



Hotel attributes: Asymmetries in guest payments and gains – A stated preference approach



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HIGHLIGHTS

- We model hotel choice using stated choice data and advanced discrete choice models.
- Asymmetries in the impact of the main attributes defining hotel quality are studied.
- Discrepancies between the WTP and the WTA for hotel quality are quantified.
- Results are used to extract recommendations for hotel managers and policy makers.

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ABSTRACT

This paper reports the existence of asymmetries in the preference formation of potential guests with regards their perception of hotel attributes. In the same way, using choice experimentation, we can confirm that similar asymmetries exist in their willingness to pay measures based on the valuation of losses or gains. The specification of a reference dependent utility function allows the application of prospect theory to an analysis of choices made by consumers when they evaluate attributes that define hotel service quality. The results show the existence of significant discrepancies between the monetary compensation a customer would accept if a reduction in hotel quality was produced and the amount he/she would be willing to pay if the service quality were improved. The results imply important implications and recommendations for hotel managers and policy makers.

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1. Introduction

The hotel sector in the Canary Islands has become an extremely competitive sector in recent years. In a highly competitive environment, where homogeneous services and products are offered, hotel managers must find alternatives to make their products more attractive than those of their competitors. Under these circumstances, hotel corporations are focusing today more than ever on the understanding of the needs and expectations of their customers. By satisfying them, they will ultimately improve the company's market share and profitability (Oh & Parks, 1997). According to Watson, McKenna, and McLean (1992) and Lewis (1993), hotels

can obtain competitive differentiation, improve business efficiency, increase customer loyalty as well as attract new customers by offering a high degree of service quality. With this in mind, the challenge of offering a high quality service represents these days a growing concern for many firms in the hospitality industry. Some hotels now tend to focus on the commitment of improving customer services by continuously enhancing the quality of the service provided. As pointed out by Verma and Plaschka (2003), in order to remain successful in the market, company managers must address the “ARC” challenges, namely, ambiguity, risk and conformity. In this regard, appropriate responses to what customers really want must be given, if new products or services are to be successful and if firms are to deliver what they promise.

Accordingly, in such a business environment, knowing customer preferences as well as the value they attach to different service levels has become paramount for hotel managers in setting fare regimes as well as in evaluating different company strategies. In

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this sense, it is important to take into account that these strategies may sometimes entail improvements in the level of service for certain attributes and/or reductions for others. Thus having an accurate knowledge of the monetary value that customers attach to gains and losses is essential for the evaluation of company policy.

Discrete choice experiments (DCE) are conducted in different fields to obtain data for investigating consumer behavior and derive measures such as the value of improving a particular service attribute. They provide an effective way of determining consumer preferences and in assessing the tradeoffs made when they evaluate various products and service bundles. In the particular context of hospitality management, [Verma, Plaschka, and Louviere \(2002\)](#) highlight the relevance of discrete choice analysis as a mechanism to provide hotel managers with an instrument to determine which product and service attributes have the greatest impact on consumer purchase decisions. In this regard, obtaining appropriate measures of the willingness to pay (WTP) or its counterpart willingness to accept (WTA) represents a key element in the evaluation of policies affecting both market and non-market goods. One of the most claimed advantages of this methodology is that these monetary measures can be easily derived from model estimates, thus providing an essential instrument in economic appraisal.

Despite the fact that a significant part of empirical and theoretical literature recognizes the gap existing between WTP and WTA,¹ this issue did not receive enough attention until recently. The state of practice, regarding the estimation of WTP measures using discrete choice analysis, was based on models in which the utility response to increases and decreases in a particular attribute was considered identical, in other words the utility function is symmetric with respect to a reference alternative. However, as pointed out by [Tversky and Kahneman \(1991\)](#) in their seminal paper about the reference-dependent theory, there is substantial evidence that demonstrates that choice depends on status quo or reference level, and that, losses and disadvantages have a greater impact on preferences than gains and advantages. This is especially true in some service sectors, such as tourism, where customers usually tend to penalize reductions in the level of service quality more intensively.

The application of choice modeling techniques in the field of tourism is not new in literature.² For this particular case of the study of hotel choice, [Kim and Perdue \(2013\)](#) and [Huertas-García, Laguna García, & Consolación, 2014](#) can be cited among the most recent references. [Kim and Perdue \(2013\)](#) proposed a combination of cognitive, affective, and sensory attributes to analyze hotel choice. In this regard, they define cognitive attributes as “physical dimensions or non-physical qualities that satisfy utilitarian needs and provide functional benefits or value”. In contrast, affective attributes are those represented as “emotions and feelings elicited by features of the target object”, while sensory attributes are those perceived after gathering information with our senses. These authors claimed that this integration has its theoretical foundation in cognitive-experiential self-theory (CEST), one of the dual processing theories analyzed in [Epstein \(2003\)](#). Epstein suggests that people understand reality by using two conceptual self-systems that operate in parallel: (1) an experiential system, which is affective in nature, as well as, associated with rapid and crude processing, and (2) a rational system that is cognitive in nature and associated with deliberative processing.

Based on this literature, the present study also integrates cognitive, affective and sensory attributes to analyze how tourists

perceive and experience service quality and satisfaction in the context of hotel choice. Thus, the focus of this study is to determine customer preferences by analyzing which attributes have the highest impact on their hotel choice decisions and whether these attributes suffer more or less asymmetry in the preference formation depending on their classification. To our knowledge most hotel choice studies do not take into account the existence of asymmetries in the perception of the different attributes depending on whether there are increases or decreases in the service levels and how these are economically valued.

This research aims to fill this gap by estimating discrete choice models with the ultimate purpose of providing empirical estimates of the measures of WTP and WTA for some significant attributes that define hotel quality, as well as analyzing the magnitude of these discrepancies. This goal will be attained by specifying an asymmetric utility function with respect to reference values provided by the current level of service perceived by hotel clients. In this sense, the asymmetric utility will take into account the differences in utility perception when improvements or reductions in the level of service are considered. Furthermore, the specification of a reference dependent utility function will allow us to test loss aversion hypotheses in the main attributes that define the hotel service quality in concordance with the reference-dependent model of [Tversky and Kahneman \(1991\)](#). The improved knowledge of customer preferences regarding relevant attributes in hotel choice decisions, is deemed essential for hotel managers if they are to keep their products attractive in very a competitive market through a better evaluation of their clients overall experience.

The rest of the paper is organized as follows. The next section describes briefly the dataset, the questionnaire and the choice experimental design. Section 3 describes the methodological approach. Estimation results and the main implications for hotel managers and policy makers are presented in Sections 4 and 5, and finally, Section 6 provides the conclusions.

2. Data and choice experiment

Data are drawn from a study carried out in the tourism area of Gran Canaria (Spain) and were obtained from a choice experiment completed by customers of four hotels belonging to one of the most important hotel chains operating in the Canary Islands.³ The Canary Islands is one of the main tourist destinations in Europe.

[Bliemer and Rose \(2011\)](#) sustain that DCEs represent an adequate technique that allows researchers to construct databases for modeling consumer preferences. These, in turn, can be used to estimate the WTP for improving the level of service in attributes that are relevant in the selection of different alternatives. In a DCE, a respondent is asked to participate in one or multiple choice tasks to select their most preferred option from a given set of alternatives that are characterized by different levels of service. DCEs offer decision makers hypothetical scenarios that need to be realistic in the context of the experiment. The preferences expressed by the individuals indicate the relative importance and trade-offs of the attributes that characterize the scenarios.

In our case, respondents face the choice between two hypothetical hotels defined by different combinations of service quality. The purpose of the experiment was to gain insight into customer preferences with regard to hotel choice and to quantify the relative importance of the different attributes in the overall quality of service. Previous information collected about the current level of

¹ See [Horowitz and McConnell \(2002\)](#) for a detailed review.

² See [Crouch and Louviere \(2001\)](#) for an extensive review.

³ Lopesan Hotels and Resorts Group.

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