Do luxury room amenities affect guests' willingness to pay?

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ABSTRACT

Intangible services have fewer cues to enable consumer evaluation compared to physical goods. Cues are therefore particularly important for highly intangible services, since they provide tangible evidence of quality. This study explores whether luxury brand room amenities can be used as cues for customers to evaluate a hotel. This study attempts to identify what items and amenities guests find most/least useful and to examine whether luxury brand room amenities can enhance customers' evaluation of a hotel and increase willingness to pay based on positivity bias. Wi-Fi was regarded as the most useful hotel amenity, while telephone was regarded as the least useful amenity. This study found customers willingness to pay is affected by providing luxury brand room amenities. When luxury amenities were placed in the room, customers' estimation of the room rate and their willingness to pay for it both increased. Moreover, about two out of five expressed a willingness to pay extra for an upgrade to access luxury brand room amenities. The findings of this study provide important implications for hotel practitioners.

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1. Introduction

Services are different from products, in that they have a number of unique characteristics including intangibility, inseparability of production and consumption, heterogeneity of quality, and perishability (de Chernatoy and Segal-Horn, 2001). The first of these characteristics means that customers must rely on a number of evaluative cues to evaluate service quality. One of the main challenges for the hotel industry has therefore been tangiblizing the intangible hotel experience (Berry, 1986; Levitt, 1981). Tourism and hospitality researchers urge practitioners to make use of concrete images and cues to make services as tangible as possible.

Intangible services have fewer cues to enable consumer evaluation compared to physical goods. Cues are therefore particularly important for highly intangible services, since they provide tangible evidence of quality (Brandy et al., 2005). A product's brand name is one of the most important such cues. It represents images that have been formed based on customers' past experience with a brand or information they have obtained about it. One way to overcome the challenge of intangibility can be by creating a strong brand, which

represents the hotel's services and generates some of the tangible characteristics of an actual product. Strong brands help customers to better visualize and understand the intangible side of products and services.

As consumers become more sophisticated and the market more diverse, expectations of service quality are likely to increase. It is vital for companies to be consistently aware of their customers' needs and desires. In order to meet these needs, hotels offer different types of amenities and service levels to their guests. This study explores whether luxury brand room amenities can be used as cues for customers to evaluate a hotel.

Hotel operators often rely on an intuitive sense that brand room amenities will enhance customer satisfaction and improve performance. However, every amenity has a cost, and adding more such facilities requires hotels to make more investment. The volume of amenities and the associated costs have a direct impact on maintenance bills and so should also be considered. The profitability or desirability of amenities increases only when new or different ones are valued and used by customers. Thus, this research focuses not on the volume or type of such amenities but on their luxury branding. This has important implications for marketing and pricing strategy of hotels. Marketing approaches and pricing structure can be designed more effectively if hoteliers understand the effects of luxury room amenities on guests' evaluations and willingness to pay for such amenities.

The main objective of this study is therefore to identify what items and amenities guests find most/least useful. In particular, it

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attempts to examine whether customers believe that luxury brand room amenities give the hotel some kind of premium image, as well as whether customer perceptions of the hotel enhance willingness to pay for rooms.

2. Literature review

2.1. Pricing in the hospitality industry

Pricing issue has gained considerable attention from hospitality scholars, because effective pricing decision is critical for the long-term success of hospitality business. Most studies have been conducted on pricing strategy in the hospitality industry from a demand-side perspective. Many researchers explored the determinants of hotel room rates from various perspectives. Israeli et al. (2001) suggests that companies can signal strategic assets to target markets to justify premium price. Israeli and his colleagues examined the degree to which strategic assets such as corporate affiliation, brand name, and hotel size, predict the hotel room price in Israel (Israeli and Uriely, 2000; Israeli et al., 2001; Israeli and Reichel, 2001; Israeli, 2002). The major finding of these researches was that star rating is a better predictor of hotel room price than corporate affiliation (Israeli, 2002). Lee (2011) examined the determinants of hotel room rates in Singapore by applying volatility clustering modeling framework and found that total inbound tourists and economic performance have positive effects on hotel room rates. In addition, the study found that the occurrences of terrorist activities in the neighboring countries have negative impacts and the volatility of hotel room rates has a positive effect on hotel room rates. Hung et al. (2010) found hotel age and market conditions are only significant determinants in high-price hotels, and the proportion of foreign individual travelers positively influences room rate. More recently, Becerra et al. (2013) examined the effects of vertical and horizontal differentiation on pricing policy of hotels in Spain. The study found hotels with more stars (i.e., vertically differentiated) and hotels that belong to a branded chain (i.e., horizontal differentiation) offer smaller discounts over listed pries, in addition to charging higher prices.

Although a variety of approaches such as conjoint analysis (e.g., Goldberg et al., 1984), latent growth curves (e.g., Coenders et al., 2003), and quantile regression approach (e.g., Hung et al., 2010) have been applied, the hedonic pricing technique is one of the most widely employed technique for hotel room pricing from demand-side perspective. This technique views goods and services as collections of attributes or characteristics. Rosen (1974) argued that products or services can be described as combinations of different attributes or characteristics. The hedonic pricing approach is the idea that the observed price of any such product or service is the sum of the unobserved prices of the bundle of attributes associated with it. Chen and Rothschild (2010) employed hedonic pricing method with data obtained for 73 hotels in Taipei and found that hotel location, the availability of LED TV and the presence of conference facilities have significant effects on both weekday and weekend room prices. Espinet et al. (2003) examined the effect of different characteristics of holidays hotels on price from the hedonic function perspective. The study found that there are huge price difference between 4-star hotels and the rest and town, hotel size, distance to the beach and availability of parking place have significant effect on price. Abrate et al. (2011) explored the relationship between quality signals and price setting and found reputation-based quality signals are related to price levels. Kuminoff et al. (2010) focused on the impact of hotel's green amenities on hotel room rates and found that hotel customers can expect to pay premiums between US$9 and US$26 for a standard room in a green hotel.

While most research on hotel room pricing has been studied from a supply side perspective, a few researchers have explored the issue from a demand side perspective. For example, Monty and Skidmore (2003) estimated consumers' willingness to pay for hotel attributes using data obtained from consumers. Using data on price and amenities collected from bed and breakfast accommodations in Southeast Wisconsin, location, day of week, and time of year are found to be important determinants of price, but fireplaces, themes, scenic views and room service were not significant determinants. Danziger et al. (2006) investigated the contribution of strategic assets including price, brand name, star rating, number of rooms, number of restaurants, location and pool size, in determining customer perceptions of hotel room price in the Israeli hospitality industry. In their study, participants were asked to estimate the market price of hotel room after acquiring information on competing hotels. Price and star rating information was most frequently selected and brand information was selected more frequently when star information was not available than when it was available. Kang et al. (2012) focused on green initiatives of the hotel industry and examined hotel guests' willingness to pay a premium for environmentally friendly and sustainable practices of the U.S. hotel industry. Their study found that luxury and mid-priced hotel guests are more willing to pay premiums for hotels' green practices than economy hotel guests.

Abundant research has been conducted on pricing issue, however, relatively limited studies focused on hotel room pricing from a customer's perspective. Moreover, most studies have included hotel's strategic assets (i.e., hotel size and brand name) and external factors (i.e., market condition) to predict hotels room price. While the findings of previous studies have contributed to hospitality literature, they provided limited practical implications to hotels, because strategic assets and external factors are rather difficult for hotels to change or control within a short time. Guest room amenities can be understood as a kind of software for hotels, because changing room amenity items or brands is relatively easy. Therefore, this study focused on the effect of guest room amenity on customers' willingness to pay from a demand side perspective in order to provide practical implications to hoteliers. Although several scholars explored hotel room pricing from a customer's perspective, this study is different from previous studies (e.g., Monty and Skidmore, 2003; Chen and Rothschild, 2010). The distinguishing feature of this study is the application of focus group interviews (FGI) to identify important guest room amenities from a customer's viewpoint and experimental settings to examine whether luxury brand room amenities can increase their willingness to pay.

2.2. Hotel room amenities

Hotels try to find out about their customers' needs and desires and provide proper service and amenities to meet these, as guests become more sophisticated and the market more diverse. Since flat screen TVs and DVD players are now standard at most upscale properties, hotels must try to distinguish themselves by focusing on outstanding service and unique amenities. Marriott is in the process of upgrading the toiletries used in its properties around the world. Its luxury Ritz-Carlton chain also upgraded its toiletries early in 2013, using Asprey's Purple Water line. Asprey is a UK-based brand known for its Purple Water fragrance, as well as jewellery, leather items, and other luxury goods. Marriott's mid-priced brands, including Courtyard, SpringHill Suites, Residence Inn, and TownePlace Suites, provide Paul Mitchell hair care products, a line typically sold in upscale salons. Similarly, in 2012, the InterContinental chain began to stock its guest bathrooms with high-end Agraria toiletries, a line typically found in upscale US department stores such as Bergdorf Goodman and Saks Fifth Avenue. Guests can now find Shanghai Tang toiletries in the bathrooms of the Mandarin Oriental hotels in Las Vegas, Miami, New York, and Atlanta. Hoteliers seem to believe that upgrading to an