

Room Attribute Preferences Vital to Hotel Profit Maximisation

Hotel managers need to understand the value that customers place on particular room features and charge for them accordingly, argue the SHTM's Dr Lorenzo Masiero and his co-researchers in a recently published study. Having conducted a stated-choice experiment in a Hong Kong hotel, the researchers reveal that customers are willing to pay much more than currently charged for features such as a harbour view, but place relatively little value on other features such as free cancellation. Hotels would benefit from segmenting their markets to reflect these discrepancies, the researchers suggest, with the ultimate aim of maximising profits.

Customer Focus Needed

Hoteliers are constantly faced with the problem of determining how much more customers might be willing to pay for certain room features, such as being on a higher floor or having a sea view. They can do so through experience or trial and error, the researchers note, but that does not necessarily match customers' valuations.

Most customers consider certain attributes, such as "larger room space, free services, a quieter room, etc." as desirable, but knowing just how desirable they are for individual customers is critical. The researchers argue that customers decide how much they are willing to pay for rooms based on "their own unique needs and desires" and only make purchases if they believe the value of a room "matches or exceeds" the price charged.

Understanding the real value that customers place on particular room features and services will, according to the researchers, allow hotel managers to set appropriate rate fences and thus maximise revenue and profit. Hence, they set out to measure the perceived marginal utilities of various room attributes in a luxury hotel located in downtown Hong Kong. By offering customers the choice of rooms on different floors, with different views and with access to different services, they aimed to calculate how much customers valued each attribute and the contribution of those valuations to their overall choice of room.

Choice of Seven Attributes

The 262-room hotel had facilities such as a harbour view swimming pool, a spa, a health club, three restaurants, a ballroom and conference rooms. Through discussion with the hotel's managers, the researchers drew up a list of seven room attributes that customers would be able to choose in different combinations.

The first attribute was price, with five levels from HK\$1,600 to HK\$3,200 per night. The other attributes included a choice between a city and a harbour view, three choices of floor (10th, 18th or 26th floor) free minibar with or without wine and beer, the use of a smartphone with free calls and data, and refundable or non-refundable cancellation. The seventh attribute was access to the hotel's club, located on the top floor and offering free breakfast,

evening cocktails, exclusive check-in/out facilities and business facilities.

In face-to-face interviews, customers were asked to pick between two hypothetical rooms with various combinations of the seven attributes. For example, Room A offered a city view room on the 10th floor, with access the hotel club, a free minibar with alcohol, no smartphone and free cancellation for \$HK1,600. Room B offered a harbour view room on the 26th floor, access to the club, a free minibar with alcohol and free smartphone, but no cancellation, for \$HK2,400. As well as making the six choices, the guests provided information about themselves and their current stay.

Customer Characteristics

Of the 808 hotel guests interviewed over three months, the majority were on leisure trips and stayed for two nights. The largest group of individual guests was from the UK, followed by Australia and the United States. For their current stay in the hotel, more than half of the guests chose a harbour view and just less than a third chose a room with access to the club. The guests were well satisfied with their stays, giving the hotel an average rating of 4.4 out of 5 for overall quality.

The guests paid HK\$2,434 per room on average and spent around HK\$500 per person each day on hotel facilities, although that amount varied widely. Almost two-thirds of the guests had already visited Hong Kong at least once,

reflecting what the researchers describe as the “strategic positioning of Hong Kong as a transport and tourism hub in the Asia-Pacific region”.

Willingness to Pay Established

Seeking to understand the guests’ choices among the hypothetical room alternatives, the researchers found that the most influential room attribute was a harbour view, with guests willing to pay an additional HK\$771 per room per night compared with a room with a city view. As this was considerably higher than the current premium of \$400, the researchers suggest that the hotel, and by implication any similar hotel, could maximise revenue by charging much higher prices for these rooms. They calculate that charging an additional HK\$371 on top of the current rate would increase the hotel’s annual profit by HK\$7.95 million.

Access to the hotel club was the next most highly valued attribute, for which customers were willing to pay an additional HK\$437 per night. This, however, was far less than the extra \$980 for a room with club access that the hotel was charging, although that figure is not directly comparable because it includes facilities that were not included in the hypothetical rooms. Nevertheless, it seems that the hotel may have over-estimated the value of access to its club and the researchers argue that it could consider reducing the price tag, especially when it needs to fill rooms.

Similarly, the guests did not seem to value the option of refundable cancellation as highly as the hotel itself, which charged

\$960 compared with customers’ average valuation of HK\$122. This difference could explain why less than a quarter of the customers interviewed had chosen this option for their current booking.

The customers also indicated that they were willing to pay an additional HK\$220 for a room located 10 floors higher, HK\$226 for a mini-bar with alcohol and HK\$160 for the free use of a smartphone. Although the hotel did not differentiate prices by floor and all guests had the same minibar and smartphone access, these values should be indicative of what the hotel and establishments like it could charge for such attributes.

Market Segment Differences

The researchers also considered whether customers’ choices varied depending on if they were business or leisure tourists, and on whether this was their first trip to Hong Kong.

The business travellers interviewed were less price sensitive and willing to pay 25% more on average than the leisure travellers. Greater differences were found between first-time and repeat travellers. In particular, first-time visitors were willing to pay 73% more than repeat travellers for a mini-bar with alcohol. The researchers observe that given the relatively low price of alcohol in Hong Kong, guests “may discover the low value” of beer and wine once they become more familiar with the destination. To capitalise on the preferences of first-time customers, they suggest, hotels could offer special deals on features that they value highly such as wine and beer in the minibar and access to the club.

Maximising Sales and Revenue

Ultimately, the researchers provide hotels with practical guidance on how guests really value the facilities they are offered. By adjusting their prices upwards according to the facilities that are valued more highly – such as a harbour view and a room on a higher floor – and adjusting them downwards for facilities that are valued less highly – such as free cancellation – hotels should be able to offer deals that better match guests’ expectations. This would, the researchers conclude, “effectively stimulate room sales”.

POINTS TO NOTE

- Hotels currently set room prices according to their own valuations of room attributes.
- Guests would pay more for some attributes than hotels currently charge.
- Different market segments also place different values on certain attributes.
- Hotels can use revenue management practices to maximise revenue and profit.

Masiero, Lorenzo, Heo, Cindy Yoonjoung and Pan, Bing. (2015). “Determining Guests’ Willingness to Pay for Hotel Room Attributes with a Discrete Choice Model”. *International Journal of Hospitality Management*, 49, pp. 117-124.