

CHAPTER 1

INTRODUCTION

1.1 Statement of the Problem

Bhutan is regarded as one of the most exclusive tourist destinations in the world, and Bhutan is ranked among the top ten global hot spots in conservation of biodiversity. Recently Bhutan has won leadership awards in conservation and Champion of the Earth Award. Thus, tourists perceive Bhutan as a remote and isolated, dream destination with an exotic, unspoilt, and unique culture.

One of the destinations that is worth visiting in Bhutan is the Thimphu district, which is the capital of Bhutan. In the Thimphu district, there are many interesting sites to visit such as the Trashi chhoe dzong (the fortress of glorious religion), the school of arts and crafts, and the traditional medicine institute. Another major district worth visiting, which is two hours drive from Thimphu district, is Paro, known for its old historic structures. Places to visit in Paro are monasteries, the National Museum, dzongs (fortress), traditional houses and temples. More over, Bhutan's international airport is located in this district. Finally, other destinations include Phobjikha district, which is famous for its wild life reserve.

The main products and services offered for tourists are cultural experiences and trekking. Other activities offered for the interest of tourist are sight seeing, hiking, nature, bird watching, agricultural practices and rituals, botanical tours, Buddhist teaching and meditation, unique culture, local products, mountain bike touring, rafting and kayaking, and traditional games.

Bhutan's government is aware of the impact of unlimited tourists on Bhutan's unique culture and environment; therefore, a policy of 'high value-low volume' tourism has been adopted. Although there is no fixed quota or limited number, the volume of tourists coming to Bhutan is limited by the inadequacy of tourism infrastructure, high tariffs charged by the government, and lack of marketing promotions.

The Tourism industry in Bhutan was promoted after the Royal Coronation of the Fourth King in 1974. After realizing that hotels used for that event could be used for tourists, from then onwards the business of hotels came into operation. The oldest hotel in Bhutan, the Olathang Hotel, was established in 1974. Now, there are a total of two

hundred and twenty nine hotels, of which seventy four properties were registered and categorized by the Department of Tourism (DoT) as grades A, B, and C class. Hotels are categorized on the bases of quality and services .The non-Indian and Indian tourists who come through travel agents are accommodated in these graded hotels.

It is a compulsory policy for non-Indian tourists to pay a *tariff* of two hundred dollars during peak season, and one hundred and sixty-five dollars during low season per head each day. Smaller groups pay daily surcharges of forty dollars per person for individuals travelling alone; thirty dollars per person for groups of two travelling together; and twenty dollars per person for groups of three travelling together .The tariff covers all costs of accommodation, food, transport, and guide fees. However, not included in the tariff are the cost of flight tickets, Visa fees of twenty dollars, airport tax of ten dollars, and drinks.

The other citizens, such as Indians, Bangladeshis, and Maldivian tourists, are allowed to enter the country without visas. For the Indian tourists, daily tariffs are exempted and they are not analysed or published in the visitor statistics. Only records of the Royal Monetary Authority of Bhutan showed that 11,000 Indian tourists visited in the year 2004 (DoT, 2005).

In the year 2000, the number of tourist arrivals was 7,559, with a slight decrease to 5,599 in 2002. However, in 2005 numbers of tourists drastically increased to 13,626. In the five-year plan, the targeted number is to have 15,000 tourists arrive by 2007. In addition, the tourism industry hopes to target approximately 20,000 tourists in 2012 and 55,000 tourists in 2017. It should be noted that the maximum length of stay by international tourists is eight days with the exception of Japanese tourists (six days); Swiss (eleven days); Australian (nine days); and Indians (7 days).

In 2004, the foreign exchange revenue earned from tourism was USD 12.5 million. Tourism is the second revenue earner after hydropower DoT (2005)

Table 1.1 Foreign Exchange Earning by Tourism Industry

Year	Gross amount USD	Govt revenue USD	Tourism dev. fund & 20% change USD	Operators net profit USD
2001	91,957,63.20	32,884,76.05	76,479.60	5,715,921.40
2002	7,980,281.77	2,775,613.48	116,262.00	4,985,769.04
2003	8,324,010.85	2,922,207.84	127,756.00	5,167,396.07
2004	12,502,689.4	4,346,485.74	182,748.00	7,757,344.15

Source: DoT (2005)

In the past few years, out of twenty districts in Bhutan, about 56% of bed nights were spent by tourists in both Paro and Thimphu districts. The months of March, April, May, September, October and November are considered high season attracting 83% of overnight stays. The months of January, February, June, July, August and December, however, are the low season months with only 17% overnight stays. Cold winters and wet summers cause disruptions in flight schedules and heavy landslides which block roads and are thus, the main reason for the uneven distribution of tourists (DoT, 2005). For this reason, there needs to be more aggressive marketing strategies to increase tourist arrivals in these months.

Table 1.2 Hotels and Bed Nights for International Tourists in Year 2004

Location	A&B grade hotel	No of beds	Nights	Occupancy rate
1. Thimphu only A and B grade hotels	10	417	16,408	10.78
2. Paro only A and B grade hotels	9	397	13,943	9.62
3. Punakha, Wangdi, P/ling only A and B	6	233	11,804	13.88
4. Bumtang including C grade hotels	11	354	9111	7.05
Total	36	1401	51269	10.03

Source: DoT (2005)

Table 1.2 shows number of hotels in Thimphu, Paro, Wangdiphodrang, Punakha and Bumthang, which is much higher than the number of tourists arrivals and bed nights, excluding bed night use by non-Indians tourists. Due to this low occupancy rate during the off-season, hotel owners employ mainly seasonal labor and untrained employees which, unfortunately, hamper the quality of services and products offered.

Those hotels in western Bhutan (Thimphu, Paro, Punakha, wangdiphodrang district) are situated in good locations with a calm atmosphere. The products offered by hotels in Bhutan are: restaurant and bars, souvenir shops, conference halls, swimming pools, spa and salons, traditional hot stone baths, and fitness clubs.

DoT (2005) has given a list of problems faced by hotels in Bhutan. For example, a lack of sanitation facilities is the main issue. Secondly, emphasis is placed on low quality of food and less variety on the menu. In particular, foreign tourists who have come through travel agents are provided buffet meals for the whole trip and most of them have complained about it. In addition, many tourists criticize the shortages of hot water for taking showers, poor quality of service, and low quality of basic amenities, like mattresses. The Lonely Planet Guide has criticized Bhutan's gastronomy saying; "Menus in Bhutan in many restaurants are a fantasy concocted of the ingredients a restaurant would like to have and what is actually on their shelves" (Armington ,2002).

In order to solve all these problems, hotels in Bhutan should focus on existing products and marketing strategies to develop value added products and services for hotels in Bhutan. Hotel managers need to have a deep knowledge of customers' needs, behaviors and preferences. They should also be aware of the ways in which the services delivered create value for the customers and then stimulate their retention and loyalty. Chaisawat (2006) pointed out that the development of value added tourism products will encourage tourists to pay more in exchange for the benefits they receive.

Therefore, it is crucial to study the creation of value added products and services for hotels in Bhutan.

1.2 Related Literature

This purpose of this survey research study is to develop marketing strategies that will highlight created value-added products and services for hotels in Bhutan. The research survey took place in six districts of Bhutan, as most of the hotels are located in these districts. The related concepts, theories, and related research data was collected in order to support this study.

The Literature review comprehensively covers these topics:

- Overview of Hospitality Industry in Bhutan
- Concepts and Theories Relevant to Hospitality Products and Services
- Concept and Theories Relevant to Develop Value Added Products and Services
- Concept and Theories Relevant to Tourist Market and Behaviour
- Concepts and Theories Relevant to Decision-Making Process
- Review of the Concept of Guest Satisfaction
- Concept and Theories Relevant to Hospitality Marketing Strategies
- Related research

1.2.1 Overview of Hospitality Industry in Bhutan

From 129 hotel properties, only 74 hotels/resorts were categorized by DoT, and the rest were sub-standard hotels, which were not categorized by the department of tourism (DoT, 2006). Hotels and lodges provide permanent employment to 820 staffs, and during peak season hire a temporary staffs. Most of the staffs in B and C grade hotels are below high school level education or uneducated (DoT, 2005).

Hotels and lodges are currently regulated by DoT and categorized as A, B, and C grade hotels for non-Indian and Indian tourists. These three categories of hotels products and services differ in their variety and standard (DoT, 2002).

A list of products and services provided by A grade hotels are: 25 to 54 rooms, Deluxe, suite and single, which are fully equipped with a range of amenities including internal heating system and traditional Bhutanese fireplace, free-TV and pay-

Internet access. Other products and services provided by the hotel are restaurant and bar, spa and fitness club, swimming pool, outdoor and indoor sports, salon, souvenir shop and traditional stone bath facilities. All employees are educated and well trained and the service provided is of international benchmark standard. The rate of rooms ranges from USD 150 to USD 1,200.

Products and services provided by B grade hotels are: 14 to 20 rooms, Deluxe, suite and single providing facilities like pay- Internet access, free-TV, and pay telephone services. The rate of room is USD 13.33 to USD 88.88. Products offered are restaurant and bar, souvenir shop, and Salon. Most of the employees are high school and junior high school dropouts. They are not well trained like A grade hotel employees.

Products and services provided by C grade hotels are: 11 to 13 rooms with minimal facilities comparing to A and B grade hotels. Rates of room range between USD 8.88 to USD 22.22. They provide only restaurant and bar. Employees have primary school education or “no education”.

Table 1.3 Occupancy of Registered Hotel

Dzongkha /district	A grade			B grade			C grade		
	Available beds	Beds occ	Occ% of A	Available beds	Beds occ	Occ% of B	Available beds	Beds occ	Occ % Of C
Paro	11,160	6,690	59.95	12,369	2,288	18.50	1,023	31.00	3.00
Thimphu	9,461	5,999	63.40	10,835	1,835	16.90	0.00	0.00	0.00
Bumthang	0.00	0.00	0.00	7,502	2,740	36.50	8,649	667	7.70
Punakha	496	376	75.80	4,309	2,366	54.90	0.00	0.00	0.00
wangdi	1,829	990	54.10	3,503	2,242	64	496	24.00	4.80
Trongsa	0.00	0.00	0.00	3,596	1,099	30.60	0.00	0.00	0.00
chhuka	1,705	597	35.00	1,953	286	14.60	0.00	0.00	0.00
Trahigang	0.00	0.00	0.00	0.00	0.00	0.00	1,302	39.00	3.00
mongar	0.00	0.00	0.00	0.00	16.00	0.00	930	212	22.80
Haa	0.00	0.00	0.00	0.00	161	0.00	341	4.00	1.20
S/Jongkha	0.00	0.00	0.00	0.00	94.00	0.00	1,302	39.00	3.00
Total	24,651	14,652	288.30	14,652	13,127	236.00	14,043	1,016	42.50

Source: Norbu (2006)

Table 1.4 Occupancy of Unregistered Hotel and Campers Bed Nights

Dzongkha/district	Unregistered Hotel (bed Used)	Campers (Bed used)
Paro	65	2,635
Thimphu	118	390
Bumthang	91	579
Punakha	0	1,012
Wangdi	89	149
Trongsa	13	130
Chhuka	0	0
Trahigang	19	0
Mongar	83	0
Haa	0	383
S/Jongkha	19	0
Total	497	5,278

Source: DoT (2006)

Despite the very low occupancy rates in most of the districts, investors continue to invest in accommodation that directly endangers the existing properties. According to international benchmark for Bhutan, which is 70% in a year, an average occupancy rate of 31.3% in October 2006 is substantially low, which has a huge impact on the employment sector.

DoT (2005) shows that most tourists criticized the poor quality of sanitation facilities in the hotel, poor food quality, hot shower shortages, customer service and hygiene which are not up to acceptable price-quality ratio. Dissatisfaction with accommodation creates strong negative impact on the overall satisfaction of the trip to Bhutan. A recent survey of visitor's expectation and satisfaction showed that buffet style food is one of the major problems and people do not want to revisit Bhutan.

Table 1.5 Occupancy Rate Comparisons between Different Grade Hotels in October 2006

District/Dzongkha	Categories			Total rooms	Total beds	Monthly total beds	Bed nights	Occupancy rate
	A	B	C					
Paro	5	11	1	425	792	23,760	11,698	49.20%
Thimphu	6	10	0	392	640	19,200	8,342	43.44%
Bumthang	0	7	7	273	521	15,360	4,077	26.54%
Punakha	1	3	0	82	155	4,650	3,754	80.73%
Wangdi	2	3	1	88	172	5,160	3,494	67.71%
Trongsa	0	3	0	62	116	3,480	1,242	35.68%
Chhukha/P-Ling	1	3	1	107	158	4,740	1,083	22.84%
Trashigang	0	0	2	21	42	1,260	376	29.84%
Monggar	0	1	1	25	44	1,320	311	23.56%
Haa	0	1	1	18	35	1,050	548	52.19%
S/Jongkhar	0	1	2	39	71	2,130	152	7.14%
Zhemgang	0	0	0	0	0	0	0	-
Gasa	0	0	0	0	0	0	0	-
Lhuentse	0	0	0	0	0	0	0	-
Total	15	43	16	1,532	2,746	82,110	-	-

Source: DoT (2006)

NB: A= Grade 'A' hotel

B= Grade 'B' hotel

C= Grade 'C' hotel

Table 1.5 showed the maximum bed nights by “dollar paying tourists” in the year 2006 where base month is taken as October. In this month, the occupancy rate is a bit higher because of the large number of Indian tourists, while the average for the whole year is likely to be lower.

In October 2006 highest bed nights month was in Punakha district with 80.73%. Only 11,698 bed nights were spent in Paro out of 23,760, thus showing occupancy rate of 49.2%. Thimphu had 43.4%; Bumthang had 26.5% occupancy rate and others even lower. The average occupancy rate for the whole year is much lower. The months of January, February, June, July, August and December are the low seasons with only 17% overnight stay that needs more aggressive marketing strategies. Sustainable

tourism development must first target an increased occupancy rate and better use of the existing resources to achieve the targeted sustainable occupancy rate of 55%.

DoT (2005) emphasized that the improvement of the existing products is important for further development. For Bhutan to become more competitive on the international level, hotels and accommodations must meet the international standards. Improvement of the entire hotel industry is therefore of high importance. To increase revenue for a hotel and encourage tourists to stay for a longer duration, hotels in Bhutan need to:

- Immediately improve the poor quality of sanitation facilities
- Better train hotel staff as they lack customer service, maintenance of hygienic standards and other basic skills
- Improve the quality of food and variety provided on the menu
- Improve basic amenities (mattress, hot shower)
- Develop new products to increase occupancy rate during off-season, and
- Develop products to increase the number of repeat visitors and keep them for a longer duration.

1.2.2 Concepts and Theories Relevant to Hospitality Products and Service

Enis and Roaring (1981, p.17) define “product” as “Any bundle or combination of qualities, processes and capabilities (goods, services and ideas) that a buyer believes will deliver satisfaction”.

Gabbott and Hogg (1998, p.22) say that, “Product is multi-dimensional and dependent upon how the buyer responds to different facets of the offering”.

“A product is anything that can offer to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, places, organization, and ideas”, (Kotler et al, 2003, p.302).

Kotler et al (2006) defines “product” as the idea that consumers will favor products that offer the most quality, performance, and features, and therefore the organization should devote energy to making continuous product improvements.

After going through all the above definitions, “product” is defined as anything that delivers satisfaction to the customers. If all the products and services offered by the hotel are above expectation, then the customer is satisfied. If products offered are below expectation, the customer will be dissatisfied. Moreover, if products and services offered matches expectation, customers are satisfied. If products and services offered are, highly above customer expectation, they will be highly satisfied. For the satisfaction of customers, hospitality managers should take four levels of product into account as follows (Kotler et al, 2003):

- **Core product** – the most basic level of product where the marketer must show the core benefit of every product to the consumer and sell these benefits rather than merely selling features.
- **Facilitating products** – those services or goods that must be present for the guest to use the core product. A first class hotel must have check-in and checkout services, telephones, a restaurant, and a valet service and most important is accessibility.
- **Supporting products** – are extra products offered to add value to the core product and help to differentiate it from the competition. Supporting products in a corporate hotel are a business centre or full service health spa to draw customers to the hotel.
- **Augmented products** – include accessibility, atmosphere, customer interaction with each other. It is very important that hospitality and travel services require co-production of the services.

All these product levels are important for satisfaction of guests. As defined by Leavitt (1986) “Products are a complex cluster of value satisfaction”.

Beyond products offered, hotel managers should also give importance to the performance of “services”. For example, if the food offered by the hotel is very good, but the food server’s attitude is not good, the customer will quickly notice and will not be happy with the performance of the hotel. This will create a bad impression of the hotel. As defined by Kotler (2003) “services encompasses any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything”.

Lewis, Chambers, and Chacko (1995) define service as non-physical, intangible attributes that management clearly does, or should, control. One of the most important tasks of the hospitality industry is to develop the service side of the business, specifically, a strong service culture. The service culture focuses on serving and satisfying customers and has to start with top management and flow down to the lower level employees. A service culture empowers employees to solve customer problems. Those employees who go to certain extraordinary efforts to satisfy the customer need to be rewarded or made employee of the year.

Kotler (2006) describes service as an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and the service employee and physical resources or goods and or goods and or systems of the service provider, which are provided as solutions to customer problems.

In addition, Kotler et al (2003) states that the service marketer must be concerned with four characteristics of services: intangibility, inseparability, variability, and perishability.

(1.) Intangibility: In the hospitality industry, intangible services cannot be tried out, inspected or tested in advance. Nevertheless, the hospitality industry should try to 'tangibilise' promises of delivery. For example, to 'tangibilise' drinking glasses, hotels can wrap drinking glasses in fresh bags, or indicate that the toilet is clean by neatly shaping the end piece of toilet tissue into a fresh looking arrowhead to indicate with clarity that the 'product' has been prepared for use or comfort. The hotel manager should be very careful about intangible service that creates impressions on hotels and attracts guests.

(2.) Inseparability: the hospitality services, both the service provider and the customer must be present for the transaction to occur. Customer-contact employees are part of the product. The food in a restaurant may be outstanding, but if the service attendant has a poor attitude or provides inattentive service, customers will be unsatisfied and grade the overall restaurant experience as low. They will not be satisfied with their experience and would not return back the next time.

(3.) Variability: Services are highly variable. Their quality depends on who provides them and when and where they are provided. Services are produced and

consumed simultaneously, which limits quality control. Customers usually return to a restaurant because they enjoyed their last experience. When the product they receive is different and does not meet their expectations on the next visit, they often do not return. Variability or lack of consistency in the product is a major cause of customer disappointment in the hospitality industry. In order to solve this problem the service marketer should take into account the skill and performance of the service provider and maintain consistency.

(4.) **Perishibility:** services cannot be stored. A 100-room hotel that sells 60 rooms on a particular night cannot store 40 unsold rooms and sell 140 rooms the next night. Revenue lost from not selling those 40 rooms is gone forever. To the success of a hospitality industry, capacity and demand management are very important.

So, as seen, for the hospitality industry to be successful, it should give importance to products and services as customers are very much concerned in which way the product is delivered, i.e. the level of customer service. For example, at the front line desk, if the receptionist is rude or unwelcoming, customers will quickly notice it. Similarly, if the receptionist is courteous, efficient and helpful, customers will experience the production of the product. Everything has to be right the first time, all the time and any mistake can prove very costly in terms of losing future customers.

The things that can make a difference are how service personnel conduct themselves in the customer's presence; what they say, or what they don't say; how competent they are; how personal they are; or even how presentable they are. They can determine whether the customer will come to the hotel again or not. Service providers should deal with skill, willingness, responsiveness, and excellent performance. In the case of the hospitality industry, successful new products, most of the time, come from the bottom up, rather than the top down because it is the bottom line of employees that is closest to the customer- they are the ones who can tell the problems of customers. Managers should not underestimate the lowest position of the staff that encounters customers. Lower level employees should be given proper and comprehensive training.

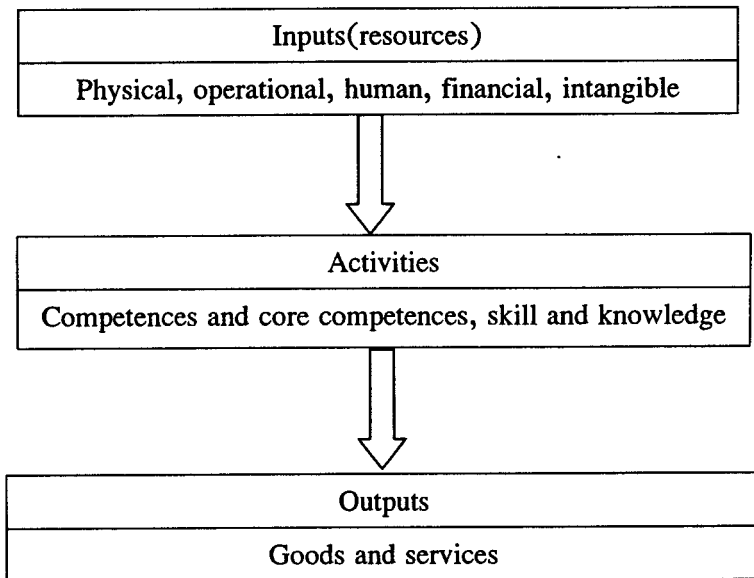
1.2.3 Concepts and Theories Relevant to Develop Value-Added Products

and Services

Evans et al (2003) defined the value added to a good or service as the difference in the financial value of the finished product compared to the financial value of the inputs. Value is measured in terms of the price that customers are willing to pay for the product. Value added can be increased in two ways:

1. Changing customer perceptions of the product so that they are willing to pay a higher price for product than for similar products produced by other businesses, or
2. Reducing unit cost of production below those of competitors

Figure 1.1 A Simplified Scheme of the Value Adding Process



Source: Evans et al (2003)

From the above figure 1.1, it shows that there are clear linkages between value adding activities, core competences, competences and resources. Resources form the inputs to the organizations' value adding activities while competences and core competences provide the skills and knowledge required to carry them out. The more that core competences can be integrated into value adding activities, the greater will be the value

added. If the quality of the product is higher than what customer expected, they will be willing to pay more.

The value adding process

Business can be regarded as systems that transform inputs (resources, materials, etc) into outputs (goods and services). The activities inside the organization add value to the inputs. The value of the products is equivalent to the price that a customer is willing to pay for them. The difference between the end value and the total costs is the margin (the quantity that accountants would refer to as the profit margin-before interest, taxation and extraordinary items).

The rate at which value is added varies. If value is not being added as fast as it could be then waste is occurring and the organization is not operating as efficiently as it might. Poor quality, low utilization or occupancy and an under-skilled workforce are all examples of waste. Increased added value can be achieved through achieving a reduction in costs or increasing the price that the customer is willing to pay for the output.

Kotler (2003) described activities inside the organization that add value to the inputs known as value chain (Fig.1.2) The chain consists of a series of activities that create and build value. They cumulate in the total value delivered by an organization. The margin shown in the diagram is the same as added value.

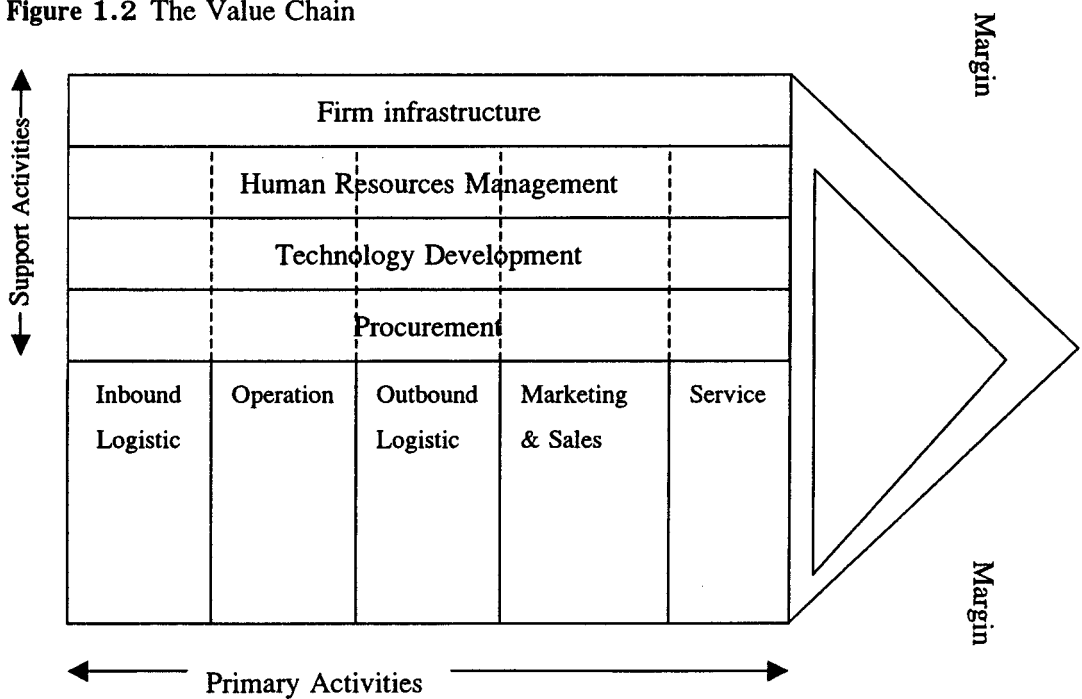
All organizations consist of activities that link together to develop the value of the business, and together these activities form the organization's value chain. Such activities may include purchasing activities, manufacturing the products, distribution and marketing of the company's products and activities

Value chain analysis is important for hospitality manager to identify the key activities within the firm that form the value chain for hotel, and have the potential of a sustainable competitive advantage for a company. Therein, the competitive advantage of the hospitality industry lies in its ability to perform crucial activities along the value chain better than its competitors.

The value chain framework can be also defined as an interdependent system or network of activities, connected by linkages. When the system is managed carefully, the linkages can be an important source of competitive advantage. The value chain analysis links with primary and supportive activities (Evans et al, 2003). Firstly, the value chain

links the value of the hotel's activities with its main functional parts. Then the assessment of the contribution of each part in the overall benefit of the business made. In order to conduct the value chain analysis, the company split into primary and support activities. Primary activities are those related with production, while support activities are those that provide the background necessary for the effectiveness and efficiency of the firm, such as human resource management. The primary and secondary activities of the firm are discussed in detail below.

Figure 1.2 The Value Chain



Source: Kotler (2003)

Primary activities: The primary activities (Kotler, 2003) of the company include the following:

(1.) **Inbound logistics:** these are the activities concerned with receiving the materials from suppliers, storing these externally sourced materials, and handling them within the firm.

(2.) **Operations:** these are the activities related to the production of

products and services. This area can be split into more departments. For instance, the operations, in the case of a hotel, would include reception, room service etc.

(3.) Outbound logistics: these are all the activities concerned with distributing the final product and/or service to the customers. In the case of a hotel, this activity would entail the ways of bringing customers to the hotel.

(4.) Marketing and sales: this functional area essentially analyses the needs and wants of customers and is responsible for creating awareness among the target audience of the company about the firm's products and services. Hospitality industry can make use of marketing communication tools like advertising, sales, promotion, etc. to attract customers to their products.

(5.) Service: hotels provide services receiving the guest from the destination, check-in, service during their stay and check-out service providing transfer transportation to reach the airport.

Support activities: The support activities of a company include the following (Kotler, 2003):

(1.) Procurement: is responsible for purchasing the materials that are necessary for the hotel's operations. An efficient procurement department should be able to obtain the highest quality goods at the lowest prices.

(2.) Human resource Management: is a function concerned with recruiting, training, motivating and rewarding the workforce of the hotel. Human resources are increasingly becoming an important way of attaining sustainable competitive advantage.

(3.) Technology Development: is an area that is concerned with technological innovation, training and knowledge that is crucial for most hotels in order to survive.

(4.) Firm Infrastructure: includes planning and control systems, such as finance, accounting, and corporate strategy etc (Kotler, 2003).

How to Create Value-Added Products and Services:

Table 1.6 Primary Activities (adapted from Poon, 1993)

Activity	Description	Examples of how value might be added
Restaurant services	Greeting customers, providing them menu, getting orders and serving them meals.	<ul style="list-style-type: none"> ■ Smile with greeting ■ Responsiveness ■ Able to solve the problem
Front line employees	Check in and check out	<ul style="list-style-type: none"> ■ Greeting courteously ■ Skill and performance ■ Upgrade the room, suggest a meal in the restaurant, order a early morning paper, organize room service
Inventory	List of eatable stuff	<ul style="list-style-type: none"> ■ Fresh vegetables and fruits grown by local people or hotels themselves(organic) ■ Trained therapies
Spa	Provides massage and different face and body treatments.	<ul style="list-style-type: none"> ■ Different oils ■ Few minutes extra ■ After massage nap room ■ Complimentary health drinks
Internet service	Providing in room internet access .	<ul style="list-style-type: none"> ■ Making high speed internet accessible for hospitality ■ Satisfy customers without increasing the cost ■ Technicians to help

Source: Poon (1993) Cited in Evans et al. (2003). & author

Table 1.7 Supportive Activities

Activity	Description	E.g. of how value might be added
Procurement	Purchasing, leasing or renting of services and equipment.	Lower prices, Better contract terms.
Technology and systems development.	Developing and implementing technology and systems in support of primary activities.	Computer reservation systems, internet application, real-time sales reports, yield management applications, new market segments, new product, new destination.
Products and services development	Developing new products, services and market opportunities.	Developing partnership or alliances, quality of employees and managers
Human resource management	Recruitment, selection, training, reward and motivation.	Employee empowerment, Team working, Level of training, Outsourcing.
Infrastructure	General management, financial control and accounting, planning, legal affairs, quality control.	Speed and quality of decision making costs of providing infrastructure coherent and consistency standards

Source: Evans et al (2003)

Marketing and promotion for hospitality does not alone mean offering products and services to meet needs and wants of the customer and that customers will return or stay for longer periods in the hotel. Marketing and promotion should understand and create value added products and services for the satisfaction of customers and solve their problems.

Lewis et al (1995) shows factors that are the most successful in creating new products and services:

- Ability to identify customer needs
 - Use of existing company knowledge and resources
 - Developing new products in the company's core markets
 - Measurement of performance during the development stage
 - Screening and testing ideas before spending money on the development
 - Coordination between research, development, and marketing
 - An organizational environment that encourages entrepreneurship and risk-taking
- linking new-product development to corporate goals

In conclusion, the above concept on value added products and services shows that increasing competition and customer satisfaction in the hotel industry are driving the need for new, innovative guest services that can make a hotel stand out from the crowd. For example, hotels can create value by adding value-added media services as a way to both boost revenue and provide enhanced customer value at relatively low cost.

1.2.4 Concepts and Theories Relevant to Tourist Market and Behaviour

The American Marketing Association defines consumer behavior as “the dynamic interaction of cognition, behavior, and environmental events by which human beings conduct the exchange aspects of their lives”.

In order to understand consumers and develop superior marketing strategies, we must understand what they think (cognitions) and feel (affect), what they do (behavior), and the things and places (environmental events) that influence and are influenced by what consumer think, feel, and do (Peter and Olson ,1990).

Hanna and Wozniak (2001) define consumer behavior as a subset of a large set of activities consisting of all human behavior. It includes everything that occurs as prospective customer for product and services become actual customers. Interestingly enough, much of consumer behavior does not necessarily involve purchasing behavior. It also encompasses such activities as browsing, influencing others, being influenced by others, and complaining about and returning products as well as exposure to the media. Some of these activities precede the actual buying others follow it. However, all are capable of influencing the adoption of products or services, considered as part of the behaviour.

Therefore, to understand consumers adequately we should stress their purchasing behaviour in addition to physical activities, which involves a mental decision process that takes place over a time. According to a part of research, the concept of consumer behaviour determines the factors influencing tourists to decide in which hotel to stay and the importance of value-added product and service provided to them.

Kotler et al (2003) shows that marketing and other stimuli enter the consumer's black box and produce certain responses. The marketer must decide what is in the buyer's black box. On the left side, marketing stimuli consists of the 4Ps marketing mix (product, price, place, promotion). Other stimuli includes major forces and events in the buyer's environment: economic, technological, political and cultural. All this enters into the buyer's black box and are turned into the set of observable buyer responses shown on the right: product choice, brand choice, dealer choice, purchase timing and amount.

The marketer must understand how the stimuli changes into responses inside the consumer's black box. The black box has two parts: first, a buyer's characteristic influences how they perceive and react to the stimuli; and second, the buyer's decision-making process itself affects the outcomes.

Apart from the 4Ps marketing mix, an additional 3Ps (people, physical evidence and process) have to be considered by the hospitality marketer, according to Kotler (2003). All these 7Ps play a major role for solving customers' problems and satisfying customers. The hospitality industry, being made of people oriented in business and the service marketer, need to consider these additional marketing mix of 3Ps.

Consumer purchases are strongly influenced by situation, cultural, social, personal, and psychological characteristics. Most of them cannot be controlled by the marketer, but must be taken into account.

Factors influencing consumer behaviour are as follow:

(1.) Situational influence

Situational influence plays an important role in consumer behaviour. According to the type of situation consumer, they decide which type of product they want. Marketing managers should view the consumer and marketing activities designed to affect

and influence that customer in light of the situations that the consumer faces (Del et al, 1983).

According to DoT (2005), most customers are influenced by the unique destination of the country and they are willing to accept poor facility of accommodation, although they need standard hotels. In the case of Bhutan, the hotel or lodges offered are not up to the satisfaction of tourists.

For the satisfaction of the dollar spending tourists and Indian tourists, the marketing manager should be very careful about fulfilling their basic needs and wants to solve their problems. Therefore, tourist gets satisfaction and will return next time or stay for a longer duration.

(2.) Cultural factors

(2.1) Culture: has strong influence on consumer behaviour. It comprises the basic values, perceptions, wants, and behaviours that a person learns continuously in a society. Culture is expressed through tangible items such as food, building, clothing, and art. Culture is an integral part of the hospitality industry. It decides what we eat, or where we stay. The marketer should try to identify cultural shifts in order to devise new products and services. For instance, the cultural shift of people towards becoming health conscious has made hotels provides fitness centres, spas, and a change in the menu to satisfy the customers change of habit toward more lighter and natural food, etc. (Kotler, 2003).

(2.2) Subculture: means that different people have different cultures, customs and their behaviours are different. It is very important for hotel marketers to understand such differences and adjust their products and marketing programs accordingly. If the behaviour of people from different countries were understood, then the hotel will be the winner (Kotler, 2003).

(2.3) Social class : is evident in every society has some form of social structure, which not only includes income, but other factors such as occupation, source of income, education, wealth, and other variables. Social classes show difference in preferences and brands for food, cloths, hotels, etc. Marketer should be very careful in

knowing social classes in order to understand their behaviour and adapt their marketing strategies accordingly (Kotler, 2003).

(3.) Social factor: can influence consumer behaviour, including the consumers' groups, family, social roles, and status. Because social factors can strongly affect consumer responses, companies must consider them when designing marketing strategies (Kotler, 2003).

(3.1) Groups: such as family, friends, neighbours, and co-workers, especially with whom they have informal interaction, can influence individual attitudes and behaviour and making decisions (Kotler, 2003).

(3.2) Reference group: is understandable as word-of-mouth in marketing practice. However, in many instances, marketers have been unable to stimulate and direct it in favor of their brand of product. An understanding of reference group behaviour offers considerable potential to marketers who are interested in enhancing word-of-mouth communication (Kotler, 2003).

(3.2) Family: can influence the purchase of the product as well. This varies by product class, social class, the working status of the wife, and value orientation held by the member of the household. Because these differences affect product, brand, and store selection, marketers must understand which member of the household are involved in each stage of the decision-making process. For instance, restaurants selling fast food exert a larger influence on the children (Kotler, 2003).

(4.) Personal factors: affect buying decisions by personal characteristics such as age and life - cycle stage, occupation, economic situation, lifestyle, personality, and self-concept (Kotler, 2003).

(4.1) Age and life cycle: buying goods and services are often related to age such as leisure activities, travel destinations, food and entertainment. Marketers should take into account different age groups. A study showed that senior travellers place great importance on grip bars in bathrooms, night-lights, legible and visible signs in hallways,

extra blankets, and large printing on menus. This factor is very important to have knowledge of different segment needs and wants (Kotler, 2003).

(4.2) Family life cycle: also influences buying behaviour, where young unmarried people usually do not have any financial burden and they spend a huge portion of their income on entertainment. Young married people without children have high discretionary incomes and frequently dine out. Once they have children their purchases change to more delivery or take out. When the children leave home, dining out as an expenditure on income increases. Marketers often define their target markets in life - cycle terms and develop appropriate products and marketing plans (Kotler, 2003).

(4.3) Life style can affect: buying behaviour as people belonging to same subculture, social class, and occupation may have different life styles. Life style is a person's pattern of living as expressed in his or her activities, interests, and opinions. Marketers should try to link relationships between their products and people who are achievement oriented (Kotler, 2003).

(5.) Psychological factor: influences buying choices by four major psychological factors: motivation, perception, learning, and beliefs and attitude (Kotler, 2003).

(5.1) Motivation: a need becomes a motive when it is aroused to a sufficient level of intensity. Creating a tension state causes the person to act to release the tension. The marketer should know how to motive the customer (Kotler, 2003).

(5.2) Perception: different people perceive differently for the same products and services. For example in a hotel, the customer may perceive a fast-talking staff as aggressive and insincere: another customer will perceive it as fast and helpful; this is because of the three perceptual processes: selective attention, selective distortion, and selective retention (Kotler, 2003).

(5.3) Learning: after experiencing products and services people learn about it. For example, members of the site selection committee for a convention often sample the service of competing hotels. They eat in a restaurant, note the friendliness and

professionalism of the staff, and examine the hotel's features. Based on what they have learned, a hotel is selected to be the host of the convention. During the convention, they experience the hotel once again. Based on their experience and those of the attending conventioners, they will be either satisfied or dissatisfied. Hotels should help guests to learn about the quality and facilities of their services. Luxury hotels give tours to first time guests and inform them of the services offered. Repeat guests should update on the hotels services by the employees' and by letters and literature (Kotler, 2003).

(6.) **Beliefs and Attitude:** acting and learning, people acquire beliefs and attitudes, which, in turn, influence their buying behaviour (Kotler, 2006).

1.2.5 Concepts and Theories Relevant to the Decision-Making Process

Peter and Olsen (1990, p.171) define decision as a choice "between two or more alternative actions (or behaviours)." Decisions always require a choice between different behaviours. In the case of choice between hotels, customers will always inquire about the hotel before they check in. Consumer behaviour involves a mental decision making process and a physical activity. The actual act of purchase is just one stage in a series of mental and physical activities that occur during a period.

Before purchasing the product, the consumer passes through five stages to make their decision such as: problem recognition, information search, alternative evaluation and selection, outlet selection and decision implementation, and post purchase process. All these stages are explained as follows (Kotler et al, 2003):

(1.) **Problem recognition:** This is the first stage when the consumer recognizes a problem and the marketers have no control over it. In order to deal with this problem the marketer should react to such problems by collecting information from the number of consumers. For the hospitality industry to solve these problems they should provide a variety of products and services for different segments of customers. For instance, business travellers want a hotel to give them the tools to get their work done efficiently, which includes having competent staff members on duty, more than they want personalized services and fancy surroundings. In order to satisfy, the service marketer

should develop appropriate products, change existing products, charge reasonable prices, or channels of distribution, and so forth.

(2.) Information search: Some consumers, after recognizing a problem, may stay in the hotel after knowing that the product and services are up to their satisfaction, which satisfied them without getting any additional information. However, some consumers are not satisfied with the information provided. They go on searching for information such as the brand that they are going to purchase. With hospitality and travel products, personal and public sources are more important than advertisements. Customers cannot try out intangible product before they purchase it. In order to attract costumers, the hospitality industry must design its marketing mix to make customers aware of and knowledgeable about the products and benefits of its products or brands.

The service marketer should carefully identify consumer sources of information and importance of each source.

(3.) Alternative evaluation and selection: The consumer for the different brands of products does evaluations and they come to a conclusion- which hotel they are going to stay. Marketers should identify the evaluation criteria used by consumers in brand choice decisions. For the marketer, knowledge of these evaluative criteria and the relative importance different segments of consumer assign to them is very useful in understanding consumer's wants and needs and developing marketing strategies to satisfy those wants and needs.

(4.) Purchase decision: In the evaluation stage, the consumer makes a choice of hotel brand of where in which they are going to stay. The consumer decides to stay in the hotel that is most up to their liking. Though they decide to stay, there are two factors that can intervene between the purchase intention and the purchase decision: attitudes of others and unanticipated situational factors.

First, attitudes of others is seen when a wife selects a pizza restaurant because her husband likes pizza. Her buying decision gets influenced by her husband's attitude and, the closer that person is to the decision-maker, the more influence the other person will have.

Secondly, purchase intention is also influenced by unexpected situations. For instance, the consumer forms a purchase intention based on factors such as expected

family income, expected price, and expected benefits from the product. When the consumer is about to act, unexpected situations may arise to change the purchase intention. If the wife may have an unexpected car problem that will cost USD 200 for repairs, this may cause her to cancel reservations in the restaurant for pizza and select a less expensive gift.

Managers must remember and make the hotel employee to do every thing possible to ensure that customers have a good experience and the post purchase evaluation will be favourable.

(5.) Post purchase behaviour: Finally, customers stay in the hotel and use the product and services provided to them. After staying in the hotel, the customer feels anxiety or doubt, called post purchase dissonance, which often occurs. Here, the marketer must be alert and increase customer satisfaction by assisting in the reduction of this dissonance. Marketers can reduce post purchase dissatisfaction and help customers feel good about their purchases. For instance, hotels can send a letter to meeting planners congratulating them on selecting their hotel for a meeting. Marketers can place ads featuring testimonials of satisfied meeting planners in trade magazines. They can also encourage customers to suggest improvements.

Understanding needs of consumers and the buying process is the foundation of successful marketing. By understanding how buyers proceed through problem recognition, information search, evaluation of alternatives, the purchase decision, and post purchase behaviour, the marketer can get many clues to improve products and services.

1.2.6 Review of the Concept of Guest Satisfaction

Kotler (2003) defined satisfaction as a people's feeling of pleasure or disappointment resulting from comparing a product perceived performance (or outcome), in relation to his or her expectations, if the performances fall short of expectations, the customer is dissatisfied. If the performance matches the expectations, the customer is satisfied. If the performance exceeds expectations, the customer is highly satisfied or delighted.

Oliver (1999) defined satisfaction as a customer fulfilment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfilment.

Getty and Thomson (1994) defined satisfaction as a 'summary psychological state experienced by the customer when confirmed or disconfirmed expectations exist with respect to a specific service transaction or experience'.

Satisfaction is a response to a perceived discrepancy between prior expectations and perceived performance after consumption (Oliver, 1999).

Customer satisfaction is thought to be a natural outgrowth of optimal organizational design, and of instilling the appropriate organizational culture, personnel training and customers responsiveness within employee ranks (Oliver, 1999).

According to the disconfirmation theory, the extent of satisfaction or dissatisfaction that a customer has with a particular service encounter is determined by the difference between the customers' expectations of performance and the actual perceived performance of the service (Oliver, 1999).

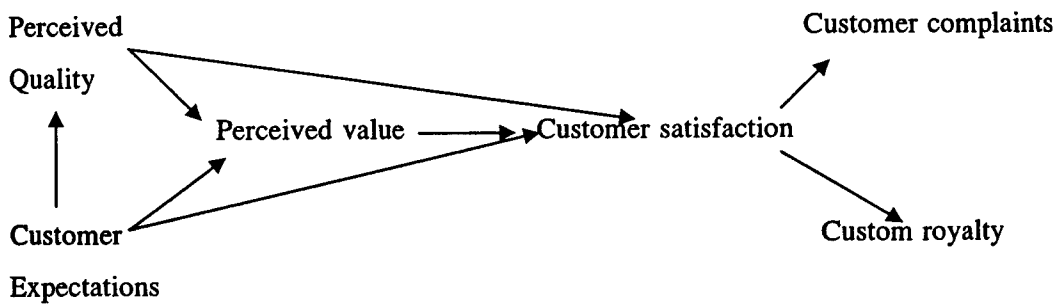
Apart from the above definition, satisfaction for hospitality products and services can be concluded as an after purchase satisfaction, which depends on the offers performance in relation to the buyer's expectations. In general, customer satisfaction with the products and services offered by the hotels is a person's feeling of pleasure or disappointment resulting from comparing a products or services perceived performance is related to his/her expectations. If the performance is below the expectation then the customer is dissatisfied. Likewise, if the expectation is lesser than performance of the hotel then the customers are satisfied. If the performance highly exceeds expectation then customer is highly satisfied with the products and services offered by the hotel.

Therefore, in satisfying customers hotelier should have a strong human resource management team for recruitment, selection, and training of employees where they can highly satisfy the customers. The management team should possess core competence, skill and knowledge to add value to the products and services.

The American Customer Satisfaction Index (ACSI)

The American Customer Satisfaction Index Model (ACSI) is a set of causal equations that link customer expectations, perceived quality, and perceived value to customer satisfaction. Satisfaction is linked to consequences as defined by consumer complaints and customer loyalty measured by price tolerance and customer retention. For most companies, repeat customers are major contributors to profit (Fornell et al, 1996).

Figure 1.3 American Customer Satisfaction Index Model



Source: Fornell et al (1996)

(1.) **Customer expectations:** customer expectation for the product and services are influenced by information from media, advertisement, sales persons, and word of mouth from other customers. Customer expectations influence the evaluation of quality and forecast how well the product and service will perform.

(2.) **Perceived quality:** is measure through three factors: overall quality, reliability, and the extent to which a product or service meets the customer's needs. Across all companies and industries measured in the ACSI, perceived quality proves to have the greatest impact on customer satisfaction.

(3.) **Perceived value:** is measured through two factors: overall price given quality and overall quality given price. In the ACSI model, perceive value influences ACSI directly, and is affected by expectations and perceived quality. Perceived value has less impact on satisfaction and repeat purchase, though perceived value is very important for the first purchased.

(4.) **Customer complaint:** is measured as the percentage of respondents who reported a problem with the measured companies' product and service within a specified period. Satisfaction has an inverse relationship to customer complaints.

(5.) **Customer loyalty:** is measured through questions on the likelihood to purchase a company's products or services at various price points. Customer satisfaction has a positive effect on loyalty, but the magnitude of that effect varies greatly across companies and industries.

The link between guest satisfaction and loyalty is not proportional. If guest satisfaction is rated on a scale from 1 to 5, at a very low level of guests satisfaction (level 1), guests are likely to abandon the hotel and even bad mouth it. At levels 2 to 4, guests are satisfied but still find it easy to switch to another hotel, if it is better than the prior one. At level 5, they may come again or spread good word of mouth about the product and service quality of the hotel. If highly satisfied, guests will re-visit often.

The service marketer such as hospitality and tourism service quality influences satisfaction directly and it is crucial variable for marketer to control strategically in order to have a long run success in the business. If service quality is improved, customer satisfaction and profitability of business will improve (Getty and Thomson, 1994).

1.2.7 Concept and Theories Relevant to Hospitality Marketing Strategies

Marketing strategies of hospitality take in to account the environment and consists of a variety of physical and social stimuli. These stimuli include products and services, promotional materials (advertisement), places for exchange (retail stores), and price formation (price tags attached to products) (Peter and Olson, 1990).

Marketing strategy is also a plan designed to influence exchanges in order to achieve organizational objectives. It is intended to increase the probability or frequency of behaviours, such as frequenting particular stores or purchasing particular products. This is accomplished by developing and presenting a marketing mix directed at selected target markets (Peter and Olson, 1990).

In addition, Hanna and Wozniak (2001) said that by segmenting the market into a number of sub-markets or niches, in which customers have distinct and

somewhat similar needs, a marketer could determine which one or ones to target and accordingly design an appropriate marketing mix for services and reaching each.

In order to have a successful marketing strategy for the hospitality industry, the service marketer should be very careful about choosing the proper target market. If the target market is well defined, it would be very easy for the hospitality industry to have a successful marketing mix strategy.

Cooper et al (1993) suggested the fundamental starting point for the creation of a successful marketing mix strategy is to make sure that the target market is well defined, for both foreign and domestic tourists.

Kaser and Freeman (2002) summarize target markets as the starting point of marketing strategy. For every business there are fixed target markets (to whom the product and services are going to sell).The hospitality industry must determine the customers to which it sells its services in order to design an effective promotional and marketing strategy.

Target market is the specific group of people that a business intends to reach .The needs and wants of the target market must be determined in order to promote and sell products. Knowing the preferences of a target market helps a business determine what those people will purchase.

To be successful, the hospitality industry should have specific information about their markets, such as potential customer's age, gender, marital status, income, educational level, and attitudes that comes under demographics. Hospitality businesses must research both the larger target market and smaller niche markets for the goods and services they sell. The niche markets for hospitality includes men and women in different age groups for business travellers, leisure travellers, international travellers, families, and senior citizens.

For instance, one of the important target markets for the hospitality industry are senior citizens. This market has a disposable income attractive to the hospitality industry.

The large market contains a group of people who have the same character and are a market segment.

There are five elements of market segmentation which hospitality needs to focus on (Kaser and Freeman, 2002): Below figure 1.4 shows five classes of segmentation variables.

(1.) **Geographic segmentation:** The hospitality industry should be careful about geographic segmentations, which involve dividing markets into physical locations such as the South, Midwest, Central Plains, West coast, and East coast regions of the United States and rural areas of a state.

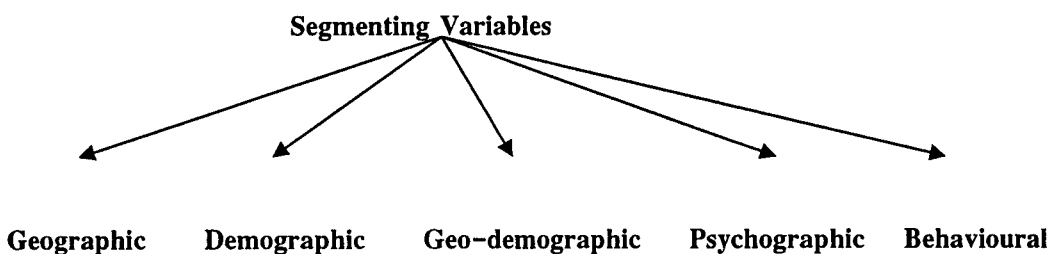
(2.) **Demographic segmentation:** There should be an importance on measurable items such as income, profession, gender, and education. The level of income decides whether marketers will advertise upscale hotels to corporate executives, or less expensive accommodations to budget conscious people.

(3.) **Psychographic:** This focuses on attitudes and lifestyle choices—things that are harder to measure but have an impact on product usages.

(4.) **Product usage:** This shows how frequently customers use a product or service. This information allows marketers to promote preferred products and services.

(5.) **Benefits derived:** The Value that people attach to a product or service is called benefit derived. Enjoyment received from staying at a beachfront hotel and the satisfactions from a pleasant dining experience are examples of benefits derived

Figure 1.4 Five Classes of Segmentation Variables



Source: Hanna and Wozniak (2001)

After deciding the target market, the hospitality industry should decide on the marketing mix of 7Ps (product, price, promotion and distribution, people, process, and physical evidence) which are shown in table 1.8. The marketing mix can be defined as the way a business combines the marketing elements of product, price, promotion, and distribution, people, process, and physical evidence.

Kaser and Freeman (2002) explained the detail of four marketing mix Ps as follows:

(1.) Product: Product offers customers to satisfy their needs and wants.

The hospitality industry products include specific items like double or single rooms, continental breakfasts, and services such as wake-up calls, valet parking, and in room computer system.

(2.) Price: where the customers pay a certain amount for the product that they purchase. In the hospitality business, price can be negotiated depending on the demand and supply and what customer thinks to be a fair price.

(3.) Promotion: is the most visible of the 4Ps, which by using a combination method used to inform the customers of the business and encourage the customer to purchase the goods or services

(4.) Place: where the products and services are reached to the customers. For example, in the hospitality industry distributor are travel agents and tour wholesaling companies who put travel packages together.

In addition there are another three Ps, which are very important in terms of service business. Kotler (2003) states three additional Ps for service marketing, which are: people, physical evidence, and process.

(5.) People: as Tourism and hospitality industry being a people oriented business, it is very important to select, train and motivate employees who in turn can make a huge difference for customer satisfaction. Employees should be competent, have a caring attitude, be able to respond quickly, have initiative, are able to solve problems and have good will. Employees should be given empowerment since they are the first to hear the

guest's complaint. They can satisfy the customer by a variety of ways. For instance, these might involve offering an upgraded room for lower price, not charging the guest for one night, or giving the guest a free breakfast coupon.

(6.) **Physical evidence:** the environment in which the service is provided. Hotels develop a look and style dealing with customers in terms of cleanliness, safety and security, speed or some other benefit.

(7.) **Process:** Where service companies choose among different processes to deliver their service. Restaurants have developed different formats as cafeteria style, fast food, buffet, candlelight service, and accessibility of check in and check out.

Table 1.8 The 7Ps Marketing Mix for Service

(1.) Product	Range, Quality, Level, Brand-name, service-line, warranty, after-sales service.
(2.) Price	Level, Discounts, Allowances, Commissions, Payment-terms, Customer's Perceived value, Quality/Price, differentiation.
(3.) Place	Location, Accessibility, Distribution, Channels, Distributetion, Coverage
(4.) Promotion	Advertising, Personal-selling, Sales promotion, Publicity, Public-relations.
(5.) people	Personnel: training, Discretion, Commitment, Incentive Appearance, Interpersonal Behavior, Attitude, Other, Customers: Behavior, Degree of involvement, Customer contact.
(6.) Physical evidence	Environment: Furnishings, Colour, Layout, Noise level, Facilitating goods, Tangible clues.
(7.) Process	Policies, Procedures, Mechanization, Employee Discretion, Customer involvement, Customer discretion, Flow-activities.

Source: Booms and Bitner (1981)

Weaver and Oppermann (2000) have defined the strategic tourism and hospitality marketing as marketing that consider an extensive analysis of external and internal environmental factors in identifying strategies that attain specific goals. The steps are as follows:

- Mission
- External and internal environment analysis
- SWOT analysis
- Long term objective or marketing strategies
- Short term goal or marketing tactics
- Implementation
- Control or evaluation

Below are the four strategies of marketing mix which are as follows:

(1.) Product strategy

(1.2) Product development: Product development is defined as the development of new products for existing markets. The main aim of product development is to attract new customers and to retain the existing ones to increase market share. The examples of new product development are new bacon cheeseburger (i.e. modification of existing product) or the development of new products such as a salad bar for health conscious people, fast food, and etc (Power, 1990).

It can be also include the development of various grades of products, such as the development of different types of rooms for different target markets. In the case of Bhutan hotels, the room should be available for Indian budget conscious customers as majority of customers are price conscious.

(1.3) Product diversification: Product diversification means as new products are introduced in new markets, diversification occurs. Diversification means offering varieties of products for the customers such as room, food and beverages, souvenir shop, conference hall, salon, and swimming pool. Diversification is growth achieved through new products and new markets (Evans et al, 2003)

(1.4) **Product differentiation:** Evans et al (2003) defined product differentiation strategy as a way to persuade the customers that the products offered is superior to the competitor in some way. Differentiation can be based on premium product features or simply upon creating consumer perceptions that a product is superior. The major benefits to a business of a successful differentiation strategy are:

- Its products will command a premium price.
- Demand for its product will be at a lesser price elastic than demand for competitors' products.
- Above average profits can be earned.
- It creates an additional barrier to entry to new business wishing to enter the industry.

A business seeking to differentiate itself will organize its value chain activities to help create differentiated products and to create a perception among customers that these offerings are worth a higher price.

Differentiation can be achieved in several ways:

- by creating products that are superior to competitors' by virtue of design, technology, performance, etc.
- by offering a superior level of service . For example, hotel offering a high ratio of staff to guests.
- by having access to superior distribution channels.
- by creating a strong brand name through design, innovation, and advertising .
- by distinctive or superior product promotion . For example, the 'Unique Bhutanese hospitality', which highlights the distinctive features of the respective products or destinations concerned.

It can be concluded that the differentiation strategy emphasizes on innovation, design, research and development, awareness of particular customers' needs and marketing. Differentiation in the eyes of the customer is no exaggeration such as brand

name or logo, which distinguishes a product rather than real product superiority. A differentiation strategy should reduce price elasticity of demand for the product so that its price can be raised above that of competitors without reducing sales volume, so generating above-average profits.

(1.5) Product market penetration: The strategy of doing better than what existing products are doing is called market penetration. It is the most lowest risk strategy for growth. An easy way to increase sales through market penetration is simply to sell more to existing customers by increasing check averages or up selling guests to a better level of accommodation. Another is to increase the frequency of purchase – perhaps by inducing a guest to stay three days instead of two or to increase the rate of double occupancy (Power, 1990).

Another way to increase sales of existing products and services to current markets is by attracting guests away from competitors.

A third option to achieve market penetration is to attract non-users from the existing market. Upscale hotels , for instance offer special rates aimed principally at middle-class people who are price sensitive (e.g., senior citizens, educators, clergy, or people in the armed forces, and so on) and who might otherwise stay in lower priced hotels.

(1.6) Market development: In the hospitality sector, the major tool to facilitate market development is franchising. Franchising uses the franchisee's investment capital, thus solving one of the major problems of expansion. The franchisee, as owner, is expected to provide highly motivated management; this solves another hindrance to rapid expansion, the need to provide a growing management network (Power, 1990).

(2.) Pricing strategy: Kaser and Freeman (2002) define the pricing strategy for hotel room rates depending on several factors such as location and type of property, the services and amenities offered, the target market, and current economic conditions.

The main thing that a hotelier should consider is supply and demand and the business cycle. Hotel prices also depend on seasonal basis. During peak season, the demand is high and so are rates. Where as in the slow seasons demands are low and rates go down too. Rooms in hotels sell at different prices during different times and to different groups. The different types of prices are as follow:

(2.1) **Rack rates:** are standard rates, which are published in travel directories or quoted to a walk-in guest. These rates are based on the type of room, size of beds in a room, and location of the room. It should not be used when quoting rates to a potential customer.

(2.2) **Corporate or commercial rates:** are less than 10- 15 % than published or rack rate. These rates are given to companies or businesses that are frequent customers of the hotel.

(2.3) **Group rates:** are available for large groups of people who reserve the hotel rooms for a conference or special event.

(2.4) **Government rates:** are available for school, state, or federal government employees.

(2.5) **Senior rates:** are for guests who are at least 55 years of age or older. Most senior discounts are 10-15 % less than the published rate.

(2.6) **Airline rates:** are those available on properties located close to airports. Airline crew may receive a discount of 30 to 50 % and transportation to and from the airport.

(2.7) **Club or frequent guest discount:** are given to loyal customers who return to the hotel on a regular basis. Club discounts are given during the slow season to improve occupancy rates and continue as a reward through peak season.

(2.8) **Employee rates are:** given to employees from the same hotel corporation. Employee rates are 50 % less than published price.

(2.9) **Travel-agents rate:** are offered to travel agents for selling large amounts of room. When the travel agents get familiar with a property, he or she may recommend it to the client.

Determining room rates

In order to determine room rates hoteliers should take into account of construction costs, services and amenities offered, size of rooms and type of bedding, competition, and anticipated sales are considered. After that by using Hubbart Formula rooms rates can be determined (Kaser & Freeman, 2002).

The Hubbart Formula

Specific information are use to determine profitable room rates. This Hubbart Formula adds the operating expenses, or what costs to run the hotel, to the desired return on investment (ROI), the money a hotel hopes to make. Money earned from other areas of the hotel such as gift shops, restaurants, in-room movies, and so forth is labelled as other income and is subtracted from the sub-total. The figure is divided by the number of projected room sales, derived from forecast information based on past sales, trends, and research. The resulting number is the average room rate. After that it is important for hotel management to know the break-even point. Following is the formula illustrated with example figures.

$$\begin{aligned}
 &= \frac{\text{Operating expenses} + \text{Desired ROI} - \text{Other income}}{\text{Projected room sales}} \\
 &= \text{Average room rate} \\
 &= \frac{\$9,000,000 + \$6,000,000 - \$900,000}{\$100,000} \\
 &= \$141
 \end{aligned}$$

Breaking Even

The break-even point is where revenue, the money from sales, equals the cost of running the property. Revenue beyond that is profit. Successful hotel managers know how many rooms per night must be sold in order to reach the break-even point. To find this number, first determine the fixed costs and the variable costs. Fixed costs are expenses that remain the same from month to month. Variable costs are costs that change with the number of rooms occupied, such as housekeeping. Suppose the fixed costs are USD 200,000 and the variable costs are USD 63 per room. Use the average room rate of USD 141, calculate previously. To determine the number of rooms that must be sold to reach the breakeven point, use the following formula.

$$\begin{aligned}
 &= \frac{\text{Fixed costs}}{\text{Average room rate} - \text{Variable costs}} \\
 &= \text{Breakeven point} \\
 &= \frac{\$ 200,000}{\$ 141 - \$ 63} \\
 &= 2,564 \text{ rooms per month must be sold to break even}
 \end{aligned}$$

Occupancy rate: is a percentage that expresses the ratio of total rooms sold to total rooms available per month. To determine the occupancy rate necessary to break even for a given month, first find the number of rooms available per month.

$$\begin{aligned}
 &\text{Rooms available each day} * \text{Number of days in a month} \\
 &= \text{Rooms available per month} \\
 &134 \text{ rooms} * 30 \text{ days} = 4,020 \text{ rooms available per month}
 \end{aligned}$$

Then determine the occupancy rate to break even.

$$\begin{aligned}
 &= \frac{\text{Rooms to sell to break even}}{\text{Rooms available per month}} \\
 &= \text{Occupancy rate} \\
 &= \frac{2,564}{4,020} \\
 &= 0.6378 \text{ or } 64\%
 \end{aligned}$$

Another key factor in measuring the success and productivity of a hotel is the amount of revenue per available room (REVPAR), which is the average daily rate multiplied by the occupancy rate.

(3.) Place Strategy: The concept of place in hospitality encompasses three main components: location, presentation, and channels of distribution.

(3.1) Place as location: Location strategy involves the selecting of the general region in which a company will operate; how it will expand that area; and what type of location it will use (freestanding, for instance, in-mall or co-location). The tactics of locating a particular operation involve both location and site selection. Location refers to a general area within a city, while the site is a specific piece of property. Location analysis requires the definition of a trading area and then a study of the area's population, roadway and transportation system, and the area competition. Traffic patterns and the volume of traffic are important points to consider. Based on these factors, a level of market support is used to project the market area's sales volume, and this is compared with estimates of sales of existing operations to determine whether the market can support additional units.

(3.2) Place as presentation: The appearance of the place where hospitality services are offered is a crucial cue to the guests about the quality of services offered. Exterior appearance makes the first impression. The interior may be considered in terms of

proximics; that is, layout as it relates to traffic flow. A second consideration is atmospheric: design intended to create attention, to suggest the quality of experience, and to affect the guest's feelings. All of the senses are used to achieve atmospheric effects.

(3.3) Place as Channels of Distribution: Channel members provide value to customers by offering products in quantities and assortments that are useful for customers and in places that are convenient for them. Merchant firms take title to goods and usually offer more services than do agents' offer. In hospitality, franchise systems provide distribution of information, operating systems, and marketing services to individual operators.

Logistics in food service is concerned with the maintenance of quality in a distributing system. Companies opt to use independent but centrally approved distributors or to run their own distribution center. Some, using commissions, even become small-scale manufacturers.

(4.) Promotion Strategy: Promotion strategy combines advertising, personal selling, sales promotion, direct marketing, and publicity into a coordinated program for communicating with buyers and others who affect purchasing decisions. Promotion informs people about products and persuades the company's buyers, channel organizations, and the public at large to purchase brands (Cravens, 1997). The components of promotion strategy are:

(4.1) Advertising: is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Mass media advertisements include not only newspaper advertising and radio and TV commercials but also billboards and other media such as direct mail, which can be used to address large numbers of people without any personal contact.

(4.2) Personal selling: refers to sales calls made by a company representative on prospects or existing customers. These calls can be face to face, but the use of the telephone in personal selling is of increasing importance in hospitality companies. Personal selling has several unique strengths: Sales person can interact with buyers to answer questions and overcome objections, they can target buyers, and they have the capacity to accumulate market knowledge and provide feedback.

(4.3) Sales promotion: is to stimulate immediate purchase. Sales promotion consists of various promotional activities, including trade shows, contests, samples, point-of-purchase displays, trade incentives, and coupons. It does not include personal selling, advertising, and publicity. In food service, the most common forms of sales promotion are “deals” such as coupons, premium merchandise, and games. Sales promotion enhances value and is generally aimed at achieving a specific, timely purchase goal.

(4.4) Direct marketing: consists of the various communications channels that enable companies to make direct contact with individual buyers. Included are catalogues, direct mail, telemarketing, television selling, radio/magazine/newspaper selling, electronics shopping.

(4.5) Publicity: is non-personal stimulation of demand for a product, service, or idea by means of commercially significant news planted in the mass media and not paid for directly by a sponsor. Public relations activities can make an important contribution to promotion strategy if the activity is planned and implemented to achieve specific promotion objectives. Publicity can be negative as well as positive, and cannot be controlled to the same extent as other promotion components. Since the organization does not purchase the media coverage, publicity is a cost-effective method of communication. The media are usually willing to cover topics of public interest.

1.2.8 Related Research

Lexhagen (2005) studied marketing under the title “The importance of value-added services to support the customer search and purchase process on travel websites”. The results from this research showed that most value-added services are perceived to be very important in the search or purchase phase and that no value-added services are perceived to be most important in the post consumption phase. Based on this research survey, travel websites should try to develop more value-added services to support the customer in the post consumption phase, in order to build strong customer relationship and loyalty, which may lead to continuous buying behaviour.

Ohmart (2003) did a research study entitled “Direct marketing with value-added products”. This study looks at the value-added enterprises of five small independent farmers in Northern California, focusing on their motivations, their decision-making processes, the benefits of pursuing this avenue of business and the challenges they face in doing so. Interview results reveal that value-added products significantly enhance farmers’ businesses, affording them a steady income throughout the year when their sales of fresh produce tend to dip. Farmers also emphasize that real satisfaction has come from the knowledge they have developed to attain a high quality, distinctive and unique product that garners loyal customers and gives them consistent positive feedback.

Choi and Chu (1999) also did a research study entitled “Consumer perceptions of the quality of services in three hotel categories in Hong Kong”. The results indicated that the ranking of the seven hotel factors was significantly different in the three categories of hotel, high tariff A, high tariff B hotels and medium tariff hotels. The results indicate that perceptions of the people are higher for high tariff category hotels. When they pay more, they expect to get better quality services. For the two hotels, the high tariff A and high tariff B customers expected high room quality and staff service quality, whereas, for those customers staying at medium tariff hotels, security is important.

In the research entitled “Improving productivity in a service business”, Brown & Dev (2000) shows that, regardless of hotel size, value added rose significantly with an increasing number of employees. The study indicates that expanding the number of rooms available for sale as well as upscale positioning generated significantly greater value added for medium-sized hotels. The value added by large hotels was significantly enhanced when they were managed by a branded management company and were company owned.

As seen from the related research, one conclusion is that creating value added products and services for hotels are very helpful to satisfy customers. Secondly, value added products should satisfy customers, not only in the purchase phase, but give importance to satisfy them in the post-purchase phase as well. This will make the customer gain confidence and faith towards products and services provided, and thus, may remain more loyal to the company. The increasing number of employees also added more value. Finally, the above research shows that the most important factor for tourists are safety,

cleanliness, reasonable price, sanitation facilities, quality of food and basic amenities which need to be improved hotels.

Summary of above literature review

Out of 129 hotels in Bhutan, only 70 units were registered and categorized with DoT, while approximately 42.6% were unregistered. Those registered with the DoT were categorized into grade A, grade B and grade C class where Non-Indian and Indian tourists, who come through travel agents, were accommodated. If these tourists want to stay in a more luxurious accommodation, then an extra payment is required. Although most tourists did not expect to have luxurious hotels, most of the tourists still expected some standard of good quality as they criticized the sanitation, cleanliness, menu variety, buffet, shortages of hot water, and extreme firmness of the mattresses.

In order to create value added products and services for customers and increase the revenue, hotels should possess competences and core competences, skill and knowledge to perform well and satisfy the customer. If the expectation is higher than the performance, then the customer is dissatisfied ($\text{expectation} > \text{performance} = \text{dissatisfied}$). If the performance just meets the expectation level, customers are satisfied ($\text{expectation} = \text{performance} = \text{satisfied}$ or zero disconfirmation). Moreover, if performance is very high than the expectation, customers are highly satisfied and they become a loyal customer or repeatedly come. In the case of Bhutan, the poor hotel occupancy rate of 17% during low season demonstrates the need to create value added products and services for customers along with the need for more aggressive promotion and marketing strategies to increase the sales in the hotel.

In summary, this part focused on the statement of the problem in Bhutan and reviewed the literature on the following topics: the overview of Bhutan hotels and tourism industry, the concept and importance of value added products and service, tourist market, consumer behaviour, and customer satisfaction.

1.3 Aim and Objectives

The aim of the study is to propose marketing strategies to develop value added products and services to increase revenue for hotels in Bhutan.

Objectives

- To provide an overview of the products and services offered by Bhutan hotels
- To assess the current marketing strategies of hotels in Bhutan as well as their strengths and weaknesses
- To evaluate the decision- making process and purchasing behaviour for accommodation in Bhutan by tourists
- To provide recommendations for developing marketing strategies for creating value added products and services in Bhutan hotels

1.4 Significance of the Study

The information and the results obtained from this research could be utilized as a guideline by the owners/managers of the hotel to improve the value added products and services provided for the customer satisfaction. This can encourage the customer's length of stay which means generating more revenue for hotels in Bhutan. The information and the results obtained from this research could be utilized as a source for further research or for any academic purposes for students or interested persons.

1.5 Limitation of the Study

For the completion of this study, there are many limitations on the research on marketing strategies to develop value added products and services for hotels in Bhutan. Firstly, due to short duration of time and the limited number of Indian tourists, the target number of Indians could not be achieved as to the ratio of non-Indian tourists. Secondly, due to communication gap, information was not completely answered as tourists coming from Japan, Thailand, Germany, and Israel, etc. were unable to respond. Moreover, the

qualitative result was drawn by interviewing only 10 managers /owners, which could lead to incorrect information in representing all the hotels in Bhutan. Finally, it is very difficult to get enough information regarding hotels because of the unavailability of a hotel association in Bhutan.

Again, the data collection was based on the selected number of hotels and tourists and it did not cover all the hotels in Bhutan or the number of tourists visited.

1.5.1 Scope of Area

Out of 20 districts, five districts in Bhutan were selected for this study (Paro, Thimphu, Wangdiphodrang, Bumthang, Punakha and Chukha/Phuntsholing) where most of the grade A, grade B and grade C class hotels were located.

1.5.2 Scope of Demography

This research study is limited to two groups:

- Tourists groups, both Indian and foreign, who are over 14 years old and stayed in A, B, C category hotels in Bhutan.
- Owner/Managers of A, B, and C grade hotels.

1.5.3 Scope of Theme

This study comprises two factors in hospitality systems, which are as follow:

(1.) Demand factors, this research give importance to non-Indian and Indian tourists:

- Demographic characteristics
- Tourists behaviour
- Expectation and performance of products and services offered
- Importance of marketing mix

Above data are collected by distributing questionnaires for tourists.

(1.) **Supply factors**, this study included three categories of hotels (grade A, grade B, and grade C) and the value-added products and services provided by them.

1.5.4 Scope of Time, from January 2007 to October 2007

1.6 Definition of Key Terms

1.6.1 Marketing Strategies

A set of specific ideas and actions that outline and guide decisions on the best or chosen way to create, distribute, promote, and price a product or service (manage the marketing mix variables) to specific target market.

1.6.2 Value-Added

Additional value created at a particular stage of production or through image and marketing. In economic term, it refers to the contribution of the factors of production, i.e., land, labour, and capital goods to raise the value of product as a result income received by the owner of these factors.

1.6.3 Non-Indian

Tourists who pay tariffs between USD 165 to USD 200 for visiting Bhutan are termed as dollar spending tourists.

1.6.4 Registered

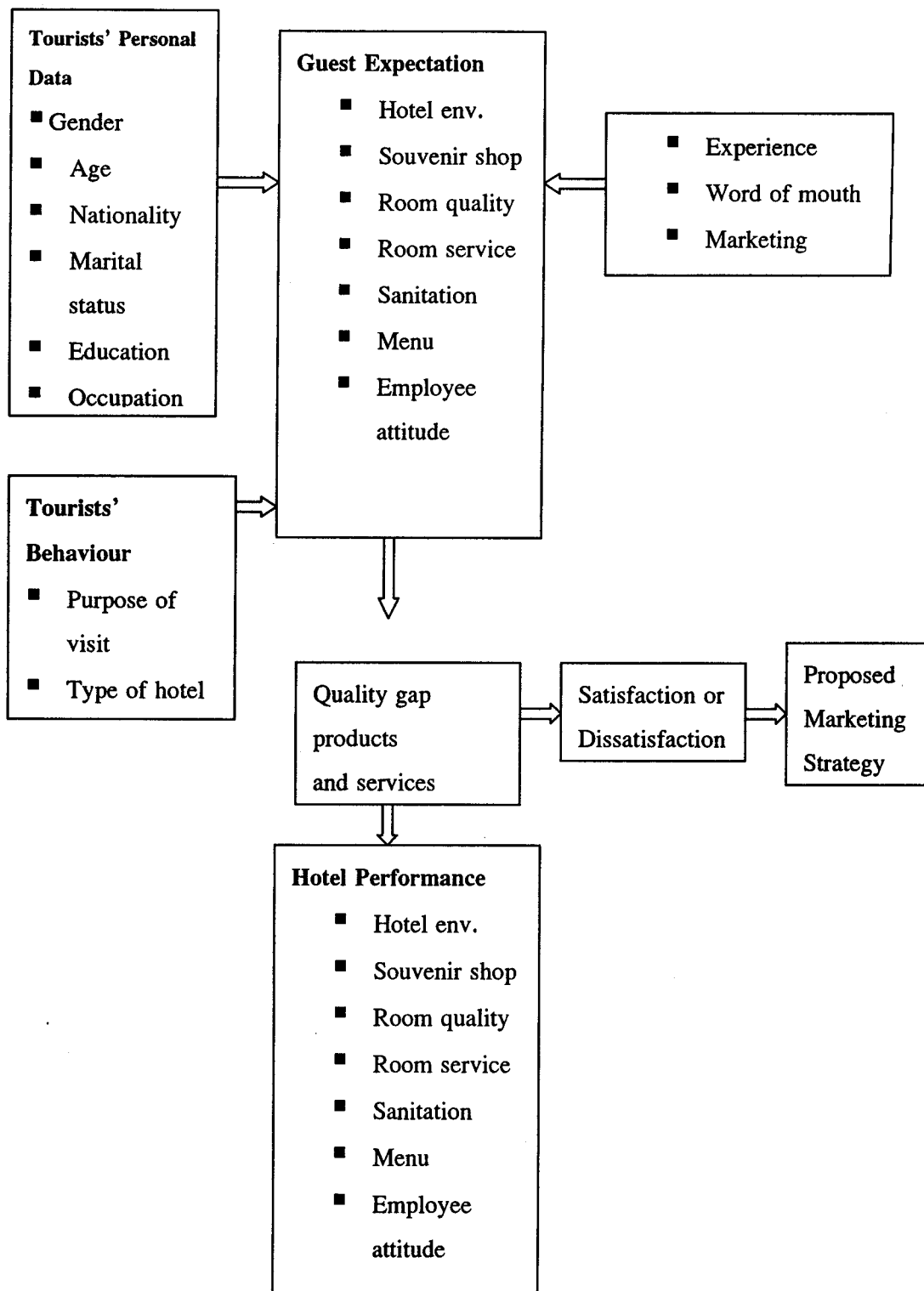
Hotels are categorized into A grade, B grade, and C grade by the department of tourism according to the quality and standard for the accommodation of tourists coming through travel agents.

1.6.5 Unregistered

Hotels are those substandard hotels, which are not categorized by the department of tourists, and are not used by the travel agent for the accommodation of tourists.

1.6.6 Below figure 1.5 shows the research framework, which focuses on the expectation of guests with products and services offered by the hotel in Bhutan. It also focused on whether tourists are satisfied with the performance of the hotel as well as what influences them in selecting hotels (tourist's behaviour). Finally, personal data (gender, age, nationality, education, etc.) is gathered to see which age group, gender ,sex, qualification are more likely to visit Bhutan. After that, the set target market for the hotel is identified and a marketing mix along with value added products and services are developed according to the survey of tourists' demands.

Figure 1.5 Conceptual Frameworks



Source: author