

The use of branding and market segmentation in hotel marketing: A Conceptual Review

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Abstract

This paper aims to analyse the use of branding and market segmentation from a hotel marketing perspective. The use of branding has enabled market segmentation and delivered financial and organisational growth for hotel operators. This application of marketing has increased value for the organisation and the customer by delivering a level of service that is customised to the consumer expectations and needs. Branding brings the advantage of a standard of service and leads to customer loyalty and greater customer choice.

The paper supports the argument that brand creation makes the management of hotels more complex and can lead to inefficiency which the hotel management must decide if branding is a useful tactic or not. We argue that not all organisations have the resources to implement market segmentation and smaller operators find it increasingly difficult to compete against larger competitors. The modern hotel industry is increasingly competitive and market segmentation is expected to continue. Modern communications and ICT developments have eroded the value of brands and the competitive advantage they bring over smaller independent hotels. Consumer power is a growing trend that hotels must deal with and redefines their supply chain model. Brand owners are required to remember that the product and guest satisfaction should be the ultimate goal for an organisation as it increases brand value and encourages customer loyalty. Marketing and branding are cannot be discussed in isolation within an organisation and the brand principles should be carried out throughout the entire customer experience for commercial success.

Introduction

The theory of hotel marketing may mean everything from personal selling, advertisement, making hotel rooms available online, etc. These activities are carried out in the prearranged market and this procedure is called market segmentation (Prasad & Dev, 2000). The need for satisfactory lodging with outstanding services is the fundamental requirement of each guest. Nevertheless, considering the several kinds of hotels available for the different market segment, there is a need of classifying the hotels so the guest expectations are met (Kapiki, 2012). This theory is based on what to focus and why as the hotel chains businesses have finite properties and it may not be possible to have the products for all people. A company with limited properties needs to pick only the best chances to influence. It cares components of what the tourist demands in a hotel, what that demand requires in the way of construction, size, décor, services, amenities, personnel and room rate. The most broadly used brand divisions in hotel industry encompass economy hotels, midscale without food and beverage, mid-scale with F&B, economy prolonged stay, mid-scale or upscale extended stay hotels, upper upscale, and premium luxury hotels (Solutions, 2018). The official and unofficial hotel classification procedures goal at categorizing the hotels on the basis of levels of services offered, quality of food and beverages offered, level of cleanliness, quality of guest rooms and bathrooms (Naragajavana, 2008). In the ever-changing and globalised world of hospitality, marketing, market segmentation, and brand management have become the new norms of customer retention and long-term business success (Dev et. al. 2009). The role of marketing has grown considerably in line with the ever-increasing demand for hospitality products and services. With the hospitality industry becoming ever more mature, the role of branding and marketing strategies within the marketing mix has become ever more important than before. A controversy now exists as to whether brands have been developed as a benefit to the industry and its stakeholders or the management of many different brands under a

company portfolio adds unnecessary challenges to organisations struggling to compete in the modern business environment (Silivia & Murgoci, 2007). An investigation of a customer database calls into question the knowledge, mutual among academic observers, that market segmentation can work as a grand approach for either trip lines or for hotel brands. In pursuing a market segmentation approach, a brand would emphasise its efforts on a distinct group of customers to the exclusion of supplementary groups. The results propose that market segmentation may be effective on a tactical level. That is rather than think of market segmentation as a tactical measure, trip lines and hotel businesses can work to gain modest benefit with precise demographic groups, and therefore contest in a set of somewhat distinguished markets (Lynn, 2007). Several branding is a mutual marketing method used by the furthestmost hotel chains having numerous sub-brands. Marketing of such all sub-brands may be challenging to organisation and unclear for visitors. The misperception can rise because various hotels brands are valued at diverse levels while all such hotels are under particular major brand. Marketers practice the several terms like luxury, premium, five-star, up-market to elucidate the various hotel brands.

Hoteliers use various methods like market segmentation, positioning and classification to sell numerous hotel brands at different price points. Using case study as a research technique, this paper adopts three methods (segmentation, positioning and hotel classification) to deliberate how hotels are sold at different price points without generating any misperception among visitors (Sufi, 2018). Therefore, this current paper aims to analyse the use of branding and market segmentation in hotel marketing: A conceptual review.

Commercial marketing pressures on hotels and the need for market segmentation

Market segmentation is an area of strategic marketing where the firms seek to take advantage of new opportunities in a changing marketplace whilst matching the diversified elements of

an organisation with customers (Kotler, 1994). To do this successfully, it is important to understand the needs and values of the targeted customers within each segment and promote products and service appropriately.

Market segmentation is a key concept in modern marketing (Kotler & Armstrong, 2005; Wind, 1978) and claimed to be one of the most talked about and acted upon concepts in marketing (Green & Krieger, 1991). Market segmentation was first introduced in 1981 by Quality International (which later became Choice Hotels International Group) in the USA, creating different product levels of hotel services for customers. This has continued with adoption by groups such as Marriot, Hilton, Accor and Intercontinental Hotel Group (IHG). The global hotel market is now dominated by such major chains owning an estimated 80% share of the rooms available in the USA (Silivia & Stefania, 2007).

Classic theories and techniques for segmentation in the hospitality industry involve separation of customers based on demographics, behavioural personalities, perceived benefits and attitudes (Baloglu et al., 1998; Green, 1997; Magson & Dipple, 2004). In tourism studies, previous research has segmented tourists by their accommodation requirements (Baloglu et al., 1998; Martinet al., 2000), the type of holiday (Magson & Dipple, 2004), their travel motivation (Shoemaker, 1989) buying behaviour (Baloglu et al., 1998), frequency of travel (Green, 1997), length of stay (Magson and Dipple, 2004) and price elasticity of demand based on price changes (Noone et al. 2003).

The use of segmentation is to provide customers with a pre-conceived expectation of the level of quality or service they should expect from the hotel with the use of a brand name (Brucks, Zeithaml, & Naylor 2000). The brand value depends on customers' perceptions of the brand,

the quality they expect from the service and the perceived level of satisfaction (O'Neill & Matilla, 2004).

Implementation of market segmentation can be through multichannel communications (Shim et al., 2004; Thomas & Sullivan, 2005), brand development (Bucklin & Gupta, 1992; Bucklin et al., 1995; Jaffe, 1982) and pricing strategies (Yelkur & DaCosta, 2001; Yelkur & Herbig, 1997). Promotions can also be used in the industry for segmenting the market (e.g. family discounts, see Diaz-Martin et al., 2000). Implementation of branding can include creating individual names for hotels aimed at different segments of the market. For example, Marriot International has retained the brand name of Ritz Carlton after purchasing the hotel as the brand was already established with the luxury segment of the market. Other hotels choose to brand their hotel offerings in the same group name, such as Accor Hotels with Holiday Inn, Holiday Inn Express (i.e. budget range) and the Holiday Inn Resort brands.

Branding and brand value in hospitality

Branding is a strategy that allows firms to position their services and compete in the modern economy (Keller, 2003). In the context of hospitality, it has been the most popular marketing strategy over the last 30 years (O'Neill & Mattilla, 2004). Branding has been successful in adding value to the products and services and encouraging customer loyalty (O' Neill and Xiao 2006). Customer loyalty is an increasingly relevant issue in the service sector and hospitality industry as customers find a great variety of choices (Knox, 1998; Kumar et al., 2006; Magson & Dipple, 2004). Evidence from previous studies suggests that if managed effectively, branding add to market share gains (O'Neill & Matilla, 2004).

As previous studies have demonstrated, brand identity influences consumer purchasing decisions (Siguaw, Mattila, & Austin 1999). Brands are able to connect with consumer

emotions (Kim & Kim 2004) and provide a reassuring emotion on consumers who are worried about the risks of staying at unknown hospitality providers (O'Neill & Xiao, 2006). Branding has traditionally been seen as a marketing method for shifting buying behaviour but studies show the modern nature of branding by establishing an emotional relationship between the supplier and the consumer in hospitality (Gobe, 2001).

Branding in the hotel industry has shown to stimulate sales and more specifically, customers' interest to pay a premium for the hospitality service if they believe the brand guarantees a certain level of quality (O'Neill & Mattilla, 2006). Branding has also been seen to have a preferential effect from consumers on their decision to use one hotel over another (Dev et al. 1995). Studies have also shown that an extra 20-25% can be added to value of a hotel when its brand has high recognition, high brand image and a reputation for good service (O'Neill & Xiao, 2006).

This is all achieved from successful brand equity based on customer behaviours. Keller (2003) defines brand equity as being a response from consumers based on their knowledge of the brand. For him, a consumer with a poor opinion of a hotel brand is less likely to use their services when offered the choice with more valuable brands; therefore, brand equity can be positive or negative. Brand equity is compromised by elements of brand awareness, loyalty to the brand, perceived quality and brand image (Kim & Kim, 2004). The impact of successful brand equity leads to higher returns, more revenue and performance benefits (Dev, 2000).

Hotels are able to capitalise on the success of their brand as it creates an intangible asset that can add value in financial terms making the value of the hotel better to prospective buyers and also leading to better cash flow and higher profit margins (O'Neill & Matilla, 2006). Well known brands are also more likely to be able to expand geographically into new areas

and markets (Mahajan et al. 1994). Branding is also a strategy that is able to improve the level of service and create value for stakeholders by establishing a consistent level of quality (O' Neill & Xiao, 2006).

Issues and challenges of branding and market segmentation

Market segmentation has been the strategy of choice for most major hotel corporations since the 1980s (Lane & Jacobsen, 1995). It has dominated modern marketing of hotel product development with companies such as Hilton, InterContinental, Marriot and IHG using brand extensions as their growth strategy. The reason for the success is mainly due to customer trust in the brand, recognising familiar names with which they may have had previous positive impressions and thus reducing the need for searching and experimenting with new hotels (Lane & Jacobson, 1995). However, with modern advancements in digital communications the search costs for finding new hotel experiences have decreased and customers are starting to be less loyal eroding the value of brand names (Buhalis, 2003). The brand image is built on positive experiences and favourable brand associations, but the advent of modern media also means that bad news spreads fast and can damage the value of a brand instantly with a negative news or report (Lai & Turban, 2008).

Over segmentation and multi-branding within one organisation can also add inefficiencies to the hotel company as the organisational structure will be more complicated and resources more difficult to manage. This can lead to inefficient management and leadership, poor market positioning if the brands are not co-ordinated, over-staffed and increased administration (REF). Other issues include brands in the same hotel group competing with each other based on location or market positions (i.e. cannibalization of sales). The creation of more brands within one organisation may dilute the value of the parental brand and can

confuse the customer with the bewildering level of choice. This problem is compounded on an industry level as some other major hotels adopt similar strategies meaning that globally there are over 30 branded 'value for money' level hotel brands in the world for customers to choose from (Silivia & Stefania, 2007) making product differentiation more difficult for the consumer.

Hotels have started to recognise the difficulty in maintaining an identity where their services are segmented and the challenge to offer a brand-specific level of service is a major one to those who have used branding strategies for growth. Hotels have found it difficult to consolidate and establish their new brands, particularly at the same time when they are trying to expand into new areas. The major chain owned hotels are facing competition from more agile SME and independent boutique hotels, who are able to maintain a core organisational identity and the boutique hotel sector is currently one of the largest growing segments in the hospitality market (Silivia & Stefania, 2007).

Studies have investigated this issue and there is a proposal that brands should not be extended over three levels in the hotel industry (Jing et al. 2002) and beyond that the brand identity is diluted or the level of trust compromised. The motivation of market segmentation is mainly financial: to extract higher revenue by identifying the right type of customer with the accordingly priced level of service. This is also meant to save costs on budget and value for money hotels. However, the creation of more brands, more segments of the market and more levels in an organisation can add financial costs which may erode or eliminate the financial benefit from branding. New product and new service launches also have been found to be expensive with the marketing campaigns needed to accompany the service roll out. This all means that the management of a hotel organisation needs to strategically manage their decision to launch new levels of product and consider the costs from such an endeavour (Agarwal et al. 2004).

Benefits of market segmentation

The modern trend of hotel segmentation and increased branding has led to the evolution of the traditional standardised hotel model – a one size fits all approach to product service. The modern trend seems set to increase with increasing consumer choice, 24hr service and increasing use of modern technologies (e.g. Internet and e-tourism), according to Buhalis (2003). There has been a shift in consumer power with guests demanding more control over their hotel choice and the amount they are willing to pay (Vermeulen & Seegers, 2009). As a result of market trends and marketing decisions the hotel industry has moved down this path which impacts the supply chain model for hotels too. The modern hotel is expected to provide a tailored service, with the movement away from ‘producer-led’ product design towards ‘customer focused’ service that can cater for choice. The modern hotel organisation is expected to have a total service model which can provide every possible service the customer may require. This makes it difficult for smaller hotels and independent organisations with limited resources to compete for the modern international traveller.

To meet this level of customer service, modern hotels are expected to implement more technology and ICT in their production models. The use of computer systems, ICT and embedded intelligence adds cost to the production of hotel accommodation but is necessary to meet the trends of modern guest behaviour (Hudson & Gilbert, 2006). Integration of such technologies again makes implementation for smaller hotels with less resources and capabilities. Marketing is an activity that cannot be performed in isolation by an organisation, and must be carried out throughout the organisation (Kotler, 2009) and so this requires maintenance and continued management of the process when branding and marketing methods are used by an organisation. One such method is the use of Customer Relationship Management (CRM) where the aim is to establish a customer relationship and continue lines of communication for future transactions (Prasad & Dev, 2000). The aim is to create a

customer journey throughout their transaction with the hotel and this subtle 'soft' marketing must be utilised when attempting branding measures to gain the full benefits from market segmentation (Gilmore & Pine, 2002).

Hotels will also be expected to provide more services and refine their product offering when attempting to meet the demand of certain customers. Such examples that accompany branding involve competing through the quality of service and staff provided by a hotel, the quality of the bedroom and facilities, the quality of food and drinks and the accessibility to technology and media in hotels (Barker et al. 2003). An example of such new product innovation in the hotel sector is exemplified by the Citizen M Hotel brand, with sites in London, Amsterdam, Glasgow and others. The hotels focus on modern furniture and fittings, with advanced technology in small rooms that provide a modern but affordable guest experience. Citizen M has gone as far as to invent a patented method of folding the bed to maximise the experience in such a small room and is an example of the extensions a hotel is expected to carry out in practice after conceptualising a branding model. Branding is an intangible concept but has practical implications on the operations of a hotel establishment.

The future of Branding and Market segmentation in the Hotel industry

Branding and market segmentation have become an established working model of hospitality after the developments in the industry over the last 30 years. This trend is expected to extend and continue in the future further reshaping the nature of the industry. One such aspect is the use of franchising in the hotel industry, where property owners are able to obtain rights to a brand and use the name for their operations in exchange for a licensing fee. This trend has increased over recent years (Prasad & Dev, 2000) and expects brand owners to enhance the value of their brand image with more consistent quality (O' Neill & Mattilla 2004). The use of franchising and brand licensing has meant that hotels firms have been able to extend

their names into new regions and new markets and has brought benefits to organisational growth. This is also a relatively successful partnership between brand owners and licensees as the brand owner is able to focus on the long term risk activities such as corporate strategy and branding whilst leaving the day to day operational risks and complexities of running a hotel to the licensee (Dev et al. 2007).

Franchisees are also able to benefit from the creation of brands by larger hotel groups as franchisees find lenders more willing to underwrite their business investments with the backing for a larger branded hotel standing behind the endeavour (O' Neill & Xiao 2006). There has been a rise in boutique and niche hotel providers who franchising provides an opportunity for successful business owners to extend their personal enterprise in the industry. Brands and market segmentation has been designed to obtain different levels of profit from the entire market and so when brands do not meet expectations (financial or corporate strategy), brand owners are not afraid to either dispose of the brand or attempt to rebrand the image (O' Neill & Matilla 2006).

Hotel branding exercises also leave opportunities as exit strategies for when organisations run into financial difficulties. Firms are able to exploit their market segmentation by selling hotels (or brands) when their values are high or reorganising their portfolio when certain segments of the market underperform. This is a lower risk portfolio model and suggests why the use of market segmentation has been so popular in the hotel industry. The future trend suggests opportunities in mergers and acquisitions in the hotel industry with behaviours such as value based hotels buying luxury end hotels to enter new segments of the market and extending their product line-up through mergers and acquisitions (e.g. DLF property group in India entering the luxury hotel market in 2007).

Managing brand image is the biggest concern for operators in the industry following the high level of competition and changing nature of the hospitably market. Modern challenges include managing guest satisfaction, which has been determined as the most important contributor to brand equity (O' Neill & Mattilla 2004) in an age where consumers can switch consumption and compare like for like services with increasingly less transaction cost. Modern guests are also able to review their experiences on websites such as Trip Advisor and other social media which can impact and affect the image of a brand (Turban et al. 2008).The franchising model, upon which a lot of western owned hotel brands operate, also has risks with third party ownership of the brand. The more segmented and complex brands become, the license owner is more difficult it becomes to manage and oversee daily management of the brand which may explain why studies show that franchisee ownership has less customer satisfaction than owner-operated brand hotels (Xiao 2006).

Branding in the hotel industry is currently dominated by Western and mainly American based hotel groups. The model is used less in parts of Asia, Africa and other developing regions. With the growth of branding and standardised hotel experiences, there is a loss of local hospitality culture which can devalue the experience for the traveller. This remains an area that currently lacks research but the impact on the local community and tourism destinations must be considered by the extension of brands in new geographic territories at the cost of local culture.

Conclusions

The use of branding has enabled market segmentation and delivered financial and organisational growth for hotel operators. This application of marketing has increased value for the organisation and the customer by delivering a level of service that is customised to the guests needs. Branding brings the advantage of a standard of service and leads to customer

loyalty and greater customer choice. However, brand creation makes the management of hotels more complex and can lead to inefficiency which the hotel management must decide if branding is a useful tactic or not. Not all organisations have the resources to implement market segmentation and smaller operators find it increasingly difficult to compete against larger competition.

The modern hotel industry is increasingly competitive and market segmentation is expected to continue. Modern communications and ICT developments have eroded the value of brands and the competitive advantage they bring over smaller independent hotels. Consumer power is a growing trend that hotels must deal with and redefines their supply chain model. Brand owners are required to remember that the product and guest satisfaction should be the ultimate goal for an organisation as it increases brand value and encourages customer loyalty. Marketing and branding is too big a subject to be executed in isolation within an organisation and the brand principles should be carried out throughout the entire customer experience for commercial success.

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