

RELATIONSHIPS BETWEEN HOTEL ROOM PRICING, OCCUPANCY, AND GUEST SATISFACTION: A LONGITUDINAL CASE OF A MIDSCALE HOTEL IN THE UNITED STATES

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This case study examined the relationship among hotel room prices, occupancy percentage, and guest satisfaction using 3 years of data from 3,875 actual guest satisfaction surveys at an upper midscale hotel. The study concludes that price was a significant predictor of overall guest satisfaction and three key guest-satisfaction components: guest room cleanliness, maintenance, and attentiveness of staff (with negative, curvilinear relationships in all cases). Conversely, occupancy percentage failed to be a significant predictor of guest satisfaction.

KEYWORDS: *guest satisfaction; average daily rate; occupancy; curvilinear regression analysis*

The role of pricing on customer satisfaction has been largely ignored (Voss, Parasuraman & Grewal, 1998), and there is a desperate need for new research that will advance knowledge regarding guest satisfaction (Oh & Parks, 1997). Hospitality services are, for the most part, produced by humans, and consequently, no two guest stays will be precisely alike. Research in general marketing suggests that the variability in performance across different consumption experiences leads to increased uncertainty, and thus to decreased reliance on prior expectations. In such situations, consumers tend to use price as a cue of performance expectations (Dodds, Monroe, & Grewal, 1991; Rao & Monroe, 1989). The American Customer Satisfaction Index (ACI), which reports on quarterly surveys of customer satisfaction in a variety of industries, has indicated that although hotel

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room rates have increased substantially during the past few years, customer satisfaction with hotels has decreased (Barta & Chaker, 2001). In this study, we proposed that the hotels' room pricing policy might influence the extent to which price information is used as an input into satisfaction judgments.

In the hospitality industry, yield management results in widely varied room rates for the same hotel room depending on the time of the day, week, or year. Hence, hotel guests are likely to experience price-performance inconsistencies depending on the timing of their travel. In other words, the guest may experience similar levels of service during two hotel stays, yet their satisfaction levels could be very different depending on the room rate. To illustrate, having paid a rack rate (if anyone pays that anymore!), the consumer may be less satisfied with the same level of service than if he or she booked the room well in advance, and hence benefited from a lower price. Furthermore, a guest staying at a hotel during a busy (high occupancy) period may not only be less satisfied due to the relatively higher room rate paid but may be less satisfied due to the busyness itself, presumably due to less attentive service as a result of employees' energies being spread thinly over the needs of so many guests.

In the following section, relevant literature that advances the importance of price information and capacity utilization in influencing guest satisfaction is reviewed. The second section explains the methodology used in this study. The third section explains results, whereas the concluding section highlights some practical and other implications of this research.

LITERATURE REVIEW AND HYPOTHESES

Prior research in the hospitality industry postulates that price plays an important role in consumers' quality perceptions (Lewis & Shoemaker, 1997; Oh, 2000), but conclusions regarding the exact nature of the impact of price on consumer perceptions have been inconclusive. Parasuraman, Berry, and Zeithaml's (1991) study of a variety of service industries found that lodging guests expect to receive a higher level of service when they pay more for that service. Bojanic (1996) found there to be a significant positive relationship between perceived price and perceived quality among lodging patrons, whereas Oh (1999) found perceived price to exert a significant negative influence on perceived customer value. In their quest for improved quality, hotel managers have turned their attention to customer satisfaction. Understanding guest satisfaction is critical in today's crowded market place, because satisfaction is believed to lead to repeat purchases and favorable word-of-mouth behaviors (Gunderson, Heide, & Olsson 1996). The dominant model of satisfaction—the expectancy-disconfirmation paradigm—conceptualizes satisfaction as the result of the discrepancy between predictive expectations and actual performance (Oh & Parks, 1997; Oliver, 1997). Yet the role of predictive expectations in influencing customer satisfaction of hospitality products and services remains unknown (Yuksel & Yuksel, 2001). For example, Swan and Trawick (1981) showed a positive link between expectations and satisfaction in a restaurant context, whereas the relationship in Cadotte, Woodruff, and Jenkins' (1987) restaurant study was insignificant.

In this study, it is proposed that hotel guests use price as a quality cue at high and low levels of the price range whereas predictive expectations drive their satisfaction at the intermediate level. More specifically, at high (or low) price levels, the customer will be highly influenced by the price information. When actual performance is close to expectations, assimilation effects are expected. In other words, guests paying high (or low) rates perceive service quality should be high (or low). As long as the actual performance falls within an acceptable range, satisfaction is induced. Conversely, at the medium price level, the utility of price information as a quality cue is greatly reduced. Under these circumstances, predictive expectations will guide the satisfaction formation process. As a result, the guest is likely to pay more attention to the actual performance. Taken together, these arguments lead to the following hypotheses:

Hypothesis 1: At moderate price levels, price will be a significant predictor of overall guest satisfaction, and the relationship between price and guest satisfaction will be a negative one.

Hypothesis 2: At high and low price levels, price will be a significant predictor of overall guest satisfaction, but there will be less variance between price and overall guest satisfaction than at moderate price levels.

In addition to overall satisfaction, the influence of pricing information on several subdimensions was explored. Oh (1999) found lodging guest satisfaction to be composed of several dimensions including guest room cleanliness, guest room items in working order (maintenance), employee friendliness, and knowledgeable employees (attentiveness of staff). Cadotte and Turgeon (1988) suggested that guests have narrow zones of tolerance for these core attributes. Dube, Enz, Renaghan, & Siguaw (1999) found that quality of services provided by the hotel, guest room design, and the physical property were highly correlated with guest satisfaction. Finally, Mattila's (1999) study showed that the hotel's physical environment (including the guest room) plays a critical role in the guest's value perception. Taken together, prior studies indicate that room cleanliness, maintenance, and attentiveness of staff represent the key areas of importance to the customer. Extending the arguments from the general satisfaction average daily rate (ADR) link to these subdimensions, we propose that when price and performance are consistent (i.e., high price and high quality or low price and low quality), expectations will have an assimilative effect on satisfaction with room cleanliness, maintenance, and attentiveness of staff. Conversely, when actual performance on these attributes falls below the expected level, then expectations will have minimal impact on perceived performance and satisfaction judgments. Taken together, the following hypotheses are proposed:

Hypothesis 3: Price will be a significant predictor of guest satisfaction pertaining to guest room cleanliness, maintenance, and attentiveness of staff.

Hypothesis 4: At high and low price levels, price will be a significant predictor of guest satisfaction pertaining to guest room cleanliness, maintenance, and attentiveness of staff, but there will be less variance between price and each of these three guest satisfaction dimensions than at moderate price levels.

At a given hotel, higher room rates will usually be charged when volume of demand, or occupancy percentage are anticipated to be higher, that is, yield management (Vallen & Vallen, 1996). Thus, volume of business may be a factor in guest satisfaction. It can be argued that when a hotel reaches nearly 100% occupancy levels, that level of capacity utilization has a negative impact on customer perceptions of service quality (e.g., Zeithaml & Bitner, 2000). Previous research in organizational behavior has indeed shown that there is a negative relationship between employee behavior (display of positive emotions) and store busyness (Rafaeli & Sutton, 1990; Sutton & Rafaeli, 1988). Busy environments (high occupancy) may cause stress in employees, and these internal feelings may be reflected in customer interactions (Pugh, 2001). Thus, the following hypothesis is presented:

Hypothesis 5: Hotel occupancy level will have a negative relationship with guest satisfaction.

METHODOLOGY

To effectively analyze price relativity as described in Hypotheses 1 through 4, the actual achieved prices (i.e., average daily rate) and other performance statistics of a single, somewhat generalizable hotel were evaluated. The site for this research was a 150-room, upper-midscale, moderate-service hotel, affiliated with and managed by a widely recognized international hotel chain. This chain was ranked by *Consumer Reports* (Hotels survey: Suite dreams, 2001) as being among the top 10 moderate-service hotel chains (of 20 surveyed). The overall high consumer satisfaction with the subject hotel chain is reflected in the overall guest satisfaction levels at the subject property (i.e., guest satisfaction scores are relatively high, between approximately 70% and 100%) during each period that was studied. In addition, the relatively high overall satisfaction may provide some justification for the substantial average daily rate increases achieved at the hotel and during each year of analysis, particularly during each peak season.

Hotel amenities were highly standardized within the subject hotel's chain of more than 500 properties. Each property included a restaurant, lounge, approximately 3,000 square feet of function space, business center, complimentary parking, indoor swimming pool, and exercise room. The subject hotel was approximately 10 years old, and the physical plant appeared to be in good condition at the time of the site visit. However, some of the property's furniture, fixtures, and equipment were of a dated design because the hotel had not had a major renovation since its opening; a renovation was scheduled 1 year subsequent to the completion of this research.

The hotel benefited from a location along a major commercial route in a market area with a mix of commercial and leisure demand, the two primary lodging demand sources in the subject market as well as in the United States (PKF Consulting, 1999). In particular, the hotel was located proximate to the major commercial and tourist demand generators in the market. The market exhibited very typical American demand patterns, with the summer months being the busiest, the

winter months being the slowest, and other months representing the shoulder season (Lomanno, 2000). The subject hotel operated with a mean occupancy percentage of 78.0%, a mean average daily rate of \$90.56, and a mean RevPAR (rooms revenues per available room) of \$70.64 during the 3 years that we studied. These figures compare to a mean occupancy percentage of 70.3%, a mean average daily rate of \$107.68, and a mean RevPAR of \$75.70 for all American full-service hotels during the same period (PKF Consulting, 1999). For these reason, the subject hotel may be relatively generalizable. The hotel also benefited from a market position where most of its competitors were older properties that were either independent operations, or were affiliated with lower quality chains (hotels survey: Suite dreams, 2001). These competitors typically suffered from functional obsolescence.

Finally, over the course of the 3 years of data that were studied, the subject hotel benefited from being located in an area with significant economic growth, as did most North American hotels during the same time period. This growth probably had an effect on the ability of property management to increase the hotel's average daily rate at above-inflationary levels each year during the 3-year period studied.

During the site visit, the hotel's average daily rate and occupancy percentage by period for the previous 3 years (39 total 4-week periods with occupancy and average daily rate for each period) were provided to us by management. A subsequent visit by us to the chain's corporate office, located in another state, provided statistical information pertaining to guest satisfaction at the subject hotel property. The hotel chain had engaged an independent third-party research firm that randomly surveyed hotel guests (who had previously stayed in the chain's properties) by sending mail surveys to them immediately after checkout. The independent research firm stratified the population of hotel guests to obtain a sample that was highly representative of all of the hotel's guests based on type of hotel frequented; purpose of trip; and age and sex of the guest. The research firm conducted all these analyses because, among other reasons, the chain wished to control against abuse of the information by personnel of the hotels themselves. The research firm compiled information for each of the chain's properties based on three key guest satisfaction questions and an overall guest satisfaction score that was the average of the three key areas. The three subdimensions were as follows:

- cleanliness of the room upon entering
- overall maintenance and upkeep of the property
- attentiveness of staff

Please see the literature review section (specifically, the explanations prior to Hypotheses 3 and 4) of this article for a thorough discussion of empirical support for these three subdimensions comprising overall guest satisfaction. Survey participants were asked (on the previously discussed mail survey) by the third-party research firm (independent of the hotel chain) to rate the subject hotel on each of these three subdimensions using a scale of 1 to 10 (1 = *poor* and 10 = *excellent*). The research firm provided these data to the chain corporate office, which then

converted the figures into 100%, where a score of 10 equaled 100%. The performance of the hotel in each of the three key areas from all returned surveys in a given month (period) were averaged together. This guest survey score (GSS) was used for managerial decisions and compensation. For example, the hotel general manager received bonus compensation based on the average of these three items, and, in fact, that GSS score was commonly referred to as the "bonus score" among managers within the hotel chain. As previously discussed, to control against possible abuse of the system by hotel personnel, all data consisted of a random, stratified sample of data that was collected and input by the research firm.

A limitation of this study is that the results are based on the performance of a single hotel. However, as was previously discussed, the characteristics of the hotel, as well as the relatively large sample ($N = 3,875$) should make the results generalizable to other hotels.

RESULTS

Between 65 and 124 guests of the subject hotel completed the guest satisfaction survey during each of the 39 consecutive months (periods) that were studied for a total of 3,875 completed surveys. Of this large sample size, one half (50%) of the respondents indicated that they most frequently patronized upscale hotels (the subject hotel's category type), whereas 44% indicated that they most frequently patronized moderate properties, 3.4% indicated that they most frequently stayed at economy properties, and 2.5% indicated that they usually stayed at other types of hotels.

The hotel experienced a balanced mix of business and leisure travelers during the course of the 3 years studied, indicating that the results may be generalizable to many types of hotels. Of the total respondents, 46.0% indicated that the primary purpose of their trip was for leisure, 44.0% indicated that the primary purpose was business, and 10% indicated that their trip was a combination of business and leisure. The highest percentage of respondents was in the 45- to 54-year-old age range (33.8%), followed by 35-to-44-year-old range (24.3%), 55-to-64-year-old age range (18.5%), 18-to-34-year-old age range (14.2%), and 65 and older (9.3%). Slightly over 65% of respondents were men, and 34.6% were women. A total of 79.0% of respondents stated that they would definitely or probably return to the subject hotel.

Because the hotel became 4 years older during the course of the study, and furthermore, because the hotel was not significantly renovated during the 3 years, there was some concern that time might distort the results over the 39 periods (i.e., months). Therefore, regression analysis was conducted with time as an independent variable and overall guest survey score (GSS) as a dependent variable. The results were not significant ($p = 0.612$). Thus, it was not necessary to make any adjustments to the data for time. The insignificance of time may be attributed to the standardized nature of the subject hotel's facilities and services, and to the lack of any significant changes in the hotel's facilities and services over the course of the 3 years studied.

Regression analysis was conducted to test the relationship between average daily rate, as an independent variable, and overall guest survey score (GSS) as a dependent variable. The scatter plots detected a curvilinear relationship between satisfaction and ADR. Hence, a quadratic and cubic term were added in the regression equation. Because the regression fit improved when using the cubic model, the cubic model was concluded to be the model of best fit. The model fit statistics are presented in Table 1. Figure 1 presents a graph of the relationship between average daily rate and overall guest survey score for linear, quadratic, and cubic models. Please note that Figure 1 has been presented in truncated form for easiest interpretation.

Table 1 and Figure 1 indicate that price is a significant predictor of overall guest satisfaction (as measured by GSS) in all three models presented. In particular, in the model of best fit (the cubic model), there exists a steep negative relationship at moderate price levels indicating that as average daily rate increases, overall guest satisfaction decreases rather sharply. Thus, Hypothesis 1 was supported.

Table 1 and Figure 1 also indicate that in the model of best fit (cubic), overall guest satisfaction (as measured by GSS) does not vary significantly at relatively high and low price levels (average daily rates). Specifically, in the subject hotel, guest survey score does not vary substantially in the \$60 to \$80 average daily-rate range. Furthermore, although the guest survey scores in the \$140 to \$160 average daily-rate range are significantly lower than in the \$60 to \$80 range, GSS does not vary substantially within the \$140 to \$160 range. Therefore, Hypothesis 2 was supported.

Average daily rate was studied as an independent variable, and each of the three key satisfaction components (guest room cleanliness, maintenance, and attentiveness of staff) were studied as dependent variables using linear regression analysis. Each of these three models was significant ($p < 0.01$). Therefore, Hypothesis 3 was supported.

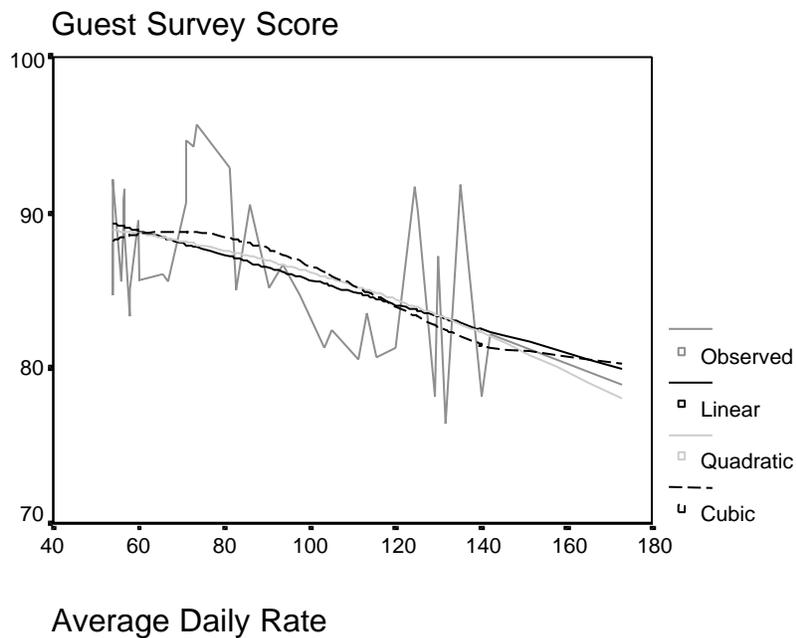
To test the relationship between average daily rate as an independent variable and each of the three key satisfaction components (guest room cleanliness, maintenance, and attentiveness of staff) as dependent variables, a regression analysis was conducted. As with overall satisfaction, the bivariate scatter plots indicated a curvilinear relationship. In all three cases, the cubic model resulted in an R^2 that was higher than the linear and quadratic models. Therefore, for all three key satisfaction variables, the cubic model represented the model of best fit. Due to these relationships, Hypothesis 4 was supported. These figures are presented in Table 2 and are graphed in Figures 2, 3, and 4. Please note that Figures 2 through 4 have been presented in truncated form for easiest interpretation.

Because the bivariate scatter plots indicated a linear relationship between overall satisfaction and occupancy percentage and average daily rate, a multiple regression without higher order terms was performed. The overall model was significant ($R^2 = 0.269, p < .01$). However, an examination of the standardized regression coefficients revealed that only average daily rate was significant ($p < .01$), whereas occupancy percentage was not significant ($p = .734$). Thus, Hypothesis 5 was not supported. Figure 5 presents a chart of overall guest survey score (GSS), occupancy percentage (OCC), and average daily rate (ADR). It is important to

Table 1
Regression Coefficients for Overall Guest Satisfaction

Function	R ²	Significance
Linear	0.267	$p < .01$
Quadratic	0.275	$p < .01$
Cubic	0.293	$p < .01$

Figure 1
Plot of Guest Survey Score and ADR



point out that although GSS may not appear to have varied substantially during the study period, the variations in GSS do, in fact, represent statistical significance relative to average daily rate (i.e., GSS declined when average daily rate increased).

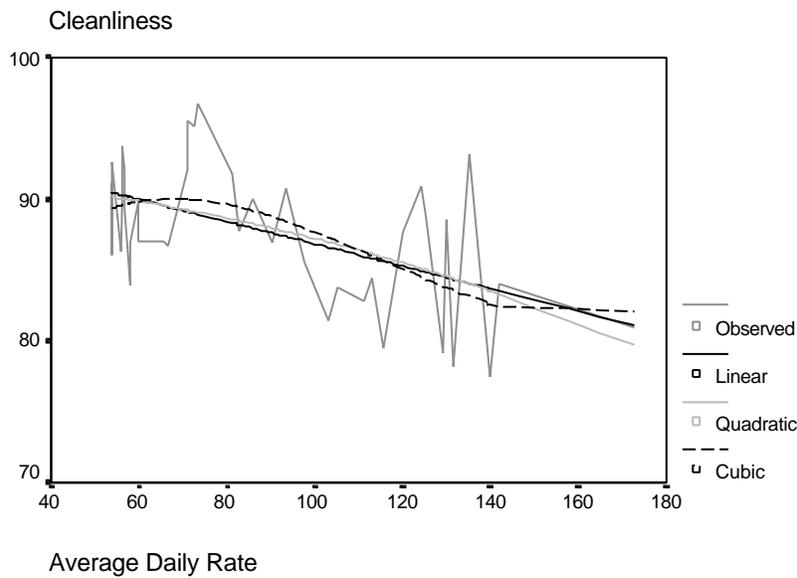
DISCUSSION AND MANAGERIAL IMPLICATIONS

Customer satisfaction has been a heated topic among hospitality researchers during the past decade, yet the role of pricing on guest satisfaction remains unclear (Yüksel & Yüksel, 2001). To bridge that gap, the primary purpose of this study was to examine the relationship between average daily rate and guest satisfaction.

Table 2
Regression Coefficients for Key Satisfaction Variables

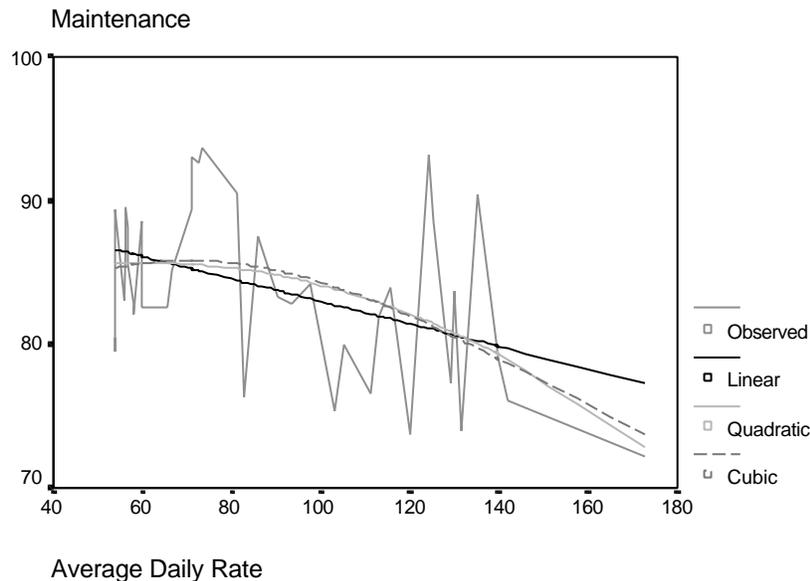
Variable	Function	R ²	Significance
Cleanliness	Linear	0.276	<i>p</i> < .01
Cleanliness	Quadratic	0.281	<i>p</i> < .01
Cleanliness	Cubic	0.303	<i>p</i> < .01
Maintenance	Linear	0.189	<i>p</i> < .01
Maintenance	Quadratic	0.219	<i>p</i> < .05
Maintenance	Cubic	0.221	<i>p</i> < .05
Attentiveness	Linear	0.242	<i>p</i> < .01
Attentiveness	Quadratic	0.242	<i>p</i> < .01
Attentiveness	Cubic	0.279	<i>p</i> < .01

Figure 2
Plot of Cleanliness and ADR



As expected, the relationship between average daily rate and guest satisfaction appears to be negative. During the periods when management of the subject hotel increases its room-rate structure most sharply, guest satisfaction declines, and this relationship is significant. This decline in guest satisfaction is important because such changes have been correlated with guest intent to return (Oh, 1999) and loyalty (e.g., Dube & Renaghan, 2000). This study's results from a single upper-midscale hotel are consistent with longitudinal results from ACI, which indicate that although North American hotel room rates have increased substantially during the past few years, customer satisfaction with these same hotels has decreased (Barta & Chaker, 2001).

Figure 3
Plot of Maintenance and ADR



The findings of this investigation show that satisfaction levels are most volatile at the medium price range. At extremes of the price continuum, guests are likely to be strongly influenced by the utility of price information in the satisfaction evaluation process. In other words, room-rate information guides their service quality perceptions (Lewis & Shoemaker 1997; Oh, 2000). Conversely, at the medium level, pricing information loses its predictive utility, and hence hotel guests become more critical of actual hotel services. As a result, their satisfaction ratings exhibit high levels of variation.

In addition to overall satisfaction, the results of this study indicate that guest satisfaction declines in each of the three key subdimensions: cleanliness, maintenance, and attentiveness. Although there is no evidence that the absolute level of cleanliness, maintenance, or employee attentiveness actually declines during the peak summer months (when room rates are highest), each of these factors clearly falls short of guest expectations relative to the slower times of the year. As indicated by Figure 5, this relationship appears to have become increasingly drastic during the latter portion of the study period, as the hotel's room-rate structure increased substantially and the physical plant went largely unchanged. In other words, during the course of the 3 years studied, as summer average daily rates became higher, guest survey scores became lower. Clearly, an increasing number of guests became increasingly less satisfied with the hotel during subsequent summers.

One consideration for hotel managers of properties such as the one studied (which as previously indicated, is a fairly typical and generalizable, upper-midscale hotel) is that because the fundamental physical plant remains constant

Figure 4
Plot of Attentiveness and ADR

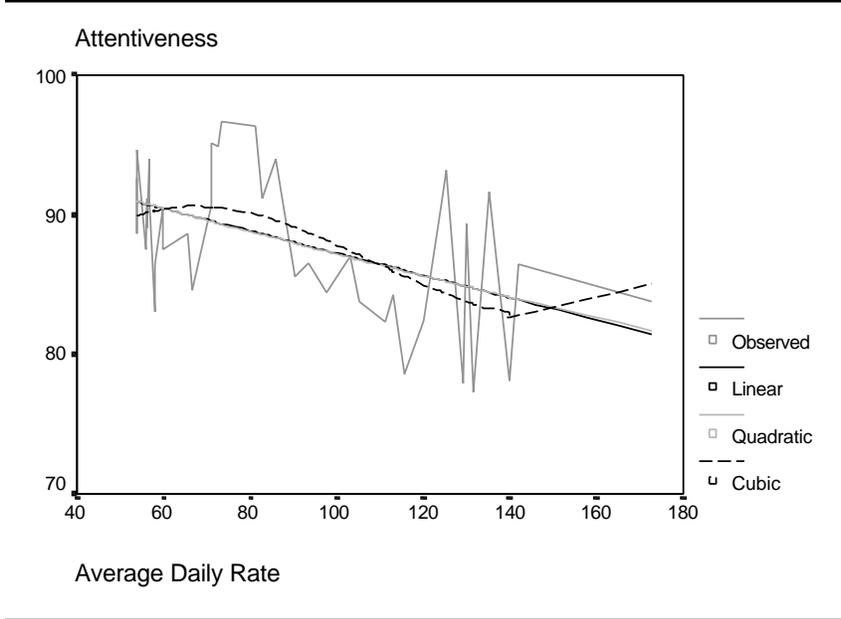
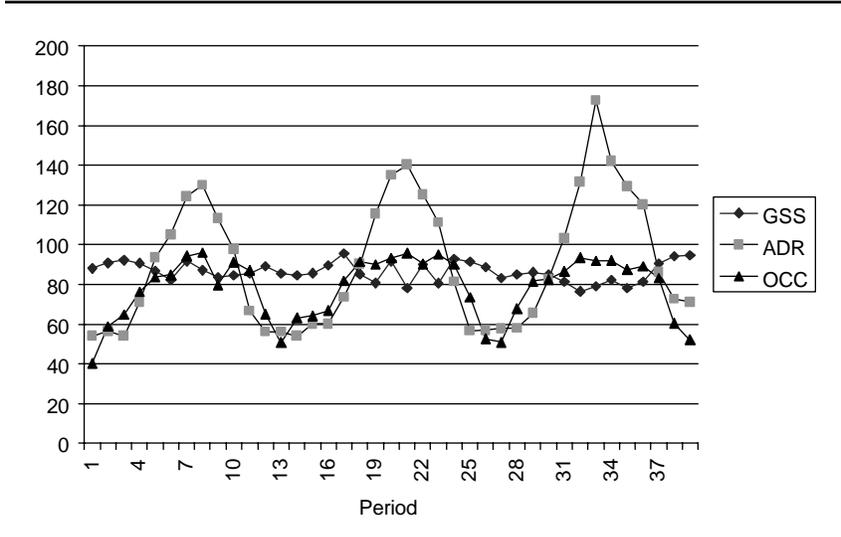


Figure 5
Guest Survey Score, Average Daily Rate, and Occupancy



during the slower and busier seasons (when average daily rates increased from the \$60 to \$80 range to the \$140 to \$160 range), managers may want to consider offering additional services during the high demand periods. Matching services

offered with guest needs should enhance their willingness to accept higher prices and to return to the property in the future (Enz, Potter, & Siguaw, 1999). For example, several years ago, management of the subject hotel eliminated lunch and dinner service in the hotel's restaurant due to lack of profitability. Management of many other properties in the subject chain made similar decisions at around the same time. Although such a service reduction may be appropriate during the slow season, it may be appropriate to consider the reimplementation of lunch and dinner service in the busy season. Such a change could result in an increase in perceived value by guests paying rates in the \$140 to \$160 range. Dube and Renaghan (2000) found that food and beverage services frequently emerge as a considerable source of value during a guest's hotel experience, and that, in fact, current industry strategic thinking with respect to minimizing food and beverage services is driven mostly by operating-cost reduction, not customer value.

Other similar possible considerations for management include the addition of room service for the same reason described earlier. The subject hotel, as well as the other properties in the subject chain, does not offer room service throughout the year. The addition of room service during the busy season may be financially feasible and, further, may result in an improvement in the price/value relationship for guests who are staying at the hotel during this period and paying relatively high room rates. Another similar consideration could be the addition of bell service during the busy period. The subject hotel and the other properties in the subject chain do not offer bell service throughout the year but could do so to improve the price/value relationship during the busy period. Obviously, the management must carefully evaluate the increase in total costs, including undistributed operating costs, resulting from any new service offerings. Furthermore, management should consider any negative impact of subsequently eliminating such services during the slow season after adding them during the busy season.

One additional possible explanation for the increasingly negative relationship between ADR and satisfaction through the 3 years analyzed is that the subject hotel went without a renovation through this period, and by the end of the analysis, it was approximately 10 years old. As the industry's recent best practices study shows, the physical appearance of the property (internal and external) is one of the key attributes driving customer's value perceptions of lodging purchases (Dube & Renaghan, 2000). Referring to Figure 3, it can be seen that maintenance scores continue to decline sharply at relatively high ADRs. Although the term *maintenance* technically refers to noncapital expenditures, it is plausible that guests completing surveys use the term *maintenance* as a proxy for capital expenditures. Thus, the importance of long-term capital upkeep cannot be overemphasized because guests' negative perceptions of such upkeep may cloud their perceptions of other aspects of the hotel. Although most managers and owners forecast that such costs will be approximately 3% to 4% of total hotel revenues, the International Society of Hospitality Consultants study found that capital expenditures actually average 5% to 6% of revenues over the life of the average hotel asset (Zickefoose, 2001) although occupancy and average daily rate appear to generally move in the same direction, changes in guest satisfaction are explained by and most directly correlated with average daily rate, not occupancy percentage. This

finding is somewhat unexpected because typically service quality is tied to the firm's capacity utilization (e.g., Zeithaml & Bitner, 2000). Yet it might be argued that the direct relationship between occupancy and service quality might be limited to extremely high occupancy levels (i.e., full-house situations).

To some extent, these results should be comforting to many hotel managers because these results support many of the industry's current operating principles. Management of the subject hotel adjusts staffing levels based on anticipated changes in demand. As with most North American hotels, the subject property accommodates significantly higher volumes of demand during the summer, and, therefore, management hires temporary personnel during this period. Similarly, during the slowest winter months, management reduces its staffing levels through reduced workforce schedules and in some cases, layoffs. Based on the results of the study, it appears that management may be making such adjustments about as effectively as possible from the standpoint of guest satisfaction. Suffice it to say, that employee satisfaction would be a separate, though possibly related construct.

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