



Article Title

The relationship of sales and marketing expenses to hotel performance in the United States.

Citation

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Abstract

While hotel organizations are investing considerable sums of money for marketing at the unit level, research investigating the relative benefits of the different areas where those funds can be invested is lacking. This exploratory study endeavors to fill that void. Since different types of hotels have differing operating characteristics, this study examines marketing expenditures for various hotel tiers, using the Smith Travel Research chain scale categorizations. The study finds that marketing expenditures have differential effects according to the type of hotel and the particular type of marketing expenditure. These analyses explore implications of various types of marketing expenses on both hotel unit revenue and profitability.

Methods

In this study, researchers conducted analyses using calendar year 2005 data provided by Smith Travel Research for 2,815 hotels (using SPSS version 15.0).

Results

Marketing other is an important and relevant expenditure category for nearly all hotels. For both room revenue and NOI, marketing other expenditures was the most important variable studied based on its beta. Hotels in all categories, except for economy properties, enjoyed higher room revenue and profitability when they spent higher amounts on marketing other. Another way of expressing this correlation is that management should consider expenditures for marketing other as its most important marketing investment, as compared with marketing payroll and franchise fees. Marketing payroll expenditures may increase room revenue but might not generate higher NOI for all types of hotels. We found that higher marketing payroll is consistent with higher room revenue for three segments. However, marketing payroll expenditures are related to lower NOI for two chain scale segments and have no significant relationship to NOI for two segments. Specifically, higher marketing payroll expenditures may increase room revenue and NOI for in the luxury, upper upscale, and midscale with F&B hotels, but may not generate sufficient revenue to cover the cost of the higher payroll in the upscale, midscale without F&B, economy, and independent chain scale segments. Looking at franchise fees as a stand-in for hotel brand, we see the importance of branding in the middle of the hotel market, while hotels at the top end and at the budget end of the market seem to stand more on their own (even if they have a brand flag). We say this because we found that higher

franchise fees are correlated with higher room revenue and higher NOI for upscale, midscale with F&B, and midscale without F&B hotels. Outside of these “middle” segments, however, higher franchise fees (or referral fees) do not relate with higher room revenue or NOI for luxury, upper upscale, economy, or independent hotels.

Conclusion

The research revealed several surprises as well as the need for additional study. Among the components of sales and marketing costs, marketing other is the most interesting because it is generally associated with both higher room revenue and NOI. Higher spending on marketing payroll results in higher room revenue for most hotels, but some end up with lower NOI in the wake of higher spending on marketing payroll. We think this finding indicates that there may be a precisely appropriate threshold of staffing and payroll cost, possibly lower than currently thought.