

Engelina du Plessis & Melville Saayman

Grading and price in the accommodation sector of South Africa

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This article analyses the relationship between grading and price in the accommodation sector in South Africa. The literature review investigates whether the accommodation grading system is a good indicator of accommodation quality, and whether tourists get what they are paying for. The research was conducted in cooperation with the major role players in the accommodation sector in South Africa, namely the South African Tourism Service Association, the Federated Hospitality Association of Southern Africa and the Tourism Grading Council of South Africa. The results show a strong correlation between the grading of the accommodation and price. This confirms that managers also consider “stars” as symbols of the type of quality which they can use to communicate a “value for money” experience when tourists choose accommodation at a certain price.

Gradering en prys: ’n gevallestudie in die Suid-Afrikaanse akkommodasie-sektor

Hierdie artikel fokus op ’n analise van die verhouding tussen gradering en prys in die akkommodasie-sektor in Suid-Afrika. Die navorsing is uitgevoer in samewerking met die hoofrolspelers in die akkommodasie-sektor naamlik SATSA (South African Tourism Service Association), FEDHASA (Federated Hospitality Association of Southern Africa) en TGCSA (Tourism Grading Council of South Africa). Spearman Rank-korrelasie is uitgevoer en die resultate toon ’n sterk korrelasie tussen die gradering van die akkommodasie en prys. Dit bevestig dat bestuurders “sterre” as simbole van die tipe gehalte wat hulle kan aanwend om ’n “waarde-vir-geld”-ervaring aan te dui wanneer toeriste akkommodasie teen ’n bepaalde prys kies.

Dr Engelina du Plessis & Prof M Saayman, Institute for Tourism and Leisure Studies, School for Business Management, North-West University, Potchefstroom Campus, Private Bag X6001, Potchefstroom 2520; E-mail: 10811281@nwu.ac.za & 10201424@nwu.ac.za



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Over the past decade, the South African tourism industry has recognised the importance of quality assurance as a means of gaining a competitive advantage (Matlou 2004: 1). Industry associations, professional bodies and government tourism offices have promoted the importance of best practice and continuous improvement, and have supported the development of accreditation programmes in nearly all sectors of the industry (Foster 2003: 2).

Grading in South Africa started as an initiative by the Hotel Board, and from 1965 only hotels were graded. In 1992 the South African Tourism Board (SATOUR) took over the responsibility of grading as part of their marketing portfolio. According to the Tourism Act 72 of 1993, the grading and classification scheme of SATOUR was voluntary. As a result, only a small percentage of the accommodation sector was accredited in accordance with the classification scheme and therefore standards could not be applied to the entire industry (Swart 1997: 96). This system was, however, discontinued in 1999, when some major hotel groups disapproved of the new grading system, claiming that it was not effective. As part of their restructuring process, SATOUR also realised that it was not their mandate to grade or set standards for the industry because it was primarily an international marketing agency. It was then decided to transfer the function to the Department of Environmental Affairs and Tourism (DEAT) together with tour guiding, which was also managed by SATOUR. The DEAT registered the Tourism Grading Council of South Africa (TGCSA) as a Section 21 Company in August 2000 (Tanner 2003: 33). It officially launched the national star grading scheme on 29 November 2001 (TGCSA 2002).

The aim of TGCSA is to ensure that a process of quality assurance is continuously sought across tourism facilities and services offered to the consumer. Different accreditation criteria were developed to grade the different types of accommodation establishments in South Africa, including hotels, guesthouses, B&Bs, lodges, caravan and camping, and backpackers. The grading system enhances the value of the overall quality system and makes it more transparent, allowing other grading associations to participate in the process (TGCSA 2009). The latter include the Automobile Association (AA), the

South African Bureau of Standards (SABS), the Portfolio Collection and local grading schemes in provinces and local municipalities. Star classification originated in Europe and is one of the best known techniques used for the grading of establishments. Although numerous grading and quality assurance schemes are still in operation, the star grading system will likely prevail in the future.

This article aims to determine the relationship between grading and price in the accommodation sector of South Africa. To achieve this goal, the remainder of this article is structured as follows. Section 2 deals with the literature review and consists of the literature study.; section 3 explains the methodology; section 4 presents the results of the analysis as well as the discussion; section 5 highlights management implications, and section 6 draws final conclusions.

1. Literature review

When managers attempt to convince tourists of the quality of their accommodation establishments, a classification or grading system is often used to communicate this important issue. The existence of accommodation classification or grading is common practice worldwide. However, there is a paucity of research projects that focus on analysing these systems.¹ Israeli (2002: 419) and Danzinger *et al* (2006: 141) demonstrate that the grading system used by managers is a good indicator of price, and it is assumed to be one of quality on which customers still rely.

However, different tourism products have different values for tourists and managers, and these values are often difficult to measure or explain. To tourists, “value” can imply monetary value and/or the value to satisfy their basic needs. According to Zeithalm (1998: 4), Weaver *et al* (2007: 334) and Alcañiz *et al* (2005: 298), “value” refers to tourists’ overall assessment of the quality of a product based on perceptions of what is received and what is given. Value can have different meanings. First, it constitutes an affordable price; secondly, it represents what is desired from a product; thirdly, it refers to the

1 Cf Israeli & Uriely 2000, Callan & Lefebvre 1997, Callan 1995, Fernandez & Bedia 2004, Lim & Hall 2008.

quality a customer receives for a price paid and, lastly, it is what a customer gets in return for what is being offered. It is clear from the studies of Zeithalm (1988), Weaver *et al* (2007), Alcañiz *et al* (2005) and Haarhoff (2007) that value for money is based on a relationship between quality and price.

Israeli (2002: 418) also suggests that a high star rating is an asset for accommodation establishments that can consistently generate revenue and that it is not sensitive to changes in the competitive environment. A study by Fernandes & Bedia (2004: 771) supports Israeli's findings and concludes that in 4- and 5-star hotels, the value expectations as well as perceptions were significantly higher than those for the remaining categories. The researchers suggested that these hotels should therefore have the liberty to ask higher prices. Lim & Hall (2008: 339) demonstrate the strong relationship between grading and price, stating the actual prices asked in South West UK hotels. Foster (2000: 11) also refers to research on the customer's perception of grading and concludes that tourists are expected to pay more at accredited establishments because of the "better quality of service and facilities" they expect to receive in return. In the minds of consumers, managers are responsible to ensure quality that reflects the star rating, and this is crucial for the accommodation establishment to be competitive in terms of price (Haarhoff 2007: 76). Ryan & Huimin (2007: 380) and Fernandez & Bedia (2004: 772) also highlight the relationship between grading and price, explaining that accommodation offered at a low price may often be perceived as accommodation of inferior quality.

The research referred to above was mostly done on the demand aspect and concentrated on tourists' perceptions and expectations regarding price and grading. It attempted to determine whether tourists perceive a relationship between pricing and grading which would then be translated into value for money. However, from a supply point of view, it is interesting to note that prices are determined by managers and owners who want to maximise profit but also to indicate a certain level of standard. From a marketing point of view, a graded establishment might also have an advantage, and therefore grading makes sense. However, the question remains as to whether

grading plays a role at all when prices for accommodation are determined, and if so, whether there is a correlation between grading and price, and a clear difference between prices for different star gradings. It is important that the tourist must be convinced that the quality received is consistent with the price paid.

An important consequence of tourism is the need for sufficient accommodation of acceptable standards for tourists at an affordable price (Van der Westhuizen & Saayman 2007: 121, Haarhoff 2007: 70). The tourist's perception or image of a product will determine that product's success (if the experience conforms with or exceeds the perception) or failure (if the experience does not conform with or is below expectations) (Kim 1998: 341).

2. Methodology

Data used in the analysis was gathered over 5 months in cooperation with major role players in the accommodation sector by means of a questionnaire.

2.1 The questionnaire

The questionnaire consisted of two sections. Section A focused on the demographic details (type of accommodation, price per person, number of beds, grading, province, level of training and primary market) while section B made use of Likert scale-type questions.

The questionnaire's validity, consistency and clarity were tested by conducting a pilot study at a reputable local hotel and two guesthouses, to obtain their inputs and recommendations. This second draft was then tested by three subject experts. A member of Statistical Services at the North-West University helped to eliminate all possible problem areas, and then gave final approval of the questionnaire.

For the purpose of this article, the information obtained in section A was the most important. Question 5 (asking the average price per person per night/single occupancy) and question 7 (asking which level of grading was achieved, for instance 1 or 5 stars) are particu-

larly important for this study. A correlation analysis was done to explore the association between these pairs of variables.

2.2 The sample

The research was conducted at various South African accommodation establishments. These were identified on the databases of the three major associations in the accommodation market, namely the South African Tourism Service Association (SATSA), the Federated Hospitality Association of Southern Africa (FEDHASA) and the Tourism Grading Council of South Africa (TGCSA).

In order to achieve the largest possible sample, a total of 2.457 questionnaires were sent to the accommodation establishments via electronic mail. As indicated in Table 1, SATSA selected a sample of every fourth member of the database, which includes 936 members. FEDHASA sent questionnaires to the entire database of 660 establishments and the researcher sent a questionnaire via e-mail to every fifth member of TGCSA. The selected participants were given the option to return the completed questionnaire to the researcher by fax or e-mail.

Table 1 shows that 169 questionnaires were returned as undelivered. Of the remaining 2.288 questionnaires, 247 usable questionnaires were completed and returned, representing an overall response rate of 10.80%.

Table 1: Questionnaires distributed, completed and analysed

Association	Number of members	Sampling size	Total surveys received
SATSA	936	238	
FEDHASA	660	660	
TGCSA	6695	1559	
TOTAL	8291	2457	247

2.3 Method and statistical calculations

Correlation analysis was done between grading and price. Correlation analysis is used to describe the strength and direction of the linear relationship between variables. The Spearman rank order was used in the present study. The procedure includes a continuous and ordinal variable. It does not meet the criteria for the Pearson's correlation and presents a non-parametric Spearman *r_{ho}* (SPSS 2009: 126).

3. Results

A profile of the managers and the various accommodation establishments is given below, followed by the results of the correlation analysis.

3.1 Demographic details of managers and accommodation establishments

The results captured in section A focused on the demographics of the managers and accommodation establishments and showed that the majority (60.7%) of the establishments participating in the survey were guesthouses and B&Bs (*cf* Table 2). These statistics support a study by Van der Westhuizen & Saayman (2007) on the growth and establishment of guesthouses in South Africa in recent years. The remainder of the participating establishments consisted of hotels (22.3%) and other types of accommodation (17%), including mainly self-catering establishments and lodges (9.7%). The average number of beds for the entire sample was 65.1 beds (*cf* Table 2). The average number of beds of the largest respondent, namely guesthouses and B&Bs, is 12, with an average number of 4 rooms. The average number of rooms for the entire sample is 31.9 (*cf* Table 2). The average price is R643.67 per person. 93.9% of the respondents are graded at the TGCSA and 47.9% are four-star establishments. The majority of the establishments represent the Western Cape and 45.7% of their market is South African. 32% of the managers have either a degree or a diploma.

Table 2: Demographics of accommodation establishments and managers

Variable	Averages
Type of accommodation	60.7% guesthouses and B&Bs
Average number of beds	65.1 beds
Average number of rooms	31.9 rooms
Average price	R643.67 p/p/n
Grading association	93.9% have a TGCSA grading
Level of grading	47.9% have a four-star grading
Province	44.5% Western Cape province
Primary market	45.7% South African market
Financial training	32% diploma/degree

3.2 Correlation analysis

The Spearman Rank Correlation in Table 3 shows a correlation coefficient of 0.653, which is also statistically significant ($p \approx 0.000$). In addition, the effect size was calculated and is given by $\eta^2 = 0.653$ which indicates an important relationship.

Table 3: Spearman Rank correlation

Correlations			Level	Average price
Spearman's rho	Level	Correlation coefficient	1.000	.653**
		Sig. (2-tailed)		.000
		N	236	236
	Average price	Correlation coefficient	.653**	1.000
		Sig. (2-tailed)	.000	
		N	236	242

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

Secondly, a scatter plot was generated to check for violation of the assumptions of linearity and homoscedasticity, and this gives an idea of the nature of the relationship between variables (SPSS 2009: 127).

Figure 1: Scatter plot of average price

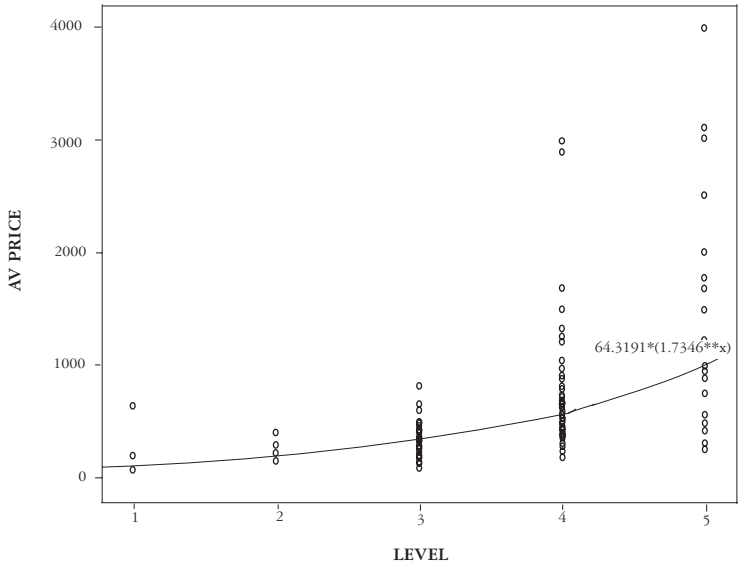
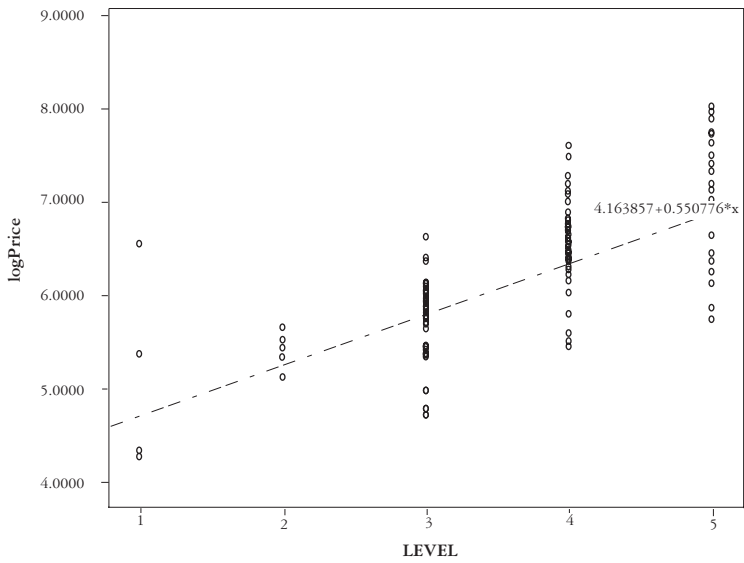


Figure 2: Log transformation



After applying a log transformation (*cf* Figure 2) to the data, a straight line was fitted to the data level, versus the log price. Back transform was applied, leading to the exponential curve $y=64.3191(1.7)^x$, as displayed in Figure 1.

For a better understanding of the model values, Table 4 was developed to explain the different values that were calculated.

Table 4: Price values for the grading levels

Grading level	Level description	Model average price	Median price value	Mean price value
1	Fair to good	111.60	137.00	248.00
2	Good quality	193.50	280.00	259.00
3	Very good quality	335.70	350.00	349.00
4	Superior (excellent)	582.30	512.00	624.00
5	Exceptional quality and luxurious accommodation	1010.00	1350.00	1607.00

In Table 4, the model value is calculated ($y=64.3191(1.7)^x$) for x = the level of grading. The median price value is displayed in the box plots in Figures 3 and 4. It is clear that the correlation between grading and price is very strong and that the accommodation sector in South Africa uses grading as a means to display quality: prices rise along with a raised grading status.

4. Findings and conclusions

This research found a strong relationship between grading and price among different types of accommodation establishments in South Africa. This study differs from previous studies in that it focuses on the perceptions of individual managers of different types of accommodation establishments with different grading levels. It responds to the problem raised by Israeli (2002: 418) and Fernandes & Bedia (2004: 771) that research tends to focus primarily on hotels to the exclusion of other types of accommodation. The strong relationship between grading and price demonstrates that the aim of grading is to ensure quality, to provide value for money and to obtain a competitive advantage. This confirms findings by Israeli (2002), Fernandes & Bedia (2004), Danzinger *et al* (2006), Lim & Hall (2008), Foster (2000) and Ryan & Huimin (2007). Based on the results, the following implication can be identified:

- First, accommodation associations such as SATSA, FEDHASA and TGCSA could use this information as part of their marketing campaign, emphasising that a certain price class is associated with a specific grading or star rating. Whether this is experienced as value for money by tourists is an aspect for further research.
- Secondly, these findings could be used as a guideline to set pricing policies.
- Thirdly, it should be considered to make it compulsory for all accommodation establishments to be graded. This could ensure greater competition and set high standards for the industry as a whole.

The contribution of this research is to highlight the importance of grading to promote quality, to ensure competitiveness and to determine price, providing value for money. By demonstrating the relationship between price and grading, this research further indicates that managers in the South African accommodation sector understand the importance of setting prices in correlation with

grading status, and the important role grading plays in the quest for competitiveness.

This study also emphasised the importance of further research to investigate the relationship between grading and price from the tourist point of view. Research concerning tourist satisfaction and dissatisfaction with accommodation establishments can provide important insight into product development. Comparisons between grading systems of different countries can provide more insight into the competitiveness of prices for accommodation. The information obtained from the suggested research can be used to obtain a clearer picture of the accommodation sector's competitiveness and quality assurance, and the way in which it provides value for money.

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