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Determinants of Mid-scale Hotel Brand Equity

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Abstract
The traditional brand management in the hotel industry is facing a great challenge as numerous brands provide many choices to hotel guests. In such competitive environments, hotel firms realize that capitalizing on one of the most important assests they own- the brand- is critical to achieve a premier growth goal not only rapidly but also in a cost- effective way. THe purpose of this study is to examine the determinants of cutsomer-based hotel brand equity for the mid-priced U.S. lodging segment by assessing the impacts of four-widely accepted brand equity dimensions: brand awareness, brand associations, percieved quality and customer loyalty. 277 travelers participated in this study at the airport in a Midwestern city. Perceived quality, brand loyalty, brand associations were found to be the core components of brand equity, while brand awareness, a seemingly important source of brand equity, did not exert a significant influence on building brand equity of mid-priced hotels. The result of this study sheds insight about how to create, manage, and evaluate a distinctive and successful hotel brand.

Keywords
Hospitality and Administration and Management, Economics, Finances, Marketing, Branding

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By Woo Gon Kim and Hyun Jeong Kim

The traditional brand management in the hotel industry is facing a great challenge as numerous brands provide many choices to hotel guests. In such competitive environments, hotel firms realize that capitalizing on one of the most important assets they own – the brand – is critical to achieve a premier growth goal not only rapidly but also in a cost-effective way. The purpose of this study is to examine the determinants of customer-based hotel brand equity for the mid-priced U.S. lodging segment by assessing the impacts of four widely-accepted brand equity dimensions: brand awareness, brand associations, perceived quality, and customer loyalty. 277 travelers participated in this study at the airport in a Midwestern city. Perceived quality, brand loyalty, brand associations were found to be the core components of brand equity, while brand awareness, a seemingly important source of brand equity, did not exert a significant influence on building brand equity of mid-priced hotels. The result of this study sheds insight about how to create, manage, and evaluate a distinctive and successful hotel brand.

Introduction

Over the last decade, hotel operators have witnessed an acceleration of brand proliferation. In particular, hotel development teams have focused on adding the extended-stay, boutique, and luxury segments. Fueled by high customer demand and strong performance, the total number of lodging brands in the extended-stay segment is over 26. Residence Inn by Marriott was the front-runner in this segment, followed by Homewood Suites by Hilton, Extended StayAmerica, and Candlewood Suites by InterContinental. Other known extended-stay brands include InTown Suites, TownePlace Suites, Hawthorn Suites, Staybridge Suites, Home-Towne Suites, Suburban Extended Stay Hotels, Studio Plus Deluxe Suites, Summerfield Suites, Sun Suites, and Sierra Suites.

To meet the increasing demand of hotel guests seeking differentiated service with a more personalized touch, the boutique hotel segment debuted and has experienced an unprecedented growth over the past few years. Some leading boutique hotels include Morgans, SoHo Metropolitan Hotel, Opus, Arc The Hotel, and Hotel St. Paul. For the luxury segment, Starwood, located in most major cities throughout the world, is a leading hotel chain aggressively adding luxury brands such as St. Regis, the Luxury Collection, and W under its umbrella.

The traditional brand management in the hotel industry is facing a major challenge as numerous brands provide hotel guests with many choices. Furthermore, bargains on cyberspace (e.g., Travelocity, Expedia, and Orbitz) drive customers to concentrate on price rather than service quality of the hotel. Hotel products face the threat of being "commoditized" almost like soap or detergents on the shelves of supermarkets. This problem is rooted in the business condition where hotel chains cannot patent their products to attain a competitive advantage.

One study found that 65 percent of hotel guests tend to switch lodging brands across different parent hotel companies on their next stay. The high turnover rate clearly discloses that most lodging brands have difficulty in maintaining customer loyalty. As lodging products become more commodity-like in nature, hoteliers must ask themselves how to differentiate their product from competing products and how to communicate the differences of their product to customers in the globe.

Research questions are addressed

A brand is the product and/or service of a particular supplier, which is distinguished by its name, such as Starwood or Hyatt for hotel companies. A hotel chain is identifiable with a name, logo, or slogan, which is the fundamental base of branding. The goal of brand management is to provide added value to both guests and hotels by building brand loyalty. Today, hotel firms are beginning to realize that capitalizing on one of the most important assets they own – the brand - may facilitate a company's premier growth in the most cost-effective way.

Over the last decade, brand equity has been one of the most important marketing concepts, extensively studied by both academic scholars and industry practitioners. The reason for its growing popularity is the importance of the concept perceived by internal and external stakeholders. A recent paradigm has changed branding from a traditional role, as an element of the marketing function, to an integral role as a part of the overall business strategy.

Studies on brand equity have mainly focused on consumer goods and recently, more attention is paid toward services. Empirical tests have been taken to validate the most popularly accepted, customer-based brand equity dimensions: brand awareness, brand associations, perceived quality, and brand loyalty. Although the conceptual definition of brand equity and how to operationalize the concept are advanced, limited empirical research is conducted to test the validity of the proposed constructs comprising brand equity in the hospitality academic field. Hence, the purposes of this study are to validate the brand equity model with four widely accepted brand equity dimensions in the mid-priced lodging segment and examine the impact of each brand equity determinant on overall hotel brand equity.

More specifically, this study addresses the following three research questions:

1. Is the proposed brand equity model valid in the mid-scale lodging segment?
2. Of four brand equity components (brand loyalty, brand awareness, brand association, and perceived brand quality), which dimensions make a significant contribution to increasing overall mid-scale hotel brand equity?
3. How are brand equity ratings different among the selected mid-scale hotel brands?

Methods

Mid-scale hotels are the focus

The mid-scale hotels with F&B operations are selected for this study. Mid-priced hotels with F&B are one of the largest segments in the U.S. lodging industry, representing 15.5 percent of total room supply and 14.5 percent of total room demand in 2001. According to Hotel Investment Handbook (2002), there are 16 hotel brands in the mid-scale with F&B segment with a total of 4,725 properties throughout the U.S. Holiday Inn, Best Western, Ramada, Quality Inn, Howard Johnson, and Four Points were ranked in the top six of this segment and these six brands are included in the sampling frame of this study.

The average room rate of the mid-scale with F&B segment is below $85. The total room supply of this segment continues to decline because many properties are old requiring major capital improvements. In 2004, this segment was not able to increase room rates as aggressively as other lodging segments due to a relatively weak demand growth . On the other hand, mid-scale hotels without F&B operations demonstrate strong demand. Therefore, the majority of new hotel construction in the mid-scale segment focuses on constructing properties without F&B operations. With declining supply and weak demand, mid-scale hotels with F&B operations experience a business challenge to maintain their current market share, competing with other growing segments, such as economy, mid-scale without F&B, and upscale.

Questionnaire is developed

Brand equity is a multi-dimensional concept. At the beginning, five determinants of brand equity were identified: brand loyalty, perceived quality, brand awareness, brand association, and other proprietary brand assets. Researchers argued that other proprietary brand assets, such as patents, trademarks, and channel relationships, are not relevant to consumer perception and therefore customer-based brand equity consists of only the first four determinants: brand loyalty, perceived quality, brand awareness, and brand association. Therefore, the researchers adopted the brand equity model with the four dimensions and developed the questionnaire accordingly.

A total of thirteen items were used to capture the four dimensions of brand equity. Specifically, "brand loyalty" had three components that were rated on a 7-point Likert-type scale (1:strongly disagree and 7: strongly agree); "perceived quality" was measured using four-items on a 7- point semantic differential scale (e.g., 1: inferior and 7: superior); "brand awareness" was assessed with three items on a 7-point response scale (1:strongly disagree and 7: strongly agree); and three "brand association items" were also rated on a 7-point response scale (1:strongly disagree and 7: strongly agree).

In addition to four brand equity determinants, four items were included to measure customer perception of overall brand equity (See Table 2 – in Results section for specific questions asked). Respondents rated all items in the measure using a 7-point response scale (1: strongly disagree and 7: strongly agree).

Travelers are surveyed

Data were collected at the airport located in a U.S. Midwestern city. The airport is considered as one of the major metropolitan airports in the Midwest handling a large number of domestic and international passenger flights. Three field surveyors approached travelers waiting for their flight departure at the food court areas. One of the major sampling problems in on-site field situations is selection bias. To minimize field researchers' selection bias, we instructed the surveyors to seek an equal number of male and female travelers in various age groups (at least 18 years of age). Then, the surveyors asked whether the travelers had stayed at one of the selected branded hotels (Holiday Inn, Best Western, Ramada, Quality Inn, Howard Johnson, and Four Points) within the past three months.

A self-administered, structured questionnaire, containing various components of brand equity, was distributed to the traveler who passed the screening question and agreed to participate. Those who experienced multiple brands during the designated time period were advised to select only one of the most recently stayed brands and answer the questionnaire. Upon completion of the survey, respondents returned their questionnaire directly to the field researchers. A total of 277 usable surveys were returned and analyzed. Females represented 41.3 percent of the sample. In terms of age, approximately one-fourth (27.3 percent) of respondents fell into the age group of 55 and over; 25.7 percent of respondents were age 45-54 years old; 23.9 percent belonged to the age group of 35-44 years; 19.3 percent were age 25-34 years old; and 3.8 percent were age 18-24 years old.

The Market Matrix Hotel Index (MMHI), resulting from the national consumer opinion panel (NCOP) with over 30,000 interviews, indicates that in 2001, the age group of 35-54 accounts for the majority of U.S. lodging customers (55 percent); younger travelers (20-34) logs a quarter of hotel guests (25 percent); and mature travelers (55 and over) accounts for the remaining percent of hotel customers (20 percent). The sample demonstrates a similar age group distribution described in the MMHI with a slightly higher portion of mature travelers: mature travelers (55 and over) shows 27 percent; travelers between 35 and 54 and younger travelers (18-34) are 50 percent and 23 percent, respectively. The greater percent of mature travelers in our sample seem to reflect the fact that baby boomers (born in 1946 –1964), who have been responsible for the significant portion of U.S. household trips, are becoming mature travelers.

In terms of ethnicity, most participants were White (76.2 percent) followed by African American (8.3 percent), Hispanics (6.5 percent), Asians (6.1 percent), and Native Americans (2.5 percent). Almost every respondent indicated completion of high school and more than 80 percent had some college degree. Approximately two-sevenths (28.5 percent) of the participating travelers reported an annual household income greater than $80,001; 37.6 percent reported between $60,001 and $80,000; 16.1 percent earned between $40,001 and $60,000; and 12.8 percent made between $20,001 and $40,000; and 5.0 percent were below $20,000. The average household income was $70,100.

The 2005 AHLA lodging guest profile reveals that typical business travelers' household income is $81,100 and leisure travelers' household income is $72,600. The level of household income of our sample is relatively lower, but it is not significantly different from the AHLA profile. Overall, although the respondents were limited into mid-priced hotel users, the comparable results with MMHI and AHLA data suggest that our samplereflects the current U.S. travel trend and hotel customers.

Results

Four Points ranked highest

Table 1 presents the results of brand equity ratings with four determinants among six hotel brands. Four Points displayed the highest brand loyalty mean score (4.63) of all six companies; Holiday Inn was the next (3.75); Best Western was third (3.43); and Ramada was fourth (3.34). Four Points again led all other companies in the perceived quality dimension with the highest rating (5.39); Holiday Inn (5.08) followed Four Points closely; Best Western (4.94), Ramada (4.92), Quality Inn (4.83) were next; and Howard Johnson was the last (4.39).

For brand awareness, Holiday Inn showed the highest mean value (5.53); Best Western (5.34) and Ramada (5.24) were also fairly well known; Four Points (5.21), Quality Inn (5.18), and Howard Johnson (4.94) demonstrated relatively low brand awareness ratings. Holiday Inn again was the best in brand associations (5.22), followed by Best Western (5.13), Ramada (5.12), Four Points (5.00), Quality Inn (4.83) and Howard Johnson (4.75).

Furthermore, we conducted the analyses of variance (ANOVA) test to detect significant differences in four brand equity dimensions among the six hotel brands. Significant differences were found in the mean values of brand loyalty and perceived quality (see Table 1). The result of ANOVA assures that indeed, Four Points is doing a better job than most competitors in building brand loyalty and perceived quality. However, the mean values of brand awareness and associations were not significantly different, indicating that overall, six brands are equally well known to the public.

Lastly, for each brand, we calculated a total score of hotel brand equity by adding all four mean values of brand equity components. Four Points demonstrated the highest total brand equity value (20.23); Holiday Inn was second (19.58); Best Western was third (18.84); Ramada was ranked fourth (18.62); Quality Inn was fifth (17.79); and Howard Johnson was last (17.29).

Table 1: Brand equity rating of the top six mid-scale hotels

	Brand loyalty	Perceived quality	Brand awareness	Brand associations	Total brand equity score
Holiday Inn	3.75	5.08	5.53	5.22	19.58
Best Western	3.43	4.94	5.34	5.13	18.84
Ramada	3.34	4.92	5.24	5.12	18.62
Quality Inn	2.95	4.83	5.18	4.83	17.79
Howard Johnson	3.19	4.39	4.96	4.75	17.29
Four Points	4.63	5.39	5.21	5.00	20.23
F-value	2.96*	2.59*	0.89	0.62	

* Significant at the 0.05 level

Brand equity model is evaluated

We used the structural equation modeling (SEM) technique to answer the research questions on the validity of the proposed hotel brand equity model and the effects of four determinants on overall hotel brand equity. Prior to SEM, internal consistencies were computed for five constructs of the model: brand loyalty, perceived quality, brand awareness, brand associations and overall brand equity. Cronbach's alpha could be improved for brand loyalty and brand associations by eliminating one item in each dimension. After elimination, all five scales

satisfied .7 cutoff values. Table 2 presents description of all items - including deleted items after the reliability test.

Next, the measurement model was fitted to the data. Similar to Cronbach's alpha, composite construct reliability (CRR) values showed adequate reliability for the indicators representing each construct by exceeding the .7 cutoff values. The average variance extracted (AVE) indicates the convergent validity of the construct. All average variances extracted (AVE) were .61 or higher (cutoff value: .50), demonstrating all five factors have the sufficient convergent validity. The various fit indices of the measurement model ($\chi 2/df = 2.37$, GFI = .92, NFI = .97, CFI = .98, RMSEA =.07) implied that the factor model fits the data well. All factor loadings of the items exceeded .5 with t-values equal to or greater than 11.06 ($p < .001$) (see Table 2).

Table 2: Description of items used to measure hotel brand equity

Factors and scale items	Standardized loadings (t-value)	α	CCR[a]	AVE[b]
Brand loyalty		.83	.84	.67
I consider myself loyal to the hotel.	.86 (14.95)			
The hotel would be my first choice.	.83 (14.48)			
When another hotel runs specials, I will choose that branded hotel. [c]				
Perceived quality		.91	.91	.77
I expect the quality of this hotel to be: inferior … superior	.72 (13.29)			
I expect the quality of this hotel to be: unfavorable … favorable	.87 (17.52)			
I expect the quality of this hotel to be: poor … excellent	.90 (18.68)			
I expect the quality of this hotel to be: very low … very high	.88 (17.97)			
Brand awareness		.90	.89	.77
I know what the hotel's physical appearance looks like.	.87 (17.37)			
I am aware of the hotel.	.87 (17.34)			
I can recognize the name of the hotel among competing brands.	.84 (16.41)			
Brand associations		.75	.76	.61
Some characteristics of the hotel come to my mind quickly.	.73 (11.47)			
I can quickly recall the symbol or logo of the hotel.	.70 (11.06)			
I have difficulty in imagining the hotel in my mind. c				
Overall brand equity		.91	.88	.65
I stay with this hotel over its nearby competitors.	.80 (14.61)			
Even if another hotel has the same amenities as this hotel, I prefer to stay with this hotel.	.82 (15.27)			
I would not switch to another competitor unless significant differences are found.	.79 (14.49)			
Even if another brand is as good as this hotel, I prefer to stay with this hotel.	.81 (15.09)			

a CRR: composite construct reliability
b AVE: Average Variance Extracted
c The item was deleted after reliability test.

As a last step, the structural model was evaluated. In the model, the four determinants (brand loyalty, perceived quality, brand awareness, and brand associations) were constructed as exogenous (independent) variables and overall hotel brand equity as an endogenous (dependent) variable. All structural model fit indices were within the recommended levels ($\chi 2/df = 2.41$, GFI = .91, NFI = .97, CFI = .98, TLI=.98, RMSEA =.08, RMR=.05), suggesting that the structural model is satisfactory. Table 3 presents the relationships between four determinants and hotel brand equity. Overall, the brand equity model explained 75 percent of the variance (R2 = .75). Among four structural relationships, three paths were significant ($p < .05$): brand loyalty, perceived quality, and brand associations were significant antecedents of overall brand equity of mid-priced hotels. In particular, perceived quality and brand loyalty were found to be the most important determinants of mid-scale hotel brand equity with relatively high path coefficient estimates of .39 and .38, respectively. The only construct showing no significant impact on hotel brand equity was brand awareness with the lowest path coefficient value of .11.

Table 3: Effects of four determinants on overall hotel brand equity

Endogenous Construct: **Brand equity** [a]	**Path coefficients**	**t**
Exogenous Constructs:		
Brand Loyalty	.38	6.06**
Perceived Quality	.39	6.03**
Brand Awareness	.11	1.06
Brand Association	.22	2.14*
R^2	.75	

* Significant at 0.05 level
** Significant at 0.01 level

Discussion and implications

It is a challenging task to develop and to manage a strong hotel brand as the lodging industry becomes mature with numerous brands and faces fierce competition. Hospitality firms changed their company mission from a product orientation to a brand orientation to build a competitive advantage through effective brand management. The customer-based brand equity model suggests that the more contribution the four determinants (perceived quality, loyalty, brand awareness, brand associations) make to the business results in higher brand equity of the organization. We tested whether the consumer-based brand equity model is valid in the mid-scale hotel setting and the findings of this study offer empirical evidence that the model is applicable to the lodging industry.

Next, we compared customer-based brand equity ratings of six mid-priced hotel chains. Four Points and Holiday Inn stand out as the top two brands, while Quality Inn and Howard Johnson are the two bottom brands. Overall, Holiday Inn performed better than Four Points in brand awareness and associations, while Four Points exceeded Holiday Inn in brand loyalty and perceived quality. Holiday Inn's long business presence seems to be attributed to the high ratings in the dimensions of brand awareness and associations. Four Points debuted as one of sub-brands under the parent company of Starwood in 1995. Despite its short history, Four Points expanded aggressively and provided quality service to satisfy their customers, which resulted in establishing a strong brand in the mid-priced segment.

Among the four dimensions, perceived quality is found to be the most influential factor on brand equity. One study conducted by the American Society for Quality (ASQ) described Starwood as an exemplary company that implemented a quality management program (Six Sigma) successfully throughout the organization. As a result, Starwood increased the perception

of service quality by 7.1 percent. The present study demonstrates that Four Points, a young sub-brand of Starwood, may benefit from the quality enhancement program, quickly achieving high brand equity in a competitive lodging market. The success of Four Points suggests that practitioners should continuously monitor perceived service quality of the hotel to keep up with ever-increasing customer expectations. These efforts ultimately can contribute to controlling and managing company brand equity.

Another important dimension affecting brand equity is brand loyalty. Previous studies have shown a strong positive relationship between brand loyalty and brand equity. For example, in Turkey's beverage industry, only brand loyalty mattered in building overall brand equity. Brand loyalty as a key component of brand equity is confirmed in this study using the mid-scale U.S. lodging segment. Loyal guests are viewed as a valuable asset because the help guarantee hotel business success. Thus, it may be wise to focus on retaining a small number of loyal guests, who typically account for a large amount of total sales. This approach can help hoteliers to successfully maintain steady cash flow and improve future earnings. In summary, top management should understand the significance of true customer loyalty and make every effort to improve brand loyalty, which in turn leads to nurturing hotel brand equity.

Although the size of impact is smaller than perceived quality and brand loyalty, brand associations are shown as another core component of mid-scale hotel brand equity. However, brand awareness, a seemingly important source of brand equity, is not a critical factor of mid-scale hotel brand equity. Brand awareness is a hotel guest's ability to recognize or recall the brand and brand associations are anything linked in memory to a brand. Typically, brand associations are led by brand awareness. Brand associations can include not only tangible, concrete characteristics (e.g., bathroom amenities, guest rooms, and other facilities) but also intangible, abstract attributes of the organization (e.g., affective benefits guests expect from staying at the hotel).

Research has shown that guests may be aware of the brand without having a strong set of brand associations in their minds. Hospitality researchers assert that even high awareness of a hotel name does not automatically convert to hotel brand equity unless favorable brand associations are developed in customers' minds. Thus, brand awareness may be necessary as the antecedent of hotel brand associations, but alone it is not a sufficient condition to be a significant source of customer-based hotel brand equity. The result of this study indicates that hotel companies should balance their efforts to improve brand awareness and brand associations.

Lastly, hotel firms should develop a valid and reliable measure to assess customer-based brand equity. The items in this study can be used as a foundation of the hotel brand equity scale. Currently, most hotel chains conduct a customer satisfaction survey. Chains should gather additional information about customer loyalty, perceived service quality, brand awareness, and brand associations. The brand equity study can offer much more comprehensive and complete information to determine decisions on creation of a new brand, revamping or closing of existing brands. Executives should understand that a carelessly designed sub-brand can lower the total equity of signature brand (parent company name) with poor performance. Also, note that even well established brands can wear out over time if the company does not practice effective brand management continuously. Therefore, it is critical for hotel corporations to measure and monitor brand equity on a regular basis across all sub-brands and different countries if the hotel company operates multi-units abroad.

Limitations

Future research is needed

The first limitation of this study originates from the sampling method. Since we used a convenience sample, the ability to generalize the findings is somewhat limited. Second, the geographical location where the survey is conducted is another limitation. Even though the

participating travelers may come from different part of the U.S. or the world, it is reasonable to assume that most respondents are from the Midwest. Third, brand awareness and brand associations scales need further refinement. The current items of brand awareness and associations tap into the lowest level of brand awareness (i.e., recognition) and brand associations (i.e., focusing on primarily product-related or service-related attributes). Future researchers should include the higher level of brand awareness (e.g., unaided recall and top-of-mind) and brand associations (e.g., overall brand attitude and image). Lastly, future research should continue to validate the customer-based brand equity model in other lodging segments (e.g., luxury, extended-stay, and economy) as well as other hospitality industries (e.g., foodservice and airline). It is likely to see four brand equity determinants play a different role in brand equity of different hospitality segments. Therefore, brand awareness may matter most in selecting economy hotels and become a significant component of brand equity of economy hotels.

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