

## Surrogate Buyers in Corporate Buying of Luxury Hotel Rooms

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### Abstract:

Hotel industry is a significant stakeholder in the Indian tourism sector. According to Knight Frank research, 2008 Indian hotel industry is currently adding about 42,022 five and four star category rooms in the major cities. Hotel demand has grown much faster than supply, but the need to market the hotels, optimally remains. The persons who handle the travel arrangements for corporate houses are not buying the hotel services for their own personal use. This is the reason why, they can be termed as surrogate buyers. An identification of the how these surrogate buyers contribute to sales of luxury hotels, is what the researchers are trying to establish through this research. A study of a stratified sample of Sales Managers of all the hotels which fall into the luxury category of hotels in the city of Kochi, Kerala is undertaken during the first quarter of 2012, using the tools like a questionnaire and personal interview of Sales managers of these hotels. Thus the observations were arrived at. Hotel managers have to recognize this fact and should try to pamper these surrogate buyers by creation of business relationships. Also we would like to argue that that out of all the room business received from corporate, almost all (up to 95%) are routed through these surrogate buyers and they are definitely a business source. Managing them can surely bring additional business for any luxury hotel.

**Keywords:** Hotel, Bookers, Surrogate buyers, Corporate business

### 1.1 Introduction:

According to Geoffrey J W Kentt, Chairman, World Travel and Tourism Council (WWTTC), and chairman and CEO of Abercrombie & Kent, "With the continuing terrorism threat, scares from epidemics, natural disasters, exchange rate fluctuations and high oil prices travel and tourism industry shows a positive growth potential in the emerging economics". The developments are in terms of wealth and job creation and economic diversification on a row. The year 2007 showed GDP averages at 4% (real terms) and has created 34 million jobs. Jean Claude Baumgarten, President WTTTC in the 'Progress and priority report 2008/09' notes that China, India and emerging markets are rapidly growing, due to economic investments. Former Soviet Union and Middle East are driving the engines of economic development, due to higher oil prices. Looking at the future Mr. Baumgarten forecasts a growth of 4% over the next 10 years. The growth of international and domestic travel is expected to rise due to the integration of economies in the world, providing ample opportunities for both personal and business travel. The president of WTTTC in his introduction to the 'progress and the priority report 2008/09', states the importance of wisely managing this growth.

Although almost all the sectors were hit by the economic meltdown which started in the US economy, the impact on travel and tourism investment was depressed; but employed 235 million people across the world in 2009, generating 9.4% of global Gross Domestic Product (GDP). Signs of recovery have been felt in the industry but it is expected to be gradual as big corporate and households are reconsidering plans to save money. Projecting ahead of this recovery situation the contribution of travel and tourism to GDP is expected to rise from 8.6% (INR 5532 billion) in 2010 to 9% (INR 18543.8 billion) by 2020, according to 2010 travel and tourism economic research.

The contribution of Travel & Tourism to GDP is expected to stay the same at 6.0% (INR 3,239.4 billion or US\$67.3 billion) in 2009 to 6.0% (INR 10,274.1 billion or US\$187.3 billion) by 2019 (World travel & Tourism council). The foreign tourist arrivals to India reached 5.08 million in 2007, showing a growth of 14.16% from the previous year. Hotel industry is a significant stakeholder in the Indian tourism sector. There are 1,437 hotels approved and classified by the Ministry of Tourism (MOT), with a total capacity of 84,327 hotel rooms (MOT,GOI, 2007). Indian hotel industry is currently adding about 42,022 five and four star category rooms in the major cities (Knight Frank research, 2008). Hotel demand has grown much faster than supply, but the need to market the hotels optimally remains. Hotel managers in Kochi agree that there are seasonal occupancies in most hotels i.e. the hotel will be overfull during a medical conference or certain events in the city or there may be a drop in occupancy during certain months like June and July every year.

All major brand names in the world like the Hilton, Four Seasons, Ritz Carlton, Starwood, Hyatt, Marriott, Intercontinental, Taj, Oberoi, Leela are in the expansion mode and most investments are in the 5 star deluxe, 5 star category and the budget

category (Munich, ACTE global education conference 2007). These category hotels are most frequented by business travelers. More corporate are firming plans to enter India. Corporate sector is thought to be a source for business to star hotels, especially those hotels located in commercial cities. The business from this segment comprises of transient visits of executive, organization of conferences, training programs, long stays related to projects and banquet functions including product launches & incentive programs.

For many major business houses these activities are centralized under one department or section like Administration, Human resources (HR), Public Relations (PR), Procurements and Facilities. The persons who handle the travel arrangements from these departments are not buying the hotel services for their own personal use. Instead these professionals can influence the hotel room purchases of a boss. They are most often the secretaries and administration staff members. Many of them handle such activities as an additional responsibility to their existing core task like administration, HR, PR, Procurement etc. They are not intermediaries like travel agents, but they do all functions similar to the functions of a travel agent. They negotiate for special rates with hotels according to the entitlements or eligibilities of each traveling executives from their organization - they prepare a list of empanelled hotels in different cities to accommodate their executives and guests; and further more they handle the reservations on behalf of the guest and the organization. These corporate travel arrangers (CTA) also go on to the extent of processing the bills, in case if, the company enjoys credit facility with the hotels. The researchers would like to call these CTA surrogate buyers.

### **1.2 Theoretical background and literature search:**

A surrogate buyer is a person or an entity who is retained by a customer to guide, direct or represent purchase activities in the market place. Surrogate buyers interact in a market place on behalf of the customers for a wide variety of purchase decisions (Michael R. Solomon, 1985). These surrogates take some of the channel member functions as described by Philip Kotler, such as matching after research (Philip Kotler, 2007). Solomon also brought out the surrogate interventions as Market simplification, Market guidance and Market manipulation in the market flow process (Solomon, M. R., 1986). Consumers are cautious about the time expenditure, as they are for the money expenditure and time cost is considered actively, when consumers make service related decisions (Berry, 1979, Holman and Wilson, 1982). When the purchasing problems become complex, the use of surrogates may increase and that many customers will relinquish market decisions to outsiders, who can do it effectively. (Solomon, M. R., 1986).

The effects of expert power on persuasion have been well documented. (Burnkrant and Cousinneau, 1975; French and Raven, 1959). The relationship of a customer surrogate is argued as a channel dyad. (Achrol, Reve and Stern, 1983). Solomon observes the differences between surrogates and other channel members, as that the consumer retains the surrogates to facilitate their activity in the channel and this intermediary works backward through the channel. In all other channel participants, the flow of goods is from the producer to the consumer. (Solomon, M.R., 1986). When we look at the motivation of the shoppers to engage surrogates, we can see that Solomon argues that the taxonomies of shopper types may be useful in predicting whether the shopper would want to pursue shopping or exit the process. If the shopping is not considered as a congenial activity, the use of a surrogate becomes attractive (Alderson, 1957). The customers termed as economic and apathetic consumers also might fit into this category (Stone, 1954). But the recreational shoppers (Bellenger and Korgaonkar, 1980) would not want to delegate such a pleasure activity to anyone else. They might want to do it themselves.

When some people do not have conventional informal networks to rely upon for an advice for a purchase advice, they may feel the need for personalized referrals. Each role in the society has a multiplicity in the roles and that each role requires its own set of products and services for the successful performance of the role. (Solomon, 1983)

The information needs of the surrogate buyers are much broader than that of the end consumers and are more efficient to process information (Alba and Hutchinson, 1987). Since these surrogate buyers have collected information for their buying decisions in advance and they have extensive experience in solving problems as purchase decisions, they are considered as faster problem solvers (Stenberg, 1986).

Sheena Iyengar and Mark Lepper were the first to empirically demonstrate the downside of excessive choice and they argued that when shoppers are given the option of choosing among smaller and larger assortments of jam, they show more interest in the larger assortment. But when it comes time to picking just one, they were ten times more likely to make a purchase, if they choose among six rather than among twenty four flavors of jam (Sheena Iyengar and Mark Lepper, 2000). The availability of many product choices in the market is also a reason to have surrogate buyers who will weigh each of the choices and make decisions. Jacoby argued that much of the information for making decisions is underutilized. (Jacoby, Speller and Berrning, 1974).

### **1.3 Objectives:**

The objectives of this exploratory research is to

- (1) Analyze the sources of room business in luxury hotels in Kochi, Kerala.

- (2) Evaluate whether there is surrogate buying in luxury hotel room sales.
- (3) Ascertain who the surrogate buyers are and whether they are a source of room business for luxury hotels.
- (4) Identify from the perspective of hoteliers, the motivation of these surrogate buyers to book rooms.

#### 1.4 Methodology:

The list of all the hotels which fall in the category of luxury hotels - 5 star deluxe, 5 star and 4 star hotels are taken with the help of the FHRAI hotel list. The hotels (1) Le Meridien<sup>5starD</sup>, (2) Taj Malabar<sup>5starD</sup>, (3) CGH Earth<sup>5star</sup>, (4) Trident<sup>5star</sup>, (5) The Gateway Hotel<sup>5star</sup> (6) Gokulam Park Inn<sup>4star</sup>, (7) Avenue Regent<sup>4star</sup> and (8) The Renai<sup>4star</sup> fall in the category of luxury segment in Kochi. A survey of a stratified sample of the sales managers of luxury hotels at Kochi, Kerala is undertaken. The study was conducted during the period January to March 2012. The tools used are: 1. A questionnaire survey and 2. Personal interview of sales managers of luxury hotels. The data collected based on the questionnaire and the interviews are analyzed. The observations are described below:

#### 1.5 Observations:

1. There are three sources of room business in hotels selected. They are room booking from the corporate segment, Travel agents segment and free individual traveler (FIT) segment, for the hotels in Kochi.
2. 50% of the hotels agree that their guest profile consists of more business guests than guests for pleasure/leisure activities and 25% of the hotels responded that there is an equal distribution of business and leisure guests in their hotel. The occupancies of the all the hotels in the category of luxury hotels were found to be between 60% and 70% during the survey period.
3. The hotels reveal that, there is up to a 30% drop in occupancies, compared to the last year and the fall is attributed to the global financial crisis and economic slowdown and the travel cut arising out of the financial crisis. Some conference and group cancellations were also the reasons for this drop in occupancies. But they also observe that the business have slowly picked up from September 2010.
4. 62.5% of the hotels agree that the largest source of room business is from the source tracked under the corporate travel.
5. All hotels responded that the CTAs/Surrogate buyers as a source of business for them, when it comes to room bookings from corporate houses.
6. The bookings from corporate houses, varied between 20% and 75%, the average being 43.63%. This was primarily due to the presence of some hotels in the sample, largely catering to leisure travelers.
7. The respondents also agreed that almost all the business from the corporate (around 95%), was routed through the CTA.
8. Also it was observed that these CTA never bought rooms for their own use but the decisions were made by them, on behalf of the final customers. Their interactions were always for some other end users.
9. It was also observed that these bookers were retained by an end user company, to guide, direct or represent purchase activities of rooms as observed by Michael R. Solomon in 1985, because these CTA never stayed in any hotel they booked.
10. There was unanimity among the sales managers on the response that the CTA can be pampered to get additional business, which went to other similar category competition hotels.
11. The methods used by the hotels to get additional business from CTA predominantly during the last one year were frequent sales calling by the sales team, sending of season greeting cards, invitations for dining at the hotel, bookers party and cakes/sweets distributed during celebrations in rank order.
12. Commercial relationships were maintained by the sales team to lure business to their own respective hotels. The sending of seasonal greeting cards and cakes and even inviting bookers to entertainment at hotels were used to maintain commercial relationships.
13. The reasons the hotels understand as motivation for using them by these CTA are as follows: (1) Special corporate tariff offered by hotels (2) Quality aspects of food served (3) Hotel-corporate relationship (4) Ambience of the hotel (5) Brand name (6) Location advantage and (7) Facilities offered by the hotel.
14. Our research also confirms Solomon's observation that when the purchasing problems become complex, the use of surrogates may increase and that many customers will relinquish market decisions to outsiders, who can do it effectively.
15. As discussed earlier 62.5% of the hotels agree that the largest source of room business is from the source tracked under the corporate travel. The rest of the business came from Free Individual Travelers and Travel agents at a percentage rate of around 10% and 30% respectively. These are other sources other than surrogate corporate bookers for room businesses for the Kochi luxury hotels.

### 1.6 Managerial Implications:

From the analysis we can deduce the following:

1. Hotels should understand that these surrogate buyers are a major source of business. They are a source like a travel agent and the FIT, for room business of a luxury hotel.
2. Hotels feel that 95% bookings of corporate business can be traced back to CTA who buy rooms on somebody else's behalf. This somebody else is always the corporate traveler who is the end user.
3. The percentage of business from surrogate buyers for each hotel are as follows:

Taj Malabar	18.52%
CGH Earth	15.59%
Trident	20.66%
Gokulam Park	26.36%
The Renai	35.46%
Avenue	36.10%
Gateway	26.16%
Le Meridien	17.33%
<b>Average contribution of surrogate buyers</b>	<b>24.52%</b>

4. Out of the total room business of the city 50% of it is from the surrogate buyers. This means that there are activities by corporate houses in the city which involves luxury hotels stays in the city and that room bookings in the luxury segment are predominantly from the corporate houses in this city.
5. Hotels cannot achieve good room occupancies based only on leisure guests as we see in most hotels; there is a predominance of business guests than leisure guests.
6. The surrogate buyers cannot be ignored as a source for business as they make a significant contribution of 62.5% to the total room business of the hotel.

### 1.7 Scope for further study:

We recommend the following for further study:

1. What are the factors that motivate surrogates to use a competition hotel against a particular hotel?
2. What are the sources of business for a hotel other than the Corporate, FITs and Travel agent sources?

### 1.8 Conclusion:

We can conclude that surrogate buyers contribute to 24.52% as a source of business for the luxury hotels in Kochi, Kerala is a very significant contribution. Hotels have to recognize this fact and should try to lure them by creating commercial relationships. This can be done by motivating the sales teams at their own hotel or inviting surrogate buyers to dine at the hotel to experience services or sending seasonal greeting cards to them or by combination strategies. Also the argument based on our finding is that out of all the room business received from corporate, almost all (95%) are routed through these surrogate buyers and they are definitely a source that needs be researched further, so that hotels can benefit themselves, by getting additional room business especially, during times when each hotel is trying to fill up their unsold rooms.

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