

1-1-1990

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### Recommended Citation

Vladimir, Andrew N. (1990) "Marketing Lessons for the '90s," *Hospitality Review*: Vol. 8 : Iss. 2 , Article 4.

Available at: <https://digitalcommons.fiu.edu/hospitalityreview/vol8/iss2/4>

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# Marketing Lessons for the '90s

**Abstract**

Marketing for the '90s more than anything will require managers who are innovators and know how to adapt to change. Hospitality firms can anticipate changing customer bases, changing technology, and changing ways of motivating and managing employees.

**Keywords**

Andrew N. Vladimir, Marketing Lessons for the '90s, MONITOR, Growth, Yankelovich, FIU

# Marketing Lessons for the '90s

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*Marketing for the '90s more than anything will require managers who are innovators and know how to adapt to change. Hospitality firms can anticipate changing customer bases, changing technology, and changing ways of motivating and managing employees.*

It's about time that hospitality managers faced the facts. As the words to the song from "The Music Man" go; "We've got trouble, my friends." And the trouble is not confined to River City, Indiana, either. It's all over the United States. Despite the often heard rosy predictions from hoteliers and restaurateurs about the future of the hospitality business, there are heavy storm clouds on the horizon.

In the lodging industry many lenders who traditionally sustain new hotel growth have retreated to the sidelines.<sup>1</sup> The number of new hotel rooms, which peaked at 115,000 in the mid 1980s, trailed off to 89,000 in 1989 and will drop to 77,000 in 1991.<sup>2</sup> Occupancy rates too are predicted to reach 64.4 percent, far lower than what is needed to achieve healthy profits.

The story is no happier in the restaurant business where an increasing number of people eating out are nevertheless producing disappointing results for some of the major operators. "The long-predicted restaurant industry shakeout has arrived," announced the National Restaurant Association in the May 1990 issue of its magazine, *Restaurants USA*.<sup>3</sup> McDonald's, long considered the industry's golden star, "faces a list of problems longer than its menu," according to *Advertising Age*. "The company is finally running out of room to grow in the U.S. without cannibalizing its own stores. The chain also is watching the consumer base outgrow its menu and is confronting the unfamiliar possibility that massive market spending isn't enough to boost U.S.D. sales in the face of industry saturation, lower demand, and tougher competition."<sup>4</sup>

McDonald's isn't the only one with these problems, of course. They are endemic to all of the chains which represent the largest segment of the \$150 billion-a-year business. "To maintain customer counts, the big fast-food chains are cutting prices where necessary while trying to keep up their service standards," says *The Wall Street Journal*.<sup>5</sup>

The market for airline tickets and hotel rooms may be growing every year, but it is at a much slower rate than that with which most businesses can be satisfied. The United States is forecasting a

growth in travel expenditures of only 1 percent in 1990. Most businesses target their individual annual growth at 10 or 15 percent or even more. Indeed, hospitality companies need this kind of growth because customers die, move away, and alter their lifestyles, so that restaurants and hotels that don't get a substantial number of new customers every year can expect to eventually lose their old ones and experience declining market shares.

Clearly managers need to confront these problems head on and come up with innovative solutions to stimulate growth. If hospitality enterprises are to market themselves successfully in the next decade, they must make major changes not only in their positioning strategies, but in product concepts and design. The only other strategic alternative besides increasing demand is to reduce costs, and marketers may have already exceeded the limit of what is acceptable in that area.

### **Is There Too Much Cost Cutting?**

One explanation of the four-year slump that has been experienced in leisure travel and the food service industry is that it is the result of overestimating how much of a service decline customers are willing to trade off to gain lower prices. For example, many full service restaurants have reduced labor costs by installing salad and dessert bars. In the fast food area, prices that are too low are on the whole attributable to having automated customers collect their own food, bus their own tables, and accept a limited menu selection that is usually produced to inventory rather than to order.

Hotels, too, are moving in the same direction. Take the growing practice of video check out. While guests may like the convenience of this service, one could argue that it is only because it often takes too long to check out in person. Many hoteliers still believe that the way to create an abiding feeling of good services is to check out guests personally, one at a time, wish them a pleasant trip, and invite them to come back again.

Substantiation of a growing dissatisfaction with the level of service that hospitality establishments offer can be found in the Yankelovich MONITOR tracking studies which identify and measure changes in social values. Using a projectable sample of 2500 adults 16 years and older, MONITOR has been measuring the shift in American social values since 1971.

According to Robert Schulman, president and CEO of Yankelovich, Skelly, and White/Clancy, in 1987, 39 percent of Americans interviewed believed that the quality of hotel/motel service had improved, while by 1989 the number had declined to 36 percent. A slightly higher drop in satisfaction is reported for restaurants. In 1987, 43 percent of Americans believed that quality has improved for restaurant service, but by 1989 the figure dropped to only 39 percent. Air travel service has gone down abominably. While 36 percent believed quality had improved in 1987, only 21 percent saw any improvement in 1989. On all three scales, not only has the level of

satisfaction been declining, but more than 60 percent of the public thinks that service is the same or getting worse every year.<sup>6</sup> This is not simply a result of a poor image; managers must face the fact that these opinions represent substantive negative perceptions to changes that hospitality suppliers are making ostensibly to increase service levels (or reduce costs).

### **A Marketing Approach is Needed**

It is time to take a fresh look at the difference between marketing and selling. Selling is getting rid of what you have. Marketing is having what people want. Looking at it this way puts the emphasis on customers and what they need. Too many managers still forget that the customer is the key to their success. They think about profitability and productivity and, while these are important, they are not the purpose of the business. "The purpose of a business is to create and keep a customer," says the Harvard Business School's marketing guru, Ted Levitt. "There can be no corporate strategy that is not in some fundamental fashion a marketing strategy, no purpose that does not respond somehow to what people are willing to buy for a price."<sup>7</sup>

To seek customers, companies often need to redefine what business they are in or want to be in. Many consider this exercise to be too academic for practical use. What difference does it make, for example, if travel agencies are in the business of being information brokers or of distributing airline tickets and hotel vouchers? The truth is it can make a huge difference in the design of the final product and the way it should be packaged so that clients get what they need, not what the agency is selling.

A startling success story of how a proper business definition can put an enterprise miles ahead of the pack is McDonald's. This company understands what business it is in. Its competitors do not. McDonald's is not in the business of selling hamburgers, but, instead, what it characterizes as "The McDonald's experience." This, of course, includes a hamburger, and some other items as well, but that is not the heart and soul of its strategy. When McDonald's first started national advertising, its positioning statement was: "You deserve a break today." That was changed after a number of years to "We do it all for you." Then it became, "It's a good time for the great taste of McDonald's." Currently, McDonald's advertising focuses on "Food, folks and fun." McDonald's has never said, "You deserve a hamburger today," and it was just recently, as a result of competitive pressures, that the company included food at all in its positioning.

What does all this mean? It means that McDonald's is selling an interlude from the day's busy schedule – a chance to sit down and break bread with friends, or take children out for a bite to a place where they can have a good time while their parents relax. Burger King, on the other hand, has always positioned itself as the place where you can "have it your way," which is a competitive advantage to be sure, but which puts the emphasis on the product rather than

the experience. McDonald's, of course, sells different experiences to different people – kids, teenagers, adults, and mature citizens. An important factor for McDonald's has been that over the years its market has changed dramatically and so the company has been forced to change the experience it offers.

Originally McDonald's was a product targeted toward families with young children. So Ronald McDonald was very evident in every store. Television commercials featured mostly children, and even the decor was built to a child-sized scale. But as the population aged and baby boomers turned into adults, McDonald's adapted its products and service to appeal to this changing market. The decor was changed and breakfast for business people on the way to work was introduced, as were salads for those who were weight conscious. The company started publishing nutritional information for new consumers who were interested in what they were eating and in staying fit. Now as the population continues to age, McDonald's is planning to introduce pizza nationally to capture a share of the dinner business.

McDonald's clearly understands that creating customers comes first; not only has it successfully defined its business, but it has also defined its markets very narrowly. The company has gone so far as to identify a market of "tweens" (those between the ages of 10 and 13) and has produced special television commercials for that group.

### **An Appeal to Numerous Markets Is Wise**

Companies that want to succeed in the '90s are going to have to make some basic strategic decisions about whom they are going to sell to; that will lead to decisions as to what they are going to sell. Conventional wisdom in the hotel business has always suggested that it is wise to appeal to as many markets as possible. But, in fact, there is no such thing as a product or service that appeals to everyone. Package goods manufacturers learned long ago that is no longer possible. Why are there so many brands of cigarettes on the market? Or soap? Companies used to think in terms of mass markets, but they now know that these are long since gone and have been replaced by many smaller segmented groups. When people buy products and services today, they act as individuals, not as members of a group. People who live in different neighborhoods even within the same socio-economic groups like different kinds of foods, drive different automobiles, decorate their homes differently, and choose different kinds of vacations, hotels, and resorts. Of course, it is possible to appeal to more than one group, but not to every group. Moreover, in the case of hotels, some groups such as bus tours are incompatible with individual executive travelers who do not like to wait in line to check in or eat breakfast behind a group of noisy, carelessly-dressed sightseers. The bottom line is that because hotels and restaurants are capacity constrained, business demand must be managed very carefully, and the the wrong kind of demand (generated from incompatible markets) can drive the desirable segments away.

Most successful hotels already segment their markets into several different groups. On the simplest level they may have business travelers and leisure travelers. But smart hoteliers go much further than that. Business travelers, for instance, are divided into meeting and convention groups, ordinary middle management executives, or top management willing to pay higher rates and stay on special concierge floors with extra amenities. Leisure travelers can be walk-ins who pay rack rate or tour groups. In addition to these segments, hotels also identify other separate and distinct markets such as airline personnel, government employees, travel agents, local banquets, family reunions, weddings, and civic meetings. Very few hotels try to appeal to all of these markets. Many of them attract a mixture of two or three, but often they go to great lengths to control the mixture. The Omni Parker House in Boston, for example, is an executive hotel which traditionally turns down tour business except at certain times of the year and on weekends when full-paying clientele will not run into these noisy groups who bring a different ambience to the hotel. The whole concept behind yield management is having the right people paying the right price at the right time.

### **Product Design Is the Critical Decision**

Generating the right kind of demand requires more than clever advertising. It is a question of product design, which needs to be begun before the first brick is laid. Today's consumers think strategically; they no longer believe that they can ever have everything, and so they carefully balance time, money, and effort and are willing to make trade-offs. Hoteliers need to know, therefore, what amount consumers will pay for which services to design the optimal product. Robert Schulman of Yankelovich, Skelley, and White/Clancy believes that consumers need to be the guide in hotel design. He believes that too often management's choice of concepts is not the most appealing to potential guests, and that the most appealing concept (i.e., the one that will generate the most trial) is invariably the least profitable.<sup>8</sup> But there is often a third optimal concept that can be formulated through careful consumer research which will meet profit targets and attract significantly more guests than the one that managers are likely to pick based on judgment alone. Schulman advocates beginning with the classic trade-off method. In a hotel design there are at least nine key decisions to be made :

- restaurant type
- level of service
- room size
- lobby
- bath size
- recreation facilities
- room rate

- airport shuttle service
- businesses services to offer

Recognizing that that there are at least two choices in each of these areas, i.e., big rooms versus small, high room rates versus low, etc., then there are 512 possible combinations (2<sup>9</sup>). Clearly, the optimal combination for any given target market cannot be arrived at by a judgment call; it must be carefully researched.

### **Promotion Strategies and Tactics Are Next Step**

Once desirable markets have been identified and the best product has been designed that takes into consideration tangible features, intangible features, price sensitivity, and return on investment, it is time to consider promotion strategies and tactics. Management should have three major objectives:

- generate as many new trials as possible
- encourage repeat business
- maximize profit potential

• **Generating new trials:** Advertising and public relations will continue to be the leading method of generating new business, but in the '90s there will be some other sources that will have to be utilized.

To begin with, this is a case of a changing market. Most hotel reservations today are still made directly by travelers themselves over the phone or through a hotel's own reservations system. There is general agreement in the industry that this situation is rapidly changing. Travel agents, which up to now have placed an average of only 15 percent of all hotel reservations, are expected to play an increasing larger role. This is due to the rising use of agencies by business travelers and new technology which links airline computer systems to hotel reservation systems.

Some chains are forecasting as much as 50 percent of their business will come through agents by the year 2000. Travel agencies will play a key role in the generation of new business and the American Society of Travel Agents has recognized that fact by increasing its dialogue with hoteliers and holding more training workshops for agents on hotel selection and booking. However, in the eyes of travel agencies, 95 percent of which are computerized, most hotels are still emerging from the Dark Ages when it comes to technology. With the exception of the larger chains, most have reservations and property management systems which are not capable of linking up with the airline systems the agents use. Even the ones that do connect fail to give much information, including "last room availability."

Then there is the question of payment of commissions. Without doubt, this is the key to generating agent business. Most agencies have been stung too often by hotels that never or hardly ever pay commissions, as well as those who wait 60 or 90 days to issue



commission checks. Many chains have responded already by guaranteeing immediate payment, but on the whole, this is still a major problem in the eyes of most agents and will continue to govern where they send business. Hotels, therefore, which hope to generate new trials from travel agencies will have to put in place a guaranteed prompt payment plan.

- **Encouraging repeat business:** Although most hotels pay lip service to the idea of keeping track of former guests and maintaining up to date guest profiles, the reality is that an informal survey of hoteliers confirms the notion that much work still needs to be done in this area. Few hotels today have a mailing list with telephone numbers, not only of guests who have stayed with them in the past year, but of others who have sent for a brochure or telephoned for information. This is vital marketing information and every hotelier should set up systems and train personnel to capture it.

Moreover, such data need to be recorded in a manner to be easily utilized. It is often easier and cheaper to get old customers to repeat than to go out and find new ones. But this requires a commitment of time and money. A frequent stayer or other incentive program, plus an effective direct mail campaign with newsletters and special packages, can produce a high rate of return. Restaurants, too, have an opportunity to generate repeat business, but hardly ever take advantage of it. For example, fast food chains that deliver have the capability to build a database of names, addresses, and telephone numbers of past customers. Such a list can easily be used for future telemarketing and direct mail couponing.

Another technique to encourage repeat business is to make certain that every guest or visitor (and they should always be thought of as guests or visitors, never customers) goes home feeling like his or her business is very important. Robert Hazard, president and CEO of Quality International, the world's third largest chain with 40 million guests annually, has a home telephone number that is listed in the telephone directory and says he gets a dozen calls a month at home from satisfied and dissatisfied guests who want to speak to the president outside of normal business hours. The fact that they are able to do so makes an important statement about how the company feels about satisfying guests.

- **Maximizing profit potential:** To maximize profit potential, hotels and restaurants must concentrate on the concept that they are operating a "service factory." In a service factory, where goods cannot be stored or shipped to another location for sale, the workers are a part of the product. That means they need to be trained in other things besides just "making" what is for sale. Workers in a service factory need to understand marketing so they can sell what they produce, and human relations so they can deliver it to customers. It is important that what is delivered to a customer is not only what was promised, but that it equals or exceeds what the customer

expected to get. That is why quality control is so important to maximizing profits.

In a service factory the quality of the product depends on the real time performance of human beings who are prone to make mistakes. Mistakes cost money as well as future business and should be regarded as system failures, not as people failures. Successful hospitality companies will need to focus more management time and attention on establishing quality standards, communicating them through training programs and measuring the results that are achieved.

One quality standard that is frequently established and easy to measure is waiting time. McDonald's and Burger King have strict standards for how long customers are expected to wait for their food once it has been ordered. Airlines and hotels with busy telephone reservations systems have set time limits for how long customers can be kept on hold before their call is handled. In some cases, an effort is made to manage expectations so that customers feel that they are being taken care of fast.

Sasser, Olsen, and Wyckoff pointed out in 1979 that restaurants often do this by telling guests they will have to wait longer for a table than is in truth necessary. Then when they are given their table earlier than they expected, they conclude that they have been given special attention; thus their feeling of receiving quality service is reinforced.<sup>9</sup> David H. Maister in his classic article, "The Psychology of Waiting Lines," says, "Many restaurant owners instruct their service staff to pass by a table as soon as the customers are seated and to say: 'I'll be with you as soon as I can, after I've looked after that table over there.' In essence, the customer's presence is being acknowledged."<sup>10</sup>

The truth is that quality control is extremely complex where customer contact is involved, especially when some of the most poorly-paid employees are the contacts. The former president of restaurant operations at Marriott, G. Michael Hostage, described how he dealt with the problem: "The Marriott Bellman" booklet is designed to convince our uniformed doormen that they represent an all-important first and last impression for many of our guests, that they must stand with dignity and good posture, and that they must not lean against the wall or put up their feet when sitting...Bellmen are often looked at subconsciously by guests as being 'Mr. Marriott himself' because many times a guest will speak to and deal with a bellman more often during a visit than with any other employees of the hotel...They are coached to smile often and to do all they can to make the guest feel welcome and special."<sup>11</sup>

Marriott is known for setting exact standards for all of its jobs and communicating them clearly in writing as well as in training sessions. Every job, not just the bellman's, has a manual to go with it that breaks down the work into its simplest components. Hotel maid, for example, has 66 different things to do when she cleans a room, from dusting the tops of the pictures (Step No. 7) to making sure the

telephone books and Bibles are in good, neat, condition (Step No. 37).<sup>12</sup> Marriott also continually measures how well standards are being met by frequent inspections, and motivates their employees through profit sharing, stock options, and other bonus programs to make certain that they achieve a high level of quality control.

Recently Pizza Hut, a division of Pepsico, announced that it was going to reward all of its employees down to the level of truck drivers with company stock so that everyone would feel a personal interest in doing a good job. Avis Car Rental has a similar program in place.

Of course, side by side with quality control goes cost control and payroll control. Indeed, it has been observed by several researchers that the companies that do the best job of quality control also do the best job of cost and labor controls since all are intimately connected with each other.

Many restaurant point-of-sale systems are able to compare the amount of food sold with the amount in inventory, as well as the purchase cost for the food and what it was ultimately sold for. Payroll control can also be achieved by careful scheduling techniques and by enhanced training which almost always produces higher productivity.

In the final analysis, the managers who are able to master these techniques of generating new business, encouraging repeat business, and maximizing profits through quality, payroll, and cost controls will be in the best position to gain market share for their enterprises in the coming decade.

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