Pricing for Revenue Enhancement in Asian and Pacific Region Hotels: A Study of Relative Pricing Strategies

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Abstract
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Keywords
hotels, Asia, revenue per available room (RevPAR), average daily rates (ADR), occupancy

Disciplines
Business | Hospitality Administration and Management

Comments
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by Linda Canina, Ph.D., and Cathy A. Enz, Ph.D.

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Pricing for Revenue Enhancement in Asian and Pacific Region Hotels:

A Study of Relative Pricing Strategies

By Linda Canina and Cathy A. Enz

EXECUTIVE SUMMARY

This report explores pricing strategies for competitive hotels in 14 different Asian-Pacific countries. The research is based on comparing average percentage differences in occupancies, average daily rates (ADR), and revenue per available room (RevPAR) among competing high end hotels in local markets using data gathered monthly between 2001 and 2006. The results reveal that hotels that price below their competitive sets have lower RevPARs, but do not gain concomitant occupancy boosts. Hotels that charge a price premium have substantially higher RevPARs than their competitors, but without substantial reductions in occupancy. Overall, occupancies remain stable while revenues go up or down depending on whether a hotel sets rates above or below those of its competitive set. This report presents an extension of two previous Cornell Hospitality Reports which found that U.S. hotels that discount relative to their competitive set have higher occupancy and lower RevPAR. Examining both U.S. and Asian data over the period of 2001 to 2006 showed that higher occupancies do not necessarily accompany the decision to discount prices, as they did for U.S. hotels in 2001 through 2003. The study explores the ASEAN, China, and Australian markets separately and finds similar patterns.
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Hotel operators around the world continually seek the best strategy to set their prices for profit. As part of this process, they need to determine whether even a 1-percent increase in price would cause their customers to stop purchasing their hotel rooms and send them to a competitor. They also need to consider whether a price discount by their most immediate competitor would cause customers to switch from their property to the other. In this paper we explore these issues in relation to the pricing behavior of competitors in Asia-Pacific markets from 2001 through 2006. Our goal is to better understand competitive or reference pricing using a sample of hotels from 14 different Asian-Pacific countries (e.g., Australia, China, India, Indonesia, and Japan).
Reference pricing occurs when a hotel sets its prices with a keen eye on its competitors. Typically, the goal is to set prices at a level that enhances revenue by stimulating greater demand for the hotel's products and services. Consumers also engage in reference pricing when they compare the prices of two competing hotels or compare room prices over time. The industry's application of revenue management has swept away the antiquated notion of cost-plus pricing. The cost of mounting a service has little to do with a customer's willingness to pay for that service; it only shapes the pricing floor or minimum necessary price. Customers don't care about hotel costs; they care about their needs and wants. For this reason, customers are willing to pay a given price for a hotel on the basis of the value they expect to receive. For similar competitors (that is, those which offer comparable product quality, amenities, and location), price becomes part of the value equation. In a simple framework, value can be enhanced by lowering prices relative to comparable competitors. While incremental cost considerations are important to ensure revenue maximization, pricing that takes into consideration the strategies of other competitors is the focus of this study. To understand how hotel operators in the Asia and Pacific regions of the world create value through pricing, we will employ a reference pricing framework that compares hotels to their direct competitors.

To say that the Asia and the Pacific market is changing rapidly understates the case. As a result, it is important to understand the impact of competitive pricing on performance in these markets, which have grown strongly in recent years. Although most large hotel companies (e.g., Accor, Hilton, InterContinental, Cendant, Starwood, Marriott, and Hyatt) have long had beachheads in the region, most are expanding their portfolio. Accor, for instance, plans to open hotels in more than eight countries in this region by 2008. For its part, China has an immense pipeline of new projects, with 316 four- and five-star hotel projects under development by national and international hotel companies. All of this activity vastly complicates the competitive dynamics.

The Research Question

The question of interest in this study is whether hotels that charge lower prices relative to their competitive set located in Asian and Pacific markets have relatively greater customer demand or occupancy than those competitors. Conversely, we wondered whether hotels that price higher than their direct competitors have comparatively lower occupancies. More to the point, we want to know the effects on revenue of a loss or gain in customer demand based on price.

In our previous studies, in which we addressed these questions for the U.S. market, we discovered that hotels with higher prices relative to their competitive set recorded lower occupancy, as one might expect. But those properties also reported higher revenue per available room (RevPAR)—suggesting that revenue is enhanced by holding rates constant when competitors are discounting or even by raising prices when competitors are holding the line. We did not repeal the law of supply and demand, however, for we found that a hotel's demand dropped with rising prices. That occupancy drop, however, was more than offset by the relative increase in revenues.

This report examines the relationship between pricing strategy and the average percentage difference in RevPAR and occupancy among higher-end hotel competitors located in the Asian and Pacific regions (principally, Australia, China, Indonesia, Singapore, and Thailand).

The Study

The focus of this study is on individual hotels and their direct competitors in local markets. Data were provided by Smith Travel Research (STR), the recognized leader in hotel benchmarking, and The Bench, provider of online daily benchmarking data were made available to the researchers for this study. By arrangement with STR, we obtained monthly property-level data for the period of 2000 through 2006. STR supplied data for those hotel properties in which

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2 This study was conducted in cooperation with The Center for Hospitality Research at Cornell University and Smith Travel Research (STR). We gratefully acknowledge the assistance of STR and its alliance partner, The Bench, in providing the data used for this study.
both property-level data and competitive-set information were available.

Note that this data sample is small compared to STR’s U.S. sample, which is virtually a census of major properties. The Asian data set consists mainly of properties in the Asia’s luxury and upper-upscale market segments. Even though the sample is only 135 hotels, or a total of 613 hotel-years, we believe that our results are useful in providing a preliminary understanding of the relationship between comparative pricing strategy and performance in the Asia-Pacific region. The lack of hospitality research that focuses on markets outside of the U.S. is partially due to the lack of available data. However, as the Asian and Pacific lodging markets grow, the availability and importance of global data analysis will expand.

Competitive Sets

If pricing is to be a key variable in understanding revenue enhancement, it is essential that comparative hotels offer similar value in the sense that customers get the same level of quality. If value is viewed as the ratio of quality to price, then comparisons must be made among competitors offering the most similar products within the same segment—and usually in the same geographical market as well. To ensure that our study captures the competitive pressures which accompany pricing activities, we compared a hotel’s pricing strategies to the strategies employed by the hotels in its competitive set.

The competitive set is a key element of this study, for the following reasons. First, debate continues over the factors that affect industry-wide demand (occupancy). Because of the diversity of hotels in most markets, a refined analysis of competitive dynamics is necessary. Second, hotels are strongly affected by the pricing actions and counteractions of their direct competitors—the essence of reference pricing. If local competing hotels drop their rates, owners and operators often feel pressure to drop their own prices so that they maintain parity with their competitive set and avoid losing demand share. We believe that by analyzing each hotel’s performance against that of its individually selected competitive set of hotels (generally between six and ten geographically proximate properties), we can more closely specify the effects of pricing actions on performance under equivalent market conditions.

Property Level Data

Using annualized, that is, aggregated, monthly property-level data each year, 2000 through 2006, we document the relationship between the relative-pricing strategies of hotels to their occupancy and RevPAR performance. More specifically, we explore what happens to the percentage difference in annual RevPAR for a hotel relative to its competitive set and to the percentage difference in annual occupancy when a hotel increases or decreases its own annual average daily rate (ADR) compared to the annual ADR of its competitive set. The data consist of room revenue, rooms sold, and rooms available for the hotel in question and for each hotel’s competitive set. We analyzed both RevPAR and occupancy because increased revenues are (or should be) more important than the number of rooms occupied. We calculated the percentage difference for each hotel and its competitive set for both annual occupancy and RevPAR. For example, the percentage difference in RevPAR is computed as the annual RevPAR of the hotel less the annual RevPAR of the competitive set divided by the annual RevPAR of the competitive set and then multiplied by 100 (to express the number as a percentage).

We analyzed pricing strategies annually rather than monthly to avoid pricing irregularities that may have occurred in a particular month that are not representative of the properties’ overall pricing strategies. Thus, we aggregated STR’s monthly rooms data to compute annual ADR, annual RevPAR, and annual occupancy for each property and its competitive set. All data were provided in U.S. dollars and adjusted for inflation to 2006 dollars using the consumer price index (CPI) obtained from the U.S. Bureau of the Census.
It is important to note that this study is about the relationship between relative rate differences and relative revenue differences. Hence, the data analysis presented here does not permit conclusions about causality.

The percentage difference in ADR (relative to that of the hotel's competitive set) was used as the basis for making comparisons among the pricing strategies of hotels. The pricing strategy of a given hotel in a given year was categorized into one of 11 groups based on the percentage difference in ADR. These pricing-strategy groups ranged from a category of 25 percent lower than the competitive set to a group that priced 35 percent higher. For example, if the hotel in question had an annual ADR of $50.00, and the annual ADR of the competitive set was $60.00, the percentage difference would be -16.7 percent (\((\frac{$50.00 - $60.00}{$60.00}) \times 100\)). This hotel would thus be in the group of properties that price 15 to 25 percent lower than competitors. After grouping hotels according to their pricing strategies (that is, the percentage difference above or below the ADRs of their competitive set), we calculated the percentage difference between each hotel and its competitive set for both annual occupancy and RevPAR.

**Legitimate Competitors**

It is essential to compare “true” competitors in a valid pricing study to account for variations in revenue capabilities. Nominally competitive hotels offer various combinations of quality or differ in their management skill—resulting in substantially different revenue patterns. Even if hotels define themselves as being in similar market segments, we do not consider them to be true competitors if they do not have similar revenue-generating histories. Hotels with substantially different revenue histories most likely are not true competitors.

Although adjacent properties do compete in one sense—an arriving guest might equally walk into one or the other—it is comparable performance that defines competitive sets for our purposes. Certainly a hotel’s management will include some properties in the competitive set because the properties are in close proximity, even though they are not comparable in performance. If we include these mismatched geographical competitors, our data might be corrupted by performance differences that are not due to pricing. Accordingly, the study relies on the designated competitive sets provided to Smith Travel Research, which requires a minimum of four properties to generate competitive-set reports. Properties with fewer than three competitors were omitted for want of a competitive set.

To ensure that the sample of hotels contained only legitimate competitors we excluded performance outliers from the data sample. Performance outliers are those properties in which the percentage difference in annual RevPAR for the preceding year exceeded one standard deviation from zero in absolute value. That is, a hotel was included in the sample in the year 2003 if the percentage difference in its RevPAR relative to its competitive set was within one standard deviation of zero in the year 2002. As a result, we can be sure that it is possible for each of the hotels included in the sample to obtain RevPAR similar to that of its competitive set. We can then conclude that the results of RevPAR or occupancy changes are due to differences in pricing strategies and not to performance outliers. For a more detailed explanation of the exact procedure used to eliminate outliers see our paper addressing U.S. markets. Elimination of performance outliers resulted in the final data sample for 2001 through 2006.

To review, the key variables of interest in this study are the percentage difference in the annual average daily rate (ADR), the percentage difference in annual revenue per available room (RevPAR), and the percentage difference in annual occupancy. The data summarized in this report are the mean percentage differences in RevPAR and occupancy for each hotel as compared to its competitive set, at various levels of percentage price differences. Finally, as we explained, hotels that are not true competitors were eliminated from investigation to ensure the validity of the results.

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The Findings

Looking at the descriptive statistics for the countries as a whole revealed substantial absolute differences in hotel occupancy and RevPAR among the countries that we studied. The sample showed relatively wide disparities from country to country for average ADR but less so for average occupancy. ADR ranged from $72.44 in the Philippines to $374.74 in Japan (see Exhibit 1). The occupancy averages range from 52.13 percent in Indonesia to 77.09 percent in Japan. In twelve out of the fourteen countries the sample hotels achieved average occupancies of at least 60 percent. Average hotel occupancies in eight of the countries studied exceeded 70 percent.

Not surprisingly given its high ADR, Japan has by far the highest average RevPAR ($288.19), while the next highest RevPAR levels were found in hotels in China ($137.36). The country with the lowest RevPAR average was Indonesia, at $43.79. Overall, Japanese hotel operators had the highest average RevPAR, occupancy, and ADRs, and Indonesian hotels had the lowest average RevPAR and average occupancy, and the second lowest average ADRs. The Philippines had the lowest average ADR.

Pricing and Performance

The initial analysis examined all hotels for the entire time period, with the results shown in Exhibit 2. Overall, for hotels that dropped their price relative to their competitive set, occupancies dropped slightly, rising only in the instance of a deep discount of over 10 percent. In contrast RevPARs fell substantially and systematically more for hotels that dropped prices compared to their competition.

Price Discounting

As shown in Exhibit 2, relative occupancies did not substantially fluctuate with changes in relative price. The maximum occupancy advantage over the competitive set was obtained by those hotels that maintained comparative ADRs 10 to 15 percent lower than competitors. Hotels with ADRs this much lower than those of the competitive set achieved occupancies 3.35 percent higher than those of their competitors. While, the hotels that had ADRs 15 to 25 percent lower than their competitors only achieved 1.20 percent higher occupancies. If discounting was designed to steal market share, it was not particularly successful for the upscale hotels we studied. To the contrary, modest price discounts actually resulted in occupancy declines. The strategy of increasing market share through price discounting worked only for those groups of hotels that offered relatively deep discounts. However, the magnitude of the gain in occupancy did not match the extent of discounting, and hotels that discounted by less than 10 percent did not gain market share at all.

Needless to say, the desire to spur increased demand by lowering prices did not translate into increased revenue for the discounting hotels in this study. Hotels that chose to drop their prices relative to their competitors actually

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**Exhibit 1**

Summary statistics

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of hotels</th>
<th>Number of hotel-years</th>
<th>ADR Mean</th>
<th>ADR Minimum</th>
<th>ADR Maximum</th>
<th>Occupancy Mean</th>
<th>Occupancy Minimum</th>
<th>Occupancy Maximum</th>
<th>RevPAR Mean</th>
<th>RevPAR Minimum</th>
<th>RevPAR Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>17</td>
<td>96</td>
<td>$136.31</td>
<td>$71.68</td>
<td>$210.24</td>
<td>71.84%</td>
<td>47.15%</td>
<td>88.77%</td>
<td>97.54</td>
<td>$47.87</td>
<td>$156.74</td>
</tr>
<tr>
<td>China</td>
<td>29</td>
<td>121</td>
<td>183.87</td>
<td>58.92</td>
<td>394.40</td>
<td>73.98%</td>
<td>38.67%</td>
<td>96.30%</td>
<td>137.36</td>
<td>24.18</td>
<td>343.90</td>
</tr>
<tr>
<td>Guam</td>
<td>3</td>
<td>13</td>
<td>155.94</td>
<td>99.63</td>
<td>195.47</td>
<td>62.51%</td>
<td>53.22%</td>
<td>84.49%</td>
<td>97.85</td>
<td>55.94</td>
<td>133.27</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
<td>24</td>
<td>127.87</td>
<td>76.65</td>
<td>244.93</td>
<td>72.94%</td>
<td>43.83%</td>
<td>96.72%</td>
<td>95.42</td>
<td>38.96</td>
<td>196.93</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20</td>
<td>82</td>
<td>83.00</td>
<td>32.15</td>
<td>189.75</td>
<td>52.13%</td>
<td>26.88%</td>
<td>81.42%</td>
<td>43.79</td>
<td>13.81</td>
<td>130.03</td>
</tr>
<tr>
<td>Japan</td>
<td>7</td>
<td>29</td>
<td>374.74</td>
<td>258.79</td>
<td>561.69</td>
<td>77.09%</td>
<td>53.97%</td>
<td>93.76%</td>
<td>288.19</td>
<td>184.67</td>
<td>412.80</td>
</tr>
<tr>
<td>South Korea</td>
<td>5</td>
<td>36</td>
<td>207.11</td>
<td>167.78</td>
<td>294.16</td>
<td>67.78%</td>
<td>37.45%</td>
<td>82.17%</td>
<td>137.40</td>
<td>99.85</td>
<td>191.21</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7</td>
<td>36</td>
<td>80.82</td>
<td>53.44</td>
<td>137.61</td>
<td>68.18%</td>
<td>47.80%</td>
<td>82.40%</td>
<td>55.69</td>
<td>30.75</td>
<td>109.31</td>
</tr>
<tr>
<td>Palau</td>
<td>1</td>
<td>5</td>
<td>180.81</td>
<td>171.12</td>
<td>192.43</td>
<td>64.34%</td>
<td>60.31%</td>
<td>69.91%</td>
<td>116.29</td>
<td>106.42</td>
<td>124.27</td>
</tr>
<tr>
<td>Philippines</td>
<td>4</td>
<td>40</td>
<td>72.44</td>
<td>46.75</td>
<td>97.52</td>
<td>70.09%</td>
<td>51.28%</td>
<td>84.27%</td>
<td>51.03</td>
<td>23.97</td>
<td>68.68</td>
</tr>
<tr>
<td>Singapore</td>
<td>13</td>
<td>65</td>
<td>137.99</td>
<td>75.93</td>
<td>446.95</td>
<td>73.39%</td>
<td>49.87%</td>
<td>94.54%</td>
<td>101.12</td>
<td>49.75</td>
<td>299.79</td>
</tr>
<tr>
<td>Thailand</td>
<td>15</td>
<td>73</td>
<td>125.15</td>
<td>58.39</td>
<td>211.44</td>
<td>70.16%</td>
<td>40.58%</td>
<td>86.51%</td>
<td>87.11</td>
<td>33.47</td>
<td>157.89</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3</td>
<td>14</td>
<td>145.93</td>
<td>94.28</td>
<td>194.28</td>
<td>73.28%</td>
<td>58.73%</td>
<td>84.19%</td>
<td>107.21</td>
<td>73.74</td>
<td>163.56</td>
</tr>
<tr>
<td>Vietnam</td>
<td>4</td>
<td>11</td>
<td>94.60</td>
<td>49.14</td>
<td>165.29</td>
<td>54.03%</td>
<td>34.53%</td>
<td>80.13%</td>
<td>50.98</td>
<td>20.58</td>
<td>96.58</td>
</tr>
<tr>
<td>Total</td>
<td>135</td>
<td>613</td>
<td>$146.04</td>
<td>$32.15</td>
<td>$561.69</td>
<td>68.91%</td>
<td>26.88%</td>
<td>96.72%</td>
<td>$103.41</td>
<td>$13.81</td>
<td>$412.80</td>
</tr>
</tbody>
</table>
Exhibit 2

RevPAR and occupancy percentage differences for upscale Asian hotels

<table>
<thead>
<tr>
<th>Percentage Difference in RevPAR</th>
<th>Percentage Difference from the Competitive Set</th>
</tr>
</thead>
<tbody>
<tr>
<td>-17.31</td>
<td>15-25%</td>
</tr>
<tr>
<td>-9.08</td>
<td>10-15%</td>
</tr>
<tr>
<td>-8.28</td>
<td>5-10%</td>
</tr>
<tr>
<td>-6.08</td>
<td>2-5%</td>
</tr>
<tr>
<td>-1.47</td>
<td>0-2%</td>
</tr>
<tr>
<td>0.34</td>
<td>0-2%</td>
</tr>
<tr>
<td>5.51</td>
<td>2-5%</td>
</tr>
<tr>
<td>6.52</td>
<td>5-10%</td>
</tr>
<tr>
<td>8.87</td>
<td>10-15%</td>
</tr>
<tr>
<td>16.25</td>
<td>15-25%</td>
</tr>
<tr>
<td>24.94</td>
<td>25-30%</td>
</tr>
</tbody>
</table>

experienced the lowest comparative RevPARs. For instance, the hotels with prices 10 to 15 percent below the competition reported annual RevPARs that were 9.08 percent below those of competitors, even though they saw occupancies 3.35 percent above those of their competitors. In sum, the goal of a slight increase in occupancy was achieved only by steep price cutting, with the consequence of lower RevPARs.

Price Premiums

By contrast, we confirmed that charging a premium price improved relative RevPAR. Hotels that raised their prices compared to their competitors experienced higher RevPARs, again as shown in Exhibit 2. The maximum RevPAR advantage over the competitive set was obtained by those hotels that had the highest comparative ADRs. For example, hotels that had ADRs 25 to 35 percent higher than those of their competitive set experienced RevPARs averaging 24.94 percent higher. Although charging higher rates resulted in higher revenues, increased rates did not result in substantially lower occupancies for these hotels. Contrary to what one might expect, hotels that priced 2 to 5 percent above the competition reported annual occupancies that were 1.96 percent above those of competitors. We suspect that this result may indicate the benefit for upscale hotels of signaling value (in the form of higher quality for the price paid) by offering a higher price and thereby spurring demand.

Stable Occupancies Despite Rate Differentials

Occupancy (demand) for hotels in our study remained essentially stable regardless of competitors’ pricing strategy. As depicted in Exhibit 2, the percentage difference in the occupancy line is relatively flat, indicating few dramatic shifts in market share. Note that the magnitude of the percentage change in occupancy is quite low even for large percentage differences in ADR. The modest occupancy gains experienced by deep discounters appear to be accompanied by substantially lower RevPAR performance. Hotels that priced substantially higher than their competition, on the other hand, experienced occupancy losses that were offset by their relatively higher ADR to yield the highest RevPAR levels.

Demand for hotel rooms in the Asian markets we studied appears to have been insensitive to reference pricing during the time of our study, based on our reading of the graph of the percentage difference in occupancy. If guests were price sensitive, the graph would vary to show that lower relative prices would result in higher relative occupancy, and that higher relative prices would result in lower relative occupancy. In this study, competitors who adopted differ-
RevPAR Rises with Price

As a general rule, RevPAR performance is driven by the hotel management’s pricing strategies. In this instance, hotels that kept their prices higher than those of their competitive set enjoyed relatively higher revenue. For this sample, we found that the higher the price difference, the higher the revenue difference. Hotels that reduced their prices relative to their competitive set experienced a consistent loss in RevPAR. The lower the price for these hotels, the greater the percentage difference in RevPAR. As we said earlier, the maximum RevPAR performance benefit was obtained by hotels with ADRs between 25 to 35 percent above those of their competitive set. Hotels with these extremely high (relative) prices experienced a higher comparative RevPAR, namely, 24.94 percent higher than that of their competitors.

Pricing Strategies Compared

Our previous investigations into hotel pricing strategy in United States markets found that hotels that dropped their prices gained occupancy compared to their competitors, but lost RevPAR, while hotels that raised their prices relative to
Asia-Pacific hotels did not consistently lead to higher market
occupancy than their U.S. counterparts. In contrast, this study suggests that the Asian markets we studied do not follow the same pattern of rising occupancy accompanying falling prices. On the other hand, we did find a pattern regarding RevPAR performance similar to that reported in previous studies of the U.S. markets. Because our earlier findings in the U.S. market followed a period of time when hotel demand had dropped following the September 11th attacks, and discounting was used to stimulate occupancy, we gathered additional data in the U.S. to make more meaningful comparisons with our more recent Asian data.

The result of the pattern comparison is shown in Exhibit 3, which depicts the percentage difference in occupancy and RevPAR for both U.S. and Asian-Pacific upscale hotels. To accomplish this end, we drew STR data from a comparable segment of luxury and upper-upscale hotels in the U.S. for the same six years of the Asian study. Note that the previous U.S. study focused on all market segments, not just luxury properties, and did not cover the years 2005 or 2006. This time we updated U.S. sample for this study to make a valid comparison with the Asian-Pacific data.

**Price-Sensitive Demand**

The occupancy graph for the U.S. hotels again shows that occupancy increases as ADR decreases, and the magnitude of the percentage difference in occupancy decreases as the magnitude of the percentage in ADR increases. For example, for those hotels that discount by 15 to 25 percent below their competitors, the average percentage difference in occupancy is 5.20 percent, while those that discount only 2 to 5 percent below their competitors, have a smaller occupancy benefit of only 2.13 percent above competitors. In the U.S. sample the pattern of lower prices and rising occupancy is systematic, and the strategy of dropping prices consistently resulted in occupancy gains. In the U.S., hotels that priced at a premium of at least 10 percent above their competitors experienced drops in occupancy. These results demonstrate the extent to which overall consumer demand in the U.S. market is sensitive to fluctuations in price.

In contrast, occupancy in Asian-Pacific regions does not follow the same pattern of correspondence with rising and falling prices. Unlike the U.S. markets, discounting in Asia-Pacific hotels did not consistently lead to higher market share. The largest positive percentage difference in occupancy of 3.35 percent occurs for hotels that discount between 10 and 15 percent relative to their competition. Then, as we said above, the next largest positive difference in the Asian-Pacific market, 1.96 percent occupancy gain, occurs for hotels that charge a relative price premium of 2 to 5 percent. In the U.S. market the largest positive percentage difference in occupancy (5.20 percent) occurs for hotels that discount steeply (15 to 25 percent) while the second largest occupancy difference (3.31 percent) is for the 10 to 15 percent discount group.

A similar result is found for the largest negative percentage differences in occupancy: the largest negative percentage difference in occupancy for the Asian-Pacific market, -3.94 percent, exists for hotels that charge 25 to 35 percent above their competitors; followed by -2.43 percent, for hotels that discount by 2 to 5 percent below their competition. A relative loss in market share occurred for Asian hotels that followed a premium pricing strategy and also for those that followed a discounting strategy. The corresponding results for the U.S. market present a contrast, as the two highest premium pricing groups show the largest and second largest negative percentage difference in occupancy for the U.S. markets. US hotels that charge between 25 and 35 percent above their competitors and those that charge 15 to 25 percent above their competitors lost the most in terms of relative occupancy. The percentage difference in occupancy is -7.66 percent for the highest-rate group and -3.53 percent for the next-highest group. U.S. hotels that charged a price premium above 10 percent lost market share, while those that discounted gained market share consistently.

**Pricing for Revenue Gain**

Although hotel managers do pay considerable attention to occupancy percentages, they most seek to improve their revenue picture. Our studies seem clear on this point. Hotels with the highest RevPARs compared to their competitors priced above those competitors in both Asian and U.S. markets. Looking again at Exhibit 3, hotels with higher ADRs also have higher RevPARs. Relative RevPAR performance declines when prices are below the competition and improves when a hotel's prices are above those of competitors. In the U.S. markets, hotels that discount by 15 to 25 percent relative to the competition have the worst comparative RevPAR performance.

In contrast, revenue benefits are produced for hotels that price 25 to 35 percent above their competitors. The same pattern is found in the Asian-Pacific markets, but the magnitude of the percentage difference in RevPAR is greater in the Asian-Pacific market than in the U.S. market. This effect is particularly noticeable for hotels with comparative prices that are substantially higher or lower than those of competitors. For example, the group of U.S. hotels that discounts by 15 to 25 percent below its competitors has a percentage difference in RevPAR of -14.20 percent, while the hotel discounters at that same level in Asia suffered a -17.31 percent difference in RevPAR. For premium pricing hotels that maintain ADRs at between 25 and 35 percent above their competitors, the corresponding RevPAR gains are...
19.63 percent in the U.S., and 24.94 percent in Asian-Pacific markets.

**Premium and Discount Pricing Strategies**

Ironically, both premium pricing and discount pricing are intended to convey a message of benefits to consumers. Premium pricing, on the one hand, is meant to convey the benefit of superior service or to suggest superior quality. A strategy of discounting, on the other hand, is designed to convey a benefit of extra value. To get a simple idea of the overall effects of these two pricing strategies we consolidated the various pricing (ADR) categories into two groups—namely, premium pricing and discount pricing. As indicated by their labels, the premium pricing group is defined as those hotels that price above their competitors, and the discounting group is defined as those that price below. The re-
The results of this comparison are shown in Exhibit 4. On average Asian-Pacific hotels that discount gain in occupancy but only slightly, by a mere 0.31 percent but they lose relative RevPAR performance by over 8 percent. The Asian hotels that charge a premium achieve a RevPAR gain of 12.28 percent above their competitors at a cost of a mere 1.38 relative percentage loss in occupancy. Thus, we see that price discounting did not achieve significant gains in occupancy but did result in significant relative performance losses.

Our examination of the U.S. markets shows that discounting in the U.S. means higher occupancy gains and lower RevPAR losses than it does in Asia. In addition, a strategy of premium pricing results in a smaller RevPAR gain than does this strategy in Asia. In short, hotels in the Asian-Pacific region benefit more from premium pricing than do hotels in the U.S. (although both benefit). In addition, Asian hotels experience greater negative RevPAR and smaller occupancy benefits from discounting than do hotels in the U.S.

Country Level Pricing Strategies in Asia

Not all parts of Asia have similar market dynamics, and for that reason our final analysis explores specific regions and countries separately. To determine whether particular pricing strategies exist in different countries, we analyzed the results separately for most of the ASEAN countries as a group, plus Australia and China. Data were available for the following ASEAN nations: Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. (We could not acquire data from Brunei Darussalam, Cambodia, or Laos, though these are also considered ASEAN countries.) We could not include hotels in Guam, Japan, India, South Korea, Palau, and Taiwan because the sample size was too small from each of these countries (refer again to Exhibit 1).

The comparative results for the ASEAN group, Australia, and China are shown in Exhibits 5 and 6. The patterns in the three graphs of both the percentage difference in occupancy and RevPAR are similar. When examining the results shown in Exhibit 5 for the two pricing strategy groups (i.e., discounting and premium pricing), the relative

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**Exhibit 6**

Occupancy percentage differences for ASEAN, Australian, and Chinese hotels

![Graph showing occupancy percentage differences for ASEAN, Australian, and Chinese hotels.](image)
show that those hotels which dropped their relative prices did not capture market share as consistently as they did in the U.S. For hotels that held fast to their price structure, even when it was higher than that of their competitors, we found a RevPAR benefit. These results also held when we analyzed individual Asian countries and regions.

The most interesting and notable difference between our previous U.S. study of pricing and this research is the impact of relative room rates on occupancy levels. It appears that consumers who purchase hotels in the Asian markets we studied are less motivated by discount prices and may actually rely on price to signal quality. This effect may be particularly strong in the luxury segment. For this preliminary look at pricing it appears that consumers in Asia are less price sensitive than those in the U.S. If price is now used in Asia to convey quality and value, it will be interesting to see whether that phenomenon changes as more international brands enter Asian markets and domestic travel grows in key Asian countries. The importance of price as a signal of product consistency or social status may guide hotel managers as they set and experiment with revenue management.

Returning to the issues raised at the beginning of this report, it appears that keeping prices strong compared to competitors will not cause customers to change luxury hotel purchases in Asia. This does suggest that efforts to create value are best focused on product, process, and service innovations (rather than price reductions). Second, when the most immediate competitor drops its price it does not appear to cause customers to switch. While careful revenue management is necessary, luxury hoteliers are encouraged to keep their prices strong and seek ways to differentiate.

Note that luxury segments have a tendency to be less price sensitive than other market segments. Future research will examine other market segments.
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