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PolyU Study Finds Chinese Luxury Hotels Equalling Foreign Rivals

Domestic travellers in China are equally satisfied with foreign and domestic luxury hotel brands, according to Professor Cathy Hsu of the School of Hotel and Tourism Management (SHTM) at The Hong Kong Polytechnic University in a recently published research article. Considering the brand evaluations of domestic travellers at both foreign and domestic brand luxury hotels, Professor Hsu shows that any previously perceived differences in quality between the two no longer exist. Chinese hotel guests, she writes, are now "just as satisfied" when staying at domestic brand hotels as they are when staying at their foreign counterparts. This equivalence has obviously important implications for the Chinese hotel sector.

With China expected to become the world's largest luxury market this year, generating 20% of global luxury consumption, the country's high-end hospitality sector is becoming increasingly enticing for investors. Indeed, Professor Hsu warns that this is a situation "no established or aspiring international luxury brand can ignore". In a broad sense, foreign brands have dominated China's luxury consumer market since the country opened up, largely because of their perceived higher quality than local brands and the prestige and social status that their possession conveys.

Professor Hsu explains that "consumers often use the source country of a product or brand as an extrinsic informational cue when evaluating it". This, she notes, is "the country of origin effect" and it has been highly relevant in China over recent years, as it often is in emerging markets. "Because Chinese individuals place great importance on the anticipated reactions of others to their behaviour", she suggests, "the possession of publicly visible luxuries, including staying in foreign luxury hotels, may be important to a consumer's 'public self'".

Yet the country of origin effect seems to be weakening as the quality of Chinese products improves. The top luxury hotel space is dominated by overseas brands, Professor Hsu writes, but "more indigenous hotel brands have entered the luxury lodging segment", with consumers insisting that "traditional culture components be a part of the consumption experience".

Chinese brands are thus in a position to enhance their brand equity, or the value derived from having a well-known brand name. As Professor Hsu notes, brand equity is becoming "an important intangible asset that can provide firms with competitive advantage". While it is often associated with the country of origin effect for tangible goods, that association is not very clear for intangible services.

Professor Hsu set out to resolve that uncertainty by measuring perceptions of brand performance and brand satisfaction among Chinese domestic travellers staying at foreign and domestic luxury hotels. Guests at 15 foreign brands and 11 domestic counterparts in 12 major mainland cities were surveyed on the night before their departures, with responses focusing on the particular brands they were experiencing. The foreign brands, most of which had US origins, included well-known names such as Hyatt, JW Marriott, Sheraton, Sofitel and Westin. The domestic brands included local market leaders such as Dragon, Garden, Grand Metropark, HNA and New Century.

The guests were largely well-educated young to middle-aged adults. Men were better represented than women, with a wide spread of annual incomes. The majority were repeat customers of the hotel and brand in question, and most were travelling on business.

As might be expected given the persistence of foreign luxury brands in the domestic hotel sector, the characteristics of the guests staying in foreign brands differed from those staying in Chinese brands. The guests in foreign brand hotels reported higher household incomes and were more likely to hold graduate degrees. They were more likely to be members of the hotel's loyalty programme, to have stayed with the brand before and to be keen to earn loyalty points.

These guests had also visited more foreign countries in the past five years and paid more for their rooms, at an average of RMB1,285 per night versus RMB800 for their domestic brand counterparts. Clearly, foreign brands still enjoy a price premium in the Chinese luxury hotel sector, but perhaps not for long. When asked about "the maximum amount they were willing to pay for the next stay", foreign brand guests exhibited resistance to paying any more, whereas those staying in domestic hotels reported willingness to pay 10% more. This, explains Professor Hsu, is clear "evidence of their satisfaction and positive evaluation of brand performance".

Yet despite these differences, the two groups of guests had remarkably similar perceptions of brand performance and satisfaction with the brand. "In other words", Professor Hsu explains, "hotel customers' evaluations of brand performance were similar regardless of the brand's country of origin." The two groups were also equally likely to express the intention to stay with the brand again in the future and the intention to recommend the brand "to others travelling to this city".

This equivalence of brand perceptions has a number of implications for foreign and domestic hotel brands in China. Professor Hsu suggests that foreign brands "review their brand strategies and service offerings so as to improve customers' brand quality and image perceptions". Some of these brands, she argues, "have failed to deliver or communicate their superior value or image over local brands". This has led to value/image "dysfunctionality", and it is only a matter of time before consumers refuse to pay a price premium for a dysfunctional brand.

The scenario for domestic brands is largely positive, given that the guests surveyed, many of whom were experienced business travellers, not only evaluated domestic brands as "on par" with their foreign competitors, but were willing to pay more for their next stay. However, Professor Hsu does sound one note of caution.

If domestic brands are to retain satisfied customers who have accumulated more overseas travel experience and are earning higher salaries, they need to develop loyalty programmes, which only 30% currently have. They will also need to promote those programmes "aggressively to recruit members", Professor Hsu states. Hotels that currently have loyalty programmes, she advises, should enhance them "to provide further incentives for current and potential guests to return".

With Professor Hsu showing that domestic travellers in China now consider local brand luxury hotels as essentially equivalent to their foreign brand counterparts, there is certainly scope to broaden the investigation. She notes that most luxury hotels in China earn "over half their revenue from food and beverage outlets patronised by local customers" and the perceptions that these customers have of foreign and domestic brand performance will provide "another important perspective". In future it may well be seen that domestic ownership of a luxury hotel brand provides a distinct advantage in building brand equity.

Hsu, Cathy H.C. (2014). Brand Evaluation of Foreign versus Domestic Luxury Hotels by Chinese Travelers. *Journal of China Tourism Research*, 10(1), 35-50.

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