chapter

8

Managing Products and Services

Chapter Objectives

After studying this chapter, you should be able to:

1. **Describe the four stages of the product life cycle and their effects on marketing activities.**
2. **Analyze a product's life cycle.**
3. **Explain marketing-related concepts, such as the wheel of retailing and resource allocation models.**
4. **Use resource allocation models for menu engineering.**
5. **Identify the relationship between resource allocation models and the product life cycle.**
6. **Outline the challenges unique to managing services as opposed to products.**

Chapter Outline

Industry Profile

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Product Life Cycle
- Introduction Stage
- Growth Stage
- Maturity Stage
- Decline Stage

Applying the Product Life Cycle
- Developing Strategies for the Product Life Cycle
- Ways to Extend the Product Life Cycle
- Pros and Cons of the Product Life Cycle

Other Product Concepts
- Wheel of Retailing

(continues)

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Chapter Outline *(continued)*

Resource Allocation Models
Menu Sales Mix Analysis
Resource Allocation Models and the Product Life Cycle

Managing in the Service Environment
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Managing Supply and Demand

Summary of Chapter Objectives

Key Terms and Concepts

Questions for Review and Discussion

Case Study: Starbucks Coffee

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industry profile

Thomas Lee *Hotel Manager*
Davidson Hotel Company • Houston, Texas

1. What are the major components or duties associated with your current position?

As Director of Food and Beverage, the major components associated with my position consist of three major areas. Those areas are financial, guest satisfaction, and employee satisfaction. In regards to the financial aspect of my position, I create the operating budgets for all outlets of food and beverage including banquets/catering, kitchen, restaurants, bars, room service, gift shop, and minibar. It is my duty to ensure that we are properly abiding by the guidelines of the budget on a daily basis and adjusting our expenses based on revenue forecasts, which I also must create. In regards to guest satisfaction, I am inevitably responsible for all service and product perceptions within the hotel including restaurant and banquet staff service, catering sales manager service, and of course the quality of the product that includes not only food and beverage quality, but the quality and amenities of the facility as well. In regards to employee satisfaction, I am responsible for keeping my employees motivated and productive by maintaining an equal and fair employment environment for all employees of the hotel.

2. What are the components of your position that bring you the most satisfaction? What about your position causes you frustration?

The majority of people will tell you that there is no greater satisfaction in the hospitality industry than when a guest compliments the service they received while staying at your property, but I will tell you with over 15 years of hospitality management experience, personally, there is no greater satisfaction than watching your subordinates grow and develop through their careers. It says a lot about a manager when they have former subordinates that get promoted and retain successful careers in the industry. The greatest frustration currently in my position is dealing with budgetary restraints. There are so many improvements and upgrades that you want to make when you first walk into a property, but then reality hits, and you realize that there are monetary limitations that you must deal with.

3. What are the most challenging aspects that you face?

I believe the most challenging aspect that I face currently and into the future in the field of hospitality is the looming question of our economy. A recession

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industry profile

would inevitably hurt the hospitality and tourism industry in great lengths because of the decrease in spending money per capita for both businesses in general and people vacationing. It would end the era of the average general manager, which our industry is overly abundant in currently, where in a tough economy only the stronger general managers would survive. The strong general managers would have to be not only well-versed in finding and keeping business in a scarce market, but an expert on managing expenses as well.

4. What major trends do you see for your segment of the hospitality and tourism industry?

Once again, I believe the economy will play a great role for the industry. If we go into a recession, everybody will be on pins and needles.

5. What role does marketing play within your company?

Marketing plays a huge role within our company. The property that I am at currently is a perfect example. The property is undergoing a $15 million renovation where the flag of the hotel is changing and the current clientele must change and be upgraded where average rates must increase dramatically to show return on investment. If a strong, well-planned marketing effort is not in place, the $15 million would completely go to waste.

6. If you could offer one piece of advice to an individual preparing for a career in the hospitality and tourism industry, what would you suggest?

The one piece of advice that I would offer an individual preparing for a career in the hospitality industry would be to learn all areas of the industry that you are going into. This increases your individual stock as an employee because you are well-versed in all aspects of the industry. By having the knowledge of multiple departments, that individual can then make educated and better informed decisions that will benefit the entire operation. For example, in a hotel, try and learn all departments including front office, housekeeping, sales/catering, food, and beverage.

INTRODUCTION

Developing a sound **marketing strategy** is a cornerstone of successful marketing. When a company is successful and its marketing programs are the benchmarks among its competitors, it is often the result of a sound and well-developed marketing strategy. This chapter examines the key aspects of managing the product–service mix. The first area concerns the **product levels** and their importance in differentiating the product. The second area is the **product life cycle**. This advances the concept that all products and services progress through a life cycle, much as people do. The concept of the product life cycle is that different marketing strategies are best used at different stages in the life cycle. The third area involves the **resource allocation models** used by firms to determine the most effective use of company resources within their product portfolios. Most firms have a limited amount of resources, and it is necessary to prioritize their expenditures based on potential returns and company goals. Finally, this chapter examines the various issues surrounding managing services. The characteristics that differentiate services from goods create different challenges for managers. It is important to manage supply and demand in service industries because of the inability to maintain inventories for intangible products. There are basically four product levels: the core product, the facilitating products, the supporting products, and the augmented product. The **core product** is the basic form of the product. In other words, it is the main benefit sought by customers in an attempt to satisfy their needs as recognized by the gap between the ideal state and actual state. For example, for a restaurant, the core product is the food that will resolve the consumer's state of hunger.

As one can see, there are many ways that this need can be satisfied. Similarly, consumers in the lodging industry are looking for guest rooms with a shower. Two of the other product levels can be referred to as **peripheral services**. The peripheral services expand the core offering and can be used to obtain a competitive advantage. The peripheral services must meet or exceed customer expectations if customers are to be satisfied. The **facilitating products** are services that enable the customer to consume the core product. They must be present to make the product available where and when the customer wants it. Hotels have front desks and reservations departments, and restaurants have hosts or hostesses and waitstaff. **Supporting products** are additional goods and services that can be bundled with the core service in an attempt to increase the overall utility or value for consumers. Examples of supporting products within the hotel industry include concierge service, multilingual staff, 24-hour room service, and complimentary newspapers for business travelers.

Marketing strategy
Marketing strategy encompasses the overall plan for achieving marketing objectives.

Product levels
Three product levels exist: the core product, the facilitating products, and the supporting products.

Product life cycle
The product life cycle theory describes how a product progresses from its infancy as a new product in development, through a growth phase, to a maturity phase, and then, eventually into decline.

Resource allocation models
Model used by firms to determine the most effective use of company resources within their product portfolios.

Core product
The core product represents the basic form of the product. It is the main benefit sought by customers in an attempt to satisfy their needs as recognized by the gap between the ideal state and actual state (e.g., within a restaurant, the core service is the food that will resolve the consumer's state of hunger).

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Peripheral services
Additional goods and services that expand the core offering and can be used to obtain competitive advantage. Peripheral services consist of facilitating products and supporting products.

Facilitating products
Facilitating products are services that enable the customer to consume the core product. They must be present to make the product available where and when the customer wants it.

Supporting products
Supporting products are additional goods and services that can be bundled with the core service in an attempt to increase the overall utility or value for consumers (e.g., concierge service, multilingual staff, 24-hour room service, and complimentary newspapers for business travelers).

Augmented product
The augmented product is the core product and peripheral services that combine to form the package of benefits offered by a product or service. It encompasses everything surrounding the service and its delivery, including intangible attributes such as accessibility and atmosphere.

Supporting services such as a hotel gym are becoming increasingly important to guests. Courtesy of Wyndham Worldwide.

The **augmented product** is the core product and peripheral services that combine to form the package of benefits offered by a product or service. In addition, the augmented product includes how the service is delivered. In other words, the augmented product encompasses everything surrounding the service and its delivery, including intangible attributes such as accessibility and atmosphere. For example, Las Vegas hotels and casinos have augmented the core product to include extravagant design, in an attempt to attract visitors and gain a competitive advantage over other hotels and casinos. The basic hotel service is augmented with casinos, shows, high-quality restaurants, and incredible atmospheres. Also, the hotels make themselves very accessible, with good deals and special packages.

PRODUCT LIFE CYCLE

The product life cycle theory describes how a product progresses from its infancy as a new product in development through a growth phase to a maturity phase and then eventually into decline. Each stage of the product life cycle will be discussed in detail, followed by a discussion of the uses of the theory. Figure 8.1 illustrates the general shape of a typical product life cycle and its four stages.

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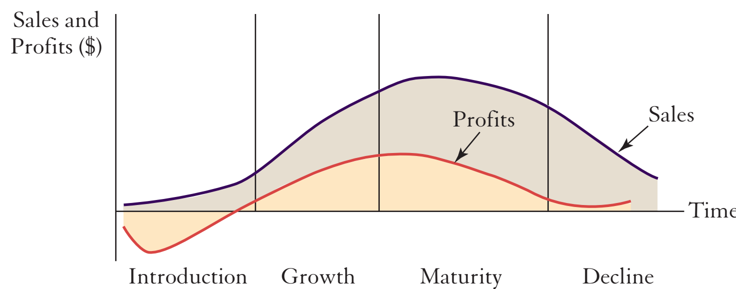

FIGURE 8.1 • *The product life cycle.*

Introduction Stage

The first stage of the product life cycle is called the **introduction stage**. At this point, the product has been through the new product development process presented in Chapter 7. It has survived analysis and testing, and it was deemed worthy of market introduction. The product represents a new concept, so there are no competitors offering the same product, and if the product is unique, there aren't even similar products in the market. Therefore, the goals for the firm are to develop product awareness and stimulate trial and adoption. To accomplish these goals, the firm must make a sizable investment even though sales will initially be low, leading to negative profits. The investment is in the form of capital expenditures on facilities and inventories, and a promotional campaign to attract customers. However, even though the cost per unit of manufacturing the product or providing the service is high, it is often necessary to offer discounts and other promotions to induce potential customers to try it. The pricing decision is usually based on the estimated costs and demand for the product because there are no direct competitors. During the introductory phase, customers tend to be innovators who are willing to take risks to try new products and services. The distribution of the product is selective in an attempt to build a customer base before adding new units or distributors. Many of the large hotel and restaurant chains started with one unit and eventually grew to become a large chain or franchise. For example, Holiday Inn started with a single property in Memphis, Tennessee, in 1952, and Wendy's restaurant chain started with a single unit in Columbus, Ohio, in 1969. Some hotels may start with a test-market property, but many recent concepts were started with more than one property. For instance, Wyndham's Garden Hotels were opened with multiple units in an attempt to generate more awareness and interest than could have been attained with a single property. It is more common for restaurants to begin as single-unit operations and add more units as they become successful and generate cash flow. This is due to the fact that repeat business can be generated from the local market, whereas hotels are dependent on a more transient market.

Introduction stage
The first stage of the product life cycle is called the introduction stage. At this point, the product has been through the new product development process. It has survived analysis and testing, and it was deemed worthy of market introduction.

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Growth Stage

Growth stage
The growth stage is evidenced by rapidly rising sales and profits and a decreasing cost per unit for providing the product or service.

If the firm is able to accomplish its goals in the introductory stage and the product builds an adequate customer base, the product will move into a growth stage. The **growth stage** is evidenced by rapidly rising sales and profits, and a decreasing cost per unit for providing the product or service. This positive outlook attracts competitors who are willing to take the risk because of customer acceptance and increasing profit margins. In this stage, the profits being generated by the product allow the firm to consider product extensions, new markets, and organizational expansion in the form of additional properties or units. Minor changes may be made in the unit design and concept, but normally the owners attempt to standardize the physical plant, thereby reducing developmental costs. The owners' rationalization is that if the original unit is successful, additional units will also be successful. During the growth stage, the organization typically expands its distribution by adding new units. These units are often located in clusters within geographic regions.

It is during the growth stage that the second group of consumers, known as early adopters, begins to enter the market as they obtain feedback from the innovators. The increase in competitors during this stage and the need to build market share put downward pressure on price. The use of the intensive distribution strategy helps the firm build its customer base and market share by creating more awareness and interest in the product. The goal is that the firm penetrates the market and develops loyal customers, while gradually reducing the amount of sales promotions and discounts. Instead, more emphasis can be placed on other forms of promotion, such as personal selling and advertising. The restaurant industry is a good example where new concepts enter the market every year, and those that are successful become larger chains and franchises. It is important to note that there is no standard length of time that a product remains in the growth stage. Some products experience strong growth over a short period of time, and then sales level off quickly, while others maintain a lengthy period of growth.

Maturity stage
A stage within the product life cycle where the organization has expanded as much as the market will allow, and volume, measured in annual gross sales, will level off. Companies in this stage find that the market is often saturated and competition is increasing from alternative options.

Maturity Stage

If an organization is able to achieve the desired success in the growth stage, it will eventually move to the **maturity stage**. At this point, the organization has expanded as much as the market will allow, and volume, measured in annual gross sales, will level off. Companies in this stage of the product life cycle find that the market is often saturated and competition is increasing from alternative options. Industry profits tend to peak near the end of the

growth stage as the product moves into maturity. However, there are still high profits due to the large volume and the beginning of a decline in the number of competitors. In other words, the weaker competitors leave as the market reaches equilibrium and stronger competitors are left to battle for market share. A common strategy is for firms to standardize products and remove some of the less-valued attributes. This streamlining will enable the firm to take advantage of the **economies of scale** associated with higher volume, thereby widening the profit margin. For example, Delta Airlines introduced box lunches that passengers received as they boarded the plane. A couple of years later, the airline announced that it would no longer include sandwiches in the box lunches, a move expected to save tens of millions of dollars. Finally, the airline eliminated lunches and snacks entirely on most of its flights.

Economies of scale
Cost efficiencies derived from operating at high volumes.

There may also be changes in consumer preference as the consumer turns toward newer and more innovative concepts. For example, some pizza restaurants like Bertucci's Brick Oven Pizzeria and California Pizza Kitchen emphasize the method of preparation as being unique in comparison to traditional pizza restaurants. The advertising and promotions during this stage focus on differentiating the product, although it can be difficult because the core products tend to be very similar. This product homogeneity increases the consumer's price sensitivity and firms are forced to price at the market. At this point, the market may fragment into more segments with different needs and price sensitivities. Most hotel chains offer more than one brand in an attempt to attract consumers from various market segments. For example, Holiday Inns have limited service hotels (i.e., Holiday Inn Express), full service hotels (i.e., Holiday Inn), business hotels (i.e., Crowne Plaza), and luxury hotels (i.e., InterContinental).

In this stage, the distribution of the product becomes even more intensive to ensure consumer convenience and accessibility. This expansion can be developed internally, or it can be the result of mergers and acquisitions. Weaker competitors may be acquired by stronger—and often larger—competitors who wish to gain access to new markets. Most of the products in the United States are in the maturity stage, which can last indefinitely. At this stage, the product adoption cycle has progressed to the point of including the majority segment of consumers, leaving little room for growth in the sales for the product category. As a result, individual brands can only increase sales at the expense of their competitors, rather than rely on new consumers in the market. The quick-service (i.e., fast-food) industry is notorious for its fierce competition in advertising and pricing. For example, Subway is being attacked by competitors such as Quiznos that refer to the brand as "wrong way."

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Decline Stage

Decline stage
During the decline stage, the last stage in the product life cycle, industry sales and profits decline more rapidly, and the number of competitors gets reduced to those with strong positions.

The last stage in the product life cycle is decline. During the **decline stage**, industry sales and profits are dropping more rapidly, and the number of competitors is reduced to those with very strong positions. The only new consumers entering the market are the laggards, and prices are often cut even further. Firms have progressed through the experience curve and the cost per unit has been driven down with accumulated volume. At this point, firms have phased out the weaker brands and focus more on the strong brands. The product consists of the core product and only those peripheral services that are of real value to the consumer. Distribution is selective as weaker outlets are closed. Hospitality firms will sell or close their properties in markets that aren't performing well in an attempt to free up resources for the more successful properties. For example, Planet Hollywood started its decline stage by closing restaurants that were not profitable in an attempt to remain viable, but the company eventually went bankrupt and decided to go out of business completely.

The major objective during the decline stage is to reduce overall marketing expenditures and increase cash flow. This strategy is referred to as "milking the brand" because you are trying to get as much profit from it as possible.

The decrease in marketing expenditures comes in the form of reduced customer service, reduced quality and variety, reduced distribution, and reduced promotion and advertising. Firms are left with a group of loyal customers that may or may not be large enough to continue with a profitable operation. It is critical that firms are relatively certain about the product's status in the product life cycle because these actions may force the product into decline prematurely. Many independent hospitality and tourism firms are finding themselves in the decline stage as large chains and franchises take advantage of their lower costs and engage in price wars that force the weaker firms out of the market.

APPLYING THE PRODUCT LIFE CYCLE

McDonald's serves as an excellent example of the way a corporation progresses through the organizational life cycle. McDonald's, under the direction of Ray Kroc, began with a few units in the mid-1950s. The corporation quickly achieved a sound financial base and rapidly moved into the growth stage of the life cycle. New units were continually being constructed, and soon the familiar red-and-white buildings with the golden arches could be found

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throughout the country. However, an important decision was made as McDonald's was nearing the end of the maturity stage. The upper-level management felt that the red-and-white buildings with the golden arches had outlived their useful life and that a new image was needed.

With this in mind, the corporation began to rethink the design and décor of both new units and the vast majority of existing units. They determined that a more subdued appeal was needed to attract different target markets. The term *fast food* was not used in any promotional or corporate literature. Instead, emphasis was placed on the image of McDonald's as a restaurant. Instead of seeing its sales level off, McDonald's was able to inject new life into its concept and therefore continued to expand and increase the number of units, total sales, and bottom-line profits. Later in McDonald's history, when sales growth had begun to slow, the corporation's leaders launched a breakfast program (McDonald's had previously served meals only during lunch and dinner). By serving breakfast, the company was able to increase sales without adding new units or franchisees. After that, they added another feature that is very common today—the drive-through window.

More recently, McDonald's has developed units in nontraditional locations as a means of increasing sales. These new locations include gas stations and convenience stores, as well as retail locations such as Wal-Mart. Another way McDonald's expanded its product life cycle was through entering international markets in an attempt to increase its growth potential. However, the future is unsure for the fast-food giant. The beginning of the twenty-first century marked the first time McDonald's was forced to close some of its less profitable units since the company was formed.

Developing Strategies for the Product Life Cycle

A number of strategies have been used for the various stages in the product life cycle. To develop strategies, however, management must first analyze the life cycle. This can be done in a seven-step process:

1. **Compile historical data.** It is imperative that hospitality firms compile historical sales data. Ideally, the data should be available for the entire history of the organization. The specific type of data needed include sales volume (in units), prices, total sales revenue, costs, and profits.
2. **Identify competitive trends.** Recent activities of major competitors should be monitored closely to determine changes in market share and position, as well as changes in quality of the product-service mix. Additionally, the

other elements of the marketing mix should be monitored for significant changes.

3. **Determine changes in product-service mix.** The marketplace must be monitored to learn about new products and services that other hospitality organizations are introducing and to anticipate the potential effects on your operation.

4. **Study the product life cycles of similar products.** It is helpful to study the life cycle of similar products or services to determine whether a pattern exists. Rarely is a product or service so new and unusual that it is not possible to compare it with a previous one.

5. **Project sales.** Based on the data collected, sales for a two- to three-year period should be projected. Applying computerized statistical techniques may be particularly beneficial at this stage. Specialized software packages are available that will allow a marketing manager to develop sophisticated sales forecasts. However, for many business decisions, the statistical procedures and techniques that are part of spreadsheet software, such as Microsoft Excel, will suffice. The software will permit the development of multiple scenarios or what-if scenarios by altering the levels of the decision variables. In addition to projecting sales, management should examine key financial ratios and other indicators of financial performance.

6. **Locate the current position on the life cycle.** Based on the historical data as well as the projections, it should now be possible to locate the product's position on the life cycle. This position is used to determine the most appropriate baseline marketing strategies.

7. **Develop strategies.** Once the position is located on the product life cycle, strategy formulation begins. Table 8.1 illustrates the characteristics and strategies that apply to different stages in the product life cycle. These strategies should not be viewed as being absolutely firm, but they do represent the most widely accepted ideas in the marketing community.

Ways to Extend the Product Life Cycle

One of the marketing manager's goals is to extend the product life cycle as long as possible. By doing this, cash flow can be extended and greater long-term profitability will result. There are several techniques that can be used to accomplish this.

INCREASING SALES TO EXISTING CUSTOMERS. During the maturity stage of the product life cycle, the rate of sales growth begins to decrease and eventually

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	STAGE I INTRODUCTION	STAGE II GROWTH	STAGE III MATURITY	STAGE IV DECLINE
		CHARACTERISTICS		
Sales	Low	Rapidly rising	Peak	Declining
Profits	Negative	Positive and increasing	High, starting to decline	Declining
Cash flow	Negligible	Moderate	High	Low
Customers	Innovators and some early adopters	Remaining early adopters and some early majority	Remaining early majority and late majority	Laggards
Competitors	Few increasing in number and strength	Many	Declining in number	
		STRATEGIES		
Marketing objective	Create trial and awareness.	Increase sales and maximize market share.	Increase profits and maintain market share.	Decrease market expenditures and maximize short-term profits.
Product	Core product with some basic peripheral services.	Minor product changes and extensions.	Add attributes with positive differentiation.	Core product and key attributes.
Distribution	Selective	Becoming intensive	Intensive	Selective
Price	Set initial price based on costs and estimated demand.	Price to penetrate market based on actual demand.	Lower price to increase market share.	Reduce price to maintain volume.
Promotion	Create trial and awareness through sales promotions.	Build awareness and interest and reduce sales promotions.	Use to differentiate among major competitors.	Reduce expenditures and focus on loyal customers.

TABLE 8.1 • *Characteristics and Strategies for Stages of the Product Life Cycle.*

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levels off because most of the potential users of the product have either been converted or left the market. Under normal circumstances, it becomes very difficult and expensive to identify potential new customers and convert them into buyers. One way to increase sales and market share under these circumstances is to sell more to existing customers. There are basically two alternatives: encourage the customers to purchase more on each occasion, or encourage the customers to purchase more frequently. In order to get a consumer to purchase more, some hotels periodically offer one "free" night if the consumer purchases two or three nights. Similarly, restaurants train waiters to "upsell" customers by suggesting items like more expensive entrees, appetizers, wine, and dessert.

Another common method of increasing sales to existing customers is the use of product bundling. Internet travel agents (e.g., Expedia.com and Travelocity) form relationships with hotels, airlines, rental car companies, and tourist attractions to offer vacation packages. This is also being done on airline Web sites, and Disney bundles its offerings in an attempt to increase consumer spending. Travelers enjoy the convenience of one-stop shopping and the lure of a price incentive for purchasing the bundle rather than each component separately. Disney has expanded beyond the product-service offerings of theme parks and hotels to include a line of cruise ships. This affords an opportunity to sell travel packages that include several days at the theme parks while staying in a Disney hotel, followed by a cruise on one of its Disney cruise ships. Finally, hospitality and tourism firms get customers to purchase more frequently with loyalty programs that reward heavy users with free products and services in exchange for points.

INCREASING THE NUMBER OF USERS. Another strategy used to extend the product life cycle is to seek new users of the product. The goal is to increase the size of the overall market by identifying those who have not previously purchased the products or services. Several quick-service restaurant chains have used this strategy very successfully. As the number of primary locations for new stores decreased, these chains have sought additional locations where they might attract new customers, such as kiosk locations within stores, shopping malls, and gas stations along the highways. By expanding the definition of suitable location, they have been able to increase the number of purchasers, increase sales, and extend the product life cycle. Another example of this strategy is when hotels sell memberships to local residents for their pools and fitness centers in order to increase revenue by increasing the customer base.

FINDING NEW USES. Within the realm of product marketing, one of the ways product life cycles can be extended is to find new uses for products. For example, aspirin is used to prevent heart attacks in addition to its use for headaches, and baking soda is used to deodorize refrigerators in addition to

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its use in baking. In some cases, new uses for products are discovered and marketed by the firm. However, in other instances, they are the result of market feedback.

For example, many restaurants realize that it is relatively easy to run a catering operation out of the same facility that is used to serve regular customers. The catering operation uses the same equipment and adds little to the fixed costs of operating the restaurant, but it brings in additional revenue that can enhance the firm's overall financial condition. Interestingly, a lot of restaurants didn't explore this avenue until they received repeated inquiries regarding catering services.

Pros and Cons of the Product Life Cycle

As with most concepts or theories, the product life cycle has its supporters and its opponents. There has been a good deal of debate over the applicability and usefulness of the concept in the real world. The following discussion presents the pros and cons.

PROS. Supporters argue that firms that apply the concept correctly are able to identify the stage in which the organization or an individual product finds itself and then use this knowledge to formulate better marketing plans. Once a product's position in the product life cycle is determined, firms are able to consider the characteristics associated with the respective stage and use the aforementioned strategies. This would lead to the correct mix of products and services to improve the performance of the entire organization and allow the firm to analyze trends in the product-service mix, as well as the impact that this mix will have on short- and long-term financial performance. In addition, proponents argue that this will encourage firms to be more proactive in recognizing changes in the environment and taking advantage of opportunities. It will also help them recognize potential threats and implement strategies to avoid or minimize any negative impacts. Many products that are currently in the maturity stage of the product life cycle have been there for some time and have managed to stay profitable through product changes and extensions. Successful marketing managers have learned the art of extending the product life cycle by adapting to changes in the market and implementing timely growth strategies.

CONS. The opponents of the product life cycle concept state their case with equal vigor. They contend that few products or services actually conform to the shape of the curve illustrated in Figure 8.1. Rather, the curve may rise and fall in any number of patterns, each unique to the product or service

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itself. If managers believe that a product follows the normal life cycle curve, the product's demise may become a self-fulfilling prophecy. As industry sales begin to decline, a firm may decide to reduce distribution and marketing expenditures in conformance with the recommendations for decline stage strategy. This may lead to the premature decline of the product with substantial consequences.

Opponents of the concept also claim that it is often difficult to determine the exact stage in which a product lies. There are clearly no indicators to mark the transition from one stage to another. It is possible that changes in industry sales or firm sales could be the result of temporary conditions, and it may be possible to rejuvenate the product and extend the product life cycle. A product could remain in the maturity stage indefinitely if management is able to continually reinvent it. The product life cycle is more of a descriptive tool than a prescriptive tool. It cannot be used to forecast changes, because of the various shapes and time frames associated with different products and industries. Finally, opponents of the product life cycle concept indicate that some marketing managers place too much faith in it. These individuals focus too much attention on the product life cycle and forget about all the other environmental factors that can influence the success of a product or service. This marketing myopia or narrow-mindedness can cause firms to miss opportunities and not take risks that could be advantageous in the long run. Finally, the product life cycle can put too much emphasis on the development of new products to the detriment of existing products. Managers are painfully aware that as products reach decline, they will be responsible for finding ways to replace the lost revenues.

Whether you agree or disagree with the use of the product life cycle, it is important to view it solely as a tool. Complete reliance on the product life cycle as the basis for marketing management decisions would be unwise. Equally unwise would be to totally ignore the sales trends that are the foundation of the product life cycle. The product life cycle is best characterized as a valuable tool for a marketing manager to use in analyzing past market behaviors and future marketing strategies.

OTHER PRODUCT CONCEPTS

This section presents two other concepts that should be discussed to provide a thorough understanding of product management. These concepts are all interrelated in that they are based on the management of the marketing mix and the positioning of products in the marketplace. Firms change their product-service

mixes over time to reflect changes in consumers' tastes and lifestyles. The two concepts in this section address the question of resource allocation as it relates to the firm's image and its mix of products and services.

Wheel of Retailing

The **wheel of retailing** is a concept that was originally used to describe the evolution of department stores and other retail outlets. However, it can be applied very easily to the hospitality and tourism industry. It is founded on the notion that there is some type of impetus for retail firms that enter the low end of the market with basic products and low prices to gravitate toward the high end of the market (see Figure 8.2). This is accomplished by adding value through new features and amenities and raising prices. Firms also look to move to locations with more traffic and higher rents or real estate values. Eventually, this continual upward movement of firms and their products provides an opportunity for new competitors to enter the market at the lower end of the market. This repositioning can backfire and cause a firm to lose sales and market share.

Wheel of retailing
The evolution of an organization from a low-end provider to a high-end provider.

The retailing world and the hospitality industry are filled with examples of how the wheel of retailing works. Sears was the original low-end department store serving rural areas throughout the United States. Over time, Sears increased its inventories of popular brand names and moved to shopping malls and strip malls on major roads. As the prices at Sears continued to increase, Kmart decided to start a new low-end operation. Sears lost a good deal of market share and even attempted to roll back prices to return to its original position, but it was too late. Surprisingly, Kmart followed in Sears's footsteps and added brand names and moved to more expensive locations. This opened the door for Wal-Mart to occupy the low-end position, and the firm has attained the highest market share in the industry, leaving both Sears and

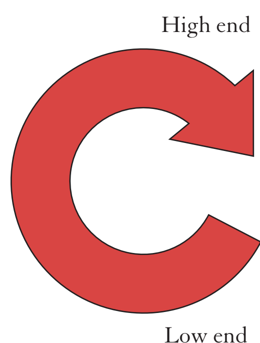

FIGURE 8.2 • *The wheel of retailing.*

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Kmart to question their strategies. In fact, Sears and Kmart eventually merged in an attempt to remain competitive. Wal-Mart has not made the mistake of moving up the wheel of retailing toward the high end and away from its strengths. The hotel industry has demonstrated a similar pattern. Holiday Inn and Howard Johnson's were the original economy hotel chains. However, both of these chains attempted to become more like the Marriott International and Sheraton chains, which occupied positions in the middle to upper end of the market with more amenities and higher prices. This vacated the low-end position, which was eventually filled by other firms such as Red Roof Inn and Days Inn. The economy segment has become one of the fastest-growing segments, attracting more and more competitors. Unfortunately, very few firms are successful at recapturing a market once they abandon it.

One might wonder what compels companies to leave their comfortable positions for the risk of new markets. One of the reasons for this phenomenon is the allure of high prices and high profit margins. In the hotel industry, the daily cost of servicing a room between guests ranges from around $15 to $50. At the same time, the **average daily rate (ADR)** paid for most hotel rooms ranges from around $40 to $300. The additional amenities offered at higher-priced properties do not substantially increase the variable costs of providing the service. This potential for increasing the profit margin is difficult to ignore. However, hotel chains may underestimate the investment necessary to obtain the expensive real estate and add restaurants and indoor pools. Also, once a brand is identified in the minds of consumers, it is almost impossible to change their perceptions.

Average daily rate (ADR)
Average rate paid for occupied hotel rooms on a daily basis.

The other reason that has been used to explain this phenomenon is the prestige, or lack thereof, associated with a less expensive or limited service hotel chain. Most managers and college graduates want to work for prestigious hotels such as the Four Seasons or the Ritz-Carlton rather than the economy or limited-service chains like Motel 6 or Econo Lodge. Managers either consciously or subconsciously adapt the hotel to be more like the chains that they aspire to, rather than exercise sound marketing strategies and planning. There is a similar pattern in the foodservice industry, with companies like Friendly's trying to move up the chain to be more of a casual dining restaurant than a quick-service restaurant.

Resource Allocation Models

It is important for firms to view themselves as a portfolio of products that both provide funds and need funds. Within the portfolio, some brands or items are in industries or categories that show strong potential for future growth, whereas

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Howard Johnson hotels have expanded beyond the economy hotel line into the middle market for full-service hotels. Courtesy of Wyndham Worldwide.

others don't show the same potential. In addition, some of the brands or items have strong positions in their industries or categories while others do not. These brands or items can be referred to as **strategic business units (SBUs)** because each is viewed as a separate entity with its own set of market conditions and competitors. All of a firm's SBUs will affect a firm's cash flow by providing a source of funds through revenues and using funds in the form of expenses to produce the product and compete in the marketplace.

Strategic business units (SBUs)

Brands or units that have their own sets of market conditions and competitors.

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Boston Consulting Group (BCG) matrix
Most common, straightforward resource allocation model used in marketing. The matrix contains four cells based on two axes. The horizontal axis is labeled relative market share and the vertical axis is labeled market growth rate. Each axis has two levels, high and low, resulting in four cells.

Relative market share
Relative market share refers to a firm's market share relative to its largest competitor.

Market growth rate
The market growth rate is usually based on average annual growth rate over the last few years, depending on the age of the industry, or category, and can be viewed as a proxy for industry attractiveness, or future growth potential.

A few variations of resource allocation models are similar in their matrix approaches. The cells within the matrix are classified using the SBU's ability to act as a source of funds (e.g., relative market share or competitive position) and its need for funds based on future growth potential (e.g., market growth rate or industry attractiveness). This process of plotting SBUs and determining the best sources and uses for funds will aid an organization in allocating its finite resources. The resource allocation process will be explained using the **Boston Consulting Group (BCG) matrix** because it is the most common, straightforward resource allocation model in marketing.

The BCG matrix is illustrated in Figure 8.3 with four cells based on two axes. The horizontal axis is labeled *relative market share* and can be viewed as a proxy for competitive position. **Relative market share** refers to a firm's market share relative to its largest competitor. The vertical axis is labeled *market growth rate* and can be viewed as a proxy for industry attractiveness or future growth potential. The **market growth rate** is usually based on average annual growth rate over the last few years, depending on the age of the industry or category. There are two levels, high and low, for each axis, resulting in four cells.

Two other factors are important in evaluating SBUs: the size of the circle and the placement within the cell. The size of the circle representing each SBU gives an indication as to the actual size of the unit measured in sales or volume. This is important because some SBUs may generate a good deal of revenue based on sheer volume but not look as attractive in terms of relative market share and market growth rate. The SBU's placement within the cell is also important because the axes represent a continuous scale even though

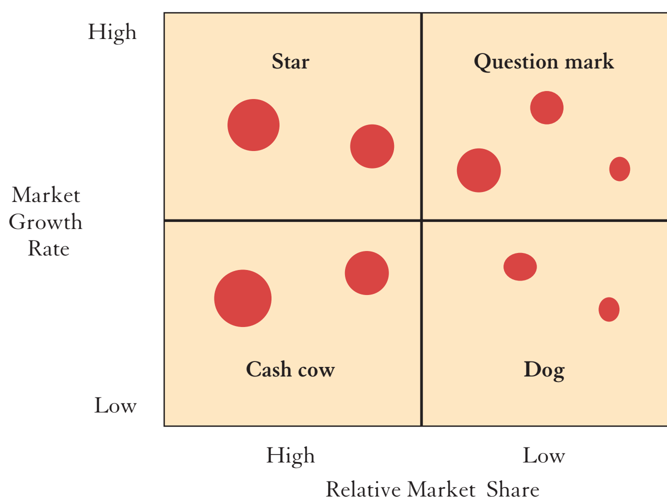

FIGURE 8.3 • *The Boston Consulting Group Matrix.* Reprinted from Long Range Planning, B. Hedley, "Strategy and the Business Portfolio," p. 12, February 1977, with permission from Elsevier Science.

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there are only two labels. Two SBUs could be on opposite sides of the same cell and should be viewed differently. The ensuing discussion will explain the characteristics and marketing objectives associated with each of the four cells.

QUESTION MARKS. The SBUs in the **question mark** category contain products and services that have low relative market shares in industries or categories with high market growth rates. This is a critical category for managers because either question marks can improve their market share or the growth rate in the industry could decline. At this point, these SBUs require a good deal of cash to increase sales and build market share. However, with limited available resources, not all question marks can be completely funded, and choices have to be made. If a question mark does not receive adequate funding, it is almost certain that its business position will not improve. Most question marks provide little or no positive cash flow and must be supported for growth or eliminated from the portfolio. SBUs in this category are often represented with relatively new products in new markets, creating a risky environment. For example, Darden Restaurants recently opened a new concept called Seasons 52 in 2003. The new concept is positioned to serve people who are health-conscious, a segment with good growth potential. However, the concept has just started to penetrate the market and has relatively low sales volume with only seven restaurants.

Question mark
Question marks represent a specific business unit in the Boston Consulting Group Matrix. This category contains products and services that have low relative market shares in industries with high market growth rates. This is a critical category for managers because question marks can either improve their market share or the growth rate in the industry could decline.

STARS. SBUs that are considered **stars** contain products with high relative market shares in industries or categories with high market growth rates. This is the second best category for producing positive cash flows, and the objective is to build these products. The SBUs' strong business positions and high market shares provide good returns and become strong sources of funds for the firm. However, they are in industries or categories that are experiencing high market growth rates. This will attract many competitors and require a high level of marketing expenditures in order for an SBU to compete and maintain its business position. Therefore, these SBUs are normally self-sustaining in that they don't require funds from other sources, but they aren't able to supply much in the way of excess funds for other SBUs. Olive Garden is a Darden Restaurants concept that has enjoyed strong growth and good market share over the past decade. The chain doubled sales from its inception in 1982 to 1994. It is the largest casual, full-service Italian restaurant in the United States and same restaurant sales have increased for 50 consecutive quarters. The increase in same store sales in 2006 was 6 percent with sales per restaurant of $4.6 million (all figures and dates were obtained from Darden Restaurants, Inc.'s Web site, http://www.darden.com/).

Stars
Stars represent a specific business unit in the Boston Consulting Group Matrix. This category contains products with high relative market shares in industries with high market growth rates.

CASH COWS. The SBUs in the category of **cash cows** contain products with high relative market shares in industries or categories with low market growth

Cash cows
Cash cows represent a specific business unit in the Boston Consulting Group Matrix. This category contains products with high relative market shares in industries with low market growth rates. Products or divisions that are cash cows are the best source for positive cash flows because they have strong sales in established markets.

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rates. Products or divisions that are cash cows are the best source for positive cash flows because they have strong sales in established markets. There is not much growth potential, and the risk of new competitors is low. Cash cows are used as sources of funds for the SBUs in the other categories, especially question marks. However, it is important that as much of the cash flow as necessary to maintain or hold the market shares for cash cows is kept within the division or SBU. They are the foundation of the firm's portfolio, making it possible to develop new products and take chances with other existing products. Red Lobster is in a saturated market with low growth potential, however, this Darden Restaurants concept still provides good cash flow. The chain was started in 1968 and a 3 percent increase in same restaurant sales in 2006, with an average $2.5 million in sales per restaurant.

Dogs
Dogs represent a specific business unit in the Boston Consulting Group Matrix. This category contains products with low relative market shares in industries with low market growth rates. Dogs are the least attractive category in the matrix.

DOGS. SBUs that are considered **dogs** contain products with low relative market shares in industries or categories with low market growth rates. Dogs are the least attractive category in the matrix. They generate low or negative cash flows because of their poor business positions and the low rate of growth in their markets. These SBUs are drains on the firm's resources and should be phased out or divested. Marketing expenditures should be decreased unless there is some potential for repositioning the product. Most firms will try to sell these divisions and products to companies that are better equipped to market them while they are still viable. Darden Restaurants has two concepts that aren't meeting their performance expectations. The restaurant company is working on repositioning the Smokey Bones concept that had a decrease in same store sales for the first half of 2007. Bahama Breeze showed a slight increase in same store sales for the first half of 2007, but there are only 23 restaurants in the chain and current financial performance is an issue.

Menu Sales Mix Analysis

Menu sales mix analysis
The simplest method used to evaluate menu effectiveness is to count the number of times that each item is sold.

Point-of-sale systems
A computerized system for recording sales and transactions.

Numerous methods can be used to evaluate menu effectiveness. The selection of one method over another is usually a function of time and money. The simplest method used to evaluate menu effectiveness is to count the number of times that each item is sold. This method is commonly referred to as **menu sales mix analysis**. In most food service operations today, this information is readily available from the detailed tape printout and spreadsheet files produced by **point-of-sale (POS) systems**. Based on this information, management can add or delete menu items or change the merchandising focus of the menu. Another common approach is a comparison with menu census data. Menu census data allow management to compare sales figures and sales trends with regional and national data.

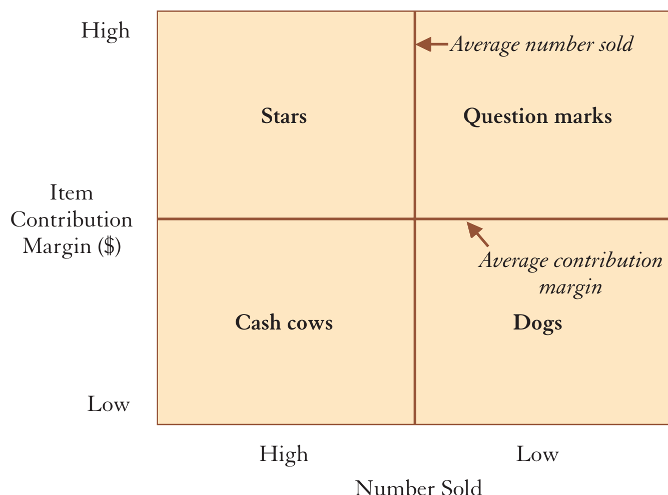

FIGURE 8.4 • *Sales mix analysis matrix.*

A more sophisticated approach, referred to as **menu engineering**, would be to perform an in-depth analysis of the menu items, including their sales and costs. In the case of a menu, each item is treated as its own strategic business unit. The two axes are item contribution margin in dollars and the number sold of each item. Items with larger contribution margins would be considered good growth prospects that warrant more marketing effort and resources. Items with larger sales figures would be considered high-share items and a good source of revenue. The axes would be divided to form four quadrants using the average contribution margin and the average number sold (see Figure 8.4).

Menu engineering
Analysis of menu items based on cost, volume, and profitability.

Each menu item would be plotted on the matrix based on its contribution margin and the number sold during the time period in question. Based on these two criteria, menu items are classified as dogs, question marks, stars, or cash cows. Each quadrant has some baseline strategies that can be used for the menu items that are positioned in it. Once again, this is similar to the Boston Consulting Group's growth-share matrix. There are other variations of this methodology, but this one was chosen because it is consistent with the approach used in product management. The important thing to remember is that any approach should take into account food costs, food prices, and sales volume. In this case, the contribution margin is the difference between menu price and food cost.

The menu items classified as dogs have low sales volumes and low contribution margins. They don't warrant much attention and should be placed in less desirable locations on the menu. In an attempt to increase the contribution margin, management can consider raising the prices on these items and/or lowering the food costs of preparing the items. In the long run, management should

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consider finding a substitute for this item. The substitute could be an item that is already on the menu that can be promoted, or a new item that can be added to the menu to take its place. If the contribution margin cannot be improved, then the item may need to be removed from the menu.

The menu items classified as question marks have low sales volumes and high contribution margins. They have the potential for growth and should receive management's attention. Given the high contribution margin, an increase in sales volume would greatly benefit the restaurant. These items should be placed in prime locations on the menu and be strongly promoted. For example, waiters could be instructed to focus on them in their suggestive selling, and the items could be highlighted on table tents and other in-store promotions. Other strategies that could be employed include making one a signature item, or offering special deals to create awareness and trial.

The menu items classified as stars have high sales volumes and high contribution margins. They should occupy prime locations on the menu and be a major focus of promotional efforts. These menu items should be promoted through in-store displays and suggestive-selling efforts. It is important to maintain current levels of quality and price. Any significant changes could hurt the sales of these items, which would impact greatly on the profitability of the restaurant. These menu items are often signature items for restaurants and should be carefully managed until newer items (i.e., question marks) can be phased in.

The menu items classified as cash cows have high sales volumes and low contribution margins. They tend to be menu items that have been around for a while, and in many cases, they are used as loss leaders because they attract customers and are often signature items (e.g., Burger King's Whopper). Management should experiment with price increases or ways to decrease food costs. However, if customers are sensitive to changes in price, it is advisable to focus more on costs. For example, management could decide to substitute less expensive ingredients or serve smaller portions, thereby increasing the contribution margin. In the long run, it is possible to find different items that are similar and offer larger contribution margins. Over time, these menu items can be moved to less prominent locations on the menu.

Resource Allocation Models and the Product Life Cycle

There is a relationship between resource allocation models such as the BCG matrix and the product life cycle. The two dimensions in the product life cycle are time and annual sales. The stages are based on the rate of sales

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growth over time. The two dimensions in resource allocation models are competitive position or market share and industry attractiveness or market growth rate. The underlying premise of the resource allocation models is that products evolve from question marks into stars and then into cash cows. When the market stops growing and/or the product loses market share, it will move into the dog category, where it is eventually divested. This is similar to a product's movement from introduction (question mark) through a growth stage (star) to maturity (cash cow) and eventually into decline (dog). In addition to the similarities in evolution or movement through the matrix, the two concepts share similar characteristics and strategies. Question marks are often new products, like those found in the introduction stage having negative cash flows but good growth potential. Stars experience rapid growth and start to realize positive cash flows, like products in the growth stage. Cash cows have large sales volumes and market shares, resulting in large cash flows, like the products that survive the maturity stage. Finally, dogs have low market shares and decreasing cash flows, just like products in the decline stage.

Marketing strategies are also similar. Marketing expenditures are greatest for question marks and stars, like products in the introduction and growth stages. Money is spent selectively to hold market share during the maturity phase and for cash cows, whereas marketing expenditures are very low for dogs and products in decline. Finally, both concepts can overemphasize the importance of new product development to the detriment of existing products. Many companies have survived with cash cows and products in the maturity stage over a long period of time. Many local or regional food chains, airlines, and large hotel chains such as Sheraton and Holiday Inn have survived with minor product extensions over their respective life cycles.

MANAGING IN THE SERVICE ENVIRONMENT

As discussed in Chapter 2, certain characteristics are associated with services that distinguish them from tangible products. Most of these characteristics stem from the fact that services are intangible. In other words, services cannot be held, inspected before purchase, or inventoried. As a result, the consumer is actually part of the production process, making it difficult to maintain the consistency and efficiency that a firm can experience in the manufacture of tangible products.

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Conflicts between Operations and Marketing

Within any service-based organization there are bound to be conflicts between those responsible for sales and marketing and those with operational responsibilities. In virtually every hotel, those working in operating departments could share stories of how sales and marketing personnel have made promises to clients that were impossible to fulfill to the satisfaction of the client. For example, hotel salespeople will sometimes price meals for a banquet below the benchmark set by the catering department in order to book a group into the hotel. Similarly, sales and marketing personnel could share stories of how the operating personnel were inflexible and cost them business. One of the best ways to keep the conflicts to a minimum is to try to look at things from the other person's perspective.

Sales and marketing personnel tend to view the world from a revenue perspective. That is, everything that they attempt to do is targeted toward increasing revenue. Every new group that is booked into the hotel is seen as additional revenue. If a promotion is developed to increase the number of covers served in the dining room, the goal is to increase revenue. From this perspective, it is best to have many options and flexibility in providing a service.

Operations personnel, on the other hand, tend to view the world from a cost containment perspective. All efforts are focused on increasing efficiency and reducing costs to the lowest level that will keep the operation running smoothly. The main objective of production and operations is to standardize as much as possible and lower the cost per unit of providing a service. Both sales and marketing and operations want to increase profits, but they focus on different components of the profit equation.

When it comes to offering expanded products and services as a means of gaining a competitive advantage, the sales and marketing staff will be eager to offer many alternatives. However, they may not stop to think how the new products and services will integrate with those that already exist. Operations personnel will tend to take a very conservative point of view, trying to keep the operation as simple and straightforward as possible. Some of the conflict between the two functions stems from the way each is evaluated. A salesperson's performance is based on generating revenue and meeting quotas, whereas people in operations are rewarded for lowering costs and maintaining quality control. There isn't much incentive for the two departments to work together, even though a joint effort would benefit the company as a whole.

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Christopher Lovelock recommends five ways that managers can be persuaded to build bridges between the functional areas:[2]

1. **Transfer managers across functional areas.** In other words, have them work in different departments so that they gain an understanding of the nuances of each area.
2. **Create cross-functional teams.** Top management's goal should be to build on the energy of managers who have been working in different departments instead of letting their energies evolve into internal disputes.
3. **Cross-train associates to perform a broader variety of tasks.** Moving hourly associates across departmental lines can serve to break down barriers and build relationships that can help the departments work together more effectively.
4. **Delegate authority to individual units.** Historically, operational managers in the hospitality industry have focused on cost containment. By transforming cost centers into profit centers and empowering managers and associates to take greater responsibility for both revenue generation and spending decisions, managers and associates focus more on the big picture.
5. **Institute gain-sharing programs.** Allowing managers and associates to share in the results from improved profits provides an incentive to continue to seek better ways to operate the business.

Managing Supply and Demand

Managing supply and demand in a service organization such as a hotel or restaurant is very difficult. Demand for services comes in waves and often is not as consistent as one would like. The demand may be seasonal, as with a resort hotel, or it may fluctuate by time of day, as with restaurants. It might also fluctuate by day of the week, as is the case with business-oriented hotels that are busy Monday through Thursday but quite slow on Friday through Sunday. Managing the fluctuations in demand and the corresponding supply is perhaps one of management's greatest challenges.

Two calculations can be used to evaluate the extent to which the supply and demand is being successfully managed: **asset revenue generating efficiency (ARGE)** and **revenue per available room (REVPAR)**. ARGE evaluates the relationship between actual revenue and maximum potential revenue. For example, within a hotel operation, ARGE takes into account the occupancy

Asset revenue generating efficiency (ARGE)
ARGE evaluates the relationship between actual revenue and maximum potential revenue. For example, within a hotel operation, the ARGE will examine the occupancy percentage and the average daily rate to determine the extent to which the revenue potential is being realized.

Revenue per available room (REVPAR)
REVPAR is calculated by multiplying the average daily rate by the occupancy percentage.

percentage and the average daily rate to determine the extent to which the revenue potential is being realized. Suppose that a hotel has 400 available rooms each day with a rack rate of $100. If all of the rooms were sold each day at this maximum rate, the maximum daily revenue would be $40,000. However, it is rare that a hotel would be able to do this consistently. Assume that over a period of time, say, a month, the hotel achieved a 68 percent occupancy rate and had an average daily rate of $75. This means that on average, 272 rooms were sold each day at an average daily room rate of $75, resulting in total revenue of $20,400. Next, the total daily revenue is divided by the maximum potential daily revenue of $40,000, resulting in an ARGE of 51 percent [(20,400/40,000) × 100]. The ARGE is useful as an evaluation tool for sales and marketing personnel because it measures performance against potential revenue at full capacity.

REVPAR, or revenue per available room, is calculated by multiplying the average daily rate by the occupancy percentage. For example, if a hotel has an average daily rate of $85 and is running an occupancy percentage of 75 percent, then the REVPAR would be $85 × 0.75 = $63.75. This figure, like ARGE, accounts for the amount of unused capacity. An alternative calculation would be to multiply the average daily rate by the number of occupied rooms to get the total room revenue, and then divide total room revenue by the total number of rooms in the hotel to get the REVPAR. The main difference between ARGE and REVPAR is that REVPAR does not compare actual revenue to maximum potential revenue. However, REVPAR does give a measure that can be tracked over time to assess the hotel's performance. Higher values of REVPAR would denote more effective use of available resources. One of the major issues facing service industries such as hospitality and tourism is the inability to inventory the product. Unused capacity is lost forever when there are empty hotel rooms, tables in restaurants, or seats on airplanes. The following strategies can be used to manage supply and demand.

MODIFY PRICE. Prices can be used to transfer demand from peak periods to nonpeak periods. Many restaurants in tourist areas use "early bird" prices to encourage price-sensitive consumers, such as families and senior citizens, to eat earlier. Restaurants are able to offer a limited selection of meals at lower prices, enabling them to purchase and prepare in larger, more efficient volumes. This shifts the demand to a period when there are empty tables and the customers can be easily accommodated. This results in less waiting and fewer people turned away during the peak period between 7 P.M. and 10 P.M. Firms can also raise prices during peak demand periods in an effort to shift demand to nonpeak periods. Hotels and fine-dining restaurants use this practice to maximize the potential revenue from limited capacity.

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DEVELOP PROGRAMS TO BOOST NONPEAK DEMAND PERIODS. When the fast-food companies first began operation, they were open only for lunch and dinner. They did not offer breakfast. After many years of operation, most began to develop breakfast programs that resulted in a very significant increase in total revenue. This represents an example of how fast-food restaurants stimulated demand during a nonpeak period. In the case of fast-food companies that did not have any type of breakfast menu, they were stimulating business during a zero-volume period. Business-oriented hotels adopt the same sort of strategy when they offer special weekend rates and packages to boost occupancy during low-demand weekends.

SHIFT DEMAND THROUGH RESERVATIONS. All of the major hotel chains maintain toll-free telephone reservation services. If demand for a particular location exceeds capacity, rather than losing the business they will simply offer to make a reservation at a hotel that is close to the desired location. If a hotel company operates multiple brands and the hotel at which the guest is seeking a reservation is full, the reservations agent will offer to make a reservation at a nearby hotel that is owned, franchised, or operated by the same company. For example, if a customer wants to make a reservation at a Quality Inn and all of the rooms are reserved, the reservations agent would try to make a reservation at a nearby Comfort Inn or a Sleep Inn because they are part of the same organization. In this way, the company still realizes the revenue, while providing a valuable service to the guest.

INCREASE PERSONNEL EFFICIENCY. By using part-time employees and cross-training employees to perform two or more jobs, management can improve employee productivity. Restaurants can decrease the time required to take orders and prepare meals, enabling them to serve more customers in the same time period.

INCREASE CONSUMER INVOLVEMENT IN SELF-SERVICE ASPECTS OF THE SERVICE DELIVERY SYSTEM. Service firms are able to decrease labor costs and increase supply by having consumers become more involved in the service delivery process. A common trend in restaurants is to offer buffet-style service. In fact, this is one of the methods used by many of the food service operations at Epcot Center in Disney World to increase capacity, revenues, and profits. The airline industry has also tried to reduce costs by allowing customers to make their own reservations and seating assignments via the Internet. In some cases, customers are actually given bonus miles for their frequent flyer accounts when they use the airline's Web site to make reservations.

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chapter review

Summary of Chapter Objectives

The product–service mix is an important component of a firm's marketing program. The other strategies (price, promotion, and distribution) are used to provide further assistance in positioning the brand in conjunction with the product–service mix. All of the strategies are based on the customers' wants and needs and the trade-offs that are necessary to offer a competitive product. When managing a product or service, it is necessary to consider all of the product levels: the core product, the facilitating products, the supporting products, and the augmented product.

The product life cycle can be used to develop marketing strategies that are appropriate for the product or service throughout its useful life. Products evolve from introduction through growth into maturity and eventually decline. History shows us that certain marketing strategies or actions are more appropriate in certain stages in the life cycle. The pros and cons of the product life cycle were presented, as well as ways to extend the product life cycle and the use of the life cycle concept for tourist areas. The wheel-of-retailing concept was introduced to explain why firms change their product–service mixes over time and make room for new competitors at the low end.

Resource allocation models were introduced, and the Boston Consulting Group (BCG) matrix was presented in some detail. These types of models are useful to firms in establishing marketing budgets and developing marketing strategies in an attempt to achieve the firms' overall goals. Each strategic business unit has a unique set of conditions and competitors that must be monitored so that the firm can analyze cash flow. Resource allocation models can be used by restaurants in menu sales mix analysis and menu engineering.

Finally, some issues unique to the managing of services were discussed in this chapter. Most of the problems stem from the fact that services are intangible and cannot be inventoried. Therefore, it is crucial that firms concentrate on managing supply and demand so they can maximize potential revenue. Customers are an integral part of the service delivery process and should be included in the product–service mix strategy.

Key Terms and Concepts

Asset revenue generating efficiency (ARGE)
Augmented product
Average daily rate (ADR)
Boston Consulting Group (BCG) matrix
Cash cows
Core product
Decline stage
Dogs
Economies of scale
Facilitating products
Growth stage
Introduction stage
Market growth rate
Marketing strategy
Maturity stage
Menu engineering
Menu sales mix analysis
Peripheral services
Point-of-sales systems
Product levels
Product life cycle
Question marks
Relative market share
Resource allocation models
Revenue per available room (REVPAR)
Stars
Strategic business units (SBUs)
Supporting products
Wheel of retailing

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chapter review

Questions for Review and Discussion

1. What are the four levels of a product? How can peripheral services be used to gain a competitive advantage?
2. What are the stages of the product life cycle? What are the characteristics of each stage?
3. What do you see as the advantages and disadvantages of using the product life cycle as a marketing tool?
4. How should a business go about developing a strategy for various stages in the product life cycle? What techniques are most appropriate for the various stages?
5. What are some of the ways to extend the product life cycle? Of these techniques, which one do you think is most useful? Why?
6. What is the wheel of retailing? Does it apply to the hospitality industry?
7. What is menu sales mix analysis?
8. What are Lovelock's recommendations for reducing the conflicts between sales and operations?
9. What are the methods for managing supply and demand? Which methods are capable of increasing capacity for hospitality firms?
10. What are resource allocation models? How are they related to the product life cycle?

Notes

[1] Jeff Higley, "The Name Game," *Hotel & Motel Management* (February 1, 1999), p. 36.

[2] Christopher H. Lovelock, *Product Plus: How Product + Service = Competitive Advantage* (New York: McGraw-Hill, 1994), pp. 351–352.

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case study

Case Study

Starbucks Coffee

The following quote is from the Starbucks Coffee Web site (www.Starbucks.com) and it describes its current business. The information regarding the number of units in operation over Starbucks Coffee's life cycle was taken from the "Timeline" provided on the Web site.

"Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment—primarily through its company-operated retail stores. In addition to sales through our company-operated retail stores, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino® coffee drink and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world. The following table contains the year-end number of units in the Starbucks chain since 1987.

Year	Units
1987	17
1988	33
1989	55
1990	84
1991	116
1992	165
1993	272
1994	425
1995	677
1996	1015
1997	1412
1998	1886
1999	2498
2000	3501
2001	4709
2002	5886
2003	7225
2004	8569
2005	10241
2006	12440

Case Study Questions and Issues

1. In what stage of the product life cycle was Starbucks brand as of 2006? Explain your answer.
2. What product category would describe the Starbucks brand? What other companies would you consider direct and indirect competitors for Starbucks, and why?
3. In 2008, Starbucks announced plans to close over 600 of its stores, most of which were opened in 2006. What led to this decision?
4. What future strategies would you suggest for the Starbucks brand?

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