

“Inferior Good”: A New Standard in the Hospitality Industry? *Roger Gerard, Hospitality Management, Shasta College*

I constantly teach that great service, in terms of food, beverage, travel, and lodging, will create a profitable hospitality business. The primary goal of a hospitality organization should also be attracting repeat business. Without it, many companies would fail. With the downturn in the economy, I have been hearing and reading that my idealistic philosophy highlighting service in the food, lodging, and travel industry is being compromised for the sake of perceived value in the current market.

We are all aware that a fiscal crisis has hit the public and private sectors and has caused many to reflect on how we have done business in the past and re-think how business will be conducted in the future. Living in a rural area, many local families are resorting to fast food concepts as their main source of meals. The perception is that it's inexpensive and convenient. Unfortunately, many are unaware that cooking at home can be less expensive. With the high fat and sodium content in many of the items offered at these concepts, nutrition appears not to be the priority. When the unemployment rate lowers, the demand for the fast food concepts will lessen, as consumers will be able to “afford” a home-cooked meal or dine out more often at casual and upscale concepts. The economic term for this scenario is “**inferior good**”, which in this case means, if a consumer had a higher income, the demand for these fast food products would be less. Granted, not all fast food is inferior, but seeing films such as [Fast Food Nation](#) and [Super Size Me](#), might make you think otherwise.

Recently, I visited a local hotel to discuss a student internship. A member of the management team informed me that they were no longer a “full-service” property and were now labeled as “limited service”. An example of a traditional “limited service” concept in the lodging industry would be a hotel that only offers a continental breakfast served in the lobby area. Knowing that they were one of the larger lodging operations in the area, I inquired what forced them to limit their food and beverage service. Their corporate office made the decision to eliminate a full-service breakfast in lieu of a buffet. Lunch and room service are no longer offered at the hotel. Dinner is served with a limited menu in the bar/lounge. This change also resulted in an elimination of jobs that had existed for years. The only facet of a full food and beverage service that remained intact was their banquet department. The reason for all of the changes was the inability of the hotel food and beverage operations to compete with quick service and casual food concepts in the immediate vicinity. In the current economy, there was more potential for profit by offering less service at the location. The “**inferior good**” at this hotel was evident for the traveler that didn't require the full-service amenities found at some other hotel properties.

In terms of sanitation, the Heritage Marina Hotel in Sunnyvale was recently mentioned in the CNN Travel section article [Dirty Hotels Gross Out Travelers](#).

CNN referred to the property as receiving less than exemplary ratings on cleanliness and addressed why some properties are able to stay afloat with low ratings. Referring to unclean properties, the article states:

“Sometimes they’re in a convenient location, like an interstate exit, which brings in lots of customers and allows the hotel to thrive without repeat business. Still others offer what some travelers care about the most: Rock bottom prices. People are looking for the cheapest room rate, so if a hotel offers an inexpensive rate then customers are willing to overlook almost anything.”

In this case of “**inferior good**”, travelers forgo more upscale lodging concepts and opt for less expensive rooms based on lower price and convenience that sometime lack clean conditions.

Another example is the wine industry where the “under \$3 per bottle” wine market grew by 5% in 2008 (<http://wineeconomist.com/category/two-buck-chuck/>). This was a result of the economy and a surplus of more expensive wines being discounted and sold at outlet chains where the demand was. Wine drinkers were originally introduced to the concept at Trader Joes with Two Buck Chuck, Costco influenced more high priced wine buyers to purchase at discount rates, and the downward economy has made wine buyers reflect on what they were getting for the price. Value-priced wines have become the “**inferior good**” for many consumers.

The previous examples represent how we have settled, in some cases, for less than what we have in the past in terms of lodging, service, food, and wine. When will we return to a “**normal good**”, where a demand for quality products increases? When our income increases, we may see some changes. However, could this be part of a larger lesson on what we now see as acceptable for the future? The economy has lost 7.24 million jobs since the beginning of the recession (<http://www.calculatedriskblog.com/2010/01/employment-report-85k-jobs-lost-10.html>). Our demand for the “**normal good**” may be dependent on how many of these jobs will return or be lost forever.

For more information on this topic, I recommend the following sites:

<http://www.bls.gov/news.release/empsit.nr0.htm>

<http://www.calculatedriskblog.com/2008/04/consumers-shifting-to-inferior-goods.html>

http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=buyers'+income,+demand+determinant