

MARKETING MANAGEMENT

FOR THE
HOSPITALITY INDUSTRY



A Strategic Approach

ALLEN Z. REICH

Marketing Management for the Hospitality Industry

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Preface

The past several decades have seen unparalleled changes in the competitive landscape of the world. The trend from mass markets to target markets and even micro- and individual markets is moving faster than ever. With the introduction of the information superhighway, dining and lodging habits are certain to change; Europe will soon be a unified common market; the Far East is experiencing one of the largest economic expansions in history; China's economy is expanding at three to four times that of the healthiest industrial giants; Eastern Europe and the Middle East represent major potential markets for consumer goods and services; and through NAFTA, Mexico, Canada, and the United States will have most major trade barriers removed. At the same time, American corporations have been downsizing, realizing that heavy bureaucracies could not be supported in a fiercely competitive marketplace. As corporations have begun searching for new niches in their respective markets, operators are finding themselves embattled by giant, more nimble, foes, with huge budgets and a strong instinct for survival.

Every year, as the pace of change quickens, the abilities required of business operators to deal with new situational factors become more diverse and complex. The time when an operator could run a hospitality business with a friendly smile and a strong work ethic is virtually gone. Managing in today's environment requires a strong and constant focus on a broad range of issues and factors that will impact the firm's success. Those prepared for the change will stand the best chance for survival. Those who ignore it until it has battered their firm's image and income statements will find themselves wondering what happened (or perhaps find employment with their more astute counterparts). As the market changes, so must the business, and change is most effective when it is well thought out through an effective plan.

Marketing Management for the Hospitality Industry: A Strategic Approach presents a strategic approach to the management of the marketing function. This means that the book will cover marketing strategies, in the traditional departmental sense, including the preparation of internal and environmental analyses, objectives, strategies, action plans, and controls. But it will also describe how marketing interacts (or should interact) with the business's strategic plan and other functional departments to produce effective organizational change. Marketing is not a stand-alone function, but a set of principles that directs the company in deciding what must be done to satisfy the customer. This will require businesses of the future to remove barriers between functional departments and will require that their primary objectives be customer driven, rather than departmentally driven. Ninety percent of the book

focuses on marketing strategies. The degree of focus on strategic planning and other functional areas is optional and could be increased or decreased based on individual instructor needs or course requirements. The problem with ignoring the business's strategic plans and related functional areas is that, without at least a reasonable understanding of the relationships, the creation and implementation of successful marketing strategies will be all but impossible. The only change in content is a minimal focus on the strategic or grand strategies and the related management and financial strategies necessary to carry out the marketing strategies.

AUDIENCE FOR THIS BOOK

Marketing Management for the Hospitality Industry: A Strategic Approach is designed to be used as a means of learning marketing strategies for any type of hospitality business. The book's target market consists of professionals who want to improve their firm's competitive position, and college and university educators who want to provide their students with a cutting-edge knowledge of marketing management and strategy development. To expedite comprehension, each chapter is an actual component of the strategic marketing model. To expedite reading, each chapter includes only essential information. Therefore, chapter lengths will vary. Additionally, within each chapter are two brief examples of strategic marketing plans—one for a hotel and one for a restaurant. To further help clarify the process, there is an annotated strategic marketing plan in the end-of-book Appendix.

Industry Professionals

The competitive environment is changing, and each executive must make sure that his/her business's plan parallels or, preferably, leads that change. This book can be used as a guide to the development and preparation of most planning needs of any hospitality business. It covers the major aspects of business planning, from strategic or long-term planning, to functional strategies and tactical execution. The strategic marketing model itself has built-in marketing information and control systems. These systems function continuously to make sure that current plans are not derailed and that future opportunities are noticed before the broad market has already taken advantage of them. The major focus is on marketing strategies, because these decisions provide the major focus of the business's efforts to compete. Other functional areas are discussed based on their required support of marketing strategies. Since the book is essentially a course in how to compete in the hospitality business, it can provide many insights into gaining a competitive advantage in any market segment. It can also be used for professional development courses.

College Courses

The vast majority of all college and university hospitality programs have at least one course in marketing. In this first course, the student should learn the principles and

practices of marketing, essentially becoming familiar with many of the terms and concepts necessary to put together a marketing plan. While this book is designed to be used for a second marketing course, one that teaches students how to set marketing strategies, it could also serve as a more rigorous first-year marketing text. At the *undergraduate* level, *Marketing Strategies for the Hospitality Industry* is most suitable for seniors, preferably during their last semester. If the college had two marketing courses, placement should be at the end of the student's degree plan, based on tying all marketing and other functional area coursework together. Likewise, in *graduate* curricula, the best timing would be during the last semester. Marketing strategies could also be taught at *two-year institutions* that focus on the preparation of managerial candidates. Since the book teaches cross-functional planning and decision-making, it could also be used as a *capstone* or *strategic management* course for any hospitality management program. Since the book includes a brief review of the essentials of marketing, it could be used for two semesters of marketing: the first focusing on principles and practices with some marketing planning (a departmental or functional perspective); the second focusing on designing strategies (a strategic or cross-functional perspective).

STRATEGIC RESPONSIBILITIES OF HOSPITALITY COLLEGES

One of the key responsibilities of educators is to provide the hospitality industry with graduates who can help their businesses compete. Some could argue that most first jobs will be with large chains, where strategic decisions are made only at top corporate levels. To a certain extent that is true; but not every graduate will be content to stay at that entry level position, and not every graduate will be going to work for a large firm (DeFranco & Reich, 1995).

In small to average-sized firms, and even many larger proactive firms, key decisions affecting all functional areas are being made at progressively lower levels on the organizational chart. In fact, in many organizations, the traditional organizational chart has been replaced with a customized version that recognizes the decision-making importance of all employees. *Empowerment* and *decentralized decision-making* are not uncommon terms today. Most restaurants and hotels expect new graduates to assist in making strategic decisions, especially if the company is paying them \$5000 to \$15,000 more per year than those without a formal hospitality education. Also, one of the fastest growing management practices today is the use of cross-functional teams to solve problems and develop strategies (sometimes referred to as the *horizontal* or *circular organization*). With a cutting-edge understanding of how cross-functional strategies are set, graduates will be prepared to take active roles in strategy-making—one based on an understanding of the facts, issues, and a problem-solving process, rather than naive enthusiasm.

Allen Z. Reich

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Introduction to Strategic Market Management

Unless we admit that rules of thumb, the limited experience of the executives in each individual business, and the general sentiment of the street are the sole possible guides for executive decisions of major importance, it is pertinent to inquire how the representative practices of business men generally may be made available as a broader foundation for such decisions, and how a proper theory of business is to be obtained. The theory of business, to meet the need, must develop to such a point that the executive, who will make the necessary effort, may learn effectively from the experiences of others in the past what to avoid and how to act under the conditions of the present. Otherwise, business will continue unsystematic, haphazard, and for many men a pathetic gamble, with the failure of each serious business depression made up largely of the best moral risks.

No amount of theory can be a substitute for energy, enthusiasm, initiative, creative ability, and personality, nor will it take the place of technical knowledge. Now, however, all of these personal qualities may be coupled with an adequate technical equipment, and yet the executive of wide experience may fail through our inability to grasp the broad underlying forces controlling business, a knowledge of which would give a sound basis for judgment. It is a serious criticism of our business structure that it so long lacked an adequate method by which these broad forces may be appraised, their probable course charted, and their applications to individual executive problems made reasonably clear.* Wallace B. Donham, *Harvard Business Review*, October 1922

The above quote is the introduction from the first article in the inaugural issue of *Harvard Business Review*. The key frustration of Mr. Donham was that there was an absence of a systematic process to assist with business decisions, not only for questions about the present, but also for the future. He proposed the legal system as the

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starting point for a scientific approach to business. Early law was written to provide precedents so that legal scholars could go about their tasks in a systematic manner without having to start from square one for each new case (Donham, 1922). Strategic marketing planning is hopefully the scientific and systematic process for which Mr. Donham was searching—a process with precedents that could be duplicated to minimize mistakes.

HISTORICAL PROGRESSION OF BUSINESS PLANNING

Management planning systems began around 1900 with *budgeting and controls*. The internal focus was on controlling deviation from the budget; externally, it assumed that the past would repeat itself. The 1950s brought *long-range planning*, with a similar external assumption, the exception being that the future could be forecasted based on an analysis of trends (trend extrapolation), such as the economy, technology, costs, and business cycles. The planning task was primarily to prepare the business for growth or contraction of sales based on those trends. In the 1960s, *strategic planning* assumed that simple trend analyses based on extrapolations of the past were inadequate. It considered forecasts of the future but also included forecasts of changes in the marketing environment (primarily that of customers and competitors). The goal was to anticipate change. Like its predecessors, this planning system was periodic, generally completed on an annual basis (Mintzberg, 1994).

Strategic market management was popularized in the 1970s by the need for a planning system that was more responsive to a rapidly changing market than annual planning cycles. Its foundation is a continuous scanning of the environment and internal abilities to give the firm the information necessary to develop quick responses to sudden changes (Aaker, 1988). Strategic market management is a comprehensive approach that integrates all planning requirements for the management of a business's market. Today, when managers refer to strategic planning or strategic management, they are generally referring to what is technically strategic market management.

OVERVIEW OF THE STRATEGIC APPROACH TO MARKET MANAGEMENT

Marketing strategies (or competitive strategies) could be approached exclusively from a functional level (the marketing department alone) or from a strategic level (all functional departments necessary to create and support the marketing strategies). The current trend is to approach marketing strategies from a strategic or long-term viewpoint.

The American Marketing Association has defined marketing as “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organiza-