

The Relevance and Utility of Market Segmentation for the International Hospitality Industry

Amit Khare*, Juhi Bhagwat**

Abstract

Market segmentation is one of the most important things a company does and generally it is done by the marketing department of the firm. The main aim of segmentation is to appeal to the potential customers and then to concentrate efforts and money in an effective way. It helps in designing satisfying product for the selective group. It also helps in defining the market position of the product in highly competitive world. Segmentation helps in understanding needs and wants of the group, positioning, selecting efficient marketing mix and effective use of capital and increasing profitability by maximising customer satisfaction. There are many ways to segment a market. Different variables can be taken into consideration separately or with combination of two or more which will help in finding the best way to view the segment. These include demographical, geographical, purpose, behavioural and benefits method. According to Bowen, Harrah (1998) demographic and geographic are the most favoured methods of segmenting a market in international hospitality. This paper has been completed with the help of secondary data – Journal, Case Studies, Books and guides on Hospitality Marketing.

Keywords: Market Segment, Market, Demographic Segmentation, Psychographic Segmentation, Behavioural Segmentation

INTRODUCTION

Each and every customer has different needs and wants. So it is not possible for any company to satisfy each and every person. An organisation has to decide which segment of the market it is going to serve. Market segment is a group of customers with common needs and wants. This process of identifying the segments of customers who share specialised, homogeneous demand is called as 'market segmentation' (Kotler, 2003). Smaller segments in the

market with very specific requirement are also known as niche markets. They are very concentrated markets with specialised requirements. Market segmentation is one of the most important things a company does and generally it is done by the marketing department of the firm. The main aim of segmentation is to appeal to the potential customers and then to concentrate efforts and money in an effective way. It helps in designing satisfying product for the selective group. It also helps in defining the market position of the product in highly competitive world. Segmentation helps in understanding needs and wants of the group, positioning, selecting efficient marketing mix and effective use of capital and increasing profitability by maximising customer satisfaction. The core of effective marketing is to select the segments that are most interested in product provided while eliminating the groups that are not interested and to aim the efforts towards those selected potential groups (Morrison, 2002). The data used for this paper is the secondary data.

WHAT IS A MARKET?

Market in its simplest version can be just a set of buyers. Buyers may have different wants, resources, attitudes, behaviours. So each buyer can be termed as a separate market. It is possible for any company to produce for a single person but it is not worthwhile. So company looks at a broader market with different buying responses. In other words company looks at the segments in the market. There are many ways to segment a market. Different variables can be taken into consideration separately or with combination of two or more which will help in finding the best way to view the segment. There are many ways to segment a market used in international hospitality industry. These include demographical, geographical, purpose, behavioural and benefits method (Kotler et al., 1996). According to Bowen, Harrah (1998) demographic and geographic are the most favoured methods of segmenting a market in international hospitality.

* Research Scholar, Tilak Maharashtra Vidyapeeth, Pune, Maharashtra, India.

** Assistant Professor, TMV's IHMCT, Pune, Maharashtra, India. Email: juhib1234@gmail.com

DEMOGRAPHIC SEGMENTATION

Demographic segmentation is one of the most favourable methods in international hospitality industry. This has 3 main aspects which are age and life-cycle, gender and socio-economic class. Needs and wants change in direct proportion with age. So organisations provide different products and services for different age groups. McDonald's serves happy meals with toys to young children in any corner of the world, which encourage them to visit again to get other toys. To appeal to adult and senior market they offer salads. Another newly added aspect of demographics to the international hospitality segmentation is 'gender'. McGee R. (Kotler et al., 1996, p. 249) discovered that female business travellers were less than 1% of all business travellers in 1970s which now has gone up to 40%. This has pushed hotel companies to consider female business travellers. So many hotels now offer 'a ladies floor'. Socio-economical segmentation can be easily seen in company policies. Companies try to offer different products and services to different economic groups. Accor group of hotels operates with 15 different brands serving different economical segments. Sofitel Hotels are high end hotels serving highest socio economical class. On the other hand Ibis offers moderate cost accommodation with limited services targeting middle socio economical class (Bowie, Buttle, 2004).

SEGMENTATION THROUGH PURPOSE OF VISIT

Another important method of segmentation is segmentation through purpose of visit. It divides hospitality on the basis of purpose of visit. It divides the market in two main categories – business travellers and leisure - pleasure and personal travellers. Needs and want of these both categories are different. It helps companies to set subsidiaries. Business hotels are generally found in cities because business travellers choose hotels that are close to the commercial places providing business facilities like meeting rooms, internet. Resorts are mostly situated near tourist attractions providing leisure facilities which will suit all age groups like private beaches, cultural activities, etc. (Morrison, 2002).

GEOGRAPHIC SEGMENTATION

Geographic segmentation is the most frequently used method of market segmentation in international hospitality and tourism. The market is divided according

to the geographic location. The variation can be easily seen in this type. Some organisations like British Tourist Authority use wide segment i.e. they consider country of origin for segmentation. Some organisations like small restaurants thrive on smaller local area. This method is the easiest method to use because the market can be easily measured, media vehicles can serve to a designated area. It is easy to judge the consumption pattern in the geographical region. When a company plans to start keeping in mind a specific geographical location it has to consider the geographical differences between needs and wants. Geographic need and wants pushed Four Seasons Hotel in Washington, to include local cuisine (Kotler et al. 1996).

In intense competition consumer look for benefits they get from different products and services. They also expect different benefits from single product. So in case of satisfying this segment hotel companies have bundled the services and products to satisfy different need at same place and at same time. This segment looks for convenience, luxury, accommodation and improved health facilities. So many hotels are coming with different bundles e.g intercontinental hotels starting Spas. This means different segments make their choices by benefits of variables. Benefits are nothing but location and services provided (Weinstein, 2004). According to Frochot and Morrison (Tan, Lo, 2008, p 343) this method is becoming more popular because these benefits which customers go for are the basic reasons of segment existence.

BEHAVIOURAL SEGMENTATION

Behavioural segmentation aids hotels by dividing customers by the occasion of usage, frequency, loyalty status etc. Hotels use a specific dimension of customer's past, current and potential behaviour. This helps hotels to increase profitability by creating guest loyalty which leads to repeat customers and it also increases the market share. This trend of using behavioural segmentation started in late 1970s hotel companies started looking at customer's past and focused on repeat business. This trend stills follows because of the companies going international. Most hospitality organisations now have their own loyalty programme to ensure repeat business. E.g. Holiday Inn's Priority Club for frequent users (Morrison, 2002).

PSYCHOGRAPHIC SEGMENTATION

Lately psychographic segmentation has got popularity. Psychographic profiles of customers are created in this

method which includes personality traits and lifestyle of the customer. While creating these profiles activities, interests and opinions of customers are used. Then they are matched with geo-demographic variables which will result in ultimate consumer profiles. Now a days hotel companies are increasingly using this method to segment market (Scott, Parfitt, 2004). Kempinski Hotel Group selected a market segment by psychographic method in New York, Boston and Washington D.C. and created smaller European styled hotels with Old World style service for high end business travellers (Kotler et al., 1996).

REQUIREMENTS FOR EFFECTIVE SEGMENTATION

All the ways of segmenting a market might not prove effective in the case of Hospitality industry as not all the criterion will be in line with the products and services offered by any hospitality firm. For streamlining the process, following points should be taken into consideration –

MEASURABILITY

It dictates the degree to which the size and spending power of the segment is measured. Not all the market can be satisfied with one single product offered. The market to be selected to offer the product should be precisely defined.

ACCESSIBILITY

It is a degree to which the segment can be accessed or served. It was found by Bowen J. (2007) that 20% of customers visiting an educational institute's cafeteria were repeat customers but the common characteristics were missing. It included customers from various income levels viz. students, teaching staff. There was no usage difference among part time, full time or class and year of the students. In this case even if the segmentation was identified, the most loyal client base was not accessed.

SUBSTANTIALITY

It considers the degree to which segments are large or profitable enough to serve as target market. This says that choosing a large market segment with appropriate disposable income to buy a certain product should be chosen. If this is not followed, the product can still incur

losses even after aggressive marketing strategy because either the market is not large enough to sell the product or clientele is not just able to purchase the product offered.

ACTIONABILITY

It defines the most relevant and effective program that can be adopted designed considering the segmented market.

THE TREND

Diversity is the formula hospitality company is opting now a day. This is because of the changes in consumer behaviour. So hospitality firms are diverting to satisfy those newly born needs. This is sometime referred as trends. Trends take place because of demand or supply. Changing age structure, household structure and changing culture patterns are some of the commonly found variables in demand led trends. Many hospitality firms are now engaged in serving older customers as they are the ones who travel the most and they [baby boomers] make a higher percentage in total population as per American Association of Retired Person (Morrison, 2002) (Boksberger & Laesser, 2008). The family structure is also getting changed. Singles market is booming. So firms like Club Med are the one's targeting these single adults. Change in cultural pattern is another commonly found phenomenal that leads to change in segmentation. This is commonly found in developed countries. This might be because of the growing desire of escaping the complexity in everyday life. Many hotels have observed a trained and now they are targeting people who might expect to broaden education with travel and leisure activities. On the other hand some trends change because of the supply. The changing needs, wants of the market has given birth to new marketing opportunities. Increase in frequent travellers, more executive and luxury travellers, greater concern about nutrition and fitness needs are some of the trends affecting the traditional segmentation practices.

There are many ways to segment a market. But not all the ways are effective. To make them useful measurability, accessibility, substantiality and actionability are the characteristics to be checked for. Measurability is the way to which the size and power of the segment can be measured because certain variables cannot be easily measured. The level to which a segment can be served and accessed is also important. It considers the frequency of utilisation by customer. Another point to be considered is till what point the segment is profitable to serve. The

larger the segment longer will be the profitability. Another consideration is the level to which the programme can be tailored for attracting and serving the segment effectively. Many a time a single segmentation criterion is not enough for segmentation. In such a case companies use one or more methods of segmentation to get best results (Kotler et al., 1996).

Most of the international hospitality firms use the concept of market segmentation. Because most companies think that market segmentation strategy is the best way leading to profitable business. But there are some drawbacks to the concept. This concept of segmentation is more expensive than using non-segmented approach. Another problem that companies face is the size. So many companies find it difficult to choose a best suitable base for segmentation. It is not useful to carry segment too long with less target markets. If segment is too vast then it becomes difficult to reach to some markets. Some market segments are not feasible to operate in. In such a case the segmentation efforts of the firm go waste (Morrison, 2002).

CONCLUSION

In recent years market segmentation has got more popularity because intense competition and change in wants and demands pattern. So, international hospitality is leaning towards sophisticated use of market segmentation. Hospitality and tourism industry is now aware of the segmentation bases and the benefits of segmentation. Formerly industry used to follow demographic and purpose of visit bases to segment the market, which is now changing to geographic and psychographic and behavioural with the awareness of international hospitality. Another component helping industry to segment market on basic of psychographic is the use of sophisticated technology which contains the information about customer character from past usage. Understanding behaviour and demands of the market has got much importance to get success and market segmentation is starting and focal point towards gaining success. With intense competition companies are also focusing on expectation based segmentations and benefit segmentation, because there are many undeserved segments in the total market to serve. These methods can help companies to gain competitive advantage as element of offer to which markets are sensitive can be emphasised. As they get different opportunities for the company. Then companies can focus all efforts to satisfy the selected segment by providing as per their needs and wants (Diaz-Martin et al., 2000).

REFERENCES

- Boksberger, P., & Laesser, C. (2008). Segmentation of senior travel market by the means of travel motivation. *Journal of Vacation Marketing*, 15(4), 311-322. Retrieved from <http://jvm.sagepub.com.ezlibproxy.unisa.edu.au/cgi/reprint/15/4/311>
- Bowie, D., & Buttlar, F. (2004). Understanding and segmenting customers. *Hospitality Marketing – An Introduction*, Elsevier Butterworth-Heinemann, Burlington, pp. 53-84.
- Bowen, J., & Harrah, W. (1998). Marketing segmentation in hospitality research: No longer a sequential process. *International Journal of Contemporary Hospitality Management*, 10(7), 289-296.
- Bowen, J., Kotler, P., & Makens, J. (2007). *Marketing for hospitality and tourism* (3rd Ed.). Dorling Kendersley (Ind.) Pvt. Ltd, Delhi, India, pp. 280-297.
- Diaz-Martin, A., Iglesias, V., Vazquez, R., & Ruiz, A. (2000). The use of quality expectation to segment a service market. *Journal of Service Marketing*, 14(2), 132-146. Retrieved from on 14th March 2010, <https://classshares.student.usp.ac.fj/TS208/2006%20Material/TS208%20Resources/The%20use%20of%20quality%20expectations%20to%20segment%20the%20service%20market.pdf>
- Kotler, P. (2003). *Marketing management* (11th ed.). Pearson Education, Inc., Delhi.
- Kotler, P., Bowen, J., & Makens, J. (1996). *Marketing for hospitality & tourism*. Prentice-Hall Inc., Upper Saddle River, NJ, pp. 241-268.
- Morrison, A. (2002). *Hospitality and travel marketing* (3rd ed.). Delmar, Thomas Learning, Albany.
- Scott, N., & Parfitt, N. (2004). Lifestyle segmentation in tourism and leisure: Imposing order or finding it?. *Journal of Quality Assurance in Hospitality and Tourism*, 5, 2-4, 121-139. Retrieved from 14th March 2010, <http://web.ebscohost.com.ezlibproxy.unisa.edu.au/ehost/pdf?vid=24&hid=15&sid=5d1acc68-5b95-4237-8d78-8b8cd414b9d1@sessionmgr12>
- Tan, A., & Lo, A. (2008). A benefit based approach to market segmentation: A case study of American specialty coffeehouse chain in Hong Kong. *Journal of Hospitality and Tourism Research*, 23, 342-362, Retrieved from <http://web.ebscohost.com.ezlibproxy.unisa.edu.au/ehost/detail?vid=16&hid=15&sid=5d1acc68-5b95-4237-8d78-8b8cd414b9d1@sessionmgr12> Accessed on 12th March 2010,
- Weistein, A. (2004). *Handbook of marketing segmentation* (3rd ed.). The Haworth Press, Binghamton.