



## **The Pricing Effects of Heritage at an Iconic Hotel**

Bradford Hudson

**H**istoric hotels are a recognized product type in the lodging industry and may be found in significant numbers throughout the globe. Much of the academic and popular literature about these hotels focuses on their architectural, social, or business history. Less has been written about how such history might represent a value proposition for consumers, or how history might affect current marketing for these properties

The purpose of this article is to validate the notion that history can be an important element of the consumer value proposition for older hotels, by demonstrating that an iconic hotel with a distinct historical identity is able to maintain a price premium over newer hotels with comparable operating characteristics. This exploratory study is based on qualitative field research conduct-

ed by the author, and quantitative analysis of pricing data that was collected by a regional hotel industry association over a five year period.

### **HERITAGE**

History may be defined as a record of the past. As an academic pursuit, it involves the formal and systematic investigation of events and evolving circumstances, using historical research methodology to deliver insights about the nature of people or institutions. History is traditionally understood to be a factual endeavor, based on the collection of objective evidence from archival sources and the subsequent validation of theory by comparison against such evidence. In contrast, the postmodern approach regards history as

a socially constructed phenomenon that, although relying on evidence and aspiring to objective validity, represents a narrative influenced by the subjective interpretation of each historian. Postmodernists suggest there are many possible ways to analyze a given set of data and therefore multiple realities that may legitimately be constructed from our convoluted past.

Heritage refers narrowly to something inherited from a previous generation, and more broadly to ideas or cultural patterns derived from the past. History and heritage are obviously related, but the latter need not be entirely accurate. David Lowenthal has argued that heritage involves memory that is intentionally selective and unintentionally imperfect, as well as the interpretation and reconstruction of evidence from the past to create plausible narratives that reflect or define the present. As such, heritage is a subjective and socially constructed phenomenon consistent with postmodernism. It also represents a more useful perspective for marketing by business organizations, which may have lower thresholds for the intellectual validity of historical narratives or design elements.

## Heritage Tourism

The field of heritage tourism considers the influence of historical culture on supply and demand in travel consumption. Examples include travel to places where notable events have occurred, old buildings that have intrinsic aesthetic appeal, sites associated with famous individuals, collections of historic artifacts, ancient landscapes that relate to the evolution of human civilization, or reproductions of enclaves that represent life in prior times.

Publications on the topic of heritage tourism have included textbooks, essay anthologies, and numerous articles in jour-

nals such as *Annals of Tourism Research* and *Journal of Heritage Tourism*. Much of the literature concerns topics related to cultural and ethnic identity, geography, history, political science and international relations, venue and visitor management, interpretation and education, historic preservation, and environmental sustainability. Marketing is a relatively minor aspect of the literature in heritage tourism, but has received some attention. Scholarship on heritage tourism has also appeared occasionally in marketing journals.

A related concept is architectural tourism, which describes travel behavior motivated by a desire to experience the aesthetic nature of buildings or neighborhoods. Although the phenomena may also apply to new or recently constructed buildings, architectural tourism to historic buildings shares many of the characteristics of heritage tourism.

## Brand Heritage

Brand heritage is an emerging specialization within the marketing discipline, which suggests that the consumer appeal of products and services offered by older companies may be enhanced by the historical characters of their brands. Examples of marketing related to heritage include the citation of company founding dates on packaging or in advertising, the celebration of corporate anniversaries, and the reprise of discontinued songs or mascots. Such marketing may also involve references to a company in historical context or to iconic artifacts in possession of the company. It could even include the creation of updated products that incorporate visual elements from prior versions, or the design of new offerings that refer to idealized or artificial memories of historical reality.

The idea that brands may have a heritage dimension emerged several decades



ago, when it was suggested that the historical approach could provide brand images and themes for advertising. The term “brand heritage” was also mentioned in early scholarship on brand equity by David Aaker, but the topic was not explored in any depth. Since then, there has been a recurrent but steady stream of literature on topics relating to older companies and products. This includes articles on the evolutionary nature of brands and their lifecycles, the retrospective or ‘retro’ branding phenomenon, the interaction of brands and nostalgia, and historical references in advertising.

Interest in brand heritage accelerated after the publication of a conceptual article about corporate heritage brands by Mats Urde, Stephen Greyser and John Balmer. They suggested that older brands constitute a distinct conceptual category and require a different approach to brand management than younger brands. Such marketing involves uncovering aspects of heritage through archival and consumer research, activating that heritage through product design and marketing communications,

and protecting that heritage through stewardship and attention to continuity. Older brands have unique histories that cannot be duplicated or appropriated by competitors, and therefore brand heritage constitutes a point of differentiation that may contribute to competitive advantage.

### **Heritage in the Hotel Industry**

The concepts of heritage tourism and brand heritage become intermingled in the hotel industry. Unlike the manufacturing sector, and even some parts of the service sector, the hotel industry is geographically dependent. Consumers travel from many different locations to a centralized production facility. Distribution involves an extended travel system and growth is often precluded by the surrounding neighborhood or political context.

Even hotel companies with multiple units and global brands that transcend specific regional associations have operations that are geographically specific. Many individual properties have their own distinct



names, especially historic hotels that predate current management arrangements. For some hotels, these local property names are widely known and constitute brands in their own right. Many guests choose these hotels over competing alternatives because of their historic status, and some are even motivated to travel for the purpose of staying at these famous hotels.

The hospitality sector not only tends toward geographic dependence, but also toward property dependence, meaning that it is constrained by a commitment to particular structures. For a historic hotel whose identity is inseparable from its architecture, preserving the condition of the building and managing its relationship with the surrounding built environment are important tasks.

Brand heritage in the hospitality industry has received relatively little attention in prior academic literature. The heritage phenomenon has been more widely recognized in practice, as evidenced by the existence of the 'Historic Hotels of America' marketing consortium, which was created by the National Trust for Historic Preservation.

## Pricing Effects of Heritage

The pricing effects of heritage in the tourism context have received some attention in prior literature. There are numerous publications that consider the pricing of heritage attractions related to venue management, financial viability, or social value. There is also some research regarding the pricing effects of cultural attractions of all types, which suggests that higher levels of cultural meaning correlate with reduced price sensitivity among potential visitors. However, there are few studies that directly compare the price of heritage attractions to the price of comparable alternatives without substantial heritage.

The pricing effects of heritage in the brand context have been discussed at a conceptual level in prior literature. It has been suggested that positioning based on heritage creates a point of differentiation that enables older brands to achieve higher prices and margins than competing younger brands. However, there have been few empirical studies to validate this phenomenon. A notable exception is a study of consumer attitudes toward various dimensions of brand heritage in the automobile industry by Klaus-Peter Wiedmann and colleagues. Based on survey research and subsequent statistical analysis, their study determined that brand heritage has a significant positive influence on the ability to attain a price premium for new vehicles.

The pricing effects of heritage in the hotel industry have received almost no attention in prior literature. There are few empirical studies that compare pricing for historic hotels to pricing for modern alternatives, in a way that allows the pricing effects of heritage to be isolated.

Two prior studies regarding the range of factors that could influence hotel pricing did find a correlation between the age of a hotel building and consumer pricing, with lower prices attained by older hotels, especially in higher price segments. However, the operative factor in both instances was material condition rather than historic status. In the first study, by Marta Fernández-Barcala and colleagues, the age of each hotel was determined by the number of years since the last renovation. In the second study, by Wei-Ting Hung and colleagues, the age of each hotel was determined by the number of years the hotel had been operating, but the authors attributed the price differential to expectations on the part of consumers, who were disappointed by hotels that had not been renovated recently.

## APPROACH

The purpose of this study was to determine whether heritage has any effect on consumer pricing at historic hotels. The basic approach was to compare pricing data from older hotels against pricing data for newer hotels with similar operating characteristics.

All of the hotels studied were located in the same urban region, which is located somewhere in Europe or North America. Although the city has a multi-dimensional economy and a diverse architectural landscape, it is widely recognized for its historic status and features a multitude of historic buildings.

The source of pricing data was a regional hotel industry association, which collected and organized data from its member hotels and then returned performance reports to these hotels in spreadsheet format. More than 20 hotels participated in the data sharing project, including the iconic hotel being studied. The data set provides annual totals during the period 2004 to 2009 for the three most commonly used ratios related to demand and pricing in the hotel industry (rooms occupancy percentage or occupancy, average daily rate or ADR, and revenue per available room or REVPAR).

The author was given permission to use the data under the conditions that publication be delayed for five years, and that the geographic region and the identities of the specific hotels are disguised. The details have been revealed to the editor of this journal on a confidential basis.

Additional qualitative evidence was collected from multiple sources using several methods. These included site visits to the properties, interviews with industry executives and hotel guests, historical research at libraries and archives, and evidence gathered from a range of contemporary sources including travel magazines and websites.

The first step in analyzing the data was to identify several objective attributes that could be used to classify the hotels along dimensions other than historic status, and thereby create a reliable competitive set for purposes of comparison. These criteria included size, brand affiliation, ownership and management, ratings, and location. The latter was defined as the distance from a recognized epicenter of demand generators that included restaurants, retail shops, corporate and government offices, and historic attractions.

The age of each hotel building was selected as a surrogate for heritage status. The competitive set was then divided into two subsets based on the age of each hotel. The result is a typology that includes one category of 'historic hotels' (which includes the iconic hotel being studied) and another category of 'modern hotels' (which includes the other hotels in the competitive set).

This typology allowed historical effects to be isolated from other factors that typically influence pricing in the hotel industry. If all hotels in the competitive set demonstrate pricing results that are nearly identical, then it is reasonable to conclude that heritage had no effect. However, if the historic hotel demonstrates pricing results that are significantly different from the newer hotels, it is reasonable to conclude that heritage effects were a contributing factor.

## The Hotels

The hotel at the focal point of this project is widely recognized for its historic status and has become symbolic of the cultural heritage of its geographic region. It was built and opened during the late nineteenth century, using an architectural revival style with design elements that resemble those found in European palaces of prior eras. The hotel has been renovated periodically and at least one

Table 1 - Competitive Set

Property	Type	Size	Brand Affiliation	Ownership	Management	Rating Source #1	Rating Source #2	Distance Epicenter	Constructed Approx.	Age 2005	Heritage Status
Hotel A (iconic/historic)	Subject	> 400 rooms	Chain	Not chain	Chain	3	4	< 1 mile	1895	110	Historic
Hotel B (modern)	Control	> 400 rooms	Chain	Not chain	Chain	3	4	< 1 mile	1975	30	Modern
Hotel C (modern)	Control	> 400 rooms	Chain	Not chain	Chain	3	4	< 1 mile	1975	30	Modern

new addition has been constructed, but the interior decor and exterior architecture have been carefully orchestrated to reproduce the appearance of the original structure.

In terms of the screening criteria defined above, this hotel can be classified as large (more than 400 overnight guest rooms), affiliated with a major chain that has a recognized brand, with daily operations handled under management contract by the chain itself, rated three-star or the equivalent by rating services, and located within one mile of the epicenter of travel demand.

The original section of this hotel was built during the period 1890 to 1900. Using the midpoint of this decade as the year of construction, the hotel was about 110 years old at the beginning of the period covered by the data set. This hotel is identified as ‘Hotel A’ in Table 1.

Of more than 20 hotels in the data set, several had characteristics in common with the iconic property being studied.

However, only two other properties had characteristics identical to those of the iconic hotel according to all five classification criteria. Both of these hotels were built during the late twentieth century, using an architectural style that could be described as ‘mid-century modern.’

In terms of the screening criteria defined above, both modern hotels can be classified as large (more than 400 overnight guest rooms), affiliated with a major chain that has a recognized brand, with daily operations handled under management con-

tract by the chain itself, rated three-star or the equivalent by rating services, and located within one mile of the epicenter of travel demand. Along the non-historical dimensions, these newer hotels are identical to the iconic hotel being studied.

Both hotels were built during the period 1970 to 1980, in the same year or immediately adjacent years. Using the midpoint of this decade as the year of construction, both of these hotels were about 30 years old at the beginning of the period covered by the data set. These hotels are identified as ‘Hotel B’ and ‘Hotel C’ in Table 1.

FINDINGS

Quantitative Evidence on Pricing

Performance results for the competitive set are displayed in Table 2. The detailed data provide further confirmation that the two modern hotels constitute an excellent control group for purposes of comparison against the historic hotel. Over the five year period, Hotel B generally performed better than Hotel C, but the differences are minimal. In occupancy, Hotel B achieved annual advantages over Hotel C ranging from 0% to 4% with an overall advantage of 2%. In average daily rate, Hotel B achieved annual advantages over Hotel C ranging from -8% to 6% with an overall advantage of 0%. In revenue per available room, Hotel B achieved annual advantages over Hotel C ranging from -3% to 9% with an overall advantage of 3%.

Table 2 - Performance Results

Property	Occupancy						Average daily rate (ADR)						Revenue per available room (REVPAR)					
	2005	2006	2007	2008	2009	Total	2005	2006	2007	2008	2009	Total	2005	2006	2007	2008	2009	Total
Hotel A (iconic/historic)	62%	59%	59%	74%	68%	64%	240	243	233	253	213	236	149	143	138	187	144	152
Hotel B (modern)	72%	70%	73%	76%	69%	72%	146	143	145	165	136	147	105	101	106	126	94	106
Hotel C (modern)	70%	70%	71%	73%	65%	70%	138	139	145	170	148	148	96	98	102	124	96	103
Average competitive set (A,B, and C)	68%	67%	68%	74%	67%	69%	175	175	174	196	166	177	117	114	115	145	111	121
Average hotels B+C only	71%	70%	72%	75%	67%	71%	142	141	145	167	142	148	101	99	104	125	95	105
Advantage hotel B versus C							8	4	0	-4	-12	-1	9	3	3	2	-3	3
Advantage hotel B versus C	2%	0%	2%	3%	4%	2%	6%	3%	0%	-3%	-8%	0%	9%	3%	3%	1%	-3%	3%
Advantage hotel A versus B+C							98	102	88	85	70	89	48	44	34	62	49	47
Advantage hotel A versus B+C	-9%	-11%	-13%	-1%	1%	-7%	69%	72%	61%	51%	50%	60%	48%	44%	33%	49%	51%	45%
ADR and REVPAR are reported in undisclosed currency (either American dollars, British pounds, Canadian dollars, or European Euros)																		

In contrast, Hotel A achieved very significant advantages compared to the control group, which is represented by the average of Hotels B and C combined. In average daily rate, Hotel A achieved annual advantages over the control group ranging from 50% to 72% with an overall advantage of 60%. In revenue per available room, Hotel A achieved annual advantages over the control group ranging from 33% to 51% with an overall advantage of 45%.

It should be noted that Hotel A rarely achieved an advantage in occupancy levels compared to the Hotels B and C. In occupancy percentage, Hotel A achieved annual advantages over the control group ranging from -13% to 1% with an overall advantage of -7%. This suggests that the rates were so high that they suppressed the quantity of demand. Nonetheless, the average daily rate was so disproportionately high that Hotel A was still able to achieve a significant advantage

in revenue per available room.

The ultimate goal of pricing strategy in the hotel industry is to achieve the highest REVPAR, which represents the optimal mixture of rate and occupancy, rather than to maximize either measure individually. Rates also influence competitive positioning, because they create or support consumer perceptions about the level of quality and desirability. Some hotel companies maintain high rates during periods of low demand, even if this approach results in reduced occupancy levels, in order to preserve the integrity of their brand position. In this instance, interviews confirmed that the relatively high rate and low occupancy of Hotel A resulted from an explicit pricing strategy by its management, intended to provide a signal to the marketplace regarding its leadership position.

At a conceptual level, if the rate were reduced with precision, then occupancy levels would increase proportionately, but

REVPAR would remain unchanged. The overall effect would bring the occupancy levels of Hotel A into alignment with Hotels B and C, while reducing the average daily rate achieved by Hotel A. In other words, the comparatively weak occupancy levels of Hotel A do not undermine conclusions about the pricing effects of heritage. Hotel A would still achieve a 45% price premium as expressed by the combined REVPAR measure.

### **Qualitative Evidence on Heritage**

The qualitative field research investigated two issues. The first was the degree to which consumers identified the iconic hotel as historic and the two other hotels in the competitive set as modern.

Observation by the author determined that the architecture and interiors of the iconic hotel were unquestionably historic, and that the historic status of the hotel was reinforced through a variety of decorative elements (including antique furniture and vintage photographs) and marketing communications (including signage and menus). The historic features were a mixture of originals, reproductions, and revival elements.

Observation by the author determined that the architecture and interiors of the other two hotels in the competitive set were not historic. Most elements reflected either current styles in hotel design consistent with recent renovations, or the 'mid-century modern' architectural style that was in vogue at the time of construction. Visually these two hotels were obviously modern and offered a clear contrast to the iconic hotel in terms of heritage.

Numerous interviews subsequently conducted by the author with a variety of stakeholders – ranging from guests and tourists to hotel managers and local retailers

– confirmed the findings of the observations. Without exception, every person strongly identified the iconic hotel as historic and the two other hotels in the competitive set as modern.

A review of a variety of contemporary sources of travel information also confirmed the historical status of the hotels. In every instance, the iconic hotel was described as either 'historic' or as a 'grande dame'. This contrasts with the other two hotels in the competitive set. In most instances, they were described as 'modern' or 'contemporary'. Occasionally they were described without any reference to the age of the building or their historic status.

Overall, the qualitative evidence strongly supports the methodological design of the study. It was universally believed that the iconic hotel is historic, and that the other two hotels in the competitive set are not.

### **Qualitative Evidence on Pricing**

The second issue investigated during the qualitative research was the degree to which consumers were willing to pay a price premium for the historic status of the iconic hotel. Interviews conducted by the author with overnight guests and restaurant customers at all three hotels produced mixed results.

Most people confirmed, either through direct experience or opinion based on hearsay, that the prices at the iconic hotel were higher. A minority of guests were ambivalent about the price differential, especially business travelers whose choice of accommodation was made by an assistant or travel manager within their company. Among the majority with an opinion, the responses were as follows.

Several types of consumers agreed with the proposition that the higher price of the iconic hotel was worth the expense.





These included every leisure traveler who had stayed at the iconic hotel and enjoyed their visit, and many leisure travelers who would have preferred to stay at the iconic hotel but were unable to afford the additional expense.

Several types of consumers did not agree with the proposition that the higher price of the iconic hotel was worth the expense. These included the majority of business travelers at every hotel, and all of the leisure travelers who had stayed at the iconic hotel but did not enjoy their visit.

Among those with a negative opinion of the iconic hotel, there were three types of reasons cited. Some guests had complaints about operations unrelated to heritage or the age of the building, some guests had complaints related to the age of the building (such as the size of bathrooms), and some guests simply would have preferred a more modern design style.

Interviews subsequently conducted by the author with hotel executives also

produced mixed results. The vice president of marketing at the corporate headquarters of the chain managing the iconic hotel was dismissive of any heritage effect in pricing. He remarked: "There is no evidence to suggest that heritage provides a price advantage. In cases where our hotels are rate leaders, it is the service and the complex package of our [corporate] brand and management that produce the results, not the buildings." This corporate executive also asserted: "Any advantage from history is balanced against the disadvantage in old buildings, [namely] problems like small bathrooms and guests worried that we will not have WiFi."

In contrast, the local managing director of the iconic hotel disagreed quite strongly with the headquarters executive. He contended that the property brand was much stronger than the chain brand, that the hotel had iconic status as an important cultural landmark, and that the historic aspects of the hotel contributed to "unrivalled presence" in its marketplace.

The asset manager for the iconic hotel, who acts as an intermediary between the entity that owns the hotel and the hotel chain that manages it, was even more supportive of the theory that heritage has a positive effect on pricing. He concluded: "History is the strongest asset for the older hotels in our portfolio. That alone is responsible for 95% of the revenue success of these heritage properties." When asked to respond to the comments from the headquarters executive, the asset manager was equally dismissive: "Of course he would say that the success of these hotels is due to brand and management rather than the buildings. He is in the business of selling branded management services."

An interview with the regional revenue manager overseeing one of the two modern hotels in the control group also supported the heritage thesis. He observed: "We

have one of the strongest brands and management programs in the world. History is the only advantage [the iconic hotel] has. Without that, they would not be ahead.”

Although the qualitative evidence regarding pricing was mixed, it did generally support several conclusions. First, a price premium did exist at the iconic hotel. Second, a wide variety of stakeholders were aware of this price premium. Third, a majority of all travelers (and a vast majority of leisure travelers) believed that the experience did or would justify the price premium. Fourth, among those who believed that the experience was or would be superior, every person agreed that heritage was the focal point of this experience. Overall, the qualitative evidence validates the notion that history was an important element of the consumer value proposition for the iconic hotel and contributed in a significant way to the ability to attain a price premium.

## LIMITATIONS

This study was designed to be exploratory, rather than conclusive. Readers should be cautious about the certainty of these findings, especially when applying conclusions in practice. Beyond this, there are several limitations in the methodology that must be noted, all of which present opportunities for additional research. First, the dynamics of the consumer buying decision in this instance are somewhat unclear, due to multiple dimensions of heritage at the iconic hotel. Second, the size of the competitive set is quite small, with data from only three hotels, all of which are located in the same neighborhood. Third, this study focused on pricing and made no attempt to investigate the expenses associated with heritage or the effect on profitability.

During any subsequent studies about the financial effects of heritage for hotels, it

would be useful to have a much larger data set. Ideally, this would have pricing results from several hundred hotels of different types and ages, across a broad range of geographic regions, plus expanded information about expenses and profitability. If research about the consumer behavior effects of heritage is conducted prior to this broader study, then the typology for identifying the competitive set could be more exacting, and the subsequent statistical analysis could be more revealing.

## IMPLICATIONS

There are two ways for consumers and industry practitioners to look at older hotels. Either they are old or they are historic. The first viewpoint focuses on the disadvantages of the building in terms of service delivery, property maintenance, and fashion. In this study, the comments of the corporate hotel executive and the opinions of a significant proportion of business travelers are consistent with this viewpoint. This is also supported by prior research by other authors, which found a negative correlation between the age of hotel buildings and the ability to attain a price premium due to concerns that older structures had not been updated or renovated.

The second viewpoint focuses on the advantages of the building as an artifact of material culture, which induces historical associations in guests that are powerful enough to generate incremental demand and justify a price premium. The quantitative evidence on pricing in this study is highly consistent with such a viewpoint. Similarly, the qualitative research in this study, especially interviews with managers and the intercepts with leisure travelers, supports this viewpoint. It is also supported by a prior research study by other authors, which found a positive correlation between brand heritage and

the ability to attain a price premium in the automobile industry.

Owners and operators of older hotels cannot conceal the age of their properties, which is obvious to anyone entering the premises. Therefore two choices exist related to positioning strategy and promotional tactics. Hotel managers can either engage in attempts to obscure the age of the building and distract consumers by focusing on attributes of the facility that have been updated, or they can embrace the historic character of the building as a point of differentiation and competitive advantage for appropriate market segments. The findings of this study suggest that the latter approach, with a pronounced strategic focus on heritage for certain targeted consumers, may produce superior results in terms of pricing and revenue.

## CONCLUSIONS

Brand heritage is an emerging specialization within the marketing discipline, which suggests that the consumer appeal of products and services offered by older companies may be enhanced by the historical characters of their brands. Heritage tourism is a parallel

line of scholarship that describes the influence of historical culture on supply and demand in travel consumption. The study of marketing for historic hotels as commercial enterprises and travel destinations can be regarded as a hybrid between the two fields of brand heritage and heritage tourism.

The purpose of this article was to validate the notion that history can be an important element of the consumer value proposition for older hotels, by demonstrating that an iconic hotel with a distinct historical identity is able to maintain a price premium over newer hotels with comparable operating characteristics. This exploratory study was based on qualitative field research conducted by the author, and quantitative analysis of pricing data that was collected by a regional hotel industry association over a five year period.

The findings demonstrate that heritage has a significant positive effect on pricing for historic hotels, especially for leisure travelers. This suggests that the topic of brand heritage should receive increased attention from academic researchers in the disciplines of hospitality and tourism, as well as practitioners in the hotel industry. ■



**Bradford T. Hudson, Ph.D.** is Associate Professor of the Practice of Marketing in the Carroll School of Management at Boston College. He is also Assistant Chairperson of the Marketing Department at Boston College. Previously he was a faculty member at Boston University, with concurrent appointments as Associate Professor of the Practice of Marketing in the School of Hospitality Administration and Lecturer in Marketing at the Graduate School of Management. He holds a master's degree in services marketing from the Cornell Hotel School and a Ph.D. in business history from Boston University. He is a former Fulbright Scholar.  
Email [bradford.hudson@bc.edu](mailto:bradford.hudson@bc.edu)