



## Customer Based Brand Equity of Star Hotels in Nepal

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### **Abstract**

*This study examines the customer based brand equity of star hotels in Nepal. The concept of the customer-based brand equity of star hotels in Nepal is a new concept. The study examined brand awareness, brand loyalty, brand image and perceived quality on the dependent variable: customer-based brand equity. The paper indicates that there was a positive significant relationship between the independent variables: brand loyalty, brand image and perceived quality and the dependent variable: customer-based brand equity. However, brand awareness did not show a significant relationship with customer-based brand equity.*

**Keywords:** *Brand equity, Customer-based brand equity, Hotels, Hotel brand equity*

### **Introduction**

Brands are complex phenomenon that have been in existence for centuries. It is essential for every industry to build a brand so that the consumers will have a positive feeling and perception of a brand. Today brand equity has become one of the most important marketing concept (Martensen & Gronholdt, 2004), both in business practice as well as in academic research because marketers can give competitive advantage through successful brands (Kim, Kim, & An, 2003). Brand equity is actually, what brand contains; including brand awareness, brand loyalty, brand association and perceived value of brand which can be seen as an important strength for companies as they provide benefits in various dimensions to marketers and consumers (Davis, 2000 & Ambler, 2003). Brands and brand equity assets



help the customers in interpreting and processing information, creating confidence in the purchase decision and also help in enhancing customer satisfaction (Aaker, 1991).

Prasad & Dev (2000) claimed that building brand equity is considered to be one of the key drivers of a business success. High brand equity level leads to higher consumer preferences and purchase intentions (Cobb-Walgren, Rubble, & Donthu, 1995), as well as high returns (Aaker & Jacobson., 1994). Further (Ahmad & Hashim, 2010), added that building and properly managing brand equity has become crucial for any business organizations and hospitality organizations are no exception.

Bailey & Ball (2006) suggested that goodness, worth that hotel proprietors relate to hotel brand equity also affects the performance of hotels, and strong brand equity significantly increases the profitability of hotel business. If there is the absence of brand equity in the hotel industry, it can possibly disturb in the outflows of the customers in the hotel. Prasad & Dev (2000), argued that when there is positive customer perception regarding hotels service that will automatically lead the hotel toward strong brand equity.

Nepal is a developing country where the number of tourist visit every year and in almost every season there is a flow of tourist in the hotels. The tourism industry has been playing a significant role in generating revenue in Nepal. This sector includes various infrastructures and facilities oriented to the tourists visiting the country. The hotel sector is an integral part of the tourism industry in Nepal. Most of the star-rated hotels are situated in the capital of the country. Thousands of tourists come to Nepal for various reasons and for various activities from all over the world. Tourists travel to various parts of the country for various activities but most of them spent their considerable time in Kathmandu. Star rated hotels of Kathmandu are the most and the prime target for accommodation for foreigners who visit Nepal. Hotels in Nepal are broadly classified into 5 categories (five stars, four stars, three stars, two stars and one star) by the (Ministry of Tourism and Civil Aviation, Government of Nepal, 2017), based on their general features and facilities they offer.

The star hotels in Nepal have introduced a branded service to the hotel business in Nepal. By using such brand name, star hotels of Nepal are offering standard world-class



service, experience, and consistency in the service provided to the visitors so that visitors get well aware of their brand and will be loyal towards their service. Brand awareness is enhanced in a variety of ways such as advertising, direct emails, word of mouth, and promotion activities (Grover & Srinivasan, 1993). It is very important for star-rated hotels in Nepal to focus on brand awareness which is one of the dimensions of brand equity. The hotels of Nepal are concerned in this matter because more the customers are aware of the hotel, the greater the possibility the visitors will recognize, recall and revisit the hotel again in their future visit. The star rated hotels of Nepal must expose more towards customers to enhance brand awareness to create and increase brand loyal consumers who will buy their product and re-visit the hotel (Lewis, Chambers, & Chacko, 1995). The loyalty of customers towards the hotels in Nepal is very important to hotels because it helps in increasing higher profitably, will increase referrals, helps in reducing marketing costs such as advertising and promotion. It is believed that loyal customers are a strength to an organization and this adds a positive impact on the success of the organization. Similarly, the star hotels should also focus on building and in sustaining a positive brand image. It is very important for every star categorized hotel to distinguish themselves from the other hotel competitors in the market.

In highly competitive hospitality and service industry, the key to increase and preserve market share is not just by winning customers but is also important in retaining them and making them revisit the hotel repeatedly. It is very important for each and every star hotels to develop and follow a brand equity model that consists of a brand image, brand loyalty, brand association, perceived quality because the combination of these factors will enable the company to achieve higher brand equity.

The star categorized hotels of Nepal should build the right type of experience around their hotel brand so that the customers will have specific, positive thoughts, feelings, opinions and perception about the hotels brand. When there is strong brand equity in those rated hotels, the customers will revisit, recommend the hotel to their friends, families, and others, the customers will be a loyalist and are less likely to switch to other hotels during their next visit and stay. Therefore, this study aims to find out the customer



based brand equity of star hotels in Nepal and to find out the impacts of brand awareness, brand loyalty, brand image and perceived quality and to analyze the factors that determine the customer based brand equity of star hotels of Nepal.

### **Literature Review**

Brands are a complex phenomenon that has been in existence already for centuries. American Association (1999), defines a brand as a “name, sign, symbol, term, design, or a combination of them, intended to identify the goods and services of one seller or group of more sellers and to differentiate them from those of competitors.” Brand introduces stability into business, help guard against competitive imitation, and allow consumers to shop with confidence in an increasingly complex world (Aaker, 1991). When customers make a decision about a brand and its associations, they are often loyal to that brand and they will continue to buy the product from the same brand it in the future, will recommend it to their friends, and will definitely choose the product over others, even those with better features or lower prices (Assael, 1991).

Today brand equity has become one of the most important marketing concepts (Martensen & Gronholdt, 2004) both in business practice as well as in academic research because marketers can give competitive advantage through successful brands (Kim, Kim, & An, 2003). Brand equity can be seen as an important asset for companies as they provide benefits in various dimensions to marketers and consumers (Davis, 2000). In marketing, brand equity is a fundamental concept and has been the emphasis of research over the last many years. It is also defined as a repeat purchase caused by brand-use satisfaction, perceived superior value (for the price paid), and a preference or loyalty felt for the brand.

In defining customer-based brand equity (Keller, 1993) claimed that customer-based brand equity refers to brand equity and noted that occurs when the consumer is familiar with the brand and holds some favorable, strong and unique brand associations in their memory. In the same respect scholars (Kamakura & Russell, 1993) defines customer-based brand equity as the extraordinary features of brands for which customers are willing to pay a premium price over another competitive brand. Prasad & Dev (2000) claimed that

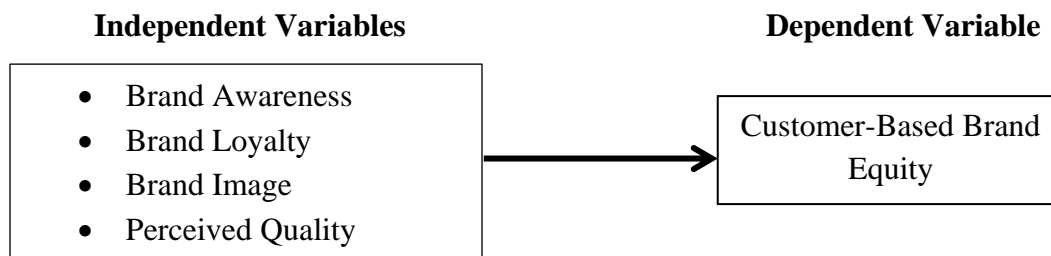
building brand equity is considered to be one of the key drivers of a business success. High brand equity levels are known to lead to higher consumer preferences and purchase intentions (Cobb-Walgreen et al., 1995), as well as high returns (Aaker & Jacobson., 1994). Further (Ahmad & Hashim, 2010), added that building and properly managing brand equity has become essential for any business organizations and hospitality organizations are no exception.

Kim & Kim (2005) made a study on the topic ‘The relationship between brand equity and firms’ performance in luxury hotels and chain restaurants’ which examines the underlying dimensions of brand equity and how they affect firms’ performance in the hospitality industry, in particular, luxury hotels and chain restaurants. The results of this empirical study indicate that brand loyalty, perceived quality, and brand image are important components of customer-based brand equity. A positive relationship was found to exist between the components of customer-based brand equity and the firms’ performance in luxury hotels and chain restaurants. Kayaman & Arasli (2007) made a study on the topic ‘CBBE: evidence from the hotel industry’. The finding in their research supported the three-dimensional model of customer-based brand equity in the hotel industry. Brand awareness dimension was not found significant in the tested model for hotels and it contributes to the understanding of customer-based brand equity measurement by examining the dimensionality of the construct.

Hilal & Mubarak (2016) made a study on the topic ‘exploring customer-based brand equity: a study among the tourist hotels on the east coast of Sri Lanka’. The objective of this research was to explore the customer-based brand equity among the tourist hotels in the Eastern province of Sri Lanka. The population of respondents selected for the study was 115 respondents who enjoyed the services from the hotels in the Eastern province. Multivariate analysis was carried out to explore the elements of the customer-based brand equity. The finding in their research suggests that all the dimensions of the customer-based brand equity significantly contribute to the brand equity of the tourist hotels in the Eastern province of Sri Lanka.

Liu, Wong, Tseng, Chang, & Phau (2016) in their study ‘Applying consumer-based brand equity in luxury hotel branding’ examines the effects of consumer-based brand equity components i.e. brand loyalty, brand awareness, perceived quality and brand image of luxury hotel brands on consumer brand attitude and purchase intention with brand performance as a contextual factor. 327 survey questionnaires were distributed among the customers of luxury hotels in Macau. The results reveal that all the four customer-based brand equity elements positively relate to brand attitude, and three directly influence purchase intention. Their study expands customer-based brand equity theory to include luxury hotel brands and contributes to the literature by clarifying the direct, indirect, and total effects of each CBBE elements on brand attitude and purchase intention. In addition, their study identifies brand performance as a contextual factor rather than a consequence of brand equity and brand attitude.

### Conceptual framework



*Figure 1. Conceptual framework for brand equity for the hotel.*

### Methodology

The research was conducted using a mixed method utilizing both quantitative and qualitative methods. For the quantitative method, a sample of 380 customers from four different star categorized hotels were conducted in the capital Kathmandu. The convenient sampling method was used for the study. The research study is completed using a blend of descriptive and comparative research design. Moreover, for the qualitative method, a sample of 4 managers that included senior marketing managers from the selected star-rated hotels of Kathmandu was taken for the study. The data collection instrument used in the

research were the 5-point Likert scale questionnaires for the quantitative method and the semi-structured interview for the qualitative.

The population of the study consisted of both international and domestic tourist visiting star hotels in Kathmandu. For the quantitative method the present researcher selected 380 customers for the study and regression and correlation analysis was done. Whereas, for the qualitative method a semi-structured interview was conducted among the senior marketing managers of selected 4 different hotels and the thematic analysis was done. The following tool has been used to collect the data required for undertaking the proposed study.

**Questionnaire.** A well-structured questionnaire was prepared as the main instrument of data collection for this study. The questionnaire was prepared in Likert scale (1 = completely disagree and 5= completely agree for measuring customer-based brand equity of star hotels of Nepal. There were also questions regarding demographics of the respondents i.e. gender, age, marital status, and income and education level. In every step, respondents were well informed about the objectives of the study and were requested to express their opinion accordingly.

**Interview.** In this research semi-structured questionnaire was used as a guiding tool during the interview with managers of star-categorized hotels in Nepal. The interview was conducted where one set of interview questionnaire was prepared to collect the opinions of the hotel managers related to the aspects of brand equity elements and the activities they have been conducting to build customer-based brand equity of their respective hotels. Face to Face approach was used for the interview in the research.

### **Limitations**

The finding of this research is limited to the hospitality industry. The study is limited to star hotels situated just in the capital of the country. Moreover, this research is done in only one city in Nepal. There are only limited visitors from limited hotels selected for the research. Out of star categorized Hotels of Nepal, only a few hotels from each star category of Kathmandu were selected. The data from the two-star hotels could not be collected. Another limitation of this research was satisfying the hotel managers to cooperate



with the researcher and persuading the customers staying at the hotel to cooperate in filling out the questionnaire. Moreover, a lot of visitors did not have enough time to fill out the questionnaire and few visitors had difficulty in understanding the language.

### **Research Hypothesis**

**H1:** There is a significant relationship between brand awareness and brand equity of star hotels in Nepal.

**H2:** There is a significant relationship between the brand loyalty and brand equity of star hotels in Nepal.

**H3:** There is a significant relationship between brand image and brand equity of star hotels in Nepal.

**H4:** There is a significant relationship between perceived quality and brand equity of star hotels in Nepal.

### **Findings and Results**

As mentioned earlier, this research was conducted using both quantitative and qualitative method has been used. Thus, the findings from the quantitative and the qualitative methods are as explained below:

**Findings of the Quantitative Analysis.** The samples comprised of 217 male 57.1 percent and 163 females 42.9 percent respondents. The majority of the respondents were accompanied by their family and friends whereas, the minority of the respondents were accompanied by their business partners. Similarly, it was found that the majority of respondents visited Nepal with the purpose of holidays, leisure and recreation and the minority of respondents visited Nepal with the purpose of health and medical care. Further, it was found that the majority of respondents found the particular hotel where they were residing through a reference from their friends and families whereas, the minimum number of respondents to find out the hotel where they were residing was through trip advisor. Moreover, the majority of the respondents chose the hotel they were residing because of the good and positive reviews they had on the internet and social media whereas, the



minority of respondents chose the hotel they were residing to attend a conference and seminar. Similarly, it was found that among 380 respondents the majority of respondents visited the hotels for the first time whereas, the minority of the respondents had visited the hotels earlier too and was not their first time to stay at the particular hotel.

Table 1

*Correlations between overall brand equity and independent variables  
(The table shows the correlation table where the dependent variable is brand equity and independent variables are brand awareness, brand loyalty, brand image and perceived quality).*

	<b>Brand Awareness</b>	<b>Brand Loyalty</b>	<b>Brand Image</b>	<b>Perceived Quality</b>	<b>Overall Brand Equity</b>
Brand Awareness	1				
Brand Loyalty	.689**	1			
Brand Image	.573**	.703**	1		
Perceived Quality	.515**	.657**	.788**	1	
Overall Brand Equity	.556**	.712**	.786**	.725**	1

*Note:\*\*. Correlation is significant at the 0.01 level (2-tailed).*

*Source.* Author, 2018

In the above table, we can see that correlation between the dependent variable and independent variable. Moreover, we can see that the 'r' value (correlation coefficient) being 0.556 between brand awareness and overall brand equity. From this, we can infer that they have a positive significant relationship with each other. Likewise, the 'r' value (correlation coefficient) value of brand loyalty and overall brand equity is 0.712 from which we can infer that there is a positive significant relation between brand loyalty and overall brand equity. The 'r' value (correlation coefficient) of the brand image and overall brand equity also has a positive significant relation which has the value of 0.786. Lastly, we can see from the table that the 'r' value (correlation coefficient) being 0.725 is between perceived quality and overall brand equity. From which we can infer that there is a positive

significant relationship with each other. From the above table, we find that independent variables brand have a relationship with brand equity the dependent variable.

Table 2

*Regression analysis result between brand equity and the independent variables (The table shows the model summary of the regression analysis result between brand equity and the independent variables where the adjusted R square shows that 68.0 percent of the variation independent variable is explained by the dependent variables).*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826 <sup>a</sup>	.683	.680	.51853

Note: a. Predictors: (Constant), Perceived Quality, Brand Awareness, Brand Loyalty, Brand Image

Source. Author, 2018

The table displays the model summary of the regression analysis. It illustrates that the coefficient of the determinant is 0.680 which is 68.0 percent, which implies that 68.0 percent of the variance in the dependent variable. The adjusted R square shows that 68.0 percent of the variation independent variable is explained by the dependent variables.

Table 3

*Analysis of Variance analyzing the relationship between the dependent variable and the independent variables.*

*(The table below shows the F value of 202.078, which is significant with  $p < 0.001$ ).*

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	217.332	4	54.333	202.078	.000 <sup>b</sup>
	Residual	100.827	375	.269		
	Total	318.159	379			

Source. Author, 2018

The above table displays the ANOVA with taking dependent variables and independent variables i.e. brand equity and brand awareness, brand image, brand loyalty, perceived and perceived quality. The table shows F value of 202.078, which is significant with  $p < 0.001$ .

Table 4

*Regression Coefficient table analyzing the relationship between the dependent variable and the independent variables.*

*(The table below displays the coefficient table)*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.153	.134		1.147	.252
Brand Awareness	.025	.037	.028	.680	.497
Brand Loyalty	.243	.045	.258	5.380	.000
Brand Image	.481	.058	.429	8.261	.000
Perceived Quality	.215	.051	.203	4.175	.000

a. Dependent Variable: OBE

Source: Author, 2018

The regression coefficient of brand awareness is 0.25. The regression coefficient of brand loyalty is 0.243 which implies that increase in brand loyalty increases brand equity. Similarly, the regression coefficient of brand image is 0.481 which implies that increase in the brand image will increase brand equity. Finally, the regression coefficient of perceived quality is 0.215 which implies that increase in perceived quality will increase brand equity.

The regression constant is 0.153. Whereas, the t-value for brand awareness, brand loyalty, brand image and perceived quality are 0.680, 5.380, 8.261 and 4.175.

**Findings of the Qualitative Analysis.** The analysis was done after conducting the semi-structured interviews with about 4 respondents of different star rated hotels within Kathmandu Valley. The samples comprised of 1 male (25%) and 3 females (75%) of respondents. All of the respondents have been working in their respective hotels for more than 1 year. The respondents belonged to the age group between 25-46 years old and above. The respondents were all qualified and they hold a degree from high school, bachelors, and masters. 50% of respondents hold a bachelor's degree whereas 50% hold a master's degree.

These findings are based on the qualitative interviews with the hotel managers. The managers were of the view that customers from all around the world were their targeted customers and those customers are segmented by geography, demographic, psychographic, behavioral, occasional, benefits, and needs and cultural. Three of the managers stated that their customers were from all over the world including national domestic guests. Whereas



one manager informed that his customers were only international tourists and the hotel does not welcome any domestic tourist for stay and no accommodation is provided. Further, it was found that most of the participant's believed that if a segmentation is done then the hotel can easily satisfy the wants and needs of the distinct population segments. The majority of participants concluded that segmentation is very important for customer loyalty.

It was found that all the participants agreed that hotels brand strategy is very much important in today's context. All the participants agreed that pricing strategy and promotional strategy should be mainly focused. Pricing strategy is important because this branding strategy helps in maximizing the hotel revenue. Whereas the promotional strategies and revenue management strategies were also found to be equally important.

It was found that all the participating hotels have been following various branding activities and campaigns to promote their hotels and to make their hotels stand out from the crowd. Moreover, it was found that the hotels are engaged in mass media promotion, specialized agencies, partnering up, providing discounts and value-added promotional activities to promote their brand in the market. Similarly, it was found that 50% participants felt each and every dimension of the brand equity to be equally important whereas, 50% of the other participants believed that brand loyalty is an important asset of a brand element. Brand equity is have become very important to the success of any organization. It was found that all the elements of brand equity are equally important for all the participants where 2 participants believed that brand loyalty is more important element whereas, the 2 other participants believed that all the elements are equally important.

### **Summary and Conclusion**

The study found that brand image, brand loyalty and perceived quality have a positive impact on brand equity whereas brand awareness is not significantly related to brand equity. In the present research, in the context of star hotels in Nepal, brand image, brand loyalty, perceived quality are significantly contributing to the customer based brand equity. Whereas, one variable namely brand awareness is contributing insignificantly. This



dimension i.e. brand awareness towards customer-based brand equity needs to be given more attention by the star hotels in Nepal to make positive and to contribute to the dimensions of brand equity. The insignificant contribution of the brand awareness to the customer based brand equity of star hotels in Nepal implies that tourists are unable to recall the hotel brand quickly and it is very hard to recognize the brand quickly among the other competing hotels brand.

In the study, it was found that the customers prefer hotel location as their first choice while choosing the hotels for their stay. Whereas the Adjusted  $R^2$  shows that 68.0 percent of the variation of the independent variable is explained by the dependent variables. The study also concludes through the qualitative study that the hotel managers focused on customers from all around the world with respect to geography, demographic, psychographic, behavioral, occasional, benefits, and needs and culture. The hotels targeted both national and international guests. The hotel managers agreed that hotels brand strategy was important in today's context where pricing strategy and promotional strategy were important factors that needed to be focused.

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