Strategic Pricing in European Hotels: 2006–2009

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Strategic Pricing in European Hotels: 2006–2009

Abstract
This paper examines the pricing, demand (occupancy), and revenue (RevPAR) dynamics for European hotels for the period 2006 through 2009. The results of this four-year study reveal that in both good times (2006–2007) and bad (2008–2009) hotels that offer average daily rates above those of their direct competitors have lower comparative occupancies but higher relative RevPARs. Based on 8,026 hotel observations, this pattern of demand and revenue behavior was consistent for hotels of various sizes and type of hotel management (i.e., chain-affiliated or independent), and held true in most market segments across all geographic regions of Europe. Occupancy and RevPAR volatility was greater in eastern and southern European hotels (compared to those in the north and west of Europe) and in the economy segment (as compared to higher level hotels). The results suggest that higher relative revenue performance is accomplished by hotels that offer higher rates than their competitors. It also suggests that key strategic factors such as hotel size and chain affiliation do not alter the pattern of findings. The results support the view that lodging demand may be inelastic in local European markets, a finding consistent with previous work in the U.S. and Asian markets. The results of this study appear to confirm the view that RevPAR is not stimulated by dropping competitive prices, and that hotel size and chain affiliation do not in meaningful ways alter the patterns found for the percentage difference in occupancy and RevPAR.

Keywords
hotels, pricing demand, occupancy, revenue per available room (RevPAR), Europe

Disciplines
Business | Hospitality Administration and Management

Comments
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Cornell Hospitality Report
Vol. 10, No. 5, March 2010

by Cathy A. Enz, Ph.D., Linda Canina, Ph.D., and Mark Lomanno
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Cornell Hospitality Reports,
Vol. 10, No. 5 (March 2010)

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Cornell Hospitality Report is produced for the benefit of the hospitality industry by The Center for Hospitality Research at Cornell University

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Strategic Pricing in European Hotels: 2006–2009

by Cathy A. Enz, Linda Canina, and Mark Lomanno

EXECUTIVE SUMMARY

This paper examines the pricing, demand (occupancy), and revenue (RevPAR) dynamics for European hotels for the period 2006 through 2009. The results of this four-year study reveal that in both good times (2006–2007) and bad (2008–2009) hotels that offer average daily rates above those of their direct competitors have lower comparative occupancies but higher relative RevPARs. Based on 8,026 hotel observations, this pattern of demand and revenue behavior was consistent for hotels of various sizes and type of hotel management (i.e., chain-affiliated or independent), and held true in most market segments across all geographic regions of Europe. Occupancy and RevPAR volatility was greater in eastern and southern European hotels (compared to those in the north and west of Europe) and in the economy segment (as compared to higher level hotels). The results suggest that higher relative revenue performance is accomplished by hotels that offer higher rates than their competitors. It also suggests that key strategic factors such as hotel size and chain affiliation do not alter the pattern of findings. The results support the view that lodging demand may be inelastic in local European markets, a finding consistent with previous work in the U.S. and Asian markets. The results of this study appear to confirm the view that RevPAR is not stimulated by dropping competitive prices, and that hotel size and chain affiliation do not in meaningful ways alter the patterns found for the percentage difference in occupancy and RevPAR.
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Linda Canina, Ph.D., is an associate professor of finance and editor of the Cornell Hospitality Quarterly (lc29@cornell.edu). Her research interests include asset valuation, corporate finance, and strategic management. She has expertise in the areas of econometrics, valuation, and the hospitality industry. Canina’s current research focuses on strategic decisions and performance, the relationship between purchased resources, human capital and their contributions to performance, and measuring the adverse selection component of the bid–ask spread. Her recent publications include “Agglomeration Effects and Strategic Orientations: Evidence from the U.S. Lodging Industry” in Academy of Management Journal, as well as articles in Journal of Finance, Review of Financial Studies, Financial Management Journal, Journal of Hospitality and Tourism Research, and Cornell Hospitality Quarterly.

Mark Lomanno is president of STR Global, the leading authority on current trends in occupancy, room rate, and supply and demand data for the U.S. and global lodging industry. In addition to STR’s own STAR reports, delivered to a global client base, Lomanno is a frequent contributor to industry publications, including Cornell Hospitality Quarterly, Lodging Hospitality, and Hotel and Motel Management. A frequent participant in industry conferences, he serves on the advisory boards of the HSMAI Foundation, Travel Industry of America, and the Center for Hospitality Research at Cornell University. He is also a frequent guest lecturer at the Cornell School of Hotel Administration (info@str.com).
This report explores the effects of competitive pricing behavior in the European lodging industry and, more specifically, examines the degree to which hotels that offer lower prices relative to their competitors will experience higher consumer demand and accompanying higher total rooms revenues, as predicted by economic theory. The theory of demand suggests that the level of consumers’ demand for lodging will move in the opposite direction to that of room rates. The practical application of this concept is that occupancy should increase as hotel room rates are lowered, and the corollary of this theory is that the impact of price movements on revenue depends upon the price elasticity of demand. If the percentage rise in occupancy is greater than the percentage decline in rates, the increase in revenues due to demand growth more than offsets the loss of revenue from lower rates, and we can conclude that lodging demand is price elastic. However, if demand is proportionally less responsive to price changes, then demand is price inelastic. When demand is price inelastic, a given percentage change in price results in a smaller percentage change in quantity demanded and revenue falls. One of the few studies of price elasticity in hotels, a study of urban hotels in major metropolitan markets in the United States, found that demand is relatively price inelastic. However, that study also concluded that price elasticity may vary across market segments.\(^1\) The implication of that study is that total revenue will generally move in the direction of the price change. That is, a reduction in price will reduce total revenue, and an increase in price will increase revenue.

The challenge in determining how pricing decisions affect performance is that the calculation typically requires estimates of the price elasticity of demand—estimates that are inconsistent due to an array of complex empirical issues. As a result, such studies do little to clarify demand conditions for hotel managers who require guidance in establishing a pricing strategy. In the study described in this report, we use an alternative method that does not require estimating demand elasticities. Instead of attempting an estimate of the price elasticity of demand, we calculated the impact of individual hotel pricing decisions vis-à-vis direct competitors’ prices, revenues, and occupancies. By analyzing local hotel competitors’ relative occupancies and RevPARs in the context of comparative pricing behavior (e.g., percentage difference from competitors’ ADRs), our approach allows the exploration of the impact on demand and rooms revenue of pricing differences among hotels that directly compete in local markets.

As we have done in other venues, we demonstrate the principles of wise strategic pricing decisions in both good and bad times by examining the relationship among competitive pricing, demand, and revenue (measured as revenue per available room, or RevPAR) in the European hotel industry for the periods of 2006–2007 and 2008–2009. These two time periods embrace contrasting economic regimes, with 2006–2007 being the culmination of a strong economic period and 2008–2009 seeing a worldwide recession that has yet to fully abate at this writing.

The focus of this investigation is on individual hotels and their comparably performing direct competitors in local markets. The study compares the relative demand and revenue outcomes for hotels that price above their competitors and those that price below their competitors. It is important to note that implementing rate reductions in response to competitors’ actions is not necessarily the same as revenue management, although a revenue management analysis may, indeed, suggest reducing prices for targeted dates and market segments. Many individual hotels are profoundly influenced by the actions of their direct competitors. If competing hotels in a local market reduce their prices substantially (for whatever reason), often owners and operators of comparable hotels feel pressure to follow suit, thereby maintaining parity with their competitive set and (it is thought) avoiding losing demand share. To ensure that our study captures the competitive pressures which accompany pricing activities, we compare a hotel’s pricing strategies to those of its competitive set of like hotels with similar previous revenue performance. In short, we only look at competitors who were comparable in their rooms revenue performance for the prior year to those we studied.

**Changing Economic Conditions**

Difficult economic times may require hotels to employ pricing strategies that differ from those of prosperous times. During high demand periods the question may be, how much can we raise prices, while recessions may cause hotels to focus on how much discounting is necessary to steal market share or stimulate demand. Research on the linkage between strategic choices and performance has shown that the success of particular strategies varies in different economic conditions.2 Hotels that operate with management contracts, for example, outperform those which are independently operated during recessions, according to Kim’s study of Korean hotels.3 However, our studies that have explored the impact of economic conditions on pricing within the U.S. hotel industry have not found notable differences in the effectiveness of pricing above or below the competition in different market situations.4 Based on our U.S. study, we believe that hotels that price above their competitors fare

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3 Ibid.
better in both difficult and prosperous times. To extend this analysis to hotels in Europe, this study investigates the impact of economic conditions on hotel pricing by exploring hotel pricing behavior in the relatively prosperous period of 2006–2007 and the recent global economic downturn of 2008–2009. Given the current challenges facing hoteliers, it is important to investigate the effects of economic changes on the relationship between competitive pricing and shifts in demand and revenues.

**Strategic Factors**

A variety of studies have explored the impact on hotel performance of key strategic variables, including hotel size and type of management. While the results are mixed on the role of hotel size in shaping performance, it is possible that smaller hotels are less influenced by competitive price

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shifts than are large hotels with specialized revenue managers and multiple channels for pricing. In contrast, some research suggests that small and medium size organizations are better able to adjust to changing market needs, suggesting that smaller firms may be more successful in competitive pricing. We examine the following three different categories of hotel size: small hotels (less than 150 rooms), medium size hotels (between 150 - 300 rooms), and large hotels (300 rooms and over). This conceptualization of size is consistent with prior research. Given the mixed results of prior studies on the role of hotel size, it is not clear exactly how or whether pricing behavior in competitive settings differs as a result of hotel size.

Some research findings have indicated that chain-affiliated hotels operate more successfully than do independent establishments in terms of survival chances, but other studies have found no clear differences in performance between these two types of hotels. In this study we explore whether competitive pricing behavior differs for chain-affiliated properties versus independent hotels. While it is possible that chain-affiliated hotels are able to stimulate greater demand when offering lower prices (because of their distribution network and brand image), the inconclusive findings from prior work make leave this question unresolved. So, we view this study as an exploratory examination of these strategic factors and the possible roles they play in competitive pricing in local markets.

The Study Methodology

In cooperation with the Center for Hospitality Research at Cornell University and Smith Travel Research (STR), we explored pricing behavior using 8,026 hotel observations over a four-year period, from January 2006 through August 2009. The data were provided by STR Global, which combined data from the two international leaders in the benchmarking arena, Deloitte’s HotelBenchmark and The Bench, with STR's European databases. The sample size changed from year to year, ranging from 1,625 observations (in 2006) to 2,247 hotels (in 2009). Data providers STR and STR Global track market share analysis for all major international hotel chains and brands. STR and STR Global are the world's foremost source of historical hotel performance trends and collect monthly room demand, room supply, and room revenue by property.

This study relied on monthly property-level data for each of the four years. Data were analyzed annually rather by the month, however, to minimize pricing irregularities that may have occurred in a particular month that are not representative of the property's overall pricing strategy. Monthly rooms data were aggregated to arrive at the annual number of rooms sold, annual number of rooms available, and annual rooms revenue for each property and for each property's competitive set for each year. STR Global requires a minimum of four properties to constitute a competitive set. The relevant competitors were determined by the individual hotels that provided their competitive-set choices to STR Global.

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**Exhibit 2**

Categorization of European nations for this study

<table>
<thead>
<tr>
<th>Eastern Europe</th>
<th>Southern Europe</th>
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<tbody>
<tr>
<td>Belarus</td>
<td>Albania</td>
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<tr>
<td>Bulgaria</td>
<td>Andorra</td>
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<td>Czech Republic</td>
<td>Bosnia and Herzegovina</td>
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<td>Croatia</td>
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<td>Poland</td>
<td>Cyprus</td>
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<td>Gibraltar</td>
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<td>Romania</td>
<td>Greece</td>
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<tr>
<td>Russia</td>
<td>Italy</td>
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<tr>
<td>Slovakia</td>
<td>Israel</td>
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<td>Ukraine</td>
<td>Macedonia</td>
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<td>Malta</td>
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<td>Montenegro</td>
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<tr>
<td></td>
<td>Portugal</td>
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<td></td>
<td>San Marino</td>
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<tr>
<td></td>
<td>Serbia</td>
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<td></td>
<td>Slovenia</td>
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<td></td>
<td>Spain</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Northern Europe</th>
<th>Western Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Austria</td>
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<td>Belgium</td>
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<td>Lithuania</td>
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<td>Norway</td>
<td>Netherlands</td>
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<td>Sweden</td>
<td>Switzerland</td>
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<td></td>
<td></td>
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</tbody>
</table>

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10 Claver-Cortes et al., 2007.

Key Variables

Percentage differences between each hotel and its competitive set of hotels on price, demand, and revenue are the key variables of interest in this study. Annual average daily rate (ADR), occupancy, and revenue per available room (RevPAR) were computed for each property in the sample and each property’s competitive set. The percentage difference in ADR between the property and its direct competitors was used as the basis for making comparisons in pricing strategies. To calculate percentage difference in ADR, the annual ADR of a competitive set was subtracted from the annual ADR of each hotel and then divided by the annual ADR of the competitive set, expressed as a percentage. The percentage differences in RevPAR and occupancy were computed similarly. Noncompetitive hotels were excluded from the study following a procedure used in prior work,⁵ which reduced the usable sample from 11,369 hotel observations to 8,026. This methodology eliminates properties that are unable to achieve a percentage difference in RevPAR within one standard deviation of zero.

We grouped the sample of comparable hotels into ten different pricing strategy categories based on the percentage difference in the hotels’ ADR from their competitive set by

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year. We examined both large price difference categories (15 to 30 percent above the competition and 15 to 30 percent below the competitive set), and differences as small as 0 to 2 percent above or below competitors. After grouping hotels according to their pricing differences, we calculated the percentage difference between each hotel and its competitive set on occupancy and RevPAR.

The Findings

A comparison of pricing strategies in both good times (2006–2007) and bad times (2008–2009) is provided in Exhibit 1. The data show that hotels with lower rates relative to competitors experienced higher occupancies, but their RevPARs were lower. This pattern of achieving higher occupancy but seeing lower RevPAR in conjunction with lower rates compared to competitors occurred in both time periods.

The modest relative gains in occupancy failed to offset the relatively lower prices, while the comparative losses in RevPAR were more substantial. The average percentage difference in occupancy was 3.13 percent, while the average percentage difference in RevPAR was -0.78 percent. The two sample Wilcoxon and Median statistics were computed for the percentage difference in occupancy and RevPAR by price difference categories. The p-values indicated no rejection of the null hypotheses of no difference in the percentage difference in occupancy and no difference in the percentage change in RevPAR for the two time periods at the 0.05 level of significance.

Both parametric and nonparametric tests were computed for the percentage difference in occupancy and RevPAR by price difference categories. The p-values indicated rejection of the null hypotheses that each percentage difference is insignificantly different from zero at the 0.05 level of significance in all but two cases: for occupancy when the percentage difference in ADR was 5-10% higher; and for RevPAR when the percentage difference in ADR was 0-2% lower.
The percentage difference in RevPAR was -6.04% for the groups that priced lower than competitors. As the exhibit shows, the occupancy shifts during the four-year time period were modest, indicating that customer demand for European lodging products was not particularly responsive to competitive differences in pricing. In addition, RevPAR moved in the direction of the price change. When hotels offered prices (ADRs) that were lower than competitors, their RevPARs were also lower, and those with higher prices also had higher relative RevPARs.

**Regional Differences**

Thinking that price sensitivity and competitive pricing strategies might vary by region, we divided our sample into the following four distinct geographical regions: eastern, western, northern, and southern. The countries included in each region are listed in Exhibit 2.

As Exhibits 3, 4, 5, and 6 show, the data reveal a similar pattern across all four regions. We note a greater percentage difference in occupancy and RevPAR volatility in both southern and eastern Europe as compared to the northern and western sections. In all cases, the pattern is the same in both time periods. Overall, for hotels that undercut their competitive set on price, average occupancy percentages were higher, but average RevPAR percentages were lower than those of competitors. As we indicated above, a closer look at hotels in southern and eastern Europe reveals demand that is more responsive to price changes than ap-
pears in northern and western European markets. For the northern and western Europe hotels, occupancies show only modest increases when a hotel’s prices are lower than competitors and modest comparative gains when prices are above competitors. While few notable differences were found between the good and bad times, it does appear that demand for hotels in eastern and southern Europe is more responsive to lower prices. However, the increase in demand for those hotels still does not offset the lower rates and as a result is accompanied by relatively lower RevPARs.

Market Segments

In past studies we have discovered differences in the demand and revenue patterns for hotels in distinct market price segments. Categorizing the sample hotels into the broad market price and quality bands employed by STR (i.e., luxury, upper upscale, upscale, midscale with F&B, midscale without F&B, and economy), we started by exploring demand and RevPAR dynamics for luxury, upper upscale, and upscale hotel segments, as shown in Exhibits 7–9.

Consistent with previous studies in the U.S. and Asia, the data show only modest differences in the results associ-
ated with the pricing behavior of hotels in the higher-end segments of the market. Once again we note the relative price inelasticity of demand in luxury hotels, as shown in Exhibit 7. Occupancy averages in luxury hotels do not appear to be as responsive to shifts in competitive prices as those averages are for other market segments. Whether exploring the prosperous years (2006–2007) or recent recessionary years (2008–2009), occupancies remain relatively unresponsive to pricing strategies. In fact, the highest positive occupancy percentage differences from competitors were associated with modestly lower rates in 2006–2007, and modestly higher ADRs than competitors in 2008–2009. RevPAR patterns were clear and indicated rising or falling values in concert with rising or falling ADRs. When prices were below the competitive set so were RevPARs.

Upper upscale and upscale hotels saw stronger occupancies gains than did luxury hotels when competitors offered comparatively higher prices (see Exhibits 8 and 9). In these segments, demand was more responsive to pricing

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EXHIBIT 7

strategies, but again solid RevPAR premiums were obtained for hotels that priced higher than their competitors. Regardless of the high-end market segment, all hotels that priced above their competitors experienced higher comparative RevPAR performance. The largest percentage gains in occupancy were for hotels that priced 15-30 percent lower than their competitors. These hotels also experienced the largest percentage losses in relative RevPAR.

As was the case with upmarket properties, midscale hotels showed gains in occupancy for hotels that offered lower prices than their competitors, but that was also true for midscale properties that priced higher than their competitors (see Exhibits 10 and 11). This pattern applied to both types of midscale hotels, those that offer food and beverage and those that do not, except that the latter saw more occupancy variability. Hotels that priced 0 to 2 percent lower than their competitors did not gain nearly the occupancy benefits that were found in hotels that priced in the same range just above the competition. Indeed, unlike any other market segment, pricing higher than the competition produced both occupancy and RevPAR gains in 2008 and 2009 for each and every level of higher pricing strategy. The occupancy gains from lower prices were greater in the weak economy of 2008 and 2009 than in the prosperous 2006-2007 time period.

### Exhibit 8

RevPAR and occupancy differences from competitive set for European upper upscale hotels in good times (2006–2007) and bad times (2008–2009)

<table>
<thead>
<tr>
<th>Percentage Differences From Competitive Sets</th>
<th>15-30%</th>
<th>10-15%</th>
<th>5-10%</th>
<th>2-5%</th>
<th>0-2%</th>
<th>0-2%</th>
<th>2-5%</th>
<th>5-10%</th>
<th>10-1% 5%</th>
<th>15-30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>RevPAR 06-07</td>
<td>5.44</td>
<td>3.32</td>
<td>1.75</td>
<td>3.72</td>
<td>3.09</td>
<td>1.13</td>
<td>1.78</td>
<td>1.19</td>
<td>-0.21</td>
<td>-5.78</td>
</tr>
<tr>
<td>RevPAR 06-07</td>
<td>-15.84</td>
<td>-9.16</td>
<td>-5.76</td>
<td>0.10</td>
<td>2.07</td>
<td>2.04</td>
<td>5.18</td>
<td>8.74</td>
<td>12.08</td>
<td>12.99</td>
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<tr>
<td>Occupancy 06-07</td>
<td>7.95</td>
<td>5.64</td>
<td>2.76</td>
<td>3.24</td>
<td>0.88</td>
<td>2.64</td>
<td>2.77</td>
<td>0.41</td>
<td>0.80</td>
<td>-3.67</td>
</tr>
<tr>
<td>Occupancy 08-09</td>
<td>-13.52</td>
<td>-7.54</td>
<td>-4.79</td>
<td>-0.18</td>
<td>-0.15</td>
<td>3.75</td>
<td>6.49</td>
<td>7.85</td>
<td>13.28</td>
<td>15.22</td>
</tr>
</tbody>
</table>

ADR Percentage Difference From Competitive Set

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In addition, dramatic differences in price (15-30 percent lower than the competitive set) provided far more dramatic occupancy gains in 2008-2009 without the same level of relative RevPAR losses as was experienced in 2006-2007 by hotels which pursued that pricing strategy. Overall lower occupancies and substantially higher RevPARs are the norm for hotels that price above their competition in the midscale segment.

The occupancy and RevPAR behavior of economy hotels was particularly volatile during the last four years, as shown in Exhibit 12. In 2006-2007 deep price reductions compared to the competitive set produced modest relative occupancy gains, but modestly lower prices than those of competitors actually produced occupancy losses. In addition, RevPAR losses were dramatic for modest discounters in the economy segment. More recently, offering prices modestly lower than the competition produced noticeable occupancy losses and RevPAR losses. The data suggest that in the 2008-2009 period customer demand was actually lower for hotels that priced lower than their competitors in the ADR categories from 0 to 10 percent lower. Curiously both occupancy and
sizable RevPAR gains were reported for hotels that priced 10 to 15 percent higher than their competitive sets.

Size and Chain Affiliation

On balance, the occupancy and RevPAR patterns held regardless of a hotel's size or its brand status. We do note that small and medium size hotels gained higher relative occupancy advantage from offering prices lower than competitors, as compared to the results from large hotels that undercut competitors’ prices. Medium-size hotels recorded the largest relative occupancy averages from dramatically lower prices (10 to 30 percent below competitors) during the 2008-09 recession. Offering lower prices during the 2006-07 period resulted in lower comparative RevPAR performance than the same low pricing strategy in 2008-09 for small and medium sized hotels. Large hotels suffered greater RevPAR losses in the 2008–2009 period from dramatically lower prices, but saw only modest occupancy premiums. In sum, pricing below the competitors resulted in lower comparative RevPARs for all hotels regardless of size.

We found that a comparison of chain affiliated hotels with independent hotels yielded similar results (see Exhibit 14). Chain affiliated hotels gained higher levels of relative occupancy and saw lower RevPAR losses than did independent hotels when pricing below competitors, but the pattern

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### Exhibit 10

RevPAR and occupancy differences from competitive set for European midscale hotels with food and beverage in good times (2006–2007 and bad times (2008–2009)

<table>
<thead>
<tr>
<th></th>
<th>15-30% Lower</th>
<th>10-15% Lower</th>
<th>5-10% Lower</th>
<th>2-5% Lower</th>
<th>0-2% Lower</th>
<th>10-15% Higher</th>
<th>5-10% Higher</th>
<th>0-2% Higher</th>
<th>2-5% Higher</th>
<th>15-30% Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy 06-07</td>
<td>3.69</td>
<td>3.24</td>
<td>2.49</td>
<td>2.12</td>
<td>2.07</td>
<td>1.98</td>
<td>1.26</td>
<td>0.49</td>
<td>-3.63</td>
<td>-6.11</td>
</tr>
<tr>
<td>RevPAR 06-07</td>
<td>-16.63</td>
<td>-9.52</td>
<td>-4.99</td>
<td>-1.53</td>
<td>0.97</td>
<td>2.82</td>
<td>4.70</td>
<td>7.72</td>
<td>7.95</td>
<td>11.04</td>
</tr>
<tr>
<td>Occupancy 08-09</td>
<td>7.21</td>
<td>3.76</td>
<td>3.23</td>
<td>2.48</td>
<td>2.12</td>
<td>1.28</td>
<td>0.27</td>
<td>0.37</td>
<td>-4.35</td>
<td>-5.45</td>
</tr>
<tr>
<td>RevPAR 08-09</td>
<td>-13.58</td>
<td>-8.90</td>
<td>-4.19</td>
<td>-1.13</td>
<td>0.95</td>
<td>2.17</td>
<td>3.82</td>
<td>7.69</td>
<td>7.67</td>
<td>12.96</td>
</tr>
</tbody>
</table>

ADR Percentage Difference From Competitive Set

---
of results remained the same. Compared with chain hotels, independent hotels were unable to yield as substantial relative RevPAR gains when they offered prices higher than those of their competitive set, but their occupancy losses were also not as great. In essence, chain hotels appeared to gain more and lose less from their pricing strategies than did independents, but the degree of benefit is modest and the overall pattern of results is similar for the two types of business strategies.

Conclusions and Future Directions

Effective pricing strategy is not just about inventory optimization. Cross, Higbie, and Cross address this issue as follows:

“Optimization systems for hospitality revenue management traditionally have been limited to optimizing the inventory to be sold at a given rate.”\(^\text{16}\) They argue that revenue management is shifting away from its initial tactical focus on opening and closing rates and increasingly involves a deeper strategic understanding of what constitutes the right price. The matter at the heart of this strategic development is to understand how customers respond to offerings in the

marketplace, and to ensure that a hotel’s rate structure is focused on creating customer value. The results of this study and its predecessors have demonstrated that price cannot be customers’ only consideration in choosing a hotel. We have seen that, in the main, guests in Asia, Europe, and the U.S. do not respond just to competitively lower or higher prices. Certainly some demand shifts among direct competitors as pricing tactics unfold, but the overall unresponsiveness of demand to lower comparative prices clearly reveals that most customers are buying for value, not simply searching for the lowest price. This observation appears to hold for hotels of different sizes and in diverse locations, whether chain affiliated or independent.

Even though the overall pattern holds, this study has also shown that the behavior of occupancy and RevPAR in response to pricing strategies is not consistent across the various regions of Europe—nor is it consistent across market segments. The occupancy and RevPAR volatility in southern and eastern Europe stands in marked contrast to the pattern of demand and RevPAR performance found in northern and western Europe. Given the results in midscale hotels, we can note that the “midsection” of the market is a complicated competitive space that is occupied by many hotel concepts that bring conflicting approaches to the market. Based on the behavior of their relative occupancy and RevPAR in re-

Exhibit 12
### Exhibit 13

RevPAR and occupancy differences from competitive set for small, medium, and large European hotels in good times (2006–2007) and bad times (2008–2009)

#### Small Hotels

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>15-30%</td>
<td>5.42</td>
<td>7.37</td>
<td>-15.29</td>
<td>-13.91</td>
</tr>
<tr>
<td>Lower</td>
<td>10-15%</td>
<td>2.66</td>
<td>3.47</td>
<td>-10.07</td>
<td>-9.23</td>
</tr>
<tr>
<td>Lower</td>
<td>5-10%</td>
<td>2.50</td>
<td>3.10</td>
<td>-4.99</td>
<td>-4.47</td>
</tr>
<tr>
<td>Lower</td>
<td>2-5%</td>
<td>2.74</td>
<td>3.03</td>
<td>-0.91</td>
<td>-0.59</td>
</tr>
<tr>
<td>Lower</td>
<td>0-2%</td>
<td>2.01</td>
<td>0.57</td>
<td>0.90</td>
<td>-0.51</td>
</tr>
<tr>
<td>Higher</td>
<td>0-2%</td>
<td>1.94</td>
<td>2.50</td>
<td>2.94</td>
<td>3.49</td>
</tr>
<tr>
<td>Higher</td>
<td>2-5%</td>
<td>1.37</td>
<td>0.15</td>
<td>4.90</td>
<td>3.65</td>
</tr>
<tr>
<td>Higher</td>
<td>5-10%</td>
<td>-0.30</td>
<td>0.61</td>
<td>7.00</td>
<td>7.96</td>
</tr>
<tr>
<td>Higher</td>
<td>10-15%</td>
<td>-1.83</td>
<td>0.41</td>
<td>10.08</td>
<td>12.65</td>
</tr>
<tr>
<td>Higher</td>
<td>15-30%</td>
<td>-6.35</td>
<td>-6.01</td>
<td>12.30</td>
<td>13.28</td>
</tr>
</tbody>
</table>

#### Medium-size Hotels

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>15-30%</td>
<td>5.12</td>
<td>8.88</td>
<td>-15.75</td>
<td>-12.47</td>
</tr>
<tr>
<td>Lower</td>
<td>10-15%</td>
<td>3.75</td>
<td>4.60</td>
<td>-9.03</td>
<td>-8.28</td>
</tr>
<tr>
<td>Lower</td>
<td>5-10%</td>
<td>1.95</td>
<td>0.76</td>
<td>-5.62</td>
<td>-6.69</td>
</tr>
<tr>
<td>Lower</td>
<td>2-5%</td>
<td>2.17</td>
<td>0.68</td>
<td>-1.40</td>
<td>-2.76</td>
</tr>
<tr>
<td>Lower</td>
<td>0-2%</td>
<td>1.37</td>
<td>2.12</td>
<td>0.38</td>
<td>1.03</td>
</tr>
<tr>
<td>Higher</td>
<td>0-2%</td>
<td>1.25</td>
<td>2.28</td>
<td>2.23</td>
<td>3.26</td>
</tr>
<tr>
<td>Higher</td>
<td>2-5%</td>
<td>0.56</td>
<td>1.29</td>
<td>4.07</td>
<td>4.86</td>
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<tr>
<td>Higher</td>
<td>5-10%</td>
<td>0.06</td>
<td>-1.14</td>
<td>7.43</td>
<td>5.99</td>
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<tr>
<td>Higher</td>
<td>10-15%</td>
<td>-1.99</td>
<td>-0.87</td>
<td>10.24</td>
<td>11.57</td>
</tr>
<tr>
<td>Higher</td>
<td>15-30%</td>
<td>-4.00</td>
<td>-6.40</td>
<td>15.29</td>
<td>11.92</td>
</tr>
</tbody>
</table>

#### Large Hotels

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>15-30%</td>
<td>4.91</td>
<td>1.30</td>
<td>-15.14</td>
<td>-18.16</td>
</tr>
<tr>
<td>Lower</td>
<td>10-15%</td>
<td>3.60</td>
<td>3.91</td>
<td>-9.02</td>
<td>-8.85</td>
</tr>
<tr>
<td>Lower</td>
<td>5-10%</td>
<td>1.17</td>
<td>3.44</td>
<td>-6.42</td>
<td>-4.24</td>
</tr>
<tr>
<td>Lower</td>
<td>2-5%</td>
<td>2.42</td>
<td>1.07</td>
<td>-1.22</td>
<td>-2.32</td>
</tr>
<tr>
<td>Lower</td>
<td>0-2%</td>
<td>1.59</td>
<td>-0.26</td>
<td>0.52</td>
<td>-1.17</td>
</tr>
<tr>
<td>Higher</td>
<td>0-2%</td>
<td>-0.38</td>
<td>0.68</td>
<td>0.45</td>
<td>1.70</td>
</tr>
<tr>
<td>Higher</td>
<td>2-5%</td>
<td>2.15</td>
<td>3.03</td>
<td>5.52</td>
<td>6.47</td>
</tr>
<tr>
<td>Higher</td>
<td>5-10%</td>
<td>0.08</td>
<td>-1.15</td>
<td>7.30</td>
<td>5.74</td>
</tr>
<tr>
<td>Higher</td>
<td>10-15%</td>
<td>0.10</td>
<td>-4.10</td>
<td>12.35</td>
<td>7.75</td>
</tr>
<tr>
<td>Higher</td>
<td>15-30%</td>
<td>-6.88</td>
<td>-6.27</td>
<td>12.54</td>
<td>13.32</td>
</tr>
</tbody>
</table>
response to competitive price positions, we can conclude only that the one thing these hotels have in common is that they operate in the middle of the market.

We found little evidence that the outcomes of the industry’s pricing behavior changed when the European markets moved from prosperous times to the more recent recessionary period. In fact, as occurred in prior studies, our analysis suggests a similar pattern of occupancies and RevPARs during both the good and bad times in the European lodging industry. Again, this outcome highlights the importance of understanding customers’ willingness to pay based on offering a differentiated bundle of products and services. Some have argued for the development of more sophisticated performance metrics that wed a full understanding of customer buying habits with monitoring of market dynamics to help pricing under a range of situations.\(^\text{17}\)

We strongly advocate this position, in which hotel managers understand fully the price elasticity of demand for different customers (e.g., business transient vs. group) and more fully measure customer pricing behavior. This study is an early step toward a better understanding of the responsiveness of demand to comparative pricing strategies. The market dynamics within Europe suggest that relative RevPAR moves in the direction of price changes. A relatively low price leads to relatively low RevPAR, when compared to competitors in the same market. Greater occupancy does not

\(^{17}\) Cross et al., 2009.
offset reduced revenue as compared with direct competitors. In some instances, the low-price hotel doesn't even enjoy a stronger occupancy average, compared to its competitive set. While attention to market dynamics is essential, previous research does suggest that hotels that priced above their competition were among the best at revenue management, defined as the rate-to-occupancy relationship.\(^\text{18}\) Hence, careful pricing behavior is consistent with effective revenue management.

One of the limitations of this study is that it doesn't take into consideration the ancillary revenue that might accrue from food and beverage, meeting space, spas, and other sources. To fully understand pricing, the potential for additional revenues must be included in future studies. In addition, a focus on profit rather than revenue would advance our understanding of the role that costs play. Displacement analysis, for example, allows a firm to plot incremental contribution at any given price point for adding business and helps to forecast optimal rate under different situations taking into consideration the contribution margin. Information on fixed and variable costs, as well as competitive conditions, is necessary to examine optimal pricing.

While this study does not address an optimal pricing strategy or the impact of price changes on overall demand and RevPAR, it does show the effects of pricing on relative demand and relative RevPAR in the context of a hotel's competitive set. Further, this study is one of the few that has examined competitive pricing in the European lodging industry with a comprehensive sample across a wide range of countries and price segments.

For practitioners this study suggests an approach of maintaining your hotel's strategic rate position in both good times and bad—even when your competitors are discounting. Hotels in most market segments benefited (in terms of relative RevPAR) from setting their prices even a small degree above the competition. Raising prices in a competitive market requires a hotel to have a clear and compelling value proposition that distinguishes the hotel from others. A strategy of differentiation requires a company to distinguish its products or services on the basis of attributes such as higher quality product features, complementary services, creative advertising, better supplier relationships leading to better services, location, the skill and experience of employees, or technology embodied in design.\(^\text{19}\) In differentiation strategies, the emphasis is on creating value through a distinctive product and positioning, as opposed to lowest cost. Since hotel services are often complex and satisfy self-identity and social affiliation needs, opportunities for differentiation abound. Unlike products that are relatively simple and require performance to a technical standard, hotel products offer limitless opportunities for differentiation. Service experiences that complement consumers’ lifestyles and brands that communicate their aspirations may allow the firm that creates these products and services to maintain its rate integrity. Chain affiliated hotels in this study tended to fare better than their competitors in gaining occupancy when offering prices lower than competitors, and gaining RevPARs when offering prices higher than competitors. The higher price associated with differentiation is necessary to cover the extra costs incurred in offering the distinctive experience; however, the key to success is that customers must be willing to pay more for the differentiated service than the firm paid to create it. To understand and profit from a differentiation strategy it is important to begin with distinctive offerings that are valued by customers. Chain affiliation alone does not appear to be sufficient to create this value proposition, but once that value proposition is defined and actions are taken to support its execution, the next step is to understand how customers respond to the offerings under different market conditions. Perhaps this is a clue to the tangled results for midscale hotels: it is easier to maintain higher rates when the product is differentiated, regardless of the size of the hotel property. Knowing when to stay firm on rates and when to adjust them is no longer an intuitive process of good guessing. Instead it should be informed by the collection of data on customer responsiveness to price shifts for a given hotel—a role that a good revenue manager should be playing for your hotel. From our work it seems clear that demand is not stimulated by price reductions, and ultimately the entire industry loses when everyone drops rate, regardless of economic conditions, hotel size, and management type.


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