



Are customers' reviews creating value in the hospitality industry? Exploring the moderating effects of market positioning



Paolo Neirotti^a, Elisabetta Raguseo^{b,*}, Emilio Paolucci^c

^a Department of Management and Production Engineering, Politecnico di Torino, Corso Duca degli Abruzzi, 24, Torino 10129, Italy

^b Department of Management Technology and Strategy, Grenoble Ecole de Management, 12 rue Pierre Sémard, Grenoble 38000, France

^c Department of Management and Production Engineering, Politecnico di Torino, Corso Duca degli Abruzzi, 24, Torino 10129, Italy

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ABSTRACT

Although user-generated reviews on social media are greatly influencing competition and customer purchase patterns in the hospitality industry, empirical research has so far marginally investigated whether hotels are able to appropriate the economic value that the use of social media features can bring. In order to fill this gap, this article uses panel data from 2004 to 2012 on a sample of 240 small and medium-sized hotels for which we have collected data on profitability and 50,115 user-generated reviews on TripAdvisor, one of the most popular and largest online community for travellers. The results from fixed effects regression models show that online ratings from user-generated reviews on TripAdvisor have a positive effect on hotel revenue growth that is outweighed by a negative effect on gross profit margins. Thus, the increasing importance of user-generated reviews in online communities for travellers is shifting hotel competition from unit profit margin to volumes and to higher room occupancy rates, with online retailers capturing most of the value created in online transactions through social media features and with a limited effect brought on net profitability. However, hotels with higher star-rating, with a lower degree of local competition and localized outside popular destinations were found to obtain more benefits from online visibility on their gross and net profitability. Based on these results, managerial implications discuss how hotels should use social media features according to a strategic view based on pursuing the horizontal and vertical differentiation of their services in an attempt to create more economic value from their online visibility and to protect profit margins from the intermediation in their customer relationships.

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1. Introduction

Online social media are becoming a salient distribution channel that influences customers' behaviours and marketing strategies, even among established firms in traditional industries (Aral, Dellarocas, & Godes, 2013). In the hospitality industry, the importance of social media technologies has increased in shaping competition because online retailers such as Expedia, Trivago, and Booking.com have progressively added features typical of social media and online communities to their intermediation platforms, where travellers can compare prices and customer reviews for hotels and destinations. Online reviews provide additional information for travellers to mitigate the uncertainty about the quality

of a hotel and about its fit to their needs and preferences on accommodations and destinations. The use of social media features and a presence on the main social media platforms (i.e., Facebook, Foursquare) are thus becoming critical success factors for competition in the hospitality service industry (Phillips, Zigan, Silva, & Schegg, 2015). These are just the last factors of change brought by Internet diffusion in the industry's structure and in the distribution channels of hospitality services (Leung, Law, Van Hoof, & Buhalis, 2013). In the Internet scenario of the hospitality industry, online retailers have thus been gaining increasing market power in influencing customers' purchases (i.e., Inversini & Masiero, 2014; Silva, 2015; Yen & Tang, 2015) and have improved market transparency and uncertainty for travellers (Toh, Raven, & DeKay, 2011). For this reason, their role is now considered an infomediary (Chen, Yang, & Wang, 2015) because their capability to add value in transactions depends primarily on collecting and processing information about prices, destinations and travellers' reviews.

In the tier of infomediaries in tourism and hospitality, TripAdvisor is an online travel infomediary that has become the world's

* Corresponding author.

E-mail addresses: paolo.neirotti@polito.it (P. Neirotti), elisabetta.raguseo@grenoble-em.com (E. Raguseo), emilio.paolucci@polito.it (E. Paolucci).

most popular community about travel, with more than five million registered users who visit the platform 30 million times per month on average (Banerjee & Chua, 2016). In order to help travellers share their experiences, in the last few years, TripAdvisor has progressively introduced many features typical of social media networks (Kietzmann, Hermkens, McCarthy, & Silvestre, 2011).

Despite the increasing role played by online infomediaries in reshaping the structure of the hospitality industry, it is not yet completely clear whether and how hotels can capture the economic value brought by their greater visibility on online infomediaries. In highly fragmented sectors, such as the hospitality industry, the Internet can be a value-destroying mechanism for small businesses and can deter hotels' capacity to defend profit margins (Porter, 1998). This occurs because Internet changes industry attractiveness by affecting the vertical and the horizontal forces of competition in an industry. Specifically, value destruction refers to the reduction of profitability that incumbents may experience because of the re-intermediation played by infomedia platforms (intermediation on marketplaces, search engines and platforms for recommendations). In many industries, infomedia tends to reduce incumbents' market power to empower buyers (by giving them more information and reducing their information asymmetry) and to increase the degree of rivalry among firms that sell and distribute their products/services. Accordingly, the Internet has contributed to disintermediating traditional travel agencies from the market relationship between hotels and customers and has favoured the rise of a more concentrated tier of infomediaries with great market power. Specifically, in the Internet scenario, tourists have a stronger bargaining power with hotels thanks to the greater transparency about price and quality levels of hotels and to the greater availability of substitute products. An example of a firm that provides substitute services is Airbnb, which allows customers to rent rooms from private owners for short periods. From a resource-based perspective (Barney, 1991), online presence is a strategic necessity for hotels and is no longer a rare resource that these firms can leverage to increase prices. Furthermore, the usage of social media network features can shake up long-lasting reputations through reviews posted by unmonitored influential opinion makers (Liu, Hu, & Cheng, 2005) or can even damage the brand image of hotels, given the viral power of the web (Telofski, 2010), leading to an undesired effect. Thus, if not managed effectively, the usage of social media features on online infomediaries may represent a threat more than a missed opportunity for hotels.

However, greater Internet visibility that hotels can develop on social media platform or through social media features on online retailers' infomedia platforms might provide smaller hotels with opportunities for market growth in segments in which they have a limited market presence (Treem & Leonardi, 2012). This can be particularly important in an industry such as hospitality, where the supply is highly fragmented and revenues are based greatly on the attraction of foreign tourists.

Recent literature has not shed light on the ambivalent role of online retailers as a threat or an opportunity for small hotels' profitability because the great portion of empirical works on this theme have taken into account the relationship between online visibility and sales, overlooking the effects that online visibility can have on profitability (e.g., Ögüt and Onur Taş, 2012; Ye, Law, & Gu, 2009; Ye, Law, Gu, & Chen, 2011). This focus is dissonant with the great concerns that hotels have recently expressed against infomedia and the high intermediation fees that online retailers apply to sales made over the Internet. For example, in May 2014, the Italian Antitrust launched probes into the agreements made among Expedia, Booking.com and some hotels, questioning whether some clauses might prevent hotels from getting better deals through other booking websites (Financial Times, 2014). Consequently, recent literature has not been fully able to provide evidence-based

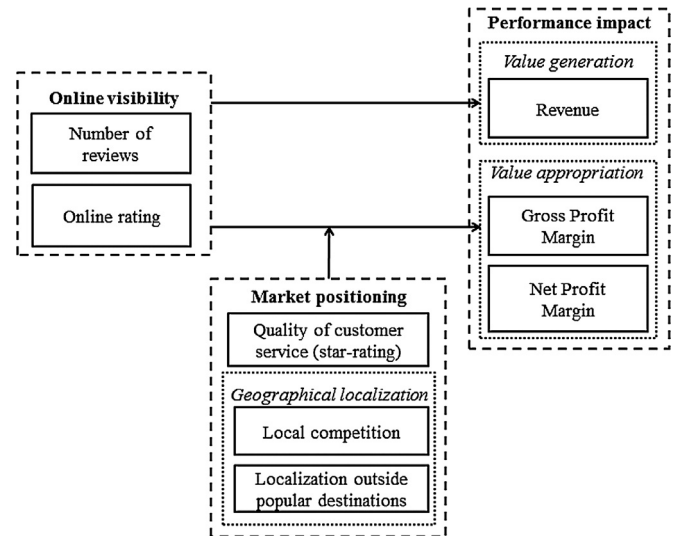


Fig. 1. Research framework.

managerial recommendations about what hotels should do in order to turn online visibility into higher profitability.

In this article, we offer a first contribution to bridge this gap by exploring the relationship between online visibility and the creation of economic value in terms of increase of sales and profitability for a panel of 240 Italian small and medium hotels. We also conducted this analysis with the goal of assessing the moderating effect of hotels' market positioning between their online visibility and profitability. In evaluating the moderating effects we consider only the profitability (the value appropriation achieved through online visibility) and not the increase in sales (the value generation achieved through online visibility) because hotels' market positioning affects a hotel's capability to appropriate the economic value brought by online visibility and influences hotels' ability to negotiate the infomedia fees, which in turn impact hotels' profitability. Specifically, market positioning refers to the hotels' competitive positioning in terms of geographical localization and the quality of customer service. Thus, we do not take the direct visibility that hotels have on social media platforms such as Facebook directly into account, but rather their visibility on retailers' infomedia platforms, which are increasingly powered through the integration with social media or by the use of social media features. The focus on small and medium hotels is consistent with the limited market power that they have in Internet sales without social media online retailers. Moreover, the analysis of Italian hotels offers some unique advantages in regard to our research goal, given the size that this industry has (it counts for approximately 8.6% of Italian GDP (WTTC, 2012)), the high fragmentation of its supply and its capacity to attract high touristic flows from abroad as a result of the country's unique historical and architectural heritage.

2. Theoretical background

2.1. TripAdvisor and socially enhanced infomedia

TripAdvisor is an online infomedia platform on which travellers can compare prices and customer reviews on hotels, restaurants and other touristic attractions. The value created essentially lies in the reduction of search costs for customers and in the enhancement of market transparency. Through TripAdvisor, travellers can book their rooms on several online travel agencies (OTA). The intermediation fees applied by TripAdvisor and online travel agencies can amount up to 25% of a room price (HSMIAI,

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