



## Digital marketing strategies, online reviews and hotel performance

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### ABSTRACT

We investigate to what extent digital marketing strategies (such as having a digital marketing plan, responsiveness to guest reviews, and monitoring and tracking online review information) influence hotel room occupancy and RevPar directly, and indirectly through the mediating effect of the volume and valence of online reviews they lead to, and to what extent this mechanism is different for different types of hotels in terms of star rating and independent versus chain hotels. The research was carried out in 132 Belgian hotels. The results indicate that review volume drives room occupancy and review valence impacts RevPar. Digital marketing strategies and tactics affect both the volume and valence of online reviews and, indirectly, hotel performance. This is more outspoken in chain hotels than in independent hotels, and in higher-star hotels than in lower-tier hotels.

### 1. Introduction

Electronic word-of-mouth (eWOM) is “all informal communications directed at consumers through Internet-based technology related to the usage or characteristics of particular goods and services, or their sellers” (Litvin et al., 2008). eWOM can take many forms, the most important one being online reviews. eWOM has a profound effect on attitudes and buying behavior of consumers and on commercial results in many product categories, such as books (Chevalier and Mayzlin, 2006), movies (Duan et al., 2008a; Liu, 2006), online games (Zhu and Zhang, 2010) and restaurants (Kim et al., 2016). eWOM appears to be particularly important for experience products. These are goods or services the quality of which cannot be judged easily prior to consumption, like hotels (Casalo et al., 2015). In such situations, the opinion of other consumers who post their experiences in online reviews, provides information from a source that is perceived as more independent and trustworthy than company information (Zhao et al., 2015; Ye et al., 2011). In the travel industry, in the USA alone nearly two thirds of Web users relied on digital channels for travel information in 2013 (eMarketer, 2013). More than 74 percent of travelers use the comments of other consumers when planning trips (Gretzel and Yoo, 2008). Thus, online reviews are an important source of information for prospective hotel consumers, and they have an influence on trust and enjoyment (Sparks and Browning, 2011; Gretzel and Yoo, 2008), perceived credibility (Casalo et al., 2015; Mauri and Minazzi, 2013), hotel awareness (Vermeulen and Seegers, 2009), corporate reputation (Baka, 2016), attitudes (Casalo et al., 2015; Vermeulen and Seegers, 2009),

hotel quality perceptions (Torres et al., 2015), booking intentions (Casalo et al., 2015; Ladhari and Michaud, 2015; Mauri and Minazzi, 2013; Sparks and Browning, 2011), hotel choice (Sparks and Browning, 2011; Vermeulen and Seegers, 2009), and willingness to pay (Nieto-García et al., 2017). As a result of this, online reviews also have an effect on hotel performance. Online reviews have been found to influence room occupancy, RevPar (revenue per available room), prices (Ögut and Tas, 2012; Ye et al., 2009, 2011) and market share (Duverger 2013).

Both the volume and the valence of online reviews affect consumer behavior (Kwok et al., 2017). Volume refers to the number of online reviews about a hotel in a given period; valence refers to the degree of positivity (rating) of these reviews (Blal and Sturman, 2014). More online comments have been found to lead to higher awareness (Zhao et al., 2015), and a better hotel performance (Viglia et al., 2016; Melián-González et al., 2013). The valence of online reviews also affects hotel performance. Ye et al. (2009, 2011) show that a 10% improvement in reviewers' rating can increase sales by 4.4%. Anderson (2012) reports that a 1-percent increase in a hotel's online reputation score leads up to a 0.89-percent increase in price, to a room occupancy increase of up to 0.54 percent, and to a 1.42-percent increase in RevPar. Viglia et al. (2016) report that a one-point increase in a hotel's review score is associated with an increase of 7.5 percentage points in the occupancy rate. Viglia et al. (2016) and Torres et al. (2015) find that both ratings and the number of reviews had a positive effect on online hotel bookings. Blal and Sturman (2014) demonstrate that, contrary to the number of reviews, there is a significant impact of ratings on

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RevPar. However, very few studies have explored the potentially differential effects of review volume and valence on different indicators of hotel performance, such as room occupancy and RevPar.

An important question is what hotel marketing management can do to increase the volume and improve the valence of online reviews and, indirectly, hotel performance. Digital marketing strategies, such as closely monitoring and analyzing customer feedback (Torres et al., 2015), responding to customer feedback (Melian-Gonzalez and Bulchand-Gidumal, 2016; Sparks et al., 2016; Torres et al., 2015; Limb and Brymer, 2015; Wang et al., 2013; Levy et al., 2013; Chen and Xie, 2008), establishing a digital reputation management plan (Levy et al., 2013), monitoring and studying social media (Baka 2016; Levy et al., 2013) and integrating third-party review sites on the hotel website (Aluri et al., 2016) appear to drive online review volume and valence and/or hotel performance. However, Melian-Gonzalez and Bulchand-Gidumal (2016); Baka (2016) and Cohen and Olsen (2013) argue that further research is needed on how digital marketing strategies can enhance reviews and improve organizational performance.

Finally, what drives online reviews and how and to what extent these reviews impact hotel performance may be different for different types of hotels. Blal and Sturman (2014) and Phillips et al. (2017) argue that hotel characteristics are contextual factors that play an important moderating role in consumer behavior. Viglia et al. (2016) point out that belonging to a hotel chain or being higher-star-rated could be factors that increases hotel occupancy. However, only a few studies have focused on the moderating effect of hotel characteristics on the effect of online reviews on hotel performance, for instance unknown versus well-known hotels (Casalo et al., 2015), higher versus lower-tier hotels (star rating) (Blal and Sturman, 2014; Duverger, 2013), and chain versus independent hotels (Banerjee and Chua, 2016).

## 2. Purpose and contribution of the study

In the current study we try to partly fill three voids in the literature:

- (1) How do volume and valence of online reviews affect different indicators of hotel performance, i.e. room occupancy and RevPar?
- (2) Which digital marketing strategies drive hotel performance (room occupancy and RevPar) through the mediating role of the volume and valence of online reviews?
- (3) Is this mechanism different for different types of hotels in terms of star rating and independent versus chain hotels?

Sainaghi (2010) proposes to measure hotel performances on the basis of three dimensions: financial (e.g. RevPar), operational (e.g. occupancy or repeat visit) and organizational (e.g. customer satisfaction). The current study uses room occupancy and RevPar as the dependent variables, representing an operational (quantity of bookings) and a financial (quality of bookings) dimension, respectively (Torres et al., 2015). An interesting question is to what extent digital marketing strategies and the volume and valence of reviews impact these two KPIs differentially (Blal and Sturman, 2014). In the current study, we answer the call for a more fine-grained analysis of the managerial and online review drivers of two different hotel performance indicators. The conceptual framework is shown in Fig. 1. Data were collected from 132 hotels in five tourist destinations in Flanders (Belgium), by means of a combination of a survey, a hotel website analysis, and online review data.

The study offers several insights into how hotel marketing works and provides guidelines for hotel marketing practice. Sainaghi (2010) distinguishes between external and internal determinants of hotel performance. The current study considers both. First, although the influence of online reviews (an external factor) on consumers' attitudes and behavior has been studied extensively, far less research has been reported on the influence of reviews on hotel performance. Studies that explore the effect of (digital) marketing strategies (an internal factor)

on online reviews are also scarce (Sainaghi, 2010). Combining these two elements, the current study attempts to unravel the mechanism through which digital marketing strategies influence hotel performance, and the mediating role that volume and valence of online reviews play in this process. The current study also provides insights into the differential effects of digital marketing strategies and online reviews on hotel performance for different types of hotels, an important topic that only received scant attention (Sainaghi, 2010). The results of the current study can inform hotel marketing managers which elements of their digital marketing strategies to focus upon, what to expect from them in terms of their impact on different hotel performance indicators, and which online review elements should be monitored and taken into account in this process.

## 3. Literature review, research questions and hypotheses

### 3.1. The effect of online review volume and valence on hotel performance

The number of reviews a product/service receives from customers is one of the most critical review attributes (Duan et al., 2008b). Several studies have shown that more online reviews lead to a better business performance (Viglia et al., 2016; Kim et al., 2016; Zhu and Zhang, 2010; Duan et al., 2008b; Amblee and Bui, 2007; Chevalier and Mayzlin, 2006; Liu, 2006). Torres et al. (2015) and Ye et al. (2009) find that the number of reviews have a positive effect on online hotel bookings. Kim et al. (2015) report that the number of reviews has a significant effect on hotel revenues. Tuominen (2011) finds a positive relationship between the number of reviews and a hotel's RevPar and room occupancy. Viglia et al. (2016) report that, regardless the review score, the number of reviews has a positive effect with decreasing returns on the occupancy rate. The fact that review volume can positively affect business performance is attributed to the fact that reviews, positive or negative, are an indication of hotel popularity, increase consumers' awareness of the product, keep the product longer in people's consideration set, attract information seekers, reduce uncertainty and perceived risk, and trigger normative behavior ('go with the crowd') (Zhao et al., 2015; Viglia et al., 2014; Vermeulen and Seegers, 2009). This suggests that popularity *per se* has a strong relevance in terms of preferences (Viglia et al., 2016). Additionally, Torres et al. (2015) argue that, with greater number of reviews, the impact of extreme reviews is minimized.

Several studies have found that the valence of online reviews affects business performance. Positive consumer reviews increase business results, whereas negative online reviews decrease them (Anderson, 2012; Chevalier and Mayzlin, 2006). Positive comments can enhance the reputation of a company, while negative comments can reduce consumer interest in the company's products/services, which can affect its profits. Sparks and Browning (2011) argue that the overall valence of a set of hotel reviews affects customers' evaluations and trust and, consequently, booking intentions. Ye et al. (2009, 2011) show that positive online reviews can significantly increase the number of bookings in a hotel. They suggest that a 10% improvement in reviewers' rating can increase sales up to more than five percent. Limb and Brymer (2015) find that overall hotel ratings predict RevPar. Anderson (2012) reports that a 1% increase in a hotel's online reputation score leads to a room occupancy increase of up to 0.54 percent, and to a 1.42% increase in RevPar. Ögut and Tas (2012) show that a 1% increase in online customer rating increases sales per room up to 2.68% in Paris and up to 2.62% in London. In a study of 346 hotels in Rome, Viglia et al. (2016) found that a one-point increase in the review score is associated with a 7.5% point increase in the occupancy rate.

A few studies have assessed the impact of both the volume and the valence of online reviews on various indicators of hotel performance. In an online experiment, Nieto-Garcia et al. (2014) show a positive effect of review valence on willingness to pay for hotel accommodation, which is strengthened by online review volume. Viglia et al. (2014)

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