

Chapter 2

Luxury Hotels in Thailand

2.1 Introduction

This chapter begins with the background of the tourism and hotel industry in Thailand, followed by the classification of hotels in Thailand and the definition of luxury products. In addition, this chapter discusses the previous studies on the luxury concept. A conclusion of luxury hotel industry is provided in the last section.

2.2 Tourism and Hotel Industry in Thailand

In Thailand, there are four major services classifications, which are the tourism and hotel industry; real estate; trade and telecommunications (Bank of Thailand, 2006). The tourism and hotel industry generates very considerable revenue to Thailand. Hence, the Ministry of Tourism and Sports (MOTS) was established in 2002 and tasked with the duties and responsibilities on the promotion, support and development of tourism industry, etc. The Ministry's Office of Tourism Development assumes duties and responsibilities related to the development of service standards for tourist attractions or sites and tourism products and services offered. This includes the support of standards for tour businesses and tour guides.

The number of international tourists visiting Thailand successively increased from 7.22 million people in 1997 to 11.65 million people in 2004. The revenue from international tourists also increased from 6,304 million USD. in 1997 to 10,982 million USD. in 2004 (Thailand, 2006). However, the number of international tourists declined from 11.65 million in 2004 to 11.52 million in 2005, resulting in the decline of revenue to 10,497 million USD. The reason is that after the tsunami damaged the six Andaman Sea coastal provinces at the end of 2004, it impacted regularly on the tourism industry. Moreover, other external factors such as ongoing unrest in the three southernmost provinces, bombings in Hat Yai district in Songkhla

and severe flooding in several southern provinces caused a decrease in the number of tourists in the south. A significant decrease of international travelers in 2005 resulted in a reduction of hotel occupancy rate from 63.5% to 60.6%. Additionally, the decline in the occupancy rate limited the average room rate increase to 3.9 percent in 2005 (Thailand, 2006). Tourism activities in all regions of Thailand improved in 2006 by the continued effort of government and private agencies to promote tourism. As a result, the number of international tourists was 10.09 million from January to September 2006, a positive sign for the tourism and hotel industry in Thailand.

In terms of country of origin in 2006 (January-September), tourists from East Asia took up the largest share at 56.4 percent, followed by those from Europe and the Americas accounting for 24 and 6.5 percent, respectively (Immigration Bureau, 2007). In terms of nationality, the data indicates that Malaysia took the first rank of visitors to Thailand at 11.75 percent, followed by Japan, Korea, China, United Kingdom and The United States, which were equal to 9.87, 8.04, 7.4, 6 and 4.9 percent, respectively. The mode of transportation from Malaysians was by land 66.7 percent. Most Malaysian tourists restricted their travel to the southern provinces of Thailand, adjoining Malaysia.

2.3 Hotel Classification in Thailand

Following the establishment of the Ministry of Tourism and Sports in 2002, the Thai government attached more importance to the promotion of the tourism industry as a major engine for national economic development. To enhance and maintain a competitive advantage, it is important for Thai hotels to meet international standards. Therefore, the Tourism Authority of Thailand (TAT) collaborates with the Thai Hotels Association (THA) develop standards in the hospitality and tourism industry. Consequently, the Thai Hotels Association (THA), office of Tourism Development, Association of Thai Travel Agents (ATTA), Mahidol University International College and Rangsit University implemented the Project on Thailand Hotel Standards in 2004. The Project is in response to the government's policy to develop the Thai tourism industry to become the tourism hub of Asia. There are 110 hotels that applied to participate in the preliminary stage of the program (Standard,

2004). The committee that considers hotel standards consists of two groups. There are five key factors in considering hotel standards:

- 1) Physical aspect such as location and surrounding area.
- 2) Construction aspects including the physical structure of hotels, their security systems, etc.
- 3) Facilities for guests both who stay overnight and just use the services such as conference rooms, etc.
- 4) Quality of service such as personality, the service quality, hygiene, etc.
- 5) The maintenance of the hotel and its facilities (Thai Hotel Association, 2004).

Thirty nine hotels are classified at five-star level, followed by four-star level (57 hotels), three-star level (38 hotels) and two-star level (8 hotels), successively (Standard, 2007). Five- and four-star hotel, which are classified as luxury hotels in this dissertation, are presented as follows:

The five-star level included Amari Emerald Cove Resort, Amari Trang Beach Resort, Amari Watergate Hotel, Anantara Resort & Spa Golden Triangle, Bangkok Marriott Resort & Spa, Banyan Tree Bangkok, Central Samui Beach Resort, D2Hotel Chiangmai, Dusit Island Resort, Dusit Laguna Resort, Dusit Resort Hua Hin, Dusit Resort Pattaya, Four Seasons Resort Chiangmai, Grand Hyatt Erawan Bangkok, Hotel Plaza Athenee Bangkok, Hua Hin Marriott Resort & Spa, Intercontinental Bangkok, JW Marriott Hotel Bangkok, JW Marriott Phuket Resort & Spa, Pattaya Marriott Resort & Spa, Peninsula Bangkok, Rayavadee, Royal Criff Beach Resort, Royal Orchid Sheraton Hotel & Tower, Shangri-la Hotel Bangkok, Sheraton Grand Laguna Phuket, Siam City Hotel, Sofitel Central Hua Hin Resort, Sofitel Central Plaza Bangkok, Sofitel Raja Orchid Khon Kaen, Sofitel Silom Bangkok, Sukhothai Bangkok, Swissotel Le Concorde Bangkok, The Dusit Thani, The Imperial Samui Hotel, The Mangosteen Resort & Spa Phuket, The Oriental Bangkok, The Racha and The Westin Grande Sukhumvit Bangkok.

The four-star level includes Aisawan Resort & Spa, Amari Airport Hotel, Amari Atrium Hotel, Amari Boulevard Hotel, Amari Coral Beach Resort, Amari Orchid Resort, Amari Palm Reef Report, Amari Rincome Hotel, Aonang Villa Resort, A-One The Royal Cruise Hotel, Asia Hotel Bangkok, Asia Pattaya Hotel, Bandara

Resort & Spa, C.S. Pattani Hotel, Cape Panwa Hotel, Century Park Hotel, Chaba Cabana Beach Resort & Spa, Charoen Thani Princess Khon Kaen, Chaweng Regent Beach Resort, Chiang Mai Plaza Hotel, Cholchan Pattaya Resort, Club Andaman Beach Resort, Hard Rock Hotel Pattaya, Holiday Inn Resort Phuket, Holiday Inn Silom Bangkok, Hotel The White House, Indra Regent Hotel, Iyara Beach Hotel & Plaza, Krungsri River Hotel, Loei Palace Hotel, Maritime Park & Spa Resort, Northern Heritage Resort Golf & Spa, Novotel Bangkok on Siam Square, Novotel Bangna Bangkok, Novotel Central Sukhontha Hat Yai, Novotel Lotus Bangkok, Paradise Beach Resort, Pathumwan Princess Hotel, Patong Beach Resort, Prince Palace Hotel, Radisson Hotel Bangkok, Rama Gardens Hotel, Royal Princess Larn Luang Hotel, Royal Princess Srinakarin Hotel, Siam Bayshore Resort, Siam Bayview Hotel, Taksila Hotel, The Four Wings Hotel Bangkok, The Imperial Boat House Hotel, The Imperial Mae Ping Hotel, The Imperial Queen's Park Hotel, The Imperial Tara Hotel, The Montien Hotel Pattaya, Holiday Inn Regent Cha-Am Beach Resort, The Royal Paradise Hotel, Wiang Inn Hotel and Woodlands Resort.

Alternatively, the American standard of classification has 6 categories, which are luxury, upper upscale, upscale, mid-scale with F&B, mid-scale without F&B and economy (Brasky, 2006). In Europe, the hotel classification is more formal than in other parts of the world. It is based on a rating system. The idea for star classification was borrowed from the rating system used for cognac and brandy; the higher the number of stars (to a maximum of five), the better the cognac. In the case of hotels, stars are assigned according to the quality of restaurants, rooms, amenities and service. For example, a five-star hotel is usually a deluxe hotel with top restaurants, fine service, and rooms with private baths (Gee, Makens, and Choy, 1997).

According to the above, the hotel classification in Thailand (using the star rating system) similar to the European standard. Therefore, in this dissertation the author classifies a luxury hotel at the five- and four-star level, which is consistent with the study of Lau, Akbar et al. (2005), which studied the service quality of luxury hotels in Malaysia. Their study on the hotel classification is based on the World Tourism Organization (WTO) and International Hotel & Restaurant Association (IH&RA, 2004), the most widely used graphical symbol in hotel classification.

2.4 Definition of Luxury Products

The origin of the word “Luxury” is derived from the Latin Words “luxus” associated with agriculture and “luxuria” (Roux and Floch, 1996). Referring to a thesaurus, luxury compares with extravagance and opulence. Luxury is defined as in very limited supply and recognition of value by other people (Vigneron and Johnson, 2004). Hence, luxury can be explained by the concept of exclusivity and limited supply. Luxury is also referred to as “maniere de vivre” (Roux and Floch, 1996). It is about pleasure, refinement and perfection as well as rarity, appreciation, and price that do not have a purpose. Kapferer (1997, p.253) defines luxury as “beauty; it is art applied to functional items. Like light, luxury is enlightening. They offer more than mere objects: they provide reference of good taste. That is why luxury management should not only depend on customer expectations: luxury brands are animated by their internal program, their global vision, the specific taste which they promote as well as the pursuit of their own standards. Luxury items provide extra pleasure and flatter all senses at once. Luxury is the appendage of the ruling classes”. Hence, the concept of luxury is subjective and depends on consumer perceptions. It can be defined as goods for which the simple use or display of a particular branded product brings esteem on the owner, apart from any functional utility.

Bourne (1957) defined luxury goods as exclusive products not commonly owned or used that would be more conspicuous than necessity products. Luxury goods are primarily branded goods purchased for psychological needs such as increase of esteem. It can also be defined as goods for which the mere use or display of a particular branded product brings prestige on the owner, apart from any functional utility (Grossman and Shapiro, 1988a). These goods are often expensive and exclusive, such as Rolex watches, Louis Vuitton handbags, Mercedes Benz cars, etc. According to the above, it can be concluded that luxury products enable consumers to satisfy their psychological and functional needs, and it seems that these psychological benefits are the main factor distinguishing them from non-luxury products or counterfeits (Arghavan and Zaichkowsky, 2000).

Nueno and Quelch (1998) define luxury brands as those whose ratio of functionality to price is low, while the ratio of intangible and situational utility to price is high. This implies that consumers pay a premium price for psychological reasons but not necessarily for the economical and functional value of luxury brands. This definition is also comparable to the definition made by economists or marketing consultants who define luxury brands as those whose price and quality ratios are the highest of the market; that is, their price is significantly greater than the price of products with similar tangible features (Vigneron and Johnson, 2004).

2.5 Previous Studies on the Luxury Concept

Since the 1980's, companies have enjoyed large amounts of brand equity, and the construct of brand equity has been researched extensively since then. Researchers have mainly focused on non-luxury brands, and little research has focused on luxury brands, which have been rising consistently in value (Roux, 1995; LVMH, 2005). Previous research focusing on the equity of brands has considered consumer attitudes towards luxury (Dubois and Laurent, 1994; Dubois, Laurent, and Czellar, 2001), consumer perceived dream value (Dubois and Paternault, 1995), consumer perceived attributes such as quality (Roux, 1995) and consumer perceptions of luxury brands (Vigneron and Johnson, 1999, , 2004).

Biel (1992) has identified brand equity as having four components, which are brand identity/image, brand awareness, perceived quality and loyalty. These components perform different functions for luxury brand purchases self-concept congruency, fragmented relationship and consumption simplified. The brand image is a salient component, when consumers purchase luxury brands because of non-personal motives, in which they are concerned with other people's responses. Consumers evaluate the manufacturer's and/or user's brand image to make purchase decisions. Hence, the greater the brand image and the brand awareness among users along with the perceived quality of luxury brands, the greater the brand preference and purchase rate. This relationship leads to enhanced loyalty and sales (Wong and Zaichkowsky, 1999). In addition, Dubois and Paternault (1995) found a positive relationship between a dream value (desire to own the brand) and brand awareness

along with purchasing behavior in the North America. Wong and Zaichkowsky (1999); however, found that Hong Kong consumers did not decrease dream value after purchasing a specific brand, while the decreased dream value appeared to be the outcome for American consumers after purchasing a specific brand (Dubois and Paternault, 1995), which implies different outcomes in different cultures.

Luxury service is extremely different from products in several aspects. Firstly, service is interactive, consisting largely of relations between customers and service providers. Secondly, service is characterized by intangibility, which can not be measured or seen. Thirdly, production and consumption are simultaneous. It implies that serviced is produced and consumed at the same time. Under these three characteristics of service products, service providers have autonomy on the job, which poses problems for managerial control. In luxury service, the treatment of the customers by service providers is very important (Berger, 1997).

Luxury hotels are defined by Berger (1997, p.22) as having “large size, tasteful aesthetics, cleanliness, high quality of food, prime location, the privacy and security they afforded, and service marked by a flock of courtiers”. King (1952) published similarly finding relating to luxury hotels. During 1980s and 1990s, the rising number of international travelers significantly increases demand. Intense competitive pressures in this period led to diversifications of the whole industry through segmentation and branding. Hence, new ideas of luxury with innovations in design and available services come to the fore. For example, The Four Seasons provides butler services, laundry, business services, flexible arrival and departure arrangements, fitness center and spa, and a range of upgraded room amenities which has become widespread (Sherman, 2003).

Vigneron and Johnson (2004) identified the definition of luxury brands and non-luxury brands through five perceived dimensions of a luxury brand, which are perceived conspicuousness, perceived uniqueness, perceived extended self, perceived hedonism and perceived quality. Perceived conspicuousness includes expense and social status (Bearden and Etzel, 1982; Lichtenstein, Ridgway, and Netemeyer, 1993). Perceived uniqueness includes the perceptions of exclusivity and rarity (limited supply of products) creating consumers’ preferences for a brand (Lynn, 1991). Perceived extended self implies that consumers classify or distinguish

themselves in relation to reference groups. For example, people who are concerned with social acceptance and conformity with affluent reference groups may value possessions that are more socially visible and expensive (Richins, 1994). Many researchers such as Solomon (1983), McCracken (1986) and Dittmar (1994) have studied reference group and social class influence, which seems to be an important influencing factor when purchasing luxury brands. Perceived hedonism is used to refer to the luxury dimension reflected by sensory gratification and sensory pleasure expected from the consumption (Hirschman and Holbrook, 1982; Rossiter and Percy, 1997). Perfectionist customers may perceive more value from a luxury brand because they may assume that it will have a greater brand quality and reassurance. The literature on luxury consumption emphasizes the importance of leadership in quality to ensure the perception of luxury, which is called perceived quality (Quelch, 1987; Garfein, 1989; Roux, 1995).

According to the above, the luxury concept is related to several factors, which are loyalty, price, value, perceived quality, attitude, brand image, culture, etc. which will be discussed in detail in the next chapter.

2.6 Conclusion

The tourism and hotel industry generates large revenues for Thailand. The number of international tourists is still increasing despite negative factors such as the tsunami, bombings in Bangkok during the New Year countdown 2007, and so on. To support the hotel industry, the Thai government has issued a Thailand standard hotel pocketbook since 2004 to meet the international standard. The objective is to develop the Thai Tourism industry to become the tourism hub of Asia. Therefore, luxury hotels in this dissertation are based on five-star and four-star hotels, which is consistent with the study of Lau, Akbar et al. (2005).

The concept of luxury is subjective and depends on customer perceptions. Luxury products are seen as high involvement products, which require a high level of interest and knowledge along with purchase infrequently (Vigneron and Johnson, 1999). They are also related to personal self-concept. Luxury or prestige brands are able to create a well-known brand identity and be perceived as exclusive. Luxury

brands display five perceived values, which are conspicuous, unique, social, emotional and quality (Vigneron and Johnson, 1999). Additionally, brand image, brand preference, loyalty, price and culture are related to the luxury concept, which will be discussed in more detail in the next chapter.