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A critical review of market segmentation, target marketing and positioning in hospitality marketing

Precious Chikezie Ezeh

Introduction

The process of segmentation, targeting and positioning (STP) is fundamental to effective strategic marketing (Tanford and Malek, 2015). Every organization is geared to STP because of its numerous advantages. Most scholars have shown that STP strategy should be a sequential phenomenon, where an organization has to segment first and target second before positioning, but Bowen (1998) argues that the segmentation process is no longer a sequential process; it is an integrative process due to technological advancement. Bowen (1998) views segmenting and targeting as a two-step process, while Kotler, Bowen, and Makens (1999) view it as a three-step process, but I would argue that it is a holistic concept. Kotler (1989) developed the four steps of market segmentation strategy as the 4Ps of Probing, Partitioning, Prioritizing, and Positioning. Probing entails analyzing the market; Partitioning commences when you begin to provide different products to different clusters of your customers due to their uniqueness; Prioritizing is ranking the segments you want to focus on because you have a potentially superior advantage for satisfying them; finally, Positioning, involves pinpointing the competitive options in each segment that you are going to target. Kotler, Bowen, and Makens (1999) state that Segmentation involves a three-step process of market segmenting, market targeting, and market positioning.

- The first step is dividing a market into special groups of buyers who might require separate marketing mixes. The primary basis on which a company segments its market is through demographic, geographic, psychographic and behaviouristic segmentation.
- The second step is market targeting, which is the evaluation of the attractiveness of each segment and the selection of one or more of the market segments. Targeting decisions can then be made based on the range of identified segments. In order to choose the most appropriate target markets, it is necessary to understand what different segments want and the extent to which the organization can meet those wants. Bowen (1998) argues that before the introduction of computerized segmentation programs, the steps of segmenting and targeting were two distinct
processes, i.e., marketers first identified the segments and then looked for the segments that would be the most profitable in the long term for the organization; but following the introduction of computerized methods, these steps are now often combined.

- The third step is market positioning; once a company has chosen its target market, it must decide what positions to occupy in those segments. A product’s position is the place the product occupies in consumers’ minds relative to competing products. Bowen (1998) categorizes the positioning task into three steps identifying a set of possible competitive advantages on which to build a position; selecting the right competitive advantages; and effectively communicating and delivering the chosen position to a carefully selected target market. Positioning refers to the way in which an organization tries to communicate its value proposition to its target market in order to convince customers that it has a distinct offer. In effect, positioning is about the way in which the organization tries to build and communicate its competitive advantage.

Following this introduction, the rest of the chapter focuses on discussing STP, followed by a conclusion.

**Market segmentation**

The term “market segmentation” was introduced into the marketing literature in 1956 by Wendell R. Smith in an article entitled, “Product Differentiation and Market Segmentation” (Kotler, 1989). Since then, many scholars have defined the concept of segmentation in different ways. Market segmentation entails picking out specific bases for dividing the market and developing descriptions of the segments identified. In order to segment a market, it is important to understand who the customers are, what they buy, where they are, why they buy and how they buy in order be grouped together; we conceptualize this as the \( W^4H \) (Who, What, Where, Why and How) of segmenting.

Market segmentation is concerned with the process of identifying different groups of customers who are similar in ways that are relevant to marketing. It can be seen as a process of dividing the heterogeneous market into different homogeneous groups of consumers who have common needs and wants. Market segmentation is equally a process of identifying subsets of consumers who have unique, homogenous demand characteristics. Weinstein (2004, p. 4) offered the following definition: “Segmentation marketing means knowing your customers, giving them exactly what they want or may want, building strong relationships with channel affiliates and co-marketing partners, and communicating via highly targeted promotional media.” Therefore, when the marketing mix is being applied to specific target markets, rather than the population at large, the organization is gearing towards a market segmentation strategy.

In fast-changing and hypercompetitive markets with a lot of business organization ‘casualties’, segmentation becomes paramount. Marketing is focused on customer orientation, which is the process of identifying and satisfying customers’ needs and wants at a profit. Therefore, applying a customer orientation focus to a specific target market is known as market segmentation. Myers (1996) argued that market segmentation is the most important strategic concept in marketing and has aided the survival and growth of many firms. A company’s quality goods or services are arguably no longer the main factor for the survival of the business; rather, it is the compatibility of its product with the targeted market.

Hospitality guests vary in their expectations and requirements. Therefore, hospitality managers should identify subsets of hospitality guests who share similar needs, and design goods or services in a way that will satisfy the targeted guests in order to compete more effectively against
competitors. A study carried out by Ezeh (2015) provides a significant example; the study shows that hotel guests in Awka, Anambra state, Nigeria are more interested in “steady electric power supply, steady water supply, availability of night clubs/program, nearness to other hotels, and availability of commercial sex workers” which is are unique concerns compared to those of more developed areas. Therefore, hotel managers in Awka, Anambra state, Nigeria should segment based on those identified variables in order to compete effectively.

Weinstein (2004) posited that segmentation-based marketing is a proof of sound business strategy and value creation in any organization. Bowie and Buttle (2004) equally stated that there is a broad consensus that segmentation is the starting point for developing effective marketing strategies. Therefore, segmentation should be a strategic option of every business enterprise. Business organizations must focus on target markets and niches that exhibit similar needs and wants. Companies must satisfy discerning customers who can choose from a lot of products that are in the marketplace.

**Bases for segmentation of hotels**

Regardless of the primary basis of segmentation (i.e., demographics, geography, psychographics, or behavior), motivations, attitudes, and beliefs are important factors that identify and distinguish market segments. Equally, many scholars have segmented particular markets using different criteria, which shows that there is no known single way of segmenting a market. MacKay and Fesenmaier (1998) segment the getaway market into five segments: precontemplators, contemplators, ready for action, active and maintainers. They explained the segments as follows:

- Precontemplators are those that are not in the market for a getaway trip;
- Contemplators are those that would consider a getaway trip;
- Ready for action are those who have decided to take a getaway trip;
- Active are those that take a getaway trip; and
- Maintainers are always in the market for a getaway trip.

In their study on fast food restaurants, Grazin and Olsen (1997) identified three groups of consumer: non-users, light users, and heavy users. Oh and Jeong (1996) took a different approach to segmenting the fast food market, categorizing consumers into the following groups: neat service seeker, convenience seeker, classic diner, and indifferent diner. Loker and Perdue (1992) segmented the nonresident summer travel market into six segments: naturalists, nondifferentiators, family/friend oriented, excitement/escape, pure excitement seekers and escapists. Legolierel (1998) segmented tourists based on expenditure-based segmentation. Oyewole (2010) segmented the countries of the world into nine market segments: heavy travelers, heavy spenders (HH); heavy travelers, medium spenders (HM); heavy travelers, light spenders (HL); medium travelers, heavy spenders (MH); medium travelers, medium spenders (MM); medium travelers, light spenders (ML); light travelers, heavy spenders (LH); light travelers, medium spenders (LM); and light travelers, light spenders (LL). Arimond, Achenreiner and Elfessi (2003) identified five segments in their study on the Wisconsin rural tourism market: attraction enthusiasts, outdoor recreationists, friends and family visitors, special event attendees, and nature sightseers. Ibrahim and Gill (2005) suggested four potential niche markets: recreational, sports, culture, and eco-tourism that can be promoted in the repositioning of the destination.

Nicholls and Roslow (1989) argued that a hotel can be segmented based on sleeping facilities, eating, meeting, and entertaining. They stated that the sleeping facilities may be single, twin, double, or king-sized, while eating may be waiter-service dining, cafeteria style, self-service,
snacking, quick service, raw bar, ethnic menus, or eating facilities being available for breakfast, lunch, dinner, and, perhaps, in-between times. For meeting, he suggested that the hotel needs to provide space to accommodate individuals and organizations for various purposes such as conferences, banquets, outings, and celebrations. For entertainment, a traveler away from home frequently has spare time, idle time, or forced social time. The hotel provides a way of meeting this need on site with fun and recreation, nightclubs, discos, swimming, sports facilities, spas, and fitness centers.

**Primary basis of segmentation**

Researchers have shown different ways of segmenting markets, which proves that there is no one correct way in which to segment a market. Kotler (1989) divided segmentation variables into four major areas: Demographic, Psychographic, Geographic, and Behaviouristic. Beane and Ennis (1987) added Benefit, Purchase Occasion, Usage Incidence, User Status, Usage Rate, and Image Segmentation.

1. **Demographic segmentation**: The process of using the primary variables of age, gender, family life cycle, and ethnicity to segment the markets. Club 24 in Awka, Anambra state, Nigeria, for example, uses age and lifestyle stage variables to attract young singles interested in a vibrant nightlife. Demography is the distribution of population according to age, gender, educational qualification, family size, etc.

2. **Psychographic segmentation**: Dividing buyers into different groups based on social class, lifestyle, and personality characteristics. Psychographic and lifestyle segmentation are based on personality traits, attitudes, motivations, and mental activities. People in the same demographic group may have very significantly different psychographic profiles.

3. **Geographic segmentation**: The division of markets according to geographical boundaries, such as countries, provinces/states, regions, cities, or neighborhoods. In the past, for most destination marketing organizations (DMOs), market segmentation was often limited to understanding the more lucrative international tourist market. In Nigeria, many hospitality organizations are segmented based on international, national, regional, state, or street hotels.

4. **Behaviour segmentation**: It divides the market into groups based on the various types of buying behaviour. Common bases include usage rate (light, medium, and heavy), user status (former users, non-users, potential users, first-time users, and regular users of a product), loyalty status (many people stay in five-star hotels as much for the status it confers on them as for the additional comfort), buyer-readiness stage, and occasions. On special occasions, people are prepared to pay more for special treatment; so many restaurants now have deals for children’s birthday parties, while hotels and cruise liners have special honeymoon suites.

5. **Benefit segmentation**: It divides customers based on the benefits they desire, such as education, entertainment, luxury, or low cost. Customers weigh different features of a service, and these are evaluated to form the basis of benefit segmentation. A benefit segmentation study should attempt to do three things: (1) determine the benefits people look for in a product; (2) determine the kinds of people looking for each benefit; and (3) determine the proximity of existing brands to these benefit needs.

6. **Purchase Occasion segmentation**: Consumers are grouped based on the reasons or times they purchase a product. Beer drinkers might be classified as heavy drinkers who are trying to escape, drinkers seeking social acceptance, or drinkers who have one beer when dining out. The hotel bar would look for a new occasion or use for which consumption of its product might be appropriate.
7. **Usage Incidence segmentation**: This is an extension of benefit segmentation and purchase incidence segmentation. Segments are based on the reasons why a product is used and the occasions on which the product is used. Usage incidence segmentation attempts to find out how people are using a product by identifying the “need states” of the consumer. It goes beyond the obvious answers to try to find out the true reasons for using the product and, therefore, the benefits sought or gained.

8. **User Status segmentation**: This divides consumers according to their use of a product (but not the amount of the product they use). Consumers may be non-users, ex-users, potential users, first-time users, or regular users. Marketing messages will be different depending on the segment one is tailoring the message towards. Beane and Ennis (1987) argue that an advertisement to a non-user would probably be informational and about the product class in general while a regular user might be told of the merits of one product versus that of a competitor.

9. **Usage Rate segmentation**: This is separate from usage status segmentation in that only users are considered. Usage rate segmentation divides consumers into light, medium, and heavy user groups. One of the things that makes usage rate segmentation so popular is that many companies can use it. Also, many market research firms and syndicated services can supply data regarding product usage rates based on several demographic and geographic characteristics.

10. **Image segmentation**: This area involves consumers’ self-image or self-concept and its relationship to the image of the product. Segmentation based on self-image or self-concept does not easily fit into one of Kotler’s four categories. It is really a combination of the psychographic and behavioural aspects of the consumer.

Bowie and Buttle (2004) argue that hotel and lodging companies segment according to the purpose of travel, into the following categories:

- **Business**
- **Non-business** (variously defined as leisure, holiday, personal, or social)
- **Visiting friends and relatives (VFR)**.

**Business customers** tend to:

- Be less price-sensitive, since the employer generally meets hospitality and travel expenses
- Be more likely to stay for one night, or only a few, on each trip
- Be more frequent, or regular, users of hotel accommodation
- Stay at establishments that are within a reasonable (10–30 minutes) travel time of their place of work – hence the higher demand for business accommodation close to commercial, industrial, and retail areas
- Be less seasonal – business travel patterns are less dependent upon weather and holiday schedules.

**Leisure customers** tend to:

- Be much more price-sensitive than business travelers, since they are paying for the accommodation out of their own taxed income
- Be more likely to stay longer on each trip – short breaks are normally at least a couple of days, two-week holidays are common, and longer holiday periods are not unusual
• Be less frequent users of hotel accommodation (unless they are also business travelers)
• Stay at establishments that are close to leisure amenities and tourist attractions – hence the demand for cultural, rural and seaside resort hotels
• Be much more seasonal, both in terms of climate and the time of year.

**Visiting friends and relatives customers**

From an accommodation demand perspective, this segment does not generate significant volumes of business for hotels since people tend to stay in the homes of their friends and relatives. This market is more important to tourism establishments in the day-visitor leisure and recreation sectors, and to restaurants and bars.

**The benefits of segmentation**

Bowie and Buttle (2004), and Hsu and Powers (2002) stated the following benefits of market segmentation:

1. Segmentation is cost-effective because the firm will target only those that want to buy a particular hospitality product.
2. Segmentation enables a company to design and develop the hospitality offer to satisfy customers more effectively.
3. Segmentation improves profitability by maximizing customer satisfaction, and generating repeat and recommended sales.
4. Fundamentally, segmentation ties the operation and all its marketing activities to some recognizable group or groups of consumers who can be expected to respond in a similar way to a marketing appeal.
5. A segmented marketing strategy’s operators and marketers have a clear reference group to use as a benchmark for making decisions.
6. Segmentation allows the selection of consumer groups that offer the best profit potential at various times.
7. The process of analyzing markets by segment may reveal a group that is not served or an under-served segment.

Hsu and Powers (2002) argued that market segmentation not only helps us understand what people want in a product, it also gives a good idea of the price they are willing to pay and where they want to be served. Therefore, segmentation offers an opportunity to make more effective use of promotional media by identifying those that can reach the target markets effectively (Chen and Yuan, 2015). Bowie and Buttle (2004) listed some difficulties for effective segmentation in hospitality firms: the costs of carrying out marketing research; the lack of flexibility in hospitality products; the additional costs of developing and communicating separate offers for different target markets; the complexity of constantly changing consumer behavior; and finally the problem of targeting different and often incompatible target markets who use the premises at the same time.

**The segmentation process (Bowie and Buttle, 2004)**

Bowie and Buttle (2004) argued that the process of segmentation involves the following stages: (1) specify the market; (2) establish segmentation criteria; (3) generate segmentation variables;
(4) develop and evaluate market segment profiles; (5) evaluate the company’s competences to serve selected segments effectively.

1. **Specification**: The market to be served or segmented needs to be clearly identified, forming a broad definition of consumers’ needs and wants in the sector. Hospitality guests are mostly influenced by their environment.

2. **Establish segmentation criteria**: A set of criteria needs to be developed against which the various segmentation opportunities can be evaluated for market attractiveness. According to Kotler (1980), useful segments must be: measurable, accessible, and substantial. A segment must be easy to measure in order to determine its size, location, and content. Segments must be accessible through some kind of marketing vehicle. If they are not, how can you communicate the relative benefits of your product to that segment? Finally, the segment must be of substantial size to warrant attention. A segment should be large enough to warrant a special marketing program. Bowie and Buttle (2004) argued that segmented markets should be discrete, measurable, of a profitable size, accessible, and compatible.
   - **Discrete** – can the segment be described as having a unique set of shared requirements and expectations requiring a specific marketing program?
   - **Measurable** – can the market size be measured in terms of value and/or volume, growth rates, and market share of current players?
   - **Profitable size** – does the segment have sufficient profit potential to justify the investment? Through careful analysis, companies can often identify smaller, more profitable ‘niche’ markets within larger market segments. For single-unit hospitality companies, the market will primarily be focused on the company’s micro-environment and depends upon the local characteristics of demand and existing/potential competitors.
   - **Accessible** – can the segment be reached via distribution and marketing communication channels? There is no point in targeting a segment if the company cannot communicate with potential consumers.
   - **Compatible** – marketers should ensure that any new target markets are compatible with existing target markets.

3. **Generate segmentation variables**: Segmentation variables provide the basis for classifying consumers into different market segments. Bowie and Buttle (2004) segmented hospitality variables into purpose of visit; geo-demographics; buyer, user and lifestyle characteristics; price – poor and rich lodgers; and time.

4. **Develop market segment profiles based on segmentation variables**: Detailed market segment profiles by Bowie and Buttle (2004) included the size of the market in terms of value and volume; customer purchase details (frequency of visit, average room/food/bar spend, number in party); consumer characteristics (benefits sought, price sensitivity); and accessibility/responsiveness to marketing programs.

5. **Evaluate the company’s competencies**: The company needs to ensure that it has the competencies and resources to serve and satisfy the segment’s needs and wants profitably.

**Targeting**

Effective target marketing requires marketers to identify and profile distinct groups of buyers who differ in their needs and preferences, and to select one or more market segments to target (Kotler and Keller, 2006). Business travelers are more critical judges of service quality than leisure travelers (Callan, 1996; Griffin, Shea, and Weaver, 1996; Ostrowski, O’Brien, and Gordon, 1994). In their study on the differences between frequent and infrequent business travelers, Weaver and
Oh (1993) found that good quality towels, free newspapers, in-room safes, and fax machines are facilities that are significantly more important to frequent business travelers. Ananth, DeMicco, Moreo, and Howey (1992) found that early dining hours, extra blankets, non-smoking rooms, night light in bathroom, and grab bars in the bathroom are attributes that are more important to mature travelers than younger travelers.

**The basic range of targeting strategies**

There are various ways in which a segment can be targeted; these strategies are Undifferentiated, Differentiated, Focused, and Customized.

1. **Undifferentiated**: This is when an organization serves an entire marketplace with a single marketing mix which does not distinguish between sub-segments of the market. Equally, it may be the case that the cost of segmenting the market and producing a set of different marketing mixes is not commercially justifiable for the organization.

2. **Differentiated**: This is when an aggregate marketplace, such as hospitality industry, is organized into a number of segments, each of which is targeted with a tailored or special marketing mix. This may arise when a company has been able to identify a commercially valid basis upon which an aggregate market can be broken down into segments.

3. **Focused**: This is when a choice is made to target a small subset of the segments of a multi-segment marketplace with a single marketing mix that best suits the needs of that segment. This approach to segmentation is where a company breaks a market down into a set of segments but chooses to target a small subset of available segments or, in some cases, only a single segment. A focused approach may take a number of different forms: Single segment concentration, Selective specialization, Product specialization, and Market specialization.
   a. **Single segment concentration** – when an organization concentrates only on a single segment in the market and supplies products tailored specifically to the needs of those customer groups. This approach is often described as niche marketing. It is potentially highly profitable, because the organization focuses all its efforts on a particular segment of the market where it has a strong differential advantage. At the same time there are risks associated with this approach, because if the segments were to disappear or a new competitor enters the market, the organization could be vulnerable to a significant loss of business.
   b. **Selective specialization** – instead of the organization concentrating only on one segment it chooses to operate in several (possibly unrelated) segments. This approach to targeting is less focused than single segment specialization, but probably less risky.
   c. **Product specialization** – the organization that concentrates on supplying a particular product type to a range of customer groups is pursuing a product specialization strategy. This approach to market targeting may be particularly appropriate for organizations with particular strengths or knowledge in relation to a given technology or product.
   d. **Market specialization** – rather than concentrating on a particular product, the organization chooses to specialize in meeting the needs of a particular customer group. This strategy may be most suitable where knowledge of the customer group’s particular needs is a particularly important basis for establishing a competitive advantage. Most hotels pursue this type of approach in relation to high net-worth individuals – they seek to provide a range of different hospitality products to meet the needs of the high net-worth customers.

3. **Customized**: This is when an organization tailors their marketing mix to the individual’s specific needs. Some markets lend themselves more naturally to a customized approach, especially
those that are in service sectors involving a high degree of human interface. In the hospitality industry, customized targeting is most in evidence as part of a hybrid strategy in which a distinct set of services is offered to a particular segment and then the service is customized to individuals within that segment.

Positioning

Bowen (1998) posits that a product’s position is the way the product is defined by consumers on important attributes, that is, the place the product occupies in consumers’ minds relative to competing products. Consumers are exposed to an excess of information about products and services; they cannot re-evaluate products every time they make a buying decision. To simplify buying decision making, consumers organize products into categories – they “position” products and companies in their minds (Kotler, Bowen, and Makens, 1999). Understanding of positioning can help marketers manage their market and product. If they have an undesirable position, the research validating their unfavourable position will often provide insight into what needs to be done to gain a more favourable position (Bowen, 1998).

Whatever position is decided upon, it must satisfy some basic tests of its likely effectiveness. Jobber (2004) identifies a set of four such tests, namely:

1. **Clarity** – is the basis of the position clear and straightforward to grasp?
2. **Credibility** – can the position be justified and validated by the evidence available?
3. **Consistency** – is the essence of the position communicated consistently over time in all elements of the marketing mix?
4. **Competitiveness** – does the position result in benefits to the customers that are demonstrably superior to those provided by its competitors?

Summary

This chapter outlined the key principles underpinning the STP strategy, and defined the bases for segmenting the market. The chapter then went on to evaluate the different methods of segmentation linked to consumers’ characteristics. STP was identified as a key step towards organizational survival.

References


