

Mazur V.

## TIER STRATEGY – AN EFFECTIVE MARKETING INSTRUMENT IN HOTEL INDUSTRY

*The article deals with the development of principles concerning new market segments, the importance of this process within modern market relations and the usage of tier strategy. Under these conditions, the forming of an adequate perception of competitive threats and advantages caused by a strong competitive struggle, unstable demand, and change of demands to the quality, quantity and types of services is an important issue.*

*Market segmentation of hotel services has been investigated as the base of determination of the goals which will be the objects of further marketing investigations. The assessment of segmentation criterion has been made in the next way: segment capacity, segment essentiality, segment availability, segment profitability in the light of overall performance and protection of a segment from competition.*

*The role of geographical criteria of market segmentation of hotel services and the meaning of a structure of commercial activity of a region has been examined. The dynamics of the regional development regards to “undeveloped” hotel market in a stable region or in that one which is reduced.*

*Demographic segmentation is a market allocation into groups; it is often called variables which describe the situation with market segmentation. This criterion is widely used in tourism because of its unambiguity and easy performance of statistic processing.*

*Recently, essential social and demographic changes have been made and these changes influence the style of entertainment and forms of rest. They create new segments of hotel market causing changes according to requirements in existing segments.*

*The author has investigated psychological segmentation criteria which are the base for goal setting which will change into objects of marketing investigations in future.*

*The choice of a market niche on the modern stage of market relations is one of important aspects in marketing of hotel industry.*

**Key words:** *segmentation, criteria, market relations, segmentation methods, competitive advantages, characteristics, ways, region, changes, stages, analysis.*

**Problem statement.** The choice of the market for a competition should be one of strategic decisions made by a company. This choice is defined by the market allocation containing consumers with similar needs and behavior or motivation characteristics, and they create favorable marketing opportunities for a hotel enterprise.

The actuality of the research is in the following: constant control and analysis of external environment are of considerable importance for hotel business at the current state of the market and during continuous change of market situation. The process of market segmentation plays an important role for any hotel. Using own developments and observance, hotel industry can get a big competitive advantage before its competitors and it will give the opportunity to enter a new market segment. This theme is very important at modern state of market relations. The use of market segmentation methods allows defining the target market, developing strategy of positioning and on this base defining the complex of marketing for a hotel enterprise; achieve maximum efficiency of promotion strategy;

minimize efforts concerning sales of production and find a competitive niche for an enterprise.

**Research objective** is the investigation of market segmentation of hotel services on the base of geographical, social and demographical, psychological criteria and the analysis of the strategy and meaning of market niche in modern market surrounding.

**Review of recent investigations and papers.** The problems of investigation of market segmentation were investigated by the following scholars: A. Volova, O. Zozulyova, Z. Tymoshenko, Kh. Rohlyeva, N. Kudly and others. O. Feofanova and L. Ahafonova paid more attention to the detailed investigation of market niche [1, 2, 3, 5, 6, 7].

It should be noted that it is defined not only by the development of the corresponding market but a successful search of vacant or not fully occupied place that is market niche. This is the innovation meaning of the given investigation.

Under such conditions, the forming of an adequate perception of competitive threats and advantages caused by a strong competitive struggle, unstable demand, and change of requirements to the quality, quantity and types of services is very important. It is necessary to study and analyze

consumers' behavior and build an effective strategy of further development of business.

**Study background.** Market segmentation of hotel services is an important element during the choice of marketing strategy. Hotels work in difficult market conditions, that is why it is necessary to pay attention to such questions as to whom and how provide services, care about its image, provided services, advantages and public tastes. Some types (market segments) are chosen from the common quantity using segmentation.

Market segmentation is the process of market allocation into different consumers groups, to each of them different services or marketing-mix can be

required. Market segment of hotel services is a special part of the market, a group of consumers which have some common characteristics. Segmentation is a base for goals setting that in future will be objects of marketing investigations.

A scholar A. Volov suggests that market segmentation of hotel services allows:

- choose the most prospective target market segment;
- fully satisfy consumers' needs;
- set real goals;
- choose optimal marketing strategy;
- increase a hotel compatibility;
- optimize marketing expenditures [2: 22].

**Table 1**

**Advantages of market segmentation for an enterprise\***

Segmentation components	Advantages
Analysis of consumers	An enterprise better understands its clients
Analysis of opponents	Concentration on one not big part of the whole market gives the possibility to understand better the action of competitors and gives the possibility to struggle with them
Productive distribution of resources	Limited resources of an enterprise should be concentrated on some consumers than scatter them in order to take a wide masses
Strategic planning of marketing	Planning becomes easier during understanding its better clients

*\* it is made by the author on the base of [4:81]*

Criterion of segmentation is the way of assessment of the foundation of one or another market segment for a given hotel.

There are the following criteria of segmentation: segment capacity, segment essentiality, segment availability, segment profitability, effective performance, protection of a segment from competition.

N. Kudla differentiates market segmentation according to different characteristics. According to consolidated indications three variants of market segmentation of hotel services are possible:

- 1) according to consumers' groups;
- 2) according to parameters of production;
- 3) according to the main competitors [ 4:101].

The most universal is the first one from three stated above that is segmentation according to consumers' groups.

There is a range of ways of division of consumers into segments. At first, all population is taken into account and then after observation, the analysis of some people's behavior is made and received characteristics are systematized.

Z. Tymoshenko emphasizes market segmentation of hotel services according the following features:

- geographic;
- demographic;
- psychographic;
- behavioral.

Each of these features has its peculiarities which should be taken into consideration during analysis of the market [6:112].

That is why there are a lot of ways of segmentation of hotel market but not all of them are effective. For example, consumers of a hotel accommodation can be divided into dark-haired and fair-haired people but the color of hair does not influence the demand in an accommodation. Therefore, if such consumers offer accommodation every month paying the same price for the same quality then segmentation of this hotel market does not give the essential profit.

Geographical segmentation is a market allocation into different geographical units: countries, states, regions, districts, cities etc.

O. Feofanova states that segmentation according to geographical principle suggests hotel market allocation into different geographical units: countries, regions and cities. A hotel can act in one or some regions taking into consideration needs and peculiarities determined by geography [7:105].

District location can differentiate in profit, culture, social values and other consumers' needs. For example, one district can be more conservative than other. Population size and density shows if there are enough people in region to support the promotion and sale of hotel product and improve marketing activity.

Regional transport net is a combination of mass public transport or highway. A region with public transport net has another needs than a region with well developed transport system and automobiles [8].

Climate is one of the most important criteria of segmentation of hotel market, for example, for hotels specialized in sea rest.

The structure of commercial activity in the region includes orientation on tourists, employees and public officers, and other persons living in the region. Hotels and camping sites, public catering, fast food restaurants attract tourists; quite comfortable rest attract city citizens. There are shopping areas and outlying business districts in big cities. Each shopping centre has its separate image and combination of different hotels [7:52].

Mass media accessibility changes in regions and essentially shows a hotel's availability to make segmentation. For example, one city has its own TV station but the other one does not have it. It complicates for a tourist agent to find consumers in near district. Many national publications, especially newspapers and magazines have regional publications or supplementary sheets to make advertisements for hotels.

The dynamics of the regional development can characterize by stability, fall or hotel increase, it faces "undeveloped" hotel market in a region or congested hotel market in a stable region or in such one that decrease.

Legal limitations change according to city or region. A hotel can decide not to enter the market where its activity is limited. However, if it decides to act there it should follow legal rules [6:206].

Demographic segmentation is a market allocation into consumers' groups on the base of demographic features: age, sex, family structure, family life, the level of income, type of knowledge, education, religion, race and nationality [5:23].

Demographic criteria are sometimes called variables, which describe market segmentation. This criterion is widely used in tourism taking into consideration unambiguity and facility of static processing.

Market allocation can be made using different forms of descriptive variables. Thus, segmentation which uses demographic changes such as: age, sex, number of children, life cycle of a family, occupation, religion, race, nationality etc. is considered the most popular one (Table 2).

Demographic criteria are often used taking into account the information availability from different sources, clear characteristics and easy belonging of them to different elements of marketing strategy. Therefore, separate enterprises "stress on" consumers of some age and the stage of family life. Holding company "Twenty's" and "Club 18-30" provides its services according to this principle [4:35]. They developed projects for poor young single people. Specialization for the rest of parents and their children or rest for retired people which make a considerable segment of tourist market in rich countries is very popular.

Therefore, age, the level of income and stage of family development have the most important meaning to make decision for choosing trip and type of rest. Afterwards, it plays a considerable role for building a strategy and management of marketing in hotel industry [7:90].

**Table 2**

**Demographic criteria of hotel market allocation\***

Reason (variable)	The meaning of variable
Age	Up to 4 years, 4—7 years, 8—12 years, 13—19 years, 20—33 years, 34—49 years, 50—64 years, 65 years and past retiring age
Sex	Men, women
Household composition	1—2 persons, 3—4 persons, 5 persons and more
Family life cycle	Youth — single; youth — married without children; youth — married with small children; married — not young having no children; not young — single etc.
Occupation	Workers, clerks, entrepreneurs, scholars, students, unemployed, housewives and others
Nationality	Germans, French, Japanese, Italians, Poles, Ukrainians, Georgians, Tatars, Jews and others
Religion	Catholicism, Orthodoxy etc.
Race	Asian, European etc.

*\*developed by the author on the base of [5:100]*

Age is used very often because age brings change of interests, activity and financial state. It is true that young people need other things than adult ones and it allows dissociating from their parents and ancestors. Sex is a popular variable of segmentation, it slightly influences the use of hotel product and it

defines the design. Education can be the main reason during segmentation of many hotel segments [8].

Segmentation in demographic characteristics is very popular because it defines real differences in favor between groups of consumers. Demographic segments are better because on their base

advertisements can be made. However, in many countries, demographic indices show only general idea about benefit or advertisement.

Recently, in developed industrial regions, there were essential social and demographic changes namely: decrease of birth rate, increase of life span, increase of women employment, late marriage, increase of number of divorces and increase of number of broken family. These changes influence the style of entertainment and forms of rest. They create new segments of hotel market causing changes of requirements in existing segments [3:38].

Predicted availability of social and demographic segmentation in developed industrial countries has a tendency to decrease because of standardization of consumer's style which increases for different public classes. Therefore, to explain and predict consumer's behavior, social and demographic segmentation should be completed by other methods of segmentation.

Differentiation of incomes divides consumers into groups with low, medium and high profits. Each category has different resources to buy hotel products. Hotel price defines its orientation.

Family status and family composition may build a base of segmentation. Some hotels orient their production either on single or married people. Segmentation orienting on family composition produces different form of service (design) of hotel products [5:68].

There is a model of life cycle of family which helps to describe a purchase behavior. The following stages form the base of this model.

1. The stage of bachelor. A person does not have big income but costs for life are not high that is he/she has a high discretionary income. A typical hotel product includes: rest, entertainment and transport.

2. Engaged couple. Their income as a rule is high because both of them work. Expenditures are made for trip tickets and hotel products for entertainment. They together make their decisions.

3. Full nest of the first type. At this stage, a couple gives birth to their children, that is why their income is not high but debts are big. Consumption is based on children's hotel products. Solutions are derived from children's needs [1:129].

4. Full nest of the second type. Children attend school or they can be at home alone that is why mother can work. Family income increase but expenditures on for children's needs increase: rest, entertainment, trips etc. children have an essential influence on parents' decision.

5. Empty nest. Children grew up and left parents' house. Income is the highest and expenditures are relatively low; costs for high-class apartments and

trips abroad increase. Solutions are made according to arranged order.

6. A family where one of couple is alive. One of family partner is left without a husband or wife. Income decreases sharply and although costs for a rest decrease to minimum but costs for hotel products, health support, social clubs and medical hotel products increase. Sometimes, making decisions, children's opinion is taken into consideration but in general, a purchase choice is made individually [6:155].

A hotel should update the information about demographic changes of potential clients in spite of the use of common statistic sources.

Therefore, an interview can be one of opportunities of information collection which is done during selling different services. It will contain information about age and ways of spending free time by family members. The analysis of families which choose the trips allows identify demographic characteristics which can be future hotel's clients [4:222].

Segmentation is the base for goal setting which will be objects in future marketing investigations. Kh. Rohlyev defines psychographical segmentation that is the way of allocation of hotel market into consumers' groups taking into consideration their public class, the way of life and person's characteristics [5:355].

Psychographic method can belong to the segmentation which is called "aposteriori", when a target segment is not known but it is chosen on the base of results got after many statistic methods done by different reasons, clusters and other types of statistic analyses.

In contrast to demographic analysis, nonstandard categories were used for different types of tourists that it needs the development of different subjective starting variables using observation and inquiry.

In particular, there are groups of consumers taking into account their mobility. Mobility characterizes how often a consumer changes the place of stay. Mobile consumers take into consideration common national trade marks, hotels and impersonal information. Not mobile consumers base themselves upon their knowledge about differences between separate tourist agents and their own information [1:154].

Consumers of a group are formed depending on person's orientation on a principle, status or action:

– consumers which are oriented on the principle during the choice of definite hotel products base themselves upon their own opinion;

– consumers which are oriented on the status, it is important for them the opinion and acceptance of other people;

– consumers which are oriented on the action are ruled by their wish of social and physical activity, variety and feeling of the risk.

Besides the direction, consumers are distinguished by availability and (level) of resources.

Resources are psychological, physical, social and economic reasons which influence the choice and taking a decision about the purchase of each consumer. These reasons are the next: education, income, self-confidence, mental abilities and purchase activity. Hotel market can be allocated according the stated above reasons into those who realize and do; those who achieve success and risks; those who are sure, try, experts and those who oppose [2:65].

Those who realize are successful people with good taste, active, they are not afraid of responsibility and are interested in their own personal development. Their own image is very important for them but not as a proof or certificate of their position and power but as the expression of their own taste and the independence of the character. It is leaders in business and officials. They have a wide range of interest and they care about social problems and take changes easily. Their purchases show their fine taste and they chose expensive hotel products of high quality for some group of consumers.

Those who do/make are people of mature age who are wealthy and satisfied with their life, they like to spend their time in thinking and contemplation. Mostly, they are well educated people, they may be pensioners. They watch events happening in the country and in the world and they use the opportunity to widen their outlook. They are satisfied with their career and family, and they spend their time at home or in comfortable resorts, their tastes are conservative. They appreciate safety, functionality and value in hotel product [2:67].

Those people who achieve success are those ones who like career and work for them is very important. They share the most people's opinion and prefer the stability rather than risk. Work gives them a feeling of "necessity", financial support and prestige. They are concentrated on a family, career and church. They are conservatives in politics. Image is very important for them. They chose a prestigious hotel product which reminds their colleagues about the success of the user.

Those people who risk are young ones, full of enthusiasm and impulsive. They search diversity and impressions, they are in the process of forming values and models of behavior; they can be impressed by new opportunities and quickly change their mind. In this period of age, they "risk", they are not interested in politics and do not have stable points of view. They spend a big part of their income on active rest, visiting restaurants and cinemas.

Those people who are convinced are conservatives, like traditions and they are undistinguished. They have distinct, concrete, firm convictions based on traditions and main values: a family, church, society and nation. They spend their time at home with their family; in religious or philanthropic organizations. They prefer famous hotel products and trade marks [7:65].

Those people who try – they are not confident in themselves, they have feeling of insecurity, they search approval from other people and their opportunities are limited. Money for them is success because they do not have it in sufficient amount. They often feel that life is not fair to them. They prefer stylish hotel products which bought by rich people.

Practitioners are people who are self-sufficient, traditional and oriented on a family; they have conservative political opinion. They travel only for practical purposes (fishing, football match etc).

Those who oppose are persons of ripe years with limited opportunities, they care about their health and they are often passive. They are careful consumers which prefer their favorite trade marks [2:69].

There is segmentation on psychographic types of consumers according to their life style.

Innovators are those persons who have progressive opinion, modern thinking, a high consumer and purchase activity, they want to buy and they can buy new hotel products and they do it earlier than others.

Successful persons are those people who are close to "innovators" but they are cleverer and they are serious in financial questions. "Successful persons" are "innovators" who became adult and they are satisfied with their position, achieved success and enough high level of life.

Optimists are energetic people; they are communicative and want other people think that they are merry and successful people [5:105].

Reasonable persons are those ones who want to make sense of it all; they think before taking decisions; they are careful in financial questions; they like to be economical than waste their money; they want to be sure that a bought hotel product is worth of its money; they like to buy cheaper and Ukrainian hotel products and they are loyal to the chosen trade mark.

Those who prefer brand qualitative products and the quality of the product is preferable for them; they know that famous hotel products are distinguished by their quality and their price is higher; they are ready to pay more but buy hotel product of a famous hotel [8].

Western person is that one who orient on western way of life, prestigious resorts, currency shops,

foreign hotel resources, brand hotel products and western music.

Young people are active, communicative persons who are interested in everything new and unusual.

Fatal persons are those ones who have passive attitude to their position, fate and do not like critical attitude to them; they react negatively on changes, they are conservative and feel increased anxiety.

Man's attitude reflect men who have patriarchal points of view; they have traditionally "man's" interests (loyal to alcohol, they are interested in techniques and rally an opinion about the position of a man in society).

Those people who are outsiders because they do not fit in with market conditions; they do not like something new because do not see the opportunity to improve their position in future; they are passive; they live a low level of life; they orient on cheap hotel products and buy only the most necessary things [3:38].

**Segmentation according to the type of behavior** — classification of consumers according to their purpose of trip, mobility and attitude to the rest. Consumers are traditionally distinguished according to two types of behavior:

- conservative people are those who do not like any changes, they like their habits and likings. They can belong to different types of population – from the high one up to the low; they are not artistically imaginative and do not have esthetic perception. They compose 11-15% from the whole society;

- innovators — people who like a risk and experiment; they are consumers with high salary, they compose not more than 3% of potential consumers at hotel market [8].

**Favor to trade mark** can have three forms: absent, specific and full. If there is an absent favor than a consumer does not prefer anything, he likes discounts, he often changes trade marks and he is ready to try new hotel products. if there is a specific favor than a consumer can prefer some trade marks; he likes discounts, he rarely changes them and usually does not like to try new ones. If there is a full favor than a consumer likes one trade mark and discounts do not catch his attention and he never buys another trade marks and does not use new ones [6:106].

After market segmentation, a target market is chosen. Target market is the most favorable group of market segments (or one segment) for an enterprise. A. Volov suggests that a commercial success is defined not only by development of the corresponding market but a successful search of free or not fully occupied place (market niche) [2:55].

Market niche is limited according to its scope with clearly defined quantity of consumers, which the sphere of activity allows revealing advantages

before the competitors. An enterprise needs a niche for its own "field" of activity at the market, getting its own "market home and address". As a rule, market niche is located on the on the verge of different market segments. The volume of a niche is always less than the volume of a target market segment. Work in a segment predicts the availability of competitors. There are no competitors in a market niche because the production of a good is made as a rule in monopoly [4:95].

The meaning of a market niche within modern development of market relations plays a considerable role and has a big influence on the development of effective strategy of the activity of hotel enterprise.

Market niche can be vertical and horizontal. Marketing orientation is on vertical niche and it is directed on satisfaction of needs of different groups of consumers concerning the given product or a group of similar products.

Marketing orientation is on the search of horizontal niche and it predicts maximal satisfaction in demand of a specific consumer on the base of widening product assortment [5:300].

Successful invention of market niche does not mean its development forever. Sooner or later there will be competitors which will try to "enter" this niche. Therefore, it is necessary to search a new niche and monitor competitors' actions in the developed niche [9]. International practice of business development at the market of consumer goods and services shows that tier strategy of the market is used mainly by enterprises which supply the market by different products. Orientation strategy on the given segment (segments) of the market can support the increase of income if the product meets requirements and wishes of the clients of the chosen segment.

There are the following disturbing factors which can be during realization of the given strategy:

- thereafter, the difference in characteristics of the product for a target segment and the whole market becomes not insignificant;
- price decrease on similar products proposed by enterprises which use the strategy of low price;
- broader supply of goods and services by other enterprises which use product differentiation;
- competitors can analyze their activity in niche of the given segment [6:146].

Choosing one or another approach to making segmentation the following criteria are taking into consideration: importance of a segment for an enterprise, quantitative indicators of market niche [9].

Thus, commercial success is defined by not only invention of the corresponding market but a successful search a free or not fully occupied place

(market niche). The choice of its market niche at modern stage of the development of market relations is one of the most important aspects in marketing of hotel industry.

As regards to the meaning of market niche in comparison with tier investigated above we suggest that there are two interconnected components of marketing of hotel industry that as a whole give a high result and efficiency of activity.

**Conclusions and prospects for further investigations.** As discussed, we can make the following conclusions about the necessity of market segmentation which is caused by differences in needs and advantages of consumers. The definition of these advantages and consumer classification with the similar needs is an inseparable part of the development of corporate and marketing strategies. Market strategy allows concentrating efforts on those consumer segments where their competitive advantage will be the most effective. It should be noted that benefits from segmentation should meet the costs used on its performance.

Peculiarities of different groups of consumers and their attitude to concrete hotel products should

be taken into account during management of procedures of market segmentation of hotel services for a successful hotel functioning at the market of management. Ability to distinguish, find and satisfy market needs increases the efficiency of management of hotel products and supports additional income from sales.

Market segmentation is a strong means to win recognition at hotel market, increase of a company compatibility and consumers' understanding. Therefore, on the one hand, segmentation is a way to find parts of the market on which marketing of concrete tourist and hotel enterprise is orient, and on the other hand, it is a management approach to the process of taking market decisions and the base of optimal combinations of elements of marketing complex.

However, a commercial success is defined not only by the invention of the corresponding market but a successful search at the market a free or not fully occupied place (market niche). The choice of its own market niche at modern stage of the development of market relations is one of important aspects of marketing of hotel industry.

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