, and the prices continue to decline. The number of distribution outlets decreases as less profitable operations are shut down or sold off. The amount spent on promotion is decreased in an attempt to maintain decent profit margins, and the focus is on simply reminding consumers the product is still available. Finally, only the most successful versions of the product are maintained, and standardization is used to decrease production costs.

Table 3.2 summarizes the marketing-mix strategies for each of the stages in the PLC. The PLC has been criticized for being a self-fulfilling prophecy – firms might make decisions based on a belief that the product is moving through the life cycle, and these decisions might actually become the catalyst for the movement from stage to stage. In reality, there is no set length of time that a product spends in each stage. For example, many products are in the maturity stage of the PLC, and they have been in the stage for decades. The industry sales for fast food hamburger restaurants stagnated years ago, but McDonald's continues to reinvent itself by adding new services such as breakfast and healthier foods.

One of the other problems associated with the PLC is that it tends to emphasize new product development, often to the detriment of existing products. Resources are shifted from the existing products, or strategic business units, into the research and development for new products. However, it is also possible to extend the PLC for existing products by

**Table 3.2** Marketing-mix strategies over the product life cycle

Marketing-mix element	Introduction	Growth	Maturity	Decline
Product	Offer unique, high quality	Improve quality	Add features	Use profitable design
Price	Charge high skimming price	Reduce	Discount	Reduce
Promotion	Focus on raising awareness and trial	Stress benefits	Differentiate	Remind
Place	Selective	Intensive	Intensive	Selective

increasing sales to current customers, increasing the number of users, and/or finding new uses for the product.

## Criticisms of the marketing-mix concept

The critics of the marketing mix point out its inability to fulfill the requirements of the marketing concept. This is particularly true in the case of services. The debate will continue over the applicability of the marketing-mix concept and its treatment of the interactions between elements and market-orientation. However, it still appears in textbooks as a cornerstone of marketing theory.

### *Lack of proper identification*

The properties or characteristics that are the basis for classification have not been identified (Van Waterschoot and Van den Bulte, 1992). Early coverage of the marketing mix views the elements of the marketing mix as processes or activities (Borden, 1964), while the more recent view in textbooks is that they are objects or tools that are used by marketing managers in developing marketing programs to target specific markets with a product or brand. The proposed solution is to devise a clear definition of the dimensions used to classify the activities and objects into the four marketing-mix elements.

### *Overlap between marketing-mix elements*

There has also been some question regarding the lack of characteristics used to classify the marketing-mix elements and the fact that the elements are not mutually exclusive (Van Waterschoot and Van den Bulte, 1992). McCarthy's four Ps were chosen to simplify Borden's original list of 12 elements, but there was no attempt made to identify a basis on which to extract the four elements. For example, sales promotion is a subcategory under the promotion element, but there are areas where sales promotion overlaps with product, pricing, and distribution strategies. One could also question whether the four 'P' categories are collectively exhaustive. That is, can every component of the marketing program fit into one of the four elements? Once again, sales promotion is an example of a category that includes all of the items that don't fit nicely into one of the other categories in the promotion mix, or the marketing mix. In other words, McCarthy recognized the interactive nature of the elements in the marketing mix, but did not explicitly state the interrelationships among the elements.

### *Production-oriented approach*

The marketing-mix concept is based on a production-oriented definition of marketing rather than a market-oriented approach (Gronroos, 1989). That is, the traditional marketing mix views customers as an entity *to* which something is done, rather than an entity *for* which something is done. Also, the marketing-mix paradigm supports the notion of a separate marketing department within a firm, leading to the marketing function being isolated from other activities of the firm. The proposed solution is to initiate a paradigm shift toward relationship marketing, which recognizes the importance of integrating the activities of the firm and incorporating services marketing principles in an attempt to achieve a true market-orientation (Gronroos, 1997).

### Service marketing principles

There does not seem to be one agreed-upon definition of services in the marketing literature. In fact, most authors skip directly to discussing the nature and classification of services and avoid the issue altogether. One of the few authors who offered a relatively straightforward definition is Berry (1980), who defined a service as a deed, act, or performance. The academic field first addressed services marketing in the 1950s and 1960s, but most of the advances started in the 1970s (Brown et al., 1994). The early studies in services marketing tended to focus on the unique service features, or characteristics that separate services from goods or tangible products. The fact that services are 'intangible' leads to most of the issues surrounding the debate regarding the differences between marketing services and 'typical' products (Shostack, 1977). The names or descriptions of the unique service features vary slightly, but most authors agree on the following four characteristics of services.

### Characteristics of services

*Intangibility.* Services are intangible and cannot be evaluated before they are purchased. The consumer cannot see, taste, hear, or feel the service before it is purchased. Therefore, service firms often try to 'tangibilize' the service, or offer some evidence of the service. One of the best examples of a service industry that provides tangible evidence for a service that is intangible is the insurance industry. Customers are 'in good hands,' 'get a piece of the rock,' or the 'protection of a cavalry' when they purchase insurance. Similarly, restaurants place colorful pictures of the appetizers, entrees, and desserts on their menus, and/or provide descriptions of the menu item so customers can attempt to evaluate the service before it is consumed. Japanese restaurants go a step further and place replicas of their meals in the window of the



restaurant to entice consumers to enter and try the food. Hotel services contain more attributes and cannot be as easily displayed. The strategy followed by most hotels is to maintain an appealing external appearance and lobby – the first things a consumer sees upon approaching, and entering, the hotel. It is difficult for hotels to give every prospective guest a tour of the property, but they do provide site inspections for meeting planners who book volume business. In Europe, hotels have ‘runners’ at the train stations who offer to take travelers to the property so that the travelers can actually see the hotel before making a decision. If the traveler is not pleased with the hotel, the ‘runner’ will return him to the train station, free of charge. Finally, the Internet has become a useful supplement to other promotional materials in ‘tangibilizing’ hospitality services. For instance, hotels and tourism destinations are able to provide detailed information, high quality pictures, and visual tours on their web sites.

*Inseparability.* Another difference between tangible products and services is that services are typically produced and consumed simultaneously. In other words, services do not go through the traditional channel of distribution that involves a manufacturer, a wholesaler, and a retailer. Service firms are normally retailers that produce the service and deliver it to the consumer while it is being produced. In fact, the consumer is often part of the production process. For example, the consumer must be present for a service such as an airline flight or cruise to take place. The consumer is checked in, he boards the mode of transportation, and the service is completed. Similarly, food service firms normally prepare meals as customers order them, unless they are involved in ‘grab-and-go’ like in some convenience stores and supermarkets.

*Perishability.* The fact that services are intangible means that they cannot be stored, or placed in inventory. A good, or tangible product, can be stored in a warehouse and then shipped to the retailer where it can continue to be stored for some time period. Some supermarket products such as produce and meat have a limited shelf-life and are considered quickly perishable as well. However, other goods such as automobiles and computers can be stored almost indefinitely. Hospitality and travel services cannot be inventoried at all, similar to haircuts and doctors appointments. Seats on an airplane, hotel rooms, and rental cars perish the moment an airplane takes off, when the day ends and the hotel room is unsold, or if the automobile is still on the lot. All these represent lost sales that can never be recouped because each of these services has a finite capacity that cannot be exceeded. This particular characteristic of services has led to the development of yield-management and revenue-management models. Hospitality firms alter their prices in reaction to fluctuating demand in an attempt to maximize potential revenue, or ‘yield.’ It is also important for hospitality and travel firms to manage supply under these conditions by planning their facilities (i.e., capacity) and scheduling labor, to meet demand.

*Variability.* The characteristic of services to be discussed last is the variability in the delivery of services. The marketing of both goods and services is situational. That is, the consumer decision-making process is influenced by many factors such as the reason for the purchase, how much time is available, and the consumer's involvement with the product or service category. The fact that services are intangible and consumers are part of the production process makes it difficult to be consistent in the delivery of a service. Many quick-service restaurants have mechanized the preparation of their menu items in an attempt to provide a consistent service, but they cannot fully control the atmosphere in the restaurant at the time of delivery. For example, you could have a bus load of children who fill the tables and slow the queue, a fight could break out between two patrons, or the restaurant could be almost empty. All these represent different situations that would affect the production and consumption of a 'fast food' purchase. Similarly, hotels could have varying occupancies, different types of groups could be staying at the hotel, or there could be a major event in the city or town. Once again, all these would affect the delivery and quality of the service. In summary, a consumer could dine at the same restaurant on the same night every week and have a different experience on every occasion. The same holds true for staying at a particular hotel on every business trip. Hospitality firms 'blueprint' their services, mechanize certain components of the service, and train employees to deliver the service in a consistent manner in hopes of reducing the variability.

These four unique service features, or characteristics, are the reason why most critics believe services and goods are different, and that 'typical' product marketing techniques do not work well for services. Table 3.3 is adapted from an article by Zeithaml et al. (1985) discussing the specific problems and strategies associated with services marketing.

The validity and usefulness of this paradigm based on the four unique service features has been questioned by Lovelock and Gummesson (2004), who offer three options for moving forward: (1) declare victory and abandon the notion of a separate field, (2) focus on specific service subfields, and (3) search for a new, unifying paradigm. The first option accepts the fact that many manufacturing firms include an array of services as part of their offerings and suggests that the discussion of services should be integrated throughout textbooks rather than confined to one chapter. The second option maintains status quo in terms of having services marketing as a separate discipline and suggests the creation of meaningful subfields under the services marketing umbrella. The third option is to search for a new paradigm, or reconstruct the current foundation of the discipline. To this end, Lovelock and Gummesson (2004) present the idea of having a new paradigm based on the fact that some marketing transactions (i.e., services) do not involve a transfer of ownership. Ironically, this was the focus of discussions in the early stages of services marketing.

**Table 3.3** Problems and strategies related to unique service features

Unique service features	Resulting marketing problems	Marketing strategies to solve problems	Hospitality strategy examples
Intangibility	<ul style="list-style-type: none"> <li>cannot protect services through patents</li> <li>cannot display services</li> <li>prices are difficult to set</li> </ul>	<ul style="list-style-type: none"> <li>stress tangible cues</li> <li>stimulate word-of-mouth</li> <li>create strong image</li> <li>use cost accounting to help set prices</li> <li>engage in post-purchase communications</li> </ul>	<ul style="list-style-type: none"> <li>Motel 6 – ‘We’ll keep a light on for you’</li> <li>restaurant critics/publicity</li> <li>Hertz Rental Car Agency</li> <li>menu engineering</li> <li>frequent-flyer programs</li> </ul>
Inseparability	<ul style="list-style-type: none"> <li>consumer involved in production</li> <li>other consumers present during production</li> <li>difficult to mass produce</li> </ul>	<ul style="list-style-type: none"> <li>good selection and training of contact personnel</li> <li>manage consumers</li> <li>use multiple locations</li> </ul>	<ul style="list-style-type: none"> <li>Marriott’s continuous training program</li> <li>airline practices</li> <li>franchising and chain operations</li> </ul>
Perishability	<ul style="list-style-type: none"> <li>services cannot be stored</li> </ul>	<ul style="list-style-type: none"> <li>use strategies to cope with fluctuating demand</li> <li>manage demand and supply</li> </ul>	<ul style="list-style-type: none"> <li>yield management</li> <li>early-bird specials</li> </ul>
Variability	<ul style="list-style-type: none"> <li>standardization and quality control are difficult</li> </ul>	<ul style="list-style-type: none"> <li>industrialize service</li> <li>customize service</li> </ul>	<ul style="list-style-type: none"> <li>pre-packaged vacations</li> <li>fast-food preparation</li> </ul>

## Service evaluation

Most of the relationships between variables in the field of marketing are situational and change continually. For example, there are different influences on the choice of a restaurant if it is for a special occasion (e.g., first date, anniversary, birthday, etc.) versus a normal family dinner. Similarly, the choice of hotels depends on whether it is a business trip or a family vacation. In addition, the intangible nature of services that

relates to perishability and variability makes it difficult to evaluate the final product. The following discussion focuses on the various attributes used in evaluating products (both goods and services).

*Search Attributes.* These represent the characteristics of a product that the consumer can evaluate prior to purchase. It is possible to find restaurant or hotel locations, menus, and the amenities offered through telephone books or Internet web sites. One can also find information on airline routes, type of plane, seating charts, on-time percentage, and baggage handling policies. Tourism destinations use brochures and web sites to provide information on tourist attractions, restaurants, and lodging.

*Experience Attributes.* These represent the characteristics of a product that the consumer can only evaluate after purchase. For example, the actual quality of a meal or hotel as a meeting venue cannot be determined from search attributes. The consumer can form expectations, but it is only after the purchase and consumption of the service that the consumer forms a perception of the final service. A visit to a tourism destination depends on the weather, transportation, lodging, restaurants, etc. and can be very different from the consumer's original expectations.

*Credence Attributes.* These represent the characteristics of a product that are difficult to evaluate even after purchase. It is possible to evaluate most hospitality and tourism services after consumption because they are heavy in experience attributes. However, the 'pure' intangible services like health care, lawyers, and accountants are difficult to evaluate even after consuming the service. For example, you assume your accountant did a good job on your taxes, but you never really know without an audit or a review by a second accountant. Similarly, patients might need a second opinion (or more) to evaluate a doctor's performance.

In general, the demand is more elastic for services that have a 'tangible' component with more search attributes. These tangibility-based services are easier to evaluate and compare among competitors. The demand for services becomes more inelastic as they exhibit more experience, and then credence, attributes. One of the subsequent chapters in this text covers the service evaluation process in more detail, including service quality and customer satisfaction. The remainder of this chapter focuses on frameworks for classifying services based on various characteristics such as the degree of intangibility.

## Classifying services

There are many classification schemes in the services-marketing literature based on the level of ownership (e.g., rented vs. owned), the mix of tangible goods and intangible services, whether the service is equipment-based or people-based, and the extent of customer contact

(Judd, 1964; Hill, 1977; Shostack, 1977; Chase, 1978; Thomas, 1978). Lovelock (1983) presented five classification schemes based on a review of previous literature and posited the following questions:

1. What is the nature of the service act?
2. What type of relationship does the service organization have with its customers?
3. How much room is there for customization and judgment on the part of the service provider?
4. What is the nature of demand and supply for the service?
5. How is the service delivered?

The topic of discussion in this chapter is hospitality and tourism services. Therefore, the rest of this section focuses on the application of the above classification schemes to these services.

*Nature of the Service Act.* The issues involved in this classification scheme are at whom (or what) is the act directed, and is the act tangible or intangible in nature? Hospitality and tourism services are designated as tangible actions directed at people who need to be physically present throughout most of the service delivery process. This differs from services like accounting and insurance that do not require the consumer's physical presence during service delivery. This high-contact system for hospitality services requires providers to locate near the consumer, manage the atmosphere or environment, schedule around consumers' preferences, hire and train employees with good interpersonal communication skills, and maintain quality control (Chase, 1978). It is interesting to note that hospitality services are often 'mixed,' in terms of contact. For example, airlines are high-contact regarding check-in and boarding, but low-contact for baggage handling and services that are available via the Internet such as ticketing and choosing seats. Similarly, restaurants are high-contact for dine-in consumers, but low-contact for take-out and delivery services.

*Relationship with Customers.* This classification scheme is based on the nature of service delivery (i.e., discrete or continuous) and the type of relationship between the service organization and its customers (i.e., membership or no formal relationship). Some service firms, such as banking and telephone services, have formal relationships, or memberships, with customers. Other service firms have a continuous delivery of service like insurance companies and police departments. Hospitality and tourism firms tend to focus on discrete transactions without formal relationships, or memberships. For example, consumers use rental car services, eat at restaurants, or stay at hotels only on a need basis (i.e., discrete transactions). Also, consumers are able to purchase these services without having a formal relationship with the firm. However, many hospitality firms offer frequent user programs in an attempt to create formal relationships with consumers and build brand loyalty.

*Degree of Customization.* This classification scheme is based on the extent to which the characteristics of services are customized and the extent to which contact personnel exercise judgment in meeting individual customer needs. Hospitality and tourism employees do not have as much latitude to exercise judgment in delivering services as employees in health care or education (i.e., low discretionary ability). Instead, hospitality firms focus on customizing the tangible elements of the service, while limiting the variability in service delivery. For example, luxury hotels and fine dining restaurants offer their customers a myriad amenities and options (i.e., high customization). In contrast, limited service hotels and quick-service restaurants are more standardized and do not offer as many options (i.e., low customization). Similarly, travel agents offer various types and levels of vacation packages, but they do not have much flexibility in pricing or adding value through special services.

*Nature of Demand and Supply.* This classification scheme is based on the extent of demand fluctuations and the extent to which supply is constrained. Professional services such as insurance and banking have consistent demand over time and usually have the capacity to meet the demand. Utility companies like telephone and electricity do experience fluctuations in demand, but they are normally able to meet demand. However, hospitality and travel firms like airlines, rental car agencies, lodging facilities, and restaurants have fluctuations in demand, but cannot always meet the demand during peak periods. For example, there are seasonal peak periods in demand for many tourism destinations based on weather (e.g., beach areas), during which lodging facilities and restaurants operate at capacity and turn consumers away. Similarly, airlines and rental car agencies in these areas are affected by the demand among tourists, but they have also short-term fluctuations based on day of the week and time of the day. Yield management models are used to manage this relationship between demand and supply (i.e., limited capacity) in order to maximize potential revenue. Remember, services are perishable and cannot be stored.

*How the Service is Delivered.* This classification scheme is based on the number or availability of service outlets and the nature of the interaction (i.e., does the consumer have to be physically present?). As stated in the first classification scheme, consumers of hospitality and tourism services need to be physically present for at least part of the delivery process. In most cases, the consumer goes to the service organization (e.g., hotel or restaurant), and there are usually multiple sites available given the number of franchises and chains. Independent lodging facilities and restaurants do not necessarily offer multiple sites, and tourist attractions are normally single entities within a given destination, but they still require the physical presence of consumers. By exception, travel agents, meeting planners, and tour operators are able to provide services without the physical presence of the consumer.

This is due to the fact that they operate as intermediaries rather than as retailers that deliver the final products to the consumers.

## Alternatives to the traditional marketing mix

### Expanded marketing mix

An expanded marketing mix was developed as a result of the debate over the differences between product (i.e., goods) and services marketing (Booms and Bitner, 1982; Magrath, 1986; Collier, 1991). The expanded marketing mix consists of seven Ps, including the traditional four Ps, aimed at solving the deficiency associated with the categories in the traditional marketing mix, of not being collectively exhaustive. Finally, the concept includes more discussion of the characteristics used to identify the proper category for the activities and objects being assigned. The additional three elements of the expanded marketing mix are: physical evidence, participants/people, and process.

*Physical Evidence.* This element includes the atmosphere of the service operation and any tangible evidence used to market the product. For example, restaurants decorate their dining rooms in an attempt to promote a 'theme' and they use this theme in their marketing materials. Applebee's promotes its chain as a neighborhood restaurant, and Subway promotes itself as providing fresh food that is healthy. The casinos in Las Vegas are especially adept at 'tangibilizing' their services and creating themes based on the physical surroundings (e.g., Treasure Island, Excalibur, and the Venetian).

*Participants/People.* This element recognizes that people are part of the service production and delivery process. The employees and the consumers must both be present for the service encounter to take place. Service firms must train their employees, educate consumers, and manage consumer expectations. Service firms can add 'value' to the product through their employees, who are part of the service experience. Also, consumers are more likely to be satisfied if they have reasonable expectations (i.e., if the firm can meet, or exceed, their expectations). Ritz-Carlton is known for its total quality management program and is a former winner of the Malcolm Baldrige Award for quality. The hotel chain gives every employee a credo with over 20 items that give guidance as to how customers should be treated. Employees 'own' problems until they are resolved and are empowered to be able to solve normal issues.

*Process.* This element deals with the delivery of the services to consumers and includes process design elements such as supply cycles, franchising policies, payment policies, and employee training procedures. Hospitality firms like McDonald's and Marriott try to standardize their service delivery processes in an attempt to provide consistent service throughout their operations. Airlines and rental car agencies

have also standardized their operations through computer reservation systems and inventory control systems.

## Hospitality marketing mix

The inherent differences between goods and services led to the development of an alternative marketing mix for the hospitality industry. Renaghan (1981) felt that the traditional marketing mix had little utility for the service industries (i.e., hospitality) and presented an alternative marketing mix with the following three components:

*Product–service Mix.* The product–service mix refers to the combination of products and services, whether free or for sale, aimed at satisfying the needs of the target market. The term ‘product–service mix’ is supposed to capture the fact that hospitality firms offer a blend of products and services. Renaghan (1981) alludes to the intangible nature of services and suggests that consumers are more likely to measure services by performance rather than possession. The inclusion of ‘service’ in the category title supports the notion that the marketing mix needs to include services marketing principles and take a market-oriented approach. The marketing function in service firms is not limited to the marketing department as in most manufacturing firms. It is important for all employees to focus on customers and form long-term relationships. For example, hospitality and travel firms attempt to accomplish this through the use of programs aimed at frequent flyers/guests/diners. This element also allows for the fact that employees and customers are actually part of the service offering because the production and consumption is simultaneous.

*Presentation Mix.* The presentation mix refers to all of the elements used by the firm to increase the tangibility of the product–service mix in the perception of the target market, at the right place and time. The presentation mix is used to differentiate a firm’s offering from other products in the market. Some of the major elements of the presentation mix are the physical plant, location, atmospherics, price, and employees. It should be noted that the price and place components from the traditional marketing mix are included in this hospitality marketing-mix component. The place element in this context refers more to the service delivery process rather than the normal distribution process associated with product (i.e., goods) marketing that focuses on logistics and supply chain management. This element provides a category for many activities and objects that are specific to services (especially hospitality services) and that could not be easily assigned to one of the categories of the traditional marketing mix.

*Communication Mix.* The communication mix is very similar to the promotion component of the traditional marketing mix. The communication mix refers to all communications between the firm and the target market that increase the tangibility of the product–service mix,



that establish or monitor consumer expectations, or that persuade consumers to purchase. This is accomplished by 'tangibilizing' the service using visual media to simulate the service experience. This approach addresses the criticisms dealing with the handling of sales promotion as a subcategory of the promotion element and provides a more encompassing element, focused on promotion and communication, than the traditional marketing mix. One of the service quality gaps involves the lack of communication with consumers concerning the nature of the service and what to expect. Managing consumer expectations is a critical activity in the marketing programs for services that is not explicitly identified in the traditional marketing mix. Service employees are also responsible for communicating with consumers in their boundary spanning capacities. For example, reservation agents at hotels and waiters at restaurants are frontline employees who are relied on to describe (i.e., tangibilizing) the firm's services.

## Chapter summary

It seems as though the marketing-mix concept has been around forever. The concept started in the 1950s as a list of ingredients used to make marketing decisions and evolved into the four controllable elements that comprise the marketing program that is used to formulate marketing strategies for each of the firm's target markets. In addition to managing the marketing mix, firms must also engage in environmental scanning. This chapter discusses the five external environments (social, economic, technological, political and legal, and competitive) and their influence on the firms' marketing strategies. Managers cannot control the environment the way they control the marketing mix, but they need to monitor the environment for opportunities and threats, and then react appropriately. The chapter also examines the application of the marketing mix through customization and managing over the product life cycle. There are examples provided and baseline recommendations given for general situations in hospitality and tourism. It is the responsibility of each firm to determine the best way to customize its product-service mix and establish a unique position in the market with sustainable competitive advantages.

The unique nature of services, relative to other products (i.e., goods), is addressed. Services are intangible (they cannot be held), which leads to the other characteristics. Services are produced and consumed simultaneously (inseparability), they are difficult to standardize (variability), and they cannot be inventoried (perishability). These unique service features also make it difficult to evaluate services. Search, experience, and credence attributes are used to evaluate products, but services rely heavily on experience and credence attributes. In other words, most services are difficult to evaluate until after consumption, and even then it might be difficult to evaluate them. Several schemes exist for

classifying services and each has its merits. The chapter covered five possible classification schemes and their relevance to the hospitality and tourism industry.

There have been critics of the marketing-mix concept and some alternative models presented in an attempt to incorporate the special nature of services. In fact, there was even an attempt to establish a unique marketing mix for the hospitality industry, and a suggested paradigm shift from the marketing mix to relationship marketing. The expanded marketing mix and the hospitality marketing mix addressed the criticisms associated with the traditional marketing mix and provided services marketers with tools for making marketing decisions that are market-oriented. The hospitality marketing mix consists of three elements: product–service mix, presentation mix, and communication mix. These elements are more flexible for making hospitality marketing decision, but while being collectively exhaustive, they are not mutually exclusive. Also, more emphasis should be placed on identifying the characteristics and properties that serve as the basis for classification of activities and objects into marketing-mix elements.

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