HOTEL BRANDING STRATEGY: ITS RELATIONSHIP TO GUEST SATISFACTION AND ROOM REVENUE

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U.S. hotel brands and international hotel brands headquartered in the United States have increasingly evolved away from being hotel operating companies to being brand management and franchise administration organizations. This trend has allowed for the accelerated growth and development of many major hotel brands, and the increasing growth of franchised hotels. There are numerous strategic implications related to this trend. This study seeks to analyze some of these strategic implications by evaluating longitudinal data regarding the performance of major hotel brands in the marketplace, both in terms of guest satisfaction and revenue indicators. Specifically, the authors test whether guest satisfaction at various U.S. and international brands influences both brand occupancy percentage and average daily room rate 3 years later. In addition, the authors investigate whether the percentage of franchised hotel properties influences both guest satisfaction and occupancy 3 years later. Also, they test whether overall brand size has a positive or detrimental effect on future hotel occupancy. Finally, whether the change in guest satisfaction for hotel brands effects the change in average daily rate during the same 3-year period is tested.

KEYWORDS: strategy; brand; franchise; quality; guest satisfaction; lodging

Today’s lodging guests are seeking consistency and quality at the right price (Dube & Renaghan, 2000). Consequently, lodging operators have turned their attention to guest satisfaction and branding because brand name operates as a “shorthand” for quality by giving the guest important information about the product/service sight unseen (Brucks, Zeithaml & Naylor, 2000; Jacoby, Szybilko & Busato-Schach, 1977). Accordingly, hotel executives recognize brand quality as an important company asset and as a potential source of strategic advantage (Damonte, Rompf, Bahl, & Domke, 1997). To maximize brand equity, most hotel mega-companies have developed multiple brands to serve multiple markets (Jiang, Dev, & Rao, 2002). The value of a brand is based on the awareness of the brand, its quality perception, and overall customer satisfaction (Aaker, 1991). Satisfied customers tend to buy more, be less price conscious, and to generate positive word-of-mouth, thus contributing to bottom-line profit (Anderson & Mittal, 2000). Due to increased attention to a customer focus, brand managers use...
satisfaction as a measure of operational success of their overall branding strategies (Shocker, Srivastava, & Ruekert, 1994). The primary purpose of this study is to empirically examine the links between guest satisfaction and revenue indicators (i.e., occupancy and average daily rate, or ADR) at a brand level. In addition, we explore the impact of franchising on guest satisfaction and occupancy rates.

THEORETICAL BACKGROUND

From a corporate strategy viewpoint, well-managed brands tend to gain increasing market share. Yet, previous research linking service quality with market share in the hospitality industry shows mixed results (Ekinci, 2002). Specifically, there are two divergent views on the effect of brand growth on customers’ quality perceptions (Hellofs & Jacobson, 1999).

First, the market signaling theory suggests that consumers interpret a high market share as a signal of high quality, thus resulting in increased future demand (Caminal & Vives, 1996). Consequently, it is not surprising that market share leaders, including those in the lodging industry, tend to use their share as a focal point in their advertising messages (e.g., Best Western’s recent advertising campaign touting that they are the largest hotel chain in the world). The second stream of thought on brand management proposes that there is a negative relationship between market share and perceived quality. Some large-scale satisfaction studies show that satisfaction decreases with an increase in market share (Anderson, Fornell, & Lehman, 1994; Fornell, 1992, 1995). As a hospitality industry example, McDonald’s executives have acknowledged that the company’s growth has come at a high cost in terms of quality (Hellofs & Jacobson, 1999).

We believe that the market signaling theory holds the greatest level of applicability to the lodging industry (i.e., that larger brands will gain higher market share on a per unit basis). Thus, in the present study, we hypothesize as follows:

Hypothesis 1: Hotel brand size at Time 1 will be positively associated with occupancy rates at Time 2.

Previous research has established the link between satisfaction and financial performance (e.g., Anderson et al., 1994; Rust, Moorman, & Dickson, 2002). Consequently, we believe that hotel brands with higher levels of guest satisfaction at Time 1 will experience higher occupancies and average daily rates at Time 2. In addition, because we are analyzing performance at the brand level, with brands representing a wide range of quality levels (i.e. ranging from luxury to budget), we also believe that if brand-level guest satisfaction truly influences rates hotel guests are willing to pay, then brands with greater levels of guest satisfaction improvement between Time 1 and Time 2 should experience relatively greater increases in average daily rates between Time 1 and Time 2 (i.e., ADR change), as well. Thus, we propose the following hypotheses:

Hypothesis 2: Hotel brands with higher levels of guest satisfaction at Time 1 will experience higher occupancy rates at Time 2.
Hypothesis 3: Hotel brands with higher levels of guest satisfaction at Time 1 will experience higher average daily room rates at Time 2.

Hypothesis 4: Hotel brands with higher levels of guest satisfaction improvement between Time 1 and Time 2 will experience greater average daily rate increases between Time 1 and Time 2.

The lodging industry as a whole is highly aware of the importance of customer focus. However, various hospitality organizations have different perspectives regarding who is their customer. Lodging companies focusing on franchise development typically indicate that their customer is not the guest staying in the hotel, but rather the franchisee (e.g., Choice’s indication that “We really consider our franchisees our primary customers”) (Linder, 2001, p. 80). On the other hand, those companies focusing on corporate/management development are more likely to discuss the guest sleeping in the bed as being their customer (e.g., Ritz-Carlton’s credo that “the genuine care and comfort of our guests is our highest mission”) (Partlow, 1993, p. 18). Thus, evidence exists that lodging strategists must not only answer the question regarding how much (or whether) to segment the supply of hotels, but also must answer the question about how much (or whether) to franchise. Previous research shows that franchising tends to have a detrimental impact on overall system quality (Michael, 2000). In that study, quality was negatively linked to the percentage of franchising in both the hotel and restaurant industry. If hotel brands with a higher percentage of franchised properties may experience greater difficulty in controlling quality, then the lower guest satisfaction should be reflected in lower occupancy levels. Thus, the following hypotheses can be formulated:

Hypothesis 5: Hotel brands with a higher percentage of franchised properties at Time 1 will experience lower satisfaction ratings at Time 2.

Hypothesis 6: Hotel brands with a higher percentage of franchised properties at Time 1 will experience lower occupancy rates at Time 2.

METHOD

We consider a hotel brand to be any affiliated hotels of the same name, whether franchised or not (i.e., corporate managed). In other words, the major hotel companies (e.g., Marriott International) are composed of a number of brands (e.g., Marriott, Renaissance, Ritz-Carlton, Residence Inn, Courtyard, Fairfield). We gathered information pertaining to hotel brand guest satisfaction, occupancies, average daily rates, and number of hotel rooms from a variety of sources. Although most major hotel brands conduct their own measures of guest satisfaction, we sought to use satisfaction data that were from the same source over the course of several years. To do so, we elected to use data compiled by Consumer Reports. Consumer Reports periodically conducts large sample surveys regarding hotel guest satisfaction. We chose to use their two most recent surveys, which were reported in their magazines in 1998 and 2001 (“The best hotels,” 1998; “Suite dreams,” 2001). Their 1998 survey consisted of approximately 55,600 responses reflecting U.S. hotel visits during 1997, whereas their 2001 report con-
sisted of approximately 41,000 responses reflecting experiences at U.S hotel brands in 2000. Our discussions with representatives of Consumer Reports indicated that they received more than 500 responses regarding most brands and as many as 7,500 for some brands (e.g., Holiday Inn). Consumer Reports asked its participants to rate their overall satisfaction with their stay (i.e., to answer the question: “Overall, how satisfied were you with your stay at this hotel or motel?”). A guest rating score of 0 indicated that the participant was completely dissatisfied, 20 indicated that the participant was very dissatisfied, 40 indicated somewhat dissatisfied, 60 fairly well satisfied, 80 very satisfied, and 100 completely satisfied.

Although there was slight variation in the brands that were included in each of the two surveys, most brands surveyed were included in both studies, and these 17 brands were the brands on which we focused our research.

We gathered information regarding annual hotel brand occupancies, average daily rates, the number of hotel rooms, and the number (and percentage) of franchised properties for the same years studied by Consumer Reports from a variety of sources, including company annual reports, Bear Stearns investment reports, and interviews with representatives of the companies themselves. Information regarding the number of hotels and rooms, and the number and percentage of franchised properties, in each brand by year was also gathered from a variety of sources, including annual reports, annual surveys conducted by Hotel Business, Hotel & Motel Management, and Lodging Hospitality magazines, and interviews with representatives of the companies. We consider these sources to be reliable because, ultimately, the sources of the information are the companies themselves. In cases when we found the same item (e.g., annual occupancy rate) to be reported in more than one of the sources we used, we found the reported figures for the item to be identical.

After compiling all of these data, we had complete information for a total of 17 U.S.-based hotel brands, representing all four hotel market segments as defined by Consumer Reports (luxury, upscale, moderate, and budget). These 17 brands represent a total of 984,377 guest rooms (as of 2000), or approximately 36.96 percent of the rooms in the 50 largest U.S. hotel brands (“The brand report: The 50 largest U.S. hotel chains,” 2000). Descriptive statistics regarding these hotel brands are presented in Table 1. Although other factors may exist that affected occupancy and ADR during the period studied, this study does not specifically control for them. For example, external factors, such as economic factors, would likely have had an impact. However, during this period of general, overall economic expansion in the United States (1997-2000), all brands appear to have benefited (i.e., all brands achieved ADR increases). Interestingly, however, although all brands experienced ADR growth during this period, some brands achieved guest satisfaction improvements, some registered no change in satisfaction, and some experienced satisfaction declines. In summary, our database for this study consists of measures of guest satisfaction, occupancy percentage, average daily rate, number of guest rooms, and percentage of franchised properties by year for two years, 1997 (i.e., Time 1) and 2000 (i.e., Time 2), for a total of 17 hotel brands.
<table>
<thead>
<tr>
<th>Brand</th>
<th>1997</th>
<th>2000</th>
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<tbody>
<tr>
<td></td>
<td>Occupancy (%)</td>
<td>ADR ($)</td>
</tr>
<tr>
<td>Clarion</td>
<td>62.3</td>
<td>72.47</td>
</tr>
<tr>
<td>Courtyard</td>
<td>80.4</td>
<td>83.63</td>
</tr>
<tr>
<td>Doubletree</td>
<td>71.0</td>
<td>98.77</td>
</tr>
<tr>
<td>EconoLodge</td>
<td>56.1</td>
<td>42.35</td>
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<tr>
<td>Embassy Suites</td>
<td>74.9</td>
<td>113.45</td>
</tr>
<tr>
<td>Fairfield</td>
<td>73.9</td>
<td>54.13</td>
</tr>
<tr>
<td>Four Seasons</td>
<td>75.3</td>
<td>263.02</td>
</tr>
<tr>
<td>Hampton Inn</td>
<td>71.3</td>
<td>64.10</td>
</tr>
<tr>
<td>Hilton</td>
<td>72.2</td>
<td>115.19</td>
</tr>
<tr>
<td>Homewood Suites</td>
<td>76.4</td>
<td>92.79</td>
</tr>
<tr>
<td>Marriott</td>
<td>78.5</td>
<td>129.29</td>
</tr>
<tr>
<td>Quality</td>
<td>59.1</td>
<td>55.11</td>
</tr>
<tr>
<td>Residence Inn</td>
<td>83.5</td>
<td>95.40</td>
</tr>
<tr>
<td>Ritz-Carlton</td>
<td>77.0</td>
<td>188.59</td>
</tr>
<tr>
<td>Sheraton</td>
<td>70.5</td>
<td>121.14</td>
</tr>
<tr>
<td>Westin</td>
<td>71.5</td>
<td>121.85</td>
</tr>
<tr>
<td>Wyndham</td>
<td>71.1</td>
<td>121.72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72.1</strong></td>
<td><strong>107.82</strong></td>
</tr>
<tr>
<td><strong>SD</strong></td>
<td><strong>7.2</strong></td>
<td><strong>53.55</strong></td>
</tr>
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</table>

Note: ADR = average daily rate.
FINDINGS

We conducted multiple linear regression analysis to test our hypotheses regarding brand occupancy level. Brand size (total number of guest rooms), percentage of franchised properties, and guest satisfaction score at Time 1 served as predictor variables, and brand occupancy level at Time 2 served as the response variable. This analysis resulted in a significant overall regression coefficient ($R^2 = 0.762$, $F = 13.903$, $p < .001$). Furthermore, each of the three individual predictor variables was significant ($p < .05$), and the percentage of franchised hotels resulted in a negative standardized beta coefficient, as hypothesized. Thus, Hypotheses 1, 2, and 6 were supported. These results, which are summarized in Table 2, indicate that larger brands, brands with a lower percentage of franchised properties, and those with higher guest satisfaction levels subsequently achieve higher occupancy levels. To examine the relationship between franchising and guest satisfaction, we performed a simple regression analysis. The percentage of franchised properties was negatively linked to subsequent guest satisfaction, with a standardized beta coefficient $= –.569$ ($t = –2.68$, $p < .05$), thus providing support for Hypothesis 5. These findings related to guest satisfaction are particularly important because of the small number of brands (17) and the small variance in guest satisfaction between the two surveys. Specifically, the brands showed only a 0.4% increase in overall guest satisfaction rating, from 77.82 to 78.18 from the first survey to the most recent survey, and yet we found statistically significant results based on this construct.

We used linear regression analysis to test the relationship between brand level guest satisfaction at Time 1 as a predictor variable and brand average daily rate at Time 2 as a response variable. With a regression coefficient of 0.375 and a standardized beta coefficient of 0.528, this relationship was also significant ($t = 2.380$, $p < .05$). Thus, Hypothesis 3 was supported, indicating that brands with higher levels of guest satisfaction not only achieve higher occupancy rates but higher average daily rates, as well.

In addition, we used linear regression analysis to test the relationship between brand-level guest satisfaction change as a predictor variable and brand average-daily-rate change as a response variable. Specifically, we regressed the change in guest satisfaction against the change in ADR between 1997 and 2000 and found a significant regression coefficient of 0.302 ($t = 2.476$, $p < .05$). These results, which provide support for Hypothesis 4, indicate that a one-point increase in

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Beta coefficient</th>
<th>t</th>
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<tbody>
<tr>
<td>Brand size</td>
<td>1.007</td>
<td>3.064*</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.470</td>
<td>2.785*</td>
</tr>
<tr>
<td>% franchised</td>
<td>–0.660</td>
<td>–2.597*</td>
</tr>
</tbody>
</table>

*p < .05.*

Table 2
Occupancy Rate t Tests

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overall guest satisfaction rating correlated with a $0.61 increase in ADR over the course of the period studied.

**DISCUSSION**

The strategic management of satisfaction is of utmost importance in today’s crowded marketplace, where customers are overwhelmed with lodging choices. Previous work in the service sector suggests that satisfaction is directly linked to the company’s bottom line performance (e.g., Anderson et al., 1994; Rust et al., 2002). Accordingly, in this study, guest satisfaction had a positive influence on both occupancy rate and ADR. Our results further indicate that brands with higher guest satisfaction levels seem to achieve not only greater revenues per guest room but also achieve higher growth rates in room revenues than brands with lower satisfaction. This finding is consistent with branding literature, which suggests that customers are willing to pay a premium price for their preferred brand (Aaker, 1996). Protecting reputation for satisfaction at a brand level has become a key issue both in terms of customer perceptions and franchisee willingness to sign and/or stay with a particular hotel brand (Prasad & Dev, 2000). Brand hopping, or “flag switching,” is a serious concern in the post 9/11 operating environment (*The Wall Street Journal*, 2002). Because today’s hotel franchisees are as quick to change their brand loyalty, it may be more important than ever for hotel brand executives to maintain consistent brand quality (i.e., guest satisfaction).

Our findings are also consistent with the market signaling theory (Caminal & Vives, 1996). Brand size was positively linked to occupancy percentage, thus suggesting that lodging customers might use brand size as a quality cue. Although all market boundaries are somewhat arbitrary (Hellofs & Jacobson, 1999), for our purposes, brand size was measured as total number of guest rooms. Thus, brands with many hotels and/or large hotels were considered as relatively larger brands. Regardless of the merits of the signaling theory, hotel company executives need to be prudent when choosing their growth strategies. Growth via franchising might have an adverse effect on quality (Michael, 2000). In our study, the percentage of franchised units within the brand was negatively correlated with both guest satisfaction and occupancy. These inverse relationships are interesting considering that the overall percentage of franchised properties grew during the years we studied, increasing from 51.9% in 1997 to 55.1% in 2000. As hotel brand executives continue to focus their growth strategies to a greater extent on franchising and brand management rather than actual property management, the issue of guest satisfaction could become an increasingly important factor in determining the ultimate revenue success of hotel brands.

One of the reasons that brands with a greater percentage of franchised properties might be achieving lower levels of guest satisfaction, and ultimately lower occupancy levels, is that as hotels age, they tend to suffer from functional obsolescence as their designs experience a decrease in utility over time (O’Neill & Lloyd-Jones, 2001). As hotel brand executives execute franchise contracts, the average age of existing franchised properties conceivably increases (Harris, 2003; Walsh, 2002). When an older hotel suffers from functional obsolescence, capital invest-
ments will no longer result in an acceptable return to the owner (Appraisal Institute, 2001). Hotel owners in such a position are financially demotivated from employing capital to improve the physical plant, regardless of brand standards.

Limitations and Directions
for Future Research

Like all such studies, this study has limitations. First, our data set includes only 17 brands, all of which are headquartered in the United States (which as previously discussed represents approximately 37% of the 50 largest U.S. hotel brands), and therefore, our conclusions may not be generalizable to the entire lodging industry. Second, we did not consider any independent properties. Although independent hotels generally underperform brand-affiliated hotels in the marketplace, previous research has shown that independent hotels might outperform their brand-affiliated counterparts in some segments of the industry (Damonte et al., 1997). Third, guest satisfaction data were obtained from Consumer Reports. As a result, the sample was not a random sample of U.S. lodging customers. Based on our discussion with representatives of Consumer Reports, we understand that Consumer Reports readers are generally older and more affluent than the overall population.

Future research should examine potential moderating variables influencing the relationship between satisfaction and revenue indicators. For example, the age of the property might have an effect on guest ratings. Also, the level of service quality might depend on the duration of the current franchising agreement. For example, it is possible that new franchisees have greater difficulty providing consistent guest service than their more experienced franchisee counterparts, whereas it is equally possible that newer franchises provide more consistent service because they may be operating newer physical plants. Finally, future work should examine the impact of product segments on the relationship between satisfaction and revenues. It would be interesting to examine whether the linkages found in this study hold up for various segments of the hospitality industry (e.g., budget, mid-scale, luxury). The small sample size (17 brands) in the present study did not allow us to perform any segment-specific analyses. Similarly, it would be interesting to analyze whether the linkages found here exist for both franchised and nonfranchised properties, as well as for the overall brands.

CONCLUSION

This study raises several important long-term strategic issues regarding hotel brand growth, and particularly growth through franchising. Although larger brands and brands with higher levels of guest satisfaction have higher occupancy levels, brands with a higher percentage of franchised properties experience lower occupancies. Franchisors must make strategic decisions regarding addressing the balancing of the guest need for service versus the brand need for franchise fee revenues. As this study indicates, this balancing act is a crucial one for hotel franchisors. Although the generation of franchise fees is a vital short-term goal for any franchisor, guest service has a long-term effect on the overall health of
hotel brands, at least in terms of future brand-occupancy levels. Consequently, the aggressiveness with which brand management disciplines and/or eliminates franchisees who are providing relatively poor guest service may have serious implications regarding not only the future reputation, but the actual future performance of the entire brand.

Furthermore, our research found that brands with higher levels of guest satisfaction achieve not only higher average daily rates, but that these brands achieve significantly greater percentage increases in their average daily rates over time, as well. Although hotel guest satisfaction certainly comes with economic costs to operators, the important message to hotel brand managers is that there exists empirical evidence that guest satisfaction offers clear economic rewards, as well.

REFERENCES


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