

Segmentation

Section Objective:

- Understand the principles of market segmentation for a hotel

How and why hotels segment their customers.

SEGMENTING THE MARKETS

Traditionally, hotels segment their guests based on the purpose of their stay.

- Business or corporate
- Leisure
- Government
- Contract
- Tour and travel

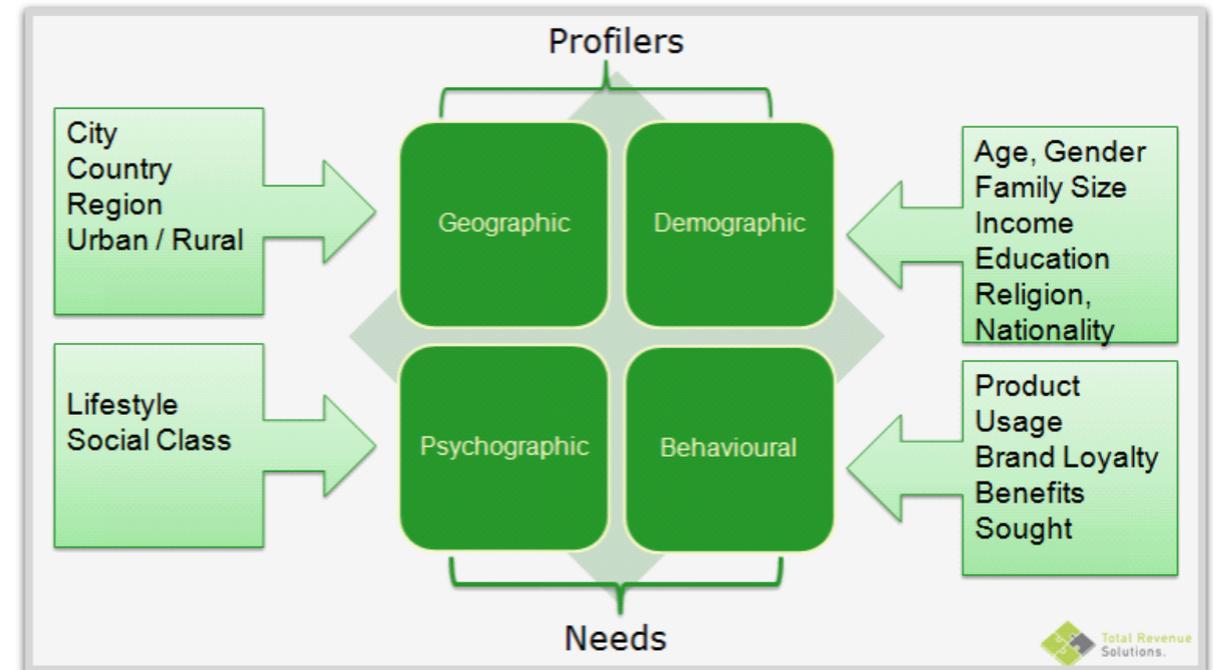
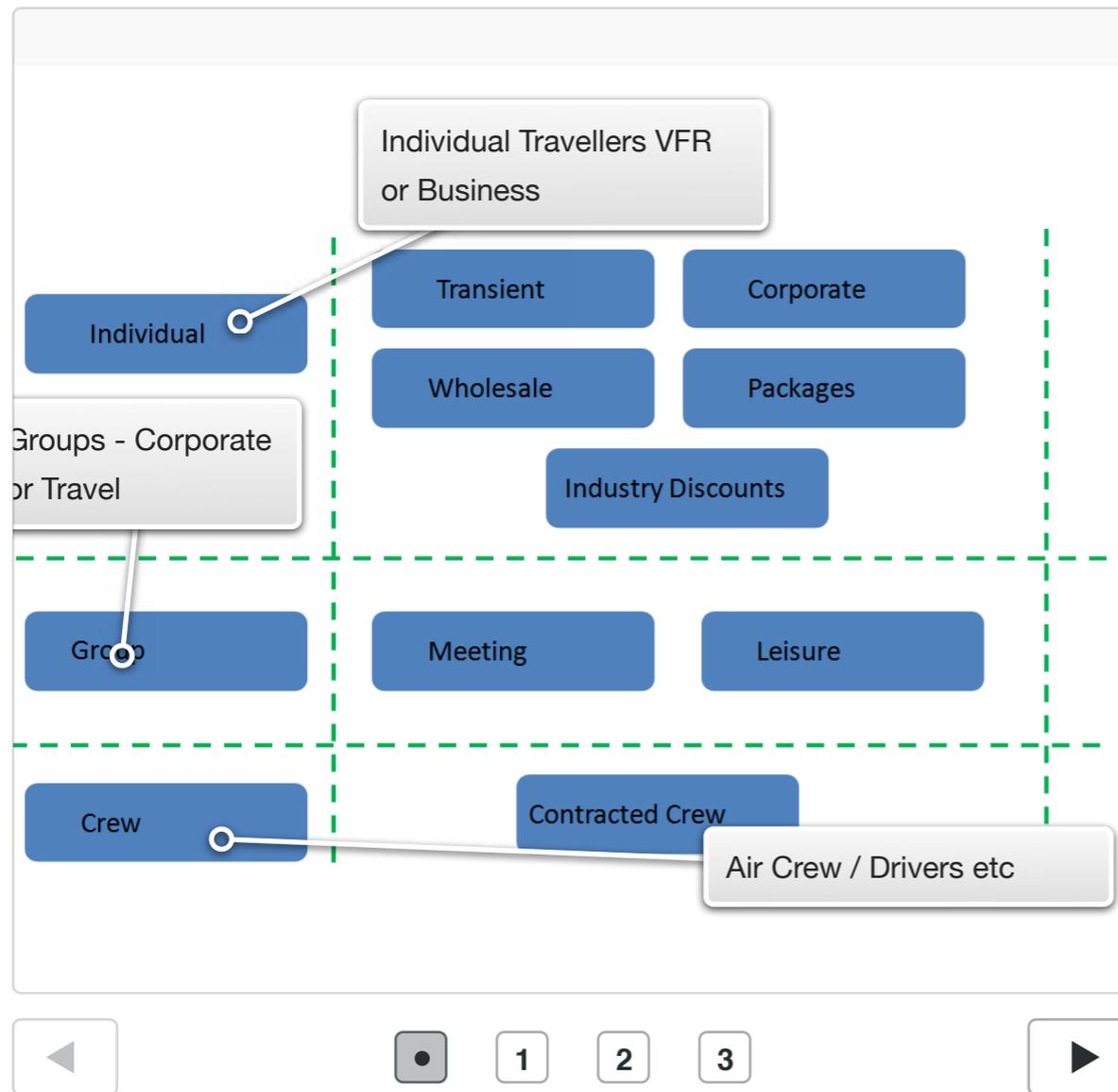
This is not a finite list and many hotels have many more categories! Sub-segments can be built using classifications such as age. The traditional segments of Business and Leisure can be summarised as follows:

<i>Leisure Travellers</i>	<i>Business Travellers</i>
Advance bookings	Short booking lead times
Quality required varies	Tend to require high quality
Destination flexible	Destination predetermined
Highly price sensitive	Relatively less price sensitive

Traditionally, hotels segment their guests based on the purpose of the stay. At a high level, these “major” segments might start with the primary categories of “Individual”, “Group” and “Crew”.

There are four ways in which we can segment the market. These are known as ‘profilers’ and ‘needs’.

Segmentation - Major Segments



Source: Total Revenue Solutions Ltd

In the hotel industry, access to the behavioural attributes tends to be easiest, and therefore this is the one that is used the most to understand customers and how hotels can best service their needs. Behavioural segmentation considers the why, what, when and how of a guest’s stay. For example: why is the guest staying; what is the occasion; when are they staying; how often does the guest stay?

WHY SEGMENT?

Segmentation involves subdividing markets, channels or customers into groups with different needs. It is then possible to deliver a tailored proposition which meet these needs as closely

as possible. When presented with the same marketing message, product or price point, each segment should react in a different manner.

The aim of segmenting is to group together customers with similar attributes and buying behaviours so that they can be understood, their needs can be recognised and the business understands where they gain value from.

If hotels understand who their guests are, and what they expect from the business, the operation can be more effective and efficient at meeting guest needs.

Some of the drivers behind accurate segmentation are:

Targeted Sales and Marketing Activities

Understanding the net profitability of each segment, ensures that the focus of sales and marketing efforts will be on attracting the right business at the right time.

Increase Guest Retention Levels

If the sales and marketing activities are focused appropriately, this will help to give alignment between guest expectations and operational delivery, increasing the value proposition. Ultimately, this will help a business retain the valuable, repeat business.

Targeted Pricing

As each segment will respond to price propositions in a different way (in other words, they have varying degrees of price sensitivity), accurate segmentation will assist in the pricing process (minimising the risk of over or under pricing through dilution or cannibalisation).

Increased Market Share of the Desired Segments

Accurate market segmentation will allow a hotel to focus on growing the desired market segments (through matching expectations at an operational level), focus on secondary segments during need or distressed periods, and move away from the unprofitable or hard to reach segments (i.e. those with a high cost of acquisition).

The ultimate aim of accurate segmentation is improved efficiencies, leading to enhanced profit opportunities.

What Happens if Segmentation is Incorrect?

There are many implications of inaccurate segmentation, many of which are frequently overlooked within the hotel industry. These include (but are not limited to):

Inaccurate Forecasting

When businesses do not know who is coming to the hotel (and the purpose), forecasting becomes more challenging. An accurate forecast is one that is completed day-by-day, by market

segment. Understanding segment trends in terms of stay patterns and revenue implications is essential to compiling an accurate forecast. In addition, inaccurate segment forecasting will inevitably lead to increased operational challenges if the business fails to anticipate customer needs.

Ineffective Pricing Strategies

Inaccurate forecasting by segment will lead to ineffective pricing strategies that fail to take advantage of the full range of segment pricing potential. Segments may be over priced or under priced – both having a significant impact on the revenue and operational efficiencies of the hotel.

Incorrect Sales & Marketing Activities

Acquiring new customers can be costly. It is therefore critical that the Sales & Marketing team focus its efforts on the segments that will best help the hotel achieve its long term goals. The activities of Revenue Management and Sales must be aligned, or the hotel may waste valuable resources attracting new business, which does not meet or exceed the price requirements as determined by the RM team.

Strategy Impact

The combination of points 1-3 will lead to a longer term strategy impact if the organisation is not clearly focused and delivering the optimal segment mix.

Review Questions: Segmentation

Question 1 of 3

Segmentation is important in hotels in order to:

- A.** Best meet consumer needs
- B.** Use resources efficiently and effectively
- C.** Understand who their guests are and what they expect
- D.** All of the above apply



Check Answer

