

The Big Decision

How travelers choose where to stay



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Travelers have long considered multiple attributes to determine the perceived quality of a hotel. Historically, travelers were limited to the information communicated by hotel brands through advertising, word of mouth, guide books, or AAA diamond ratings. Having a reputable brand was valuable because it drove travelers to book directly through a call center or in person after seeing familiar outdoor signage.

However, the birth of the internet brought online marketplaces to the forefront, and suddenly, information became more transparent and readily available to travelers¹. A better understanding of how travelers make hotel selections and the attributes that help drive those decisions provides valuable insight into how hotels can compete more effectively.

The Study

Through a choice based conjoint (CBC) analysis of 903 general population participants, Expedia Group studied the relationship between five attributes (room image, hotel brand, hotel ratings or stars, remodel callout, and price), and how travelers perceive and make selections based on them, to determine:

- ▶ If the value of hotel brand preference can be quantified
- ▶ How important the hotel brand attribute is when selecting a property, relative to other attributes
- ▶ The upsell amount/premium of a hotel brand

Participants were asked to select two destinations; a familiar domestic city and an aspirational international location that was unfamiliar.

The Results

Price was by far the most important factor when picking a hotel, across both well-known and unknown brands. Promotions and discounts that represent a real value to the customer is an almost guaranteed way to get hotel shoppers' attention and have them select your property.

Remodel callouts, room image, and hotel ratings (stars) all had low importance as individual attributes on likelihood for selection. Interestingly, hotel brand carried a marginal advantage over the other attributes. There is some discernable upper tail preference for 5-star hotels and stronger brand value for the more premium brands that we tested (Hilton and Four Seasons).

¹Brett Hollenbeck, "Online Reputation Mechanisms and the Decreasing Value of Chain Affiliation," Journal of Marketing Research Vol. 1-19 (2018)



The value of guest ratings

Our results revealed that guest ratings have a strong influence on traveler selection. Travelers are willing to pay more for hotels with higher guest ratings, and considerably more so than for premium branding.

Table 2 illustrates the relative percentage pricing premium observed between different brands, all things equal relative to Courtyard, while table 3 illustrates the relative percentage pricing premium observed between different guest ratings, all things equal, also relative to Courtyard. (Courtyard is used as a benchmark in both to compare the relative premiums between the two attributes as well as the features within each attribute). While the absolute price that is acceptable for each table might increase or decrease based on the population willing to pay more or less, the relative pricing premiums in percentage terms are fairly stable across these attributes for the majority of the population.

The hotels represent popular brands in every star category. A dummy brand, 'Ruume,' was created to determine brand value and test how a non-branded option might perform. 'Rumme' is intentionally generic to limit bias and avoid communicating any aspirational value or quality messages.

Table 2: Relative percentage pricing premium observed between brands relative to Courtyard

Hotel brand	Knights Inn	Ruume	Days Inn	Courtyard	Hilton	Four Seasons
Pricing premium	-27%	-21%	-18%	Baseline	+11%	+12%

Table 3: Relative percentage pricing premium observed between guest ratings relative to Courtyard

Guest rating	2.9	3.4	3.9	4.4	4.9
Pricing premium	-45%	-25%	-7%	+26%	+38%

Based on this, we see that guest ratings can have a dramatic impact on travelers' perceptions and willingness to pay on both ends of the spectrum. At the positive end, an increase in guest ratings is much more valuable than the perceived increase in brand.



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Takeaways

This study shows that a non-branded independent has opportunity to compete against an established brand player for traveler preference by focusing on the guest experience.



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Brand as an attribute isn't as powerful as guest ratings, and as such there is a space in the market for new or independent players to compete on quality and service in transparent internet travel marketplaces. For example, when competing against a 3-star Courtyard, a 3-star Ruume (our dummy brand) at the exact same price point can achieve the same or better likelihood of being selected with a ½ point guest rating improvement. Competing against a 4-star Hilton with our Ruume brand would require both a ½ star guest rating improvement plus an excellent room photo or a full point improvement in guest ratings. While Ruume was our proxy for an independent non-branded hotel in a limited testing scenario, independent hotels in every hotel class have many ways beyond our limited testing attributes to out-shine their branded comp-set.

Other research supports this conclusion. A Cornell University study that considered more than 95,000 reviews and ratings for 99 independent high-end

properties found that “the key drivers in customer satisfaction remain service and room.”² As such, the authors recommend that hoteliers should focus on fundamental hotel operations that provide guests with the essentials: a good night's sleep, a clean and functional room, and breakfast. The authors emphasize that “Despite amenities creep, architectural fads, and numerous brand permutations, the core of the hotel business remains creating a positive and memorable stay.”³

Additionally, Brett Hollenbeck, assistant professor of marketing at UCLA Anderson School of Management, noted that “[As] more information has become available, the value of the chain affiliation has declined significantly.”⁴ This is because two key benefits that brands provide—awareness and perceived quality—rely on a the ability to control the information flow to travelers. Thus, the increasing availability of alternative information such as guest reviews pose “potentially large implications for chain firms.”⁵

²Jie Zhang and Rohit Verma, “What Matters Most to Your Guests: An Exploratory Study of Online Reviews,” Cornell Hospitality Report Vol. 17 No. 4 (February 2017): 11

³Jie Zhang and Rohit Verma, “What Matters Most to Your Guests: An Exploratory Study of Online Reviews,” Cornell Hospitality Report Vol. 17 No. 4 (February 2017): 12

⁴Brett Hollenbeck, “Online Reputation Mechanisms and the Decreasing Value of Chain Affiliation,” Journal of Marketing Research Vol. 1-19 (2018): 1-2, 8

⁵Brett Hollenbeck, “Online Reputation Mechanisms and the Decreasing Value of Chain Affiliation,” Journal of Marketing Research Vol. 1-19 (2018): 1-2, 8



Conclusion

Independent hotels today can compete against their branded brethren, cost efficiently, by delivering a better experience. Gone are the days when brands solely drive decision, and today peer reviews and guest ratings, wield stronger influence.

In addition to focusing on a quality experience, independent hotels should demand more help from OTAs and Travel Management Companies (TCMs). Today's brands succeed by filling up their hotels with business and group travelers, and for many second-tier business destinations, it may feel impossible to be an independent hotelier. Online marketplaces can help convince leisure travelers, as well as road warriors and their employers, to choose independent properties. This will ultimately require working closely together to communicate the value of independent offerings to corporate travel managers and creating compelling loyalty programs for business travelers who want to collect points from independent hotels.

Appendix: Methodology details

We asked 903 general population study participants⁶ to select a hotel property for a trip to one domestic city that was familiar to them and one international city that was aspirational. Due to hotel pricing being so dynamic and based on numerous real time market variables, we used a Van Westendorp price sensitivity meter to randomly generate pricing and help us calibrate the individual hotel offers presented to each participant based on these four simple questions⁷:

- ✓ At what price would you consider the product to be so expensive that you would not consider buying it? (Too Expensive)
- ✓ At what price would you consider the product to be priced so low that you would feel the quality couldn't be very good? (Cheap)
- ✓ At what price would you consider the product starting to get expensive, so that it is not out of the question, but you would have to give some thought to buying it? (No Bargain)
- ✓ At what price would you consider the product to be a bargain—a great buy for the money? (Not Expensive)

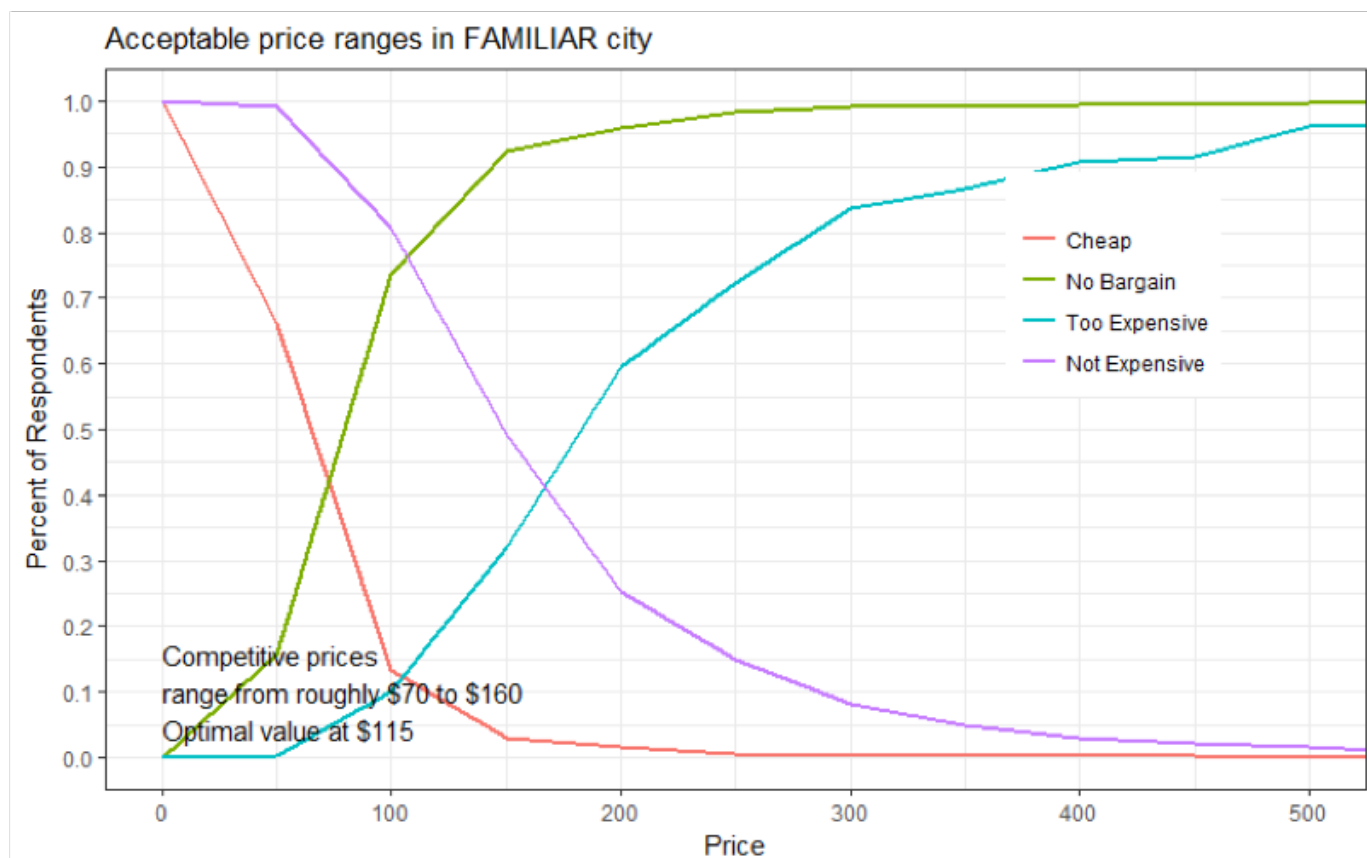
This tool is used to plot a percentage cumulative frequency price curve across a sample of target buyers for each of the questions asked above, creating an area that is considered an acceptable pricing zone, as indicated in figure 1.

⁶ 97 participants were dropped due to suspect responses or failure to provide a real city for their destination. Demographics of remaining respondents for Gender (Female: 54%; Male: 46%) and Age (18-24: 10%; 25-34: 17%; 35-44: 17%; 45-54: 20%; 55-64: 17%; 65+: 19%)

⁷ https://en.wikipedia.org/wiki/Van_Westendorp%27s_Price_Sensitivity_Meter



Figure 1



Starting with a hypothesis on what attributes hotel shoppers primarily use to make their selection, we then focused in on a limited number we thought hotel shoppers primarily considered (table 1), knowing that many shoppers will go on to research many other attributes before making a final selection.

Table 1

Attributes	Features	
Room Image	1	Poor
	2	Fair
	3	Good
	4	Excellent
Hotel	1	Ruume
	2	Knights Inn
	3	Days Inn
	4	Courtyard
	5	Hilton
	6	Four Seasons
Hotel Ratings (Stars)	1	2 stars
	2	3 stars
	3	4 stars
	4	5 stars
Guest Ratings	1	2.9 stars
	2	3.4 stars
	3	3.9 stars
	4	4.4 stars
	5	4.9 stars
Remodel Callout	1	none
	2	Recently renovated
	3	Remodelled 2014!
Price	1	30%
	2	45%
	3	67%
	4	100%
	5	149%
	6	223%
	7	332%

Important things to note:

- We only had the ability to show one room image: a bedroom picture. While we rated the picture based on perceived quality, the study participants only saw the image and not how we rated the image. The picture is based on design and aesthetics, which is subjective.
- We did not have the capacity to test dozens of brands, so we selected popular brands in every star category. A dummy brand, 'Ruume,' was created to determine brand value and test how a non-branded option might perform. 'Ruume' is intentionally generic to limit bias and avoid communicating any aspirational value or quality messages.
- Price is based on percentages to generate U.S. dollar-based offers to participants based on their answers to the Van Westendorp price sensitivity questions. This allows us to simulate a hotel selection page that could be found on Expedia.com. Participants were presented with 14 different hotel selection pages similar to figure 2.
- Relative percentage pricing premiums were calculated based on pricing curves that were modeled using 50% of the population. Individual price sensitivities based on the Van Westendorp questions can vary greatly. At the extremes, price insensitive participants highly value premium attribute features while price sensitive participants value mid-range attribute features and assign much less value to premium attribute features.

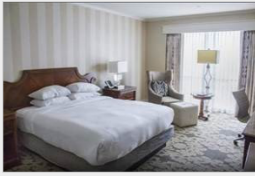


Figure 2: Example hotel selection page

- The city was user-generated by the participant's selection. The participant selected from seven different randomized Choice-Based Conjoint, or CBCs, for their familiar city and seven different randomized CBCs for an aspirational international city that they hoped to visit someday but have never been to.
- Another testing parameter was to understand the value of various attributes for a destination that might represent a degree of riskiness for the traveler, so an aspirational city model was also created. Ultimately, there were no remarkable differences in preferences between familiar and aspirational cities, so our analysis focuses on the combined study.

If a travel site showed that these were the only hotels available in Paris, and you had to pick one, which would you choose?

Please respond as if you were really seeing these offers online, even if some of these offers might not seem realistic.

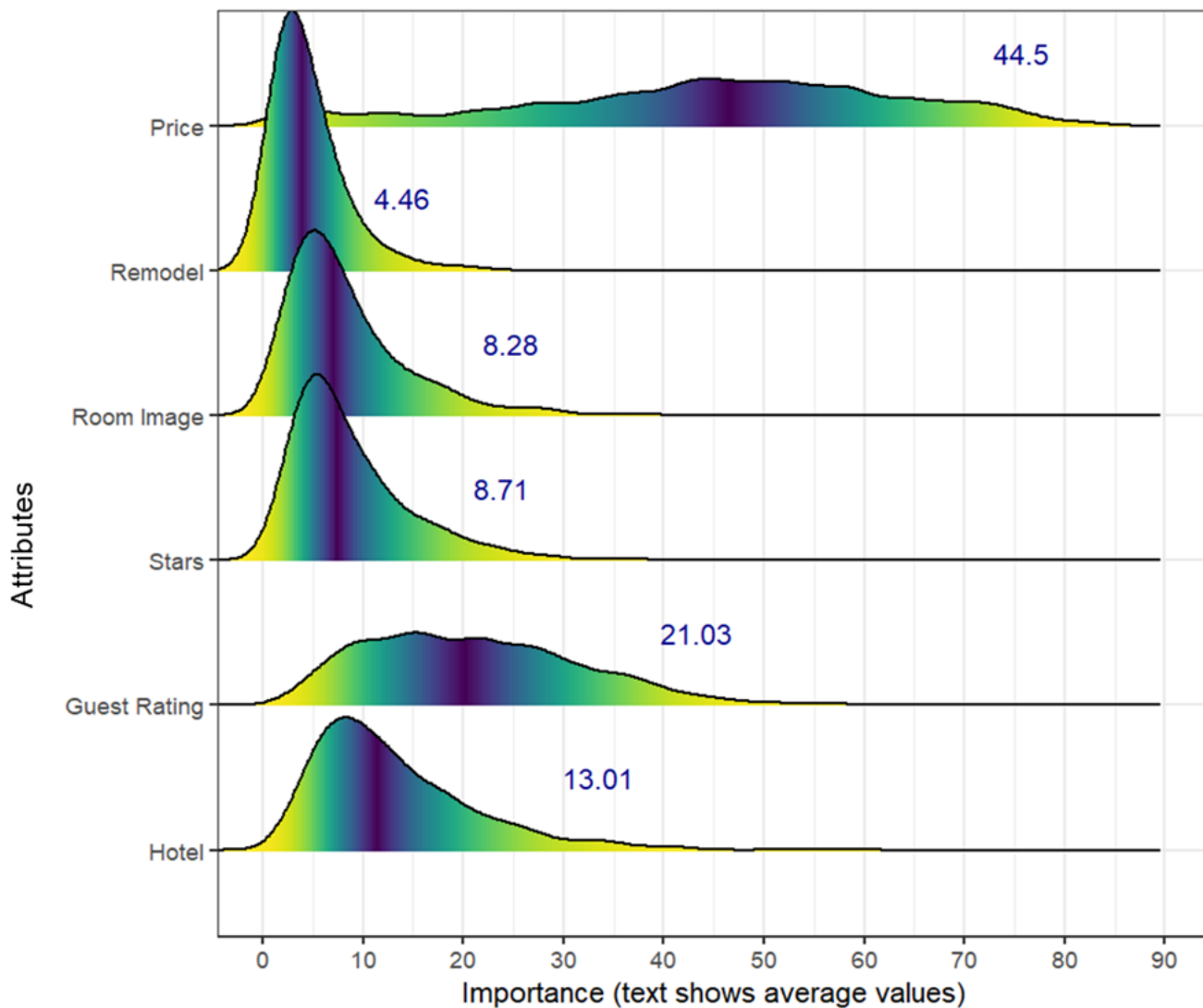
Assume the options available are the same except for the differences shown below.

	Ruume ★★★★★ Paris Remodeled 2014†	4.9/5 Exceptional! (1,194 reviews)	\$303 nightly price	<input type="radio"/>
	Days Inn ★★★ Paris	4.4/5 Excellent! (1,194 reviews)	\$674 nightly price	<input type="radio"/>
	Courtyard ★★★★ Paris	3.9/5 Good! (1,194 reviews)	\$203 nightly price	<input type="radio"/>

To determine the relationship between individual attributes and their likelihood of being selected, we used a Hierarchical Bayesian inference analysis⁹ to build posterior probability models for 12,642 CBC selections, the results of which are illustrated in figure 3:

⁹Using a Markov Chain Monte Carlo simulation of 1000 credible draws per respondent per feature.

Figure 3: Posterior probability models





Contact

For additional questions or comments, please contact:

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Expedia Group™ Lodging Partner Services (LPS) is responsible for sourcing lodging supply that reaches travelers in more than 70 countries through all of the Expedia Group brands.



About Expedia Group

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