Segmenting The Hotel Market

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Segmenting The Hotel Market

Abstract
Marketing involves satisfying consumers' needs and wants with products of two types, goods and services. Hotels provide an intangible product, referred to as a service. On the other hand, toothpaste is an example of a product that is a tangible good. The lifeblood of both is marketing. Different as they are, each utilizes market segmentation and positioning. The segmentation movement in the hotel industry is analyzed in the light of marketing principles developed from the consumer goods sector. The analysis suggests that the hotel industry is engaged in a multiple segmentation strategy

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Segmenting The Hotel Market

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Marketing involves satisfying consumers' needs and wants with products of two types, goods and services. Hotels provide an intangible product, referred to as a service. On the other hand, toothpaste is an example of a product that is a tangible good. The lifeblood of both is marketing. Different as they are, each utilizes market segmentation and positioning. The segmentation movement in the hotel industry is analyzed in the light of marketing principles developed from the consumer goods sector. The analysis suggests that the hotel industry is engaged in a multiple segmentation strategy.

In the last 10 years or so the hotel industry has embraced marketing in an enthusiastic way. Basic to the application of segmentation in an industry is marketing mix strategy. Since 1985, the journal of one of the leading schools of hospitality management has featured at least one article on each of the four elements of the marketing mix—product, place, promotion, and price—as they apply to the hotel industry.

What does a marketer mean by the "marketing mix"? The marketing mix is the four factors over which the marketer has control. The marketer designs a product which is attractive to the consumer. Place (also known as distribution) involves making the product available and accessible to the consumer. Promotion is the means a marketer has to inform, reinforce, and persuade the consumer. Price is an element which represents a value to the consumer, while still affording a profit to the producer.

Goods Versus Services

Services cannot be seen, tasted, or touched. The applicability of goods marketing principles to service industries has been questioned in the marketing literature for a number of years. An early example was a seminal article by G. Lynn Shostack. To Shostack—interestingly enough, a marketing practitioner, not an academic—it was not clear "whether product marketing can be overlaid on service businesses." In other words, can a Quality Inn be marketed in the same way as a complex product like a General Motors car or an elemental one like Proctor & Gamble toothpaste?
Toothpaste is a substance, largely homogeneous, which also possesses certain intangible, marketing-created traits. For example, toothpaste can be viewed by consumers as producing clean teeth, bright teeth, or cavity-free teeth. It can also be seen as reducing plaque, tartar, or gum decay, or just being plain tasty. These product images surround toothpaste because of sustained marketing efforts and despite the fact that teeth can and have been cleaned for generations by simple baking powder or salt. Accordingly, toothpaste is a tangible product with powerful intangible characteristics. In a recent advertisement, one brand of toothpaste claimed it fights cavities, helps remove plaque, and reduces tartar buildup, while still having great taste. This illustrates an attempt to add intangible elements to the product.

Hotel service differs from toothpaste in that it is intangible—but with distinct tangible attributes. Its tangibility exists in the building, the rooms, the decor, the food and beverage, and pool. The product’s intangible attributes are in the mind of the consumer as a result of expectation and experience derived from the hotel’s own marketing efforts. An advertisement for a hotel attempts to provide tangibility to its product by showing a gold and crystal fixture and referring to Florentine marble and frescoed ceilings.

Even though a hotel attempts to develop tangibility and a toothpaste maker to create intangibility, there are several other distinct differences between intangible services and tangible goods. One is perishability. If a Marriott hotel room is not occupied, then the sale of this service is irretrievably lost. By contrast, an IBM personal computer that is not sold today can be inventoried and sold tomorrow.

**Services Differ from Goods**

Services also differ from goods in that their consumption is inseparable from production. This means that the customer has to be present and consume the service when it is being performed. For example, a holiday maker needs to be aboard a ship to enjoy a cruise, a diner seated in a restaurant to consume a meal. Goods are produced in a factory, then consumed elsewhere, usually the consumer’s home.

Another difference is the degree of heterogeneity. There is high variability in the performance of hotel services. A good tends to be homogeneous, manufactured by mass-production methods. Service differences are particularly marked in the labor intensive hotel industry. Many different employees come into contact with guests: bellhops, front desk personnel, maids, maitre d’s, waiters, busboys, lifeguards, gift shop employees, etc. Each of these may provide performance levels that are enormously disparate.

Toothpaste is distributed from central manufacturing plants to consumers throughout the country via intermediaries such as wholesalers, brokers, agents, and retailers. The process involves physical distribution to consumers who purchase the product at convenient locations and consume it elsewhere.
On the other hand, the customer goes to a hotel, its production site, so to speak, where the product is consumed. A hotel chain achieves, in a sense, the physical movement of toothpaste from producer to consumer by having its brand name hotels in different locations. Another aspect of hotel distribution is the provision of an 800 number. The consumer can call this number directly or can use services of his travel agent. By these means the consumer purchases his reservation, the hotel product, from wherever he happens to be.

Toothpaste is promoted in a variety of ways to different markets. The various attributes built into a brand are related to the market(s) to which it is promoted. For example, brightness of teeth might be promoted to young adults, whereas decay prevention is directed to parents of children. In effect, the promotional message associated with toothpaste is relatively brief, acting as a reminder or reinforcement for a consumer. After all, how much time is a person willing to spend on a purchase decision for a convenience product?

Hotel promotion may be directed to air travelers if the hotel is located near an airport, to automobile travelers if located on an interstate. Hotel promotions tend to include more detail concerning the available facilities and services. Making a hotel choice is more involved than that for toothpaste and requires more information in the advertising directed at the consumer.

In price terms, the cost of a tube of toothpaste is relatively insignificant compared with that for a hotel room. In both cases, however, there are concrete internal and external price ranges that are marketing-related. For instance, the price of a single room at a hotel is internal and will be more expensive than the price per room of a block purchase. Likewise, the cost of one tube of toothpaste will be higher than the per unit cost of a package of three. The room rate for different hotels is external, varying with the facilities and services provided. The price of different brands of toothpaste vary, too.

Thus, it is apparent that there are similarities and differences in the marketing mix of goods, like toothpaste, and services, like hotels. Nevertheless, the same marketing mix concept is applicable in both instances.

**Market Segmentation Enhances Product Consumption**

The elements of the marketing mix are applied by producers to enhance the consumption of their products by the population. Marketers have learned that it is usually more effective to apply marketing mix strategies to specific target markets, rather than the population at large. Applying the battery of marketing techniques designed for specific targets is known as segmentation. Without segmentation there is only a mass, undifferentiated market. "A segmentation variable is some characteristic of people in the overall (mass) market that aids in dividing it." The four main segmentation variables are generally thought of as geographic, demographic, psychographic, and behavioristic (See Figure 1). In turn, these categories may be broken down into more workable elements. For instance, the population may be divided
geographically by regions, states, counties, or climate; alternatively, the population of the United States may be broken down into segments based on characteristics such as age, sex, and income; another division of the population may be by psychographic: lifestyle, living habits, or levels of social class. Finally, the population may be grouped behavioristically by the way a product is used or benefits sought in usage.

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Within a particular market segment, consumers tend to possess similar needs and wants. If there are enough people in the segment, then it is worthwhile for an organization to create a particular product for this market. Another segment may also possess, to some degree, these needs and wants. The astute producer may be able to persuade this other segment to purchase his brands, or he can modify his brand to meet the needs and wants of additional markets. For instance, a toothpaste may originally be targeted to consumers concerned about cavities. The manufacturer may meet that market's needs, then target another group of consumers worried about plaque, and yet another group concerned with bad breath. (In the hotel industry, the Biltmore is clearly appealing to a different target then EconoLodge.)

Hotel Industry Segmentation Determines Lodging Decisions

When market segmentation is utilized in the hotel industry, it means that a hotel is targeting a specific population. For example, in terms of geography, hotels located in Aspen, Colorado, appeal to a different segment than those located in the central business districts of large cities. Demographic targets may be based on income, age, or sex, among others. Psychographic differences may include gambling in Atlantic City versus sightseeing in Williamsburg. Product usage varies for the businessman as opposed to the vacationer, each having distinct concerns and requirements in mind.

The art of the hotelier is to juggle the marketing segmentation variables in such a way as to optimize occupancy, income, and profit.¹⁰
By doing so adroitly, the hotel can satisfy the wants and needs of distinct population segments. Originally, the hostelry catered to the traveler's physiological (first order) need of sleeping. It is readily apparent that if a hotel offered eating and entertainment in addition to sleeping, it could broaden its market. In effect, it would be targeting additional human needs. Hotels have learned that they do not have to appeal to just first or second order needs but can also attract higher order ones, such as prestige and aesthetics. As a society develops, more than just the basic needs of a traveler can be met at any hostelry. Color TV, telephone service, and separate bathrooms are available, even in the remotest areas. Consequently, it is necessary for the hotel to promote itself as fulfilling higher order needs to differentiate from competitors. Unless he is in the most dire circumstance, a traveler's lodging decision is likely to be based on segmentation factors. Thus, hotels target many different kinds of travelers based on the benefits they provide beyond mere sleeping.

Sleeping itself can be a segmentation variable. A person leaves home for business or personal reasons, including weddings, funerals, family holiday, visiting relatives, etc. On these occasions, sleeping accommodations need to be provided, but these can be of differing sorts to suit varying needs. Sleeping facilities may be single, twin, double, or king-sized. Hotels promote themselves to families by providing children's cots at no extra charge.

In addition to sleeping, there are three other major segmentation methods where hotels differentiate themselves: eating, meeting, and entertaining.

- **Eating:** Travelers need different eating arrangements: dining with waiters, cafeteria style self-service, snacking, quick service, raw bar, or ethnic menus. Eating facilities need to be available for breakfast, lunch, dinner, and, perhaps, in-between times. An appeal to business travelers may be made by providing early morning coffee facilities or a comfortable dining room where business can be conducted with clients.

- **Meeting:** An individual frequently travels to see other people, whether friends, relatives, business associates, or representatives of other business organizations. In order to attract such persons, the hotel needs to provide space to accommodate individuals and organizations for various purposes such as conferences, banquets, outings, and celebrations.

- **Entertaining:** A traveler away from home frequently has spare time, idle time, or forced social time. The hotel provides a way of meeting this need on site with fun and recreation, night clubs, discos, swimming, sports facilities, spas, fitness centers.

**Chains Can Reach Multiple Markets**

A major aspect of hotel segmentation is price. M. Chase Burritt, senior principal, Laventhol & Horwath, considers price to be the con-
trolling factor. It separates hotels in the mind of the traveler as being luxury, at one extreme, economy at the other, or somewhere in between. While an individual hotel occupies a particular position in this continuum, chains can elect to broaden their market by possessing hotels at varying price levels. A high tariff hotel caters to most of its customers' needs, providing spacious suites, equipped with quality furniture and fixtures, a five star dining room, personalized services, and a broad range of ancillary facilities. By contrast, a hotel at the low end of the price scale provides a minimum of such facilities and services, concentrating rather on the sleeping element of lodging. Luxury and budget hotels are targeted to the extremes of the travel market and, in a sense, their strategies are "obvious."

The chains are in a position, through segmentation, to reach all the markets. They develop separate divisions to meet the needs of distinct population targets. According to Frederick W. Mosser, senior vice president/development, Quality International, this market targeting approach is being actively pursued by at least three chains—Holiday, Marriott, and Quality—while others have taken a more traditional approach.

For instance, Marriott has been developing a multiple segment strategy. They have gone luxury with their Marquis hotels; they have entered the upscale business market with Marriott Suite hotels; their Marriott Hotels and Resorts are aimed at independent business and pleasure groups; Courtyards by Marriott are more moderately-priced suite hotels targeted at the independent business traveler; Residence Inns are directed at those who need extended stay; the Jefferson in Washington, D.C., a retirement-cum-health care unit, will be its third high rise community aimed at the luxury market; life care facilities for older people with annual incomes as low as $25,000, are in the planning stages.35

Holiday Corporation has Holiday Inns, business and pleasure, mid-scale units; Homewood Suites for extended stay; Hampton Inns, affordable priced; Harrah's for the resort market; Embassy suites featuring suite accommodations; Holiday Inn Crowne Plaza for the higher end. The change to the name Holiday Corporation reflects its goal to become the world's leading hospitality company. Thus its five categories of hotels would reach different segments of the market, ranging from affordable-priced through middle-priced to upscale accommodations.34

Quality Inn, another leading segmenter, has Clarion hotels as its upscale chain, Quality Inns at the mid-range, Comfort Inns at the economy level, and Sleep Inns for budget minded travelers.

Segmentation strategies for hotels serving the amorphous middle market are more complex. Who are their customers? What are their needs? Which of these needs should be served? How much are they willing to pay? An individual hotel, whether part of a chain or not, can practice segmentation in the effort to broaden its market. On price, for instance, the hotelier can promote room rate rather than single or double
occupancy. He can appeal to families by allowing children to stay in their parents' room, without charge or through children's menus in the restaurant. Geographic advantages can be extolled through appeal to location near an airport, downtown, or suburban. Such an advantage is stressed by one New York hotel that emphasizes it is just a short step away from Fifth Avenue, Lincoln Center, The Museum of Modern Art, and Central Park.

Special weekend rates may be set that prove attractive to local residents as well as travelers. In setting such special rates, an upscale hotel could appeal to the amorphous middle. Appeals can be made to government, corporations, and special groups like AARP through rate structure and provision of special services, including continental breakfasts, newspapers, etc. Appeals can be made to women with an emphasis on security, decor, or accoutrements. Some promotions to women may, in fact, cross the gender line and be equally attractive to men. Health can be targeted through the provision of non-smoking rooms or even entire floors, exercise facilities, and hot tubs. Hotels can select the services they provide. The choice will depend on facilities, location, and service capabilities. In effect, this is benefit and person-situation segmentation. The wider the choice of services, the larger the potential customer base. Beyond sleeping accommodations, hotels can target their local markets for all of the other services they provide, dining, beaches, spas, weddings, bar mitzvahs, meetings, banquets, etc.

Confusion can exist in the mind of the traveler if hotels are not consistent in their segmentation. For instance, a Comfort Inn is positioned as an economy lodging, while a Quality Inn is aimed at the middle market. In some cases, however, a Comfort Inn's rates and services exceed those of particular Quality Inns. In Clearwater, for example, one Comfort Inn, a category that Quality International supposedly targeted to the economy market, offers 14 services compared to 11 services by a Quality Inn Royal, aimed at the middle market. In addition, the Comfort Inn price (April–October 1989) of $44-$50 for two persons is higher than the Quality Inn Royals' $33-$41 rate.

The purpose of segmentation is to make a hotel more profitable. One way toward greater profitability is expanded hotel patronage by the primary segment, for instance, an increase in the number of stays and greater utilization of services, particularly those for which the customer pays, like the bar and the dining room. The hotel product is a service, so we have to recognize that the quality and quantity of the service rendered is of prime importance to the customer. For example, addressing a guest by name or informing him of customized services can provide reasons for more frequent patronage of the hotel.

The second way is to instill brand loyalty, that is, have customers continue to patronize the hotel on each of their visits to the locale. Consequently, the standard of service expected by the guest needs to be met consistently at each stay. This requires knowledge of a customer's requirements and potentially ever-changing needs, utilizing a market-
ing information system which is continually updated.

The third way is to attract new customers within the primary segment or create new market segments. To reach more customers in the same segment is a function of promotion—to make more of these people aware of the hotel and how it can satisfy their needs. To attract new segments may require additional services that can be delivered within the constraints imposed by the building and the capabilities of the personnel. In addition, other and different media and advertising copy may be required to tap these new markets. A resort hotel might, for instance emphasize fishing opportunities in addition to beaches, golf, and tennis. Another hotel may promote its specialized indoor sports like squash and racquetball. A hotel in the central business district might develop a downtown business lunch club.

Thus, by modifying its product, a hotel is able to appeal to multiple segments. This will require an appropriate marketing mix strategy for the additional services provided.

Exceptions may be the marketing of staples, such as milk or flour, which are "mass marketed" without much, if any, target marketing.


See Melvyn Greene, Marketing Hotels into the '90s: A Systematic Approach to Increasing Sales, (Westport, CT: AVI, 1984).


Perhaps a more descriptive term would be "cavorting."


For example, the Hampton Inn in Clearwater, Florida, lists the following features: free local phone calls, free continental breakfast, non-smoking rooms, children under 10 free in the same room, no charge for third or fourth person in the same room, remote control TV with free cable and Showtime, handicapped facilities, special features: efficiencies available, outdoor pool/whirlpool, exercise room/sauna, exterior corridor, laundry/dry cleaning services, tennis courts next door, golf course adjacent; hotel/suite/meeting room available, special weekend and relocation rates. The St. Petersburg-Clearwater Holiday Inn lists amenities like complimentary airport shuttle service, outdoor pool and whirlpool, lighted tennis courts, exercise facilities adjacent, Showtime cable service, meeting/banquet facilities, Cascade restaurant, lounge with live entertainment, children 19 and under free (in same room), coin laundry/dry cleaning services; non-smoking and handicapped rooms available, special weekend rates available.

