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Abstract
With so many economy/budget lodging brands and rooms added to the market, it is difficult for consumers to identify differences in the services offered. In addition, industry practitioners need to understand what is expected of them by the consumers they serve. The authors review the economy budget lodging in general and empirically examine this issue.

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The boom in the economy/budget segment of the U.S. hotel industry has been remarkable. Dispersed as they are, economy/budget hotels are located in all regions and markets across the country. Smith Travel Research (STR) indicates that in the first half of the 1990s, there were more than 17,000 hotels with nearly 1.3 million rooms in this lodging group.

Moreover, they comprised 56 percent of all properties and 39 percent of total rooms available in the U.S.[1] Daily rates and RevPAR (revenue per available room) were estimated to increase as much as 1.44 percent in the economy segment and 1.35 percent in the budget segment from 1997 to 1999.[2] The ratio of income before other fixed charges to total revenues has been much greater in economy/budget hotels than other segments of the U.S. lodging industry.[3] Given the size of this segment, its economic contributions to the overall industry are considerable.

The growth in the economy/budget segment is mainly due to demand by budget-conscious travelers, who consider the price/value relationship offered to be important. Consumers of this type of lodging product typically ask for a clean and modern room accommodation, free local telephone calls, free premium cable television, complimentary continental breakfast, morning newspaper, and friendly service.[4] Simplicity and profitability characterize this segment of the industry. Although many economy/budget chains do not offer food and beverage ser-

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vices, they are often located close to a fast food or family-type restaurant. This strategy can benefit local restaurant operators and the hotels can focus on their area of expertise: rooms.[5]

Amenities are important

Many of the economy/budget hotel chains have come to realize that guestroom amenities affect meeting attendees, and they have been standardizing their services and amenities and improving their quality in order to attract meetings and/or conventions.[6] For example, new conveniences and amenities have been added in the guestrooms, such as work desks, in-room coffee makers, telephones with modem hookups, and complimentary breakfasts and newspapers. Meeting planners find it very helpful to know that a hotel chain requires franchisees to provide accurate room measurements and descriptions.

With more brands and rooms added to the market, budget-conscious customers have more choices. Because the economy/budget hotels are often in the same market and often located within the same proximate location, it may be difficult for customers to identify differences in the services offered. To strengthen their features and services for competitiveness and profitability, industry operators need to understand how customers perceive their hotel chains in the marketplace. In addition, demographic information is necessary so that marketing professionals can target prospective market groups more effectively and efficiently. This study examined how the economy/budget hotels were perceived by customers by answering the following questions:

- How do customers view the services and amenities being offered by different economy/budget hotels?
- Are there differences in perception by certain demographic and travel behavior characteristics?

Positioning builds image

Positioning is related to building an image, differentiating the product, and offering benefits to identified target markets.[7] Because customer perceptions ultimately determine a hotel's "position," marketers need to position their brand to ensure that customers can differentiate the products and services that are offered.

At present, two approaches have been used to identify a hotel's position in the marketplace: objective positioning and subjective positioning. Objective positioning focuses mainly on the objective attributes of a hotel such as its physical appearance. Subjective positioning, on the other hand, attempts to manipulate or form customer perceptions of the product.[8] To a large extent, customer perceptions are related to a subjective view of a brand or individual property's intangible attributes. A hotel should not only have a firm concept of an intended position but also distinguish its offerings from those of other brands.[9] In product positioning strategy, a product's position results from a complex set of consumer perceptions, impressions, and feelings which consumers have for the product in comparison to competing products. Furthermore, perceptions are more important than objective attributes.[10]

Perceptions are similar

A clean, comfortable room is the core service element of the budget product. Hotel chains have tried to differentiate their products from the competition. However, marketing efforts may not be effective unless consumers, the product end-users, are able to recognize the differences. Ultimately, the customer determines a brand's position.

The emergence of the economy/budget segment is significant because it represents a brand new product concept that has strongly affected competition in the industry. Currently, however, several reasons may contribute to consumer confusion about economy/budget hotels. First, the definition is ambiguous. Economy lodging refers to properties with actual room rates above the 20th percentile and below the 40th percentile in any particular market, and budget lodging to properties with actual room rates below the 20th in a market.[11] The literature indicates that various terms have been used to refer to the economy/budget segment of the industry, including economy/budget segment, lower-priced hotels, limited service hotels, and budget hotels.[12]

Another reason why consumers are confused about this segment is that the room rate boundary between the economy and budget segments is not distinct. In 1995, the room occupancy was 62.1 percent and the average room rate was $41.83 for the combined economy/budget segment.[13] No public data were available as to how each individual segment performed.

A third reason is that both economy and budget hotel properties provide similar services and amenities. As a result, brands may fall in the same competitive set, and customer perceptions may be ambiguous toward the hotel chains in these segments. As a result, customers may tend to hold a uniform opinion about these chains.

Rates play role

In the economy/budget lodging, the room rate plays an important role in the selection of a hotel. From both an economic and a marketing perspective, positioning on price is a strategic level decision, and pricing is recognized as both a strategic and a tactical tool.[14] Under this framework, the price level of a product is perceived first by the buyer, and price level helps define the product class category for the consumer. As long as the price is within the positioning threshold, the end result can be profitable and increased customer satisfaction has been achieved. Given the nature of simplicity of services and amenities offered at economy/budget hotel properties, it is assumed that customers may not pinpoint the differences in room rates by different brand names.

The target markets of economy/budget lodging seem to have a balanced and heterogeneous profile. Economy/budget hotel customers are individuals who travel for business, pleasure, or personal purposes and are usually value conscious and try to better themselves by spending as little as possible. These customers want to pay lower, more reasonable hotel rates and may not want to pay for additional services they are not going to use during a very limited stay.

While economy/budget hotel properties attract only budget-conscious customers, it is assumed that demographic information may have no effect on customer perceptions of services and amenities. In general, differences are not expected among demographic and socio-economic groups, and it is believed that age, gender, income, education, and occupation will have no effect on customer perceptions of services and amenities desired at economy/budget hotels.

Marketing research is devoted to determining the services and amenities customers consider in choosing a brand and how they consider a hotel brand in light of those features. While a hotel brand's position is determined by its customers, different classes of travelers use different attributes to determine their view of a hotel brand's position. It was reported that both business and pleasure travelers showed significant differences in terms of determinant attributes and importance attributes of a hotel choice.[15] In the economy/budget sector of the lodging industry, there has been no reported research to demonstrate the relationship among the services desired by customers, their travel behaviors, that is, the purpose of the visit, the size of the travel group, and the number of nights stayed.

Since hotel properties in this segment may be difficult to define,[16] this study uses the term "economy/budget" to include hotel properties that fall in both the economy and budget lodging segments.

Research instrument developed

The following hypotheses were developed for the study:

- There is no significant difference in customer perceptions of services and amenities at the economy/budget hotels.
- There is no significant relationship between customer perceptions of services and amenities at economy/budget hotels and age, gender income, education, or occupation.
- There is a significant relationship between the services and amenities desired and the purpose of the visit at economy/budget hotels by customers.

- There is no significant relationship between the size of travel group and the services and amenities at economy/budget hotels by customers.

- There is a significant relationship between the number of nights stayed and the services and amenities at economy/budget hotels by customers.

To carry out this study, a self-administered questionnaire was developed and interviews were utilized. The questionnaire requested information about the attributes that customers considered important when choosing a hotel. The first section of the questionnaire was based mainly on the study by Lewis,[17] but several items were added to reflect the unique characteristics of economy/budget hotel properties. The second part focused on certain demographic, and travel behavior information such as age, gender, income, education, and occupation; the purpose of visit, the size of travel group, and the number of nights stayed.

The questionnaire was administered in the Greater Lafayette area of Indiana. Population is just over 77,000. Education, manufacturing, and retail trades are the major industries. Purdue University is the area's largest employer. Other major firms include the Aluminum Company of America (ALCOA), Eli Lilly and Company, Subaru Isuzu Automotive, Inc. (SIA), and Caterpillar Tractor Company. The area is highly accessible by interstate highway. The unemployment rate at the time of the study was 2.9 percent, which was below the state average of 3.1 percent. The reason that the study site was chosen was because the researchers were located in the area and the face-to-face interviews with hotel customers were possible.

To solicit participation, a letter was mailed to the general managers of eight economy/budget hotels requesting their support. A follow-up phone call was made shortly thereafter. Some of the hotels were either under renovation or not willing to participate. Ultimately, two chain hotels allowed the researcher to conduct the interviews.

Interviews were conducted on site from March to June 1998. To avoid sample bias, data were collected both during the week and on weekends. Guests were approached early in the morning when they were having their breakfast, specifically from 6:30 to 9:30 a.m. This time was chosen because there would be a greater number of customers available. Guests would have stayed in the hotel and be able to rate and rank the services and amenities offered. The customers surveyed were very cooperative. Over the three-month period, a total of 160 usable questionnaires were collected from the two properties.

A Likert-style scale was used to gauge customer perceptions about the services and amenities offered, with 1 being "least important" and 5 "most important." The data were then entered and analyzed using SPSS software. Three statistical tools were used to examine the data: the independent-sample t-test, ANOVA (Analysis of Variance), and factor analysis.

Based on the literature review, the content validity of the questionnaire was a desirable one. A few items were taken from and added to the original instrument, so it was necessary to conduct reliability analysis. The attitude scales were composed of multiple items that presumably measure the same underlying unidimentional attitude, that is, the customer's perceptions of services and amenities at economy/budget lodging. The reliability test was performed to study the extent to which the items in the questionnaire were related to each other in terms of internal consistency of the measurement scales. The reliability coefficient of Alpha was 0.8868, which showed a strong evidence for the consistency of the instrument.

Characteristics vary

- **Age and gender:** The largest group of respondents (38.8 percent) was between 36 and 50 years old. Senior travelers, age 66 and older, accounted for 10.6 percent. By gender, 38.8 percent of respondents were female and 61.3 percent were male.
- **Income:** A large percentage of customers (31.9 percent) earned $70,000 or more per year. However, a quarter chose not to divulge this information.
- **Education:** Almost 50 percent of respondents had a bachelor's degree or higher. Approximately 20 percent had no formal education after high school.
- **Occupation:** More than 44 percent of participants indicated that they were managers and professionals; 12 percent either owned a business or were self-employed, and approximately 22 percent were retired (See Table 1).
- **Travel behavior:** Leisure was singled out as the top reason for the current trip, with 32.5 percent of respondents in this category (See Table 2). The next most frequent reason was for visiting friends and relatives or for personal and family matters (25 percent). People who traveled for business or pleasure accounted for about 19 percent of the respondents, and nearly 24 percent listed "unspecified." In fact, two big events happened locally during the time of study; one was commencement at a major university located in town, and the other was an Indiana cattle show. These two

Table 1
Customer demographic and travel behavior characteristics

Variable		N	Percent(%)
Age			
	20-35	36	22.5
	36-50	62	38.8
	51-65	42	26.2
	66 and older	17	10.6
	No response	3	1.9
	Total	**160**	**100**
Gender			
	Male	98	61.3
	Female	62	38.8
	Total	**160**	**100.1***
Income			
	Less than $20,000	10	7.3
	$20,000 - $39,999	19	11.9
	$40,000 – $49,999	13	8.2
	$50,000 - $69,999	24	15.1
	$70,000 and above	51	31.9
	No response	43	26.9
	Total	**160**	**100.7***
Education			
	Above bachelor's	39	24.4
	Bachelor's	36	22.5
	Associate's and some college	51	31.9
	High school diploma or less	30	18.8
	No response	4	2.5
	Total	**160**	**100.1***
Current occupation			
	Retired	35	21.9
	Managerial and professional	71	44.4
	Skilled worker	10	6.3
	Student	10	6.3
	Owner/self-employed	23	14.4
	Military	1	0.6
	Homemaker	4	2.5
	No response	6	3.8
	Total	**160**	**100.2***
Purpose of visit			
	Visit friends and relatives (Personal/family)	40	25.0
	Business or with pleasure	30	18.9
	Leisure	52	32.5
	Others (special events)	38	23.8
	Total	**160**	**100.2***
Size of travel group			
	1	36	22.5
	2	65	40.6
	3	24	15.0
	4	21	13.1
	5 or more	14	8.7
	Total	**160**	**99.9***
Number of nights			
	1	88	55.0
	2	44	27.5
	3	20	12.5
	4 or more	8	4.9
	Total	**160**	**99.9***

** Due to rounding error*

Table 2
Difference of services and amenities by customers

Services and amenities	M* Difference	t-test	Sig. Level**
In-house food and beverage	.60 (Hotel A: M=2.19 Hotel B: M=1.59)	3.685	.000
Composite	.01 (Hotel A: M=3.41 Hotel B: M=3.40)	.117	.907

** Mean scores based on a scale of 1 ("not important") to 5 ("very important"); n = 80; **p < .05*

events might have accounted for some of the visits.

In terms of the size of travel group, 91.2 percent of people surveyed chose to travel in smaller groups (See Table 1). Almost 41 percent of the respondents were accompanied by one other person, while only 8.7 percent traveled in groups of more than five people. In addition, 95 percent of the participants stayed not more than three nights on this trip, with one-night stays accounting for 55 percent of the sample.

No differences found

Participants were asked to rate the services and amenities of the hotel at which they had stayed. A composite mean score was calculated for each property by summing the mean scores of the services and amenities offered (See Table 2), and the means were compared. No statistically significant difference was found. When the mean scores of the individual services and amenities were compared, the provision of in-house food and beverage was considered more important by Hotel B's customers. However, the slight difference of the mean scores on this item indicates that it was not considered an important factor at either hotel, and would probably not affect selection. Therefore, the hypotheses that "There is no significant difference of customer perceptions of services and amenities at the economy/budget hotel chains" was not rejected.

Other differences exist

Two items were found to have a significant relationship with age: safe parking and the quietness of the room (See Table 3). Respondents 66 years of age and older were more concerned about the safety of the hotel accommodation than younger age groups. Respondents in the 36 to 50 and 51 to 65 age brackets showed a preference for quiet rooms. Even though all of the mean scores by female respondents were higher than those of men, only four services and amenities were significantly different. Specifically, female customers

- tended to value complimentary breakfast more than men
- considered the cleanliness of the room to be more important

- indicated that friendliness and courteousness were more important when choosing a hotel
- considered the hotel surroundings more important than did men when selecting a hotel (See Table 3).

Income level was found to have an impact on customer perceptions of parking, quietness, and the desire for a complimentary breakfast (See Table 3). Respondents with the highest incomes ($70,000 and above) considered safe parking more important than those with the lowest incomes. Customers with incomes below $20,000 also tended to rate quietness of the room less important than higher income earners. Respondents with incomes between $50,000 and $69,999 did not consider complimentary breakfast important when selecting a hotel.

While there were no significant differences by educational level, the nature of one's occupation had a significant relationship with two items: in-house food and beverage service and the quietness of the room (See Table 3). In this sample, skilled workers tended to rate the availability of in-house food and beverage higher than those who were retired. In addition, those who were holding managerial/professional positions and who owned their own business or were self-employed considered this amenity less important. Even so, the mean scores across all occupations indicated this service was not perceived to be very important. In terms of the quietness of the room, students rated it less important than other occupational groups. Skilled workers and homemakers, on the other hand, indicated a stronger preference for a quiet accommodation.

There were no significant differences found between the services and amenities desired and the purpose of the visit. Nor were there differences detected between the number of nights stayed and services and amenities desired by

Table 3
Customer perceptions of services and amenities by age, gender, income, and occupation

Services and Amenities	Age				Gender		Income (in $000)				
	20-35	36-50	51-65	>66	Male	Female	<20	20-39	40-49	50-69	>70
Safe parking	3.58a	4.24	4.02	4.47b	3.96	4.24	3.10a	4.32b	3.62	4.00	4.16 b
Quietness of room	3.64 a	4.32 b	4.40 b	4.24	4.66	4.90	3.20 a	4.37b	3.69	3.83	4.39 b
Complimentary breakfast	3.19	3.55	3.55	3.82	3.21a	3.81b	3.90a	4.05a	3.00	2.58b	3.69
Cleanliness of room	4.61	4.77	4.86	4.71	4.66 a	4.90b	3.20	4.37	3.69	3.83	4.39
Friendliness/courteousness	3.92	4.19	4.17	3.94	3.93a	4.39b	4.30	4.11	3.69	3.92	4.10
Surroundings of hotel	2.92	3.45	3.33	3.24	3.10a	3.55b	3.10	3.16	3.23	3.38	3.18

Services and amenities	Occupation					
	Retired	managerial/professional	Skilled worker	Student	Owner/self-employed	Homemaker
In-house food & beverage	1.71^{a}	1.70^{a}	3.20^{b}		1.19^{a}	
Quietness of room	4.17^{a}	4.18	4.70^{a}	3.20^{b}	4.30	4.75^{a}

Note: (a) Means in the same row that do not share superscripts differ at $p < .05$ in the Tukey significant difference comparison. (b) Mean scores based on a scale of 1 ("not important") to 5 ("very important")

Table 4
Customer perceptions on services and amenities by travel behavior

Services and amenities	Size of travel group				
	1	2	3	4	>=5
Cleanliness of bath	4.39a	4.71	5.00b	4.95	5.00b
In-house food and beverage	1.92	1.82a	1.42a	2.10	2.64b
Proximity to shopping places	2.53	2.02a	2.29a	2.53	3.36b
Price	4.06	4.05	3.58a	4.62b	4.62b

Note: Means in the same row that do not share subscripts differ at p < .05 in the Tukey honestly significant difference comparison.

Table 5
Extracted factors with rotated component matrix*

Variables	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Convenience of reservation system	.820						
Quick check-in and check out	.751						
Friendliness and courteousness of staff	.720						
Promptness of all services	.711						
Quality of TV		.765					
Size of room		.757					
Size of bath		.731					
Surroundings of hotel			.662				
Safe parking			.658				
Aesthetics of building exterior			.592				
Meeting/convention facilities			.537				
Quietness of room			.530				
Vending machine			.503				
Cleanliness of room				.916			
Cleanliness of bath				.900			
**Quietness of room				.529			
Proximity to eating-places					.852		
Proximity to shopping-places					.805		
Meeting/convention facilities					.528		
Price						.786	
Complimentary breakfast						.518	
Reputation of chain							.870
Location							.517

Note: Kaiser-Meyer-Oklin measure of sampling adequacy was .811; Bartlett's test of sphericity had an approximate Chi-Square of 1741.860 with the df of 253 and significance of .000. ** Quietness of room did not seem to fit and therefore was dropped*

customers. Therefore, the hypothesis that "There is no significant relationship between the services and amenities desired and the purpose of the visit by customers" also the hypothesis that "There is no significant relationship between the nights stayed and the services and amenities desired by customers" were not rejected.

However, significant relationships existed between the size of travel group and the services and amenities desired by customers (See Table 4). Travel groups of all sizes considered the cleanliness of the bath as important in choosing a hotel. Moreover, travel groups with three people and with five or more valued this item higher than those who traveled alone. The provision of in-house food and beverage was not thought of as important. However, travel groups with two to three people regarded it almost unnecessary as compared to the larger group of more than five. In terms of proximity to shopping places, the largest travel group (more than five people) liked this feature a little better than groups of two to three. As to price, the travel group of four people considered it more important than did that of three people. Therefore, the hypothesis that "There is no significant relationship between the size of travel group and services and amenities desired by customers" was rejected.

Seven factors surface

Given the long list of services and amenities that are offered, it is difficult to fully understand the interrelationships that may affect customer perceptions toward the economy/budget hotel segment. Therefore, factor analysis was used to identify common underlying dimensions from the 23 variables. Principle Component Analysis and Varimax rotation were used to generate the factors. The criterion used for the number of factors to be extracted was an eigenvalue greater than 1. On this basis, seven factors, which accounted for 70 percent of the total variance of the 23 variables, were identified (See Table 5). The services and amenities that loaded on each of the factors are shown in Table 5. The loadings suggest that services and amenities can be grouped into the following categories:

- Factor 1: service quality
- Factor 2: physical room features
- Factor 3: visible surroundings
- Factor 4: cleanliness
- Factor 5: convenience of location
- Factor 6: price
- Factor 7: reputation

Lodging is not homogenous

Unlike a previous study that found significant differences in the services and amenities of two deluxe hotel properties,[18] this study found no statistically significant differences in the services and amenities at different economy/ budget hotels. One reason for this may be that properties in the luxury segment of the lodging industry are able to distinguish their offerings. Perhaps customers perceive economy/budget hotel properties as a very similar commodity. If this has been by design, that is, if economy/budget hotel chains have attempted to be identical in the marketplace, they may easily lose their present business and potential market share to competitors. To gain market share and increase profitability in the long run, economy/budget hotel chains may have to develop a differentiation strategy.

Although this study did not find significant differences overall, seven underlying dimensions of services and amenities at the economy/budget lodging were detected. They provide insights about customer perceptions toward the economy/budget hotel segment and support the present notion that the core product of economy/budget lodging is price, cleanliness, and convenience of location. In addition, the underlying dimensions indicate the complexity of managing the economy/budget segment. With more and more hotel properties entering the market, companies will have to focus on service quality, physical room features, visible surroundings, cleanliness, convenience of location, price, and reputation to be successful. This situation also suggests that managing economy/budget hotels is no different than managing hotels of other segments. Hoteliers should not take managing economy/budget hotels lightly simply because these properties are at the low end of the market.

From the present study, the service quality dimension indicates that female customers were more concerned about service quality issues in economy/budget lodging. Hotel operators need to be more prepared when dealing with these customers, and the provision of services and amenities should reflect their interests.

The visible surroundings of economy/budget properties support the notion of objective positioning in the marketplace. Such physical features are important in understanding what services and amenities should be included in economy/budget properties. This study shows that older consumers were more concerned about the safety of the hotel. This result does not agree with previous findings that room features were more determinant for those under age 40 in the luxury segment of the lodging industry.[19] One reason for this may be that deluxe hotels are inherently safer and more comfortable. In general, this study found that higher income customers considered safety more important than those with lower incomes. They also preferred quieter rooms. These differences suggest that elderly people care more about safety and the comfort of the room in the economy/budget segment. Economy/budget hotel chains will want to assure their elderly customers and high-income earners that their properties are safe and quiet.

Within the dimension of cleanliness, female customers may be more particular. If females are the major clientele, those economy/budget hotels need to maintain a high level of cleanliness in order to attract and maintain this group.

Price is an important measure when choosing a hotel. The result of this study indicates that lower income customers regard complimentary breakfast as more important. Economy/budget hotels may continue to utilize various pricing strategies to market their products. Given the popularity of complimentary breakfast, appropriate menu planning for breakfast may be a key to attracting more customers and retaining repeat business. Seasonal pricing and special promotions may also be helpful in gaining competitive advantage.

More research is needed

Customer perceptions of services and amenities in the economy/budget lodging segment are complex. While the customers in this study did not detect differences in the services and amenities offered by economy/budget hotels, their perceptions did vary according to demographic and travel behavior factors. Since customer perceptions play a very important role in positioning a hotel, marketing managers should make special efforts to influence customer perceptions about service offerings. Differentiation may be used to increase market share and profitability. Although service products offered may be very similar, if not identical, across the economy/budget segment, industry practitioners should still seek innovative ways to enhance the customer's stay experience.

It is interesting to note that the economy/budget sector is keeping up with the customer's expectations. For example, in addition to offering industry firsts such as the Pledge of Perfection Guarantee – a national safety campaign, and the card-key locks system – the safest that exists today, Baymount Inns & Suites added several new amenities which include voice mail, shampoo and hair dryer, iron and ironing board, expanded in-room coffee service, and a new lobby breakfast.[20] It is also worth noting that many brands in the economy/budget segment moved up to a higher category to capture part of the mid-scale market. For instance, Holiday Inn Express and Hampton Inn used to be in the budget/economy segment. Recently, they have changed their strategy and become the top-notch suppliers in the mid-price sector of the U.S. lodging industry.

The economy/budget segment is likely to continue its expansion both in the U.S. and overseas. People in all walks of life find the pillars on which this segment depends, value and convenience, attractive. Compared to other segments, economy/budget hotels are less researched. This segment deserves more efforts in finding out what customers want and how to service their needs because of customer popularity and potential economic worth.

To capitalize on the growing business of economy/budget segment, more effort should be devoted to learning about customer perceptions and behavior. In this way, products and services can be designed and delivered to meet customer needs. The site for this study was local hotels and the hotel sample was not representative of the whole population of economy/budget hotel chains in the U.S. Caution should be made when generalizing findings. Future research may consider including more geographically diverse localities as well as other brands.

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