

# The New Science of Service Innovation: Part 2

## *Select Research on Organizations* *from the 2014 Cornell Hospitality Research Summit*

It goes without saying that change is inevitable in hospitality and service organizations, as the competitive marketplace changes and as the interaction between organizations and their customers and employees evolve. The Cornell Hospitality Research Summit (CHRS) held in October 2014 was organized to examine service innovation in a new light, focusing on a scientific and disciplined approach to the topic. This report is the second of four that feature expanded summaries of select research on service innovation. This second report highlights innovative strategies related to organizational change, including an unexpected outcome for implementing change in European organizations, how to identify and market to “persuadable” guests, and proposed new directions for hotel rating systems.

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### INTRODUCTION

Hospitality organizations are growing and changing in response to market and data trends. Technology remains a disruptive force that can be beneficial or destructive depending on how existing organizations respond. The effects of technology on organizations extends to the ways we measure organizational success and how we manage the introduction of organizational innovation. Focusing on such issues as corporate culture, guest experience management, metrics for operational performance, change implementation, and rating and ranking systems reveals the value of combining the experience of the industry with the knowledge and research expertise of academe. As disruption challenges organizations to offer products and services that are better, cheaper, and more customer focused, hospitality firms have no choice but to adjust to the shifting innovation landscape, or fail. All that is necessary is change.

#### **We Love Innovation—Right?**

Everyone loves to talk about innovation these days, but sadly the overuse of the word to describe minor tweaks and

ordinary activities has turned it into a confusing if not meaningless term. While senior leaders in many different industries use the word at alarmingly frequent intervals, innovation has its roots in the notion of creating something new, and that means making changes. However this business of new ideas is not as easy to sell as we might think. You history buffs may know that it took the British Navy of the 17th century over 150 years to adopt a proven cure for scurvy. That’s changed in today’s world, right? We embrace new ideas. Not really—indeed, the implementation of innovation is difficult because resistance is built into the systems, practices, measures, and cultures of current organizations. We are reminded of the inventor Howard Aiken who once said, “Don’t worry about people stealing your ideas. If your ideas are any good, you’ll have to ram them down people’s throats.” Throughout the summit we found participants challenging the status quo and trying to persuade others to embrace and perhaps extend their new and interesting ideas. In that context, we now turn to the selected research summaries on organization.

## The Need for Organizational Change

This report on organizational innovation and change explores what is necessary to engage and understand customers, how rating and ranking systems for hotels might be configured to assist consumers, and the ways in which leaders effectively implement innovations. The appendix at the end of this report provides the presentation titles and authors from the organization track of the CHRS14 so you can see the full range of content explored on this topic.

We highlight in the pages to follow six research presentations addressing organizational issues from the summit, as follows:

- “What Your Guests Seek in a Hotel Stay,” by John Timmerman and Daniela Yu (page 3);
- “Implementing Innovation in European Hotels” by Cathy Enz and Sean Way (page 8);
- “Focusing Direct Marketing Promotions on the Persuadable Guest,” by Richa Kapoor, Anil Kaul, and Guha Athreya (page 11);
- “Using Eye Tracking to Understand Consumers’ Consideration in the Online Lodging Purchase Decision,” by Breffni Noone and Stephani Robson (page 13);
- “Incorporating Guest Reviews into Hotel Classification Systems: A Modest Proposal,” by Anita Bloomberg-Nygaard, Chris Anderson, and Christopher Imbsen (page 16); and
- “Elements of a World Hotel Rating System,” by Roger Kaiser (page 20).

## Customer Understanding

The bad news, according to John Timmerman and Daniela Yu, in their work titled “What Your Guests Seek in a Hotel Stay,” is that only a small percentage of guests industry-wide are engaged with a particular hotel or brand. The good news, according to this study of 13,515 adults in the U.S., is that fully engaged customers are less price sensitive and spend more. Developing a personal relationship seems to be the key differentiating factor for repeat visits. After revealing the amenities that matter and those that don’t, the authors argue that hotels should reconsider their legacy amenities and services, and perhaps begin making changes. Eye tracking and think-aloud interviews were the methodologies used by Breffni Noone and Stephani Robson in their research titled, “Using Eye Tracking to Understand Consumers’ Consideration in the Online Lodging Purchase Decision.” Using an

exciting methodology, this study found that reviews and images online were powerful influencers of consumer choice, highlighting the complexity of price in the overall hotel choice process. On a similar theme, Richa Kapoor, Anil Kaul, and Guha Athreya, applied their methodology to determine consumer uplift from direct marketing promotions. The paper, titled “Focusing Direct Marketing Promotions on the Persuadable Guest,” found that better targeting to the persuadable guest is more likely to drive revenue than focusing on the most responsive guest, who would purchase anyway.

## Hotel Classification

The traditional hotel ranking or star rating is questioned in the paper “Incorporating Guest Reviews into Hotel Classification Systems: A Modest Proposal,” by Anita Bloomberg-Nygaard, Chris Anderson, and Christopher Imbsen. These authors make the case for applying user-generated review information to adjust a given hotel’s classification. While consumer reviews were found to have a strong fit with classification systems, the integration of reviews into classification systems would further reduce consumer uncertainty and potentially contribute to greater pricing power for hotels that score well. The challenge of developing comparable rankings of hotels around the world is the focus of the paper “Elements of a World Hotel Rating System,” by Roger Kaiser. The proposed World Hotel Rating (WHR) would, according to Kaiser, be transparent, be consistent from country to country, integrate existing ranking systems, include the concept of value for money via a presentation of amenities and services, and classify hotels into categories according to purpose of stay. Both of these papers argue for changes to existing rating systems by making use of the large volume of existing information now available.

## The Challenge of Implementing Change

The implementation of innovation requires leaders, managers, and employees to make substantial changes to ensure a new idea or practice is successful. In the paper co-chair Enz wrote with Sean Way, titled “Implementing Innovation in European Hotels,” four different strategies for implementing innovation are examined, namely, including expert persuasion, employee participation, leader edict, and manager intervention. The results of this study in European hotels found that expert persuasion was a more powerful tool for introducing new ideas than previously thought.

In conclusion, the six summaries in this report make suggestions for how to look more broadly or see more deeply by applying new and intriguing research methodologies, or by harnessing the expanding consumer information available for making needed changes to hospitality organizations. We acknowledge that while innovation is necessary to survive it will not be easy.—*Cathy Enz and Rohit Verma, Co-chairs*

## Growing Revenue through Guest Engagement:

### *What Your Guests Seek in a Hotel Stay*

John Timmerman and Daniela Yu

**T**he goal of having engaged customers often proves elusive for many hoteliers. However, by developing a deep understanding of guests' preferences, hotels can offer experiences that are tailored to guests in various age brackets and market segments. Using data from a Gallup Panel web and mail study completed by 13,515 U.S. adults (aged 18 and older), this study examines the services and amenities that encourage guest engagement. For this survey, conducted from December 23, 2013, to January 28, 2014, the data were segmented according to the hotel used by guests in their most recent hotel stay prior to the survey and also were segmented by guest age bracket. Hotel segments were the standard chain scales (that is, luxury, upper upscale, upscale, upper midscale, midscale, and economy), and the age brackets were the commonly used designations of Traditionalists, Baby Boomers, Generation Xers, and Millennials, in descending order of age.

Certain values crossed all brackets. For example, although guests in different brackets use slightly different criteria to select a hotel the first time, repeat purchases depend heavily on how well the guests felt the hotel cared for their needs and created a sense of well-being. In terms of specific amenities, guests' preferences change according to hotel segment. Though all customers value price, reputation, room quality, and location when choosing a hotel, these basics merely represent the cost of entry for a particular brand. It is the actual experience that is

critical in encouraging guests to become engaged with a hotel or brand. Engagement should be the goal for all hoteliers, because engaged guests are far more lucrative than neutral or actively disengaged customers. At the same time, the study calls into question the hotel industry's push to add services or maintain legacy amenities. Offering these services does not always translate into increased market share, and the survey respondents offered several suggestions of amenities that could be discontinued.

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## The Economic Value of Engaged Guests

### Sample demographics

	Subgroups	Sample size	Percentage of all samples	Margin of error*
	<b>All</b>	13,515	100%	0.8%
<b>Hotel Segments</b>	Economy	773	5.7%	3.5%
	Midscale	1,260	9.3%	2.8%
	Upper midscale	2,777	20.5%	1.9%
	Upscale	1,147	8.5%	2.9%
	Upper upscale	1,888	14.0%	2.3%
	Luxury	260	1.9%	6.1%
<b>Age</b>	Millennials (1980-1996)	1,335	9.9%	2.7%
	Generation X (1965-1979)	2,499	18.5%	2.0%
	Baby Boomers (1946-1964)	6,503	48.1%	1.2%
	Traditionalists (1900-1945)	3,178	23.5%	1.7%
<b>Customer Engagement</b>	Fully Engaged	1,414	10.5%	2.6%
	Indifferent	4,055	30.0%	1.5%
	Actively Disengaged	1,741	12.9%	2.3%

### About the Survey

The Gallup Panel is a probability-based longitudinal panel of U.S. adults selected using random-digit-dial phone interviews via both landlines and cellphones. Address-based sampling methods are also used to recruit panel members. The Gallup Panel is not an opt-in panel, and members are not given incentives for participating. The sample for this study was weighted to be demographically representative of the U.S. adult population, using 2012 current population survey figures. The data are weighted by gender, age, education, race, ethnicity, and geography, using the following four U.S. regions: west, midwest, south, and northeast.

A univariate generalized linear model was used for the analysis on the economic value of customer engagement with these covariates: hotel segment, gender, age, income, and travel purpose. As these variables have been shown to influence the dependent variable of revenue contribution (measured by the amount spent at the hotel a particular respondent visited most frequently in the previous 12 months), their impact has been controlled to investigate the impact of customer engagement.

For analysis on the linkage between customer well-being and engagement, a t-test was conducted to demonstrate the significant difference in engagement when hotels have taken care of a guest's well-being and when they have not. For subgroup difference comparisons, such as hotel segments, generational cohorts, and customer engagement groups, a t-test or one-way ANOVA has been applied, depending on the number of subgroups.

The study developed monetary estimates of the value of engaged customers, although the percentage of such guests industry-wide is relatively low. Gallup's measure of customer engagement is based on the three items in its customer engagement score (CES): **(1)** Company always delivers on what they promise; **(2)** I feel proud to be a Company customer; and **(3)** Company is the perfect company for people like me. The resulting combined scale (based on 5-point Likert-type responses) has high internal consistency (Cronbach's alpha = 0.89). This metric has demonstrated its measurement equivalence across country, language, and customer types, so companies can measure and compare results of

this metric across different groups.<sup>1</sup>

The CES classifies customers into three categories: fully engaged, indifferent, and actively disengaged.<sup>2</sup> The good news is that Gallup has found that fully engaged customers represent a 24-percent premium in terms of share of wallet, profitability, revenue, and relationship growth over the average customer. The bad news is that this study finds engagement averaging in the low to mid 20-percent range, with slight variations depending on age bracket and hotel chain scale.

The industry needs to take notice of this relatively low engagement percentage. Fully engaged customers are less sensitive to price because their emotional connection with the brand moderates their concerns about cost, and these guests are, consequently, less concerned about price when they are booking repeat hotel stays. By contrast, actively disengaged customers show a 19-percent discount in the revenue measures.<sup>3</sup>

Overall, the respondents spent an average of \$457 at the hotel they visited most frequently in the twelve months prior to the survey. Fully engaged guests, however, spent \$588, while actively disengaged guests spent just \$403. One important finding in this regard is that hoteliers should not ignore Generation X, even though it is smaller than the Baby Boomers and Mil-

<sup>1</sup> Yu, D., and Yang, Y.Y. (2015), "Measurement equivalence of a concise customer engagement metric across country, language, and customer types". Public Opinion Quarterly, forthcoming

<sup>2</sup> See: Fleming, J., and Yu, D. (2014). Customer engagement instrument technical report. Omaha, NE: Gallup.

<sup>3</sup> Yu, D., Harter, J. K., and Fleming, J. H. (2014). The relationship between customer engagement and organizational outcomes in the business-to-consumer context. Omaha, NE: Gallup

lennials. Gallup's study found that when it comes to value of wallet, engaged Gen X guests outspent their younger counterparts, on average, at \$538 per stay versus \$351 for Millennials. However, Gen Xers were at the low end of the engagement range, at 22 percent, and the researchers conclude that members of this group are mostly still waiting for a particular hotel brand to win them over.

With regard to hotel segments, the percentage of engaged guests generally declines with chain scale. Luxury customers are clearly the most engaged, at 33 percent; upper upscale guests are at 29 percent; upscale, at 28 percent; upper midscale, at 21 percent; midscale, 19 percent, and just 12 percent of economy guests are fully engaged.

### Appealing to New Customers

To win guest engagement, the hotel must first woo new guests. All hotels must offer quality, convenience, and price. Brand reputation also has an influence in the initial hotel choice. Beyond that, Gallup's study found that guests at different chain scales look for different cues. Luxury and upper upscale guests are particular about the hotel's environment, for example, and they value the property's look and feel. They rely on their own judgment and observations when choosing a hotel for the first time.

External information sources are more important to customers of the remaining hotel segments. Upscale customers rely on recommendations from friends, while upper midscale guests defer to the preference of family members and friends. Midscale guests, however, depend on information on the hotel's website when initially deciding to book a room. Finally, economy customers rely primarily on a hotel's brand reputation when booking an initial stay.

### Encouraging Repeat Customers

To bring guests back, hoteliers must consider price (or value), location, and quality as basic attributes—without these, guests will not consider returning. The key differentiating factor for repeat visits is the extent to which guests have developed a personal relationship with the hotel and its brand. Staff are critical in developing this relationship by providing reliable service, solving any problems, and responding enthusiastically to guests' needs.

## EXHIBIT 2

### Hotel guest engagement and spending by hotel segment (chain scale)

Segment	% Fully engaged	Average spent at the hotel visited most frequently in the past 12 months
Luxury	33%	\$910
Upper Upscale	26%	\$553
Upscale	28%	\$565
Upper Midscale	21%	\$378
Midscale	19%	\$310
Economy	12%	\$176

Note: Fully engaged guests tend to spend more than those with low engagement. Source: Gallup.

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## EXHIBIT 3

### Criteria considered important when booking repeat hotel visits

Most important criteria when booking repeat hotel visits*	Millennials	Generation X	Baby Boomers	Traditionalists
Price of the room	1	2	2	2
Convenient location	2	1	1	1
Quality of the facility	3	3	3	3
Reliable Internet	4	—	—	—
Resolve problems	5	4	5	5
Service reliability	—	5	—	—
Responsive employees	—	—	4	4

Note: Top five criteria are shown for each group. Source: Gallup.

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Service recovery is important here. When employees help guests solve problems, the respondents said they become more engaged than guests who didn't experience a problem during their stay. Only in the economy segment is price still the overriding consideration in repeat business, even though economy customers also value responsive employees who can solve problems.

### Building Guests' Sense of Well-Being

As mentioned above, the study found a strong link between guests' feelings of well-being and above average levels of customer engagement. Among guests who strongly agree that the hotel they visit most frequently takes care of their well-being, 79 percent are fully engaged, while 20 percent are indifferent and just 1 percent are actively disengaged. Among those who strongly disagree that their hotel takes care of them, a mere 6 percent are fully engaged.

This survey highlights what appears to be an enormous missed opportunity for the hotel industry, given that just 21 percent of the respondents strongly agreed that the hotel they most frequently visit takes care of their well-being. That leaves a lot of guests who probably are not actively engaged but could be.

Guests' sense of well-being and spending by demographic group and hotel segment



Of the six distinct hotel segments analyzed in this study, Gallup finds that higher-end hotels do a better job of taking care of their guests' well-being. Economy customers are least likely to strongly agree that the hotel they visit most frequently cares for their well-being (15%), while the percentage doubles for luxury hotel customers (31%).

**The Amenities That Matter Most (and Least)**

The study also points to amenities as an area that hotel operators should review and reconsider. In the “amenity wars” of past decades, hotels added services and products that increased costs but did not necessarily encourage guest engagement. More to the point, a large percentage of guests are indifferent to many amenities on offer, which is one reason for the rise of select ser-

vice hotels. To avoid offering unwanted services, hoteliers must understand which products and services are vital to the guests they want to attract—and discontinue services that merely add to expenses. The study found that overall, substantial percentages of customers strongly agreed with eliminating specific services—such as the hotel retail shop, the hotel bar, concierge services, in-room dining, the fitness facility, and luggage services—if they could pay less for their stay. On the other hand, the respondents said that they would pay more for certain services.

**Losers.** When asked which hotel products customers would give up to lower costs, more than half of respondents agreed that they could do without the in-room bar, robes, and valet parking (Exhibit 5). A large percentage of customers across all hotel segments strongly agree with eliminating the in-room

**EXHIBIT 5**

**Least favored amenities**

Percentage of survey respondents strongly agreeing to eliminate selected amenities.

	Amenity	Strongly Agree to Remove
1	Hotel retail shop	41%
2	Hotel bar	30%
3	Concierge services	29%
4	In-room dining	29%
5	Fitness facility	27%
6	Luggage services	26%
7	Leisure and recreation facilities	22%
8	Mobile device enabled reservation	20%
9	In-room entertainment and movies	19%
10	Luxurious bath terry and amenities	16%

bar, robes, guest room radios, valet parking, and the hotel retail shop. Many luxury and upper upscale guests strongly agree with jettisoning luggage services, while upscale and upper midscale guests would give up in-room dining.

**Winners.** Guests overall strongly agree that they would be willing to pay more for significantly improved services, notably, complimentary internet connectivity, comfortable beds, and responsive employees (as indicated by the low “removal” ratings in Exhibit 6). Luxury guests strongly agree with keeping and improving comfortable beds, in-room dining, and responsive employees, while customers in all other segments strongly agree with keeping and improving internet connectivity, comfortable beds, and responsive employees. About half of guests overall strongly agree that they would be willing to pay more for significantly improved in-room television, bathroom soap, and complimentary internet. Luxury customers strongly agree that they would pay more to improve bathroom soap products; upper upscale and upscale customers would like improved free internet; and upper midscale, midscale, and economy customers would like a nicer television—and would be willing to pay a higher room rate for one.

Segmented by generational grouping, members of each generation strongly agreed with closing the hotel retail shop and significantly improving bed comfort. Millennials and Gen Xers strongly agreed with significantly improving internet connectivity, while Baby Boomers and Traditionalists strongly agreed with significantly improving employees’ responsiveness.

**EXHIBIT 6**

**Most favored amenities**

Percentage of survey respondents strongly agreeing to eliminate selected amenities.

	Amenity	Strongly Agree to Remove
1	Internet connectivity and bandwidth	10%
2	Comfortable bed, linens, and pillows	9%
3	Responsive employees	8%
4	Daily room cleaning	7%
5	Hypo-allergenic room purification	5%
6	Hotel restaurant	4%
7	Luxurious bath terry and amenities	3%
8	Hotel bar	3%
9	In-room dining	3%
10	Leisure and recreation facilities	3%

**Making the Most of Growth Opportunities**

With a goal of increasing engagement and building share of wallet, the study offered the following insights.

- (1) Reduce price sensitivity and increase loyalty by providing guests with a sense of well-being, which means a worry-free experience during which a hotel anticipates guests’ most important needs and solves any problems.
- (2) To gain repeat business, hotels must ensure that employees are responsive to guests’ needs. This is true across all hotel segments and, in fact, in other service industries. Responsive employees who can solve problems are crucial to building brand engagement.
- (3) The economy segment not only has a lowest customer engagement but also the highest active disengagement, at about 25 percent. Never overlooking the importance of price, economy hoteliers should select the right employees to help create engaged guests.
- (4) Luxury and upper upscale customers consider the look and feel of the hotel as one of the most important factors for first and repeat visits. Even the tone of the lobby is important in this regard. Previous Gallup analysis showed that guests who perceive a hotel lobby as energized and enthusiastic are more likely to stay at that hotel more

often than guests who feel a lobby is either orderly and business-like or chaotic and disorderly.

- (5) Focus on Generation X for brand loyalty. Gen Xers report spending far more money with lower levels of brand attachment than do Millennials. Gen Xers value reliable services when deciding to return to a hotel, and like Millennials, they place high importance on internet connectivity.
- (6) Keep the television, for now. Not all guests prefer viewing streaming content on their personal devices over watching television. Hotel guests might want to watch movies on a personal device, but they also want to view programs such as sports events or news programs on their guestroom television.
- (7) Be cautious about assuming that social media will stimulate revenue. In terms of influence in selecting a hotel for the first time, social media and industry rankings are at the bottom of the list for all generations. Recommendations from friends or family have a strong influence on Baby Boomers and Generation Xers, while online guest reviews have the most influence with Millennials.
- (8) Carefully review and reconsider legacy amenities and services that add cost but not value. In-room bar, valet parking, and bathrobes are considered the least important offerings across all generations. Unlike older generations, Gen Xers and Millennials don't place value on guest room clocks and radios, but the absence of high-bandwidth internet connectivity is a deal breaker for most hotel guests. ■

## *Implementing Innovation in European Hotels*

Cathy Enz and Sean Way

**T**his study investigates the impact of a variety of employee-based, group, and leader-driven implementation strategies on innovation success for hotels in Europe. The nature of service innovation, which involves a variety of different activities, requires an array of different implementation strategies that are linked to various performance outcomes, and involves diverse change agents (including owners, senior managers, lower-level managers, and employees). The question is, which innovation approaches are more likely to succeed in supporting innovation?

### **Implementation Strategies**

Information-exchange relationships determine the conditions under which an employee receives knowledge or has experience using a new idea. Based on studies of hospitals and hotels in the United States,<sup>4</sup> four general strategies of change management are apparent: manager intervention, employee participation,

expert persuasion, and leader edict. Managers may use any or all of these four approaches:

**Management intervention.** Managers benchmark other organizations' practices and then attempt to justify a change in their firm's performance by highlighting performance inadequacies and monitoring performance. Collecting information to help create dissatisfaction is a strategy within this category.

**Employee participation.** Participation includes delegation strategies that help to empower and engage employees in the change process, including task forces, cross-functional teams, focus groups, and employee surveys.

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<sup>4</sup> Nutt, P. (1986). "Tactics of Implementation," *The Academy of Management Journal*, 29 (2): 230- 261; and Enz, Cathy A., (2012). "Strategies for the Implementation of Service Innovations," *Cornell Hospitality Quarterly*, Vol. 53 (2) pp. 187-195.



**Expert persuasion.** Both internal and external experts may use a variety of approaches, including internal public relations and trainers, to sell new ideas to employees and demonstrate an innovation's benefits.

**Leader edict.** Senior ranking executives may simply issue directives implementing the change, or a designated champion may attempt to drive the change through formal or even personal power.

Regardless of the change strategy, innovations in service operations inevitably involve both employees and customers who are engaged simultaneously in the service process. For this reason, the researchers expected that employee participation strategies would be critical for successful innovations. Numerous studies have also documented that management intervention is essential for introducing change. One tactic in this strategy is to create a "crisis" that innovation will resolve.<sup>5</sup> The role of expert persuasion or leader edict is less certain, as both of these approaches rely on command and control management styles, driven through power relationships. In that context, the study tested the following hypothesis.

**H1:** The most successful implementation strategies for predicting innovation outcome attainment will be employee participation and management intervention, while expert persuasion and leader edict will be less successful in attaining critical outcomes.

## Drivers of Innovation

The study's other hypothesis suggests that it matters who the change agents are. The question this study investigates is, which group of change agents is more likely to succeed in the introduction of innovation, those at the top of the organization, or those on the line who are responsible for making the change? In this regard a distinction should be drawn between origination of ideas and their execution. In keeping with other studies, the researchers expect that a top-down change effort is more likely to succeed because of the temporary and part time nature of service work, and the need to champion innovations over an extended period of time:

**H2:** The most successful implementation outcomes will come from innovations that are championed by senior leaders and owners versus those championed by lower-level managers and employees.

## Methodology

The data for this study were gathered via surveys from 85 senior executives of hotels in 11 different European countries via an online e-mail request, including personal follow up calls. Respondents were primarily middle aged men (70.6%; mean, 48.5 years old), with an average of 26 years of experience in hospital-

<sup>5</sup> Kotter, J. (1996), *Leading Change*, Harvard Business School Press: Boston,

ity, and over ten years of experience as a senior manager. The majority of respondents were from France or Switzerland, and other countries represented included Austria, Germany, Italy, Norway, Portugal, Spain, and the United Kingdom.

## Measured Variables

The study measured a total of 17 implementation strategies devised by co-author Enz based on the diffusion of manager intervention, employee participation, expert persuasion, and leader edict.<sup>6</sup> Respondents were asked to indicate the degree to which the different strategies were used to implement their hotel's most recent successful innovation.

Measuring innovation success on a scale of not at all successful to completely successful, respondents were asked to assess the success of the innovation in achieving any of the following five outcome categories: marketing, efficiency, customer, employee, and competitive outcome. Each of the outcome measures was based on three specific outcomes (four in the case of efficiency; scale Cronbach alphas equaled .78 to .87).<sup>7</sup>

## Findings

The results of the test of the first hypothesis are conflicting and mostly not consistent with hypothesis 1 (see Exhibit 7). Using one regression analysis for each of the outcome types, the results indicate that neither employee participation nor management intervention strategies were significant predictors of any of the five outcome measures of innovation success. Those findings run contrary to the experience in the U.S. On the other hand, the use of expert persuasion had a positive impact on both employee and competitive outcome measures, suggesting that expert persuasion was more successful in innovation performance. Finally, leader edicts had a significant negative impact on employee outcomes. That last finding offers partial support for hypothesis 1, but the conflicting finding is that the use of edict also had a positive impact on efficiency outcomes.

The analysis did support the proposition that implementation success is positively related to championing by senior leaders, as compared to lower level managers and employees (supporting hypothesis 2, see Exhibit 8). Senior leaders' involvement was most significantly connected to the success of competitive outcomes such as repositioning and competitive advantage. Interestingly, criticism of the innovation by senior managers was also positively correlated with competitive outcomes, as well as customer outcomes such as retention, satisfaction, and service quality.

<sup>6</sup> Enz, *op.cit.*

<sup>7</sup> The following paper suggests that common method bias is a minor concern: Meade, A. W., Watson, A. M., & Kroustalis, C. M., (2007). "Assessing Common Methods Bias in Organizational Research," Proceedings of the 22nd Annual Meeting of the Society for Industrial and Organizational Psychology.

**EXHIBIT 7**

**Effects of implementation strategy on innovation success**

Independent Variables	Market Outcomes		Employee Outcomes		Competitive Outcomes		Customer Outcomes	
	Coeff.	t-value	Coeff.	t-value	Coeff.	t-value	Coeff.	t-value
Intercept	9.65	5.94	4.78	3.51***	8.80	5.92***	7.89	5.93***
<b>Implementation Strategies</b>								
Expert Persuasion	0.10	0.84	0.45	4.41***	0.25	2.21**	0.05	0.54
Employee Participation	-0.20	-1.06	-0.23	-1.51	0.06	0.38	0.10	0.69
Leader Edict	0.14	0.61	-0.40	-2.15**	-0.18	-0.87	-0.03	-0.17
Manager Intervention	0.02	0.09	0.12	0.75	-0.23	-1.33	0.08	0.49
F-Value	0.43		8.53***		2.87**		1.70	
R-Squared	0.03		0.36		0.15		0.10	

Note:  $p < .1^*$ ;  $p < .05^{**}$ ;  $p < .01^{***}$

**EXHIBIT 8**

**Correlations of innovation champions and innovation success outcomes**

Performance Outcomes	Responsible for Idea Generation		Support the Innovation		Critical of Innovation	
	Senior Mgmt.	Lower Level Employees	Senior Mgmt.	Lower Level Employees	Senior Mgmt.	Lower Level Employees
Market	0.244**	-0.17	0.143	-0.079	0.116	-0.129
Efficiency	0.112	0.126	0.036	-0.146	0.082	0.128
Customer	0.073	0.089	0.114	-0.12	0.319*	-0.155
Employee	-0.055	0.115	0.005	0.04	0.141	0.089
Competitive	0.191*	-0.08	0.208*	-0.195*	0.228*	-0.139

Note:  $p < .1^*$ ;  $p < .05^{**}$ ;  $p < .01^*$

**Conclusions and Implications for Future Research and Practice**

Overall, the use of expert persuasion and leader edict were the best predictors of employee outcomes for these European hotels. This finding was surprising in light of previous findings that have shown that employee participation helps to promote adoption of innovations.<sup>8</sup> That said, intervention and edict strategies provide a mixed picture of success. It's worth noting that the survey was completed by senior leaders, who may place greater

importance on leadership actions. Innovation may require more top-down implementation to be successful in the hotel industry. Perhaps the traditional categories of edict and employee participation are not clear cut in practice and may not apply to the hospitality industry.

What emerges from these findings is the proposition that when senior managers are responsible for idea generation, and are early supporters and critics, a positive relationship between senior management champions and competitive outcomes was found. The results reveal that top-down engagement, both positive and negative, was associated with customer and competitive outcomes. It was interesting to observe that lower-level manager

<sup>8</sup> Enz, *op.cit.*; and Pellissier, R., "The implementation of resilience engineering to enhance organizational innovation in a complex environment," *International Journal of Business and Management*, Vol. 6, No. 1 (2011), pp. 145-164.

and employee champions of innovation were not significantly associated with any of the performance outcomes measured. Future research should explore and elaborate on the multiple measures of performance outcomes utilized in this study.

In conclusion, the results of this study should encourage European hotel managers and owners to think about the best approaches for implementing innovation efforts. The study findings raise some doubt as to the effectiveness of popular

participative strategies often used in U.S. hotels, and suggest that expert persuasion may be a powerful tool for introducing new ideas. This study has provided preliminary results that when leader edict is used as a strategy, careful balance in the use of directives is necessary for managers to effectively innovate in hospitality services. Expert persuasion but not excessive command directives may be the most viable for the successful introduction of innovative ideas in European hotels. ■

## *Focusing Direct Marketing Promotions on the Persuadable Guest*

by Richa Kapoor, Anil Kaul, Guha Athreya

**D**irect marketing efforts in hospitality are almost exclusively focused on the most responsive guests, based on the idea that responsiveness and payoff are highly correlated. However, careful analysis demonstrates that response is not necessarily correlated to influence and payoff. Instead, one can predict influence and persuasion in certain situations using uplift modeling techniques to predict persuasion. This paper shows how to identify and focus on persuadable guests for successful promotions.

Many hospitality firms use promotions on the belief that they bring in marginal revenue. Although that often does occur, the problem with these offers, deals, and discounts is that they often miss their target by bringing in people who would have purchased anyway—often at a higher rate. The key to effective promotions is to avoid creating unwanted outcomes that result from over targeting. Those negative outcomes include encouraging a large group of customers to wait for discount offers and encouraging all customers to shop for price.

Using two experimental procedures, this paper focuses on identifying customers, called “Persuadables,” who respond to a modest promotion by purchasing and who are the most lucra-

tive promotion-related group. Promotions must filter out “Sure Fire” customers (who would buy anyway) and also exclude Responsive customers, who are generally waiting for a better deal, as well as Unresponsive customers, who just aren’t buying. The problem is that even the most accurate prediction of response leads to targeting both Responsive and Sure Fire guests, neither of which offer great returns. Instead marketers must focus on Persuadable customers, and develop uplift modeling techniques to identify those buyers. A particularly notable example of success in reaching persuadable “customers” is Barack Obama’s 2012 presidential campaign, which was designed around going after persuadable swing voters with targeted messages.

## Correlations of response and influence by gender and marital status

Segmentation Variable	Segments	Response - Test	Response - Control	Influence or Persuasion (Test - Control)
Gender	Male	28%	29%	-1%
	Female	19%	17%	+2%
Marital Status	Married	26%	27%	-1%
	Others	18%	20%	+2%

### Research Questions, Hypotheses, and Research Methods

The study's overall hypothesis is that customer response to an offer is not necessarily correlated to influence, lift, or payoff. Instead, the measure in question should be persuadability.

#### Test 1: Identifying Persuadables.

The data for the first test in this study come from an experimental analysis of numerous promotions over the course of two years by ten hotel brands across all chain scales. In each campaign, 5 percent of potential recipients were randomly held out from email and direct mail campaigns that invited guests to register for a given promotion. Treatments other than the promotion itself were identical for the test group and the hold out group. Booking revenue during the promotion period from both test and control groups was compared to assess the impact of the promotion. The resulting data were used to compare lift across responsive and unresponsive segments.

#### Test 2: Predicting Influence

Using the experimental data from the study described above, the researchers applied a proprietary methodology to develop uplift models for the four types of customers that they identified, predicting influence for each group. In particular, the study identified Persuadable guests who responded to the promotions, and separated them from the Sure Fire, Responsive, and Unresponsive customers. To confirm their observations, the researchers conducted an in-market test where hold-outs were randomly selected (separately) from the Persuadable and Sure Fire segments. Finally, response rates were compared to measure incremental response across the test and control groups in each segment, with the intent to see whether lift was higher in the Persuadable guest segment, as expected.

### Main Results

**Correlation between response and influence.** Exhibit 9 shows the historical response rates from one representative promotion. While men had higher response rates, the incremental response that measured influence was higher with women. Also, while married folks had higher response rates, singletons had higher lifts. Similar analysis across segments and promotions shows that more often than not, responsive segments are not the most persuadable ones.

#### In-market Test Results of Ability to Predict Persuasion

Guests who were classified by the uplift model as Persuadable significantly outperformed other segments in an in-market test, stated as follows:

Incremental Revenue from Persuadable Guests = [Revenue per Persuadable Guest (Test) - Revenue per Persuadable Guest (Control)] x Number of Persuadable Guests

Empirical data across industries including hospitality clearly show that it is not response, but influence (of Persuadable customers) that is the best indicator of payoff, and scientific testing shows that it is in fact possible to predict influence.

#### Implications for Business and Future Research

In addition to bottom line savings that better targeting can deliver, this study points to an opportunity to enhance the design of the promotion to drive better top-line performance. This can be achieved by profiling the Persuadable guests and tailoring the promotion around them. Preliminary proprietary tests show that offers tailored to Persuadable guests can potentially double the incremental revenue generated. In conclusion, this approach should reverse the negative revenue outcomes of promotion design. ■

# *Using Eye Tracking to Understand Consumers' Considerations in the Online Lodging Purchase Decision*

Breffni Noone and Stephani Robson

**E**ye tracking technology makes it possible almost to read customers' minds, as they fix on or ignore items on a webpage. Combined with retrospective think-aloud interviews, this methodology provides solid clues regarding hotel attributes that cause consumers to select a hotel for their consideration set and then further choose one to book.

Researchers have identified two phases of the purchase choice process. In the first phase, known as browsing, customers look through a wide set of possible purchases. From this, they select a smaller number of hotels as their consideration set. Consumers make their purchase from that reduced set.<sup>9</sup> Research suggests that consumers use different decision rules regarding the product attributes during these two stages of the choice process.<sup>10</sup>

Price is an overriding factor, but not the only one. Noone and McGuire, for example, used discrete choice analysis to examine how hotel consumers trade off price with a number of non-price attributes including brand name, TripAdvisor ranking, ratings, and reviews.<sup>11</sup> But that study did not address what

information consumers use and how they use it during the two different stages of the purchase process.

## **Research Questions and Methodology**

This study defines browsing as occurring when consumers look through information regarding the available hotels and apply their own personal rules to identify hotels that warrant further scrutiny. Deliberation occurs when consumers select a relatively small group of hotels for a more detailed review by means of clicking on a link within search results. These hotels are deemed part of the consumers' consideration set.<sup>12</sup> This study addressed two research questions: **(1)** How are lodging consumers thinking about the information they view during browsing and deliberation?; and **(2)** How does this information inform their eventual purchase decision?

To overcome the limitations of previous studies in terms of the breadth of firm- and user-generated content explored by consumers, this study created verisimilitude by presenting its participants with a realistic hotel-search problem. Recruited from the general population by a university survey center, participants must have booked hotel accommodation for a leisure trip using online resources in the preceding six months. The sample comprised thirty-two participants, roughly balanced by gender and age.

<sup>9</sup> Bettman, J. R. 1979. Memory factors in consumer choice: A review. *Journal of Marketing* 43 (Spring), 37-53; Gensch, D. H. 1987. A two stage disaggregate attribute choice model. *Marketing Science* 6 (Summer), 223-231; Shocker, A. D., M. Ben-Akiva, B. Boccara, P. Nedungadi, 1991. Consideration set influences on consumer decision-making and choice: Issues, models and suggestions. *Marketing Letters* 2(August), 181-197; and Wright, P., F. Barbour, 1977. Phased decision strategies: Sequels to initial screening. *Multiple Criteria Decision Making: North Holland TIMS Studies in the Management Science*, M. Starr and M. Zeleny, Eds. Amsterdam: North-Holland Publishing Company, 91-109.

<sup>10</sup> Bettman, J.R., E. J. Johnson, J. W. Payne, 1990. A componential analysis of cognitive effort in choice. *Organizational Behavior and Human Decision Processes* 45(1), 111-139.

<sup>11</sup> Noone, B.M., K. A. McGuire, 2013. Pricing in a Social World: The Influence of Non-Price Information on Hotel Choice, *Journal of Revenue and Pricing Management* 12, 385-401

<sup>12</sup> Noone, B. M., S. K. A. Robson, 2014. Using eye tracking to obtain a deeper understanding of what drives online hotel choice. Center for Hospitality Research Report, 14(18), Ithaca, NY: Cornell University.

Each participant completed a brief on-screen survey which captured basic demographic information, self-reported hotel attribute preferences, and search and purchase behaviors. Participants were then instructed to imagine they were planning an upcoming three-day leisure getaway, and were directed to search for hotel accommodations for this trip as they normally would.<sup>13</sup> Their eye movements were recorded using a Tobii T60 eye tracking monitor for data capture and Tobii Studio software for creating animated gaze plot data visualizations.

Immediately following each online hotel search, the researchers conducted a retrospective think-aloud interview with each participant, during which they were shown an animated gaze plot depicting their eye movements during their search and asked to describe their thought processes during browsing and deliberation. Each interview was recorded, and the resulting transcripts were manually coded for qualitative analysis. Participant statements were categorized by pre-determined theme categories<sup>14</sup> and on the categories of visual information extracted from the quantitative analysis of the eye tracking sessions. Two independent raters reviewed and coded the data; interrater reliability was acceptable (Cohen's  $k = .90$ ).

### Results: Information Used During Browsing

Participants began their search by establishing a price range for the hotel room and rarely looked at hotels outside that range, particularly those below their lower price threshold. They sought out value within their acceptable price range. Said one: "I want to find the one [hotel] that has the most of all the things I like that is still in my price range." This value assessment included consideration of the hotel's brand name, images, consumer ratings, and number of reviews.

**Brand name.** Although the majority of participants used a third-party site during browsing, they indicated a preference for branded hotels, driven mainly by a level of trust in the brand, along with perceptions of consistency and a lower degree of risk. In that vein, one person commented: "[Brand name], I mean I feel like they're kind of the McDonald's. You always know what you're going to get there." Conversely, a bad prior experience with certain brands completely eliminated those flags from consideration for some participants.

Participants weighed a desirable brand name against price during browsing, and sometimes the brand provided impetus to push the participant above the initial price range. One said, for example: "It was a little expensive compared to what I would normally spend, but isn't it nicer to know what you're getting involved in given the fact that it's a chain versus not."

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<sup>13</sup> See: *Ibid.*, for the quantitative findings of participants' eye tracking sessions, including what types of information participants fixated upon during the search process, and an analysis of how the mix and frequency of those fixations differed by stage of the choice process.

<sup>14</sup> Basic content analysis (No. 49), ed. R.P. Weber (London: Sage, 1990).

Along with price and brand, consumer ratings were also factors for including a particular hotel in consideration sets: "Why did I scroll by these less expensive ones up here? Because it's [brand name]. It's got an excellent rating and I have experience with it."

**Images.** Participants' comments suggest that images—both weak and strong—play an important role in hotel selection during browsing. Poor images can get a hotel dropped from consideration, while excellent images promote consideration, as reflected in comments like "The picture draws you in," and "Some pictures are just a major turnoff." Participants balanced images with price to make a decision to click into a hotel. For one participant, an attractive image made a low price more appealing. On the other hand, another said that a hotel's low price could not offset a poor image: "The price was good, but based on the picture they showed, it didn't really catch my eye." When asked what drew them to specific hotel images, participants said that exterior shots tend to capture their attention more than interior shots.

Participants particularly commented on three key aspects of exterior shots: lighting, architecture, and landscaping. With regard to lighting, good night shots were particularly effective. On the other hand, lighting alone caused one participant to drop a particular hotel: "[With the lighting] this looked parties—the picture to me looked like the hotel was not my age category." Hotels that featured greenery in their images drew favorable attention, and architecture prompted quality inferences. A number of participants clearly favored hotel buildings that did not look like conventional hotels or those that displayed interesting architectural features. One participant referred to the arches within a particular hotel's structure as "elegant" and commented that they made him think that the hotel was "going to be a little bit better maintained and would be a little bit higher quality."

Respondents were turned off when properties displayed only the hotel name or logo in lieu of an image of the property. This presentation was regarded as being uninformative (e.g., "A logo doesn't tell you anything") and can lead to negative quality inferences (e.g., "Because if you're just showing the sign, then there's something wrong with the hotel").

**Ratings.** As with price, it appears that participants had a minimum ratings threshold in part because they made quality inferences based on rating levels: "I look at the stars or how many circles they have. So if it's over half, it's worth looking at in my book, but the more, the better, clearly." Tradeoffs again occurred between price and ratings. For example, one participant said: "These [hotels] were less expensive but I didn't [click through to] them. Some had like 2.5 [stars]." A number of participants traded off images with ratings and price, using all three to establish their consideration set: "I liked that one because it was a little cheaper; it wasn't excellent [pointing to rating], but the pictures still looked nice, so I clicked on it."

**Volume of reviews.** The number of reviews seemed to add weight to ratings for some participants. Participants generally preferred more reviews since that gave them more confidence in the ratings. For example: “The rating here—it was 8.8. The other one was 8.7, but this is out of almost 1,500 reviews. The other one only had 53. So I feel like that’s also a lot more telling.”

### Information Used During Deliberation

During deliberation participants continued to fixate primarily on images, but they also considered amenity information and reviews.

**Images.** Participants used the images to visualize their hotel stay (e.g., “If I could see myself walking in there and saying I’m happy I made this decision”). They also used images to make inferences about the quality and cleanliness of a property, as well as the type of clientele the hotel attracts (e.g., “It had a little baby grand piano in there. Not that I play piano, but that just tells me that it’s a different clientele that would go there”).

The number of images also seemed to play into participants’ impression of hotel quality (e.g., “Some hotels don’t have that many pictures. There may be four or five. If you have, like, 80 pictures, it lets me know you’re confident in what you have to serve or what you offer”). Participants’ comments also indicated some interplay between image and brand name, with images sometimes acting as a confirmatory signal that participants would get the experience they expected from a brand, and other times deemed unnecessary owing to participants’ familiarity with the brand.

**Amenity information.** As can be expected, participants gravitated towards those properties that offered more amenities for the price (e.g., “Since I now know this has a pool, and I know it’s like a relatively good price, I’d choose this one over that one. . . .The pool is an extra now”). Complimentary amenities, notably, complimentary breakfast, parking, and internet access, were particularly valued by participants, and their availability was weighed against price.

**Reviews.** Participants considered weak reviews as an early warning (e.g., “If somebody else made a mistake, I don’t need to make it”). Reviews provide insights on the intangibles, primarily cleanliness and service, which cannot be derived directly from other information sources (e.g., “The reviews are the biggest things. Now you can look and see a picture—but if they say that this place stunk or there’s a bar and the noise level is high, I’m not staying there”).

Interestingly, a few bad reviews did not seem to disqualify a hotel from these participants’ consideration sets. Instead, they considered the overall pattern of reviews as important. Participants sometimes used reviews to weigh the risk of opting for a lower-priced hotel (e.g., “So you always kind of frame it: is it worth the risk? Do we want to go for something low priced?”

And you’re trying to figure out from the reviews whether it’s going to be a horrendous experience or an okay one”). The researchers also observed an interplay of review content with ratings and price. Some participants indicated that they use ratings to assess the expected quality of the experience, particularly when the ratings are high, only delving into reviews when they like the hotel’s price but its ratings are low.

Brand name is again important in regard to reviews. A number of participants indicated that they did not read reviews for certain brands because they had prior, positive brand experience, while prior negative experiences with a brand or doubts about brand consistency led to an increased propensity to read reviews. However, favorable reviews did not counteract a poor image presentation. The strong influence of images was observed when reviews for a hotel were positive but the photos were not sufficiently appealing to lead to purchase.

### Conclusions and Implications

This study emphasizes the importance of proper price positioning for hotels. Consumers’ lodging purchase decisions are not a function of price alone, but the quality inferences associated with a low price can eliminate a hotel from a consumer’s consideration set. Instead of price alone, value perceptions are a key driver of hotel choice. Those perceptions are a function of inputs from multiple information sources, particularly the images posted on the hotel’s website. Even if the inferences thus created turn out to be spurious, they are nonetheless influential to the purchase decision. During the initial search process, participants in this study relied on firm-generated content, primarily images and the hotel’s brand, to create their consideration set. Beyond that, image and brand appear to play an important role during both stages of the choice process, although the interplay between images and other information sources seems to influence images’ power. For example, an attractive image can render a higher price as more attractive, while images may play a lesser role in the choice process when consumers have prior positive brand experience. For the consideration set of hotels, firm-generated and user-generated content play a role in hotel choice. Once again, there is an interplay among brand, price, and images.

The findings of this exploratory study underscore the complex role of pricing as part of the overall hotel choice process. A “good” price may not be sufficient to offset a poor image, for example, and even if a hotel is included in a consideration set, one or several other information sources (e.g., reviews or images) may counteract an attractive price. Much more research is needed to explore how each of the information sources available to the consumer on line are considered for particular travel circumstances and markets, what influences this weighting, and how firms should respond in terms of the types and formatting of information they make available online. ■

# *Incorporating Guest Reviews into Hotel Classification Systems:*

## A Modest Proposal

Anita Blomberg-Nygard, Chris Anderson, Christopher Imbsen

**T**wo models have been developed for including user reviews or ratings as part of formal hotel classifications. The Norwegian model, which has not yet been implemented, would use the posted reviews to adjust a hotel's star rating, while the Swiss model, which is being used, shows the summarized users' review score in parallel with the hotel's formal classification. Other countries, including Abu Dhabi, Australia, and Germany, have begun to develop ways to include posted consumer review scores alongside traditional methods for hotel classification. This report looks at the feasibility of incorporating guest reviews or ratings into hotel classification (star level) systems and proposes a mechanism that both adjusts star ratings according to review scores and also presents those scores as parallel pieces of information for potential customers.

Little question remains about the value of hotel ratings and reviews on the internet, both from formal sources and from user contributions. Based on data from 400 consumers using data from comScore, this study found that, before booking a hotel online, consumers visit on average almost 14 different travel-related sites with about three visits per site (for a total of nearly 40 site visits in total), combined with almost nine travel-related searches (typically, on Google, Yahoo, or Bing). Looking only at review sites, about 36 percent of consumers visit TripAdvisor before booking online. In keeping with other studies, this research found that visitation to TripAdvisor.com is strongest in the final few days prior to booking—an indication that reviews help consumers choose their hotel from among a relatively small consideration set of potential hotels. There's evidence that reviews many consumers use reviews to create a consideration set, and their key role seems to be as a final filter in the hotel purchase decision. A recent survey of 2,500 consumers

found that 35 percent of respondents use online reviews early on to identify hotels to consider, and 28 percent use ratings and reviews to narrow down pre-determined choices.<sup>15</sup>

The framework proposed here integrates user reviews into classification systems by separating user review data into two categories: departmental or amenity focused (addressing physical attributes) and non-departmental (focusing on quality, value, and cleanliness). Departmental data from aggregated user reviews is used to ensure the quality of the amenities required to meet classification standards, whereas the scores on cleanliness, value, and services are used to potentially elevate a hotel to a higher classification. Although such a system would potentially add to hotels' costs, the expense should be relatively modest and may well allow hotels to increase their average daily rates.

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<sup>15</sup> Pam Carroll, Digging deeper into hotel reviews: exactly how and why travelers use them. Ehotelier.com; July 11, 2014.



Average TripAdvisor ratings by star level

Panel A: Average Ratings by Star Level

Star Level	New York	Chicago	Los Angeles	Melbourne	Sydney	Copenhagen	Stockholm	Berlin
2	4.13	3.56	3.91	3.5	2.43	3.18	3.44	3.67
3	4.24	4.03	3.84	3.22	3.3	3.51	3.7	3.77
4	4.29	4.15	4.01	3.83	3.69	3.6	3.94	4.09
5	4.48	4.63	4.41	4.35	4.34	4.08	4.1	4.5

Panel B: Percentage of Top TripAdvisor Hotels by Star Level

Star Level	New York	Chicago	Los Angeles	Melbourne	Sydney	Copenhagen	Stockholm	Berlin
2	2.0%	7.0%	13.3%	0.8%	6.0%	15.1%	6.6%	11.3%
3	35.3%	50.4%	48.3%	19.2%	23.9%	45.2%	37.7%	39.8%
4	47.3%	35.7%	29.2%	64.6%	48.7%	33.3%	51.6%	40.4%
5	15.4%	7.0%	9.2%	15.4%	21.4%	6.5%	4.1%	8.5%

Reviews and Star Levels

One of the issues raised by integrating user reviews with classification systems is the degree to which reviews are (or are not) correlated with star levels, since it's clear that reviews are based in large part on the value delivered by the hotel stay. Moreover, TripAdvisor's hotel ratings vary by market, as shown in Exhibit 10, which gives average TripAdvisor ratings by hotel star level for eight cities. The ratings differences between 2-star and 5-star hotels vary considerable by city (Panel A), even though the ratings generally increase by star level. The value component of hotel ratings is depicted in Panel B, which shows the percentage of each star level with the TripAdvisor's "top" hotels. These percentages favor 3- and 4-star hotels, which seem to get better reviews than the 5-star hotels not because of superior amenities but rather because the customers thought those hotels provided value and exceeded their expectations for that star level.

The effects of guest expectations again appear in Exhibit 11, which gives a more generalized view of TripAdvisor ratings. This table shows the average rating and ranking of hotels by star level for (up to) the top 100 (TripAdvisor ranked) hotels across 100 major cities worldwide. Once again the potential impact of user reviews upon hotel classification is increasing with decreasing star levels as consumers appear to react positively (with higher reviews) for lower star level hotels that deliver strong value. The high service standards offered by high-star hotels apparently makes it more difficult to exceed consumers' expectations, even though these top-level hotels generally offer flawless service in an outstanding physical plant.

Average TripAdvisor ratings—100 global markets

Star	Average Ranking	Average Review Score
1	56.1	3.95
1.5	57.5	3.3
2	58	3.75
2.5	53.7	3.97
3	53.7	4.01
3.5	51.1	4.1
4	46.5	4.2
4.5	38.9	4.31
5	30.3	4.43

## Hotel classification and guest review categories

Criteria Categories	
Hotel Classification Systems	Guest Reviews
Room	Room comfort/standard
Service	Service
Food and beverage	Food and dining
Access	Location
Front desk services	Staff performance
Communication (internal and external marketing)	Value for money
Bathroom	Cleanliness
Temperature control	

### Review Authenticity

Authenticity of ratings and reviews remains an issue, particularly if they are going to be included in formal hotel rating systems. A study from 2012 found some evidence of hoteliers writing fictitious positive reviews for their own hotels and negative reviews for competitors, with a bit more cheating on the positive side.<sup>16</sup> TripAdvisor uses filters to discourage fake reviews (although the filters may also interdict genuine comments), and other sites allow postings only from customers who have booked rooms.

Consumer confidence is high regarding internet reviews. A PhoCusWright study on TripAdvisor shows that 98 percent of respondents have found TripAdvisor hotel reviews to accurately reflect the actual experience.<sup>17</sup> Among 2,739 random visitors on TripAdvisor.com, 87 percent of the users agreed with the statement that “guest reviews on TripAdvisor help me feel more confident in my decisions.” Despite travelers’ increasing expectations and demands, the study also revealed that eight out of ten users agree that TripAdvisor hotel reviews “help me have a better trip.” It is worth noting that this study shows that 53 percent of the respondents stated that they will not book a hotel that does not have any reviews on the site.

### Surveys

To confirm the importance of social media postings and formal hotel classifications, and to gain an indication of support for the idea of combining the two, the researchers surveyed three potential stakeholder groups: consumers, hoteliers, and repre-

<sup>16</sup> Dina Mayzlin, Yaniv Dover, and Judith A. Chevalier, “Promotional Reviews: An empirical investigation of online review manipulation,” National Bureau of Economic Research, NBER Working Paper No. 18340, August 2012.

<sup>17</sup> PhoCusWright’s Social Media in Travel 2012: Social Networks and Traveler Reviews.

sentatives of online travel agents (OTAs). The consumer survey, facilitated by the National Tourism Development Authority of Ireland (NTDAI), numbered 23,702 respondents; 575 responses from hotel executives, managers, and general managers were received through the Center for Hospitality Research at Cornell University; and the researchers conducted 27 telephone interviews with OTA representatives.

**Consumers.** One of the compelling insights from the consumer study is that word of mouth or the recommendation of family or friends still trumps all other sources of hotel information. Formal rating systems were rated as very important or somewhat important by about 65 percent of respondents, and 75 percent of respondents said the same about OTAs or online booking sites. But 93 percent indicated that recommendations from friends or word of mouth were important or very important in the hotel purchase decision. Interestingly, Facebook, Twitter, and other social media were important or very important to barely 30 percent of these respondents. Three-quarters of the consumers indicated that combining reviews and classifications would be valuable.

**Hoteliers.** The survey found that hoteliers are well aware of the importance of guest reviews (97%) and official classification (75%). The hoteliers were generally supportive of combining the two measures (72%, important). Hoteliers said they used consumer reviews predominantly for quality management (72%) and understanding customer needs (77%). Responding to open-ended questions, 188 of the hoteliers again expressed concerns regarding fake reviews, despite the safeguards now in place.

**OTAs.** The results from OTAs were similar to those of consumers and hoteliers, although about three-fifths of the respondents indicated that integration of reviews into classifications is important or very important. This somewhat cooler reception to the idea makes sense, since OTAs would not want their reviews to “disappear” in ratings.

There is no shortage of reviews from consumers who have booked rooms through an OTA. Booking.com (the world’s largest OTA) has over 30 million qualified reviews, and Expedia has over 20 million (via Expedia.com and Hotels.com). Additionally, TripAdvisor’s filters instill confidence about its more than 150 million reviews.

### Integration in Action

As stated at the outset, Norway and Switzerland have developed approaches for combining ratings with formal classifications. However, the practice of combining the two by showing consumer reviews in parallel with hotel classification has been in use for ten years, as practiced by Hotwire.com and Priceline.com. Since these sites don’t identify their client hotels by name, they instead offer consumers a hotel with a particular star level, location, and review status. Thus, the consumer might be offered a 4-star hotel in the Times Square vicinity of New York City, with 90-percent favorable reviews or a 9 out of 10 rating.

### Sample of ReviewPRO's aggregated departmental scores

Market	GRI	Room	Decor	Entertain	Food & Drink	Location	Reception	Clean	Value	Service
Average	77.4%	81.2%	79.7%	79.5%	70.0%	80.2%	81.1%	76.1%	74.7%	75.7%
Upper	83.3%	85.1%	87.6%	83.8%	73.9%	82.9%	82.7%	83.4%	80.7%	80.4%
Lower	71.4%	77.6%	71.5%	75.2%	66.1%	77.1%	79.3%	69.6%	68.3%	70.6%
Hotel	81.3%	80.2%	77.5%	81.7%	83.0%	83.1%	80.2%	83.5%	81.7%	85.1%

**Norway.** Norway's system is an example of full-scale integration of hotel ratings and classification. Developed by QualityMark Norway, this model has yet to be implemented, owing to resistance from major hotel chains. This innovative model includes overall guest review ratings for the hotel as part of the evaluation criteria. One of the keys to this model is the calibration of the weighting given the guest rating. The weight allocated to the guest review rating could be gauged by taking into consideration the type of classification system being used and the relative importance of mandatory and optional criteria.

Central to the evaluation process is how the hotel performs on guest ratings compared to, for example, a national average for its category. A rating that is statistically significantly above the average could lead to awarding the hotel a higher grade, providing that it meets mandatory criteria for that higher grade; the converse would apply if the hotel fared poorly compared to its peer properties.

**Switzerland.** The Swiss system, based on Hotelstars Union criteria, operates as a parallel presentation of summarized review ratings alongside traditional hotel classifications. The model presents the official star classification using the European HotelStar system and, displayed separately, the average score from a number of guest rating sites, including scores for the quality of the welcome, service, and comfort. The classification and rating scores operate individually and are equally illustrated in all marketing material including online material. The average guest review rating is derived from TrustYou, an online management reputation and filter company.

#### A Proposed Framework

The framework proposed here makes direct use of user review information to adjust a hotel's classification. As shown in Exhibit 12, the information incorporated in classification systems and consumers' reviews has a strong degree of congruency. However, the feedback obtained across review platforms is varied, and so the researchers propose to use aggregated review information, which can be acquired from such firms as Brand Karma, TrustYou, Revinate, or ReviewPRO. For example, Exhibit 13 illustrates the aggregated review data supplied by ReviewPRO, including its Global Review Index (GRI), which is an overall

user review score, scores by department, and scores on overall cleanliness, service, and value.

The aggregated department scores allow a separation of guests' expectations and their requirements, as expressed in the reviews. Following the framework of QualityMark, departmental scores (from Exhibit 13) could be compared to acceptable regional values based on the distribution of scores for hotels of the designated classification. If a particular property is below the acceptable range across some departments its star classification might be reduced.

Similarly if a hotel exceeds acceptable levels and perhaps also scores high on subjective elements, it may be classified higher (assuming it meets minimum amenity requirements). As an example, Exhibit 13 compares one hypothetical hotel's scores to the market average, as well as to the top quartile (upper) and bottom quartile (lower). The sample hotel has amenity scores within acceptable ranges and subjective measures (cleanliness, service, and value) above the upper quartile, indicating that it is delivering superior value and service. As a result that hotel may be classified too low and its classification should be increased. Similar to the Swiss model it is also probably advantageous to present an aggregate score (GRI from Exhibit 13) in concert with the classification.

Given the industry's support of reviews and ratings, a refined classification system such as the one proposed here will not replace the need for user reviews. The idea of integrating the two is not to replace reviews but rather to improve the classification process.

#### Impact

The integration of reviews into classification should help reduce uncertainty (in the eyes of consumers) around individual hotels—so hotels with this integration should have pricing power over those without. This assertion is supported by the work of Anderson, who found that a 1-point gain in Travelocity ratings translated into about an 11-percent gain in a hotel's price, without reducing occupancy.<sup>18</sup> This would also mean markets with

<sup>18</sup> Anderson, Chris K. (2012). The Impact of Social Media on Lodging Performance. Center for Hospitality Research Report Cornell University Vol. 12 No 15

this integration should have pricing power over those without. Although the travel market is relatively price inelastic, consumers may be willing to pay more for product that better meets expectations (as shown by Anderson). So the integrated system might give a lift to a market's ADRs.

Costs for such integration are minimal, with annual costs from an aggregator to provide departmental level information for all service providers in that market (country or region) in the neighborhood of US\$100,000–150,000. The payback for any region would be almost instantaneous as even a 1-percent increase in ADR with a 10-percent hotel tax quickly offsets any annual integration costs.

### Summary

The volume and impact of posted information suggest an updated approach to hotel classification. This study found that 75

percent of surveyed consumers and hotels saw potential value in integrating reviews with hotel classifications. However, since consumers appear to use guest reviews and hotel classifications for different purposes, even an integrated system would still need to show both hotel classifications and user reviews. Thus, the authors propose that even with modifications to the traditional hotel classification, both the classification and the review data would still be available.

In closing, this proposed framework is untested. One could test the framework within a given region, by comparing its effects in some cities as against other cities that still use existing scales. Testable metrics would be the number of hotels reclassified (both up and down) as a result of integration, and a comparison of hotel performance (ADR, RevPAR, and occupancy) both at the hotel level as well as by market or city. ■

## *Elements of a World Hotel Rating System*

Roger Kaiser

**O**fficial hotel rankings (e.g., with stars or diamonds) is one criterion that would-be guests take into account when they are considering booking a hotel, although price and location override most other considerations, and the ratings and comments posted on travel sites have considerable influence. As explained here, the ratings, rankings, and reviews available to travelers are problematic in various ways. This paper's thesis is that travelers and the industry would benefit from a consistent world-wide ranking system, such as the one presented here.

Official ratings are based on complex lists of criteria and parameters, which many travelers simply disregard. Moreover, the various national ranking systems are not generally comparable, while guest reviews are not based on consistent criteria.<sup>19</sup> Unlike official rankings, user ratings concentrate on subjective and qualitative aspects. While price information is widely available, consumers do not have direct information on the value to be received for that money, and must rely on user

comments and brand standards. Instead, hotel offerings should be presented in a way that is consistent with guests' expectations and behaviors, including the specific needs of families, seniors, and disabled guests.

### WHR Working Hypotheses

The author proposes a World Hotel Rating (WHR) comprising five overall categories designated by one to five crowns, with a goal of integrating into synthetic hotel information the key informative elements on which international travelers base their decisions when selecting a hotel, including ranking categories, guest satisfaction, room prices, and specific needs and preferences. These would be distilled into five ranked categories. Unlike

<sup>19</sup> In 2004 the UNWTO and the International Hotel & Restaurant Association (IH&RA) jointly conducted a study on hotel classification systems, from which the IH&RA concluded that a global approach to hotel ratings was neither desirable, nor feasible, arguing that cultural divergences were a major obstacle.

current systems, the WHR approach would (1) be transparent, to build guests' confidence and satisfaction; (2) be consistent from country to country, enabling international travelers to compare hotel offerings by reference to universally accepted standards; (3) be integrated with existing ranking systems; (4) incorporate the concept of value for money by presenting amenities and services in a consistent fashion that allows guests to make useful comparisons of hotel offers; and (5) classify hotels in appropriate subcategories that comprise the most common purposes of guests' stays (e.g., family-friendly hotels, senior-friendly hotels, or hotels catering to disabled guests).<sup>20</sup>

## WHR Proposed Methodology

Developing the World Hotel Rating involves a two-phase approach, as envisioned by the author, with each phase having three elements. Phase One, classification based on objective elements, includes (1A) developing a standard ranking model for minimum requirements; (1B) evaluating existing domestic rating systems for inclusion in the WHR; and (1C) defining hotels by guests' most common purpose of stay. Phase two, which develops user ratings on subjective elements and overall value, proceeds as follows: (2A) development of a user rating model; (2B) integrating the user ratings into a holistic rating; and (2C) incorporating pricing and value information to allow consumers to assess the value for money in a hotel's offer.

### Phase 1: Hotel Classification Based on Objective Elements

**1A: Ranking model.** The objective model would include 25 to 30 ratings regarding facilities and services in reception and public areas, accommodation and guestrooms, and food and beverage services. Such additional criteria as location, environment, parking facilities, recreational activities, and conferencing facilities would be used to create subcategories.

To determine placement in the ranking hierarchy, each of the indicators would be judged against the standards for the minimum requirements for each of the five ranking categories. Profiles associated with each of these five ranking categories would be posted, complemented by guidance and hotel best practices.

**1B: Equivalence test.** To determine equivalence of domestic hotel classification systems, a ranking system would be required to apply reliable audit procedures to demonstrate a reasonable level of compliance. Rankings provided by systems deemed equivalent would be used to classify hotels in the WHR

system. For example, 4 stars would be equivalent to a WHR 4-crown hotel.

**1C: Subcategories.** A total of seven subcategories would include purpose of stay, length of stay, type of stay (e.g., holidays versus business), and perception of the hotel (e.g., rural retreats, city breaks, sporting holidays, relaxing holidays). The seven resulting subcategories are: stopover hotels and motels; apart-hotels and extended-stay hotels; inns, lodges, and charming hotels; city boutique hotels; vacation club hotels; spa and golf resort hotels and grand hotels; and convention centers and airport hotels. Subcategory criteria and indicators (e.g., size of property, location, environment, parking facilities, recreational activities, and conferencing facilities) will enable hotels to determine their subcategory.

### Phase 2: User Ratings and Holistic Ratings Based on Subjective Elements

**2A: User ratings.** To verify that guest experiences match with expectations, external review providers and reputation management firms will evaluate guest reviews. A tailor-made WHR application will provide for consistent guest satisfaction measurement, aligned on the classification model. Reviewers will be presented with clear subjective benchmarks and an evaluation scale.

**2B: Holistic ratings.** User ratings will be combined with the rankings to form holistic ratings. Those ratings will be presented in the form of a ranking showing 1 to 5 crowns, as well as a plus or minus sign to reflect the level of satisfaction of clients and express the extent to which the hotel met or failed to meet guest expectations.

**2C: Value for money.** For each hotel profile, WHR would present worldwide average room price (theoretical room price) depicted by a number of WHR coins corresponding to the related number of crowns. Individual hotels' average room prices collected by WHR will be converted in WHR coins and posted to enable travelers to easily compare a hotel's average room price with the worldwide or local theoretical room prices of similar hotels.

## Conclusion: Yes, a World Hotel Rating System Is Desirable and Feasible

Although the final iteration appears complex, the starting point of the World Hotel Rating (WHR) is a simple ranking model that would be understandable by travelers from all parts of the world. The WHR approach is a phased-in component approach, with Phase 1 focusing on the objective elements of a WHR classification and Phase 2 focusing on unbiased qualitative reviews. Those two elements would be combined to create reliable integrated and holistic ratings that are fully comparable around the world. ■

<sup>20</sup> A similar development happened in the field of financial information, with the International Accounting and Financial Reporting Standards, used throughout the world except the U.S. An effort continues to harmonize that nation's Generally Accepted Accounting Principles.

## CHRS Data Presentation Summaries

### **It's Time for a Change: Defining New Performance Metrics for the Hospitality Industry**

**Jess Pettitt, Senior Director, Business Analytics, Hilton Worldwide; Co-authors and presenters: Kelly McGuire, Dexter Wood**

The RevPAR index has served as the industry standard for performance measurement for the last 25+ years. An exploration of this metric opens a perspective which can serve as a basis for discussion about how hotels should be thinking about their competitive position, and how they should measure performance. Hotels can consider alternative metrics, as there are pros and cons of RevPAR index.

### **Metrics for Enhancing Revenue Generation Effectiveness**

**Cindy Estis Green, Chief Executive Officer and Co-founder, Kalibri Labs; Co-author and presenter: Cathy Enz**

As business acquisition costs continue to rise, successful operators need to be more mindful of how to devise approaches to lower these costs and craft strategies informed by meaningful diagnostics. Not only are there metrics to understand and improve the effectiveness of revenue generation, and sales and marketing efficiency, but new metrics take into consideration business acquisition costs, and the efficiency of sales and marketing spending.

### **The Evolution of Hotel Performance Data**

**Ali Hoyt, Senior Project Manager, STR Analytics**

STR has been collecting supply, demand, and revenue data from hotels for over two decades. Hotel data has evolved from those fundamentals over that time, and new metrics have shaped how the hotel industry and peripheral companies use data. In particular, analytics have evolved to provide end users with more insight and enable better decision-making. Data users have transitioned beyond hotel revenue managers with the integration of new data collections.

### **Examining the Role of User-Generated Content in Hotel Classification Systems**

**Anita Blomberg-Nygård, Senior Director, Norwegian Accreditation; Co-authors and presenters: Chris Anderson, Christopher Imbsen**

An integrated approach for hotel classification and online guest reviews allows guest reviews to add a quality dimension to the classifications, thereby refining the classifications. Aggregated guest scores can be presented in parallel to hotel classifications, or integrated fully.

### **Hotel Classification and Rating: Is a World Hotel Rating System Feasible and Desirable?**

**Roger Kaiser, President, World Hotel Rating Agency S.A.**

The World Hotel Rating Agency is conducting an updated feasibility study of a new hotel rating system. This study will deliver an update of the study on hotel classification published in 2004 by the World Tourism Organization and the International Hotel & Restaurant Association. A global holistic hotel rating system is feasible and desirable. The report will serve as material for a broad consultation of the sector and stakeholders which will be performed in the second half of 2015. Given the travel and hospitality industry's mutations over the last decade, a world hotel rating system appears today as being desirable. The system is feasible if it is developed based on a phased-in component approach

### **HaaS (Hospitality as a Service): Disrupting the Service Paradigm with Innovative Technology**

**Mona Anita Olsen, Assistant Professor and Assistant Academic Director of the Pillsbury Institute for Hospitality Entrepreneurship, Cornell University, School of Hotel Administration**

Hospitality as a Service (HaaS) providers are cloud-based technologies that are able to disrupt the service paradigm in the hospitality industry. Cloud-based technologies delivering hospitality as a service (HaaS) are disrupting the service paradigm, as demonstrated by a selection of HaaS providers fueling the travel revolution in the Canaan Partners and Thayer Ventures portfolios.

### **How Should Managers Implement Organizational Innovations?**

**Cathy Enz, Lewis G. Schaeneman, Jr. Professor of Innovation & Dynamic Management, Cornell University, School of Hotel Administration; Co-author and presenter: Sean Way**

A recent study of European hotel general managers focused on how change agents use different implementation approaches. The results offer confirmation that some traditional approaches to introducing change, such as benchmarking, taskforces, and directives, are less effective than expected. Product (e.g., architecture and design) and marketing (e.g., sales channels) innovations were the most popular types of innovations adopted by European hoteliers in the study. Owners were often both early supporters and critics of innovations. The greater the use of cross-functional teams, a review process, ideas champions, rewards, and staff meetings, the stronger the link between implementation and key performance outcomes.

## CHRS Data Presentation Summaries (concluded)

### The Devil Is in the Details

**Inès Blal, Assistant Professor, Strategic Management, Ecole hôtelière de Lausanne; Co-author and presenter: Meng-Mei Chen**  
Hotel guests need accommodations not because they like staying in a hotel, but because they need to accomplish something during their stay. So the key question is: what really motivates a guest when booking a room? A focus on this question will foster innovative concepts.

### The Sustained Formula for Tomorrow's Guest Experience

**Kimberly Rath, Founder and Chairman, Talent Plus, Inc.**  
Four critical attributes create world-class organizations, ultimately impacting your people, your guests, and the growth of your company. Because the hospitality industry is ever-changing one must ensure your brand will exist in five years. This is accomplished by focusing on your greatest asset—your people—who will redefine your success.

### Behavior and Trends of the Connected Traveler: Surveys and Insights from USA TODAY's Travelers

**John Peters, President, Travel Media Group, USA TODAY**  
Business and leisure travelers are engaging with more resources than ever before. USA TODAY's analysis of trending destinations and travel preferences finds that travelers are more connected than ever before. Road warriors use connectivity to get and use information. Destinations for leisure travel change not only seasonally, but annually.

### How Do You Create the Right Habitat for Gross Hotel Happiness (GHH) in the Luxury Hospitality Sector

**Lauren Helbig, Associate Manager, Quality & Performance, The Leading Hotels of the World; Co-authors and presenters: Annie Chen, Deniz Omurgonulsen, Ted Teng**  
This study explores the concept of gross hotel happiness (GHH), an adaptation of the Bhutanese idea of gross national happiness, which they have used as a different way to measure their economy. The idea of GHH can be used to measure guest satisfaction. Hoteliers can consider how to create an environment that orients our guests towards happiness together with metrics to measure how well we orient our guests towards happiness.

### In Service of Culture: Using Quantitative and Qualitative Data to Understand Work Culture in Luxury Hotels

**Steven Lawler, Coordinator and Faculty, University College, Washington University in St Louis**  
Work culture is a fruitful domain for analyzing how employee engagement and guest satisfaction are linked.

This study examines four individual luxury hotels and two luxury hotel groups, one large and one small, to describe how quantitative, qualitative, and ethnographic data show cultural alignment in connection with employee engagement and customer service.

### Behavioral Economic Design of the Guest Experience

**John Timmerman, Senior Strategist, Customer Experience & Innovation, Gallup**  
Behavior economics describes the underlying mechanics of consumer choice, as well as industry trends that illuminate shifts in choice preference (consumer insights), and methods for engineering a desired choice (applied innovation). These findings are important in determining owner investment priorities for innovating products and services. This analysis identifies the key factors for hotel guest engagement and gaining share of wallet.

### We See What You Think: Using Eyetracking to Obtain a Deeper Understanding of the Hotel Choice Process

**Stephani Robson Senior Lecturer, Cornell University, School of Hotel Administration; Co-author and presenter: Breffni Noone**  
Using a device that tracks consumers' visual focus, known as eyetracking, together with retrospective "think-aloud" interviews, we can examine precisely what information consumers look at, when they look at it, and what that information tells them when they choose a hotel online. The study found that images are tremendously influential during both the browsing and deliberation stages of the hotel choice process, and deserve considerable study. Moreover, consumers focus on value more than price. In particular, images appear to play a substantial role in how consumers perceive the value of an offering. Additionally, a familiar brand name streamlines the choice process. Interestingly, consumers' behaviors suggest that they do not believe there is rate parity across channels.

### When Less Is More: Focusing on the Persuadable Guest

**Anil Kaul, Chief Executive Officer, AbsolutData; Co-author and presenter: Guha Athreya**  
Traditionally, marketers have focused on responsive guests, which results in over-targeting. Focusing instead on persuadable guests is the best way to enhance the effectiveness of promotions. First, this approach improves the bottom line by reducing over-targeting. Second, it enables marketers to tailor their promotions around the persuadable guest for maximum impact. Thus, one must identify persuadable guests to enhance the effectiveness of promotions.

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*Cornell Hospitality Report*

Vol. 15, No. 17 (October 2015)

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*Cornell Hospitality Report* is produced for the benefit of the hospitality industry by The Center for Hospitality Research at Cornell University.

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