Researchers create method to evaluate profitability of service amenities

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Say you're a hotel manager trying to decide whether to build a pool: Will the additional reservations you bring in from that amenity offset the cost of construction and maintenance? Or say you offer free bottled water to all guests. If you stopped doing so, would you save money in the long run?

Researchers at the University of Maryland and Georgetown and Cornell Universities offer some answers to these questions. Their work focuses on amenities—free "extras"—offered by hotels, but could be applied to extras offered by other kinds of businesses, too. "Our study shows that such amenities can be quite profitable, but that this varies from brand to brand," says Roland Rust, Distinguished University Professor and David Bruce Smith Chair in Marketing at UMD's Robert H. Smith School of Business.

"Return on Service Amenities," is forthcoming in the *Journal of Marketing Research* and co-authored by Rust, Michel Wedel, a Distinguished University Professor and the PepsiCo Chair in Consumer Science at the Smith School; Rebecca Hamilton at Georgetown's McDonough School of Business; and Chekitan S. Dev at Cornell's School of Hotel Administration.

Most previous work on amenities examined how they affected initial consumer choice, but this study went further by incorporating profits from return visits into the calculations. It focused on bottled water, Wi-Fi, and fitness centers—amenities with very different costs and different (if overlapping) audiences.

In all three cases, the freely offered goods paid for themselves for many hotel brands—the bottled water and Wi-Fi within a year, the fitness center over the long term. (For one hotel, however, even the gym paid for itself, and then some, within a year.) But the methodology offers a way to identify amenities that are pointless expenditures, too. And it's simple enough to run in a spreadsheet.

The study drew on a survey of 5,090 business and leisure travelers who were presented with choices between hotels with different features; they varied on price, convenience, loyalty programs, and the presence or absence of the three amenities. The researchers also partnered with a global hotel company—one that oversees several brands—to survey people before and after they completed their stay: 782 people answered questions about whether they expected to use certain amenities and, after the fact, whether they had done so. That allowed researchers to link actual usage with return visits. The surveys included customers at six hotel brands, ranging from "upscale" to "luxury," in different parts of the country. Those data, in turn, were linked to information about revenue generated by the stays of those same consumers.

Of the three amenities, free Wi-Fi had the largest effect on initial consumer choice. Across the six brands, it boosted the chance a hotel would be selected anywhere from 2 percent to 17 percent. There was only a slight effect on repeat visits, however. Overall, ROI was positive for five of the six brands, even in the first year.

In contrast, free bottled water had a weak effect on initial choice, but for three of six brands the effect on return visits was high. As a result, the ROI, within a year, for free bottled water was also positive for five of the six brands.

The story was very different for fitness centers, which are much more expensive to provide, with installation costs of at least $125,000. As a result, the ROI was negative for the first year for five of the six brands. The sixth had a strong payback, even in one year. While plenty of consumers value gyms, it was the high up-front investment that meant it took longer for them to pay for themselves.

The authors buttressed their survey results with data from the field: They looked at 517 hotel properties, comparing those that introduced the bottled water during a given period to those that did not. The study found that adding bottled water increased revenue by 2.2 percent.

"Using our methodology," Rust and his co-authors write," a service provider can evaluate the profitability of offering a particular service amenity based on its effects on both initial choice and repeat purchases to consider its return on investment," the authors write.

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