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Chapter 1: Introduction: Marketing for Hospitality and Tourism

Chapter Objectives

1. Understand the relationships between the world's hospitality and travel industry.
2. Define marketing and outline the steps in the marketing process.
3. Explain the relationships between customer value and satisfaction.
4. Understand why the marketing concept calls for a customer orientation.
5. Understand the concept of the lifetime value of a customer and be able to relate it to customer loyalty and retention.

Teaching Suggestions

The following explanations and suggestions are outlined based on the Chapter Objectives.

- 1. Understand the relationships between the world's hospitality and travel industry.**
The hospitality industry is one of the world's largest industries. The hospitality and travel industry combine to form the foundation for tourism. Discuss the interrelatedness between the hospitality and travel industry. Inspire class discussion by asking: What types of hospitality operations do people visit when they are traveling? What happens to the hospitality industry if travel declines?
- 2. Define marketing and outline the steps in the marketing process.**
Ask students to define marketing (most will bring up advertising and sales). Lead them towards the full definition of marketing by bringing up other aspects of marketing and discussing what they all have in common (finding, retaining and growing profitable customers). Marketing is making business decisions with the customer in mind. It evolves from creating a customer service attitude among all employees. Thus, all managers need to understand marketing. It is not a function that can be left up to a few people in the marketing department.
Describe how each of the steps in the marketing process is supported by the different aspects of marketing. Explain to the students that the marketing mix is composed of the marketing variables managers can control. Companies must work to understand consumers, create value and build relationships. This process in creating customer value should, in turn, result in sales, profit and long-term customer equity.

3. Explain the relationships between customer value and satisfaction.

Encourage students to discuss products or services that they feel have value. Find out if they were satisfied by purchasing these products or services. Explain how their perceptions of value contributed to their satisfaction. Value is the consumer's estimate of the product's overall capacity to satisfy their needs. Customer value is the difference between the benefits that the customer gains from owning and/or using a product and the costs of obtaining the product. Costs can be both monetary and nonmonetary

4. Understand why the marketing concept calls for a customer orientation.

Discuss the different management philosophies and the drawbacks that can occur when customer orientation is not the focus of the company. Discussing the success and failure of companies adopting the different marketing management philosophies can help students realize how many business decisions are actually marketing decisions and how these decisions affect the overall business operation.

5. Understand the concept of the lifetime value of a customer and be able to relate it to customer loyalty and retention.

Good customer relationship management creates customer delight. In turn, delighted customers remain loyal and talk favorably to others about the company and its products. Marketing management involves capturing value in return, in the form of current and future sales, market share, and profits. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more.

Companies are realizing that losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. The benefits of customer loyalty come from continued patronage of loyal customers, reduced marketing costs, decreased price sensitivity of loyal customers, and partnership activities of loyal customers. The lifetime value of a customer is the stream of profits a customer will create over the life of their relationship with a business.

Chapter Outline

- I. Customer orientation. The purpose of a business is to create and maintain profitable customers. Customer satisfaction leading to profit is the central goal of hospitality marketing. [Slide 1-4]
- II. What Is Hospitality Marketing? Marketing is the art and science of finding, retaining, and growing profitable customers. [Slide 1-5]

III. Importance of Marketing

- A. The entrance of corporate giants into the hospitality market and the marketing skills these companies have brought to the industry have increased the importance of marketing within the industry.
- B. Analysts predict that the hotel industry will consolidate in much the same way as the airline industry has, with five or six major chains dominating the market. Such consolidation will create a market that is highly competitive. The firms that survive this consolidation will be the ones that understand their customers.
- C. In response to growing competitive pressures, hotel chains are relying on the expertise of the marketing director.

IV. Travel Industry Marketing [Slide 1-7]

- A. Successful hospitality marketing is highly dependent on the entire travel industry.
- B. Government or quasi-government agencies play an important role in travel industry marketing through legislation aimed at enhancing the industry and through promotion of regions, states, and nations.
- C. Few industries are as interdependent as the travel and hospitality industries.

V. Understanding the Marketplace and Customer Needs

The marketing process is a five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value for customers, they in turn capture value from customers in the form of sales, profits, and long-term customer equity. [Slide 1-8]

A. Understand customers [Slide 1-9]

1. Needs. Human beings have many complex needs. These include basic physical needs for food, clothing, warmth, and safety; social needs for belonging, affection, fun, and relaxation; esteem needs for prestige, recognition, and fame; and individual needs for knowledge and self-expression.
2. Wants. Wants are how people communicate their needs.
3. Demands. People have almost unlimited wants but limited resources. They choose products that produce the most satisfaction for their money. When backed by buying power, wants become demand. [Slide 1-10]
4. Market offerings. Some combination of tangible products, services, information, or experiences that are offered to the market. [Slide 1-11]
5. Value, expectations, and satisfaction [Slide 1-12]
 - a. Customer value is the difference between the benefits that the customer gains from owning and/or using a product and the costs of obtaining the product.

- b. Customer expectations are based on past buying experiences, the opinions of friends, and market information.
- c. Satisfaction. Satisfaction with a product is determined by how well the product meets the customer's expectations for that product.

B. Exchange and relationships [Slide 1-13]

1. Exchange. Exchange is the act of obtaining a desired object from someone by offering something in return.
2. Relationship marketing. Relationship marketing focuses on building a relationship with a company's profitable customers. Most companies are finding that they earn a higher return from resources invested in getting repeat sales from current customers than from money spent to attract new customers.
3. Designing customer-driven marketing strategy. Marketing management is the art and science of choosing target markets and building profitable relationships with them.
 - a. Selecting customers to serve. The company must select those market segments it wishes to serve.
 - b. Choosing a value proposition. The company must also decide how it will serve targeted customers—how it will differentiate and position itself in the marketplace. A company's value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs.

VI. Designing a Customer Value-Driven Marketing Strategy

- A. Choosing a value proposition. The company must also decide how it will serve targeted customers and how it will differentiate and position itself in the marketplace.
- B. Marketing management orientation [Slide 1-14]
 1. Production concept. The production concept holds that customers will favor products that are available and highly affordable, and therefore management should focus on production and distribution efficiency.
 2. Product concept. The product concept holds that customers prefer existing products and product forms, and the job of management is to develop good versions of these products.
 3. Selling concept. The selling concept holds that consumers will not buy enough of the organization's products unless the organization undertakes a large selling and promotion effort.

4. Marketing concept. The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the de-sired satisfaction more effectively and efficiently than competitors.
 5. Societal marketing concept. The societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well-being. [Slide 1-15]
- VII. Preparing an Integrated Marketing Plan. The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's marketing mix, the set of marketing tools the firm uses to implement its marketing strategy. The major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion. [Slide 1-6]
- VIII. Build Customer Relationships. Customer relationship management (CRM) involves managing detailed information about individual customers and carefully managing customer "touch points" in order to maximize customer loyalty. [Slides 1-16 to 1-17]
- IX. Capturing Value from Customers. We try to capture value from our customers in the form of current and future sales, market share, and profits. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. [Slides 1-18 to 1-19]
- A. Customer loyalty and retention. The benefits of customer loyalty come from continued patronage of loyal customers, reduced marketing costs, decreased price sensitivity of loyal customers, and partnership activities of loyal customers. Loyal customers purchase from the business they are loyal to more often than nonloyal customers. They also purchase a broader variety of items. A manager who is loyal to a hotel brand is more likely to place her company's meetings with that hotel chain. Reduced marketing costs are the result of requiring fewer marketing dollars to maintain a customer than to create one and the creation of new customers through the positive word-of-mouth of loyal customers.
 - B. Growing share of customer. Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers to increase their share of customer—the share they get of the customer's purchasing in their product categories.

- C. Building customer equity. Customer equity is the discounted lifetime values of all the company's current and potential customers. One builds customer equity by delivering products that create high customer satisfaction and have high perceived value.
- X. The Changing Marketing Landscape.
- A. The digital age: online, mobile, and social media marketing. The explosive growth in digital technology has fundamentally changed the way we live—how we communicate, share information, access entertainment, and shop.
 - B. The changing economic environment. The new consumer spending values emphasize simpler living and more value for the dollar. Despite their rebounding means, consumers continue to buy less, clip more coupons, swipe their credit cards less, and put more in the bank.
 - C. Rapid globalization. Today, almost every company, large or small, is touched in some way by global competition.
 - D. Sustainable marketing. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called on to develop sustainable marketing practices.
 - E. Cocreation. Cocreation involves the hospitality or travel company interacting with the guest to create experiences through this interaction.
 - F. The sharing economy. The recent surge in the sharing economy has been in part to individuals sharing talents, time, and tangible assets they own to gain additional income and the Internet enabling them to connect with customers.

Answers to Discussion Questions

1. Discuss why you should study marketing.

Marketing is making business decisions with the customer in mind. It evolves from creating a customer service attitude among all employees. Thus, all managers need to understand marketing. It is not a function that can be left up to a few people in the marketing department. Successful hospitality companies know that if they take care of their customers, market share and profits will follow.

2. Marketing can be defined in many ways. In your own words, describe marketing to someone who has not read this chapter.

Marketing isn't simply a business function: It's a philosophy, a way of thinking, and a way of structuring your business and your mind. Marketing is much more than a new ad campaign. The task of marketing is never to fool the customer or endanger the company's image. Marketing's task is to provide real value to targeted customers, motivate purchase, and fulfill consumer needs.

- 3. Many managers view the purpose of business as making a profit, whereas some view the purpose as being able to create and maintain a customer. Explain how these alternative viewpoints could affect a company's interactions with its customers. If a manager views the purpose as being able to create and maintain a customer, does this mean that the manager is not concerned with profits?**

This is an excellent topic for class discussion.

- Profit is a requisite for any for profit business, but it should not be the purpose of the business. When profit becomes the purpose of the business, managers tend to take a short-term view and try to maximize profits in the short term. For example, when a hotel can sell out, managers might deny travel agent business. But the business from these travel agents may be needed in the future and such action can alienate the agents.
- A business should target customers that will create value for the business by targeting customers that the business can serve profitably. If it concentrates on serving these customers well and provides a product that is profitable to the company, profits will flow. It is not essential to make a profit on every transaction. Therefore, customer satisfaction and maintaining a customer's long-term value is more important and can be more beneficial to long-term profit gains.

- 4. Talk to two people and ask them to think about a hotel they stayed in that was a good value. Ask them what made the hotel a good value. Record a summary of their comments.**

Assign this project to your students. Have them present their findings to the class. Discuss the implications of this assignment. What did they learn? Were the customers satisfied with their stay?

- 5. A restaurant has a great reputation as the result of providing consistent food for over 10 years. The restaurant is full every weekend and has above-average business during the week. The manager claims that they do not practice marketing because they do not need marketing; they have more than enough business now. Is it true that this restaurant does not practice marketing?**

Although this restaurant may not engage in advertising, perhaps they are so successful because they have a customer-based philosophy of identifying customers' needs and wants and then supplying the customers with what they want. In this case, the restaurant is supplying a good and consistent product, at the right price, in an accessible location and its primary type of promotion appears to be word of mouth. Marketing goes beyond advertising or sales.

6. Look at Figure 1–2. Why do you think persons who give you 2 (a relatively high score) out of 7 are not likely to return?

Ask your students to think of the last time they went to a restaurant and were just satisfied. Would they go back? Would they recommend the restaurant to others? Probably not. Then ask them to think of the last time they walked out of a restaurant and said, “Wow, that was great!” Would they go back? Would they recommend the restaurant to others?

7. What is customer equity? How can a company increase its customer equity?

Customer equity is the total combined customer lifetime values of all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future. Companies should manage customer equity carefully. They should view customers as assets that must be managed and maximized.

8. Give several examples you have found of hospitality companies being socially responsible. Include in your discussion how being socially responsible helps the company.

Have your students research the level of social responsibility for different hospitality companies. How has their research changed their perception of these companies? How will this impact the company?