

The Importance of Price Strategy for the Accommodations in Tourism Industry

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Abstract: Pricing strategies in the hotel industry are an integral part of overall hospitality management. They are designed to help make sure the hotel gets the maximum revenue it can, while also ensuring customer satisfaction stays high.

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Pricing strategy is one of the most important functions that any business engages in. Prices are a foundational element of a company’s revenues—If managed carefully, they can generate high profits and consequently cash. But setting prices appropriately is tricky, and when mistakes are made, companies suffer.

Fundamentally, there are two generic pricing strategies:

- Based on cost calculation and adding a markup (cost plus pricing)
- Maximum possible price defined by the product price on the market and charged by the competition (competitive pricing)

In the first approach, we calculate costs, allocate them to a single product, and then define the markup. The level of costs allocated to a specific product depends on the current situation of the company (current profitability, capacity usage, etc.). Markups can be defined according to different targets; for example, targeted gross margin, benchmark industry gross margins, etc.

In the second approach, we start from the market price of the same (or similar) product and work backward to costs. In this way, we simulate whether with the current market price we can cover all targeted costs and reach our targeted markup. This approach is often used when market competition is strong and when a single player can’t impact the overall market price (such as in FMCG, travel services etc).

A hotel pricing strategy is the art of maximising the revenue of your hotel by setting different rates based on market demand, room types and guest segments. A good pricing strategy is simply one that sees you charge the maximum that a guest is willing to pay. While it may seem daunting to develop and maintain a room pricing strategy at your small accommodation business, you don’t have to be a revenue management expert to make a good start. By taking a methodical approach and gaining an understanding of some of the key pricing concepts and tactics, you’ll be able to quickly boost the profit of your business. Your hotel is a business, and businesses must make money to survive and thrive. If you set your prices too low you may struggle to cover costs. If you set your prices too high you may fail to secure the amount of bookings you need to get by. A good hotel pricing strategy places your room rates right in that Goldilocks zone: not too low, not too high, but just right.

Hotel prices are very susceptible to the forces of supply and demand. When demand is high and supply is low, such as during peak periods like Christmas and school holidays, a hotel can charge far more for its rooms. When demand is low and supply is high, a hotel will have to charge less, or get a little creative with deals, in order to attract the few travellers that are currently looking for a room. The first thing to note when considering pricing at your property is that there is no one-size fits all approach. How you determine your rates will ultimately depend on a number of factors, including:

- The size of your property and how many rooms you have
- Your destination and specific location
- Your local competitors
- Your target market
- Any unique selling points that make you stand out

Once you have all this information on hand, you can start to apply it to a pricing strategy.

A second crucial point to remember is that to truly manage revenue effectively, you'll need to adopt different strategies and different rates throughout the year. This will ensure you can maximise profit and that you don't get caught out by changing trends or fall behind your competition.

For instance, you might want to adjust your rates when:

- There's a change of season or demand (e.g summer might be your busy season)
- A cultural or leisure event is happening
- A corporate conference is in town
- You notice a change in competitor rates
- Your availability decreases / occupancy increases

Before you decide on a hotel pricing strategy, you need to ensure you can accurately forecast demand and track changes in your local market. This data will enable you to make smart decisions throughout the year. If you need help keeping track of your property's performance and the competition, consider using reporting and insights software. With all that in mind, here are three pricing strategies you could set at your property as a foundation:

1. Value-added hotel pricing strategy

This means you will set your prices slightly higher than your competitors but winning guests over with more extras and add-ons to their booking.

2. Hotel discount pricing strategy

Useful when you're in a low season and need to boost occupancy by discounting your base rates. You'll need to make up the additional revenue through other services such as food and beverage. Cost-based strategy

This involves calculating all the costs of running your property and then pricing your rooms based on the amount of profit you want to make. Of course, you need to take into account which costs are constant and which costs vary.

3. Seasonal hotel pricing strategy

This involves adjusting your rates on a quarterly or half-yearly basis based on your forecasted demand, raising rates for the busy periods and lowering them in low periods, and using promotions and packages to boost bookings. While these strategies may be fine as a starting point, they can't be relied upon as a 'set and forget' pricing strategy if you want to maximise profit at your business.

4. Dynamic pricing strategy

Dynamic pricing means changing room rates daily or even within the day based on real-time demand and market fluctuations. In high seasons especially, demand and prices can change frequently.

Typically, pricing is not about what your room is worth but what value you can get out of it. That's why dynamic pricing is so important, because it allows you the chance to maximise your profit margins on every room at your property. It's managed most easily with the help of a tool that can gather market intelligence and suggest optimal pricing for you.

Refurbishment and renovation of hotel rooms are essential to maintain brand quality and offer quality products. A well-maintained room product often fetches a good price, as the quality of the product still has value. When a hotel room is refurbished, it can be positioned back into the market at a slightly higher price point. Competitor pricing is another factor that should be considered when setting prices. When your room's price points are in line with or below the price of your competitors, you may be trying to capture a larger fair share of the market. The method of competitive pricing involves analyzing prices and setting prices based on your competitor set. This technique is very widely used in the hospitality industry. Pricing strategies in the hospitality industry are a critical component of revenue management. Pricing strategies must be carefully considered and analyzed based on various factors, such as unique selling proposition, cost per available room, competitor pricing, and market segmentation. A well-planned pricing strategy can increase revenue and maintain the hotel's competitive edge.

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