A market-driven approach to business development and service improvement in the hospitality industry

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Reviews hospitality research relating to the themes of business development and service improvement. Relates this to five sub-theme areas: market sensitivity and competitiveness; segmentation; branding and service customization; service quality and customer retention; product design and internal marketing.

Introduction
The purpose of this article is to review hospitality research concerning the broad theme of business development and service improvement. This theme is divided into five sub-themes: market sensitivity and competitiveness; segmentation; branding and service customization; service quality and customer retention; product design and internal marketing. Journal articles from 1990 to June of 1997 were used in this study. Abstracts of most of the articles can be found on the WHATT CD.

The objective of the study is to provide practitioners with suggestions and ideas for business improvement. Millions of dollars of research are referenced in this article. The results of the research are not proprietary, but available for all to use. For practitioners, the article will explain the management implications of the research. For academics, the article provides an overview of current research by area and presents suggestions for future research.

Theme 1: Market sensitivity and competitiveness
The research in the area of market sensitivity and competitiveness tended to be on yield management and positioning. The yield management research was grouped into two general issues: pricing systems to increase yield and the choice of market segments that would create the highest yield. The positioning articles discussed the use of perceptual maps as a strategic tool. The methodology used in the positioning articles could be applied to most hospitality companies, giving good information for strategic planning.

Yield management
The yield management articles are broken up into conventional yield management articles and methods for choosing the market segments that will create the highest yield. Griffin (1995) provided an overview of yield management and identified a number of critical success factors for yield management systems. Among these are several environmental factors that relate to booking patterns, price sensitivity of market segments, and the distribution channel's tolerance for differential pricing. Jeffreys and Hubbard (1994) developed a model of occupancy performance that can be easily applied by hotel managers and others with access to hotel occupancy data. The model looked at two fundamental aspects of a hotel's occupancy performance: the proportionality component, which includes the effects of regular and periodic demand fluctuations, and the competitive components, which include local and unique forces.

Bull (1994) investigated the contribution a hotel's location makes to the market value of the hotel's rooms. This methodology makes it possible to put implicit price-location contours on an area map. The study also has implications for area growth that may affect the contribution of a property's location to its room rate. Weatherford (1995) cited the importance of incorporating a guest's length of stay into the room allocation decisions. He claimed proper use of the length of stay dimension can increase revenue by up to 3 per cent. One of the problems with most yield management systems is that they only look at room revenue. Quain (1992) introduced profit analysis by segment (PABS). PABS takes into account room and non-room revenue to determine the value of different market segments. As yield management matures in the hotel industry, more robust models will be developed that take into account total guest expenditures and the long-term value of the guest.

In developing yield management systems it is important that customer retention be included in the model. Maximizing revenue today has little value if it drives off tomorrow's customers.

Positioning/perceptual maps
Dev et al. (1995) cited the need for managers to monitor the implications of their marketing strategies. The authors stated that managers need to examine the attributes that consumers use to differentiate one hotel brand from another and illustrated how managers can do this by using multidimensional scaling to build perceptual maps. Kim (1996) used perceptual maps to show how customers perceive food and beverage at competing hotels.
hotels. Kim also developed ideal points to show how a hotel can change its attributes to gain a better position vis-à-vis its competitors. The methodology used in the study could be used to position different product or product groups of a hotel or restaurant.

Shaw (1992) investigated price from a strategic positioning viewpoint. She explained how price has both a strategic component and a tactical component. Shaw stated a positioning approach focuses first on price levels, then on actual price decisions for a specific product. Shaw's approach to pricing could help a brand achieve a desired position, which then could be validated through one of the perceptual mapping techniques.

### Theme 2: segmentation, branding, and service customization

It is no secret that different customer segments want different product attributes. Commissioned sales people want hotel rooms with a free telephone, while upscale business travellers want expedited check-in. Thus, one of the first decisions for a company is to decide what segments it wants to target. This will determine the company's marketing mix. As segments grow and decline, a company must constantly review its segmentation strategy, looking for viable segments that are compatible with the company's objectives and products. After a company chooses a target market, the company must position itself in the marketplace vis-à-vis the other companies that are going after the target market. Two ways of accomplishing this positioning are through branding and service customization.

This section looks at research on segmentation, branding, and service customization.

### Segmentation

The segmentation research identifies product attributes that create value for market segments. This information is useful to companies targeting these segments or companies who may have a marketing mix that is valuable to these segments. It is always advisable to replicate segmentation studies using data from customers. Owing to time and regional differences, the wants of customer segments can vary. The segmentation research also presents a variety of research techniques that can be used to give greater insight into what the segments desire and the importance they put on different product attributes.

Shaw et al. (1991) investigated product attributes of hotel convention services that create satisfaction among meeting planners. The authors went beyond just looking at the mean ratings of the attributes. They developed a multivariate approach to analyzing the data, which could be applied to similar survey data to provide rich information.

Several studies looked at specific segments. For example, Wight (1996) researched ecotourism and divided it into two market segments: general consumers interested in ecotourism and experienced ecotourism travellers. Her findings are useful for resorts that are interested in catering to this market.

Callan (1996) compared UK leisure travellers with business travellers on their importance ratings of hotel attributes. Makens (1992) investigated catering to the family market at resorts. The article provides some case studies of resorts that have children’s

### Table 1

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<td>Kim (1996)</td>
<td>Positioning of food and beverage outlets in competing hotels</td>
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<td>Dev, Morgan and Shoemaker (1995)</td>
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<tr>
<td>Mazanec (1995)</td>
<td>Shows how self-organizing maps can be used to analyse a hotel's position</td>
<td>Positioning/perceptual maps</td>
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<td>Shaw (1992)</td>
<td>Pricing from a strategic positioning viewpoint</td>
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<td>Lewis (1990)</td>
<td>Focus on customers rather than objective positioning</td>
<td>Positioning/perceptual maps</td>
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<td>Knutson, Malik and Schmidgall (1995)</td>
<td>Looks at when it may be profitable to turn business away</td>
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<td>Weatherford (1995)</td>
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<td>Bull (1994)</td>
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<td>Including non-room revenue in yield management</td>
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programmes. For more studies that looked at specific segments, see Table II.

Conjoint analysis gives insight to the importance that customers place on different product attributes. Several studies provided examples of how conjoint analysis can be used in segmentation studies. Hu and Hiemstra (1996) used hybrid conjoint analysis to measure meeting planners’ preferences in hotel selection. Becker-Suttle et al. (1994) used conjoint analysis to explore restaurant benefits sought by seniors and non-seniors.

The use of neural networks, a type of artificial intelligence, is becoming a popular segmentation technique. It is often used in data mining tools to discover relationships between customers, identifying customer segments that might not be apparent to the marketer. Mazanec (1992) illustrated the usefulness of neural networks by segmenting tourists.

Branding
Customers develop brand images, or a set of beliefs, about where each brand stands on different product attributes. One of the trends in the hospitality industry is to use brands that have a positive brand image, rather than a company’s own products which may have little brand image. For example, many hotels and catering companies in the USA are using kiosks to sell Starbucks Coffee, which has a strong brand image. ARAMARK, a contract food service company, franchises Burger King and Pizza Hut outlets even though they have the ability to produce products that have a similar quality. Hotels are contracting out their food service to local providers and chains that have a strong image. Thus, brand management is an area that is emerging as an important marketing area.

The research on branding was scarce, indicating a need for future research in this area. Hallam and Baum (1996) surveyed hotel managers in North America and the UK to gain perceptions of why hotels may contract out portions or all of their food and beverage operations. One of the major reasons cited in the study was that a branded or well-known operator could help attract more accommodation guests. Thus, managers saw a branded restaurant as an amenity that was valued by the lodging guests. Connell (1992) looked at the benefits and problems of branding in the hotel industry. He used the rebranding of Forte after the acquisition of Crest as a case study.

Customization
Effective guest history systems now make it possible to customize guest service. Unpublished research by Bowen and Shoemaker found that customized services were one of the most important attributes to luxury hotel customers. Ritz-Carlton used guest history very effectively to produce customized services (Partlow 1993). Dev and Ellis (1991) presented a guest history management model

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<td>Callan (1996)</td>
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<td>Segmentation</td>
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<td>Hu and Hiemstra (1996)</td>
<td>Conjoint analysis as a segmentation tool – benefits sought by meeting planners</td>
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<td>Oh and Jeong (1996)</td>
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<td>Wuest, Tas, and Emenheiser (1996)</td>
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<td>Becker-Suttle, Weaver and Crawford-Welch (1994)</td>
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<td>Weaver and Oh (1993)</td>
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<td>Ananth, DeMicco, Moreo and Howey (1992)</td>
<td>Conjoint analysis as a segmentation tool – benefits sought by seniors and non-seniors</td>
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<td>Makens (1992)</td>
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<td>Mazanec (1992)</td>
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<tr>
<td>Hallam and Baum (1996)</td>
<td>Leasing of hotel food and beverage operations</td>
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<td>Connell (1992)</td>
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<td>Partlow (1993)</td>
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<tr>
<td>Sparks (1993)</td>
<td>Using guest history to customize services</td>
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and explained how it could be used to customize service for repeat guests. Customization of services can create a competitive advantage by increasing guest loyalty.

Theme 3: service quality and customer retention

What is service quality? A distinction can be made between two types of quality: product features that enhance customer satisfaction and freedom from deficiencies that increase customer satisfaction. The first type of quality, product features, adds to the cost of the product. Customers must be willing to pay for either the added costs of additional product features or these features must make them more loyal. For example, lettuce and tomato is found only on McDonald's more expensive hamburgers. Hotel rooms on concierge floors have more features than standard rooms and command a higher price. La Quinta Inns offers free local telephone calls to encourage loyalty among salespeople.

The expectations of guests are formed by company image, word of mouth, the company's promotional efforts, and price. A guest paying $35 for a room at a Motel 6 or a Formular 1 will have different expectations from a guest paying $250 for a room at a Four Seasons Hotel. The person staying at the budget hotel may be perfectly satisfied. The room features meet their expectations. The first type of quality, product features, relates to guest expectations. People staying in a budget hotel may perceive it as the best quality motel for less than $40. They are not comparing it to a Four Seasons Hotel. Both the guests of a Motel 6 or Formular 1 and a Four Seasons Hotel will expect the room to be free from deficiencies. For example, guests at the Four Seasons and those at the budget hotel are both likely to get upset if they return in the evening to rooms that have not been made up.

There is another way to view quality. A distinction can be made between technical and functional quality. Technical quality refers to what the customer is left with after the customer-employee interactions have been completed. For example, technical quality relates to the guest room in the hotel, the meal in the restaurant, and the car from the rental agency. Functional quality is the process of delivering the service or product (Grönroos, 1982). While the service is being delivered, customers go through many interactions with the firm's employees. A guest makes a reservation, is greeted by the door attendant, is escorted to the front desk by a bellperson, checks in with the desk clerk, and is escorted to the room. The experience of checking into a hotel is an example of functional quality. Excellent functional quality may make up for a room that is not quite up to expectations. If functional quality is unpleasant, a high-quality room might not overcome the guests' previous dissatisfaction.

Models of quality management
For a good introduction to service quality see a series of articles by Johns (1992a, 1992b, 1993). In these articles he presented a comprehensive overview of quality management in the hospitality industry. Partlow (1993) provided a comprehensive overview of how Ritz Carlton won the Malcolm Baldrige Award. In the article, Partlow presented an overview of Ritz's quality management program. Later, Partlow (1996) focused on the human resource practices that support TQM. Heymann (1992) provided a ten-point model for quality management.

Measuring service quality
A service quality audit can identify problems when a firm is first developing a quality management programme or it can be used to audit an existing programme. Luchars and Hinkin (1996) developed a service quality audit that can be used to identify errors and determine their frequency, assign costs of fixing (or not fixing) the errors, and identify steps to prevent them. They provided a case study of a New York hotel to illustrate their service-quality audit.

SERVQUAL developed by Parasuraman et al. is one of the most popular instruments for measuring service quality. Knutson et al. (1991) adapted SERVQUAL into a specific instrument for hotels. They tested the reliability of their instrument, LODGSEVR, and found it to be a reliable instrument. Later Stevens et al. (1995) developed DINESERV for measuring service quality in restaurants. Barsky (1992) discussed a theoretical model of customer satisfaction and then tested the model using a survey instrument. Using his survey instrument, he was able to support his hypothesis that intent to return will be positively related to customer satisfaction.

Customer retention
One desired outcome of service quality is customer retention. The following research investigated customer retention. Dube et al. (1994) used conjoint analysis to show the overall utility of seven service-quality attributes that all bear significantly on customers' intent to return. The authors' methodology provides managers with information that will help justify (or not justify) the costs of...
improving quality. Toh et al. (1991) researched the effectiveness of frequent-guest programmes in hotels. They found many of the programmes were not effective in creating repeat customers. The authors provide insights on how the programmes could be improved. Buttle and Bok (1996) provided an overview of Fishbein’s theory of reasoned action. They found two predictor constructs: attitude towards the act, and subjective norm jointly explain about 65 per cent of the intention to stay in a hotel on the next trip.

**Theme 4: product design**

A company must build a service delivery system that provides product attributes desired by its target market. The articles on service design were on both the macro and micro level. Some articles looked at the overall design of a hospitality operation, while other articles looked at specific issues. This section will first review the macro articles and then discuss the micro articles.

**Comprehensive design models**

Pannell Kerr Forster Associates (1993) concluded that hotel design factors can be summarized into three areas: market factors including customer requirements, competitive influences and trends; impact of new technology enabling new services or increased levels of comfort to be available.

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**Table III**

**Customer retention and service quality**

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<thead>
<tr>
<th>Authors</th>
<th>Focus</th>
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<tr>
<td>Partlow (1996)</td>
<td>Human resource practices that support TQM</td>
<td>Models of quality management</td>
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<td>Yasin and Zimmerer (1995)</td>
<td>Benchmarking</td>
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<td>Page (1994)</td>
<td>Case study of Sutcliffe Catering’s approach to continuous improvement</td>
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<td>Partlow (1993)</td>
<td>Overview of Ritz Carlton’s TQM programme</td>
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<td>Heymann (1992)</td>
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<td>Models of quality management</td>
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<tr>
<td>Watson, McKenna and McLean (1992)</td>
<td>Barriers to successful implementation of TQM and ways to overcome these barriers</td>
<td>Models of quality management</td>
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<tr>
<td>Lee and Hing (1995)</td>
<td>Use the SERVQUAL instrument to measure quality in restaurants</td>
<td>Measuring quality</td>
</tr>
<tr>
<td>Stevens, Knutson and Parton (1995)</td>
<td>Developed DINERSERV to measure consumer’s perception of quality in restaurants</td>
<td>Measuring quality</td>
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<td>Almanza, Jaffe and Lin (1994)</td>
<td>Measuring satisfaction and importance of product attributes</td>
<td>Measuring quality</td>
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<td>Knutson, Stevens, Wullaert, Patton and Yokoyama (1992)</td>
<td>Developed LODGESERV, a 26 item index to measure consumer’s perception of quality in the hotels</td>
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<td>Knutson et al. (1990)</td>
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<tr>
<td>Callan (1990)</td>
<td>Found a wide diversity of opinions among travel industry journalist’s measurement on the value of qualitative award schemes as a measure of service quality</td>
<td>Measuring quality</td>
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<tr>
<td>Buttle and Bok (1996)</td>
<td>Used theory of reasoned action model to predict intention to return</td>
<td>Customer retention</td>
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<tr>
<td>Dube, Renaghan and Miller (1994)</td>
<td>Investigated service attributes that are related to intention to return</td>
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<td>Reid and Reid (1993)</td>
<td>Communication strategies relating to customer retention</td>
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<tr>
<td>Toh, Rivers and Withiam (1991)</td>
<td>Frequent guest programmes</td>
<td>Customer retention</td>
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and leading to improvements in construction techniques and choice of materials used; and statutory requirements affecting the design and construction of buildings and specific legislation relating to hotels.

Verma and Thompson (1996) illustrated how discrete choice analysis can be used to design business concepts based on the importance that customers place on different product attributes. The researchers use delivery pizza as an example, but the technique could be applied to the development or design of any concept.

New product design
Several articles looked at the development of new products. Jones (1995) applied Scheuing and Johnson’s model for new service development to flight catering. His research found that airlines lack many of the systematic procedures suggested by Scheuing and Johnson. Shoemaker (1996) looked at how customers develop a series of actions regarded as necessary or appropriate for a service transaction. Variations from the script can be a source of dissatisfaction. Thus, when developing new service delivery systems, companies must assist customers in developing a new script. Miner (1996) presented a customer focused approach to developing new products in a restaurant. The six stage process includes product ideas, initial evaluation, consumer reaction, sensory testing, field testing, and product introduction.

Specific products
Another set of research looked at the design of special projects. Goldman (1993) discussed the importance of concept selection for independent restaurants. He discussed the different external factors that affect concept selection. Makens and Bowen (1996) discussed merchandise opportunities for restaurants. Design considerations for restaurants wanting to implement a merchandise programme include space to merchandise the products and storage space. Bowen and Morris (1995) looked at the design of a menu to increase product sales. They found that menu design in a sit-down service restaurant may not be as effective in selling products as previously thought. Monteson and Singer (1992) explained how spas can add value as an amenity in a destination hotel or resort. They gave advice on how to manage and market a spa properly, so it creates maximum value for the guests and adds to the bottom line of the hotel.

Conner (1991) focused on how renovations could capture the original glitz and glamour of the hotel, while making the hotel operationally efficient. Conner provides specific examples from design renovations in New York City. Knapp (1991) provides a case study of the renovation of the Sheraton Palace in San Francisco.

### Theme 5: Internal Marketing

The hospitality industry is unique in that employees are part of the product. When
people think of marketing, they usually think of efforts directed externally towards the marketplace; but a hotel or restaurant’s first marketing efforts should be directed internally to employees. Managers must make sure that employees know their products and believe that they are good value. The employees must be excited about the company they work for and the products they sell; otherwise, it will be impossible for the guests to become excited. External marketing brings customers into the hotel but does little good if the employees do not perform to the guest’s expectations. The sub-themes identified in the research relating internal marketing include culture, service orientation, empowerment and listening.

**Culture**

An internal marketing programme flows out of a service culture. A service marketing programme is doomed to failure if its organizational culture does not support serving the customer. It is difficult to establish an effective culture in a permanent organization and even harder to establish a culture in a temporary organization. Meudall and Gadd (1994) looked at the establishment of a culture in short-life organizations. The authors used an organizational beliefs questionnaire to investigate the National Garden Festival Wales’ organizational culture. This article built on earlier work by the authors on short-life organizations.

**Service orientation**

If management expects employees’ attitudes to be positive towards the customer, management must have a positive attitude towards the customer and the employees. Too often organizations hire trainers to come in for one day to get their customer-contact employees excited about providing quality customer service. The effect of these sessions is usually short-lived because the organizations do little to support the customer-contact employees. A company must develop policies and an organizational structure to support its service orientation.

Barsky (1996) described how to build a system to deliver world-class service. In the article he provided numerous examples from hospitality firms, including a sample of a guest survey. Barsky also provided examples of how to map the customer cycle. At the heart of this process is a step that redesigns exiting processes based on both customer and employee input. The second part of this step is to develop employee programmes that support the new processes.

Shimko (1994) explained how existing decision-making polices, coupled with the manner in which organizations reward conforming behaviour, may result in polices that
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Prevent employees from providing optimal customer service. King and Garey (1997) looked at how the organizational context in which a service encounter takes place affects employee interactions with customers, and resulting guest satisfaction. They found that stress-related factors including a bureaucratic climate were negatively related to guest satisfaction ratings. Dienhart et al. (1991) and Dienhart et al. (1992) investigated factors that might influence restaurant employees’ degree of service orientation. The authors developed a questionnaire that was administered to supervisory and non-supervisory employees. The results of the research suggest that increasing employee’s job involvement, job satisfaction, and job security could assist in improving their overall service orientation.

Listening

Perhaps one of the most important research areas of internal marketing is the management of listening. Employees have the potential for collecting information directly from the guests. Through proper training and information collection systems employees can provide more information than market research costing tens of thousands of dollars. However, for these systems to work, employees must trust the organization. Good communication between employees and managers not only provides good customer information, but it also supports a service culture by identifying management problems and solutions to those problems. Several researchers investigated the area of listening and communication.

Brownell (1994) focused on the importance of managers creating an environment that fosters good communication between employees and management. She stated, “The vision of strong listening environments may foster practices and attitudes that become the most important tools managers bring with them into the twenty-first century”. Sparks (1994) found that customers evaluate the quality of the service, in part, on the manner in which information is communicated by employees. Thus, part of customer satisfaction is dependent on the ability of employees to listen to customers and communicate with them.

Empowerment

Empowerment has been associated with a number of benefits including increased employee and customer satisfaction. The increased customer satisfaction comes through better complaint resolution, ability to customize products, and more responsive service. One problem in the implementation of empowerment can be lack of management support. Most of the research on empowerment dealt with the process of empowering employees.

Bryner (1991) presented a framework for implementing employee empowerment and also provided some guides which will help measure the results of empowerment. Lashley (1995) provided an overview of the benefits of empowerment and illustrated how different hospitality companies have implemented empowerment. Lashley (1997) later provided frameworks for employee empowerment and called for research to investigate the tradeoffs between employee empowerment and improved organizational performance. Sparrowe (1994) proposed that investments in psychological empowerment among hospitality employees seem worthwhile, as satisfaction with promotion opportunities should rise and intent to leave should decline. Thus, empowerment can not only lead to guest satisfaction, it can also result in employee satisfaction.

Thematic interrelationships

The linkage between the themes is shown in Figure 1. Through market analysis, perceptual maps are developed providing insights into attractive market segments. Much of the research in the area of market segmentation focused on the importance different market segments place on product attributes. The target market determines the design of the product. Quality management ensures that the product is being delivered at a level which will create repeat business. Quality measurement validates that the quality management system is working. The quality measurement also monitors changes in wants and expectations of the target market. Changes in market expectations or wants can be met through product redesign. Thus, the link between quality measurement and product design indicates an ongoing process of shaping the product to meet the needs of the target market.

Since employees are part of the product, they need to be included in the design of service delivery systems. Employees that deliver good service also contribute to the quality of the organization and will be included in the quality management process. Finally, quality impacts on brand image.

Customer retention is one of the objectives of most businesses. Figure 1 shows that brand image, service customization, and internal marketing all affect customer retention. At the heart of this model is the target market or customer. When a company chooses a market segment that can create value for the firm, then the firm must deliver a product that creates value to the
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Summary and conclusions

This article reviewed a broad set of research relating to business development. One common thread through the research is responsive communication. Companies need to communicate with their markets and employees. Employees need to communicate with customers. But communication alone is not enough. The communication must be responsive. The information gained through the marketing intelligence system must be used to identify desired target markets, create products for those markets, gain a desired position in the marketplace, understand the price sensitivity of markets, and to enable internal customers, the employees, to serve the customer better. If an organization can achieve these ends, its business will flourish.

Figure 1
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