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Competitive Hotel Pricing in Europe: An Exploration of Strategic Positioning

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Abstract
This study explores the effects of competitor pricing levels on relative revenue on a sample of over 4,000 hotels in Europe over a ten-year period (2004–2013). Hotels in this European sample, which included both independent and chain-affiliated properties, achieved higher revenue per available room (RevPAR) than direct competitors when they positioned their hotels with comparatively higher prices. These data revealed that regardless of the economic situation of the time period, hotels that positioned with average daily rates (ADRs) above those of their direct competitors benefited from higher relative RevPAR even though they experienced lower comparative occupancies. This finding was stronger for chain-affiliated hotels than for independent hotels. Maintaining a consistent relative price over time (as compared to having a fluctuating price) did not significantly affect revenue performance, controlling for hotel type and location. A further analysis of hotels in the Netherlands likewise found the same connection between relatively higher rates and revenue. As is the case with previous, similar studies, the findings argue for a firm, strategic approach to pricing, rather than a reactive or strictly tactical approach.

Keywords
average daily rates (ADR), revenue per available room (RevPAR), pricing levels, European hotels

Disciplines
Business | Hospitality Administration and Management

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EXECUTIVE SUMMARY

This study explores the effects of competitor pricing levels on relative revenue on a sample of over 4,000 hotels in Europe over a ten-year period (2004–2013). Hotels in this European sample, which included both independent and chain-affiliated properties, achieved higher revenue per available room (RevPAR) than direct competitors when they positioned their hotels with comparatively higher prices. These data revealed that regardless of the economic situation of the time period, hotels that positioned with average daily rates (ADRs) above those of their direct competitors benefited from higher relative RevPAR even though they experienced lower comparative occupancies. This finding was stronger for chain-affiliated hotels than for independent hotels. Maintaining a consistent relative price over time (as compared to having a fluctuating price) did not significantly affect revenue performance, controlling for hotel type and location. A further analysis of hotels in the Netherlands likewise found the same connection between relatively higher rates and revenue. As is the case with previous, similar studies, the findings argue for a firm, strategic approach to pricing, rather than a reactive or strictly tactical approach.

Keywords: Pricing strategy, revenue management, competitive dynamics, price positioning, discounting, hotel industry
ABOUT THE AUTHORS

Cathy A. Enz, Ph.D., is the Lewis G. Schaeeneman, Jr. Professor of Innovation and Dynamic Management and a professor in strategy. She served as associate dean for industry research and affairs and executive director of the Center for Hospitality Research from 2000 to 2003. Enz has published over one hundred journal articles, book chapters, and four books in the area of strategic management. Her research has been published in a wide variety of prestigious academic and hospitality journals such as Administrative Science Quarterly, The Academy of Management Journal, and Cornell Hospitality Quarterly. Enz teaches courses in innovation and strategic management and is the recipient of both outstanding teaching and research awards. The Hospitality Change Simulation, a learning tool for the introduction of effective change, was developed by Enz and is available as an online education program of eCornell. Three strategic management courses are also available through eCornell. Enz also presents numerous executive programs around the world, consults extensively in North America, and serves on the Board of Directors of two privately-owned hotel companies.

Linda Canina, Ph.D., is an associate professor in the School of Hotel Administration's finance, accounting, and real estate department. There, she teaches undergraduate and graduate courses in corporate finance. Her research interests include asset valuation, corporate finance and strategic management. She has expertise in the areas of econometrics, valuation, IPOs, payout policy, mergers and acquisitions, options 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, the relationship between various liquidity measures and profitability, 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 the Academy of Management Journal. Canina's other work has appeared in the Journal of Finance, Review of Financial Studies, Financial Management Journal, the Journal of Hospitality and Tourism Research, and Cornell Hospitality Quarterly.

An economist and marketer, Jean-Pierre van der Rest, Ph.D., is a professor of strategic pricing and revenue management at Hotelschool The Hague. He holds a concurrent position as director for the research Centre, and previously served as Associate Dean (Education) and Head of Department at Hotelschool The Hague. Before moving to The Hague, he was on the faculty of Leiden University. He received a Ph.D. in business from Oxford Brookes University, an MA in managerial economics from the University of Durham, and a BBA in hotel administration from the Maastricht Hotel Management School. His research covers pricing, forecasting, competition, and consumer price perceptions. He serves on 8 international editorial boards, and his work is published in leading scholarly books and international journals in hospitality and tourism.
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Hotel operators are extremely sensitive to the pricing behavior of their competitors, but setting rates should not be merely a tactical matter, even though there’s no doubt that competitors are an important factor to consider in hotel pricing. Instead, price setting should be part of a hotel’s overall strategy, and that pricing should reflect the hotel’s position in providing customer value at a given cost, as well as capture the relative comparative advantage and the actions and reactions of market players. This mindset considers pricing as a strategic capability that is integral to a company’s overall strategy.¹ Such a strategy would include pricing tactics indicated by revenue management analysis and economic conditions.

As changing market conditions and technological advances stimulate innovations and strategic investments in revenue management, managers fundamentally need to know how to increase firm performance via pricing to drive higher revenue and stay ahead of the competition. Despite a well-developed science of pricing, managers in many industries still rely on rules of thumb, including cost-based pricing, or they react to competitors’ pricing moves. In a series of hotel pricing studies with several colleagues, authors Enz and Canina have established the importance of a consistent pricing strategy, one that does not rely on neoclassical theories of perfect competition.

In this paper, we extend that series of studies with a broad sample of European hotels examined over a ten-year period. This study augments an earlier examination of European hotels over a shorter time period.

Rather than allow outside forces to drive pricing strategy, we advocate the resource-based approach, which emphasizes that firms make strategic positioning choices informed by their specific bundle of capabilities and their value proposition. Viewing competitive hotel pricing from a strategic resource based perspective does not negate the challenges of pricing, but some players will consistently make better decisions, which will lead to higher RevPAR relative to their competitive set, as a result of their distinctive bundle of (pricing) capabilities. While research has explored the development of pricing capabilities, few studies so far have empirically examined whether an explicit strategic choice to avoid tactical price fluctuations and to resist undercutting tactics to steal market share in the short run by price positioning below competitors actually pays off.

In sum, this study explores the degree to which strategic price positioning, conceptualized as the degree to which a hotel prices above or below its competitive set, as well as price fluctuations, affect relative revenue per available room for European hotels in a broad set of nations. We also drill down to analyze the situation in a single nation, the Netherlands. Establishing the empirical relationship between price stability and performance, together with the benefits from stable and comparatively higher price positions can serve as a basis for further research by others exploring what pricing capabilities actually explain the observation that some managers make the right decisions and others do not. We again study European hotels to extend prior work on explicit strategic pricing choices in Europe. Because Europe hosts a somewhat larger percentage of independent hotels that does the U.S., this study of European hotels allows for a comprehensive exploration of price positioning for both chain-affiliated and independently owned and operated enterprises.

Strategic Pricing

A firm’s strategic price position reflects where it positions itself in the long term relative to the competition. One important pricing tactic involves revenue management, for which price optimization has emerged as a key element. We note a recent study that links short-term pricing tactics that would include typical revenue management recommendations with longer-term strategic positioning. In that examination of U.S. hotels, Breffni Noone together with authors Enz and

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9 For example, see: Enz and Canina, op.cit.

Canina tested the effects of strategic relative price position and relative price fluctuations on RevPAR performance of almost seven thousand U.S. hotels over an eleven-year time period.\textsuperscript{11} That study revealed that strategic price positioning and price fluctuations are key variables for understanding longer-term performance. We extend this earlier work by exploring positioning and fluctuations for European hotels in broadly diverse nations over a ten-year time horizon that includes periods of weak and strong economic climates.

This study extends the examination of the positioning question of whether a hotel that sets its prices higher than those of competitors obtains higher long-term performance. The outcome hinges in part on hotel guests’ price elasticity. A meta-analysis of industrial pricing by Hinterhuber relegates price sensitivity to the status of a myth, and he further asserts that high prices and high market share are not incompatible.\textsuperscript{12} Our study tests that notion. If demand remains virtually the same when a hotel sets its prices higher than that of its competitors (that is, demand is price inelastic), it is likely that this hotel will experience higher revenues. On the other hand, if a hotel drops its price relative to the competition and this practice leads to substantial increases in occupancy (that is, demand is price elastic), it is possible that the hotel will experience higher revenues. We examine the effects of strategic price positioning by looking at the degree to which hotels that offer high prices relative to their competitors will experience lower occupancy and accompanying lower revenues. We acknowledge that cost structure and total revenue management issues are critical in making pricing decisions, but this investigation focuses only on issues of occupancy and revenue in competitive situations.

Liozu and colleagues have found that competitive intensity negatively moderates the relationship between organizational confidence and firm performance, but not the relationship between pricing capabilities and performance.\textsuperscript{13} Their work suggests that when competition is intense competitors with confidence in how they position will have better performance. These results would suggest that hotels that maintain price stability when facing intense competition may have higher performance. By the same token, hotels with the confidence to offer prices that are higher relative to their competitors should experience higher performance. However, the nature of overall economic periods may moderate these linkages. In prosperous times, for example, some competitors typically raise prices in sync with rising new demand. In difficult economic times competitors often drop prices to stimulate demand or steal market share. Because this study’s ten-year time period included periods of both economic prosperity and downturn, we are able to analyze hotels’ performance under varied economic conditions.

**Fluctuating Price and Positioning**

To position itself in the long term, a firm needs clear positioning goals that inform the tactical day-to-day pricing decisions and ensures that these activities comply with the overall strategy.\textsuperscript{14} Competitor prices are a part of the calculus that links long- and short-term pricing. In that light, Lieberman argues that competitor prices should be considered to facilitate responsive positioning and mitigate conflicts.\textsuperscript{15} The impact of relative price position on performance has been studied in considerable depth,\textsuperscript{16} but the relationship between price fluctuation and financial performance is an issue that should be explored in greater detail.\textsuperscript{17} Picking up from an earlier study, we investigate whether price fluctuations have a negative impact on revenue performance in our sample of European hotels. While this question has received some attention in the revenue management literature, it has not been clearly linked to price positioning strategy.

Based on other research and the study that co-authors Enz and Canina conducted with Brefni Noone, we expect that extensive price fluctuations will diminish revenue performance in our sample, due to the impact of price variability on customer risk and perceptions of brand equity.\textsuperscript{18} We further argue that a consistent strategy of establishing a higher relative price position than the competition will benefit revenue performance, in keeping with the stream of studies by Enz, Canina, and colleagues that suggest that relative price position is an essential element of strategic pricing success.\textsuperscript{19} As is the case in many destinations, European hotel demand can be volatile, making consistent pricing


\textsuperscript{12} Liozu et al., \textit{op. cit.}

\textsuperscript{13} Ibid.


\textsuperscript{17} Noone et al., \textit{op.cit.}


decisions difficult. In addition, independent hotels constitute
the majority of hotel inventory in Europe, unlike the U.S.
markets. Although the bulk of our data came unavoidably
from chain hotels, we were able to test the effects of price
positioning dynamics on a solid sample of independents.

As we noted at the outset, the revenue impact of a price
change depends on the price elasticity of demand. Some
empirical studies within the U.S. have shown hotel demand
to be relatively price inelastic. Although we do not directly
address price elasticity in this study, that concept is implicit
in our analysis. We follow the approach of previous stud-
ies in this series by calculating the revenue and occupancy
impact of individual hotel pricing decisions compared to
competitors’ prices, revenues, and occupancies. This
approach allows for the exploration of the impact on demand
and rooms revenue of pricing differences among hotels that
directly compete in local markets. We then explore the im-
pact of price fluctuations and relative positioning on revenue
performance.

Method: Sample
Our data were obtained from STR Global, the foremost
source of hotel supply and demand data worldwide. The STR
Global data consisted of monthly hotel-level performance
data—room revenue and rooms sold for the period 2004-
2013 for a broad sample of European hotels. In addition,
STR supplied categorical variables that describe some of the
characteristics of each hotel. We excluded properties with
less than 12 months of data in any of the years under review,
resulting in a sample size of 4,120 hotel properties in 37
nations. Hotel size ranged from 9 to 1,200 rooms, and the
sample was composed of 26 percent independent properties,
with the remainder being chain-affiliated hotels. The propor-
tions of independent and chain hotels varied by country. The
hotels in certain countries (with small sample sizes) were all
chain affiliated: namely, Azerbaijan, Croatia, Georgia, Ka-
zakhstan, and Turkey. The Norwegian hotels in this sample
were all independent, on the other hand, and other nations
had small percentages of chain hotels: Estonia, Iceland,
Latvia, Monaco, and Sweden. Most of the countries with a
large number of hotels in our sample also had fairly substan-
tial chain penetration. This included the United Kingdom
(n = 2,403), 88.64 percent chain; Germany (n = 273), 91.94
percent; Italy (n = 234), 64.96 percent; Spain (n = 179), 90.50
percent; Netherlands (n = 127), 85.04 percent; Ireland (n =
90), 53.33 percent; and Switzerland (n = 90), 57.78 percent.

The unit of analysis was the individual hotel, and the
sample included all hotel types as defined by STR (i.e., lux-
ury, upscale, midscale, economy, and budget) and locations,
also compiled by STR (i.e., urban, suburban, airport, inter-
state, resort, and small town or metro). Relying on monthly
property-level data for each of the ten years, the analyses
were aggregated to annual levels to minimize possible
seasonal pricing irregularities. For each year, we calculated
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.

Each hotel’s competitive set was determined by the
hotel itself, according to STR Global’s guidelines. In Europe
STR Global requires a hotel to specify a minimum of four
competitive properties, none of which are affiliated with that
hotel’s brand, management, ownership, or asset management
company. In addition, no individual hotel in the competitive
set can account for more than 50 percent of the competitive
set’s total room supply, nor can a single brand account for
more than 60 percent of the competitive set’s total room sup-
ply. Our study used the competitive sets thus established.

Hotels that were unable to achieve a percentage differ-
ence in RevPAR within one standard deviation of zero from
their competitors were excluded from this study, on the
grounds that they were noncompetitive, a procedure applied
in prior studies in this series. This methodology ensures
that the comparison hotels were true competitors. It is es-
cential to the accuracy of this analysis that the performance
of a given hotel is comparable to that of its competitive set;
otherwise the study may err on the side of comparing hotels
that in fact do not compete and should not be compared.
Consequently, to check that each hotel had correctly identi-
fied its competitors, we also analyzed past performance to
ensure that the hotels were truly comparable competitors.
As with earlier studies in this series, we assigned each hotel
to one of ten different pricing strategy categories based on
the percentage difference in each hotel’s ADR from its com-
petitive set by year, using five graduated categories of lower
comparative prices and five categories for higher prices.

Measured Variables
Performance Over Time: Our study gauges performance
as revenue per available room (RevPAR), by dividing total
room revenue over the 10-year period by the total number
of rooms available for sale over the 10-year period.

Price Position Over Time: We used average daily rate
(ADR) relative to the competitive set as our measure of
price position. We computed relative annual ADR for each
hotel in the sample as the average percentage difference of
the annual ADR from that of the competitive set over the
10-year period. The annual percentage difference calculation
was made in the usual way, by comparing the ADR of each
hotel with that of its competitive set and stating the result as
a percentage.

20 Enz and Canina, op.cit.
21 See: Enz, Canina, and Lomanno (2009), op.cit.
22 Ibid.
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**Total or Average**: 4,120 17,272 180.47 91.05 416.92 62.68 28.89 81.62 315.88
Price Fluctuation Over Time: To measure price fluctuation we adopted the approach we took with our colleague Breffni Noone, in which we measured the relative variability in ADR over time, by calculating the standard deviation of the annual ADR percentage difference from the competitive set over the 10-year period. For any given hotel property, the greater the variability in relative ADR over the 10-year period, the higher the price fluctuation score.

Annual Comparative Price, Occupancy, and RevPAR: Our relative pricing measure was the percentage difference between each hotel and its competitive set of hotels on price, demand, and revenue. We used the percentage difference in ADR among direct competitors as the basis for making comparisons in pricing strategy (and as we said to eliminate noncompetitive hotels). The five graduated positive and five negative price difference categories ranged from 15- to 30-percent above or below the competition to 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. We divided our data into three distinct time periods to reflect economic periods of growth and recession.

Analysis
In addition to the reported percentage differences, we ran multiple regressions to test the effects of relative price position and of price fluctuation on RevPAR performance, controlling for hotel type and location. The luxury hotel segment was used as the regression reference group for hotel type, and resort location was the reference group for the location variable. We also conducted separate price positioning analyses for independent and chain-affiliated hotels.

To further explore a specific European market we examined the pricing dynamics within the Netherlands, which was the country whose hotels reported the highest occupancy levels during the period of the study.

Results
As was the case in similar studies, we found that hotels that consistently maintained an ADR somewhat higher than that of their competitive set also enjoyed a relatively higher RevPAR. A summary of the descriptive data for this sample is presented in Exhibit 1. It shows the countries included in the sample, the number of hotels in each country, and summary information regarding ADR, occupancy, and RevPAR. Given the sample characteristics as both cross-sectional and time-series (with annual data over the 2004-2013 period), the entire sample contains 17,272 hotel-years. The average ADR ranges from a high of US$439.46 in Monaco to a modest $89.22 in Lithuania. The average annual occupancy rates range from a high of 73.65 percent in the Netherlands to just 28.042 percent in Croatia. The descriptive statistics reveal substantial absolute differences in occupancy, ADR, and RevPAR in various regions of Europe.

The results of our comparison of hotel pricing strategies during the ten-year period for all 4,120 European hotels in our sample are shown in Exhibit 2. The data suggest that relative occupancies do not significantly fluctuate with changes in relative price, given a reasonably flat percentage difference from the competition on the occupancy line mapped in Exhibit 2. The maximum occupancy advantage over the
competitive set—5.90-percent higher—was obtained by those hotels that had 15- to 30-percent lower comparative ADRs. If lower prices are designed to steal market share, as these data indicate, we see this as a weak trade-off. The magnitude of the gain in occupancy was quite low for those who priced lower than competitors, and as we discuss next, there was a notable RevPAR penalty for this strategy.

Looking at the RevPAR line in Exhibit 2, hotels that maintained lower prices compared to their competitors also experienced the lowest comparative RevPARs. For instance, the hotels with prices 10 to 15 percent below the competition experienced annual RevPARs that were 9.52 percent below those of competitors, even though their occupancies were 3.0 percent above their competitors. In sum, these hotels’ steeply lower price positioning compared with competitors yielded only a slight increase in occupancy, but the consequence of those lower prices (that is, ADRs greater than 2.0 percent below their competition) was noticeably lower RevPARs.

In contrast, hotels that positioned themselves with higher ADRs compared to their competitors experienced substantially higher relative RevPARs, indicating that more aggressive reference price premiums meant stronger RevPAR results. 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 15- to 30-percent higher than those of their competitive set also had 15.93-percent higher RevPARs. Interestingly, hotels that priced less than 10-percent above competitors also recorded positive occupancies. This finding that high prices can also yield higher occupancies for European hotels supports the idea that leading products can have both relatively high prices and strong sales.24 This result may indicate the benefit of signaling value through a higher price to spur demand. To determine whether these patterns are different by operating structure, we examined independent and chain-affiliated hotels separately.

### Exhibit 3: Europe RevPAR and Occupancy Percentage Differences

<table>
<thead>
<tr>
<th>Percentage Difference from the Competitive Set</th>
<th>Percentage Difference in ADR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independents Occupancy</td>
<td>Independents RevPAR</td>
</tr>
<tr>
<td>2.58</td>
<td>-18.08</td>
</tr>
<tr>
<td>0.75</td>
<td>-11.62</td>
</tr>
<tr>
<td>0.80</td>
<td>-6.70</td>
</tr>
<tr>
<td>1.00</td>
<td>-2.53</td>
</tr>
<tr>
<td>0.13</td>
<td>-0.83</td>
</tr>
<tr>
<td>-0.13</td>
<td>0.89</td>
</tr>
<tr>
<td>-0.14</td>
<td>3.25</td>
</tr>
<tr>
<td>-1.37</td>
<td>5.83</td>
</tr>
<tr>
<td>-4.96</td>
<td>6.71</td>
</tr>
<tr>
<td>-8.87</td>
<td>16.01</td>
</tr>
<tr>
<td>Chain Occupancy</td>
<td>Chain RevPAR</td>
</tr>
<tr>
<td>6.36</td>
<td>-16.47</td>
</tr>
<tr>
<td>3.60</td>
<td>-9.17</td>
</tr>
<tr>
<td>2.32</td>
<td>-5.24</td>
</tr>
<tr>
<td>2.18</td>
<td>-1.38</td>
</tr>
<tr>
<td>1.77</td>
<td>0.77</td>
</tr>
<tr>
<td>1.56</td>
<td>2.60</td>
</tr>
<tr>
<td>1.69</td>
<td>5.24</td>
</tr>
<tr>
<td>0.83</td>
<td>8.19</td>
</tr>
<tr>
<td>0.67</td>
<td>11.46</td>
</tr>
<tr>
<td>-3.39</td>
<td>15.92</td>
</tr>
</tbody>
</table>

As proposed by: Liozu et al, op. cit.; and Hinterhuber, op.cit.

### Independent vs. Chain-Affiliated Hotels

The pattern of gaining occupancy but losing RevPAR when positioning with lower relative prices held true for independent hotels, as it did for chain-affiliated properties (see Exhibit 3). The maximum occupancy advantage over the competitive set was obtained by chain-affiliated hotels that priced 15- to 30-percent lower than their competitors. In contrast, the largest occupancy deflections were for independent hotels that priced 15- to 30-percent above their competitors. Once again, we note the greater relative occupancy for chain-affiliated hotels that priced no higher than 10-percent above the competition. This was not true of independent hotels with the same modestly higher pricing strategies, however, as that group of hotels experienced occupancy losses. We also again point out the substantially lower RevPARs for chain-affiliated hotels that priced no higher than 10-percent above the competition. This was not true of independent hotels with the same modestly higher pricing strategies, however, as that group of hotels experienced occupancy losses. In sum, the strategy of pricing above the competitive set appeared to be somewhat more beneficial for the chain-affiliated hotels in the study, while both independents and branded hotels benefited from higher RevPARs when adopting a premium price position.

The data summarized in Exhibit 3 reveal chain-affiliated hotels gained higher levels of occupancy and lower RevPARs.
losses than independent hotels when pricing below competitors, although the pattern of results was the same. In keeping with previous European studies, this study found that independent hotels were not able to yield as substantial RevPAR gains from pricing at higher levels than their competitors when compared to chain-affiliated hotels.

In sum, chain-affiliated hotels gained more revenue and lost less occupancy than did independents, although the pattern of results is similar for the two types of operating structure.

The Impact of Time

Turning to the economic status of a particular time as a factor that might alter pricing strategies, we examined the pricing practices of hotels in three distinct time periods (i.e., 2004-2006, 2007-2009, and 2010-2013) to reflect patterns of supply and demand in distinct economic periods, as shown in Exhibit 4. Overall the pattern of results in all three time periods was similar and consistent with the overall finding that for hotels that had lower price positions relative to their competitive set, average percentage differences in occupancies rose, while RevPARs declined. The economic background did not change the finding that hotels that priced substantially higher than their competitive set experienced lower occupancies, but much higher RevPARs. However, the relative ADR was different in different periods (above 5 percent in 2004-06, and above 10 percent in 2007-13). Occupancies rose for those hotels with modest pricing above their competitive set (within 5 percent above) in all three periods.

time periods. Overall it appeared that the industry was more sensitive to higher price positions in the earlier time period (i.e., 2004-2006) and less so in recent years. The most recent time period of the study reveals strong RevPARs for those that price above their competitive set.

The Netherlands

The data for hotels in the Netherlands once again show the favorable revenue outcome for hotels that price higher than their competitors (Exhibit 5). The Netherlands data, however, reveal more volatility in pricing behavior for independent hotels, while chain-affiliated properties followed the overall pattern for European hotels. In the case of independent hotels, occupancies rose the most for those hotels that priced 2 percent above their competitors. The pricing strategy of independent hotels to price just a small amount above their competitive set delivered both high occupancy and RevPAR values relative to competitors. These findings suggest that independent hotels in the Netherlands are able to get a stronger occupancy boost when pricing above their competitive set.

### Price Position and Fluctuation

A multiple regression analysis of the effect of price position and fluctuation found no significant relationship between pricing fluctuations and revenue. Exhibit 6 provides the results of the multiple regression models used to test the effects of relative price position and fluctuation on RevPAR performance, controlling for hotel type and location for Europe and separately for independent and chain-affiliated hotels. The overall model was significant in explaining RevPAR performance ($F = 52.35, p < .001$), with 47 percent of the variation in RevPAR accounted for by the model (R-squared = .47). As expected, hotel type was significantly related to RevPAR. Price position was modestly significant in explaining RevPAR performance ($t = 1.91, p = .057$), while price fluctuation was not significant ($t = .21, p = .78$).

Separate analyses of price position and price fluctuation for independent and chain-affiliated hotels revealed significant overall models for both subgroupings of hotels, with 62 percent of the variation in RevPAR accounted for by the model in the case of independent hotels, and 40
percent for chain hotels. Looking to the price position and fluctuation coefficients, price fluctuations once again were not significant predictors of RevPAR, although the coefficients’ signs indicate a negative relationship of relative price fluctuation to RevPAR, in keeping with the prior work in the United States. A negative coefficient for price fluctuation indicates that the greater the amount of price instability or shifting relative to the competitive set, the lower the RevPAR performance, but again those results were not significant. The positive significant coefficient for price position in chain-affiliated hotels suggests that price positioning higher than competitors is associated with stronger RevPAR performance over time for these types of hotel. The results suggest that the significant relationship found between both dimensions of strategic pricing and revenue in prior studies in the U.S. are not supported for Europe’s independent hotels. Further, in chain-affiliated European hotels only price positioning was a significant predictor of RevPAR performance.

**Discussion**

Cross, Higbie, and Cross argue that a move away from just opening and closing rates to a deeper strategic understanding of “right pricing” is essential for hotel operators and revenue managers (particularly in the context of revenue management strategies). Understanding how customers respond to offerings in the marketplace is critical to developing a solid pricing strategy and ensuring that a hotel’s rate structure is focused on creating customer value. The results of this study and its predecessors have demonstrated a general unresponsiveness of demand to lower comparative prices. Although some degree of demand shifts up or down among direct competitors as pricing moves unfold over time, this series of studies indicates that revenues are more strongly influenced by ADR than by occupancy. This relationship held regardless of whether hotels were chain-affili-
ated or independent, located in Europe or the U.S., or doing business in a strong or weak economy. This study continues to provide support for the important idea that greater occupancy from lower price positions does not offset reduced revenue, as compared with a hotel’s direct competitors.

We want to emphasize the findings regarding pricing in diverse economic times. We found little evidence that the outcomes of the industry’s pricing behavior changed when the European markets were prosperous or recessionary. In fact, as occurred in prior studies, our analysis suggests a similar pattern of occupancies and RevPARs during both the bad and good times in the European lodging industry. This result again highlights the importance of establishing strategic price positions based on offering a differentiated product and service, delivered using a unique bundle of capabilities. Hotel managers that understand price inelasticity of demand, and more fully measure customer pricing behavior are likely to do a better job of positioning their hotel.

Given the positive coefficient for relative price positioning for the entire sample and for chain-affiliated hotels, it could be argued that, regardless of hotel chain scale, a price position above that of the competitive set yields the highest revenue results. It is interesting to observe that these findings did not hold true for independent hotels. It is possible that independent hotel operators do not have the same level of confidence in choosing a higher relative price position than the competition. Given the volatile nature of the European hotel industry it may be beneficial to independent operators to consider more strategic and consistent price positioning, in particular positioning at higher prices if they offer unique and valued products and services, as is the case with so many of Europe’s hotels.

We should not rule out the possibility that lower RevPARs in the market and high volatility may motivate independent hoteliers to experiment more with relative price positioning and price fluctuation. More research is needed specifically on independent hotels in European markets to more fully understand their pricing strategies. Even for chain-affiliated hotels, whose price positioning does significantly predict RevPAR performance, price optimization will require understanding the impact of independent hotel competitors’ pricing behaviors.

We also see a need to more fully understand how the differences that this study found between chain-affiliated and independent hotels relate to differences in revenue management resources, as independent hotels generally do not employ separate revenue management departments or service centers, and do not have the same means as chain hotels to invest in revenue management systems, technology, training, and development. While more research is needed we do note that this study is one of the few that has examined competitive pricing in the European lodging industry with a comprehensive ten-year sample across a wide range of countries, hotel types, and operating structures (i.e., independent and chain-affiliated hotels).

We conclude with a call for hotel operators to have confidence in their positioning strategy, pricing above the competitive set if possible and avoiding huge price fluctuations. In our sample, hotels generally benefited (in terms of relative RevPAR) from setting their prices even a small degree above the competition. Clearly the choice to maintain a relatively high price position in a highly competitive market requires a hotel to have a clear and compelling value proposition that distinguishes that hotel from others. In addition, careful forecasts and dynamic pricing remain essential. Finally, a unique strategic position facilitates strategic pricing and 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. As strategic thinkers, we encourage hoteliers to place their efforts on creating value through a distinctive product and positioning, based on the growing body of research on customer responsiveness to price shifts, coupled with good strategic positioning.

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