



Market accessibility and hotel prices in the Caribbean: The moderating effect of quality-signaling factors



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HIGHLIGHTS

- We investigated the influence of market accessibility on hotel prices.
- We employed a three-level mixed-effect linear regression model.
- The influence of accessibility is moderated by various quality-signal factors.
- Increasing hotel's reputation helps buffer the impacts of being inaccessible.

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ABSTRACT

The purpose of the paper is to investigate the influence of market accessibility on hotel prices and how this influence is moderated by various quality-signaling factors, such as online user ratings, “thumbs up” (recommendation) percentage, hotel class, and chain affiliation. Using a randomized sample of hotels in the Caribbean islands, we employ a three-level mixed-effect linear regression model to investigate the plausible relationship between market accessibility and hotel prices. After controlling for unobserved island-level and hotel-level characteristics, the model indicates that in most periods, low market accessibility (high flight costs) leads to lower hotel prices, and this influence is mitigated by well-established positive reputations as represented by the quality-signaling factors. Our findings imply that hotels should work to increase their reputations to help buffer the impacts of inaccessibility. In an effort to increase market accessibility, one course of action is to reduce airport landing taxes and fees.

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1. Introduction

Market accessibility is defined as the ability of an individual to benefit from a set of opportunities or activities at a destination. This accessibility is determined by the number of opportunities at a place and the cost of realizing those opportunities, which is shaped by several spatial factors (Hanink & Stutts, 2002). Consumers' decisions are shaped by costs of travel, which are related to geographical distance (Nicolau & Mas, 2006). For example, a hotel's location is a fixed attribute. Once established, hotels can hardly move to relocate, therefore consumers must travel to hotels (Yang,

Luo, & Law, 2014). Mainstream tourism demand studies have defined market accessibility mainly in terms of distance as revealed in transportation costs, and distance is linked to travel costs in tourists' budgets (Peng, Song, & Crouch, 2014). Hotel demand is also linked to travel costs: lower travel costs increase destination access, which leads to increased arrivals and hotel room demand, and consequently, an increase in price. However, to our knowledge, since most hotel pricing studies used the sample of urban hotels without clear information on the origin of hotel guests, the hotel pricing literature has largely overlooked this natural tourism demand process.

Search costs are high when products are perishable and intangible (e.g., hotel products), making it difficult for people to gauge product quality (Woodside & King, 2001). Consequently, consumers search for information to reduce uncertainty when purchasing, for example, hotel rooms. Online consumer reviews have

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become important sources of information about the quality and image of a product or service (Gretzel & Yoo, 2008). Consumers consider observable quality signals, such as third-party endorsements (e.g., word of mouth), reputation, guarantees and price, and numerous scholars have investigated how signals affect perceptions of quality and purchasing risk when information is limited (Gretzel & Yoo, 2008; O'Connor, 2010). In the past literature, it is assumed that the effects of quality signaling factors are same across different properties. This one-fit-all assumption is highly problematic due to the great heterogeneity of hotel properties and products they offer. Hence, the relationship between hotel price and quality signals can be contingent upon moderating factors, such as market accessibility. However, these moderators of this relationship has been largely overlooked in the past hotel pricing literature.

To fill an important research gap, we investigate the relationship between market accessibility and hotel price using a hedonic pricing framework based on a multi-level dataset from hotels located on Caribbean islands. In particular, we scrutinize the moderating effect of various quality-signaling factors, such as online reviews, chain affiliation, and star rating. This paper is expected make several contributions to the current body of literature. First, this study represents one of the first efforts to investigate the determinants of room prices for Caribbean hotels, as past pricing studies are dominated by urban hotels (Yang et al., 2014). Second, we are particularly interested in the effect of market accessibility on Caribbean hotel prices. Since most Caribbean hotels are categorized as resorts and distant from major markets, market accessibility could play a more substantial role in determining hotel price. Third, although many scholars have incorporated quality signals (especially online signals) as a determinant of room rate (Ögüt & Onur Taş, 2012; Yacouel & Fleischer, 2012), none have investigated how quality signals may help hotels overcome competitive disadvantages. As information technology becomes more important in shaping customer decision-making processes, understanding the influence of online reputation indicators would help inform marketing strategies and customer service practices. Finally, mainstream hedonic price models do not consider the hierarchy of the dataset nor the unobserved effects stemming from specific factors (Goodman & Thibodeau, 2003; Orford, 2000). In order to address these shortcomings, we employ a multi-level mixed-effect linear regression technique to estimate the proposed hedonic price model. The outputs of this study are particularly useful for practitioners. Understanding the dynamic relationship of these factors has important implications for the role of online consumer opinion platforms in hotel pricing (Zhu & Zhang, 2010). These opinions, to a certain extent, control the strategic considerations of hotel managers.

The dynamics affecting tourism price structures in the hotel sector have important economic implications because the sector is a significant driver of local economic benefits due to its vast purchasing power and inputs required to support daily operations (Croes, 2006). The relevance of market accessibility is particularly dominant for island destinations due to natural barriers based on geography, distance and time. Competition on island destinations is condensed to the local level because at a large enough scale, periphery locations do not exist. Almost every inbound visitor planning to stay overnight on an island destination uses air transportation, thereby making air travel costs one of the most important considerations in the decision to visit an island destination. Tourism demand expansion drives economic growth in the short term, and ultimately in the long term as well (Croes, 2003). Market accessibility is thus an overriding and constant concern for Caribbean island destinations and for small island destinations in general, where tourism is an economic driver and the lodging

industry is a prevalent catalyst for continued economic growth and security (Croes, 2011).

2. Literature review

Hedonic pricing theories were advanced in the mid-1970s by pioneers such as Rosen (1974) and Goodman (1978) in efforts to understand the value of embedded product attributes or characteristics according to revealed market behavior. Based on Lancaster's consumer theory, this modeling strategy assumes that a product's price can be specified as a function of its associated immanent utility-bearing characteristics or attributes (Thrane, 2005). Therefore, a hedonic price strategy enables the total price of a particular good to be disaggregated into separate implicit prices that are attributed to certain inherent attributes or characteristics of the good based on the utility consumers can perceive (Dwyer, Forsyth, & Dwyer, 2010); these implicit prices basically reflect consumer willingness-to-pay (Goodman & Thibodeau, 2003). This method of determining price has been applied to a wide range of products and services that can be decomposed into different attributes with their own implicit prices in equilibrium. The observed price reveals information about potential customers' underlying preferences for those attributes and how businesses can increase the price by including particular characteristics. Empirically, the hedonic price model regresses observed prices on a set of structural, perceptual, and transaction-related factors, and the regression coefficients provide vital information about consumers' willingness-to-pay. Typically, a positive willingness to pay indicates a positive contribution to the level of utility perceived by consumers. Papatheodorou, Lei, and Apostolakis (2012) conducted a thorough review of previous hedonic price model applications in tourism and hospitality management, and they pointed out several advantages of this pricing method, including the ability to price non-market characteristics and the flexibility to accommodate a wide range of pricing factors. In the case of hotels and lodging, the price of a particular hotel's offerings is a function of several attributes of that establishment as well as the local environment. The nature and variety of the specific attributes can be divided into two main categories: internal and external (Chen & Rothschild, 2010). Internal drivers are attributes over which the hotel has control. Attributes that have been considered to impact a hotel's price include, but certainly are not limited to: star rating (Bull, 1994; Espinet, Saez, Coenders, Fluvi, & M., 2003; Israeli, 2002; Thrane, 2007), hotel age (Bull, 1994; Hung, Shang, & Wang, 2010), affiliation with hotel chains/brands (Thrane, 2007; White & Mulligan, 2002), hotel infrastructure (Espinete, Saez, Coenders, & Fluvi, 2003; Thrane, 2005, 2007), the number of rooms available (White & Mulligan, 2002), and the availability of parking (Bull, 1994; Chen & Rothschild, 2010; Espinete et al., 2003; Hamilton, 2007; Hung et al., 2010). External drivers of price are attributes over which the hotel operator has no direct control, such as competition (Balaguer & Pernías, 2013). External attributes are complex and often are considered to have significant influence on pricing as well (Bull, 1994; Chen & Rothschild, 2010; Rigall-I-Torrent et al., 2011; Saleh & Ryan, 1992).

Additionally, there is one particular attribute that is unique: location. Although all other internal and external attributes may change, a hotel's location is fixed (Bull, 1994). Location determines proximity to attractions for hotel guests, such as activities or a city center (Chen & Rothschild, 2010; Hung et al., 2010), beaches (Rigall-I-Torrent et al., 2011), or public goods (Rigall-I-Torrent & Fluvià, 2011). Moreover, as suggested by spatial interaction theory and the location-allocation model in business geography, a hotel's location relative to another can be captured by market accessibility, such as general accessibility for hotel customers (Fleischer, 2012;

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