# Strategic Management in Tourism

Edited by L. Moutinho

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To my father

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Edited by
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CABI *Publishing*

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A catalogue record for this book is available from the British Library, London, UK.

**Library of Congress Catalogin-in-Publication Data**
Strategic management in tourism/edited by Luiz Moutinho.
p.cm.
Includes bibliographical references.
ISBN 0-85199-282-x (alk. paper)
1. Tourism–Management. I. Moutinho, Luiz.

G155.A1 S68 2000
338.4'791–dc21 99-059381

ISBN 0 85199 282 X

Typeset by York House Typographic Ltd, London
Printed and bound in the UK by Biddles Ltd, Guildford and King's Lynn

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# Preface

New consumer trends, political changes, new technology, the fragmentation of markets, globalization, vertical, horizontal and diagonal integration, environmental concerns, economic integration and many other key developments are all adding to the complexity of corporate management in tourism. Today and in the future, the tasks of strategic management extend well beyond finding or creating new markets. Tourism managers must adjust to all sorts of changes to assure a sustained inflow of resources and a continuing outward flow of services. Under today's pressures, tourism executives charged with strategic management must be alert to an increasing diversity of impacts that result from the strategy, policy and management design they select.

This textbook confronts this highly dynamic environment in two ways: (i) it lays out models and approaches for tourism executives – and students – to use in tying their company or organization into the opportunities and challenges created; and (ii) it uses many of these active forces in the text and cases to illustrate the application of the models, techniques and tools to realistic and demanding situations found in the area of strategic management in tourism. These two distinctive features of the book make it relevant to a turbulent world. More specifically, in order to deal with the baffling array of influences and market opportunities, tourism managers need effective approaches or models to help them sort, interrelate and evaluate. Such decision-making models should suggest what to watch and how to put the pieces together into a meaningful analysis. At the same time, the models and techniques must be sufficiently simple, and easily related to concrete events, so that practising tourism managers can apply them to the situations they face.

By becoming familiar with the concepts and techniques, students will have powerful tools to analyse new business and tourism developments and to interpret threats and opportunities for tourism companies.

The book is structured in four major parts: (1) The Tourism Environment; (2) Tourism Marketing Management; (3) Functional Management in Tourism; and (4) Strategic Planning in Tourism. Part One introduces two chapters, one on future trends and globalization in tourism, and the other on the management of the environment. Part Two includes chapters on consumer behaviour, marketing research, segmentation, targeting, positioning and managing the marketing mix as well as site location analysis in tourism. Part Three deals with functional management implications in tourism arising from policies in human resource management and total quality management. Finally, Part Four focuses on strategic planning in tourism, particularly strategic planning systems, performance and effectiveness measurement, demand modelling and forecasting as well as international tourism management.

I wish to acknowledge the help of my chapter co-authors, who contributed ideas, perspectives and specialist knowledge which have greatly enhanced the content of the book. The actual drawing together of the manuscript and making it intelligible to the publisher was ably performed by Sylvia Kerrigan. Finally, I would like to thank my editor, Tim Hardwick, for his patience, support and confidence. For all this assistance I am most grateful.

Luiz Moutinho
Glasgow, UK, 1999

# Part One

## The Tourism Environment

# 1
# Trends in Tourism

**L. Moutinho**

Despite regional uncertainties, the world economic and social climate is generally predicted to produce a strong increase in tourism over the next 20 years. New markets will emerge due to changing economic conditions, modified consumer behaviour and new technologies. The composition of the tourist population will alter, with increasing proportions of senior citizens, for example. There will be greater emphasis on individual/self-determined holidays, and on educational and active recreational pursuits. On one hand, increasing environmental awareness will affect planning policies and tourist demand. On the other hand, nature, which is the critical resource of tourism, will become more scarce and fragile. An ecological, long-term approach to tourism planning is postulated.

This chapter covers recent and probable future trends in tourism. The aim is not to present a definitive picture of developments over this period. It is far more important for this scenario to help the planners concerned with tourism to come to terms with future changes than merely to describe future conditions. Thus we must examine any distinguishable and important trends with a view to answering the question: 'What decisions have to be taken now or in the coming years to make adjustment to these trends possible, in good time?'

## Regional and Public Sector Policies

The characteristics of attractions at a destination can be listed by referring to physical, social, historical and aesthetic attributes, among others, but the evaluation of the attractiveness will have to rely on some measure of visitor perception. The individual attractions will play different roles for different visitors; some single attractions are perceived as dominant to certain groups, while others will look at a region from a more holistic point of view and combinations of different types of attractions will, consequently, play the major role.

The tourism industry is dominated by private firms and small businesses across a broad spectrum of sectors, including transport, accommodation and attractions. However, the public sector has a key role to play in the successful development of tourism in a particular locality. Public sector intervention is necessary to ensure that the associated benefits of tourism are maximized and any potential problems are minimized for the benefit of the economy, society and environment, as well as for the long-term interest of the tourism industry itself. Whether the government opts merely for the creation of a climate conducive to the growth of a successful tourism industry, or decides to become more actively involved, perhaps even assuming an entrepreneurial role, intervention by the government should

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not merely be a manifestation of political rhetoric, but rather an organized, sustained and flexible approach to tourism planning with the aim of optimizing its social and economic returns.

Two characteristics of the tourism sector, the constant dependence of the tourist on those rendering the services and the currency foreign tourists bring in, have led governments to become very rapidly involved in this field, involvement which has above all produced special regulations assuring a close control of the sector's activities. The government can limit itself to strictly technical or administrative intervention or, conversely, enlarge it to include all aspects of the economy.

## Economic Aspects

According to most futurologists, the economic future will be characterized by greater amounts of freely disposable income, an increasing proportion of city dwellers and a further fall in working hours for employees. Even if it is assumed that the rate of these changes will slow down, experts some 20 years ago anticipated considerable rates of growth for tourism between 1980 and 2000:

- The World Tourism Organisation (WTO) anticipated an annual growth rate of arrivals in cross-border tourism to be between 4.5 and 5.5%.
- Half the experts in a Delphi poll anticipated growth rates in the region of 3–3.5%, in other words a doubling of the number of tourist arrivals within 20 years, approximately (Krippendorf, 1979).
- Herman Kahn forecasted that in the year 2000 tourism would be the largest industry and the most important export sector in the world. He calculated that by then expenditure on tourism may well have risen fivefold, corresponding to an annual growth rate of about 8% (Kahn, 1979; WTO, 1999).

Yet, today, in the traditional industrial countries the economic perspective is generally one of greatly decelerated growth and stagnating disposable per capita incomes. The desire to travel, in these countries, is approaching saturation levels and sensitivity to price levels is increasing. The limits to tourist expansion are already detectable. The forecasts mentioned above for growth in tourism, particularly that by Herman Kahn, are not likely to be maintained, at least as far as the traditional industrialized nations are concerned. In countries like Switzerland, Sweden and Norway the net travel intensities, which are over 75%, are not likely to increase significantly. In several large countries, however, where the variance of travel intensities between urban and rural areas is larger, e.g. France, Germany, UK (net travel intensities between 57 and 60%), there is still some growth potential.

Yet, even if long-haul flights for Europeans will expand less than forecasted, the trend which will make the Asia-Pacific region the boom area for tourism for the next century will not be jeopardized, due to the enormous 'internal' potential of that area. Despite recent problems, in south-eastern and eastern Asia more economic growth is expected over the next 20 years than anywhere else in the world. This 'unfolding fan' of opportunity will spur transnational travel and hotel companies to expand to nearly every major gateway city in the Asia-Pacific region.

## Demand and Supply

Even though the volume of travel in the industrialized countries has grown considerably, the tourist market worldwide has changed from a seller's market to a buyer's market. On a global scale, competition from new developing destinations and facilities will increase further. Significant structural changes currently in progress give a rough idea of how the situation might appear in 15–20 years time.

On the supply side, there has been a disproportionate increase in the types of lodging provided by the 'parahotel' business in relation to the traditional hotel business. In addition, a major proportion of traditional

hotels have had to develop new product strategies to match the growing demand for a more active holiday. Holiday clubs, parks and villages, and hotels offering active leisure pursuits, are experiencing higher than average increases in demand. It is likely that the market share of the traditional hotel types will continue to shrink.

There will be an increase in the willingness to spend holidays in cheaper accommodation, with a lower volume of services consumed. A price-elastic tourist demand need not necessarily imply an end to all travel – after all, travel as such has become close to being a 'basic need' – but it is more likely to result in demand for cheaper holidays. Thus, the market share of low-price accommodation will probably rise. If, as expected, the price elasticity of tourist demand increases, we can look forward to further significant shifts in market shares among various countries.

Increasing customer sophistication will have an impact on all product development throughout the industry. There will be an increased requirement for high standards of product design, efficiency and safety. This will be achieved through strong branding and tailoring the product more closely to the needs of specific market segments. Tourist product innovation is more likely to be about unpackaging rather than packaging, providing more individual attention within a number of price bands. Even so, package holidays are not going to disappear. Indeed, they may increase in number as developing countries come into the market. It is the relative importance of package tours that will decline. The price-based market share battle between the major operators has – in reality or in perception – lowered the quality of the holidays on offer.

## Seasonal Variation

By 'seasonality' we mean the tendency of tourist flows to become concentrated into relatively short periods of the year. The seasonality of tourism is at the same time one of its most widely recognized and least well-researched features. Patterns of seasonal fluctuation in the tourist trade have nothing inevitable about them, and the emergence of seasonal patterns, the degree of their intensity and their historical durability are all variables which can both merit and repay research, especially at the local level. Efforts to reduce the seasonal fluctuations in tourist flows will make further progress. In line with the growth rates for supply and demand, this will have an impact on occupancy, profitability and the ability of tourist facilities to adapt to changing needs. Better and more varied products will probably be available for off-season periods.

## Socio-demographic Changes

The following segments of the tourist market are likely to gain in relative importance and therefore grow at above average rates: senior citizens and active middle-aged persons between 50 and 65 (also called 'young' senior citizens); singles (particularly those under 35); 'YUPs' (young urban professionals); guest workers; youngsters (the number of young people travelling is increasing rapidly but supply is not well geared to them); young families; and double income families (particularly 'Dinks': double income, no kids). Psychographic and lifestyle segmentation will identify more specific clusters of travellers. The mature market of Europeans between 55 and 65 has now reached about 100 million.

## Sociocultural Aspects

Research carried out in several countries, in particular a large-scale study by the Stanford Research Institute (California, USA), indicates that there is a clearly defined trend away from an 'outward-directed' lifestyle towards 'inward-directed' and 'integrated' values. Several recent studies indicate that 'post-materialistic values' (growing non-materialistic needs, environmental care, diminishing concerns about career, prestige and status, etc.) will gain in importance. Materialistic lifestyles will not vanish, but a

polarization between exponents of material and non-material values is likely to take place.

There is a strong trend leading away from standardization towards an ever greater diversity in lifestyles, inciting new approaches to life and recreation. The limits of mass tourism are recognizable not only from the quantitative, but also from the qualitative point of view. The following trends are apparent and probably of a long-term nature:

- further increasing differentiation and pluralization of demand;
- the emergence of new specialized markets and market segments;
- a decrease of physically and culturally passive forms of vacation in favour of more active pastimes;
- a shift towards maximizing individual liberty in recombining elements to custom-made holiday packages (modular product design).

The growing need for non-standardized services and individualized tourist behaviour is directly linked to:

- the quest for self-determination (emancipation) and 'do-it-yourself';
- the advanced level of travel experience in the population, which goes hand in hand with more selective, critical and quality-oriented approaches to individual holiday planning as well as growing sophistication of demand and rationality of choice;
- an increasing desire to relate to nature, to gain first-hand experience and to engage in active pastimes (e.g. 'hobby holidays', trekking holidays, farm tourism);
- higher levels of environmental consciousness and sensitivity to the quality of life in general; and
- the increasing effort to learn, which often manifests itself in serious attempts to get to know foreign cultures.

The suppliers of tourist services will increasingly offer service packages which directly address specific customer problems and provide travellers with more opportunity to shape their holidays as they wish. Activities, experiences, participation and learning will all be key elements in the future. Adventure holidays, sports and health trips, sabbaticals and learning holidays will all become more popular. The demand for 'soft' forms of transport and tourism, including 'back-to-nature' activities will show a marked increase. An increasing number of tourists will look for a holistic type of recreation, in search of an 'overall balance' of body, soul and mind. More and more travellers will define their concept of a 'rich holiday' in terms of the depth rather than in terms of the diversity of their travel experiences.

Not only will the worldwide travel market itself be characterized by an ever greater range of possible types of travel and destinations, but substitutional competition will also continue to increase. The range of alternative uses to which free time can be put is constantly expanding, a trend which is likely to continue over the next 20 years. Apart from travel, these options can be characterized as follows.

Leisure within the home or in the vicinity. Leisure-oriented design of living space, children's playgrounds near to dwellings, public leisure facilities in residential areas, centres or leisure parks, green belt areas around cities will all be central to current education and further training. To a certain extent, and an ever increasing one, life is becoming a permanent learning process owing to the rapid rate of change in professional structures and technologies. The spectrum of educational facilities and opportunities is being continually enriched, even though the educational and professional routes are being further formalized, under the direction of public institutions. Nevertheless, there is a clear trend towards the pluralization and liberalization of education and training in general, thanks to private initiatives. This applies to all levels, from primary school to university, but especially to training in specific technologies, skills or professional profiles.

Schools of the future will not be institutions for imparting knowledge so much as integrated centres for education, culture and

leisure. Leisure time will be used much more for productive purposes, in which context the following variants are relevant.

1. Paid work to increase disposable income.
2. Home-based production, which means not only a greater degree of tasks 'delegated' by industry to the consumer (such as collecting, assembling, repairing and maintaining products) but also increased production of an agricultural or handicraft type. This type of production is often carried out on a community basis.
3. Sociocultural involvement: this category includes all types of social, political and cultural involvement. The social cooperation networks which even today are expanding rapidly and which in 20 years are likely to supply a significant proportion of social services, are a prominent example.

In view of the expansion of the 'informal' economy and a certain shift, for technological reasons, of professional activities to the traditional domicile, the boundaries between leisure time, work and living are becoming increasingly hazy. Also, the individual will have more opportunities to arrange his or her working hours and leisure time as required. Flexitime, job-splitting, job-sharing, individual arrangements regarding holidays and pensions, etc., will become more commonplace.

There is a growing recognition of the value of cultural diversity (possibly a reaction to globalization). Parallel with this recognition is a desire to maintain and foster the special and unique characteristics of ethnic groups and host societies as a fundamental principle of tourism development and promotion.

## Ecological Aspects

Concern for the environment will in the future be far more widespread among the population than it is today. The growing appreciation that humankind and the natural environment share a common fate is promoting a conservationist approach at many levels. Even today, we can see an increasing environmental awareness in public opinion. This manifests itself in a growing tendency to reject those foreign tourist spots which have already exceeded their tolerance levels, not only in the opinion of the experts but also from the point of view of the consumers.

The inhabitants of tourist areas, some of whom have exchanged their initial euphoria at the influx of tourists for blatant resistance, will increasingly adopt realistic strategies to retain their independence and protect their environment. For example, the dilemma facing mountain regions concerning the balance between destruction of the landscape by tourist monoculture, and desolation on account of depopulation, will be handled better than it is today: by means of multi-faceted development, that is revalorization of mountain farming, including unconventional methods such as game farming, vegetable cultures, and blending with other branches of the economy. The planning authorities and political institutions, thanks largely to the pressure of public opinion, will contribute to development in the interests of humans and the environment, by defining appropriate planning guidelines and ensuring that they are followed.

Destruction of natural resources vital to tourism will not be stopped immediately. As a consequence, decline of some traditional destination areas (due to gradual spoilage or, in some cases, due to environmental catastrophes) and rise of 'substitutes' in unspoiled surroundings will probably continue (unfortunately) to a certain extent. Furthermore, artificial leisure environments will be created as a partial (and weak) compensation for the degraded natural milieu. Such developments will continue until society has implemented tourism strategies which reconcile man and nature.

On the other hand, growing environmental sensitivity is likely to stimulate substantial efforts to protect, conserve and upgrade the natural as well as the sociocultural milieu. In response to the question raised by a WTO exponent, Schwaninger

(1989) maintained that the demand for 'soft forms of tourism' would be a volume market by 2010. Hopefully, on the supply side, a change towards a long-term planning mentality, which should substitute for short-sighted profit maximization, will take place. Even the best hotels and restaurants in tourist resorts can only thrive if they are part of an intact and sustainable environment. An ecologically viable strategy is the prime requisite for success.

As far as the provision of accommodation facilities is concerned, a dramatic rearrangement of priorities, due to growing environmental awareness, has already begun. If in the past the emphasis was on the erection of new buildings, the future should see a comprehensive programme of renovation. The transformation of historic buildings or other old buildings into training and leisure establishments, and the shaping of the environment to accommodate leisure activities, both in the home and its close proximity, will continue to gain considerably in importance.

International travel has grown by more than 500% in the past 25 years, according to the World Travel and Tourism Council (1995). As a consequence, in the past decade alone, there has been a 25% increase in the number of hotels built across the globe. But there is also evidence of a growing concern among both leisure and business travellers about the damage being done to the environment by tourism. And, increasingly, travellers are taking these concerns into account when they book holidays or business trips. When the world's biggest hotel chain, Holiday Inn, surveyed its guests, 78% of them said they were very concerned about the environment and 28% said they took environmental policies into consideration when choosing their hotel. The Travel Association of America estimates from its own research that 13 million people in the USA now consider themselves 'ecotourists'. What is more, these people are prepared to pay an 8.5% premium to stay in an environmentally friendly hotel (Holloway *et al.*, 1992).

## Technological Aspects

Technological developments will have major effects, particularly in those areas where originally isolated technologies can be combined. In the leisure sector, this applies primarily to the converging technologies of telecommunications, data processing and office machines (Stipanuk, 1993; Sheldon, 1997).

An increasing proportion of professional work will not be site-dependent. This leads not only to new forms of social organization and interaction but also to a certain shift of professional activity to the home of the working individual. Thus, the boundaries between work, living and leisure time become less rigidly defined (see Cheong, 1995).

The new technologies give rise to new sales and distribution systems. New economic groupings engaged in the battle for the holiday visitor (banks, clothing and sports shops, supermarkets, restaurants, lottery kiosks and petrol stations) are at present complicating the established network of sales channels. In the years to come, however, electronic distribution, for example, will lead to dramatic structural change, including substitution of existing sales channels. The Imholz travel agency, which a few years ago almost completely replaced the traditional booking of holidays in branch offices by telephone bookings, is a precursor of this development. On-line bookings over the Internet are now becoming increasingly common. Another example is the airlines business, where further computerization will stimulate innovation, and dictate structural changes among airlines and travel agents. The quest for more efficient distribution will also lead to new alliances within and between firms of these sectors (see Van Hoot *et al.*, 1996).

Yet, computerized services will also breed new opportunities for those travel agents who succeed in counselling their customers better. The new technologies will enable further specialization. New types of travel agencies will emerge, which will have the character of consulting rather than of booking agencies, using information systems to design individualized travel

packages out of available offers. In the sectors which form the subject of tourism (air transport, education, hotels, restaurants) and a few others (e.g. road transport), however, there should be a positive effect on employment, spurred on by developments in the field of microelectronics. It has been estimated that by 2002 commercial air transportation will produce nearly 3.5 trillion revenue passengers kilometres, roughly 2.3 times the current level.

Teleconferencing may reduce business travel by 25% over the next 15 years, while increased automation through robotics will result in more leisure which should trigger increased recreational spending. Technology may also lead to increasing integration between the different sectors of the industry. It was suggested some 15 years ago that technology would encourage the growth of mega-corporations covering all aspects of the present industry as part of a new 'transpitality' industry (Palmer, 1984). Although considerable vertical and horizontal integration does now exist, it is likely that further consolidation of companies in all sectors will continue with increasing economic concentration in a small number of large companies. Furthermore, some of these companies will combine across sectors creating new 'diagonal marketing systems'. These large corporations are likely to secure greater shares of the markets in which they operate, and there is no evidence that limits to economies of scale have yet been reached (see Peacock, 1995 and Inkpen, 1998).

In the years to come, electronic distribution will lead to dramatic structural changes. For example, as an added convenience, there is already a new way of shopping for vacations at the shopping centre. Some computerized systems allow shopping centre customers to walk up to a kiosk, give the employee operating the computer the criteria for their dream holiday, then sit and watch their options on a TV screen.

## Political Aspects

The influence of public institutions on the leisure sector will continue to grow. On the one hand there are socio-political motives which, as part of the effort to humanize working conditions, are aimed at reducing the statutory number of working hours and at promoting the involvement of companies and public authorities in the field of leisure policies. On the other hand, economic motives are aimed at sharing out an evidently shrinking volume of human work so that full employment is guaranteed. Particularly in tourism, there is a trend towards an increasing amount of planning and also protectionist intervention at national and international levels. Positive efforts to curtail the ecologically damaging effects of human leisure activities are being taken more and more seriously, and are meeting with some success.

Political and planning decisions in our society take longer the less they are based purely on the representation principle. For some years now, there have been increasing demands for participation by the people concerned, for example inhabitants of tourist regions. In future, these demands will be better met than has so far been the case. Not only is the view gaining ground that incorporation of those concerned in the planning processes leads to better results, but there are better and better means available which contribute to the efficient handling of such complex decision-making processes.

## Prospects for Planners

The most important challenges faced by those responsible for planning in the tourist sector, and those affected by it, are summarized as follows.

### *Integral planning*

It is necessary to replace the old dominating and uni-dimensional planning concepts with integral, systematic planning which would be more adequate to cope with the complexity of real systems. If a leisure facility or a holiday location is planned from the basis of a single viewpoint (be it exclusively economic, technological, ecological, social or aesthetic) the outcome can only be unsatisfactory. Integral planning calls for

the incorporation of all these aspects and components of knowledge in the process of analysis and design. Thus it is not only interdisciplinary but also transdisciplinary in character. In order to realize socially and ecologically viable strategies – which will be high priority issues in many destinations – such planning should not be limited to consulting reports. All constituents ('stakeholders') that embody relevant knowledge (and 'stakes') should contribute to the planning process. In a tourist resort, not only representatives of tourist institutions and hotels should be included, but also exponents of sectors such as trade, agriculture and forestry and, ultimately, all citizens.

### *Long-term thinking*

The attractiveness of short-term advantages is often in conflict with the need to obtain long-term facilities, in other words to care for and build up the resources which will form the basis for the future. The knowledge gained over the past few years on the long-term nature of fundamental cause-and-effect relationships inherent in tourism business systems requires us to think strategically. Thinking in terms of large-scale and long-term relationships gives us the opportunity to concentrate on overall targets, such as the maintenance of a healthy natural environment, without being led astray by short-term fluctuations. In many destinations, the design of ecological policies and strategies will be of primary importance to maintain long-term viability.

### *Consistent action*

With regard to leisure and tourism a number of plans and concepts have been elaborated, which contain a considerable amount of integral planning and long-term thinking. 'Strategic plans' or 'policies' are essential foundations for coherent action in the future. Putting them into practice requires commitment of decision-makers at all levels. A legal framework of tourist policy will be helpful, but the understanding of those concerned is the essential prerequisite for commitment. This holds particularly when short-term sacrifices are necessary in order to maintain long-term viability, for instance, when ecological strategies are at stake. Also in this respect, the basis for effective implementation of strategy is set by involving the constituents of the system in its design (Schwaninger, 1989).

## Summary of Trends and Forecasts

- The travel and tourism industry is the world's largest industry, employing over 101 million people worldwide with gross sales exceeding US$2 trillion. It represents 5.5% of the world's GNP.
- Debt for nature swaps are 'in' as developing nations such as Bolivia and Madagascar are trading their international debt for land to be held as national parks and protected areas.
- Diseases such as AIDS are having a negative effect on tourism.
- The 'developed world bust' and 'developing world boom' in population both have negative effects on tourism (despite their respective differences in structure).
- The tourism industry around the world is broadening its focus to develop unified positions on fiscal policies, taxation, capital formation and other important issues.
- Capital market investment by Americans has slowed considerably in the hospitality industry while it has picked up in Europe.
- Tourism will continue to be a major growing economic factor in the world with real growth rates of up to 5% per annum.
- With computerized reservation systems expanding rapidly, smaller systems will fade from the marketplace.
- If the travel and tourism industry continues to expand in the next decade at the same rate it has in the 1990s, another 50 million jobs could be created.
- 'Poverty shock' will turn the world's megacities into zones of instability with a negative effect on tourism.

- The future tourism business environment will be characterized by a smaller number of global operators and a larger number of local operators.

## Global Tourism Issues for the 21st Century

- Environmental concern has reached an all-time high and will continue to grow. This will bring increasing pressure on all tourism initiatives to demonstrate that they contribute to environmentally friendly and sustainable development.
- Broad-based political movements, in which the populations of many countries are attempting to establish more participatory forms of government, are impacting on tourism. As a consequence, the residents of travel destinations will increasingly demand that tourism first and foremost serves their interests by providing benefits that outweigh its costs.
- World economic order is changing. Relentless pressure for almost all countries to adapt their economies to market forces is bringing about a major restructuring of wealth and income patterns, which will be reflected in global travel patterns.
- The 'globalization' of political and economic structures has initiated movement towards the 'borderless' world. In this new world the transnational corporation is a powerful force. Superior access of financing, technology and information provide this stateless entity with strategic and operational strengths which give it clear competitive advantages (see Go and Pine, 1995).
- World demographics will continue to evolve very predictably with wealthy nations experiencing ageing and stabilizing populations and this will be countered by a strong growth in the populations of developing countries. The impact of this on global travel patterns will need to be carefully monitored.
- Technology, in particular the linkage between (and interdependence of) telecommunications, transportation and tourism is receiving increasing attention. The movement of information, goods and people is being examined with respect to both complementarity and substitutability.
- The role of tourism in developing countries poses serious questions. While many developing economies desperately need the financial receipts from tourism, the social and environmental costs imposed by inappropriate forms of tourism development simply cannot be ignored (see Oppermann and Chon, 1997).
- The issues of environment and developing countries are manifestations of broader concern relating to ethics, and responsibility in tourism policy formation and management. Tourism is now so significant that it must seriously examine the values on which it is based in order to ensure that they continue to reflect those of the society it serves and affects.
- Concerns related to health, security and legal liability are very much at the forefront of the minds of both tourists and industry suppliers. International conflicts and wars, growing crime and terrorism levels, and the spread of deadly communicable diseases will be very real factors in the development of tourism.
- Concerns related to the availability of an appropriate workforce in the growing global tourism industry will intensify. A broad range of social and economic policies – particularly those impacting on population planning, education, immigration, labour relations and the use of technology – will greatly influence the availability of the industry in each country to meet its human resource needs.

The trend towards customized tours at package prices is a significant one for the travel industry (see Laws, 1997). Furthermore, it is expected that we will see a greater integration of computer systems and satellite forms

of worldwide information collection and distribution for tourism planning by government agencies.

Congestion is a word currently associated with all forms of transport. Airports and air routes are crowded, roads are at a standstill and trains are filled beyond capacity. For air transport, the next 10 years may have to be a holding period. An anticipated growth rate of 4–6% per year can only just be supported by better management and improvements of the existing infrastructure and increases in aircraft size.

## Ten Trends for the 21st Century

The trends which have led us into the millennium have profound implications for all sectors of society. The corporate, governmental and educational sectors must address and respond to these macro trends for, no matter what our individual interests, these factors will influence human behaviour. Successful entities will examine each trend and develop plans of action to change their *modus operandi* to meet the new demands, thought processes and needs of a new global marketplace. The pace of change itself will require an ongoing assessment to remain in tune with the ever-changing marketplace. Our political, educational and business communities will be challenged to think differently and respond tactically or face a market that is moving at a rate of change which will leave them behind. These challenges will be greatest in the service sector where 'change' will be a constant. Experts foresee ten macro trends having substantial impact on the consumer (Nykiel, 1996). Each trend requires careful assessment with respect to the impact and selection of related responses. These trends are outlined below.

### *1. Globalization*

The world is meshing at an accelerating pace on all fronts. Multinational positioning and adaptation to cultural diversity are now essential to achieve market share and meet customer needs. The implications extend to finding, attracting and retaining a diverse workforce. It will be essential to implement motivational and reward systems including management development programmes that bring diversity into the thought/decision process. Service offerings must have universal appeal and product development must stress adaptability to succeed in a global marketplace. From a consumer perspective, boundaries and territories are becoming obsolete, replaced by the universal appeal for the latest, newest and best value in both products and services. Winners will recognise globalization as the macro force for success. Losers will be those who do not understand it or do not change and adapt.

### *2. Technological acceleration*

This acceleration is driven by both technology itself and the market's insatiable desire for 'new everything'. Consumers will flock to those who deliver new conveniences, time savers and stress reducers. Businesses will divide into two categories: 'survivors' and 'victims'. Survivors will be those who adapt, move with, and invest in new technologies. Victims will suffer technological annihilation from more responsive and advanced competition, especially in the delivery of services. Likewise, individuals will need to invest in keeping themselves competitive and up-to-date or risk being re-engineered into obsolescence.

### *3. Peacetime war*

Those in the service sector who understand the power of this macro trend and address it directly will win customer loyalty. Offering a safer service experience, whether travel related or in the work environment, will help attract and retain customers.

### *4. Debt wreck*

Even without another round of higher interest rates, debt is spiralling out of control at both governmental and individual level. The re-engineering of middle and upper management continues to shrink incomes while reducing tax revenues from this group. The lower and lower middle income or 'flattened' workforce, whose emergent

purchasing power slowly moved the economy, have almost run out of 'credit' and more importantly, the ability to pay it all back. Those first few credit cards, care payments and adjustable mortgages (somewhat fuelled by the easy consumer lender syndrome of financial institutions) are all adding up to trouble. Given a slight spark of inflation and/or higher interest rates, we are likely to see a no-growth recessionary scenario. Simply stated, it is time to retain your best customers and take market share from your competitors. Protect your base at home and think globally to attract new markets.

### *5. Re-engineered behaviour*

The early 1990s in the West and the late 1990s in Asia brought recession and a more cautious consumer. The insecurity caused by job elimination remains ingrained and is being reinforced daily by media headlines. Everyone is more cautious in their spending, including corporations, individuals and even government. Economic uncertainty and work environment insecurity are now part of the daily thought process preceding purchase decisions. To propel sales it will be necessary to overcome these stressful thoughts through creative marketing, promotions and financial techniques. Make it possible for consumers to say 'it's OK' to themselves, and you may still achieve sales success.

### *6. Fuelling growth*

Recent years have witnessed a record number of major acquisitions and mergers as well as 'break-ups' of corporations. At the same time the entrepreneurial spirit was alive and well with more new business start-ups. In the future we can look for more agreements, coalitions, networks, joint ventures, strategic market acquisitions and 'contracting out' to fuel growth. Many such affiliations and activities will be driven by the desire to strengthen global reach, build brand(s)/company competitiveness, find new distribution channels and, frankly, to show growth. The winners will pursue these strategies not only for reasons related to economics of size, but more importantly, to provide consumer convenience and a value-related marketing advantage.

### *7. Centurism and expectation*

The turn of the century has often been a period marked by the desire to hold on to the past followed by an insatiable desire to jump on board with the new. This latter behavioural pattern is usually fuelled by a period or series of globally important events that cause a psychology of great expectation, such as discoveries, cures or innovations. The pendulum swings rapidly, first to the tradition of the past and then to the 'newness' of the future. Successful enterprises will not only ride the momentum both ways, but know when to time the directional change.

### *8. Near-to-home syndrome*

Currently we are experiencing a strong desire and necessity to remain relatively close to home and work. Both job insecurity and two breadwinner households are supporting this trend and are likely to do so in the future. Near-to-home syndrome keeps many from long-distance (time) travel. The focus becomes extended weekends when both breadwinners can achieve mutual day(s) off. The desire to escape remains, both for couples as well as single workers. Helping to fulfil this desire with products or services convenient to purchase, consume or experience will result in market success.

### *9. Personal/self focus*

Humans are typically retrospective at the end of each year, decade and especially century. This inward focus is now manifesting itself as a response to stress. Some will seek to relieve their plight through relaxation, others through refreshing their psyche. The implication is for an increased desire for the 'personal' which translates into taking care of oneself. Likely behavioural manifestations include a renewed desire to purchase personal items such as clothes, meals out and other new interests. Much of this self-focus will come from the under 50-year-old segment, seeking more from life than the stress of work.

### *10. Exploration*

We can expect the over 50-year-old segment of the population to increase exploring the globe by seeking new destinations, to undertake new leisure pursuits and to want to experience 'newness' in general. The counterbalance to this overwhelming desire will be a real concern for long-term health costs and taking care of remaining parental responsibilities (care of children and parents).

## The Future

The conventional ways of looking at *consumer behaviour* (see chapter 3), especially in tourism, are becoming outdated very quickly. For example, it is no longer possible to predict the purchasing habits of consumers of almost any product or service simply by labelling a group as 'upscale'. A world of paradoxes in tourism and leisure behaviour is emerging where existing opposites operate simultaneously. Greater sameness and greater diversity, plus greater security seeking and greater risk-taking occur side by side. For example, there are sky-diving accountants all over the place and campers who drive air-conditioned vans to 'rough it' in the woods. The same individuals may shop at both a discount store and a famous department store and go to McDonald's for lunch and a four-star restaurant for dinner. Leisure lifestyle mosaics are often elusive, inconsistent and contradictory.

Possible future developments in terms of the built environment are:

- Massive multi-storey, *floating hotels* will be moored offshore and contain restaurants, shopping arcades, gymnasiums and glass-enclosed elevators that carry tourists directly to the sea floor.
- *Underwater hotels* will attract the more adventurous leisure travellers who can peer at the undersea life through their bedroom windows.
- The theme parks of the future will be individual-experience centres where technology will let people role play ... almost anything. For example, in California a Victorian-style high-tech house has been constructed that transports visitors back into a romantic version of the previous century. The house includes: a three-dimensional film theatre that employs vibrating chairs to simulate motion, a scent-projection device that is coordinated with images on the screen and a state-of-the-art sound system.

Future technological developments may include the following:

- *Robots* will eventually occupy a large part in planning many tourism-related facilities and services, such as restaurants, landscaping, park design and entertainment.
- *Videocycles* – a combination of a stationary exercise bike and a TV/VCR – will be used extensively by bikers at home to tour scenic routes in forested and urban environments, complete with exciting background music.
- *Night-vision glasses* will allow individuals to participate in outdoor recreation activities in the dark. Electronic and other devices will be worn by outdoor enthusiasts to improve hearing, touch, sense of smell, strength and coordination.
- *Solar-powered bubbles* (sunpods) will permit bathers to relax outdoors at home for an all-over tan even in below-freezing temperatures.
- People will be able to *create their own images and scenes* on their computers or TV screens; the viewer will be able to simulate just about anything. For example, if a person wanted to enjoy a raft trip down the Grand Canyon of the Colorado River it will be possible to call up the image on a wall size TV and with a raft at home the viewer will experience the sensation of the trip.
- *Image libraries* will be available for home viewing that will contain all the world's best art. Inexpensive flat panel-display devices will be available, throughout the house, with a resolution so good that viewing a projection will be

like looking at the original oil painting.
- *Digital TV*, which is already becoming established, will allow the viewer to become a participant in the actual production. For example, if a person put a wager on the wrong football team, he or she can take a picture of the player, superimpose him scoring the winning play, and at least get the thrill of having the match turn out the 'right' way.
- *Sensavision TV* will allow the viewer to feel temperature, humidity, smell, and to walk around in the scene because the whole room will be part of the TV set.
- *Virtual reality* gives us artificial worlds to explore, outside normal space and time.

There are many possible future developments in the area of transportation:

- Major technological advances will lower international travel costs.
- Scheduled commercial flight times will continue to take less time. Magnetic trains – trains that literally fly between cities on cushions of electromagnetism – will be making short trips (for example, Los Angeles to Las Vegas) faster than airlines can manage today.
- Multiple transportation cars that convert to an aeroplane will be fuel efficient and economically accessible to the tourist.
- Vertical take-off and landing vehicles that cruise at 360 km $h^{-1}$ above daily traffic will be used for everyday personal and commercial use.
- Skycycles – one person light aircraft with wingspans of a DC-9 jet – will be used to fly 40 km or more at 25 km $h^{-1}$ via pedal power.
- Ultralight two-person aircraft will be popular for touring and soaring. Supersubs will be developed as a kind of undersea tour bus with oversized windows and an interior like a passenger plane.
- Jet-powered backpacks for individual flight propulsion will be sold at prices within reach of the middle-income family budget.

A major new product looms in the 21st century in the form of *space travel* (Hawkins, 1989). This may be a long way off, although pressure to make possible a limited number of high-cost flights will build up as soon as techniques are devised to make capsules more inhabitable. A passenger module could be developed for the space shuttle that will carry passengers to an orbiting space hotel or act as a hotel module itself. Some of the above may be in the realms of science fiction, but others, predicted 10 years ago, are already becoming a reality.

## Conclusion

Essentially, the whole process of tourism strategic planning boils down to planning on uncertainty. Uncertainty is the complement of knowledge: the gap between what is known and what needs to be known to make correct decisions. Dealing sensibly with uncertainty is not a byway on the road to responsible tourism management decisions, it is central to it. To cope with future tourism planning, management and research, tourism professionals need to be Renaissance men and women. The need to imagine, perceive and gauge the future are paramount professional attributes of the tourism professionals of tomorrow. The future tourism phenomena will be managed by today's professionals who look to the future and shape it into a strategic vision. The information presented in this chapter has been aimed at helping to create that vision and was designed to show that 'we must not expect the expected!'

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# 2

# The Marketing Environment for Travel and Tourism

**K. Peattie and L. Moutinho**

The relationship between the providers of tourism and travel services and the marketing environment in which they operate is unique. For most other businesses, the boundary between the company and the 'world outside' is distinct. For manufacturers there is one world within the factory gates, and another beyond them. For most service providers there is a distinct place at which the service encounter takes place, and can be managed. Changes in the world outside will affect such companies, together with their customers and their competitors; but usually, with a little planning and some juggling of the marketing mix when necessary, the effect of external change can be diluted enough to allow most businesses to continue 'as usual' within their own four walls. In tourism, the service encounter with a customer can occur within a journey which stretches from one side of the globe to the other and back again. The whole planet is the 'factory floor' of the tourism industry. While for other industries, factors such as the physical environment or culture of a region may influence the nature of demand, they are a vital component of the product itself for the tourism industry. For tourism and travel providers there is no place to hide from the turbulent and unpredictable world in which we live (Gee *et al.*, 1994).

The special relationship between the tourism industry and its marketing environment means that the depth of understanding needed concerning the influence of the environment goes far beyond that which suffices for many other industries. The external environment of any industry contains a host of interdependent factors which need to be somehow separated out and categorized to make analysis of them possible. One of the simplest but most enduring frameworks for this analysis is the PEST framework which prompts companies to consider Political, Economic, Social and Technical factors which may affect their company. This is rather a broad brush form of analysis which, although adequate for industries less vulnerable to environmentally related disruption, is scarcely adequate for tourism providers. A more comprehensive approach is SCEPTICAL analysis which considers environmental influences in terms of:

**S**ocial factors
**C**ultural factors
**E**conomic factors
**P**hysical factors
**T**echnical factors
**I**nternational factors
**C**ommunications and infrastructure factors
**A**dministrative and institutional factors
**L**egal and political factors.

Each of these categories may be the source of

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changes which present tourism operators with significant opportunities and threats. As with any form of environmental analysis, the difficult part is not in seeing what is happening in the world beyond the industry's doors. The real challenge lies in disentangling the elements of threat from the elements of opportunity within the changes in the wider world; in distinguishing the temporary 'blips' from the significant environmental shifts and, above all, in deciding what to do in the face of a changing and uncertain environment.

## The Social Environment

Tourism is essentially a social phenomenon and, although like all industries it is influenced by the society in which it exists, tourism is unusual in that it involves a large scale, if temporary, transfer of individuals between different societies. This can create social change of both a temporary and a longer-term nature. Anyone who has visited Paris regularly will know that the city character changes radically in August, when vast sections of the Parisian population go on vacation and are replaced by a mass influx of tourists. In other industries, customers and their needs shape the nature of companies' marketing strategies and the product offerings. In tourism, customers and their needs can actually shape the society which they visit, as any resident of the Costa del Sol, Klosters or Kathmandu can testify.

### *Demographic change*

Currently some 78 million people are added to the global population each year. There are now around 6 billion people sharing the planet, and many population experts predict that this will increase to at least 8–10 billion (some time between 2020 and 2050) before global growth stabilizes. The startling reality is that over 90% of this growth will be in developing countries. As the populations of North America, Europe and Japan grow relatively smaller and older, the rest of the world is increasing rapidly and is getting younger. Very soon over 80% of those between 15 and 24 years of age will live in developing countries; by contrast, in Western Europe, one in three adults will be over 55. This 'developing countries boom–developed countries bust' demographic scenario has a wide range of societal, economic and environmental implications, and also significant implications for tourism (Kurent 1991). In particular for tourism marketers:

1. Global demographic changes must be reflected in planning and decision-making with respect to the design, development, delivery and utilization of tourism facilities and services.
2. There is a need to encourage and support research to evaluate the needs of the growing population of older people worldwide. Mass market tourism has grown up with the assumption that the majority of its potential customers are relatively young, active and healthy. Demographic change will inevitably shift the age profile of the customer base, and may require substantial modifications to facility design, tour packaging and event organization. It may also require new initiatives to link tourism services to other services such as health care requirements.

The level and nature of demand for tourism and travel are currently being affected by a number of demographic influences, discussed below, most of which seem set to continue or intensify in the foreseeable future.

#### *Population movements*

Migration between countries and regions is an increasing feature of modern life, encouraged by relatively cheap travel opportunities and the lowering of international barriers to relocation. Although many tourist journeys are made to visit a place, they are also often made to visit people, and the gradual redistribution of people across the globe opens up new opportunities for travel marketing aimed at reunion and the rediscovery of one's 'roots'.

*Women travellers*

The rapid rise in the number of women in the workforce is having a major impact on the tourism industry. Today, 25–40% of the market in the United States are female business travellers and soon it will be close to 50%. The continuing social and economic emancipation of women is a relatively global phenomenon (although its extent and speed varies widely among different countries) and it is leading to a greater number of women travelling for pleasure internationally, both singly and in groups. In Japan a combination of increasing career opportunities for women and more liberal cultural attitudes have made it much more acceptable for women to travel, to the point where among the younger 18–44 age group, female tourists now outnumber their male counterparts two to one. These women will increasingly expect alterations in tourism products to meet their needs.

*Grey tourist power*

The ageing populations in developed countries will increasingly have the time and the resources to travel, creating a growing market for 'grey' or 'mature' travellers. Many of these consumers have a dependable pension income, no large mortgage commitments and considerable amounts of leisure time. Travel expenditure is an important element of the modern grey consumer lifestyle, and as a market they are relatively discerning, and interested in value for money. Although the mature end of the market offers considerable marketing opportunities, these opportunities have often been missed by tourism marketers attracted by the allure of a younger and more 'glamorous' marketing focus. Consequently many of the early grey tourism and travel initiatives had their roots in organizations concerned with older people's welfare, as opposed to from inside the industry. See also Smith (1995).

*Baby boomers on the move*

Baby boomers, roughly those born between 1946 and 1964, make up a large and powerful consumer group, whose beliefs and behaviours are very different from the generation that went before. They are a generation that has grown up with travel as a right and expectation, rather than as a privilege or a luxury. During the 1990s they were in a period characterized by household formation and biological catch-up in childbearing. This created a boom in family-orientated travel and tourism services of the type exemplified by the Centre Parcs chain of holiday villages. The family market aimed at purchasers in the 35–55 age range is therefore a growing market, but a complex one since the baby boomers tend to approach holidays less as 'getting away from it all' and instead see them as opportunities for learning, cultural and environmental contact, health and fitness activities and spending 'quality time' with their families. Moving into the new millennium, the baby boomers are reaching the peak of their earning power. In America, the median income of people aged 45 to 54 was US$54,148 in 1998, according to the US Census Bureau, giving them the highest income bracket of any age group. Their spending power is a key factor in the growth of sales for products such as luxury holidays and second holiday homes.

*New households*

Another key demographic change is the increasing shift away from the 'conventional' household based around the nuclear family unit. Single adult households now account for almost one quarter of UK households. Households in which original family units have been split and sometimes recombined are also becoming increasingly common. Marketers in tourism, and a variety of other industries, may risk alienating and marginalizing potential consumers if they attempt to impose an idealized or rigid concept of 'the family' into their marketing strategy for targeting the family market. Since 'non-traditional' households are growing more rapidly than their traditional counterparts, they offer considerable opportunities for targeting tailored market offerings.

### *The democratization of tourism*

One of the most important demographically related changes is the 'democratization' of tourism. On a global scale, the socioeconomic categories applied to individual nations become relatively meaningless since there are effectively two social groups: the enfranchised members of the consumer society and the disenfranchised poor (Durning, 1992). For the poor of the world, travel is usually undertaken for survival, and tourism is not an option. Among consumers, the opportunities for tourism have spread widely. The global economy is evolving in such a way that each of the industrialized nations has a solid, prosperous 'middle-class' core population. That in turn is being joined by significant middle-class populations in virtually every other country of the world. This middle-class is relatively well-educated and prosperous, and increasingly has discretionary money for recreation and leisure. In countries such as India or Indonesia, this middle-class 'crust' is quite thin, but its absolute numbers are large enough to offer plenty of potential tourism business. So, although many in the world are excluded from opportunities for travel and tourism, a process of 'democratization' of tourism is underway as it reaches many new consumers. Key groups for whom new tourism opportunities are emerging include the following.

#### *The young*

Younger people increasingly look upon tourism as a natural part of either their own formal and informal education, or as an interval between stages in their education. As one futurist put it, as the essentials of life become increasingly expensive – food, clothing, shelter – the amenities of life are increasingly cheap. A young person with a backpack and US $100 can go almost anywhere in the world; with a credit card and sympathetic parents there are virtually no limits.

#### *Dinkies and Twarfs*

'Dual-income-no-kids' and 'Two-workers-also-raising-families' households. The increasing number of two income households is generating more discretionary income and creating new opportunities for more travel. At the same time, the two income household has less leisure time available, making 2, 3 and 4-day trips rather than 2, 3 and 4-week excursions more attractive.

#### *People with disabilities*

With a growing emphasis on self-help and independence, the disabled increasingly expect to travel as public transportation becomes more accommodating to their needs. The tourism industry will increasingly make special provisions for them, in terms of hotels, travel and sightseeing experiences. In the USA alone there are roughly 37 million disabled persons. The recent passage of The American Disabilities Act which mandates special telephone devices for the hearing impaired and accommodation for wheelchairs on all public buses is part of a larger global trend towards empowerment for the disabled. Access to tourism experiences will grow as an indication of this empowerment for the disabled and an ageing population in general. In the USA names such as 'Flying Wheels Travel', 'Whole Person Tours' and 'Club Medic', are an indication of this trend. In future there will be more companies such as the one offering kidney dialysis patients a cruise around the world, accompanied by a clinic with a nephrologist and nurses. Such specialist services are naturally more expensive, but are likely to become more affordable as demand increases (Kurent, 1991).

### *Global urbanization*

Global urbanization is another significant demographic shift starting in the 20th century, and one that has a variety of effects for tourism providers. In 1950 there were around 600 million city dwellers. UN population fund estimates suggest that by 2030 more than 60% of the population will live in urban areas. Formerly rural countries such as India, parts of Latin America and Africa are rapidly urbanizing, throwing off-balance their farm economies and wreaking havoc

on physical and social support systems. The millennium begins with around half of all humanity residing in urban areas; UN figures suggest that they are increasingly living in 'megacities' of over 10 million people. The number of such cities has grown from two in 1960 to 17 today and is projected to reach 26 by 2015, 22 in less-developed regions and 18 in Asia.

This rapid urban influx of millions in search of work does not provide ideal conditions for tourism services and resources. Resulting increases in congestion, pollution, poverty, unemployment and crime can all have a significant impact on the demand for tourism. Relatively affluent tourists traditionally have not been taught to notice or understand the economic realities of poverty around them (as witnessed by the contents of conventional travel guides and literature). Will tourists themselves demand a better understanding of the life that lies so close to their luxury hotels and beaches? Will they wish to be educated as well as entertained? Perhaps instead they will simply try to stay away from the megacities with their 'belts of human misery' that make well-to-do visitors feel unsafe and uncomfortable.

The outflow of people from rural areas typically contributes to the stagnation of local rural economies which has the effect of increasing the pressures for tourism development to compensate. Many rural areas are seeking to integrate tourism with more traditional rural activities such as farming. Certain government policies are now providing economic incentives for citizens to move back to the countryside. Tourism will aid this redistribution by offering more travel experiences in rural and out-of-the-way places as yet untapped for their tourism potential.

### *Health and AIDS*

Despite its containment in the industrialized world, the continued spread of AIDS threatens the development of tourism in regions such as Kenya and The Gambia which contain substantial AIDS populations. Consumer fears about dangers from local blood supplies and even unfounded fears about food contamination can heighten perceived risks associated with a destination and further dampen tourism. For the industry, guest assurance of safety will become more important, as the industry continues to develop policies relating to food handling, fraternization and other conditions in the workplace for AIDS sufferers.

The longer-term consequences of the unchecked spread of AIDS could be more profound for the industry. Host nations which presently have a relatively low incidence of AIDS may become increasingly reluctant to admit travellers who are seen as likely to spread the disease among the local population. This concern has led to proposals to make AIDS testing a prerequisite for admission to certain countries. While this proposal is probably rather extreme and unrealistic, it does highlight the growing impact that health-related dimensions are having on tourism. Further discrimination against certain nationalities with high incidences of AIDS could also result.

## The Cultural Environment

The cultural environment enjoys a curious relationship with tourism and travel. The culture of a region can be part of its attraction to tourists, and there is a marked trend towards consumers showing greater interest in the culture and food of a region as opposed to the more traditional attractions of landscape and climate. Tourism products can also become part of the culture of a country. The Victorian 'Grand Tour', the honeymoon, pilgrimages to shrines such as Mecca and Lourdes, and even the traditional British seaside holiday are all cultural symbols as well as tourism products.

Tourism is also remarkable in its capacity to bring different cultures together in a way that has the potential to lower (or sometimes unfortunately reinforce) cultural barriers and prejudices. For tourism marketers, the increasing variety of countries which now contribute to the global flow of tourists requires an ability to respond to the needs of people from a wide variety of cultural backgrounds. Some major hotel and airline

companies are now investing in cultural training to familiarize their employees with the language, etiquette, body language and social systems of other cultures. The relationship between tourism and the cultural environment within which it operates can be an uncomfortable one. Although tourism offers economic benefits to the local population of a destination, there can be significant trade-offs in terms of residents' quality of life and the erosion of traditional culture and lifestyles. Tensions between permanent residents and the incoming tourist population can become intense, particularly when small resorts become engulfed during a relatively short season. The concept of 'community planning' in tourism development has arisen to try to manage the trade-offs involved and to help to close the cultural gap that can exist between visitors and residents.

### *Key cultural values*

In addition to the potential clash of cultures and interests that can occur between visitors and residents, the cultural environment presents a challenge to tourism marketers in trying to assess how cultural trends are likely to influence the nature of the demand for their products. A number of cultural trends such as an emerging belief in individualism, distrust in large companies, interest in the environment or concern about the erosion of traditional 'family values' all have the potential to present opportunities and threats to tourism destinations and marketers. Consumer demand is shifting towards more individually tailored holidays, towards more active involvement with destinations and their physical environment and towards holidays geared around the needs of families.

The dominant global trend in terms of values could be termed 'the adoption of middle-class values'. Just as income levels and lifestyles which fit the label 'middle class' are becoming increasingly widespread, so middle-class values are expanding globally, with the American middle class acting as a role model for the rest of the world. It is increasingly educated and informed, enjoying decades of relative peace and economic prosperity. These together raise expectations and promote consciousness of the good things in life. The middle class is also shifting from traditional industrial occupations which call for great physical strength and muscular activities towards an increasingly sedentary and under-exercised lifestyle. This in turn leads to a tendency to romanticize the very kind of activities that are in decline, such as hunting, fishing, outdoor crafts and skills. That romanticizing draws many people back into the natural environment to enjoy those experiences, such as the grandfather who takes his grandson and granddaughter out to experience fishing in the wild, sharing with them an activity that was much more central to the grandfather's own youth.

### *Cultural events*

Specific cultural events or cultural expression in the form of entertainment can also bring considerable opportunities for tourism. Sports events, music or film festivals, pageants or traditional ceremonies can all act as a generator of tourism business for a destination. Wily tourism organizations appreciating this fact have sought to establish new festivals and other cultural events with the aim of attracting tourists and extending the tourism season (Getz 1991), which again demonstrates the curious intertwining of the cultural environment and the tourism industry. In entertainment, when a destination is featured within a major movie, tourist business can be boosted in a way that is beyond the leverage available via conventional tourism marketing. In Australia there was much sadness at the passing of the 'Crocodile Dundee Effect' which had acted to bring so much American tourist business into Australia during the 1980s. In Oxford, the global popularity of the Inspector Morse TV series has swelled visitor numbers into an already crowded town in a way that has made coping with visitors a higher priority for marketers than attracting more of them. In using the culture of a destination to promote tourist business, caution must be exercised, particularly in the face of a global swing towards renewed interest in distinctive national and regional cultures in

many areas (possibly as a reaction to the increasing globalization of products markets). The commercialization of the cultural life of an area can act to disenfranchise or alienate residents who have a prior and stronger claim on the artefacts and expressions of their culture than that of visitors and the tourism marketers that serve their needs.

### *In search of future culture*

Cultural change can profoundly affect the prospects for any industry, and a 'futurism' industry has emerged to try to anticipate what people will find desirable, important, acceptable and fashionable in the coming years. Among the ten major cultural shifts predicted by the improbably named futurist Faith Popcorn, are '*cocooning*': a tendency for people to become more stay-at-home and risk averse, and '*fantasy adventure*': a trend towards people wanting escapist themes woven into their lives and the products they consume (Popcorn, 1992). While the former represents a serious threat to the industry, the latter presents significant opportunities for new products and forms of differentiation. This could involve a growth market for 'themed' hotel bedrooms, for 'murder mystery' weekend breaks or simply increasing business for the Disney theme parks.

Another trend identified by Popcorn is that of '*staying alive*' a desire among people to adapt their lifestyles to live longer and healthier lives, which can in turn provide tourism opportunities. The most significant trend in worldwide health care is the movement from health treatment to health promotion and prevention. The most important health promotion and wellness strategies include proper nutrition, exercise, stress reduction and the avoidance of risk factors such as excessive weight, smoking and alcohol abuse. As wellness strategies become more entrenched in affluent societies, travel experiences will increasingly be linked with stress alleviation and positive lifestyle behaviours. Already a new market for health tourism is evolving, an echo of the trips made to spa towns in an earlier era.

With increasing concern about health and security among tourists, it is essential that the tourism industry becomes proactive in collaborating with international, national and local health organizations to ensure that food and water for travellers are safe and that medical supplies and services are effective and disease free. While tourists should not necessarily expect a level of medical services which is superior to that enjoyed by local populations, they should be made aware prior to travel of the quality of medical services that can be expected should they decide to travel in a given region. Just as fears about becoming sick in a strange place can deter the tourist concerned with 'staying alive', so can the perceived risks relating to crime and accidents for potential tourism destinations. New York's attraction as a tourism destination has increased dramatically with the success of the 'zero tolerance' policing strategy, while Tokyo's unusually low crime rate has acted as an attraction for tourists. Health, security and safety are important issues in tourism marketing today, but will be even more important in the future. For tourism marketers the challenge is to work with other organizations to help to reduce problems such as crime against tourists and their possessions and injuries due to negligence by the visitor or as a result of dangerous facilities, without imposing unnecessary fears and restrictions upon visitors intent on leaving their troubles behind them.

## The Economic Environment

Economists refer to travel and tourism as luxury goods, for which demand increases more rapidly than average for the overall economy during a boom or drops more severely during recession. Disposable income levels is the economic factor seen as the most important, but other economic factors are also important. Tourism expenditure has been shown to be affected by levels of employment in service industries, and research conducted in the UK by Business Strategies Ltd showed that there was also a link between tourism expenditure and house prices. Shifts within the global economy will strongly influence the level of

tourism and travel demand, particularly within the triad of major world markets, the USA, Japan and Europe, home to the majority of the world's tourists. Tourism demand is going to be strongly related to the ability of the Japanese economy to recover from recession; the ability of America's 'Goldilocks Economy' to maintain corporate earnings growth and avoid recession; and to the success of Europe's single currency. Although these outcomes cannot be influenced by tourism marketers, long-range planning for tourism development cannot take continuing growth in demand from the USA and Japan for granted. On the supply side, recent economic difficulties in emerging markets may well increase local political pressure on destinations to develop their tourism market in search of foreign exchange earnings.

Economic shifts affect the pattern of demand as well as its overall level. During recessions consumers who previously travelled internationally may decide to spend their holidays closer to home. Short 'bargain breaks' may be substituted for the more traditional overseas trip of two or more weeks. For those travelling internationally, the choice of destination may be greatly influenced by the prevailing international exchange rate situation.

The production economics of the industry itself are highly dependent on the state of the global economy. Although, like other service industries, travel and tourism are labour intensive, they are also energy intensive, which makes them vulnerable to fluctuations in oil prices. The recent trend in oil prices has been downward, to the benefit of travel operators. In the face of environmental degradation related to fossil fuel consumption, and growing European pressure for some form of carbon tax, there may be little alternative to rising fuel costs in the longer term.

#### *Tourism and taxation*

An important economic issue which continues to occupy the minds of those in the tourism industry is taxation, since tourism contributes around 11% of all indirect taxes paid worldwide according to the World Travel and Tourism Council (WTTC). Industry representatives view the milking of tourism as a 'cash cow' as a myopic and ultimately unrewarding policy employed by host governments, and lobby groups are being established with the aim of trying to reduce the tax burden on the industry (such as WTTC's Tax Policy Centre). There have been some victories: in 1994 the 5% tax on hotel rooms in New York was repealed when the local tourist organizations showed that the US$73 million collected in taxes was more than offset by an estimated US $94.4 million in lost tourism revenue. However, at a national level the power of the exchequer within a government usually outweighs that of the minister for tourism by a considerable margin which tends to act against the reduction of the tourism tax burden.

## The Physical Environment

Environmental problems including global climate change, ozone depletion, deforestation, the extinction of species, soil erosion, desertification, acid rain, toxic wastes, water and noise pollution have moved to the top of the international agenda in recent years. These problems are all international in scope, and they also touch on all aspects of tourism. There can be few industries where the interdependence between the physical environment and economic activity is so clearly visible.

Although the relationship between tourism and the environment has been a focus of concern since the mid-1960s (Romeril, 1989), it is only in the past decade that the environment has taken centre stage and the issue of the environmental sustainability of tourism has been seriously debated. A key challenge for the 21st century is to discover how the development of sustainable tourism can contribute to the move towards a sustainable global economy, incorporating the need to combine sound economic development with the protection of natural resources; the need to analyse the trade-offs between native cultural integrity and the benefits of employment; and the need to understand the impact of rapid climatic

changes on prime vacation areas, such as coastlines.

### *Ecotourism*

Although upheavals in the business environment are generally seen as potential threats, a particular trend can also create significant new marketing opportunities. For example, increasing global concern about the physical environment is providing an opportunity in the form of a new market for 'ecotourism'. Destinations such as the Maldives, Kenya and Belize, which have taken advantage of this trend and their natural resources to target the ecotourism market, saw a doubling of their tourist trade during the 1980s (Cater, 1993; Weaver, 1998). There is some debate about what exactly constitutes ecotourism, but at present it could be described generally as 'a low impact offshoot of the adventure travel industry', which represents the best intentions of an educated and affluent middle-class to travel without despoiling the environment. However, this can be difficult to achieve in practice since the very presence of tourists, regardless of their mission to only watch wild animals, can threaten the ecology of such areas as the Antarctic.

The concepts of ecotourism and sustainable tourism are often spoken of as though they were synonymous, but this is a misconception. The sustainability of tourism relates to its impact on the environment, whereas ecotourism involves the physical environment acting as the central focus of the product offering, in a way that appeals to consumers' environmental interests and concerns. Although ecotourism ventures might be expected to take a lead in striving towards sustainable tourism, this is a journey that the entire industry must make.

### *Policy implications*

The concepts of strategic management stress the importance of achieving and maintaining an appropriate 'fit' between an organization and its environment. The tourism industry is one that has been, until recently, developed very explicitly following the concept of 'exploiting' local environmental resources. In the majority of popular destinations, tensions have emerged on issues like land use for tourism developments or the impact on residents' quality of life. More specific issues can emerge in relation to local environmental conditions, such as competition for scarce water between tourism and other needs in arid countries. In the new millennium, concerns about sustaining the physical environment will force the industry to work in closer harmony with local environments and communities. On the one hand, a new generation of environmentally aware and educated travellers are actively seeking an 'unspoilt' environment as a holiday destination; on the other, local governments are trying to respond to the pursuit of sustainability under Local Agenda 21. For destinations and the industry it will be necessary in future to develop policies which pursue a more balanced relationship between tourism and the environment (Middleton and Hawkins, 1998).

The policy issues that will arise from trying to seek a better balance are numerous (for example see Pigram, 1990) and will include the following:

1. A need to recognize that the natural environment is the core tourism product. As a consequence, the industry must be proactive in collaborating with environmental and other organizations in bringing about the preservation and restoration of 'quality environments' in local and national settings that are both natural and man-made.
2. Environmental concerns must be incorporated at all levels of tourism planning and development. Achievement of this goal would involve:
   - multi-regional coordination of tourism development;
   - community impact assessments prior to development;
   - public/private partnerships in tourism planning and development;
   - taxation policy which favours environmentally sensitive tourism development;

- research and development to better understand and support appropriate tourism development;
- efforts on the part of individual and private companies to develop tourism in an environmentally responsible manner;
- broader support from the cultural/environmental communities for tourism facility and product development.

3. There will need to be more and better environmental impact assessments for both existing and proposed tourism developments.
4. Tourism planning and development will need to involve wider consultation and community involvement to achieve a better balance of economic, social and environmental needs.
5. Better linkages need to be forged at all levels between tourism policy, natural resource policy and policies relating to social and cultural development.
6. Those tourism facilities (most notably parks and reserves) that are facing increasing visitor pressure must develop the appropriate infrastructure to manage the visitors and minimize their impact. Only in this way can they avoid deterioration while generating the necessary revenues and employment.
7. Comprehensive methods and research approaches must be developed to establish and monitor the environmental carrying capacity of various types of destinations.
8. Economic communities, regions and countries must recognize and introduce tourism as a vital component of coordinated land use and regional planning.
9. There must be international programmes to encourage better management and protection of the national parks within developing countries.
10. Environmental preservation and improvement needs to become a key focus for research and development expenditure among governments. At present research money is being channelled towards researching the problems rather than developing solutions.

In summary, it is acknowledged that as global, national and local political restructuring continue, policymakers must recognize that the economic, social, cultural and environmental significance of tourism is growing. Accordingly, they must see that tourism is incorporated into the planning and decision-making process in the public and private sector at all levels (Pearce, 1992).

New knowledge, especially ecological knowledge, will shape tourism. More sophisticated monitoring of actual environmental and biological conditions and better understanding of naturally occurring cycles of drought and flooding, animal and plant populations, and fire and regrowth within ecosystems may lead to more dynamic management of tourism. Two current crude examples of this are the postings of warnings or closing of areas during high fire risk times, or during outbreaks of diseases such as plague or a rabies epidemic. In some areas environmental managers may emphasize letting natural cycles take their course, and regulate the amount and nature of tourism according to the current conditions. For the holiday-maker, this may mean less reliable vacation planning, and a greater need for alternative plans.

The future of the physical environment and of the environmental agenda will pose a number of challenges for the tourism marketer:

- *Climate change*. Climatic conditions globally appear to be becoming less stable, with increased incidence of temperature extremes, drought periods and storm activity in a wide variety of countries. Although this poses potential long-term problems for destinations used to marketing themselves on the benevolence and reliability of their climate, at least the increasing accuracy of weather prediction technology will allow destinations to become more weather sensitive, and provide opportunities for visitor itineraries to be planned around the weather.

- *Energy policy*. Tourism activities will be acknowledged as being inextricably linked to any area's energy consumption. In the next decade a part of good tourism policy will be good energy policy, namely a commitment to greatly increased energy efficiency, a systematic exploration of long-term supply options like photovoltaics and solar hydrogen power and an encouragement of lean transitional technologies (Kurent, 1991).
- *Health and safety*. Changes to the physical environment can lead to dangers to tourists which change consumer perceptions of particular destinations or forms of holiday. Blue-green algae or plagues of jellyfish in the Mediterranean might deter lovers of the conventional beach holiday; in Australia the increased levels of ultraviolet radiation caused by ozone depletion make lying on the beach considerably more hazardous than before; and high levels of air pollution might deter tourists from trying to walk around cities like Los Angeles, Tokyo or Mexico City.
- *Rural development*. Tourism is one of the few growth industries in many rural areas, and although tourism is generally seen as one of the more acceptable forms of development for rural land, there can be conflicts between tourism interests and those seeking to preserve rural traditions and land use patterns.

It is worth noting that although it is the negative impacts of tourism and tourists on destination environment which typically capture the headlines, tourism development can also bring environmental improvements (Haulot, 1985) including conservation initiatives, funding for environmental improvements and the reclamation of derelict sites (Weston, 1997).

## The Technical Environment

For most service industries, the impact of new technology has been less profound than for the manufacturing sector. Tourism, like the financial services sector, is an exception to this rule, and the delivery and management of tourism and travel services in the future will be heavily influenced by developments in the technical environment, and by the evolution of information technology in particular. Tourism is also unusual for a service industry in the degree to which it involves 'hard' technologies in order to provide the travel and hospitality elements of the service. Whether riding through the Channel Tunnel, being thrilled on Space Mountain, or relaxing in an air-conditioned hotel room watching satellite TV, the typical tourist requires a good deal of technology to provide the 'intangible' benefits of travel.

The rate of technological innovation seems, at times, almost overwhelming, and tourism is not exempt from its effects. In developed countries in particular technology is seen as a tool to greatly enhance performance and effectiveness. Computer reservations systems, video technology, and air transport and traffic technology have been particularly significant in improving the ability of the travel industry to make new travel experiences available to a mass audience and to do so at prices which are affordable for much of the population.

### *Information technology*

With the transition towards the 'Information Society', information technology (IT) promises to have an ever more profound influence on tourism (Sheldon, 1997; O'Connor, 1999) . IT is playing an increasingly important part in the planning and management of tourism operations, in supporting service delivery and is increasingly visible in all aspects of the marketing mix. Tourism is still characterized by a vast number of small businesses on the supply side, but now the power of the typical PC can place considerable information processing power in the hands of the smallest provider.

The emergence of computerized reservation systems (CRS) was perhaps the most revolutionary change to affect the travel industry during the 1980s. These systems originated as internally oriented systems designed to automate clerical functions, and became powerful consumer-oriented mar-

keting tools. The obvious impacts of such systems are in the reduction in time and paperwork required to purchase tourism services and in the choice that 'one-stop' systems such as American Airlines APOLLO and United Airlines SABRE offer. The impact of CRS has gone beyond shaping the strategies and service delivery of individual players, to change the very structure of the industry in several ways.

*Loss of control*

The providers of hospitality services are beginning to fear the loss of control of their capacity to mega-reservation/distribution organizations. For example, it is said that the largest corporations in the world, through their corporate travel managers, have significant influence over as much as 40–50% of a particular hotel company's rooms capacity and with sophisticated CRS, the decisions about where to stay and how much to pay are increasingly being handled by the technology of the purchaser rather than that of the provider.

*Supplier rationalization*

Just as electronic point of sale systems have tipped the balance of power away from manufacturers and towards producers in the grocery market, so CRS systems have increased the power of purchasers by making them better informed and better able to switch between or consolidate suppliers. For example, the corporate travel manager of one global electronics firm recently made the decision to reduce the number of travel agents that the firm uses in the USA from 430 down to two or three. Worldwide the company used over 1700 agents, and aims to reduce the number down to a manageable few. This suggests that travel policy will be more controlled and facilitated by technology and that providers will be more subject to the demand of these large travel purchasers. If in fact large firms do control as much as 50% of any hotel company's room nights then it is likely that these hotel firms will react to the demands of the travel purchaser to the exclusion of the travel needs of the non-corporate traveller. This suggests a stronger differentiation between the business and leisure traveller than exists today.

*Smart customers*

Information technology, particularly the Internet, is helping to allow customers to bypass the 'travel trade' and arrange customized packages by direct contact with suppliers.

The roots of the World Wide Web are in the academic, scientific and military communities, and yet the impact it has come to have on the tourism industry is immense. Travel booking sites such as Sabre's Travelocity, Microsoft's Expedia, Preview Travel, and Internet Travel Network allow users to check air fares, arrange car rentals, book hotels, and even purchase complete vacation packages online. A survey by the Travel Industry Association of America reported that 33.8 million American travellers used online resources for planning trips in 1998, up from 11.7 million in 1997.

*New alliances*

Communications technology will encourage the formation of strategic alliances among all segments of the travel industry. It will be increasingly important for airlines, hotels, surface transport providers, restaurants and communication firms to stay linked via reservation systems, in order to provide the quality of service demanded by the increasingly sophisticated and demanding traveller. As the technology continues to improve to facilitate these alliances it can be expected that those firms which have invested in the development of this technology will emerge as the players in the most successful alliances and thus are likely to become the most profitable. This type of investment has not been characteristic of the hospitality industry (see also Poon, 1993).

*New risks*

The increasing information intensity and computerization of the travel and tourism industry brings with it new vulnerabilities, as concern about the 'Millennium Bug' on travel-related information systems has shown.

### *Information technology and the marketing mix*

Although it is CRS that has dominated the industry's thinking in relation to technology, the application of technology is revolutionizing elements of tourism services and service delivery mechanisms far removed from the booking process. All elements of the marketing mix are being affected (see Kotler *et al.*, 1996).

#### *Product*

In the information age, information is increasingly becoming a part of the content of products generally. In the case of tourism, information in many formats (brochures, videos, timetables, guide books, itineraries) is increasingly being bundled with the travel experience, and is being used as a basis to distinguish one set of travel services from another. These information by-products will probably become independent products sold to other travel companies (Kurent, 1991). Tailor-made audio-video packages will accompany tourists as they explore the natural environment and explain in detail what can be seen, while increasingly sophisticated electronic translation systems will help tourists to vault language barriers. The 'smart' hotel room with complete communications capability (including information and booking services built into the in-room TV), airline seats with built in TV monitors and computer facilities and high speed transportation systems, are all continuing to develop and evolve as a result of technological advances.

#### *Price*

The pricing of rooms is fast becoming the function of a mathematical model which is designed to maximize revenue in the face of varying demand. The technology that has emerged recently to improve decision-making has been the application of yield management thinking to the pricing of hotel rooms. While this decision support technology is designed to maximize revenues against variable demand schedules it has not yet reached its full potential. This is partly so because it is unable to take into account the buying power emerging among the large corporate and distributor purchasers. Nevertheless, this type of technological application to decision-making will continue to develop because competitive pressures will require it. The availability of information over the Internet is also allowing travellers to become better informed about prices, and more able to act as 'price-takers'. Sites such as www.bestfare.com offer highly discounted consolidator fares from bulk resellers. Some airlines will even email prospective customers details of last-minute bargain fares to the destinations they specify.

#### *Place*

Many tourism organizations are using a greater variety of marketing channels than ever before. In today's competitive environment is not enough to rely on central reservation systems and internal sales force efforts. The importance of distribution networks in tourism marketing is increasing with the increasingly global and competitive nature of the market, the 'perishability' of the product and the computerization of market exchanges. Consumer access to travel databases via the Internet and other public access networks allows them to research and book their own travel, which presents a clear and immediate threat to travel intermediaries. For intermediaries within travel markets, the increasing information intensity of the industry means that they must master and embrace all aspects of information technology and seek new ways to add value and provide additional service components.

#### *Promotion*

In the near future, computers can be expected to have ultra-high resolution screens, 3-D graphics, high-level interactivity and artificial intelligence. These new technologies will be a tremendous boon to the travel agent. Destination sites can be experienced through video simulations and a range of hypermedia databases can be used to individually tailor a trip to the needs of the

consumer. This technology could eventually eliminate some of the functions of the travel agent as the personal computer takes over. CD-ROM technology is already capable of creating electronic catalogues to replace the traditional marketing mainstay of the industry, the brochure. Such electronic brochures could use sound and video clips to demonstrate the attractions of a resort or hotel, while also answering queries on price structures or travel options at the touch of a button. In the USA, the National Conference of Mayors has created a database of city attractions linked into CompuServe and to the SABRE and APOLLO CRS.

### *Travel technology*

The transportation and hospitality elements of tourism require the application of hard technology which varies from the ancient and traditional to the state-of-the-art. Technological advances in transportation will continue to affect the hospitality industry, and will continue to make worldwide travel easier and hopefully more comfortable for the traveller. For example, the technology is already available to transport 1000 passengers in a supersonic aeroplane from New York to Tokyo in under 2 h (unfortunately, no airports are under construction to service this type of aircraft and its volume). High speed trains travelling in excess of 480 km $h^{-1}$ are likely to become the preferred alternative to air travel in the face of increasing airport congestion, delays and inconvenience. Such 'world shrinking' technology will reduce the psychological distance of 'long haul' destinations and may dramatically alter the pattern of tourist flows. Automobiles will still be the principal means for most domestic travel, but they will become highly computerized and fuel-efficient. Cruise ships will continue to offer even more amenities to the traveller. Air taxis are also forecast to become a popular means of transporting visitors from airports to their destinations, bypassing the urban chaos in between.

### *Technology as a substitute*

The predicted impacts of the personal computer on society seem to have no limits, and they include the potential for technology to begin to operate as a substitute for tourism by allowing people to 'travel' and experience virtual holiday destinations using their PC. As PC and television technology evolve and become increasingly intertwined then people can 'transport themselves' using interactive digital TV, 'sensavision' or computer simulations. In practice the advent of this technology may not create the expected substitutions. Just as the advent of television and video have acted to stimulate rather than satiate people's desire to 'see' other places, virtual reality tourism is likely to stimulate people's desire to visit places in actual reality. It is therefore more likely to be used as a marketing tool within the travel industry rather than as a serious substitute. Teleconferencing has made some impact as a substitute for travel relating to routine business contacts and for connecting disparate parties that cannot be physically brought together. However, because the prevailing business culture stresses the importance of interpersonal relationships and of socialization with strategically important business contacts, it is unlikely to result in substantial substitution within business travel.

### *Managing technology*

The information revolution already has had a great effect on the tourism industry. However, automated ticket vendors, satellite ticket printers, and on-line services such as PRODIGY are only the beginning. Computers will continue to develop in terms of processing power, communications facilities, user friendliness, computability and cost effectiveness. Even familiar technologies such as the telephone will re-evolve to become 'end-to-end digital', capable of carrying text, data, graphics, pictures and full-motion video as well as voice. Speaker-independent speech recognition systems will recognize 5000 to 15,000 words of continuous speech to allow easy, multi-lingual access to the wonderful world of new technology.

As new technologies continue to evolve, concern must be given to whether or not the infrastructure supporting them (or the user

purchasing them), is keeping up with these advances. At present evidence seems to suggest that technological progress is outstripping the ability of the purchaser/user to adapt, or of the infrastructure to cope. Much of the future structure of the hospitality industry will depend upon how technology will merge with the skills and demand of the user and the infrastructure to support this demand. The industry should be most concerned with bringing these forces together at the right time. However, this is more easily said than done since forecasting which technologies will become successfully commercialized, when, and with what effects, is very difficult. Shafer (1987) noted that, despite the quickening pace of technological change within the industry, 'other technological phenomena are occurring outside the scope of the tourism profession that eventually may have even more profound impacts on tourism in the 21st century'.

There are those who look to oppose the application of new technology into labour intensive service industries such as tourism on the basis that jobs will be destroyed. While some argue that the increased use of capital/technology will require highly skilled labour, others argue that computer technology may, in fact, increase demand for a 'de-skilled' labour force. Similarly, there are concerns that inappropriate technologies introduced into developing countries only serves to worsen the well-being of workers. Sophisticated technology often requires the importation of trained operators, thus displacing untrained local workers. Furthermore, it is suspected that the increasing role of technology is having a negative influence on the balance of power in the world in that it favours those with economic and technological strength, thus further worsening the global imbalance.

Despite fears about the future consequences, technology is a reality that needs to be managed. The real question becomes one of what technology should, rather than could, contribute to tourism development and how this can best be achieved. The positive aspects of technology (such as the development of cleaner fuels for environmentally less damaging travel) must be harnessed if tourism is to develop on a sustainable basis. Conversely, the potentially harmful impacts of technology must be understood and managed so that their introduction can balance economic efficiency and negative social impacts.

## The International Environment

All industries that span international boundaries are concerned with international relations. As the most international of all industries, the relationship between different countries around the entire globe is of great concern to those in travel and tourism. International tensions between governments can deter tourists from venturing to particular destinations and can create barriers to travel, in the form of visa restrictions, for example. Watching for developments in international relations is second nature for those within the tourism industry, and recent years have witnessed some extraordinary changes within Eastern Europe, the former Soviet Union and the Middle East.

For many years tourism opportunities across Europe as a whole were restricted by the Cold War, but its thawing has stimulated many new market opportunities. There is already a pent-up demand for tourism to many parts of Eastern Europe and the former Soviet Union and that demand is likely to continue over the next several years. But, what is just as important is the tremendous potential for two-way tourism, East and West, although this may remain unrealized until economic and political stability improve. In the EU and the USA there are many people with roots in Eastern Europe, who may find it appealing to engage in tourism which rediscovers the lands of their ancestors. These are exciting opportunities and the tourism industry needs to grasp the importance of such changes.

The last decade has witnessed many changes in international relations which have tended to promote tourism, as countries have come together either driven by

political will (as in the formation of the Single European Market) or by economic forces (as in the evolution of the Pacific Rim market). International cooperation is an increasingly important aspect of tourism development. Sometimes this comes in the form of reciprocal marketing alliances between countries, in other cases it is part of the pattern of international aid and development support, exemplified by the EU's support for tourism development in Africa, the Caribbean and the Pacific. Where conflict replaces cooperation, tourism operators can be the first to suffer. The 1990s witnessed a remarkable number of twists and turns in the relations between countries. The return of Hong Kong to China in 1997; the disintegration of the former Yugoslav nations and their European neighbours; conflict in the Gulf states; and the effect on relations between France and the Pacific nations of the renewed French nuclear testing are all issues of international diplomacy which affected tourism. For countries embroiled in conflicts and tensions there is the danger of rapidly losing business, which will be gratefully accepted by other countries.

## The Communications and Infrastructural Environment

Tourism providers are typically very dependent on an existing infrastructure to handle travel, hospitality and communication. Although tourism is viewed as an intangible service business, the investment in infrastructure needed to support many tourism products would dwarf the capital expenditure of all but the most global manufacturers.

### *Transport*

Although travel and tourism are services, the importance of physical distribution within the industry makes it much more akin to those involving physical products. The requirement to move people around the world, and within their destination areas, quickly, punctually and comfortably requires considerable support in terms of infrastructure. Infrastructure to serve all major forms of transport continues to expand with the network of cities and towns served by air travel, and high speed road and rail links. Infrastructure development generally tends to lag behind the expansion of tourism and travel, which can lead to bottlenecks and overloads. With respect to air travel, congestion in the skies and on the ground already exists and is increasing. While the popularity of air travel has skyrocketed, the growth of the world's airports has, by comparison, proceeded very slowly. There need to be effective tourism policies now to reduce this congestion if air travel is to signify a bright future for tourism.

### *Accommodation*

Once people have arrived at their destination, they need to be accommodated, and there are few factors that can deter future tourists as easily as stories of unavailable, half-finished or inadequate accommodation. For many destination areas the availability of hotel rooms has been a crucial factor in constraining tourism growth. The growth of tourism in India during the 1990s was hampered by an initial shortage of suitable accommodation. In 1993 the country only had 798 officially listed hotels with 47,400 rooms with which to accommodate an estimated 1.8 million incoming tourists.

### *Facilities/attractions*

'Attractions' and other specific facilities also play a key role in determining travel and tourism purchasing decisions, and many regions are recognizing the importance of such infrastructural developments in the local economy. In England some 400 new attractions were established between 1990 and 1995. Judd (1995) describes how a fierce war for tourist business among American cities sparked the construction of 250 conference centres, sports arenas, community centres and performing arts venues at a cost of over US$10 billion between 1976 and 1986. See also US Travel Data Center (1995).

## The Administrative and Institutional Environment

For any form of business the environment will contain a wide range of institutions which can influence the operation and development of their business. For tourism the number of institutions with an interest in, and potential influence on, the industry is vast, and includes:

- *Trade unions*. Within the tourism industry, trade unions have not had a great deal of influence in relation to hospitality where wage rates, skill levels and union bargaining power are typically low; but they have exerted considerable influence on the transport services which tourism depends on. Strikes among airline or airport staff at peak holiday times have been a common occurrence over the last 20 years, with certain actions such as the Australian airline pilots' strike having a profound effect.
- *Academic institutions*. As an academic discipline, tourism is relatively young, but already the work of academics is influencing the decision-making processes within tourism covering issues of planning, service delivery and marketing.
- *Local government*. Although national governments take considerable interest in tourism as a contributor to the economy, the onus for the promotion, control and management of tourism development is frequently devolved to local government level. Local government administrators have the particularly difficult task of trying to attract tourists into their region in pursuit of the economic benefits that they bring, while protecting the quality of life of the local population that elected them (Hall and Jenkins, 1996).
- *National Tourism Organizations* (NTOs). Although there are some very large players within the airline, tour operator or hotel chain sectors of the industry, tourism is a complex and fragmented industry. For this reason issues of planning, research and promotion for specific destinations are typically handled by NTOs at a national level, and often by similar smaller-scale agencies at a local and regional level.
- *Consumer groups*. Travel is a major item of expenditure for many households, and it also offers almost unprecedented opportunities for the creation of consumer dissatisfaction. A holiday-maker is by definition, a long way from home, and is therefore deprived of all the comforts and support networks that 'home' entails. This tends to make problems with a holiday product become very serious for the consumer involved, since they cannot easily be escaped and can render a major investment something to be endured instead of enjoyed. For this reason, groups such as the Consumers' Association have taken an increasing interest in tourism and travel products, and there are now numerous published guides and television programmes which provide consumers with information to assist their purchasing decisions.
- *Special interest groups*. The size of the tourism and travel industry means that it attracts the attention of an enormous number of special interest groups. Other types of group will try to influence the tourism industry on an issue-by-issue basis, and will include groups relating to the environment, rights for specific sections of the population, cultural heritage and local businesses.
- *Law enforcement agencies*. The potential for tourists to become targets for criminal activities, combined with a desire among tourist operators and agencies to prevent crime levels acting as a deterrent to tourists, has tended to bring tourism operators and law enforcement agencies closer together. In Florida, concern about the impact of crime on tourism business led to the formation of the Central Florida Hotel/Motel Security Association to promote cooperation between the industry and the law enforcement agencies.
- *Organized religion*. Although the influ-

ence of organized religion has lessened in the majority of developed countries, it continues to be an important socio-cultural influence and one that is growing in many developing countries and within societies based on Muslim principles. Policies and pronouncements that encourage pilgrimage or which designate places as sacred can stimulate tourism, but religion can also react against the influence of tourism in an area where it is perceived to be threatening.

## The Legal and Political Environment

The political shift to market-driven economies is bringing about a global economic restructuring in which market forces rather than ideology are used to guide decisions and develop policy. Recently, entire political systems have undergone dramatic changes in response to the pressure from their populations to provide the goods and services which they desire rather than those which are determined by the state. As the political tide ebbs and flows in different parts of the world, the tourism industry can do little but respond to the changes as best it can. Often it is political instability that attracts the headlines, and in the tragedy that has been enacted in what was once Yugoslavia, the decimation of a booming tourism trade was only one entry in a long list of casualties. Other happier stories have brought opportunities and a growth in tourism to areas such as South Africa, Berlin and Northern Ireland.

Although history warns that we must anticipate swings and counter-swings over time, it is probable that the next decade will see a continuation of the increasing role of market forces in determining the shape of world economic activity in general, and tourism in particular. While policy-makers in tourism cannot do much to affect this trend, there are two areas for policy action, namely:

- the need to encourage efforts to establish public/private partnerships which will ensure tourism development which is economically viable yet socially responsible; and
- the need to encourage responsible and responsive research and development to support these partnerships.

### *Changes to subsidies and regulations*

The trend towards market economies and shrinking government budgets is creating strong pressures for privatization and deregulation of tourism facilities and services. While the decade of the 1970s saw governments become increasingly involved in many areas of social and economic development, the realities of the 1990s are forcing a drastic retrenchment of government activity. The reality is that governments in many countries have simply found they are unable to support the many programmes and initiatives that were put in place in earlier years (Inskeep, 1994).

Tourism is only one economic sector facing reductions in government subsidies, in levels of regulation and a transfer of management responsibility into the private sector. One of the first indications of this was the process of liberalization and deregulation of airline and commercial transportation, first in the United States, and increasingly on a worldwide basis. The key effects are:

- Government subsidies to support tourism development are declining. Increasingly fees are being imposed for the use of tourism facilities and services that were previously 'free'.
- Government investment in tourism facility development is also declining with increasing pressures for privatization of all forms of tourism development. This trend is causing a marked change in the structure of investment portfolios in tourism-related projects.
- The trend to government decentralization of its structures and programmes is pushing responsibility for tourism planning and development to the regional and local level.

Policy-makers in tourism can no longer

count on government support for tourism development as a form of social development or as a mechanism for the redistribution of income and employment. Tourism facilities and supporting services will increasingly have to be competitive in the marketplace and economically viable to survive in the 21st century.

### *Government attitudes to tourism*

Despite recent progress, recognition by governments of the tourism industry and its importance to social and economic development and well-being of regions is still far from satisfactory. During the 1980s, tourism made substantial progress in gaining this recognition. Despite this, tourism is still viewed in many quarters as a marginal industry, largely due to the fact that its impacts are poorly documented and poorly understood.

As such, there is a need for further effort to develop industry support for an integrated tourism lobby. In a related vein, there is a need to focus the attention of public international organizations on issues of significance to the tourism industry. Only in this way will governments acknowledge tourism as a foreign policy issue as well as a domestic one. This in turn should strengthen efforts to stimulate governments and internal lending institutions to increase the flow of resources to projects in various sectors of tourism. Similarly, greater recognition would stimulate governments to consider tourism needs in the course of public infrastructure development. It would also encourage the direct allocation of a portion of tourism taxes and fees to be used for tourism promotion, destination development and infrastructure development.

In the future, the tourism industry will probably become more involved in collaborative relationships with governments to lessen the problems that plague overpopulated urban areas. By encouraging innovations in urbanization that strengthen the infrastructure of megacities – such as the recycling of waste, new and cheaper housing materials and alternative energy sources – the industry will in turn preserve its own tourist markets.

### *The march of democracy*

Events in South Africa, Eastern Europe and Asia during the 1990s have shown that, whatever the faults of existing democratic systems, democracy is an environmental force for change which often proves irresistible. As dissatisfaction with current governing systems and process in undemocratic countries increases, so a new framework for tourism will be required. As a population becomes more educated and more informed, pressure typically grows for a form of government which is more directly responsive to the population's wishes, and there is potential for a backlash against economic developments and wealth distribution policies which have been put in place without representation by those being affected.

In areas where this trend becomes established, it will have significant impacts on tourism policy. There will be a need for:

- tourism planning and development to more accurately reflect the wishes of local populations;
- a fuller accounting of tourism costs and benefits;
- an expanded concept of tourism policy in which tourism development is more thoroughly integrated with the overall economic and social policy of a country or region;
- a longer-term approach to tourism planning and development.

In some regions the existing political philosophy and process will make a country virtually closed to tourists as has been the case with Afganistan, and also, until recently, Myanmar (Burma). However, elsewhere countries like Albania are now opening up for tourists, and tourism commentators were surprised to see that Cuba has become one of the fastest growing tourist destinations.

### *Political instability*

Political instability and conflict between and within countries will always have a devastating effect on the tourist trade. Those in the tourism and travel industry must

always be in touch with the political risks that exist across the world, but in recent years this has become more difficult than ever. As governments continue to reinvent themselves all over Eastern Europe, the former Soviet Union and other parts of the world, the tourism industry will face great challenges. On the one hand, democratization brings tremendous opportunities for growth. On the other, increasing gaps between the rich and the poor and the volatility of post-Cold War political alliances may put tourism policy-makers in the business of serious risk analysis. Strategic planners will need to become more adept at 'mapping' zones of instability based on population and poverty projections, and at assessing other indicators of vulnerability that influence the levels of risk associated with tourism investments.

The size and international scope of the tourism industry has unfortunately made it, and the tourists within it, potential targets for politically motivated acts of terrorism. Recent episodes of fundamentalist violence directed against tourists in Egypt and Kashmir have caused these destinations to be re-evaluated by governments, tourism providers and consumers alike. Acts of terrorism, riots and political aggression are felt immediately with declining arrivals and lower hotel occupancy. These realities have led to a heightened need to protect tourists from terrorists and other forms of political instability. Recognizing that the tourism industry can only thrive in a peaceful world, it is essential that it takes a proactive role in collaborating with other organizations in promoting international understanding and goodwill at all levels.

## Conclusions: Managing in an Uncertain Environment

Changes in the external business environment in the new millennium look certain to be largely what management academics describe as 'discontinuous change', characterized by surprises and departures from past developments and trends. Although tourism's relationship with its environment might seem to concern how tourism managers can cope with the increasing rate of environmental change, it is worth remembering that tourism is also a major and increasing agent of change for the environment (Mathieson, 1996).

An industry faced with turbulent environments cannot cope simply by relying on the accumulated experience of those within it, or on conventional formal strategic planning processes to develop strategies which can cope. In the future, strategies based on prediction and predetermined planning will have to give way to strategies which emphasize preparation, detection of environmental change, flexibility and responsiveness. The ability of managers to understand the cross-impacts of external change will also be important. Analysing the environment by using SCEPTICAL analysis, or any similar framework, brings with it the danger that specific external changes will be classified under only one heading so that their relevance to other issues is underestimated. For example the increased concern about the physical environment which has emerged over the last 10 years is a sociocultural change, but one that relates back to changes in the physical environment. Environmental concern is leading to a variety of other types of change in politics, in consumer behaviour, and to the adoption of laws which are significant to many companies and which have the potential to affect international relations (Germany's domestic environmental legislation for example has been criticized as an 'invisible' trade barrier in other countries). Additionally, a range of institutions from local government to industry trade associations are becoming involved in the effort to improve the physical environment, and money is being invested to create new 'clean' technologies. Any attempt to understand the implications of environmental concern by considering it solely under a heading marked 'social issues' or 'political issues' is doomed to failure.

A key problem for those within the tourism and travel industry is that there is little they can do to prevent wars, ecosystem degradation, economic recession or a host of

other potential external threats. This is not to say that all threats cannot be dealt with proactively. The sheer size of the industry gives it enormous potential power which could be wielded to further lobbying campaigns, investment programmes and education initiatives. For the moment the fragmented nature of the industry, and its own preoccupation with cut-throat, price-based competition has prevented it from looking further outward and proactively influencing events compared with other major industries such as oil and agriculture. Gradually governments are waking up to the importance of tourism, not just as a foreign exchange cash cow, but as a strategic investment for the future, and this gives the industry increasing opportunities to influence that future. In the meantime, however, Hawkins (1993) is likely to be correct in asserting that 'Crisis marketing is now an essential ingredient for travel marketing professionals. Contingency planning, forecasting, and creative responses to rapidly changing world conditions are now essential ingredients of success in the tourism industry.'

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# Part Two

## Tourism Marketing Management

# 3

# Consumer Behaviour

**L. Moutinho**

## Introduction

Consumer behaviour refers to the process of acquiring and organizing information in the direction of a purchase decision and of using and evaluating products and services. This process encompasses the stages of searching for, purchasing, using, evaluation and disposing of products and services. The tourist buying decision presents some unique aspects: it is an investment with no tangible rate of return, and the purchase is often prepared and planned through savings made over a considerable period of time. That is, the vacation tourist will invest with no expectation of material and economic return on his or her purchase of an intangible satisfaction.

As travellers become more sophisticated in their vacationing behaviour, research must continue to become more sophisticated to explain this behaviour. There are many factors that influence an individual's behaviour. To take adequate actions in the area of tourism marketing, one must understand how people perceive such things as destination areas, air travel, travel distances and travel advertising; how they learn to consume and to travel; how they make travel decisions; and how personality affects those decisions. One must also analyse what motivations influence the individuals' travel decisions; how attitudes are formed; and how various groups affect travel behaviour.

Considering factors of a broader nature, the tourism marketing context requires an appraisal of the effect of economic and social changes, generating factors that will increase certain types of leisure activities and decrease others. The rise in the cost of energy, the trend to smaller family units and to live in smaller spaces, the improvement of forms of communication and the access of more people to higher education, are examples of general and diverse factors that have to be taken into account for an assessment of the trend in tourism, in relation to regional, national or foreign markets.

Travel decisions, therefore, are very much affected by forces outside the individual, including the influences of other people. The forces that other people exert are called social influences. As Fig. 3.1 shows, these social influences can be grouped into four major areas: (i) role and family influences; (ii) reference groups; (iii) social classes; and (iv) culture and subculture.

The analysis of consumer behaviour requires the consideration of various processes internal and external to the individual (see Engel *et al.*, 1995). Hence, to understand the purchasing behaviour one needs to examine the complex interaction of many elements, present at different stages, from arousal to decision, as well as from purchase to post-purchase experiences. Figure 3.2 shows the interaction of elements that are involved in consumer behaviour.

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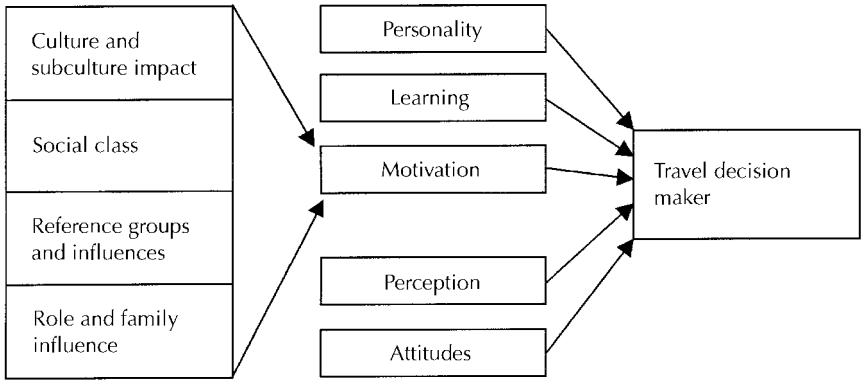


**Fig. 3.1.** Major influences on individual travel behaviour.

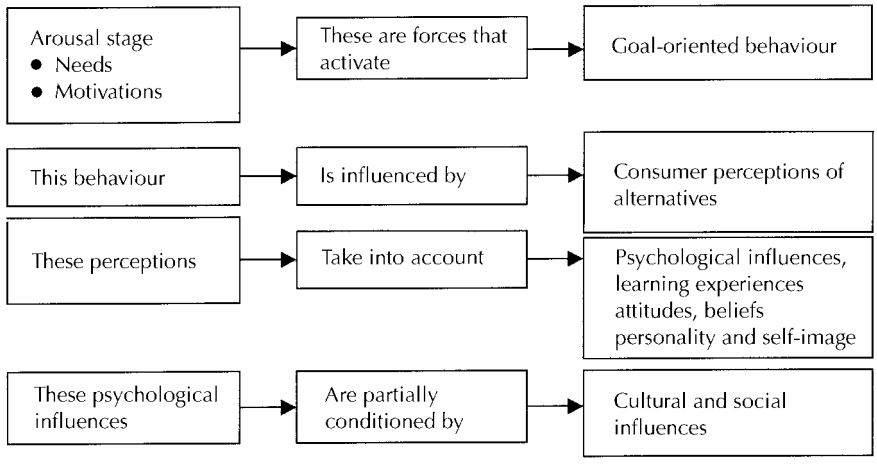


**Fig. 3.2.** Interaction of elements in the psychological field of the consumer that influence behaviour.

In the consideration of all these processes, this chapter will first deal with determinants of a broader nature, the cultural and reference group influences. Next, concepts concerning the individual and his or her relationship with the environment will be presented with a focus on: personality factors and self-concept; motivation; perception and cognition; and attitude and intention. Then other important determinants of tourist decision-making: perceived risk and the family decision process, will be discussed. This previous set of concepts will permit an integrated analysis of the decision-making process. The final section will present an illustration of tourist behaviour modelling.

## Cultural Influences and Reference Groups

### *Cultural influences*

*Culture* is the complex abstract and material elements created by a society. It refers to values, ideas, attitudes and meaningful symbols, as well as artefacts elaborated in a society. Those elements are transmitted

from one generation to another and serve to shape human behaviour, implying explicit or implicit patterns of and for behaviour. The concept of culture is broad and it is not easy to analyse the culture determination of behaviours. Its influences is natural and subtle, and often the individuals are neither conscious nor aware of it. The multiple cultural factors taken together will characterize a given society, such as its language, religion, technology, etc. In the context of consumer behaviour, one can regard culture as the total of learned beliefs, values and customs, including the material elements, which serve to regulate the consumption patterns of members of a particular society.

A form of investigation of this broad factor is cross-cultural analysis, consisting of a systematic comparison of similarities and differences in the material and behavioural aspects of cultures. These analyses may be statistical, when describing the structure of the culture, or functional, when dealing with factors determining behaviours and activities in different cultures.

Within a society, an important broad factor influencing consumer behaviour is *social class*. This constitutes a relatively permanent division of categories in a society, a division that brings about some restrictions of behaviour between individuals in different classes; individuals in a given social class share similar values, lifestyles, and behaviour standards. However it must be emphasized that there are many ways of establishing such a classification. Researchers may use different categorizations, resulting in three, four, five, six social classes, and so forth. Social classes tend to be hierarchical but they may be dynamic. It is very likely that members of a social class will follow the standards of behaviour of that class; nevertheless, individuals may vary in the degree of congruence as to their class insertion.

The behaviour patterns of an individual are related to the beliefs and values that were incorporated. *Beliefs* constitute a person's particular knowledge and assessment of something (another person, a store, a product, a place, etc.), and are often expressed as mental or verbal statements (i.e. 'I believe that . . .'). *Values* may have the characteristics of beliefs but they are not directed towards a specific object: they serve as standards for appropriate behaviour; and they are widely accepted by the members of a social group. Stemming from the fact that there are values specific to a social group, some standards of behaviour are established and members are expected to conform to them. These are norms and they consist of concepts or generalizations which guide behaviour.

### *Reference groups*

People turn to particular *groups* for their standards of judgement. Any person or group – real or imaginary – that serves as a point of reference for an individual is said to stand as a reference group. It exerts a key influence on the individual's beliefs, attitudes and choices.

The family is a very important reference group in a particular culture. Different values and expectations are built in the individual through the family. Other examples of reference groups are religious and ethnic groups, the trade union and the neighbourhood. Reference groups may interact and overlap. They can be classified in terms of different criteria. Those groups with which the individual has interpersonal contact are called affiliative groups. Taking the criterion of degree of interpersonal contact, two categories can be identified: primary groups, with which the person has a regular contact; and secondary groups, with which the person interacts inconsistently or on few occasions. Also depending on their degree of defined structure and organization, groups may be classified as formal (such as a trade union) or informal (such as a neighbourhood).

Groups that influence general values and the development of a basic code of behaviour are qualified as normative, while those that serve as points of reference or influence specific attitudes and behaviour are designated as comparative.

### *Opinion leadership*

The final social influence to be considered is *opinion leadership*. An opinion leader is a

person who influences the actions or attitudes of others. Individuals may be opinion leaders, opinion seekers or opinion recipients. Considering the person's tendency to lead or seek for opinion, four categories of interpersonal communication result;

1. The socially integrated: a person whose score is high in opinion leadership as well as in opinion seeking.
2. The socially independent: a person whose score is high on opinion leadership and low on opinion seeking.
3. The socially dependent: a person whose score is low on opinion leadership and high on opinion seeking.
4. The socially isolated: a person whose score is low on opinion leadership as well as on opinion seeking.

Interpersonal communication relative to opinions may be initiated either by the leader or by the receiver. Also, in relation to the four categories described above, it must be remembered that the characterization of an individual is not absolute and may vary according to different social contexts.

## Personality and Self-concept

Personality can be defined as the configuration of a person's characteristics and ways of behaving, which determines his or her adjustment to the environment in a unique way. Personality is a concept that emphasizes the effect of an individual's past history on his or her current behaviour. Trait theorists view personality as a collection of traits, which are defined as relatively enduring characteristics. The trait concept implies a more quantitative approach, with assessments effected through personality tests and inventories. More holistic approaches make use of personal observation, self-reported experiences or projective techniques.

The consideration of personality types is important to appraise vacation behaviour trends. Psychocentric persons are more concerned with themselves, anxious and inhibited. Allocentric persons tend to be self-confident, outgoing and adventurous. These differences must be taken into account since they will mean diverse vacationing behaviours.

### *Tourist self-image*

Within the consumer's conceptual structure there are concepts that the individual believes characterize him or her. They constitute the consumer's *self-image*. There is not only one kind of self-image. Usually self-image is described as what the individual believes himself or herself to be but there is also the ideal-self, referring to what he or she would like to be. Purchase intentions relating to some products tend to be correlated with self-image, while those relating to other products are correlated with the ideal self-image. The activated self-image consists of the expectations a person holds about himself or herself and his or her behaviour in relation to an object or product. A similar interpretation also assumes the existence of three categories: the present self, that is, the individual's self-image at a given time; the past self; and the future self. Another suggestion of these categorizations emphasizes a kind of 'others' self-image' which is how an individual thinks others see him or her.

The concept of self-image is important to marketers mainly for marketing segmentation and positioning of products; in these tasks the self-image of individuals belonging to a target group must be taken into account. The tourist may prefer destinations and services that match his or her self-image – the 'looking glass' concept.

The attitudinal dimensions of tourist products can be classified into three classes: those related to ego-involvement with the symbols associated with the product; those concerning the sensory character of the product attributes; and those concerning the functional aspects of the product. When a person wants to change his or her current image in order to gain entrance into a reference group, a whole new pattern of purchases may result. This may lead to the trial of new products and to a different level of purchasing. Marketers must be aware of these tendencies. Appeals based on certain desires of the tourist, such as to improve health and attractiveness, can have a strong influence on individuals aiming to change

their self-concept.

The relation between self-image and product-image is important to predict tourists' behaviour towards destinations and services. There are several ways of assessing the congruity between these two images. One of them involves the use of the semantic differential technique, with scales having bipolar adjective endpoints. The tourist is required first to identify the position on the scales of his or her self-concept and, following that, to go through the same procedure with respect to product-image. Next, the discrepancy of the two images is calculated by the following equation:

$$Dkj = \sqrt{\sum_{i=1}^{m} (Sij - Pij)^2}$$

where *Dkj* is the overall linear discrepancy between the *j*th tourist's self-image and his or her perception of the image of the *k*th destination; *i* is the specific image component used to assess destination and self-image; *Sij* is the *j*th tourist's self-perception on the *i*th image component; and *Pij* is the *j*th tourists destination perception on the *i*th image component.

## Perception and Cognition

The comprehension of the process of knowledge acquisition and incorporation of experiences will permit better predictions of actual vacation behaviour. Perception and learning strongly influence evaluation and judgemental processes. *Perception* is the process by which an individual selects, organizes and interprets stimuli in a meaningful and coherent way. A stimulus is any unit of input affecting any of the senses. Perceiving stimuli involves exposure, reception and assimilation of information. Our sensory system is sensitive to different modalities of external stimuli: auditory, visual, tactile, olfactory and taste. When inputs are transmitted, information reception will depend on the cues from the source of the stimuli (a product, a message, etc.) and the individual's reactions based on current knowledge.

An individual tends to organize his or her perceptions and knowledge in order to produce meaningful relationships among separate elements. What an individual perceives in many situations is determined not only by the intrinsic nature of the stimulus object or sensations, but also by his or her own system of values and needs determined by the social context.

The first stage of perception is the attention filter. One does not perceive all the stimuli arriving but grasps information selectively through a process of comparison of inputs with previous information. Furthermore, most stimuli to which one is exposed are screened out if they are uninteresting and irrelevant. The second stage is the interpretation process, whereby the stimulus content is organized into one's own model of reality, resulting in awareness and interpretation of the stimulus, that is, in cognition.

### *Selective perception*

Perception is selective in two ways: attention and distortion. Selective attention refers to the fact that individuals usually attend to those stimuli which are regarded as relevant to his or her needs and interests, and neglects or distorts inconsistent stimuli. Since we cannot perceive everything, we become selective in our attention, blocking perception when an excessively high level of stimuli are affecting us (stimulus bombardment), when arriving stimuli are irrelevant, or when they are culturally unacceptable, damaging or incompatible with our values and beliefs. That is the reason why selective attention is also seen as a form of perceptual defence. The degree of complexity of stimuli will determine different levels of attention: moderately complex stimuli are more likely to attract our attention than simple or too complex ones.

Perceptual bias or selective distortion is a tendency for people to modify information in the direction of personal meanings. Involvement in the object or message can be a function of self-perception which, in turn, is a function of need and social conditions;

the result is selective distortion and selective retention of available information. The information obtained from a specific message is the sum of the relevant statements as perceived by the receiver. The audience receives the message and relates the symbols it holds by relating it to prior learning. Integration of information implies different processes in the audience, resulting in acceptance or rejection of the message, retention or modification, belief or disbelief.

Vacation destination comprehension is related to the halo effect, which is the tendency of a tourist to be biased by his or her overall opinion in the process of evaluating distinct attributes of a destination or service. This is a form of generalization and it minimizes the effort required to make travel decisions.

### *Information search*

An important question is: how sensitive is the average vacation tourist regarding the information received about a tourist product? Perceptual effects may be examined at three levels: (i) the amount of information available to the tourist; (ii) the amount of information the tourist is exposed to; and (iii) the amount of information actually retained.

*Information seeking* is the expressed need to consult various sources prior to making a purchasing decision. Initially, there is the recognition of the problem which is the result of a perceived imbalance or need to shift to a desired state. It activates the decision process, through the search for information about alternatives. One type of search is internal, that is, the retrieval of information about alternatives, stored in memory. However, and especially in the case of vacation travel, the search is often external, involving active processes and a variety of information sources.

There are individual differences in terms of the likelihood of a tourist to be involved in a search, but the level of active search is usually dependent on the degree of balance between expectation of predicted benefits and costs, or on the degree of certainty about the merits of alternative destinations and services. The concept of overt search includes all the activities of a potential tourist directed at collecting information about a product. One reason for the occurrence of a limited external search is that tourists often have available a large amount of information, previously acquired, that can be retrieved through internal search.

The mechanism of the use of information by the tourist comprises four stages: exposure (contact with the sources of information); awareness (interest in the product); assimilation (attitude towards the product attributes); attitude change (awareness of the product and association of product and attributes).

### *Memory*

Memory plays a major role in consumer choice. There are three stages involved in memory. First the information enters memory and is encoded. Then the information is stored. The third stage is retrieval. Storage is said to be a function of the level of information processing at the time the message is received so that retention will depend on how information is processed. One influential approach to memory assumes it to be a multiple-store process, with different types of memory storage systems, each with specific functions and properties. A typical model of this type assumes a set of sensory stores, a short-term and a long-term store.

For an advertisement to be remembered, it must be encoded and stored in the long-term memory system. Information stored can be of two types: that actively acquired and that passively absorbed from the environment. The quantity of information that will be retained in long-term memory (data considered relevant or useful) is only a fraction of the total information communicated. The stored information can be retrieved, that is recovered for use. With respect to recall, an inappropriate context as well as new and old learning may interfere and reduce the possibility of retrieving given material. Forgetting is mainly the result of interference of new information and experiences occurring between the time of encoding and that of retrieval.

The process of response to communica-

tion begins with a state of unawareness. The initial response is to become aware of a message. This response is followed by comprehension or knowledge, when the receiver must relate the message to prior learning experiences so as to give meaning to it. The subsequent states are liking, preference, conviction and action.

### *Learning process*

Comprehension or knowledge about the tourist product consists of the facts acquired about it that are used as the basic material for decision-making. To understand the acquisition of knowledge about a product, it is necessary to consider the learning process.

Learning refers to the establishment of new responses to the environment. *Cognitive learning theory* focuses on problem solving, that is, on mental processing, and considers the tourist as an active learner. This approach emphasizes the topics discussed above: information processing leading to comprehension and action. *Instrumental learning theory* emphasizes the role of reinforcement and repeated trials. Reinforcement is the process by which a consequence increases the likelihood of a specific response to certain cues. When cues are pertinent to expectations, they tend to activate certain drives (Evans *et al.*, 1996).

As mentioned above, in relation to the halo effect, generalization is an important aspect of the learning process to be taken into account in the analysis of vacation behaviour. Stimulus generalization is the process by which the same response is made to similar but different stimuli, such as when a person responds to a given travel situation in the same way he or she has responded to different but similar situations in the past. On the other hand, stimulus discrimination involves the learning of different responses to different but similar situations. The processes of generalization, emphasizing stimulus similarity, and of discrimination, emphasizing stimulus difference, are fundamental in consumer behaviour assessment. Tourists can discriminate between two similar products and show preference for one of them and they can generalize about different, not yet experienced, aspects of a destination on the basis of known stimuli.

Hence, careful attention has to be given to the stimuli related to travelling and the way they affect tourist behaviour. The expression 'travel stimuli display' refers to the different kinds of information presented to the tourist. Information may have a significative or a symbolic character related to the product attributes such as quality, distinctiveness, prestige and availability. Tourists' behaviour is influenced by affective and by symbolic appeals.

### *Tourist sources of communication*

Depending on the source of information, communication can be classified as primary (experiences derived directly from the product), secondary (mass communication), tertiary (information obtained from travel agencies or exhibitions), and personal. Tourists will actively process the information provided by the source but will not make judgements about the product based only on information; they combine it with other experiences and previous knowledge to develop attitudes and intentions and to reach a buying decision.

Messages received by the tourist are sometimes seen as ambiguous when confronted with previous experience. The filtration process serves to protect the tourist since it permits discrimination between facts and exaggerations in advertising. Communication is the determinant of much of vacation behaviour and an advertisement is intended to communicate, allowing the acquisition of knowledge, the formation or change of a product image, the arousal of needs and wants, the creation of interest in a product, the inducement to action.

The primary form of communication is word of mouth. This conversation activity is a channel for both receiving and disseminating information concerning vacation destinations and tourist services. Product involvement is one of the motivations for word of mouth. When a tourist product is perceived to be central to the individual's self-image, there is a high probability of the product being used and focused in conversation. The content of conversation depends

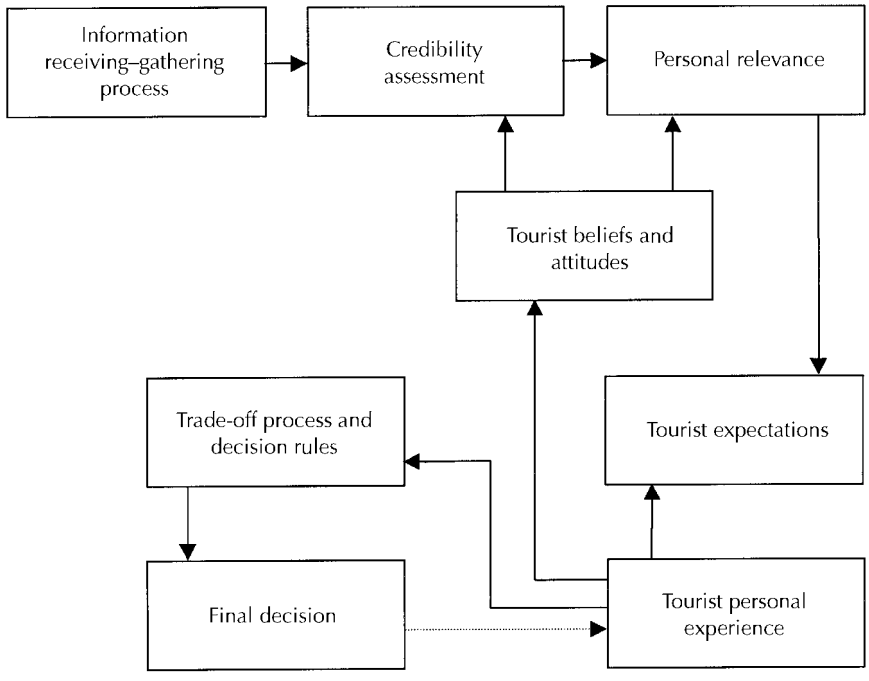


**Fig. 3.3.** A possible relationship between information received, experience and action.

on the assimilated communication, and the rate of word of mouth depends on the tourist's awareness and attitude.

Internalization of information occurs when the individual accepts the opinion because it is congruent with his or her existing values. Here, the factor 'credibility' of message and personal relevance of the information play an important role. Based on personal experience and expectations, the tourist uses a trade-off of all the alternatives to reach a decision to act. This process is shown in Fig. 3.3. Consumers use information in five different ways: (i) to evaluate alternatives in making a choice; (ii) to reinforce past choices as a rationalization process; (iii) to resolve conflict between buying and postponing; (iv) to remind them when to buy; and (v) to acquire knowledge for epistemic purpose.

The processes of exposure, perception and retention will be influenced by the advertisement in different ways: in the cognitive domain, the extent to which it carries useful information, its relevance, its believability; in the affective domain, its attractiveness and its likeability.

### *Product image formation*

After processing the information, the tourist will possess what is called 'total thoughts' about the product, encompassing positive, negative and neutral thoughts. Given the information possessed about a vacation destination, the tourist will form an image of it. This image is a description of the tourist's attitude towards a number of cues related to the destination attributes. This attitude is based partially on feelings, not solely on knowledge. The destination image tends to be an oversimplification in the mind of the tourist and, at the same time, a consistent configuration constructed according to the available information. To construct it the tourist may add missing information, generalizing information of known aspects to (other) unknown aspects.

Physical attributes of a vacation destination act only as stimuli inducing certain associations; thus, the image is not what the

product actually is, but what the tourist's beliefs tend to construct. There are three components in image formation: (i) related to awareness, implying the information the tourist believes a tourist destination or service possesses; (ii) related to attitude, implying feelings and beliefs about the tourist product; and (iii) related to expectations, implying the benefits expected to be derived from the tourist product. The concept of image can be formulated as:

$$I = f(Aw, BA, Ex)$$

where $I$ is the image of the destination or service; $Aw$ is the level of awareness in relation to the product; $BA$ is the beliefs and attitudes developed about the product; and $Ex$ is the expectations created with the product.

The attractiveness of a tourist destination and the choice of it will greatly depend on its image. It is an important fact to marketers that, in general, images tend to be easily modified.

## Motivation

Motivation refers to a state of need, a condition that exerts a 'push' on the individual toward certain types of action that are seen as likely to bring satisfaction. Vacation tourist motivation is greatly determined by social factors and is related to the need for optimal arousal. We have a need for stability as well as for novelty. In the case of travelling there are usually multiple motives, based on the tourist's expectations of what will be gained from the purchase.

There are two views in relation to the individual's logical consistency. Some theories stress the need for balance and harmony, considering the individual more likely to be satisfied with the expected, and to be uncomfortable with the unexpected. However, other theories maintain that the unexpected is satisfying and that the individual will seek complexity, not sameness. In terms of travelling, the former theory would predict that the individual would visit well-known places, while according to the latter theory people would seek unknown places, restaurants and hotels. As a matter of fact, these theories explain different behaviours that do occur, and different individuals may behave more in accordance with one or the other assumption. The most likely is that people will seek for a balance between consistency and complexity.

In the case of leisure travel there is a search for variety, that is, for situations which offer a certain degree (variable among individuals) of incongruity, uncertainty, novelty and complexity, combined with a degree of familiarity; a contact with the familiar and the novel.

### *Travel motivators*

Satisfaction associated with vacation travel includes relaxation of tension, which is a strong underlying element to different desires and expectations concerning a vacation. The search for a mental state of renewal always seems to be involved.

The answer to 'why do people travel?' is not a simple one. Two sets of motivations must be distinguished: general and specific. General motivations imply that people travel for many reasons, and many times are not fully aware of them. Some general travel motivations are presented in Table 3.1. This range of motives is broad, in common with other classifications, for they are attempts to encompass basic classes of motivators.

A new generation of travellers is beginning to emerge, in the sense that the traveller has ceased to be a tourist and has become a searcher. For that reason, many travel folders and advertisements are still speaking a language of the past. The motivations include the discovering of oneself and psychological mobility, with the traveller willing to know different cultures, the psychological aura, fauna and flora of an area and a country. The challenge involved in travelling is based on the exploring instinct labelled the 'Ulysses factor' in reference to the hero of Homer's *Odyssey*. It is the need for exploration and adventure, involving an exciting and even (according to the individual's perception) risky action. It is a physical and intellectual need related to knowledge and curiosity.

**Table 3.1.** A list of examples of general travel motivations.

| |
|---|
| *Educational and cultural* |
| To see how people in other countries live and work |
| To see particular sights, monuments or works of art |
| To gain a better understanding of current events |
| To attend special cultural or artistic events |
| *Relaxation, adventure and pleasure* |
| To get away from everyday routine and obligations |
| To see new places, people, or seek new experiences |
| To have a good time, fun |
| To have some sort of romantic sexual experience |
| *Health and recreation* |
| To rest and recover from work and strain |
| To practise sports and exercise |
| *Ethnic and family* |
| To visit places your family came from |
| To visit relatives and friends |
| To spend time with the family and children |
| *Social and 'competitive'* |
| To be able to talk about places visited |
| Because it is 'fashionable' |
| To show that one can afford it |

## Attitude and Intention

### *Attitude*

An *attitude* is a predisposition, created by learning and experience, to respond in a consistent way towards an object, such as a product. This predisposition can be favourable or unfavourable. Attitudes are generally considered to have three components: cognitive, affective and conative. The cognitive component is sometimes called the belief or knowledge component, consisting of the beliefs and opinions, based on some evidence, that an individual holds about something (a place, an experience, another person); the affective component refers to the feelings and emotions about the destination or service and implies judgement on the basis of emotion; the conative is the action tendency which can have a favourable or unfavourable character (Hoyer and MacImmis, 1997).

### *Tourist attitude change*

In order to change attitudes, marketers can:

- modify the characteristics of the tourist product (real positioning);
- alter beliefs about the product (psychological positioning);
- alter beliefs about competitive products (competitive depositioning);
- change the relevant weights of the product attributes;
- induce attention to certain attributes;
- modify the tourist's ideal levels for certain attributes.

Inhibiting factors may lead the tourist to respond to a destination in a way different from his or her attitude towards it. The sense of uncertainty, of caution, or indecisiveness are also present in vacation behaviour. Some inhibitors of a positive attitude are the availability of alternatives, problems of incompatible income, or other limiting factors such as the impact of other people's behaviour. Travel preferences are developed as a result of perception of benefits. When choosing a destination, the traveller assesses the level of different benefits in each alternative. The outcome of this assessment is the intention to buy one destination.

So, to influence a traveller's decision, one may increase the importance of one or some specific benefits. The perception of benefits will shape the overall attractiveness of a destination. Alternatives are regarded as viable, neutral or rejected. The viable alternatives will then be more carefully considered. Research has indicated that usually travellers will analyse no more than seven alternatives in a given vacation decision.

So far we have discussed attitudes towards an object. However, an alternative interpretation holds that attitudes are actually related to 'behaviour towards' an object. The Fishbein (1967) attitudes-towards-

behaviour model is expressed by the following equation:

$$\text{Attitude (behaviour)} = \sum_{i=1}^{n} b_i e_i$$

where $b_i$ is the strength of belief that *i*th specific behaviour will have a specific consequence, and $e_i$ is the evaluation of the outcome.

A multi-attribute object (e.g. a vacation destination) is viewed as a bundle of attributes leading to costs and benefits of differential desirability to individuals or segments of the market. Overall affect is posited to reflect the net resolution of an individual's cognitions (beliefs) as to the degree to which given objects possess certain attributes weighted by the salience (importance) of each attribute to the individual. Our general attitudes, interests and outlook towards life are related to our attitudes towards different kinds of vacation experiences and to what we would like to find in a vacation. Confidence generation is related to destination comprehension, intention, and the degree of satisfaction gained in the purchase and utilization of a product. Confidence also implies the tourist's ability to judge the quality of the services offered.

### *Intention*

*Intention* indicates the likelihood of purchasing a tourist product; it is the readiness-to-buy concept. Behavioural intention is said to be a function of (i) evaluative beliefs toward the tourist product; (ii) social factors which tend to provide a set of normative beliefs to the tourist; and (iii) situational factors than can be anticipated at the time of the vacation plan or commitment. This function is expressed in the following equation:

$$BI_{ij} = B_1 (Eb_{ijk}) + b_2(SE_{ij}) = b_3(AS_{ij})$$

where $BI_{ij}$ is individual *i*'s plan to behave in a certain way towards vacation destination *j*; $Eb_{ijk}$ is individual *i*'s belief *k* about vacation destination *j*; $SE_{ij}$ is individual *i*'s social environment influencing behaviour towards *j*; and $AS_{ij}$ is individual *i*'s anticipation of events at the time of his or her behaviour towards *j*.

The assessment of a market potential has to take into account that there are factors that can be anticipated and others that cannot. Variables that can be anticipated should be analysed (for instance, demographic and economic factors) before further study of behavioural variables is initiated. The relationship between attitude formation, intention and the travel decision-making process is summarized in Fig. 3.4.

A final issue to be considered concerning attitude and intention refers to their measurement. Social psychologists have attempted to create methods of assessment. Attitudes may be inferred from systematic observations of the individual's behaviour in social contexts or from responses to questionnaires. One problem with the questionnaire technique is that respondents may misrepresent their feelings in their statements. Researchers have been cautious about the power to predict subsequent buying behaviour from the assessment of attitudes and intentions. Actually, in real situations, there is a gap in time and space between the manifestation of an intention and buying behaviour. Several non-predicted factors may appear during this interval. Despite this fact, a useful technique for measurement is the rank-order scaling procedure.

## Perceived Risk

Being faced with a purchasing situation, a tourist has a certain degree of risk involved in the decision to be made. Perceived risk is a function of uncertainty and consequences. This may include (i) uncertainty inherent in the product; (ii) uncertainty in place and mode of purchase; (iii) degree of financial and psycho-social consequences; and (iv) the subjective uncertainty experienced by the tourist. The degree of risk may vary with the costs involved in a decision and the degree of certainty that the decision will lead to satisfaction. Costs may concern time

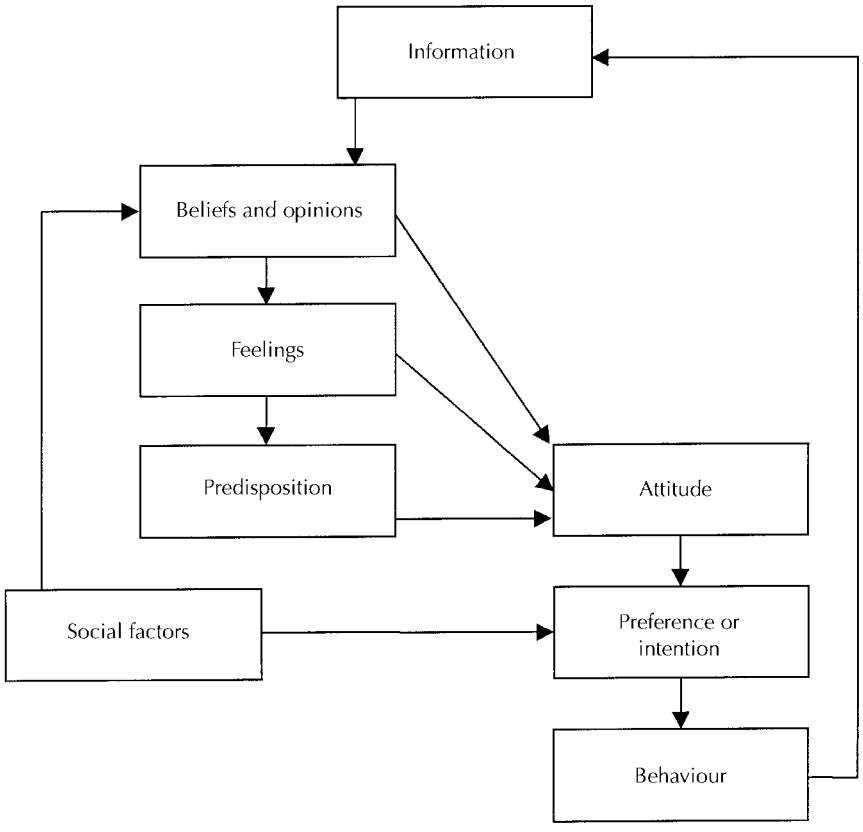


**Fig. 3.4.** Attitudes and the travel decision-making process.

costs, ego costs, monetary costs and other costs resulting from the eventual failure of need satisfaction. For this last case the types of consumer (vacation tourist) loss can be defined as physical loss, loss in time, ego-loss, or financical loss.

Tourists can be risk-neutral, risk avoiders or risk-takers. The first types of risk to be perceived are connected with financial and social-psychological aspects. 'Overall perceived risk' includes performance, physical, social-psychological, and time risks. The concept of perceived risk can be formulated as below:

$$PR_x = f(PER_x, PSR_x, PPR_x)$$

where $PR_x$ is perceived risk; *PER* is perceived economic risk; *PSR* is perceived social risk; and *PPR* is perceived psychological risk.

The origin of risk perception lies in the uncertainty of the congruence between self-image and product-image. Researchers regard risk handling as a risk reduction process. Risk reduction methods are used until its level reaches one which is tolerable to the individual and consistent with purchase goals. Figure 3.5 describes the risk variables relationships.

To understand how vacation tourists reduce risk, it is necessary to consider the major types of perceived risk:

1. Functional risk, the risk that the product will not perform as expected.
2. Physical risk, the risk that the tourist product will be harmful.
3. Financial risk, the risk that the product will not be worth its cost, either in time or money.

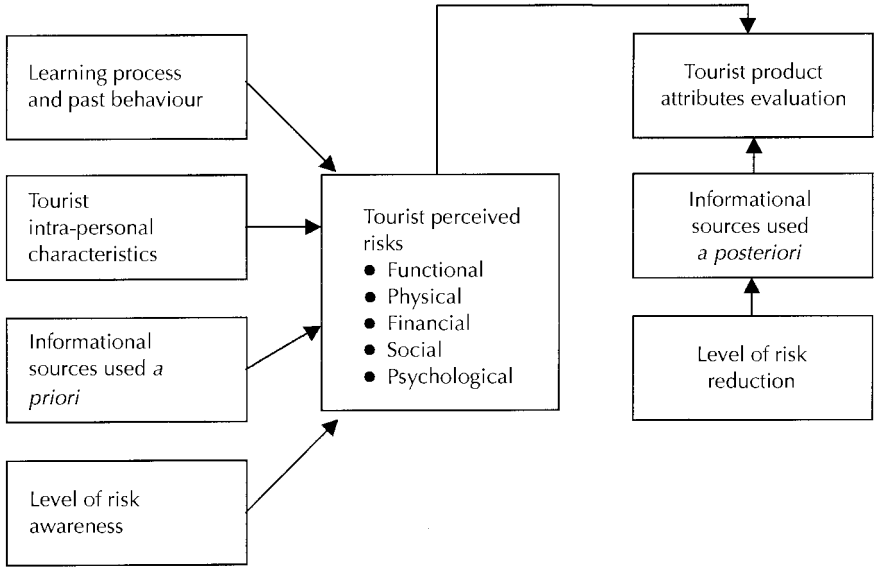


**Fig. 3.5.** The relationship of tourist risk variables.

**Box 3.1.** The buying behaviour process for airline products.

Airlines deal intimately with customers, selling a service which to many is threatening, which few profess to be able to evaluate objectively, and which constitutes a sizeable expenditure.

Marketing-by-market promotional planning must continue the accent on reinforcing user 'loyalty'. Surveys indicate that individuals do not have clearly formed beliefs about most airlines (although frequent flyers generally prefer one above others), that utility for the 'product' is high, and that there is little emotional involvement when they discuss airlines. Companies in the airline business need a systematic, ongoing process of data collection to evaluate marketplace perceptions rather than awakening one day to find their position eroded by more astute competitors. Since airlines can seldom be tried out, inspected or tested without a purchase, and are intangible, testimonials are one method to signify that the 'product' performs well and that the 'quality' is high, adding to convenience value for air travellers. An airline that is marketing-oriented has to examine periodically its responsiveness to tactical needs in different markets as well as to frenzied price competition.

4. Social risk, the risk that a poor product choice may result in embarrassment before others.
5. Psychological risk, the risk that a poor product choice will harm the consumer's ego.

The different types of risk have to be considered by a tourist organization in order to help the tourist to reduce the perceived risk (Box 3.1). Some sources of perceived risk in a buying situation include uncertain buying goals, uncertain purchase rewards, lack of purchasing experience, the prediction of positive or negative consequences, peer influence, and financial considerations (see Fig. 3.6).

For an assessment of tourist risk variables, one should study the relationship between the tourist's past behaviour and his or her learning process towards travel-related concepts, the tourist's intra-personal characteristics, the type of information sources used by him or her before and after the

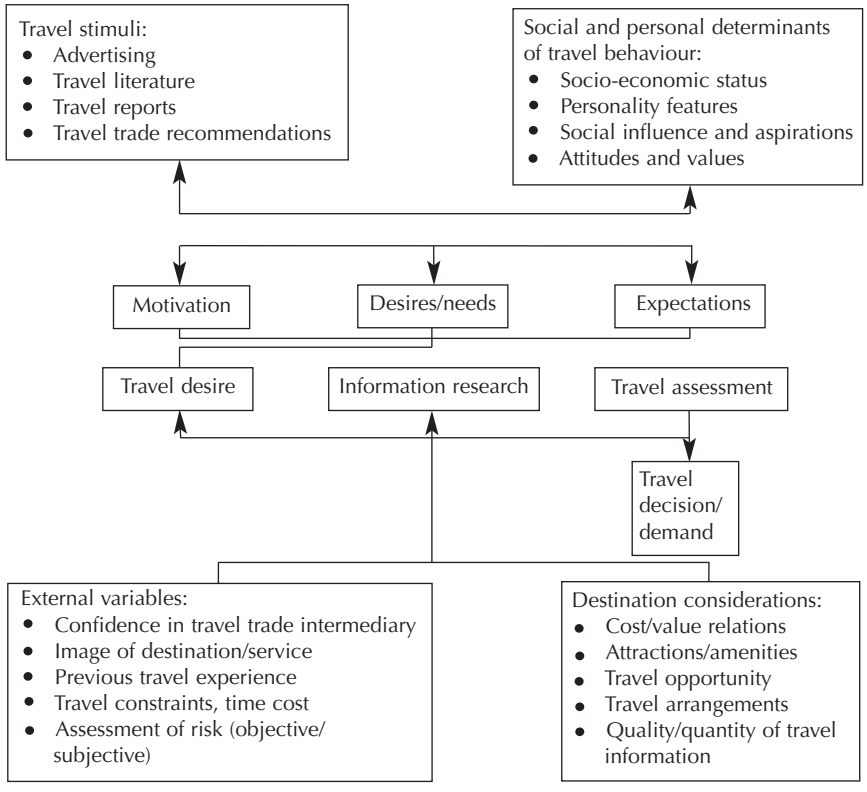


**Fig. 3.6.** Travel decision model.

tourist product purchase, the tourist's level of risk awareness and the tourist's evaluation of the product attributes. Several risk-reduction strategies can be used by tourists:

- expecting less from the product or service;
- regularly purchasing the same product (characterizing tourists' loyalty);
- acquiring tourist information;
- purchasing the most expensive product;
- relying on government or consumer travel reports;
- relying on tourist guarantees.

When studying the problem of adequacy, the analysis of the cost-benefit equilibrium level for the prices paid by the vacation tourist should be taken into account. The consistency of the product represents the sum of all real attributes perceived by the tourist when utilizing the tourist service. Product consistency follows a kind of ranking system in the tourist's mind, and it plays an important role for the vacation destination 'sold' to the tourist.

## Family Decision Process

Family goals and roles are major determinants of vacation decision-making. Family influences are important in two major ways: (i) they affect individual personality characteristics, attitudes and values; and (ii) they affect the decision-making process that is involved in the purchase of tourism services.

One person in a family may be responsible for problem recognition, another for search and still another for making the decision. Family decision-making varies in terms of social class. Decision-making in

**Table 3.2.** Family decision-making styles.

| Family travel decision | Predominant family decision-making style |
|---|---|
| Type of lodging accommodation | Husband dominant |
| Vacation destination(s) | Husband dominant |
| Whether to take children along | Joint influence-individual decision |
| How long to stay on vacation | Joint influence-individual decision |
| Dates of vacation travel | Joint influence-individual decision |
| Mode of transportation on family vacation | Joint influence-individual decision |
| Vacation activities | Joint influence-individual decision |
| Whether to go on vacation | Joint influence-joint decision |
| How much money to spend on vacation travel | Joint influence-joint decision |

families, with respect to product selection, may be described as syncratic, partially syncratic and autonomic. Syncratic decision-making generally means joint decisions and partially syncratic decision-making means that some decisions are made on a joint basis and some are made by either partner. Autonomic decision-making means that approximately an equal number of separate decisions are made by each partner.

### *Family life cycle*

Changes in family characteristics produce changes in lifestyle and dramatic changes in consumer behaviour. Family life cycle (FLC) is a form of classification of family, marital status, age and work status of family members. There are different FLC models. The one presented by Wells and Gubar (1966) can illustrate this form of classification. They considered the following five stages:

1. bachelor stage;
2. newly married couple with young children or no children;
3. full nest I (youngest child under 6), full nest II (youngest children 6 or over), full nest III (older married couples with dependent children);
4. empty nest I (no children at home, head in labour force), empty nest II (head retired); and
5. solitary survivor (in labour force or retired).

Joint decision-making predominates when there is a great deal of perceived risk with regard to product attributes. An increase in role specialization occurs over the stages in the FLC, which is reflected by a decline in the degree of joint decision-making. There is a suggestion that men strongly dominate decisions concerning the actual date of vacation, the amount spent, the length of stay, and the price of lodging. Syncratic decision-making prevails in relation to the choice of the actual destination and the type of lodging.

In Table 3.2, different aspects of travel decisions are considered in relation to family decision style. There is a dominant decision-making role of the male partner in two areas, lodging and destination point. Joint decision-making is strong with respect to the vacation destination and the amount to be spent. Family vacation behaviour patterns are, thus, associated with the life stages of the family, and the trips are often the highlights of family life, especially when the family is growing.

Cosenza and Davis (1981) suggested six stages of FLC, each with a characteristic decision-making dominance:

1. syncratic;
2. husband dominant;
3. wife dominant;
4. wife dominant;
5. syncratic; and
6. wife dominant.

In Stage 1, the couple is in the initial stage

of marriage and willing to participate in vacation decisions. They tend to seek information actively. A change appears in Stage 2, with the husband playing a slightly dominant role, due to the fact that his career is at a critical stage and his work schedule is a major criterion. In Stage 3, there is a dramatic change to wife-dominant decisions. Role specialization leads the wife to take charge of planning in the area of vacations. This is a stage with a high level of vacation purchase. Stage 4 is marked by a slight shift to syncratic decision again, but decisions are still wife-dominant. Stage 5 is one of syncratic decisions, although with a slightly higher influence by the husband. In Stage 6 decisions seem to be dominated by the wife again. This is the stage of the retired couple who have been married for more than 40 years. The frequency of vacation travel tends to diminish at this stage.

A final aspect that has to be included in the consideration of the family decision-making process is related to the children. The influence of children in the family decision is very important but usually indirect: children's needs as well as the benefits they can gain from the travel experiences are taken into account in the process. Also, travel is seen as an important opportunity to strengthen family bonds. During the vacation travel children still have little direct influence but they may direct choices of lodging and restaurants, or of certain activities. This influence by children will, of course, depend on the stage of family life.

## Vacation Tourist Process

A decision is an outcome of a mental process whereby one action is chosen from a set of available alternatives. Decision-process models describe how information is acquired and related in order to make a decision. Most of the models deal with five different steps in the decision process: problem identification, information search, evaluation of alternatives, choice and post-choice processes.

The tourist decision process involves the tourist's motives and intentions, as well as the stimuli that turn intention into choice of product or destination. The tourist can make a decision through different approaches, from highly routine to very extensive. In the case of a routine decision-making approach, decisions are made quickly and with little mental effort; the perceived knowledge about the alternatives available is high. When an extensive approach is taken, there is need for considerable time and effort in the search for information and evaluation of alternatives.

## The Influence of Friends and Relatives in Travel Decision-making

Although there are numerous facets involved in the decision-making process, one area that has begun to receive more attention is the issue of who makes the decision within the travel group. This interest stems from a number of factors. First, a tourism experience appears to be a highly social event, i.e. involving two or more people in the travel group and the likelihood that many of these trips involve visiting family or friends. Second, destination and attraction marketers must design their advertising based on their knowledge of who will be using the information to make various types of decisions.

Most attempts to understand the dynamics of group decision-making related to travel decisions have focused on the role of the spouse/partner or the children in the process. Very few, if any, research efforts have focused on the role of the spouse/partner or the children in the process. Very few, if any, research efforts have focused on the role of friends and/or relatives in the decision-making process, beyond the role this group plays in providing information to what are considered the primary decision-makers. There would appear to be a number of reasons why this latter group should be considered as a more dynamic element of the decision process. First, if we are visiting an area for the first time, it would seem logical that we might defer at least some of the decision-making to individuals who are more knowledgeable about the destination

**Table 3.3.** Role played by friends and/or relatives in selected travel decisions (%).

| Level of influence | Which sites ($n = 67$) | Length of stay ($n = 66$) | What to do ($n = 67$) | Where to eat ($n = 64$) | Trip info ($n = 60$) | Where to stay ($n = 45$) |
|---|---|---|---|---|---|---|
| Sole decision maker | 25 | 18 | 21 | 25 | 27 | 24 |
| Dominant role | 13 | 11 | 18 | 11 | 10 | 9 |
| Equal role | 12 | 20 | 16 | 25 | 12 | 11 |
| Lesser role | 6 | 5 | 5 | 3 | 2 | 2 |
| No role | 43 | 47 | 40 | 36 | 50 | 54 |

Number of decisions where friends and/or relatives played total or dominant role (%)

| | |
|---|---|
| Did not play sole or dominant role in any decisions | 54 |
| Sole or dominant decision maker in at least one type of decision | 5 |
| Sole or dominant decision make in two or three decisions | 8 |
| Sole or dominant decision maker in four or more decisions | 34 |

Source: Gitelson and Kerstetter (1994)

area. Second, the friends/relatives may in a number of instances become part of the group visiting a particular attraction.

Crompton (1981), in his research on pleasure travel, has suggested that friends and/or relatives influence behaviour throughout the recreation experience. From the perspective of providing information to decision-makers, the influence of friends and/or relatives has been well documented (Bultena and Field, 1980; Jenkins, 1978; van Raaij and Francken, 1984). In fact, when asked what sources provide trip-related information, friends and/or relatives are usually listed as the most frequent and most credible source (Gitelson and Crompton, 1983; Capella and Greco, 1987).

Reference groups, including friends and relatives, are also important factors in the overall decision-making process. According to Peter and Olson (1994), reference groups exert a major influence over most aspects of consumer behaviour, especially the decision-making process. They influence decision-makers in three ways. The first type of influence involves the provision of information, which is used or not used by the decision-maker based on the perception that the information is useful and the reference group member is credible. The second type of influence is utilitarian in nature. This occurs when a member of a reference group provides a reward or sanction for something that the decision-maker has done. The third type of influence is exerted on the decision-maker's self-concept and is called value-expressive influence (Hawkins *et al.*, 1997).

Results in Table 3.3 indicate that all of the travel-related decisions studied were influenced by friends and/or relatives. The extent to which friends and/or relatives played either the dominant or sole decision-making role ranged from 29% in the case of deciding how long the non-locals would stay to 39% in the decision process to decided what the non-locals would do while in the region. An additional 11–25% of the six decision areas were equally decided by friends and/or relatives and one or more other group members.

In slightly more than half of the decisions (54%), friends and/or relatives were not the dominant or sole decision-maker. Of the six decisions included in the study, friends and/or relatives were involved in at least one decision as the sole or dominant decision-maker in 47% of the cases. In approximately one-third of the groups (34%), friends and/or relatives dominated the decision-making process in at least four of the six types of decisions.

Past studies have restricted their focus to the role these friends and/or relatives play

in providing decision-makers with information. But these results indicated that friends and/or relatives shape behaviour in a more direct fashion and, in many cases, take on the role of 'sole' decision-maker. Thus, future research efforts need to include friends and/or relatives as potentially equal partners in the decision-making process, just as they have done with the spouse/partner and children. A number of important issues related to the decision-making process deserve attention in future research efforts. At what point in time do friends and/or relatives become influential? For example, do friends and/or relatives affect the decision-making process prior to, during, and/or after the trip has begun? Andereck (1992) suggests that information related to the timing of various decisions would allow researchers to better understand tourist behaviour and, as a result of this knowledge, help tourism marketers and suppliers to more effectively target their market(s).

## External Information Search

External information sources are employed by tourists and form the basis for vacation planning. For marketers it is relevant to know what kind of information should be used in tour brochures to stimulate the tourist's external search process.

### *Gathering tourist information*

The problems of tourism marketing are different from the problems of traditional product marketing. The differences are the result of the characteristics of tourism supply and demand. Tourism is a *service*. An intangible experience is being sold, not a physical good that can be inspected prior to service (Mill and Morrison, 1985). Generalizations that have widespread acceptance among scholars and practitioners in the field as being characteristic of services include intangibility, simultaneity of production and consumption and nonstandardization (see Zeithaml *et al.*, 1985). Services are not directly perceptible and are unpredictable in their outcomes for the buyer. This implies that they would influence the purchasing behaviour of consumers. The fundamental characteristics of services appear to create particular uncertain and risky purchase situations. In this context, Murray (1991) states that it is logical to expect that consumers acquire information as a strategy of risk reduction in the face of this specific uncertainty. Moreover he argues that services are more difficult to evaluate than goods. As a consequence, consumers may be forced to rely on other cues and processes when evaluating services.

Tourism marketers may benefit from the improved knowledge of *search behaviour* in vacation planning. In general, knowledge of information acquisition strategies is important to marketing managers because information search is at an early influential stage in the purchase decision process. In fact, the information sources employed by tourists form the basis for vacation planning (Van Raaij and Francken, 1984). Consumer information sources can be classified into two broad types, internal and external; both types are used by consumers to gather information and cope with perceived risk.

#### *Information sources*

In this field of research, information importance is a significant determinant of both prepurchase and ongoing external search. Furthermore, ongoing external search and the balance of prepurchase search activities are also influenced by enduring involvement and previous experience (see Perdue, 1993). In general, sources of external information search can be classified in terms of whether the source is marketing oriented or whether information comes from personal or impersonal communication (Engel *et al.*, 1995). Non-marketer-dominated information sources such as personal media are expected to play a particularly important role in the consumer decision process for services. However, personal information sources and mass media are related in several ways. For example, tourism indicates that mass media (such as tourist advertising and brochures) are consulted most in the beginning, and personal media (such as

salespersons, friends, personal advice) are mainly used at a latter stage of the vacation planning (Van Raaij and Francken, 1984).

Tour brochures and other sources of mass media initially play a significant role in determining choice of recreation and vacation destinations. Because consumers understand that the purpose of these mass media is to persuade as well as to inform, they discount the value of this 'biased' information and seek to verify its authenticity (see Maute and Forrester, 1991). The phenomenon is reflected in the fact that people in the vacation group usually share in the information search process, and often several sources of information are consulted in planning a trip. In general, the vacation search process involves one or more individuals along with a variety of sources for a multiple set of decisions (e.g. see Capella and Greco, 1987; Snepenger *et al*, 1990). With regard to vacation decision-making it is found that social information sources are the most important. Members of the immediate family rank first, relatives second and friends third (Jenkins, 1978). These facts are in line with Murray's (1991) conclusion that service consumers prefer the opinions and experiences of other comparable individuals in making service purchase decisions.

Vacations are intangibles, which means that the prospective buyer can neither see nor feel them prior to purchase, nor can he or she return the product if dissatisfied. Mansfeld (1992) states that tourism marketers should follow two prevailing research strategies. One is the study of tourists' stated preferences; the other is the study of actual choice. He suggests that the second research direction should look into the information gathering stage. In this case, the impact of promotional information material on touristic choice behaviour should be examined. Because this material is meant to create favourable images and to stimulate 'non-leading' motivations, it is important to evaluate its 'bias effect' on possible choice directions. More specifically Perdue (1993, p. 184) states that research focusing on propensity to seek information as a dependent variable, particularly within the context of the growing body of hedonic consumption literature, may significantly improve external search theory, and distinguishing between the decision or propensity to seek information and the actual selection and use of alternative sources of information may significantly improve our theoretical understanding of external search behaviour.

*Brochures*

Leisure studies demonstrate that tourists rely more on informational material while preparing their trip at home rather than after arriving at their destination (Mansfeld, 1992). In this context Manfredo (1989) points at the fact that so-called 'active information seekers' (i.e. individuals who are deliberately searching for external information) are of particular interest because of the possibility that they are ready to act (visit a given area) and because they may be susceptible to persuasive appeals. When we keep in mind that tourists prefer personal information, it is reasonable to assume that persuasive communication strategies should stress experiential or subjective rather than technical or objective dimensions of the trips on offer. This means that travel agencies and tour operators should make the faction more tangible in brochures by providing visible or explanatory cues that prospective tourists can use to evaluate the ultimate (emotional) advantages and quality of the vacation. Potential inclusive tour buyers, although they can bear in mind word-of-mouth and published recommendations as well as their own past personal experience, still have to rely largely on what they read and see in operators' brochures; the tour operators' brochures have many similarities with commercial published leisure magazines. They are regarded by their users as being 'a good read', whetting the appetite for the vacation products on offer (see Hodgson, 1990). From this hedonic and motivational point of view it is important to stress experiential information in brochures. Promotional leisure information about feelings of pleasure, relaxation, excitement, adventure and fun will probably motivate tourists to plan a trip.

Actually there is no scientific study available in the travel research and destination marketing literature on whether advertising stimulates tourism (see Woodside, 1990). While tourism 'advertising conversions research' studies are helpful in comparing the performance of different advertisements, media vehicles and media, such advertising conversion studies do not address the more basic question: what kind of information should be used in brochures to trigger the external search behaviour of tourists?

Since tour brochures are infrequently effective in getting the attention of the information seeker, it is useful to examine the impact of different types of brochure-information on external search behaviour.

## Mental Imagery and Behavioural Intentions

In general, consumer researchers suggest that the experiential aspects of consumption play an important role in consumer choice behaviour (see Hirschman and Holbrook, 1982). From this point of view, MacInnis and Price (1987) state that in the choice of many leisure services an important part of the choice involves assessing how it will feel (the sensation surrounding the anticipated leisure experience). Regarding the latter, experiential processes, such as imagining, daydreams and emotions, play an important role in vacation choice behaviour (see Mannell and Iso-Ahola, 1987). In this perspective, it is reasonable to assume that when consumers imagine tourist behaviour they direct their attention on desirable feelings and leisure experiences. It is self-evident that other, more economic and rational, aspects of holidays will also be regarded (e.g. modes of travelling, accommodation and expense).

MacInnis and Price (1987) provide several propositions about the potentially unique effects of elaborated imagery on consumer behaviour, such as the stimulating influence of elaborated imagery on affective experiences, purchase intentions, and purchase timing. This relationship between elaborated imagery and enhanced purchase desire is directly relevant to a promotional strategy that focuses on stimulating external search behaviour. Evidence suggests that imagery-producing advertisements result in superior recall and more positive attitudes towards the product. However, there has been limited examination of the relationship between imagery and behavioural intentions in a marketing context.

### *Enactive imagery*

According to Aylwin (1990), adults can use three different though interconnected forms of representation: verbal representation, or inner speech; visual imagery, or 'pictures in the mind's eye'; and enactive imagery, a kind of imagined action or role play. Enactive imagery is specialized, for representing the temporal perspective of enactive imagery extends to include the possible consequences of action. Enactive imagery provides an insider's perspective on situations, and allows access to subjective aspects opaque to subjects using verbal or visual representations. Aylwin (1990) states that effective and other subjective constructs are most frequent in enactive imagery. This fact is in line with Lang's (1984) work, which shows that representations involving active participation are accompanied by more affective arousal (as indexed by physiological indices such as heart rate) than purely visual representations.

Actually, enactive imagery is a form of cognitive representation in which the consumer is personally involved with stimuli, through 'do-it-yourself or experience-it-yourself' thoughts (see Goossens, 1994a). The conceptualization of enactive imagery is comparable with the concept of 'self-relatedness' (see Bone and Ellen, 1990) and Krugman's conception of high involvement. Krugman (1965) suggested that at the highest level of involvement consumers produce 'personal connections', or 'bridging experiences', whereby they relate the advertisement content to meaningful aspects of their own life. Furthermore, enactive imagery is narrowly related to the concept of 'constructive processing'. Here,

the consumer goes beyond the advertisement's content and connects it in some meaningful way to his or her own life. Examples of these constructive elaborations include thinking up novel uses for the product and/or imaging the product in use (see MacInnis and Jaworski, 1989; Buchholz and Smith, 1991).

### *Self-related imagery*

Bone and Ellen (1990) reported a study which provides a stimulating contribution to the knowledge of the effect of imagery processing and imagery content on behavioural intentions. Based on the study of Anderson (1983), they empirically examined the relationship between self-related imagery and behavioural intentions in a radio advertising context. In this experiment radio was selected as the experimental medium because self-generated imagery should have a greater effect than other-generated imagery. If a consumer is forced to create his/her own images, then mental processing is at a deeper level than if the images are created for him/her (e.g. through pictures). In their study Bone and Ellen (1990) found support for the hypothesis that self-related imagery creates more positive behavioural intentions than other-related imagery. Given the results of this self-relatedness factor, it appears that consumer researchers may wish to investigate other message characteristics, such as promotional texts with hedonic information, which could directly or indirectly affect behavioural intentions when imagery processing occurs (Antonides and Van Raaij, 1998).

### *Brochure design*

A characteristic of the medium 'tour brochure' is that pictures are used to generate mental imagery processing and emotional experiences. In this context is it relevant for tour operators to investigate the effect of the use of self-related imagery – instructions and verbal emotional information on external search behaviour. To be effective in stimulating the external information search of tourists, persuasive communication strategies need to focus on helping persons to imagine the positive sensory and emotional experiences of vacations. From this point of view the tourism industry should use emotional information in their promotion campaigns. By using information about feelings of pleasure and fun, advertisers actually try to tempt the consumer to plan a trip.

'The greater the use of cues that appeal to hedonic needs, the greater consumers' motivation to attend to the ad' (see MacInnis *et al.*, 1991). Apart from verbal information, figural/prominent stimuli can be used to enhance the attention to tour brochures. Research indicates a strong impact of pictures on attention, elaboration and memory. Moreover the size of the advertisement itself influences its prominence and consequent attention paid to it (Finn, 1988).

'The greater the use of figural/prominent executional cues, the greater consumers' motivation to attend to the ad' (see MacInnis *et al.*, 1991). Because of the widespread use of pictures in tour brochures, knowing the effect of picture size on all kinds of dependent variables (such as attitude toward the advertisement, behavioural intentions and overt behavioural responses) is of considerable importance to tour brochure design. Brochures with enactive imagery instructions, experiential texts and large pictures are supposed to be more attractive and will increase the return of the response card. Brochures without texts and small pictures will have a smaller impact.

According to MacInnis and Price (1987, p. 485) imagery instructions may be an important manipulation strategy when consumers are allowed the time to generate vivid imagery, when cues are concrete, when instructions focus on subjects' reactions to the image, and when consumers have sufficient knowledge to generate imagery about reactions. In a study, Goossens (1994b) found that both experiential text and large pictures did not affect the attractiveness of the cover and the overall information provided in the brochures. Besides, the emotional texts did not affect the degree to which the subjects could project themselves into the experience of the vacation situation (i.e. enactive imagery).

There is reason to assume that a stated level of low involvement with the particular tourist information explains the unexpected results. On the other hand, it is possible that mere descriptive (verbal) experiential information is not effective in making brochures more attractive. This may be explained by the fact that people tend to respond to advertising with what van Raaij (1989) calls a primary affective reaction. Furthermore, he assumes that a cognitive elaboration of information does not change the first impression of an advertisement. According to van Raaij this phenomenon is especially valid for visual information. In this perspective Goossens (1993) argues that vacation pictures with people who express their positive feelings visually will have a positive effect on the attractiveness of touristic brochures. Moreover visual information about emotional experiences, such as facial expressions of positive feelings, are cues which probably improve the consumer's motivation to attend to an advertisement.

In general, imagery processing is often used by consumers to evaluate marketing stimuli, and consumers differ with respect to their ability and desire to invoke imagery processes. Imagery may potentially improve the believability and memorability of a communication and influence consumer processing and responses. The understanding how individuals differ in their abilities to process imagery in various *senses* (see Gutman, 1988), and how use of enactive imagery influences the way consumers evaluate tour brochures, may help identify more effective ways to reach active vacation information seekers.

### *Communication effectiveness*

Regarding this Stern (1988) argues that creative and symbolic language may be used to endow the abstract service with sense appeal, and an analysis of figures of speech can help advertisers determine which kinds will most effectively reach consumers.

In communication messages, emotional information is often used to draw the attention of the target group, to intensify their interest, and to communicate the essence of the message. These three functions of emotions in information processing are essential for advertising goals. Nevertheless, considerable research suggests that advertising executional cues may influence communication effectiveness. Related research indicates that communication effectiveness is in part driven by consumers' motivation to process information from an advertisement. However, little research has explicitly linked executional cues to communication effectiveness via their impact on motivation and levels of processing. The greater the use of visual cues that enhance the relevance of the vacation activities to the self, the greater consumers' motivation to process information from the adverts. Follow-up research is relevant because tourist organizations usually communicate with their target groups in an emotional manner, for example by using hedonic and sensory information in brochures, magazines, advertisements, and so on. An important part of this information concerns the consumption experience of leisure products. Information about feelings of pleasure, relaxation, excitement, adventure and fun, meets consumers' hedonic needs; advertisers may motivate tourists with adequate pictures of travellers who express their satisfactory (leisure) feelings.

### *Understanding search behaviour*

The marketing implications of knowledge of search processing are diverse. For example, insight into search processes may assist in determining whether segmenting the audience may improve the efficiency of media communications. Knowledge of search processes may aid in the development of advertising appeals targeted at specific segments. Knowledge of search processes may also help to select appropriate marketing strategies for different market segments. Besides, knowledge of external information search may be quite useful in improving informational campaigns.

Various types of customer analyses identifying individuals' search behaviour have been used in tourism market planning (see, e.g. Manfredo, 1989; Perdue, 1993). In par-

ticular Havitz and Dimanche (1989) suggested that the relationship of the 'involvement' construct with search behaviour and promotional stimuli is relevant in tourism contexts. In addition, Bloch *et al.* (1986) noted that search behaviour is not always limited to prepurchase events. Individuals engaging in 'ongoing search' focus more on the recreational and enjoyment value of the search than on its information value. This so called 'ongoing search' concept is strongly related to 'enduring involvement'. In this case consumers gather information as a goal in itself. This means that the satisfaction (reward) stems from engaging in the search process itself. Thus, 'ongoing searchers' are primarily intrinsically motivated for (leisure) information, which means that the search process can be seen as an activity for its own sake, or even as a specific facet of their leisure-lifestyle. For direct marketers, such consumers are important with respect to 'word-of-mouth information' to other customers. Influence exerted by those sources appears to confirm service marketing theory, which suggests that consumers desire subjective and experiential information.

On the other hand, a consumer's information search activity may be mainly extrinsically motivated, which means that the activity is satisfying in terms of its consequence of payoffs. In fact these information seekers are of particular interest for direct marketers because they may be susceptible to the emotional benefits of hedonic appeals. Considerably more research is needed to develop communication strategies that *stimulate vacation search behaviour*. Tourist mass media, such as tour brochures, play a significant role especially in the beginning of the vacation planning process in determining choice destinations. Since brochures are manageable sales tools for tourism marketers, more research should be done on the effects of different kinds of verbal and visual information on vacation search behaviour. Continued research along these lines will aid advertisers and media planners in their efforts to stimulate tourism (Goossens, 1994b).

## Tourist Evoked Set

The specific destinations or tourist products that a tourist will consider in making a purchase choice are known as the *evoked set*. Within the evoked set different types of sets have to be taken into account in the various stages of a decision:

- The *total set* comprises all possible tourist alternatives in a particular tourist product category that are available in the market, even if the tourist is not aware of them or cannot recall them.
- The *unawareness set* is composed of all the tourist product alternatives that the tourist is not aware of in the market.
- Within the *awareness set*, one can find all the alternatives that the tourist can recall at a certain point in time.
- Among all the product alternatives that the tourist may recall, only some of them will be considered important in a purchase situation, and these will make the *consideration set*.
- Some of the alternatives may be important but can be considered infeasible, i.e. due to financial constraints (*infeasible* or *inept set*).
- Within the *choice set*, one will find only those alternatives that will be subjected to a 'mental weight evaluation', in terms of the attributes considered important to the tourist and his or her belief that some of them can deliver the expected benefits.
- Based on this evaluation process, some of the alternatives will be placed in the *non-choice set*.
- Finally, the *decision set* will determine the overall best alternatives to purchase.

In some cases, we may find an inert set, consisting of alternatives that the tourist is indifferent towards because they are not perceived as having any particular advantages. The ways in which travellers evaluate and choose vacation destinations have critical implications in the planning and evaluation of destination tourism strategies. A central concern for the marketing strategist is to gain entry for his/her product and service

(specific brand) into customers' abilities to retrieve such information into active memory when making product and service choices.

## Mental Categorization

Travellers are likely to consider a rather limited number of travel destinations in planning their leisure travel behaviour. The rationale for the limited set is based upon Howard's (1963) concept of evoked set which he originally defined as 'the collection of brands the buyer actually considers in the purchase decision process'. The concept of the evoked set was expanded by Narayana and Markin (1975), who also suggested the concepts of inert and inept sets. The inert set consists of those brands in the product category of which the consumer is aware but does not have sufficient information to evaluate them one way or the other. The inept set consists of those brands the consumer has rejected from his purchase consideration, either because of an unpleasant experience or negative feedback from other sources. Spiggle and Sewall (1987) divided the evoked set into two: an 'action set' of alternatives towards which a consumer takes some action, for example, by travelling to a destination from which he or she has received information; and an 'inaction set'.

### *Destination awareness*

A general model of traveller leisure destination awareness and choice has been provided by Woodside and Lysonski (1989). Destination awareness includes four categories: consideration set, inert set, unavailable and aware set, and inept set. Affective associations are specific feelings (positive and negative) that are linked with a specific destination considered by the traveller. The affective associations are positive usually for destinations a consumer would consider visiting and negative for destinations a consumer has decided definitely not to visit. The learning of these associations between specific affective concepts and a specific destination indicate how the destination is positioned in the consumer's mind (Woodside *et al.*, 1999). In the model, categorization in the destination awareness set is shown as a one-way directional influence on affective associations because some minimal amount of destination recognition/memory recall and categorization may be necessary to activate positive, neutral, or negative affective associations.

Travellers construct their preferences for alternatives based on destination awareness and affective associations. Preferences are the rankings assigned to destinations by relative attitude strength; that is, the ordering a consumer assigns to alternative destinations from most liked to least liked. Intention to visit is the traveller's perceived likelihood of visiting a specific destination within a specified time period. In the model actual destination choice is predicted to be affected by both intention to visit and situational variables. Intention to act has been found to be significantly associated with actual behaviour, provided that the intention question is posed concretely and related to a specific time period and situation. The greater the involvement or importance of leisure travel for the consumer, the smaller the number of travel destinations considered. Previous travel to a destination relates positively to the destination being included in the consumer's consideration set versus other mental categories of vacation destinations (Swarbrooke and Horner, 1999).

Destinations in consumers' consideration sets are linked with more positive associations compared with destinations in other mental categories, while destinations found in consumers' inept sets are most likely to be linked with negative associations. Consumers' preference for specific destinations is associated positively with the rank order in which the destinations are mentioned in consumers' consideration sets. On average, the first-mentioned destination is preferred more than the second, the second more than the third. Intention to visit a specific destination is influenced positively by the consumer's preference toward the destination. While this preference-intention may appear self-evident, the link

between preference and intention may be stronger for some destinations than others. This general model is useful in planning for tourism marketing decisions and measuring performance in implementing such decisions for specific destinations.

*Consideration set*

Some researchers have found an average consideration set of 3.4, and others an average consideration set of 2.7. The average size of the consideration set tends to get larger with foreign travel destinations. Overall, the sizes of the consideration sets are relatively small and quite similar in size to sets found for brands of non-durables being considered for purchase by consumers. The average size of the respondents' consideration set is significantly greater than the average number of destinations mentioned in the respondents' inert, unavailable–aware, and inept sets.

Given that the set sizes are relatively small, being mentioned in a consumer's consideration set represents value given that most respondents mention only a limited number of destinations and assuming that consumers are more likely to select final choice from alternatives mainly from their consideration set. Experience via previous visits to a travel destination is associated significantly with a subject's categorization of destinations in their consideration set.

*Understanding destination awareness*

Research results provide evidence that preference is associated strongly with consideration, that is, order of access of alternatives from long-term memory into working memory. Thus, using unaided awareness measurement is useful in learning how well a nation is faring in building a traveller franchise; that is, preference over competing destinations. Vacation travellers are likely to consider a limited number of vacation destinations when planning trips and categorize these alternatives into different sets according to perception, preference and experience. Tracking potential customer's awareness, preferences and descriptions of competing vacation destinations is useful for measuring marketing performance and planning marketing actions.

Tracking studies which focus on the types of sets discussed above reveals if a particular nation often makes the traveller's mental 'short list' (the consideration set) and therefore a contender for further evaluation and possible choice by travel customers. Such studies enable a marketing strategist to learn the principle associations with his or her brand (i.e. country) stored in long-term memories by potential customers. Learning such associations provides clues for the marketing strategist of what needs to be done for his or her nation to gain entry into travellers' consideration sets, and how to convert consideration into purchasing action. (Woodside and Ronkainen, 1993).

In the process of evaluating alternatives, the tourist uses two kinds of information – the range of products available composing the evoked set, and the criteria for selection – concerning the attributes of the alternatives. The procedures used to facilitate the final selection are called decision rules, decision strategies or heuristics. The compensatory form of decision rule implies an evaluation of each attribute of each alternative. The result of this will be a higher score for a particular alternative, what makes it likely to be purchased. When tourists do not make a balanced evaluation of the different alternatives, the decision rule is said to be non-compensatory.

### *The travel decision model*

The travel decision model is based on motivational levels, needs and desires of the individual as well as his or her expectations when facing a travel decision. According to the level of overall travel desire, he or she will be more or less receptive to travel stimuli such as advertising and promotion, travel reports, brochures, etc. The decision process will be shaped according to social and personal determinants of travel behaviour such as personality, socioeconomic status, attitudes and values, reference groups, and so on. The travel assessment of the different alternatives includes the analysis of a variety of factors, such as cost/value

relations, attractions and amenities within each destination, travel opportunity and arrangements as well as the quality and quantity of available travel information. Other external variables, such as confidence in the travel agent, the overall image of the alternative destinations and services, the tourist's previous travel experience, travel constraints (time, cost, etc.), and the degree of perceived risks (financial, functional, social, physical and psychological) are also important determinants in the travel decision model.

### *Decision rules*

Information-processing theory aims to describe and explain the means by which people absorb, structure and utilize information. In a marketing context, this is based on the recognition that consumers are constantly exposed to more information than they can meaningfully cope with. Consequently, they adopt *decision rules*, or strategies, in order to simplify the choice process. Five major types of strategies have been identified:

1. A *conjunctive* or threshold rule: options (e.g. vacation destinations) are eliminated from further consideration when they are perceived to have certain unacceptable features. Minimum acceptable levels exist for each attribute and each alternative is judged in relation to these cut-off points. An alternative that falls below the cut-off point on one or more alternatives is eliminated. A second strategy (such as the lexicographic process) may be used to make a final choice.
2. A *disjunctive* rule: options are chosen on the grounds that they are believed to possess a single overwhelming advantage, in terms of the features being considered. This is the simplest of all judgement models.
3. A *lexicographic* rule: postulates that, on occasions, people may screen options by priorities, i.e. the first vacation destination to demonstrate an advantage on a subset of key attributes, considered in order of importance, will be the one to be chosen. Alternatives are compared on the one attribute that is most important, and if one is noticeably better, it is selected with no further evaluation. If two or more are judged about equal, they are compared on the second most important attribute.
4. A *compensatory* rule: the option chosen will be the one which is perceived to have the best overall balance of favoured characteristics across all attributes. This fourth rule is at the basis of most well-known multi-attribute models.
5. *Elimination by aspects*: like the conjunctive process, alternatives are evaluated against minimum cut-offs on attributes, but like the lexicographic process, evaluation starts with the most important attribute. Those alternatives exceeding the cut-off point of the most important attribute are evaluated on the second most important attribute, and then the third, and so on.

A tourist may, in a particular choice situation, adopt any one or more of these decision rules. For instance, he or she may, by means of the threshold rule, eliminate several available alternatives from consideration: e.g. they may all be regarded as too expensive; this process will leave a repertoire of alternatives for further consideration and the choice from within this repertoire may then be made by a compensatory balancing of pros and cons. Pre-decision information search acts as a filter for the available set of products and product attributes for each vacation tourist.

### *Modelling decision-making*

The trade-off model is based on the assumption that, on many purchasing occasions, tourists are faced with a series of imperfect options. In arriving at a decision, an individual will sacrifice (trade-off) a desired level of a particular attribute in order to obtain a certain level of a different attribute. In making choices between different levels of various attributes, the tourist will reveal the utilities, or the relative value, he or she attaches to these attributes. Stewart and Stynes

(1994) explored the development of a model of decision-making associated with long-term, complex purchase processes. The lengthy decision-making process associated with complex purchases creates more opportunities than usual for marketers to assist, direct and influence a buyer's choice, but to do so they must understand both how and when in an extended choice process potential buyers are most easily reached.

The process of choosing one alternative over others involves making a series of decisions in which an individual's motivations, preferences, knowledge, cognitive processes, resources and constraints all play a role. Research into the behaviours and consequences of decision-making is conducted in many fields, each with a slightly different theoretical and methodological emphasis. Structural models are frequently grounded in economic theories of consumer choice, while process models rely more heavily on psychological theories of perception, learning and judgement. The research objectives and methods used to test the two classes of models reflect these different origins.

### *Structural models*

Most applications of decision research to recreation and tourism utilize discrete choice models, in particular multinomial logit models (Stynes and Peterson, 1984) used together with conjoint scaling methods (Louviere, 1983; Louviere and Timmermans, 1990a). Conjoint choice models predict a consumer's choice based on (i) attributes of the alternatives in the choice set; (ii) assumptions about how perceptions of the attributes are combined to form overall evaluations; and (iii) the assumption that the individual will choose the alternative which maximizes his or her utility (Louviere, 1988). In recreation and tourism contents, these models have been applied to studies of park visitation (Louviere and Timmermans, 1990b), the effect of park management options on park choice (Leiber and Fesenmaier, 1984), and vacation destination choice (Goodrich, 1978; Haider and Ewing 1990). Structural models are not considered useful as replica models of cognitive or behavioural processes, but rather as predictive tools.

### *Process models*

In contrast to predictive structural models, process models focus on how a choice is made, and argue that this process has much to do with which choice is made. Behavioural decision theory states that decision-making involves learning and adaptation to the decision environment. Learning can alter the decision-maker's perception and judgement, and is most likely to occur when the decision-maker is initially unfamiliar with the choice alternatives or the decision environment. Adaptation will be most important when the decision environment is unfamiliar, or when the environment changes over time. Both of these conditions, an unfamiliar task and a changing decision environment, are most likely to be associated with complex choice, implying that learning and adaptation will be most important when choice is most complex.

Other decision theories also support the concept of learning and adaptation during decision-making. According to some researchers, each person needs to understand and interpret or frame the choice in their own terms before they begin trying to solve it. In these models of problem solving, framing is proposed as a first step in solving a problem or making a choice. The frame coordinates and directs other decision-making activities. Information processing research focuses on the ways people deal with large amounts of information, and has shown how people create and use a variety of methods for searching and processing information to avoid being burdened with too much information; an example of adaptive decision-making.

While structural models treat decision-making as a static or a temporal event, dynamics are an implicit element of most process models, as the notion of a process implies some sequence of events. The concept of adaptive behaviour, for example, assumes that the decision-maker will react to perceptual and environmental changes, and their decision-making behaviour will reflect that reaction.

Decision theory has moved from its origins in microeconomic consumer theory to a more psychologically based, empirically supported perspective which adds recognition of the importance of both environmental constraints and human cognitive limitations. The basis for decision-making behaviour in process theory encompasses both the economic concept of subjective expected utility maximization, and the psychological concepts of stimulus-response behaviour and cognitive processing.

Simpler choices such as those widely studied in marketing and tourism can be seen as special cases or simplifications of more general decision processes. Time is perhaps the dimension that decision researchers have most neglected, explaining the general absence of learning, adaptation, and feedback processes within decision models.

The importance of decision framing in complex choice, together with the prevalence of strategic and complex decisions related to tourism has implications for conducting tourism choice research. Understanding how people frame tourism decisions would allow researchers to present subjects with choices that utilize frames like their own, improving the validity of decision experiments. The extent of individual variation in decision-making makes reliance on a single choice model problematic. Because of their proposed link to decision behaviour, decision frames could be a useful tool for segmenting decision-makers into groups, allowing succinct structural models to be developed for each.

## Evaluation of Alternatives

Tourists interpret products as arrays of cues and select only a few cues which have a high informational value, based on predictive and confidence values. Cues can also be conceptualized in terms of whether they are part of the physical object (*intrinsic*) or augment it (*extrinsic*). Tourists show a preference for intrinsic cues, but in some situations (e.g. *quality* is difficult to evaluate) are more reliant on extrinsic cues. Due to the tourists' limited cognitive capabilities, perceptual selectivity results in the tourist becoming more attentive to a limited number of tourist product attributes and, consequently, tourists may not notice a difference when changes in a tourist product formulation do not reach a critical threshold. Tourism brand names are very important extrinsic cues. Quality research may benefit from a de-emphasis on price as the main extrinsic quality indicator.

A major difficulty in reaching value is the variety of different meanings of 'value' held by tourists. Building a model of value requires that the researcher understands which of many meanings are implicit in the tourists' expressions of value. Tourists form judgements based on samples of cues which they believe to be indicative of certain characteristics. Consumers assign information values to the available cues, selecting those with the highest values.

> A cue's information value is a function of its predictive value (accuracy of predicting an attribute) and its confidence value (consumer's confidence in the predictive value assigned to the cue).

Research shows that tourists base their decisions on a limited number of the available cues and that the predictive value of a cue has a dominant effect on cue utilization, with a moderating effect from the confidence value. The somewhat restricted level of information search undertaken by tourists can be explained within this framework. If a few cues offer high predictive and high confidence values, these will be selected. However, where none of the cues has high predictive and high confidence values, more cues would be consulted. Learning, through tourist product experience, would enable tourists to adjust their predictive and confidence values internally which would stabilize over time and reduce the need for information. In other words, each tourist sees a tourist product as a bundle of product attributes with varying capacities for delivering those benefits which can be acquired by buying such tourist products or services. Consumers will pay the most attention to

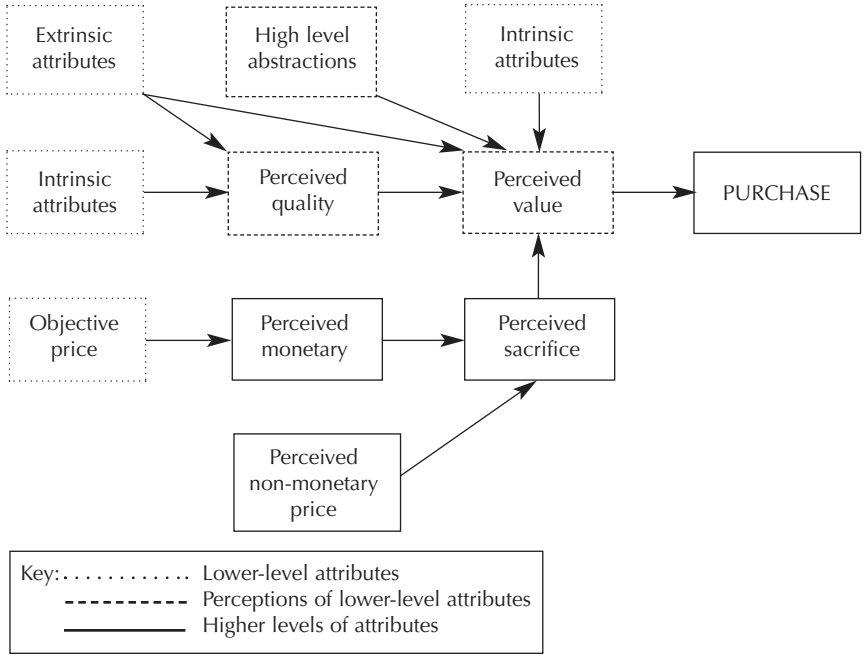


**Fig. 3.7.** The relationship between price, perceived quality and perceived value.

those attributes that better connect with their needs.

Figure 3.7 shows a model which affords an overview of the relationships among the concepts of price, perceived quality and perceived value. Thus, according to this model, both intrinsic and extrinsic cues may determine both the quality and perceived value. It is now time to discuss the circumstances under which these cues may affect the evaluation of tourist products from both their *perceived quality* perspective and *perceived value*.

### *Perceived quality*

Figure 3.8 depicts the perceived quality component of the conceptual model in Fig. 3.7. First of all, a tourist product's quality is evaluated as high or low depending on its relative excellence or superiority among tourist products or services that are viewed as substitutes by the tourist. The fact that specific or concrete *intrinsic attributes* differ widely across tourist products, as do the attributes tourists use to infer quality – even within a tourist product category – may provide different signals about quality. As attributes become more abstract, tourist products become common to more alternatives.

Tourists represent the attributes in memory at abstract levels, this is seen in the way by which, for example, tourists compare non-comparable alternatives (e.g. how they choose between such diverse alternatives as a stereo and a Hawaiian vacation). Tourists may use informational cues to develop beliefs about products and that task response (i.e. choice or evaluation) may be a direct function of these mediating beliefs. These beliefs may be of two types: descriptive, which involves a restatement of the original information in more abstract terms; and inferential, which involves an inference to information missing in the environment.

Therefore, these distinctions illustrate the level at which dimensions of quality can be conceptualized. The intrinsic tourist product attributes that signal quality may be product-specific, but dimensions of quality

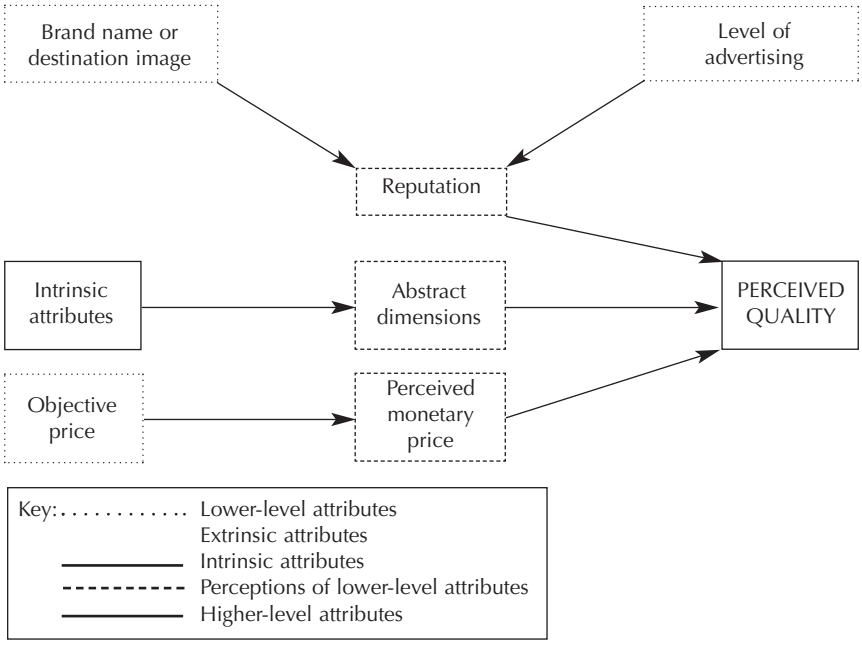


**Fig. 3.8.** The perceived quality component of the conceptual model.

can be generalized to tourist product classes or categories. Price, brand name and level of advertising are the extrinsic cues frequently associated with quality in research, yet many other extrinsic cues are useful to tourists.

*Price*

Price appears to function as a surrogate for quality although a multitude of experimental studies on the topic reveal that the relationship may not always be positive. However, the use of price as an indicator of quality may be used:

- when the tourist has inadequate information about intrinsic attributes;
- when intrinsic cues to quality are readily accessible, when brand names provide evidence of a tourism company's reputation, or when level of advertising communicates the tourism company's belief in the brand, the tourist may prefer to use those cues instead of price;
- when the tourist is aware of tourist product prices;
- when consumers have not sufficient tourist product knowledge to detect quality variation among tourist products.

Thus, tourists appear to depend more on price as a quality signal in some tourist product categories than others. Facts like the difference in price–objective quality relationship by tourist product category may make the price as a signal of quality relevant or not; while the existence of little variation in prices within the same tourist product category may not attribute high quality to tourist products that cost less than the competitors.

*Brand name*

Similarly, brand name may serve as a 'shorthand' for quality by providing tourists with a bundle of information about the tourist product. It is accepted that tourists have limited cognitive capabilities and that to

overcome this limitation they seek efficient means of processing and storing information. There is clear evidence that tourists recognize a brand name as an informational chunk. Thus, the brand names may enable stored information to be recalled from memory which then interacts with the intrinsic cues to produce different results.

*Level of advertising*

Level of advertising has been related to tourist product quality. The level of advertising, rather than actual claims made, informs tourists that the tourism company believes the tourist products are worth advertising (i.e. are of high quality). Supporting this argument is the finding that many consumers perceive heavily advertised brands to be generally higher in quality than brands with less advertising.

Thus, we can conclude by saying that extrinsic cues serve as generalized quality indicators across tourist brands, products and categories. Research shows that extrinsic cues serve as generalized quality indicators across tourist products (e.g. brand name as a surrogate for quality), but the nature of intrinsic cues as indicators of quality is tourist product specific. Besides, tourists show a preference for intrinsic cues when they have a choice. However, when intrinsic cues are not available, if quality is difficult to evaluate or when the evaluation of intrinsic cues requires more effort than tourists perceive to be worthwhile, extrinsic cues will be preferentially sought.

*Implications*

All this consumer behaviour theory may be used to help tourism companies to decide whether to invest in tourist product improvements (intrinsic cues) or in marketing (extrinsic cues) to improve perceptions of quality. A single answer is unlikely to be given because of the difficulties involved. On the one hand tourists depend on intrinsic attributes when the cues have high predictive value. On the other hand, tourists depend on extrinsic attributes more than intrinsic attributes when the tourist is operating without adequate information about intrinsic tourist product attributes. At the point of purchase, tourists cannot always evaluate relevant intrinsic attributes of a tourist product (insufficient time or interest or tourists have little or no experience with the tourist product). The last difficulty is that the signal quality changes over time because of the development of technically better tourist products (the features that signal superiority change), promotional efforts, and as a response of competence; changing tourist tastes and information.

The particular implications for tourism marketing researchers are that attention must be focused on finding the few key tourist relevant attributes, rather than relying on a managerially derived attribute list. As the intrinsic cues used by tourists vary by tourist product, a standardized attribute list cannot be contemplated. Thus if tourism marketers want to assess tourists' appreciation of formulation changes, the use of trained panels may be of value. Besides, since tourists may develop categories and evaluate tourist products by deciding which mental category the tourist products are more similar to, and hence what their properties are likely to be, it could happen that these categories do not contain mental images of all competing brands, but just those perceived as relevant to the tourist. Thus, if, for example, a tourism company wants to be good at developing new tourist products, given the rapid changes in preferences, technology and competition, a comparative, rather than monadic, analysis may be very useful.

### *Perceived value*

In order to finish the whole picture, we add the last component of the model, before the purchase is completed: *value*. Value is proposed to be a higher level abstraction and differs from quality in two ways. First, value is more individualistic and personal than quality and is therefore a higher-level concept than quality. Although value has been defined in many ways (as an 'emotional payoff', an abstract, multi-dimensional, difficult to measure attribute, and as 'instrumental values') the concept remains a high-level abstraction for all of them. Second, value

unlike quality involves a trade-off of 'give' and 'get' components. Though many conceptualizations of value specify quality as the only 'get' component in the value equation, the tourist may include other factors, several that are in themselves higher levels of abstraction, such as prestige and convenience. Therefore, benefit components of value include salient intrinsic attributes, extrinsic attributes, perceived quality, and other relevant high-level abstractions.

Tourists may sacrifice both money and other resources to obtain tourist products and services. To some tourists, the monetary sacrifice is pivotal and anything that reduces the monetary sacrifice will increase the perceived value of the tourist product. Less price-conscious tourists will find value even at the expense of higher costs because time and effort are perceived as more costly. Others may respond depending on the cues – often extrinsic cues – in forming impressions of value. Thus, tourists who may define value as low price, may not compare a reduced price tourist product with the prices of other tourist brands.

Those tourists who define value as the quality that they get for the price they pay may mention either intrinsic or extrinsic attributes (level of service, or brand name). Finally, the tourists who define value as what they get for what they pay, may depend on intrinsic attributes. However, not all the intrinsic attributes of tourist products can be evaluated in the same way. One would expect to find a more rational evaluation in situations of high information availability, processing ability, time availability, and involvement in the purchase.

All this goes to show that the diversity of meaning of the perception of value for tourists may depend on the frame of reference in which the tourist is making an evaluation. That is, at the time of purchase, value may mean low price or sale, etc. (extrinsic attributes). On the other hand, value may involve some calculation about the tourist product itself (intrinsic attributes: location and so on). Finally, it has also been suggested that not all tourists want to buy the highest quality product in every tourist product category. Instead, quality appears to be factored into the explicit or implicit valuation of a tourist product by many consumers. A given tourist product may be high quality, but if the tourist does not have enough money to buy it (or does not want to spend the amount required), its value will not be perceived as being as high as that of a tourist product with lower quality but a more affordable price. The same principle may apply to tourist products that need more decision-making time than the tourist's time constraints allows.

*Implications*

Research is required that investigates which cues are important and how tourists form impressions of quality based on objective cues. Tourism companies may also benefit from research that identifies the abstract dimensions of quality desired by tourists in a tourist product basis. This process involves a careful look at situational factors surrounding the purchase and use of the tourist product. Identifying the important quality signals from the tourist's viewpoint, then communicating those signals rather than generalities, is likely to lead to more vivid perceptions of quality. Linking lower-level attributes with their higher-level abstractions locate the 'driving force' and 'leverage point' for advertising strategy.

The dynamic nature of quality suggests that tourism marketers must track perceptions over time and align tourist product and promotion strategies with these changing views. Because tourist products and perceptions change, tourism marketers may be able to educate tourists on ways to evaluate quality. Advertising, the information provided, and visible cues associated with tourist products can be managed to evoke desired quality perceptions. Tourism marketers should also acknowledge the existence of non-monetary costs, such as time and effort. Anything that can be built into tourist products to reduce time, effort and search costs can reduce perceived sacrifice and thereby increase perceptions of value.

Reducing monetary and non-monetary costs, decreasing perceptions of sacrifice, adding salient intrinsic attributes, evoking

perceptions of relevant high level abstractions, and using extrinsic cues to signal value are all possible strategies that tourism companies can use to affect value perceptions.

Thus, the selection of a strategy for a particular tourist product or segment depends on its tourists' definition of value. Strategies based on tourists' value standards and perceptions will channel resources more effectively and will meet customer expectations better than those based on tourism company standards.

An understanding of what quality and value mean to tourists offers the promise of improving tourism brand positions through more precise market analysis and segmentation, tourist product planning, promotion and pricing strategy. An understanding of consumer behaviour can also help to design more realistic marketing procedures and evaluate a tourism company's strategy. Therefore, this line of thinking implies that tourism marketing researchers can better guide marketing decisions by applying these aspects of consumer behaviour theory to different aspects of tourism marketing procedures.

## Tourist Behaviour Modelling

A vacation tourist behaviour model is presented in Fig. 3.9. It consists of a flow-chart with three parts: (I) pre-decision and decision process; (II) post-purchase evaluation; and (III) future decision-making. Each part is composed of fields and subfields, linked by other concepts related to the tourist's behavioural processes.

### *Part I: Pre-decision and decision processes*

This part is concerned with the flow of events, from the tourist stimuli to purchase decision. The fields included are: preference structure (as a major process in the pre-decision phase), decision and purchase. As the two last phases are outcomes of pre-decision, the model is more detailed in respect to this process, and its analysis includes the following subfields: stimulus filtration, attention and learning processes, and choice criteria.

#### *Field 1: Preference structure*

The tourist's preference structure for a particular destination is based on a set of factors, and as additional objective information modifies that set, effective judgements for the destination can be expected to change over time. Among those factors are the internalized environmental influences which include cultural norms and values, family and reference groups, financial status and social class. These are broad determinants of preference structure and, thus, will influence tourist product evaluation. Individual determinants of preference structure comprise concepts such as personality, lifestyle, perceived role set, learning and motives. Motives can be defined as the conscious recognition of a psychological need influenced by genetics, experience and situation.

Intention to purchase depends on confidence generation, that is, certainty and sureness towards the vacation destination or tourist service. Confidence generation is a 'summary' concept in the sense that it results from all the preceding elements. The consumer has a pervasive sense of uncertainty, caution, anxiety and indecisiveness. Those sentiments are no less present in travel than elsewhere, and are no less consequential. They are inhibitors which cause a tourist to respond differently from the way his or her attitude towards the destination or service dictates.

*SUBFIELD A: STIMULUS FILTRATION.* Travel stimuli display can appear via mass media or personal sources and it has either a significant or symbolic connotation related to attributes such as quality, price, distinctiveness, prestige, service and availability. Consumers do not use raw information provided by mass communication, but process it before using it. Stimuli may be intentionally or incidentally apprehended. Also, messages arriving to the tourist vary in degrees of stimulus ambiguity. This leads to a search for additional data and holds a confrontation of information received and

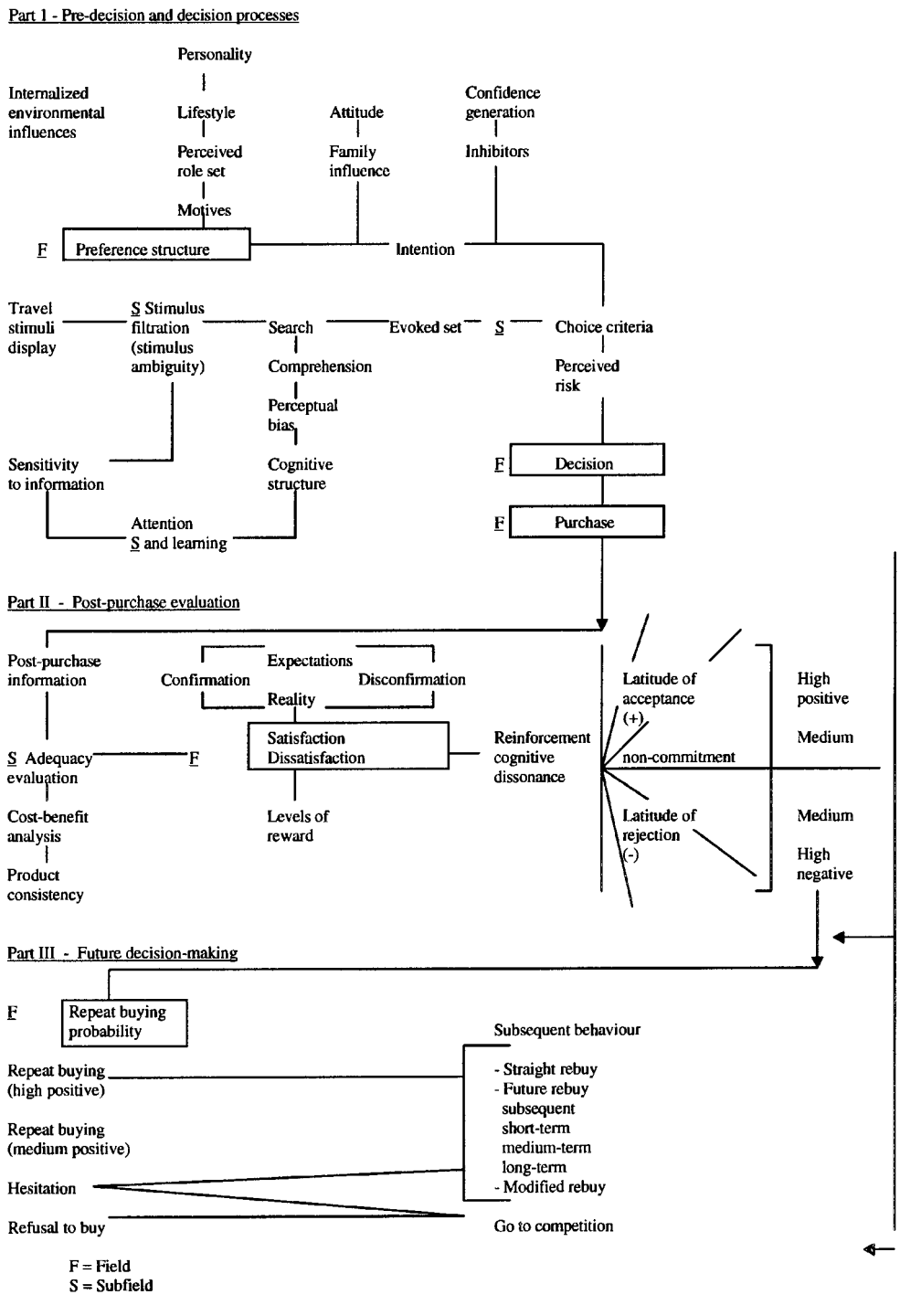


**Fig. 3.9.** A vacation tourist behaviour model.

real experience. Thus the filtration process comes to protect the tourist, since it implies the ability to discriminate facts from exaggerations in advertising.

The concept of search includes all activities directed at collecting information about a product. It may become stronger when the tourist is uncertain about the merits of alternative destinations. One reason for the limited scope of external search is that tourists often have available a wealth of previously acquired information, based on past experience and previous knowledge, which can be retrieved through internal search.

The promotional information may arrive either from a tourist board/organization or from intermediaries or channels of distribution. Advertising of a vacation product results in a fraction of potential users becoming aware of the product and the remaining entering the non-aware class. The aware tourists then become either triers or non-triers.

*SUBFIELD B: ATTENTION AND LEARNING PROCESSES.* Assuming the system is active, the individual 'sizes up' inputs selectively through a process of comparison whereby inputs are compared with information stored in memory. Attention indicates sensitivity to information and deals with the magnitude of information intake by an individual at a specific time.

Learning can be considered as any systematic change in behaviour, and is measured by the increase in the probability of making a particular response. It holds an interrelationship with the cognitive structure, which is an organized system of knowledge and beliefs formed from sources of learning. The search for meaning, the need to understand, the trend towards better organization of perceptions and beliefs to provide clarity and consistency for the individual permit the comprehension of the tourist product.

*SUBFIELD C: CHOICE CRITERIA.* The criteria tourists employ in evaluating destinations or tourist services that constitute their evoked sets are usually expressed in terms of tourist product attributes that they feel are important to them. Sometimes the tourist would maintain in the long-term memory an overall evaluation of the alternatives in his or her evoked set. This would make assessment by individual attributes unnecessary. Instead, the tourist would simply select the alternative with the highest perceived overall rating. This type of synthesized decision rule has been labelled the 'Affect Referral Rule' and may represent the simplest of all decision rules.

### *Field 2: Decision*

The decision process may be studied as a sequence of conflicts; the conflict situations constituting a decision process are those that precede the choice and are necessary to explain what is chosen. This decision results in a psychological predisposition in terms of intention towards the buying act.

A tourist's decisions may be based on perceived images, on information from tourism destination promotion, on previous experience, on image of potential destinations, on travel intermediaries, advice or on social interaction. The decision process is determined by the tourist's background awareness, which includes formation of beliefs and images (revised tourist terms of reference), the evaluation of vacation concepts and, finally, the travel decision (the merging of different beliefs and accommodation of opinions).

### *Field 3: Purchase*

The preceding steps can lead to the act of buying a vacation destination. Purchase has been described as the outcome of psychic processes taking place more or less consciously. The total tourist product is generally purchased in a sequence (i.e. transportation, accommodation, tours, etc.) and not always as a tour package.

Purchases can occur out of necessity; they can be derived from culturally mandated lifestyles or from interlock purchases; they can result from simple conformity to group norms or from imitation of others.

### *Part II: Post-purchase evaluation*

Post-choice evaluative feedback has a significant impact on the decision-maker's set and/or subsequent behaviour. One of our key elements noted as affecting a tourist's expectations is the satisfaction with post-purchase. Post-purchase evaluation has three major purposes. First, it adds to the tourist's store of experiences and it is through post-purchase assessment that experience is taken into the tourist's frame of reference. Hence, it broadens personal needs, ambitions, drives, perceptions and understanding. Second, post-purchase assessment provides a check on market-related decisions. Third, it provides feedback to serve as a basis for adjusting future purchase behaviour.

*SUBFIELD D: ADEQUACY EVALUATION.* Adequacy evaluation is the factor related to the 'ideal' point of each attribute of the tourist product as perceived by the tourist. When evaluating adequacy, the tourist uses a mental cost-benefit analysis; this leads to an equilibrium level for the prices paid. Product consistency represents the sum of all real attributes perceived by the tourist when utilizing the service, and follows a kind of ranking system in the user's mind.

*Field 4: Satisfaction/dissatisfaction*

Gratification varies in terms of levels of reward, and these are key factors to benefit delivery and future decision-making. The satisfaction/dissatisfaction dimension must also be considered in relation to the cognitive dissonance mechanism. Although commitment to repurchase will also depend on factors such as variety seeking, subsequent behaviour will be shaped by zones or latitudes of acceptance and of rejection in consumer perceptions. In the present model a third zone was introduced, the non-commitment latitude.

### *Part III: Future decision-making*

Future decision-making is mainly related to the study of the subsequent behaviour of the tourist by analysing different probabilities for repeat buying a particular destination or tourist service.

*Field 5: Repeat buying probabilities*

Subsequent behaviour will, thus, depend on levels of return prospect and may result in: (i) 'straight re-buy'; (ii) re-buy in different time parameters (subsequent, short-term, medium-term or long-term); and (iii) modified re-buy behaviour, based on the change to new tourist products or on the search for a better quality of services.

The inclusion of post-purchase evaluation and future decision-making in this model was an attempt to contribute to a global analysis of tourist behaviour and, as a practical outcome, to marketing decision planning. The development of the tourism industry requires generation of criteria for a better quality of services in order to match the changing needs and desires of the tourist population (Moutinho, 1987).

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# 4

# Tourism Marketing Research

**L. Moutinho**

## Introduction

Marketing research in tourism is the systematic gathering, recording and analysing of data about problems related to the marketing of tourism services. The five most common types of tourism marketing research activities are as follows:

1. determination of market characteristics
2. measurement of market potentials
3. market share analysis
4. sales analysis
5. studies of tourism business trends.

The marketing research process is a structured procedure linking together the marketing researcher, the marketing decision-maker and the sources of relevant information concerning a particular problem. The key to the process is planning. The marketing research process has its roots in scientific research and the scientific method. In practice, however, marketing research studies in tourism range from the 'quick' and 'simplistic' to carefully planned, systematic empirical investigations of hypotheses. Marketing research is usually conducted on request to provide information relevant to the solution of specific problems as they occur.

Marketing research is a growing and widely used business activity in tourism because organizations need to know more about their final consumers but typically are widely separated from those consumers. Marketing research is used throughout all four phases of the management process: selecting strategies, developing marketing plans, putting the plans into action and evaluating their effectiveness. Some tourism companies are now beginning to coordinate and integrate their marketing research activities into marketing information systems designed to provide managers with the relevant information they need for recurring problems and decisions. However, marketing research is not the same as a marketing information system (MIS) (see Table 4.1). The function of marketing research is to provide information that will assist marketing managers in recognizing and reacting to marketing opportunities and problems. The importance of such information is shown in Box 4.1.

## Benefits

Marketing research links the organization with its marketing environments. It involves the specification, gathering, analysing and interpretation of information to help management understand the environment, identify problems and opportunities, and develop and evaluate courses of marketing action. Marketing research is defined as an informational input to decisions, not simply

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**Table 4.1.** Differences between marketing research and a marketing information system (MIS).

| Characteristic | Marketing research | Marketing information system (MIS) |
|---|---|---|
| Data type | 1. Primarily external information | 1. Can be internal and external data oriented |
| Problem orientation | 2. Primary function is to solve problems | 2. Solves problems but also attempts to prevent problems through controls |
| System orientation | 3. Handles projects in a prescribed project-to-project basis | 3. Operates as a true system rather than intermittent as projects |
| Information focus | 4. Usually oriented towards present and past data | 4. Projection techniques provide means for acquiring future oriented data |
| Hierarchy | 5. One source of information for decision making and a market information system | 5. This system includes a variety of sub-systems of which marketing research is one |
| Degree of commitment | 6. Can be sporadic because of project-to-project basis | 6. Total organizational commitment secures the best efficiency |

**Box 4.1.** The place of information in effective marketing.

Marketing research information helps the marketer to be an effective decision-maker. To be effective, the marketer needs to gather enough information to:

- Understand *past* events
- Identify what is occurring *now*
- Try to *predict* what might occur in the future

*Marketing research* is the systematic and objective process of gathering, recording, and analysis of data for marketing decision-making.

Guideline 1: The term 'marketing research' suggests a specific, serious effort to do research. The term 'research' suggests a patient, objective, and accurate search.
Guideline 2: Marketing research is not limited to product research. Marketing research should yield information that *helps* managers to make decisions.

the evaluation of decisions that have been made.

The marketing research process is a tool that helps tourism managers wisely or adequately resolve marketing problems. Many tourism companies are geographically separated from the bulk of their markets. Collecting information about these distant markets is essential so that management can make intelligent decisions about what is needed in far away places. Also, important information is seldom obvious. Accurate answers to important behavioural questions may be essential in deciding effective strategies, yet the answers may be difficult for management to answer without conducting research. Relying on collected market information enables managers to make effective decisions relating to all target markets. Finally, accurate and carefully researched information is needed because of the high cost of making a mistake. Tourism management cannot afford the risk of making a wrong decision on the basis of intuition or guesses. Too little information results in needless risk, but attempting to collect too

much information involves excessive costs. Therefore, it is prudent for management to make a trade-off between the cost of collecting and analysing additional information, and the expected cost of making a wrong decision if the information is not collected. Neither marketing research nor marketing information systems can, however, eliminate all uncertainty and risk.

Relationships between managers and marketing researchers are being improved because both parties are communicating more effectively with each other and are developing a better understanding of each other's needs and problems. Management is also becoming more involved in marketing research. A marketing research activity providing management with the maximum possible support will be one that reflects management's responsibility and involvement.

### *Classification of techniques*

One should take the line that a research problem with a certain basic format (e.g. the convergent causal structure) leads to the choice of a technique of multivariate analysis which corresponds to that format. Therefore, the first and most important criterion for the classification of techniques is the underlying format. An obvious criterion is the measurement level of the variables: quantitative, ordinal or nominal. Another criterion of frequent occurrence is the presence or absence of dependency, in other words the causal asymmetry, whereby the distinction between independent and dependent variables is made. The measurement level and the dependency are the two most widely used criteria for the classification of techniques. The basic format is the most important criterion, because it ensures the correspondence with the conceptual structure of a social-scientific research problem (Tacq, 1997).

## Implementation

At the initial stage of the marketing research process, a particular problem confronts the company or organization; usually this problem should be specifically and correctly defined. To help identify the true problem(s), a company should conduct a situation analysis, which is an investigation of the factors internal and external to the firm or organization that potentially relate to the problem area. In the situation analysis, the marketing manager or researcher relies on secondary data, which is data that has already been collected or published, for purposes other than the one immediately at hand. The secondary data could come from internal or external sources. Secondary data should be used whenever possible because they are readily available and are relatively low cost compared with primary data.

After having defined the specific research objectives and consulted the secondary data available, the market researcher can lay out the research design and then proceed to collect the necessary primary data. A research design is a blueprint or map for obtaining and collecting the primary data needed to solve a particular research problem.

Qualitative or motivational research can be very useful for exploratory purposes. It is designed to find the 'emotional hot buttons' of the tourist in relation to a particular subject, by bringing hidden stimuli up to the level of conscious awareness (see Chapter 3). Qualitative research involves many techniques ranging from in-depth interviews to group discussions. In the give and take of focus group discussions, tourists often reveal attitudes and perceptions that they would not make evident through other data collection methods. Furthermore, motivational research contributes to the process of questionnaire design. The most appropriate type of survey depends on the nature of the information sought, the required sample size, and the location of subjects.

A variety of methods can be used to collect primary data, and each method has certain situations for which it is most appropriate. The three principal methods for collecting primary data are as follows:

1. The observation method where data are obtained by watching human behaviour.

2. The survey method where people are questioned directly by telephone, mail or personal interviews.
3. The experimental method in which the researcher assesses how changes in manipulated variables affect other variables; the factor to be assessed is called the dependent variable, and the factors that affect it are called the independent variables.

All methods for collecting data require some type of data collection form. When designing a questionnaire, it is not easy to develop effective questions. There are, however, six criteria to consider for an effective question; it must be relevant, clear, brief, inoffensive, unbiased and specific. Several basic types of questions can be used: open-ended, structured, indirect rating scales, semantic differential, control, semi-open, graphic rating scales, verbal scales, filter, Likert scales, and Thurstone scales, among others. Since even the experienced marketing researcher can make mistakes, many companies insist on questionnaire pre-testing, which consists of administering the questionnaire to a small group before using it to gather information from the entire survey group.

In the next section of this chapter we will consider methods of data collection in more detail. However, almost all marketing research projects require a sample of the population, because it is too costly in terms of time and money to contact all the people in the study population. Therefore, after consideration of data collection methods and experimentation we will address the issue of sampling.

## Data Collection

Acquiring data from respondents is a major part of tourism marketing research. Data may be required concerning respondents' past behaviour (e.g. what tourism brands they have purchased), attitudes (what beliefs and feelings they have about a tourism product) and characteristics (demographic, socioeconomic, psychological or psychographic). The two basic ways of collecting data from respondents are by communication and by observation. We shall first look at methods of communication.

### *Communication methods*

A useful way to classify communication methods is by their degree of directness and degree of structure, as shown in Fig. 4.1. A direct approach is one where the objectives of the research are obvious to the respondent from the questions asked, while an indirect approach asks questions in such a way as to disguise these objectives. The degree of structure may be seen as a continuum, from the highly structured formal questionnaire where the respondent must choose from predetermined responses, through semi-structured questionnaires where responses may be open-ended, to sets of questions which are no more than guidelines for a discussion in which respondents express their views freely. We shall now consider the uses, advantages and disadvantages of different methods.

#### *Structured-direct*

This is the most commonly used method, the standardized questionnaire where responses require selection of one or more alternatives from a set of predetermined responses. Questions are asked with exactly the same wording and in exactly the same order for each respondent. This type of approach is most appropriate where the data required from the respondent are easily articulated, clear-cut and limited in scope, but less appropriate where researchers want more in-depth information related to the formation and evolution of attitudes. Structured-direct questionnaires require time and skill to develop effectively, and generally also need extensive pretesting to ensure that the questionnaire is correctly interpreted by respondents and that the questions measure what they are designed to measure.

The advantages of this method are its ease of administration (by mail, telephone or personal interview) and ease of data processing and analysis. The format is designed to control response bias and thus increase

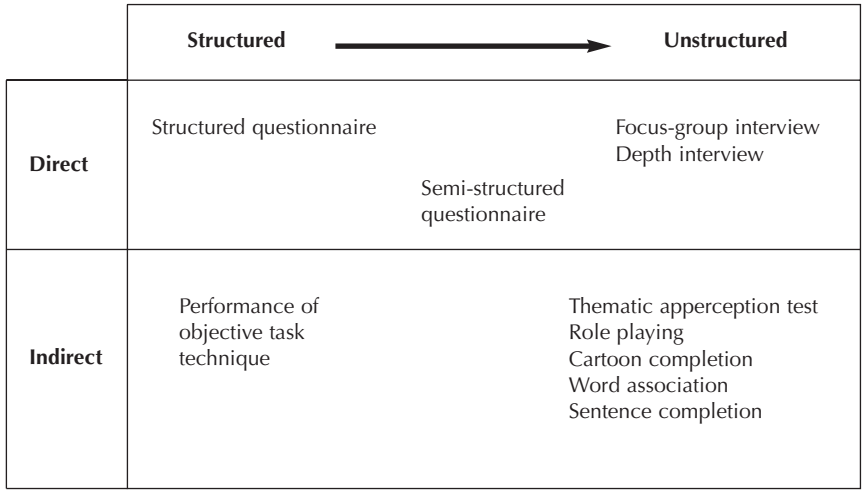


**Fig. 4.1.** Classification of communication methods.

the data reliability. Disadvantages are that respondents may not be willing or able to provide the required data, or the interviewing process may bias their responses, e.g. they may give socially acceptable responses rather than true ones.

*Unstructured-direct*

The two main techniques using this approach are the depth interview and the focus group.

*THE DEPTH INTERVIEW.* An unstructured personal interview where the respondent is encouraged to express freely his or her detailed beliefs and feelings on the subject in question. The interviewer will have a note of the general areas for discussion but no fixed sequence in which they must be covered, and will use probing questions to fully explore the respondent's ideas and attitudes. The approach is used when the object of the research is to get below surface reactions to the more fundamental reasons for respondents' beliefs and feelings.

The advantage of the depth interview is the depth of insight which can be gained into the respondents' feelings and motivations, and so it is used mainly in exploratory research. Disadvantages include the high degree of reliance on the interviewer, who must create an environment in which the respondent is comfortable to discuss the topic freely. Interviewers with the skills and experience to create a high level of rapport, while also probing to get the required level of information, are relatively few in number and generally highly paid. The high cost per interview and the length of interview required imply a small sample size, and this, coupled with the lack of structure, means that analysis will be qualitative rather than quantitative (Brunt, 1999).

*THE FOCUS GROUP INTERVIEW.* A frequently used technique in tourism marketing research. It is a loosely structured interview conducted simultaneously with a group of respondents, who all have something in common (e.g. all full-time housewives, or teenagers who are still at school, or members of a particular interest group). The interviewer, usually called a moderator, must be highly skilled and experienced in order to establish rapport among the group, to keep the discussion relevant to the topic and ensure the required depth of discussion, and create interaction within the group rather than seem to be interviewing participants individually. The selection of respondents and the physical setting of the group are also important. Focus group interviews can be

used for several purposes: to stimulate new ideas on tourism products or concepts, to get impressions of new tourism product concepts, to generate hypotheses for further quantitative testing, or to interpret previously obtained quantitative results.

The advantages of well-conducted focus group interviews are many. They are a chance for tourism marketers to listen directly to the consumer's opinions, thus gaining a valuable insight into how their tourism product is actually perceived. The combined group is likely to produce more ideas than the same number of respondents interviewed individually, due to participant interaction, a higher level of involvement in the discussion, and more spontaneous responses. As with the depth interview, a highly trained and experienced interviewer is required, but is used more efficiently in 'interviewing' several people at once. Group sessions are often recorded to allow further analysis at a later date.

The major disadvantage of the focus group is that the data gathered cannot be used in a conclusive manner; no quantitative information can be elicited which can be extended to tourism target markets, and findings are highly dependent on the perception of the moderator and others who interpret them. Other disadvantages relate to the risk that groups will be poorly recruited or conducted.

*Semi-structured-direct*

This category covers questionnaires which are less formally structured than the standardized questionnaire, but do not offer the complete flexibility of the depth interview. They would typically be used in a personal interview where a range of information is required, some of which is easily classified into categories and some of which requires more detail.

The advantages of a semi-structured approach are the possiblity of generating both quantitative and qualitative data, and the flexibility of the approach. For instance, some or all of the standardized questions may be mailed to the respondent prior to the interview date, so they are already answered and the interviewer only needs to probe where explanations and more detail are required. Disadvantages are that interviews still require a fair amount of interviewer time, so samples are likely to be fairly small and, as in the depth interview, much depends on the skill and experience of the interviewer (Sudman and Blair, 1998).

*Structured-indirect*

This method is often called the performance of objective task technique. Respondents are asked to memorize and/or report information about a tourism-related topic, for example they are exposed to a range of tourism advertisements and asked to recall what they remembered about them. The technique assumes, based on research on selective information processing, that respondents are more likely to recall information which is consistent with their own attitudes, and thus the amount and type of information recalled is used to draw inferences regarding respondents' underlying attitudes.

The method is an attempt to gain the data collection and processing advantages of a structured approach without asking respondents directly about behaviour and attitudes which they may be unwilling or unable to discuss. However, many researchers doubt whether it is valid to extend the research findings on which it is based to the measurement of factual information as a reliable indicator of attitudes and beliefs.

*Unstructured-indirect*

These data collection methods are known as projective techniques. They are designed to obtain data indirectly about beliefs and feelings which respondents may be unwilling or unable to communicate, by asking them to interpret the behaviour of others. The most commonly used techniques are the thematic apperception test (TAT), role playing, cartoon completion, word association and sentence completion.

- The thematic apperception test uses one or more pictures or cartoons depicting a scenario concerning the tourism product or topic being investigated. The situation is ambiguous with no hint as

to whether its interpretation should be positive or negative towards the tourism product or topic. The respondent is asked to describe what has happened or will happen, and can thus indirectly project personal attitudes into their interpretation of the situation (Tull and Hawkins, 1993).

- Role playing presents the respondent with a situation in which they are asked to describe the feelings or reaction of a third person. Their response is believed to reveal their own attitudes. A variant of the technique is to ask respondents to characterize a person based on the tourism products they have bought; their description is thought to reveal their attitudes towards the tourism products.
- The cartoon completion technique asks respondents to complete a cartoon showing people in a situation relevant to the tourism product or topic, by completing a caption to respond to a remark made by one of the characters, e.g. 'We have just bought a trip and a cruise', 'Our neighbour is thinking of buying a time-share', etc.
- The word association technique uses a list of carefully selected words which are presented in turn to respondents, who are asked to give the thoughts that come to them when they hear the word, or to give as many single associated words as possible in response to each word. The test is analysed by the frequency of responses, the amount of hesitation in responding, and the number of respondents unable to respond to particular words in a certain time. Non-response is assumed to indicate a high level of emotional involvement, and hesitation a lesser level.
- Sentence completion is similar; the respondent is asked to finish an incomplete sentence with the first phrase that comes to mind, and these are analysed.

Projective techniques are used in exploratory research, to discover hypotheses to be tested using more direct techniques. Their advantage is in eliciting feelings and attitudes which respondents might not reveal when questioned directly. Their disadvantages lie in their complexity, which means that they need highly skilled interviewers and interpreters. The cost per interview is therefore high, which leads to the use of small samples (Chisnall, 1996).

### *Communication media*

The three main media of communication are the personal interview, the telephone interview and the mail interview. Structured communication techniques may use any of these, while unstructured techniques typically need personal interviews. Table 4.2 analyses the advantages and disadvantages of each method.

### *Observation methods*

The other method of collecting data is by observation, which involves recognizing and recording behaviour. Tourism marketers frequently use informal observation, such as noting competitive prices or tourism product availability. Techniques for formal observation are designed to minimize the large error potential in informal observation. Observation is useful in collecting data about tourism behaviour which the respondent is unaware of or unwilling to discuss, and potential bias caused by the interviewing process is eliminated. However, attitudes and feelings cannot be observed, and it is also difficult to observe many personal activities such as those which take place within the home. For the observation method to be cost-effective in terms of observer time, the behaviour to be observed must be reasonably predictable or occur frequently, and must be of short duration. Observation methods are therefore far less frequently used than communication methods.

There are several ways of classifying observation methods. The setting may be natural or contrived, e.g. watching people shopping normally as opposed to in a mock 'store' created for the purpose of the research. Observation may be disguised or undisguised, according to whether respondents are aware of being observed. In structured observation, observers are told exactly what they are to measure and how it

**Table 4.2.** Comparison of communication media.

| | Personal | Telephone | Mail |
|---|---|---|---|
| Versatility | High, can use visual cues, explain complex questions, probe answers | Medium, can explain/probe to a lesser extent | Low |
| Cost | Most expensive | More expensive than mail unless interview is very short | Least expensive |
| Time | Depends on size of sample and number of interviewers | Usually faster than other methods | Depends on how many follow-up mailings required to achieve acceptable response |
| Sample control | Easiest to control, researcher can select exactly who is to be interviewed, e.g. from electoral register or mailing list | Relies on less efficient sampling methods (simple random or systematic). Sample bias may result as not everyone has a phone | Can control selected sample for mailing, but no control over return of questionnaire or whether selected person is actually the one to complete it |
| Quantity of data obtainable | Most | Least | Medium |
| Quality of data | Good if well administered. Dependent on interviewer, bias could result from bad interviewing techniques or cheating. Control procedures required to minimize chances of these | Better control of interviewers likely to lead to better quality data | Found to be better quality on sensitive topics, but bias can result from misunderstood questions, changing answers after completion, failure to recall events |
| Non-response (respondents unavailable or refusing to participate) | Callbacks necessary to reduce proportion unavailable. Little can be done about refusals | Good timing of calls, and callbacks, can reduce proportion not available. Little can be done about refusals | Avoids problem of non-availability. Prepaid return envelopes, reminders and incentives (free gifts, entry to prize draw, etc.) can be used to lessen refusal rate |

is to be measured, while in unstructured observation, observers monitor any behaviour that seems relevant to the research questions. Direct observation is the observation of behaviour as it actually occurs, while indirect observation looks at some records of past tourism behaviour, for instance, looking at previous holiday bookings to estimate their future purchases of specific types of tourism products. Observation may be human or mechanical. Mechanical means include motion picture cameras, the audiometer, which records when radio or TV sets are switched on and the station to which they are tuned; and the eye camera, which records eye movement to discover how respondents read a magazine or advertisement: in what sequence, and for how long they look at specific parts. There are also devices which measure respondents' physical reactions to stimuli, such as the psychogalvanometer, which measures changes in perspiration rate, and the pupilometer, which measures changes in the diameter of the pupil of the eye.

Another technique which has been

attempted is brain wave analysis; the electrical 'signals' emitted from the brain can be monitored to indicate the level and type of interest of respondents in the stimuli they are presented with. The left hemisphere of the brain deals with more sequential and rational activities, while the right hemisphere specializes in pictorial and emotional responses. Thus the level of brain waves emitted from each side of the brain can indicate the type of interest in the stimulus. However, brain wave monitoring needs to be done in laboratory conditions, which may affect responses, and there are other complex theoretical and methodological issues associated with the analysis, which require further research.

## Experimentation

The testing and evaluation of different alternatives is a frequent part of tourism marketing activities. For instance, a tourism product may be sold for a period at a higher or lower price than normal in order to monitor the effect on sales, or a travel agency claim may try out different wordings of appeals to discover which one attracts most donations. Here, we discuss the essential features of a controlled experiment, the usefulness of *ex post facto* studies which resemble experiments, and the errors which can occur in experimental research. We then look at some of the most common experimental designs, and at suitable environments for conducting experiments.

### *What is experimentation?*

Experimentation involves the manipulation of one or more variables, in such a way as to measure its effect on other variables. Variables being manipulated are known as *independent* variables, while those variables which reflect the impact of the independent variable are known as *dependent* variables. For instance, in price manipulation, price is the independent variable and sales the dependent variable.

The *treatment group* is that part of the population which is exposed to manipulation of the independent variable; for example, those airline routes where the price is changed. In order to measure the effects of manipulation, it is also necessary to have a part of the population where the independent variable is unchanged; i.e. in some airline routes price should be left at its original level. This group is known as the *control group*.

It can only be claimed that effects on the dependent variable are caused by manipulation of the independent variable, if effects of other variables are measured or controlled. The two most usual methods of achieving this are by randomization, random assignment of population elements to a treatment and control group, and by matching, assigning elements specifically to treatment or control groups in a way that achieves a balance on key dimensions. A well-designed experiment thus allows measurement of the causal relationship between an independent and a dependent variable, because it controls all other possible causal relationships relating to other variables (Kinnear and Taylor, 1996).

### Ex post facto *studies*

Although frequently used in tourism marketing research, these are not true experiments. They attempt to trace back over time from a present situation, in order to discover the causes of some aspect of that situation. For instance, in attempting to discover why one travel agency has consistently higher sales than another in a similar area, a researcher may discover a difference in management style, and deduce that a more democratic management style is a factor leading to success. However, this cannot be proved; many other factors may have been overlooked which have greater impact upon sales, and it is impossible to say how much, if any, of the difference in sales is due to management style. The shortcomings of this type of research are that the independent variable is not manipulated by the researcher, and that there is no preselection of population elements into treatment and control groups, in order to control extraneous variables.

*Ex post facto* studies are frequently used because experimentation may be impracti-

cal or impossible, but they do not have the validity of controlled experiments, and are vulnerable to many of the errors we now discuss.

### *Common experimental errors*

1. *Premeasurement* refers to changes in the dependent variable produced as a result of initial measurement. A tourism firm wishing to test the effect of a change in discounting (the independent variable) on tourists' purchase consumption of a certain travel package tour may interview respondents before and after the change. A respondent who has never before tried the package tour may, after the first interview, decide to try it, and like it. By the time of the second interview, his or her travel purchase pattern may have totally changed, but this is due to the interest brought about by the original interview, rather than any effect of the discount change (Sheldon, 1993).
2. *Interaction* error occurs when respondents' interest in, or sensitivity to, the independent variable is changed by the premeasurement. Tourism marketing research may test attitudes to a tourism product before and after a particular advertising campaign. If the same people are interviewed, the very fact that they have answered questions about the tourism product may cause them to pay more attention to the campaign than they would have otherwise. Here the premeasurement and the independent variable (the advertising) jointly affect the dependent variable (attitude to tourism product) (Pizam and Mansfield, 1999).
3. *Instrumentation* error refers to changes in the measuring instrument over time. These are most likely to be due to human involvement; interviewers or observers may become more skilled as the experiment progresses, or they may become bored and disinterested so that the quality of interviewing or observation diminishes.
4. *Maturation* refers to changes due solely to the passing of time, which may affect the dependent variable. This can be especially problematic in experiments that continue over a long period of time, for instance repeated questioning of young people on attitudes to a activity holiday camp. As these respondents grow older, their tastes and perceptions are likely to change rapidly.
5. *History* refers to events outside the control of the experimenter which occur between pre- and post-measurement, and affect the dependent variable. An airline may attempt to measure the effect of a price reduction on sales of a particular route. However, if there is an unexpected heatwave during the experimental period, it will be difficult to separate the effects of the price reduction and the weather in accounting for increased sales.
6. *Selection* of treatment and control groups can cause errors if the groups are initially unequal with respect to the dependent variable, or in sensitivity to changes in the independent variable. Random assignment and matching, described earlier, are techniques which can minimize this problem.
7. *Mortality* refers to the loss of respondents from the different experimental groups. A long-running experiment is almost certain to lose some respondents between start and finish. If different types of respondents are lost from the treatment group and the control group, the groups may no longer be well matched, and conclusions may not be valid.
8. *Measurement timing* errors can occur when either pre- or post-measurements are made at an inappropriate time for measuring the effect of manipulating the independent variable. A typical situation is when post-measurements are taken too early, measuring the immediate rather than the long-term effect of a change.
9. *Reactive* errors occur when the experimental situation itself causes effects that alter the effects caused by the manipulation of the independent variable. Respondents 'shopping' in an

experimental travel store may behave differently to their normal shopping behaviour. If they see prominently displayed tourism products which they think are of interest in the experiment, they may buy them because they feel they ought to, or conversely, some people may resist buying them. Either way, results are affected. Reactive errors can only be controlled by the structure of the experimental setting.

10. *Surrogate situation* errors occur when the experimental situation is somehow different, in terms of environment, sample population or variable manipulation, from the actual situation which will occur. The experimental travel store cited above is an example of such a situation. Alternatively, a tourism product which has been successfully test marketed may not sell as well as predicted because competitors respond to its introduction by increased advertising of, or price reductions on, competing tourism products.

### *Experimental design*

All the types of error described above, apart from reactive error, measurement timing and surrogate situation errors, can be controlled for by the experimental design. However, different designs are most efficient in the control of different types of error, so researchers need to select a design that controls for the most potentially serious and most likely errors in their particular situation. Experimental designs can be divided into basic designs which consider the impact of only one independent variable at a time, and statistical designs which may consider the impact of more than one.

#### *Basic designs*

1. *After-only.* Here the independent variable is manipulated and then a post-measurement is made. For instance, a new tourism product is displayed in travel stores and its sales are monitored. After-only designs do not control for errors of history, maturation, selection or mortality. Neither is it easy to interpret results, with no standard of comparison.
2. *Before-after.* Here premeasurements are made, followed by the manipulation of the independent variable, followed by post-measurements. For instance, sales of a tourism product are monitored, the price is reduced, and sales are monitored again in a similar fashion. If no errors exist, price can be said to be the cause of any change in sales. However, this design may also be affected by errors of premeasurement, history, interaction, instrumentation or mortality.

The two above designs cannot control history effects because they lack a control group, and are thus often referred to as quasi-experimental designs.

3. *Before-after with control.* This is like the before-after design, except that the test population is divided into a treatment group and a control group. All sources of potential error apart from interaction and mortality should affect both groups equally, so their effects on the control group can be measured and these changes subtracted from the total changes in the treatment group, to measure changes due solely to manipulation of the independent variable. However, premeasurement may cause interaction errors, and mortality errors may be caused by loss of group members if the experiment is a lengthy one.
4. *Simulated before-after.* This design controls premeasurement and interaction errors by using two different, randomly selected groups of respondents for the pre- and post-measurements. However, the other potential errors in the before-after design can still occur.
5. *After-only with control.* Here, both treatment and control groups are selected, but only post-measurements are taken. The design eliminates interaction errors, and all other errors eliminated by the before-after with control design apart from selection error. It is thus suitable when selection error is

unlikely to be a problem, for instance with large random samples.

6. *Solomon four-group.* This design, also known as the four-group six-study design, consists of two treatment groups and two control groups. One treatment group and one control group are subject to a before-after with control design, while an after-only with control design is used on the other treatment group and control group. This design controls for all sources of error which can be controlled by design, as the effects of interaction and mortality, which cannot be controlled by the before-after with control design, can be estimated by comparison with the after-only groups.

### *Statistical designs*

Statistical designs allow the travel researcher to measure the effects of more than one independent variable, and also to control for specific extraneous variables. This is done by structuring a combination of several experiments of basic design to run simultaneously. Statistical designs are thus susceptible to the same errors that can occur in the basic designs used (Frechtling, 1996).

#### *Randomized blocks design*

This design is appropriate when it is thought that there is one major extraneous variable likely to influence results; for instance, reactions to tourism destination advertisements may differ according to the gender of the respondent. Treatment and control groups are stratified on the basis of this variable; for instance, if gender was the extraneous or blocking variable, the sample would first be divided into male and female subgroups, and individual respondents within these groups would then be allocated randomly to treatment or control groups. The randomized blocks design is generally more useful than a completely randomized design because in most tourism marketing research studies there is at least one extraneous variable – e.g. gender, age, income – which should be controlled for. However, if there is more than one such variable this design cannot be used, a Latin square or factorial design is needed.

#### *Latin square designs*

These allow the control of two non-interacting extraneous variables. They require that each of the two blocking variables, and the independent variable, be divided into an equal number of blocks or levels. For instance, we may wish to examine the impact of price reductions on sales of a theme park product. We suspect that the impact will vary according to the region of the country and also to the type of travel store in which it is sold. We would then construct a Latin square design in the form of table, with the two blocking variables as the rows and columns. Here we will divide each variable into three blocks: North, Midlands and South for the regions, independent travel agency, chain travel agency and department store travel shop for the travel store types. The independent variable (price) must also be divided into three, so we will use three different reductions, £20, £40 and £60. These levels are randomly assigned to the cells of the table, so that each level occurs once and once only in each row and each column. Table 4.3 shows our design, known as a $3 \times 3$ Latin square as it has three rows and three columns.

A basic design experiment is then conducted in each cell, usually either a before-after or after-only design, with or without control. For instance, an after-only design with control, using groups of ten travel outlets, would entail ten travel agencies in the North making a £40 reduction, ten in the Midlands making a £20 reduction, ten in the South making a £60 reduction, ten chain travel agencies in the North making a £60 reduction, etc. For each of the nine cells a control group of ten travel outlets would hold the original price. Thus the effect of each price reduction could be seen once in each type of store and once in each region. Levels of sales could be analysed to find out how reductions affected sales, and how the effect varied by region and travel outlet type.

Latin square designs are often used in tourism marketing research, particularly in

**Table 4.3.** 3 × 3 Latin square design.

| | Region | | |
|---|---|---|---|
| Travel store type | North | Midlands | South |
| Independent travel agency | £40 | £20 | £60 |
| Department store | £60 | £40 | £20 |
| Travel shop | £20 | £60 | £40 |

retailing. One drawback is that it is not always easy to subdivide blocking and independent variables into the same number of groups, and another is the requirement for the blocking and independent variables to be non-interacting. Also, only two extraneous variables can be controlled. However, the technique can be extended to control for three such variables, this is known as the Graeco-Latin square design.

*Factorial design*

Factorial designs can measure the effect of two or more independent variables, and allow for the possiblity of interaction between the variables, i.e. that the effect of the variables taken together may be different from the sum of their effects taken separately. Interaction is measured by using factorial designs and analysis of variance (ANOVA) analytical procedures.

A factorial design with only two independent variables can be shown as a table, one variable being represented by the rows and the other by the columns. A cell is needed for each possible combination of independent variables, i.e. if there are four levels of one variable and five of the other, 20 cells are required. The same basic experiment is then carried out in each cell. Analysis of variance procedures can determine the effects of each variable and of their interaction (Fesenmaier *et al.,* 1996).

If there are more than two independent variables, the number of cells required will increase rapidly, especially if each has several different levels. Thus factorial designs can become very complex and costly. It is often the case, however, that only some of the effects and interactions are of interest, and then a fractional factorial design can be used, consisting of only the relevant part of the full design.

### *Experimental environments*

Experimental environments can be classified according to how closely they mirror the normal situation in which the observed behaviour takes place. An experiment testing the effect of different tourism product prices on sales in a normal store obviously has a much higher degree of realism than an attempt to measure such effects by showing respondents the same tourism products in an artificial laboratory setting and asking how much they would be willing to pay for them. Where human respondents are concerned, it is necessary to make a study as realistic as possible, in order to minimize reactive error.

Experiments with a high degree of artificiality are known as *laboratory* experiments, and those with a high degree of realism as *field* experiments. The next section looks at typical uses of these experimental types, and the advantages and disadvantages of each.

*Laboratory experiments*

These are often used in initial testing of new tourism products and promotional material. They take place in an isolated setting, where independent variables can be manipulated under carefully controlled conditions. This means that researchers can be sure that the experiment will produce similar results if replicated (*internal validity*). Effects of history are minimized as the experimenter is in control of the laboratory situation. Labora-

tory experiments generally use much less time and fewer resources, and they also have the advantage of keeping ideas secret from competitors.

However, the great strength of internal validity leads directly to the weakness of low *external validity*, or *generalizability*. Behaviour of respondents in a laboratory setting may not be replicated when they are in a more normal situation with many other influences and distractions. Thus, laboratory experiments are often used at a 'screening' stage of development, and the tourism products or advertisements receiving a favourable reception go on to market testing.

Laboratory experiments may also be subject to reactive errors, when respondents are influenced either by the experimental situation or the experimenter. Respondents may deduce the purpose of the experiment and attempt to behave as expected, or may react to non-verbal cues by the experimenter. Reactive errors may be minimized by using control groups, and by using skilled experimenters and, as far as possible, standard and impersonal means of communication such as written instructions or tape recordings.

### *Field experiments*

Field experiments in tourism marketing research generally take place in the marketplace. This means that the advantage of a high degree of realism is offset by a lack of control of extraneous variables, and sometimes even of the independent variable – for example, some travel retailers may be unwilling to cooperate in varying the price of a tourism product, making random selection of travel stores impossible. Extraneous variables such as competitor activity or weather conditions may affect findings. Internal validity is thus lower than for laboratory experiments, but external validity is higher, due to the more realistic environment. Marketers therefore tend to place greater reliance on their results.

One of the most common types of field experiment conducted in tourism marketing research is *test tourism marketing*. This may be used to judge market acceptance of a new tourism product, or to test alternative marketing mixes: different advertising strategies, different types of travel packaging, price changes, etc. In addition, the introduction of a new tourist product to a test market may highlight problems with the tourist product that were not evident until the tourism product was actually bought or used in a realistic way. The three basic types of test tourism marketing are *standard*, *controlled* and *simulated* market tests.

*STANDARD MARKET TESTS.* Here a sample of market areas is selected – regions, towns, etc. – and the tourist product is sold as normal, using either a standard tourism marketing mix or varying the mix in specific and controlled ways. Test markets are selected carefully to be representative, both demographically and in terms of competition, of the wider travel market. They should be large enough to give meaningful results, and (if being used for new tourist product testing) should allow testing of the tourist product in all conditions in which it is likely to be used. If more than one version of the tourism product, or more than one tourism marketing mix, is to be tested, then test markets must also be sufficiently similar to allow valid comparisons between them. The length of time for which test markets should be run depends on initial consumer response, the purchase cycle for the tourism product, and the extent of competitive activity. It is generally recommended that tests of new tourism products should run for 10–12 months to achieve correct market share forecasts.

Standard test tourism marketing is an example of an after-only design experiment, and thus is subject to the errors discussed for this design. In addition, test markets may be subject to greatly increased competitor activity, designed to produce unfavourable results for the test and thus stop the tourism product reaching the wider market. Test tourism marketing may also give competitors advance warning of tourism products being developed, allowing them to produce competitive tourism products which may even beat the original to the wider market. Another disadvantage of test tourism marketing is its high cost.

*CONTROLLED MARKET TESTS.* A controlled market test differs from a standard market test in that the tourism product is not distributed through normal channels, but by a market research firm on behalf of the company. This firm will pay a number of travel stores for the tourism product to be placed with them: perhaps a small number of travel stores in several areas (*controlled-store test*) or a large percentage of travel stores in a few smaller areas (*minimarket test*)

The advantages of these tests are that they are somewhat less visible to competitors, and competitors have no access to sales data. They are also quicker and less costly than standard test markets. However, the small sample of travel stores makes results less reliable, it is hard to test the effect of advertising as so few travel stores carry the tourism product, and there can be no estimate of retailer support as the participating retailers are being paid for cooperating in the test. These tests are therefore more often used as a final check before proceeding to standard test tourism marketing, than as the only precursor to national market launch.

*SIMULATED TEST MARKETS.* As the name suggests, these fall into the category of laboratory experiments. A sample of respondents is selected, representative of the target market. They are not informed of the true purpose of the test. They are exposed to advertising for the new tourism product, in a disguised format; for instance, they may see a television programme with several advertisements during the commercial breaks, only one of which is for the test tourism product. Respondents then have the opportunity to purchase the tourism product, either in a real or simulated shopping environment. After allowing a reasonable time for respondents to use the tourism product or travel to the destination product, they are contacted again and asked for their evaluation of it. The percentage of the original sample who purchased the tourism product is used to estimate the percentage of the target market who would try it, given knowledge of it and its availability to them. The after-use evaluations are used to estimate how many of the triers will repeat the purchase of the tourism product. These estimates are combined with an estimate of frequency rate in order to produce an estimated market share for the tourism product.

Due to the artificial environment, simulated test markets are vulnerable to surrogate situation errors and reactive errors. These can be controlled to some extent by comparing behaviour in laboratory situations with that observed in the actual marketplace – an experienced researcher may have discovered, for instance, that for every 20 people who are inclined buy a new tourist product in a laboratory situation, only 14 will buy in the actual market. This finding can be used in future situations with similar tourism products (Moutinho *et al.,* 1998).

## Sampling

Once we have decided the method we will use to collect data, we must consider the question 'From whom will we collect this data?' The alternatives are to take a census or a sample. In a census we use all available elements of the population of interest, i.e. if we wanted to find out what consumers thought about a new tourism brand targeted to families with children, we would go to all households with children. For a sample, we would select, based on clearly defined criteria, a subset of these households from which it would be valid to draw inferences about the whole population.

Sampling offers major benefits over taking a census. It saves time and money as fewer interviews are carried out. It may even be more accurate, as there will be fewer non-sampling errors, resulting from factors such as less skilled interviewers and data processors, or inadequate control of procedures. (A sample will, however, include sampling errors, which will be discussed later.) Thus most market research studies use sampling. Box 4.2 shows some key aspects of sampling.

Before we discuss how a sample is selected, we must define some basic concepts.

- *Element.* An element is the unit about

**Box 4.2.** Selecting a sample: simple relationships.

Definition: A *sample* is simply a portion or subset of a larger population.

Sampling involves answering three questions:

1. Who is to be sampled?
2. How big should the sample be?
3. Who should be included in the sample?

Working definitions:

- Census: a survey of *all* the members of the group.
- Probability sample: a sample in which every member of the population has a known, non-zero probability of selection.
- Non-probability sample: sample selected on the basis of convenience or personal judgement.

which information is required: an individual person, family, company, etc.

- *Population*. A population, or universe, is the aggregate of all the elements defined prior to the selection of the sample. It is vital that the population is defined in detail, in terms of elements, sampling units, extent and time. The population for a consumer survey on a new foreign tourism destination might thus be defined as:
  Element: travellers who contemplate holidaying abroad age 18+
  Sampling units: travellers who contemplate holidaying abroad 18+
  Extent: UK
  Time: 1–14 October, 1999
- *Sampling unit*. A sampling unit is the element or elements available for selection at some stage of the sampling process. The example above is a single stage sample, where the element and the sampling unit are the same; the sample is selected directly from the population. More complex sampling procedures may use several stages, for instance, in a survey of how young people spend their leisure time, we may want to interview young people aged 18–25 in households in towns with a population of under 100,000. Here the primary sampling unit would be towns with population under 100,000, the secondary sampling unit would be households, and the tertiary, and also final, sampling unit would be adults aged 18–25.
- *Sampling frame*. A sampling frame is a list of all sampling units available for selection at a stage of the sampling process. For instance, in the last example the first sample frame would be a list of towns with population under 100,000, the second sample frame would be a list of households within these towns, and the third would be a list of adults aged 18–25 within these households. Telephone directories, the electoral register and mailing lists are commonly used sample frames.
- *Study population*. A study population is the aggregate of elements from which the sample is actually selected. This is likely to differ from the population defined at the start of the survey, as some members of the original population may be omitted through incomplete sampling frames, e.g. people who have no telephone or have an ex-directory number, or people who have recently moved house.

### *Sampling procedures*

The general procedure for selecting a sample is shown in Fig. 4.2. We now continue with a discussion of specific sampling methods. First we must make a basic distinction between probability and non-probability samples (see Table 4.4). In probability sampling, sampling is done by mathematical decision rules so that each element of the population has a known chance of being chosen for the sample. This allows calcula-

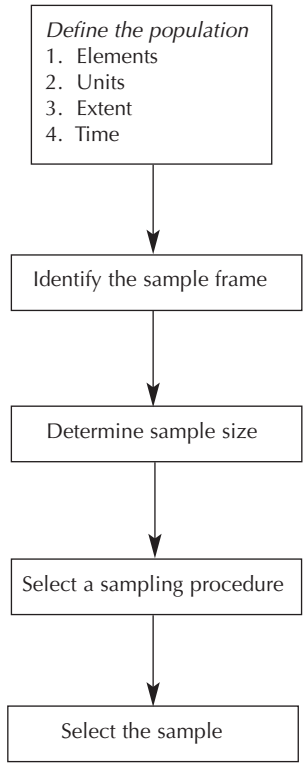


**Fig. 4.2.** Procedure for selecting a sample.

tion of the sampling error: the likely extent to which results for the sample differ from those for the population as a whole. In non-probability sampling, the selection of sample elements is based partly on the judgement of the researcher or interviewer. There is thus no known chance of selection and no means of calculating sampling error.

### *Non-probability sampling procedures*

*CONVENIENCE SAMPLE.* A convenience sample is selected on the basis of the convenience of the researcher. Examples would be calls for volunteers for travel product testing, a university researcher using students as research subjects, or stopping people at random to ask for their opinions. Sample elements are either self-selected, or selected because they are easily available, and so it is unclear what actual population the sample is drawn from. Thus sampling error cannot be measured, and we cannot make any conclusive statements about results. The convenience sample is therefore most often used at an exploratory stage of research, as a basis for hypothesis generation.

*JUDGEMENT SAMPLE.* A judgement (or purposive) sample is selected on the basis of expert judgement as to what particular sampling units would be most useful to research. For instance, in selecting travel agencies in an area to test a new tourist product, experts might select the 'best' for the purpose, on criteria such as typical traveller profile or turnover of similar tourist products. Again, sampling error is unmeasurable and conclusive statements cannot be made, but the method will give better results than convenience sampling, as long as the expert judgement is valid.

*QUOTA SAMPLE.* A quota sample seeks to replicate in the sample the distribution of the population, on the basis of defined control characteristics such as age, gender, social class, income, etc. For instance, if we know that 15% of the population is aged between 35 and 44, and our total sample is to be 1000, then 150 people aged between 35 and 44 should be interviewed. This can get much more complicated if we have several control characteristics, and may cause problems for interviewers trying to find the last few respondents in their quota. In a quota sample we must ensure that all control characteristics related to the subject of interest are included, and that the proportions for each category are correct and up to date, which is not always easy. The selection of specific sample elements to fit the quota is left to the interviewer; this may introduce an unknown bias, and thus it is again impossible to measure sampling error. However, quota samples are used in much consumer research, and carefully selected samples are likely to produce the best results of non-probability methods. But they are likely to be less valid than probability sampling methods, which we shall now consider.

**Table 4.4.** Classification of sampling procedures.

| Non-probability procedures | Probability procedures |
|---|---|
| Convenience sample | Simple random sample |
| Judgement sample | Stratified sample |
| Quota sample | Cluster sample |
| | Systematic sample |
| | Area sample |

*Probability sampling methods*

The most simple method of probability sampling is known as simple random sampling. Here, the selection of sample elements is made by using a list of random numbers. This means that each element in the population has an equal chance of being selected, and also, for a sample size of $n$, each possible combination of $n$ elements has an equal chance of being selected. We shall now discuss the types of statistics that can be calculated from a simple random sample. First, we need to explain some definitions and the notation used.

- *Continuous variable*. A continuous variable may take any of a range of values. For instance, age, examination marks and prices would be continuous variables.
- *Dichotomous variable*. A dichotomous or binomial variable may only take one of two values, for instance yes or no, male or female.
- *Parameter*. A parameter describes some measure of the defined population, for instance the average time period in planning overseas travel, obtained by adding all the time periods and dividing by the number of people included in the defined population.
- *Statistic*. A statistic describes some measure of the selected sample, and is used to estimate the population parameter. Thus, if in the above example a simple random sample of $n$ overseas travellers was selected, the average planned time period obtained by adding these $n$ time periods and dividing by $n$ (total sample) would be a statistic.
- *Sampling fraction*. The sampling fraction is the size of the sample divided by the size of the population.
- *Mean*. The mean or average of a sample is the sum of the sample values divided by the sample size.
- *Degrees of freedom*. The number of degrees of freedom of a sample indicates the number of values that are free to vary in a random sample of given size. This can also be expressed as 'sample size – number of statistics calculated". If, for example, we have calculated the mean of a sample of $n$ observations, only $n$-1 of those values would be free to vary, once we had set values for $n$-1 sample observations, only one possible value for the last observation would give the correct mean.
- *Variance*. The variance is the sum of squared deviations about the mean divided by the available degrees of freedom. Thus the population variance is given by the formula

$$\sigma^2 = \frac{\sum_{i=1}^{n} (X_i - \mu)^2}{n}$$

and the sample variance by the formula

$$s^2 = \frac{\sum_{i=1}^{n} (X_i - \overline{X})^2}{n-2}$$

For dichotomous variables this becomes

$$s^2 = \frac{\sum_{i=1}^{n} (X_i - p)^2}{n-1}$$

- *Standard deviation*. The standard deviation is the square root of the variance.
- *Sampling error*. Statistics used to estimate population parameters are subject to sampling error: the difference between the sample statistic and the

**Table 4.5.** Symbols used in sampling.

| | | Population symbol | Sample symbol |
|---|---|---|---|
| Continuous measures | Size of population or sample | $N$ | $n$ |
| | Mean (or average) | $\mu$ | $\bar{x}$ |
| | Variance | $\sigma^2$ | $s^2$ |
| Dichotomous measures | Proportion answering 'yes' | $\pi$ | $p$ |
| | Proportion answering 'no' | $(1 - \pi)$ | $(1 - p)$ or $q$ |
| | Variance of proportion | $\sigma^2$ | $s^2$ |

true parameter, due to the fact that a sample rather than a census has been taken.

Table 4.5 shows the conventional symbols used in sampling. Generally, Greek letters are used for population parameters and English letters for sample statistics.

*EXAMPLE.* An example will serve to illustrate the various concepts discussed. The following list shows the ages of the 50 young tourists taking a scuba-diving and paragliding holiday.

| Young tourist no. | Age | Young tourist no. | Age |
|---|---|---|---|
| 1 | 20 | 26 | 19 |
| 2 | 19 | 27 | 19 |
| 3 | 19 | 28 | 20 |
| 4 | 18 | 29 | 19 |
| 5 | 20 | 30 | 19 |
| 6 | 18 | 31 | 21 |
| 7 | 21 | 32 | 20 |
| 8 | 19 | 33 | 23 |
| 9 | 20 | 34 | 22 |
| 10 | 18 | 35 | 18 |
| 11 | 22 | 36 | 18 |
| 12 | 19 | 37 | 20 |
| 13 | 19 | 38 | 19 |
| 14 | 20 | 39 | 19 |
| 15 | 22 | 40 | 20 |
| 16 | 21 | 41 | 26 |
| 17 | 18 | 42 | 35 |
| 18 | 18 | 43 | 42 |
| 19 | 21 | 44 | 27 |
| 20 | 20 | 45 | 30 |
| 21 | 20 | 46 | 32 |
| 22 | 22 | 47 | 37 |
| 23 | 21 | 48 | 27 |
| 24 | 18 | 49 | 40 |
| 25 | 18 | 50 | 28 |

The mean of this population is 22.22, the variance 33.41 and the standard deviation 5.78. These values can be calculated using the formulae given. Any good spreadsheet program should have a function to calculate these parameters, and also sample statistics, directly.

Now, let us select ten random numbers in order to take a simple random sample. Say our numbers are 1, 9, 12, 13, 14, 25, 29, 31, 41, 47. This is a sample of 10 from 50 so our sampling fraction is $^{10}/_{50} = 0.2$. The ages of these young holiday-makers are 20, 20, 19, 19, 20, 18, 19, 21, 26, 37. The sample mean is 21.9, sample variance is 32.99 and standard deviation 5.74.

### *Confidence intervals*

The mean of a simple random sample provides a good estimator of the mean of the whole population, but it is of course highly unlikely that it will be exactly equal to it, due to sampling error. Thus we use an interval estimation of the population mean, i.e. sample mean plus or minus a sampling error. This is known as a confidence interval, and the probability that the true population mean lies within this interval is the level of confidence. On the basis that the sample mean calculated comes from a normal distribution, we express confidence intervals as sample mean plus or minus a specified number of standard deviations. The table of areas under the normal curve will tell us the number of standard deviations for different levels of confidence.

It is common to use a 95% confidence level, whose confidence interval is sample mean plus or minus 1.96 standard deviations. Thus for our example, the 95%

confidence interval would be 21.9 ± (1.96×5.74) = 21.9±11.25 = 10.65 to 33.15 This means that if we took 100 independent random samples and calculated the 95% confidence level for each, we could expect the true population mean to lie within that confidence interval in 95 out of the 100 samples. We can also talk about the precision of our estimate of the mean at a 95% confidence level, precision being the width of the confidence interval. (In this example, you will see that the confidence interval is very large; we will discuss ways of reducing it when we look at more complex sampling methods.)

Thus it is possible with simple random sampling to measure our sampling error and state clearly how accurate our statistics are, something that was impossible with the non-probability sampling methods discussed earlier. Although confidence intervals are sometimes quoted for results from non-probability samples, such calculation implicitly assumes that the sampling procedure yielded a simple random sample, an assumption likely to be invalid and certainly untestable.

*Effect of sample size on precision*

A sampling error occurs when the mean $\overline{X}$ of any individual sample is used as an estimate of the population mean $\mu$. For this reason we talk about the *standard error* rather than the standard deviation of the sample mean. The formula for the standard error of the sample mean is

$$s_{\bar{x}} = \frac{s}{\sqrt{n}} = \frac{\sqrt{\sum_{i=1}^{n} (X_i - \overline{X})^2 / n - 1}}{\sqrt{n}}$$

We note that the standard deviation varies inversely as the square root of the sample size, and so will decrease as the sample size increases, thus also lessening the width of the confidence interval around the mean and increasing the accuracy of our estimate. Increasing sample size thus improves our estimation of the population mean.

*Effect of population size*

So far we have not discussed the size of the total population. For most marketing research the total population of interest will be very large, and thus we need not be concerned about corrections for population size. However, for finite populations our previous formula for the standard error of the sampling distribution of the mean needs to be corrected by the finite correction factor $\frac{N - n}{N - 1}$, so that our formulae become

$$\sigma_{\bar{x}} = \frac{\sigma_x}{\sqrt{n}} \sqrt{\frac{N - n}{N - 1}} \text{ and } s_{\bar{x}} = \frac{s}{\sqrt{n}} \sqrt{\frac{N - n}{N - 1}} -$$

$$\sigma_p = \sqrt{\frac{\pi(1 - \pi)}{n}} \sqrt{\frac{N-n}{N-1}} \text{ and } s_p = \sqrt{\frac{pq}{n}} \sqrt{\frac{N - n}{N - 1}}$$

For large values of $N$ relative to $n$, the finite correction factor is approximately equal to 1. Thus the correction can be ignored as long as the sampling fraction is relatively small; a frequently used rule of thumb in marketing applications is only to use a correction factor if the sample includes more than 5% of the population. If we ignore the correction factor when we should have used it, we overstate the standard error and thus increase the size of our confidence interval.

*Non-sampling errors*

We must remember that calculation of confidence intervals only measures sampling error. If non-sampling errors occur in probability sampling procedures, an unknown element of bias is introduced and we cannot state our results with known accuracy. It is thus critical to control non-sampling errors.

*Sample size*

We have seen that in simple random sampling we can calculate the confidence level of our estimate of the mean sample size, using the equation $\overline{X} \pm 1.96 \frac{s}{\sqrt{n}}$ at the 95% confidence level and the precision of the estimate by using part of the equation Precision = $\pm 1.96\ s/\sqrt{n}$. Now suppose we want to reach a given level of precision. If we have a value for $s$, we can solve this equation for the required sample size $n$. For instance,

suppose that we wish to obtain an estimate, at the 95% confidence level, of the mean age, within 1 year, of a target segment for a new children's 'boot camp' resort. Assume we also have a value for $s$ of 5.0. The required sample size can then be obtained by substituting in the equation:

$$\begin{aligned} \text{Precision} &= \pm 1.96 s/\sqrt{n} \\ 1 &= 1.96 \times 5/\sqrt{n} \\ \sqrt{n} &= 9.8 \approx 10 \\ n &= 100 \end{aligned}$$

A sample size of 100 will be required.

In this example we have expressed precision in the relevant units, years. We call this absolute precision. Precision may also be expressed as a percentage of the mean value calculated. Here precision would vary according to the size of the mean, and is called relative precision. Using $.b$ to denote the precision percentage expressed as a decimal, we can write our equation for a 95% confidence level as

$$.b\overline{X} = \pm 1.96 \frac{\sqrt{s}}{n}$$

This can be rearranged to make

$$.b\sqrt{n} = 1.96 \frac{s}{\overline{X}}$$

This rearrangement demonstrates that we do not need to know both mean $X$ and standard deviation $s$, but only the ratio of the standard deviation to the mean, $\frac{s}{\overline{X}}$. This ratio is known as the coefficient of variation. Another ratio often used in practice is the relative allowable error, defined as 0.5(precision)/mean. For instance, if a researcher will accept an error of 1 year either way on a mean age of 10 years, the precision will be ± 1 year = 2 years, and the relative allowable error is 1/10 = 0.1.

An instrument called a nomograph has been developed so that researchers do not have to solve the equation whenever they wish to find an optimal sample size. Using coefficient of variation and relative allowable error, the optimal sample size for a specific confidence level can be simply read off a graph.

*Difficulties with calculation of optimal sample size*

We see above that to calculate required sample size we need a value of $s$ for absolute precision and a value of $s/\overline{X}$ for relative precision. Although it is unlikely that we will be able to cite an exact value for $s$, researchers experienced in the problem area are likely to be able to obtain fairly accurate estimates. In addition, the scale used in the measurement of the variable will set limits on the size of $s$; for example, a 5-point attitude rating scale would be likely to have an $s$ of around 2, and it must certainly be under 5.

For absolute precision the required sample size will vary directly with the confidence level required and the value of $s$, and inversely with the size of precision required. In most marketing research studies we would wish to measure many variables, and so the optimal sample size for each would be different. To assure required precision for all variables, we would have to select the largest of all these optimal sample sizes.

*Optimal sample size for a proportion*

Our previous formulae have dealt with the measurement of optimal sample size for a continuous variable. Now let us look at the corresponding calculations for a dichotomous variable. Assume $p = 0.4$ and we want ± 0.05 as the absolute precision at a 95% confidence level. Then

$$0.05 = 1.96 \frac{\sqrt{(0.4)(0.6)}}{n}$$

$$\text{so } \frac{0.24}{n} = \frac{(0.05)^2}{1.96} \text{ and } n = 369$$

giving a required sample size of 369.

In this case we need to know the mean $p$ in order to determine required sample size. However, $p$ is likely to be the value we are

trying to obtain by carrying out the study. As in the continuous variable case, experience in the problem area and consideration of the measurement scales used can give us reasonable estimates of $p$.

We can see then that the formula for calculation of required sample size relies in most studies on an initial estimate of the variables of interest, and thus functions as a guide to the researcher in determining optimal sample size, rather than a hard and fast rule. A researcher can assume different possible values of $X$, $s$, $p$, etc. and see what sample sizes are required.

There are several other factors which will affect the determination of sample size, such as the study objectives, cost, time, type of analysis planned, and existence and type of non-sampling errors. We shall briefly look at these now.

*STUDY OBJECTIVES.* Sample size is affected by the use to which the information is to be put. If precise informational inputs are not required, a small sample may be adequate. For instance, a company doing a survey to determine the level of interest in a new hotel chain magazine might be happy to estimate to within 10 or 15%. However, in a survey of visitation intentions, an estimate which was only 1 or 2% out could make the difference between correct and incorrect prediction of the result, so a much larger sample would be required.

*COST.* Financial constraints may limit the number of interviews it is possible to carry out and thus force the sample size downwards. Conversely, if the study is well financed, researchers must guard against choosing a larger than necessary sample size just because it can be afforded.

*TIME.* The larger the sample, the longer the study will take. But a long survey time may mean that final results are less valid or less useful. Sample size may have to be limited so that results are produced in appropriate time.

*DATA ANALYSIS PROCEDURES.* The most basic type of data analysis, univariate analysis, deals with only one variable at a time. We have seen already how the precision of estimates of one variable is affected by sample size. If we want to examine the relationships between two variables (bivariate analysis), the issue of sample size becomes more complex, and larger sample sizes will be required. If we intend to carry out multivariate analysis, examining relationships between several variables, the general rule is that the more parameters we are estimating, the larger sample size we require. However, there are some multivariate analysis techniques which can be used with small sample sizes, e.g. multidimensional scaling, factor analysis, cluster analysis, regression and analysis of variance (ANOVA) (see later in this chapter). Other techniques, such as the AID (automatic interaction detector) model, require very large samples. Thus researchers must have an idea of the analyses they will wish to carry out before deciding on a sample size.

*NON-SAMPLING ERRORS.* Some non-sampling errors will get larger with increased sample size; for instance, interviewer errors, non-response errors, data processing and analysis errors. Thus decrease in sampling error may be offset by increase in non-sampling error. There is a general perception that studies based on large samples are somehow more credible, but this is not necessarily true. The statistical precision quoted may be an accurate statement of sampling error, but only detailed knowledge of how the study was carried out will reveal possible sources, and likely size, of non-sampling error.

### *Stratified sampling*

We now turn to more complex types of probability sampling, which are more frequently used in practice than simple random sampling. First we consider stratified sampling, the advantage of which is that it may result in a decrease in the standard error of an estimate.

#### *Sample selection*

The first step in sample selection is to divide the population into mutually exclusive and

**Table 4.6.** Comparative results for each stratum.

| | Mean | Variance | Standard deviation |
|---|---|---|---|
| Without stratification | 21.9 | 32.9 | 5.74 |
| Stratum 1 | 19.5 | 0.86 | 0.93 |
| Stratum 2 | 31.5 | 60.5 | 7.78 |

collectively exhaustive subgroups or strata; that is, each sampling unit will belong to one and only one stratum. Suitable strata could be chosen on the basis of gender, age (with mutually exclusive age groups covering the whole span of ages in the population), or some other suitable variable. Having subdivided the population, an independent random sample is selected from each stratum.

*Stratified* sampling will only be of use in reducing the standard error of an estimate of a variable if the designated strata are more homogeneous on the variable of interest than the population as a whole. For instance, let us return to our young tourist population. This group in fact contains several more experienced holiday-makers, those numbered 41–50, who are considerably older than the rest of the group. Thus we can stratify the population into two groups, less and more experienced holiday-makers. These two strata are more homogeneous than the whole population on the variable of interest, age.

*Proportionate stratified sampling*

If we draw samples from each stratum in proportion to the relative sizes of each stratum in the whole population, this is known as proportionate stratified sampling. Let us try this with the young tourists sample. There are 40 less experienced and 10 more experienced holiday-makers, so a proportionate stratified sample of 10 will include 8 less experienced and 2 more experienced holiday-makers. Conveniently, the sample previously selected is suitable.

We shall call less experienced tourists Stratum 1 and more experienced tourists Stratum 2 (see Table 4.6). The overall sample mean is now a weighted average of the within-strata means, with the weight for each stratum being the ratio of the population size of the stratum to the overall population size, i.e.

$$\overline{X} = \sum_{i=1}^{A} \left( \frac{N_{Si}}{N} \right) \overline{X}_{si}$$

where $N_{si}$ is the population size within stratum $i$, $\overline{X}_{si}$ is the mean of stratum $i$, and $A$ is number of strata.

In our example this works out to 21.9, that is, exactly the same as the mean calculated without stratification. To calculate the standard error of this mean, we need to use the formula

$$s_{\overline{x}} = \sum_{j=1}^{A} \frac{(W_j) s_{st.j}}{\sqrt{m_{st.j}}}$$

where $A$ is the number of strata, $W_j$ is the weight for each stratum, $s_{st.j}$ is the standard error within stratum $j$ and $m_{st.j}$ is the size of sample from stratum $j$.

For our example this works out as

$$\textit{Stratum 1}\ s_{\overline{x}} = \frac{0.93}{\sqrt{4}} = 0.465 \quad \text{so} \quad s^2_{\overline{x}} = 0.22$$

$$\textit{Stratum 2}\ s_{\overline{x}} = \frac{7.78}{\sqrt{1}} = 7.78 \quad \text{so} \quad s^2_{\overline{x}} = 60.53$$

$$\text{so } s_{\overline{x}} = (0.8)^2\,(0.22) + (0.2)^2\,(60.53) = 2.56$$

We may also calculate this directly without first calculating standard errors within each stratum. The formula then is

$$s_{\bar{x}}^2 = \sum_{j=1}^{A} \left( \frac{\frac{N_{st.j}}{N}}{n_{st.j}} \right)^2 {}_2 \, s_{st.j}^2$$

$$= \sum_{j=1}^{A} \frac{(W_j)^2 \; s^2{}_{st.j}}{n_{st.j}}$$

For our example this works out as

$$\frac{(0.8)^2 \; (0.868)}{4} + \frac{(0.2)^2 \; (60.5)}{1}$$

giving the same final answer, 2.56. Using the unstratified sample, the standard error of the mean was 5.67. The use of a stratified sample has reduced this to 2.56.

*CONFIDENCE INTERVAL.* The 95% confidence interval for the stratified sample is 21.9 ± (1.96 × 2.56) = 21.9 ± 5 = 16.9 to 26.9. The unstratified 95% confidence interval was 10.65 to 33.15. The absolute precision has thus been reduced from ± 11.25 to ± 5. Thus a stratified sampling procedure is much more efficient than an unstratified one. The reason for this is that we are only using within-stratum variability in calculating the overall standard error, and across strata variability becomes irrelevant. By using stratified sampling we can increase the precision of our estimates without increasing sample size. Alternatively, we could use a smaller sample than that used in unstratified sampling, to obtain the same precision.

### *Disproportionate stratified sampling*

It is also possible to allocate the overall sample size to strata on a basis disproportionate with stratum sizes. The reason for this would be to allow for differences in variability between strata. For a fixed sample size, the overall standard error can be reduced by sampling more heavily in strata with higher variability. As an extreme case, suppose we had a stratum in our young tourist population where the ages of all the holiday-makers were 19. This stratum has no variability, and thus a sample of 1 is sufficient to measure its mean accurately. Conversely, a stratum with high variability will require a larger sample size to produce an efficient estimate of the mean (because in order to calculate the standard error within a stratum we divide the within-stratum standard deviation by the square root of the stratum sample size).

The optimal allocation of a fixed sample size among strata is the one giving the least standard error for the overall estimate. Obviously, then, we need to know something about the variability in strata before we select the sample. The formulae used to combine within-strata statistics to provide estimates for the whole sample are exactly the same as for proportionate stratified sampling.

### ***Cluster sampling***

So far, we have discussed probability sampling methods where each element for the sample is selected individually. In cluster sampling, a cluster of elements is selected at one time. Thus, for this method, the population must be divided into mutually exclusive and collectively exhaustive groups, from which a random sample of groups are selected. Let us return to our young tourist population and divide them into ten groups of five, for example:

| Group | Young tourist numbers | | | | |
|---|---|---|---|---|---|
| 1 | 1 | 2 | 3 | 4 | 5 |
| 2 | 6 | 7 | 8 | 9 | 10 |
| 3 | 11 | 12 | 13 | 14 | 15 |
| 4 | 16 | 17 | 18 | 19 | 20 |
| 5 | 21 | 22 | 23 | 24 | 25 |
| 6 | 26 | 27 | 28 | 29 | 30 |
| 7 | 31 | 32 | 33 | 34 | 35 |
| 8 | 36 | 37 | 38 | 39 | 40 |
| 9 | 41 | 42 | 43 | 44 | 45 |
| 10 | 46 | 47 | 48 | 49 | 50 |

There are two ways in which we can select a cluster sample of size 10. For the simpler way, one stage cluster sampling, we would randomly select two of the above groups and use all the elements in each. For two stage cluster sampling, we select groups and then select a random sample of elements from within the chosen groups, for instance our random selection of groups could be 1, 3, 4, 7, 9, after which we would randomly select two elements from each group.

The big difference between cluster sampling and simple random sampling is that in

cluster sampling not all combinations of elements in the sample are equally likely. In fact, most combinations are impossible. Thus it is crucial to the success of cluster sampling that the groups are as close as possible in heterogeneity on the variable of interest to the heterogeneity of the whole population. In our example above, this criterion is clearly not satisfied, as we know that groups 9 and 10 contain more experienced holiday-makers who are older than the others. If group 9 or 10 (or both) are selected in our cluster sample, the sample mean will be too high. If neither group is selected, it will be too low. Either way, bias has occurred due to the use of cluster sampling.

Ideally, groups would be exactly as heterogeneous as the population; this ideal is never reached in practice, but the closer it can be approached, the less bias there will be in our estimates. Thus the criterion for forming groups for cluster sampling is exactly the opposite of that used in forming strata for stratified sampling.

The size of the standard error generated from a cluster sample, compared with that generated from a simple random sample, depends on the relative heterogeneity of the groups and the population. If the groups are exactly as heterogeneous as the population, both methods will give the same standard error. If the groups are less heterogeneous than the population, cluster sampling will give a greater standard error than that obtained by simple random sampling. This comparison of standard errors generated by different sampling procedures is known as assessing the statistical efficiency of the procedures.

If in practice groups are always less heterogeneous than the population, so that cluster sampling is less statistically efficient than simple random sampling, why is cluster sampling used? Simply because cluster sampling procedures are often much cheaper than other procedures for a given sample size. The combination of statistical efficiency with cost is known as overall or total efficiency. Cluster sampling is often the most efficient method overall in terms of standard error per pound spent, and is thus extensively used in practice. We now go on to discuss briefly various methods of cluster sampling.

*Systematic sampling*

In systematic sampling, every *k*th element in the sampling frame is selected, starting from a random numbered element between 1 and *k*. If we wanted to select a sample of 10 from our young tourist population, then $k = 50/10 = 5$. This ratio, number in population divided by required sample size, is known as the sampling interval. So first we would generate a random number between 1 and 5, say 4. Then the sample is obtained by starting with the fourth element and taking every fifth element thereafter, so our sample of ten would be the elements 4, 9, 14, 19, 24, 29, 34, 39, 44, 49.

Given a starting random number and sample size, sample selection is automatic, so the selected elements form a cluster sample. As we use all the elements in the cluster, systematic sampling is defined as a one-stage cluster sampling procedure. There are only *k* possible samples that can be selected, e.g. in our example only five samples of ten. If the population is large relative to the sample size, the sampling interval, and thus the number of possible samples, will increase.

It can be shown that the mean of the sampling distribution of means generated by taking repeated systematic samples equals the population mean. Thus the mean from a systematic sample is an unbiased estimator of the population mean, so confidence intervals may be calculated as with simple random sampling. If we are sampling from a truly random sampling frame, the results from a systematic sample are likely to be almost identical to those from a simple random sample. Systematic sampling is often used in practice because it is easier and cheaper to select a sample systematically than by simple random sampling, duplication of elements cannot occur, and it is not always necessary to have a complete sample frame. For instance, an interviewer could select every tenth house without a full listing of houses. Systematic sampling may also be used to select elements within strata in stratified sampling.

*Area sampling*

Area sampling was developed as a solution to the problems of incomplete and inaccurate sample frames. It means that geographic areas, or pieces of land, are selected for the sample, and then a further selection is made from the people who live in these areas. Area sampling usually involves more than one stage. Here is an example of a multistage area sample (four stages):

- Stage 1. The UK is divided into counties and a sample of counties is chosen by one of the probability methods.
- Stage 2. The cities, towns and rural areas in the chosen counties are listed, thus stratifying each county into three strata. A probability sample is again selected within each stratum.
- Stage 3. Each location selected at stage 2 is further subdivided, e.g. cities into districts, etc. All these are listed and another probability sample chosen.
- Stage 4. All households in the areas chosen at stage 3 are listed and a final probability sample taken from these to decide on the final sample.

Multistage area sampling is much less statistically efficient than simple random sampling, because of the accumulation of standard errors (one for each stage of the sample). The formulae for calculation of standard error in a multistage area sample are too complex for discussion in this book. In practice, the final sample of a multistage area sample is often treated as if it had been directly selected from the population, e.g. in the case above the selected households would be treated as having been selected from a listing of all UK households. Thus the formulae for simple random sampling and stratified sampling are used, leading to an understatement of standard error.

The highest statistical efficiency when using multistage area sampling is achieved by choosing a large number of clusters (areas) and a small number of elements within each cluster. This is because elements within clusters (e.g. the people living in a specific district of the city) tend to be more homogeneous than the population as a whole, so even a small sample may yield a reasonably small sampling error. Clusters tend to be more heterogeneous (e.g. people living in different city districts may differ greatly in terms of age, income, beliefs, etc.), so a large number of clusters is necessary to reduce the sampling error.

However, more clusters mean more lists of elements to be made, and higher interviewer travel costs. Thus consideration of overall efficiency may mean reducing the number of clusters and increasing the number of elements selected from each. Researchers must make a trade-off between statistical efficiency and cost, based on research objectives and budget, and the amount of acceptable error.

*Probability area sampling*

Often in area sampling, elements do not all have the same probability of being selected. There may be several reasons for this, some intentional and others not. For instance, a researcher wanting to do detailed analysis of some particular subgroup may deliberately oversample that subgroup in order to have a large enough sample for meaningful analysis. Or disproportionate stratified sampling may be done at some stage of area sampling in order to reduce sampling error. It could also be found that the cluster sizes used were incorrect (due to new building for example), or that a sample yields a different proportion of a particular subgroup to that found in the whole population. In such a case, weighting of samples will be necessary to achieve unbiased estimates for the whole sample. Most good computer statistical analysis packages have a facility for doing this.

Finally, Table 4.7 shows a comparison of the various sampling methods we have considered, on the basis of four criteria which are likely to be of prime importance to a tourism researcher.

## Multivariate Analysis

With the growth of computer technology in recent years, remarkable advances have been made in the analysis of psychological,

**Table 4.7.** Summary of sampling methods.

| | Non-probability samples | | | | Probability samples | | | |
|---|---|---|---|---|---|---|---|---|
| Dimensions | Census | Convenience | Judgement | Quota | Simple random | Stratified | Systematic | Area |
| 1. Generation of sampling error | No | No | No | No | Yes | Yes | Yes | Yes |
| 2. Statistical efficiency | — | — | No measurement | — | The base level for comparison | High when stratification variables work | Somewhat low | Low |
| 3. Need for population list | Yes | No | No | No | Yes | Yes | Not necessary in all applications | Only for selected clusters |
| 4. Cost | Very high | Very low | Low | Moderate | High | High | Moderate | Moderate to high |

**Table 4.8.** The main multivariate analysis techniques.

| Dependence methods | Interdependence methods |
|---|---|
| Multiple regression analysis | Path analysis |
| Multivariate analysis of variance | Factor analysis |
| Canonical correlation analysis | Principal components analysis |
| Multiple discriminant analysis | Linear structural relations |
| | Confirmatory factor analysis |
| | Latent structure analysis |
| | Cluster analysis |
| | Multidimensional scaling |
| | Correspondence analysis |
| | Conjoint analysis |

sociological and other types of behavioural data. Computers have made it possible to analyse large quantities of complex data with relative ease. At the same time, the ability to conceptualize data analysis has also advanced. Much of the increased understanding and mastery of data analysis has come about through the study of statistics and statistical inference. Equally important has been the expanded understanding and application of a group of analytical statistical techniques known as multivariate analysis.

Multivariate analysis is not easy to define. Broadly speaking, it refers to all statistical methods that simultaneously analyse multiple measurements on each individual or object under investigation. Any simultaneous analysis of more than two variables can be loosely considered multivariate analysis. As such, multivariate techniques are extensions of *univariate* analysis (analysis of single variable distributions) and *bivariate* analysis (cross-classification, correlation, and simple regression used to analyse two variables). To be considered as truly multivariate analysis, all of the variables must be random variables that are interrelated in such ways that their different effects cannot meaningfully be interpreted separately. The multivariate character lies in the multiple variates (multiple combination of variables), not only in the number of variables or observations. Like bivariate measures, the appropriate multivariate measure depends on the scale of measurement used (ratio, interval, ordinal or nominal).

There are two basic groups of multivariate techniques: *dependence* methods and *interdependence* methods. If the technique attempts to explain or predict the dependent variable(s) on the basis of two or more independent variables, we are attempting to analyse dependence. Multiple regression analysis, multiple discriminant analysis, multivariate analysis of variance and canonical correlation analysis are some of the most important dependence methods. In contrast, the goal of interdependence methods of analysis is to give meaning to a set of variables or to seek to group things together. No one variable or variable subset is to be predicted from or explained by the others. The most common interdependence methods are factor analysis, cluster analysis and multidimensional scaling.

In the following pages a number of multivariate data analysis techniques are discussed and summarized in Table 4.8.

### *Benefits of multivariate analysis*

Any researcher who examines only two variable relationships and avoids multivariate analysis is ignoring powerful tools that can provide potentially very useful information. Multivariate analysis methods make it possible to ask specific and precise questions of considerable complexity in natural settings. This makes it possible to conduct theoretically significant research and to evaluate the effects of naturally occurring parametric

variations in the context in which they normally occur. In this way, the natural correlations among the many influences on behaviour can be preserved and separate effects of these influences can be studied statistically without causing a typical isolation of either individual or variables. Another reason to use multivariate analysis is to improve the ability to predict variables such as usage or to understand relationships between variables such as advertising and usage.

Tourism managers are interested in learning how to develop strategies to appeal to customers with varied demographic and psychographic characteristics in a marketplace with multiple constraints (legal, economic, competitive, technological, etc.). Multivariate techniques are required to study these multiple relationships adequately and obtain a more complete, realistic understanding for decision-making.

The techniques of market segmentation (see Chapter 5), product positioning and perceptual mapping represent early application of methodologies such as cluster analysis which are now thought to have some potential for identifying strategic groups. Researchers in the area of strategic management are making use of methodologies that are quite common tools in marketing, such as those relating to segmentation and perceptual mapping approaches. Methodologies such as multidimensional scaling, cluster analysis, factor analysis, and other techniques have been extensively used in market analyses. More recently those multivariate analysis techniques have been applied to the study of clusters of competitors, or strategic groups, in order to explore better the dynamics of the market structure, and define subsequent strategic moves.

Multivariate analyses are widely used in strategic marketing because of the wide variety of flexible analytical techniques available to analyse large and complex datasets. They can be defined simply as the application of methods that deal with reasonably large numbers of measurements (i.e. variables) made on each object in one or more samples simultaneously. The purpose of multivariate analysis is to measure, explain and/or predict the degree of relationship among variates (weighted combinations of variables) (Dillon and Goldstein, 1984). What follows is a brief description of how some of these techniques can be used to help analyse tourism marketing management problems.

*Multiple regression analysis*

This is a relatively easy procedure that will build on one's ability to deal with the simpler cases of univariate and bivariate data. Predicting a single $Y$ variable from two or more $X$ variables is called multiple regression. The goals when using multiple regression are the same as with simple regression, i.e.:

- describe and understand the relationship
- forecast (predict) a new observation
- adjust and control a process.

*Multivariate analysis of variance (MANOVA)*

When you have more than one quantitative response variable, you may use the multivariate analysis of variance to study the differences in all responses from one sample to another. If, for example, you had three quantitative ratings measured for each tourism service (How friendly does it look? How efficiently is it provided? How well is it explained?) then you could use MANOVA to see whether these measures differ significantly according to the main effects of shift (day or night) and supplier.

*Canonical correlation analysis*

Canonical correlation is the appropriate technique for identifying relationships between two sets of variables. If, based on some theory, it is known that one set of variables is the predictor or independent set and another set of variables is the criterion or dependent set, then the objective of canonical correlation analysis is to determine if the predictor set of variables affects the criterion set of variables. However, it is not

necessary to designate the two sets of variables as the dependent and independent sets. In such cases the objective is simply to ascertain the relationship between the two sets of variables.

*Discriminant analysis*

This involves deriving linear combinations of the independent variables that will discriminate between the prior defined groups in such a way that the misclassification error rates are minimized. Discriminant analysis is the appropriate statistical technique when the dependent variable is categorical (nominal or non-metric) and the independent variables are metric. Discriminant analysis is widely used in market segmentation, studies of the diffusion and adoption of new products and consumer behaviour analysis. However, enough attention has not been accorded to the assumptions which underlie its applicability.

*Path analysis*

Path analysis is a method for studying patterns of causation among a set of variables, which was popularized in the sociological literature (Heise, 1975). Though path diagrams are not essential for numerical analysis, they are useful for displaying graphically the pattern of causal relationships among sets of observable and unobservable variables. Path analysis provides means for studying the direct and indirect effects of variables.

The method is not intended to accomplish the impossible task of deducing causal relations from the values of the correlation coefficients. It is intended to combine the quantitative information given by the correlations with such qualitative information as may be at hand on causal relations to give a quantitative interpretation.

Path-analytic models assume that the relationships among the variables are linear and additive. A path coefficient indicates the direct effect of a variable taken as a cause of a variable taken as an effect. Path coefficients are equivalent to regression weights. Direct effects are indicated by path coefficients. Indirect effects refer to the situation where an independent variable affects a dependent variable through a third variable, which itself directly or indirectly affects the dependent variables. The indirect effect is given by the product of the respective path coefficients.

A close approximation between the reproduced and original correlations can serve as evidence attesting to the validity of the proposed model. Essentially, it is desired that the reproduced correlations are close to the original correlations. When this is true, the hypothesized causal structure under which the reproduced correlations were generated fits or is consistent with the pattern of the intercorrelations among the variables. Thus, the ability of the hypothesized model to reproduce the correlation matrix $R$ plays a crucial role in assessing the validity of the model (Dillon and Goldstein, 1984).

*Factor analysis*

This is usually applied in order to derive a smaller set of factors that are truly independent of each other, and that may explain the intercorrelation among a larger set of variables. In other words, factor analysis aims to summarize the data contained in the original variables with a minimum loss of information. Primarily it is a tool to reduce a large number of variables to a few interpretable constructs. Factor analysis attempts to simplify complex and diverse relationships that exist among a set of observed variables by uncovering common dimensions or factors that link together the seemingly unrelated variables, and consequently provides insight into the underlying structure of the data.

*Principal components analysis*

This method transforms the original set of variables into a smaller set of linear combinations that account for most of the variance of the original set. The purpose of principal components analysis is to determine factors (i.e. principal components) that explain as much of the total variation in the data as possible with as few of these factors as possible. It is often used in marketing research as

a basis for providing mathematical descriptions of attitude dimensions.

*Linear structural relations (LISREL)*

This is a method of structural equation modelling that allows the researcher to decompose relations among variables and to test causal models that involve both observable (manifest) and unobservable (latent) variables. Path analysis and LISREL models are two important analytical approaches for testing causal hypotheses. Essentially, the analyst wants the reproduced correlations to be close to the original correlations. The LISREL model allows the researcher to evaluate simultaneously both the measurement and causal (i.e. structural) components of a system.

The LISREL model provides an integral approach to data analysis and theory construction. The causal component refers to the hypothesized structural relationships between the latent constructs. LISREL can easily handle errors in measurement, correlated errors and residuals, and reciprocal causation. It uses maximum likelihood estimation, which is a full information approach. This means that all the parameters are estimated simultaneously. With the maximum likelihood method, the fitting function is minimized by an iterative procedure, until convergence is obtained.

The measurement model can be described by two equations, which specify the relations between endogenous latent and manifest variables and between exogenous latent and manifest (i.e. observable) variables, respectively.

Since the objective of LISREL is to reproduce the covariances as closely as possible, if the observed covariances are very low, the residual covariances must be even lower, and a good fit can thus be obtained. LISREL allows for a holistic, more realistic conception of social and behavioural phenomena: it recognizes that measures are imperfect, errors of measurement may be correlated, residuals may be correlated and that reciprocal causation is a possibility.

A priori theory is absolutely necessary for covariance structure analysis. In any ANOVA (analysis of variance) design, metric independent variables, referred to as covariates, can be included. The design is then termed an analysis of covariance design or covariance structure analysis. An important strength of structural equation modelling is its ability to bring together psychometric and econometric analyses. Structural equation modelling enables one to decompose relations among variables and test causal models that involve both observable and unobservable variables.

*Confirmatory factor analysis*

It is also possible to use confirmatory (as opposed to explatory) factor analysis to examine whether a prior expectation of the grouping is possible (often using the LISREL package). This essentially requires predicting the assignment (loading) matrix and seeing how well it fits the data.

*Latent structure analysis*

Latent structure analysis is a statistical methodology somewhat related to factor analysis and structural equation models, which can be used as a framework for investigating causal systems involving both manifest variables and latent factors having discrete components. Latent structure analysis shares the objective of factor analysis (i.e. first to extract important factors and express relationships of variables with these factors and, second, to classify respondents into typologies).

The latent class model treats the manifest categorical variables as imperfect indicators of underlying traits, which are themselves inherently unobservable. The latent class model is only one model in a larger set of methods subsumed under what are commonly called latent structure models. Latent class models are quite flexible. They provide a means for testing (via goodness-of-fit tests) whether a latent factor explains the observed association of interest, the substantive meaning of the latent variable, the prominence of the manifest variables as indicators of latent factors, and how to assign individuals to the classes of the latent factor itself. There is also a close resemblance between certain restricted latent class models and some of the LISREL mod-

els. Latent class analysis begins with a two- or higher-dimensional contingency table in which the variables making up the table exhibit association. Essentially, latent class analysis attempts to 'explain' the observed association between the manifest variables by introducing one or more other variables. When these so-called 'moderator' or 'test' factors are controlled for, the relationship among the original variables making up the observed contingency tables is one of mutual independence in each of the conditional tables obtained at each level of the test factor. Thus, the basic motivation behind latent class analysis is the belief that the observed association between two or more manifest categorical variables is due to the mixing of heterogeneous groups. In this sense, latent class analysis can be viewed as a data unmixing procedure. This assumption of conditional independence is directly analogous to the assumption in the factor-analytic model.

As indicated, the objective of latent class analysis is to characterize the latent variable that explains the observed association of interest. In practice, this is accomplished by estimating the latent class parameters, namely: (i) the relative frequency distribution of the latent variable (i.e. the class sizes) and (ii) the relative frequencies of the observed variables for each category of the latent variable (i.e. the conditional latent class probabilities). Thus, it is hoped that by estimating the latent class parameters (i.e. (i) and (ii)), the substantive meaning of the latent class variable for the research question at hand can be inferred. In evaluating the latent class models several test statistics and indices of fit can be used. The two test statistics are the log-likelihood ratio ($L^2$) and the Pearson ($X^2$) $x^2$-statistics. Useful indices of fit that can be applied are the symmetric index of association and incremental fit indices.

A recent extension of the basic latent class method is the so-called simultaneous latent class model. With this method, the researcher can formulate and test latent class models for categorical variables across different groups. A very flexible computer program for maximum likelihood latent structure analysis called MLLSA is available to marketing researchers. Latent class models have great potential and no doubt will be used more frequently in marketing investigation. However, one of the major limitations related to these models concerns the estimation problem, which previously made this class of models largely inaccessible to most marketing researchers. This problem was later solved by formulating latent class models similarly to the general framework of log-linear models.

### *Cluster analysis*

This is an important technique which provides a set of procedures that seek to separate the component data into groups. The goal in such applications is to arrive at clusters of objects that display small within-cluster variation relative to the between-cluster variation. The goal in using cluster analysis is to identify a smaller number of groups such that objects belonging to a given group are, in some sense, more similar to each other than to objects belonging to other groups. Thus, cluster analysis attempts to reduce the information on the whole set of $n$ objects, to information about, say, $g$ subgroups, where $g < n$.

One of the major problems in strategic marketing consists of the orderly classification of the myriad data that confront the researcher. Clustering techniques look for classification of attributes or subjects on the basis of their estimated resemblance. Like factor analysis, cluster analysis is an exploratory method that seeks patterns within data by operating a matrix of independent variables. Usually objects to be clustered are scored on several dimensions and are grouped on the basis of the likeness of their scores. The primary value of cluster analysis lies in the preclassification of data, as suggested by 'natural' groupings of the data itself. The major disadvantage of these techniques is that the implicit assumptions of the researcher can seriously affect cluster results. Cluster analysis can be applied in strategic marketing for clustering buyers, products, markets, as well as key competitors. It has been found to be a particularly

useful aid to market segmentation, experimentation and product positioning (Hair *et al.*, 1994).

Several questions need to be answered with respect to a given cluster solution, including: (i) how the clusters differ, (ii) what is the optimal (i.e. correct) number of clusters; and (iii) how good is the fit of the solution for a pre-specified level of clusters? The first question concerns the distinctiveness of cluster profiles. The second question concerns the trade-off between parsimony, in the sense of fewer clusters, and some measure of increase in within-cluster homogeneity resulting from having more clusters in the solution. The third question concerns cluster recovery which can be viewed in terms of the fit between the input data and the resulting solution. This should be high.

Cluster analysis is a flexible tool that provides a number of opportunities for strategic management. Cluster analysis can be considered a technique for data reduction. The goal in most studies that have used clustering techniques is to identify a smaller number of groups such that elements residing in a particular group are, in some sense, more similar to each other than to elements belonging to other groups.

Cluster analysis is a generic label applied to a set of techniques designed to identify 'similar' entities from characteristics possessed by a group of entities. It aims to summarize associative information in interdependent data structures. The clusters should have high within-cluster homogeneity and high between-cluster heterogeneity and the points within a cluster should be geometrically close together, while different clusters should be far apart. Cluster procedures have been found to be a particularly useful aid to market segmentation, experimentation and product positioning. By offering a range of alternative views, cluster analysis can be of utility to strategic management. Cluster analysis can be used in this case to define those groups of competitors within a particular industry who exhibit similar strategic behaviour. It is applied here to maximize variance between potential strategic groups. Cluster analysis is analogous to stratification in sampling and is concerned with description rather than inference. The construction of the homogeneous subgroups of competitors is generally based on the (dis-)similarity of companies' performance rating profiles within an industry.

Cluster analysis is concered with classification. Managers should seek to group competitors so that each competitor within a strategic group is more like other members of the group than competitors outside the strategic group. The objective is to classify competitors into a small number of mutually exclusive and exhaustive groups based on similarities in corporate profile and strategy. Unlike discriminant analysis, the strategic groups are not predefined. In fact, the major objectives of cluster analysis are to determine how many strategic groups really exist in the industry and what is their composition.

Having identified a number of underlying patterns which seem adequately to describe the principal differences between industry competitors, managers can classify all the competing organizations into strategic groups. The typical clustering procedure assigns each competitor to one and only one strategic group class. Competitors within a strategic group class are usually assumed to be indistinguishable from one another. Thus, we assume here that the underlying structure of the data which measure the competitive set involves an inordered set of discrete classes. In some cases, we may also view these classes as hierarchical in nature, where some classes are divided into subclasses.

The objective of the utilization of a clustering procedure for the definition of strategic groups of competitors can be stated as follows: *Managers need to set up a classification system which is relevant to the design of corporate policies and strategies.* This classification should have the following characteristics:

- The differences between strategic groups defined by the system should be important and large. Small differences are of no consequence because they are not actionable.
- The major strategic groups isolated by

the system should be large enough. If they are not, they will probably not represent competitive threats for corporate policy activity.
- If two competitors belong to the same strategic group, managers should be able to approach both with the same corporate strategy.

Many of the elements in cluster analysis procedures were developed on the assumption that the data fell naturally into clusters. The overall effectiveness of clustering is determined by comparing the sum of the within-cluster variances with the original total variance. The tightness of each strategic grouping is indicated by the coefficient of dissimilarity in an inverse relationship. The higher the coefficient, the more dissimilar are the competitors within the cluster. The level of association with a cluster of competitors decreases as more companies join the cluster. In a given cluster, competitors will usually vary in their strength of membership.

The manager should assume that the data are 'partially' heterogeneous; that is, that 'clusters' of competitors exist. This type of presupposition is different from the case in discriminant analysis where a prior group of competitors have been formed on the basis of criteria not based on profile resemblance. Given no information on strategic group definition in advance, the major problems of use in cluster analysis can be stated as:

1. What measure of intercompetitor similarity is to be used, and how is each variable to be 'weighted' in the construction of such a summary measure?
2. After intercompetitor similarities are obtained, how are the classes of competitors to be formed?
3. After the strategic groups have been formed, what summary measures of each cluster are appropriate in a descriptive sense; that is, how are the clusters to be defined?
4. Assuming that adequate descriptions of the clusters of competitors can be obtained, what inferences can be drawn regarding their statistical reliability?

Once the clusters of competitors are developed, we still face the task of describing them. One measure that is used frequently is the centroid: the average value of the competitors contained in the cluster on each of the variables making up each strategic group's profile.

For researchers in strategic management, there is no substitute for analysis of several levels within the clustering hierarchy, and presenting them as clearly as possible to decision-makers so that the configuration that most closely fits the needs and capabilities of the organization can be chosen. The final clusters of competitors formed, their usefulness, and even the decisions which managers may make on the basis of them, are likely to vary with the hierarchical procedure chosen.

With some degree of success, cluster analysis has been used to aid strategic management decisions in a number of ways (e.g. market segmentation, product positioning, etc.), but in all situations, it is one technique among others which are available (i.e. factor analysis, multidimensional scaling, etc.).

It seems that clustering techniques may be useful – in many ways comparable with the employment of factor analysis – as systematic procedures for the orderly preclassification of multivariate data related to strategic groups of competitors. Cluster analysis is conceptually a simple idea. Partly because of its simplicity, users have developed many variations in order to fit their particular needs or inclinations.

Managers can investigate the relationship between the various strategic types and views towards specific strategic marketing elements. The purpose is to investigate the relationship between the formation of strategic groups of competitors and the general strategy for the organization, as well as the specific strategic marketing responses associated with each of the strategic groups within the industry. It is important that a firm is organized appropriately and that relevant strategies for the particular strategic group are planned and implemented. Marketing strategists are encouraged to evaluate the consistency of the relationship between the particular market environment and the

resulting strategic groups, and also the consistency between the strategic groups and the corporate and marketing strategy elements employed.

It is worthwhile considering organization typology in the context of the relationship between strategic organizational types and the development of corporate strategies. Competing firms within an industry exhibit patterns of behaviour representative of four basic organizational (or strategic) types: (i) defenders; (ii) prospectors; (iii) analysers; and (iv) reactors (Miles and Snow, 1978). The key dimension underlying this typology is the organization's response to changing environmental conditions, that is, the rate at which an organization changes its products or markets to maintain alignment with its environment. According to Miles and Snow (1978), defenders have narrow product-market domains and tend not to search outside their domains for new opportunities. Prospectors continually search for market opportunities and tend to be creators of change in the industry. Analysers are a mixture of both, operating in perhaps one relatively stable and one changing product-market domain. Reactors lack a consistent strategy and simply respond to environmental pressures when forced to do so.

Clustering procedures can then be employed to determine if the complex competitive structure in a particular market can be summarized into simpler corporate performance dimensions and whether the different industry players can be grouped into strategic types. The next stage is to evaluate the alternative strategic groups and assess the strength of competition. Multivariate analysis provides a valuable framework for decomposing the competitive environment and building up a viable positioning strategy.

*Multidimensional scaling*

Unlike the other multivariate methods, multidimensional scaling starts with information pertaining to perceived similarities or dissimilarities among a set of objects such as products, buyers, competitors, etc. The main objective of using the technique is to obtain a configuration showing the relations among the various variables analysed. The attitudinal or perceived similarities (or dissimilarities) among a set of objectives are statistically transformed into distances by placing these objects in a multidimensional space.

Multidimensional scaling, especially non-metric (NMS), has been applied in strategic marketing in areas such as product position, market segmentation, large-scale new product development models, the modelling and evaluation of buying behaviour and the determination of more effective marketing mix combinations. NMS may also be applied in the product development process by finding consumer attitudes towards various product attributes. In such applications the technique can (i) construct a product space; (ii) discover the shape of the distribution of consumers' ideal points throughout such a space; and (iii) identify likely opportunities for new or modified products.

*Correspondence analysis*

This method is a visual or graphical technique for representing multidimensional tables. It can often be impossible to identify any relationships in a table and very difficult to account for what is happening. Correspondence analysis unravels the table and presents data in an easy-to-understand chart. One approach for generating maps uses cross-classification data (e.g. brands rated as having or not having a set of attributes) as a basis (Hoffman and Franke, 1986). In this approach, both brands and attributes are simultaneously portrayed in a single space. This technique is particularly useful to identify market segments, track brand image, position a product against its competition and determine who non-respondents in a survey most closely resemble. While development of this approach continues (cf. Carroll *et al*., 1986), it has shown promise.

*Conjoint analysis*

This is concerned with the joint effect of two or more independent variables on the ordering of a dependent variable. It is rooted in traditional experimentation. A definition of conjoint analysis must proceed from its

underlying assumption that a composition rule may be established to predict a response variable from two or more predictor variables. Conjoint analysis, like multidimensional scaling, is concerned with the measurement of psychological judgements, such as consumer preferences.

It seems that various types of marketing planning models and other procedures using judgemental estimates in a formal manner might benefit from the utilization of conjoint models in additive or, more generally, polynomial form. Moreover, buyer preferences for multi-attribute items may also be decomposed into part-worth evaluations in a similar manner. Potential areas of application for conjoint analysis include product design, new product concept descriptions, price–value relationships, attitude measurement, promotional congruence testing and the study of functional versus symbolic product characteristics. The output of conjoint analysis is frequently employed in additional analyses. Since most studies collect full sets of data at the individual respondent level, individual utility functions and importance weights can be computed. This fosters two additional types of analyses: (i) market segmentation; and (ii) strategic simulation of new factor-level combinations.

### *Example of applying multivariate data analysis*

A specific example of an application of a multivariate data analysis technique will now be described. It was developed for a tourism marketing study as described by McDonagh *et al.* (1992). The aim was to measure the effect of three major environmental factors (exogenous variables), i.e.

- preservation of local landscape
- preservation of architectural values, and
- overcrowding

as a direct causal impact on two critical endogenous variables, i.e.

- concern towards a policy of global conservation, and
- preservation of cultural values.

For this study, path analysis was the chosen method since, as has been described briefly earlier in this chapter, it provides the means for studying the direct and indirect effects of variables, by offering quantitative information on the basis of qualitative data on causal relations.

It was recognized that some of the variables under study were actually directly unobservable (latent) and had at best moderate reliabilities. Thus, since it is unrealistic to believe that a single indicator can capture complex constructs reliably and validly, the authors decided to use multiple indicators and then assess the construct validity of the observable measures.

The model being considered is assumed to be correctly specified a priori, that is, all of the causal determinants have been properly included in the model. If other causal determinants of endogenous variables have been excluded, the assumption is that they are independent of the ones included in the model. Only variables for which directional hypotheses could be developed and translated into causal links were included in the path analysis. Each link represents a theoretically founded hypothesis. Bearing in mind the over-identified nature of the postulated model, the path coefficients were estimated through a series of regression equations whereby only those variables assumed to have direct causal effects on a given dependent variables were included as predictors. Subsequently, the non-significant paths were removed, and the model re-estimated in its reduced form.

Insight into the overall performance of the model can be gained by looking at the coefficients of determination ($R^2$) of the dependent variables. It should be stressed, however, that the prime purpose of path analysis is not to maximize $R^2$, but rather to trace the consequences of a set of causal assumptions.

Spurious effects pertaining to the effects of common antecedent variables can be detected in the correlation between the two endogenous variables. For example, 'global conservation' and 'preservation of culture' share two common causes: overcrowding and preservation of architecture.

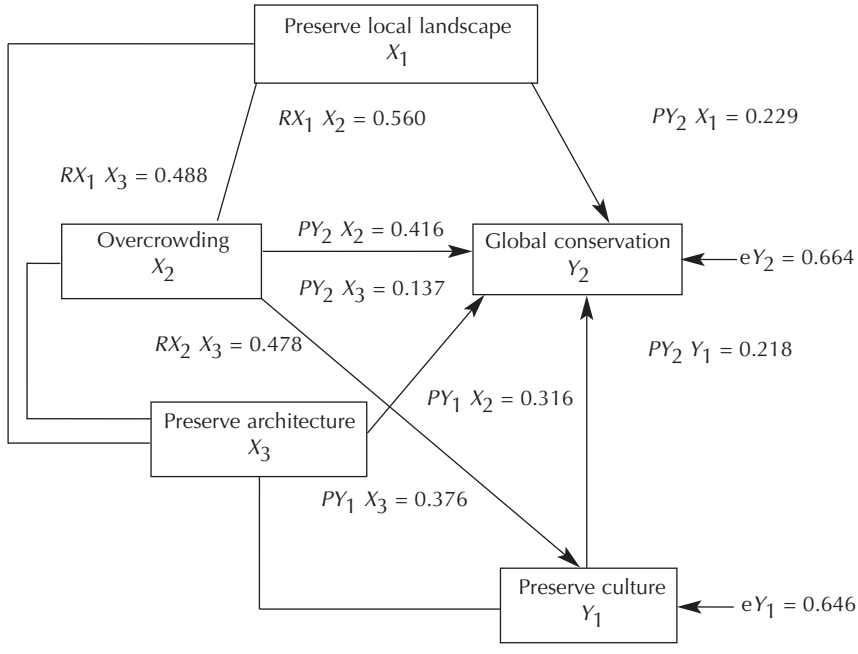


**Fig. 4.3.** Path diagram relating single indicators $X_1$, $X_2$, and $X_3$ with $Y_1$ and $Y_2$.

*Sample path analysis results*

For England, Scotland and Wales Fig. 4.3 presents a path diagram depicting the hypothesized relationships between five environmental variables: a single indicator of preservation of local landscape ($X_1$), a single indicator of overcrowding ($X_2$), a single indicator of preservation of architecture ($X_3$), a single indicator of preservation of cultural values ($Y_1$) and a single indicator of global conservation of the environment ($Y_2$). The implication is that the single indicators $X_1$, $X_2$, $X_3$, $Y_1$ *and* $Y_2$ are perfect indicators of their respective latent constructs.

The system of equations corresponding to the hypothesized structure for the endogenous variables can be written as:

$$Y_1 = py_1\, x_2\, X_2 + py_1\, x_3\, X_3 + e\, y_1$$
$$Y_2 = py_2\, x_1\, X_1 + py_2\, x_2\, X_2 + py_2\, x_3\, X_3 + e\, y_2$$

where all variables are expressed in deviation form. Values for the path coefficients were obtained directly from the correlation matrix and the use of the standardized regression weights.

The findings provided by path analysis indicate that global conservation of the environment is strongly affected by the degree of overcrowding, which itself is highly correlated with the need for preserving the local landscape and the architectural assests of a particular tourist region or locality. The concern towards the preservation of cultural values and identity of a tourist destination is highly associated with the protection of historic buildings and monuments, which itself should be tied with an effective policy designed to protect the local landscape and physical environment, as well as with the control of overcrowding levels. The efforts related to the preservation of the physical environment and nature reserves have a direct causal effect on the policy of global conservation of the environment in which the provision of tourist services takes place.

It can be noted that there is a lower causal effect coefficient between the concern

towards preserving architectural values and assets and the need for a global policy of conservation and protection of the environment as felt by the sampled English, Scottish and Welsh hotel managers. Furthermore, the somewhat low path coefficient found in the measurement of causation between the two endogenous variables seems to indicate that the need to preserve cultural values and the cultural heritage of a tourist destination, region or country is not perceived to have a very strong direct causal effect on the global protection and conservation of the environment.

#### *Summary of multivariate data analysis*

Multivariate analysis methods will predominate in the future and will result in dramatic changes in the manner in which tourism managers think about strategic problems and how they design their research. The availability of prepackaged computer programs for multivariate analysis has facilitated the complex manipulation of data matrices that have long hampered the growth of multivariate techniques. Most tourism business problems are inherently multidimensional. As tourism researchers become increasingly aware of the multidimensional nature of their problems, they will use multivariate analysis more and more to help them solve complex problems.

Not all multivariate analyses need to involve relatively complex and sophisticated statistical techniques. Relatively simple multivariate analysis can provide small business management with a useful focus for developing marketing strategies. Techniques like the 'importance-performance grid with attribute ratings' and other similar multivariate analysis tools will be low-cost and easily understood by research information users. A number of computer software packages have changed techniques that once were expensive and exotic into affordable and regular forms of analysis.

## Neural Networks

Another analytical approach that is likely to be increasingly useful in tourism marketing research is neural networks. This approach is based on the working of the brain, which is taken to comprise an interconnected set of neurons. Neural network models attempt to replicate the brain's own problem solving processes, whereby input neurons receive direct stimuli which are then fed through a pattern matching process to produce a conclusion or response. Pattern matching operations translate well into the marketing environment, to the extent that we are concerned with perceptions, cognition and stimuli. The simplest form of neural networks consist only of two sets or 'layers' of neurons: input and output layers. Each input is potentially linked to each output. The modelling process involves inserting an optional number of intermediate layers in between the input and output layers. These layers are the 'hidden layers' in that they do not contain directly measurable variables. A vital feature of the approach is that the values of the weights are established by 'training', whereby they are induced from example connections. The neural network approach can be seen to have both a statistical framework as well as a strong foundation in artificial intelligence. Candill (1993) provides a useful primer on the subject.

The original inspiration for the neural network (NN) approach came from physiology and psychology. The aim is to work with a direct analogy of the human brain as a set of interconnected processing nodes operating in parallel, copying the lower level computational actions (as opposed to cognitive operations) carried out by the brain. Knowledge is acquired by the NN through a process of learning from examples presented to it, and thus NNs can be viewed not just in terms of the replication of human intelligence but also as a mechanism for machine learning. Neural networks learn directly from data using pattern recognition to simulate human learning and make predictions. Neural computing attempts to model directly the biological structure of the human brain and the way it processes information (albeit at a somewhat simple level).

One implication of neural networks for computing technology is that they may offer

new approaches to processes that have not been easily susceptible to conventional computing, for example, those that involve a large element of 'gut feel'. Typically such processes require integration of disparate types of data, including current, past (experience) and future data (expectations) as well as the use of data that are incomplete. Neural computing may therefore provide a useful tool for strategic management in tourism seeking to escape from the simple extension of past trends which traditional computing processes imply. Neural networks have been applied in tourism to solve a number of specific problems such as, positioning analysis, study of tourist perceptions of product attributes, simultaneous positioning and segmentation analysis, as well as strategic planning effectiveness (see Mazanec, 1999; Phillips *et al.*, 1999).

### *Advantages*

Neural networks are designed to offer the end-user the capability to by-pass the rigidity of expert systems (ES) and to develop 'fuzzy logic' decision-making tools. Several authors claim that neural networks provide the user with the ability to design a decision support tool in less time and with less effort than can be accomplished with other decision support system (DSS) tools. Datasets, rather than rules, are the basis for the development of many neural network models.

Neural networks use structured input and output data to develop patterns that mimic human decision-making. Input data is compared with relative output data for many data points. The relationships between the input data and output data are used to develop a pattern that represents the decision-making style of the user. The development of patterns from data points eliminates the need to build rules that support decision-making. Unlike the ES that requires user or knowledge engineer intervention to accommodate variable changes within the model, the neural network is capable of re-training. Re-training is accomplished through the addition of new input and output data. The inclusion of additional data points weakens, reinforces or strengthens the pattern of the neural network model.

Training a neural network involves building a set of parameters that define the input and output used for training, or redefining input/output for training an existing network. In 'supervised training', the network is fed training pairs of related inputs and outputs. In 'unsupervised training' it is forced to rely solely on input vectors and learns by means of clustering methods. Learning depends very heavily on the correct selection of training examples. Learning takes place through a statistically based procedure of iteratively adjusting the weights.

It is the purpose of $m$ hidden units to extract and to compress the information arriving from $n$ input units ($m < n$). In the 'hybrid' network, however, the hidden units share responsibility for only a subset of input units.

An important strength of this method is its ability to bring together psychometric and econometric analyses so that the best features of both can be exploited. Whereas expert systems are good at organizing masses of information, neural networks may prove capable of duplicating the kind of intuitive, trial-and-error thinking that marketing managers typically require.

### *Limitations*

While the accuracy of the neural network is not as high as that of many other DSS, the neural network has the ability to learn from increased input/output facts and the ability to address data that other DSS cannot handle logically. To examine a network's performance and practical relevance the same prediction criteria which are customary in discriminate analysis may be applied. Neural network techniques, in that they deal with the inner workings of a process in numeric terms, employ what may be termed 'sub-symbolic' computation and are more difficult to interpret than expert systems.

The labelling of the endogenous non-observable variables is somewhat more complex in the NN approach, although the interpretation of the interconnected rela-

tionships between these variables is actually richer in a neural network.

As trainability is one of the most useful properties of neural networks, the problem needs to be one that is trainable. A fairly large number of training examples is needed to sufficiently train the neural network. Neural networks might also involve more computing time. Neural networks are not well suited for highly structured problems. However, neural networks have been successfully applied in the following marketing areas: consumer behaviour analysis, market segmentation, pricing modelling, copy strategy and media planning.

## Follow-up

A research project should not be forgotten upon completion; in the final stage the analysts should specify follow-up procedures. Proper follow-up procedures anticipate changing conditions or incorrect conclusions that may have been drawn because of erroneous assumptions or other reasons. By performing follow-up studies, possible trouble spots may be uncovered before it is too late to take corrective action.

### *How do we determine the value of the information that is collected?*

If the information does not increase the likelihood of making a good decision, then it is of little value. Information increases the likelihood of going ahead with a success or not proceeding with a failure. There are two conditions under which information generally proves to be most useful:

1. If there is a great deal of uncertainty concerning what is the best course of action to take.
2. If the alternative courses of action would lead to either substantial losses or profits.

The actual worth of information depends on three factors:

- the likelihood of making a correct decision on the basis of information collected;
- the relative attractiveness (profitability) of the alternative decisions;
- the cost of acquiring the information.

Tourism managers need to pinpoint the exact types of information needed. In doing so, they should answer the following questions:

1. What type of decisions do you regularly make and what information do you need for them?
2. What types of special studies do you need?
3. What types of information would you like to get that is currently unavailable?
4. How should the information be reported, in terms of both forms and frequency?
5. What improvements in formation would you like to see?

By itself, though, simply spending money on research is no guarantee of useful results. Some studies merely verify the obvious: others are performed haphazardly. Whether the research is done internally or contracted from outside sources; it is management's responsibility to be in a position to assess a research project's usefulness and to judge whether or not it represents a quality piece of work. This is accomplished by understanding the nature of objectivity and the scientific method.

## Conclusion

Regardless of the primary objective of a tourism business, satisfactory profits must be obtained if the business is to remain financially viable in the long run. It should be clear that marketing research plays a vital role in ensuring that satisfactory profits are achieved because it is through marketing research that a tourism business comes to understand which services will satisfy consumers' needs and wants. Marketing research plays an extremely instrumental role in strategy development. The information collected through marketing research can provide valuable information on:

- change in the organization's environment;
- change in competitive offerings;
- changes in the organization's customer base; and
- reactions to new products/services or product/service modifications.

Management's need for information is ongoing and ever increasing. Marketing research should be undertaken with a predetermined strategy in mind; it consists of planning for, obtaining, analysing and interpreting all the facts necessary to make an intelligent decision concerning a particular problem. It involves systematically obtaining and analysing information about a market, such as what tourists want, need, think and feel. The need for solid marketing information is ongoing for routine and daily marketing operations in tourism. Objective, and therefore very useful, information is best obtained by following the marketing research process, which involves following seven steps: becoming familiar with the area and specific definition of the research problem, developing testable hypotheses, determining the specific information that is needed to test the hypotheses, developing the data collection instrument, acquiring the data, analysing the data, and establishing follow-up procedures.

While the involvement in the marketing research function varies from one tourism company to another, practically all firms, of any size, do some marketing research. Marketing research projects are conducted on a broad array of topics by a variety of types and sizes of tourism organizations. There is a direct correlation between size of a tourism company and the size of its marketing research department.

Size of the company, however, is not the only determinant. The overriding factor is the anticipated benefit associated with the cost of the department; the more extensive and frequent the marketing research analyses required, the larger are the personnel and operating budgets. The size of the department also increases as its tasks become more complex. The two major areas in which doubt and uncertainty exist among executives in small tourism companies are the associated areas of sampling and cost. Nevertheless, small companies in tourism should use simple methods of collecting market information, such as marketing intelligence systems, internal reports, customer data-bank, and survey research.

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# 5

# Segmentation, Targeting, Positioning and Strategic Marketing

**L. Moutinho**

## Introduction

Marketing management is the process of analysing, planning, implementing, coordinating, and controlling programmes involving the conception, pricing, promotion, and distribution of products, services and ideas designed to create and maintain beneficial exchanges with target markets for the purpose of achieving organizational objectives. The foundation for contemporary marketing management is the marketing concept. It is a customer-oriented philosophy implemented and integrated throughout an organization so as to serve customers better than competitors do and thereby to achieve specified goals. Systematic implementation of the marketing concept can revolutionize an otherwise stagnant organization.

Tourism marketing involves discovering what tourists want (market research), developing suitable tourist services (product planning), telling them what is available (advertising and promotion), and giving instruction where they can buy the services (channels of distribution: tour operators and travel agents) so they will receive value (pricing), and the tourist organization will make a profit and attain its goals (marketability). Tourism marketing management is the setting of marketing goals (considering the resources of the tourism company and the market opportunities) and the planning and execution of marketing activities required to meet the goals. When carried out effectively, tourism marketing management results in creating and satisfying customers in a manner acceptable to society and leads to profitable growth for the organizations.

As the practice of marketing enters the 21st century its role in business practice is clearly critical. Rapid change and intense global competition exist in many markets. Deregulation in key industries such as transportation and communications has led to the need for market-driven strategies. Buyers of tourism services increasingly demand products that meet their specific needs. Survival and growth in a turbulent environment are more and more difficult to achieve without professional marketing practices. Because markets and market opportunity are greatly affected by worldwide environmental forces, marketing plays a leading role in designing and implementing strategic business plans. Marketing management should be viewed as an enterprise-spanning activity, not restricted to the marketing or sales department. Broadly defined, marketing is a responsibility of the entire organization.

Substantial progress is occurring in advancing the state-of-the-art of marketing

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management practice. Strategic market concepts, behavioural and analytical techniques, and systematic approaches to marketing decision-making are dramatically increasing the impact of marketing in tourism organizations. The consumer's perspective centres around the needs a tourist product or service satisfies or fulfils. But the tourist buying decision is unique in several ways:

1. There is no tangible rate of return on the investment.
2. The expenditure is often considerable in terms of the after-tax income earned during the year.
3. The purchase is not spontaneous.
4. The expenditure is prepared and planned through savings made over a considerable time.

Marketing research should help pinpoint target markets, help determine the property tourist marketing mix, and help make most effective use of marketing efforts and expenditures. The concept of market segmentation arises from the recognition that consumers are different. Market segmentation is a strategy of allocation of marketing resources given a heterogeneous tourist population.

## Market Segmentation

There are four strategies for market segmentation (Fig. 5.1):

- *Undifferentiated* marketing is when marketers determine that there is little diversity among market segments. Note: Even the undifferentiated market may be segmented based on 'secondary' desires.
- *Concentrated* marketing is when a marketer selects one segment, develops an appropriate marketing mix, and directs its marketing efforts and resources toward that market segment exclusively. A *competitive advantage* can then be established by the marketer. The dangers are: (i) the selected marketing segment is too *narrow*; and (ii) the *wrong* target market is selected.
- *Differentiated* marketing (multiple market segmentation) is when an organization chooses more than one target market segment and prepares marketing mixes for each one. The decision influences are:
  1. competitive conditions
  2. corporate objectives
  3. available resources
  4. alternative marketing opportunities.
- *Customized* marketing is when a market is so diverse that the company attempts to satisfy each customer's unique set of needs with a separate marketing mix.

Tourist markets can be segmented or subdivided in many different ways. Geographic segmentation, demographics, geodemographics, psychographics, benefit segmentation, usage rate, and price sensitivity are some of the most commonly used segmentation techniques in the tourism industry. The various elements in the marketing mix and plans are designed in order to exploit the different elasticities of demand for travel and tourism of the various segments.

The segments should then be ranked according to their economic value (substantially), by the level of demand for various tourist product opportunities, by the variance in responsiveness among market segments to available opportunities, by the accessibility of market segments in terms of communication strategies, growth potential, and by the degree of competitive vulnerability. Market segmentation contributes to the synchronization of the marketing mix with the tourist customer, to delineation of different demand curves, to a focused form of promotion and to greater tourist product loyalty because of the tailoring of the product to fit the market. Linked with market segmentation and market targeting is the concept of product positioning, which is the act of formulating a competitive positioning for the tourist product and a detailed marketing mix.

Once the target markets have been determined, the marketing mix must be defined. In formulating a marketing mix, one must make sure that the elements are not con-

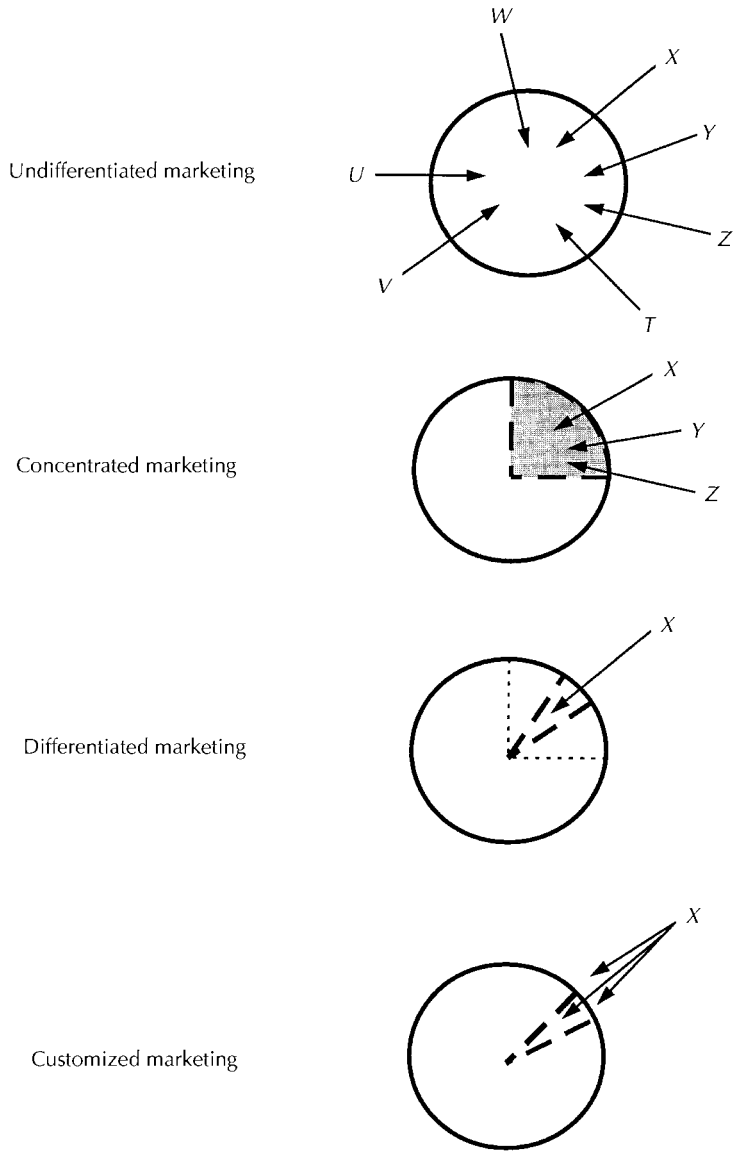


**Fig. 5.1.** Levels of market segmentation.

sidered in a vacuum but are, instead, considered as they are affected by changes in tourist attitudes, habits, changes in competition, changes in the economic outlook and changes in government activity.

## Demographic Segmentation

There is work which relates demographic characteristics to patterns of decision-making for vacations (e.g. Jenkins, 1978; Smith, 1979; Cosenza and Davis, 1981; Todd and Lawson, 1991). Geography is being used as a proxy variable for a variety of demo-

graphic, cultural and socioeconomic characteristics which render the behaviour of the British different from Australians, different from US citizens, different from Japanese and so on.

Analysis of the US tourist market reveals, among other characteristics, the changing age structure of the population. Like other Western countries, the United States has a 'greying' population and those people over 65 are regarded as having more money, more leisure time and more needs to be addressed than other age segments. Age is a crucial part of the definition of markets and is particularly important for developing linkages with media usage in order to promote the tourist destination.

For general tourism the most common distinction that is made concerning family size relates to whether children are present or not. In the accommodation sector it should be noted that family or group size is also critically linked to pricing structures. There is a general expectation that economies of scale gained from a large family grouping will be passed on to the tourist through a marginal pricing policy.

## Family Life Cycle

This concept is rather more complex than most of the fundamental demographic issues discussed so far. The family life cycle is a processual variable which describes the history of a family from its formation through to the death of both partners. Usually eight or nine stages are identified which are defined by critical points such as marriage, birth of the first child, children leaving home, and retirement. The most commonly quoted classification in the general marketing literature is a scheme devised by Wells and Gubar (1966). Nine stages are identified which represent an amalgam of factors concerned with the ages of different family members, family size, discretionary income and time. The Wells and Gubar classification emphasizes vacations and leisure expenditure in four phases: Bachelor, Newly Married, Full Nest 3, and Empty Nest 1.

It is generally accepted that these relationships still hold today though the relative emphasis on some characteristics may have changed. Trends towards greater female employment have brought more dual-income families into being and consequently the full nest periods may not be quite so financially stringent for all families.

Empty nest 2 and retired solitary survivors may have high levels of income available for discretionary expenditure. Also improvements in medical science and environmental health have extended life expectancies and extended the length of the later stages of the life cycle. Both these last changes emphasize the growing significance of these older groups as target markets for tourism. Expenditure patterns and types of holiday vary considerably across the stages of the life cycle.

Traditionally the evaluation of market segments takes place using three criteria:

- measurability; i.e. definition in usable terms
- substantiability; i.e. size
- accessibility; i.e. ability to promote and obtain distribution.

If these are correct, then it is argued that profitability naturally follows. If considered in terms of these basic criteria, demographics may be seen to potentially offer substantial benefits over many other segmentation characteristics; especially lifestyles and benefit segmentation schemes. The one important facet of measurability pertaining to demographics is that they are generally easy to obtain; often by observation or as standard material required for accommodation and travel bookings.

With respect to substantiability, demographics also usually perform well in two respects. Firstly, segment sizes based around demographics are normally large because they parcel total populations into a limited number of groups. The second aspect of substantiability of demographic segmentation refers to endurance. Many of the relationships established between demographics and tourist behaviour have fairly fundamental roots, such as physical constraints on activities imposed by age or the

presence of young children. These are enduring features and, where they exist, they tend to the substantiability of segments over time.

On the accessibility criteria, demographics also tend to perform well. Because basic demographics are so established, media selection is easy in any market. This can be in contrast to benefit segmentation schemes or specific travel lifestyle segmentation schemes.

The recognized limitation of demographic segmentation is that it gives little or no *explanation* for differences in consumption patterns. As psychographics or lifestyles, demographics say nothing regarding motivations and the value structures which guide people's behaviour. To express it a different way, demographics are often correlated to behaviour but have little to do with causation.

Demographic criteria are the most widely applied of all segmentation bases. They are easy to understand and to apply and have the practical advantage of established relationships with media profiles. Of all demographic variables, the two which offer most explanation and are likely to be applicable to tourism are ethnic identity and the family life cycle. The former may represent a variety of deep-seated cultural values and is highly correlated with geography and a variety of socioeconomic factors. The latter is an amalgam of ages of family members, marital status, and participation in the labour force, which act in a combined way to influence the amount of discretionary income and time available for consuming products such as vacations.

A basis for segmentation can be any tourist characteristic, such as age, sex, income, occupation, price sensitivity, destination or tourist product loyalty, product usage, attitude toward the country or destination. Theoretically there is no single correct basis for segmentation. The selection of a specific basis depends on management's objectives. Once a market is segmented into a number of homogeneous segments, the key decision is which segment or segments the tourist organization should pursue. This decision is strongly related to the positioning of the product; a different positioning will appeal to a different segment.

## Psychographic Segmentation

Market segmentation based on benefits assumes that consumers buy a product for the potential benefit experienced from using it. Its focus is on product attributes which consumers perceive to have goal-satisfying capabilities and this method usually employs some psychographic variables. Psychographics, also referred to as data on lifestyles and on activities, interests and opinion (AIOs), attempt to provide a detailed understanding of consumers in terms of their way of living. They take into account how people spend their time (daily activities, hobbies, entertainment), what they place importance on (interests, community involvement) and their opinions and attitudes towards various types of vacations.

In the travel literature a number of other methods of market segmentation have been reported and discussed, i.e. distance travelled, means of travel, length of stay, purpose of trip, time of visit, media habits and exposure, average spending power and others. Segments based on usage level differentiate heavy buyers from low volume users. The role of situation in tourism has become more important leading to a specific situation segmentation. However, these methods are often associated with some other ways of segmenting, either demographic or psychographic.

Demographic and socioeconomic characteristics portray the basic differences which are the determinants of a traveller's behaviour. But they merely describe and do not provide an understanding of why buyer segments respond to a product the way they do. There is increasing evidence that these variables are insufficient means of effectively delineating the market segments. Psychographics allow a substantially deeper grasp of the tourists' psychological make-up. Therefore, psychographic segmentation as an analytical tool has been shown to be beneficial both in describing and in under-

standing the tourist. Although it can be argued that psychographics are too general to predict specific behavioural differences, they are useful for marketing communication purposes. In a highly competitive environment psychographic segmentation leads to specifically directed promotional programmes, more effective positioning and greater ability to develop recreational opportunities that appeal to distinctive client groups.

### *Examples*

As the market is becoming ever more consumer orientated, changes in consumers' lifestyles are carefully followed and their impact on buying habits is monitored. The European population is changing its outlook, breaking away from the traditionally sought economic security and status, as well as refusing to accept established stereotypes, while it seeks individuality, greater informality, spontaneity and sensitivity in contacts with others. The trend towards European unity has itself generated considerable interest among market research organizations in creating pan-European research programmes, placing greater emphasis on the search for similarities than on the definition of differences between markets.

Commercially developed segmentation schemes, which include a combination of variables, have been widely applied by all economic sectors including the hospitality industry. Psychographic variables, including geographic and socio-demographic ones, in that way have become a basic part of the research instruments. All the segmentation methods which will be briefly described in the sections to follow share the approach of determining a common base for segmentation which can be applied cross-culturally and across sectors, and which can be combined with other variables characteristic for a specific product, segment or situation.

The 'Eurostyle system' represents a multinational approach to lifestyle segmentation that is being continually upgraded since 1972 by the French enterprise Centre de Communication Avance of the Haves-Eurocom group. In 1989 this research system was established in 15 European countries. The instrument employed comprises five principal dimensions of lifestyles: (i) objective personal criteria; (ii) concrete behaviour; (iii) attitudes; (iv) motivations and aspirations; and (v) sensitivities and emotions. The resulting Eurostyle system (different for each country) consists of 16 different lifestyle types. When employing the Eurostyle typology, two different modes can be distinguished: accepting styles as ready-made market segments, or using styles as additional criteria to characterize already defined segments more comprehensively. The marketer's task is to combine the psychographic characteristics and the stated or observed product preferences of the focused lifestyle types. He or she can also include target groups' motives and attitudes into the promotion of the new product.

Another segmentation scheme is the use of the concept of 'Social Milieus', i.e. groups of people who share a common set of values and beliefs about those things which matter in everyday life. A range of Social Milieus was identified in the UK, France, Italy and Germany. The underlying theory is to combine the understanding of the everyday life of consumers in different local cultures with information about behaviour and attitude towards products. Such cultural depth is also necessary to detect the dynamics of social and cultural change both within and across countries and how this affects different markets.

The Young & Rubicam advertising agency uses motivation theory as the underlying theoretical concept for its segmentation scheme, entitled 'the 4 C's system of consumer classification' (cross cultural consumer characterization). Trying to find a similar pattern in culturally dissimilar markets, the main argument behind this approach is that motivations appear to be quite consistent from one culture to another and thus the analysis of consumer motivations offers an opportunity for an insight beyond the superficial behavioural differences between cultures, consequently revealing underlying commonalities between them. The resulting types are:

Resigned Poor, Struggling Poor, Mainstream Aspirer, Succeeder, Transitional, Reformer.

In order to compete successfully in the highly competitive international tourism market place it is necessary to sharpen the research tools in an attempt to generate more accurate data for strategic tourism development and planning. Within this context, the concept and application of psychographics has been widely accepted in the field of marketing. Knowledge about relevant segments of travellers, their desires, motives, attitudes and lifestyles allows travel marketers to become more focused and effective in their efforts.

### *Usefulness of psychographics*

Research based on psychographics may offer particularly useful findings for persons who will implement the results: developers and planners, marketing executives, advertising directors and creative types at advertising agencies. Proper use of this approach in segmenting a consumer market rests on dividing the total market into finely tuned market segments. The objective is to create profiles which carve out characteristics of each segment and at the same time substantially differentiate the segments from one another. Psychographics can help in answering some marketing queries such as:

- how to make/design the tourist product (what services and products to offer);
- whom to sell it to (personality characteristics); and
- how to sell it (distribution and communication channels).

Regarding the first of the above points, psychographic segmentation can be a useful tool in planning and developing product strategies, such as package tours or theme parks. For example, it would appear that knowing whether a traveller prefers historic sites, nightlife, gambling or indoor/outdoor sport activities can be useful for creating a package, or knowing that psychographic characteristics such as impulsiveness in the decision-making process, escaping from everyday life, enjoying wildlife or physical activities are more correlated with visiting National Parks as vacation destinations. It is important to find out which psychographic characteristics directly influence the product attributes the traveller is evaluating when making a purchase decision. Thus, psychographics allow the creation of a tourism product which is more compatible with the motivation, the attitudes and the opinions of the travellers.

Psychographic segmentation further provides a unique way of viewing the tourist/consumer. It starts with people and reveals how they feel about a variety of subjects. Insight into a vacationer's personality, attitudes and motivations is gained by asking questions about many aspects of life. Psychographics enable inferences to be drawn from general questions on social status, profession or a tourist's income bracket and possible travel expenditure levels. It must be remembered that respondents are more often than not unwilling to provide accurate answers to questions pertaining to their income. Therefore, an indirect method of obtaining such data can be extremely valuable.

Finally, psychographic research provides detailed profiles that allow a marketer to almost visualize the people he or she is trying to reach. It seeks to determine why people travel (and why they do not), how they think, what their values and attitudes are, what types of destinations they want to visit and what they want to do while staying in a destination. When implemented in the segmentation process, it can lead to more effective advertising strategies aimed at each market segment. Marketing management attempting to segment travel markets and to develop promotional programmes needs to rely on information about the lifestyles of potential travellers as well as on demographic characteristics.

Successful advertising depends on effectively discerning the audience that the marketer can reach. One of the vital points of message development is to understand why consumers want the benefit they desire. This suggests the copy appeal should reflect the consumer's desires, expectations, preferences and perceptions about a travel

destination. Certain special attributes of a place may be more appealing to a specific target audience. Also, psychographic variables can be an invaluable aid to media research since people with different lifestyles have different media habits. Therefore, psychographics provide valuable information for media selection and scheduling of advertising time, and for creative thinking in developing advertising copy or themes. In that way, promotional messages and travel incentives as well as communication channels can be better tailored to the receptive market segments.

Psychographic segmentation is a research tool which provides new insights into consumer behaviour permitting a better understanding of the market conditions and an improvement of the marketing strategies. It requires three steps:

1. Identification and differentiation between groups/segments which make up the market.
2. Selection of one or more target segments.
3. Development of a marketing strategy to be applied in each of the selected target markets.

The first two of the outlined steps are to be accomplished through the use of adequate research instruments involving the selection of an approach/model to be used and selection of variables. Psychographic segmentation represents 'a posteriori' type of segmentation in which the segments are obtained after the data analysis has been completed. The target segments are selected on the basis of results produced by cluster, factor or some other type of analysis.

The crucial problem seems to be the question of identifying the variables which are to be used for the clustering of consumers. Psychographic segmentation usually means administering up to a hundred questions or even more on varied topics and a further set on media exposure and product usage. Therefore, this type of segmentation takes into account a large number of variables, usually measured in surveys and interviews and analysed through multivariate statistical methods. The results often produce a larger number of segments, the validity and stability of which may at times be questionable, making the usual methods of result control highly recommendable (split-half, rest-retest). Their interpretation may at times be quite difficult, and the researcher usually has to find a concise term to effectively label and describe the whole group. Some examples of such terms may be 'Adventurer', 'Planner', 'Impulsive Decision-Maker', 'Action-Orientated Person', 'Outdoorsman', 'Escapist', 'Self-Designed Opinion Leader', etc.

Psychographic segmentation is relatively expensive to conduct and while today its use is growing, it is still infrequently employed in travel and tourism. Compared with other industries, the use of psychographic segmentation in travel and tourism can be characterized as being in the initial phases. For example, main tour operators' summer 'Sun and sea' brochures show little discrimination between varying groups of consumers, as these usually consist of a simple description of hotels followed by some general information on the destination. So far the tendency has been to produce product-orientated travel brochures using product-attribute segmentation (campsites, hotel, theme parks, etc.), without considering the characteristics of consumers.

### *The value of psychographic segmentation*

A review of the literature reveals several points of controversy or debate regarding the assessment of psychographic segmentation. First among these is the issue of 'demographics vs. psychographics'. Undoubtedly, demographic data has been, by far, the most frequently used technique for identifying tourist (and other) markets. Demographics are more readily available than information on why a person chooses a particular trip or a particular vacation destination. Furthermore, demographics are much easier to analyse, understand and operationalize. Thus, there have been questions as to whether psychographic data adds anything beyond demographic analysis which is real, meaningful and relevant. The results of

numerous studies have shown that psychographics do provide some additional information over and beyond the demographic profile. This, of course, does not imply that lifestyle analysis should replace demographics. Although it is very useful in developing copy and message strategy, psychographics alone, without additional guidelines in selecting the media, cannot help deliver the proper message, in a proper manner, to the proper target. Today, it has become quite clear that a combination of pyschographic and demographic data offers still greater insights into traveller preferences. Further proof of this point are the questionnaires used in psychographic research, which always include a set of demographic variables.

The second question in assessing the value of psychographics has been the dilemma of whether the variables employed are overly general for a meaningful segmentation in tourism. Psychographic variables can be considered as subjective variables that are usually measured in surveys and interviews. Recently, it has been recognized that such personality (subjective) variables are not very well suited to explaining specific behavioural differences. Thus, psychographic as general-level segments are useful for marketing communication purposes, while specific-level segments are useful for product improvement. Psychographic segmentation is of most value when it can predict underlying trends and changes in society which will lead to major shifts in demand for goods and services. However, there is a lack of studies in which tourist consumer behaviour is linked to general lifestyle variables.

In psychographic segmentation, as elsewhere, the research results, or the output, largely depend on what the researcher has selected as the input. In contrast with demographic analysis, in psychographics there do not exist standard categories for different types of tourists. It is left to the researcher to decide about the input and to create the dimensions from his own point of view. This reveals the already mentioned questions of (i) labelling the groups ('a posteriori' segmentation); (ii) control of the research results; and (iii) measuring the stability of the segments over time.

Psychographic segmentation is an approach to tourism market segmentation based on personality characteristics of consumers. In contrast to other ways of market segmenting, psychographics examine the actual motives for travel behaviour and offer answers about why people travel, allowing the tourism managers to focus their efforts. As mentioned above, psychographic segmentation is an 'a posteriori' type of segmentation. Target segments are selected based on the results obtained from some of the multivariate statistical methods, making the usual methods of result control highly recommendable.

Segments based on psychographic variables provide travel marketers with valuable information for planning, designing, positioning and distributing tourism products, for promoting and advertising them, as well as for creating copy appeals and selecting the proper media. Psychographics also enable the identification of certain segments of tourists, as well as helping to better define the majority of potential consumers, and in that way achieve a better effectiveness of marketing and promotional budgets. In a competitive environment it is a useful strategic marketing tool.

## Targeting

The target market decision is the choice of which consumers in a product-market towards which a company will aim its marketing programme positioning strategy. This decision is one of management's most demanding challenges. Should a company attempt to serve all that are willing and able to buy or selectively focus upon one or more subgroups? Gaining an understanding of a product-market is essential to making the target market decision. Central to this task is defining and analysing the competitive arena. The steps in selecting a target market strategy are as follows:

1. Decide how to form niches in the product-market.

3. Describe the consumers/organizations in each niche.
3. Evaluate target market alternatives.
4. Select a target market strategy.

The possibilities for selecting the company's target group of customers in a product-market range from attempting to appeal to most of the people in the market (a mass market approach) to going after one or more niches (subgroups or segments) within the market. Management must somehow identify possible niches and then, for each niche of interest, determine which marketing programme positioning strategy will obtain the most favourable profit contribution net of marketing costs.

### *Niche markets*

An important question is whether or not breaking apart a product-market is worth doing. We need a basis of evaluation the worth of a particular niche scheme. There are five criteria that are useful for this purpose (Cravens *et al.* 1980).

1. The responsiveness of people in the product-market to marketing programme efforts.
2. It must be feasible to identify two or more different customer groups.
3. A company must be able to aim an appropriate marketing programme strategy at each target segment.
4. In terms of revenues generated and cost incurred, segmentation must be worth doing.
5. The segments must exhibit adequate stability over time so that the company's efforts via segmentation will have enough time to reach desired levels of performance.

Once niches are formed, each one of interest to the company should be evaluated to accomplish three purposes:

1. Since there is often more than one promising marketing programme positioning strategy that can be used for a given niche, a selection of the best alternative is necessary for each niche candidate.
2. After evaluation is completed, those niches which still look attractive as target market candidates should be ranked as to their attractiveness.
3. Finally, management must decide if a niche strategy is better than a mass target market approach.

Assuming that niches can be identified in a product-market, management has the option of selecting one or more niches as a target market or, instead, using a mass strategy (Cravens, 1982).

An undoubted attraction of many niche markets is the scope they offer for premium pricing and above-average profit margins. In addition, an effective niche strategy has for many companies provided a convenient jumping off point for entry into a larger market. There is, however, a hidden danger in looking at what appears to be niche markets. Many strategists with small brands often deceive themselves by believing they have a niche product. The reality may in fact be very different with the product being a vulnerable number four or number five brand in a mass market. To clarify whether a brand is a true market nicher, Davidson (1987) therefore suggests posing three questions:

1. Is the niche or segment recognized by consumer and distributors, or is it just a figment of marketing imagination?
2. Is your niche product distinctive, and does it appeal strongly to a particular group of consumers?
3. Is your product premium-priced, with above-average profit margin?

Unless the answer to all three of the questions is 'yes', it is unlikely that the brand is a true nicher, but is instead a poor performer in a far larger market segment.

In sum, the characteristics of the ideal niche are:

1. It is of sufficient size to be potentially profitable.
2. It offers scope for an organization to exercise its distinctive competences.
3. It has the potential for growth.

Other characteristics that favour niching would be patents, a degree of channel control and the existence of customer goodwill. Niching should not, however, be seen as a strategy limited just to small organizations.

### *Segment evaluation*

Having decided how best to segment the market, the marketing manager is then faced with a series of decisions on how many and which segments to approach. Three factors need to be considered:

1. The size and growth potential of each segment.
2. Their structural attractiveness.
3. The organization's objectives and resources.

The starting point for this involves examining each segment's size and potential for growth. Obviously, the question of what is the 'right size' of a segment will vary greatly from one organization to another.

In so far as it is possible to develop broad guidelines, we can say that large companies concentrate on segments with large existing or potential sales volumes and quite deliberately overlook or ignore small segments simply because they are rarely worth bothering with. Small companies, by contrast, often avoid large segments partly because of the level of resources needed to operate effectively, and partly because of the problems of having to cope with a far larger competitor.

With regard to the question of each segment's structural attractiveness, the marketing manager's primary concern is profitability. It may be the case that a segment is both large and growing but that, because of the intensity of competition, the scope for profit is low. Several models for measuring segment attractiveness exist, although arguably the most useful is Michael Porter's (1979) five-force model. This model suggests that segment profitability is affected by five principal factors:

1. *Industry competitors* and the threat of segment rivalry.
2. *Potential entrants* to the market and the threat of mobility.
3. The threat of *substitute products*.
4. *Buyers* and their relative power.
3. *Suppliers* and their relative power.

Having measured the size, growth rate and structural attractiveness of each segment, the marketing manager needs then to examine each one in turn against the background of the organization's objectives and resources. In doing this, the marketing manager is looking for the degree of compatibility between the segment and the organization's long-term goals. It is often the case, for example, that a seemingly attractive segment can be dismissed either because it would not move the organization significantly forward towards its goals, or because it would divert organizational energy. Even where there does appear to be a match, consideration needs to be given to whether the organization has the necessary skills, competences, resources and commitment needed to operate effectively. Without these, segment entry is likely to be of little strategic value.

The final segmentation decision faced by the marketing manager is concerned with which and how many market segments to enter. In essence, five patterns of market coverage exist:

1. *Single segment concentration* in which the organization focuses on just one segment. Although a potentially high-risk strategy in that the company is vulnerable to sudden changes in taste or preference, or the entry of a larger competitor, concentrated marketing along these lines has often proved to be attractive to small companies with limited funds. Left to itself, an organization which opts to concentrate on a single segment can develop a strong market position, a specialist reputation and above average returns for the industry as a whole.
2. *Selective specialization.* As an alternative to concentrating on just one segment, the company may decide to spread the risk by covering several market segments. These segments need not necessarily be related, although each

should be compatible with the organization's objectives and resources.

3. *Product specialization* in which the organization concentrates on marketing a particular product type to a variety of target markets.
4. *Market specialization*. Here the organization concentrates on satisfying the range of needs of a particular target group. Example: Saga Holidays (which targets the over 50s travel market).
5. *Full market coverage*. By far the most costly of the five patterns of market coverage, a strategy of full market coverage involves serving all customer groups with the full range of products needed.

It is assumed that individual segments or combinations of segments could be independently chosen, but this assumption ignores synergies that might exist between various market segments. For example, a market consisting of 12 segments can lead to the development of supersegments that will help a company attain a better efficiency level in terms of its allocation of marketing resources.

Targeting is becoming a nightmare for marketers who want to spend their marketing budgets wisely. Long-established methods of defining markets such as socio-demographic classifications may be the core of television research, but the social foundations upon which they are built are shifting and their relevance is increasingly questionable. Now, almost each week, new ways of classifying potential target markets are presented. Acorn-style geodemographics was once the rage. Now, for some, the way forward lies in information technology. You need to get your targeting exactly right by working out exactly who buys your product. NDL promises to categorize people by up to 70 different buying/lifestyle attributes. Others, like Applied Future, are slicing the population in novel ways and lumping many millions of people, 'doing all sorts of jobs from management to physical labour, earning salaries from vast to marginal' together as 'inner directed'.

Only one overriding trend is clear: that old assumptions are being swept aside. New thinking on the subject is urgently needed.

## The Rise of Individualism

For example, take the case of the 15–24 year-old age group in the UK, some 9 million people. Whereas in the 1960s a recent Mintel survey concluded that young people saw themselves as part of a homogeneous mass, today they strive to distinguish themselves as individuals, posing great problems for marketers. This rise of individualism needs a rapid reappraisal of the way markets are described. Squeezing British citizens into six 'social classifications' (A, B, $C_1$, $C_2$, E, F) was always a controversial technique, but in this age of the individual, it is one which has been eclipsed by events. The turmoil is only compounded by the rise of cross-border marketing within Europe. Is the emergence of a 'Euro-consumer' a reality? Yes, there are common trends within Europe. But the variations of language and culture in Europe, a developing and not declining phenomenon, coupled with the widely different ways products are positioned, resist notions of Euro-homogeneity.

In a world of exponential choice, the consumer is no longer a grateful and passive recipient. He or she is an expert and active participant in the process, brand-aware but demanding a high standard of service and quality, and seeking dialogue and a relationship. Data driven marketing is the means by which we can make sense of ever-fragmenting markets. In a marketing database, proposals can be made to individual consumers that fit their lifestage, their lifestyle and their needs. By carefully collecting data, moreover, we can amass for the company one of the most effective sources of marketing research, a 'model of our marketplace'. We may have hundreds of thousands of customer records in our database, we may be updating them on a weekly basis, and have at our disposal an all-encompassing snapshot of all the important parameters of our marketplace: pricing, promotion, distribution and product design. The customer marketing database becomes the essential

source of information of how to do business.

Much effort in today's ultra-competitive world is expended in gathering information for marketing databases (Coad 1992). For example, new target marketing techniques allow the credit marketers greater scope to define and target appropriate potential customers. The Lifestyle Network employs both the geodemographic marketing techniques and the lifestyle techniques of today to provide the state-of-the-art in direct marketing. Applying the capabilities of Infolink's Define and NDL's Lifestyle Selector to the electoral roll for name and address selection allows marketers to access and target the maximum mailable universe. The Lifestyle Network allows the direct marketer to use customer profile analysis to score individuals according to their similarity to that marketer's existing best customers. Look-alikes are then selected from InfoLink's Electoral Roll for use in direct marketing campaigns.

Outbound telemarketing has proven its worth in a wide variety of industries. Whether a company is selling, servicing, or surveying, telemarketing is a tool to help reach customers and prospects. The key to its success lies in understanding when to use it. In some instances, outbound telemarketing is effectively used to follow up leads generated from other direct response media. In other instances, it can be used as a prequalifier with a mailing to follow up for qualified respondents. Whatever the application, it is essential to know who is being called and why. New predictive dialling systems can double the efficiency of outbound calling and ease the burden of routine, time-consuming tasks, such as waiting on ringing telephones and redialling busy signals. Effective outbound telemarketing campaigns have proven their usefulness for a number of purposes, such as seasonal sales (Simon, 1991).

## Mass Customization

Fundamentally, mass customization is the ability to respond quickly and profitably to the changing wants and needs of individual customers. Long-term growth is dependent not on economies of scale, but rather economies of scope: the application of a single process to produce a greater variety of products or services more cost effectively and more quickly.

**Mass customization is a holistic approach to bringing products and services to market with the customer at the centre of every aspect of the organization.**

The customer becomes the catalyst for change in the organization; the organization exists to produce what customers want and value. Mass customization is a holistic approach to bringing products and services to market with the customer at the centre of every aspect of the organization.

Moving towards mass customization will vary depending on the extent of market turbulence in any given industry. Some companies may move incrementally towards mass customization. Others may completely transform existing businesses or create new ones. Rapid development, flexible production, individualized marketing, and instant delivery can each provide a sustained competitive advantage; together they can leave the competition in the dust.

If you are fortunate to be a low-cost producer of tourist services, you will probably have an opportunity to win a high share of the market and enjoy a comfortable profit margin. If, on the other hand, you are a small producer of tourist services with no reasonable hope of beating the big competitors, your best opportunity is to specialize in both tourist products and markets. This strategy of segmentation is termed 'niche-picking' and, nowadays, many marketing minded tourist managers are learning to position their products as true specialities with significant competitive advantages built in. By focusing on specific end-user tourists and their distributors, they can concentrate on products where quality and service are more important, competitively, than price, and where continuing satisfaction brings repeat business.

## Positioning a Destination: Problems and Challenges

Positioning a destination presents a number of challenges, two of which are inherent in marketing a service 'product', namely intangibility and inseparability. Intangibility leads to customer uncertainty. Unlike a good which Lovelock describes as an 'object, a device, a thing', the service product can be more aptly described as a 'deed, a performance, an effort'. When considering destination marketing, the word 'experience' could be added, as the destination marketer is effectively selling tourist experiences. However, Ryan (1995, pp. 40–44) makes a distinction between holidays and other services. The tourist has a degree of control over the purchase, in that he or she can dictate their level of involvement with different elements of the service, for example, destination attributes, activities and people. In this way the tourism purchase differs from, say, a retail service situation and enables the tourist to maintain a more equitable balance in their levels of cognitive dissonance (an uncomfortable psychological state – the person attempts to reduce it either by changing his or her position, or by downgrading the validity of incoming information, or by seeking material, advertisements that will support the decision).

Despite the higher level of consumer participation in the tourism purchase, the holiday-maker will still perceive an element of risk during the initial buying process. In her study of the consumer evaluation process, Zeithaml hypothesized that consumers perceive greater risks when buying services than when buying goods (Zeithaml, 1990). It needs to be added, however, that the degree of perceived risk is dependent on the price of the purchase, the benefits which the consumer expects to derive from a purchase, and whether or not the consumer has purchased the same or a similar service in the past. According to marketing theory derived from the 1960s, if the price of the service is low then the perceived risk of financial loss is low. It is arguable, however, in the case of tourism that the cost of the purchase cannot be measured in financial terms alone. Even a short break holiday requires the expenditure of valuable leisure time, at a time when there are ever-increasing demands on disposable leisure time. Therefore, although this short break may involve relatively little financial outlay, the level of expectation may be quite high. Zeithaml supports her study of risk with two additional hypotheses: consumers adopt innovations in services more slowly than they adopt innovations in goods; and consumers seek and rely more on information from personal sources than from non-personal sources when evaluating services prior to purchase. Consumers are naturally more cautious when purchasing something which they cannot touch, experience, test or experiment with and which is unlikely to come with a guarantee or warranty.

Because of the intangible nature of a destination, an explicit positioning strategy is valuable in helping prospective visitors to get a 'mental fix' on a destination that may otherwise be amorphous. The challenge posed by intangibility is compounded by the lack of consistency in buyer behaviour within market segments. Visitor expectations can vary radically. For example, two families on an identical short break package may record very different levels of satisfaction with the holiday because they had different expectations and were looking for different benefits from the package. This is in contrast to most consumer goods where the product has a given set of attributes and customers' expectations can be more readily identified.

The second challenge relates to the inseparability of the service production and consumption processes. This can result in inconsistencies in the quality of the product and its delivery. The supplier of manufactured goods can put the product through a rigorous test period before distribution and consumption. This helps to avoid costly mistakes arising from customer dissatisfaction with the product. The tourism supplier does not have this opportunity as the production and consumption of the product takes place simultaneously. This potential for inconsistency in delivering the destination product is compounded by the high

level of human involvement in the production process. The challenge posed by inseparability is arguably stronger for the destination marketer than for the service product marketer, due to the lack of control which is exercised over the many suppliers of the tourism product. The multitude and diversity of tourism suppliers in the destination makes quality control and cohesion a difficult task.

## Positioning in Other Tourism Sectors

Key players from the hospitality and tour operating sectors have pursued major repositioning and product development strategies. Both the processes and the results of these strategies provide potential insights for the regional tourist boards (RTBs). The development of 'Courtyard' by the Marriott hotel group pioneered the use of new research and product development techniques. The development process involved the following stages: selection of a product development team; environment and competitor analysis; customer analysis; idea generation; product refinement; product positioning; and monitoring of results. The environment and competitor analysis identified a gap in the market. The remaining stages were underpinned by extensive consumer research, based around defining preferred product attributes and benefits. Seven sets of attributes were identified: external factors; rooms; food-related services; lounge facilities; services; leisure facilities; and security factors. A range of individual product attributes were developed within each of these sets. A range of multivarious and inferential statistical analyses were used by Marriott, including conjoint, cluster analysis, multidimensional scaling and multiple discriminant analysis. The exercise has proved a success for Marriott with the Courtyard brand expanding from three test hotels in 1983 to more than 200 in 1994.

Forte Hotels also harnessed internal and external expertise to research the market and identify key benefit-seeking market segments as part of their restructuring process in 1991. This form of benefit-related segmentation has been studied in depth by Vavrik and Mazanec (1990) who also refer to it as a posteriori segmentation. Using multivariate statistical techniques, individuals are aggregated into groups which seek similar benefits. This kind of analysis is useful, as the tourism manager is likely to be interested in determining which group or segments would support a given product category; how the segments differ in their responsiveness to a range of product offerings (brands, destinations, etc.) within that category; and how they differ in their expectations (Calantone and Mazanec, 1991).

Several distinct brands were created under the Forte umbrella. One of the overall aims of the Forte re-branding exercise was to provide reassurance to customers when choosing hotels in different destinations (Connell, 1994). In other words, the re-branding of hotels attempted to reduce consumers' perceived risk when purchasing a Forte product. Two further objectives of the Forte re-branding exercise were, firstly, to offer a clear position in an expanding international market and, secondly, to help employees identify themselves better with the company and to make them understand their contribution towards the corporate effort. This second objective recognizes the inseparability of the production and the consumption processes and the integral part which hotel staff represent in the delivery of the overall product. Connell observes that as a result of the re-branding Forte is now able to communicate the differences between brands to make it easier for customers to choose the hotel they need.

Any repositioning process will require change, particularly in the culture of the organization and management attitudes. It is to some extent a 'chicken and egg' situation as many companies cite organizational factors when talking of the benefits of repositioning. Clear product positioning must be an integral part of any destination marketing strategy, due to the inherent characteristics of the destination product and the increasingly complex needs of the tourist. Key players in the hospitality, tour operator and airline sectors have pursued successful

positioning strategies which have been driven by effective market segmentation and brand management (Alford, 1998).

## Building Perceptional Maps

There are different market-preference patterns such as clustered, diffused and homogeneous preferences. In some cases, the basis market-preference pattern shows distinct preference clusters, called natural market segments. A company in this market has three options: (i) position itself in the centre hoping to appeal to all the groups (undifferentiated marketing); (ii) position itself in the largest market segment (concentrated marketing); and (iii) develop several brands, each positioned in a different segment (differentiated marketing).

In contrast, in a diffused preference market, a company faces three different options: (i) to tap preferences of one of the corners, a single-niche strategy, which is useful for small companies; (ii) two or more products can be introduced to capture two or more parts of the market, a multiple-niche strategy; and (iii) to tap the middle of the market, a mass-market strategy. A product located in the centre minimizes the sum of the distances of existing preferences from the actual product. It will minimize total dissatisfaction.

If a company enters into a market containing a large entrenched competitor, instead of entering with a me-too product, or with a single-segment product, it can introduce a succession of products aimed at different segments, providing that the company has the necessary resources. Each product entry will create a loyal following and take some business away from the major competitor. The company should try to find market gaps where there is more profit potential and less risk.

The techniques of market segmentation, product positioning and perceptual mapping represent early applications of methodologies such as cluster analysis which are now thought to have some potential for identifying strategic groups. Researches in the area of strategic management are making use of methodologies that are quite common tools in marketing such as those relating to segmentation and perceptual mapping approaches. Methodologies such as multidimensional scaling, cluster analysis, and other techniques have been extensively used in market analyses.

Multivariate analyses are widely used in strategic marketing because of the wide variety of flexible analytical techniques available to analyse large and complex datasets. They can be defined simply as the application of methods that deal with reasonably large numbers of measurements (i.e. variables) made on each object in one or more samples simultaneously. What follows is a brief description of how some of those techniques can be used to help analyse marketing management problems related to segmentation, targeting and positioning.

### *Cluster analysis*

Cluster analysis provides a set of procedures that seek to separate the component data into groups. The goal in such applications is to arrive at clusters of objects that display small within-cluster variation relative to the between-cluster variation. The goal in using cluster analysis is to identify a smaller number of groups such that objects belonging to a given group are, in some sense, more similar to each other than to objects belonging to other groups. Thus, cluster analysis attempts to reduce the information on the whole set of $n$ objects, to information about, say, $g$ subgroups where $g < n$.

One of the major problems in strategic marketing consists of the orderly classification of the myriad data that confront the researcher. Clustering techniques look for classification of attributes or subjects on the basis of their estimated resemblance. Cluster analysis is an exploratory method that seeks patterns within data by operating a matrix of independent variables. Usually objects to be clustered are scored on several dimensions and are grouped on the basis of the likeness of their scores. The primary value of cluster analysis lies in the preclassification of data, as suggested by 'natural' groupings of the data itself. The major disadvantage of these techniques is that the implicit assumptions

of the researcher can seriously affect cluster results. Cluster analysis can be applied in strategic marketing for clustering buyers, products, markets, as well as key competitors. It has been found to be a particularly useful aid to market segmentation, experimentation and product positioning (Hair *et al.*, 1995).

Several questions need to be answered with respect to a given cluster solution, including: (i) how the clusters differ; (ii) what is the optimal (i.e. correct) number of clusters; and (iii) how good is the fit of the solution for a pre-specified level of clusters. The first question concerns the distinctiveness of cluster profiles. The second question concerns the trade-off between parsimony, in the sense of fewer clusters, and some measure of increase in within-cluster homogeneity resulting from having more clusters in the solution. The third question concerns cluster recovery which can be viewed in terms of the fit between the input data and the resulting solution. This should be high.

### *Discriminant analysis*

Discriminant analysis is a useful technique to differentiate within groups and predict group membership characteristics. Applications include uncovering characteristics of groups most likely to purchase products and determining the qualities of first-time customers to predict repeat business. Discriminant analysis involves deriving linear combinations of the independent variables that will discriminate between a priori defined groups in such a way that the misclassification error rates are minimized. Discriminant analysis is the appropriate statistical technique when the dependent variable is categorical (nominal or non-metric) and the independent variables are metric. Discriminant analysis is widely used in market segmentation, studies of the diffusion and adoption of new products and consumer behaviour analysis. However, enough attention has not been accorded to the assumptions which underlie its applicability.

### *Multidimensional scaling*

Multidimensional scaling, unlike the other multivariate methods, starts with information pertaining to perceived similarities or dissimilarities among a set of objects such as products, buyers, competitors, etc. The main objective of using the technique is to obtain a configuration showing the relations among the various variables analysed. The attitudinal or perceived similarities (or dissimilarities) among a set of objectives are statistically transformed into distances by placing these objects in a multidimensional space.

Multidimensional scaling, especially non-metric scaling (NMS) has been applied in strategic marketing in areas such as product positioning, market segmentation, large-scale new product development models, the modelling and evaluation of buying behaviour and the determination of more effective marketing mix combinations. NMS may also be applied in the product development process by finding consumer attitudes towards various product attributes. In such applications the technique can (i) construct a product space; (ii) discover the shape of the distribution of consumers' ideal points throughout such a space; and (iii) identify likely opportunities for new or modified products.

### *Conjoint analysis*

Conjoint analysis is concerned with the joint effect of two or more independent variables on the ordering of dependent variables. It is rooted in traditional experimentation. A definition of conjoint analysis must proceed from its underlying assumption that a composition rule may be established to predict a response variable from two or more predictor variables. Conjoint analysis, like multidimensional scaling, is concerned with the measurement of psychological judgements, such as consumer preferences.

*Conjoint (trade-off) analysis* products are essentially bundles of attributes such as price and colour. Conjoint analysis software generates a deck of cards each of which combine levels of these product attributes. Respondents are asked to sort the cards generated into an order of preference. Conjoint analysis then assigns a value to each level and produces a 'ready-reckoner' to calculate the preference for each chosen combination.

Conjoint analysis can be used to design packaging, establish price, rank a hypothetical product against existing competitors already in the market and suggest modifications to existing products which would help to strengthen a product's performance.

It seems that various types of marketing planning models and other procedures using judgemental estimates in a formal manner might benefit from the utilization of conjoint models in additive or, more generally, polynomial form. Moreover, buyer preferences for multiattribute items may also be decomposed into part-worth evaluations in a similar manner. Potential areas of application for conjoint analysis include product design, new product concept descriptions, price–value relationships, attitude measurement, promotional congruence testing and the study of functional versus symbolic product characteristics. The output of conjoint analysis is frequently employed in additional analyses. Since most studies collect full sets of data at the individual respondent level, individual utility functions and importance weights can be computed. This fosters two additional types of analyses: (i) market segmentation; and (ii) strategic simulation of new factor-level combinations.

#### *Correspondence analysis*

Correspondence analysis is a visual or graphical technique for representing multidimensional tables. It can often be impossible to identify any relationships in a table and very difficult to account for what is happening. Correspondence analysis unravels the table and presents data in an easy-to-understand chart. This technique is particularly useful to identify market segments, track brand image, position a product against its competition and determine who non-respondents in a survey most closely resemble.

## Dimensions of Market Strategies

Market strategies deal with the perspectives of markets to be served. These perspectives can be determined in different ways and the various aspects of marketing strategy are listed below:

- Market scope. For example, a tourism company may serve an entire market or dissect it into key segments on which to concentrate its major effort.
- The geographical dimensions of a market. A company may focus on a local, regional, national or international market.
- Time of entry into a market. A tourism company may be the first among the first few, or among the last to enter a market.
- Commitment to a market. This commitment can be to achieve market dominance, to become a major player in the market, or merely to play a minor role in it.
- Dilution of a part of the market.

In summary form, the following 16 strategies constitute the major market strategies that a company may pursue. The presentation structure of these strategies follows the same framework of analysis: definition, objective, requirements and expected results.

**1.** Single-minded strategy
*Definition*: Concentration of efforts in a single segment.
*Objective*: To find a segment currently being ignored or observed inadequately and meet its needs.
*Requirements*: (i) Serve the market wholeheartedly despite initial difficulties; (ii) avoid competition with established firms.
*Expected results*: (i) Low costs; (ii) higher profits.

**2.** Multimarket strategy
*Definition*: Serving several distinct markets.
*Objective*: To diversify the risk of serving only one market.
*Requirements*: (i) Careful selection of segments to serve; (ii) avoid confrontation with companies serving the entire market.
*Expected results*: (i) Higher sales; (ii) higher market share.

**3.** Total-market strategy

*Objective*: To compete across the board in the entire market.
*Definition*: Serving the entire spectrum of the market by selling differentiated products to different segments in the market.
*Requirements*: (i) Employ different combinations of price, product, promotion, and distribution strategies in different segments; (ii) top management commitment to embrace entire market; (iii) strong financial position.
*Expected results*: (i) Increased growth; (ii) higher market share.

**4.** Local-market strategy
*Definition*: Concentration of efforts in the immediate vicinity.
*Objective*: To maintain control of the business.
*Requirements*: (i) Good reputation in the geographical area; (ii) good hold on requirements of the market.
*Expected results*: Short-term success; ultimately must expand to other areas.

**5.** Regional-market strategy
*Definition*: Operating in two or three states or over a region of the country (e.g. New England).
*Objectives*: (i) To diversify risk of dependence on one part of a region; (ii) to keep control centralized.
*Requirements*: (i) Management commitment to expansion; (ii) adequate resources; (iii) logistical ability to serve a regional area.
*Expected results*: (i) Increased growth; (ii) increased market share; (iii) increased profitability.

**6.** National-market strategy
*Definition*: Operating nationally.
*Objective*: To seek growth.
*Requirements*: (i) Top management commitment; (ii) capital resources; (iii) willingness to take risks.
*Expected results*: (i) increased growth; (ii) increased market share; (iii) increased profitability.

**7.** International-market strategy
*Definition*: Operating outside national boundaries.
*Objective*: To seek opportunities beyond domestic business.
*Requirements*: (i) Top management commitment; (ii) capital resources; (iii) understanding of international markets.
*Expected results*: (i) increased growth; (ii) increased market share; (iii) increased profits.

**8.** First-in strategy
*Definition*: Entering the market before all others.
*Objective*: To create a lead over competition that will be difficult for them to match.
*Requirements*: (i) Willingness and ability to take risks; (ii) technological competence; (iii) strive to stay ahead; (iv) heavy promotion; (v) create primary demand; (vi) carefully evaluate strengths.
*Expected results*: (i) Reduced costs via experience; (ii) increased growth; (iii) increased market share; (iv) increased profits.

**9.** Early-entry strategy
*Definition*: Entering the market in quick succession after the leader.
*Objective*: To prevent the first entrant from creating a stronghold in the market.
*Requirements*: (i) Superior marketing strategy; (ii) ample resources; (iii) strong commitment to challenge the market leader.
*Expected results*: (i) Increased profits; (ii) increased growth; (iii) increased market share.

**10.** Laggard-entry strategy
*Definition*: Entering the market towards the tail end of growth phase of during maturity phase. Two modes of entry are feasible: (i) Imitator-entering market with me-too product; (ii) initiator-entering market with unconventional marketing strategies.
*Objective*: Imitator: To capture that part of the market that is not brand loyal. Initiator: To serve the needs of the market better than present firms.
*Requirements*: Imitator: Market research ability. Initiator: (i) Market research ability; (ii) ability to generate creative marketing strategies.

*Expected results*: Imitator: Increased short-term profits. Initiator: (i) Put market on a new growth path; (ii) increased profits; (iii) some growth opportunities.

**11.** Strong-commitment strategy
*Definition*: Fighting off challenges aggressively by employing different forms of product, price, promotion and disribution strategies.
*Objective*: To defend position at all costs.
*Requirements*: (i) Operate optimally by realizing economies of scale in promotion, distribution, manufacturing, etc. (ii) refuse to be content with present situation or position; (iii) ample resources; (iv) willingness and ability to take risks.
*Expected results*: (i) Increased growth; (ii) increased profits; (iii) increased market.

**12.** Average-commitment strategy
*Definition*: Maintaining stable interest in the market.
*Objective*: To maintain the status quo.
*Requirement*: Keep customers satisfied and happy.
*Expected result*: Acceptable profitability.

**13.** Light-commitment strategy
*Definition*: Having only a passing interest in the market.
*Objective*: To operate in the black.
*Requirement*: Avoid investing for any long-run benefit.
*Expected result*: Maintenance of status quo (no incease in growth, profits or market share).

**14.** Pruning-of-marginal-markets strategy
*Definition*: Weeding out markets that do not provide acceptable rates of return.
*Objective*: To divert investments in growth markets.
*Requirements*: (i) Gain good knowledge of the chosen markets; (ii) concentrate all energies on these markets; (iii) develop unique strategies to serve the chosen markets.
*Expected results*: (i) Long-term growth; (ii) improved return on investment; (iii) decrease in market share.

**15.** Key-markets strategy
*Definition*: Focusing efforts on selected markets.
*Objective*: To serve the selected markets extremely well.
*Requirements*: (i) Gain good knowledge of the chosen markets; (ii) concentrate all energies on these markets; (iii) develop unique strategies to serve the chosen markets.
*Expected results*: (i) Increased profits; (ii) increased market share in the selected markets.

**16.** Harvesting strategy
*Definition*: Deliberate effort to let market share slide.
*Objective*: (i) To generate additional cash flow; (ii) to increase short-term earnings; (iii) to avoid antitrust action.
*Requirement*: High-market share.
*Expected result*: Sales decline but useful revenues still come in.

## Marketing Mix Strategies

The marketing objectives and strategy for a particular tourist product-market must be consistent with the direction and resources provided by the company's corporate and business-unit strategies. On the other hand, a major part of the marketing manager's job is to monitor and analyse customers' needs and wants and emerging opportunities and threats posed by competitors and trends in the external environment. Marketing managers must determine whether there are different segments for potential customers for their products and marketing programmes and how those segments might be best defined, described and appealed to.

## Formulating Strategic Marketing Programmes

Designing an effective strategic marketing programme for a tourist product-maket involves three interrelated sets of decisions:

1. The manager must set specific objectives to be accomplished within the target market, such as sales volume, market share and profitability goals. Those objectives must be consistent with the company's corporate and business-unit strategic objectives, yet specific enough to enable management to monitor and evaluate the tourist product-market's performance over time.
2. The manager must decide on an overall marketing strategy to appeal to customers and to gain a competitive advantage in the target market. The strategy must be consistent with the company's capabilities, its corporate and business-unit strategies and the tourist product-market objectives.
3. The manager must then make decisions about each element of the tactical marketing programme used to carry out the strategy. These decisions must be internally consistent and integrated across all elements of the marketing programme.

The strategic marketing programme for a particular tourist product-market should reflect market demand and the competitive situation within the target market. As demand and competitive conditions change over time, the marketing strategy should also be adjusted. A final critical determinant of a strategy's success is the company's ability to implement it effectively. The evaluation and control process provides feedback to managers and serves as a basis for a market opportunity analysis in the next planning period.

## Product Mix

Once a tourism company decides which markets to target, the single most important activity is product development. To a considerable extent, success here determines the company's profitability, both short and long term. In many cases, the tourist product serves as the basis for gaining a sustainable competitive advantage. It is a strong force in determining the character of the marketing mix. It affects the nature and scope of the other elements: price (level), channels of distribution (activities required) and promition (message).

Product mix decisions require an ongoing analysis of individual products and their markets. The total view of tourist products is highly relevant to the marketing decisions taken by individual producers, especially in establishing the interrelationships and scope for cooperation between suppliers in different sectors of the industry. To stay ahead of the competition, proactive marketing managers are constantly involved in tourist product innovation.

## Tourist Product Life Cycle

### *Overview*

The product life cycle (PLC) describes the evolution of a product as it passes through the stages of introduction, growth, maturity and decline with the growth of product sales following an S-shaped pattern (which has its basis in biological studies). It hypothesizes that products require different marketing strategies at each stage. On the other hand, despite its logical and intuitive appeal, it is difficult to operationalize and use the PLC for, say, forecasting or decision taking. Not all growth curves follow the standard S-shape and a number of variants exist.

The extended PLC has an extended maturity stage with high repeat purchases providing a stable volume of sales (and little loss of sales to other competitors). In the tourism field products which exhibit this pattern include luxury hotels, holidays and food service outlets.

Although it could be argued that the tourism product is the sum of travel experiences from anticipation to recall, the destination is a key element of the product. Destinations go through a cycle of evolution similar to the product life cycle. Some writers suggest three stages to this tourism area life cycle of evolution – discovery, local response and initiative, and institutionalized 'institutionalization' – but a more detailed framework is now generally accepted. This begins with

'exploration' by small numbers of visitors who are adventurous by nature and tend to shun institutionalized travel. They are attracted by the natural beauty or culture at the destination but numbers are restricted by lack of access and facilities. At this stage the attraction of the destination is that it is as yet unchanged by tourism and contact with local people will be high. Parts of Latin America and the Canadian Arctic are examples here.

In the *involvement* stage local initiatives to provide for visitors and later advertise the destination result in increased and regular numbers of visitors. A tourist season and market area emerges and pressure may be placed on the public sector to provide infrastructure. The smaller, less-developed Pacific and Caribbean islands are examples of this stage.

The *development* stage sees large numbers of visitors arriving, at peak periods perhaps equalling or exceeding the numbers of local inhabitants. The organization of tourism begins to change as control is passed out of local hands and external companies emerge to provide up-to-date facilities, which may alter the appearance of the destination. However, in this very success lies the roots of failure. With increasing numbers and popularity the destination may suffer problems of over-use and deterioration of facilities. Regional and national planning and control will have become necessary in part to ameliorate problems but also to market to the international tourist-generating areas as visitors become more dependent on travel arrangements booked through the trade. Parts of Mexico and the north and west African coasts exemplify this stage.

In the *consolidation* stage the rate of visitors has declined though total numbers are still increasing and exceed permanent residents. The destination is now fully-fledged part of the tourism industry with all the major franchises and chains represented and there is an identifiable recreational business district. Many Caribbean and northern Mediterranean destinations are examples here.

At *stagnation* peak numbers have been reached and the destination is no longer fashionable. It relies on repeat visits and business use of its extensive facilities and major efforts are needed to maintain the number of visitors. The destination may by now have environmental, social and economic problems. The Costa Brava typifies this stage.

In *decline* visitors are lost to newer resorts and the destination becomes dependent on a smaller geographical catchment for day trips and weekend visits. Alternatively, the authorities may recognize this stage and decide to *rejuvenate* by changing the attractions. Similarly, some destinations capitalize on previously unused natural resources, such as winter sports, to extend the season and attract a new market. These facility developments often reflect joint public/private sector ventures to seek new markets and invest in the destination in order to reach a cycle/recycle pattern.

As with the PLC the shape of the curve will vary, but in this case is dependent on the rate of development, access, government policy and competing destinations, each of which can delay or accelerate progress through the various stages. In turn, the length of each stage, and of the cycle itself, is variable.

The true test of the PLC or tourist area life cycle is whether they can be operationalized as a tool for planning and managing products or tourist areas. Both are useful as descriptive tools to provide a versatile organizing framework for product planning and strategy. The main determinant of strategy is expected market growth, and other factors include distribution of market shares, degree of comptition and profitability. Each of these varies at a different stage of the PLC and a different marketing mix is appropriate. They can also be used as forecasting tools though here they are less successful because of the differing lengths of the stages and the difficulty of obtaining standardized sales histories or long runs of visitors arrivals data. Tourist destinations are dynamic, with changing provision of facilities and access matched by an evolving market in both quantitative and qualitative terms.

### *Implementation*

There are two basic, though interrelated, uses of the life cycle: as a guide for strategic decision-taking and as a forecasting tool. The life cycle approach can be used to characterize the main marketing challenges at each stage. At introduction concern is with building up a strong market position and developing experience and economies of scale before competitors enter. In the growth stage emphasis changes to building market share through increased use of the product and pre-empting competitors' customers. As maturity approaches defence of share against competitors becomes important, as does maintaining margins and cash flow by cost control and avoiding price wars. However, once sales or visitor numbers stabilize, management should not await decline as inevitable, but should seek to revitalize sales or visits. The danger here is that the marketing effort involved in such activities may be better placed elsewhere in the portfolio of products (i.e. resources should be allocated to where they generate the greatest contribution). By decline the task switches to preventing a cash drain in products with no future.

The overall lesson here is for companies to have a portfolio of products at different stages of the PLC so that, for example, mature products generate the cash needed for investment in new products.

Some argue that it is erroneous to assume that the determinant of marketing strategy is stage in the life cycle and the task is to utilize the stages of the life cycle to develop and evaluate marketing strategy. This can be done in two basic ways:

1. Life extension is a planned series of actions to ensure that sales or numbers of visitors and profitability is sustained for as long as possible.
2. Incorporation of other inputs such as data on market share, the competitive environment and profitability.

Use of the life cycle approach as a forecasting tool depends upon the ability to isolate and predict the forces driving it. Most forecasts assume a constraint on long-run growth, an S-shaped diffusion curve, homogeneity of customers and given explicit consideration of marketing decisions or the competition. Forecasts can be successful if these limiting assumptions are acceptable and sales data are available to give stable parameter estimates.

Frustratingly for forecasters, retrospective studies have shown that much sales data fit this PLC. This empirical evidence can be summarized as: sales of most products follow the PLC pattern: profits peak during rapid growth and problems of competition increase as the cycle progresses; the average length of the PLC is decreasing; there is now regularity in the length of the stages of the PLC; and the PLC can be temporarily bent by heavy promotional expenditure.

### *Criticisms of the life cycle approach*

Other more detailed criticisms include:

- The danger of reacting to warning signs which may have been misinterpreted. The PLC is often criticized as a prescriptive tool because there is poor empirical validation for shape or length. Clearly the life cycle approach is product- or destination-specific, and each stage is variable in length and the shapes and patterns differ.
- Its main uses for decision-making and forecasting are in doubt. In particular, the wisdom of pursuing a standardized marketing strategy at each stage has been questioned and it is also imprecise as a forecasting tool and difficult to calibrate because of the lack of long runs of data on visitor numbers or sales.
- The difficulties of identifying stages and turning points. Identification of turning points is important in the later stages of the cycle given the increased cost of reacting as the need for change becomes more obvious. Turning points can be identified by use of leading indicators such as growth rate of sales or visits; level of ownership or visits compared with market potential; percentage of first-time buyers or visitors; number of competitors; levels of prices and profits; advertising; promotional and price elas-

ticity; and emergence of new products meeting customer needs more effectively. The variety of possible shapes of the curve and acceleration or delay due to external factors make it difficult to identify the stage reached by a destination or product. This can be done by plotting rate of change of sales or visitors. For destinations, other measures may be visitor expenditure, type of tourist, market share or profitability.

- The level of aggregation is unclear. Different shapes of the PLC emerge for product categories and forms (where external influences are important) compared with brands (where company decisions are dominant). Geographical scale is important for the tourist area life cycle as each country is a mosaic of resorts and tourist areas (which in turn contain hotels, theme parks, etc.) and depending on the scale taken each may be at a different stage in the cycle (compare for example resorts in northern and southern France). The unit of analysis is therefore crucial and should be determined by the intended use of the information.
- The life cycle assumes a homogeneous market but the market can be divided into many segments and a perfectly logical stance would be for, say, a destination to introduce segments sequentially. Equally, geographical segmentation would produce differing curves for, say, domestic and international visitors, etc.
- For the tourist area life cycle, decline is rooted in visitor numbers exceeding capacity levels at the destination. But capacity is a notoriously difficult concept to operationalize, particularly as it is possible to 'manage' a capacity. Also, no single capacity threshold exists for a destination – physical, environmental and psychological capacity may each be different – and, of course, this takes no account of spatial or temporal variations, such as seasonality with the attraction of crowd-tolerant visitors in the peak season and others in the quieter off-peak.

## Branding in Tourism

Branding is one of the decisions involved in developing a tourism marketing strategy. It is an important part of product planning. A brand is a name, design or symbol (or combination of these) which is used to identify a service provided by an institution or organization. The branding process in tourism involves researching, developing and implementing an organization's brand decisions. Branding decisions involve the determination of a word or letter/number to identify the tourism service (brand name), a symbol, design or distractive colouring or lettering, and personified brand mark (trade character). When a brand name, brand mark or trade character is given legal protection, it is referred to as a trademark. Unless brand names, brand mark and trade characters are registered as trademarks, competitors can use them. There are numerous examples of branding in the tourism and hospitality industry (e.g. hotel chains, rental car companies, cruise lines, tour companies and airlines).

The significance of banding in tourism can be explained by five factors:

1. As firms in the hospitality industry jockey for global market share, it is critical to carry over the positive images of established names from country to country. For instance, US hotel chains such as Marriott, Days Inns and Embassy Suites are aggressively seeking foreign markets and hope to capitalize on established reputations.
2. Repeat business represents an important source of the tourism industry income, and repeat business depends on satisfied customers and recognizable brand name. In other words, product acceptance is improved when brand names are popularized.
3. Considering the vast majority of new brand introduction (from cruise lines, to car rental companies, to tour package companies, to hotels), the consumer can only be bemused and confused. The rapid rate of new brand introduction complicates the tasks of travel agents

and highlights the importance of obtaining customer brand recognition.

4. The choice of a brand has implications for the firm's marketing mix consisting of product strategies, promotional strategies, pricing strategies and distribution strategies.
5. Customer loyalty in tourism is difficult to establish, but critical. A number of studies have shown that even when customers are reasonably satisfied with a travel experience, curiosity would attract them to try other alternatives. Vacationers and tourists continuously seek out new experiences, new locations, new airlines and new hotels. The more diverse the customers and tourism adventures, the richer their experience. For all these reasons, brand loyalty is difficult to obtain and hence branding is very important.

Branding in tourism is a decision that is integrated with other marketing mix decisions. The examples (from the lodging industry) discussed below show how firms are progressively developing unique brand names to serve different makets.

Branding is critical to creating unique images to different niche markets. That is, it enhances market segmentation efforts. The branding decision in tourism is very important for a variety of reasons:

1. Brand names enable customers to identify the product or service. A customer can then request the service by name; for example, a West German tourist may prefer the airline Lufthansa. Recognizability is important for patronage, implying that the name should be fairly simple and distinctive. From this premise, Western International Hotels changed its name to Westin Hotels.
2. Brand name assures the customer of a certain product quality. Related to the issue of quality is image: brand name suggests a product image. The Waldorf-Astoria in New York suggests high quality, while Comfort Inns suggests reasonable cost and economy. The Queen Elizabeth 2 (QE2) cruise liner suggests a more exclusive image than Carnival Cruise Lines.
3. The brand name does not just create an image for the product or service, it also suggests one for the firm. The producers of unbranded items cannot be identified, therefore customers do not have the opportunity to form an image of the firm.
4. Brand names enable customers to make fewer price comparisons. If a brand is unique, the customer will associate a set of marketing attributes to it. Thus it is easier for the customer to make decisions among brands that are closely related and not compare those that are not related. This is especially true when special characteristics are attributed to different brands. For the firm in the travel industry, the brand name enables it to advertise its sources and associate a brand and its characteristics in the minds of the customers. For instance, Carnival Cruise Lines associates the characteristic of 'fun ships' with its brand name, while the QE2 associates 'unique experience' with its promotional theme: 'For once in your life, live'.
5. Simply having a brand name increases social visibility and product prestige. It shows the firm is willing to stand behind its service.
6. Consumers experience less risk when purchasing a brand that is familiar and towards which they have a favourable attitude.
7. Branding is a critical element of the firm's marketing plan since it helps segment markets. By using multiple brands, different market segments can be attracted. The Hilton Hotels group uses the Waldorf-Astoria brand name to attract the elite and politically influential, while the Hilton brand name is used to attract business executives and frequent lodgers.
8. A well-known brand name helps increase television channel cooperation. A strong brand increases control of the distribution channel, a particularly important factor in very competitive

markets. The tourism and travel industry is a highly competitive industry, extremely dependent on travel agents and tour companies. A strong brand name is easily remembered by the customer and travel agent; travel agents are quick to recommend strong brand names to their clients.

9. Brands can be used to sell an entire line of products. The Holiday Corporation uses the brand names Holiday Inn Hotels, Residence Inn, HI Crowne Plaza, Hampton Inn, Embassy Suites Hotel and Granada Royale to market its line of lodging services.
10. Branding can be used to enter new markets and to serve new customer groups.

Branding decisions need to start with an understanding of market segments to be targeted. In fact, target markets need to be considered when making other branding decisions. Typically, implementation of branding decisions involves five steps: the choice of corporate symbols, creation of a branding philosophy, selection of a brand name and deciding to seek legal protection.

Corporate symbols are a firm name, logo and trade character. Although corporate symbols are designed or chosen to have elements of permanency, changes frequently have to be made. The firm operates in a dynamic environment, therefore no corporate symbol can serve all purposes at all times. Situations that call for a change, redesign and/or change of name are expansion of product lines to currently unrelated fields; going into new geographical markets; realization that the current name is indistinct, unwieldly or confusing; or starting a completely new line. Corporate symbols have an impact on a firm's marketing strategy and consequently should not be developed without considering elements of the marketing mix. Embassy Suites Hotel has successfully used Garfield the cat as its corporate symbol.

Confidence and reliability are of significant concern to travellers. Even when price competition is a significant form of competition, the product is not emphasized exclusively. Brand extension, which is used in the lodging industry, involves attaching a name extension to what would be a family name. For instance, Marriott uses the extensions Hotels, Resorts, Courtyard, Marquis and Suites.

A good brand name should increase the changes of consumer preference. 'Brand-name hype' only cannnot lead to sales unless backed by other substantive actions. While measuring sales is easy, the extent to which increased sales can be attributed to a good brand name is difficult. The effectiveness of branding decisions can ultimately be measured on insistence on (or aversion to) the product. Brand loyalty, however, depends on satisfaction with product performance.

Branding is a very important decision for firms in the tourism industry. The development of brand name over time can offer the firm a competitive edge, but the firm needs to plan and effectively execute a branding decision to ensure this benefit. Integration of the branding decisions into the marketing mix programme can result in considerable synergistic effects. A brand cannot be treated as simply a name, rather it is an integral part of the firm's efforts to establish a unique image that is saleable to customers. Image building in service industries is significant because word of mouth advertising is a major form of promotion. A firm operating in the tourism industry should pay special attention to its branding decisions. Brand loyalty and patronage may very well depend on a familiar brand name or symbol.

## Dimensions of Product Strategies

The implementation of tourism product strategies requires cooperation among different groups: finance, operations, the corporate staff and marketing. This level of integration makes tourism product strategies difficult to develop and implement. In many tourism companies, to achieve proper coordination among diverse business units, product strategy decisions are made by top management. In some companies, the overall scope of tourism product strategy is laid out at the corporate level, whereas actual

design is left to business units. These tourism companies contend that this alternative is more desirable than other arrangements because it is difficult for top management to deal with the details of product strategy in a diverse tourism company. Some nine key product strategies are recognized here and each strategy is examined from the point of view of a strategic business unit (SBU).

**1.** Perspectives of product strategies: product-positioning strategy
*Definition*: Placing a brand in that part of the market where it will have a favourable reception compared with competing brands.
*Objectives*: (i) To position the product in the market so that it stands apart from competing brands; (ii) to position the product so that it tells customers what you stand for, what you are, and how you would like customers to evaluate you. In the case of positioning multiple brands: (i) To seek growth by offering varied products in differing segments of the market; (ii) to avoid competitive threats.
*Requirements*: Use of marketing mix variables, especially communication efforts. (i) Successful management of a single brand requires positioning the tourism brand in the market so that it can stand competition from the toughest rival and maintaining its unique position by creating the aura of a distinctive tourism product. (ii) Successful management of multiple tourism brands requires careful positioning in the market so that multiple tourism brands do not compete with or cannibalize each other. Thus it is important to be careful in segmenting the market and to position an individual tourism product as uniquely suited to a particular segment through promotion.
*Expected results*: (i) Meet as far as possible the needs of the specific segment of the market; (ii) limit sudden changes in sales; (iii) make customers faithful to the brands.

**2.** Perspectives of product strategies: product-repositioning strategy
*Definition*: Reviewing the current positioning of the product and its marketing mix and seeking a new position for it that seems more appropriate.
*Objectives*: (i) To increase the life of the product; (ii) to correct an original positioning mistake.
*Requirements*: (i) If this strategy is directed towards existing customers, repositioning is sought through promotion of more varied uses of the product. (ii) If the business unit wants to reach new users, this strategy rquires that the product be presented with a different twist to the people who have not been favourably inclined towards it. In doing so, care should be taken to see that, in the process of enticing new customers, current ones are not alienated. (iii) If this strategy aims at presenting new uses of the product, it requires searching for latent uses; there are products that may be used for purposes not originally intended.
*Expected results*: (i) Among existing customers: increase in sales growth and profitability; (ii) among new users: enlargement of the overall market, thus putting the product on a growth route, and increased profitability; (iii) new product uses: increased sales, market share and profitability.

**3.** Perspectives of product strategies: product-overlap strategy
*Definition*: Competing against one's own brand through introduction of competing products, use of private labelling.
*Objectives*: (i) To attract more customers to the product and thereby increase the overall market; (ii) to work at full capacity and spread overhead; (iii) to sell to competitors, to realize economies of scale and cost reduction.
*Requirements*: (i) Each competing product must have its own marketing organization to compete in the market; (ii) private brands should not become profit drains; (iii) each brand should find its special niche in the market. If that doesn't happen, it will create con-

fusion among customers and sales will be hurt. (iv) In the long run, one of the brands may be withdrawn, yielding its position to the other brand.
*Expected results*: (i) Increased market share; (ii) increased growth.

**4.** Perspectives of product strategies: product-scope strategy
*Definition*: The product-scope strategy deals with the perspectives of the product mix of a company. The product-scope strategy is determined by taking into account the overall mission of the business unit. The company may adopt a single-product strategy, a multiple-product strategy or a system-of-products strategy.
*Objectives*: (i) Single product: to increase economies of scale by developing specialization; (ii) multiple products: to cover the risk of potential obsolescence of the single product by adding additional products; (iii) system of products: to increase the dependence of the customer on the company's products as well as to prevent competitors from moving into the market.
*Requirements*: (i) Single product: company must stay up-to-date on the product and even become the technology leader; (ii) multiple products: products must complement one another in a portfolio of products; (iii) system of products: company must have a close understanding of customer needs and uses of the products.
*Expected results*: Increased growth, market share and profits with all three strategies. With system-of-products strategy, the company achieves monopolistic control over the market, and enlarges the concept of its product/market opportunities.

**5.** Perspectives of product strategies: product-design strategy
*Definition*: The product-design strategy deals with the degree of standardization of a product. The company has a choice among the following strategic options: standard product, customized product, and standard product with modifications.
*Objectives*: (i) Standard product: to increase economies of scale of the company; (ii) customized product: to compete against mass producers of standardized products through product-design flexibility; (iii) standard product with modifications: to combine the benefits of the two previous strategies.
*Requirements*: Close analysis of product/market perspectives and environmental changes, especially technological changes.
*Expected results*: Increase in growth, market share and profits. In addition, the third strategy allows the company to keep close contacts with the market and gain experience in developing new standard products.

**6.** Perspectives of product strategies: product-elimination strategy
*Definition*: Cuts in the composition of a company's business unit product portfolio by pruning the number of products within a line or by totally divesting a division or business.
*Objectives*: To eliminate undesirable products because their contribution to fixed cost and profit is too low, because their future performance looks grim, or because they do not fit in the business's overall strategy. The product-elimination strategy aims at shaping the best possible mix of products and balancing the total business.
*Requirements*: No special resources are required to eliminate a product or a division. However, because it is impossible to reverse the decision once the elimination has been achieved, an in-depth analysis must be done to determine (i) the causes of current problems; (ii) the possible alternatives, other than elimination, that may solve problems (e.g. are any improvements in the marketing mix possible?); and (iii) the repercussions that elimination may have on remaining products or units (e.g. is the product being considered for

elimination complementary to another product in the portfolio? What are the side effects on the company's image? What are the social costs of an elimination?)
*Expected results*: In the short run, cost savings and in some cases an improved return on investment can be expected. In the long run, the sales of the remaining products may increase because more efforts are now concentrated on them.

**7.** Perspectives of product strategies: new-product strategy
*Definition*: A set of operations that introduces (i) within the business, a product new to its previous line of products; (ii) on the market, a product that provides a new type of satisfaction. Three alternatives emerge from the above: product improvement/modification, product imitation and product innovation.
*Objectives*: To meet new needs and to sustain competitive pressures on existing products. In the first case, the new-product strategy is an offensive one; in the second case, it is a defensive one.
*Requirements*: A new-product strategy is difficult to implement if a 'new product development system' does not exist within a company. Five components of this system should be assessed: (i) corporate aspirations toward new products; (ii) organizational openness to creativity; (iii) environmental favour towards creativity; (iv) screening method for new ideas; and (v) evaluation process.
*Expected results*: Increased market share and profitability.

**8.** Perspectives of product strategies: diversification strategy
*Definition*: Developing unfamiliar products and markets through (i) concentric diversification (products introduced are related to existing ones in terms of marketing or technology); (ii) horizontal diversification (new products are unrelated to existing ones but are sold to the same customers); and (iii) conglomerate diversification (products are entirely new).
*Objectives*: Diversification strategies respond to the desire for (i) growth when current products/markets have reached maturity; (ii) stability by spreading the risks of fluctuations in earnings; (iii) security when the compay may fear backward integration from one of its major customers; and (iv) credibility to have more weight in capital markets.
*Requirements*: In order to reduce the risks inherent in a diversification strategy, a business unit should (i) diversify its activities only if current product/market opportunities are limited; (ii) have good knowledge of the area in which it diversifies; (iii) provide the products introduced with adequate support; and (iv) forecast the effects of diversification on existing lines of products.
*Expected results*: (i) Increase in sales; (ii) greater profitability and flexibility.

**9.** Perspectives of product strategies: value-marketing strategy
*Definition*: The value-marketing strategy concerns delivering on promises made for the product or service. These promises involve product quality, customer service and meeting time commitments.
*Objectives*: Value-marketing strategies are directed towards seeking total customer satisfaction. It means striving for excellence to meet customer expectations.
*Requirements*: (i) Examine customer value perspectives; (ii) design programmes to meet customer quality, service and time requirements; (iii) train employees and distributors to deliver on promises.
*Expected results*: This strategy enhances customer satisfaction, which leads to customer loyalty and, hence, to higher market share. This strategy makes the firm less vulnerable to price wars, permitting the firm to charge

higher prices and, thus, earn higher profits.

## Tourism Pricing

Tourism pricing is a complex decision, made even more so by the variability of the product, the high degree of competition in certain tourist markets, and difficulties in accurately forecasting the level of demand. The latter may vary not only due to the special characteristics of this industry, but also due to factors such as weather, terrorism, strikes, etc. As a result, there is no one universally accepted pricing method, and the approach can vary considerably from one tourism organization to another. Despite this, tourism pricing has received and continues to receive increasing attention in recent research and publications.

A number of basic characteristics of the tourist industry affect pricing, for example:

1. *Perishability*. As the touristic product cannot be stored for future use, this means that an unsold service/product is revenue lost, which cannot be recouped later. This will influence the profitability of the tourism organization/establishment, especially when the high fixed costs incurred by the industry are considered.
2. *Intensive capital investment.* In most investments in touristic facilities, up to 90% of the capital is invested in fixed assets. Consequently, the level of fixed costs is very high in relation to other industries. This affects pricing decisions as explained below.
3. *The costs of intensive staff employed*. The quality of the product of the tourism industry depends, to a large extent, on the number and quality of the staff employed, and the special and professional skills they need to deal with guest/staff relationships. Another problem here is that most of the tourism establishments and facilities are very dependent on occupancy levels at off-peak times, in order to justify the retention of staff at these periods.
4. *Customer characteristics*. Different touristic destinations will appeal differently to various income groups and social classes, who will have different patterns of spending, of length of stay, and different sensitivities.
5. *Competition.* Fluctuating levels of demand and overall business conditions.

Pricing in tourism can be employed to attract new customers into the market or entice them from competitors. In areas where customers find it difficult to assess quality in advance of purchase, price can act as an indication of quality. As a result of this, some hoteliers, for example, have expressed the view that pricing can also be used as a device to control the marketing thrust of a hotel. For instance, if a hotel wants to get out of a particular market and concentrate on another type of business, it can adjust its rates accordingly.

Another possibility is price discrimination by time. Now nearly all the major hotel groups, airlines, travel organizations, etc., offer various sorts of 'bargain' holidays, at discounts of up to 50% of the normal price. Weekend packages are the most popular, but with the trend for increased holiday entitlements, mini-holidays in spring and autumn are growing in popularity and the long-term trend is developing for second and third holidays.

Tourism pricing affects and is affected by future demand, so the impact must be considered carefully: should one use a low price initially to encourage long-run demands, and as a weapon aimed at capturing market share from existing competitors and discouraging potential ones from entering? Alternatively, if the market situation is monopolistic (this does happen, due to location, for example), should the price be high, aiming at gaining short-term profits and risking attracting potential competitors? There are four basic factors that influence pricing decisions:

1. *Cost structure.* In the long term, the price of a touristic product or service must be higher than the full costs incurred by the tourism organization.

2. *Competition prices.* These should be taken into account in formulating price strategies.
3. *The price the customers/guests are 'willing to pay'*, i.e. their relative elasticities of demand for the particular tour, holiday, touristic experience, etc. This factor has recently been labelled 'customer focus' (Schliessel and Chasin, 1991). However, in using the customer focus approach, due consideration should be given to the level of demand that correlated with the break-even point, when fixing the price level. Also the customers' price-demand schedule should be established.
4. *Tourism organization's objectives.* Prior to deciding the pricing objectives, the tourist organization must identify and quantify the potential demand for the particular tourist establishment. In order to achieve this, a market feasibility study must be conducted which should examine a number of factors such as: the nature and extent of existing facilities in a particular location, socioeconomic structure of potential visitors, potential business from industries and other sources, infrastructure, the form of existing and proposed transport networks, etc. Market research must also be conducted to identify who are, or will be, the customers at whom its strategies will eventually be targeted, and what needs they have in terms of standard of services, facilities, atmosphere, location, etc.

The main pricing objectives in the tourism industry are:

1. *Profit maximization.* This is the most commonly cited pricing objective, because it (i) acts as a measurement of management efficiency; (ii) provides cashflows; and (iii) in the hotel industry, it can be used to compensate for lower income in the off-peak season.
2. *Maximization of return on investment.* This is very important in the tourism industry, which normally has a very high level of fixed costs.
3. *Survival.* This objective is applicable where low levels of demand are experienced due to seasonality, intense or superior competition, economic recession, etc. Examples include cheap holiday packages for off-season periods, and cost cutting exercises such as the ones undertaken by, say, Spanish hotels following a period of very high labour inflation which resulted in a trend towards self-service buffets, instead of the usual sit-down meals.
4. *Volume of sales.*
   - Maximizing occupancy. This is closely connected with profitability; unsold beds mean lost profits. The yield and management approach (see Table 5.1) is particularly relevant here.
   - Stable occupancy. Again this is aimed at achieving high sales which are connected with profitability, but in this case increased occupancy may have to be achieved through low rates and special discounts for long stays; certain hotels offer particularly low rates to guests staying long periods during the winter season; airport hotels operate special (lower) prices at weekend when occupancy tends to fall sharply.

### *Implementation*

In the tourism industry, fixed costs are notoriously high, therefore the strategic pricing is high. Yet, in periods of recession, tourist establishments often use pricing as a tactical short-term strategy, too. It should therefore be expected that the pricing systems used in practice are found to be market oriented. Traditionally this has not been the case, as more formal cost-oriented pricing structures have been used, such as those outlined below.

#### *Cost-plus*

This method calculated the price on the basis of variable costs to which is added a certain percentage which is regarded as covering other fixed costs and providing a satisfactory profit margin. Typically an operator will set this percentage on known

**Table 5.1.** The main tourism pricing methods.

| Pricing method(s) | Content | Advantages | Limitations |
|---|---|---|---|
| Cost-plus | Calculates the price by totalling the variable costs incurred and adding a certain percentage for profit and fixed costs | Easy to use and apply | Not very appropriate for the hotel industry because of the high fixed costs: costs dependent on occupancy levels, but these depend on prices (i.e. are affected by the level of costs allocated); not suitable for use by market-oriented establishments |
| Rate of return | Calculates the profits generated in relation to the capital invested | Suitable in particular for calculating rooms rate: problematic when there are several interrelated service facilities | Estimates are based on forecasted business/ guests numbers: provides only an *approximate* figure for the mark-up required; ignores partially the importance of sales volume, the market and the customer |
| Backward pricing | Adjusts the levels of service and product components (costs) to a certain predetermined market price | Takes into consideration competitors' prices, as well as customers' attitudes, wants and needs via market research studies | Requires substantial research in order not to 'dilute' the tourism product quality and consequently lose custom, create dissonance, etc. |
| Marginal pricing or contribution analysis | The price should 'cover' the additional variable (or direct) costs *and* contribute towards the fixed costs | Suitable particularly to hotels or similar establishments, with high fixed costs, high competition, and elastic demand. This method permits a more aggressive pricing policy including adjustments/flexibility to low/high demand and seasonality | Rather difficult to apply in the catering industry, e.g. restaurants, because of difficulty in identifying clearly direct costs, on each/different menu products (as these are interchangeable). Marginal pricing requires constant calculations as variable costs change over time |
| Flexible pricing | Takes into consideration market demand and suggests changes in prices (i.e. price discrimination) according to time, place, product version or volume of sales | Relies heavily on segmentation and market demand analysis. Handles changes in customers, demand. Very much a market-oriented method | Requires constant attention, and control of marketing factors in the market place |

**Table 5.1.** *continued*

| Pricing method(s) | Content | Advantages | Limitations |
|---|---|---|---|
| Trial and error pricing | Raising or lowering the price on a random basis, while continuously monitoring customers' reactions and adapting the price accordingly in order to maximize departmental contribution | Takes account of the competition; attempts to optimize profits in the short term | Customers' reactions do not occur in a sufficiently short period of time to facilitate adequate changes in prices. In practice, it is difficult to assess customers' attitudes to prices as their perceptions change over time |
| Market penetration pricing | Setting prices at a level lower than the market in order to capture the market share | Offer economies of scale both in production and in marketing | The tourism organization should or could expect 'retaliation' from competitors; if the market penetration is not successful, low levels of profitability will be achieved. |
| Skimming pricing | Setting a particularly high price to indicate a highly differential product | Suitable when there is a strong inelastic demand for, say, a certain tourism facility, with limited (or weak) competitors | It is very difficult to operate this price policy for a long period of time, as alternatives are developed by competitors |
| Yield and revenue | Evaluate sales and pricing alternatives in terms of revenue maximization | Increase the amount of money (income) from existing demand (see Dunn and Brooks, 1990) | Is ineffective for long-term pricing decisions |

industry practice or by analysis and projection of the market conditions. This method is easy to use and apply, but it has a number of drawbacks, especially so for the accommodation sector of the tourism industry. The cost-plus method does not take into account demand for the product/service. This method of pricing is appropriate for cost-oriented industries, but not so for market-oriented ones. There is little justification in using it for hotel rooms, for example, since a room selling for, say, £96 may have a direct cost of less than £16.

### *Rate of return*

Those concerned with financial analysis will argue that the true function of a tourist enterprise, be it an airline or a restaurant, is to provide a satisfactory return on the capital invested. Therefore, whereas the cost-plus method concentrates on the costs associated with running the business, the rate of return method concentrated on the profits generated in relation to the capital invested. The criticism of rate of return pricing is that it is a rather mechanistic, rigid and unduly profit-oriented approach. It ignores more factors influencing pricing policy, e.g. the importance of sales volume. Its approach to pricing problems is therefore too simple to be realistic. Its greatest failure is that it loses sight of the customer and market demand generally. Thus in a market-oriented business it cannot be wholly acceptable.

*Backward pricing*

This method of pricing adopts the procedure of going from price (normally that of a competitor) to cost. It starts with a predetermined market price and a given specified profit, and it then attempts to achieve the latter by adjusting variable service and qualitative aspects to reduce costs. As such it must be used with care, as a thorough analysis of attitudes, psychology and requirements of the tourist customer must be made before price selection, while making allowance for existing or potential competition and for the psychological effects of pricing in implying quality levels.

*Marginal pricing*

The marginal cost approach to pricing decisions recognizes that decision-making is essentially a process of choosing between competing alternatives, each with its own combination of income and costs. By estimating the demand curve for a particular product, it is possible to see what would happen to total profits if the selling prices are raised or lowered.

Such an approach could be useful in a highly competitive industry with corresponding elastic demand and a high ratio of fixed to variable costs. In such an industry, it is possible to set a range of prices all of which are economically possible, i.e. each price generates enough revenue to cover total costs and provide some profit. The crucial question to be answered here is, what price would maximize total contribution to fixed costs and profits? This is a useful technique for industries with high fixed costs, like tourism. Marginal pricing has been recently used extensively by certain small and middle sized hotels that were badly affected by the world recession and falling demand.

Marginal pricing permits a more aggressive pricing policy, by segmenting the market and using product differentiation to gain advantage of the different layers of consumer demand, and for selecting the most profitable pricing when capacity is limited, as, for example, in the peak season.

*Flexible pricing*

This method takes into consideration the market demand and enables discrimination according to time, place, version or volume. Although clearly the most profitable way to price is according to what the market will bear, it is not always easy to discover the correct level, and in the process, some costly mistakes may be made. 'Charging what the market will bear' comes down to segmenting the market and producing different prices for the different segments based on willingness and ability to pay. In other words, this is price discrimination. Several types of discrimination are possible in the hotel industry.

1. *Discrimination by time*. This is applicable where there are peaks and troughs of demand, e.g. hotels and airlines charge more at peak holiday times and may be prepared at off-peak to accept low prices that merely make a contribution to the necessary costs of keeping a hotel ready for business. This is a way of maintaining necessary services and retaining reliable and quality staff. Additionally, it can be argued that significant amounts of business can be generated in other departments, e.g. from sales of food or beverages, resulting from accommodation bookings, and thus it might even be feasible to accept accommodation tariffs below variable costs.
2. *Discrimination by place.* An example of this could be hotel rooms with a balcony overlooking the sea, commanding higher prices than the ones overlooking the service yard or in close proximity to the hotel's disco.
3. *Discrimination by product/service version*. Hotel rooms with a bath can be charged at a higher rate than those without.
4. *Discrimination by volume.* Here we are concerned with volume and quantity discounts where end-users are concerned, e.g. in the case of tour operators, care must be taken that the actual bookings reach their promised level,

otherwise concessions are not related to the size of the booking.

*Market penetration*

This involves setting a price below that of the market of competition to capture customers in the hope that prices may be raised at a later date while retaining a high proportion of the custom that has been built up. This approach offers economies of scale both in production and in marketing.

*Skimming*

In tourism this may be applied to a very differentiated product, such as new transportation method, or a new destination, where premium prices may be charged. Indeed, this pricing policy could be adopted only in circumstances where a strong (or inelastic) demand exists for the touristic products offered. Ownership of a certain unique location often offers an opportunity to charge particularly high prices.

*Yield and revenue*

This method attempts to maximize revenue by increasing the revenue from the existing level of demand. It is suitable (and used) particularly as a short-term approach.

*Assessment*

An assessment of the various pricing methods and techniques available in tourism is presented in Table 5.1. Pricing is one of the most important elements in the tourism marketing mix. Tourism customers rate the product at a price and without price there is no indication of value. Pricing decisions are therefore essential for the profitability of the tourist establishment, as it has a tremendous impact on demand and sales volume. Pricing is also often considered to be an indication of quality.

Setting the price is a critical decision for any tourism establishment. It is easy to discover when a product is underpriced. The psychology of price is important in determining a person's price/value relationship. Attitudes to price also relate very closely to the amount of risk the buyer feels is involved in the purchasing decision. For all these reasons, cost-based methods of setting tourism prices can be dangerous; their real value is in determining lower limits of price.

Although the pricing element is the most important one of the marketing mix in terms of profitability, pricing cannot be seen in isolation from the other elements. Pricing must be viewed as an integral part of the market process and the interrelationship with the other elements in the mix must be taken into consideration. Recently, the inflation impact on tourism pricing has received some attention (Arbel and Woods, 1991). The hotel industry, for example, was considered to be inflation proof, because of its ability to raise room rates. Obviously, in today's economy, hotels should try to avoid simplistic approaches. Instead, they could employ yield and revenue management (Dunn and Brooks, 1990).

Some of the pricing methods presented above are particularly suitable to small tourist enterprises and operators; examples are the cost-plus method, marginal pricing technique and market penetration pricing. However, even small tourism businesses, in developing a pricing policy, must carry out the following before arriving at a decision.

1. Undertake a market feasibility study and market research to determine:
   - the customers and the nature of the demand;
   - the quality/quantity of the product/service required and its costing elements;
   - the nature of the competition;
   - the price that the customers are 'willing to pay' for the product in question.
2. Set clear pricing objectives (e.g. attain a certain level of return/profitability, sales/volume occupancy level(s), survival, etc.).
3. The price strategies selected depend highly on the customers serviced, the small tourist organization strengths and weaknesses, the opportunities and threats in the market place, the competition, and certain tourism non-controllable marketing variables, e.g. weather, government intervention and regulation of tourism activities,

economic circumstances (e.g. inflation, unemployment), etc.

With the increase in computerization, an increasing number of hotels and restaurants analyse the profitability of operations by individual menu items, meal periods (e.g. breakfast vs. banquet business), or categories of menus. A 'profit and loss' account for every meal can be developed. This approach is particularly suitable for relatively small establishments and enables the manager to keep an eye on the profitability of the restaurant business (Meidan, 1994).

### *Dimensions of pricing strategies*

Strategically, the function of pricing has been to provide adequate return on investment. Thus, the timeworn cost-plus method of pricing and its sophisticated version, return-on-investment pricing, have historically been the basis for arriving at price. Pricing is an important part of marketing strategy. Despite the importance attached to it, effective pricing is not an easy task, even under the most favourable conditions. A large number of internal and external variables must be studied systematically before price can be set. For example, the reactions of a competitor often stand out as an important consideration in developing pricing strategy. Simply knowing that a competitor has a lower price is insufficient; a price strategist must know how much flexibility a competitor has in further lowering price. This presupposes a knowledge of the competitor's cost structure.

In the dynamics of today's environment, however, where unexpected economic changes can render cost and revenues projections obsolete as soon as they are developed, pricing strategy is much more difficult to formulate. This section now provides a composite of pricing strategies for products. Each of five strategies is examined for its underlying assumptions and relevance in specific situations.

*Perspectives on pricing strategies: price strategies for new products*

**1.** Skimming pricing
*Definition:* Setting a relatively high price during the initial stage of a product's life.
*Objectives:* (i) To serve customers who are not price conscious while the market is at the upper end of the demand curve and competition has not yet entered the market; (ii) to recover a significant portion of promotional and research and development costs through a high margin.
*Requirements:* (i) Heavy promotional expenditure to introduce product, educate consumers, and induce early buying; (ii) relatively inelastic demand at the upper end of the demand curve; (iii) lack of direct competition and substitutes.
*Expected results:* (i) Market segmented by price-conscious and not so price-conscious customers; (ii) high margin on sales that will cover promotion; (iii) opportunity for the firm to lower its price and sell to the mass market before competition enters.

**2.** Penetration pricing
*Definition:* Setting a relatively low price during the initial stages of a product's life.
*Objective:* To discourage competition from entering the market by quickly taking a large market share and by gaining a cost advantage through realizing economies of scale.
*Requirements:* (i) Product must appeal to a market large enough to support the cost advantage; (ii) demand must be highly elastic in order for the firm to guard its cost advantage.
*Expected results:* (i) High sales volume and large market share; (ii) low margin on sales; (iii) lower unit costs relative to competition due to economies of scale.

*Perspectives on pricing strategies: price strategies for established products*

**3.** Maintaining the price
*Definition:* The price is kept at exactly the same level.
*Objectives:* (i) To maintain position in the marketplace (i.e. market share, profitability, etc.); (ii) to enhance public image.

*Requirements:* (i) Firm's served market is not significantly affected by changes in the environment; (ii) uncertainty exists concerning the need for or result of a price change.
*Expected results:* (i) Status quo for the firm's market position; (ii) enhancement of the firm's public image.

4. Reducing the price
*Definition:* The price is decreased from a previous level.
*Objectives:* (i) To act defensively and cut price to meet the competition; (ii) to act offensively and attempt to beat the competition; (iii) to respond to a customer need created by a change in the environment.
*Requirements:* (i) Firm must be financially and competitively strong to fight in a price war if that becomes necessary; (ii) must have a good understanding of the demand function of its product.
*Expected results:* Lower profit margins (assuming costs are held constant). Higher market share might be expected, but this will depend on the price change relative to competitive prices and on price elasticity.

5. Increasing the price
*Definition:* The price is increased compared with a previous level.
*Objectives:* (i) To maintain profitability during an inflationary period; (ii) to take advantage of product differences, real or perceived; (iii) to segment the current served market.
*Requirements:* (i) Relatively low price elasticity but relatively high elasticity with respect to some other factor such as quality or distribution; (ii) reinforcement from other ingredients of the marketing mix; for example, if a firm decides to increase price and differentiate its product by quality, then promotion and distribution must address product quality.
*Expected results:* (i) Higher sales margin; (ii) segmented market (price conscious, quality conscious, etc.); (iii) possibly higher unit sales, if differentiation is effective.

## Promotion

The pattern of international travel and tourism demand, and its change over time, is quite pronounced. The determinants of this pattern are potentially many and varied, as evidenced by the large number of empirical studies which have been undertaken over the last three decades. Destinations attempt to influence this pattern through their promotional activities in foreign countries. Many countries have substantially increased their spending on such promotions in recent years as international tourism has become much more lucrative and competitive.

The promotion of countries as tourist destinations has intensified considerably. In more recent years, however, national tourism organizations (NTOs) in particular have come under increased scrutiny to demonstrate the success of their promotional campaigns and thereby to justify industry and government funding. However, the link between promotion and demand is not easy to measure. Organizations which must compete for their survival know that promotion is important, but only vaguely understand how promotion works. There is a sense that, while some promotion can be highly effective, promotion involves much guess-work, 'gut feel', and trial and error. Indeed, some promotion is probably quite ineffective, but it is very difficult to really know what does and doesn't work because so many influences can affect demand that, unless the promotion is subject to experimental control, it is almost impossible to apportion the variance in demand to its possible causes.

### *The promotion of international tourism*

International tourism is promoted in a wide variety of ways by a wide variety of organizations. Airlines, travel agents, tour operators, resorts, convention and visitor bureaux, hotels and NTOs, for example, promote international travel and tourism individually and in collaborative arrangements.

Promotion might be targeted at either consumers or the travel trade. Consumer

promotions have typically relied on brochures and print advertising in newspapers and magazines. For some time airlines have used television as the medium and more recently, the budgets of NTOs have enabled the mass television advertising of destinations. Publicity has been used to great effect as well. Many countries operate a programme for visiting journalists. Such programmes have been found to be particularly cost-effective, and can generate publicity which, in value, exceeds the total annual budget of the sponsoring NTO.

Trade promotions have also become increasingly important. Travel trade shows, and corporate, incentive, and convention travel markets have grown in significance. Governments have opened travel offices in major origin markets, hence, the full promotional mix (advertising, sales promotion, personal selling, and publicity) is now used extensively to promote international travel and tourism.

The main marketing function of NTOs is the promotion of inbound international tourism, although promotion is only one element of the marketing mix. As international travel and tourism has grown, the promotional budgets of NTOs have risen significantly (Lavery, 1992). The entire promotion programme – objectives, creative content of messages and format, selection of media and the budget – should follow directly from marketing objectives and help to achieve them. In this way, the marketing plan ensures that promotion is coordinated with marketing strategy. Advertising should influence the tourist's assessment of the tourist product's performance on a given attribute, or on the combination of product attributes regarded as 'ideal'. The messages must create or reinforce existing positive attitudes or images and correct negative attributes or image elements.

In terms of media planning, the tourist company should deal with a basic question: which medium delivers the most key prospects at the lowest cost within a supportive editorial environment? The relative cost-effectiveness of the different communication channels is also an important factor to be evaluated. Advertising and sales promotion activities in tourism are even more effective when supplemented by publicity and personal selling.

### *Developing advertising strategies*

A number of factors must be considered in developing advertising strategies. One model of advertising strategy identifies five key elements, presented below:

1. *Driving force*: the value orientation of the advertising strategy; the end goal or value on which the advertising is focused.
2. *Consumer benefits*: the key positive consequences for the consumer that are to be communicated in the advertisement, either visually or verbally.
3. *Message elements*: the concrete or abstract product attributes or features that are to be communicated in the advertisement, either verbally or visually.
4. *Leverage point*: the specific way in which the value or end goal is linked to the specific features of the advertisement; the 'hook' that activates or taps into the driving force.
5. *Executional framework*: all the details of the advertising execution – models, clothes used, setting – as well as the overall scenario or action plot; the advertisement's overall theme or style; the vehicle for communicating the means-end message.

Each of these advertising strategy factors requires many decisions by marketing and advertising agency personnel. As we have seen, the first step in developing an advertising strategy is to analyse the consumer/product relationship. Means-end measures of consumers' knowledge structures are useful for this purpose. From a means-end perspective, the end goals or values that consumers seek to achieve are the key to developing effective advertising strategies. The marketer must select the key value, end state, goal or benefit to be communicated in the advertisement. Then, the marketer must determine how the advertisement will communicate that the product can achieve or satisfy this end goal or value.

The attribute, consequence and value levels of product knowledge in a means-end chain are directly related to three of the major decision elements of advertising strategy. Knowing consumers' salient product attributes help marketers decide which *message elements* to include in an advertisement. Data about the important functional consequences consumers perceive can help identify the key *consumer benefits* to be communicated. Values or end goals are directly related to the *driving force* of the advertising strategy.

Finally, developing the *executional framework* and the *leverage point* requires selecting and putting together the specific executional aspects of an advertisement – the product attributes mentioned or shown, the models used, the camera angles, the plot, the various cuts to different scenes, etc. – to effectively communicate the connection between the product and the basic goals and values the consumer is seeking. These decisions require creative imagination that can be guided by means-end data. This is a convenient framework that organizes and gives focus to the many decisions. Generally, it should produce more coherent and effective advertising that communicates complete means-end meanings.

### *Dimensions of promotion strategies*

Promotion strategies are concerned with the planning, implementation and control of persuasive communication with customers. The first strategic issue involved here is how much money may be spent on the promotion of a specific tourism product/market. The distribution of the total promotional budget among advertising, sales promotion and personal selling is another strategic matter. The formulation of strategies dealing with these two issues determines the role that each type of promotion plays in a particular situation.

Clear cut objectives and sharp focus on target customers are necessary for an effective promotional programme. An integrated marketing communication plan consisting of various promotional methods should be designed to ensure that customers in a tourist product/market cluster get the right message and maintain a long-term cordial relationship with the organization. Promotional strategies must also be properly matched with product, price and distribution perspectives.

The amount that a tourism company may spend on its total promotional effort, which consists of advertising, sales promotion and personal selling, is not easy to determine. There are no unvarying standards to indicate how much should be spent on promotion in a given tourist product/market situation. This is so because decisions about promotion expenditure are influenced by a complex set of circumstances. This section now provides a set of promotion strategies. Four strategies are examined for their underlying assumptions and relevance.

1. Perspectives on distribution strategies: promotion-expenditure strategy
   *Definition*: Determination of the amount that a company may spend on its total promotional effort, which includes advertising, personal selling and sales promotion.
   *Objective*: To allocate enough funds to each promotional task so that each is utilized to its fullest potential.
   *Requirements*: (i) Adequate resources to finance the promotion expenditure; (ii) understanding of the products/services sales response; (iii) estimate of the duration of the advertising effect; (iv) understanding of each product/market situation relative to different forms of promotion; (v) understanding of competitive response to promotion.
   *Expected result*: Allocation of sufficient funds to the promotional tasks to accomplish overall marketing objectives.

2. Perspectives on distribution strategies: promotion mix strategy
   *Definition*: Determination of a judicious mix of different types of promotion.
   *Objective*: To adequately blend the three types of promotion to complement each other for a balanced promotional perspective.
   *Requirements*: (i) Product factors: (a) nature of product, (b) perceived risk; (ii)

market factors: (a) position in the life cycle, (b) market share, (c) industry concentration, (d) intensity of competition, and (e) demand perspectives; (iii) customer factors: (a) household versus business customers, (b) number of customers, and (c) concentration to customers; (iv) budget factors: (a) financial resources of the organization, and (b) traditional promotional perspectives; (v) marketing mix factors: (a) relative price/relative quality, (b) distribution strategy, (c) brand life cycle, and (d) geographic scope of the market; (vi) environmental factors.
*Expected result*: The three types of promotion are assigned roles in a way that provides the best communication.

**3.** Perspectives on distribution strategies: media-selection strategy
*Definition*: Choosing the channels (newspapers, magazines, television, radio, outdoor advertising, transit advertising, and direct mail) through which messages concerning a product/service are transmitted to the targets.
*Objective*: To move customers from unawareness of a product/service, to awareness, to comprehension, to conviction, to the buying action.
*Requirements*: (i) Relate media-selection objectives to product/market objectives; (ii) media chosen should have a unique way of promoting the business; (iii) media should be measure-minded not only in frequency, in timing, and in reaching the target audience but also in evaluating the quality of the audience; (iv) base media selection on factual not connotational grounds; (v) media plan should be optimistic in that it takes advantage of the lessons learned from experience; (vi) seek information on customer profiles and audience characteristics.
*Expected result*: Customers are moved along the desired path of the purchase process.

**4.** Perspectives on distribution strategies: advertising-copy strategy
*Definition*: Designing the content of an advertisement.
*Objective*: To transmit a particular product/service message to a particular target.
*Requirements*: (i) Eliminate 'noise' for a clear transmission of message; (ii) consider importance of (a) source credibility, (b) balance of argument, (c) message repetition, (d) rational versus emotional appeals, (e) humour appeals, (f) presentation of model's eyes in pictorial ads, and (g) comparison advertising.
*Expected result*: The intended message is adequately transmitted to the target audience.

## Tourism Distribution

The main function of a distribution system is to extend the number of points of sale or access, away from the location at which services are performed or delivered. In this sense at least, the function of distribution is the same for tourism products as it is for physical goods. Still, an important secondary function of services distribution is to facilitate the purchase of products in advance of their production.

The most crucial question for tourism distribution analysis is what channels are the most productive and whether a new channel strategy is needed. A distribution strategy involves determining the best way in which the industry will try to sell its products to designated end markets. The leading factors for a tourism distribution policy to be effective are the market coverage, the costs of distribution involved, and the effectiveness in generating sales in terms of motivation and image of the channels. The distribution strategy must be supported by information services, publicity material, training seminars, joint special promotions and trade advertising.

The allocation of available marketing funds among the various components of the tourism marketing mix (advertising, publicity, travel agents' commissions, discount coupons, pre-opening campaigns, new

product development, research, etc.) should be determined. For tomorrow's tourism marketing strategies, the name of the game will, above all, be how to achieve a sustainable competitive advantage.

### *The evolving role of tour operators*

Tour operators function as intermediaries in the tourism distribution system linking producers and consumers. Their expertise in packaging tourism products allows for more offerings to a wider range of tourists. Tour operators handle all the details of foreign travel allowing the foreignness of the destination to be observed but not truly experienced. Tour operators often negotiate discount fares for package tours with metropolitan enterprises.

The ability of tour operators to combine travel products and offer them to customers at prices generally lower than those available to individuals provides travel economy and convenience for a significant segment of tourists. Product packaging and selling through operators represents a significant portion of the international travel business. A tour operator will have more influence in the travel decision process and hence become more important both to the traveller and destination area the greater the distance from point of visitor origin to destination. They are often the first and most influential link in the tourist flow chain.

The dependence of developing countries on foreign tour operators derives fundamentally from the expertise of these operators as producers and wholesalers of tourism-related services, their knowledge of the market, particularly the international market, and their access to the relevant complementary services whereby a total package of tourism-related services can be provided. For example, tourists depend on tour operators as sources of, presumably, expert information about product quality and consumption expectations.

We can identify three areas where tour operators provide necessary services to both travellers and developing countries. Tour operators are considered specialists in marketing and distribution of tourist-related services and can achieve higher sales volumes than single service providers. Second, given the high price elasticity of demand for international travel, the ability of tour operators to obtain low cost charters is crucial and, finally, tour operators can arrange packages that can be mass marketed on the basis of their brand name and quality assurance. In other words, tour operators are able to reduce economic distance (low cost charter), cultural distance (providing complete packages), and increase quality of host services (brand name and quality assurance). The resistance component of demand is thereby reduced, resulting in an increase in total demand.

Another important role of tour operators is as a gatekeeper of information. Tour operators provide information about destinations even if travellers do not choose to use their services. This source of information can be considered as an induced image formation agent critical to the perceptions travellers hold about different destination areas. Murphy (1983) agrees that information dissemination by tour operators contributes to the image travellers hold about certain areas. McLellan and Foushee (1983) argue that country images to a great extent work to influence the image held by tour operators and ultimately their clients. The role tour operators provide by distributing information organizes the information search process for the individual. External sources of information are minimized for the individual if they choose to use the services of a tour operator.

In most industries the supplier or producer has full or at least decisive control over the product including pricing, quality and the manner in which it is distributed. Tourist service providers are an exception. According to Hawkins and Hudman (1989), the distribution sector of tourism is much stronger and travel intermediaries have far greater power to influence and direct consumer demand when compared with their counterparts in other industries. The distribution channel in tourism creates the link between the producers of tourism services and their customers. Often tour operators are the distribution link and the channel between producers and consumers of inter-

national tourism products. Since tourism products are experiential and consumed on site, tour operators are an integral link in the distribution system (Morrison, 1989). Unlike other products which flow from producer to consumer, tourists flow to the product. This inverted distribution system relies on intermediaries to perform much more than simple delivery services.

In competing for customers, tour operators must include destination attractiveness as one of the intangible qualities they market (Whipple and Thach, 1988). However, the operators are concerned about the overall tourism experience for their clients and this can be affected by inefficient in-country services. Also, difficulty in obtaining services, which have higher than expected prices, may lead to destination substitution. Tourism demand could be increased by reducing economic distance for tour operators. The more difficult it is to obtain needed information, reserve domestic airline space or book blocks of hotel rooms, the more time-consuming and expensive it becomes for tour operators.

Questions that need to be addressed immediately include:

- Are there measures which can be undertaken to improve the services for international tour operators?
- Are there opportunities for governments in particular and all developing countries in general to provide information and assistance in obtaining needed services directly to tour operators, thereby reducing dependency on metropolitan enterprises?
- Are tour operators' expectations of discount fares and preferential bookings realistic and in keeping with sustainable development policies?
- What role does the government and private sector play in the provision of services to international tour operators?

As an operator increases their business in the country they are more likely to be confronted with increasing problems of securing adequate services.

### *Travel intermediaries and the impact of information technology*

Computer reservation systems affiliated with vendor airlines have become known as global distribution systems (GDSs) and those affiliated with non-vendor airlines are called computer reservation systems (CRSs). All GDSs provide important electronic distribution channels for a variety of travel products. Travel agents are the most ubiquitous travel intermediaries varying in size from multinational, multi-branch mega-agencies to small, independently owned offices.

Travel agencies have an unusual relationship with the Internet. It is both a threat since it could remove much of their business, but it also provides additional business opportunities. Some travel agencies offer services on the World Wide Web, giving them a much broader geographic consumer base than if they operated traditionally. Travel agents can also use it as an important research tool in addition to their GDS. This may be particularly important in the future as some travel products become available only via the Internet. Of United States travel agents, 60% use the Internet to research products and destinations, 55% use it to receive e-mail from clients, and 23% use it to make bookings for clients. In addition, 29% have set up a home page on the Web and 42% access news groups through the Internet (Harris, 1996).

Tour packages are traditionally distributed using brochures. Computers can assist in in-house brochure creation with the use of desktop publishing software. Brochures, however, represent a significant expense for agents and so many are looking to distribute brochures to agents electronically using high band width data communications lines, thus allowing full colour pictures and text to be transmitted to an agent's terminal. Integrated services digital network (ISDN) is an example of a technology that could facilitate electronic brochure distribution. Reservations are then transmitted back to the tour operator reservation system directly from the travel agent's terminal.

Electronic distribution of tour packages can also be done with CD-ROMs, videotext,

GDS, or the World Wide Web. Many tour operators also place their inventory on the GDS as a way of facilitating travel agent bookings. Tour operators with their own reservation system can connect to systems such as Tourlink, Tour Source or Leisure Shopper, which are features accessible to GDS users. On-line bookings for tour packages are likely to be small because of the significant financial outlay that many tour packages represent compared with other travel products.

Much debate has ensued in the last few years about the continued viability of travel intermediaries, particularly in the light of new technological developments. Consumer access to travel databases creates an immediate threat to the existence of travel intermediaries as consumers book and research their own trips. The rapid growth of the Internet, the World Wide Web and other public access networks is having a profound impact on travel product distribution and therefore on travel intermediaries.

Travel intermediaries can respond to this threat in numerous creative ways. For example, many travel agents and tour operators now offer their services to consumers on the Internet, significantly increasing their geographical reach. Some travel agencies exist solely on the Internet, realizing that physical location is irrelevant in today's electronic market place. In the future, as consumer booking over the networks becomes easier, travel intermediaries will have to continuously redefine themselves. Travel is the Internet's second largest convenience area after computer technology.

Additional methods allowing consumers to access travel information and databases are:

- Automated ticket machines (ATMs).
- Interactive television. This is a relative of videotext, except that the communication links are faster and able to handle multimedia information which is not the case with videotext. Interactive TV systems are still in the development phase, but offer significant potential for the travel industry. The graphical user interfaces and touch screens are a vast improvement over typed interfaces, but voice input and recognition is the next step in making communication with a computer easier. Research has shown that video conferencing is expected to decrease the demand for domestic air travel in the USA by 12–16% by 2030. A European study estimates similar trip reductions of 13–23%.
- Electronic auctions. For example, United Airlines uses electronic auctions to sell seats due to overbooking or when it has empty capacities on its flights.

Vertical integration is also occurring as travel agents and tour operators are acquiring airlines, and airlines are acquiring hotels, for example. This vertical integration may be prompted by information technology in the sense that companies may want to leverage their investments in computer reservation technology across numerous and diverse operations.

If future decisions on technology are based solely on cost and convenience, more technology than is appropriate may be implemented, leaving the industry less effective in the long run. All sectors of tourism must carefully examine their operations, strategic direction and customer needs when deciding to implement new technologies. Over time, trends will certainly emerge. At the present time, the proportion of travellers using electronic channels is currently in the minority. However fast the growth, it seems there will always be a significant proportion who continue to choose to use travel agents (Sheldon, 1997).

### *Dimensions of distribution strategies*

Distribution strategies are concerned with the channels a tourism company may employ to make its services available to customers. Channels are organized structures of buyers and sellers that bridge the gap of time and space between the supplier and the customer. Which travel intermediary should the supplier select to bring tourism services close to the customer? Who should perform the concentration and dispersion tasks: the

tourism supplier or travel intermediaries? These questions are central to tourism distribution strategies.

Other strategy-related matters include scope of distribution (i.e. how widespread distribution may be), use of multiple channels to serve different segments, modification of channels to accommodate environmental shifts and use of vertical systems to institute control over tourism channels. Five approaches are now examined for their relevance in different circumstances.

**1.** Perspectives on distribution strategies: channel-structure strategy
*Definition*: Using perspectives of intermediaries in the flow of services. Distribution may be either direct or indirect.
*Objective*: To reach the optimal number of customers in a timely manner at the lowest possible cost while maintaining the desired degree of control.
*Requirements*: Comparison of direct versus indirect distribution on the basis of (i) cost; (ii) product characteristics; (iii) degree of control; and (iv) other factors.
*Costs*: (i) Distribution costs; (ii) opportunity costs incurred because product not available.
*Product characteristics*: (i) Gross margin; (ii) service requirements; (iii) search time.
*Degree of control*: Greater when direct distribution used.
*Other factors*: (i) Adaptability; (ii) technological changes (e.g. computer technology); (iii) social/cultural values.
*Expected results*: (i) Direct distribution: (a) high marketing costs, (b) large degree of control, (c) informed customers, and (d) strong image; (ii) indirect distribution: (a) lower marketing costs, (b) less control, and (c) reduced channel management responsibilities.

**2.** Perspectives on distribution strategies: distribution-scope strategy
*Definition*: Establishing the scope of distribution, that is, the target customers. Choices are exclusive distribution, intensive distribution and selective distribution.
*Objective*: To serve chosen markets at a minimal cost while maintaining desired product image.
*Requirements*: Assessment of (i) customer buying habits; (ii) gross margin/turnover rate; (iii) capability of dealer to provide service.
*Expected results*: (i) Exclusive distribution: (a) strong loyalty, (b) high degree of control, (c) good forecasting capability, (d) sales promotion assistance, (e) possible loss in sales volume; (ii) selective distribution: (a) extreme competition in marketplace, (b) price discounting, and (c) pressure from channel members to reduce number of outlets; (iii) intensive distribution: (a) low degree of control, (b) higher sales volume, (c) wide customer recognition, (d) high turnover, and (e) price discounting.

**3.** Perspectives on distribution strategies: multiple-channel strategy
*Definition*: Employing two or more different channels for distribution of services. Multiple-channel distribution is of two basic types: complementary (each channel handles a different non-competing market segment) and competitive (two different and competing channels sell the same product).
*Objective*: To achieve optimal access to each individual market segment to increase business. Complementary channels are used to reach market segments otherwise left unserved; competitive channels are used with the hope of increasing sales.
*Requirements*: (i) Market segmentation; (ii) cost/benefit analysis. Use of complementary channels promoted by (i) geographic considerations; (ii) volume of business; and (iii) saturation of traditional distribution channels. Use of competitive channels can be a response to environmental changes.
*Expected results*: (i) Different services, prices, and support provided to different segments; (ii) broader market base;

(iii) increased sales; (iv) control problems; (v) possible over-extension. Overextension can result in (i) decrease in quality/service and (ii) negative effects on long-run profitability.

**4.** Perspectives on distribution strategies: channel-modification strategy
*Definition*: Introducing a change in the existing distribution arrangements on the basis of evaluation and critical review.
*Objective*: To maintain an optimal distribution system given a changing environment.
*Requirements*: (i) Evaluation of internal/external environmental shifts: (a) changes in consumer markets and buying habits, (b) changes in the retail life cycle, (c) changes in the financial strength, and (d) changes in the product life cycle; (ii) continuous evaluation of existing channels; (iii) cost/benefit analysis; (iv) consideration of the effect of the modified channels on other aspects of the marketing mix; (v) ability of management to adapt to modified plan.
*Expected results*: (i) Maintenance of an optimal distribution system given environmental changes; (ii) disgruntled customers (in the short run).

**5.** Perspectives on distribution strategies: channel-control strategy
*Definition*: Takeover by a member of the channel structure in order to establish control of the channel and provide a centrally organized effort to achieve common goals.
*Objectives*: (i) To increase control; (ii) to correct inefficiencies; (iii) to realize cost-effectiveness through experience curves; (iv) to gain efficiencies of scale.
*Requirements*: Commitment and resources to fulfil leadership obligations. Typically, although not always, the channel controller is a large firm with market leadership/influence.
*Expected results (vertical marketing system)*: (i) Increased control; (ii) professional management; (iii) central programming; (iv) achievement of operating economies; (v) maximum market impact; (vi) increased profitability; (vii) elimination of inefficiencies.

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# Part Three

## Functional Management in Tourism

# 6

# Human Resource Issues in Travel and Tourism

**D. Nickson**

## Introduction

> To compete with the best, we need to ensure that . . . people, the industry's most important resource, perform to the best of their ability (Department of National Heritage, 1996, foreword by Virginia Bottomley, then Secretary of State for National Heritage).

The importance of travel and tourism employment in both developed and developing countries is attested to by the World Travel and Tourism Council (WTTC), who suggest that travel and tourism related activities account for 192.3 million jobs, or 8.2% of jobs worldwide (WTTC, 1999). However, while the *quantity* of travel and tourism jobs is unquestionable, the *quality* of many of these jobs is of great concern to academics and policy-makers alike. Thus, despite the rhetoric of policy-makers and business leaders that people are the industry's most important asset, many remain unconvinced that such a view is borne out by empirical evidence (Price, 1994; Wood, 1997a; Scottish Tourism Research Unit (STRU), 1998). For example, Douglas Coupland, the notable cultural commentator, has for many captured the *Zeitgeist* when he talks pejoratively of 'McJob' which he describes as 'A low-pay, low-prestige, low-dignity, low-benefit, no-future job in the service sector. Frequently considered a satisfying career choice by people who have never held one' (Coupland, 1993: 5). In a more academic vein the collection of essays by MacDonald and Sirianni (1996) also recognizes the challenges of living and working in a service society which, according to them, is characterized by two kinds of service jobs: large numbers of low-skill, low-pay jobs, and a smaller number of high-skill, high-income jobs, with few jobs being in the middle of these two extremes. Such a situation leads labour analysts to ask what kinds of jobs are being produced and who is filling them. This point is also apparent within the travel and tourism industry and it is important at the outset of this chapter to add a caveat about the generalizability (or otherwise) of the conditions of travel and tourism employment throughout the world. Hence, Baum (1995: 151) reflecting the diversity of employment within the sector notes that:

> In some geographical and subsector areas, tourism and hospitality provides an attractive, high-status working environment with competitive pay and conditions, which is in high demand in the labour force and benefits from low staff turnover . . . The other side of the coin is one of poor conditions, low pay, high staff turnover, problems in recruiting skills in a number of key areas, a high level of labour drawn from socially disadvantaged groups, poor status and the virtual absence of professionalism (and see also Wood, 1997a: 183–197).

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Clearly, then, organizations and managers in the travel and tourism industry face real challenges in recruiting, developing and maintaining a committed, competent, well-managed, and well-motivated workforce which is focused on offering a high quality 'product' to the increasingly demanding and discerning customer. Consequently this chapter will seek to address some of the key human resource issues that have to be tackled in order that organizations can maintain such an environment. To do so it will critically review some of the problems which lead many to characterize travel and tourism employment as generally unrewarding and unappealing, before going on to look at some examples of good practice, important policy responses, and models of human resource management which may offer cause for greater optimism in the way people are managed within the travel and tourism industry. In particular, the chapter will be cognizant of the seminal work of Baum (see especially 1993 and 1995) which, along with academic rigour, also has a clear policy orientation with his advocating of what he terms a 'new sustainable human resource paradigm'. The extent to which the travel and tourism industry is moving towards such an approach will be a key theme throughout this chapter, although we should begin by firstly acknowledging the sheer scale of travel and tourism employment.

## The Quantity and Diversity of Travel and Tourism Employment

As has been noted it is increasingly widely acknowledged that travel and tourism is now the largest generator of jobs within the world today and hugely important to both developed and developing nations as they reinvent themselves as service economies. For example, the WTTC (1998) suggested that by 2000 over 200 million jobs will have been generated by travel and tourism activities and that over the course of the next decade a further 98 million jobs are likely to be created. It is of course unsurprising that a body such as the WTTC – a global coalition of nearly 90 chief executive officers from all sectors of the travel and tourism industry including accommodation, catering, cruises, entertainment, recreation, transportation and other travel-related services – will seek to aggrandize and 'talk-up' the numbers of people employed in the industry. They are seeking greater influence over governmental decision-making which is likely to affect the industry, for example, the amount of regulation in the labour market. Consequently these figures are used advisedly and with some caution and with the recognition that there are no wholly definitive figures that are accepted by all as a true representation of the number of those working in travel and tourism.

For example, Wood (1997b), writing in the context of tourism employment in Scotland sees real difficulties in securing reliable statistical data on tourism employment. He also notes the flawed interpretation of extant tourism employment statistics. Thus Wood questions the extent to which jobs can be disaggregated as being created by touristic activities, particularly if a wholly inclusive view of what connotes travel and tourism jobs is accepted. In that sense, Wood concedes that there is broad agreement as to the core travel and tourism industries, which include: hotel trade; restaurants, cafes and similar eating places; public houses and bars; night-clubs and other licensed clubs; other forms of tourist accommodation; tourist offices and similar services; and travel and related sectors, such as travel agencies and airport services. (In reality these subsectors, usually characterized generically as the hospitality industry, are likely to account for the majority of tourism related jobs, for example in the UK context the Department of National Heritage (1996) suggests that the commercial hospitality industry accounts for 70% of tourism employment.) A consequence of this is that the bulk of academic work on human resources issues in tourism focuses primarily on the hospitality industry.

More controversially, according to Wood, other industries which are conventionally added are: libraries; theatres; museums; sport and related leisure provision; and the final and most controversial is

a proportion of retail employment. Wood's critique lies less in the acceptance that a proportion of this employment is reliant on touristic activity, and more in the *actual number* of jobs that are created by the travel and tourism industry. It could of course be argued that this argument is merely semantics, but Wood (1997b: 7) is also concerned to raise more substantive and searching questions in his suggestion that:

> in a country like the UK where tourism has been frequently viewed as a panacea for employment decline in manufacturing, all-inclusive definitions of tourism and tourism potential raise unrealistic hopes that the quantity and quality of jobs in tourism industries can, in the short-term, compensate across the economic board for erosion of the nation's manufacturing base.

This is clearly a controversial contention and one that will be addressed throughout this chapter.

At this juncture, however, the important point remains that travel and tourism is a key source of employment in both developed and developing countries. Moreover, within the broad classification of travel and tourism, there is massive diversity in the types of jobs generated, in relation to their technical and skills demands, educational requirements, terms and conditions and the type of person that is likely to be attracted to employment in them (Baum, 1993). To further illustrate this we should note Baum's (1997a: 97–98) description of the range of people that a person buying a package holiday is likely to interact with (this also nicely illustrates a more inclusive view of tourism generated employment, i.e. both direct and indirect tourism employment contra Wood):

- the retail travel agent;
- insurance companies;
- ground transport to and from the airport;
- at least two sets of airport handling agents (outbound and return);
- airport services (shops, food and beverage outlets, bureaux de change) (outbound and return);
- the airline on all legs of the journey;
- immigration and customs services;
- local ground transportation;
- the hotel or apartment;
- tour services at the destination;
- companies and individuals selling a diversity of goods and services at the destination (retail, food and beverage, entertainment, cultural and heritage, financial, etc.);
- emergency services at the destination (medical, police, legal); and
- service providers on return (photography processing, medical).

Baum characterizes all of these possible intermediaries, and the interactions they will have with the holiday-maker, as crucial in 'making or breaking the tourist experience'. Thus while the physical product is important, for most tourists the quality of their experience is likely to be also reliant to a large degree on the interactions they will have with the variety of front-line staff in the travel and tourism industry. These so-called 'moments of truth' (Carlzon, 1987) are therefore crucial for organizational effectiveness, success, competitiveness and profitability. Indeed, within an industry that is characterized by diversity and heterogeneity in terms of the purpose, size, ownership and demands of the enterprise, the only real point of homogeneity is delivering service to customers and the need to manage people in such a way that they offer a quality service. The corollary of this would be the belief that such front-line staff would therefore be sufficiently well paid, trained and motivated to offer outstanding service. The reality, however, is that often such staff have the lowest status in the organization, are the least trained, and are the poorest paid employees of the company. To begin to assess the implications of such a situation we can now move on and examine the vexed question of the perceived quality of much travel and tourism employment.

## The Quality of Tourism Employment

As we have already noted there is considerable diversity within both geographical and

subsectoral aspects of travel and tourism employment and in this sense the discussion contained here can only be thought of as a 'snapshot' of some key issues in the way that organizations manage their human resources. Despite this we can contextualize our debate by recognizing what Baum (1993: 9–10) has termed a number of complex and interrelated 'universal themes' in international tourism which are of concern to both human resource professionals within the industry and academics researching and writing within this area. These themes are likely to be apparent to a greater or lesser extent according to the enterprise or destination context.

- Demography and the shrinking employment pool/labour shortages, particularly in the developed countries in Western Europe, North America and the so-called Asian 'tiger economies'.
- The tourism industry's image as an employer.
- Cultural and traditional perceptions of the industry.
- Rewards and benefits/compensation.
- Recruitment, retention and staff turnover.
- Education and training, both within colleges and industry.
- Skills shortages, especially at higher technical and management levels.
- Linking human resource concerns with service and product quality and especially a limited recognition of the importance of human resource development in the provision of high quality products and services.
- Poor management and planning information about human resource matters in the tourism industry.
- The tendency to develop human resource policies, initiatives and remedial programmes that are reactive to what is currently happening rather than proactive to what is likely to occur.

A number of these issues can be seen to underpin the questions posed by Choy (1995) in his seminal work on the quality of tourism employment. Having firstly noted that 'the development of a tourism industry creates new employment opportunities', he nonetheless goes on to recognize that 'critics of the industry contend that tourism provides primarily low-paying, low-skilled jobs which are demeaning' (Choy, 1995: 129). As a result he is concerned to assess these issues within the milieu of Hawaii, which may be particularly apposite as direct employment in the Hawaiian tourist industry accounts for approximately a quarter of total civilian employment. Accordingly, Choy seeks to investigate four commonly held beliefs about tourism employment, these being:

1. Tourism generates primarily low-skilled jobs.
2. Tourism generates low-paying jobs.
3. Tourism jobs do not offer high levels of job satisfaction.
4. Tourism offers limited opportunities for advancement for local residents.

To explore these issues Choy focused upon three sectors of the travel and tourism industry, namely: air transportation, hotels/lodging places and eating/drinking places.

### *Skill levels*

On the question of the skill levels of tourism jobs, Choy argues that the predominance of hotels, and eating and drinking places tends to drive the perception (and arguably the reality) of the tourism industry as relatively low-skilled, although Choy does extrapolate figures from the Hawaii Department of Labor and Industrial Relations to suggest that around 30% of occupations in this category are supervisory and/or skilled occupations. Indeed, these figures reflect the work of Riley (1991) on the skills profile of the British hotel and catering industry, which also has 30% supervisory and (skilled) craft jobs, along with 6% managerial jobs; the remainder are semi- or unskilled operative positions. However, Baum (1997b) offers an alternative view of the nature of semi- and unskilled work within the hospitality industries of developing nations, and cogently argues that subjective Eurocentric views of

skill levels are inapplicable to developing countries, where most tourism employment (and particularly that provided by multinational companies) is likely to involve a relatively high level of 'skill', status and job security. Nonetheless, Riley (1993: 48) has suggested that generally a consequence of the predominance of semi- and unskilled jobs, and the low entry barriers to employment that this creates, is that 'tourism often finds itself awash with newcomers'. In addition, this means high levels of on-the-job training are required which are costly to the organization, especially in tandem with high levels of labour turnover. Moreover, Riley also suggests that a further effect of this low skills base is a tendency for the industry to be low paid, and these pressures for low pay are also exacerbated by several fundamental structural features of the industry, a point to which attention now turns.

### *Remuneration and reward*

The International Labour Office (1989) (cited in Baum, 1995) and Riley (1993) outline a number of structural features of the tourism industry which are likely to have downward pressure on wage levels, the most important of these are:

- Small unit structure of the industry. The industry in most countries is highly fragmented and heterogeneous, being an amalgam of small to large businesses. However, the majority of businesses are small and medium sized enterprises (SMEs). For example, in the UK, businesses with 1–10 employees make up 85% of hospitality establishments (HTF, 1999). These figures are replicated throughout the European Union (EU), with Downes (1997) citing Eurostat – the European Commission's statistical service – who estimate that businesses with nine or fewer employees, so-called 'micro-businesses', account for 96% of accommodation and catering businesses in the EU.
- Fluctuations in levels of business activity. There is constant fluctuation in consumer demand across large and small time periods.
- Cost pressures induced by competition.
- A reliance on vulnerable and so-called 'marginal' (Wood, 1997a) workers. For example, drawing on sections of the labour market who have little bargaining power, such as young people, students, married women returning to work and ethnic minorities.

Despite these fundamental features the picture is again one of diversity between regions and subsectors. For example, Choy (1995) found that in the context of Hawaii within air transportation the average annual wage was $29,621, in hotels it was $18,571, and in eating and drinking places $11,092, this is compared with an all-industry average, excluding government, of $22,235. Moreover, within other service sector occupations, hotels came fifth out of thirteen occupations, while eating places would have been next to bottom, although strangely they were not included within Choy's figures. Similarly Baum (1995) has noted that within the travel sector there is considerable disparity, with many airline staff being reasonably well remunerated, and indeed arguably the highest paid operative staff throughout the travel and tourism industry are flight crew staff. Equally, though, he recognizes that within travel agencies and tour operators, the predominately young female staff are poorly remunerated, although to an extent this may be a quid pro quo for perceived additional benefits in relation to travel opportunities, uniforms and a generally pleasant working environment.

Baum (1995) does, however, concede that within hotels and catering levels of remuneration and reward are generally low and this is supported by a range of empirical evidence. For example, the UK's Department of National Heritage (1996) suggested that average gross earnings in the hospitality industry in the UK are 40% lower than the service sector average, and that gross earnings within retail, which shares common characteristics of having many low or unskilled workers, were 20% higher than

those in hospitality (and see STRU (1998: 94–111); and Wood (1997a: 46–62) for a more comprehensive review of these issues). As low pay is often cited as the primary reason for people leaving an employer in the hospitality industry, low levels of remuneration can be seen to play a key role in high levels of labour turnover. This has a range of attendant costs to the organization, such as lost productivity, loss of customer service skills, time taken to train and inculcate new members of staff to the organizational culture and the possible loss of repeat business, as regular customers like to see familiar faces.

There is an interesting issue which arises from this discussion of remuneration within the travel and tourism industry and relates back to the point raised by Wood (1997b) about the classification of tourism-related employment and in particular a possible disjuncture between hospitality and tourism employment in terms of its level of 'glamour'. Part of Wood's concern lies in the perception that non-hospitality-related tourism employment may be perceived as having a more positive image than hotel and catering employment (Wood, 1996) and prima facie this would appear to be true from the foregoing discussion on levels of pay. However Baum (1996: 1–2) refutes this argument with his contention that:

> . . . it is simplistic to suggest that all work in the hotel and catering area suffers from negative perceptions and reality, while all work in tourism is glamorous and devoid of problems with respect to remuneration and related matters . . . Tourism also includes much work that is low paid and exploitative in character, factors both of the small business environment of much activity and of . . . the weak internal labour market characteristics of the sector.

To exemplify this point Baum outlines a range of non-hospitality travel and tourism jobs which are likely to suffer from low pay and poor conditions such as: beach vendors, deck chair hands, tour operator representatives at resort destinations, time-share salespersons, bingo hall callers, entertainers and retail operatives. Clearly, then, we are ill-advised in seeking to portray a wholly definitive view of remuneration levels throughout the travel and tourism sector. However, on balance it would seem sensible to acknowledge that low pay does remain a major and enduring problem in a number of subsectors and regions throughout the world and plays a key role in sustaining a generally negative view of many areas of tourism employment.

### *Levels of job satisfaction*

The third area which Choy (1995) sought to address was the level of satisfaction within tourism industry jobs. To do this he utilized a state-wide tourism impact core survey, which was undertaken in 1988 to collect residents' perceptions and attitudes towards tourism. Of the respondents to the survey, 824 indicated that their primary jobs were in the tourism industry and Choy reported that 'the large majority, 88%, of tourism industry workers were satisfied with their jobs' (Choy, 1995: 134). However, there is little detail as to why these workers were satisfied, although we could infer that satisfaction implies that workers were happy with both extrinsic and intrinsic aspects of their jobs. We have already briefly discussed the most important extrinsic aspect of tourism employment, i.e. remuneration, so we should now examine some intrinsic elements of tourism employment that could conceivably engender a sense of satisfaction in employees. Indeed, a key part of Baum's (1995) sustainable human resource paradigm is a belief in the superiority of intrinsic over extrinsic motivation in the workplace.

The Department of National Heritage (1996) suggested that in order to pursue a 'virtuous circle' organizations need to have a long-term commitment to excellence and customer satisfaction, and their employees are the key to success within this process. Thus, having recognized that excellent employers will pay above the industry average wage, and provide other benefits such as pension schemes, Save As You Earn schemes, employee discounts, etc., the report goes on to suggest a number of other

employment practices (which are currently seen in a range of travel and tourism organizations including BAA plc, British Airways, Center Parcs, Granada plc/Forte Hotels, McDonald's, Novotel, The Tussauds Group and Whitbread) that recognize the importance of intrinsic rewards. These are (Department of National Heritage, 1996: 19–21):

- Motivating and involving the staff in the business and communicating with them, for example, 'away days' to discuss key issues: one employer entrusted his staff with developing an organizational mission statement, paying staff to sample products offered by other companies, and empowering staff to have the confidence to contribute to the running of the organization and the willingness to take decisions (and see Lashley, 1997).
- Recognition and the need for positive feedback, for example, passing on positive feedback from customers to employees and also having a well-designed appraisal system which can be useful in building trust between the employee and the organization.
- Making jobs more interesting by the use of techniques such as job rotation, job swap days: one company lets front-line staff swap with head office staff to avoid an 'us and them' situation – and multi-skilling to create greater interest and variety for staff, and greater labour flexibility for the organization.
- Understanding the importance of teamworking, for example, formally assigning workers to a team can encourage a sense of belonging for employees and increase feelings of loyalty within the team.
- Turning jobs into careers and, although this is easier for larger organizations which can encourage a strong internal labour market by promoting from within, it is also something which smaller firms can address. For example, STRU (1998) notes that within a number of countries an effective response from small businesses is to seek collaboration and share responsibilities, resources and expertise in areas such as training and career development.
- Recognizing the key role of the unit manager, so excellent organizations put particular emphasis on managerial recruitment, training and development in order that a manager can have the confidence to run their unit autonomously and act as an 'intrapreneur' in running their 'business within a business'.

Implicit within many of these suggestions is the notion that the organizations to which these approaches are most applicable are likely to be large organizations. This reflects an enduring strand to the debate about the adoption of progressive human resource management techniques by travel and tourism organizations. In particular, due to the very fragmented nature of the industry and the preponderance of small firms, there are a number of difficulties in addressing problems such as recruitment difficulties, shortages of skilled and qualified staff, relatively low pay and high staff turnover. Thus, much of the work which reports on good practice is often reported in relation to larger organizations and less so in SMEs (see, for example Price, 1994). Furthermore Lucas (1996) opines that proprietors and partnerships, which make up a significant number of hospitality and tourism organizations throughout the EU, are the least likely to be aware of both national and supranational legal standards that are seeking to proscribe unscrupulous employment practices and also more proactively encourage the development of good practice.

Clearly, there is the potential for a dichotomous approach to the development of human resource capital between large and small organizations particularly in the sense that many smaller firms will not have the means to develop their employees or to sustain a progressive approach to human resource management; although, importantly, good practice does still exist within small firms (STRU, 1998). However, while the employment experience of those working in a major airline, international hotel

group, theme park or large heritage organization may be characterized as being qualitatively different, the multinationality of many of these organizations might in itself pose a range of entirely different problems and this is the issue that concerns Choy (1995) in his final theme concerning the advancement of local residents.

#### *Advancement opportunities for local residents*

The key point arising from Choy's discussion of the possibilities for advancement for local residents is the recognition that with the globalization of the travel and tourism industry there is an increasingly major role played by multinational companies (MNCs). The corollary of this is that as they locate themselves throughout the world, MNCs face choices in their utilization of parent country nationals (PCNs), host country nationals (HCNs) or third country nationals (TCNs). Within the Hawaiian context Choy found that despite the increasing number of foreign owned MNCs operating within Hawaii the opportunities for advancement for local residents remained encouraging. Thus, within both the airline and hotel industries, which are more likely to have international organizations operating within these sectors, Choy found that over 50% of managerial/administrative staff were local residents. Obviously we cannot generalize on the basis of these results, and the situation elsewhere may be wholly different as MNCs may be over-reliant on the use of expatriate labour. Nonetheless good practice would support the development of local residents by travel and tourism MNCs as far as this can reasonably be achieved. For example, a declaration from the Organization for Economic Co-operation and Development (OECD) on how multinationals should develop their industrial relations strategy in host countries' states 'that MNCs should, to the greatest extent practicable, utilize, train and prepare for upgrading, members of the local labour force' (cited in Go and Pine, 1995: 218). Indeed, the need for MNCs to respond to particular socio-cultural, economic and environmental needs at the local level, via the pursuance of a localization strategy, lies at the heart of Go and Pine's impressive review of the global hotel industry.

In summary, we have reviewed a number of key areas within travel and tourism employment to assess the question of whether the quality of this employment is, in simple and rather value-laden terms, 'good' or 'bad'. As we have already noted there can be no universal truths about human resource management within the travel and tourism industry and instances of both good and bad practices abound. Notwithstanding that, the balance of academic evidence suggests that there are still major and significant issues to be faced by the travel and tourism industry and we can now turn our attention to policy responses which have sought to develop innovative strategies to address some of these issues.

## Responding to the Issues: the Policy Dimension

Policy responses to the diversity of human resource issues in travel and tourism are most effectively presented through illustrations of existing approaches and practices, and Baum (1993: 17–20) provides a framework (and examples) which delineates responses at the level of the individual business and also within local, national and regional (i.e. transnational) frameworks (readers are also directed to the WTTC's series, *Steps to Success*, which reports on The World Travel and Tourism Human Resource Centre's global database of good practice in travel and tourism human resource development, and see Boxes 6.1 and 6.2). We can assess these in turn by examining some recent initiatives that have emanated from both public and private sector sources.

#### *Individual business*

Baum suggests a variety of initiatives which individual enterprises may adopt. These include:

- Localized recruitment campaigns, tar-

**Box 6.1.** Case example: Re-engineering from the bottom up.

This case reports on how Sofitel (the luxury hotel brand of Accor) North America sought to re-engineer their hotels in the United States to place greater emphasis on customer satisfaction. In seeking improvements in quality, service, profitability and employee satisfaction, senior management realized that employee support was crucial to the process of re-engineering. To encourage trust, Sofitel asked for volunteers for the programme, 'reasoning that staff who were eager to make improvements could act as ''ambassadors'', and bring new thought processes and procedures to their peers' (p. 21). This process of volunteerism and allowing employees to speak their mind meant that the group was able to evaluate a number of systems and procedures in the hotels and how these could be improved. Consequently, over a 3-year period employees were encouraged to, among other things, analyse problems, develop options and modify employee behaviour so they felt empowered to make decisions that would benefit the guests. Moreover as the suggestions for how to improve customer responsiveness originated from employee level, peer resistance within departments was low.

The report details how over the 3-year period Sofitel saw its customer satisfaction grow, from an average of 82 to over 90%. This growth in customer satisfaction was also mirrored in increased employee satisfaction, with labour turnover decreasing from 58 to 39%, which is well below the industry average for the USA. A further spin-off of creating this high trust, no limit for what can be done for the customer environment, was increased morale and a large number of employees receiving promotions.

As the WTTHRC comments, at the heart of the success of this re-engineering process was management's realization that front line employees needed to believe in themselves and the company's commitment. This was encouraged by allowing employees to feel 'they had a stake in the redesign process which created an atmosphere in which training could be implemented successfully' (p. 22).

Source: WTTHRC (1998, pp. 21–22).

geted at specific groups of potential employees, for example, married women.
- Local transport, accommodation and child-care schemes so as to attract employees who may, otherwise, be unable to work for the company.
- Flexible rosters and shifts in order to meet employee needs.
- Enhanced benefit packages.
- Changes in product, designed to reduce labour costs, often involving reducing service levels and de-skilling, a process now commonly characterized as McDonaldization (Ritzer, 1996).
- The use of technology as part of labour-saving initiatives.
- Enhanced in-house training programmes.

### *Local initiatives*

Baum notes various examples such as collective employer action or the provision of public monies that resulted in the establishment of a dedicated training centre to meet the skills needs of new theme parks near Paris by AFPA, the French adult training agency. Welch (1996) also reports on agitation in the UK by the Joint Hospitality Industry Congress (JHIC) – an umbrella body for the industry's leading trade and professional associations – to encourage greater local cooperation between smaller and larger organizations, for example, allocating places to people from small family-run enterprises on larger companies' training courses at a reduced or affordable cost.

### *National initiatives*

These are apparent within an organizational, industry and political/legislative context. At an organizational level Baum notes the emergence of large corporate training facilities that seek to address the national, and increasingly international human resource needs of travel and tourism MNCs such as McDonald's and Disney. Accor, the French travel and tourism trans-

**Box 6.2.** Case example: Competency models for employee hiring and management skill transfer.

This case reports on how Miami-based Royal Caribbean International, the world's largest brand cruise line, sought to improve skill transfer at management level. As cruising is a relatively new industry, most Royal Caribbean International managers have acquired skills from a variety of other industry-related training. By working together the human resource personnel and successful managers were able to develop management competency models which are now used for skill assessment, skill development, and to communicate expectations at the management level. To further aid in skill development, key success factors were identified which are considered essential for the future.

Within this framework the company introduced The Wilson Learning Success Skills 2000 programme, which allowed for an assessment of individual manager knowledge and skills in relation to their job. Furthermore the Leadership Practices Inventory was then applied to evaluate individual leadership practices. As the report notes 'By comparing working skill sets with current leadership practices, it was possible to define areas where managers might improve their ability to transfer skills to employees' (p. 27). To encourage ongoing learning Royal Caribbean has expanded its management-training programme by offering skill-training sessions throughout the year. This action-learning model, called *Foundations for Success*, focuses on management skill development, and is targeted at four levels of management: the new supervisor; the experienced supervisor; the new manager; and the experienced manager. The success of this process is evaluated after a full year, again using the Wilson Learning Success Skills 2000 assessment process. This process of evaluation has shown significant increases in skill development at the management level with the company. The success of managers is recognized with certificates of achievement and a once a year company-wide celebration acknowledging all programme participants.

The basic underpinning of this model is the belief that by sharing personal leadership experiences which have been successful within Royal Caribbean and drawing on accepted good practice outside the company, *Foundations of Success* allows for the development of a variety of perspectives, which the company considers necessary for success. As WTTHRC comments 'What tourism businesses can gain from Royal Caribbean's example is the joint partnership developed between department heads and human resources. Establishing goals that meet the organization's objectives ensures that accurate skill sets and competency models can be developed' (p.27).

Source: WTTHRC (1999, pp. 26–27).

national, have also established the impressive Accor Academy. This self-styled 'School of Service' offers training in management techniques, service marketing, quality management, administration and new techniques and each year the Academy trains over 15,000 Accor employees. Particularly noteworthy is the 'Vive en Accor' seminar which is targeted at newly promoted and newly hired Accor managers. The seminar introduces managers to the Accor Group and fosters adherence to its corporate values, and encourages managers to keep 'l'esprit Accor' alive in their teams. Also the 'Accor Summer Academy' seeks to engender a longer-term and more proactive approach in bringing together 200 managers from around the world to explore strategic management issues. Thus the 'Summer Academy' has four key objectives: to enable managers to meet each other; to exchange management techniques and ideas; to prepare for the group's future; and to promote the concept of a chain (Accor Press Pack, 1996).

At the industry level, concern over skills shortages in the UK tourism and hospitality industry has led to a new campaign to attract the brightest school leavers into the industry. Called 'Let's Make it First Choice', the campaign seeks to address what it considers 'myths' about low pay and long hours and instead presents a more upbeat view of the tourism and hospitality industry as offering 'exciting' career prospects. This will involve senior managers in the industry visiting the top 400 schools in the UK three or four times a year to talk about careers in tourism and hospitality in the hope of encouraging talented young people into the industry as a

first choice and not as a last resort (Shrimpton, 1996).

A further noteworthy national initiative (which has been successfully disseminated internationally as good practice) is the Canadian hospitality programme 'SuperHost', which was introduced in British Columbia in 1985 to support the growth of tourism around the World Expo in Vancouver. The programme's excellence is recognized internationally, and tourist agencies in England, Wales, Scotland, New Zealand, Australia, Alaska, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland all have licence rights for SuperHost. For example, The English Tourist Board (ETB) became involved in 1992 and has subsequently added three more elements to the initial Welcome Host which sought to enhance customer care within travel and tourism organizations by improving interpersonal communication techniques and customer service skills. These new varieties are Welcome Host International which is more oriented towards overseas visitors, Welcome Management which trains managers in the best use of their front-line staff and finally Welcome All which was launched in November 1996 and focuses on the needs of disabled and special needs customers.

In the legislative context an interesting example is the enactment, for the first time, of statutory minimum wage legislation by the UK government. The government argues that the legislation will have a major beneficial effect on pay levels and morale within the UK tourism and hospitality industry. Although there is much concern within the UK tourism industry about the possible effects on the competitiveness of the industry and the potential for job losses with the introduction of the minimum wage, Chris Smith, the Secretary for Culture, Media and Sport (previously known as the Heritage Secretary), has argued that the opposite is likely to be true, with the minimum wage enhancing Britain's competitive position and encouraging more people to work within the tourism industry (*Caterer and Hotelkeeper*, 1997). It remains to be seen whether this will be the case, although evidence from the USA and EU remains mixed in relation to the effects of minimum wage legislation on tourism and hospitality employment. For example, STRU (1998: 104), in their review of best practice training and education for tourism, note that despite the existence of a federal minimum wage 'a vast number of qualitative studies of hotel and catering employment in the USA suggest that far from being service-oriented, ''happy'' workers, most workers view their jobs as degrading, stressful and poorly paid'.

In relation to the EU, the existence of either a government sponsored statutory minimum wage, or a *de facto* minimum wage fixed by collective bargaining mechanisms, means all other EU countries have minimum wage protection (IDS, 1998). Allied with what Wood (1997a: 186) calls 'high levels of cultural acceptability' of tourism and hospitality employment across Europe (especially in countries like France, Germany and the Scandinavian countries), the high relative value of pay within a number of EU countries arguably means a more meaningful employment experience for those working within the tourism sector.

Rather less controversially governments have the ability to substantially influence the provision of support for in-company training. In this way in a number of countries a range of training initiatives has been developed and widely promoted in order to encourage greater commitment to training and staff development and improved skill levels. For example, within the UK context, such initiatives have been particularly useful within the tourism industry due to the existing low skills base, and include the National Vocational Qualification (NVQ, S(cottish) VQ north of the border), a workplace-based accredited qualification which ranges from the level one foundation course to senior management level, which is level five. A further initiative is Investors in People (IIP) which attempts to link staff development with development of the business and which has enjoyed a reasonably high take up rate within the hospitality industry (Goldsmith *et al.*, 1997: 86–90). Tourism Training Scotland (1996: 4) repor-

**Box 6.3.** Case example: The German dual system.

The German dual system represents a partnership between all stakeholders in tourism towards meeting its skills needs. It is a model which applies across the economy. While the education and training system in Germany has a number of facets, of interest here is provision within the *Berufsschule*. Germany's much acclaimed dual system of education and training for tourism is an active partnership between the state at federal and *Land* (state) level, the tourism industry (but predominantly the hospitality sector), representatives of employee groups and the vocation education system. In the words of the government, the purpose of this model of vocational training *is to provide the basic skills for a field of employment and, through career-oriented specialized training, the specialist skills and knowledge required for competence in an occupation*. It is a system which combines training with academic development. Research evidence points to considerably enhanced productivity within the German sector when direct comparisons are made with the British context although the labour cost structure also acts as a clear incentive for efficient and productive human resource management. In Germany, the two levels of the state (federal and Länder) provide the institutional and legal framework for skills education and training but pass over operational responsibility to local chambers of commerce and the private sector.

The German experience points to the feasibility of achieving high levels of productivity despite operating within a high wage, socially regulated labour market economy. There is considerable evidence which points to greater productivity of German tourism employees over their British counterparts. One report concluded that Germany's high productivity and service levels are due to the wider use of qualified manpower trained through the partnership arrangements for the dual system. This study notes that craft qualifications were held by 2.5 times as many employees in Germany compared with the UK. Another study concludes that Germany's education and training system is geared to produce a much higher proportion of qualified staff for the tourism industry. A conclusion to be drawn is that the dual system within which German employees for tourism are trained 'embeds' commitment to the sector to a much greater degree than elsewhere and this, combined with high levels of reward, contributes to a greater sense of professionalism and productivity.

Source: Scottish Tourism Research Unit (1998).

ted a survey of 35 Scottish tourism companies which suggested that several benefits were attributable to the achievement of IIP, these were:

- improved business performance;
- improved customer satisfaction;
- better employee performance; and
- reduced labour turnover.

Many commentators point to the fact that the rash of recent initiatives in the UK are, in effect, attempts to 'catch up' with the more developed training provision in much of the EU – most notably Sweden and Germany – and Japan, for example (Beardwell and Holden, 1998; and see Box 6.3).

### *Regional or transnational initiatives*

These show a degree of overlap with national responses while transcending national boundaries. Thus within the private sector the aforementioned corporate 'universities' often seek to play a key role in creating common human resource policies and transferable training programmes. Initiatives emanating from the EU also exemplify an attempt to create a convergent level playing field of employment rights, both legally and voluntarily based, which will underpin a putatively economically integrated and successful EU. Lucas (1996), in reviewing the impact of European social policy on the tourism and hospitality industry, is sceptical of its overall effect in the UK, while at the same time acknowledging that several measures have influenced the way that organizations approach areas such as equality, pensions and health and safety. For example, the 48 Hour Working Time Directive, introduced as a health and safety measure, looks set to have major implications for tourism and hospitality organizations including the ending of coercing employees to work more than 48 h and

an entitlement to four weeks' paid holiday (and see Goldsmith *et al.*, 1997: 128–129). Moreover, the agreement of the Labour Government to opt-in to the Social Chapter of the Maastricht Treaty will mean travel and tourism organizations within the UK will have to consider the implementation of directives on European Works Councils, parental leave and a wide-ranging directive on part-time work (IRS, 1998).

It can be appreciated that even from such a superficial review of possible policy responses there are a variety of agendas that can be followed in formulating and operationalizing policy. Further to this, the possibly disparate interests of a range of public and private sector organizations complicate an already complex picture and thus these issues are likely to be influenced and mediated by a large number of interested parties (for example, Brewton and Withiam, 1998, estimate that there are more than 180 international non-governmental and intergovernmental organizations seeking to influence national tourism policies around the world), including the following (Baum, 1993: 12):

- the various industry sectors, through their representative bodies as well as at individual company level;
- national (state) education providers;
- private educational institutions;
- specialist training agencies;
- national employment, labour or manpower agencies;
- a range of government departments;
- social partner organizations, especially trade unions; and
- national, regional or local tourist agencies.

Clearly, then, there is unlikely to ever be a wholly definitive policy response which will gain universal approval from all of the above bodies. Nonetheless, Baum (1995) has outlined what he terms a 'new sustainable human resource paradigm', which represents an attempt to develop an overarching model of best practice that offers a more optimistic view to which the travel and tourism industry can aspire in the future (see Table 6.1).

This model is inspired by Baum's novel and innovative use of the notion of sustainability and in human resource terms denotes an attempt to move away from 'old' and outdated reactive personnel policies which have often characterized travel and tourism employment. Key to this new approach is the recognition that it involves a Rousseauean social contract which suggests the acceptance of certain responsibilities, thus:

> The theme of sustainability within the management of human resources is underpinned by assumptions about managerial, corporate and governmental responsibility, depending on which level the sustainable model is applied. Indeed, it draws in essence upon the notion of a social contract between on the one hand business and an industry sector, and on the other community in which they operate and the people that they employ (Baum, 1995: 14).

Baum's support for such a sustainable approach is based on a multiplicity of reasons that reflect both ethical and business considerations, and these can be encapsulated in the simple sentiment that people respond positively to good management and negatively to bad management with the result that a happier workforce is more likely to be a productive workforce.

## Conclusions and Discussion

This chapter has sought to review a range of human resource issues within travel and tourism and in doing so has described something of a polarized view of the nature of the employment experience for those working in travel and tourism. On the one hand what Baum (1995) calls the 'upbeat perspective' is promulgated by bodies such as the WTTC who claim that travel and tourism generates jobs across the employment spectrum from high-tech managerial posts to limited-skill entry level and 'shop floor' jobs, with wages that are equal to or above the industrial norm and career potential and training existing at most levels. The basic premise underlying this is that all jobs are valuable

**Table 6.1.** Traditional and sustainable human resource (HR) practices.

| Old HR practice | New sustainable HR paradigm |
|---|---|
| *Recruitment and staff turnover* | |
| Recruitment undertaken without reference to local community/labour market | Recruitment based on careful analysis of local community and its labour market |
| *Ad hoc*, unplanned recruitment to meet immediate needs | Recruitment of staff based on long-term HR planning |
| Staff recruited on basis of immediate skills needs | Staff recruited on basis of potential development |
| Recruitment/'poaching' of staff from other companies | Staff recruited locally from schools/colleges/university |
| Expatriate staff recruited on long-term basis | Expatriate staff only employed to meet short-term needs and to develop local staff |
| High staff turnover seen as inevitable/desirable | High staff turnover seen as problematic/undesirable |
| No measures to reduce staff turnover | Active company policies designed to minimize staff turnover |
| No interest in why staff leave | Exit interview policy |
| Continuing high staff turnover | Relatively low staff turnover |
| *Promotion and career development* | |
| Few opportunities for promotion/development within company | Career planning/tracking within company |
| No career ladder/unclear criteria for promotion | Clearly defined career ladder/accessible criteria for promotion |
| Promotion to 'plug gaps'/no preparatory training | Planned promotion with preparatory training programme |
| Key staff 'imported' from outside/abroad | Key staff 'grown'/developed within company/locality |
| Part-time or seasonal staff excluded from training/development/promotion opportunities | Part-time or seasonal staff integrated into training/development/promotion system |
| No long-term commitment to seasonal staff | Long-term commitment to key seasonal staff |
| Career mobility seen as disloyal/disruptive | Career mobility recognized as beneficial to the individual |
| Opportunities limited for women, ethnic minorities, disabled | Genuine equal opportunities in employment |
| *Rewards and benefits* | |
| Company offers minimum rewards and benefits | Company offers competitive rewards and benefits |
| Conditions to suit employer needs | Conditions reflect local/individual circumstances and needs |
| Flexibility demanded to suit employer requirements | Flexibility seen as employer–employee partnership with mutual benefits |
| Staff attitude to company a matter of indifference | Fostering of commitment and feeling of belonging among employees |
| *Education, training and development* | |
| Training and development not planned | Planned training and development policies and strategies |
| Training compartmentalized with specialist department | Training recognized as the responsibility of all supervisors/management |
| No senior management commitment to training | Full commitment to training from CEO down |
| Training operates in isolation from other HR practices | Training linked to opportunities for promotion |

**Table 6.1.** *continued*

| Old HR practice | New sustainable HR paradigm |
|---|---|
| Gap between industry and education system | Partnership between industry and education system |
| Education programmes with little industry relevance | Education programmes based on industry research/ identified needs |
| Education/training programmes terminal and not integrated | Education/training courses provide for further development and progression |
| Industry-developed skills not recognized by education | Industry-developed skills recognized and certified by education |
| *Management culture* | |
| Staff seen as short-term expedient | Staff seen as key resource |
| Staff perceived as a cost | Staff perceived as an asset |
| Authoritarian, remote management culture | Democratic, participative management culture |
| Authority vested in management alone | Responsibility delegated to all levels of staff: 'empowerment' |
| Staff remote from decision-making | Staff consulted/involved with decisions affecting their area of responsibility |
| Inflexible imposition of corporate culture | Corporate culture responds flexibly to local culture and needs |
| *National HR planning for tourism* | |
| Fragmentation of HR planning for tourism | Integrated approach to HR planning for tourism |
| HR considerations not recognized in tourism policy planning | HR considerations to the fore in tourism planning |
| Quality in tourism seen in exclusively physical product terms | Human resource contribution to quality recognized and nurtured |
| Local population detached from/hostile to tourism | Local population helped and encouraged to recognize their role in tourism |

Source: Baum (1995: 12–13).

in times of high unemployment and particularly where they offer opportunities and a place for most members of society. Thus travel and tourism offers an unparalleled number of entry-level jobs for the young, women and people disadvantaged on the basis of race, immigrant status or physical disability. Moreover, travel and tourism stimulates jobs within SMEs and a high proportion of export-related trade, elements which are the backbone of a competitive market economy.

On the other hand, however, is what Baum (1995) characterizes as a 'picture of drudgery' which suggests that once in those jobs many employees suffer from low pay, anti-social conditions, limited or no training, a lack of job security, poor treatment from employers and contempt from customers. As we noted earlier there are likely to be wide variations both within and across sectoral and geographical areas and therefore both scenarios contain elements of truth.

Nonetheless the weight of academic evidence suggests that for too many people the latter is more likely to be the reality and this will lead to continuing questions and debates about the quality of much travel and tourism employment. Increasingly though there is a recognition that the long-term costs of a self-perpetuating vicious circle of recruitment difficulties, shortage of skilled and qualified staff, relatively low pay, high staff turnover and a relatively unattractive image as an employing sector are unsustainable. Consequently there is much talk about

the need to move towards a virtuous circle approach of high quality products and services, high training standards, good terms and conditions of employment, high skills and low labour turnover, as exemplified by Baum's (1995) sustainable paradigm.

A key theme of Baum's progressive sustainable approach is that it will not be either an easy or cheap process and requires real commitment and a strategic approach to human resource management within local, regional and national tourism policy frameworks and the concomitant need for an increasingly consistent, coordinated and integrated response from industry, government and educational institutions. However, such commitment seems crucial if travel and tourism is to take up its putative position as one of the new *superservice* industries for the 21st century. This notion was suggested by the futurist and author of the *Megatrends* series of books, John Naisbitt, who has recently argued that 'the global economy of the 21st century will be driven by three *superservice* industries – Telecommunications, Information Technology and Travel and Tourism' (cited in Kelley, 1997: 2). As travel and tourism is now widely acknowledged as the largest employer in the world it is increasingly imperative that regions, nations, organizations and managers address the problems of poor human resource management practices, if the new 'superservice' industry is to offer a significant proportion of the world's population a positive employment experience. Arguably then the procurement and management of quality personnel is the most important challenge facing the travel and tourism industry today. Thus, human resource management can be seen to play a key strategic role within attempts to enhance the quality of the tourism 'product' and market positioning of tourism at the level of organizations, specific destinations, regions within countries or whole nations.

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# 7

# Financial Management in Tourism

**J. Bridge and L. Moutinho**

## Background

Financial management is particularly important in organizations which have to make a profit in order to survive but, even in non-profit making organizations or in businesses which give priority to goals other than profit, financial planning systems are always needed to ensure that activities are financially feasible in terms of their requirements for fixed and working capital. The performance of the organization must be monitored against its plans in order to determine where modification is necessary in the light of changing circumstances. This is the control function of management and its efficacy determines how responsive the organization will be to both opportunities and threats. Moreover, in a changing world, it is often too late to take appropriate corrective action once a problem has actually been experienced, so that forecasting has an important part to play in both planning and control.

## Strategic Planning

The ultimate purpose of the strategic planning process is the identification of opportunities and the allocation of resources towards strategies. A well-conceived strategy includes four basic components: scope, resource deployment, competitive advantage and synergy. The scope component of a strategy specifies the present and planned interactions between the organization and its environment, in order to achieve a strategic fit. The strategy should include an outline of the business's projected resource deployment: how it will distribute its resources across various areas. Resources need to be allocated towards successful products/services and away from less successful ones. The strategy should specify the competitive advantages that result from the scope of the business and its pattern of resource deployment. Strategy should also take into account the synergy expected to result from decisions about scope, resource deployment and competitive advantages. This allocation must take place in such a way that the performance overall – across the whole product/service range – can be optimized. Each strategy can serve as a framework for developing specific action plans and for specifying associated programmes, expenditures and risks.

## Budgeting and Control

All organizations have to operate within financial constraints and maintain control over costs. Decisions have to be taken about how resources are to be allocated between competing uses, and the budgeting process is an essential element of this activity, since

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it establishes what is feasible, and sets out agreed expenditure patterns. Budgeting involves expressing a set of planned activities for specified time periods in quantitative and monetary terms. Because of their quantitative nature, they provide yardsticks for measuring performance and facilitate comparisons from one time period to another. In particular, budgets serve four primary purposes.

1. They help managers to coordinate resources and projects.
2. They help define the standards needed in all control systems.
3. They provide clear and unambiguous guidelines about the organization's resources and expectations.
4. They facilitate performance evaluations of managers and units.

Budgeting is the linchpin of the financial planning and control system. The related function of *costing* is essential to budgeting since the financial consequences of planned activities have to be determined as precisely as possible if the budget is to be achievable. The monitoring of costs (cost control) is an important part of the overall resource management process in demonstrating where costs have been exceeded, and why. An important aspect of both costing and budgeting is the reporting and analysis of such unfavourable variances, but of course when *favourable* variances occur it is equally important to find out the underlying causes with the aim of replicating the conditions leading to resource savings.

## Occupancy

Most of the above sections have been concerned with concepts which apply to all kinds of organization. However, the tourism industry has many distinguishing characteristics which have to be explicitly considered in the formulation of any plan or budget. One of the most important of these is *occupancy*, particularly in hotel management and in the airlines business. Whereas a manufacturer often has the option of producing for stock if there are insufficient orders to utilize capacity fully, with a view to disposing of stocks when demand increases, a hotel will lose revenue every time a night passes with beds unoccupied. One of the reasons why European hotels were among the least profitable in the world in the mid-1990s was that room occupancy (at 62.5% in 1994) was 4% below the world average (1994 data from Horwath International cited in *The Times*, 1995). Likewise when an aircraft takes off with empty seats, it has lost the revenues and profits on those seats for all time.

Of course, one can try to avoid spare capacity by ensuring that as many beds or seats are sold as possible; if necessary by disposing of some of them at a smaller profit contribution, this is one of the principles of *yield management* which is discussed more fully below. Because of the occupancy problem, all calculations from the initial investment appraisal through to the revenue and profitability assessment of current activities must include this as a key factor. An unrealistic opening assumption about occupancy can lead to a misallocation of resources and, in the worst case, an expensive capital project may be initiated which can never realistically offer a worthwhile return.

## Capital Budgeting

### *Fixed and working capital*

Fundamental to the strategy of any business is the determination of the need for long-term capital and its availability from various sources. The need will reflect the number of projects which are found to be necessary or desirable, and the capital requirements of each. The balancing of need and availability implies a capital budgeting mechanism.

The total capital employed by a business comprises both its fixed assets, and the working capital used to finance raw material purchases, wages and other expenses incurred in the day-to-day running of the business. Before a business is started, it is necessary to determine the expected profitability on the capital to be invested. Thereafter, every time a decision is to be

taken about new projects, management must assess the total capital requirements and view these against the finance available and the cost of capital. The capital budgeting process requires a mechanism for allocating resources among alternative projects, and in its simplest form amounts to 'picking the winners' on an accept or reject basis. Although simple rules of thumb are often used in practice to determine viability on the basis of a 'payback period' or an 'average rate of return', the advocated methodology is discounted cash flow (DCF).

In many ways, it is actually easier to use DCF than the 'simple' rules of thumb, primarily because the computational difficulties of DCF have been taken care of in the spreadsheet software through which most investment appraisals will be conducted nowadays. The difficult parts of the appraisal are in the forecasting, costing, budgeting and occupancy calculations which lie behind the quantification of the flows of cash entailed in the investment, rather than in the *discounting* of those flows. Nevertheless, having gone to the trouble of making realistic cash flow estimates, it is essential that the appraisal is completed with the aid of a technically correct methodology.

### *Revenues, costs, profit and cashflow*

Before explaining how investment appraisals are conducted through DCF in the following section, it is necessary to understand how profit and cash flow are related to each other. Both concepts measure the difference between incoming revenues from the sale of goods and services, and outgoing expenditures. However, calculations of profit designed to provide a measure of financial health to investors follow the practice of smoothing out the large outflows of cash associated with capital projects by depreciating the asset over its expected life. This has the advantage of recognizing that fixed capital is not consumed in the period of its purchase, but retains a residual value which decreases year by year.

Corporate taxation also assumes that capital assets gradually lose their value, although depreciation may be weighted more heavily to the earlier years of the asset's life as a way of reducing the tax burden, and thus acting as an investment incentive in certain countries and regions. The main drawback to using profit net of depreciation as a measure of a business's financial position is that it does not demonstrate the flows of cash in and out of the business at the time of their occurrence. The latter is a vital consideration in DCF, and if an appraisal has been worked out on the basis of accounting profit after tax, it is necessary to add back in the amount allowed for depreciation in order to give a measure of cash flow. Viewing investments from the perspective of cash flow also makes sense in ensuring that the capital invested is not double counted. There is always the danger that this may happen if the outflow is depreciated year by year, rather than taken on board once as an initial capital outflow.

### *Discounted cash flow*

In this section we shall demonstrate the general principles of discounted cash flow (DCF), and consider their application to tourism projects.

#### *Net present value*

The net present value (NPV) of an investment project is defined as the present value of the stream of net cash flows from the project minus the project's net investment. The cash flows are discounted at the rate of return required by owners or shareholders, that is, its cost of capital. A firm's cost of capital is defined as its minimum acceptable rate of return for investments of typical risk for the kind of business in which the firm operates. It is an 'opportunity cost' concept since it explicitly poses the question: 'what is the best return which investors could obtain elsewhere, in a similar business which is subject to the same risk?'

The time value of money can be demonstrated through the process of compounding, after which the inverse concept of discounting should be more easily understood. If £1000 were invested now and investors required a real return of at least 10% to compensate for waiting and risk bearing, a single inflation adjusted payment

of £1100 would be just sufficient as a reward in one year's time, *compounding at 10%*. If investors had to wait for two years, an extra £110 interest would be due, totalling £1210. Alternatively, the latter result could be expressed by stating that the present value of £1210 receivable in two years time is £1000, *discounting at 10%*. It follows that the present value of £1 receivable in two years time is £1/1.21 or £0.826, *discounting at 10%*.

In general,

- £1 now has a future value of $£(1+k)^n$ compounding for $n$ years at an interest rate $k$.
- £1 in the future has a present value of $£1/(1+k)^n$ discounting for $n$ years at a rate $k$.

As an example, with a discount rate of 20%, and a time interval of 3 years, each £1 would have a present value of: $£1/(1+0.2)^3$ or $£1/1.2^3$ which works out as £0.579. While £1000 receivable in 3 years time would have a present value of £579 discounting at 20%.

The net present value of a new development project may be expressed as follows:

$$\text{NPV} = \text{PVNCF} - \text{NINV}$$

where NPV is the net present value; PVNCF, the present value of the net cash flows; and NINV is the net investment. Assuming a cost of capital, $k$, the net present value for a project with a 5-year expected life and cash flows $A_1, A_2, \ldots A_5$ would be the following:

$$\text{NPV} = \frac{A_1}{(1+k)} + \frac{A_2}{(1+k)^2} + \frac{A_3}{(1+k)^3} + \frac{A_4}{(1+k)^4} + \frac{A_5}{(1+k)^5} - \text{NINV}$$

$A_5$ may be assumed to include any salvage value remaining at the end of the project's life.

*EXAMPLE.* In row 4 of a spreadsheet set out as in Table 7.1, a project requiring an initial outlay of £60,000 (cash outflows carry a negative sign) is evaluated. The cashflows which are forecast to benefit the business (inflows are positive) are given at yearly intervals, starting with £36,000 in a year's time. These would be stated in real (adjusted to remove the effects of inflation) terms since it is usual to state the cost of capital in real terms. This business requires a return of 10% over and above inflation, so this is the appropriate discount rate to employ.

We evaluate the project using NPV, noting the equation:

$$\text{NPV} = \text{PVNCF} - \text{NINV}$$

The PVNCF may be found by calculating, or using discount tables to reveal that the present values of each pound receivable after 1, 2, 3, 4 and 5 years, have present values of £0.9091, £0.8264, £0.7513, £0.6830 and £0.6209, respectively. These are obtained from the expression: present value = $£1/(1+k)^n$ discounting for $n$ years at a rate $k$. Where $n$ takes on the value 1, 2, 3, 4 or 5, while $k$ is set at 10% or 0.1.

For the £36,000 anticipated after one year, the present value will be 36,000 × £0.9091, which is £32,727. The total PVNCF is £180,000, found by adding the £36,364, £46,852, etc. to this figure. The NINV of £60,000 is then subtracted to leave an acceptable NPV of £120,000. The remaining information in Table 7.1 will be discussed below.

Many tourism projects, particularly those which involve aircraft and hotel buildings, will have expected lives which stretch over periods of 10, 20 or more years, but the principles are the same. With longer time periods, one must recognize the need for periodic injections of capital for replacement or renovation, but these will simply reduce the net inflow in the years of occurrence and are easily accommodated within the appraisal procedure. Projects with positive NPVs are to be accepted, those with negative NPVs are to be rejected. When discounting at the firm's required rate of return, that is, its cost of capital, a zero NPV indicates that while the investors will not add to their wealth by accepting the project, they will be no worse off. They would be indifferent, in that instance, between acceptance and rejection.

**Table 7.1.** Investment appraisal calculations.

| | A | B | C | D | E | F | G | H | I |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Year 0 | 1 | 2 | 3 | 4 | 5 | NPV at 10% | IRR | Profitability Index |
| 2. | | | | | | | | | |
| 3. | | | | | | | | | |
| 4. | -60,000.00 | 36,000.00 | 44,000.00 | 62,000.00 | 62,000.00 | 35,400.00 | 120,000.00 | 68.65% | 2.00 |
| 5. | | | | | | | | | |
| 6. | | | | | | | | | |
| 7. | | | | | | | | | |
| 8. | | | | | | | | | |
| 9. | PV factors | 0.9091 | 0.8264 | 0.7513 | 0.6803 | 0.6209 | | | |
| 10. | | | | | | | | | |
| 11. | PVNCF→ | 32,727.27 | 36,363.64 | 46,581.52 | 42,346.83 | 21,980.61 | 120,000 | ←NPV | |

The NPV approach is superior to traditional simplistic methods such as payback, or the average rate of return because it considers both the magnitude and the timing of cash flows over a project's entire expected life.

### *Internal rate of return*

An alternative DCF approach favoured by many practitioners is the internal rate of return (IRR). It is related to the NPV in the following way. Suppose, as with the project exhibited in Table 7.1, that at a discount rate of 10% a project comfortably offers a positive NPV, to the extent that even when discounting at a rate of 68% it still broke even. The result at this limiting discount rate could then be written:

$$0 = \text{NPV} = \text{PVNCF} - \text{NINV}$$

The discount rate (68.65% as identified in the spreadsheet-derived table, and computed therein) at which this result occurs is defined as the internal rate of return (IRR) and generally speaking, when the IRR exceeds the company's cost of capital, the NPV will be positive and the project identified as acceptable. Many studies have indicated a preference among managers for IRR – probably because it is expressed as a percentage, in common with other business measures of profitability – and managers may feel more comfortable with it than with NPV (expressed in pounds, dollars, etc.).

### *Capital rationing using the profitability index*

Despite the relative popularity of IRR, it is from the NPV concept that the criterion for dealing with capital rationing situations is developed. When funds for investment are limited, one is no longer accepting or rejecting projects which have positive NPVs without limit, but in the context of this analysis, the approach is to invest the funds that are available in that set of new tourist product projects with the highest total net present value. That is, the goal is to maximize the net present value of the entire current investment.

The principle of budgeting, which applies in this context, and in any other situation where a limiting factor is in operation, is that priorities should be established

**Table 7.2.** The capital rationing problem.

| Project | Initial outlay (£) | Net present value @ 10% (£) |
|---|---|---|
| A | 50,000 | 70,000 |
| B | 90,000 | 120,000 |
| C | 60,000 | 120,000 |
| D | 100,000 | 10,000 |
| E | 250,000 | 150,000 |
| F | 80,000 | 20,000 |
| G | 40,000 | 40,000 |

according to performance per pound (or dollar, etc.) of the limiting factor. Thus NPV per pound of available finance is the appropriate ranking criterion in the capital rationing situation. Of course, if none of the tourism company's investments provides a rate of return at least equal to the cost of capital so as to generate a positive NPV, there is no need for a ranking criterion, since the projects should be rejected and the tourism company would do better by investing (lending) its funds in the market. No investment that is inferior to such market opportunities should be accepted.

The NPV per pound of initial investment requirement is referred to as the profitability index and this implements the limiting factor principle of budgeting. Once the projects have been ranked on the basis of the profitability index, one selects those investments in descending order until the budget is exhausted. This procedure selects for adoption the combination of investments within the budget constraint that has the highest total net present value. The profitability index may be demonstrated in the case study which follows.

*EXAMPLE.* The Commodore Hotel in Scotland has seven new tourism projects to evaluate (see Table 7.2). The NPV calculations shown in the table would have required a full assessment of the cash flows anticipated in each case; for example Project C is the one set out fully in the spreadsheet which appears as Table 7.1. Assuming: (i) the initial outlay is the only cash outflow for each new tourist product project; (ii) the projects are not mutually exclusive; and (iii) the cash flows of the projects are not interdependent:

- We can rank the projects in order of desirability on the basis of the profitability index (see Table 7.3).
- If the hotel has a limited capital budget of £550,000, we can then determine which new tourism projects it should choose.

According to Table 7.3, the note 1 should adopt C, A, B, G and E. This requires an initial outlay of £490,000 which is less than the £550,000 that is available. To test the reader's understanding of these principles, the following modification should be worked through:

The data for project D are revised as follows:

- Initial outlay: £100,000
- NPV: £55,000

Now rank the projects using the new profitability indices and choose which projects to adopt. (Answer at the end of the chapter.)

*Financial functions in spreadsheets*

Although the discounting formulae have been stated in the section dealing with NPV, and the manual solution set out as an example, in practice a computer solution will be preferred. In fact if the IRR criterion were being applied, the manual solution would typically involve a tedious trial and error process and it is much easier to let the computer do the hard work. Financial functions for both NPV and IRR are available in LOTUS

**Table 7.3.** Use of the profitability index (Pi).

| Project | Initial outlay (£) | NPV (£) | Pi |
|---|---|---|---|
| C | 60,000 | 120,000 | 2.00 |
| A | 50,000 | 70,000 | 1.40 |
| B | 90,000 | 120,000 | 1.33 |
| G | 40,000 | 40,000 | 1.00 |
| E | 250,000 | 150,000 | 0.60 |
| F | 80,000 | 20,000 | 0.25 |
| D | 100,000 | 10,000 | 0.10 |

1-2-3, Quattro-Pro and Excel. These may be called up, and applied to any set of cash flows within the spreadsheet by identifying the specific acronym NPV or IRR. In the case of Excel these are entered after '=' but with Lotus and Quattro spreadsheets these are prefixed by the @ character; thus @NPV or @IRR are the relevant functions:

*EXAMPLE.* In Table 7.1, the net inflows are set out in Lotus 1-2-3 spreadsheet cells B4 to F4, while the initial outlay appears in cell A4. If we were to type @NPV(0.1, B4..F4), a result of 180,000 would appear; in effect @NPV in the spreadsheet gives us PVNCF rather than NPV. Accordingly, we should type into cell G4 the entry: @NPV(0.1, B4..F4)+A4 in order to take care of the NINV which requires the initial flow of −£60,000 to be incorporated. The first number inside the bracket is the discount rate, which is 10% in this example).

The IRR in cell H4 uses the financial function, whose form in this instance is: @IRR(0.5, A4..F4). The first number inside the bracket is an initial 'guess' at the IRR, and the range A4..F4 embraces the full range of flows from the beginning to the end of the project. The result of 68.65% appears in cell H4 after formatting that cell to indicate percentages with two decimal places.

In applying the profitability index, all that is required is to divide the NPV, computed as shown above, by the initial capital outlay. This involves dividing the contents of one spreadsheet cell by another, which is one of the simplest arithmetic operations to be performed. In this instance, the formula entered in cell I4: +G4/−A4 which would display the number 2.00 as shown.

Rather more complex, but again facilitated by the spreadsheet, is the problem of multiperiod capital rationing. This arises when spending limits affect several time-periods instead of just one. While the profitability index is fine for dealing with a single limiting factor, it cannot cope with multiple limits, since one could easily have a series of conflicting rankings. Instead, the technique of linear programming must be employed; again while manual solutions are long and tedious, most spreadsheets contain optimization facilities, of which linear programming is the most frequently used.

### *The investment decision: the case of small tourism companies*

So far, we have argued that the technically sound principles of DCF should be used in evaluating capital projects. Although the actual calculation of the cash flows requires careful forecasting of the relevant revenues and costs, the microcomputer spreadsheet can facilitate these computations and then apply the required financial functions of NPV or IRR as shown above. However, the gap between the normative approach of the textbook and the practice of small businesses in the tourist industry has been revealed in a study by Hankinson (1992). Indeed in the smaller hotels which featured in the study, investment decisions were dominated by the 'necessity' criterion, i.e. only undertake new projects when there is an identifiable specific need, which is so obvious as to require no appraisal.

As Hankinson reports:

> There was little evidence of positive investment thinking, and very few of the smaller hotels admitted to planning ahead beyond 12 months. The majority merely invested when the 'necessity criterion' dictated. In short, most investment appeared to be non-strategic, piecemeal, non-anticipatory, and geared to survival only. Whilst there could be little doubt that a recessionary economic situation affected the decision to invest, it was equally clear that other, and perhaps more basic, factors were relevant. (Hankinson, 1992: 34–35)

A relationship appeared to exist between investment and *past* profit, rather than anticipated returns in the future, but this could have reflected the availability of retained earnings rather than a backward-looking approach to capital spending. However, Hankinson described the observed behaviour as 'non-visionary capital spending' by some 80% of the sample.

Thus only 20% of the hotels had been engaged in 'visionary investment'. Indeed, very few of the hotels used leading or future indicators as influences on their investment decisions, and most considered that no reliable indicators existed. The main conclusion to this part of the study was that:

> investment was determined mainly by necessity or crisis which rendered capital spending imperative, provided that hotel's own funds were available. The cost of borrowing, credit availability, and government investment incentives were revealed to be mere influences rather than determinants of investment.

The main investment appraisal methods used by the hotels were the traditional, non-discounting techniques. No hotel in the study was totally familiar with DCF although some claimed to be aware of the technique. Practically no hotel had been influenced by the literature on the subject, or by courses offered at local colleges, or by the advice of consultants. Forecasting of cash flows was not evident and 31% used no method at all, while only 12% made attempts to calculate cash flows. Although capital budgeting, therefore, was only practised on a narrow front in this sector, budgeting in its widest sense appeared to be the most popular management technique.

The study also investigated the financing of investment, which had been provided for almost equally by the hotels' own funds, and bank credit. Many respondents seemed reluctant to take advantage of external finance facilities, and 90% of the hotels had not been concerned in any attempt to obtain investment finance through facilities beyond the local bank, some indicating that external credit was a threat to their independence. There was also a lack of awareness of external sources. Even where government incentives were available, few UK hotels had taken advantage of them.

Studies such as this suggest that techniques directed at goal optimization may not find this sector to be fertile territory for their application. There are some lessons to be learned for the theoretician in this, since it appears that forecasting is a difficult process in tourism and that financing may reflect a move from crisis to crisis, by necessity, rather than planned change. However, the fact that sophisticated techniques are to be found among larger tourism businesses, coupled with the increasing use of microcomputers at all levels, suggests that it is only a matter of time before analytical techniques become better known and easier to use.

## Hotel Marketing Budgeting

### *ERC (efficiency-risk coefficient)*

A strategic problem in determining the marketing budget is not merely the matter of how much to invest in marketing as a whole, nor in determining each element of the marketing mix, but how much to spend in relation to the hotel total resources budget available. The proportion spent on marketing will affect the degree of risk to which the budget is exposed. Suppose, for example, that the hotel has a total advertising budget which may be spent in different media, with different coverage and response rates and

assuming the risk to be uniform, a comparative efficiency-risk coefficient (ERC) can be established to compare the effectiveness and risk of each medium. This would be calculated by multiplying the IPC factor (income generated as a percentage of cost) by the total budget (B) available and dividing by the campaign cost (C):

$$\text{ERC} = \text{IPC} \times \text{B/C}$$

This will give an order of preference in which to allocate the hotel marketing resources to the media available, in order to combine the highest return for the outlay with the least risk in regard to the total resources available. Of course, the income generated is not the same as profit generated. For instance, the profit on the £800,000 of income generated by a TV campaign will probably not be sufficient to cover the £200,000 cost of the campaign. Hence, it will be useful, not merely to establish an order of preference in the relative expenditure on the different media, but also to find a cut-off point below which the expected return for expenditure in the next medium proposed is quite simply unprofitable.

### *Marketing mix and profitability*

The importance of the hotel marketing budgeting process should be seen within the development of hotel marketing plans: in particular, regarding its role as a planning tool, its interrelationship with forecasting procedures, its linkage with the definition of hotel marketing objectives and alternative marketing strategies, its crucial role in terms of the allocation of financial resources to marketing mix programmes, and in terms of being seen as a monitoring device within a marketing control system.

The hotel should seek to create a differential advantage (DA), the set of unique features in a hotel's marketing programme that attracts customers and causes them to patronize the hotel and not its competitors. Without a DA, a hotel adopts a 'me-too' philosophy and offers the customer no reasons to select its offerings over a competitor's. A DA can be achieved through a distinctive image, new products/services or features, quality of services, low rates, and other hotel characteristics. The hotel marketing mix requires a number of decisions and the budgeting of marketing activities does not mean a guesswork allocation of sums between various marketing activities. Budgeting involves forecasting, selection of priority customer-generating markets, and the planned manipulation of all the variables that determine the hotel's performance in an effort to arrive at some preferred market position in the future.

The profit from a given marketing-mix strategy can be calculated from the equation:

$$Z = Q(P - D - c) - F - M$$

where:

- $Z$ = total profits;
- $Q$ = quantity of units sold;
- $P$ = hotel list room rate;
- $D$ = discount, trade allowance or commission;
- $c$ = service production variable cost, such as labour;
- $F$ = fixed costs, such as property tax and managerial salaries;
- $M$ = marketing costs associated with the strategy in question;

$(P - D - c)$ is the gross contribution margin per unit; and

$Q(P - D - c)$ is the gross contribution available to cover fixed costs, discretionary marketing expenditures, and to provide for profit.

The implications of this equation will be more fully developed below, in the section which deals with cost-volume-profit analysis. In the present context of the marketing budget, it should be clear that the attainment of target sales and profit can be planned and controlled by setting up a marketing budget which utilizes these relationships between activity, revenues, costs and profit. One problem which may remain, however, is that the total amount to be spent is often determined by a simple-rule-of-thumb method, such as percentage of annual expected sales or last year's budget plus an assumed growth percentage. More appropriate, however, is a method which takes no such precedent for granted, and which

**Table 7.4.** Illustration of zero-base marketing budgeting.

| Budget (M) | Summary of the marketing plan | Sales forecast (Q) |
|---|---|---|
| £1,050,000 | Maintain sales and market share in the short term by concentrating sales effort on business travellers, advertising only in magazines, newspapers and direct mail, sponsoring two promotions a year, and carrying on only limited marketing research | 60,000 service units |
| £1,500,000 | Implement a coordinated effort to expand market share by contacting 80% of all tour operators and travel agents, adding magazine advertising, adding point-of-purchase displays, and sponsoring three promotions during the year. | 70,000 service units |
| £1,950,000 | Seek to expand market size and share by adding two new hotel products, enlarging the sales staff, increasing marketing research, and expanding the advertising budget | 90,000 service units |

assesses the impact of setting the expenditure level on the achievement of business objectives.

### *Zero-base marketing budgeting*

The planning technique called zero-base budgeting (ZBB) continually assesses and questions existing programmes. It also facilitates the development of new programmes. The hotel manager can formulate a marketing plan for each target market (TM) and estimate sales, for example, at three levels of marketing expenditure, such as 30% below the normal level, the normal level and 30% above the normal level. An example is shown in Table 7.4, outlining what a hotel manager would do with each budget level and the estimate of sales volume (the sales-response function). Then management reviews this response function against those of other hotel products/services with different TMs and gives serious consideration to shifting funds from TMs with low marginal responses to TMs with higher marginal sales responses.

The application of a broad budgeting concept will help the hotel manager to prioritize where he or she wants to spend his or her limited resources. The ZBB concept states that no expenditure is justified just because it was spent last year. Every expense is re-analysed and justified each year on the basis that this expenditure will yield more favourable results than spending the same amount in another way. Hence, one needs some caution when applying this concept. For example, a hotel that relies on a reservation system, should see this feature as a 'core' or vital element which at the minimum must be maintained at a certain level. One approach is to subdivide the budget into the 'vital core' and an 'all other category', and only apply the ZBB concept to the 'all other' category.

For the TM illustrated in Table 7.4, the prospect of operating at the zero-base loses 10,000 service units as compared with the 'normal' £1,500,000 budget level. If the possibility exists for re-allocating £450,000 to a TM's marketing budget, which would generate more service units than this potential loss, the implications are clear.

From a practical standpoint, the hotel marketing budgeting process involves four distinctive stages: (i) target profit planning; (ii) implementation of the right combination of the marketing mix elements; (iii) application of suitable and effective budgeting techniques; and (iv) monitoring of action programmes. Budgeting facilitates effective control to enable the manager to monitor marketing operations and pinpoint problem areas. While budgeting facilitates coordination and communication between target

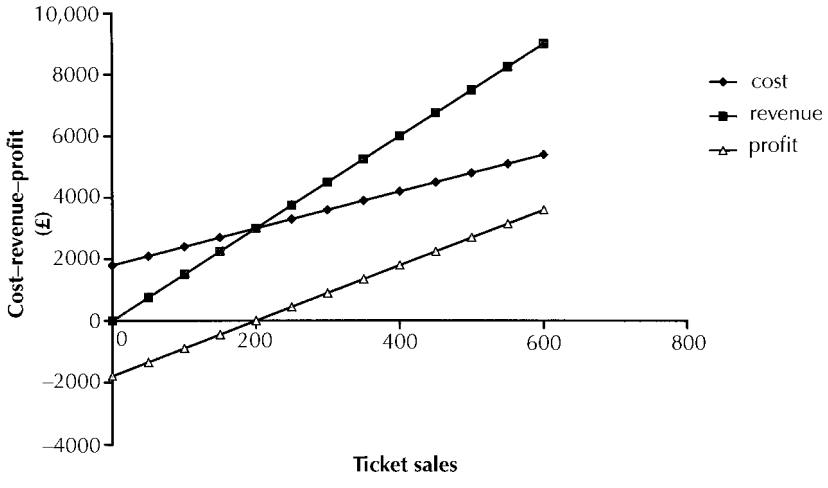


**Fig. 7.1.** Break-even chart for dinner dance.

hotel departments, it can only lead to optimal results if the overall budget and its allocation is carefully thought through. Analytical approaches, such as ZBB, can help to establish the budget on rational principles.

## Cost-Volume-Profit Analysis*

### *The break-even chart*

A convenient device for gauging profitability at various production or service levels is the break-even chart (Fig. 7.1). The analysis of the cost, revenue, and profit functions goes beyond the determination of the break-even point, which occurs where the cost and revenue functions intersect, and where the profit line cuts the output axis. It encompasses an examination of the relationships, at all levels, between a changing volume of production or service delivery, costs, sales-revenue and profits, and the subject is normally called 'cost-volume-profit' (CVP) analysis.

In Fig. 7.1, cost, revenue and profit are all linear functions of output. Each service unit provided is sold at a common price which dictates the slope of the revenue function. The total cost line does not pass through the origin because there are fixed costs which still have to be borne when output is zero. The constant slope of the total cost function is dependent on the unit variable cost remaining unchanged.

The profit function is deduced from the other two functions, and is the difference between total revenue and total cost. When output is zero, profit will be negative by an amount equal to the fixed costs, and thereafter it will rise by an amount $(P-c)$ for every unit produced, where $P$ and $c$ are the unit selling price and variable cost, respectively. The magnitude $(P-c)$ is the contribution to profit. Initially, the contribution from each unit helps to offset the fixed costs, and no profit overall is made until the break-even output is reached: where total cost equals total revenue and profit is zero. Marketing costs discussed in the section on marketing mix and profitability, can be handled within this framework, but for present purposes let us treat these as if they were included in the fixed costs.

If we let $f$ = fixed cost and $Q$ = output, we can write:

$$\text{Total cost} = f + Qc$$

(the sum of fixed and variable costs) and

* Much of this section originally appeared in Bridge (1989) and is reproduced here with the permission of the publishers.

Total revenue = $QP$

The break-even output occurs where:

$$f + Qc = QP$$

from which it can be deduced that:

$$Q\,(\text{break-even}) = \frac{f}{(P - c)}$$

For example, suppose that a dinner-dance is planned at your hotel for which the ticket price is set at £15. If the average variable cost for the food and wine is expected to be £6 the contribution would be £9. Fixed costs for the event, including the cost of staff, orchestra, and other entertainments are thought to be around £1800 (see Table 7.5), so substituting in the formula above:

$$\text{Break-even quantity} = \frac{1800}{(15 - 6)}$$
$$= 200 \text{ tickets}$$

If the hotel is expected to sell 350 tickets for the function, this gives a 'margin-of-safety' of 150, or £2250 expressed in sales revenue. These latter figures show how far the ticket sales would have to fall below the estimated level before losses emerged, and the corresponding fall in sales revenue. Expressed as a percentage, the margin of safety is:

$$\frac{(350-200)}{350} = 42.86\%$$

Another attribute which may be measured through CVP analysis is the 'profit-volume ratio', which is the contribution expressed as a proportion of sales revenue. On a single unit sold:

$$\text{profit-volume ratio} = \frac{(P - c)}{P}$$
$$= \frac{(15 - 6)}{15}$$
$$= 60\%$$

This ratio will apply for the range of sales for which $P$ and $c$ remain constant. In this range, every £100 increase in ticket sales will be accompanied by an increase in profit of £60. All the ratios and margin-of-safety figures were computed using a microcomputer spreadsheet which was used to generate Table 7.5.

**Table 7.5.** Cost-volume-profit analysis.

| Number of tickets | Cost | Revenue | Profit |
|---|---|---|---|
| 0 | 1800 | 0 | (1800) |
| 50 | 2100 | 750 | (1350) |
| 100 | 2400 | 1500 | (900) |
| 150 | 2700 | 2250 | (450) |
| 200 | 3000 | 3000 | 0 |
| 250 | 3300 | 3750 | 450 |
| 300 | 3600 | 4500 | 900 |
| 350 | 3900 | 5250 | 1350 |
| 400 | 4200 | 6000 | 1800 |
| 450 | 4500 | 6750 | 2250 |
| 500 | 4800 | 7500 | 2700 |
| 550 | 5100 | 8250 | 3150 |
| 600 | 5400 | 9000 | 3600 |

| | |
|---|---|
| Fixed costs (£) | 1800 |
| Variable costs (£) | 6 |
| Selling price (£) | 15 |
| Contribution (£) | 9 |
| Break-even quantity | 200 |
| Break-even sales (£) | 3000 |
| Estimated sales | 350 |
| Margin-of-safety | 150 |
| Or (£) | 2250 |
| Or (%) | 42.9 |
| Profit-volume ratio (%) | 60 |

On the face of it, there would be considerable benefits to be gained if the price could be raised. In Fig. 7.2, the event now breaks even at a lower level of ticket sales, and achieves greater profits at all sales levels, as a result of raising the price from £15 to £18. It enjoys a larger profit-volume ratio, and margin-of-safety. It is likely, however, that a price increase would reduce the quantity demanded, so an understanding of the price elasticity of demand for the tickets would seem essential before the CVP analysis could make further progress in assessing whether a price increase (or reduction)

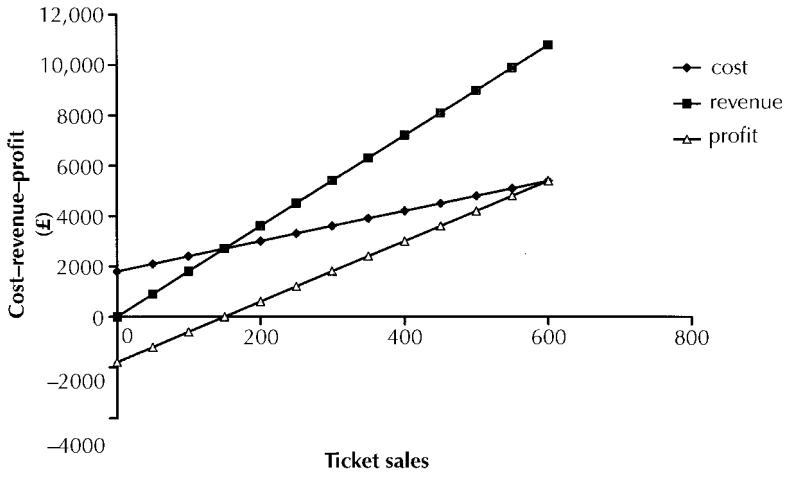


**Fig. 7.2.** Break-even chart: effect of price increase.

would be beneficial to the firm. The need for demand considerations to be made explicit is something which not only affects CVP analysis, but all the issues tackled in this chapter from capital budgeting through to yield management which is discussed in the next section.

It is apparent from the previous paragraph that total revenue will frequently not be a linear function, since price adjustments will generally be required to dispose of additional services: hotel beds, excursions, tickets for events, and so on, unless the tourism business operates in a perfect market. Furthermore, total costs may not be a linear function of output, either because unit variable costs are not constant, or because there are costs of a semi-fixed/semi-variable nature (e.g. wages of supervisory staff), which cause a sudden jump in the cost function when a critical output is reached. Once the revenue and cost curves cease to be linear, there is the possibility of additional break-even points (a second appears in Fig. 7.3), with a position of profit maximization occurring somewhere between the break-even points.

### *CVP and economic theory: marginal analysis*

Economic theory relies heavily on marginal analysis in the treatment of output and price determination. Marginal cost is the change in cost brought about by a unit change in output. Since fixed costs are insensitive to output changes, by definition, it is the behaviour of variable cost which is relevant in the application of marginal analysis. One could equally define marginal cost as the change in variable cost brought about by a unit change in output. Marginal revenue is defined similarly as the change in total revenue brought about by a unit change in output. The marginal functions show the slope of their respective total functions at each possible output.

### *Profit maximization in competitive conditions*

In the micro-economic models of the firm, the profit maximizing output is located where marginal cost is equal to marginal revenue. Under conditions of perfect competition, each firm is a price taker, with price being determined impersonally by the interaction of market supply and demand. The firm's marginal revenue is then constant and equal to the market price. Instead of the usual economist's diagram, based on the marginal functions, we can use the CVP chart (Fig. 7.3) to illustrate the profit-maximizing output in the short run. The linear revenue function is still used if a con-

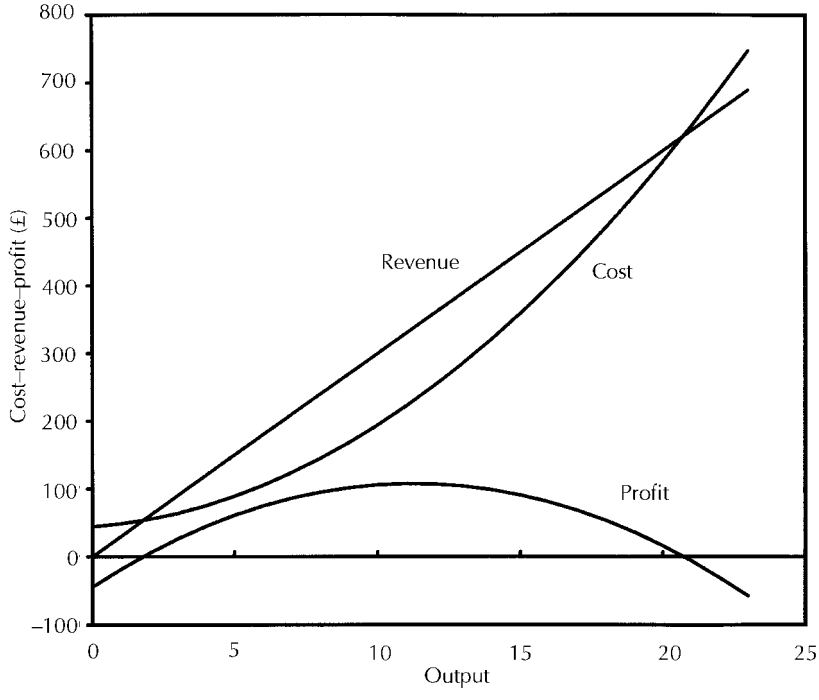


**Fig. 7.3.** Cost curve with two break-even points (taken from Bridge (1989) with the permission of the publishers).

stant selling price prevails in the market. However, if marginal cost is not constant, but rising, the total cost function will show an increasing slope.

One possible factor which could cause rising marginal cost is 'diminishing returns' (often explained in terms of the proverb 'too many cooks spoil the broth'), in which the linear total cost function will be replaced by a curve as shown in Fig. 7.3. While linear cost functions will often be satisfactory for many practical purposes, it is important that any service business which permits considerable variation in the mix of inputs (the ratio of 'cooks' to 'broth' ingredients), is aware of possible falls in marginal product, and rises in marginal cost, if diminishing returns set in.

The main lesson of CVP analysis is that profits will improve with an expansion of output, so long as there is a positive contribution ($P - c$). In Fig. 7.3, marginal cost rises unit by unit, and the contribution from successive units will fall. In place of the single break-even point, with ever-increasing profit beyond, there are two break-even points shown, with a profit-maximizing output lying somewhere between the two. This latter output may be located through marginal analysis by finding where marginal cost is equal to marginal revenue (= market price, under perfect competition).

### *Pricing in less competitive conditions*

At the other extreme from perfect competition lies the market form known as monopoly. This is unlikely to be found in tourism markets, despite the fact that mergers between hotel groups, tour operators and airlines in the UK may be referred to the Competition Commission. These are more properly seen as examples of oligopoly, although this market form can behave in a manner detrimental to the consumer, hence possible intervention according to competi-

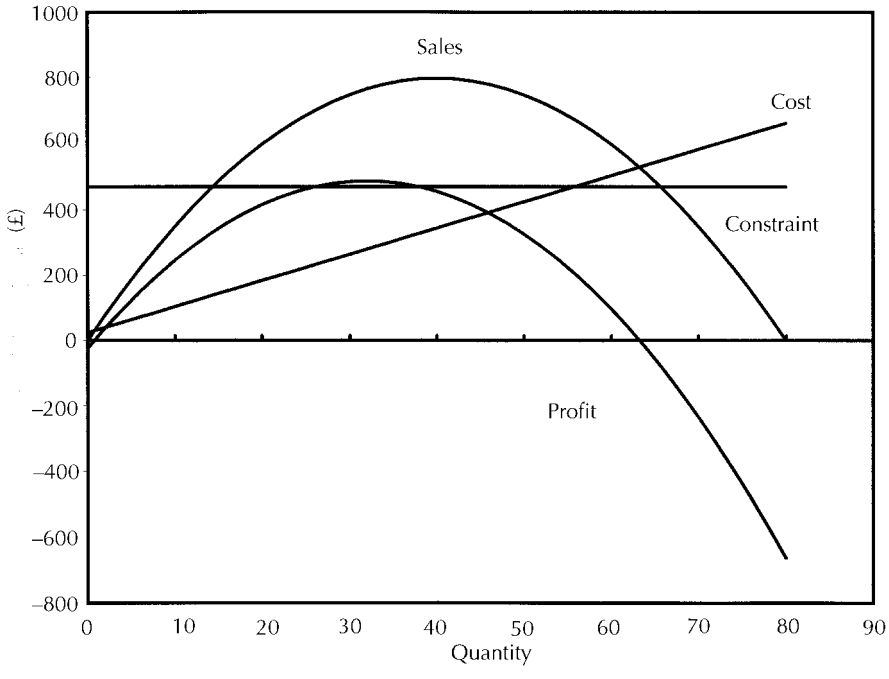


**Fig. 7.4.** Maximum of sales and profit (taken from Bridge (1989) with the permission of the publishers).

tion law. The monopolist can select an appropriate price and quantity, but must ensure that these are consistent (with market demand). In economic theory it is normally assumed that the choice will be made so as to maximize profit.

So long as we restrict our attention to those situations where there is some discretion over price and output, the analysis may be loosely extended to cover big-business situations other than monopoly, although there is no accommodation of interdependence in what is exhibited here, and so this facet of oligopoly is not adequately represented. In the CVP chart drawn in Fig. 7.4, a linear cost function is adopted once again for simplicity, with fixed costs of £24 and unit variable costs of £8 (see Table 7.6). However, a new sales revenue function is introduced. The slope of this function gradually falls until the curve flattens at its peak, beyond which the slope is negative. This sales revenue behaviour is characteristic of a linear demand function for the service (product or brand). In this example the equation has been chosen to be:

$$Q = 80 - 2P \text{ (as tabulated in Table 7.6)}$$

In this case, the business adjusts its price (average revenue) according to the output which it tries to sell. Disposal of 60 units per period requires a price of £10, while 40 units per period could be cleared at a price of £20.

Traditional economic theory proposes a profit-maximizing solution, which will occur at a quantity of 32 units and a price of £24. This may be read from Table 7.6 (or computed by the spreadsheet). The peak of the profit curve can also be identified from Fig. 7.4, which directly confirms the output decision. Alternatively the business may pursue sales-revenue maximization according to the 'managerial' sales-revenue-maximizing (SRM) model of the firm proposed by Baumol (1959). In this instance, the peak of the sales revenue curve would be located at an output of 40 units and price of £20. The sales-revenue maximizer would therefore produce a greater quantity and sell

**Table 7.6.** Maximization of profits and sales (taken from Bridge (1989) with the permission of the publishers).

| Intercept | 80 | | Fixed cost | 24 |
|---|---|---|---|---|
| Slope | -2 | | Variable cost | 8 |
| Quantity | Av. revenue | Sales | Cost | Profit |
| 80 | 0 | 0 | 664 | −664 |
| 78 | 1 | 78 | 648 | −570 |
| 76 | 2 | 152 | 632 | −480 |
| 74 | 3 | 222 | 616 | −394 |
| 72 | 4 | 288 | 600 | −312 |
| 70 | 5 | 350 | 584 | −234 |
| 68 | 6 | 408 | 568 | −160 |
| 66 | 7 | 462 | 552 | −90 |
| 64 | 8 | 512 | 536 | −24 |
| 62 | 9 | 558 | 520 | 38 |
| 60 | 10 | 600 | 504 | 96 |
| 58 | 11 | 638 | 488 | 150 |
| 56 | 12 | 672 | 472 | 200 |
| 54 | 13 | 702 | 456 | 246 |
| 52 | 14 | 728 | 440 | 288 |
| 50 | 15 | 750 | 424 | 326 |
| 48 | 16 | 768 | 408 | 360 |
| 46 | 17 | 782 | 392 | 390 |
| 44 | 18 | 792 | 376 | 416 |
| 42 | 19 | 798 | 360 | 438 |
| 40 | 20 | 800 | 344 | 456 |
| 38 | 21 | 798 | 328 | 470 |
| 36 | 22 | 792 | 312 | 480 |
| 34 | 23 | 782 | 296 | 486 |
| 32 | 24 | 768 | 280 | 488 |
| 30 | 25 | 750 | 264 | 486 |
| 28 | 26 | 728 | 248 | 480 |
| 26 | 27 | 702 | 232 | 470 |
| 24 | 28 | 672 | 216 | 456 |
| 22 | 29 | 638 | 200 | 438 |
| 20 | 30 | 600 | 184 | 416 |
| 18 | 31 | 558 | 168 | 390 |
| 16 | 32 | 512 | 152 | 360 |
| 14 | 33 | 462 | 136 | 326 |
| 12 | 34 | 408 | 120 | 288 |
| 10 | 35 | 350 | 104 | 246 |
| 8 | 36 | 288 | 88 | 200 |
| 6 | 37 | 222 | 72 | 150 |
| 4 | 38 | 152 | 56 | 96 |
| 2 | 39 | 78 | 40 | 38 |
| 0 | 40 | 0 | 24 | −24 |

at a lower price than its profit-maximizing counterpart.

Economists anxious to defend the profit-maximizing assumption have attempted to reconcile it with SRM, by arguing that SRM is a short-run objective consistent with long-run profit maximization. This is a plausible reconciliation based on the view that a busi-

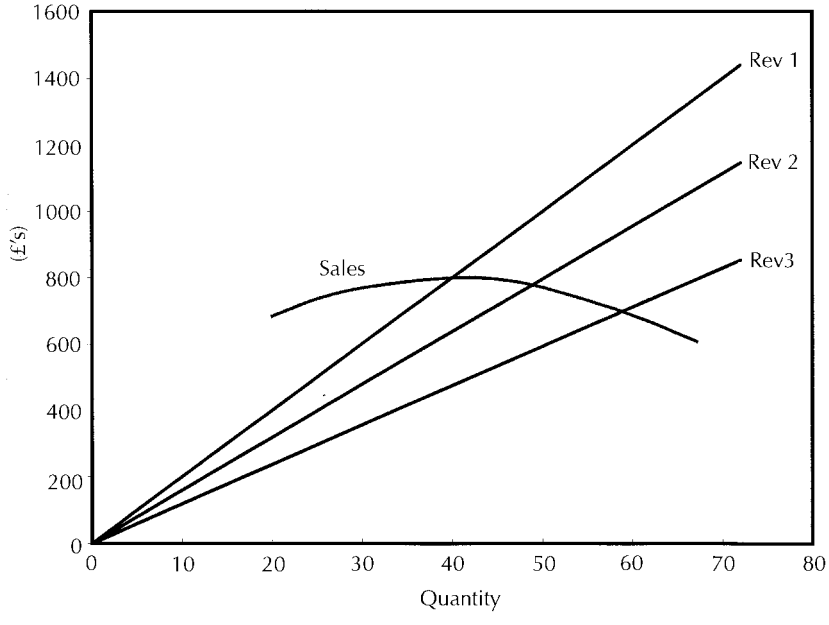


**Fig. 7.5.** Alternative revenue assumptions (taken from Bridge (1989) with the permission of the publishers).

ness may try to build up market share with a competitive price, with the intention of reaping larger profits in the future. Although Baumol's reasoning will not be explored in detail here, he cites other reasons for SRM based on the fulfilment of managerial objectives. For example, size as measured by sales volume, may confer salary benefits, as well as the satisfaction of being associated with a powerful business, more effectively than profitability. SRM as a managerial objective in pricing could then be at odds with shareholders' interests.

An intermediate position, which is neither profit- nor sales-maximizing in an absolute sense, arises if sales revenue is maximized subject to a profit constraint. Thus an absolute sales maximizer would reach the peak of the sales curve in Fig. 7.4 achieving revenue of £800 at an output of 40 units. The profit at this output is below the maximum (£456 as against £488). In trying to achieve the highest sales level possible without dipping below a profit of £470 (constraint line in Fig. 7.4), the solution would be to produce at 38 units and enjoy a sales revenue of £798. If the profit requirement were set as low as £230, the constraint would not be binding on the SRM firm, since absolute sales maximization would comfortably exceed this figure.

To summarize, we have:

| | |
|---|---|
| Profit maximization: | price £24, output 32 units |
| SRM: | price £20, output 40 units |
| Constrained SRM: | price £21, output 38 units |

The form of the sales revenue curve used in this example may be reconciled with the conventional CVP chart as shown in Fig. 7.5. The line marked rev 1 is the total revenue line which would be drawn for a selling price of £20. With the demand function:

$$Q = 80 - 2P$$

in operation, it is found that 40 units can be sold at this price. With the line marked rev 2, a price of £15 is taken, at which 50 units may be sold. Finally, rev 3 corresponds to a sell-

ing price of £10, at which 60 units are demanded. The shape of the sales function begins to emerge when these outputs of 40, 50 and 60 are marked on to their respective revenue lines as shown in Fig. 7.5. It is only when the CVP analysis is extended to include demand analysis, that the implications of profit or sales-revenue maximization objectives for price and output (activity) decisions can be determined.

## Efficiency in Capacity Utilization

After a business has determined and implemented its long-run investment strategy, it needs to ensure that its viability as determined by the forecasts of cash flow is actually realized. Of course, in an industry where short-run fixed costs tend to be high, break-even points become difficult to achieve when there is a reduction in activity due to economic conditions, and a flexible approach in managing the capacity is essential. We shall examine first of all how a hotel, or other tourism business, might measure its performance in using its capacity.

### *ARGE: asset revenue generating efficiency*

Some capacity-constrained service organizations use percentage of capacity sold as a measure of operational efficiency. Hotels frequently speak of 'occupancy rates', expressed as percentage figures, but these tell us little of the relative profitability of the business attracted, given that high utilization rates may be generated by offering substantial discounts on normal rates, leaving little profit to be gained from the additional turnover.

What is needed is a measure of the revenue-generating potential of the hotel's assets. This must take into account a comparison between the average price actually obtained per unit of service and the maximum price that might have been charged, what is termed the 'unit price efficiency rate'. Whether a hotel should accept an advance booking from a tour group of 400 room-nights at £30 each or hold out in hope that the same facilities might be in demand later to business travellers at the full room rate of £50 is a complex choice which requires appropriate information and an analytical approach.

In theory, prices can be set by determining the demand curves and relevant elasticities of different market segments, e.g. package tours as against business users. While complete knowledge of these is not generally available in practice, management does form judgements, which can be refined by examining patterns over time, as to how one expects to allocate available capacity among different market segments at a specific point in time. 'Selective sell' targets can be assigned to advertising and sales personnel, reflecting these expectations. To assist in monitoring performance and to enable selective sell targets to be more clearly focused, an index of asset revenue generating efficiency (ARGE) may be employed. As we shall see, a similar concept relating actual to potential revenue, proposed by Orkin (1988), is discussed in the context of yield management below, but the value of the ARGE approach to performance measurement is that it forces explicit recognition of the opportunity cost of accepting business from one segment when another might subsequently yield a higher rate.

ARGE is determined as the product of the percentage occupancy and the average unit price efficiency rate. For example, a 400-room hotel adopts a maximum posted room-rate of £50. If only one-half of its rooms are occupied on a given night, with 100 rooms sold at £50 and another 100 at £30, then the average unit price efficiency rate is 0.8 and the occupancy is 50%, therefore ARGE is (50% $\times$ 0.8) = 40%. Alternatively, the ARGE may be calculated by dividing total revenues received (£8000) by the maximum potential revenues that could have been obtained, i.e. by selling all rooms at the highest price (£20,000).

There is a trade-off between the two terms in the ARGE equation. The percentage occupancy might be improved by taking on more low-margin business, but at the cost of lowering the unit price efficiency rate. Any decision to accept or reject business should include a realistic estimate of the probabilities of alternative business becoming

available, together with a recognition of any incremental costs involved. Incremental revenues should always be greater than incremental costs, unless the hotel service is to be marketed as a 'loss leader' or the action programme is part of a pre-specified marketing strategy.

### *CRM: critical ratio method*

The concept of probability raised in the previous paragraph is related to frequency and occupancy, in so far as a room which is typically occupied for half of the nights in the year, has a probability of being occupied averaging 0.5. Of course, because of variations in demand throughout the year, this probability will not be static, and it is the responsibility of management to maintain data which will enable accurate computations of probability to be performed. To assist in determining the desirability of attracting additional guests, hotel businesses may utilize the critical ratio method. This technique is based on the expected contribution of an incremental available room. A room will generate a positive contribution if it is occupied. The expected contribution of an incremental available room can be seen as:

$$C = r - (s + c)$$

where: $C$ = the expected contribution of an incremental available room; $r$ = the occupancy-variable revenues; $s$ = the occupancy-variable (servicing) costs; and $c$ = the capacity-variable (carrying) costs.

Then the hotel manager can calculate the expected contribution of the $n$th room of a contemplated capacity of $n$ rooms as follows. Let:

EC$n$ = expected contribution of the $n$th room of a contemplated capacity of $n$ rooms

P$n$ probability that at least $n$ rooms will be demanded on a given night (or the frequency with which demand will reach this level)

Then:

$$EC_n = P_n(r-s-c) - (1 - P_n)c$$

i.e. the probability of the room being occupied multiplied by the contribution to profit *less* the probability of it not being occupied multiplied by the carrying costs. There will be a positive contribution so long as P$n$ $(r-s-c)$ exceeds $(1 - Pn)c$

The critical probability that at least $n$ rooms will be demanded on a given night is written as $p^*n$ and this is given by the ratio:

$$p^*n = \frac{c}{(r-s)} \qquad \textit{(crm equation 1)}$$

At this critical ratio, there will be zero contribution, but when the probability (or frequency of occupancy) exceeds this ratio, there will be a positive contribution

$$1 - p^*n = \frac{(r-s-c)}{(r-s)} \qquad \textit{(crm equation 2)}$$

As an example, suppose that for the $n$th room of a hotel, the occupancy-variable revenues ($r$) per occupied room-night are £75 and that its occupancy-variable costs ($s$) per occupied room-night are £30. If the hotel's capacity-variable costs ($c$) per available room-night are £15, one can find the critical ratio as: 15/(75 − 30) = 1/3, or 0.33 which means that the $n$th room need only be utilized for one-third of the nights in the year to break even; any greater frequency of occupancy will yield a positive contribution.

The second equation gives the demand level equivalent to the probability that capacity will exceed demand and so the $n$th room will not be occupied.

$$1 - p^*n = \frac{(75 - 30 - 15)}{(75 - 30)} = 0.67 \text{ (the same as } 1 - 0.33)$$

so that as long as the probability of excess capacity is less than two-thirds, a positive contribution will be enjoyed.

As with the ARGE measure discussed previously, it is important to examine the trade-offs implied in the ratio. Once again, a balance must be struck between having additional capacity standing idle and the acceptance of a lower contribution. Thus, in the example just given, suppose that the $n$th

room were made available at the discounted rate of £60 instead of the usual £75. The critical ratio would rise to:

$$\frac{15}{(60 - 30)} = 0.5$$

which means that one would need to be confident that the lower rate would enhance the probability of occupancy from one-third (as originally determined), to one-half.

### *Yield management systems*

Yield management is a concept which is well established in the airline industry and which has been adapted to the needs of hotel management. It brings together many of the analytical methods of financial management and the associated aspects of economics, statistics and information systems discussed elsewhere in this chapter. As we have seen, the sound application of strategic management and investment appraisal techniques may still leave decision-makers with capacity management problems in the short run, particularly when fixed costs are high and demand is fluctuating.

The focal point of yield management systems is the equation:

$$\% \text{ Yield} = \frac{\text{Revenue realized}}{\text{Revenue potential}} \times 100\%$$

Example: If a hotel sells 270 rooms out of 360 available, at an average rate of £68 as against a posted rate of £85, the percentage yield is $100\% \times (270 \times 68)/(360 \times 85) = 100\% \times 18360/30600 = 60\%$. The ARGE measure would give the same answer, but as a product of the percentage occupancy and the average unit price efficiency rate $= 75\% \times 68/85 = 60\%$.

Yield management combines room inventory management with pricing. Room inventory management determines how many rooms are allocated to each market segment, and then the price, or room rate, quoted to each segment must be set consistently. A given percentage yield could result from several different combinations of room rates and occupancy. Thus: 250 rooms at £100 average rate yields £25,000, and if potential revenue is £40,000 then the yield percentage is $25/40 \times 100\% = 62.5\%$. The same result would arise from 300 rooms at £83.33 average rate or 400 rooms at £62.50 average rate.

In hotels, as with airlines, yield management will attempt to balance between supply and demand by constant small adjustments in price. Hotel guests may be divided into two sectors, business and leisure, each with their own characteristics. As in the airline business, the leisure client will be likely to book well in advance with price being the major deciding factor. On the other hand, business clients will be likely to book only a few days prior to their visit and analysis has shown that they are generally willing to pay more for accommodation. The problem for hotel management is that the demand for discounted rooms tends to precede the demand for higher rated rooms. If the demands were exhibited in the reverse sequence, one could sell all the expensive rooms first and then dispose of the spare capacity at a discounted rate. It should be apparent, furthermore, that if demand in the market as a whole contracts or intensifies, the prices will need to be recalculated to reflect the new position of the demand and revenue curves.

With these economic principles in mind, yield management was developed and began to mature in the 1990s in the hotel industry, as a means of adjusting prices to improve revenue yields. It reflects a need to lower prices when demand is sluggish and raise them when it is buoyant, and to balance the demand from the business and leisure sectors. The airlines have shown, with the aid of computers, that revenue yield can be greatly improved in this way. It has become a practical proposition to forecast future occupancy of hotels, allowing for seasonal and other influential factors.

Most hotel companies that employ a yield management system base it on the 'threshold approach', which uses the concept of upper and lower thresholds for forecast demand, with which actual demand may be compared. If actual demand does not fall within the threshold values, management is alerted. If strong demand is shown,

then the price of rooms can be raised. If demand is lower than expected then discounts can be offered.

In balancing the use of capacity, Sawhney and Lewis (1992: 11) point to the problem of overselling discounted rooms, which results in lost revenue known as 'spill or high rate spill'. Spill may be minimized by accurate forecasting of later higher rated transient demand, and this is fundamental to successful yield management. The same point is emphasized by another author who refers to the 'elasticity' concept. Relihan (1989: 42–43) states that, 'Judging whether the late booking, price-inelastic demand will materialise is yield management's primary function.'

There are numerous examples of the application of yield management which have been cited in both academic journals and the trade press. However, differences may exist between the perceived effectiveness by management and the claims of yield management experts. There have been some studies which have cast doubt on its universal effectiveness (see for example Sawhney and Lewis, 1992), but there does appear to be industry-wide acceptance of the value of yield management as a tool for increasing revenue and improving efficiency, at least among many of the large hotel chains. For example, Orkin (1988: 3), an expert who has developed such systems and installed them in many businesses states that, 'Yield management works. Hotels adopting the systems and techniques have reported record increases in revenue. In a recent test by Hilton Hotels, every hotel employing a yield management system experienced record high revenues.'

If effective, yield management should assist the hotel to improve its revenues and long-term profitability. This is accomplished by attempting to combine the largest number of guests possible and the highest rate from each guest, subject to the provision of a predetermined level of quality of service. The concept of aiming to maximize revenue is well established in theory and practice, but increased intensity of competition in the hotel industry, accompanied by market segmentation, has lowered potential yields, and there may be an inconsistency between revenue and profit maximization. Indeed, a distinction can be drawn between yield management systems which are profit focused, and those which are revenue focused.

As we have seen with the application of capital budgeting, the availability of computers enables the business to carry out complex calculations and keep track of all the important factors and data, in a manner which was not previously possible. *The Times* (1997) reported how enquiries at big chains such as Hyatt will result in a computer-generated room rate quotation, around which there may be little scope for negotiation. The same article, however, reports that there are still many hotels in the UK which have not installed yield management systems.

Donaghy *et al.* (1995) reported on the use of advanced technology: involving artificial intelligence and expert systems to assist managers in yield management. Despite the advances which such technology undoubtedly permits, these authors, in their review article, record an open verdict on yield management and conclude: 'Practitioners in the industry would find it particularly helpful to have some tangible quantitative evidence of the impact of yield management on hotel performance' (1995: 149).

## Conclusion

Financial management is a vital element in any tourism business in fulfilling its revenue and profitability objectives. The latter parts of this chapter have focused on the need to utilize capacity effectively through such techniques as yield management and cost-volume-profit analysis, but the main thrust of the earlier sections was the need to engage in strategic planning and capital budgeting to ensure that an appropriate level of capacity is planned in the first place. Capital budgeting concepts can assist both large and small businesses within the tourism industry, not only in determining fixed capital requirements but in deciding which marketing strategies and marketing mix tools will

exploit an investment to its potential in generating the desired return or net present value.

Complex computer systems involving artificial intelligence and expert systems have been adopted in some yield management applications. Large hotel groups employing such systems will already have the necessary hardware and appropriate software, as well as a wealth of data on patterns of demand. Together, these can assist in budgeting, forecasting and strategic planning in addition to the short-term management of capacity. For small businesses such sophistication is not always necessary or desirable, but microcomputer spreadsheets can assist in fostering a more systematic decision-making process by providing a more rigorous basis for financial modelling, budgeting and control.

## Answer to Exercise on Page 192

With the new figures, D has a profitability index of 0.55 (£55,000/£100,000). The new ranking is C, A, B, G, E, D and F. The hotel should adopt C, A, B, E and D; this requires a total initial outlay of £550,000 and has a total net present value greater than that of the former allocation which comprised: C, A, B, G and E. The inclusion of D ahead of G arises from G's failure to use all of the maining capital budget despite its more favourable profitability index.

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# 8

# Operations Management

**G. Southern**

## What is Operations Management?

> Operations management is concerned with the design and control of transformation systems to deliver the services, including products, of an organization at the right quality, at the right place and at the right time.

It should be noted that this definition takes a systems viewpoint of operations. It should also be noted that the 'right quality' is intangible, particularly in the case of tourism, although the price and times are tangibles which are specified at the time of booking a holiday or journey in this sector. Quality is determined by the expectations and perceived delivery level for each of a bundle of factors for each customer. It has been defined as:

- 'the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs' (ISO 8042, 1989);
- 'the total composite product and service characteristics of marketing, engineering, manufacture, and maintenance through which the product or service in use will meet the expectation by the customer' (Feigenbaum, 1983); and
- 'fitness for purpose or use' (Juran and Gryna, 1980).

The first of these definitions leaves one with the feeling that the word 'service' was added as an afterthought, and even the last one is more easily applied to an artefact than to a service. Specifying measurable parameters for artefacts is easier than specifying them for services. Artefacts have shape and size and can be seen and touched by customers, frequently before purchase. Services are more concerned with changes in the state of feelings of customers and as such are intangible to the highest degree.

This is particularly so with tourism, where the expectations of customers will be positioned in terms of continuums such as tranquillity to excitement, known to unknown, programmed activities to freedom, simple to complex, and will cover the whole range of human feelings. (The three periods of highest stress in human life are said to be marriage, moving house and going on holiday.) Defining quality in service organizations is, therefore, no simple matter, particularly for tourism where the product is bought unseen except in the case of repeat purchases, and even here the ambience of a location or mode of transport can change year by year. Tourist locations can, in the world of mass communication, become popular overnight and with little development control builders can move almost as quickly.

Video and TV can let you see a place, but travel consists of smells, noises, tastes and feelings which sight alone can only hint at. Each holiday or journey booked can be considered as an individual legally binding

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**Box 8.1.** BBC and Cosmos Tours.

In a programme broadcast on 16 May, 1997 complaints about poor service, food provision and children's play facilities provided to 'no money' holiday-makers were aired on BBC (UK) TV in a programme called *Weekend Watchdog*. The holidays involved package tours to Rhodes. 'No money' is a concept where holiday-makers pay all cash needed on a holiday before going, including that to cover food, leisure activities, and drink to loosely specified standards: the implementation of the concept is described in an earlier case by Voss *et al.* (1985). In the BBC programme it was apparent that the perception of poor quality was enhanced by the fact that all the facilities were shared with half-board tourists, who paid for bed and breakfast up-front, but on a cash basis for anything additional to that. From the evidence presented in the programme it was obvious that the two sets of holiday-makers were treated differently: the no-money people were 'given' drinks in plastic containers from a poorly equipped, unfinished bar and given low quality food with little variety, the half-board people were sold drinks in good glasses from a well-established and well-equipped bar and sold food in good quality restaurants. (It was pointed out that the 'second class' citizens were mainly British, and the better served holiday-makers were German.) It was, however, agreed that the hotel rooms and the pool facilities had been reasonable.

The company offered £25 compensation to each adult from the complainants. The BBC invited viewers to join a telephone survey, voting for whether the holiday-makers should receive £24, £250 or a full refund of £600. The vote was about 5%, 35% and 60%, respectively.

The image of the company was damaged.

contract with a vaguely specified product (or 'promise' in legal terms). In fact complaints concerning quality are more likely to surface in the popular press or on broadcast consumer affair programmes (see Box 8.1) than in law courts, as changes in the state of a customer's happiness are much more difficult to argue. When this happens the tourism company is given very little opportunity to respond, and even if it takes reasonable steps to address the problem its image is already irrevocably damaged. Service quality aspects will be discussed in greater detail in the next chapter on Service Quality Management, although tangible measures will be considered later in this one.

### *The systems view*

Operations management owes much to systems thinking, which is central to the concepts of managing change. Interest in managing change arose in the late 1970s and 1980s, when a rapidly changing working environment led to a change in the role of managers. It is associated with a number of developments in management styles and in the socioeconomic and technological environment in which management is practised. The Open University (UK) definition of a system is: 'A set of components that do something; if any component is taken away it changes the system; the system is of interest' (Open University, Managing Development and Change, 1994).

But different people will see the same system in different ways, and that the systems may contain subsystems. For example, within a tourist company an employee will see the company as a work provision system, the owners as a profit generating system, and the customer as a recreation provision system. Each of these individuals will place the emphasis of their interest in the way specified, and each would define a different boundary for the system. At the same time systems can be structurally very complex, and may need to be considered in terms of an interconnected set of subsystems, or components, related to the functions they fulfil in order to make management possible. We need to take a holistic view of the total system, and relationships within it, and it is therefore necessary to have some way of representing systems. A systems map fulfils this purpose.

The systems map for a typical tour operating company is shown in Fig. 8.1. Senior managers of the organization will draw their system boundary as shown here, or perhaps

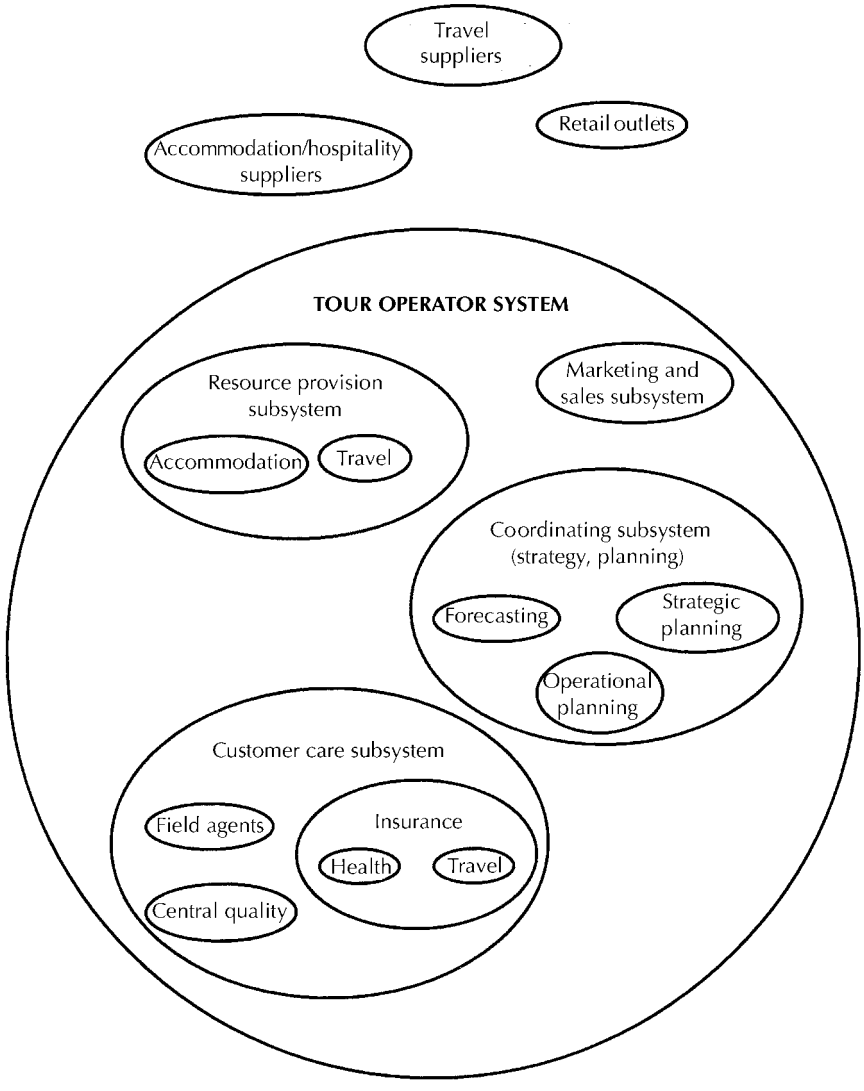


**Fig. 8.1.** Systems map of a tour operating company.

a little wider if their influence reaches that far. Junior managers will tend to draw their system boundaries at the limit of their section or department. However, the more senior the manager, and the nearer to policy decision-making they are, the greater the need to take a higher level, more holistic view of the system. The ability to take what is known in the jargon as a helicopter view is of great benefit to a manager, and is represented in Fig. 8.2. All managers will take the view of their system, and set their system boundary as shown, but more competent managers will take a higher-level view which considers the cross-boundary interactions.

It is possible to convert a systems map into another diagram which represents influences between subsystems by adding arrows representing these influences. For instance in our systems map the forecasting part of the coordinating subsystem will

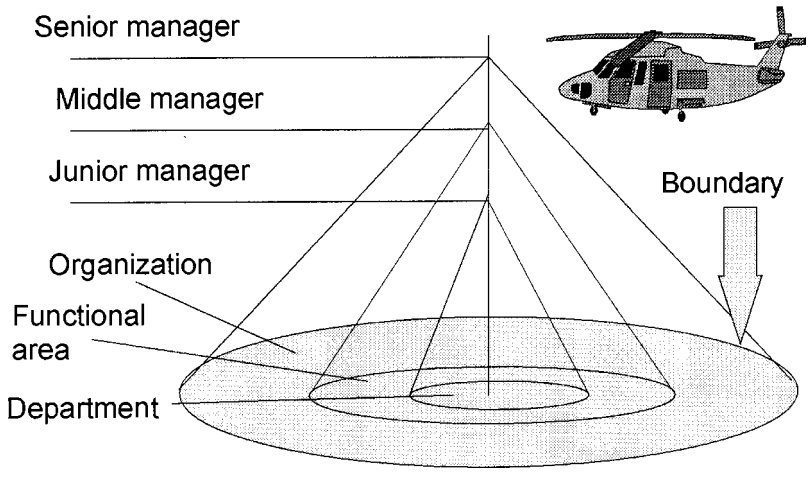


**Fig. 8.2.** The helicopter view of systems and systems boundaries.

influence the strategic planning subsystem, which will in turn influence activities in the marketing and resource provision subsystems. The resulting influence diagram is another useful tool in gaining an appreciation of the operating systems of an organization. The systems view of the tour operating company shown in Fig. 8.1 is closely related to the operations management analysis framework which will be introduced later in the chapter, where the subsystems representing resource provision, customer care and coordination will be of particular relevance.

### *Representing system transformations*

Returning to our definition of operations management: 'Operations Management is concerned with the design and control of transformation systems to deliver the services, including products, of an organization at the right quality, at the right price, and at the right time', we see that operations management is concerned with a transformation process involving inputs and outputs. This is common to the definition of a system. The transformation process can be displayed by using an input/output diagram which allows us to begin an analysis of the transformation. Here we are not particularly concerned with the transformation mechanism itself, but only with the outputs required and with the inputs necessary to deliver them. The transformation itself can for the moment be considered as a 'black box'.

An input/output diagram for the tour operating company displayed in Fig. 8.1 is shown in Fig. 8.3. Note that inputs to the transformation system consist of tangible items (hotels, travel means and timetables, etc.) and knowledge of these. Output consists of feelings and perceptions created in customers, i.e. intangibles. If we now consider the transformation process and its relationship to systems thinking in more detail, we can see that outputs from one subsystem usually become inputs to another subsystem. Referring back to Fig. 8.1, for example, the outputs from the resource provision subsystem of our tour operating company become inputs to our customer care subsystem, and will provide information inputs into our marketing and sales subsystems. Using this principle it is possible to build elaborate models of the relationships between systems and subsystems which lead to both a broad and a deep understanding of how operating systems function. This concept has been developed into computerized system (or process) modelling tools such as the IDEF0 modelling system (Peppard and Rowland, 1995). Such tools are proving valuable in the analysis of

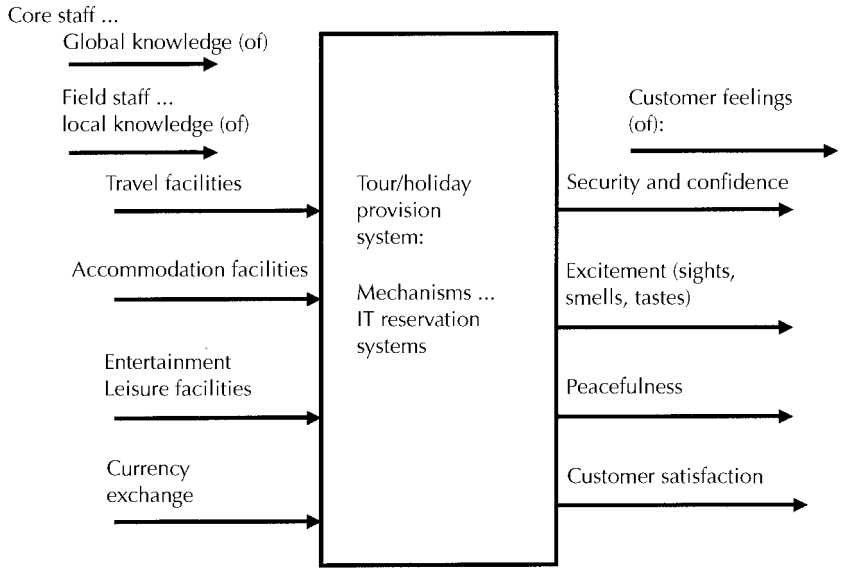


**Fig. 8.3.** Input/output diagram for a tour/holiday provision system.

material and information flow in organizations to ensure that the services and products of an organization are delivered at the right quality, at the right price, at the right time, either by incremental improvement (i.e. total quality management) or by radical redesign (business process re-engineering) (Hammer and Champy, 1993).

If we now wish to document the transformation mechanism of the system, or more probably a subsystem in detail, the most useful techniques we have are process flow diagrams and activity sequence diagrams. Process flow diagrams are used to chart the flow of customers through a service delivery process, such as a restaurant. In this case the entire experience of the customer will be charted, from arrival at the door until the departure at the end of the meal. Process flow diagrams use five symbols to represent move, store (planned storage, not very appropriate to flow of customers), delay, inspect and 'operate' activities. The only type of activity which adds value to the product or customer are the operational activities, and in the case of a customer flow chart moves and particularly delays are perceived as points of low quality in the service delivery system. For example, in a fast food outlet taking the order, handing over food, and paying are the only value adding points, all others, such as queuing detract from the perceived value of the service.

Activity sequence diagrams concentrate on the series of activities involved in delivering the product or service, and are of greater value in the service delivery situation. An activity sequence diagram for the sales subsystem of a typical holiday retail outlet (see Fig. 8.1) is shown in Fig. 8.4. This plots the activities which a customer goes through when selecting and booking a holiday. Process flow and activity sequence diagrams are particularly useful for identifying where value is added in the product or service delivery process, and where cost or effort is expended with little or no value added. Such activities should be eliminated if possible, or combined with value adding activities if not. An example of this is the trend to eliminate inspection activities by redesigning the value delivery process to eliminate the possibility of defective service, and by placing responsibility for quality with the server. This trend correlates closely with a general trend to worker empowerment and job enrichment.

In a service situation such as tourism,

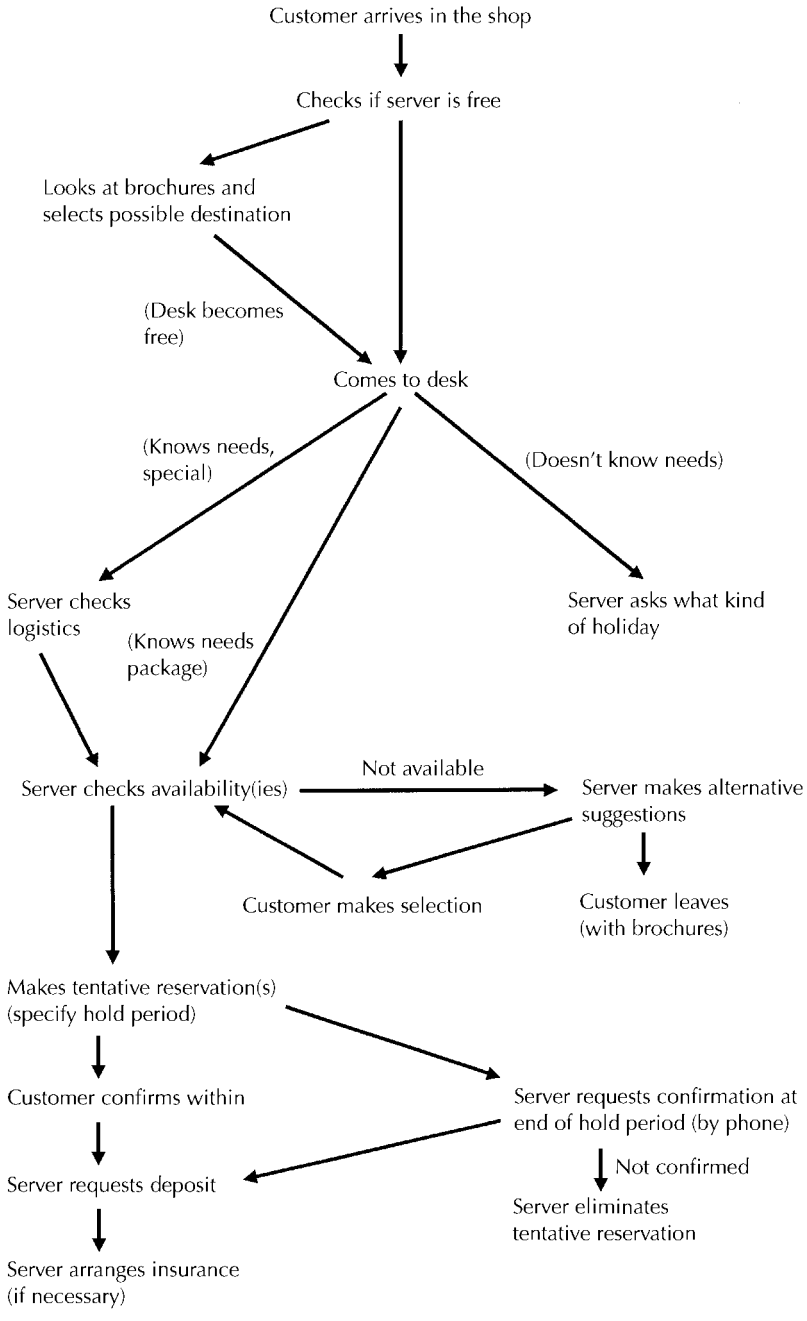


**Fig. 8.4.** Activity sequence diagram, holiday sales.

process flow and activity sequence diagrams are particularly useful in identifying points at which perception of poor quality is created by expecting the customer to queue or wait. In this case attempts must be made to eliminate or decrease the number and length of these delays, usually by careful manipulation of capacity; the techniques for

**Box 8.2.** The Chicago Pizza Pie Company.

In the case of a London restaurant, the Chicago Pizza Pie Company (Voss *et al.*, 1985), documented in a London Business School case study, long queues were considered an asset in indicating the fashionability and popularity of the establishment and attracting customers. However, to ameliorate the frustration of customers the owners erected an automatic sign indicating expected queuing time, encouraged buskers to entertain the queue, and sometimes handed out garlic bread to queuing customers.

doing this will be described later. Where this is not possible attempts should be made to convert passive waits to active waits (see Box 8.2). Passive waits can be defined as those where the customer is delayed and feels no progress or action are being taken, or is given no information to justify the delay. Providing information to delayed customers is important to avoid frustration. It is possible to convert passive waits into active waits by providing activities for the customer, preferably useful ones, such as browsing through brochures in the case described in our earlier activity sequence diagram. It is also advisable to keep the customer advised of progress; for example, in the case of holiday bookings (Fig. 8.4) we should let the customer see our computer screen if we are making our computer checks and bookings.

## Tourism: a Service Industry

Many of the classic concepts and techniques of operations management have been derived and developed for use in the manufacturing sector. However, tourism is placed firmly in the service sector, and there are fundamental differences between the two which indicate that we must be selective, adaptive and inventive in applying them. The underlying reasons for the differences are concerned with customer expectations and resulting perception of value and quality, and with the ability to store the 'value' delivered. Murdick *et al.* (1990) list 13 criteria for identifying types of service in contrast to manufacturing situations. These criteria can be classified under the generic headings of perishability, heterogeneity, simultaneity, and intangibility, although all the generic factors and identification criteria are interrelated.

### *Perishability*

'A service is perishable, i.e. it cannot be kept in inventory, but is consumed in production' (criterion 3). For example, consider a hotel room. What is sold here is the comfort of the room for the night, so if it is not sold on a particular night the potential to sell that room for that night is lost forever. This concept is even more transparent in the case of an aircraft seat where the opportunity to transport someone is lost if it is empty during a journey.

Consideration of perishability is particularly appropriate in tourism where, apart from the two cases already cited, tour operators tend to buy or take options on travel and accommodation which if not sold on to customers lead to losses, hence the resulting sale of short notice holidays at large price discounts.

### *Heterogeneity*

'Services produce variable, non-standard output' (criterion 2). As a result services cannot be mass produced (criterion 7), and pricing options tend to be more elaborate (criterion 13). As a further result of criteria 7 and 3, quality control is primarily limited to control of the delivery process itself, i.e. process control (criterion 12). An indication of heterogeneity in tourism is found in the plethora of retail outlets selling a wide range of tour packages, and even tailored holidays, in each location.

### *Simultaneity*

'The customer participates in the process of providing the service' (criterion 5). As corollaries to this there is high customer contact throughout the service process (criterion 4), skills (or knowledge) are sold directly to the customer (criterion 6), and high personal judgement is employed by the individuals

performing the service (criterion 8). Obviously because of this service firms tend to be labour intensive (criterion 9), and decentralized facilities are located near the customers (criterion 10). It is obvious in the case of tourism that the service, or any elements of it such as travel, residence, food or recreation consumption, cannot be provided without the presence and participation of the customer. The examples given for heterogeneity also support this aspect.

#### *Intangibility*

'Services produce intangible output' (criterion 1). The quality of the deliverable can only be gauged by the opinion of the customer. This facet is closely linked to both that of heterogeneity and simultaneity. In the case of tourism this is self-evident and was discussed at some length earlier in the section dealing with the definition of operations management, and quality within it.

## Strategic Positioning and Operating System Design

Although tourism as a business sector tends to lie at the service end of the manufacturing–service continuum, there are certain elements of it which are delivered using philosophies and techniques which are more akin to those of manufacture. Standard package tours, for example, can be considered as products which are sold to customers as mass produced goods rather than tailored items. Even where a tour is tailored to a customer's individual wishes it is still likely to consist of elements such as travel and accommodation, which are readily available 'off the peg', and it is in the combining of these where the true service element is created. Any organization working in the tourist industry will thus be a blend of individual service and 'mass manufactured' service elements. The blend of offerings will be related to the competitive position taken by the organization in the market place, which will in turn affect the operating systems of the organization. Krajewski and Ritzman (1996) name eight factors on which organizations compete. These are considered below in the context of tourism under the generic headings of cost, quality, time and flexibility.

*Cost*

1. Low cost operations, in the case of tourism this means low cost tours (travel and accommodation).

*Quality*

2. High performance design, in this case perhaps the prestige or fashion level is equivalent to technical quality.
3. Consistent quality, in this the holiday always reaches the specification agreed with the customer, although perceptions may vary. (Consider the different specifications in the no-money holiday case considered earlier.)

*Time*

4. Fast delivery time, this is probably equivalent to availability here.
5. On-time delivery, meeting the times and dates of travel and accommodation agreed.
6. Development speed, the ability to deliver new holiday destinations and ideas (recreation, styles) quickly to the market.

*Flexibility*

7. Customization, or tailoring to the customer's wishes.
8. Volume flexibility, the ability to change the supply of specific packages with demand.

The design of the operating system of any organization will depend on the competitive position taken on these factors. It will be placed on a continuum ranging from the case where the design of the holiday or tour is part of the delivery process and each tour will be tailored to the wishes of each customer, to the case where packages are standardized and the customer chooses one with no variation. The first extreme of this continuum is traditionally known as a process focused delivery system, or job shop, and the other extreme is known as a product focused delivery system, or mass delivery. The competitive position adopted by a company leads to consideration of a number of

alternatives in the detailed design of the delivery system.

#### *Backroom versus front office activities*

What should the back room to front office mix be? Back room activities are those in which the customer is not involved, such as preparation of standardized items, calculation of bills, issue of tickets, etc. Such activities are placed at the mass delivery end of the design continuum and are usually 'qualifying factors' in the creation of perceived quality. They must be done to a certain level of competence or poor quality is perceived, but surpassing that standard does not please the customer further. For example, receiving tickets for a business trip three days before departure is acceptable, one day before and the customer becomes concerned, but seven days in advance does not improve the quality of the travel company in the traveller's eyes. Front office activities are performed in collaboration with the customer. They are usually personalized transactions which require skills in communication with the customer, and in offering guidance to help the customer to make decisions and are usually at the job shop end of the design continuum. They enhance perceived value in proportion to the skills offered and doing them well wins customers, even when taking corrective action.

#### *Physical items versus service elements*

What is the relative importance of physical items to service elements? Physical items are the tangibles involved in the delivery process, for example the food served in a restaurant. Service elements are the intangibles, the help received in choosing from the menu, the appropriateness of the background music, the attention offered by the servers, etc. Service elements are of greater importance in job shop systems.

#### *Programmable versus non-programmable services*

Which aspects of the service are programmable, and which are not programmable? When a sequence of activities which a customer undergoes is predictable, then it can be said that the transaction is programmable. If they are not predictable then the transaction is not programmable. If the transaction, or parts of it are programmable then there are opportunities to create standard procedures and in effect automate the process. If we consider the activity sequence diagram for holiday sales (Fig. 8.4), we can see that it is possible to replace the server in many places with a questionnaire, or even better with a computerized questionnaire. The reservation system also represents a programmable procedure. However, this is only the case when dealing with a computer literate and confident customer, so if we wish to apply a common system to all customers there is an initial branch to either self (computer) service or face to face personal service to be added.

#### *Technical and interactive skills*

What mix of technical and interactive skills are needed in the operating system? In a job shop tourism organization there is a greater need for technical skills to interrogate travel and accommodation alternatives than in the mass delivery organization. Figure 8.5 illustrates the relationship between these factors.

## The Importance of Good Operating Systems in Tourism

From the above discussion it is obvious that the design of operating systems is not simple and straightforward. The inherent variety of choices to be made indicate the importance of carefully and continuously considering the design of a system. The operating environment will change, possibly requiring a strategic repositioning within the competitive priority factors, and thus a repositioning of the operating system on the job shop–mass delivery continuum.

The diagramming techniques described so far enable the system designer to take a holistic view of the organization, to consider the division of the organization into value adding subsystems, and to take an overview of the transformation mechanism within

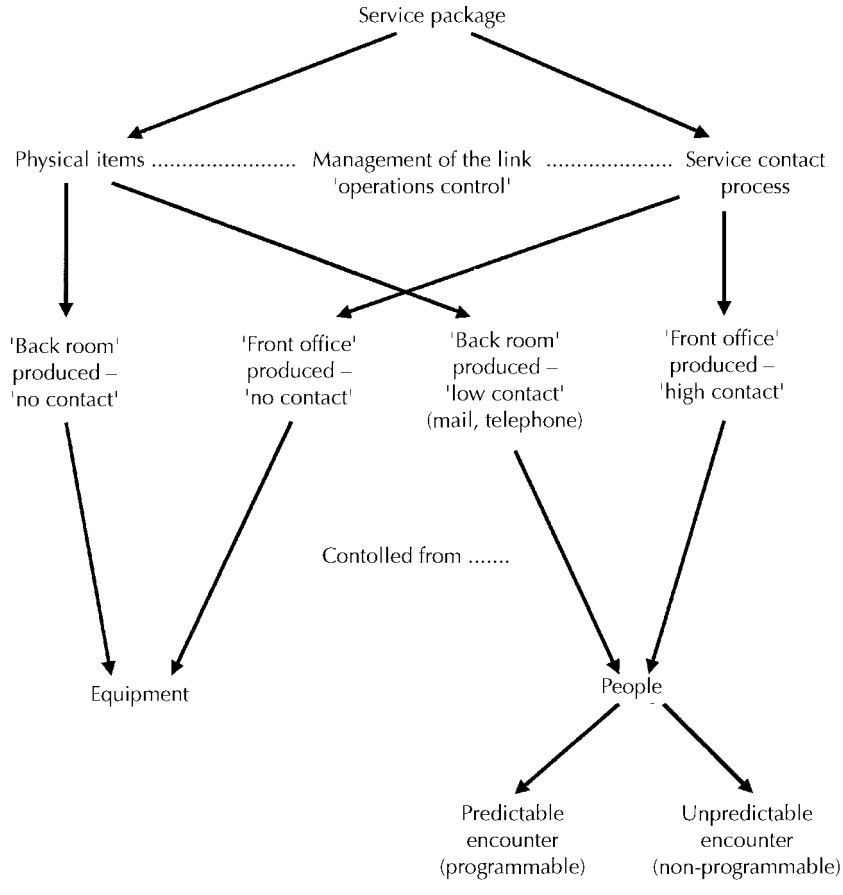


**Fig. 8.5.** Factors involved in the design of service operations (after Armistead, from Voss *et al.,* 1985).

each subsystem. There is a need to ensure that the entire system, and each of the subsystems, deliver outputs efficiently. The remainder of this chapter will concentrate on the design of operating systems at a micro level.

## A Framework for Analysis and Improvement of Operating Systems

The complexity and degree of choice in the design of operating systems is reflected in an abundance of techniques and methodologies used in operations management. This diversity sometimes overshadows the simple, central purpose of the topic, to deliver goods and services (in the case of tourism primarily services) to the customer. Linda Sprague proposes a five point framework for the analysis of operating systems based on consideration of capacity, standards, scheduling, inventory and control (Devanna and Collins, 1990).

1. *Capacity:* perhaps better titled capability, is the ability to yield output. At a strategic level it is usually measured in the number of units of product or service which can be delivered in a specific time unit. However, at an operational level, where resources are likely to be shared between different products or services, capacity is usually measured

in terms of process (plant or equipment) or human resource hours.

2. *Standards:* consist of work standards and product or service quality standards. Work standards are measures of effort, usually specified in terms of time taken at a reasonable level of work performance, to do a specific task. If the number of tasks to be done is known, then these times can be aggregated to check whether the capacity is available to do them, and this information can also be used to schedule the order of activities. Work standards therefore constitute the data needed to plan the level of capacity needed and the scheduling of the capacity we have. Service quality standards have already been discussed.
3. *Scheduling:* the planning of the use of resources (or capacity) on a time base to produce a *service delivery plan*. Scheduling has two objectives: to deliver specific products or services at a time agreed with the customer, and to deliver all products and services at a low cost by full utilization of resources. These objectives are not always compatible.
4. *Inventory:* the management of flow and storage of physical items necessary to deliver the product or services to the customer. This is of lesser importance in tourism where the cost of materials is relatively lower than in manufacture. Service industries tend to be labour intensive, and it is here and in capital (travel and accommodation) equipment where most costs are incurred.
5. *Control:* measuring the performance of the system to the capacity and scheduling plans described above, and the process of replanning remedial actions.

This framework is outlined in Fig. 8.6. It provides a useful systematic approach to the analysis of operating systems and will be applied to the tourism sector in the remainder of this chapter. General conceptual issues concerned with each aspect will first be considered, and then quantitative techniques which support the decisions to be made associated with each aspect, *and which are particularly relevant in tourism*, will be described.

## Operations Management Decisions

Decisions to be made in operations management consist of two types:

- Those concerned with the design of the delivery system; the service quality levels to be delivered, the level of capability (or capacity) needed to deliver these levels; and the way material is managed, i.e. with standards, capacity and inventory.
- Those concerned with the shorter term utilization of resources, in other words with scheduling and control decisions.

In order to make these decisions, and to plan operations, we need to know what tasks need to be done and in what order, how many times each task has to be done, and how long each task will take. The process flow charts and activity sequence diagrams already described are useful techniques for analysing tasks and the sequence in which they are done. Forecasting techniques described elsewhere in this text will tell us how many times each task has to be done. Work standards provide the final information needed for operational decision-making. They therefore make an appropriate starting point in applying the operations management framework to the tourism sector.

## Work Standards

A work standard is the time for a trained worker, or team of trained workers, to perform a task following a prescribed method with normal effort and skill. Frequently the time to perform a task is influenced or even dictated by the pace of equipment, for example the speed of response of a computer booking system when making reservations, or by legal limitations such as speed limits for public service vehicles. In other cases the time to perform a task will be influenced by

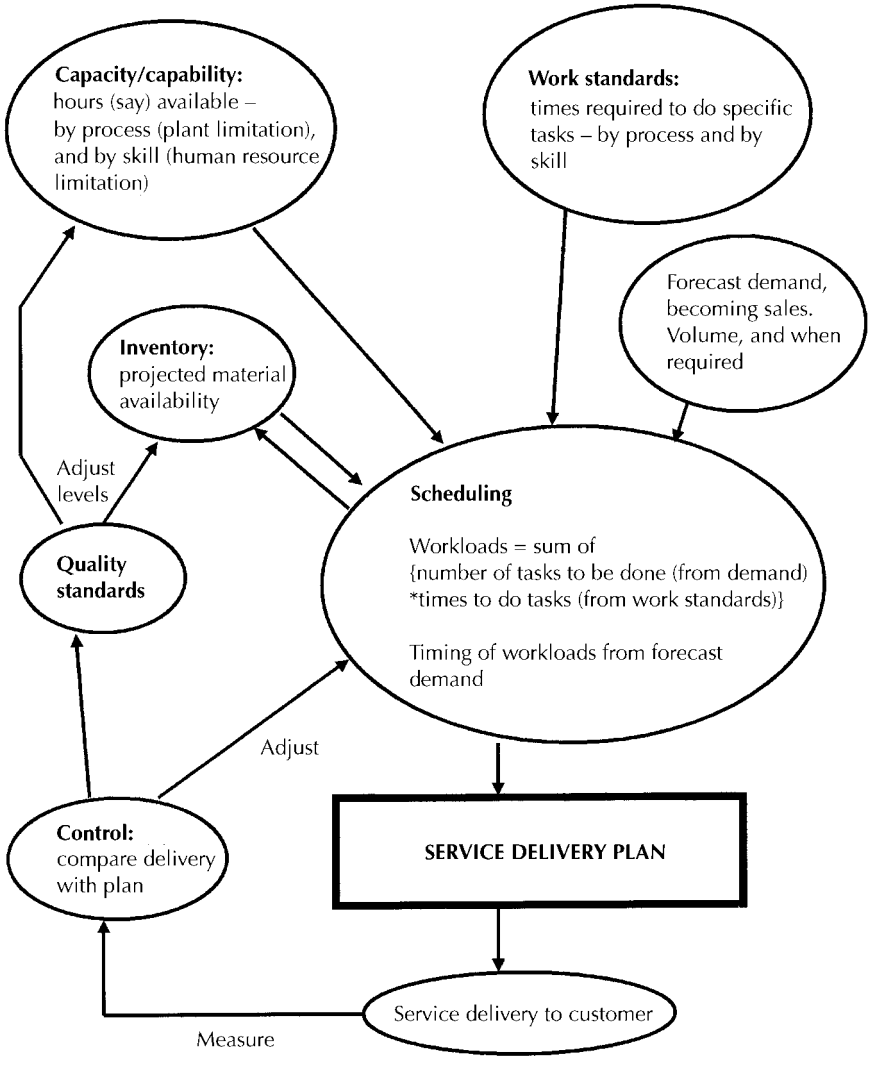


**Fig. 8.6.** A framework for operations management (after Sprague, from Devanna and Collins, 1990).

the customer, for example when waiting table the meal completion time is influenced by both the food preparation and serving team in delivering the food, and by the customer in consuming it. It is therefore important, particularly in a service environment where the conditions of both heterogeneity and simultaneity apply, to ensure that work standards are:

- appropriate, in that they are directly under the control of the worker or team of workers; and
- realistic, in that they can be achieved repeatedly by a competent worker or team.

In effect these conditions will lead to a wider distribution of completion times for most tasks undertaken, particularly in the service sector where most tasks involve dealing with people, rather than materials and equipment. So although work standards are used to determine the number of employees needed to operate a service system, and thus indirectly specify work rates,

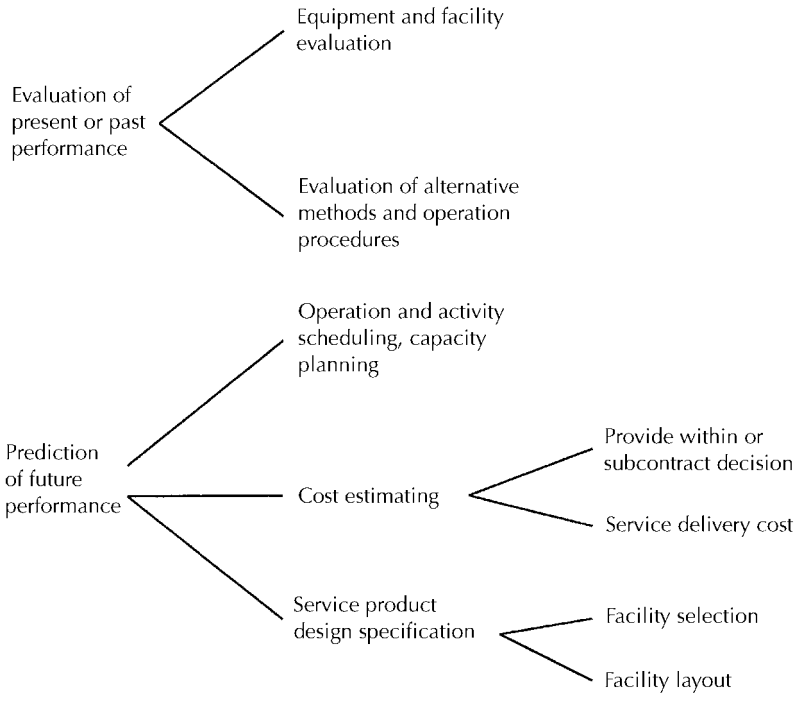


**Fig. 8.7.** Uses of works standards.

their use for direct payment is of minimal value. However, knowledge of service task time distributions is of paramount importance in the simulation of queuing situations which are frequently met in tourism. This will be described later.

So work standards are important as the basic data used in evaluating the performance of a system, or of the components of a system. They are also of fundamental importance in planning the level of resources required and in the scheduling of resources within a system. Figure 8.7 indicates where work standards are most useful.

### *Sources of work standards*

Work standards are specified by simple measurement. Many tasks are repeated many times in the course of a working day, and many jobs may be broken down into such tasks. In a hotel, for example, the job of cleaning a room may be divided into:

- change the bedding
- spot wipe windows and mirrors
- vacuum the floor
- clean the bathroom (may be divided further)
- replace bath linen and bathroom accessories
- replenish minibar
- clean away tea crockery, replace and replenish
- dust surfaces

These tasks may be combined in any order, or omitted when cleaning a room. The underlying principles of three such approaches are described in Table 8.1, and applied to the room cleaning example.

Such techniques may be of value in many situations in tourism: checking in at reception areas, checking in at airports, serving in bars and restaurants, etc. However, it should be stressed that any work measurement exercises undertaken are not to be used for payment purposes. They should be aimed at gaining information for resource planning

**Table 8.1.** Work measurement methods.

| | |
|---|---|
| *Simple time study*<br>Sampled manual timing of simple repetitive tasks. The person timing the tasks is trained to estimate a 'work rate factor' which is incorporates the competence and effort of the worker (compared with reasonable levels). This factor is multiplied by the task time resulting in a *work standard* | In the case of hotel room cleaning the work study practitioner might measure the time taken to clean the hotel room several times to find the average. However, the work standard would only apply to that room, or perhaps a set of identical (or very similar) rooms |
| *Elemental standard time data*<br>Work is broken down into elemental increments and the elements are timed. These times are recorded and subsequently aggregated to give task times | The work study practitioner would divide the job of room cleaning into a list of elemental tasks such as that listed in the text. The elemental times would then be aggregated as appropriate to give times for cleaning a series of rooms by a series of cleaning regimes. Some elements, for example vacuuming or spot wiping windows may be timed on a 'per area' basis for universal application later. The resulting *work standards* could be used across a series or chain of hotels |
| *Work sampling*<br>These consist of sampling systems to estimate the proportion of time spent on activities. Sampling must be random | The work study practitioner might use this technique to determine the time spent by the room cleaner not actually cleaning the room. It would cover activities such as awaiting instructions or obtaining cleaning materials. It would result in a percentage allowance being added to the base time for room cleaning to give a practical *work standard* |

only, in other works to calculate the necessary staffing levels at various times. Again this is paramount when the heterogeneous, simultaneous and non-repetitive nature of the tasks is considered, and in many situations it could be argued that in such circumstances the 'analytical estimate' of a skilled tradesman may be both accurate and as useful, but only if not used for aggregate planning purposes. Repetitive work is common in manufacture, but less common in tourism because of the heterogeneous and simultaneous nature of the tasks themselves, so the 'predetermined data' approach is appropriate.

## Quality Standards

While the perception of quality in service delivery, and that of an organization, is intangible, the creation of that perception will result, at least partially, from a bundle of tangible factors. We can set quality standards for these tangible factors which will be an integral part of the design of our operating system. In service situations, because of the heterogeneity and simultaneity involved, these factors are frequently related to service availability and customer waiting times, and can readily be associated with the Krajewski and Ritzman competitive factors which were identified earlier. In fact any quality standards specified in an organization should be directed by the competitive stance adopted by the organization. They should also be considered in terms of the concept of order qualifying versus order winning criteria related to that stance. This was discussed earlier in the context of back to front room operations, and in the flight ticket delivery example.

Methods of measuring performance to quality standards are also important. Quality factors can be considered as variables or

**Table 8.2.** Customer service measures related to competitive priority factors.

| Customer service measure | Examples | Related competitive factors |
|---|---|---|
| % of customers we can satisfy with their requirement | Specific requirements may be: journey departure time and means of transport, holiday in specific hotel, brand of drink in a bar, meal in a restaurant | Volume flexibility |
| Degree of choice offered | Number of people we can satisfy with an acceptable alternative to the above | Customization, high performance design, design/development speed |
| Time to be acknowledged | At retail shop counter, hotel reception, bar, restaurant reception | Fast delivery time |
| Time waiting until start of service delivery | Taking details at hotel reception, details or order in retail shop or bar, seated at table in restaurant | Fast delivery |
| Time to be served | Until total service transaction is complete | On-time delivery |

attributes. Variables can be measured on a continuous scale so that a 'degree of error' can be stated, while attributes can be quickly and simply counted. As explained earlier, quality in the service sector is created and measured in the process of delivery, and is often associated with competent completion of the tasks involved in that process. Quality standards, therefore, need to be identified in terms of these tasks, which are related to work standards. In terms of our hotel room cleaning example, the act of cleaning the room before the entry (or return) of a customer might be considered as an attribute. The time between room cleaning (or checking) would be a variable. Both of these would probably be considered qualifying quality criteria. At a more detailed level the acts of changing the bedding and dusting surfaces will be attributes and probably qualifying quality criteria, but the number of spot marks not wiped from a mirror could be considered a variable and an order winning criterion.

The customer service level which we are seeking to define can only be quantified in terms of tangible quality criteria, and we must seek to identify such factors which are paramount (qualifying), and important (order winning) in satisfying the customer. Examples of tangible measures of quality performance and the related competitive factor, which are appropriate in tourism and in the hospitality sector, are given in Table 8.2. As an organization we must attempt to define an acceptable service level for each of a set of such criteria. The levels will be related to the expectations of the market, and if we reach that expectation then we will qualify to compete in the market. If we exceed that expectation for order winning criteria we will in all probability win more than our fair share of customers. However, the ability to reach the levels we set depend on the capacity, in terms of skills and capital resources, which we have available at any specific time, which in turn will greatly influence the cost of provision and price we must charge the customer: the final competitive factor from our previous discussion. This is the crux of operations management, and is discussed in the next section on capacity management.

Intangible factors of service quality can only be delivered by people. Any organization playing must therefore pay careful attention to selection and training of people, and to motivating them. This, and the sys-

tems of statistical process control to monitor performance to identified tangible quality standards are covered in the next chapter.

## Capacity Management

Capacity is the ability to yield output. At a strategic level it is usually measured in the number of units of product or service which can be delivered in a specific time unit. However, this section will concentrate on capacity management at an operational level, where resources are likely to be shared between different products or services. Here capacity, or capability, is usually measured in terms of process (associated with equipment) hours, or in terms of human resource hours.

Most major decisions to be made in operations management are concerned with ensuring that sufficient resources are available *when needed* to deliver the level of customer service which is agreed, formally or informally, with the customer. The value of forecasting to find the level of customer-related activity, and of work standards to convert this into levels of operational activity, for example number of servers required at any time, have already been considered. Demand for resources is directly proportional to customer-related activity, and in the tourism industry this varies on a cyclic (related to the economy), seasonal and daily basis. This is true of all service situations, but the variation is higher in tourism than in most others. The aim of capacity management is to deal with this variation as cost effectively as possible.

There are two extremes of strategy for dealing with variation in demand: adjust the capacity available, and eliminate the need to adjust the capacity available. Very few organizations will use either of these extreme policies, and most organizations will find cost-effective solutions by using a mixture of techniques associated with the extremes.

### *Methods of adjusting capacity*

The following sections describe the generic means of adjusting capacity, in the case of tourism equipment and labour availability, and how appropriate they may be.

#### *Subcontracting*

Subcontracting can be used to vary the availability of both labour and equipment. It may be employed to add to resources when customer activity cannot be satisfied with in-company resources or to eliminate the need to hold certain resources at all. In the tourism sector both road and air transport provide examples where subcontracting is extensively employed. Many tour companies will have their own transport vehicles but will hire additional vehicles at particularly busy times, sometimes with operating staff included. In dealing with departing passengers at airports a similar mix occurs. Larger airlines will have their own reception staff and 'top up' with personnel from a specialist service company (e.g. Service Air) when necessary; companies who use an airport less frequently will only use the specialist service company, thus in effect sharing the resource with a number of other airlines. Unit costs of subcontracting are naturally higher than those of in-house provision in the short term, and the difference must be optimized against the long-term costs of holding excess resources at quiet periods.

#### *Reschedule activities*

Opportunities to reschedule activities in service industries, and particularly in tourism, are limited. Once again this is because of the heterogeneous and simultaneous nature of the service delivery process. However, there is scope to reschedule activities related to the maintenance of plant and equipment. Major overhauls of equipment can be delayed until the next quiet period, for example at airports and hotels, although in the transport sector such delays are limited more by health and safety legal requirements.

#### *Change workforce size*

The workforce size can be changed by employing more staff or increasing hours worked. When a long-term underlying trend

**Box 8.3.** Stakis Hotels.

In a paper to the annual conference of the Operations Management Association (UK) in 1989, Nick Paterson (1989) described some of the approaches to resource management adopted by the Stakis organization.

At the time Stakis hotels were positioned in the three to four star market, and were acquiring hotels of 60 plus rooms to get greater economies of scale. Hotels in the group were classed into resort and commercial categories so that senior management could compare like with like, and advise accordingly. They were attempting to become 'leaner' by placing management responsibility at the hotel itself, and their headquarters activities were being scaled down. Hotel workers were classed into three categories:

- Stable or core workers consisting of functional department heads, and including a large percentage of female workers whose husbands worked locally and who found the working hours convenient for social reasons. For example, room maids worked from 9.00 to 3.00, school hours, and evening shifts in restaurants coincided with the time that husbands were at home to baby sit.
- Transient workers were technically competent, young, and with few social attachments. They were geographically flexible, tending to spend summers in resort hotels and wintering in commercial or perhaps ski resort hotels.
- Casual or part-time workers were local people who worked on demand, usually at functions or to meet peak demand.

Comments on resource planning:

- Stakis managers used forecasts of activity and work standards to devise manpower resource plans on a monthly basis for one year ahead. The profitability of the plan was assessed before the plan was finalized. This plan would concentrate on core and transient worker requirements.
- Changes in resource availability in the medium term were made possible by the transient workforce and the mix of resort (summer) and commercial (and winter resort) 'product'.
- Capacity management in the medium to long term was also aided by linking it to various training programmes to ensure a pipeline of necessary skills and flexible workers. These covered all levels of staff and ranged from a group training school to in-house training internally, and from using external specialist courses (e.g. health and safety, fitness programmes) to general purpose training in accommodation and catering.
- Although not explicitly stated, core and transient workers would almost certainly be scheduled into a duty roster by a mixture of fixed schedule on a daily basis, and rotating schedule on a weekly basis. The mixture for each worker would depend on the type of work.
- Efforts to cope with short-term variation in demand for unforeseen peak periods and functions were greatly helped by calling on casual labour from a large 'pool' at short notice.

In summary, in any particular hotel there is a need for volume flexibility in the workforce to support activity levels up to the bed capacity of the hotel, and above that for special functions. To meet this challenge a wide range of quantitative techniques and qualitative approaches are used to plan and manage resources. Flexibility of labour in both skill and availability is a central component in the application of these techniques and approaches.

in customer activity is recognized, then the permanent workforce size can be changed as necessary. This can be done in retrospect following an increase or decrease in activity, or in anticipation if a change in activity is forecast. When the change in activity is short term, then the hours worked by permanent staff can be temporarily changed, or temporary workers can be employed if activity increases. There is value in employing workers on a part-time basis as working hours are often more easily changed than when a total full-time workforce is employed (see Stakis case study in Box 8.3).

### *Means of eliminating the need to adjust capacity*

The following sections describe the generic means of eliminating the need to adjust

capacity, and how appropriate they may be in tourism.

*Maintain excess capacity*

An organization may hold capacity which is above that required at all times by customers, although in most cases the cost of this policy, which will have to be passed on to customers, will be prohibitive. It is still a useful principle to consider applying to the core competencies of any business, in other words the skills or service elements which very few other organizations can provide. Excess capacity held in these core competencies, combined with judicious use of subcontracting and queuing can create a competitive advantage in the marketplace.

*Accept loss of customers*

Plan to operate at a known level of activity, and accept a loss of customers above this level. This is closely related in most cases to the degree of prestige which the service an organization offers has in the market. If the service an organization offers is specialized or unique, and is in demand for these reasons, then the prestige can be further enhanced by rarity. The organization can then plan to operate at a specific level for a longer period rather than increase the availability of the service; for example, a successful theatrical production may wish to remain in a smaller theatre and extend the run, rather than increase availability by moving to a larger venue or duplicating the production in another venue. Obviously an organization applying this policy will expect customers to queue or wait for the service. The policy will also affect the pricing policy adopted for the service.

*Queuing or waiting*

Require customers to queue or wait either in the form of a physical queue or some kind of booking system for the service. Again reference must be made here to the customer service levels discussed earlier. In the case of a queue the possibility of customers reneging, and the cost of this to the business, must be considered. Obviously some customers will not be willing to wait at all for the service so this policy is practically always used in collaboration with that of accepting a loss of customers. Much work has been done on mathematical modelling of queuing situations to derive the times a customer will have to queue in a specific queuing system. These will be described later, but in essence the outcomes must then be compared with the appropriate service levels set by the organization, which in turn are related to the expectations of the market.

*Altering demand*

Alter the demand pattern by pricing or advertising where the demand pattern varies greatly. An example of this in tourism is in the price of city centre hotel rooms, which are lower at weekends when there is little demand from the business community. Here the concept of weekend city breaks at 'bargain' prices has been introduced and aggressively marketed. Further examples are in the price of flight tickets and the use of standby systems (also includes queuing) in airlines, and in the relatively high price of holidays during school holiday periods. The objective of this policy is to level demand so that changes in capacity requirement levels are fewer.

### *Useful quantitative techniques in capacity management*

An organization will use a mixture of techniques when attempting to optimize the cost of holding capacity against the customer service level required. There are a number of quantitative techniques which are available to support the decision on which techniques to use, and the degree to which each is used. The decision is in two stages. First the level of activity and the probable utilization of resources in terms of likely performance levels must be estimated or forecast. This information can then be used in models which simulate delivery systems and allow the necessary levels of resource needed to be calculated. The two stages therefore involve forecasting and modelling, and there are a number of approaches possible at each stage.

*Forecasting*

Techniques of forecasting required rates of business activity, time series analysis, regression, Delphi techniques, market research and the concept of a product life cycle, are described in Chapter 12, dealing with market forecasting.

We will concentrate here on forecasting the output we can expect from a unit of resource. In fact many of the techniques listed above can also be employed to forecast the performance of resources, for example time series techniques can be used to forecast any continuous improvement resulting from total quality management programmes, and the Delphi technique can be used to forecast any resulting improvements resulting from technology advances in the field of information technology or transport. In addition, much of the information needed for decision-making in capacity management comes in the form of work standards derived from work measurement, and many of the techniques associated with this have been described earlier in this chapter.

In addition to these forecasting techniques, there are several behaviour patterns in the performance of resources which are of value to organizations. These include learning curves and process life cycles. Learning curves are concerned with the implementation of a new approach to working, or a new operating system. This may involve the training of workers or introduction of some new aspect of equipment, for example a new hardware and/or software computer system. The performance of the new operating system will grow exponentially until reaching a steady state situation. This situation will represent the system operating in terms of standard performance; in terms of the new computer system, the average time per transaction reported, or the number of transactions dealt with per hour. Such curves are well established and recorded for various systems implementations and must be taken into consideration when a change is made to an operating system.

Process life cycles are concerned with the life of a process. Just as products have a natural life cycle of growth, steady state and decline, so a process or piece of equipment also has a life cycle. The failure rate, or time out of use ('down-time') is plotted for the life of the process. It is found that there is an 'infant failure' stage where inherent faults or weak elements in the process or system are corrected. The process then settles into a steady state until more parts of the process begin to fail of old age and the process begins to wear out until it is replaced when the repair costs become greater than the income earned. If, instead of the failure rate, the mean time between failures is plotted, the graph is inverted and becomes similar to the classic product life cycle curve. Again this relationship is well established and has been recorded for many situations where new investments are made. These can be researched and used to predict performance curves for any similar new equipment or systems. They may also be used in the design of equipment replacement policy, and depreciation systems in the finance function.

*Modelling*

Having sourced the data necessary to make capacity decisions there are a number of modelling techniques which will help us to optimize cost of provision to meet the customer service levels we wish to reach for specified quality criteria.

*LINEAR PROGRAMMING.* This consists of a set of methods for deciding how to meet some desired objective (i.e. minimizing cost, maximizing profit) subject to constraints on commodities required or resources available. Developed under the auspices of operational research, the generic approach is to specify a mathematical model which represents the limitations imposed by the constraints, and which calculates the costs of system operations and possibly identifies areas of greatest potential cost saving. (The model often takes the form of a set of simultaneous equations which are difficult to solve manually.) Any feasible solution, in other words one which satisfies the constraints but not necessarily meeting the objective, is then used iteratively to improve performance against the objective until no

further improvement results from the iteration process. It is at this point that the model has been optimized and the resulting solution is the best available. One practical example in tourism is in routing transport between locations to maximize the number of passengers carried, which is synonymous with the number of locations reached, and to minimize the distance travelled, which is synonymous with cost. In fact this example is synonymous with a classic linear programming technique known colloquially as 'the travelling salesman problem'. There are other such techniques in the operations research repertoire which, while they may not offer immediate solutions, are a useful starting point for solving complex problems of this sort. Computer programs are now available to solve complex sets of simultaneous equations, but the problem still has to be defined in the first instance.

*QUEUING THEORY.* This is concerned with mathematical modelling, using probability theory, of queuing situations which exist in life, for example at airport check-ins, restaurants for tables, self-service restaurants and fast food outlets. Such models can be used to design the operating system and answer questions related to the level of customer service such as: Can we deliver the service in a time which it is reasonable to expect the customer to queue or wait? It is not necessary to enunciate the mathematics of the models in detail, but managers should be aware of the nature of the technique, and the inputs to, and outputs from the model, and of the alternative choices to be made in the design of the system itself. Questions which need to be considered in the model (i.e. inputs) are:

- What is the service mechanism, e.g. single queue for multiple identical servers, specific queue for each identical server, etc? How many servers?
- What is the queue discipline, e.g. first come first served, last come first served, shortest operation next (e.g. hand luggage only for flights), specified priorities (e.g. by class for flights), etc.?
- What is the nature of arrivals in the queue? This is usually expressed as the distribution of time between arrivals.
- What is the nature of service times, again expressed as a distribution?

With this information it is possible to model the situation, and again there are computer software packages to help us. From the model the following outputs will help us decide whether the system is acceptable in terms of customer service levels:

- The server efficiency, for economic reasons.
- The customer service level in terms of probability of a queue forming, the average length of queue, the longest queue formed and the average time spent queuing.

With this information we can decide to change the operating system, perhaps in the service mechanism, or even by adding or taking away server stations.

*SIMULATION PACKAGES.* These are computer software packages which enable the user to model a set of interconnecting queues. As such they are valuable in modelling very complex flow patterns in organizations, of materials primarily in manufacturing situations and, of particular relevance here, of people primarily in service situations. They are invaluable in modelling the interaction of flow of different people and materials with each other and with the utilization of what are likely to be shared and limited resources for processing them through the system. An example of where they may be applied in tourism is in an airport. In this case arrivals into the system will be:

- Departing passengers arriving at the airport who are separated from their luggage (queue), may then proceed to a general departure lounge through emigration and security checks (queues), then to a departure area specific to their flight (queue), and finally to the aircraft. The luggage, separated from the passengers, will go to a sorting area (queue), to a vehicle designated to go to the owner's flight (queue), and then to be loaded on to the flight.

- Arriving passengers who will go to passport control (international passengers, queue), then baggage collection (queue, the baggage will have been unloaded and delivered to this area, another queue), then to customs control (queue), and finally they leave the system.
- Arriving aircraft, which may have to queue for a landing slot on the runway, then for a disembarking station. They will then interact with the passenger disembarking/embarking systems, and with the fuelling and provisioning systems before joining another queue for a take-off slot.

Modelling a situation such as this is obviously complex, particularly if the boundary of the system is widened even more to include the supporting infrastructure of ancillary service provision (shops and comfort provision), public transport, and airport servicing systems such as fuel and provisions. Arrivals of passengers and aircraft will be a complex mix of scheduled activities with 'fixed' times and probabilistic arrival distributions. However, the entire system can be modelled by:

- dividing the system into a set of interconnecting queues (or subsystems), or in the language of simulation processes;
- defining the people or materials (termed entities) which flow through the system and the paths they will take, including where they diverge or combine to become a single entity (for example the interrelating paths of passengers, luggage and even aircraft);
- defining the service mechanisms and service time distributions for each entity at each process, and any interruptions such as mechanical breakdown or sickness of staff which may be expected (i.e. elements of uncertainty) must also be incorporated.

The above are used in the software package to model the airport operating system before simulating the combination of scheduled arrivals and 'bursts' of arrival distributions around the scheduled arrivals on a time base. There will also be an element of uncertainty here, for example late aircraft arrivals, which may also have to be considered.

Outputs from a simulation run using the model will consist of performance indicators for each process in the system in terms of utilization of resources and passenger waiting times. These will indicate points of inefficiency and passenger frustration. The simulation run will also give indications of the performance of the entire system, probably in terms of passenger throughput and aircraft turn around times. While the use of this technique has been described in terms of an airport, its value in other facets of tourism, for example in the modelling of a leisure park such as Disneyworld, is self-evident. Here activities are not scheduled and the circumstances of visitors reneging on arrival at a long queue must be considered, but the process of modelling the situation to indicate the need for increase in particular resource availability is still appropriate.

### *Evaluation of capacity plans: financial modelling*

Financial modelling is a tool which must be used to evaluate any resource provision plan we may propose to deliver the required service level to the customer. It enables the outcomes from the resource (capacity) and service level implications resulting from the modelling techniques described above to be considered on a cost/benefit basis. In linear programming the costs of provision will usually be incorporated into the model directly, and when applying queuing and simulation techniques the costs of resource provision will be calculated for the entire system model and compared with the level of service provision delivered so that relatively objective management decisions can be made.

At a more strategic level financial modelling allows us to evaluate alternative capacity plans comprising a mix of changing capacity (subcontracting, rescheduling activities, changing workforce size), and eliminating the need to change (carrying excess, queuing, differential pricing), to

**Box 8.4.** Bicycle provision.

Consider two cases:

1. A bicycle hire shop must decide how many bicycles to have available for holiday-makers in a country area. Demand is seasonal, although an indication of underlying trends is available from previous seasons. It also varies on a day-of-the-week basis, is greater at weekends than during the week, and with the weather. The shop can carry the same number of bicycles all the time and accept that some customers will be disappointed, or can carry more bicycles at busier periods, having more satisfied customers and increasing turnover but incurring acquisition costs for the bicycles. If the shop carries more bicycles at busier periods it may wish to integrate this policy with a replacement policy, selling older bicycles as the season ends and buying more as the season begins. Numbers will depend on the depreciation rule followed, and is related to accounting procedures adopted. The shop can also offer a differential pricing policy at less busy periods, or when the weather is poor, to stimulate custom. All of these factors can be built into a financial model based on predicted demand for the year. For each week, for example, the costs of providing the bicycles (interest, maintenance, storage) will be deducted from the predicted income, resulting in a profit prediction for each week. The cost of lost sales can also be predicted. The number of satisfied customers (service level) for each week will be included in all consideration of costs. There are implications of dissatisfied customers in terms of numbers of return customers, and for the reputation of the bicycle supplier and the holiday centre.
2. A country holiday park supplies bicycles 'free' for its customers (guests) to use. The bicycles are left in racks and guests use them on a needs basis, returning them to a rack when finished, similar to supermarket trolleys. Here detailed forecasts can come from the booking system which makes the task a little easier. However, although the basic decisions of whether to change capacity or not are the same there are subtle differences in customer expectations and the implications of not meeting these. While there may not be an immediate loss of a potential sale, consideration of return customers will be more important, and word about any lack of bicycle provision will spread quickly and lose us potential new customers (i.e. become an order loser). However, guests may not expect such a new bicycle, as long as it is a safe one, so perhaps the replacement policy is not so important.

   In both cases the financial model will be similar. However, the shop will represent a profit centre and profit and cash flow will be considered immediate and paramount, lost sales will be considered a direct lost-opportunity cost, and the customer service level delivering the best financial return will be accepted. The holiday park, on the other hand, will consider the provision of bicycles as purely a cost centre. Here the minimum acceptable level of customer service, taking long-term considerations into account, will be predetermined and the aim will then be to provide this at minimum cost. So although the models will be similar, their use will be subtly different.

meet daily or seasonal changes in demand. An example of this technique is given in the 'Bicycle Provision' case study (see Box 8.4). While the bicycle provision example considers a single resource, the same arguments could be made in the consideration of the airport case considered in the section on simulation, above. If the airport is regional and caters for a large number of vacation travellers then the problems described in the bicycle case arise here also, and are possibly replicated for every facet of airport provision.

## Inventory Management

The management of inventory is far less important in tourism than the management of equipment or labour, as is the case for most service industries. In tourism inventory consists of materials which are consumed in the delivery of the service, and there is no equivalent of work in progress as required in the manufacturing sector. Material is less important in tourism because:

- the percentage of total operating cost

which can be attributed to materials is very small when compared with the share taken by labour, property and capital equipment;
- much inventory in tourism has a limited shelf-life, for example that of food, which is very short to medium term, drink, and brochures, which is usually one year or season.

As a result of these factors there are fewer savings to be made in improving the management of materials in tourism except, perhaps, in ensuring the correct amounts are obtained, than in improving the management of labour and capital equipment. However, shortage of inventory will, in many cases, result in near catastrophic perception of quality, for example consider a restaurant without a basic foodstuff or a travel agent without popular brochures. Absence of certain materials at the point of service must therefore be considered as order sensitive (or loosing) criteria, and is worthy of consideration.

When designing systems to manage material it is worth considering the relative cost of different materials to the organization, and to concentrate on managing the most costly materials, for obvious reasons. The most frequently used technique for doing this is called the Paretto, or more usually the ABC, analysis. It plots the cumulative value (or cost) of material held by variety from highest value items to lowest value items. When such an analysis is undertaken it is frequently found that about 20% of the variety of materials, the category A items, are responsible for 80% of the cost, and it is important to manage these materials well as greater savings are possible. It is also found that about 50% of the variety of materials, the category C materials, are responsible for less than 10% of the cost and much less significant savings are to be had by tighter control here. The B category items, of course, fall between the two.

### *Dependency of demand*

Materials can also be generically differentiated in terms of demand for them, and one useful way of classifying materials for the purpose of managing them is in terms of the dependency of demand. Materials may be subject to independent or dependent demand.

Independent demand for an item occurs when demand is influenced purely by the market, and can be said to be independent of the demand for other items. An example of this is the demand for brochures in a holiday shop. Dependent demand for an item occurs when the demand is dependent on the demand for another item or service activity. For example when a seat is booked on a flight then that reserved seat generates the need for meals and drinks, which in turn generate the need for the constituent parts of the meals and drinks.

#### *Independent demand*

In an independent demand situation costs of inventory come from two sources: the cost of acquiring it and the cost of holding it. Acquisition costs may include the cost of preparing to produce and the cost of delivery. Holding costs may include the cost of storage, insurance, and the lost opportunity of money tied up. Using the holiday brochure again to illustrate this, acquisition costs would include the cost of preparing for a new print run and delivery. Holding costs in this case would mainly result from lost opportunity cost. (In addition to these inventory costs there would an individual brochure cost to cover material, labour and overheads of production, and to recover the cost of preparing artwork at the start of the season and possible obsolescence at the end.)

Studies of these cost relationships have shown that if considered on a time basis, say cost per day, the acquisition cost is inversely proportional to the quantity of stock obtained per delivery, while the holding cost is directly proportional to the quantity obtained. The total cost per day is the sum of these two elements, and it therefore follows that there is a minimum, or optimum cost which occurs at a specific quantity which we shall call the economic batch quantity (EBQ) (also known as the economic order quantity or economic lot size). This relationship is shown in Fig. 8.8. When this theory

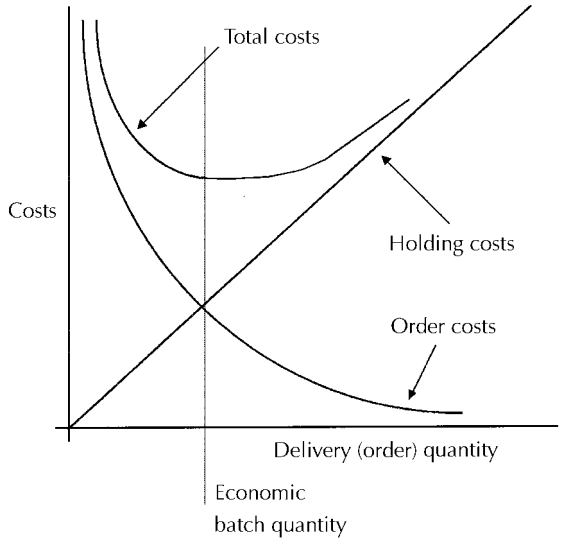


**Fig. 8.8.** Inventory cost curves (economic batch quantity).

in put into practice the time to deliver the stock, known as lead time, must be considered, and the demand during this lead time, which will vary, must be estimated. This leads to the calculation of a re-order point which triggers the placement of a replenishment order, and the operation of a re-order point (ROP) inventory system. Such a system demands that stock levels are constantly monitored.

In practice it is usually found that the cost is relatively insensitive to variation in quantity obtained in the region of the EBQ, in other words the bottom of the curve in Fig. 8.8 is fairly flat. This presents the opportunity to review the stock level periodically, perhaps in conjunction with a natural sequential delivery schedule, and in effect top up the stock level to a target calculated so that the number obtained each time approximately equals the EBQ. In effect this system does not run at minimum cost, but this is compensated for by simplicity of operation.

*Dependent demand*

In dependent demand situations material requirements are defined by 'exploding' the primary requirement, for example the reserved seat, into the dependent material requirements by means of a bill of material (BOM). This may consist of cascading needs through several layers of material as demonstrated in the reserved seat example above. It is then possible to indicate to suppliers a delivery schedule for material. Such methods of material management are termed materials requirement planning (MRP), and they were initially developed in the manufacturing sector where BOMs consist of many more layers than in service industries because of the complexity of product and large numbers of stages of manufacture (Orlicky, 1994). The MRP process may be driven by actual orders, where the delivery time (or lead time) for material is less than the required lead time, or by forecasts when it is not.

In practice the MRP process in the tourism sector is usually driven by a timetable in the case of travel, or by a predicted schedule of guest behaviour in the case of hospitality and leisure, e.g. meal and other activity times. This results in the possibility of customers developing close supply chain relationships with suppliers, and of sharing information on which material supply decisions are made. The suppliers may even be asked to make material requirement decisions based on planned activities and an

extrapolation of previous material requirements for these activities, and then to deliver what they think will be needed. The success of such a supply chain relationship depends on:

- Strong mutual trust between customers and suppliers, which can only be usually developed over a long time period.
- A fast flow, or immediate sharing of market information. The value of electronic point of sale (EPOS) and electronic data interchange (EDI) systems is obvious in satisfying this requirement.
- A system for closely monitoring material waste, and an agreed procedure for sharing the cost of this waste between the customer and supplier. Obviously the trust element is important here.

Supply chain relationships, and the management of them, have been the subject of research in recent years. Models have been designed to test and manage the compatibility of customers and suppliers in terms of operating systems and organizational culture (Macbeth and Ferguson, 1994).

## Scheduling

As already stated, scheduling has twin objectives: the delivery of specific products or services at a time agreed with the customer, and the delivery of all products and services at a low cost by efficient use of resources (in other words by full utilization). In many business sectors we can schedule activities to level demand for resources, but in tourism there is an emphasis on scheduling the availability of resources so that they are available at point of need and at the time when they are in demand. In effect this is capacity planning with much shorter, daily or weekly, timescales.

Many of the techniques which are employed in capacity planning at the aggregate, or more strategic, level described above are also applicable in short-term scheduling, for example queuing and reservation systems and using price differentials to even out demand. However, having employed these techniques it now becomes necessary to schedule the hours of the workforce so that they are available when the customer needs them. There are a number of constraints to this process, such as:

- The need to match availability with the biological clocks and daily routines of customers, and the travel timetables which these also dictate. This will, of course include weekend working and working other unsociable hours when customers are at leisure.
- Any legal constraints on the services supplied, such as on the number of safety officers that must be available or the maximum hours worked by vehicle drivers.
- The physiological needs of workers, which are often written into workplace agreements, i.e. limits on consecutive hours or days worked, and time delay before start of the next work period.

While constraints such as these limit the operations manager's flexibility in developing workforce schedules they actually simplify the process of scheduling itself.

The need to work unsociable hours and at weekends often results in the design of a rotating schedule which ensures that the hardships are shared fairly equally among the workforce. In such a system a worker will rotate through a series of workdays or hours, nesting with those of another worker. Systems exist to develop such schedules using simple heuristic rules, and in complex situations computerized workforce scheduling systems are available.

Alternatively, the problems of workforce scheduling can be eliminated to some extent, particularly where demand is particularly unpredictable, by having a large number of casual workers on tap. Such workers are often able to turn out at short notice and give the operations planner flexibility in being able to react to short-notice requirements, thus offering the competitive advantage of volume flexibility. If any workers, full-time or casual, have a range of skills

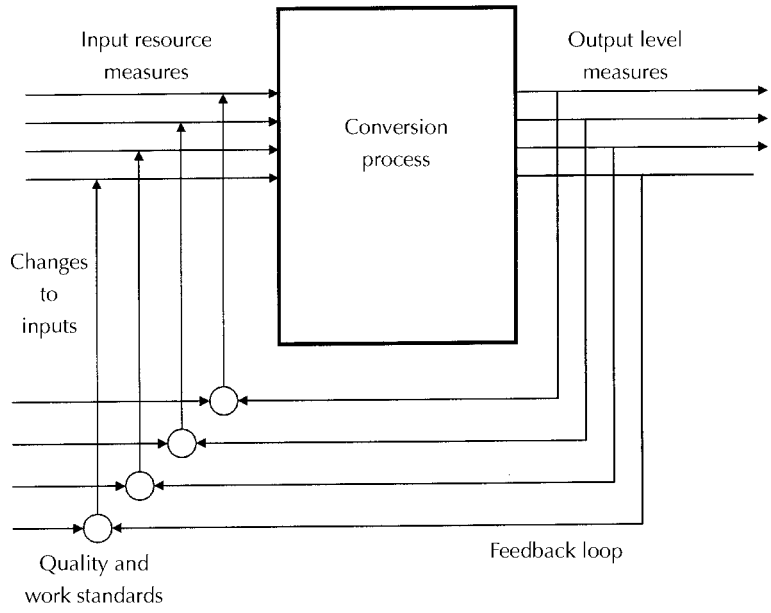


**Fig. 8.9.** Control of operations, process control diagram.

then the advantage of service product flexibility is also gained. The benefits of a flexible workforce are illustrated in the case study on Stakis Hotels (Box 8.3).

## Control

Having developed a plan in terms of service quality levels to be delivered, resources provided to deliver these service levels, and a schedule of when these resources will be available, systems must now be put in place to ensure that the plan is followed and performs to expectations. In operations management terms this is known as process control, and it is analogous to budgetary control in financial management. It involves the measurement of inputs and outputs, both in terms of quality and volume, and the comparison of these to ensure that the conversion process is working as expected. It is here where the work standards which were used in the planning process are tested for authenticity. The process is shown diagrammatically in Fig. 8.9, and it should be noted that this is really an extension of the input/output process used earlier to define the transformation process itself.

The secret of good control of operations is in the selection of the output parameters which are closely monitored, and in the selection of the input parameters which affect the outputs, these must also be monitored. Output measures must be directly related to the quality standards of the organization as dictated by the competitive priority factors on which the organization competes in the market. Input measures must be in terms of the cost of delivery of the service to these quality standards, usually in terms of effort, or work standards. For each subsystem of the organization this results in the establishment of several channels to be monitored. In essence, for each output channel monitored (Fig. 8.9), the inputs required to maintain the level of service required at that channel are also monitored. At a comparison point these inputs and outputs are considered to determine:

- if the quality service levels planned are being delivered; and
- if they are being delivered using the planned level of resources.

Deviations from the plan will require actions of two kinds, depending on the reason for the deviation.

If the deviation is a result of a difference in the level of activity from that planned, then we will naturally expect to use more (or less) resources than we had planned to use. We will check whether the work standards are still appropriate, and in fact we could also expect some benefits from economies of scale in terms of support functions. For example if a hotel is working at a higher room occupancy rate than we had forecast then we would expect to need more room servicing labour than we had planned, perhaps as overtime or casual labour. (In management accounting terms this is equivalent to volume variance.) However, we would not expect the supervisory effort to increase as this tends to be a fixed overhead. In this case we would increase the resource input, or more likely acknowledge and endorse the actions the line managers have already taken.

If the activity level is equal to that planned, but we are using more resources than planned, then we must question our work standards on which we are basing our conversion logic. (In management accounting terms this is equivalent to cost variance.) We must then either change the work standards to be more realistic, or reconsider the conversion process itself and perhaps re-engineer it to make it better. In the case of hotel room cleaning, where we are using more labour than planned we should first check that the rooms themselves do not vary greatly from our 'standard', then that the cleaners are well supported and they do not spend time seeking cleaning materials or equipment, and finally perhaps that they are not exceeding quality specifications. If there are no discrepancies here, then we can either redesign the room, or the cleaning regime to make it possible to do the tasks in the time planned, or alter our work standards (and readjust our expected profit margins).

In most situations variances from the plan will be a caused by a combination of different activity rates from those used in the plan, and different conversion rates from those expected. Unravelling this situation is never easy, and it is important to first select the parameters which we must measure to control the perception of quality which we deliver to the customer, and then to put information systems in place which deliver data on both these parameters, and the costs of delivering them in terms of effort (man-hours) spent. Only when managers have such systems in place can they expect to control the business.

## Summary

1. Definition: *Operations management is concerned with the design and control of transformation systems to deliver the services, including products, of an organization at the right quality, at the right price, and at the right time.*
2. Organizations are systems. The techniques of representing and describing them are invaluable in analysing how they operate, and the interdependency of subsystems.
3. Tourism is a service industry. As such its product is perishable, heterogeneous, and intangible, and the customer is an integral part of the product delivery process (simultaneity).
4. Organizations should define their strategic market position in terms of established competitive criteria. These then determine the standards to which they operate.
5. Decisions to be made in operations management consist of those pertaining to the design of the operating system (design decisions), and those concerned with the effective short term utilization of available resources (operating decisions).
6. A useful framework for analysing operations management decisions in organizations, or in parts of an organization, is by considering:
   - the service delivery quality standards adopted, these are fundamental to monitoring the factors which create customer

perception of the service deliverable at point of delivery;
- work (or performance) standards adopted, these are fundamental building blocks for planning and measuring economic performance of delivery systems;
- capacity, to ensure that resources are available to deliver the service level quality standards at standard work performance;
- inventory, to ensure that systems are in place to supply materials needed in the service delivery at point and time of need;
- scheduling, to finalize short-term plans to ensure that available resources are there when needed;
- control, to monitor performance to plan and to take remedial action when there are deviations from the plan.

Quantitative techniques and qualitative approaches are available to support the management of operations. They should be employed flexibly in the operating context of any specific organization.

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# 9

# Strategic Quality Management

**H. Maylor**

## Introduction

When was the last time you received good service? What was it about the service that set it apart from other service encounters? What had the organization or individual done that made it good? What happened or what did they do to make you aware of it? We are all customers of service products, yet it is rare that we are provided with truly 'good quality service'. It is an unfortunate side-effect of studying this area that it increases your ability to be critical of the service quality you receive. It makes the experience even more enjoyable, however, when you encounter an individual or an organization that has this area well managed. Achieving service quality is about being competent in the delivery of customer needs and expectations in the majority of areas of the delivery process, and exceeding them in one or two parts of it. As will be shown, this is a difficult balancing process, which requires a broad spread of achievement in organizations. In tourist products, which will typically have different parts of the experience offered by different organizations, this task is particularly onerous, and notoriously difficult to manage. As Johnston (1999) comments, 'Most managers know that designing their service right is important. Yet with few notable exceptions, service organizations seem unable to get to grips with the detailed design of services.' This is a challenge for managers, to go beyond the thin veneer of the smile of a receptionist, or a brand image and provide that elusive quality of service that more and more customers want, and are being led to expect.

This chapter is entitled 'Strategic Quality Management'. This reflects the requirement for the consideration of quality to be carried out at a strategic level, and the impact that it will have on the systems of organizations as a whole. It also reflects the driver for improvement in quality performance to be inextricably linked to success. The chapter is divided into three sections. The first considers the quality issues of service design (as mentioned above) and in particular the vital activity of definition and modelling of quality. The second covers the management of an ongoing operation, and the issues linked to this. The third considers the means by which managers can bring about improvement of quality performance, including a discussion of some of the people who have had the greatest influence in this respect.

## Service Quality Design

One of the key questions at the start of this chapter asked for a consideration of what it was about a good service encounter that had made it seem good. This was asking for a definition of the particular quality of that

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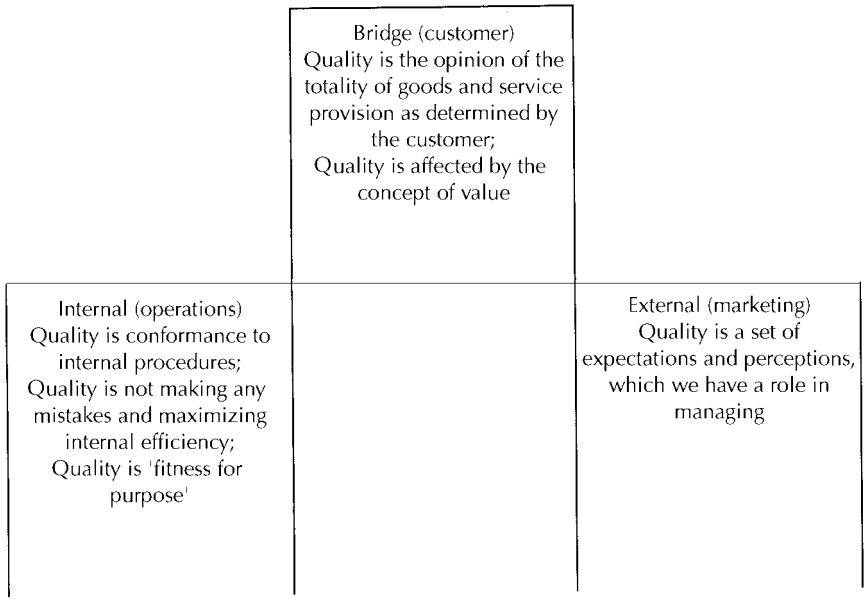


**Fig. 9.1.** Bridge model of quality.

service that appealed. In the field of quality management, this element of definition has been discussed for a long time. Garvin (1984) suggested that the word 'quality' was too imprecise to allow management discussion, and derived eight broad dimensions of quality for products. The same discussion has been continuing with service academics, though with as many dimensions and categories as there are people working in the area. Peters (1999) suggests that this definitional stage is still not sufficiently well described. This causes a problem for the manager, in that if we cannot describe what it is (the precise quality) we are aiming for, it is very difficult to design systems that will deliver this. Despite this proliferation of definitions, there is a set of well-used definitions that can be applied to facilitate the tourism manager in developing an enhanced definition of quality, both for paid-up and potential customers. Initially, definitions can be focused internally and therefore be the prerogative of the operations function, or focused externally and be in the domain of the marketers. Success lies not in choosing one of these routes, but in the combination of the two. Quality as a subject area functions as a bridge between these two views, as shown in Fig. 9.1. The caveat with this discussion of definition is that no matter how far we explore this area, there will always remain an element of quality that is elusive and as individual as people are.

The bridge element makes it clear that while we would like to have quality as a definable and measurable set of characteristics (internal), and while we would like to manage people's views of our offerings through marketing communications (external), quality is an intangible element which exists in people's minds only. The approach of this chapter is to concentrate on those manageable elements within this model: the internal (operations) issues and the external (marketing communications) ones. In doing so, we maximize the likely positive impact on the bridge elements of quality.

In the study of the evolution of quality,

**Table 9.1.** Perspectives on quality management.

| Perspective | Definition supported | Description of approach |
|---|---|---|
| Mathematical | Conformance to specification | The management of quality is limited to the assurance of the 'goodness' of a mechanical product or process. Activities are based on statistical tools, such as statistical process control (see tools in section on Service Quality Improvement) |
| System-structural | Conformance to procedure | This is encapsulated in the approach of the bureaucratic quality system as used as the basis for the ISO 9000 model of quality management. The achievement of a level of quality relies on the development and following of a hierarchical set of procedural documents |
| Control-organizational | Continuously meeting customer requirements | In this approach, employees and customers are viewed as key determinants of service quality. This notion has particular validity in the high contact service portion of the tourism and hospitality industry. |
| Economic | Cost of (un) quality | The financial costs and benefits of quality management are assessed against the costs of failure |
| Holistic | Continuously meeting customer requirements at lowest cost | The total quality approach relies on a change in the entire way the operation approaches its business processes, from senior management to the front-of-house staff |
| Strategic | Quality as competitive advantage | The additional responsiveness that can come from successfully pursuing product and process improvement is treated as part of the competitive strategy of the firm |

there have been numerous approaches, which will be brought together into two models of quality that will be discussed at the end of this section. These concern the perspective or paradigm of the methods used. Table 9.1 shows these perspectives, the definitions of quality that they support and a short description of the approach. At the bottom of the table, the approach that is taken here, that of strategic quality management, is described.

### *Mathematical*

The mathematical approach was the only tool available to managers in pursuing quality improvement for many years. This has been incorporated as an element of other approaches and is now seen as a very limited approach if used alone.

### *System-structural*

The system-structural approach is where procedures are defined by a particular standard, possibly ISO 9000 or any one of a number of customer-specific sets of guidelines. While there are marketing benefits to be gained from organizations becoming accredited to such standards, the measures they incorporate are also limited as they focus on assuring the reliability of the service product rather than the actual service transaction. Whether this is required and organizations need to undergo the 'jumping through hoops' of the standard mentioned is debatable. It is clear, however, that as an initiative alone it has limited merit. Rather it

should be one part of a much wider quality management improvement effort if real benefit is to be gained by the system.

### *Control-organizational*

In the control-organizational approach, employees and customers are viewed as key determinants of service quality. This notion has particular validity in the high contact service portion of the tourism and hospitality industry. In the quality management literature, much attention is paid to this, though many argue that human resources strategies have not been terribly effective in improving quality performance. In considering the degree of control that the organization can exact over the actions of individuals, training and systems of pay and reward are the main 'behaviour modifiers'. The imposition of control through excessive chains of command is shown to be ineffective in many studies. What has been shown to be effective is to develop the concept of 'internal customers' within organizations. An internal customer is someone who receives work from another person (the supplier) within the organization. This ensures that back office staff (those who have little or no contact with the customer) are connected to the service delivery process, as their input will inevitably have an effect on the ability of the front of house staff to deliver service quality.

The co-operation of the customer in the service delivery process has a number of implications. These include deciding which parts of an operation can be transferred to be carried out by the customer (e.g. through self-service and automatic vending facilities) with advantages for both the consumer (in response time) and the organization (resourcing).

### *Economic*

The approach to quality management from an economic perspective is highlighted through the work of Crosby, Taguchi and others (see section on Service Quality Improvement). The idea that quality performance has both direct and indirect effects on the financial performance of the organization is quantified and used as the basis for management activity. Taguchi provides for the further analysis of variation of product by applying a definition of quality in a negative sense: it being a measure of the loss to society incurred by that product or service.

Recent surveys conclude that while the relationship between economic performance and quality performance is positively correlated, it has not been possible to positively establish a causal relationship between the two. Reicheld and Sasser (1990) have estimated that a 5% increase in customer loyalty can produce profit increases from 25 to 85%. One reason for this large improvement in profitability is the cost of attracting new customers. The old business adage that 'market share is everything' is therefore replaced by 'quality of market share is everything'. The effect of customer loyalty over a lifetime of loyal purchasing can be assessed and more importantly, customer retention measured. A US pizza chain recently reported that the lifetime value of a single customer was US $8000. This meant that if the customer defected to another pizza supplier, the loss to the firm was not just that purchase, but a percentage of the lifetime revenue of that customer. In assessing the economic impact of quality, there are well-developed methods for assessing the 'cost of quality.' These will be discussed further in the following section.

The holistic approach to quality will be discussed further in the section on Service Quality Improvement – as part of the impact of initiatives such as total quality management on business practice.

### *Strategic*

The strategic approach to quality is to treat quality strategy in one of four ways:

- as a functional strategy, recognizing the need for a quality management function within the organization, which can plan and optimize the use of its own resources, yet have influence on the operation as a whole;
- as a single competitive strategy, focusing on the need for both relative levels of quality and absolute levels of quality to establish customer perception of the

company and its products and hence deliver higher differentiated value to customers;
- quality as one dimension of competitive strategy, treating the quality performance as one of a number of strategic variables;
- quality as an organizational culture that is appropriate to any competitive strategy; by having a quality orientation or quality thinking, management decisions are made which will reflect on the need for both internal and external perceptions of quality to be placed above other considerations.

These are the main approaches to the subject. Table 9.1 showed the definition supported by each approach. These definitions are discussed further below, as this will help to identify the elements of service quality that customers require. As managers, the task then becomes one of designing the system to ensure that these needs are met.

### *Other approaches*

Considering other approaches to definition of quality, and in particular, service quality, the literature has a more clearly defined identity through the developmental work of two distinct schools: the Nordic and the North American. The Nordic school is typified by the work of Grönroos, and Gummesson (1991, 1993) and is characterized by:

- considering service quality as a the result of the provision of a service product;
- the service product comprising a technical content (what is provided) and a service content (how it is delivered);
- the service content being further divided into the core service and supporting/peripheral services;
- the core service and the customer interaction being paramount as they can compensate for poorer technical performance.

The North American school is dominated by Parasuraman, Zeithaml and Berry, whose work is characterized by a focus on the process of the delivery of the service. Their model of quality provision considers the function of five gaps identified as:

- between the actuality of customer requirements and the perception of managers who design the service to meet these needs;
- between the perception of the needs and the stated design (specification) of the system;
- between the specification and the actual service system, i.e. that which is received by the customer;
- between that quality of service received by the customer and that which they were led to expect from marketing communications;
- between the customer's perception of the service delivered and their expectations.

At a simpler level, many people only focus on the last of these, e.g. Maister's first law (1993) states that:

$$\text{Satisfaction} = \text{perception} - \text{expectation}$$

This is a limited external view, and does not include the management of the internal elements, and the functioning of the quality bridge. Satisfaction, as a concept, clearly is more complex, and requires consideration of the technical aspects as well as the interaction aspects of the service.

### *Service system design*

Having defined quality from a number of perspectives and, in doing so, discussed many of the design issues, there comes a point when this has to be translated into a system that will deliver these objectives. The main tool for design here is the service blueprint (after Shostack, 1984). A blueprint is a model of the service system, covering in terms of activities and time, the progress of a customer through the service system as in Fig. 9.2. It shows the points where the customer encounters different elements of the service system (in this case labelled as service elements), and is drawn using arrows and boxes, akin to a conventional flowchart. This can be limiting, as the perspective can be purely internal/operational. Taking the

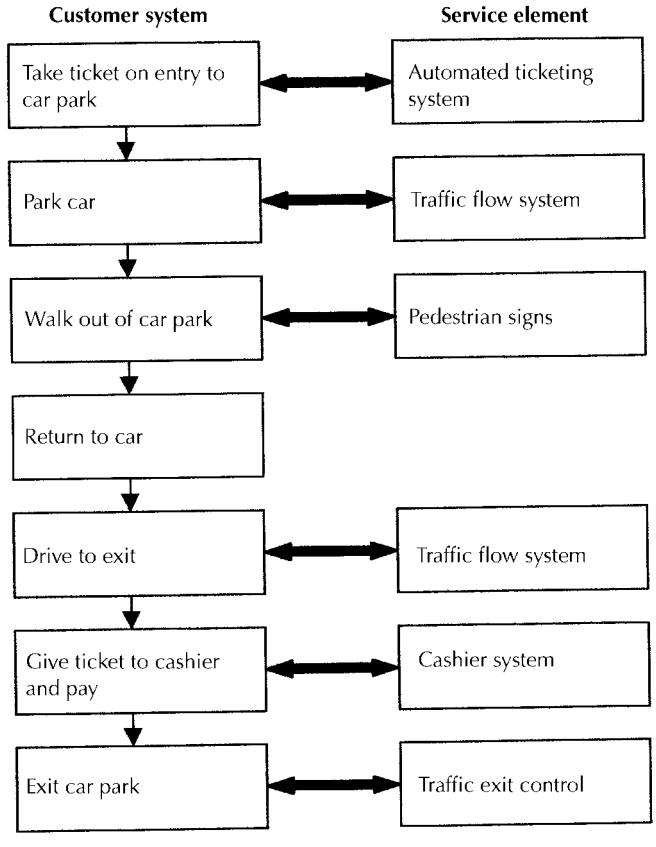


**Fig. 9.2.** Blueprint of service delivery system.

encounter from the customer perspective is beneficial in this respect. A blueprint has a further use. It can be employed to identify potential fail-points in the system, and to design vital recovery actions (see later section on failure management) that will minimize the damage of failure within the system. In Fig. 9.2, potential fail-points exist with the interactions between the customer and the service elements (e.g. failure to understand the automated ticketing system). In addition, there may be fail points such as the customer failing to find a parking space or being unable to find their vehicle on returning to the car park.

In designing the service system, the customer input will need to be interpreted in a manner that ensures the minimization of the gaps identified in the model of Parasuraman *et al.* (1985). A key tool for this is *quality function deployment* (QFD). The construction of a 'House of Quality' shows many complex relationships between factors, and displays them on a single sheet of paper. It crucially allows the nature of the customer requirement to be expressed in the customer's own language. The first correlation is then between this stipulation and the language of the service provider, relating the requirement (the 'what') to the elements under the service manager's control (the 'how'). Customers are asked to prioritize requirements, which provides a rich source of information as to the way in which perceptions can be managed. Perceptions of competitor performance (if available) are added to see the relative position of each in the eyes of the customer, on each of the attributes described. Finally the correlation is made between the *hows* – some will be

**Table 9.2.** Quality cost categories.

| Category | Characteristic being measured | Examples |
|---|---|---|
| Prevention | The costs of ensuring that the required level of quality of service is met | Quality planning<br>Blueprinting |
| Appraisal | Measuring what level of quality of service is provided | Customer surveys<br>Random inspection/checks<br>Performance data gathering and analysis |
| Failure | The costs of getting it wrong and putting it right, can be categorized as either internal or external failure | Internal failure: mishaps or errors that are resolved without the customer ever seeing them<br>External failure: occurs in the interaction with the customer, may result in loss/withdrawal of business or rectification/rescue being required |

complementary, others will be conflicting – and the *whats*. The manager now has a framework for making trade-off decisions on the basis of good information.

The use of these extended correlation matrices has profound strategic implications. Many authors claim that QFD should form the root of the strategy process. It is a central factor in the application of Hoshin Kanri (policy deployment).

## Management of Quality

Within this area there are a number of strands of work. These clearly overlap with the issues of design and improvement, and any classification of issues in this area is rarely exclusive. The issues that will be discussed here include the assessment of quality costs, the management of failure and the management of variability.

### *Quality costs*

Quality is not free. It costs. Precisely how much it costs is a matter for the managers of the system. Comparable companies in the same sector routinely have widely differing approaches to quality, and very different assessments of their quality costs. It is not reported on balance sheets, but can have a major impact on profitability. Quality costs include elements of prevention, appraisal and failure as described in Table 9.2.

The management of quality should involve the calculation of these costs; an activity that is by no means a simple one. Quality costs, it seems, like quality have a large number of definitions and the elements that are included under each heading in Table 9.2, are often subjective and vary from organization to organization. Typically, compiling cost reports is the mechanism for measuring these costs. The objective is not the keeping of further legions of 'bean counters' in work, rather allowing a process of self investigation to follow, i.e. the purpose is that of reducing quality costs, not simply measuring them. It has been found that a company with a well-developed quality system will have quality costs in the region of 2% of turnover. A company with a poorly developed quality system will devote in excess of 20% of its turnover to quality costs (Crosby, 1983). The impact on bottom-line performance from this consideration alone is clearly significant. This establishes the importance of quality management in the costs of the service provision. The role for management in this is the control and reduction of these costs.

### *Management of failure*

The management of failure is required where for whatever reason, a customer becomes dissatisfied with the service encounter that your organization has provided or is in the process of providing.

Customer perceptions, as will be discussed in the following section are transitory (they change with time) and how the problem is resolved is a key element of the responsiveness of the service encounter. Failure management, or recovery as it is more correctly termed, is not a fashionable issue. Organizations that recognize that failures will occur, no matter how well planned the system, do have some chance of not only rescuing the current situation, but also learning from it, and improving in the future. As one organization noted, customer complaints in the first instance were directed to the person who was responsible for that area. Any repeat customer complaints were routed to the firms' managing director. This attempt to eliminate these 'repeat concerns' was highly effective, and showed a level of commitment to the issue of quality at a high level. Moreover, it is a realistic approach – mistakes do happen – most customers accept this (albeit grudgingly). It is the actions that follow that determine whether or not the event becomes a cause for 'consumer terrorism' (customers who gladly tell everyone the problems that they had with a firm) or an opportunity to get closer to the customer. The organization does have a choice in this respect. The stages in the management of failure are as follows:

- identify that something has gone wrong;
- contain the situation: accept that there is a problem, prevent further damage or escalation of the problem;
- put in place recovery actions to regain the customer's confidence;
- ensure that practices are changed so that this incident does not occur again.

The first step, identification, considers that there will be some cue from the customer that all is not well. This may be through a verbal comment made to a member of staff, or direct observation of customer behaviour.

The second stage is that of recognition and containment. For a customer the rejection of their query by an organization can be the first stage in a downward spiral. Frontline staff need to be aware of the need to be accepting of customer views, rather than defensive about their organizations. Having done so, it is vital that this is followed through to some resolution that is acceptable to both the organization and the customer. Containment is where the problem is prevented from spreading; customers of tourism products are notorious for spreading dissatisfaction, by drawing attention to (providing cues to other customers) elements of poor quality.

The third stage is the recovery action. This undoubtedly needs to consider the technical and interaction needs of the customer. Firstly, the technical needs should be addressed, ensuring that a solution is found that is mutually acceptable. The second is the interaction, the customer should be left in little doubt that their needs were considered and that everything possible has been done to rectify the situation. Finally, it is vital that the organization learns from the problems. Typically this would include some analysis of the root causes of the problems and remedial action through, for example, training or amendment to procedures.

The discussion of such failure entails much additional work for an organization, which cannot be cost-justified in conventional terms. If, however, an approach is taken which considers all costs, in this case quality costs (see below), the justification becomes far easier.

### *Management of variability*

The last issue that will be considered in this section is the management of variability. Service products, due to the involvement of the customer in their delivery and the reliance on staff for their quality, exhibit a far greater variability in their delivery than manufactured products. This is not necessarily a problem if the service delivery, due to being a high margin, customized service for example, includes the costs of such customization in the charges made to customers. Variability becomes a problem where, due to volume throughput requirements, a standardized service is required. Staff may take more time dealing with customers than is allocated, and queuing or

another form of delay results. Variability also becomes problematic where the variability introduced by staff is inappropriate for the customers concerned.

## Service Quality Improvement

Basic arguments for organizational quality improvement are:

- productivity-based (quality cost), more out for the same input of resources;
- competitiveness-based, moving away from definitions of quality that focus on attributes other than defect levels.

The role of the former has already been discussed. Competitiveness based on quality is far more difficult to assess once you move away from simply considering defect levels. The Profit Impact of Marketing Strategy (PIMS) database was established to investigate the effect of high-level strategies on profitability. The methodology involves questioning top executives of the companies involved and establishing their perceptions as to the relative market position of their companies in certain key areas, notably quality performance (Buzzell and Gale, 1987). This has been extensively criticized as a methodology due to its subjective nature and the lack of any verification of the data being provided. Studies using the PIMS data include that of Caves and Ghemawat (1992) who conclude that differentiation-related factors (such as quality) play more of a role in generating sustained intra-industry profit differentials than do cost-related ones, in addition to providing bigger margins. Similarly, Lynn (1992) states the existence of a strong correlation between a firm's profitability and the perceived quality of its products and services. Hence the view that quality improvement should provide the basis for sustainable competitive advantage.

Mann and Kehoe (1994) try to quantify the relationship between three factors: organizational characteristics, quality improvement activities and business performance indicators. They conclude that all the quality activities they investigated (including the use of SPC, ISO 9000, Taguchi techniques, teamwork) have beneficial effects on business performance. Their research, like others, is not capable of providing a control group to investigate the effects of the pursuit of other activities and whether scarce resources could have been better deployed in other initiatives. A perfunctory consideration of these factors casts doubt as to whether this 'evidence' can be considered to be totally objective. Flynn *et al.* (1994) comment that ' . . . the majority of the empirical work on quality management can be characterized by a narrow focus and a lack of rigour, particularly with regard to reliability and validity issues.'

As will be shown in the discussion of total quality management (TQM), it is almost impossible to determine any certainties as to what will and will not work. The basis of much improvement should therefore be a pragmatic assessment of the possibilities for changing practices within organizations, followed by selection of the options most compatible with the goals of the organization.

### *The role of top management in quality improvement*

Deming (1986) estimates that 94% of customer problems are caused by the management system rather than by individuals. This may not possess the quality of delighting the customer but has a significant role in minimizing the 'negative potential of operations'. Studies in the Japanese manufacturing industry (e.g. Ebrahimpour and Lee, 1988) have shown quite clearly that the way in which performance was measured and rewarded was the key to high quality levels. Similarly, in a broader range of industries, the removal of purely quantity-based measures of performance (e.g. number of clients 'processed') was a prerequisite to improvement (Garvin, 1984).

The nature of this commitment is open to debate. There is little congruity over measures of commitment and real levels of commitment to change can be easily disguised. The development of a quality department within an organization is seen to show a degree of commitment from senior

management. The real influence that this quality function can have, however, has to be set in perspective. Customers of tourism and hospitality operations are likely to deal with a cross-section of staff and provision of the tourist product takes cross-functional activity. Expecting one department to 'police' or have any great influence on the processes risks taking the responsibility for 'quality' away from the place or people where it has greatest effect: in each of the functions throughout the organization, which has led to the slogan 'quality is everyone's business'. This need for cross-functional cooperation is reflected in the organizational structure of some world-class companies who focus on processes rather than departments.

There is, however, a significant role during organizational change for a 'quality champion'. Many organizations rely on external sources for this, though there is a good argument for the expertise to be developed in-house, so as to retain the experience gained from the process for future use. One persistent problem with such quality champions who are then involved in the training of others (who would then train others and so on, known as 'the cascade method') was that often they were 'only one chapter in the book ahead of the people they were training'. Anecdotal evidence suggests that many improvement programmes have foundered due to the lack of credibility or authority of such individuals. The proof of this has not been forthcoming; organizations are reluctant to admit that they have engaged in a quality programme which has failed, and the quality industry (notably the consultancy firms which offer TQM training) has not encouraged such introspection.

Provision of resources for a quality improvement programme is just one area where a level of commitment from top management is required. As Flynn *et al.* (1994) comment, the nature of quality-oriented training includes small-group problem-solving, communication, statistical process control and other relevant areas, in addition to classroom and on-the-job training related to specific tasks. The objective is to develop workers who are flexible problem-solvers. While there is a good logical argument that better trained workers will provide a better quality service to customers, the empirical evidence is very sparse. As for evaluating the effectiveness of quality programmes as a whole, a direct causal link between the activity (in this case the training) and the outcome (better performance) has not been established. One of the major challenges is eliminating the distorting influence of the inherent 'level of quality' of the employees, e.g. natural motivation, employment history, background, education, etc. This is a key element that has been identified in a number of cases where service quality has been cited as excellent (Southwest Airlines, for example).

### *Evaluating service quality*

In order to improve elements of service quality, the first step in the process is the establishment of levels of current performance. Measuring guest satisfaction in hospitality operations has been a matter largely left to the comment card, which is certainly ineffective, if not actually misleading (see Jones and Ioannou, 1993). Any survey of customer satisfaction should address three issues. These are:

- the survey design;
- survey distribution;
- data processing.

Issues of survey design include how many people should be asked as to their opinions, and what they should be asked. Voluntary completion results in a massive *non-response rate bias* (i.e. the cards are only completed by those with strong views – usually overwhelmingly negative – and do not give an indication of the overall picture that a representative sample would provide; see e.g. Silver, 1997). The mechanism for distribution should then be in-line with the survey design, and what it is intended to show (an overall picture of customer satisfaction, or simply identification of outliers: customers with extremely good or extremely bad experiences). Data can be processed centrally (allowing some notion of control over the data and consistency with measurements from other service outlets), or

locally (allowing addition of informal data and client feedback). An important, but often missed element of this process, is that information is gathered in the *language of the customer*. It is too easy to 'interpret' the comments and miss the issues that were of greatest importance to them.

Determining what questions to ask people is an issue that is as debated as the definition of quality itself. This should be no surprise; the assessment should be a mirror of the definition of quality that has been adopted by the organization. It does not mean to say that it is the *right* definition, only that it is the one that has been used. For the service manager, the key issue here is avoiding putting their own views of the service above those of the customer. It is not unusual to find a customer survey questionnaire that reflected a manager's preferences from the service, rather than that of the customer. One of the ways to avoid this is through the use of frameworks, adapted for the particular customer service experience in question.

The major framework for the evaluation of performance, is SERVQUAL. This model breaks quality down into measurable elements comprising: reliability, responsiveness, assurance, empathy and tangibles. Grönroos uses elements of professionalism and skills, behaviour and attitudes, accessibility and flexibility, reliability and trustworthiness, recovery, reputation and credibility (see also Haywood-Farmer (1988) and Mattsson (1992)). Each of these attributes is an element of a scale for analysing both the expectations and perceptions of the service product (Parasuraman *et al.*, 1985, 1986). The usefulness of such a scale has been evaluated by, for example, Fick and Richie (1991). They concluded that while the scale was useful in providing a means of assessing the relative importance of the various attributes to the customer in one specific circumstance, there were many practical challenges to delivering the questions to customers and providing an analysis of their responses. Johns (1993) concludes that 'the SERVQUAL scale is likely to need further adaptation before it can be generally accepted as a research tool for assessing the quality of hospitality provision'. Modifications to the basic set of criteria include the addition of new elements within each of the criteria to suit the individual situation. For example, a recent evaluation of a hospitality operation expanded the tangibles element of SERVQUAL (Mei *et al.*, 1999). The characteristics under this heading in the original scale were expanded to include the following elements:

- equipment, fixtures and fittings are modern looking;
- facilities are visually appealing;
- neat and professional employees;
- materials are visually appealing;
- fixtures and fittings are comfortable;
- equipment and facilities are easy to use;
- equipment and facilities are generally clean;
- variety of food and beverages meets guests' needs;
- services are operated at a convenient time.

It is also appropriate to consider satisfaction as a continuum rather than a discretized commodity. This was promoted by Zeithaml *et al.* (1990) who introduced the concept of a 'zone of tolerance' between a desired and an 'adequate' level. The framework clearly applies to each of the dimensions of quality discussed above. Furthermore, the study presented by Liljander and Strandvik (1993) used what they call a 'willingness to pay' construct to the expectations of service in three forms:

- the adequate level of service;
- the desired level of service;
- the predicted level.

This changes the discussion from perceived quality to 'perceived service value.'

Johnston (1995; see also 1999) identified three overlapping applications of the zoning concept:

- the description of pre-performance expectations (as above);
- the satisfactory range of in-process service performance;

- a description of the outcome state, ranging from dissatisfaction (negative disconfirmation) to satisfaction (confirmation) to delight (positive disconfirmation). Johnston cites Kennedy and Thirkell (1988) as describing the range state of satisfaction as possessing a zone of tolerance.

At the outset of the customer encounter, the customer possesses a mixture of expectations, as already defined, due to prior experience, marketing information or third party information. The process encounters will shape the outcome state, but carry immediate perceptive valuations by the consumer. The role of marketing in the consumer interpretation of the outcome state will be discussed below.

In determining the width of the zone of tolerance, the level of involvement is cited as a crucial factor (Berry and Parasuraman, 1991; Johnston, 1995), the relationship between the two being that the higher the customer involvement, the narrower the zone of tolerance. Furthermore, Berry and Parasuraman emphasize that the zone of tolerance will (as for the absolute level) be different for each quality factor, but is likely to be narrowest in the element of reliability. Managing processes to ensure that, as in the manufacturing paradigm, they are kept within the acceptable limits, is a key task for tourism and hospitality managers.

Coyle and Dale (1993) reported on an investigation into the perceptions of importance of service features from the perspectives of hospitality managers and customers. Their findings highlighted the differences between actual customer perceptions/expectations and their interpretation by service providers (managers of hospitality operations). The major 'feature' that customers required of the service transaction, was problem handling ability and authority in staff. Attitude and keeping promises ranked second and third. Managers rated value for money highest, which was much further down the list of priorities for customers.

Two major practical implications for managers emerge from this discussion. The first is that if you are performing satisfactorily in each of the quality dimensions, it is not necessarily reasonable to expect your customers to be pleased with this part of the service. Making this the subject of questioning increases the customers' awareness of that issue and hence raises expectations. This may result in dissatisfaction in the longer term where increases in the level of awareness of aspects of the service is not matched by increases in perceived customer benefit from that aspect of the service. The second is that in the service provision process, incursions into the region of delight at the outcome or parts of the process, may result in a change in the expectations of the service in the future (Gummesson's 'Peanut Syndrome,' 1991). It is important that these changes can either be sustained or that some other compensation is made to the customer, e.g. in price.

### *The evolution of the subject of quality management*

Figure 9.3 shows the evolution of the subject from the centre of the figure (craft-centred industry) to the modern situation of strategic quality management, which encompasses the previous approaches. The craft-centred approach – as typified by sole-trader businesses – is still a feature of many tourism products. In such a situation, the onus is on the individual to provide the necessary qualities that customers are seeking, using the influence of individualism to secure customer approval. When products become more industrialized (through service-factories, for example) the requirements change. Until recently, it was commonplace for quality 'inspectors' to roam factories (service factories as much as manufacturing operations), seeking out poor quality. The failing part of operation would then be berated for their poor performance. Such an approach was part of the Tayloristic command and control structures of industrialized society. Apart from the obvious negative-only feedback that this provides, the assumed principle of control is that the error is created immediately prior to the point of detection. This is rarely the case; errors are usually the sum of a set of actions

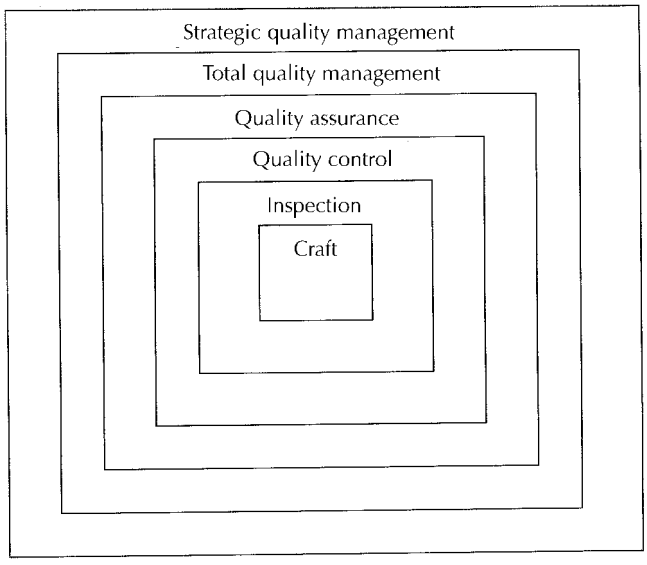


**Fig. 9.3.** Evolution of quality management.

in a chain, where the original cause is often well removed from the point at which either the customer experiences it, or the inspector detects it.

As a result of recognizing these shortcomings, increased use was made of *quality assurance*. Errors or problems were tracked to their source, and the focus shifted to prevention, rather than detection and rectification. Where staff routinely give poor advice, resulting in later problems for other staff, this would be found under a system of quality assurance, whereas the problem would be focused on the later incident in a system of inspection.

Following the work of a number of influential people in this area (see below), the 1980s saw the emergence of the ideal of total quality management. The author of this 'holistic' approach was Feigenbaum (1956) in describing the work that he saw being undertaken in Japan. His phrase 'company-wide quality control': the use of the tools of quality control on all processes within the business, was developed to the concept we know today as total quality management. The original phrase provided a good indication as to the nature of what quality management activity was about, however it did not possess the necessary mystique which the quality industry required. The phrase 'total quality management', now possesses as many meanings as there are organizations which claim to be 'Total Quality Companies'. Feigenbaum's definition (1991) is:

> Total Quality Control is an effective system for integrating the quality development, quality maintenance and quality improvement efforts of the various groups in an organization so as to enable production and service at the most economical levels which allow full customer satisfaction.

Other definitions which are worthy of note include 'Continuously meeting customer requirements at lowest cost,' (P.A. Consulting Group, 1988) and 'a proven systematic approach to the planning and management of activities' (Munro-Faure and Munro-Faure, 1992). These represent two classes of

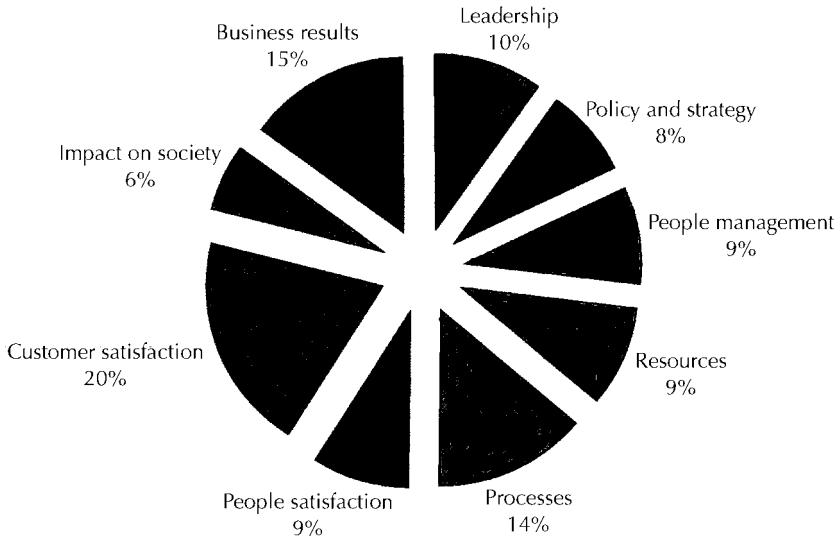


**Fig. 9.4.** EFQM organizational quality assessment.

definition: one is objective-oriented (i.e. what are the objectives of TQM?) and the other is functional (what does TQM mean for management?). This inexact definition of the nature of TQM has caused much blurring of the precise level and scope of quality management terms, such as quality assurance, quality planning and quality systems. Johns (1993) suggests that this blurring 'exists at a philosophical rather than a practical level', though the implications are that, like the original discussions of quality, there is a high degree of ambiguity associated with the jargon of quality management. Some of this is misplaced; TQM for example is a set of ideas or principles, whereas quality systems are means of achieving these and quality procedures (such as SPC, Quality Circles, 7 tools of quality control) are the practical day-to-day measures that a quality system can draw upon to achieve its strategic objectives.

It is this holistic approach to quality management which forms the basis of the American Baldridge and European EFQM awards. All parts of the organization are assessed under the criteria shown in Fig. 9.4. While the pursuit of holistic programmes for management have been championed by governments and consultancies alike, the evidence for their continued existence has been very sparse. Most of it is anecdotal and concerns large blue-chip companies. The question of imitability is therefore raised again. Several studies will be examined to see if there is a correlation between quality performance and organizational financial performance (e.g. Powell, 1995; Lederer and Rhee, 1995).

The current state for many organizations is that they are launching quality initiatives for the second or third time, previous programmes having 'faded'. The same cycle of initial enthusiasm followed by disillusion was observed with the idea of Quality Circles. These are groups of workers who are convened for the purpose of solving quality problems around their work environment. Japanese experience was that they provided benefits to the organizations that used them over a wide range of sectors. They became very popular for a short time during the 1980s when many organizations were having their first experiments with quality management. They very quickly faded from use, however, with many organizations reporting rapid declines in effectiveness.

The explanation postulated for this phenomenon is that the static nature of the groups turns them from high-performing work teams into talking-shops and social groups. In addition, as might be expected, 80% of the benefit of the group is achieved relatively quickly. After this, they have to focus on relatively marginal projects and suffer from dwindling management support as a result.

This launching and relaunching of initiatives means that we can expect the concept of total quality to be dynamic as illustrated by Tranfield (1992). The approaches to TQM by organizations are categorized into three main mindsets:

1. Planning: quality improvement can be planned and measured as for any other business performance measure. Systems are the means of achieving the intentions of this mindset.
2. Learning: focuses on the empowerment of individuals (with every pair of hands you get a free brain) and the continual improvement of the organization in its ability to solve problems.
3. Visionary: guided by senior managers as a top-down initiative through the application of systems of hierarchical control. Customer requirements are forced into the management decision-making processes.

Tranfield further adds that all of these approaches are limited and that the only way to success is for a fourth paradigm to emerge, termed 'Transformational Total Quality'. This is defined as cycling between the three main paradigms in order to obtain the benefits of each while not incurring the drawbacks. The negative effects of each are seen to set in once the initiatives are allowed to become static.

Crosby (1983) stated that 'quality is free'. In the short-medium term, this is unlikely to be justified. Significant investment will have to be made if the organization wishes to pursue a strategy of becoming a total quality organization. The evidence to justify such an investment is contradictory. There has emerged a pragmatism in management thinking demanding evidence of benefits and costs from the application of TQM, which previously would have been considered heretical. Lederer and Rhee (1995) consider TQM as an investment in new technology, and the relative success (through stock-market valuation) is assessed. The first-mover advantage appeared to be significant in this case, particularly where competitors were slow to follow. In other industries – particularly those cited as justification for most new paradigms (automotive, electronics, white goods, communications) – the implementation of TQM programmes has not provided abnormal positive returns.

Powell (1995) is far more careful to consider the causality of the relationships between apparent organizational success and TQM initiative. He notes that many already successful organizations take on TQM, and are, because of their predisposition for success, more likely to succeed with the initiative. There was also a survivor-bias in this research which would tend to understate the positive impact of TQM; those organizations which had not taken onboard the work would, at least anecdotally, appear to be far more likely to have gone out of business. Such methodological problems are preventing an objective interpretation of 'what works where' in assessing such initiatives.

### *Major influences on the development of quality management theory and practice*

The major popularists in the area of quality management and their influence on the subject are shown in Table 9.3.

### *Tools of quality management*

Available to the hospitality manager are the '7 tools of quality management'. These are described extensively in the quality and operations management literature, though are as concerned with general problem-solving as quality improvement *per se*. The tools (process flow charts, Pareto analysis, Ishikawa/cause and effect diagrams, histograms, correlation charts, process control charts, check sheets) are described in, for example, Bicheno (1998). The benefits they

**Table 9.3.** Major influences on the development of quality management.

| Instigator | Major influence |
|---|---|
| Deming | Initially developed statistical methods for control of repetitive processes, and their usage. Took the tools to Japan post World War II, and was seen as part of the Japanese quality revolution (though largely ignored in his native USA until the last years of his life). Recommended 14 points for management, the use of the Plan-do-check-act cycle (also know as the Deming Cycle) |
| Crosby | Championed the notion of 'zero defects', and 'quality is free' |
| Feigenbaum | The holistic approach to quality, company-wide or total quality control |
| Taguchi | The proponents of Taguchi methods claim great results for the design of experiments, though good examples are few and far between. A more nebulous approach to quality comes in the form of the loss function |
| Ishikawa | Quality circles and brainstorming tools including the fishbone or Ishikawa diagram |
| Ohno | Architect of the Toyota Production System which took quality to new levels in manufacturing, through teamwork, training and education, ongoing continuous improvement and a focus on the absolute elimination of waste |
| Juran | The engineer's quality guru established and compiled the requirements of systems and procedures for sampling and control with tangible products. Many of the routines are equally applicable to the tangible elements of service products |

offer include the ability to be used throughout the organization and do not require a quality specialist, once the simple principles have been taught.

Mizuno (1988) and Barker (1990) demonstrated the use of '7 new tools of quality management' (relations diagram, affinity diagram, systematic diagram, matrix diagram, matrix data analysis, process decision programme chart, and arrow diagram). Their application requires a far greater command of language than the original seven tools, as they rely on the linguistic decomposition of problems.

## Conclusion

This chapter started by asking for examples of good service quality. As discussed these seem all too difficult to find in practice. Yet, there are good examples available. Treating quality as a strategic issue means that we can consider it at a high level in organizations, and can begin to take some control of both internal (operations) and external (marketing) aspects of quality, as it affects customers. As Deming (1986) comments, 94% of causes of poor quality are with the system rather than the individual. The design of the system is the responsibility of management and there is a well-developed tool set to assist in this respect.

Achieving excellence has been shown to be economically worthwhile, both in terms of competitiveness, and in terms of the cost of gaining customers and the costs of quality. The road to excellence is therefore a challenging one, but one that is very worthwhile. Avoiding some of the hype that surrounds an initiative such as TQM is necessary for most organizations. Instead a focus on the strategic benefit from the continuous improvement of different elements of the service offering is required.

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# Part Four

## Strategic Planning in Tourism

# 10

# Strategic Planning

**L. Moutinho**

Before a tourism company can do business, before they can market their tourism product, before they can even plan their tourism product, they must first plan their strategy. Decisions regarding the type of business the firm desires to be in, the segments of the market they wish to pursue and the type of tourism products they wish to develop for their markets must all be carefully planned out in what is known as the strategic plan.

Different levels of the tourism firm all engage in different levels of planning. They plan at the corporate level, the specific company or business-unit level and also at the tourism product level. They also plan for different periods of time. The time frame that encompasses the firm's plan is known as the planning horizon. Planning horizons generally vary from 1 to 5 years, but Japanese firms are known for their extended planning horizons of 10–25 years and even more.

## The Difference between Strategy and Tactics

Long-term plans (those extending beyond 3 years) are generally very strategic in nature. In them, the firm's long-term goals such as profit margin, market share and market growth are all indentified. The longer term the plan, the less reliable available information is on which to base the plan. As any consumer behaviourist will tell you, consumer demand may change on a whim, so looking 5 years into the future combines experience and skill with a healthy portion of guesswork. So, while these plans may often be inaccurate, they still provide a target that tourism firms can attempt to attain, or serve as a benchmark by which to identify the company's desired goals and ascertain the extent to which they have been achieved. (It should be noted, however, that many tourism companies are increasingly using scenario planning and computer simulations to make more accurate projections and forecasts to help minimize this unknown aspect of the future.)

Compared with the long-term strategic plan, the short-term plan, or annual plan, is much more operational (or tactical) in nature, focusing more on the tourism firm's marketing mix and to what degree it will be used for which tourism products. The plan should also identify the tourism firm's marketing policy and the expected financial effects on the firm (i.e. promotional costs, expected sales, etc.).

By identifying the difference between the long-term plan and the short-term plan, we have identified the difference between a tourism firm's strategy and its marketing tactics. The strategy is derived from a firm's goals and is a loose framework or set of guidelines that a tourism firm will follow in order to attain their goals. A tactic, mean-

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**Table 10.1.** Comparison of strategic and tactical planning.

| | Strategic planning | Tactical planning |
|---|---|---|
| Duration | Long term (> 3 years) | Short term (< 1 year) |
| Done by | Senior management; top marketing management | Marketing and product managers; middle management |
| Necessary information | Primarily external information | Primarily information from within the firm |
| Degree of detail | Broad in nature, based on a subjective evaluation | Detailed information and analysis |

while, consists of specific details as to how to execute the strategy. For example, a tourism firm's goals may be to increase market share in Region A by 5% over the next 3 years. The resulting strategy may be to develop a new tourism product line that will allow the company to achieve a dominant share of a certain target market. The tactic may be to develop a specific, targeted product, sell it through a specific type of tourism retail outlet, price it at a specific level and position it in a certain way to the consumer through the use of a TV advertising campaign. We will now examine strategies and tactics in more detail. Table 10.1 illustrates the differences between the two types of plans.

## Strategy Characteristics

Strategies are different from tactics, as we identified above. Whenever a tourism firm begins to analyse a potential market or selling situation, it must have a strategic plan regarding its approach to the market. Unfortunately, many tourism managers attempt to act in the short term without the benefit of considering the longer-term effects of their actions. We will now examine some more identifying characteristics of strategy.

- *Limited in number.* Compared with tactics, tourism firms only follow one or a few strategies since following too many strategies at once can spread the firm's resources too thinly.
- *Multi-department involvement.* In order to implement a strategy of introducing a new tourism product line, many more departments than just marketing will be involved. Thus, strategies should always have broad approval and encouragement.
- *Allocation of resources.* Tourism firms must constantly change to keep up with their changing environments. This means that strategies must also change over time and, thus, resource allocation must also change to meet the new strategy requirements.
- *Long-term strategic effects.* Strategy changes represent changes in current positions of the firm and, in effect, changing the firm's foreseeable future. In short, strategic changes are changes that may affect a tourism company's performance for years, if not an entire decade. Thus, firms should research and investigate potential changes in strategy with great care, but they also should not overlook the need for revising or changing their strategy if the circumstances dictate it. Data should be gathered that allow for intelligent, objective business decisions that firms should be comfortable living with for some time.

### *Strategic development takes place on three levels*

Tourism businesses are often large organizations composed of many different departments, with each department having its own set of goals, norms and methods of operation. But although each department operates as an individual unit, they are not autonomous. The departments are a cohesive set of units that are all striving for

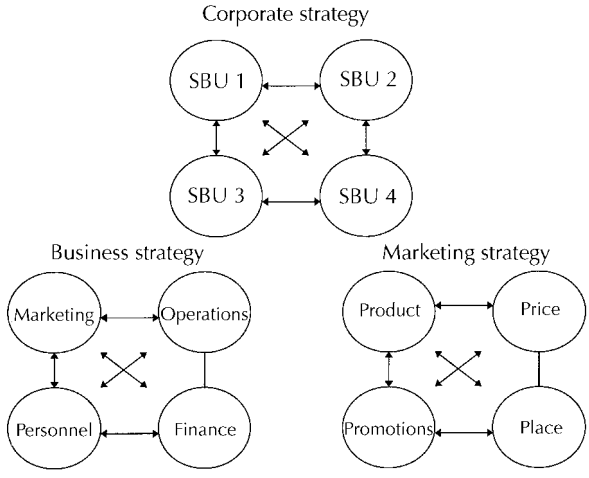


**Fig. 10.1.** Levels of strategy development.

similar corporate goals. Each department must adhere to the wishes of the corporation, while at the same time communicating to the upper levels of the corporation their particular needs, goals and capabilities. Thus, although the marketing department is constrained by the corporate business plan, it is often free to develop its own strategies and make its own tactical decisions within the guidelines of the corporate plan.

The operational marketing plan (otherwise known as the tactical plan or the product plan) must be in line with the business, or strategic, plan of the firm. Since the marketing plan is based on the strategic plan, it will be useful to examine this strategic plan. As noted in Fig. 10.1, the development of strategies that link the tourism corporation with its surrounding environment takes place on three levels: the corporate strategy, the business strategy and the marketing strategy (Go and Pine, 1995).

### *Corporate strategy*

Corporate strategy concerns the strategy of a tourism corporation's strategic business units (SBUs). An SBU is an organizational unit within the confines of the larger corporation. Each SBU has a specific mission, tourist services, competitors and target group of customers. Each SBU is usually an operating entity unto itself, and has little contact or links to other SBUs, except through shared ownership of the parent firm. SBUs are also individual profit centres, thus responsible for their own profits or losses. SBUs may operate in similar or completely separate industries from other SBUs in the firm.

Although the organization is composed of SBUs, top management strategists have a goal of increasing the value of the whole firm, not just one SBU in particular. They must be aware of and analyse the economic environments surrounding the industries in which each SBU operates. Once aware of future growth and market-share possibilities, they will put together a strategy to benefit the entire tourism firm. Thus their strategy may include changes in levels of investment or growth goals for different SBUs. The SBUs must take these corporate strategies and goals and develop their own set of strategies based on top management's general direction and challenges (Hitt *et al.*, 1998).

### *Business strategy*

The business strategy concerns this next level of strategy at the SBU level. The senior managers of each SBU must manipulate their resources (operations capacity, manpower, financial capabilities, etc.) in such a fashion that allows them to best attain the

desired corporate goals. Although they are developing strategy at a different level, the process that they follow to develop their strategy is similar to that of the corporate-level planners. First, they must analyse their individual markets, their competitors, the outside forces that may affect their industry and present and emerging consumer trends. They then develop a strategy based on corporate guidelines that best utilizes their resources and deals with their immediate environment. This strategy is then disseminated to the various departments that make up the SBU.

*Marketing strategy*

From the SBU strategy comes the marketing strategy. At this point, the marketing department must decide how the strategy established by the SBU affects the marketing effort. They will utilize the variables of the marketing mix (the tourism product assortment that they offer and how the tourism products are positioned, advertised, priced and distributed) as best they can in order to effectively implement the strategy. In fact, each of these elements of the marketing mix warrants a separate strategic plan. Thus, the tourism marketing manager is responsible for the development of a tourism product strategy, a pricing strategy, a distribution strategy and a promotion strategy. These strategies all become a part of the overall business plan of the tourism firm (SBU), because the marketing portion of the business plan is so significant that it often makes little sense to separate the two. All in all, it is easier to understand the business plan of an operation if the marketing specifics are included.

Many tourism firms have plans that are one thing on paper and another thing in practice. In fact, some tourism firms merely review last year's plan and rubber stamp a continuation of the previous policy for the coming year. Worse yet, some tourism firms do not even have a plan to call on for guidance and direction. As mentioned before, tourism firms that fail to plan, or tourist firms that fail to plan correctly, are bound to flounder in the present without ever looking toward the future. These tourist firms tend to spend their years reacting to competitive and environmental forces without ever forging their own identity with customers. Plans that live in the present, as opposed to planning for the future, are often short-lived and best avoided.

### *A strategic planning model*

Strategic decisions consist of fundamental choices for the long-term development of the organization. As customers become more demanding (and often less loyal), as competitors become more numerous and aggressive, as environmental conditions become more difficult, then the value of planning increases. Now that we understand how a strategic plan affects an organization, and the levels of strategic planning that go on within a tourism corporation, we will now take a closer look at strategic planning in itself. Just what is strategic planning? Strategic planning is the development of a long-term plan that best utilizes the resources of an organization within the domain of the organization's mission. The strategic planning process consists of a careful analysis of the tourism organization and the opportunities and threats that competitors and environmental factors may bring.

The strategic decisions that are made depend on the focus of the tourism company, the markets in which it operates, and the tourist product that the company sells. It provides a direction and generates momentum for the organization. Tactical decisions, on the other hand, are the methods of executing the formulated strategy. The specific strategic planning process is outlined in Fig. 10.2 and a large portion of this chapter will be devoted to analysing this process. The strategic planning process consists of five steps that are linked together in continuation.

At the completion of each phase, and before continuing to the next phase, the progress made should be reviewed and the planners should ensure that they have not lost sight of the tourism company's overall mission. Thus, the feedback loop allows the tourism firm to check its progress towards

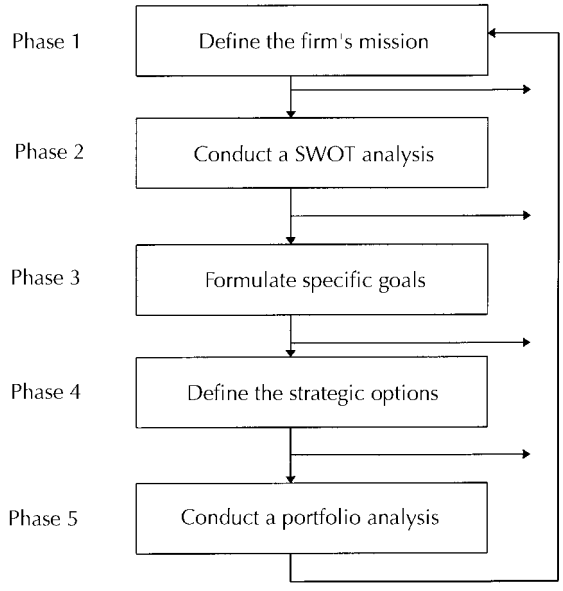


**Fig. 10.2.** The strategic planning process.

achieving the mission and incorporate changes as needed. We will now examine this process in greater detail.

## Description of the Mission Statement

Up to this point, we have discussed strategy and its importance. But one further question that you may have asked yourself is: 'How do you know which strategy to pursue in the first place?' That is a very good question. How does a tourism company know its role in the social structure? How does a tourism company know what goals to set and which strategies to pursue? All firms have a mission. The mission, also known as the business definition, is a statement, usually written, that sums up why the tourism company exists. It is a statement that anchors the multitudinous employees, departments and divisions of a tourism firm to one defining direction. It is the firm's *raison d' être*.

### *Formulation of the mission statement*

The question that tourism firms should continually ask themselves is: 'What business are we in?' The answer may appear simple at first, but is actually quite complicated in most cases. Tourism firms that invest money into new product lines or purchase other companies in seemingly related fields should first consult the(ir) defining question. And a difficult question it is as we will now discover.

#### *Too broad or too narrow?*

The mission statement should provide boundaries and direction for growth. Thus, the mission statement should be neither too broad nor too narrow. If it is too broad, the tourism firm may invest in too many peripheral activities that could detract from its focus. On the other hand, by maintaining too narrow a focus a tourism firm may experience significant opportunity costs by bypassing investments that they should entertain. This phenomenon is a study unto itself, known as marketing myopia.

The mission statement must focus the activities of the tourism firm and at the same time provide opportunities to expand. Another danger of a mission statement is that it can become too rigid. Environments change with time. Consumers' tastes

change, technology changes, the competitive market changes. If a tourism firm insists on a strict definition of their mission statement that is inflexible, they may also experience difficulty when adaptability is necessary in order to survive. It is easy to see why mission statements are difficult to develop, adhere to and maintain.

*Internal versus external functions*

Mission statements not only serve the function of guiding and directing the tourism firm, but also to let outside people understand what the tourism firm is all about. Many tourism companies have mission statements printed in their annual reports or other communications tools that assist potential investors, customers, community members and other interested parties in understanding the firm and its guiding philosophy. These statements are known as external statements, and they may differ from the internal statements used within the tourism company. Often a large conglomerate will print an external statement, while using different internal statements for the various divisions or subsidiaries.

The process of developing these statements is beneficial in itself, in that talking through and arguing a problem may also result in an optimal solution. While managers of the tourism firm are certainly more interested in adhering to an internal statement, the external statements may be used as methods of announcing changes in directions of tourism firms.

*Structure of the mission statement*

A final note on mission statements concerns their longevity. Tourism firms produce mission statements to act as guiding lights in their travels through the business world. It would not serve the purpose of the statement to have to stop and reformulate it every year or so, so it is better for tourism firms to define themselves by the needs that they satisfy rather than the tourist product they develop. A statement must be developed that can weather a changing environment to a certain degree. Change cannot be stunted, so a mission statement must be flexible enough to accept changes and still be applicable. Typically, a mission statement should serve its purpose for 5–10 years, and some are applicable even longer.

## SWOT Analysis

Growth for a tourism firm seldom occurs all on its own. Very few tourism firms are in the position of being in exactly the right place at the right time. More often, growth is a persistent dedication to striving for pre-established goals and objectives. In order for these goals be to realized, a tourism firm dedicates itself to rigorous planning with the goal set constantly in mind. The plan, then, is the engine that drives the marketing department (and the rest of the firm) towards its goals. But the plan is not functional unless it is based on a reasonable set of assumptions and premises. In other words, it is hardly reasonable to develop a plan that will not be attainable due to existing competitive pressures or environmental situations.

The first thing that many tourism firms do in the planning process is to complete a SWOT analysis. SWOT stands for Strengths, Weaknesses, Opportunities and Threats, and may also be known as the strategic audit or situational analysis. It is a methodical examination and evaluation of the internal and external operating environment of the firm. A strong SWOT analysis is derived basically by asking numerous questions about the factors that may affect the tourism firm. The main focus point of a SWOT analysis is illustrated by the questions in Table 10.2, the results of which would then be used to ascertain the implications these different factors have for the business strategy.

### *Internal analysis*

Internal factors of the strategic audit are the factors that can be most readily influenced by the firm. Funding available for investments, capabilities, technologies, knowledge and capabilities of personnel, tourist product line and assortment,

**Table 10.2.** SWOT analysis, with the principal questions listed.

| Internal analysis | External analysis |
|---|---|
| *Strengths* | Opportunities |
| Differentiation possibilities? | Potential new markets or segments to enter? |
| Sufficient financial resources? | Expansion of the tourist product assortment? |
| Appropriate competitive strategy? | Diversification into related products? |
| Good reputation with your clients? | Vertical integration? |
| A known market leader? | Possibilities to move towards a better strategic group composition? |
| Brilliant strategy for each functional area? | Contact with competitors? |
| Possible scale advantages? | Fast(er) growth in the market? |
| Protected (so far as possible) from strong competitive pressure? | Other opportunities? |
| Unique technology | |
| Cost advantages? | *Threats* |
| Competitive advantages? | Possible entrance of new competitors? |
| Capacity for product innovation? | Decreasing market growth? |
| Proven management skills? | Negative government influence? |
| Other strong points? | Growing competitive pressure? |
| | Vulnerable to recessions and other economic trends? |
| *Weaknesses* | Strengthening in the negotiation position of customers and suppliers? |
| No clear strategic orientation? | Changing wants and desires of buyers? |
| Worsening competitive position? | Threatening demographic changes? |
| Ageing facilities? | Other threats? |
| Insufficient profit from . . . ? | |
| Lack of management insight and experience? | |
| Shortage of specific skills? | |
| Bad experience with the implementation of the strategy? | |
| Plagued by internal operational problems? | |
| Vulnerable to competitive pressure? | |
| Bad image in the market? | |
| Disadvantages compared with competitors? | |
| Less-than-average marketing skills? | |
| Not in a position to finance the necessary changes in strategy? | |
| Other weak points? | |

strength of the marketing plan, sales-force ability and corporate reputation are all variables which the tourism firm can control. A SWOT analysis should above all be realistic: it is easy to come up with an analysis that assuages everyone's ego by telling them what they want to hear. In fact, it is human nature to rationalize that all of last year's effort resulted in success. But covering up areas of weakness only hurts the tourism firm in the long run. By accurately assessing the strengths and weaknesses, opportunities and threats, the tourism firm can then best determine how to allocate necessary resources and to locate areas of potential vulnerability.

The internal analysis leads us towards building a tourism company profile. This profile is a snapshot of where the tourism firm stands at that particular time. It is an easy-to-understand graphic representation of the internal situation of the tourism firm and how it compares with the competition. You can quickly gauge how potentially successful this particular tourism company can be in its market (Poon, 1993).

### *External analysis: the world outside the tourism firm*

After the tourism firm takes a long look in the mirror at itself, it must turn its focus on the outside world. This is important since marketing strategies and plans are derived based partially on what the competitive and regulatory environment allow a tourism firm to reasonably accomplish. The external analysis should focus on identifying the trends of the environment and how they influence or affect the tourism firm. Hopefully, trends or market movements will emerge that will allow the firm to be prepared in advance (being proactive). For instance, a tourism firm interested in moving into tourist product line A should certainly be aware of any changes in consumer behaviour that may have an impact on the long-term demand for tourist product A. Watching trends in consumer behaviour, competitive movements and regulatory actions allow tourism firms to avoid or take advantage of certain situations that may have not been apparent to the casual observer, thereby increasing the tourism firm's competitive position or minimizing its exposure to potential problems.

Recognizing the trends that are vital to a successful SWOT analysis is much easier if the mission of the firm is more clearly defined, since the corporate mission more narrowly focuses the arena of analysis. In other words, it is clearly easier to find something if we have been told just where to look in general, plus it prevents us from getting side-tracked and devoting too much time and energy to considering areas that are not important to the tourism firm.

While our internal search centred around the identification of internal, tourism firm-specific capabilities and development ('internal trends' to a certain degree), the external search will look more closely at (environmental) opportunities that may exist. By looking outwards, tourism firms may see gaps (opportunities) in the market that other firms have not covered, or gaps that are about to open due to regulatory changes, competitor action or social or economic movements. For instance, the tourism firm that can spot a coming recession may begin to focus on value-based promotions and tourist products sooner than its competitors. Also, it is interesting how a potential threat can quickly be turned into an opportunity for the tourism firm based on swift 'proaction', a skill which will be of increasing importance as tourist product life cycles shrink (time-wise) and competition intensifies.

Once the SWOT analysis has been completed, a tourism firm has a strong picture of what its capabilities and vulnerable areas are, where it stands in the market when compared with the competition and what potential trends and opportunities may impact the tourism firm. On this information, a marketing plan can then be more accurately formulated.

## Goal Formulation

Once the tourism firm has determined where they stand in the market based on an evaluation of their strengths and weaknesses, they can more readily set goals. The tourism firm's goals are basically the level of achievement that they want to attain in a certain area. Not only does the tourism firm itself have goals, but the individual departments within the firm will have goals as well, in fact, as we reach deeper into the organization, we find that the goals become more specific and detailed (going from a more strategic nature to a more tactical nature). For instance, a major tourism holding company may have a goal to grow by 12% within the next calendar year. This may translate into a goal for Division A to grow by 12% within their tourist product market, and the resulting marketing-department goal may be to grow by 12% within a certain tourist product line targeted at a certain group of customers. The sales goals of this corporation may also hinge on the overall goal. Not only would the sales department have a specific goal, but each sales market and each sales representative within the territory may have individual goals for individual customers.

Goals are effective only in certain cases, and many goals, if formulated incorrectly,

**Table 10.3.** Good and bad examples of goals.

| Examples of badly formulated goals | Examples of well-formulated goals |
|---|---|
| *Long term*<br>Our goal is to develop a leading tourist product development position in the industry | *Long term*<br>Our goal is to devote at least 20% of gross profit to research between 2000 and 2002, resulting in at least five new tourist products introduced in the market by the end of 2002. |
| *Short term*<br>Our goal is to increase sales in 2000 | *Short term*<br>Our goal is to broaden our market share in 2000 from 21% to 25% by opening 22 new travel agencies and increasing our advertising budget by 15% |

may even detract from the success of the operation. For a goal to be effective, a few things should be kept in mind (see Table 10.3 for examples of some well-formulated goals, and some not-so-well formulated goals).

1. The goals should be measurable in enough detail to give meaning and direction to those attempting to achieve the goal.
2. The goals should be achievable. No one benefits from goals that are set beyond reasonable attainment. When goals are known to be unreasonably high or even 'impossible' to obtain, then people will sometimes even work *less* at trying to achieve them because of their impossible nature.
3. Both long-term goals and short-term goals should be developed. Although the present is important, tourism firms must constantly know down which path they are travelling to the future, and make sure present goals and actions are working towards the realization of the future ones.
4. The goals should be ordered in terms of priority to the tourism company. If different divisions are all chasing widely divergent goals, inefficiencies through a lack of coordination may be experienced as a result. This is the case where one department (i.e. finance) puts its goals first and ignores the needs of other departments (i.e. marketing) which is detrimental to the tourism firm's overall well-being in the end.

## More on Strategic Business Units

Earlier in the chapter, we discussed strategic business units (SBU) and how they can even be thought of as independent companies. An SBU can vary in size and scope; it can market just one tourist product or product line for a company, or it can entail the marketing of multiple lines of tourist products to multiple targets. We can identify some characteristics of an SBU.

1. An SBU generally has its own mission statement and its own mission.
2. An SBU is oriented towards the market(s) that it serves, as opposed to having an internal orientation.
3. SBUs generally, but not always, have a clearly defined target group that is different from other target groups within the tourism firm.
4. SBUs are most always directed by an experienced, marketing-oriented manager.
5. Most SBUs are responsible for controlling their own resources.
6. SBUs tend to have their own separate strategy and strategic plan, distinct from the rest of the tourism firm.
7. Most SBUs have their own set of com-

petitors that are often unique and different from the rest of the tourism organization.

8. Finally, most SBUs possess a differential advantage, which warrants their being identified as a separate operating unit.

### *SBU organization*

Strategic business units can be organized in a variety of ways, and no particular way is superior. SBU organization schemes are developed by corporations to best meet their individual needs. Some tourism corporations organize by segmentation variables, which are the variables that tourism firms use to segment their markets. For instance, a tourist corporation may organize their SBUs by target-consumer age (e.g. Saga holidays); or they may have one SBU that produces tourism products for young consumers and another that produces for middle-aged consumers. The separate segments are thus homogeneous, and can be more readily accessed with a similar marketing plan.

Other methods of SBU organization may include geographical location. Also, many firms engaged in international marketing may have different SBUs in the separate countries or territories of the globe that they serve. This may be especially useful if the territories are quite different in culture, language or methods of doing business. Tourism companies may also choose to build their SBUs around different tourist products or product lines, or around the needs of the customer. Target-market customers, or their channels of distribution, often provide the homogeneity needed for SBU organization.

### *How Many SBUs?*

The number of SBUs that a tourism company has is unique to each firm. Depending on some of the factors mentioned above, firms may have only a few SBUs or several dozen. But however many that a tourism firm may have, they should be appropriate for the size of the organization and the extent to which the corporation wishes to delegate its authority. A trade-off exists between tourism firms that are more comfortable with a centralized level of control, and those tourism firms that prefer segmenting for a sharper focus within the decision units. But even larger tourism companies that market literally hundreds of products still try to limit the number of SBUs to a few dozen. In fact, some recent research indicates that some of the largest firms tend to have fewer than 30 SBUs. Of course smaller tourism companies should start with few SBUs and add SBUs only when warranted to avoid unnecessary organizational costs and duplication of effort.

The move towards an SBU-based strategy has been increasing in recent years. It is suggested by many management and marketing consultants, such as the Boston Consulting Group, as a way of more clearly identifying the businesses that tourism firms desire to be in, and appropriately organizing the corporation to compete in those businesses. More and more, managers are using the product portfolio analysis, advanced by the Boston Consulting Group, as a method of analysing the strategic profile of their company. The portfolio approach is based on three basic concepts, the product life cycle, the products' expected cash flow and the learning curve.

## The Life Cycle and Cash Flow

Years of observation have shown us that tourist products tend to live a limited life, somewhat like humans. Most products tend to experience a birth, a rapid growth phase, a maturing phase and then a decline phase. The speed with which a tourist product goes through these phases varies with elements that affect sales such as advertising spending, number of competitors in the marketplace, etc. One of the aspects of the life cycle is the growth rate of the tourist products. It would appear logical that a tourism firm should employ different strategies at different phases of the tourist product's life cycle in order to deal with the changing circumstances at these different points in time (Buttle, 1992).

A tourist product that experiences rapid growth tends to require a large amount of

cash to finance the growth. Growth does not come without advertising support, distribution channel maintenance, sales promotions and other tourist product investments, and those all require cash on the part of the firm. One way of increasing the flow of cash to the tourism firm from the market is to reduce some of these growth-supporting expenditures. In other words, once the tourist product has been established and has been entrenched into the mind of the consumer, and is on sufficient shelves in the travel outlets in the market, it may not take as large a cash investment for adequate support. Thus, tourism companies often find that the cash requirements of a tourist product lessen after a high-growth phase, and the cash flows to the company improve correspondingly. This is often the case with older, more established tourist products.

One thing tourism marketing managers must do is control this balance between the flow of cash into the tourism firm and the growth of the tourist product in the market. The marketing manager has the ability to reduce advertising and other means of support in order to slow growth, and possibly increase the net cash flow, or increase support to increase growth and possibly decrease the flow of cash. We will delve more into this aspect in a moment.

## The Learning Curve

As tourism companies strive to increase their market shares, they are also helping to ensure their long-term success. Not only does increased share boost sales and cash flow in the short run, but it drives down operations and marketing costs per unit; sometimes as much as 20–30% every time sales double. Two factors work in the tourism firm's favour: economies of scale and the learning (or experience) curve.

Economies of scale are based on the premise that a large tourism firm is more efficient than a small tourism firm. As tourism firms grow, they can add units of operations at increasingly less expensive rates as overhead costs are apportioned out among more and more units. While the overall operation costs per unit are dropping as volume increases, so too are the marketing costs per unit. Similar economies affect the selling of the tourist product since additional advertising can be purchased at larger quantity discounts, marketing department members become more knowledgeable about their market circumstances and salespeople can efficiently add more sales without greatly increasing their costs. This is known as the learning curve or experience effect. As people learn more about their business, they become more effective and efficient at it.

It is easy to see how the effect of the learning curve can place a tourism firm in an upward spiral. As volume increases, costs per unit drop, which allows a differential cost advantage over competitors. The tourism firm can utilize this advantage in a variety of ways: they may choose to retain the cost advantage through increased margins, they may choose to drop their selling price, they may choose to increase their promotional expenditures or they may choose to reinvest the money into their tourism firm through superior technology, more efficient operations or more aggressive research.

## Portfolio Analysis

We have established that increased market share allows tourism firms a specific advantage that can be realized in a variety of ways. But since marketing is not accomplished in a vacuum, the tourism firm must also look at what is transpiring in the rest of the market. Earlier on we mentioned that as markets grow the tourism firm's product requires more capital and investment in order to maintain its place (share) in the market. Tourism firms may become more efficient and have more to invest, but even more money may be required to fuel the engine of a rapidly growing tourist product segment, or else they will have a stable but decreasing (in terms of market share) piece of the market. Obviously, tourism firms will make decisions on where to invest their funds based on their own picture of success as well as what they predict their market will do.

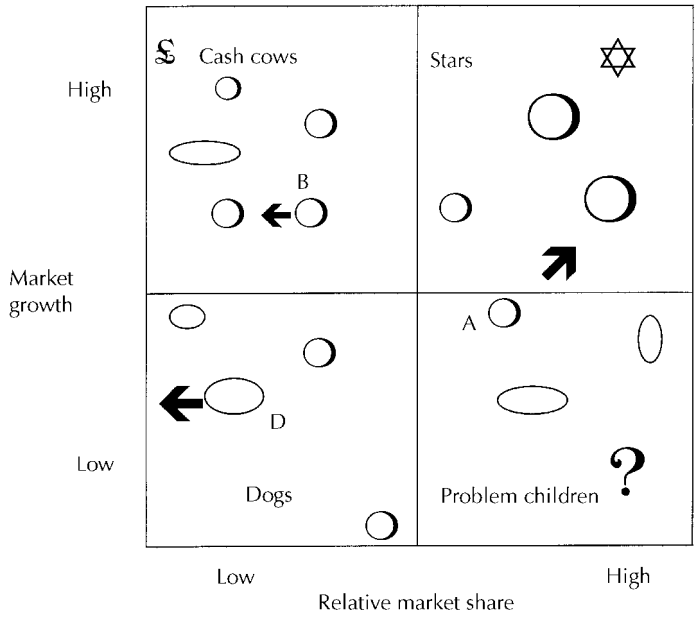


**Fig. 10.3.** Boston Consulting Group matrix.

But this picture is further complicated when we consider that tourism firms very often have multiple products or product lines, and these tourist product lines are in different markets, each with its own growth curve. As tourism firms juggle the decisions regarding the growth or stagnation of their own products, along with the amount of money that each separate tourist product or product line is generating, it can become a monumentally confusing task to identify and implement optimal planning and allocation of the tourism firm's resources.

### *The Boston Consulting Group matrix*

A simple, two-dimensional matrix developed by the Boston Consulting Group (BCG) was developed as a guideline to assist firms who face these investment dilemmas. Also known as the product portfolio matrix, it works well for those firms that have multiple product groups, or a portfolio of products. As shown in Fig. 10.3, the matrix is made up of a horizontal axis and a vertical axis, and the four quadrants of the graph that are derived from the axes.

On the vertical axis, we have market growth. Market growth is the percentage of annual growth that a tourist product experiences adjusted for inflation. In this case, we have defined a low growth rate as 0%, a moderate rate as 10% and a high growth rate as 20%, although the distinction between low, moderate and high will vary greatly with the industry and product line. Remember that as the growth rate increases, the tourist product requires greater investment to fuel its continued growth.

On the horizontal axis, we have relative market share, which is calculated by dividing our market share by that of the three largest competitors within our strategic group. So if our share was 20% and our competitors' share was 25%, then our relative share would be 80%. Obviously, if we are the market leader, then our relative market share will be greater than 100%. Recall that the higher the share, the greater the differential cost advantage the tourism firm possesses and the better the opportunity for success.

By combining these two axes, we can locate and plot almost any market situation. As you can see, the plots (SBUs) will fall into

one of the four quadrants identified. We can therefore establish the four quadrants as follows.

*Stars*

Tourist products that experience high growth and at the same time enjoy a high share of the market. Recall that if a tourist product has a high market share, economic advantages through economies of scale may be realized, which contribute to potentially higher margins and increased cash flows. The extra cash will be required if the tourist product is also growing at a rapid pace. Constant funding is needed to support the additional advertising, promotions and other sales efforts needed to sustain its pace. Having a star tourist product is an excellent position for a firm to be in, but only because of the high share. Many stars reach a position where the cash generated and the funding required are balanced, easing cash flow management problems. Also, once the rapid growth is complete, the high share suggests that the tourist product may become a cash cow for the firm.

*Cash cows*

Tourist products that generate a large amount of cash because of their high market share, but do not require additional investment because they are not growing. A typical cash cow may be a tourist product that is a leader in a stagnant or mature market. High market share ensures the economies of scale advantage over competitors, but the lack of growth means that the funding is not required to be poured back into the tourist product. Tourism firms like to have cash cows around because they can help finance the growth of other tourist product lines or other projects, also known as cross subsidization. Cash cows do not have an infinite life, and eventually will experience a decline in sales and market share. But while they are around producing large net cash flows, tourism firms certainly find them advantageous.

*Question marks (or problem children)*

Tourist products that are experiencing rapid growth, but have little market share to fund their growth. Hence the name question mark; tourism firms do not know the future of the product. Question marks are found quite frequently in new and uncertain markets; it is unknown what life the tourist product category will have, let alone the firm's actual product. If the tourist product is growing rapidly, it is producing a great need for funding, but with a low share it has not attained a cost advantage over the competition. So tourism firms must decide just how long to fund a product that may have little long-run advantage. Many question marks are funded by the extra cash produced by the cash cow(s).

*Dogs*

Tourist products that are not growing, nor have high market shares. Generally, dogs simply are good tourist products, or are good tourist products in a product category that lost appeal to the consumer. Dogs enjoy few, if any, advantages over their competitors. Although there may be some reasons for keeping this type of tourist product alive (for instance, the continuation of the brand name until major modifications are ready or to round out a tourist product line), the major decision becomes how to divest this tourist product or drop it from the line. This will be discussed in more detail in the next section.

### *Marketing planning applications*

We have described the above tourist product situations on an individual basis. Of course, most tourism firms find that they have different product lines, often within the same SBU, that fit into different tourist product categories. It is perfectly common to have a star, a cash cow, several dogs and a question mark or two, all within the same tourist product category. And just as financial managers seek to diversify away risk through balanced portfolios of financial investment instruments, tourism marketing managers also seek to manage their product situation as if it were an investment portfolio. Tourism firms would like to have a product that is a star, another that provides investment funds (a cash cow), and a question mark that has the potential to become the firm's next

star. And as identified above, even dogs have their use to the tourism marketing manager, although it may not always be immediately apparent.

It is important to note that tourism managers have certain control over where their products lie, and where they are destined within the product matrix. By increasing investment, a tourism manager may be able to adjust the growth of a product, or by cutting price, the tourist product may attain greater market share. Tourism managers will look at their whole portfolio of products, and much as seen in Fig. 10.3, will plan the path that the tourist product should take to best support the needs of the whole SBU. The path will determine the specific strategy that a manager should utilize in order to attain the goal (Beerel, 1998).

Four strategic alternatives are available for the manager:

1. *Build*. Building market share suggests an aggressive growth strategy where market share is more important than profit margins. By focusing on additional target groups or outlets for the tourist product, new customers may be attracted. Question marks are an excellent example of the tourist product type that needs to be supported with a build strategy. Funding for this strategy is not always easy to find since there is some risk involved, but cash cows are a prime source.
2. *Hold.* A defensive strategy that merely maintains, or holds market share constant may be required for a cash cow. Cash cows eventually decline, and with the decline goes a tourism firm's source of funding projects. Moves are often made to prop up the cash cow without attempting to gain share.
3. *Harvest.* This is an attractive short-run strategy for tourism firms in need of cash. There is a lag between the cessation of promotional support and the decline in sales of the tourist product. Tourism firms may decide to reap the benefits of past investments by removing support from the product while enjoying the continued sales (and cash flows). This strategy is popular for dogs, question marks or even for cash cows that have uncertain futures. But a tourist product will eventually be affected by a decline in promotional support, and firms must constantly remind themselves that there is a cost for pursuing this strategy.
4. *Divest.* Finally, when the tourism firm's financial resources can be better used somewhere else, it is time to get out of the market. Tourism firms will often manage this divestment process as closely as a more aggressive strategy, since it is difficult to know just when to discontinue the product. Tourist product lines are kept alive just long enough to sell them off before the brand is either forgotten or tarnished by the poor sales. Other tourism companies may decide to drop the brand name altogether.

### *An evaluation of portfolio analysis*

Although many tourism firms subscribe to the Boston Consulting Group (BCG) matrix and the accompanying strategies, many others do not. We will take a moment to analyse the positive and negative aspects of this process.

#### *Advantages*

If a tourism manager uses the BCG approach, he or she is forced to evaluate the product or SBU on market-share and growth-rate perspectives. This helps ensure the long-run viability of the tourist product, and inhibits management from making decisions in the short run that may hurt the overall success of the SBU. The matrix also allows tourism managers to be aware of the product's needs. By analysing the tourist product in isolation, and not comparing it with other products within the SBU, the manager may recognize certain trends (growth may be decreasing while market share remains strong) that would otherwise remain hidden. Finally, as mentioned before, the portfolio approach allows portfolio management techniques. For example, the tourism marketing manager has several products that can be used to support each other with necessary investment funding (cross-subsidization). The

importance of the total tourist product portfolio of the SBU will be given greater consideration than just the one or two main products.

*Disadvantages*

While the portfolio approach is worthwhile, it is not easy to achieve. The information needed to build the portfolio matrix for the total market is difficult to come by, and painstaking to properly maintain. Some tourism managers may find that it is more trouble to acquire the necessary information than it is worth. This is probably a somewhat myopic view in most cases. Secondly, the position and description of the tourist products may be subjective. Even though the tourist product may fall into the quadrant of the cash cow, industries that are under siege may not be strong enough to support the profits that a cash cow should reap. In other words, just because the matrix suggest one thing, the uniqueness of the tourist market may suggest another. Finally, recent research has identified that there are some industries that do not necessarily subscribe to the economies of scale advantages that the matrix is based on. In many service industries, the costs of producing the service do not change as much with increasing volume to provide the advantageous position and the resultant cash benefits as a product-based industry might. Therefore, use of the matrix should be carefully evaluated as to its fit with the SBU's particular industry (Aaker, 1999).

### *An alternative: the GE matrix*

In recent years, the General Electric matrix has become popularized because it can handle some of the shortcomings of the BCG matrix. The BCG matrix tends to simplify things on just two dimensions, growth and market share (however, these are two quite important dimensions). In many cases, there is also a need to assess return on investment, or profit, instead of only cash flow. Furthermore, the GE matrix makes use of some very important qualitative information: primarily how strong the unit is compared with competitors, and how attractive an investment opportunity a particular industry offers.

This technique is also known as the Industry Attractiveness/Business Strengths matrix. By matching the strength of the SBU or tourism firm with the opportunities offered by a specific market, the matrix gives us a suggested direction of how to manage the particular situation. We will now examine these two dimensions a little more closely.

*Industry attractiveness*

The attractiveness of an industry can mean many things. As a tourism firm looks at an industry in an attempt to gauge investment potential, they may consider the growth rate of the industry, the average profit margins experienced by tourism firms competing in the industry, how many competitors there are, the strengths of the individual competitors and the areas or niches in the market that they do not cover. It also incorporates a factor that was discussed in the previous matrix, economies of scale. Each industry has a unique cost structure that contributes to the ability to attain efficiencies. Table 10.4 provides us with an overview of some of the factors that one should consider when evaluating the attractiveness of a potential investment.

Table 10.4 provides some general characteristics that tourism managers should evaluate. However, not all areas may be of significance for every decision. One possibility is to assign weights to the characteristics that are the most important to the manager. Evaluation can be made of each characteristic on a scale of 1 to 5 and the factors weighted so the combined weights sum up to 1. After multiplying the factor score by the weight assigned, tourism managers can sum up the results to score a total value weight. The tourism manager may want to compare this industry score with other industries under consideration to determine which ones are the most attractive from an investment perspective.

*Competitive strength*

The horizontal axis indicates the position of (business) strength that the tourism com-

**Table 10.4.** Some criteria for assessing the attractiveness of the sector and the competitive power.

| Attractiveness of the sector | Competitor power |
|---|---|
| Market size | Relative market share |
| Market growth percentage | Market growth potential |
| Power position of the suppliers | Quality of the product |
| Power position of the customers | Brand image |
| Extent of competition | Location of the tourism company |
| Average profit margin | Profitability |
| Threat of potential entrants | Insight into the market |
| Threat of substitute products | Price competition |
| Cyclical trends | Contract with the management |
| Scale advantages | Effectiveness of the sales force |

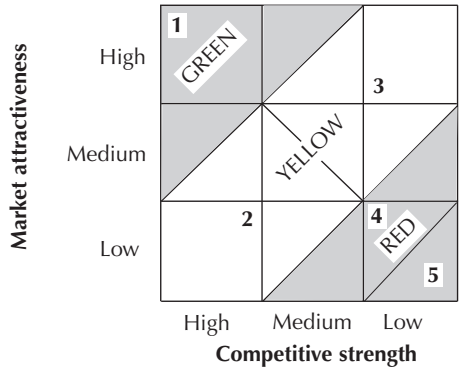


**Fig. 10.4.** The General Electric Market Attractiveness-Competitive Position Model. 1, Hotel chain; 2, rollerblade, fast food; 3, discotheques; 4, casinos/gambling; 5, caravan parks.

pany feels its unit possesses. A tourism firm can gauge the strength of its SBU by items such as relative market share, quality, image of the brand and profitability (a more complete list is provided in the right column of Table 10.4). The tourism manager will analyse the strength of his or her SBU in much the same way that he or she determined the attractiveness of the market; by weighting and summing the appropriate factors, an approximation can be made.

*Determining the portfolio*

Next, the tourism manager will want to plot these two indices to see where his or her SBU lies on a strengths/industry attractiveness scale (Fig. 10.4). Each circle in the matrix represents a tourism firm's SBUs. The circumference of the circle represents the size of the industry, not the size of the SBU as in the BCG Matrix. The band in the circle represents market share.

Note that the matrix is divided into green, yellow and red zones. These colours mean much the same thing that a traffic signal might. In the green zone there appears to be strong match; the tourist market is quite attractive to the firm and the product offering of the SBU is quite strong. Although the tourism manager should evaluate the issue thoroughly, the matrix suggests that this match is too good to pass up, and the firm should go ahead and invest in this market. Likewise, the yellow zones indicate that the match between the strengths of the tourism company and the attractiveness of the industry is less than optimal, so the firm should proceed with great caution. Finally, the red zone indicates that the industry and the SBU situations are not conductive to investment and the tourism firm should stop and proceed no further.

Can these two matrices be used simultaneously? Yes, as some tourism firms choose to utilize the BCG matrix first to divide their SBUs into appropriate divisions, and then use the GE matrix for a more detailed analysis and evaluation of potential strategy. Combined, the matrices can provide a relatively thorough picture of the goals and financial consequences that tourism firms face (Deegan and Dineen, 1997).

**Table 10.5.** Ansoff's product/market expansion matrix.

| Product tourist market | Current tourist products | New tourist products |
|---|---|---|
| Current markets | Market penetration | Product development |
| New markets | Market development | Diversification |

## Growth Strategies

Probably the most important stage in the tourist product's life cycle is the growth stage. During growth, tourism firms begin to recoup the vast investments of product development and promotional expenditures necessary to penetrate a market. Many tourism firms begin to experience their first actual profitable months during the growth phase. Further, the growth phase can be thought of as a slingshot, in which the tourist product is hurled into the future. If a tourism firm does an excellent job of managing cash and growth, brand identity and target markets, then future success is more certain. On the other hand, poorly handled growth phases can prevent the tourist product from ever reaching its potential market share. For this reason, it is useful to look at some particular growth strategies that have proved popular for many tourism firms based on their particular market situations.

### *Expansion strategies*

If a tourism firm has chosen a growth path for their product, there are several directions that they can take. They may choose to penetrate deeper into an existing tourist market, they may choose to develop their market, or they may choose a product-development route. Finally, they may even choose to diversify their tourist product or product line in some way. What determines the direction of growth that a tourism firm takes is dependent on two factors identified in the Ansoff product/market expansion matrix shown in Table 10.5.

#### *Tourist market penetration*

When a tourism firm is selling an existing product that it currently offers to an existing market that it already serves, it is pursuing a market-penetration strategy. Techniques designed to increase sales will result in deeper market penetration (increasing market share).

This can be done in one of two ways. First, market penetration refers to selling more of the tourist product to the existing customer base. This can be accomplished by either increasing the size of the contents (the amount) that the customer buys, or by increasing their usage rate. Second, the firm may choose to go with a tourist market broadening strategy. This means more target customers within the same existing tourist market purchase the product. New customers are hard to come by when you consider that this usually requires converting them from the tourist brand that they normally purchase. Thus, a penetration breadth strategy is generally more successful in tourist markets that are continuing to grow (Knowles, 1996).

Of course, whether you are going after new customers, a competitor's customers or your own customers, this usually requires a change in the marketing-mix strategy. The promotion of the tourist product could be altered through increased advertising or publicity, better shelf-space displays in the travel outlets or intensified selling efforts. A price change could catalyse sales by offering sales promotions, vouchers or even a reduction in the selling price. Finally, changing the channels of distribution may make the tourist product more attractive. The tourism firm may sell the tourist product in a different type of outlet or they may make it available in more remote locations.

#### *Tourist market development*

Another method is to develop the tourist market by finding new uses for the product, or by selling the product to new target segments. In the Ansoff matrix this means

selling the same tourist product to new customers. This may entail finding new segments who have previously not been exposed to the tourist product. Although the tourist product may not change at all, many new consumers are automatically potential customers. Also, a tourism firm may wish to choose a different demographic target segment within the same country, or sell the product to a new institution or industry group, for example.

But is it reasonable to think that tourism firms have these opportunities open to them that they have not already tried to take advantage of? Possibly. If we consider that a tourism firm may not have much expertise or experience in certain geographic or demographic areas, they may have shied away from the market in the past. So it is easy to see why many tourism firms utilize intermediary specialists of some sort who are more familiar with these potential markets. Marketing communications campaigns and distribution-channel changes are the two most practicable mix variables to utilize in reaching new special-interest tourists.

*Tourist product development*

Another strategy includes altering the characteristics of the tourist product in order to make it more attractive to the same general target market. By increasing the quality of the tourist product, or by offering more of the product for a disproportionate increase in price, firms can significantly enhance the value of their tourist products to existing customers. Further, customers that previously were non-users or purchased competing brands may now consider purchase. Typical tourist product modifications include making the tourist product more accessible or changing attributes and features of the tourist product in order to expand its customer base (Laws, 1995).

*Diversification*

Finally, a tourism firm may choose to make more dramatic changes. By diversifying, a tourism firm attempts to generate new products that they will sell to new customer target groups. Tourism firms diversify for more reasons than to simply increase their sales. There may be a tourist market that they feel offers aggressive growth opportunities for them. Generally, because the market is one that the tourism firm is unfamiliar with, companies will often purchase a firm that is already competing in the market. This way they gain entry into a tourist market, they start with loyal customers to their purchased brand, and they have eliminated one of their (potential) competitors. Other tourism firms choose to diversify in order to spread the firm's risk among more markets, or to smooth out seasonal sales patterns. We will now give diversification the closer attention it deserves.

## Tourism Diversification Strategies

Diversification is a generic term that we use to imply that a tourism firm is seeking new customer groups, or target markets, and is utilizing new products for this task. Table 10.6 illustrates the four primary diversification strategies: vertical diversification, horizontal diversification, concentric diversification and conglomerate diversification.

### *Vertical diversification*

Vertical diversification (or vertical integration) refers to a tourism firm taking over new markets or product groups within the firm's vertical channel of distribution. Integration can take the form of moving the tourism firm closer to the end user or closer to the product source. When the tourism firm integrates a function between itself and the consumer, it is known as forward integration. Forward integration may include a large restaurant chain such as McDonald's owning the local restaurant as opposed to running it as a franchise. When the tourism firm integrates a function between itself and its supplier(s) it is known as backward integration. Integration is not without its risks, however. Many tourism firms are ill-suited to the industries that they integrate, even though they may seem to go together. Generally, however, tourism firms find that they can often (but not always) save overall costs through increased control of the channel function, which may contribute favourably to the

**Table 10.6.** Diversification matrix.

| New tourist products / New markets | Current tourist products | New tourist products |
|---|---|---|
| Firm is own client | Vertical integration | |
| Same type market | Horizontal diversification | |
| Similar type market | Marketing and technology-oriented concentric diversification | Marketing-oriented concentric diversification |
| New markets | Technology-oriented concentric diversification | Conglomerate diversification |

firm's bottom line (profits). Therefore, before attempting forward or backwards integration, a tourism firm needs to be certain that it has the skills and requisite to take on the functions of the channel intermediary that it is buying or replacing.

### *Horizontal diversification*

Horizontal diversification is diversifying into new tourist products, but targeting your existing customer base as the potential customers. Often firms feel that they have established a brand loyalty with current customers or a certain knowledge of their markets which allows them to introduce new products. An example might be if a travel agent, who normally books vacations, diversifies by purchasing a company selling travel insurance. The travel agent is serving those same customers, but in a new manner. Horizontal diversification can be distinguished from horizontal integration by the newness of the tourist product to the firm. (For instance, if the travel agent had purchased a competing agency it would have been an example of horizontal integration.)

The advantages of horizontal diversification are distinct. First of all, the tourism firm is offering an additional product to a current customer base, so not as much effort has to be expended to locate new customers. Second, if the tourism firm already has significant knowledge of or familiarity with the customer base's buying habits, then they can be more efficient in the ways that they serve them. But a major disadvantage of horizontal diversification is the flip side of the last issue mentioned: the tourism firm has not spread out their risk, as in most diversification schemes. In fact, they may have exposed themselves to even greater risk by investing even more in the same tourism market. In our example, if the travel industry endured a serious downturn, then our firm would suffer potential losses from both the travel agent side and the travel insurance side.

### *Concentric diversification*

Concentric diversification entails the introduction of a new tourist product to a new, but related market. By related we mean that the tourist market must be somewhat similar to the firm's existing market in either a marketing sense (customers, demographics, needs) or an operational sense.

### *Conglomerate diversification*

Also known as lateral diversification, conglomerate diversification involves marketing tourist products that are not familiar to the firm, to customers who are not their normal customers. It is so named since it is not unusual for large tourism conglomerates to diversify the risk of their portfolios of SBUs by seeking completely new markets. Further, most conglomerate diversification is achieved by purchasing a company or a division of a company that is already in operation. While this strategy

gains a tourism firm a new product line and a new set of customers to serve, it can be quite risky since the new managers usually know very little about the new customer base or the nuances of the new market environment.

## Selection of Growth Strategies

Although there is no specific set of rules or guidelines that allow a tourism company to pick and choose the market growth strategy that will suit it best, there are a few useful clues. The place to start is with the SWOT analysis discussed earlier in the chapter. This will help identify the tourism firm's strong points, their mission and their goals. Next, by charting the strength of the tourist market, whether it is growing or in decline, and looking at the strength of the competition, a firm can then determine its actions (Tribe, 1997).

For instance, if a tourism firm is fortunate enough to be in a position where they are strong, the market is growing and the competitors lack particular skills, they can usually attack aggressively by expansion. They may choose to attain a strong anchor position in the tourist market, purchase one or more of their weaker competitors (if allowed by regulators) and then diversify by striving for a more complete path to the customer through vertical integration. Other strategies are also available for other tourist market situations.

## Tactical Market Planning

As we have already discussed, strategic planning consists of broad, goal-oriented statements that specify the major directions in which a tourism firm will head over the next 1–5 years (or longer). There is little in a strategic plan or a strategic statement, however, that tells us exactly how the goals will be accomplished. The strategic plan guides tourism companies in the medium to long run, but they must also rely on specific tactics, or a tactical plan, to guide them on a day-to-day basis.

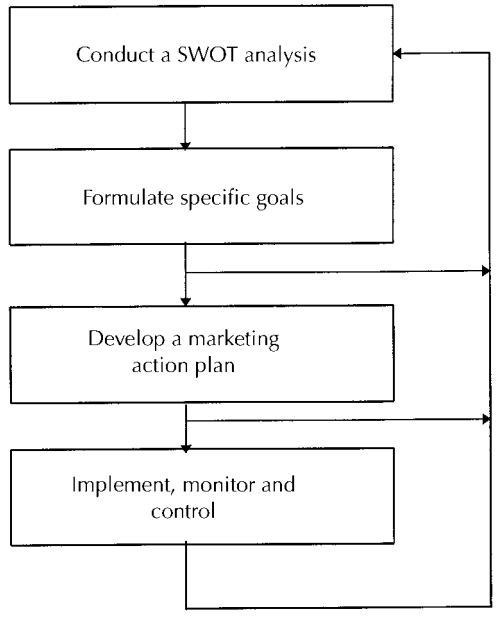


**Fig. 10.5.** Tactical marketing planning.

Figure 10.5 provides us with a four-phase model of tactical market planning. An important element to note is that a tactical plan is not developed in a vacuum. It should be a logical continuation of the strategic planning and the resultant goals. Control is provided at the end of each phase of the strategic plan through a feedback loop to ensure that the plan is still on track and to make any necessary modifications as needed.

### *Phase 1: SWOT analysis*

The first step a tourism firm takes is to construct a SWOT analysis, which as we know from earlier is an internal and external analysis of an organization or an SBU. This takes shape in the form of a matrix in which the strong and weak points of a tourism firm as well as the opportunities and threats facing it are presented and summarized. Much of the information necessary is available internally or can be had through conversations with colleagues.

The SWOT analysis covers the market (size and nature of the tourist market, the firm's own position in the market, trends),

the position of the competition, the most important market factors, a description of the target group and its utilization pattern or amount, the (business) results of prior years, the distribution structure and the firm's own activities (operators, promotion strategy, etc.)

### *Phase 2: goals*

Those who are responsible for developing the marketing plan should include as much detail as possible in formulating the tactical goals or objectives, otherwise it makes little sense to continue with the rest of the phases in the planning process. As one senior manager remarked: 'if you don't know where you want to go, then one way or another you will always arrive there. And as soon as you arrive there, then you won't take the trouble to go any further.' In other words, setting a goal such as 'We will increase our market share' will not challenge a tourism firm to do and achieve as much as a goal such as: 'We seek to improve our market share in the concentrated birdwatching segment in the special interest tourism sector from 10% to 15%'. Once a tourism firm can put its exact tactical plan to paper, then it is ready to develop an action plan.

### *Phase 3: marketing action plan*

Once the tactical goals are known, assets and resources may be allocated. Tourism marketing managers make decisions regarding the marketing-mix elements and how to optimally combine the 4Ps (Price, Product, Promotion, Place) in order to attain the established tactical goals. The marketing action plan identifies how the department will accomplish the goals on a step-by-step basis utilizing the 4PS.

The sequence of events in an action plan is uniquely important since tourism firms must integrate their overall efforts in order to effectively achieve their goals. If a tourism firm releases an aggressive promotional campaign that inspires buyers to seek out their product, then they must also ensure that there is enough of their product on the travel outlets' shelves or in the distribution pipeline in order to meet this demand. If not, a large amount of advertising money would have been wasted and customers may have been upset and irritated at the out-of-stock situation, thus generating an unfavourable attitude towards the tourism firm (they may possibly buy a competing product to satisfy their 'immediate need').

The information in the marketing action plan should be specific enough that employees know when events are to occur, how much funding will be available to support the events and how they will be carried out. Projected target dates should be established for tourist product introduction, promotional campaigns, operations planning, and all other events that could affect the marketing mix. Of importance are the financial consequences the marketing action plan provides in the form of budgets and projected cash-flow forecasts.

Providing accurate sales forecasts (the basis of the financial consequences calculations) is one of the most important, and most difficult functions of the tourism marketing department. Decisions to hire, fire, invest and divest are all based on expected sales. But accurate forecasts are difficult to come by because of a lack of necessary information and the general level of uncertainty in tourist markets. Tourism firms not only do not know what their closest competitors are going to do, but they also must estimate general economic and consumer behavioural trends, which is no easy task. Tourism firms should not only make one forecast based on current data but also make some alternative ones based on different results so they will be ready for any 'surprises' in the market. Finally, the tourism firm needs to specify how they will track and measure the (future) results and determine if the objectives have been achieved.

### *Phase 4: implementation, monitoring and controlling*

As the components of the marketing plan are implemented, careful control methods should (already) be established. Reviewing goals and expectations and comparing them with results achieved allow tourism managers to keep a watchful eye over the process. If tourist product introductions or promotional campaigns are not producing

**Box 10.1.** Marketing planning strategy.

There are five main strategy components that allow tourism companies to be categorized. Marketing objectives concern the objectives that a tourism company hopes to achieve through their marketing programme. There are basically three types including defensive objectives, steady sales-growth objectives and aggressive sales growth or market domination. It is very likely that more aggressive strategies would be more appropriate for rapidly growing tourism markets, whereas mature, sluggish markets may dictate a more defensive strategy. Strategic focus is the focus the tourism company will adopt to achieve its objectives. The most common strategic foci are market expansion, winning of market share and focusing on productivity and cost reduction. Again, the focus may be partly dependent on the stage in the tourist product or industry life cycle that the company finds itself in. Market targeting refers to the portion of the tourist market that the company will aim at in order to implement their focus. Some tourism companies may want to target a mass market, others may choose certain groups (a social class, age group or geographic region for example) or even certain individuals as their target. Quality positioning is the competitive stance that tourism companies will take in relation to the quality of the product as it compares with the competition. A tourism company may choose to have high-, moderate- or low-quality products in comparison with their competitors. Finally, price positioning is another way to relatively position a tourism company above, below or near the competition. We would expect that in most cases, if everything else is held equal, low pricing will tend to be the more successful strategy (but in actuality, this is seldom the case).

After clustering the companies according to their strategy components, five generic market strategies can be identified. A brief description of each one follows:

1. The *Aggressors* are tourism companies that are out to win and expand their market share through aggressive sales growth and market domination. They usually target the entire tourism market as their customer base. They try to sell a higher quality tourist product than the competition, but they will not charge a higher price for it. They compete in new and growing tourism markets and, therefore, must respond to a rapidly changing set of customer needs. They are leaders in new tourist product development and are not afraid to take on any competitor. They usually reap the benefits since this strategy group outperforms all the other groups.
2. *The Premium Position Segmenters* are just that. They sell a premium tourist product and charge a premium price for it. They develop this premium tourist product through an aggressive new tourist product development programme. Obviously, they know that the whole tourist market will not be willing to pay a high price, so they segment the portions of the market that they will target for sales. They are out to win market share and expand their market, but are more concerned with a steady growth pattern than a meteoric one. Usually, their market is more mature and stable, with little market entry or exit. They perform better than most companies.
3. *Stuck in the Middlers* have a more mediocre success record. They are characterized by steady sales growth, and usually compete on a tourist product and price-parity level with the competition. The tend to be in more mature and stable tourist markets where growth is harder to come by. They compete by tourist segment and occasionally will avoid competition by letting competitors take over certain segments that they may not deem as valuable.
4. *High-value Segmenters* have a higher-quality tourist product, but generally do not charge a higher price for it, claiming to offer their customers higher value instead. They compete by tourist segments in new and growing markets and experience steady sales growth. They are also seeking to expand their market, but sometimes seem to avoid their competition.
5. *Defenders* are the worst performers of all. They are interested in defending their market shares and will do whatever is necessary to prevent declines in their market share. New tourist product development is a low priority for them and, in fact, they are generally more interested in taking costs out of their products in order to increase their own productivity. They usually go after individual customers instead of tourist market segments and compete in stable, mature markets.

These five categories are neither mutually exclusive nor exhaustive, nor are they rigid in their form of make-up. Tourism companies may move between the categories as their product life cycles or marketing objectives and strategies change. There are certain tourism companies that do not fit into any of these specific moulds, but this work is a unique way of looking at European companies and the marketing strategies that they pursue.

Adapted from: Hooley *et al.* (1992).

the results on which forecasts are based, managers must be made aware of the problems immediately through a control (feedback) mechanism. Various control tools may include sales, share, growth, margins, awareness, tourist product development and consumer intent.

But even though control has been established, it will only be beneficial if the tourism firm is ready and willing to adapt to market changes. Few introductions go exactly as planned due to many of the same unforeseen circumstances that make forecasting so difficult. When the control mechanism indicates that things are getting off course, the tourism firm must decide what action to take, if any. Although drastic reformulations of the marketing-mix components may be highly unlikely, adaptation by the tourism firm to the reality of the marketplace is generally called for.

Adaptation may be as subtle as extending the advertising schedule for an extra week or two, or providing more brochure inventory to certain regions. Further, tourism firms find that adaptations require additional planning in order to reallocate those same scarce resources discussed earlier, and this is where the contingency plans the tourism firm prepared earlier (for the 'surprises') can come into play and save the firm valuable time. As you can now see, once the plan is implemented, the work has only just begun.

Box 10.10 contains an analytical discussion of corporate generic strategies examined by three leading British academics.

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# 11

# The Marketing Planning Index: A Tool for Measuring Strategic Marketing Effectiveness in the Hospitality Sector

**P.A. Phillips and L. Moutinho**

Managers practise in a consistently changing environment necessitating the need for an effective strategic marketing process. Nevertheless, measurement of marketing effectiveness has tended to be ignored in the literature. In this short chapter we will describe one specific managerial tool called the marketing planning index, which measures the effectiveness of marketing. The tool is applied to the service industry – in this case the hotel sector. Our findings have indicated that the marketing planning index is a simple but powerful managerial tool that helps to develop the diagnostic information needed to generate corporate and business level initiatives designed to improve strategic marketing effectiveness.

Despite the growing relevance and importance of marketing effectiveness, there is strong evidence that marketing remains an area of significant weakness for companies (Ghosh *et al.*, 1994; Phillips and Moutinho, 1998; Phillips *et al.*, 1999). Recent changes in competitive intensity in national and international hospitality markets have led marketers to seek higher levels of effectiveness. Although much has been written on how hospitality firms ought to market their products and services, relatively little has been written on how to measure marketing effectiveness. In addition, the marketing function within the hotel sector is currently under scrutiny, as it has recently been described as dangerously insular and backward (Michels, 1996). Michels argued that many of the industry's sales and marketing techniques were at best primitive. Given this apparent gap between theory and practice, together with a lack of empirical research in measuring marketing effectiveness, any applied research on this topic appears both timely and relevant. It seems evident that any managerial tool that can ascertain the barriers to effective marketing planning will be of benefit to the hospitality literature, and to practitioners. The purpose of this chapter is therefore threefold:

1. To propose a novel framework for measuring marketing effectiveness.
2. The creation of a diagnostic tool that can be used to enable management to identify the strengths and weaknesses in its marketing function.
3. To test the proposed framework and diagnostic tool on the hotel sector.

The entire chapter can therefore be treated as an extended case study within the context of this book as a whole.

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## Marketing Effectiveness

Recently, there has been a resurgence in the importance of marketing planning (see, for example, Greenley and Bayus, 1994; Piercy and Morgan, 1994; McDonald, 1996). In reviewing the marketing planning literature McDonald concludes that companies with complete marketing planning systems (MPS) will be more successful than other firms competing in the same environmental and competitive circumstances. Notwithstanding this importance, the measurement of marketing effectiveness remains an under-studied area (Meidan *et al.*, 1992). This is somewhat surprising given that the effectiveness of the overall planning process may be as important as formalization and comprehensiveness.

There are a number of steps that can be taken to develop reliable measures of marketing effectiveness. Marketing itself must be defined in a way that encompasses all its functions, including planning aspects. The marketing measurement effort must be undertaken at all levels. Baseline data must be accumulated against which marketing measurements can be made, and target dates should be set to evaluate whether demand forecasts and customer perception goals have been met. In addition, the importance of effective measurement must be clearly communicated by top management to all organizational levels. The amount of return an organization receives on its investment in marketing is often determined by the sophistication of the marketing leadership and the level of organizational support. The results of most marketing efforts are difficult to assess because they fall between the clear-cut winners and losers. A review of marketing plans submitted to top-level administration should check for the following:

1. A tracking system that can measure results for each product line, gauge consumer perceptions, analyse distributor and consumer satisfaction levels and monitor the activities of competitors.
2. How the marketing staff spends its time and pinpoints its priorities.
3. Measure sales-response functions in relation to the elements of the marketing mix.
4. Assess the positioning strategy of the marketing plans.
5. Evaluate the positioning of the marketing department within the organization for maximum effectiveness.
6. How well the results achieved by marketing match the level of marketing department sophistication.

Wanless (1991) argued that a first step in increasing marketing efforts is an audit of the marketing department. He also pointed out that before cutting spending or changing the marketing approach, companies should consider what effect it will have on customers. Scheuing (1989) proposed the use of customer service audits to measure marketing effectiveness. Accurate information on both customer and costs is vital to marketing success. By measuring performance by peer evaluation, Speed and Smith (1991) found that a strategy of attracting relatively wealthy customers and maintaining control of costs was employed by retail financial service companies with better performance. These findings appear to support Doyle's (1987) model of generic strategy which stresses the need for a strategy that addresses simultaneously both sides of a company's operations, the market and its financial position. In their review of the marketing effectiveness literature, Meidan *et al.* (1992) concluded that 'despite the importance of assessing the effectiveness of all the marketing variables taken together, so far there are no indexes or model(s) that could be used to handle this aspect of marketing planning'. Hence, the marketing effectiveness index (MEI) proposed by Meidan *et al.* (1992) was a major contribution to the literature. To fulfil the objectives of this chapter, the proposed framework and diagnostic tool will be developed by extending the seminal work of Meidan *et al.* (1992), which focused on consumer goods manufacturing companies. Specifically, we emphasize the key attributes of marketing planning, and focus on the service industry, and provide controls for market-level influences by being restricted to the hotel sector.

## The Marketing Planning Index (MPI)

### *MPI background*

In his study, Phillips (1996) observed the existence of a planning–performance relationship at the hotel unit level, together with four key design parameters (formality, participation, sophistication and thoroughness) of the planning process. He found that efficient planning systems were associated with higher levels of business performance. These results, therefore, have significant implications for practitioners in the hospitality sector. Using the salient marketing planning variables identified by Phillips (1996), together with the framework advocated by Meidan *et al.* (1992), this chapter describes the MPI.

### *Methodology*

The sampling frame used to develop this study was the top 50 UK hotel groups (Hotel and Catering Research Centre, 1992). The data used to test our MPI were collected as part of an ongoing research study (Phillips,1996). A 17 page questionnaire was developed, which sought information on organizational strategy, strategic planning systems characteristics, and business performance at the hotel unit level. The questionnaire was pre-tested through structured interviews with academics and practitioners, who were asked a series of closed and open-ended questions. An initial letter was sent to a contact or the managing director of each hotel group introducing the researchers, explaining the study, and requesting the hotel general managers' (HGMs) participation in the study. Fifteen groups agreed to participate in the study (30%). The final questionnaire was then mailed to 130 HGMs and 100 were completed and returned (77%).

The average hotel unit for the sample consisted of 137 rooms, with an average sales turnover of £2.82 million. With regards to sales per employee, the figure was £33,772. Although the sample size was by no means representative of the top 50 UK hotel groups, the key characteristics of room size, sales turnover and sales per employee would appear to be comparable with samples used in other studies (Slattery *et al.*, 1994; BDO Hospitality Consulting, 1994). Factor Analysis (see Chapter 4) was used to establish if the 15 attributes (see Table 11.1) could be transformed into a smaller set of uncorrelated variables that contained most of the original information. Any reduction would reduce the attributes to a more manageable set of constructs.

### *The factors*

As previously mentioned, the foundations of the MPI lies in constructs identified by Phillips (1996) during his survey of the literature pertaining to planning systems. Fifteen attributes were factor analysed, making use of the recommendations by Kaiser (1960) on how many factors to retain. Kaiser suggests dropping factors with an Eigenvalue of less than one. Factors were interpreted based on loadings greater than 0.62 (Meidan *et al.*, 1992). Results of the factor analysis using varimax rotation on the 15 attributes are shown in Table 11.1. Eigenvalues for the five factors that emerged ranged from 4.11 to 1.05, and these factors accounted for a cumulative variance of 6.2%. Factor 1 consists of hotel performance variables, while factors 2 to 5 consider the quality of marketing mix, innovation, SWOT analysis, and market segment analysis, respectively. As can be seen the scales appear robust. They generally satisfy Nunnally's (1978) threshold level for exploratory research, taken as equal or greater than a Cronbach alpha score of 0.50.

### *Calculating the MPI*

Using a similar methodology to that of Meidan *et al.* (1992), a figure can be derived from the sum of the five equations, which represents the level of marketing planning. Figure 11.1 illustrates the systematic approach to assessing the MPS. In order to calculate the level of marketing planning, it is first necessary to calculate the mean score of each attribute that was included in the five factors. These mean scores are then used to derive the weightings of the 12 attributes. For example

**Table 11.1.** Results of the factor analysis of those attributes that are important for calculating the MPI.

| Variables that are important for calculating the MPI | Factor 1 Hotel performance | Factor 2 Marketing mix | Factor 3 Innovation | Factor 4 SWOT analysis | Factor 5 Market segment analysis |
|---|---|---|---|---|---|
| Use of marketing data from a number of different sources | 0.0308 | 0.4780 | -0.0972 | 0.4438 | 0.3452 |
| Use of sales and cost data relating to different market segments | 0.0781 | 0.1245 | 0.1105 | 0.0548 | 0.7695 |
| Use of market segment analysis | 0.0118 | -0.0878 | -0.0498 | 0.0934 | 0.7332 |
| Use of budgets by market segments | -0.0428 | 0.1351 | 0.3040 | 0.5333 | 0.3626 |
| Level of influence of sales and marketing exert on the long-range plan | -0.0139 | 0.1158 | 0.1511 | 0.8018 | 0.0343 |
| Use of SWOT analysis | 0.3226 | -0.6373 | -0.0784 | 0.7423 | 0.0056 |
| Quality of hotel facilities | 0.1784 | 0.7000 | 0.3005 | 0.1200 | -0.1474 |
| Hotel service levels | 0.1829 | 0.7829 | -0.0313 | -0.0302 | 0.1445 |
| Brand image | 0.0126 | 0.7642 | 0.0127 | 0.0630 | -0.0201 |
| Performance-efficiency (past year) | 0.8608 | 0.2237 | 0.0007 | 0.0588 | -0.0553 |
| Performance-efficiency (next 2 years) | 0.7081 | -0.1045 | 0.5239 | 0.0337 | 0.1525 |
| Performance-effectiveness (past year) | 0.6850 | 0.2942 | 0.2669 | 0.1767 | 0.0363 |
| Performance-effectiveness (next 2 years) | 0.5663 | -0.0071 | 0.6116 | 0.0696 | 0.1921 |
| Performance-adaptability (past year) | 0.1152 | 0.2534 | 0.6689 | 0.1483 | -0.2164 |
| Performance-adaptability (next two years) | 0.1632 | -0.0365 | 0.8660 | 0.0194 | 0.1418 |
| Eigenvalue | 4.1065 | 1.9472 | 1.6805 | 1.1389 | 1.0454 |
| Percentage of variance | 27.4 | 13.0 | 11.2 | 7.6 | 7.0 |
| Cumulative percentage of variance | 27.4 | 40.4 | 51.6 | 59.2 | 66.2 |
| Cronbach alpha | 0.7693 | 0.6797 | 0.6153 | 0.5530 | 0.4840 |

weightings of attribute a1 =
a1/a1+a2+a3+a4+b1+b2 . . . f1

The weightings were used to determine the equation for determining the level of planning. Meidan *et al.* (1992) advocated the use of a weighting scheme for two primary purposes: (i) it considers the relative importance that respondents would assign to each attribute; and (ii) it makes the sum of the weights equal to one. As a result of the above, the equations for determining the level of marketing planning are as follows:

Hotel performance = 0.0821a1 + 0.0834a2 + 0.0792a3
Marketing mix = 0.0810b1 + 0.0895b2 + 0.0770b3
Innovation = 0.0733c1 + 0.0733c2
SWOT analysis = 0.0918d1 + 0.0900d2
Market segment analysis = 0.0826e1 + 0.0969e2

## A Worked Example

Obviously, it is necessary to obtain a figure for the hotel sector, and then compare individual hotel units, to allow each HGM to ascertain their relative level of marketing effectiveness.

To improve marketing effectiveness, hoteliers need first to identify the gap between themselves and best practice. This gap is said to occur when the MPI for an individual hotel unit is less than the figure for its peer group. By way of an example, this section describes how to determine the relevant measures for the peer group (which for illustrative purposes will be the average MPI of the sample), and an individual hotel unit (Hotel Y) within the sample.

Table 11.2 shows the mean scores for each of the 12 attributes. It can be seen that total scores for the peer group and Hotel Y were 62.23 and 45.10, respectively. At first

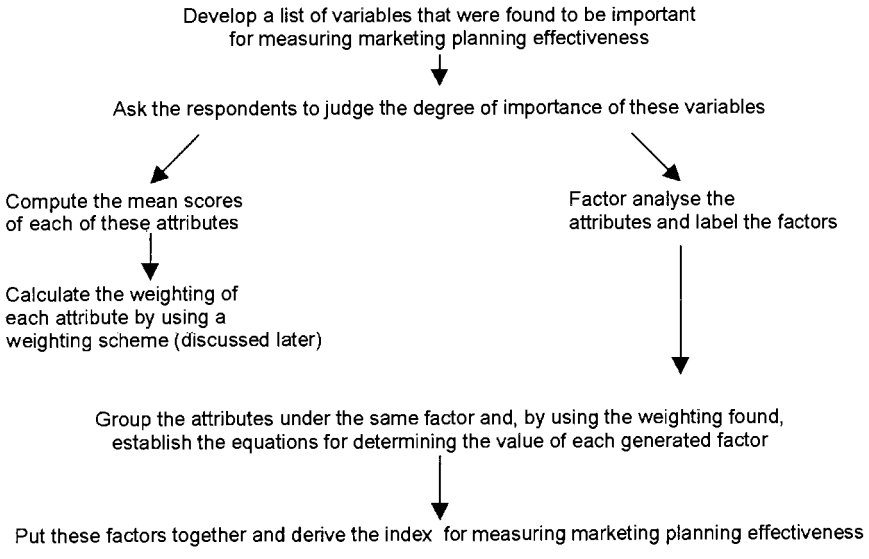


**Fig. 11.1.** Procedural steps for developing the index of marketing planning effectiveness. Adapted from Meidan *et al.* (1992).

**Table 11.2.** Mean scores of the 12 marketing planning attributes.

| | | Peer group score | Hotel Y |
|---|---|---|---|
| Variables | Factor 1: Hotel performance | | |
| A1 | Efficiency (past year) | 5.11 | 5.50 |
| A2 | Efficiency (next 2 years) | 5.19 | 1.00 |
| A3 | Effectiveness (past year) | 4.93 | 3.60 |
| Variables | Factor 2: Marketing mix | | |
| B1 | Quality of hotel facilities | 5.04 | 3.00 |
| B2 | Hotel services levels | 5.57 | 5.00 |
| B3 | Brand image | 4.79 | 4.00 |
| Variables | Factor 3: Innovation | | |
| C1 | Adaptability (past year) | 4.56 | 4.00 |
| C2 | Adaptability (next 2 years) | 4.56 | 1.00 |
| Variables | Factor 4: SWOT analysis | | |
| D1 | Level of influence of sales and marketing exert on the long-range plan | 5.71 | 5.00 |
| D2 | Use of SWOT analysis | 5.60 | 6.00 |
| Variables | Factor 5: Market segment analysis | | |
| E1 | Use of sales and cost data relating to different market segments | 5.14 | 3.00 |
| E2 | Use of market segment analysis | 6.03 | 4.00 |
| | Total | 62.23 | 45.10 |

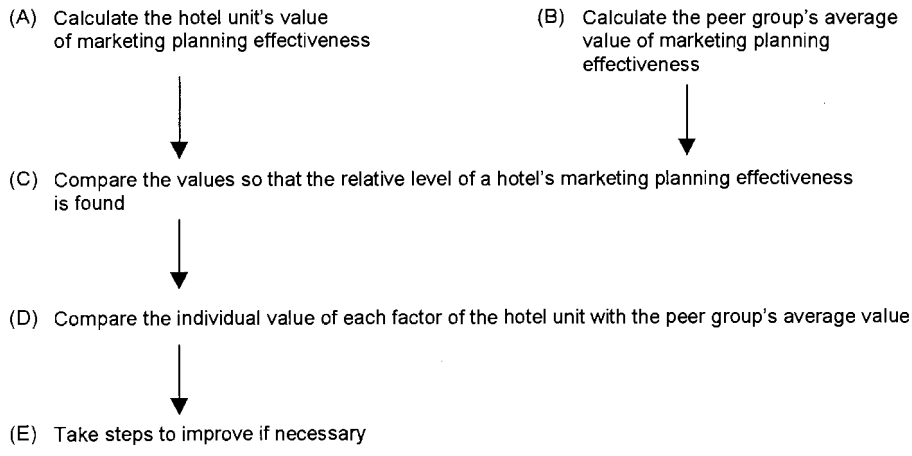


**Fig. 11.2.** How to use the marketing planning index. Adapted from Meidan *et al.* (1992).

glance we can see that Hotel Y's MPS is not as effective as its peer group. Closer examination reveals the extent of the problem. The responses by the HGM of Hotel Y indicate that serious problems are expected over the next 2 years, with the attributes of efficiency and adaptability (a2 and c2) only rating the minimum score. Although there could be many causes for the lack of marketing effectiveness, an area worthy of immediate investigation is the inappropriate marketing mix. The quality and level of service, together with its brand image is well below the average. This is somewhat surprising as the SWOT analysis was rated fairly important. However, this weakness may be attributable to the quality of information flowing from the SWOT analysis.

These mean scores are raw and need to incorporate the weightings of each attribute. Using the methodology as shown in Fig. 11.1, the level of planning is then calculated for the peer group and Hotel Y. Figure 11.2 shows how to determine the marketing effectiveness gap between the peer group and Hotel Y. Table 11.3 shows that the MPI of 0.5456 for Hotel Y is well below the figure for the peer group of 0.7462. This reinforces the results in Table 11.2 by revealing the precise extent to which Hotel Y's MPS lags behind its peer group. The lack of hotel performance (34% below average) would appear to be symptomatic of the problems in the marketing mix (22%), innovation (46%), and market segment analysis (37%). This indicates that Hotel Y's overall level of marketing planning appears rather poor, and the HGM should attempt to work more closely with customers, by segmenting the market and provide the experiences that consumers want at a price they are willing to pay. As a starting point, the HGM should attempt to identify other similar hotel units, to see what they are doing, and he or she is not.

In addition, the MPI for the peer group of 0.7462 indicates that the level of effectiveness is moderate with plenty of scope for improvement. This observation, although in conflict with Athiyaman and Robertson (1995), tends to support Medlik (1989:14), who stated: 'only limited progress has been made in the translation of business and management theory from manufacturing to service industries generally and to hotels in particular'.

## Managerial Implications

This chapter shows how one study can extend the knowledge of marketing effectiveness to the service sector, through the use of a novel approach. The MPI can measure marketing effectiveness, and also

**Table 11.3.** Calculating the MPI.

| | | Peer group | | | | Hotel Y | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Variables | *Peer group score | Weighting | Peer group MPI | Sub totals (A) | *Hotel Y score | Weighting | Hotel Y MPI | Sub totals (B) | Strategic gap (B–A)/A |
| Hotel performance | A1 | 0.7300 | 0.0821 | 0.0599 | | 0.7857 | 0.0821 | 0.0645 | | |
| | A2 | 0.7414 | 0.0834 | 0.0618 | | 0.1429 | 0.0834 | 0.0119 | | |
| | A3 | 0.7043 | 0.0792 | 0.0558 | | 0.5143 | 0.0792 | 0.0407 | | |
| | | | | | 0.1776 | | | | 0.1172 | –34% |
| Marketing mix | B1 | 0.7200 | 0.0810 | 0.0583 | | 0.4286 | 0.0810 | 0.0347 | | |
| | B2 | 0.7957 | 0.0895 | 0.0712 | | 0.7143 | 0.0895 | 0.0639 | | |
| | B3 | 0.6843 | 0.0770 | 0.0527 | | 0.5714 | 0.0770 | 0.0440 | | |
| | | | | | 0.1822 | | | | 0.1426 | –22% |
| Innovation | C1 | 0.6514 | 0.0733 | 0.0477 | | 0.5714 | 0.0733 | 0.0419 | | |
| | C2 | 0.6514 | 0.0733 | 0.0477 | | 0.1429 | 0.0733 | 0.0105 | | |
| | | | | | 0.0955 | | | | 0.0523 | –46% |
| SWOT analysis | D1 | 0.8157 | 0.0918 | 0.0748 | | 0.7143 | 0.0918 | 0.0655 | | |
| | D2 | 0.8000 | 0.0900 | 0.0720 | | 0.8571 | 0.0900 | 0.0771 | | |
| | | | | | 0.1468 | | | | 0.1427 | –3% |
| Market segment analysis | E1 | 0.7343 | 0.0826 | 0.0606 | | 0.4286 | 0.0826 | 0.0354 | | |
| | E2 | 0.8614 | 0.0969 | 0.0835 | | 0.5714 | 0.0969 | 0.0554 | | |
| | | | | | 0.1441 | | | | 0.0908 | –37% |
| | Total | 8.8900 | 1.0000 | 0.7462 | 0.7462 | 6.4429 | 1.0000 | 0.5456 | 0.5456 | –27% |

*The actual mean scores have to be divided by the number of points on the Likert scale, i.e. 7. This allows the figures to be less than 1.

highlight strengths and weaknesses in the marketing planning process. The MPI is also unique in that its considers both hard and soft variables of the marketing planning process. Moreover, given the paucity of relevant research in the general and hospitality literature, the study provides a much needed solid base for future academic work. The MPI is a simple but powerful managerial tool that helps develop the diagnostic information needed to generate corporate and business level initiatives designed to improve the marketing planning process. Given the renewed vitality in the hotel sector, together with the fact that a good product only flows from a good process, MPI is a marketing planning tool that would seem to be of particular interest to managers in the hospitality sector. On a wider dimension, this study builds on the work of Meidan *et al.* (1992) by increasing the validity and generalization of the proposed index using a survey of 100 hotels. This is a larger sample than the 53 companies used by Meidan and colleagues. The study also provides controls for market-level influences by being restricted to the hotel sector.

Thus, based on the MPI, if hoteliers wish to enhance marketing effectiveness, they could make a useful impact by focusing on the following:

- hotel performance (past and future);
- competitive positioning;
- rate of innovation;
- customer-orientated SWOT analysis;
- effective use of customer data.

Those hotels that understand and address these aspects in their MPS will be more successful than those who do not. In addition, the MPI can play an essential part in helping hotel organizations to become fast-learning and flexible. The design, therefore, of an effective MPS should be near the top of any manager's agenda. However, as with any single study of an issue as broad and important as marketing planning, the results of this particular study must be interpreted in light of the obvious limitations the study possesses. The single industry study described provides some degree of control of environmental nuances to each commercial sector; however, while this enhances internal validity, there is a limit to the extent these findings can be applicable beyond hotels. Another shortcoming of this cross-sectional study relates to the reliance on a single participant to provide his or her views on marketing planning activities and performance of their hotel unit. Such data may be subject to various cognitive biases. Future studies would benefit by incorporating a longitudinal approach, the use of multiple responses, together with the use of some objective data contained in archival or financial records. Future replication research, addressing the limitations in the study will allow for the rapid advancement in the theory and practice of measuring marketing effectiveness.

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# 12

# Demand Modelling and Forecasting

**S.F. Witt and L. Moutinho**

## Introduction

In science, and even in everyday life, many things are highly predictable, but in other circumstances prediction is often difficult. Furthermore, in making predictions, we are often unsure about the outcome. Forecasting assists tourism managers to improve decision-making. In an organizational design context, forecasting should not be regarded as a self-contained activity, but should be integrated within the planning context of which it is a part. The role of forecasts in the tourism planning process was noted by Gunn (1994: 5):

> Of interest to many tourist businesses is increasing the ability to make forecasts. Decisions on the purchase of new generations of equipment, new sites, and new technology may rest on predictions of increased demand for a specific tourism service or product.

It is often stressed that accuracy is the critical characteristic of a forecasting method, as noted by Archer (1994:105):

> The accuracy of the forecasts will affect the quality of the management decision . . . In the tourism industry, in common with most other service sectors, the need to forecast accurately is especially acute because of the perishable nature of the product.

Martin and Witt (1988b), in a study which reported the views of tourism academics and practitioners on the desirable characteristics of forecasts, confirmed that forecast accuracy is regarded as the most important property of a forecasting method.

The purpose of this chapter is to examine several more advanced forecasting methods (qualitative and quantitative) and provide examples which illustrate potential applications of the various methods. The main methods described are:

- Delphi and jury of executive opinion;
- Cross-impact analysis;
- Probability forecasting;
- Econometric forecasting.

More substantial textbooks dealing with forecasting are Frechtling (1996), Wilson and Keating (1998) and Makridakis *et al.* (1998).

## Delphi Forecasting/Jury of Executive Opinion[1]

The Delphi method of forecasting has attracted considerable attention in the tourism

[1] Material in this section has appeared previously in Moutinho and Witt (1995).

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literature since the late 1970s (Robinson, 1979; Seeley *et al.*, 1980; Kaynak and Macaulay, 1984; Var, 1984; Liu, 1988; Yong *et al.*, 1989; Moeller and Shafer, 1994; Taylor and Judd, 1994). This technique aims to obtain expert opinion about the future through questionnaire surveys of a group of experts in the field, and is particularly useful for long-term forecasting. The respondents provide their estimates of the probabilities of certain specified conditions or events occurring in the future, and also estimate when the events would be likely to occur. Delphi studies are carried out anonymously in order to minimize conforming influences; thus, rather than meeting physically to debate the various issues under consideration, the experts are kept apart so that their views are not affected by dominant personalities, social pressure, etc. Delphi studies involve several iterative rounds, and at each stage the derived group opinion is fed back to the participants in the form of the range and distribution of responses. The panel members are requested to re-evaluate their previous replies in the light of the summary group opinion and to justify any answers which would still differ greatly from the overall group opinion. The experts are thus able to try to convince one another about their views. Eventually a group consensus emerges and it is possible to draw up a forecast. The distinguishing characteristics of Delphi forecasting are the aim – to generate aggregate expert opinion about the future – and the method used – maintenance of strict anonymity within the group of experts and iterative polling of participants with feedback of group opinion between polls.

One example of the use of the Delphi technique to predict future tourism trends in the Province of Nova Scotia, Canada to the year 2000 was described by Kaynak and Macaulay (1984). Subsequently, Liu (1988) carried out a Delphi study to forecast tourism to Hawaii by the year 2000. Also, Yong *et al.* (1989) used the Delphi method to forecast the future of the tourism industry in Singapore, with the most distant time horizon for the year of probable occurrence being '2000 and beyond'.

The above three cases are all examples of standard Delphi forecasting applications in tourism involving postal questionnaires, strict anonymity and iterative polling of participants. However, Robinson (1979) and Seeley *et al.* (1980) presented a 'symposium Delphi' approach which they suggest can be used at conferences to generate forecasts. The methodology was applied at the International Symposium on Tourism and the Next Decade which was held in Washington, DC during 1979, and was used to forecast international tourism conditions up to the year 2000. A two-round 'symposium Delphi' study was undertaken, with the sample group comprising 25 people (all of these participated in round 1, but only 19 in round 2). The questionnaires were administered in a face-to-face situation with the whole group present, and the mean results for each question were displayed immediately. Clearly therefore, the usual Delphi anonymity condition did not hold. On the other hand, 'the interpersonal environment provided an opportunity to clarify responses' (Robinson, 1979, p. 271). A further major advantage of the symposium Delphi approach can be the existence of a captive audience with the resultant possibility of a 100% response rate within a minimal time period. Whether the forecasting approach adopted at the Tourism and the Next Decade Symposium can be correctly termed a 'Delphi' forecast is questionable; it is a 'consensus of expert opinion approach', but does not satisfy all the Delphi requirements.

The advantage of the Delphi approach over other consensus of expert opinion forecasting approaches where participants do meet – that the views of the experts are not affected by social pressure, etc. – needs to be balanced against the disadvantages of being unable to engage in debate with the other experts in order to exchange ideas, clarify points, etc. and the fairly long time period required to carry out the exercise.

In this next section, the particular consensus forecasting approach examined is *jury of executive opinion*. Results of a jury of executive opinion forecasting exercise carried out

in 1992 are presented in which the distinguishing characteristics were: (i) that a specific time horizon far into the future (2030) was considered as opposed to the more usual year 2000 time horizon; (ii) that the emphasis was specifically upon the impacts of developments in science and technology upon tourism; (iii) that the forecast focus was not destination specific (e.g. Nova Scotia, Singapore); and (iv) that the tourism experts were mainly European, but with some Central Americans also present, compared with the more usual non-destination specific forecasting situation in which the views of North American tourism experts predominate. The focus on the impacts of developments in science and technology stems from: first, the fact that they have 'come to dominate the economy and society in the developed world'; and second, the expected rapid pace of technological development as exemplified in the statement that 'All the technological knowledge we work with today will represent only 1% of the knowledge that will be available in 2050' (Cetron and Davies, 1991, p. 5). Clearly, however, there are also many economic, social and environmental factors which will have a substantive influence on the future nature and evolution of the field of tourism.

The objective of the study was to help to create a strategic vision of the future of tourism up to the year 2030. Underlying this objective is the premise that future tourism phenomena can be managed by looking at futuristic scenarios which are based on the impact of science and technology. In this way management by anticipation and proactive strategies can be translated into competitive advantage.

### *Future developments affecting tourism*

Twenty-five possible future developments affecting tourism were selected from a framework developed by Shafer and Moeller (1988, 1994), in which they describe possible developments in science and technology that may strongly impact tourism planning and development. Shafer and Moeller's visions of future developments resulted from a review of over 100 popular and scientific articles, and cover such areas as: video; transportation; recreation equipment; and computers and robotics. The questions included in the present study were selected on the basis of their direct relevance and importance to tourism development over the period to 2030. In addition, it was realized that the spread of knowledge among the tourism experts would be sketchy in some of the areas covered by Shafer and Moeller. Hence, attention was restricted to those facets in which the experts were expected to have a high degree of interest/involvement; areas that they could visualize, relate to and respond to.

The questions selected for inclusion in this study cover the areas of tourism superstructure, robotics, artificial intelligence, recreation and transportation. These possible future developments are listed and described in Table 12.1. It was specifically on account of the rather innovative/radical nature of several of the possible tourism developments under consideration that it was felt important in this case to permit full discussion among the tourism experts before a forecast was generated, and thus to follow a non-Delphi consensus approach.

### *Procedure*

The fieldwork was conducted in June 1992 in Valencia, Spain, at a tourism seminar, where 25 tourism experts were asked about their views on possible future developments in tourism. The tourism experts were selected to achieve a broad spectrum and comprised approximately 40% academics (drawn mainly from the areas of marketing, management, economics and accounting/finance), 40% from the commercial tourism industry (mainly managers of hotel chains and travel agencies, and consultants), and 20% from central and local government and tourist offices. The latter group size was restricted to 20% as it was felt that tourism authorities would generally be more distant from the effects of technological change than academics and the commercial tourism industry. A time span of 4 h was allowed for the exercise. First, the objectives of the study were explained, and then the questionnaire was distributed. Next, the 25

**Table 12.1.** Possible future developments and consensus forecasting results.

| Possible development | Impact/Importance (1 = low, 5 = high) | Mean probability of occurrence (%) | Most likely year of occurrence (1992–2030) |
|---|---|---|---|
| Tourism superstructure | | | |
| *Floating hotels*<br>Multi-storey floating hotels moored offshore, containing shopping, gymnasiums and glass enclosed elevators carrying tourists to the sea floor | 2.6 | 57 | 2000 |
| *Underwater hotels*<br>Built completely underwater, visitors will be able to study and watch undersea life through their bedroom windows | 2.8 | 26 | 2030 |
| *Theme parks*<br>Individual experience centres where technology lets people role play . . . Life in Victorian England, Early America or French Revolution | 3.2 | 67 | 1997 |
| Robotics | | | |
| Robots play a large part in planning facilities and services: restaurants, landscaping, park design and entertainment | 2.6 | 50 | 2000 |
| Robots will be built in the form of buildings, providing most services of modern hotels, and these hotels will be run by an administrative computer | 4.0 | 73 | 2000 |
| Computers/Artificial intelligence | | | |
| Programs which can make judgements will be used by tourism managers to design the best program mix for differing clientele and to manage natural resources for a multiplicity of uses | 4.0 | 69 | 2000 |
| Computers with artificial intelligence will mimic human senses and attitudes | 2.5 | 24 | 2030 |
| Recreation | | | |
| *Artificial environments*<br>Specially created and commonly used for recreational facilities and outdoor activities | 3.1 | 60 | 2000 |
| *Skill training in recreation*<br>Video tapes used on location to train tourists, e.g. skiing, scuba diving, sailing | 3.5 | 78 | 1995 |
| *Videocycles*<br>Combination of stationary exercise bike and TV/VCR used to tour scenic routes in forested and urban environments | 2.9 | 63 | 1995 |
| *Night vision*<br>Glasses to allow participation in outdoor recreation in the dark. Other devices to improve hearing, touch, sense of smell, strength and coordination instantly | 2.6 | 51 | 2000 |

**Table 12.1.** *continued*

| Possible development | Impact/Importance (1 = low, 5 = high) | Mean probability of occurrence (%) | Most likely year of occurrence (1992–2030) |
|---|---|---|---|
| *Sunpods* | 2.8 | 62 | 2000 |
| Solar-powered bubbles for all-over tan and relaxation even in freezing temperatures | | | |
| *Simulations and image libraries* | 2.9 | 75 | 1996 |
| Creation of own desired images and sensations through home based wall-size TV screens, e.g. rafting on Colorado river. Inexpensive flat panel display devices to view the world's art treasures, with resolution so good as to look like the real painting | | | |
| *Digital TV* | 2.7 | 74 | 2000 |
| Allows viewers to participate in production, superimposing and altering events | | | |
| *Sensavision TV* | 2.8 | 49 | 2000 |
| Whole room is part of TV set, allowing viewer to feel temperature and humidity, and to smell, i.e. to be part of the scene | | | |
| Transportation | | | |
| *Air travel* | 4.2 | 48 | 2020 |
| New York to Tokyo: 2 h scheduled flight | | | |
| Paris to Tokyo: 1 h scheduled flight | 3.5 | 28 | 2030 |
| Skycycles: one person light aircraft flying 40 km and more by pedal power (24 km $h^{-1}$) | 1.5 | 16 | 2030 |
| Jet powered backpacks: individual flight propulsion within reach of middle-income families | 3.3 | 25 | 2030 |
| Two person aircraft: for touring and soaring, at an accessible cost | 3.4 | 60 | 2010 |
| *Magnetic trains* | 3.9 | 52 | 2015 |
| Flying on cushions of electromagnetism make short trips between cities faster than airlines manage today, e.g. Los Angeles to Las Vegas | | | |
| *Supersubs* | 3.2 | 53 | 2000 |
| Undersea tour buses, like undersea planes | | | |
| *Multiple transportation cars* | 3.8 | 58 | 2020 |
| Usable on land and in flight, at an accessible cost | | | |
| *Space travel* | | | |
| Shuttle services to orbiting hotels | 3.5 | 4 | 2030 |
| Space resorts | 3.4 | 20 | 2030 |

possible future tourism developments were explained in detail, and participants were allowed to ask clarification questions. The tourism experts were then split into groups of five to discuss the various issues. A lunch break followed, during which the experts

were encouraged to continue exchanging views. Then a final question clarification session took place before participants filled in the questionnaires individually. Thus in addition to the non-observance of the anonymity condition necessary for a Delphi study, iterative polling of participants was not carried out. However, the instant feedback which occurred in the discussion groups obviated the potential benefits of iterative polling.

The 25 tourism experts were asked to rank the importance/impact of each of the 25 possible future developments affecting tourism on a scale 1 (low importance/impact) to 5 (high importance/impact); to assess the probability of occurrence (0–100%); and to forecast the most likely year of occurrence (over the period 1992–2030). Many of the developments predicted to occur by the year 2000 have in fact taken place.

### *Empirical results*

The mean scores of the responses by the group of tourism experts regarding the impact/importance of each development, its probability of occurrence and its most likely year of occurrence are presented in Table 12.1.

## Cross-Impact Analysis[2]

In this section we focus upon a less well-known forecasting method, cross-impact analysis, and examine its potential application within a tourism context. Although cross-impact analysis has received some attention in the general forecasting literature (e.g. Helmer, 1981), the technique appears to have been largely overlooked in the tourism forecasting literature. However, there are a few documented examples of the application of cross-impact analysis to recreation (Bonnicksen, 1981; Becker *et al.*, 1985, 1986).

Cross-impact analysis is a technique used for examining the impacts of potential future events upon each other. It identifies groups of reinforcing or inhibiting events, and unfolds relationships between events which may appear unrelated. In brief, cross-impact analysis provides a forecast, making due allowance for the effects of interacting forces on the shape of things to come. The technique is suitable for projects which involve environmental scanning, which is tracking broad trends appearing in the environment. A tourism organization may use cross-impact analysis to study, for example, the impacts of technological trends in transportation capability, automation, communications and information processing.

Essentially, cross-impact analysis consists of selecting a group of five to ten people to serve as project participants. These would normally be top decision-makers – the managing director, marketing manager, operations manager, etc. – as well as possibly outside consultants. They are asked to specify critical events relating to the subject of the project. For example, in a tourism marketing project the events may fall into any of the following categories:

1. corporate objectives and goals;
2. corporate strategy;
3. markets or customers (potential volume, market share, possible strategies of key customers, etc.);
4. competitors (product, price, promotion and distribution strategies);
5. overall competitive strategic posture, whether aggressive or defensive;
6. internally or externally developed strategies which might affect the project;
7. legal or regulatory activities having favourable or unfavourable effects;
8. other social, demographic or economic events.

The initial attempt is likely to generate a long list of alternatives which needs to be consolidated into a manageable size (e.g. 25–30 events) by means of group discussion, concentrated thinking, elimination of duplication, and refinement of the essence of the problem. Management's creativity and farsightedness play an important role in an

[2] Material in this section has appeared previously in Moutinho and Witt (1994).

organization's ability to pinpoint the relevant areas of concern, and hence tourism organizations should seek to develop within their managers the habit of creative thinking.

The project coordinator/moderator plays a crucial role in facilitating and directing the discussion among participants, and hence in determining the effectiveness of the discussion group. His or her role involves stimulating discussion among all the participants, while at the same time ensuring that the focus of the discussion does not stray too far from the subject. The coordinator must have good observational, interpersonal, communication and interpretive skills in order to recognize and overcome threats to the discussion process. He or she should attempt to develop the following three stages in the group discussion:

1. Establish a rapport with the group, structure the rules of group interaction and set objectives.
2. Provoke intense discussion in the relevant areas.
3. Summarize the group's responses in order to determine the extent of agreement.

The selected $n$ events are represented in an $n \times n$ matrix for developing an estimated impact of each event on every other event. This is done by assuming, for each specific event, that it has already occurred and will have an enhancing, inhibiting or null effect on other events. The project coordinator seeks the impact estimates from each project participant individually, and displays the estimates in the matrix in consolidated form. The project participants then vote on the impact of each event. If the spread of votes is too wide, the coordinator will ask those voting at the extremes to justify their positions. The participants are encouraged to discuss differences in the hope of clarifying the problem. Another round of voting takes place. During this second round the opinions usually converge and the median value of the votes is entered in the appropriate cell in the matrix. This procedure is repeated until the entire matrix is complete.

In the process of matrix completion, the review of occurrences and interactions identifies those events, which are strong actors and significant reactors, and provides a subjective opinion of their relative strengths. This information then serves as an important input in formulating strategy.

### *Case study example*

The application of cross-impact analysis to a tourism example is now considered. The case is real, but artificial data are used to illustrate application of the technique.

The Azores are situated in the Atlantic Ocean, 1230 km from Lisbon and 3380 km from New York, and include nine different islands aggregated into three major groups. They are volcanic mountains, with varied character and landscape. The existence of nine dispersed islands makes access to the region difficult. At present, only three of the islands have airports with the capacity to receive intercontinental flights, but recently there has been an increase in the number of inter-island flights. During the recent past there has been rapid growth in the supply of tourist accommodation; for example, between 1988 and 1989 capacity grew by 20%. By the mid-1990s, the total number of tourist beds in the region had grown to approximately 4000, about 50% being located on São Miguel, 25% on Terceira, and 20% on Faial. Five other islands account for the remaining 5%, with no tourist accommodation on one of the islands.

**Table 12.2.** Tourist arrivals and growth rates (1983–1989).

| | Tourist arrivals | Growth rate (%) |
|---|---|---|
| 1983 | 227,682 | 7.5 |
| 1984 | 245,430 | 7.8 |
| 1985 | 254,605 | 3.7 |
| 1986 | 282,451 | 10.9 |
| 1987 | 306,255 | 8.4 |
| 1988 | 323,214 | 5.5 |
| 1989 | 317,114 | −1.9 |

The evolution of tourist demand for the Azores is illustrated in Table 12.2. The

market grew fairly rapidly throughout the mid-1980s, but declined in 1989. The average tourist length of stay during the period was stable at just over 3 days, and the average occupancy rate in all tourist accommodation was 35%. The major tourist origin markets for the Azores were Portugal (67% of nights), followed by Germany (11%), and the USA (6%). A complete breakdown is presented in Table 12.3. From 1988 there was a decline in the number of American and Canadian tourists (two of the more traditional markets for the Azores), and an increase in the number of tourists originating from less traditional European markets, such as Holland, Belgium and Spain. Geographically, the two direct competitors to the Azores are Madeira and the Canary Islands. The average length of stay and spending level by tourists in the Azores were well below the levels recorded at these destinations.

**Table 12.3.** Total shares of nights spent by foreign tourists (1990).

| Country | Share of nights spent (%) |
|---|---|
| Portugal | 67.3 |
| Germany | 11.4 |
| USA | 5.6 |
| Switzerland | 2.4 |
| United Kingdom | 2.3 |
| Canada | 2.0 |
| France | 1.7 |
| Scandinavian countries | 1.3 |
| Spain | 1.2 |
| Belgium | 0.9 |
| Holland | 0.6 |
| Other countries | 2.7 |

*Situation analysis*

The Azores' strengths and competitive advantages in the tourism sector, as perceived by Azores Tourist Board managers on the basis of market research studies, were described as follows:

1. High quality of life, absence of pollution and the provision of close contact with nature.
2. Excellent location for deep-sea fishing, snorkelling, and scuba diving.
3. Good conditions for walking and hiking trips, as well as bird watching, and 'scientific' tours to study the flora, vegetation and volcanic nature of the islands.
4. Ideal stopover location for yachting and good facilities for golfers.
5. Potential for the development of cultural and rural tourism.

Some of the major weaknesses which might hamper the development of tourism in the region were as follows:

1. Distance from the most important origin markets, cost of travel, and the reduced number of scheduled flights to the Azores.
2. Lack of superstructure, particularly in the area of entertainment: improvements here could increase tourists' average spending levels and length of stay in the islands.
3. Inadequate professional qualification and training skills provided to staff employed in the tourism industry, which has a negative impact on the quality of tourist services offered to visitors.
4. Seasonality effects which create marked under-utilization of facilities during the low season and over-utilization during the high season.

The tourism sector plays a crucial socio-economic role in the development of the Azores in terms of its contribution to the gross domestic product, balance of payments, employment and payment of reasonable salaries.

The Azores Tourist Board (ATB) forecasted a cumulative annual growth rate of 10% for foreign tourist arrivals until the year 2000. It aimed to increase tourists' average length of stay and reduce seasonality through the implementation of promotional programmes and by improving the entertainment facilities on the islands. The ATB

**Table 12.4.** Basic format for the ATB cross-impact matrix. Up arrow, enhancing effect; horizontal line, no effect; down arrow, inhibiting effect.

| If this event were to occur | Then the impact on this event would be | | | |
|---|---|---|---|---|
| | A | B | C | D |
| A A further decline in the number of tourist arrivals originating from the more traditional markets | |  | | |
| B Increased dependency on a limited number of airlines and specialized tour operators and travel agents |  | | | |
| C Increased cost of international travel | |  | | |
| D A general increase in domestic (internal) tourism | | |  | |

was particularly interested in encouraging tourism investment designed to develop new tourist products, activities and facilities such as spas, convention centres, and sports centres, which would enable foreign teams to come to the islands for training periods, tourist trails, footpaths, scenic points and nature parks.

*Use of cross-impact analysis*

Being aware of the global trends in the tourism industry and tourist flows worldwide, and taking into consideration the internal situation of the Azores, tourism authorities considered which marketing strategies would be most effective in striking a balance between the role of tourism as a catalyst for sustainable socioeconomic development in the region and the preservation of the local cultural heritage, quality of life and the physical environment. The ATB recognized that continued growth and development in the future stem from current strategic planning and decided to use cross-impact analysis in order to enable its managers to map out a strategic plan more effectively.

In addition to competition, the ATB was concerned with the analysis of four main environmental factors (events):

- **A** A further decline in the number of tourist arrivals originating from the more traditional markets.
- **B** Increased dependency on a limited number of airlines and specialized tour operators and travel agents.
- **C** Increased cost of international travel.
- **D** A general increase in domestic (internal) tourism.

These events are arranged in matrix form as shown in Table 12.4. The arrows show the direction of the impacts. For example, the occurrence of event D (a general increase in internal tourism) is likely to bring about a decrease in the cost of international travel (event C). Hence, an inhibiting arrow is placed in the cell at the intersection of row D and column C. The increased dependency on a limited number of airlines and specialized tour operators and travel agents (event B) is likely to raise the cost of international travel (event C). Therefore, an enhancing arrow is placed in the cell where row B and column C intersect. It is not expected that the occurrence of event B would have any effect on event A, so a horizontal line is placed in this cell. The other cells are completed in accordance with similar judgements. The completed matrix

**Table 12.5.** Example of subjective rating scale.

| Voting scale | Subjective scale | | |
|---|---|---|---|
| +8 | Critical: | Essential for success | Enhancing |
| +6 | Major: | Major item for success | |
| +4 | Significant: | Positive, helpful, but not essential effect | |
| +2 | Slight: | Noticeable enhancing effect | |
| 0 | No effect | | |
| −2 | Slight: | Noticeable inhibiting effect | Inhibiting |
| −4 | Significant: | Retarding effect | |
| −6 | Major: | Major obstacle to success | |
| −8 | Critical: | Almost insurmountable hurdle | |

**Table 12.6.** The ATB's cross-impact matrix showing degrees of impact.

| If this event were to occur | Then the impact on this event would be | | | |
|---|---|---|---|---|
| | A | B | C | D |
| A A further decline in the number of tourist arrivals originating from the more traditional markets | | −4 | −4 | +8 |
| B Increased dependency on a limited number of airlines and specialized tour operators and travel agents | 0 | | +8 | +6 |
| C Increased cost of international travel | +2 | −6 | | +6 |
| D A general increase in domestic (internal) tourism | +4 | +8 | −6 | |

shows the direction of impact of rows (actors) on columns (reactors). If interest focuses primarily upon event D, for example, then column D should be studied for actor events. Each of these actor events should be examined in turn to determine what degree of influence, if any, it is possible to have on these actors in order to bring about/prevent the occurrence of event D.

Next, the impact should be quantified to show linkage strengths, i.e. to determine how strongly the occurrence of one event would influence the occurrence of each of the other events. To assist in quantifying the interactions, a subjective rating scale may be used (Table 12.5). Table 12.6 shows how the basic cross-impact matrix can be modified to show linkage strengths. Consider, for example, the impact of event D on event B. It is felt that the occurrence of event D would have a critically enhancing impact on the likelihood of occurrence of event B. Both the

**Table 12.7.** The ATB's cross-impact matrix showing interactive probabilities of occurrence.

| If this event were to occur | Having this probability of occurrence | Then the new probability of occurrence of this event would be | | | |
|---|---|---|---|---|---|
| | | A | B | C | D |
| A A further decline in the number of tourist arrivals originating from the more traditional markets | 0.70 | | 0.50 (+2 years) | 0.40 (+1 year) | 0.90 (immediate) |
| B Increased dependency on a limited number of airlines and specialized tour operators and travel agents | 0.60 | 0.70 | | 0.70 (immed.) | 0.85 (immed.) |
| C Increased cost of international travel | 0.50 | 0.75 (+2 years) | 0.45 (immed.) | | 0.85 (immed.) |
| D A general increase in domestic (internal) tourism | 0.70 | 0.80 (+2 years) | 0.80 (+1 year) | 0.35 (+2 years) | |

direction and degree of enhancing impact are shown in Table 12.6 by the +8 rating in the appropriate cell. On the other hand, event A's occurrence would make event B less likely; the consensus rating is –4, and this is entered in the appropriate cell. This process is continued until all interactions are evaluated and the matrix is complete.

Another approach involves the use of probabilities of occurrence. Once the probability of occurrence of each event is assessed, then the change in that probability can be assessed for each interaction. The probabilities of occurrence can be entered in an information column preceding the matrix, and then the matrix may be constructed in the conventional manner. However, in many instances the degree of impact is not the only important information to be gathered from a consideration of interactions. The time relationships are often critical and can be shown in a number of ways. For example, time information can be added (within parentheses) to each probability of occurrence depicted in the matrix.

Table 12.7 illustrates the use of a cross-impact matrix incorporating interactive probabilities of occurrence and time relationships. Consider the impact of event D on the probable occurrence of event B. It is judged to have a critically enhancing effect and the consensus is that the probability of occurrence of event B will change from 0.60 to 0.80. (In this particular case study example, it was assumed that the participants' consensus judgement was that a value of +2 on the voting scale in Table 12.5 translated into an increase in the probability of occurrence of five percentage points in Table 12.7, a value of +4 into an increase of ten percentage points, and so on. Similarly, a value of –2 translated into a decrease in the probability of occurrence of five percentage points, and so on.) The new probability is, therefore, entered in the appropriate cell. Event B is judged to have no effect upon event A; therefore, the original probability, 0.70, is unchanged. Event B is strongly inhibited by the occurrence of event C, and the resulting probability of occurrence is lowered from 0.60 to 0.45. The occurrence of event B will increase the probability of occurrence of event D from 0.70 to 0.85. This procedure is followed until all of the cells are completed.

The time relationships in Table 12.7 can be interpreted as follows. If event B were to occur it would have a major enhancing effect on event D, raising D's probability of occurrence from 0.70 to 0.85; this enhancement would occur immediately. If event C were to occur, it would raise the probability of occurrence of event A from 0.70 to 0.75; it would take 2 years for the enhancement to be completed.

The information provided by the cross-impact matrices should have proved very useful for strategic planning by the Azores Tourist Board. It may be that the ATB was particularly concerned about a further decline in the number of tourist arrivals originating from the more traditional markets and had plans to deal with the situation should it occur. Various marketing strategies could be employed to halt the decline. By studying column A in Table 12.7, the tourism authorities could pinpoint those events which were likely to have a marked impact on the likelihood of occurrence of event A. Thus, for example, if there was a noticeable general increase in domestic tourism, the probability of occurrence of a further decline in the number of tourist arrivals originating from the more traditional markets would increase from 0.7 to 0.8. Hence, the ATB would need to step up its marketing efforts accordingly.

The idea underlying cross-impact analysis is that the probability of occurrence of an event is directly related to the occurrence/non-occurrence of other events. By analysing correlations between events, it is possible to estimate the likelihood of future events occurring. This information can then be incorporated into the strategic planning process. Thus, cross-impact analysis can lead to improved strategic vision, and allow management to follow a more proactive approach. Cross-impact analysis provides a framework for the analysis of a range of possible events and complex interactions. Given that tourism is characterized by a high degree of interdependence among events. cross-impact analysis is a forecasting technique that would seem to be particularly relevant for this field.

## Probability Forecasting

It may not be necessary to obtain *highly* accurate forecasts of specific values, but only to ascertain whether the probability falls within a particular range of values, in order to support good tourism management decisions. Furthermore, it is usually assumed that there is a cost trade-off when choosing a forecasting model. Fitzsimmons and Sullivan (1982, p. 118) noted that: 'Generally the less-expensive models yield less-accurate forecasts, and there are costs associated with inaccuracies in the forecast ... Is it worthwhile to spend more on an accurate forecasting model than incur the potential costs of a less-expensive but poor forecast?' Although Martin and Witt (1988a, 1989a, b) have provided some empirical evidence to the contrary, i.e. that more expensive models do not necessarily lead to more accurate tourism demand forecasts, to the extent that the widely quoted trade-off stated by Fitzsimmons and Sullivan is true, it is important to identify an acceptable level of forecast accuracy.

Decision theory can be used to determine optimal strategies when a tourism decision-maker is faced with several decision alternatives and an uncertain or risk-filled pattern of future events, i.e. states of nature. (Risk is taken to mean a situation in which various outcomes to a decision are possible, but where the probabilities of the alternative outcomes are known. Uncertainty describes a situation in which there is no such probabilistic knowledge or where the information is fragmentary.) This section examines the precision required for probability forecasts and the use of skew loss functions as applied to tourism. For a general discussion of probability forecasting, the reader is referred to Wilson and Keating (1998), Delugio (1998), and Makridakis *et al.* (1998).

### *Required accuracy levels*

Here we assess how accurate the forecasts of the probabilities associated with the occurrence of alternative states of nature need to be when we are considering problems involving few possible actions and few states of nature. As an example of this class

of problem, suppose that a regional tourism authority is interested in marketing a multi-unit tourist pack comprising local dairy, wines and handicraft products in order to generate additional visitor arrivals and higher spending levels. The product is made by a batch process which, through equipment indivisibilities, is restricted to the following annual capacities:

$A_1$: 1 million units
$A_2$: 2 million units
$A_3$: 3 million units

The conditional opportunity losses under $S_1$ (high sales) and $S_2$ (low sales) are shown in Table 12.8.

**Table 12.8.** Conditional opportunity losses: new multi-unit tourist pack problem (£ million).

| | State of nature | |
|---|---|---|
| Act | $S_1$ | $S_2$ |
| $A_1$ | 6 | 0 |
| $A_2$ | 3 | 3 |
| $A_3$ | 0 | 8 |

As can be seen from Table 12.8, in this example if $S_1$ obtains then act $A_3$ is the best course of action and is accordingly assigned a conditional opportunity loss of zero. If $S_2$ obtains, however, act $A_1$ becomes the best course of action. Act $A_2$ is a kind of 'hedging' act in the sense that the conditional opportunity losses associated with it are not extreme under either $S_1$ or $S_2$. The problem facing tourist product planners is to estimate the probabilities of occurrence of $S_1$ and $S_2$, and in particular they need to know how precise these estimates should be.

Suppose that $P(S_1)$ denotes the probability that $S_1$, occurs. Then $P(S_2)$ is equal to $1 - P(S_1)$. If $P(S_1)$ were equal to 0.1, then the expected opportunity losses (EOLs) of the three acts would be:

$EOL(A_1) = 0.1(6) + 0.9(0) =$ £0.6 million
$EOL(A_2) = 0.1(3) + 0.9(3) =$ £3.0 million
$EOL(A_3) = 0.1(0) + 0.9(8) =$ £7.2 million

Clearly, under these conditions act $A_1$ (the low-capacity facility) would be preferable to the other courses of action. By assuming various values that $P(S_1)$ could take, we can construct the chart of expected opportunity losses shown in Fig. 12.1.

If $P(S_1)$ is less than 0.5, then act $A_1$ is best, whereas if $P(S_1)$ is between 0.5 and 0.625, act $A_2$ is best. If $P(S_1)$ exceeds 0.625, then act $A_3$ is best. If $P(S_1)$ is exactly 0.5 either $A_1$ or $A_2$ could be chosen, and if $P(S_1)$ is exactly 0.625 either $A_2$ or $A_3$ could be chosen. These 'indifference' points are determined by finding the points on the abscissa where the lines of expected opportunity loss intersect, that is where:

$$EOL(A_1) = EOL(A_2)$$

Letting $P(S_1) = P$, we have:

$$6P + 0(1 - P) = 3$$
$$P = 0.5$$

Similarly:

$$EOL(A_3) = EOL(A_2)$$
$$0P + 8(1 - P) = 3$$
$$P = 0.625$$

The implication of these calculations is that the new tourist product planner does not need to know the precise value of $P(S_1)$ but only that it falls within specific ranges. In terms of the assumptions of this tourism problem, the same act (act $A_1$) would be chosen if $P(S_1)$ were, say, 0.1, as would be chosen if $P(S_1)$ were say, 0.4. Although the illustration is simple, it does serve to demonstrate that, in some tourism marketing problems, forecasts do not need to be made with high precision.

### *Skew loss functions*

In more realistic cases a greater number of states of nature and courses of action are possible. For example in accommodation capacity problems some 'best' level of accommodation may exist for each possible sales level. In tourism demand capacity planning problems, the quantity of beds allocated may vary more or less continuously within a certain range. Let us now suppose that the same regional tourist

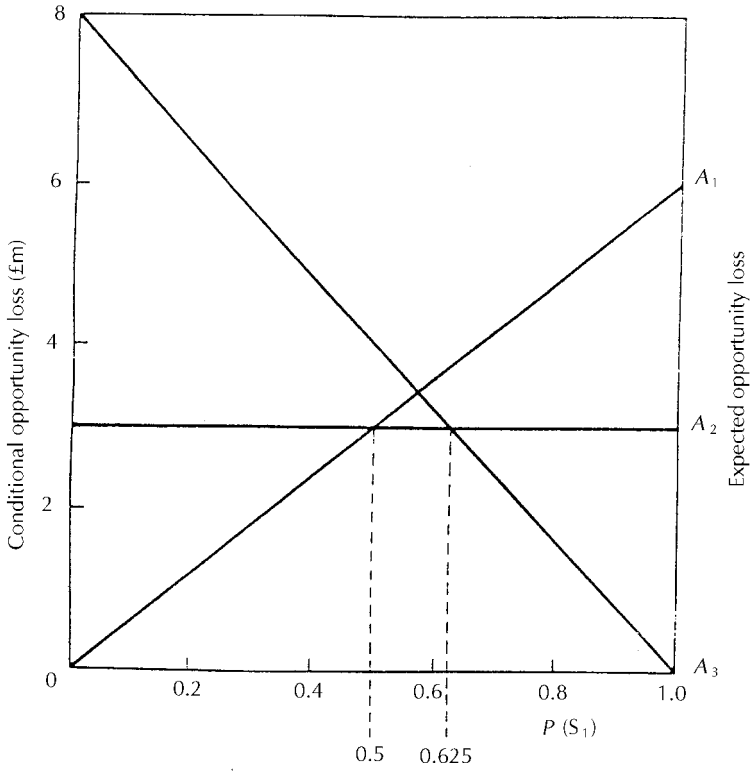


**Fig. 12.1.** Expected opportunity losses: new multi-unit tourist pack problem (£ million).

authority is interested in determining the 'best' (optimum) number of beds to offer for distribution to tour operators and travel agents. If travel intermediaries' requests for suitable accommodation exceed the quantity available, unfilled requests will result. If the number of beds available in the region exceeds the demand, there will be costs associated with the excess supply of accommodation. For purposes of illustration, suppose that the imputed 'cost' for each unfilled tour operator's/travel agent's request per night is £12.00, and suppose that the cost associated with each bed vacant per night is £3.00. The regional tourist authority is interested in recommending some best level of accommodation capacity that minimizes expected cost under an uncertain tourist demand.

The regional tourism planners should define the probability distribution of the possible tourist demand levels for accommodation in the area. As an example, suppose that the planners are willing to believe that tourist demand for accommodation in the region will exceed 20,000 beds but will be no higher than 80,000 beds. Their 'most probable' estimate of tourist demand is that it will be between 30,000 and 40,000 beds. The cumulative probability distribution can then be derived from a histogram chart. The smooth curve should be used to approximate cumulative probabilities within the histogram intervals. For example, the estimated probability of tourist demand being less than 35,000 beds can be seen to be approximately 0.45 (Fig. 12.2).

To determine the optimal number of beds to be offered to the market, tourism planners would like to find the appropriate balance point where the expected cost of under-construction just equals the expected cost of

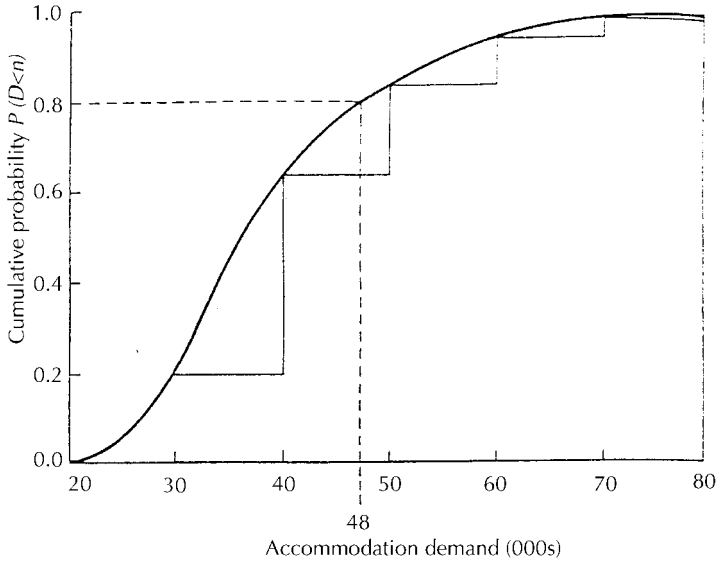


**Fig. 12.2.** Probability distribution: tourist demand for regional accommodation (000 units).

over-construction. Both these costs are proportional to the difference between the amount offered and the amount requested. Fortunately, however, it is not necessary to construct a payoff table for each possible act and tourist demand level. Instead, the following principle may be adopted. Keep increasing the accommodation capacity until the highest level $n$ is reached for which the expected incremental cost of adding the $n$th unit is still less than the expected incremental cost of not adding the $n$th unit to the accommodation capacity level.

If we let $D$ = tourist demand level, $C_0$ = £3.00 = cost per night of over-construction, and $C_u$ = £12.00 = cost per unit per night of under-construction relative to tourist demand, then we have by application of the principle above:

$$C_0 P(D < n) < C_u [1 - P(D < n)]$$
$$[P(D < n)] (C_0 + C_u) < C_u$$
$$P(D < n) < \frac{C_u}{C_0 + C_u}$$
$$P(D < n) < \frac{£12.00}{£3.00 + £12.00}$$
$$P(D < n) < 0.80$$

From Fig. 12.2, it can be seen that the largest $n$ for which $P(D < n) < 0.80$ is approximately 48,000 beds. This represents the graphical solution to the tourist capacity problem. Had the planners not considered the asymmetry in the costs of over- versus under-construction, they might have planned for either:

- a capacity level equal to the midpoint of the bar in the histogram with the greatest incremental height (i.e. 35,000 beds), the modal forecast; or
- a capacity level equal to the median or 0.5 cumulative probability level of the distribution (i.e. 36,000 beds).

In either case, they would have considerably 'under-produced' relative to the solution that takes into account the conditional costs of over- versus under-production.

Although the need for accurate forecasts is often stressed, there are situations in which highly accurate point forecasts are not particularly useful. In particular, in the case of probability forecasting it is often necessary only to know whether or not the probability falls within a particular range of values. Even if increased accuracy can be obtained, it is often not the case that the additional cost entailed is justified. When knowledge regarding error costs is available, this should be incorporated in the forecast-generating procedure. In particular, cost asymmetries will affect the level of demand to plan for.

## Econometric Forecasting[3]

The econometric approach to forecasting tourism demand involves the use of regression analysis to estimate the quantitative relationship between tourism demand and its determinants; the estimation is carried out using historic data, and future values of tourism demand are obtained by using forecasts of the demand determinants in conjunction with the estimated relationship. See, for example, Smeral *et al.* (1992) and Smeral and Witt (1996). The group of variables that influences international tourism demand will depend on the purpose of visit under consideration. As by far the majority of international tourist trips take place for holiday purposes, and it is only for holiday trips that individuals are completely free to choose the destination, transport mode, and so on, we shall just concentrate on those factors that influence the demand for international *holiday* tourism.

### *Tourism demand function*

The variables involved in tourism demand forecasting are discussed below.

#### *Forecast variable*

Tourism demand is generally measured in terms of the number of tourist visits from an origin country to a foreign destination country, or in terms of tourist expenditures by visitors from the origin country in the destination country. Tourist nights spent in the destination country are an alternative measure.

#### *Population*

The level of foreign tourism from a given origin is expected to depend on the origin population. In some studies population features as an explanatory variable, but more often the effect of population is accommodated by modifying the dependent variable to become international tourism demand per capita.

#### *Income*

In tourism demand functions, origin country income or private consumption is generally included as an explanatory variable, and commonly enters the demand function in per capita form (corresponding to the specification of demand in per capita terms). The appropriate form of the variable is private consumption or personal disposable income.

#### *Own price*

The appropriate form of the price variable is by no means clear. In the case of tourism there are two elements of price: the cost of travel to the destination; and the cost of living for the tourist in the destination. In certain studies where econometric forecasting models have been developed for international tourism demand, a specific destination tourist's cost of living variable is incorporated in the models. Usually, however, the consumer price index in a country is taken to be a proxy for the cost of tourism in that country. In general, this procedure is adopted on the grounds of lack of more suitable data. Whichever destination price variable is used, it needs to be adjusted by the rate of exchange in order to transform it into origin country currency.

Exchange rates are also sometimes used separately to represent tourists' living costs. The usual justification is that consumers are

[3] Material in this section has appeared previously in Witt and Witt (1995).

more aware of exchange rates than destination costs of living for tourists, and hence are driven to use exchange rate as a proxy variable.

*Substitute prices*

Economic theory suggests that the prices of substitutes may be important determinants of demand. For example, an increase in holiday prices to Spain may increase demand for holidays to Portugal. Mostly, those substitution possibilities allowed for in international tourism demand studies are restricted to tourist destination living costs. Substitute prices may be incorporated by specifying the tourists' cost of living variable as destination value relative to a weighted average value calculated for a set of alternative destinations, or by specifying a separate weighted average substitute destination cost variable.

Just as tourists' living costs in substitute destinations are likely to influence the demand for tourism to a given destination, so travel costs to substitute destinations may also be expected to have an impact, and can be allowed for in a similar manner. Furthermore, if the data are disaggregated by transport mode, then travel cost to the same destination by alternative transport mode(s) would influence tourism demand to a particular destination by a given transport mode.

*Qualitative effects*

Dummy variables can be included in international tourism demand functions to allow for the impact of 'one-off' events. For example, when governments impose foreign currency restrictions on their residents (e.g. the £50 annual limit introduced in the UK during late 1966 to late 1969), this is expected to reduce outward tourism. Similarly, the 1973 and 1979 oil crises temporarily reduced international tourism demand; although the impacts of the oil crises on holiday prices and consumer incomes are incorporated in these explanatory variables, a further reduction in international tourism demand is likely because of the psychological impact of the resultant uncertainties in the world economic situation. Witt and Martin (1987) discussed a range of one-off events which have been accommodated by dummy variables.

*Trend*

A trend mainly represents a steady change in the popularity of a destination country over the period considered, as a result of changing tastes. It also, however, captures the time dependent effects of all other explanatory variables not explicitly included in the equation, such as changes in air service frequencies and demographic changes in the origins.

*Marketing*

National tourist organizations engage in sales-promotion activities specifically to attempt to persuade potential tourists to visit the country, and these activities may take various forms including media advertising and public relations. Hence, promotional expenditure is expected to play a role in determining the level of international tourism demand. Much tourism-related marketing activity is not, however, specific to a particular destination (for example, general travel agent and tour operator advertising) and therefore is likely to have little impact on the demand for tourism to that destination. The promotional activities of national tourist organizations are destination specific and are therefore more likely to influence tourist flows to the destination concerned.

*Lagged dependent variable*

A lagged dependent variable, i.e. an autoregressive term, can be justified on the grounds of habit persistence. Once people have been on holiday to a particular country and liked it, they tend to return to that destination. There is much less uncertainty associated with holidaying again in the country compared with travelling to a previously unvisited foreign country. Furthermore, knowledge about the destination spreads as people talk about their holidays and show photographs, thereby reducing uncertainty for potential visitors to that country. In fact, this 'word of mouth' recommendation may well play a more

important role in destination selection than does commercial advertising. A type of learning process is in operation and as people are, in general, risk averse, the number of people choosing a given alternative in any year depends on the numbers who chose it in previous years.

A second justification for the inclusion of a lagged dependent variable in tourism demand functions comes from the supply side. Supply constraints may take the form of shortages of hotel accommodation, passenger transportation capacity and trained staff, and these often cannot be increased rapidly. Time is also required to build up contacts among tour operators, hotels, airlines and travel agencies. Similarly, once the tourist industry to a country has become highly developed it is unlikely to dwindle rapidly. If a partial adjustment mechanism is postulated to allow for rigidities in supply, this results in the presence of a lagged dependent variable in the tourism demand function (Gujarati, 1988, Chapter 16).

### *Empirical results*

Examples of estimated econometric models are presented in Table 12.9. The most comprehensive study in terms of the variety of origins/destinations covered is by Martin and Witt (1988c), and the first ten models are taken from this study. The four models selected from other studies were specifically chosen because they include explanatory variables not covered in the Martin and Witt study. Thus model 11 incorporates population as a demand determinant, models 12 and 13 incorporate marketing expenditure and model 14 incorporates a lagged dependent variable and travel time. (The elasticity values presented in model 14 are impulse estimates.) All the models are specified in log-linear form.

Population features as an explanatory variable only in model 11, but the estimated elasticity of 12.4 seems far too high to be realistic. (The population elasticity is expected to be fairly close to unity.) Furthermore, an 'incorrect' coefficient sign is estimated for income. It appears, therefore, that multicollinearity between population and income may well be a problem in this model, which is why population does not, in general, feature as an explanatory variable in tourism demand models. The results from model 11 are not included in the discussion which follows.

Income appears in each model in Table 12.9, but the values of the estimated elasticities vary considerably, ranging from 0.4 to 6.6. However, other than the 0.4 value, the estimated income elasticities exceed unity, showing clearly that foreign tourism is generally regarded as a luxury. The median value of 2.4 strongly supports a priori expectations about the luxury nature of foreign tourism. Many of the differences in elasticity estimates can be readily explained. For example, although the income elasticity obtained in model 5 (0.4) is somewhat lower than expected, travel from the USA to Canada is likely to be regarded in a similar manner to domestic (USA) tourism, i.e. a necessity, rather than a luxury; whereas, overseas travel from the USA to the UK (model 6) is viewed as a luxury (income elasticity is 2.4). By contrast, the value of the income elasticity for travel from France to Switzerland (model 1) is similar to that for travel from France to the UK (model 2) at 2.8. Again, this makes sense as Switzerland is a destination with a very high cost of living for tourists, whereas visiting the UK involves a high cost of travel because of the sea border, and therefore holidays to Switzerland and the UK are likely to be regarded as being at about the same luxury level by the French. (However, the income elasticity for travel from France to neighbouring cheap destinations (such as Spain) would be expected to be much lower; see, for example, the difference in income elasticities for travel from Germany to Switzerland (high cost) and Austria (low cost).)

As far as own price is concerned, travel cost appears in 11 of the 14 models, and the elasticity estimates range from –0.04 to –4.3, with the median value being –0.5. The three cases where demand is most responsive to own travel cost are those models which incorporate statistically significant substitute travel costs. Destination cost features in 12 models, and the elasticity estimates range from –0.05 to –1.5, with the median value

**Table 12.9.** Examples of estimated econometric models.

| Authors | Ref Date | Model No | Method of Est | $R^2$ | Explanatory variables: Pop | Inc | Trav Cost | Dest Cost | Exch Rate | Comb Cost | Subst TC | Subst DC | Subst CC | Dummy Variables | Trnd | Mark | Lag DV | Travel Time |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Martin and Witt | 1988c | 1 | OLS | 0.969 | | 2.819* | | −1.242* | | | | 1.053 | | −0.022[1]<br>−0.034[2] | −0.150* | | | |
| | (data | | | | | | | | | | | | | | | | | |
| | 1965– | 2 | CO | 0.953 | | 2.756* | −0.708 | | | | 0.600 | | | −0.204*[1] | | | | |
| | 1980) | 3 | CO | 0.987 | | 1.292* | −0.037 | −0.755* | | | | | | −0.109*[2] | | | | |
| | | 4 | CO | 0.896 | | 4.923* | −0.932 | −1.250 | | | 2.803* | | | −0.040[1] | −0.122 | | | |
| | | 5 | OLS | 0.776 | | 0.372 | −0.355 | −0.364 | | | 0.156 | | | −0.042[2] | −0.018 | | | |
| | | 6 | CO | 0.897 | | 2.431* | −0.198 | −0.428 | | | | | | | | | | |
| | | 7 | CO | 0.991 | | 4.550* | | −0.235 | 1.859* | | | 0.130 | | −0.258*[1]<br>−0.619*[2]<br>−0.061*[3] | | | | |
| | | 8 | CO | 0.911 | | 1.775 | −0.155 | | 0.637 | | 0.921 | | | −0.022[1] | | | | |
| | | 9 | CO | 0.972 | | 1.331 | −1.122* | −1.403* | 2.258* | | 6.305* | | | −0.604*[2] | | | | |
| | | 10 | CO | 0.978 | | 1.743 | −4.337* | −0.679 | 1.827* | | 2.226* | 3.308* | | −0.374*[1]<br>−0.367*[2] | | | | |
| Chadee and Mieczkowski | 1987 (data 1976–1985) | 11 | OLS | 0.95 | 12.40+ | −2.90+ | | −1.52+ | 1.26+ | | | | | 0.69+[4]<br>1.90+[5]<br>0.50+[6] | | | | |
| Papadopoulos and Witt | 1985 (data | 12 | CO | 0.996 | | 3.346* | −0.458 | −0.721* | | | | | | −0.515*[7] | | 0.175 | | |
| | 1972–1982) | 13 | OLS | 0.939 | | 6.645* | −0.475 | −0.706 | | | | | | −0.552*[7] | | 0.041 | | |
| Witt | 1980 (data 1964–1972) | 14 | OLS | 0.969 | | 1.386 | −0.199 | −0.049 | | | | | | −0.055[8]<br>0.091[9]<br>0.157[10]<br>0.152[11]<br>0.145–1.015[12] | | | 0.908* | −0.165 |
| Median values[a] | | | | | | 2.4 | −0.5 | −0.7 | 1.8 | | 1.6 | 1.1 | | −0.1[1]<br>−0.2[2]<br>−0.5[7] | −0.1 | 0.1 | | |

Notes: Pop, population; Inc, income; Trav Cost, travel cost; Dest Cost, destination cost; Exch Rate, exchange rate; Comb Cost, combined cost (travel + destination); Subst TC, substitute travel costs; Subst DC, substitute destination costs; Subst CC, substitute combined costs; Trnd, trend; Mark, marketing (promotional) expenditure; Lag DV, lagged dependent variable; OLS, ordinary least squares; CO, Cochrane-Orcutt.

Model 1, France to Switzerland; Model 2, France to UK; Model 3, Germany to Austria; Model 4, Germany to Switzerland; Model 5, USA to Canada; Model 6, USA to UK; Model 7, UK to Austria; Model 8, UK to Spain; Model 9, UK to Austria by Air; Model 10, UK to Austria by Surface; Model 11, USA to Canada; Model 12, Austria to Greece; Model 13, Switzerland to Greece; Model 14, denotes UK to multiple destinations.

*, significant at 5% level; +, significant at 10% level; 1, 1974 oil crisis; 2, 1979 oil crisis; 3, UK currency restrictions 1967–69; 4, second quarter; 5, third quarter; 6, fourth quarter; 7, political disturbances/1974 oil crisis; 8, non-sterling area destination; 9, low cost of tourism or sterling area destination; 10, holiday type; 11, travel mode; 12, range of destination intrinsic characteristic values; a, ignoring results from model 11.

being –0.7. Tourists thus seem to react in a fairly similar manner to destination cost changes and travel cost changes. Exchange rate appears as an explanatory variable in only 5 of the 14 models and in only one case is it the sole representation of tourists' destination living costs. The estimated elasticities range from 0.6 to 2.3, with a median value of 1.8, indicating that for those origin–destination pairs where exchange rate is important, there is a relatively high sensitivity of demand to exchange rate changes. The fairly high absolute values obtained for the price elasticities again support a priori expectations regarding the luxury nature of foreign tourism.

With regard to substitute prices, travel cost appears in 6 of the 14 models but destination cost in only three. The travel cost values span the range 0.2 to 6.3 with a median value of 1.6, and the destination cost elasticity values vary from 0.1 to 3.3, with a median value of 1.1. A wide range of dummy variables features in the models, showing, in particular, that political events can have marked impacts on tourism demand. Models 12 and 13 indicate that marketing expenditure does have a positive impact on tourism demand, but that the estimated elasticities are low. Model 14 demonstrates the negative impact of travel time on tourism demand, and the importance of habit persistence and/or supply constraints (as represented by the lagged dependent variable).

The forecasting performance of econometric models of international tourism demand is mixed. In the earlier studies econometric models often generated less accurate forecasts than simple extrapolative methods. However, Witt and Witt (1995) and Lim (1997) suggested that this may have been caused by lack of diagnostic testing coupled with appropriate remedial action. The more recent studies, which incorporate a range of diagnostic tests, partially support this hypothesis. For example, Kim and Song (1998) compared the forecasting performance of econometric models with several univariate time-series models and discovered that the econometric models were the most accurate. On the other hand, Kulendran and King (1997) found that econometric models generated more accurate forecasts than some univariate time-series models but less accurate forecasts than others.

## Conclusion

Forecasts of tourism demand are crucial for planning purposes. In this chapter, a range of tourism forecasting methods has been outlined which can be applied in a wide variety of situations.

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# 13

# International Tourism Management

**F. Go and L. Moutinho**

The focus of this chapter is on the management of tourism organizations in a dynamic environment. In particular, the competition in tourism has traditionally taken place domestically, where the bulk of the market is concentrated. However, the adjective 'international' in the title of this chapter is relevant because both the domestic and global environments are intrinsic characteristics of modern industry. More specifically, a growing number of local businesses is being drawn into the global arena for two general reasons. First, rapidly rising costs and the weakening of growth opportunities in 'slow-growth' industrialized economies is 'pushing' transnational corporations in particular to further their expansion abroad. Second, corporations that have their home-base in North America, Europe and Japan are increasingly 'pulled' into foreign markets by growth opportunities, especially in non-Western countries, and linked with network affiliates via global distribution systems (GDS).

The globalization of the tourism industry has several significant strategic implications. It increases competitive pressures by bringing more entrants into the market. It increases the complexity of doing business, from learning to find and manage employees with a diverse background in different countries to designing and delivering products uniquely suited for special interest travel markets. And it requires new knowledge, i.e. knowledge beyond what is known and deemed to be necessary knowledge by practitioners. For example, with economic and business activity becoming increasingly internationalized, there is a great need for managers of both private and public tourism organizations to interact with the complex global tourism environment. In the next decade, tourism managers will require a global perspective in order to respond effectively to

> a myriad of crises, such as overcrowding of tourist attractions, overuse and destruction of natural resources, resident-host conflicts, loss of cultural heritage, increased crime and prostitution, inflation and escalating land costs, and a host of other political, socio-cultural, economic and environmental problems that may be brought about or exacerbated by tourism development' (Theobald, 1994, p. ix).

Whereas Witt *et al.* (1991) surveyed the management of the international tourism environment, primarily by way of the traditional managerial functions, this chapter takes a somewhat different approach. It pinpoints the globalization of the industry as a central issue for tourism organizations and examines how to organize, integrate and manage activities to respond to the simultaneous need for a sense of global strategic intent and a sense of localized focus and competitiveness. Three earlier works were

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used in preparing this chapter: Go and Pine (1995) and Go (1994, 1995).

## Globalization of the Travel and Tourism Market

The increasing homogenization of customer needs and lifestyles, the nature of the international tourism industry's macro-environment, which demands a worldwide presence, and the development of computerized reservation networks have led to a global travel and tourism market.

> Telecommunications, television and international travel have laid the groundwork for a 'global lifestyle', especially in the metropolitan cities of industrialized countries. The film and television media deliver the same images throughout the global village. [Air] travel opens the avenues of exchange which has resulted in a 'globalized' market comprised of groups of consumers in large metropolitan areas, like New York, Stockholm, and Milan who may show more similarities than consumers in Manhattan and the Bronx in New York itself (Naisbitt and Aburdene, 1985, pp. 118–120).

The trend towards globalization in the services sector follows the precedent set by manufacturers who produce their standardized products and sell them under a brand name on a worldwide basis to reap economies of scale. The Japanese corporations have been particularly successful in exploiting global markets by being very customer-oriented as Levitt observes:

> What is distinct about Japan is the unrelenting drive for economizing and value-enhancing distinction. And that spells everywhere and in everything a drive for global standardization at high-quality-levels. The governing theory is that with reasonably restrained concern for suitability, if you force costs and prices down and push quality and reliability in all things up, everywhere around the world customers will prefer your world-standardized generic offerings in rising proportions, regardless of what conventional market research and even common observations may suggest about the existence of different national and intranational tastes, preferences, needs and institutions. In this theory the Japanese have been repeatedly vindicated (Levitt, 1983, pp. 25–26).

The major transnational corporations that are actively involved in travel and tourism tend to pursue global markets with standardized branded products. Where international travel is extensive, for example in Europe, a global brand can have a substantial advantage in that the brand has an impact on country visitors through advertising and distribution outlets (Aaker, 1991; p. 265). The visitor may be aware of the brand because of the marketing and distribution activities that the international corporations carry out in the visitor's home country as part of the value chain activities that are usually tied to the travel generating markets. Due to the service nature of the tourism product, the 'production' and service delivery have to take place in the traveller's destination.

Day (1990, p. 91) has observed that 'when markets are globalizing then regional distinctions become important'. In this regard, it should be observed that there are pitfalls and traps in an approach that overlooks cultural and regional differences but there is danger as well in assuming too much similarity. Specifically, the more homogeneous consumers' lifestyles become, the more steadfastly they are likely to cling to deeper values and treasure the traditions that spring from within (Naisbitt and Aburdene, 1985, p. 120). Furthermore, the needs and preferences of customers around the globe will simultaneously become more universal and more specialized. Clear cut differences are likely to remain from country to country, but international corporations will satisfy these with adjustments to standardized products and services. The homogeneity and specialization paradox will allow greater diversity, distinctiveness and uniqueness in customer preferences (Hickman and Silva, 1987, p. 102). Akin to this last observation, it should be noted that globalization is not 'an all or nothing proposition as far as branding is concerned, [but that it] can involve some elements of the brands – the name, the sym-

bol, the slogan, the perceived quality, or the associations – it need not involve all of them' (Aaker, 1991, p. 268). For example, the golfing 'boom' represents a global market opportunity for corporations that is constrained by the problem of building enough golf courses to accommodate players. While the world's golfing population has doubled, the number of golf courses has increased by only 16% (Anon, 1989).

The globalization of travel and tourism increases the complexity of doing business in that companies have to be able to cater to the tastes of foreign guests and manage employees in foreign (host) countries and from diverse cultural backgrounds in the home country. At a strategic level the global market requires travel and tourism companies to redefine their market and the ways of defining and accomplishing work (Moutinho, 1989, p. 139).

## The Changing Environment of the International Tourism Industry

Slowing population growth rates in developed nations due to a declining fertility rate, the deferred rate of marriage and rising divorce rates have led to a decline in the industrialized nations' share of total world population. Therefore population growth may become a national priority given the fact that in Western European countries the population is shrinking (Czinkota *et al.*, 1989, p. 631).

The once accepted authority and influence of family, religion and political institutions are being replaced by emancipation, a concern for ecology and a growing interest in wellness, health and life-long learning. The international travel and tourism industry will be the potential beneficiary of these trends in increasingly diverse lifestyles if it manages to adapt to 'demographic and social shifts (that) are occurring which will dramatically transform the level and nature of tourism' (Ritchie, 1991, p. 152).

For the international travel and tourism industry, some of the more significant demographic changes have included the ageing of the population in industrialized countries, the reduction in household size, and a decline in the leisure time of people who possess the bulk of the discretionary income.

### *Ageing population*

As a result of the increase in life expectancy, a larger share of travellers will consist of older people who are healthy enough, have a secure income, and fewer family responsibilities. Though population growth in Europe is close to zero and the propensity for travel already high, the demand for travel can be anticipated to increase as a function of an ageing population. For example, in Europe, 20.1% of the population was over 65 in 1980; by the year 2025 that figure will have risen to 29.2%. Taking into consideration those aged between 55 and 65, the number of Europeans who are now part of the 'mature market' is about 100 million.

The average life expectancy in Europe in 1980 was 72.2 versus 57.3 for the rest of the world. The average world life expectancy has now risen to approximately 65.3 and in Europe to 75.4 (ILO, 1989, p. 73). The ageing population, especially in Europe and North America, forms a large and affluent potential travel and leisure market. A larger share of tourists consists of older people. So far, attention in industrialized nations has focused largely on the pressures the growing group of elderly will place on pensions and health care. But in fact the changes to come will range from where seniors will live, where they will eat, and what foods they will consume: a market with enormous opportunity for the lodging industry. Real estate developers are beginning to investigate this relatively new but rapidly expanding market segment, i.e. the growing need for senior citizen housing. Increasing demands from the ageing population provide opportunities for private retirement centres, including the new lifecare concept, which has excellent growth potential well into the 21st century.

### *Household size reduction*

The trend away from marriage and low population growth implies that Western society

will be increasingly influenced and in certain countries perhaps dominated by households consisting of singles or couples. Smaller households with fewer children will mean different spending patterns, more money to spend on themselves, and potentially greater mobility to devote to travel and leisure activities. International corporations will have to be responsive to, for example, the consumers' concerns for their physical fitness and state of mind.

#### *Discretionary income in relation to time*

Conventional wisdom held that the long working hours of the 19th century would decline due to the automation of the workplace and the influence of unions and that as a consequence discretionary or leisure time would increase for the average worker. Instead, the reverse seems to be happening. In America, for example, one survey showed that:

> From 1973 through 1985, the number of leisure hours available to most Americans dropped from 26.2 hours to 17.7 hours a week, a loss of 8.5 hours every week, or one hour and 12 minutes a day ... Taken together, the number of hours the average American spends at work each week has increased from 40.6 in 1973 to a current 48.8, a rise of 8.2 hours a week or one hour and 10 minutes a day. One key reason for the dramatic shifts in working hours and leisure time can be found in the increasing number of women who are working, now up to an estimated 56% of all adult women. That means that both spouses are spending more time at work and have less time left for leisure. Another is that the country has shifted radically away from blue-collar production to white-collar service jobs. Blue-collar hours have remained steady or declined, while white-collar hours of work have risen (Harris, 1987).

#### *Rising environmental concerns*

Greater interest in nature and the protection of the environment are part of shifting value structures and lifestyles in society. For a growing number of consumers in the industrialized world, quality of life issues have become as important as standard of living issues, because the former are perceived to affect their well-being.

The present intellectual revolution in society affects the travel and tourism market in particular. On the one hand, rising urbanization of world populations will increase the demand for scenic beauty and nature. On the other hand, millions of consumers will put increasing pressure on policy makers and business leaders to preserve the environment. For example, Aderhold (1992) reported on the growing sensitivity to environmental matters among Germans on vacation. Specifically, he indicated that the percentage of German holiday-makers who noticed problems relating to the environment during their holidays doubled between 1985 and 1988.

The 'environment' has become a megaforce that will influence the type of products the market is likely to want in the future. The growing number of consumers who care about the environment implies that the international tourism managers have to demonstrate greater concern about environmental matters. What has the industry done to assure that its actions are environmentally compatible? The World Travel and Tourism Council established the World Travel and Tourism Environment Research Centre (WTTERC) in 1991 to monitor, assess and communicate the environmental practices of the travel and tourism industry (WTTERC, 1994).

## Implications of Shifting Tourist Demand

The mass movement of tourists is a consequence of contemporary migration patterns in industrialized society. Specifically, recreational travel is a function of migration to the city and the commuting resulting from large-scale urbanization and spatial separation of the workplace and the home. Travelling abroad for pleasure purposes by large numbers of people is a relatively modern occurrence, dating from the early 19th century. Increased awareness of the outer world in particular, led to an increased readiness among the more educated groups in society to migrate

temporarily or even on a permanent basis (Cohen, 1972, p. 197).

At present, there are a number of significant travel demand shifts taking place that will affect the international hotel industry, including:

- A potential, substantial discontinuity (Crouch and Shaw, 1990, p. 18) of international travel flows due to the dramatic changes taking place in Central and Eastern Europe and the Asia-Pacific Rim region. Increasing numbers of visitors from new markets will pose a challenge for destinations. For example, Asian visitors tend to be uncomfortable in a completely foreign setting. This recognition has implications for food service, language ability of service staff and so on.
- The ageing populations and the size reduction of families in the industrial countries (where the vast majority of international travellers originate). The contemporary urban household often consists of two income earners, including professional individuals whose jobs generally involve longer hours in a high pressure environment (Lakatos and Van Kralingen, 1985; Gibbs, 1989).
- The emergence of more demanding customers. Greater affluence, higher levels of education and more sophistication places new demands on traditional travel activities including those involving attractions, events, shopping and dining. Constant renovation of facilities and upgrading of service to ensure product quality are 'musts'. For example, upscale consumers are searching for new experiences including themed tours, cruising and all-inclusive resorts.

The shifts in demand have implications for business travel, pleasure travel, personal travel and international travel. Market segmentation in the hotel industry has generally taken place along the dimensions of main target markets such as corporate travellers, group travellers, conference groups, aircrews and leisure travellers. Each segment typically has its own specific requirements. One now increasingly identifies visitor needs and interests as fundamental to a continuing research process necessary to better understand visitor market segments and their motivations and behaviours.

## Changing Patterns of Competition

The advent of the air transportation industry in the post-war era resulted in the international travel and tourism industry as we know it today. It had its origin with Pan American Airways' creation of subsidiary InterContinental Hotels in 1946 to provide its passengers and crews with modern accommodation in Latin America. From these humble beginnings, the hotel group was built into a worldwide 'hotel chain'.

The expansion of international air transportation and jumbo jets carrying greater numbers of passengers created shortages of quality accommodation in a number of locations and accelerated airline involvement in the international hotel industry. For example, in May 1967, Trans World Airlines (TWA) purchased Hilton International Hotels for US $17 million, making the airline owner of 42 hotels in 28 countries (Sampson, 1984, p. 164). And in 1970, a merger was negotiated between Westin (then Western International Hotels) and United Airlines (UAL) Inc., with Westin continuing to operate as an autonomous, wholly owned subsidiary.

The merger of airlines and hotel companies and the emergence of motel conglomerates such as Holiday Inns, Ramada Inns and Quality Inns expedited the introduction of standardized hotel 'formulas' and modern travel marketing practices throughout the world. The internationalization of American-based hotel corporations had a profound effect on the domestic hotel industries of many countries. Traditionally domestic hotel industries which could survive in less competitive times depended for their success on a durable competitive advantage. In particular, they operated in a defined, usually local, market wherein competition was restricted.

For instance, Tideman (1987, p. 1) chronicled the significant change in the Dutch Hotel industry when the Hilton International hotel in Amsterdam opened in 1962. It was the first foreign-owned and operated hotel in The Netherlands and the forerunner of an 'invasion' of international hotel chains. During the next quarter of a century, other foreign-owned and operated hotel companies penetrated the Dutch hotel market, despite the resistance and competitive counter measures of Dutch hoteliers. In 1987, the five largest hotels (measured by rooms count) in The Netherlands were all owned and operated by corporations based in foreign countries. By comparison, the Grand Hotel Krasnapolsky in Amsterdam with 364 rooms was the largest domestically owned and operated hotel company in The Netherlands, but ranked only sixth in terms of size.

The invasion of foreign hotel chains resulted in a competitive response by Dutch hoteliers who banded together and, with the help of KLM (Royal Dutch Airlines), established the Golden Tulip Hotels Company. In essence, the Golden Tulip Hotels Company allows independently owned domestic hotels to function more effectively under a brand name and through a reservations system. The Golden Tulip Hotels brand and its referral system has been successful both in The Netherlands and abroad due, to a great extent, to its link with KLM, the Dutch national air carrier (Tideman, 1987, pp. 1, 12).

Due to the internationalization of the economy and business activity, the competition in the tourism industry has shifted from the local level to the global level. This development influences to a significant extent the strategic decision process of both independent tourism operators and international tourism organizations. Independent and, for the most part, local tourism organizations will increasingly attempt to become part of a network to benefit from the scale effects brought about by *configuration* to ensure survival. The application of the principle of configuration has been illustrated by, for example, the formation of referral and franchise systems. On the other hand, established international tourism organizations with a large network in place are likely to focus more and more on system *coordination* to remain competitive by improving communications and cost control.

The above example draws together the basic ideas of the evolving globalization and industry structure in the travel and tourism sector. Most independently owned enterprises are local in nature, whereas many of the larger chain-operated corporations are active on the global level. There is, therefore, a need among independently owned enterprises to be either unique and excel in what they do, or become affiliated with a global external network (alternatively an independently owned enterprise can expand into a corporate chain).

### *Competitive scenarios*

The pattern of international competition differs from industry to industry. However, Porter describes the generic pattern of international competition as follows:

> At one end of the spectrum, international competition takes a form that can be termed *local*, i.e. competition takes place on a country by country basis. Some competitors may be multinational firms, but their competitive advantages are largely confined to each country in which they compete (Porter, 1990, p. 53).

> At the other end of the spectrum are *global* industries, in which a firm's competitive position in one nation significantly affects (and is affected by) its position in other nations. Rivals compete against each other on a truly worldwide basis, drawing on competitive advantages that grow out of their entire network of worldwide activities. Firms combine advantages created at their home based with others that result from a presence in many nations, such as economies of scale, the ability to serve multinational customers, and a transferable brand reputation . . . Industries have increasingly become global in the post-World War II period (Porter, 1990, p. 53).

Although there is no conceptual difference in strategic management for domestic or

international hotel firms, managers need a global mindset because the world-class service organizations offer a competitive benchmark, whereas traditional service firms of the 'Available for service' and 'Journeyman' types proposed by Chase and Hayes (1991) offer little inspiration for building competitiveness.

To achieve a competitive advantage, international tourism managers have to 'craft' an appropriate strategy and then implement this strategy through an effective structural process. The latter stage tends to be the more complex of the two stages in that it requires leadership and skilled and committed workers. International tourism managers may be aware of global competitive benchmarks in the formulation of strategy. But the organizational structure required to implement the strategy leaves much to be desired, that is, if the findings in one study of the international hotel industry (Go and Pine, 1995) can be considered representative of organizational structure in the tourism sector.

In general, small business operators have little, if any, awareness of global standards. Hence, their performance expectation is usually based on local competitive benchmarks. Ideally, international tourism managers should think globally and train their staff according to global standards which lead to world-class service and excellent performance. However, their traditional administrative heritage prevents all but the managers of the leading international tourism companies to compete on a world-class level. Due to fierce competition and limited resources, domestic tourism organizations find the 'internationalization' process slow and difficult.

In summary, international tourism managers who may have developed appropriate strategies but lack an internal process, cannot expect to make progress towards the world-class service organization model proposed by Chase and Hayes (1991). Given the fierce competition in international tourism, managers should invest in those means that will help improve their organizational capability and hence the management of process in their companies, or risk losing market share, or worse the opportunity to survive.

## The Technological Environment

Historically, new technology has been developed with the goal of improving productivity and lowering the cost of production. This trend is likely to continue, as new innovations and technologies are combined with those of the industrial revolution. For managers, it will be important to envisage the type and degree of change and to take steps, within the international tourism sector, to anticipate such change. In the technological environment, the speed of new transportation modes and advances of information technologies are especially relevant to international tourism.

International tourism managers who embrace new information technology by actively participating in the technology planning process will be able to identify new uses of technologies and manage them for improved competitive advantage. As the focus of research shifts from creating technology that improves business efficiency to identifying innovative technology applications that will enhance the traveller's experience, managers have to gain an in-depth understanding of the key attributes of customers, competitors, and the strengths and weaknesses of the company. Only by understanding the market will the managers be able to determine business needs and the potential use of technology.

## Structural Dynamics of the International Tourism Industry

The significant relationship between industry structure and the market has been discussed elsewhere against the backdrop of the historical evolution of economic market theory (de Jong, 1985). Within this framework, human economic activities are characterized by the 'art of acquisition'. In order to acquire profits or ownership of another firm, a commercial organization must compete in the market; which means,

according to Stigler (1965, p. 235), 'rivalry is a race – a race to get limited supplies or a race to be rid of excess supplies. Competition is a process of responding to a new force and a method of reaching a new equilibrium.' Resistance on the part of traditional international hotel firms to meet new challenges, specifically their (i) high cost compared with substitute products and budget type hotels; (ii) inflexibility in organization; and (iii) inflexibility in corporate strategy, could cause organizational decline. In turn, organizational inflexibility might inhibit the capacity of hotel firms to successfully adapt to human attitudes, (consumer) behaviour and civilization shaped by societal structures which in turn are determined by the production preconditions. Or to summarize Schumpeter's theoretical propositions as cited by de Jong (1985, p. 53): (i) production preconditions determine fundamental societal structures; and (ii) process determines structure.

Galbraith (de Jong, 1985, p. 63) viewed the pressures applied by consumers and suppliers respectively as a 'countervailing power' in the world of oligopolistic enterprises. For example, the large hotel chains have been considered to take on, in effect, an internationally functioning competitive oligopoly which operates only on the local market concerned (Go and Welch, 1991, p. 91). J.S. Bain was a proponent of the 'industrial organization theory'. According to Bain, three elements determine the market structure in particular, namely: (i) the level of industry concentration; (ii) the entry conditions or barriers to the industry in question; and (iii) product differentiation (de Jong, 1985, p. 73). The aforementioned economic theories lead to an overview of the theory of competitive advantage.

Studies of large multinational firms in the 1970s have shown that these corporations typically compete in domestic and international markets on the basis of competitive advantage. The competitive advantage theory offers a perspective on business strategy that facilitates analysis of the competitive environment. The key factors for success of different industries lie in different production functions 'at different points along the value chain' (Porter, 1990). The way in which one activity within the value chain is performed affects the cost or effectiveness of other activities.

In an increasingly complex and changing environment, international tourism organizations cannot effectively compete through structures that are uni-dimensional and static. But how can managers develop the organizational structures, processes, and perspectives to implement the strategic capability to achieve competitive advantage that is broad-based, as opposed to uni-dimensional based? What model is designed to develop the kind of organization that embraces change and complexity? Which organizational configuration of assets and resources is optimally responsive to the shifting distribution of roles and relationships and the different set of management skills and capability needed in an environment that demands a sensitivity of managers both on the global and local levels?

In order to function effectively in the integrated network in the fast-moving, competitive market requires an organizational structure like the 'transnational model' (Bartlett and Ghoshal, 1989) which incorporates a much more flexible management mentality than the one which dominates the traditional organizational hierarchy typically encountered in international tourism organizations.

A transnational model (Bartlett and Ghoshal, 1989, p. 6) relevant to the international tourism organization emerged in the 1990s, characterized by: (i) the distribution of specialized resources and capabilities through an integrated network; (ii) the coordination of flaws of products, resources and information across interdependent units; and (iii) a management mentality which treats worldwide tourism operations as an integrated and interdependent strategic network. The transnational organization model is significant in relation to the international tourism industry because it enables international tourism organizations to balance global reach and local adaptability. The latter is important in that it allows international tourism organizations to develop an optimal strategy (between adapting completely to

each local environment and standardizing across them) for arriving at an integrated, sustainable and profitable operation.

'The network avoids the problems of duplication of effort, inefficiency and resistance to change to ideas developed elsewhere by giving subsidiaries the latitude, the encouragement, and tools to pursue local business development within the framework of the global strategy' (Czinkota *et al.*, 1989, p. 609). The main tool for implementing this approach is to develop international *teams* of managers who meet regularly to develop strategy.

For international tourism organizations with the ambition to stay in or join the international arena, the central issue is how to organize, integrate and manage their activities to respectively remain or become successful international players. This is particularly true of tourism organizations that have overseas expansion potential but are beginning to comprehend that constructing, operating and controlling offshore properties does not necessarily mean they are equipped to compete effectively on a global basis. Increasingly, the issue of global expansion deals with a series of differentiation and integration decisions.

On one hand, international tourism organizations have a clear need for a sense of global strategic intent, or for broad-based resource, training and marketing allocation schemes. On the other hand, international tourism managers' views must be 'tuned-in' to local issues, for instance the availability of sites for tourism development in desirable locations or understanding the grievances of a host population which is against international tourism development because of its perceived negative impact on their community. Since community demands for active participation in the setting of the tourism agenda and its priorities for tourism development and management cannot be ignored (Ritchie, 1991, p. 151), astute international tourism organizations will become more sensitive to the local community in which they (wish to) operate and compete. In addition, they must be able to deal effectively with cultural conditions and different behavioural values.

## Integrated Networks

The greater importance of information and knowledge transactions in the international tourism industry will require managers to extend their horizons well beyond the traditional trade channels of distribution. Fierce inter-industry competition caused in particular by technological change and the subsequent reassessment of business strategies has encouraged leading international tourism organizations to target their services to specific user groups by complementing the services performed by 'mega' industries. The result is the emerging networking of international tourism organizations with, for example, telecommunications, banking, finance, training and education organizations. This dynamic network has been formally defined as 'an organizational architecture that accommodates constant and accelerating change while at the same time stimulating components of the corporate environment to build deep and lasting relationships' (Hickman and Silva, 1987, p. 210).

While service companies used to have a supporting role in the facilitation of economic transactions in the past, they increasingly tend to take on a transactions determining role (de Jong, 1985, p. 9) and a strategic significance. For instance, the planning and building of commercial accommodation in a tourist destination determines to a great extent the type of tourist market this destination will attract in the future.

Due to the scarcity of required expertise, the high development and operations costs, and the risk factors in the restructuring of the international tourism organizations, it is becoming more common for international tourism organizations to seek long-term relationships with production, research and marketing groups around the world. An integrated network of relations between service providers is emerging based on formal agreements to cooperate with one another by contributing specific knowledge and information that are complementary. This type of cooperation does not take the form of a merger or a joint venture but is rather a limited involvement of the parties

designed to solve knowledge and information-related problems through the assistance and contribution of organizations which for instance know and understand local markets (Van Rietbergen *et al.*, 1990, p. 214). Thus, each of these service providers in the network contributes specific core competencies to the value chain on a short-term or long-term basis. Following this train of thought, the international tourism organizations should therefore be viewed as deriving value-added services to a lesser extent from traditional functions and to an increasingly greater extent from those functions that arrange and maintain transactions in integrated networks (de Jong, 1985, p. 8).

These networks are designed to build the central competitive advantage of the 1990s: superior execution in a volatile environment. No traditional corporate structure, regardless of how de-cluttered or delayered it is, can compare with the speed and flexibility of networks (Charan, 1991, pp. 104–105). Network effects create important opportunities for gaining competitive advantage in the hotel industry in which the basic service consists of linking buyers, sellers and third parties.

## Strategic Change, Challenges and Opportunities

Strategy and organization are key determinants of business performance and are, at least to some degree, subject to managerial influence. A concern of this chapter has been to identify business strategies and organizational structures which tourism enterprises need to effectively cope with change, risk and uncertainty inherent in the international business environment.

To a certain extent, international tourism organizations are captives of their past in that their organizations affect managers' abilities to develop appropriate responses to changing environmental forces. International tourism managers often face change with reluctance. Such managers may think that they are making the necessary changes when in actual fact they are rearranging things through actions like reorganizations. To continue with old ways in the globalized environment is a blueprint for potential disaster.

Up to now, knowledge about the home market was sufficient to survive. On another level, technical knowledge was often considered to be more important than the management of information. This is no longer the case, because in the international operating environment new ideas and new ways of thinking about problems are required as successful business strategies, designed to sustain a competitive advantage, result from a particular state of mind (Ohmae, 1982, p. 4).

Astute managers will detect emerging opportunities in the changing environment. Specifically, in today's information society, the modern international tourism organization can be viewed to derive less from traditional production functions and more from a portfolio of core competencies and encompassing value-creating disciplines. The skills-based view of the international tourism organization is based on these core competencies and value-creating disciplines which allow a product to be delivered to customers at the best possible price/performance trade-off (Hamel, 1991), and which form, for example, the *raison d'être* for the multinational tourism organization (Caves, 1971; Buckley and Casson, 1985). Conceiving of the international tourism organization as a portfolio of core competencies and value-creating disciplines implies that 'inter-firm competition, as opposed to inter-product competition, is essentially concerned with the acquisition of skills' (Hamel, 1991).

To take advantage of new opportunities and build competitive advantage, international tourism organizations have to develop three diverse and often conflicting strategic capabilities simultaneously to meet three major challenges:

- The multinational flexibility to respond to diverse, local market needs.
- The global competitiveness to capture efficiencies of scale.
- The international learning ability that results in worldwide innovation.

Consequently, international tourism management should be, among other things, 'the adaptation of the organization to the changes of the outside world. An adaptation that is not passive and is forced by circumstances but active, creating new answers and formulae suited to new situations' (Cassee, 1983, p. xv).

### *Implementing international tourism strategies*

The present shift, especially in the industrialized countries, from a resource-based and labour intensive economy to one that is knowledge intensive rigorously challenges the current acting and thinking of international tourism managers. Traditionally, tourism-related services have been classified as convenience services, as opposed to knowledge services (Tettero and Viehoff, 1990). But as organizations prepare for the global economy and resources are being shifted out of low-wage activities into higher value-added activities where advanced technology, knowledge and service provide a competitive edge, the continued prosperity of international tourism will depend largely on well-educated human talent; particularly managers who are able to think, weigh and judge critical issues in addition to rendering quality service (Grönroos, 1989).

In order to implement international tourism strategies effectively practitioners have to be able to perform in world where US dominance has waned, Japan's rapid expansion has plateaued, Europe may experience a renaissance, and East Asia and Eastern Europe represent to a lesser and greater extent, respectively, the 'wild cards'.

The successful implementation of international tourism management will be based on two learning processes (de Wilde, 1991). The first is conceptual in nature and is addressed in terms of the way issues change as a result of the global economy. Some examples of such conceptual issues include, but are not limited to the following: global competitive strategy and strategic alliances, organizational development and performance in global markets, segmentation and target marketing, researching differences between global and domestic markets, marketing strategies for middle and higher income countries, and marketing issues in Central and Eastern Europe. The second process is skills-based and encompasses broadly intercultural negotiating skills, the ability to read different markets in different contexts and understand comparative politics (de Wilde, 1991, pp. 41–44).

The globalization of travel and tourism is underway. Some international tourism managers may ask if it is a fad or the initial phase of a long-lasting, important shift in international tourism. The unabated expansion and cumulative effects of information technology, development of global capital markets, and generation of exports-oriented businesses (de Wilde, 1991, p. 41) suggest that globalization is here to stay.

Amid signs that the future will be more unpredictable and unstable, there is the certainty that value-creation for international tourism managers will remain a priority on the agenda of consumers and organizations alike. One of the main themes throughout this chapter has been that value creation in travel and tourism is derived from the ability to cooperate and learn collectively in a transnational network. The implementation of effective international tourism strategies implies the need for creating and sustaining value for consumers, corporate stakeholders and the host community. In turn, this may require the upgrading of management expertise in some cases, and in other cases the present incumbents may not be capable of meeting the challenge. Within the value-added context, the cultivation of competencies and capabilities is moving from the realm of corporate philanthropy to the realm of productivity. When that distinction is linked to rising competitive pressures and labour shortages, the travel and tourism sector should have an incentive to support international tourism management education, training and research initiatives.

## New Directions for the Hospitality Industry

The hospitality industry, which may be viewed as an important element of the tour-

ism sector, has evolved in the post war period towards consolidation and internationalization. In the UK, for example, public companies have progressively become the major owners of hotels. The same is true in the USA and to a lesser extent in continental Europe. The economies of scale that may accrue through their multiple units and the financial and managerial expertise they can muster, means that the emerging larger organizations have the ability to grow even larger and at a faster rate within the marketplace. Therefore, hotel consolidation may be defined as the growing concentration of rooms and marketing expertise in the hands of relatively few, large organizations whose international, multi-site operations have the capability of attracting a broad customer base (Go, 1989). In other words, consolidation is the amalgamation, or association of different companies in one or many industries. It is the fusion of ownership, management and expertise that occurs as a result of the structure of the industry, or that is initiated as the strategy to gain marketing 'strength'.

Within this context, the emergence of European harmonization raises a query of strategic importance, namely: 'How can a standardized product be packaged, branded and distributed as effectively in export markets as at home?' While trends reveal that the main players of public hotel management groups and marketing consortia appear to be gaining an increased competitive advantage, it should be noted that the European market is very fragmented and offers smaller hospitality firms the opportunity to build on the existing divergence of customs, traditions and preferences within the marketplace. This chapter attempts to identify the most important and pressing issues facing the global hospitality industry and the marketing implications related to contemporary structural changes.

## Strategic Thinking

There are a number of issues which are predicted to have a major impact on the hospitality industry of the 21st century. While the following trends are by no means exhaustive, we believe that they represent the most important and pressing issues facing the global hospitality industry.

### *The asset evolution phenomenon*

The hospitality industry of the early 1980s was characterized as a heavily asset-based industry with a large part of world hospitality assets being concentrated in the hands of a few, powerful hospitality firms. The second half of the 1980s, however, saw what has been called the 'asset evolution phenomenon' (see Box 13.1). By this we refer to the situation whereby US hospitality firms have all but relinquished their assets. The US hospitality industry is no longer an asset-based industry, but rather a management contract-based industry. In order to meet unrealistic pressure from the capital markets for continued bottom-line growth, US hospitality organizations were forced to pursue a strategy of asset liquidation. The buyers of those assets were predominantly the Japanese and British.

**Box 13.1.** The asset evolution phenomenon.

- Japanese: Long-term asset appreciation and concentration
- European: Asset accumulation. More difficult to get adequate return
- USA: Asset liquidation. Growth in management contracts
- Asia: Asset acquisition

The Japanese are clearly pursuing a strategy of asset appreciation. They are investing strategically; i.e. on a long-term basis. The Japanese tend to buy quietly and moderately. However, we have recently witnessed Japanese investors paying well above market price for individual hotel properties. By suddenly purchasing a property above market price the Japanese investor is consciously raising the value of all other properties in his or her portfolio which significantly raises the value of the total asset holdings and in turn provides him or her with much greater leverage in the market-

place. This leverage permits further acquisition of properties.

It should be noted, however, that the Japanese are not the only major Far Eastern investors with interests in the hospitality industry. Many other Asian corporations, especially those originating from the newly industrialized nations (NICs) have been actively pursuing strategies of asset acquisition in the industry.

### *The technological flood*

The hospitality industry has been transformed into a more technology-oriented industry. One only has to look at the evolution of the 'smart hotel room', with its use of fibre optics for video check-out facilities, for evidence of the emerging emphasis on technology. The Japanese have even gone as far as to develop a 'litmus paper toilet' which allows a guest, by observing the colour of the litmus paper automatically injected into the toilet basin he or she has just used, to determine his or her biomedical status.

### *Marketing and technology*

Attempts by lodging organizations to pursue branding strategies are visible and indicative of the product-orientation of many organizations as well as their use of descriptive criteria for segmentation purposes. Branding, as currently practised, is a result of product segmentation. Many of the attempts at branding in the lodging industry were developed to create brand awareness, recognition, and ultimately brand loyalty by maximizing brand switching costs. Unfortunately, the product orientation driving the whole branding issue has led to customer confusion. Differentiation through the use of brands in the lodging industry has all but become meaningless, for it does not clarify customer confusion but only serves to enhance it, the very problem it was designed to eradicate! We predict a greater emphasis on a truly market orientation to branding which will involve the development and implementation of strong positioning statements, creation of well-defined images, the determination of benefits sought by the consumer, and the differentiation of those benefits. This, in turn, will only come about when lodging organizations employ more sophisticated methods of segmentation, i.e. a move beyond purely descriptive methods of segmentation to behavioural, psychographic methods of segmentation.

In connection with the proliferation of brands, we predict an increase in the use of focus or concentrated growth strategies. By this we mean that growth for its own sake is no longer feasible, as demonstrated by the case of Holiday Corporation. Rather, organizations will focus on what they do best. Marriott's recent divesture of its restaurant division is evidence of this trend. There will be a focus approach to global brand proliferation.

In future we will see a continuous stream of attempts by major hospitality corporations to become 'closer to the customer'. Customer expectations of service will raise. Some suggest that service, not price, is now the dominant differentiating factor.

In an attempt to provide more effective and efficient service some predict an increase in expenditures by hospitality corporations on product design. Product innovation will result in the introduction of new products ranging from the smart hotel room, to the use of computerized touch-screen systems. Such touch-screens effectively eliminate all contact with any service personnel by allowing the customer to select his or her choice of items by simply touching the appropriate selection displayed on the VDU screen.

Technology will also affect the control of industry capacity. We will see the growth of what we term 'mega-systems' consisting of several interchange systems between various components of the hospitality industry. An excellent example of an attempt at the introduction of such a system was Rupert Murdoch's venture with 'UltraSwitch', which is an international network linking travel agencies, hotel and airline reservation systems through a satellite communication network. The major issue arising out of this growth in mega-systems is who will control industry capacity? Unless closely supervised, such systems will effectively take the control of industry capacity out of the hands

of the organizations that actually provide the capacity.

### *The labour issue*

Management culture in the hospitality industry is rooted in the 'how-to' side of the business, as opposed to the behavioural side. Traditionally, hospitality managers have been very task-oriented and practice reactive, as opposed to proactive, management styles. If hospitality management is truly to come of age, we need to pay increasing amounts of attention to developing a more behaviourally oriented manager. It is only through the development of such an individual that corporations will be able to successfully pursue a strategy of differentiation through service. We still have an abundance of needs to address in the area of multicultural management.

In terms of labour supply, we see a growing similarity between the situation of the Western and Eastern worlds. In the West changing demographics have led to a labour shortage. In the USA for example, on any given working day, it is estimated that just above 20% of positions go unfilled, or filled unsatisfactorily, due to a lack of available labour. The East has traditionally had an abundance of labour and has, as a direct result of labour supply outstripping labour demand, been able to produce the levels of service for which Far Eastern hotels have become famous. It is predicted, however, that in the future we will see the beginning of some intense competition for labour in several Far Eastern countries with a resulting lowering of the service level offered by hospitality organizations in these countries.

As the hospitality industry becomes more and more global in its focus, we need to devote increasing amounts of attention and resources to educating (not training), individuals to be aware of, and adapt to, the multicultural nature of the industry. The 'imprinting' of one's own culture will no longer be acceptable either to host countries in which a hospitality organization operates, or to customers of varied nationalities and beliefs. Multicultural education and training is a major issue that we need to address in the future.

The workforce of the 21st century will be more demanding. By this we mean that employees will expect more of their employers. The role of the institutions of higher learning in the hospitality field should be to furnish students with an ability to critically analyse what they read and see with thinking skills, not just technical skills.

### *Geopolitical–legal issues*

Democratization in Eastern Europe and the former Soviet Union during the past decade worked well for the hospitality industry, initially in the form of joint ventures. However, the vast market potential that exists for the hospitality industry in Eastern Europe is somewhat tainted by poor infrastructure and poor, if existent, tourism organizations. The impact of the NICs has also yet to be determined. Recent events seem to indicate that these countries will experiment with service industries far earlier in their economic development than did Japan. Hospitality organizations need to be poised to take advantage of this trend, should it emerge with force.

It is predicted that government regulation will continue to be an important aspect of the hospitality industry for several reasons. Perhaps the two most important reasons are (i) the pollution aspect; and (ii) the issue of industry capacity control. Both these issues will become volatile areas of debate and legislation. Evidence clearly suggests that money is becoming multinational in nature. Since the early 1970s, the industrialized nations of the world have steadily lifted regulatory restrictions on international capital flows and on foreign participation in domestic financial markets. At the same time that governments have been liberalizing their trade and foreign investment policies, telecommunications have provided instantaneous transmission and processing of information around the globe. Capital now moves swiftly across borders because technological changes have reduced transaction costs associated with global arbitrage. This recent globilization of capital markets has radically altered the way lodging and other real estate properties are funded.

Today, the global integration of capital markets has widened the gap between real properties and their financing sources. The globilization of finance may represent the final outcome in a gradual process of funding sources and property. Today, debt and equity capital for hotel investments emanates principally from seven geographical regions: Asia (Hong Kong, Taiwan, Korea), Australia, Europe, Canada, the Middle East, Japan and India.

## Strategies for Global Hospitality Firms of the 2000s

In an attempt to adjust to, and take advantage of these trends in the global hospitality industry, hospitality firms have little choice but to follow either a strategy of concentration or a strategy of diversification. A concentrated growth strategy implies that a firm will direct its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The majority of major companies appear to follow an overall strategy of concentrated growth. Market developments will force most small and medium size enterprises (SME) to opt also for either a concentrated strategy, for example by joining a franchisor or consortium or a diversification strategy. We shall address the latter issue later on.

In the hospitality industry, there appear to be several forms of concentrated growth as practised by the major corporations. These forms are strategic alliances, franchising, management contracts, joint ventures and acquisition. All five of these strategic forms reflect the unique nature of the hospitality industry's almost pure competitive status. Each will now be discussed in turn.

### *Strategic alliances*

Strategic alliances may be defined as 'organizational arrangements and operating policies through which separate organizations share administrative authority, form social links through more open ended contractual arrangements as opposed to very specific, arm's length contracts' (Bardaracco, 1991). Within the global market companies cannot meet the value based needs of customers. They require the technology and skills of others to meet such needs. Strategic alliances allow companies to focus their attention on the areas in which they are to add the most value per unit of input, compete for the world's best talent in a given activity, and make their organizational structure 'leaner' (Quinn *et al.*, 1990, p. 66).

Strategic alliances are also exemplified, at the strategic level of organizations, by the growth in consortia-type organizations such as Best Western and Consort. In the simplest form of this strategy, firms are tied together by a common reservation and marketing system. While the physical product may not be standardized, attempts are made by participating organizations to standardize quality. The mainstay of this type of strategic alliance has been the small independent operator. Strategic alliances are increasingly evident through inter-company cooperative link-ups for marketing purposes. For example, Radisson opted for a strategic alliance with SAS International Hotels, Movenpick Hotels and Park Lane Hotels in Hong Kong. An alliance with partners based in different continents allows individual partners a new logic for management action, in that their focus can switch to maximizing the marginal sales contribution to fixed costs. At the same time, the strategic alliance addresses the global issue of global marketing as Radisson distributes the Movenpick, SAS International Hotels and Park Lane Hotels products in North America, and vice versa. A more complex type of strategic alliance is best exemplified by the Radisson Hotel Company affiliating with Movenpick (Swiss), SAS (Scandinavian), Park Lane (Hong Kong), Commonwealth Hospitality of Canada, and Pacific Rim Leisure (Australia) in order to better promote its product worldwide.

The second type of alliance takes place at an operational level and is best exemplified by the concept of cross-franchising which is defined as the process of two organizations with different products but similar management styles or philosophies joining forces under one roof with the intention of reduc-

ing overheads and increasing profits. Three versions of cross-franchising can be seen: (i) where one franchisee becomes a franchisee of another company; (ii) where there is a combination of units offering signature items within the same company; and (iii) where there is a combination of units featuring signature items of companies not in the same organization.

The strength of strategic alliances as a form of concentrated growth lies in the fact that it can rapidly take advantage of the brand recognition of several multinational firms. This is especially important in today's operating environment where it is becoming increasingly difficult to harness the capital for international expansion. Entering into an alliance of the type described here requires little capital but produces substantial benefits such as (i) the spreading of marketing costs over a larger base; (ii) a reduction in the potential problem of acquiring labour and management expertise; and (iii) a minimization of the problems associated with any multicultural difference that might be encountered by an organization when seeking to expand into a new geographical part of the world.

In what is becoming an increasingly fierce saturated and competitive operating environment, hospitality organizations are having to join forces to ensure they harness the necessary resources, both financial and non-financial, to penetrate the marketplace. We believe that the 21st century will see an increase in both the number and the type of strategic alliances in the hospitality industry. Alliances will no longer be confined to companies operating in the same industry joining together, as in the case of Radisson outlined above. Rather we will see an increase in strategic alliances between synergistically related organizations such as car rental organizations, life insurance companies, airlines and lodging corporations.

### *Franchising*

This form of growth is one of the most popular and preferred methods of growth for international hospitality organizations. The reasons for the popularity of franchising are numerous: (i) the franchisor seldom has to provide the capital; (ii) the franchisor does not have to endure alone the various problems associated with regulations and licensing activities required by many nations; and (iii) the franchisor does not have to engage in extensive site selection activities in relatively unknown territories. Despite these advantages of franchising as a form of growth, there are several concerns which the franchisor ought not to ignore. These include: (i) the selection and structure of organization of the franchise; (ii) the nature of the relationship between the franchisor and the host government; and (iii) the ability to control standards and operational procedures of the franchisee.

The franchise method can be implemented as simply as one firm with one unit licensed from a franchisor or it can be as complex as master regional franchises. This is where one firm has the rights to expand the brand throughout an area or region of the world. Quality International has used the master regional franchise extensively in order to expand internationally, while Days Inns in India have used the concept in conjunction with the establishment of partnerships thus necessitating little or no equity on their part.

We believe that the growth in franchising as a form of international expansion is directly related to the brand proliferation evident in the international hospitality industry. Many organizations believe that brand awareness, recognition and loyalty are the keys to maintaining and increasing market share in this industry. By franchising, organizations are able to effectively implant their brand into any given location with few, if any, changes to the general concept.

### *Management contracts*

One of the most popular and most prevalent forms of international growth by hospitality organizations is through the use of the management contract method. A management contract is an agreement between a hotel owner and a hotel operating company, by which the owner employs the operator as an agent to assume full responsibility for the management of the property in a profes-

sional manner. As an agent, the operator pays, in the name of the owners, all property and operating expenses from the cash flow generated through operations, retains its management fees, and remits cash flows, if any, to the owner. The owner provides the hotel land, building, furniture, furnishings and equipment, and working capital, while assuming full legal and financial responsibility for the hotel. Hyatt International, Hilton International, Marriott, SARA, Nikko and Holiday are perhaps the best known examples of management contract companies. Expansion through management contracts is also one of the common methods of expansion used by large multinational food service companies such as Marriott, Trusthouse Forte and ARA.

The greatest advantage of the management contract is that it allows rapid expansion and easy market penetration with little or no capital from the investor or developer of the asset itself. Occasionally the management firm will adopt an equity interest in the business. Some management firms have also engaged in the development of a property only to sell that property once it has been fully developed.

### *Joint ventures*

The joint venture has proved to be a popular growth vehicle for those firms with substantial financial resources. The development of both local and global partners has brought together such firms as SAS and Saison of Japan as they plan to grow their Intercontinental chain worldwide. Additional joint ventures include World International and Wharf Holding with their purchase of the Omni chain, and the Ritzker family of Chicago and William Hunt Holdings of Hong Kong with their purchase of the Southern Pacific Hotel Corporation of Australia.

The joint venture strategy has usually taken the form of a large real estate developer/holder and a hospitality/travel-related firm joining forces. Investors are usually global in nature and oriented to holding assets which can provide them with long-term appreciation. The joint venture differs from the other three strategies discussed in that it concentrates on low capital investment with the majority of the capital risk being shouldered by independent businesses which come together primarily for marketing purposes.

### *Acquisition*

The last decade has seen a tremendous growth in the number of acquisitions in the international hospitality industry. The fact that the five largest hospitality organizations in the world control over 1% of hospitality market demand, in conjunction with other market factors, has led to an increase in the number of acquisitions in the global hospitality industry. Examples of the increases in acquisitions include Ladbroke Ltd's acquisition of Hilton International Co. from Allegis Corporation and Grand Metropolitan's acquisition of Pillsbury and its Burger King subsidiary.

Based on historic and current trends in acquisition activity worldwide, and based on current and projected market conditions, it is predicted that there will be a continued growth in horizontal integration, geographic diversification, and forward integration. In addition a decline in acquisition involving backward integration and conglomerate diversification is predicted.

With international expansion forming a substantial part of the strategic agenda's of today's hospitality corporations, scanning the environment for trends that dictate strategic postures is a necessary and vital part of strategic hospitality management.

### *The diversification issue*

What does the trend towards concentration imply for SMEs? Will standardization lead to complete uniformity in the international tourism industry? We think not for several reasons. First, the decision on standardization is not a dichotomous one between complete standardization and customization; rather there can be degrees of standardization. Several authors have argued that standardization is almost a given for countries that are economically similar. If one accepts this assumption, standardization should be rife across the USA, Western

Europe and Japanese hospitality industries. This is clearly not the case.

Second, the globe is, and will remain, a culturally diverse place. Even within continents such as North America or Europe there remain as many cultures as there are states or countries. In Europe, for example, hospitality marketers would be foolish not to take different backgrounds into account in the formulation and implementation of their marketing strategies, despite the current popularity of referring to Europe as if it were going to be a single uniform entity. Values that are important to one culture may mean little to another. The potential conflicts that may arise from such a situation become more intense in an industry that sells very personal services to a diversified clientele. Different cultures reflect different beliefs, attitudes, motivations, moralities, perceptions and rituals. Although preconceived notions of what the hospitality industry wants may be discrepant with the guests' own notions in any country, they can result in disaster when marketing to different cultures. Therefore, it can be stated that cultural differences have a tremendous impact on marketing mix decisions in hospitality operations. Ignoring this impact has often resulted in expensive consequences for hotels operating in arenas outside their corporate homeland.

Third, economic differences also need to be formulated into marketing strategies, generally at the National Tourism Association level. The environment in which international marketing decisions are made is far more complex than the environment in which domestic marketing decisions are made. The Central and Eastern European markets require a different approach from the OECD markets, due to the variance in economic development and the level of wealth in the respective economies.

Finally, the rise of mass-individualization offers SMEs great opportunities to add value through inter-firm alliances, for example through flexible networks (Hakansson and Snehota, 1997). The number and variety of inter-firm relations and networks such as strategic alliances have accelerated in the past two decades. The process of networking and collaboration is also reflected in the proliferation of publications on aspects of interorganizational relations (Burt, 1997; Uzzi, 1997; Gulati, 1998). Through the value network (Stabell and Fjeldstad, 1998) SMEs will be able to create competitive advantage through the access, control and coordination of information, the stimulation of creativity through co-innovation and the strategic collaboration of other firms (Dyer and Singh, 1998). The 'consumer driven value chain' was introduced by Go *et al.* (1999) as an organizational structure for SMEs to bundle and build the organizational capability that results in the creation of added value.

## Concluding Remarks

This chapter, although by no means exhaustive, has attempted to cover several trends that we believe should be taken into account by hospitality corporations when they are formulating and implementing their global strategies. While concentration strategy seems to rule today's business environment, it should not be inferred that standardization of products is a panacea. On the contrary, environmental variability and complexity result in the frequency of change and the heterogeneity and range of environmental activities that can be clearly observed in the market. It appears that mass marketing is a vestige of the past. Increasingly, guests will need to be wooed through what is coming to be termed 'micro-marketing' or 'niche marketing'. The fragmented European market offers SMEs in particular, ample opportunity for a diversification strategy. However, it is of the essence to establish the net economic benefits that the entrepreneur would gain if he or she were to diversify. Within this context, the trend is towards customization. It is also essential that hospitality operators, large and small, tailor the product to meet individual needs and tastes, or at least ensure that provision is equipped with adequate flexibility to be adapted to multiple market segments, for example, and 'mass-

customization' within brand-oriented corporations. Finally, hospitality corporations pursuing such a strategy must amend their marketing communications approach and use targeted and new media, where appropriate.

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