

PRICING BEHAVIOR ON THE WEB:

AN EXPLORATORY ANALYSIS OF LUXURY HOTELS IN GERMANY

PREISVERHALTEN IM WEB:

EINE EXPLORATIVE ANALYSE VON LUXUSHOTELS IN DEUTSCHLAND

MASTERARBEIT

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Abstract

The prominence of the web as a distribution channel for hotel rooms as well as its transparency and ease for price comparison create a need for the hoteliers to think strategically in terms of rate setting and pricing practices on numerous web-based distribution channels. The overarching purpose of this exploratory study is to investigate the current online pricing practices of luxury hotels in Germany and to explore potential challenges that they face in distributing their rooms on the web. The data covering 29 hotels in the top 4 primary cities in Germany was collected from 11 B2C, web-based distribution channels over a 26-day period at 6 separate points in time leading up to predetermined arrival date. These channels, including the hotels' own websites along with 10 indirect channels, represent various types of operation. The data were analyzed by means of descriptive statistics. Personal interviews with the regional director of revenue management and the regional web & e-commerce executive of an international hotel company were conducted to support the findings and to gain supplemental insights into the relevant issues. Key findings of this study were that a complete rate consistency did not exist across the utilized channels, and that a customer who surfs the web for a particular hotel may find better rates and conditions than those offered by the hotels' own websites, which negates the best-rate guarantee that is claimed by many hotels. The reselling of net rates to the end-customer on the web was identified as a crucial challenge faced by the hoteliers, which leads to the loss of a hotel's control over pricing. Furthermore, the findings suggest that in many instances, the hoteliers neither applied logical pricing practices nor ensured an adequate presence on the web. Logical pricing practices aim to optimize revenue, while ensuring customer satisfaction. This paper is meant to be a starting point for hoteliers who are interesting in better understanding the power of online pricing and its impact on hotel profitability, and to reevaluate their prices and presence across the various web-based distribution channels. Shifting away from complex revenue management systems, this study outlines some recommendations that could be useful for hoteliers in their effort to maximize their revenues and profit, while keeping the focus on the customer as a focal point.

Keywords: Online Room-Pricing • Web commerce • Internet Distribution System • Luxury City Hotels in Germany • Revenue Management • Rate Parity • Rate Integrity

Kurzfassung

Die zunehmende Bedeutung des Webs als Vertriebskanal für Hotelzimmer, sowie seine Transparenz und Leichtigkeit für den Preisvergleich schaffen den Bedarf für Hoteliers, in Bezug auf ihre RatenEinstellung und Preispraktiken in den zahlreichen webbasierten Vertriebskanälen strategisch zu denken. Das übergeordnete Ziel dieser explorativen Studie ist es, die aktuellen Online-Preispraktiken von Luxushotels in Deutschland zu untersuchen und mögliche Herausforderungen zu erkunden, mit denen die Hoteliers konfrontiert sind, wenn sie ihre Zimmer im Web vertreiben. Die Daten von 29 Hotels, in den Top 4 Primärstandorten, wurden an sechs Zeitpunkten im Laufe einer Zeitspanne von 26-Tagen durch 11 webbasierte Kanäle gesammelt. Diese Kanäle stellen verschiedene Geschäftsmodelle dar, einschließlich direkter und indirekter Kanäle. Die Daten wurden mit Hilfe der deskriptiven Statistik analysiert. Persönliche Interviews mit regionalem „Direktor Revenue Management“ und regionaler „Web & e-Commerce Executive“ eines Hotelunternehmens wurden durchgeführt, um die Forschungsergebnisse zu unterstützen und zusätzliche Einblicke in die damit verbundenen Fragen zu gewinnen. Die wichtigsten Ergebnisse dieser Studie lassen darauf schließen, dass eine vollständige Ratenparität nicht über die verwendeten Kanäle vorhanden ist und, dass die Gäste die Möglichkeit haben bessere Raten und Konditionen zu finden als diese, die auf der hoteleigenen Webseite angeboten. Damit negieren die Ergebnisse die Bestrategarantie, die von vielen Hotels versprochen ist. Der Weiterverkauf von Nettoraten an den Endkunden über das Web wurde als kritische Herausforderung identifiziert, mit der die Hoteliers konfrontiert sind und die verursacht, dass sie die Kontrolle über ihre Preise verlieren. Darüber hinaus deuten die Ergebnisse darauf hin, dass in vielen Fällen weder logische Preispraktiken noch angemessene Präsenz der Hotels im Web eingehalten wurden. Eine logische Preispraktik muss darauf abzielen, die Revenue zu optimieren, aber gleichzeitig die Kundenzufriedenheit sicherzustellen. Diese Arbeit soll ein Ausgangspunkt für die Hoteliers sein, die das Interesse an besserem Verständnis vom Online-Pricing und seine Wichtigkeit als Instrument für die Profitabilität ihrer Hotels haben. Außerdem sollte sie den Hoteliers helfen, ihre Preise und Präsenz im Web neu zu bewerten. Abgesehen von den komplizierten Revenue Management Systeme lieferte diese Studie einige praxisbezogene Empfehlungen, die für die Hoteliers nützlich sein sollten, um eine Balance zwischen Umsatzoptimierung und Kundenzufriedenheit zu finden.

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List of Abbreviations

±	= plus or minus
A/N	= Author's note
ADR	= Average Daily Rate
AGOF	= Arbeitsgemeinschaft Online Forschung e.V.
ARI	= Availability, Rate and Inventory
ARs	= Airline Reservation Systems
B2B	= Business to Business
B2C	= Business to Consumers
BAR	= Best Available Rate
BB	= Bed and Breakfast
BW	= Booking Window
CC	= Capacity Control
Cf.	= compare
CRS	= Central Reservation Systems
D-A-CH	= Germany, Austria and Switzerland
DEHOGA	= the German Hotel and Restaurant Association
DMS	= Destination Management System
ed.	= edition
Eds.	= Editors
F.	= following
GDS	= Global Distribution Systems
GOPPAR	= Gross Operating Profit per Available Room
i.e.	= Latin id est/that is
IHA	= German Hotel Association
ITB	= International Tourism Bourse
Max.	= Maximum
Min.	= Minimum
N	= Size of a data set (or number of observations)
öHV	= österreichische Hotelierversammlung
P&L	= Profit and Loss Statement
P.	= Page
PC	= Price Control
PMS	= Property Management System

R & S	= Room and Suite
RevPAR	= Revenue per Available Room
RM	= Revenue Management
S&P	= Standard and Poor's
SEM	= Search Engine Marketing
SEO	= Search Engine Optimization
Std. Dev.	= Standard Deviation
TA	= Travel Agent
TO	= Tour Operator
TPIs	= Third Party Internet Sites
USP	= Unique Selling Proposition
Web	= World Wide Web
XML	= Standard Extensible Markup Language

Preface

“Pricing is the moment of truth—all of marketing comes to focus in the pricing decision.”
(Raymond Corey, Harvard Business School)

This research was completed in December 2014 and submitted to Munich University of Applied Sciences as partial fulfillment of the requirements for a Master of Art degree in Hospitality Management.

The initial inspiration for the topic of this paper grew out of the seminar “Aktuelle Forschungsfragen des Hospitality Managements” taught by Prof. Dr. Thomas Bausch at the Munich University of Applied Sciences and was developed by me together with my supervisor Prof. Dr. Robert Goecke.

The text of this thesis is the culmination of roughly six months of research, and is the product of the study of hundreds of articles and books. Throughout this time, the emotional support, precious time, guidance, shaping of interest and ideas shared by many people made the work more promising.

Firstly, I would like to express my gratitude to my supervisor Prof. Dr. Robert Goecke for all his guidance, valuable ideas and helpful suggestions during my research. I am grateful to all the professors and tutors from the faculty of tourism for the exceptional and valuable courses that I had with them during my master's program.

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Ashraf Abueed

1. INTRODUCTION AND INITIAL SITUATION

The growing popularity of the Internet has affected all aspects of the marketing mix in a wide variety of industries. Tourist services are considered one of the most suitable products or services to be marketed via the Internet.¹ Therefore, it has been acknowledged as a powerful tool in terms of the whole marketing mix in tourism.² Particularly, hotel rooms as the main component of the hospitality industry and major sector of the travel and tourism industry have been largely integrated into the Internet.³ According to the Consortium of Online Research (AGOF), hotels for leisure and business was the fourth most popular product or service category researched online by Internet users in Germany in 2012.⁴ In the second quarter of 2012, Germany was ranked seventh, with around 67.5 million Internet users, in a ranking of the countries with the highest number of Internet users worldwide. Overall, the source estimated the global online population to amount to more than 2.4 billion users, which corresponds to 34.3 percent of the world's population.⁵

In the lodging sector the Internet presents hotel marketers with profound opportunities, including reduced costs, development of customer relation management strategies, access to new market segments, and the ability to provide information worldwide on a continuous basis.⁶ However, web commerce introduces potentially significant challenges. The *Internet distribution system* is perhaps the most recent concern of hotel companies, as it has brought on clear complications to their pricing strategies, chiefly because of the increase in the number of booking channels that are directly accessible to their consumers.⁷

¹ Cf. O'Connor, 2003, p. 88; Stiakakis; Georgiadis, 2011, p. 150; Toh et al., 2011, p. 388.

² Cf. Buhalis, 2003, p. 16.

³ Cf. Law et al., 2007, p. 495.

⁴ Cf. <http://www.statista.com/statistics/247380/most-popular-product-categories-researched-by-german-internet-users> [11.07.2014].

⁵ Cf. <http://www.internetworldstats.com/top20.htm> [12.07.2014].

⁶ Cf. Thakran; Verma, 2013, p. 241; O'Connor; Piccoli, 2003, p. 108 f.

⁷ Cf. Green; Lomanno, 2012, p. v.; Thompson; Failmezger, 2005, p. 6.

1.1 Research Motivation and Problem Depiction

The luxury hotel sector in Germany consists of 246 properties with more than 41,200 rooms, which generated approximately 1.5 billion euros in room revenues in 2013.⁸ According to TOPHOTELPROJECTS, within the next three years as of 2014 there will be 43 luxury hotels projects throughout Germany with more than 6,000 rooms.⁹ But as a result of the decline of room demand caused by the global economic crisis in 2009, coupled with a growing room supply, statistics show that German luxury hotels were among the great losers of this crisis.¹⁰ As table 1 shows, statistics reported by Smith Travel Report indicate that *revenue per available room (RevPAR)*¹¹ fell from €88 in 2008 to €75 in 2009.¹² In 2010 RevPAR began to recover, reaching €100 in 2013.¹³ The RevPAR statistics reflect a falling annual *average daily rate (ADR)*, which reached €124 in 2009, before it began to recover in 2010, reaching €145 in 2013.¹⁴ Although the occupancy rate declined sharply during the 2009 recession, German luxury hotels were able to recover quickly in 2010, reaching 68.9 in 2013.¹⁵ However, three observations are important here: First, despite the rapid recovery in occupancy, there was no correspondingly large increase in RevPAR. This was due to the slow recovery of ADRs. As the supply grew, the luxury market experienced cut-throat competition, and in order to enter the market and gain the needed market share, some hotels offered their services at very low prices.¹⁶ Second, the comparatively higher ADR in 2010 was favored by the reduction of value-added tax from 19

⁸ Cf. TOPHOTELPROJECT GmbH, 2014, cited in IHA, 2014, p. 130; The total in room revenues are self-calculated by the author based on the room numbers, occupancy rate and ADR that provided by IHA from the year of 2013.

⁹ Cf. Ibid.

¹⁰ Cf. IHA, 2014, p. 128 f.

¹¹ Excluding value-added tax and without breakfast.

¹² Cf. STR Global, cited in IHA, 2013, p. 28.

¹³ Cf. STR Global, cited in IHA, 2014, p. 28.

¹⁴ Cf. Ibid.

¹⁵ Cf. STR Global, cited in IHA, 2013, p. 28.; IHA, 2014, p. 28.

¹⁶ Cf. Fidschuster; Mayer, 2012, p. 286.

percent to 7 percent starting in January 2010.¹⁷ Third, the performance of German luxury hotels in terms of ADR in an international comparison is low.¹⁸

Table 1: German luxury hotels¹⁹ Occupancy, ADR and RevPAR Performance 2008–2013

Source: own representation based on: IHA, 2014, p. 28; IHA, 2013, p. 28.

Year	2008	2009	2010	2011	2012	2013
Occupancy in %	64,4	60,5	64,5	67,3	68,3	68,9
ADR in €	137	124	139	138	143	145
RevPAR in €	88	75	90	93	98	100

In any event, the imperative is for hoteliers to reexamine their online distribution strategies, with an eye to maximizing profits by managing room occupancy and yield within an environment of excess capacity of a highly perishable product.²⁰ According to an international study conducted in 2010 by the Centre for Hospitality Research at Cornell University which directly asked nearly 500 hotels and revenue management professional for their thought on the future of revenue management, pricing is most likely to be used as a tool for revenue management in the future. When asked about the factors that would drive change in revenue management practices, the respondents mentioned the Internet as one of the most important common factors driving changes in RM practices, after sophisticated technology, economy and detailed market segmentation.²¹ As was indicated in another previous

¹⁷ Cf. IHA, 2014, p. 24.

¹⁸ Cf. IHA, 2014, p. 128.

¹⁹ i.e. Five star and five star superior hotels in Germany.

²⁰ i.e. Hotelvertrieb 2014; Der Top-Jahreskongress für Hoteldistribution in Deutschland, 07.04.2014 in Wiesbaden; Deutscher Hotelkongress 2014, 27–28.01.2014 in Berlin; ITB 2013, 06–10.03.2013 in Berlin.

²¹ Cf. Kimes, 2010, p. 6 ff.

study conducted in 2003, control over price and availability was one of the major challenges that hotel properties face in Internet-based distribution.²²

The importance of Internet distribution systems in selling hotel inventory in Germany has grown substantially in recent years. According to an online survey conducted by the Institute of Tourism at the University of Applied Science of Western Switzerland – Valais, in cooperation with the German Hotel Association, room booking using traditional booking channels, such as telephone, letter or fax, as well as sales using tourism partners, such as traditional travel agencies and tourism boards, have seen a more than 30 percent decrease over the last 10 years.²³ The source indicated that, overall, more than one out of four bookings was generated through online channels in the D-A-CH region in 2011.²⁴ While the total share of bookings through IDS²⁵ reached more than 30 percent in Germany in 2011, the proportion of direct booking through hotel websites reached only 5.9 percent, which is low compared with an amount of 19.5 percent for the online intermediaries^{26,27} Table 2 shows a detailed breakdown of the total share of rooms booked through IDS in 2011 compared to intermediate data for 2013, collected up to 28 February 2014.²⁸

While the growth of online bookings has driven up the profits and market share of online intermediaries, the increasing use of the Internet by consumers as a booking tool through third-party intermediaries has not necessarily had a similar positive impact on profitability for hotels properties in Germany. The above-mentioned statistics and table 1 illustrate that online intermediaries are clearly dominant as the most important online booking tool and that they are the second most important overall, after the telephone, for consumers in Germany. Moreover, this underscores

²² Cf. Caroll; Siguaw, 2003, p. 46.

²³ Cf. Schegg; Fux, 2012, p. 4.

²⁴ Ibid., p. 5.

²⁵ The source used the term IDS for the online intermediaries only, while the term here used by the author as collective term for the whole internet-enabled bookings systems. (Real-time booking through the hotel's own website, online intermediaries, hotel chain and cooperation sites with CRS, Social media and GDS).

²⁶ Also known as online travel agents (OTAs) and online third-party websites.

²⁷ Cf. Ibid., p. 20 ff.

²⁸ Cf. IHA, 2014, p. 224.

the dependence of many hotels on those players. Research estimated that in 2011, online distribution channels (GDS, OTAs and the hotel's homepage booking engine) generated a turnover of more than 5 billion euros in the German hotel sector, there-of 575 million euros was paid as a commission for online channels, of which an estimated lion's share of 421 million euros was won by OTAs.²⁹

Table 2: Breakdown of online bookings in Germany in 2011/2013 and share of total bookings

Source: own representation based on: IHA, 2014, p. 224

Rank	Distribution channel	Share in 2011 in %	Share in 2013 in %
1	Online travel intermediaries	19.5	20.7
2	Real-time booking on own websites	5.9	6.1
3	Global distribution systems	2.7	1.0
4	Hotel chains and cooperation with CRS	1.8	0.8
5	Social media	0.2	0.2
Share of total bookings		30.1	28.8

Many studies have argued that much of the increasing use of Internet distribution systems, in general, and online intermediaries, in particular, by customers can be attributed to price.³⁰ However, the reasons behind the customers' use of the Internet to seek bargains or to obtain better deals within their desired market segment are many. First, savvy customers believe that good deals or lower prices can be obtained from online distribution channels since they share the expectation that web-based distribution costs are lower than those of other channels.³¹ Second, the Internet encourages greater price scrutiny since it allows for quick price comparisons with decreased search costs and effort.³² Third, many researchers claimed that across many industries online competition often does drive prices down,³³ since the same rate transparency leads to greater rate competitiveness.³⁴ Fourth, many hotels use the web to promote their *distressed inventory* in the form of last-minute deals or pack-

²⁹ Cf. Schegg; Fux, 2012, p. 51.

³⁰ i.e. Toh et al., 2011, p. 182; O'Connor; Piccoli, 2003, p. 109; Thakran; Verma, 2013, P. 242.

³¹ Cf. Toh et al., 2011, p. 182.

³² Cf. Abrate et al., 2012, p. 160.

³³ i.e. Koch, Cebula, 2002, p. 25; Vulkan, 2003, p. 32.

³⁴ Cf. Caroll; Siguaw, 2003, p. 46.

ages at relatively low prices but with short lead times. While such promotions can help clear unsold inventory, they have also resulted in the consumers' associating rooms sold over the Internet with lower prices.³⁵ Finally, what makes matters worse is the increasing success and power of third-party online intermediaries in terms of price competition and Internet readiness. This success was achieved by using several models of operation and smarter business practices related to pricing such as the merchant model, opaque model, auction websites and flash-sales³⁶. At the same, poor management and lack of understanding of online pricing on the part of the hotels allowed the online intermediaries to prosper.³⁷ The emergence of such business models has attracted customers' attention, helped develop their reputation as the place to book,³⁸ and augmented the perception that low prices can be found on the Internet.³⁹ Moreover, some third-party websites promote themselves as the channel that delivers the lowest rates for hotel products or services.⁴⁰ A typical case would be that of *Secretescapes.de*, which promotes itself to its customers as follows: "Secret Escapes is looking for its members exclusive offers for handpicked hotels and travel in Germany and abroad with up to 70% discount on the price you would pay for a booking elsewhere. How do we do that? Well, even the most luxurious hotels do not want any empty room...".⁴¹ Briefly, on the one hand, third-party websites have provided a critical outlet for rooms that otherwise might go unsold. On the other hand, third-party websites are heavily focused on price, raising a concern that the hotels would lose their pricing power and experience a potential transfer of pricing authority to third-party websites.⁴² However, considering that third-party websites are the most powerful channel of the IDS in the hotel industry, online pricing strategies must not be controlled by third-party distribution channels but by hoteliers because they understand consumers' behavior and their willingness to

³⁵ Cf. O'connor, 2003, p. 90.

³⁶ Cf. O'connor; Piccoli, 2003, p. 109.

³⁷ Cf. Enz, 2003, p. 4.

³⁸ Cf. O'connor; Piccoli, 2003, p. 109.

³⁹ Cf. Toh et al., 2011, p. 182

⁴⁰ Cf. Tso, Law, 2005, p. 329.

⁴¹ Cf. <http://www.secretescapes.de/ueber-uns> [23.07.2014].

⁴² Cf. Smith, 2010, cited in Withiam, 2010, p. 6; Thakran; Verma, 2013, p. 242.

pay.⁴³ Consequently, the relationship between the hotel industry and online intermediaries continues to develop and deepen;⁴⁴ at the same time, this has unfortunately caused channel conflicts.⁴⁵ To overcome this, many hotels and especially hotel chains have developed viable approaches such as rate parity philosophy, which states that the same rate should always be offered, regardless of the booking channel. Others might offer a best-rate guarantee, which promises customers that they will obtain the cheaper price if they book directly through the hotel's own website.⁴⁶ But whatever approach or strategy is adopted regarding pricing, it must be implemented coherently, communicated effectively, and be logical from both the consumer's and the hotel's perspective.⁴⁷ If hoteliers do not do that, they run the risk of losing their customers, since pricing practices are strongly connected to customer satisfaction. One study found that familiarity with pricing practice was far and away the most important factor affecting perceived fairness on the part of hotel guests. Thus, if customers view the hotel's pricing practices or rate policies as unfair, they are unlikely to patronize the hotel again.⁴⁸

Within the context described above, this work deals with behavioral patterns of luxury hotels in Germany regarding pricing on the web, which aims at exploring and analyzing their online pricing practices across different web-based distribution channels.

1.2 Significance of the Research and Background of the Research Problem

Given the continuous development in IDS in the hospitality industry, it is not surprising that the pricing phenomenon has been a long-running issue amongst the hotel industry's practitioners and researchers. The year 2002 saw early researchers start to indicate the importance of online pricing for the hospitality industry, and the scien-

⁴³ Cf. Enz, 2003, p. 4.

⁴⁴ Cf. Withiam, 2011, p. 5.

⁴⁵ Cf. Myung et al., 2009, p. 823 f.; Selvaraj, 2011, p. 6.

⁴⁶ Cf. Thompson; Failmezger, 2005, p. 6; Tranter et al., 2009, p. 123.

⁴⁷ Cf. Hanks et al., 2002, p. 95 f.

⁴⁸ Cf. Taylor; Kimes, 2010, p. 5 f.

tific research platforms and journals presented increasingly sophisticated articles which have contributed to the field of online pricing.

One of the early publications on online pricing was by Enz in 2003. The author discussed how the hotel industry must adapt the power of the network concept to pricing. Enz pointed out that many hoteliers are using Internet distribution channels without adequate understanding of how networking affects their own brand and influences the pricing of their products and services. Furthermore, the author analyzed the interplay of pricing strategies and financial performance of hotels in the United States and abroad.⁴⁹ The study result demonstrated that discounting prices to gain market share and occupancy often does not lead to higher profitability within the environment of the newly emerging distribution channels.⁵⁰

Another study of online pricing was conducted by O'Connor in 2003. O'Connor initially attempted to examine the online room rates over different distribution channels for international hotel chains. He surveyed the prices of 45 international hotel brands using five major types of electronic channels and one voice channel. Those channels were Expedia, Travelocity, Travelweb, WorldRes, the hotel brand websites, and the toll-free number of the central reservation departments of the hotel companies. His findings revealed that many hotel chains are not actively managing the room rates being offered in their portfolio of electronic distribution channels. O'Connor analyzed different market segments separately. Thereby, he found that the economy hotel brands were more likely to offer consistent rates over all channels. Furthermore, economy and mid-price hotels offered lower rates via their own websites more times than via other channels, whereas the luxury hotels tended to offer their highest rates over direct channels and their cheapest rates over the most expensive online intermediaries. O'Connor goes on to speculate that the reason behind that may have been the proactive approach of the online intermediaries in contacting the hotels and encouraging them to reduce their rates in return for better listing on their websites. However, this study concluded that in many cases, the ho-

⁴⁹ See also p. 44.

⁵⁰ Cf. Enz, 2003, p. 4 f.

tel chains pricing practices were neither clear nor logical in terms of the relationship between the costs of using a channel and the rates offered there.⁵¹

While the study of O'Connor provided significant insights into online pricing practices, the author of this thesis sees some limitations and drawbacks of O'Connor's study, the chief one being that no clarification of the data collection period was mentioned by the author. Second, the data collected were for only one *booking window* and one reservation rate, namely, just the lowest rate. Third, the author did not consider the terms and conditions of the quoted rates, even though this could influence the reservation decision of the customers. Finally, as O'Connor admitted, his findings were limited to only big international hotel chains, and the small set of data used may have biased the results.⁵²

In another related study from 2005, Thompson and Failmezger compared the hotel room rates and availability of four different hotel segments across many different online distribution channels in the USA to understand why customers shop around. The channels used were Expedia, Travelocity, Orbitz, and the hotels' websites in addition to the voice channel of properties. The authors found wide variance across those channels. Empirical findings revealed that third-party websites, notably Travelocity offered the lowest rates for luxury and upscale properties in 61.5 percent of the cases. The overall results for the four segments were that hotel chains have made considerable progress in fulfilling a stated goal of offering lowest-cost last-room availability on their websites, but the fact remains that customers who shop around may find even lower rates.⁵³ Although the study provided a clear picture of price and availability dispersion, data collection was not conducted in a consistent manner, since the authors admitted that the data for each property were collected on a single random date.

More recently, in 2008 Schütze studied the extent to which hotel pricing strategies vary within the internet distribution system. The author used Vienna and hrs.com as

⁵¹ Cf. O'Connor, 2003, p. 91 ff.

⁵² Cf. O'Connor, 2003, p. 90 f.

⁵³ Cf. Thompson; Failmezger, 2005, p. 4 ff.

a case for his study but also gave an overview of other Euroland capitals. The results included the identification of three different pricing clusters with regard to hotel category and hotel availability over a 22-day period for Vienna and cities from other Euroland countries. The identified pricing clusters for Viennese hotels were the following: dynamic pricing, pre-fixed pricing and pre-fixed mixed pricing. Schütze revealed that the general comparison of pricing patterns and price change activity showed the similarity between the Viennese hotel market on hrs.com and the aggregated hrs.com data from Euroland cities.⁵⁴

Summing up, in addition to the four studies explicated above, numerous other studies exist which reflect on the issue of online pricing.⁵⁵ However, these previous studies were mostly focused on limited aspects, such as rate parity, room availability and lowest rate. More importantly, research on online pricing has mostly focused on the USA and Asia, along with a handful of studies of European countries, such as Switzerland, Spain, Austria, and the UK. While some of these studies have investigated different market segments, including the luxury hotel segment, most had involved a relative small sample of luxury properties. In other words, to the author's best knowledge and judging from research into major scientific research platforms, there is no published research which investigates the behavioral patterns of hotels operators in Germany with a focus on the luxury segment. Moreover, most of the previous research had looked at the behavior of major international hotel companies and thereby overlooked the independent hotel properties which represent a considerable share of total hotels in Germany. In view of the crucial situation of luxury hotels in Germany, the significant change in technology⁵⁶ and, with it, the success of online intermediaries operating in the German travel market, the author of this work confines his study to only the recent practices of luxury hotels operators in Germany. The aspiration of this study is to complement other studies in this field in order to generate more contributions and inquiries which would be beneficial for hotel practitioners and researchers.

⁵⁴ Cf. Schütze, 2008, p. 43 ff.

⁵⁵ i.e. Schegg et al., 2004; Tso; Law, 2005; O'Connor, Santoma, 2006; Law et al., 2007; Gazzoli et al., 2008; Law; Man, 2008; Hui et al., 2009; Demirciftci et al., 2010; Selvaraj, 2011.

⁵⁶ i.e. Channel Manager Software which made it easier to update rates and availability online.

1.3 Study Objectives and Research Questions

The overarching objectives of this study are fourfold. Firstly, the study aims to examine the current online pricing practices of luxury hotels in Germany by exploring and analyzing their behavioral patterns regarding setting room rates on numerous web-based distribution channels. Secondly, the current research seeks to explore any potential weaknesses or challenges that luxury hoteliers in Germany could face when using any one of several web-based distribution channels. Thirdly, by providing some evidence on the current behavior of hotel operators in the luxury hotel sector in Germany, the study forms an accurate picture of the existing trend. Lastly, based on the results obtained from the analysis performed, the current study suggests practical implications and professional recommendations for luxury hotel operators in Germany.

In order to achieve the above determined objectives this study was specifically guided by the following research questions:

- The decision of the German Federal Cartel Office which prohibited the leading hotel reservation website in Germany, HRS, from applying its “*best price clause*” effective 1 March 2014, poses the first interesting question, namely, are room rates being set consistently across the utilized web-based distribution channels?
- And if not, is (are) any of these channels consistently offering the best value for the customer in terms of lowest room price, room availability, and booking and cancellation conditions?
- Do hoteliers have full control over the pricing of their rooms on the different web-based distribution channels?
- Is the given hotels' practices to pricing logical from the perspective of the consumer as well as the hotel, specifically, in terms of the connection between the cost of distributing over the channel and the rate(s) being set there, the rate fences and maintaining rate integrity, perceived fairness by the consumers, and finally, the logic behind the intent of revenue optimization?
- Do chain and independent hotels differ concerning their pricing practices?

1.4 Outline of the Thesis

In chapter 1, once the research problem has been depicted, the related studies in the field have been reviewed and the study objectives and research questions have been identified, the remainder of this thesis will proceed as follows: Chapter 2 outlines the theoretical and empirical background of this research topic, which incorporates four key areas, namely, distribution, pricing, and to a lesser extent consumer behavior and revenue management. Chapter 3 explains the methodology used for this research. It begins by presenting the selected samples of both hotels and distribution channels. Thereafter it clarifies the approach used for data collection and the type of collected data, and then describes the method used for analyzing the collected data. Chapter 4 displays the findings of this research, including the empirical results and discussion. Chapter 5 concludes the thesis with practical implications and professional recommendations based on the findings of the research along with what has been observed and learned during the collection of the data. Finally, the author will acknowledge the limitations of this study and recommend avenues for further research. Figure 1 outlines the remaining process flow of the thesis.

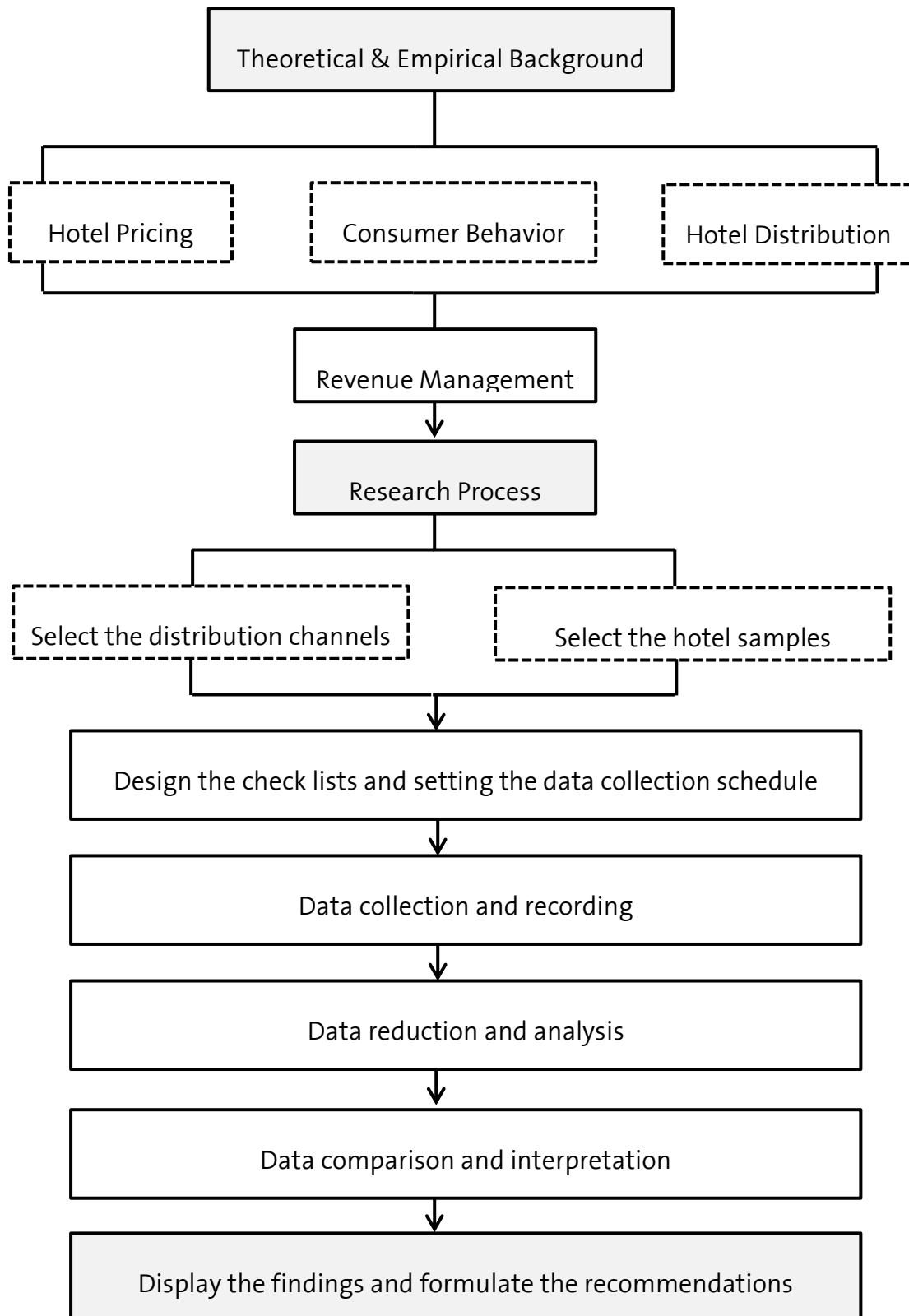


Figure 1: Process flow of the thesis

Source: own illustration

2. THEORETICAL AND EMPIRICAL BACKGROUND

2.1 Special Characteristics of Hotel Marketing

Due to the fact that price and distribution are considered to be two of the most important parts of a hotel's overall marketing effort, it is first necessary in this chapter to elucidate the unique characteristics of the hotel business and its services that considerably influence the way hotel rooms are priced and distributed. Thus, the following characteristics become foundational principles for the rest of the thesis:

- **Intangibility.** Unlike physical products, services are described as intangible products, meaning that they are experienced rather than possessed.⁵⁷ Thus, services cannot be evaluated prior to being purchased.⁵⁸ Because this aspect has profound implications for both customers and services marketers,⁵⁹ service providers often try to “tangibilize” the service, or in other words offer some evidence of the service that will help prospective customers to evaluate it.⁶⁰ What is especially significant is that hotel services contain more attributes that are not easily displayed. For example, most hotels maintain an appealing external appearance and lobby as a strategy to provide tangible evidence of their services, though it is difficult for hotels to give every potential guest a tour of the whole property.⁶¹ An important implication of intangible hotel services is that the customers are not sure what they are buying or what they will get;⁶² therefore, they sense a higher level of risk and also find it difficult to assess quality or value.⁶³ This makes the pricing decision a difficult challenge for a hotel service provider since price is closely connected to perceived benefits.⁶⁴ While the Internet has become a useful tool to communicate the benefits of hotel services offered to those who

⁵⁷ Cf. Shoemaker et al., 2007, p. 41.

⁵⁸ Cf. Bojanic, 2008, p. 73.

⁵⁹ Cf. Shoemaker et al., 2007, p. 41.

⁶⁰ Cf. Kotler et al., 2014, p. 37 f.

⁶¹ Cf. Bojanic, 2008, p. 73 f.

⁶² Cf. Shoemaker et al., 2007, p. 41.

⁶³ Cf. Gardini, 2009, p. 21; Bowie; Buttle, 2004, p. 23.

⁶⁴ Cf. Hayes; Miller, 2011, p. 77.

buy them,⁶⁵ the differentiation between brand name and price has been blurred by increasingly flash sales and opaque distribution models. Customers are more likely to associate higher prices with better quality. Notably, when one does not have any previous experience with particular hotel, room rates may be the only indicator of quality. For instance, prospective customers may speculate that lower rates indicate a poor quality or service, which is not necessarily the case.⁶⁶

- **Seasonality.** Seasonality refers to the fluctuation of demand in any given period.⁶⁷ Whereas, demand can be described as the amount of a good or service that a buyer is willing and able to purchase for any given price at any given time.⁶⁸ In lodging operations, seasonality can occur on a scale of years, seasons, weeks, or even days.⁶⁹ However, unexpected demand, whether high or low, creates operational difficulties. In the first instance, a sudden unexpected increase in customer demand can lead to production problems, intolerable waiting times and dissatisfied customers;⁷⁰ whereas, *idle production capacity* during the low season period can cost a hotel operation a tremendous amount of money and hurt the profitability of hotel.⁷¹ So, one of the challenging roles for hotel marketers⁷² is to manage demand by controlling, directing, influencing, and creating customer *purchasing propensity* for a specific period of time. This can be achieved through the use of a reservation process, advertising, public relation activities, special promotions and events, and above all price.⁷³

⁶⁵ Cf. Bojanic, 2008, p. 74.

⁶⁶ Cf. Shoemaker et al., 2007, p. 43.

⁶⁷ Cf. Bowie; Buttle, 2004, p. 22.

⁶⁸ Cf. Tranter et al., 2009, p. 79.

⁶⁹ Cf. Bowie; Buttle, 2004, p. 22; Kimes, 2000, p. 5.

⁷⁰ Cf. Ibid.

⁷¹ Cf. Hayes; Miller, 2011, p. 78.

⁷² The phrase hotel marketer in this thesis refers to the person who is responsible for the pricing and distribution activities in a particular hotel. This could be the revenue manager, sales manager, or even price manager depending on the hotel's organizational brigade.

⁷³ Cf. Tranter et al., 2009, p. 90.

- **Inseparability.** In contrast to physical goods, hotel products are first sold and then produced and consumed at the same time.⁷⁴ The simultaneity of service production and consumption means that both hotel employees and customers are part of the hotel product. Customers themselves play a significant role in enhancing or spoiling the atmosphere for other customers.⁷⁵ Thus, an important way for hotel marketers to manage the problem of inseparability is to ensure that customer segments are compatible.⁷⁶
- **Perishable inventory and fixed capacity.** The fact that services are intangible means that they cannot be stored or inventoried.⁷⁷ The problem of service perishability is compounded by the fact that hotels have fixed capacity. There are only a certain number of rooms available each night and the room which goes unsold last night cannot be sold tonight.⁷⁸ This combination of perishability and fixed capacity has important implications for both the hotel marketer and customer. One such implication concerns room availability. In an effort not to let a room go unsold, hotel marketers will do what they can to create as much demand as possible.⁷⁹ For example, some hotels will often sell hotel rooms at a very low rate rather than let them go unsold. But because of inseparability, such a decision can cause a problem. Oftentimes, the discounted rate brings in a different type of customers, who is not compatible with the hotel's regular customer.⁸⁰ This means that sometimes regular customers may not find availability,⁸¹ or they may find it but have a poor experience because of the customers who receive the discount.⁸² Customers do not care about perishability and fixed capacity; what they care about is availability and having their expectations met.⁸³ This

⁷⁴ Cf. Kotler et al., 2014, p. 38.

⁷⁵ Cf. Bowie; Buttle, 2004, p. 23.

⁷⁶ Cf. Bojanic; Reid, 2006, p. 51.

⁷⁷ Cf. Bojanic, 2008, p. 74.

⁷⁸ Cf. Shoemaker et al., 2007, p. 43.

⁷⁹ Cf. Ibid., p. 44.

⁸⁰ Cf. Kotler et al., 2014, p. 41 f.

⁸¹ Cf. Shoemaker et al., 2007, p. 44.

⁸² Cf. Kotler et al., 2014, p. 42.

⁸³ Cf. Shoemaker et al., 2007, p. 44.

underscores the important task on the part of hotel marketers to manage the sale of their products and services. This has led to a discipline called *inventory or capacity management*, which is the process of controlling the number of units and availability of rooms across various channels of distribution. Both long-term and short-term strategies for managing capacity and inventory must take both the brand's image and optimizing revenue into account.⁸⁴

- **Variability.** Partly as a result of inseparability, hotel operations suffer from considerable variation and lack of uniformity in the service being performed.⁸⁵ The fact that services are experienced and that they involve a high degree of interaction between guests and employees means that the quality of service depend on both those who provide it and those who receive it. Hence, it follows that hotel marketers should have a significant amount of input into and knowledge of their own firm's training and standardization efforts as well as a familiarity with their customer profiles.⁸⁶
- **High fixed costs.** The fact that the hotel business is distinguished by limited operational flexibility constitutes another constraint which influences a hotel's pricing and distribution activity.⁸⁷ The hotel must have operational readiness regardless of the volume of business that exists. This operational readiness requires a fixed volume of operational resources including labor, energy, property, and insurance.⁸⁸ These resources mean high fixed costs which reduce the profitability of the business during periods of low demand. Consequently, hoteliers need to generate sales to offset the fixed costs. To overcome this problem, some hotel marketers try to design attractively priced promotions to stimulate sales in the low season.⁸⁹

⁸⁴ Cf. Tranter et al., 2009, p. 140; Kotler et al., 2014, p. 42.

⁸⁵ Cf. Bowie; Buttle, 2004, p. 23.

⁸⁶ Cf. Hayes; Miller, 2011, p. 78; Kotler et al., 2014, p. 39.

⁸⁷ Cf. Klein; Steinhardt, 2008, p. 12.

⁸⁸ Cf. Hänssler, 2011, p. 82.

⁸⁹ Cf. Bowie; Buttle, 2004, p. 25.

- **Interdependence.** The choice of hotel accommodation is only one element of a variety of travel purchase decisions which the consumers make in one trip. This means that hotel accommodation sales are influenced by the consumer's choice of other tourism or travel products and services such as destination, transport, and foremost the price of all these products. Thus, the generation of demand for some hotel operations is directly connected to the demand for other complementary tourism and travel products.⁹⁰

2.2 Distribution Channels of Hotel Rooms

In marketing theory, distribution has long been recognized as an important element of hotel marketing, as it determines all other aspects of the marketing mix.⁹¹ Moreover, effective distribution is particularly important for hotels because of their characteristics⁹² as perishable inventory and intangible services.⁹³ A distribution channel can be defined as a mechanism that has the function of providing sufficient information to the right people at the right time and in the right place to allow a purchase decision to be made, and also allows the consumer to make a reservation and pay for the required product⁹⁴. In the context of this thesis the focus is on distribution channels which allow the consumer to make a reservation. Whereas, a reservation is defined as “an arrangement between buyer and seller to hold a product or service in advance of purchase on a promised intention of future purchase made by the buyer”⁹⁵. For this purpose, a variety of different distribution channels can be used by hotels, which can mainly be classified into direct channels, where the hotel sells its service directly to the guest; and indirect channels, where at least one sales intermediary is intervened.⁹⁶ Due to the fact that hotel rooms can be booked in advance and consumers typically cannot evaluate hotel services at the time of reservation, distribution channels provide the following key services: advising customers,

⁹⁰ Cf. Bowie; Buttle, 2004, p. 24.

⁹¹ Cf. Buhalis, 2002, p. 113

⁹² More about this in section 2.1.

⁹³ Cf. Gilbert et al., 2005, p. 47; O'Connor; Frew, 2002, p. 33.

⁹⁴ Cf. Go; Pine, 1995, p. 307.

⁹⁵ Tranter et al., 2009, p. 99.

⁹⁶ Cf. Schrand; Grimmelsmann, 2011, p. 226.

passing information between guest and supplier, processing transactions, and providing value-added services.⁹⁷

2.2.1 Historical Perspective on Electronic Hotel Distribution

Traditionally, hotels have used a variety of different distribution channels, including distributing through other properties within their chain, joining marketing consortia or other affiliated organizations, and outsourcing to representation or third-party reservation companies.⁹⁸ Intermediaries such as travel agents and tour operators have long been utilized by hotels to help them sell their rooms to the end-consumers.⁹⁹ These channels relied on tools such as telephone, telegraph, and even mail for communicating a hotel's room availability, price, and reservation.¹⁰⁰ However, such tools were inefficient, as customers experienced difficulty and delays in finding and booking appropriate hotels, while hotels incurred high labor costs.¹⁰¹ The emergence of new information and communication technologies in the late 1960s was the first major opportunity to make these processes more efficient.¹⁰² Within the tourism industry, this potential was first demonstrated by the airlines, which changed the focus of their internal computerized inventory system, called airline reservation systems (ARSs), by forward installation of booking terminals in travel agents, with instant access, real-time availability, price and reservation. These systems have evolved into today's *global distribution systems* (GDSs) and have long allowed hotels to distribute their products and prices around the globe.¹⁰³ However, while listing the hotel on a GDS made it available to thousands of travel agents worldwide, technological problems caused by the inherent differences between airline and hotel products arose.¹⁰⁴ An airline seat is a relatively simple and homogeneous product, while most hotels offer a heterogeneous product with a wide range of

⁹⁷ Cf. Gilbert et al., 2005, p. 47.

⁹⁸ Cf. O'Connor; Frew, 2002, p. 33.

⁹⁹ Cf. Buhalis; Zoge, 2007, p. 482.

¹⁰⁰ Cf. Hayes; Miller, 2011, p. 262.

¹⁰¹ Cf. O'Connor, 2001, p. 58.

¹⁰² Cf. Thakran; Verma, 2013, p. 240.

¹⁰³ Cf. Bowie; Buttle, 2004, 185;

¹⁰⁴ Cf. O'Connor, 2004, p. 168; Bowie; Buttle, 2004, p. 186.

room types and more complex rate structures.¹⁰⁵ Accordingly, hotel companies quickly noted this problem and began to develop their own computerized systems with enhanced capabilities, which are known as *central reservation systems* (CRSs).¹⁰⁶ As a result, the hotel industry established its first non-GDS electronic reservation system.¹⁰⁷ To solve the problems arising from having multiple connections between hotel companies' CRSs and all the major GDSs, the leading hotel companies worked together to develop a single interface mechanism, called "Switch". This switch enables all travel agent intermediaries who are linked into the GDS to book hotels in seconds.¹⁰⁸ Despite such improved efficiency, the capital cost of developing and maintaining such CRSs was still substantial, and thus only practicable for the larger hotel groups or companies.¹⁰⁹ Therefore, others chose to outsource their reservation to third party companies, joined marketing consortia or used *destination management systems* (DMS).¹¹⁰

But as demonstrated in Figure 2, the above advancement added numerous intermediaries, who perform various functions along the transaction chain between hotels and their guests, which result in relatively heavy transaction fees,¹¹¹ and thus reduced the net revenue hoteliers received from each room sold via these channels.¹¹² The limitation in such an arrangement was that the hotel supplier did not have direct access to their guests, which means that the hotels became dependent on travel agencies and the higher the commission paid by the supplier, the better the sales generated. Therefore, large international hotel chains used their strong brand name and financial resources to generate bookings by staying on the top of the GDS

¹⁰⁵ Cf. Bowie; Buttle, 2004, p. 186.

¹⁰⁶ Cf. O'Connor, 2001, p. 58; Bowie; Buttle, 2004, p. 186

¹⁰⁷ Cf. Hayes; Miller, 2011, p. 265.

¹⁰⁸ Cf. Bowie; Buttle, 2004, p. 186; O'Connor, 2004, p. 177 f.; Hayes; Miller, 2011, p. 264.

¹⁰⁹ Cf. O'Connor; Frew, 2002, p. 34; O'Connor, 2001, p. 58.

¹¹⁰ Cf. Ibid.

¹¹¹ Cf. Gilbert et al., 2005, p. 47.

¹¹² Cf. Hayes; Miller, 2001, p. 264.

screen, whereas smaller chains and independent hotels lost market share and struggled to find a cost-effective alternative to distribute their products.¹¹³

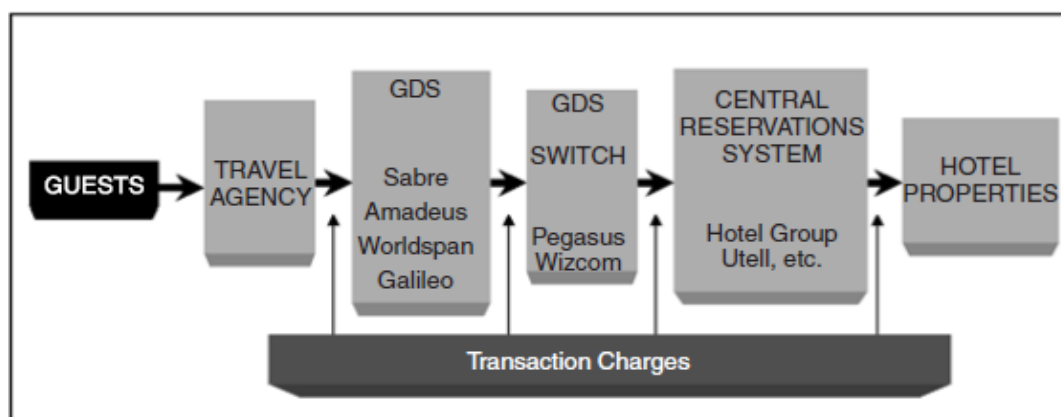


Figure 2: Traditional path of electronic hotel reservation

Source: PriceWaterhouseCoopers, 1999, adapted in: Gilbert et al., 2005, p. 47.

2.2.2 The Arrival of the Web Commerce

Until the early 1990s the electronic channel of distribution that was utilized by the hotel industry was a constitution of closed user groups as outlined above in section 2.2.1.¹¹⁴ The relationships between the participants were effectively linear and each user within the group played a mutually beneficial role. In other words, the situation was a relationship where everyone cooperated rather than competed with each other to facilitate distribution, even though from the perspective of the supplier, use of such electronic channels was unpopular in that they were expensive and lacking in flexibility.¹¹⁵ From 1994 onwards, the development of the World Wide Web as an electronic commerce medium provided an unprecedented opportunity to hotel suppliers,¹¹⁶ while the word “disintermediation” began to be on everyone’s lips.¹¹⁷ The web offered the hotel suppliers a potential to distribute directly to their customers, reducing and even eliminating the commission and transaction fees traditionally paid to intermediaries such as travel agents and GDSs, and helped to diminish the

¹¹³ Cf. Thakran; Verma, 2013, p. 241.

¹¹⁴ Cf. O'Connor; Frew, 2002, p. 35.

¹¹⁵ Cf. O'Connor, 2004, p. 185; O'Connor; Frew, 2002, p. 35.

¹¹⁶ Cf. O'Connor, 2004, p. 185.

¹¹⁷ Cf. O'Connor; Piccoli, 2003, p. 108.

differences in the geographical reach between the global brands and the small or local hotel chains and independent hotels.¹¹⁸ But unfortunately, hotel and tourism suppliers were not alone in taking quick advantage of the distribution potential on the web. Hotel chain CRSs, the GDSs, third party reservation system providers, DMS, travel agents, and even the Switch companies all announced consumer-oriented websites that all aimed at transacting business directly with the end-customer.¹¹⁹ As a result, the number of different distribution options available on the web virtually exploded.¹²⁰ In effect, the web caused a shakeup in the relationship between distribution channels participants. While the traditional electronic distribution systems had been linear, closed, and cooperative, web-based distribution is open, competitive, and even confusing.¹²¹ Paradoxically, in addition to more cooperation between the distribution stakeholders, the web has also generated more competition, giving rise to a phenomenon which Werthner and Klein in 1999 have dubbed “Coopetition”.¹²² Collectively, Internet-based sites and systems that facilitate the purchase of hotel products and services by consumers are often referred to as the Internet distribution system (IDS), which has been explained below.¹²³

2.2.3 Hotel Rooms Distribution on the Web (IDS)

Although it is undisputed that the Internet distribution system is actually comprised of a variety of components¹²⁴ that take various forms and business models, there exists in the literature no uniform typology for this system. The reason for this could be the continual, rapid, and confusing expansion of the routes within this system. Thus, there is a need at this point to try and establish a clear picture of the various channels available. This typology is necessary in order to select the sample of channels included in this research. Moreover, an understanding of the major types of systems available is a premise for rational interpretation of the acquired data.

¹¹⁸ Cf. Thakran; Verma, 2013, p. 241; O'Connor; Piccoli, 2003, p. 108.

¹¹⁹ Cf. O'Connor, 2004, p. 185 f.

¹²⁰ Cf. Hayes; Miller, 2011, p. 264.

¹²¹ Cf. O'Connor, 2008, p. 192.

¹²² Cf. Werthner; Klein, 1999, Cited in O'Connor, 2008, p. 192.

¹²³ Cf. Hayes, Miller, 2011, p. 265.

¹²⁴ Cf. Tranter et al., 2009, p. 105.

2.2.4 Typology of the Internet Distribution System

Hotels can basically use four different strategies to distribute their rooms over the Web A) by setting up their own website with a *booking engine* B) through a branded hotel company CRS website¹²⁵ C) through *soft hotel brand websites*¹²⁶ D) or by listing themselves on one or more third-party Internet sites (TPIs).

2.2.4.1 Proprietary website

A proprietary website is defined as “a web address whose content is 100 percent controlled by a hotel's own management team”¹²⁷. This website is to be maintained by an individual hotel property, whether as an independent hotel or as an individual unit of a branded hotel company. It is considered the most important component in the IDS.¹²⁸ Since the most important purpose of a hotel website is usually to encourage and facilitate reservations, setting a real-time booking engine that communicates room availability and pricing is essential for this purpose.¹²⁹ According to Hayess et al. (2011), in too many cases, individual hotel properties within a branded hotel company still do not have their own vanity websites or they operate websites that do not reflect well on their properties. The reasons for this range from a lack of on-property technical skills required to build and maintain the site to reservation interface difficulties to franchisors or hotel companies that appeared to be more than willing to do the job for them if they could also control the website's appearance and content.¹³⁰

2.2.4.2 Branded hotel company CRS website

Practically all of the major branded hotel companies¹³¹ maintain websites for their CRSs, with links to their individual unit websites if obtainable.¹³² These are operated

¹²⁵ This can also be called “corporate hotel website”.

¹²⁶ The soft brand websites are considered for the purpose of the research and the data analysis TPI.

¹²⁷ Hayess,; Miller, 2011, p. 287.

¹²⁸ Cf. Tranter et al. 2009, p. 105.

¹²⁹ Cf. O'Connor, 2004, p. 147; Hayess et al., p. 288.

¹³⁰ Cf. Hayess; Miller, 2011, p. 287.

¹³¹ i.e. Hotel chains; hotel groups, hotel franchisors, corporate hotels.

for promotional and booking purposes and typically contain information about the company in general as well as about company-wide schemes such as loyalty programs and special promotions. These websites are capable of displaying profiles of each property, which usually include textual descriptions supplemented by photos and, of course, reservation facilities.¹³³ CRS websites serve related brands and properties within the same company. For example, *accorhotels.com* manages reservations for all properties in the Accor family of products and brands, including Sofitel, and *Sofitel.com* handles reservations for the various Sofitel properties, in addition to other brands within the family of Accor. Not every Sofitel property, however, has its own websites.

2.2.4.3 Soft hotel brand websites

Traditionally, hotels have used representation firms or joined a sales and marketing consortium to bring the hotel, figuratively speaking, to a marketplace. These companies market a hotel to customers and are hired to act as sales organizations for independent properties that do not have a sales or reservation network of their own. Major hotel companies may also use such firms to enhance their regional sales effort.¹³⁴ The distinction between consortia, representative company and reservation companies is becoming blurred, as most of them are expanding their services into marketing and reservation activities.¹³⁵ They usually maintain CRSs that handle reservations for subscriber hotels¹³⁶ and also operate websites for their CRSs. The Leading Hotels of the World, *WORLDHOTELS*, and Preferred Hotel Group are examples of soft hotel brands. These firms typically operate on a retainer basis.¹³⁷ They receive from subscriber hotels a straight commission, a commission plus salary, or some combination of both.¹³⁸

¹³² Cf. Tranter et al., 2009, p. 105.

¹³³ Cf. O'Connor, 2004, p. 187 f.

¹³⁴ Cf. Shoemaker et al., 2007, p. 494 f.

¹³⁵ Cf. Kotler et al., 2014, p. 343.

¹³⁶ Cf. *Ibid.*

¹³⁷ Cf. *Ibid.*, p. 342.

¹³⁸ Cf. Shoemaker et al., 2007, p. 495.

2.2.4.4 Third-party Internet sites

TPIs are those websites that are operated by a variety of (travel) intermediaries not directly controlled by a hotel.¹³⁹ To better understand these, it is important to understand the different *business models* and pricing arrangements that TPIs use when they assign a contract with hotels. Since in the literature, as mentioned earlier, there is no outright classification for the different TPIs available, the author of this work referred to the approach of Turban et al. to try to find a rational classification for the major different TPIs available for the supplier as well as for the customer. Turban et al. defined two critical components for all e-commerce business models, namely, the revenue model and the value proposition.¹⁴⁰

(1) *Revenue models of TPIs.* A revenue model simply shows how the organization, or the e-commerce business, will generate revenue. Without revenue stream that exceeds the level of expenses, the business model is not going to be successful.¹⁴¹ As a result, in distributing hotel rooms, TPIs can use one or more of the following business models or arrangements regarding how they generate revenue:

- *The agency (or commissionable) model.* Historically, hotels have long successfully worked with traditional travel agents using a hotel-specific agency model. As the name of this model implies, TPIs that use this model act as an agent, selling on behalf of a hotel. As a result, TPIs arrange bookings of inventory held by the hotel but made available to them for pre-negotiated commission on each transaction.¹⁴² The commission payment to the TPIs occurs after the total room rate is sent to the room supplier.¹⁴³ Typically, the guest who books a room on TPIs that use this model pays the room rate upon arrival at the hotel and not directly upon completion of the booking transaction. In a few cases the TPIs request a deposit upon completion of the booking transaction, which will be kept as their commission.

¹³⁹ Cf. Hayess; Miller, 2011, p. 189.

¹⁴⁰ Cf. Turban et al., 2010, p. 72 f.

¹⁴¹ Cf. Ibid., p. 73.

¹⁴² Cf. Hayess; Miller, 2011, p. 289.

¹⁴³ Cf. Green; Lomanno, 2012, p. 34.

- *Commission override model.* This model is successfully operated by some TPIs, in which TPIs get an agency commission plus commission overrides for booking volume or better placement on their websites.¹⁴⁴
- *Merchant model.* A merchant model or arrangement is an adaption of how hotels had traditionally worked with tour operators. Hotels participating in such an arrangement contract a specified number of rooms each night¹⁴⁵ to the TPI at a discount commission free rate¹⁴⁶. The latter could then offer these rooms for sale at whatever price they wished in order to earn a profit margin. When a room was sold, they paid the hotel the agreed net rate. When they could not fill their allocation, they returned the unsold rooms to the supplier according to a pre-negotiated so-called *cutoff date* with no penalty.¹⁴⁷
- *Merchant model with purchase guarantee.* This model is the old version of the above outlined-merchant model. The only difference is that the TPI purchases a hotel's rooms before it has buyers for them. In so doing, the TPI accepts the risk of unsold inventory and earns revenue when rooms are booked.
- *Price opaque model.* The TPIs following the merchant model approach may use a price opaque approach to selling rooms. Hotels participating in such arrangements often sell or provide TPIs with specific room types, for very specific dates, at very, very low net rates with the adamant stipulation that the TPI not publish the room's actual selling price unless it is bundled with other travel services such as airfares or meals.¹⁴⁸
- *Brand opaque model.* In all the above outlined models, the customers know the brand of the hotel room they are booking prior to the transaction. In a brand opaque model, the hotel brand is hidden to the customer until the transaction is

¹⁴⁴ Cf. Starkov, 2010, p. 5.

¹⁴⁵ This is also known as an allocation.

¹⁴⁶ This is also known as a net rate.

¹⁴⁷ Cf. Egger; Buhalis, 2008, p. 16 f.

¹⁴⁸ Cf. Shoemaker et al. 2007, p. 525 f.; Hayess; Miller, 2011, p. 290.

completed.¹⁴⁹ The brand opaque model exists on IDS in two formats, namely, the fixed pricing model and the auction or bidding model. In the fixed pricing format, rooms at hotels that are unknown to the customer are offered for sale at a set price, and if the price is accepted by the customer, the name of the hotel that will be supplying the room is shown. In the bid or auction format, potential buyers determine the price which they are willing to pay for a hotel room, and typically choose a specific quality or stars level. Buyers verify their requests with a credit card and, if their bid is accepted, the buyer is then given the name of the hotel.¹⁵⁰ Hotels participating in such an arrangement usually sell their inventory to TPIs at net rates.¹⁵¹

- (2) *Business models of TPIs according to their value proposition.* Any business model of a firm or organization engaged in e-commerce should include a value proposition. For example, in B2C e-commerce, a value proposition states how a company's product or service fulfils the needs of customers, and thus creates value for them.¹⁵² In the case of TPIs, the end-customers and the room suppliers are both their customers. The common term which has been used in various hospitality and tourism-related literature and academic journals for these websites is OTAs. The author of this work found that the use of this term as a collective term for all different TPIs is not suitable in all cases, since these websites operate in various forms and not all of them are considered travel agencies that facilitate the sale of travel products and services online, as the term OTA implies. Moreover, as mentioned in section 2.2.2, a TPI could be operated by a travel agent, hotel wholesaler or consolidator, tour operator, GDS provider, or even Switch Company. These companies are expanding their services, and each one may have several business models, which in turn causes the distinction between them to become blurred. For example, a particular TPI can simultaneously act as TA and TO. For this reason, the author of this work suggests the classification which is briefly outlined below for the TPIs according to their core-value proposition:

¹⁴⁹ Cf. Tranter et al., 2009, p. 106.

¹⁵⁰ Cf. Hayess; Miller, 2011, p. 293.

¹⁵¹ Cf. Tranter et al., 2009, p. 106.

¹⁵² Cf. Turban et al., 2010, p. 75.

- *Only-hotel or accommodation booking websites.* These sites allow users to search and receive instant confirmation for hotel bookings worldwide. The majority offers a variety of lodging choices, from budget to luxury accommodations, and provides the user with customer reviews on each available choice. One of the key value propositions of these sites is that they offer rooms from various competing suppliers. Unfortunately, on a hotel website or corporate hotel website, browsers are limited to viewing and purchasing just the products of the property or brand portfolio in question. However, research has shown that most consumers do not purchase travel products or services in this way, and while some consumers are loyal to particular brands, most at least want to check the alternatives that are available and that might satisfy their needs.¹⁵³
- *Travel mega websites.* These are considered virtual travel malls with travel products and services, including hotel rooms from different sources. They offer the user a standard mechanism to search through information and make reservations in real time.¹⁵⁴ While the key differentiating point of hotel or accommodation websites is broad choice in terms of offering products from multiple competing brands, the travel mega websites provide a full product range and thus offer a one-stop travel shop for today's harried consumer. In addition, most travel mega sites also provide a range of other useful means for the traveler, including general travel advice, destination guides, travel news and even point-to-point driving instructions. Such facilities make them more attractive to the consumer, because in most cases, someone who books a hotel room also needs an airline ticket, or needs to know something about the destination.¹⁵⁵
- *Dynamic packaging websites.* One of the strengths of the web in the tourism industry can be found in the development of *dynamic packaging* applications by the TPAs.¹⁵⁶ While the user of the before-mentioned travel mega agencies can simply purchase individual travel components, the dynamic packaging websites

¹⁵³ Cf. O'Connor, 2004, p. 189.

¹⁵⁴ Cf. O'Connor, 2004, p. 188.

¹⁵⁵ Cf. O'Connor, 2004, p. 189; O'Connor, 2008, p. 194 f.

¹⁵⁶ Cf. Ayazlar, 2014, p. 327.

extend this by allowing consumers to bundle travel components under a single price. Thus, the TPIs that apply such dynamic packaging technology on their websites obtain a competitive advantage. One major advantage that customers have when they use such sites is that they have the ability to create their own itineraries instead of purchasing a pre-defined static package. Moreover, consumers can get a lower price than they would by purchasing each independent component separately. At the same time, dynamic packaging websites provide a form of opaque pricing which allows suppliers to hide their discount rates.¹⁵⁷ According to Rose, the growth of the online merchant model coincided with an economic downturn in 2003, allowing the TPIs to establish a broad range of merchant rates for use in dynamic packaging.¹⁵⁸

- *Last-minute deals websites.* The phenomenon of last-minute deals in the travel and tourism industry is not new. There have been many attempts to find a way to dispose of the distressed inventory at any cost.¹⁵⁹ Using the web, some TPIs have built their business model around matching suppliers' inventory with last-minute demand.¹⁶⁰ On the one hand, the use of last-minute deals sites by hoteliers may theoretically make economic sense, as they still gain some revenue from otherwise perishable inventory. On the other hand, such a business model works against two of the hospitality industry's best practices: channel management and rate integrity.¹⁶¹ As a result, many industry practitioners doubt the sustainability of such a model in hospitality, as this approach jeopardizes all other distribution channels.¹⁶² Furthermore, Starkov revealed that the analysis of such websites showed that these last-minute deals are more of a marketing gimmick, as the last-minute rates available there really are no different from the

¹⁵⁷ Cf. Rose, 2004, p. 1.1 ff.

¹⁵⁸ Ibid., p. 2.2 ff.

¹⁵⁹ Cf. Starkov, 2011, p. 1.

¹⁶⁰ Cf. Egger; Buhalis, 2008, p. 90.

¹⁶¹ Cf. Starkov, 2011, p. 2 f.

¹⁶² i.e. Ragge, Tobias, 2013, <http://www.tnooz.com/article/will-last-minute-hotel-booking-players-really-disappear-in-three-years/> [04.09.14]; Starkov, 2011, p. 2.

regular hotel rates that the customer can find on any other TPIs or on the hotel's own website.¹⁶³

- *Brand opaque and auction websites.* Similar to the above-outlined last-minute deals websites, the web has allowed for another innovative but equally questionable approach to the sale of excess room inventory.¹⁶⁴ These are popular with price-sensitive customers who are not as concerned about the brand they use.¹⁶⁵ These websites allow hotels to sell rooms at various rates without connecting the price directly to the brand while also maintaining rate integrity and improving revenue.¹⁶⁶ This advantage makes such sites more attractive to a hotel and, often, to customers who are looking for a bargain.¹⁶⁷
- *Directories and destination websites.* Some travel directories are destination specific and others cover a whole region or country, like Germany.travel.de, where a consumer can search by destination.¹⁶⁸ These sites usually have a good, comprehensive international listing. Destination websites in Germany, like city portals, also feature hotels and promote destinations for visitors and residents alike. These sites also have a prominent online presence. Some of these refer business to their communities or partners and others provide direct booking capability. Those migrating to a booking model do so when there is a booking engine that allows the hotels to easily maintain their content, inventory and rates.¹⁶⁹ For example, Berlin has a particular booking engine, but Munich offer an HRS booking engine on its home page.
- *Flash sales websites.* The flash sales concept emerged on the web in the early 2000s, and today is considered the fastest growing e-commerce category. Flash sales can be divided into daily deal sites such as Groupon, and private sale sites,

¹⁶³ Cf. Starkov, 2011, p. 2.

¹⁶⁴ See more about this in section 2.2.4.4 (1) under the point brand opaque model.

¹⁶⁵ Cf. Green; Lomanno, 2012, p. 61.

¹⁶⁶ Cf. Withiam, 2010, p. 5.

¹⁶⁷ Cf. Hayes; Miller, 2011, p. 293.

¹⁶⁸ Cf. Shaw; Morris, 2002, p. 265.

¹⁶⁹ Cf. Green; Lomanno, 2012, p. 65 f.

which require some form of membership. Both types typically offer customers promotions at short intervals, which provide dramatic saving. When a deal goes online on a flash sale website, past customers and e-mail subscribers receive an e-mail notification. The original business model of daily deal sites involved a group-buying mechanism that required a minimum number of buyers to activate a given deal. But nowadays such a kind of activation approach is becoming less common. The marketing strategy behind private sale sites assumes that requiring customers to register for membership creates a perception of exclusivity. This exclusivity in turn prevents a deep discount from harming the brand. Some of these flash sale websites act as travel only sites, others are retail-oriented sites which include a travel component in their offer, and even some other type of TPIs have added private sales to their websites. Since 2008, flash sale websites have increasingly targeted the hotels that have a need to fill unoccupied rooms.¹⁷⁰ These models typically split the revenue with the supplier, which ends up providing the supplier with 25% to 50% of its retail rate. As a result, these models are still disputable and it is not clear if they are sustainable, if they encourage repeat business, or if there is additional spending beyond the room rate by these new customers.¹⁷¹

- *Special interest and niche websites.* Customers may also enter the web through alternative means and ultimately end up making an online purchase of hotel products and services while surfing for special interest websites.¹⁷² These websites mean to attract those with special travel interests, like the golfer or skier, and often offer hotels or resorts that specialize in the activity featured on their sites.¹⁷³ Therefore, these sites are also referred to as niche sites.¹⁷⁴ The niche sites with booking capabilities are often powered by yet another third-party intermediary who provides a private-label booking engine. This means that the in-

¹⁷⁰ Cf. Piccoli; Dev, 2012, p. 7 ff.

¹⁷¹ Cf. Green; Lomanno, 2012, p. 62.

¹⁷² Cf. Tranter et al., 2009, p. 106.

¹⁷³ Cf. Green, Lomanno, 2012, p. 63.

¹⁷⁴ Cf. Tranter et al., 2009, p. 106.

ventory, rate, maintenance, and reservation delivery is handled by the site or intermediary that powers the niche vendor.¹⁷⁵

- *Airline websites and other transportation websites.* Almost all of the airlines facilitate purchase of hotel products and services on their websites. In the world of the low-cost carrier, increasing distribution costs and declining airline ticket sales, ancillary travel revenue is natural, and hotels top of the list of potential revenue sources. Moreover, such a practice on the part of the airline companies aims to provide additional stickiness to their own websites so that it can compete effectively with other TPIs as a one-stop shop for travel.¹⁷⁶ In Germany, many airline websites and other transportation websites or automobile clubs with booking capabilities are often powered by other TPIs that provide a private-label booking engine. Some of these sites facilitate the booking of hotels by handling the transaction directly on their own websites, such as airberline.com, while others facilitate the booking by referral to the particular TPI where the transaction takes place, such as Lufthansa.com.

2.2.5 Channels Connectivity and Data Exchange

The degree of connectivity between a hotel's data and its channels of distribution greatly affects the revenue management strategies that can be employed.¹⁷⁷ The main categories of data that need to be distributed, exchanged and maintained are the following: availability, rate and inventory (ARI), descriptive content, and reservation details. Thus, the broad types of business transactions between hotel suppliers and distributors include the following: transactions related to the maintenance of availability, rates and inventory (ARI); transactions related to making and confirming bookings; and transactions related to the loading, updating and querying of descriptive content.¹⁷⁸ While descriptive information such as property address and amenities is considered static content that changes infrequently, the ARI data are dynamic

¹⁷⁵ Cf. Green; Lomanno, 2012, p. 62.

¹⁷⁶ Cf. Green; Lomanno, 2012, p. 65.

¹⁷⁷ Cf. Hayes; Miller, 2011, p. 217.

¹⁷⁸ Cf. Barnby et al., 2011, p. 1 ff.

and closely connected to semi-static content, such as taxes, guarantee polices, cancellation polices, rate plan codes, and occupancy restrictions, which are necessary to transact an availability message or a reservation.¹⁷⁹ First and foremost, a hotel needs to decide how the ARI will be distributed¹⁸⁰ because the management of rate and availability information throughout the systems that are involved in processing bookings has been critical to successfully managing revenue.¹⁸¹ Over time, the linkages between the systems¹⁸² that are involved in processing booking requests from the different distribution channels have improved,¹⁸³ and the industry has established a seamless connectivity.¹⁸⁴ However, not every hotel has the technological capability to update ARI information automatically or to ensure seamless connectivity. At present, both new web-based distribution channels as well as interconnections between channels are developing rapidly and thus multiplying the routes that hotels use to get their products to the consumer. The web-based distribution channels exchange their data and thus provide booking capabilities through their connections to an existing system, such as a CRS or a PMS, or to existing networks, such as a GDS–Switch–CRS–PMS network.¹⁸⁵ These depend on both the technological capability of the property or hotel company and the ability of the TPI to be *interfaced* with the reservation system. Thus, most hotels and small chains use the Switch to connect to the GDSs, but the largest international hotel companies maintain direct automated connections to the larger GDSs and TPIs. Some individual hotels maintain a direct relationship with TPIs by using connections with some manual intervention like an extranet, or surprisingly, fax and email. Some include a channel management tool that allows the hotel to update multiple connections to TPIs, all from one place.¹⁸⁶ However, the current innovation in channel connectivity is that of the

¹⁷⁹ Cf. *Ibid.*, 2011, p. 5.

¹⁸⁰ Cf. Cotton, 2012, <http://www.hotelnewsnow.com/article/7219/the-what-why-and-how-of-hotel-connectivity> [08.09.2014].

¹⁸¹ Cf. Choi; Kimes, 2002, p. 27.

¹⁸² I.e. GDS, CRS, Switch and PMS.

¹⁸³ Cf. Nyheim et al., 2005, p. 308.

¹⁸⁴ Cf. O'Connor, 2004, p. 173.

¹⁸⁵ Cf. Choi; Kimes, 2002, p. 27.

¹⁸⁶ Cf. Green; Lomanno, 2012, p. 49.

seamless two-way model, which uses the XML Interface to interact with the partner system, and thus the ARI data and reservation are exchanged on a real-time basis.¹⁸⁷ The Figure 3 illustrates the electronic hotel distribution channels and the potential routes and connectivity between hotels and TPIs.

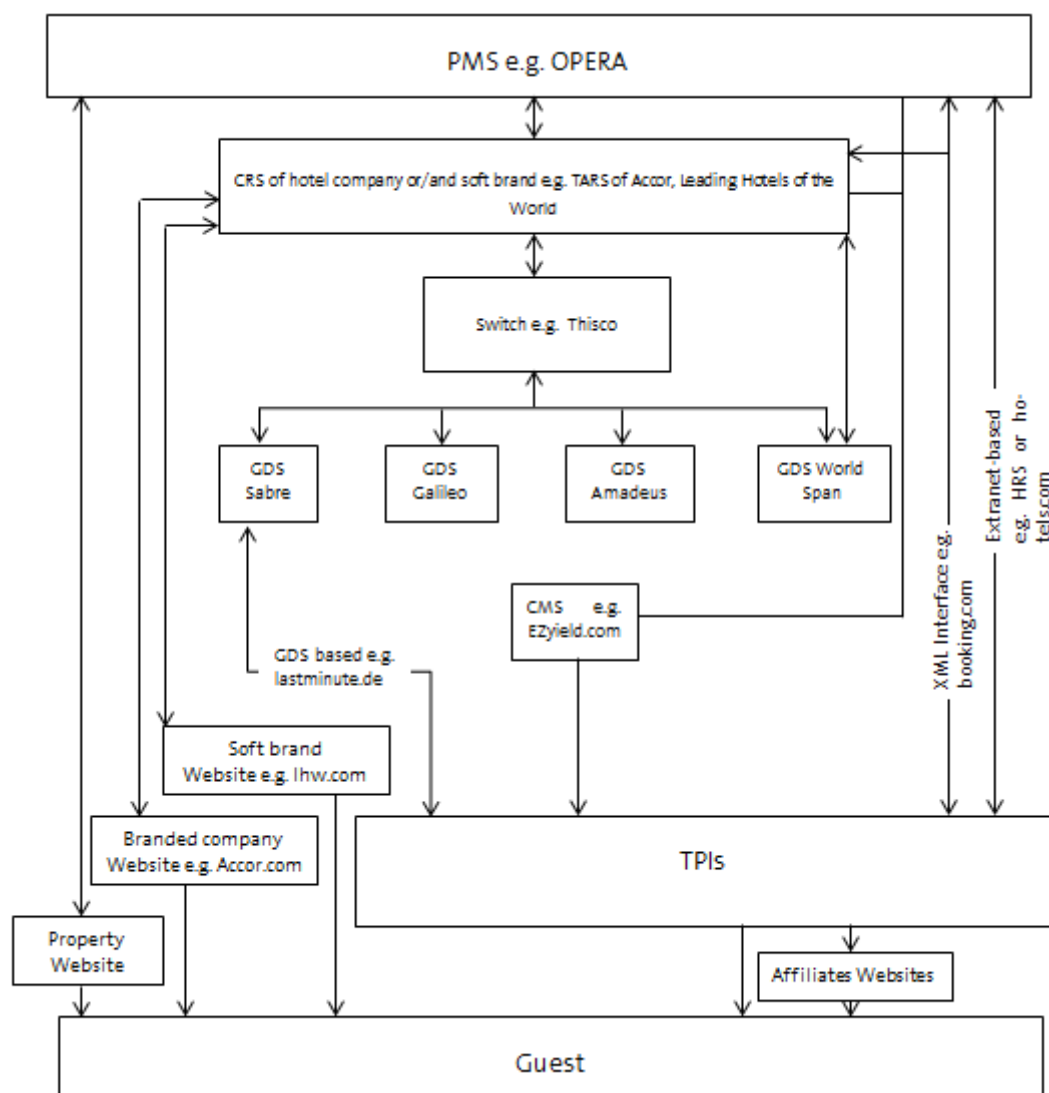


Figure 3: An illustration of hotel electronic-distribution channels and potential routes and connectivity between hotel and TPIs.

Source: Own illustration.

¹⁸⁷ Cf. Hoontrakul; Sahadev, 2008, p. 113 f.; Cotton, 2012, <http://www.hotelnewsnow.com/article/7219/the-what-why-and-how-of-hotel-connectivity> [08.09.2014]; <http://www.erevconnect.com/> [08.09.2014].

2.2.6 Cost of Distribution on the Web

The use of web-based distribution channels in the lodging industry does not necessarily reduce the cost of distribution.¹⁸⁸ There are various distribution costs associated with delivering a reservation to a hotel via the web. Besides the reservation transaction costs, it is also necessary for a hotel to consider the cost of triggering the reservation¹⁸⁹. Due to the fact that many hotel and hotel companies treated the costs of triggering the reservations as marketing expenses and usually have a separate budget for that,¹⁹⁰ the focus here is on the reservation transaction costs. Recalling the business model of TPIs in terms of their revenue generation and pricing arrangement with hotels from section 2.2.4.4, and the channel connectivity from section 2.2.5, all those alternative models can varyingly affect the cost of booking through the web and thus the hotel profitability. First of all, there is the commission, which is the percentage of the total booked revenue that the supplier pays for a TPI.¹⁹¹ Second, there is the discount, or net rate, at which the supplier sells or allocates its room through the merchant or opaque model TPIs.¹⁹² When a room is sold according to this model, the hotel never pays a commission after the guest checks out,¹⁹³ but the difference between the net rate and the hotel's retail rate typically represents a substantial reduction in total revenue received by the supplier of that room.¹⁹⁴ Therefore, these costs can be more accurately viewed as prepaid commissions.¹⁹⁵ Third, depending on the system involved in processing the booking, the cost of booking through web-based channels can vary considerably.¹⁹⁶ These include the

¹⁸⁸ Cf. http://ec.europa.eu/enterprise/archives/e-business-watch/studies/case_studies/documents/Case%20Studies%202006/CS_SR08_Tourism_1-AccorHotels.pdf [11.09.2014].

¹⁸⁹ e.g. SEM, SEO, and Add word fees.

¹⁹⁰ Cf. Green; Lomanno, 2012, p. 146.

¹⁹¹ Cf. Choi; Kimes, 2002, p. 27.

¹⁹² Cf. Tranter et al., 2009, p. 108; Green; Lomanno, 2012, p. 147.

¹⁹³ Cf. Green; Lomanno, 2012, p. 147 f.

¹⁹⁴ Cf. Tranter et al., 2009, p. 108.

¹⁹⁵ Cf. Green; Lomanno, 2012, p. 148.

¹⁹⁶ Cf. Choi; Kimes, 2002, p. 27.

connectivity fees from reservation vendors¹⁹⁷ or so-called technical intermediaries that charge pass-through fees such as GDS, CRS and Switch companies.¹⁹⁸ In addition, there is frequently a credit card fee, which is a percentage of the total booking value, if the payment is made directly at the supplier. Table 3 illustrates typical *net booking value yields*¹⁹⁹ associated with seven web-based distribution channels. Since there is no uniform up-to-date, publically available data on this subject, some of the data in this table is the author's own assessment. As is evident in this comparison, the hotel would receive a net yield ranging from 73% to 95.5%, depending on which channel generated the booking as well as which systems were involved in processing the booking. Thus, the best channels deliver room sales for a hotel with high net booking value yields.

Table 3: Distribution cost and net booking value yields comparison by channel

Source: Compiled from multiple sources, including: ÖHV, 2007, p. 4; Choi; Kimes, 2002, p.27; Green; Lomanno, 2012, p. 149 f.

Chan- nel/model/connectivity	Proper- ty web- site	CRS pow- ered website	TPI agency via Switch -CRS	TPI agency: direct/ extra- net	TPI agency via GDS- Switch -CRS	TPI mer- chant: direct/ extranet	TPI opaque : direct
Booking value in €	200	200	200	200	200	200	200
Commission in %	N/A	N/A	10	15	10	N/A	N/A
Discount/Net rate in %	N/A	N/A	N/A	N/A	N/A	22	25
GDS pass-through fee in €	N/A	N/A	N/A	N/A	5	N/A	N/A
Switch fee in €	N/A	N/A	0.60	N/A	0.60	N/A	N/A
CRS fee in €	N/A	8	8	N/A	8	N/A	N/A
Credit card fee in %	2.50	2.50	2.5	2.50	2.5	N/A ²⁰⁰	N/A
Other Transaction & book- ing fee in €	4	N/A	N/A	N/A	N/A	4	4
Total cost in €	9	13	33.6	35	38.6	48	54
Booking value yields in %	95.5	93.5	83.2	82.5	80.7	76	73

¹⁹⁷ Cf. Green; Lomanno, 2012, p. 147.

¹⁹⁸ Cf. <http://www.burns-htc.com/articles/understanding-and-maximizing-a-hotels-electronic-distribution-options.html> [11.09.2014].

¹⁹⁹ The author depended on Hayes et al. (2011) to find this KPI, but he used the booking value instead of the ADR as a basis for the formula. The reason is that the use of ADR ignores the prepaid commission or markup of the merchant, which represents a considerable leakage from the net yields.

²⁰⁰ Note: While typically in such an arrangement the guest pays the TPI and the hotel receives a voucher from the guest, a single-use credit card can be used by some hotels to expedite payment from TPis, and thus the hotel incurs a credit card transaction fee for this service.

2.3 Pricing of Hotel Rooms

Among all of the components of the marketing mix, price is the only element that produces revenue.²⁰¹ While the other components of the marketing mix create value and appear on the hotel's *P&L statement* as expenses, price is on the other hand, the hotel's tool for capturing and communicating value, and it directly affects the revenue section of the P&L statement.²⁰² Due to the intangibility of hotel services and simultaneous production and consumption, price is also used by customers as an indicator and measure of quality.²⁰³ Price influences the demand for a product or service, which in turn can be used as a tool that matches supply and demand and thus determines the sale volumes.²⁰⁴ Price is the most flexible element of marketing in that a pricing decision can be implemented relatively quickly and easily in comparison with the other elements of marketing.²⁰⁵ However, some experts rate pricing as the number-one problem facing marketing executives since it is the most complex and least understood of the marketing variables.²⁰⁶ Conversely, on the part of the customer, price is easily the most noticeable, powerful, and understandable element of the whole marketing mix.²⁰⁷

Pricing is an organizational process that often incorporates inputs from various divisions within an organization²⁰⁸ and involves discussions and negotiations between different business functions such as marketing, sales, finance, and operations.²⁰⁹ Likewise, pricing involves integrating decision-making vertically and horizontally within an organization, which makes it difficult to be leveraged effectively.²¹⁰ For

²⁰¹ Cf. Kotler et al., 2014, p. 299; Shoemaker et al., 2007, p. 372; Reid; Bojanic, 2006, p. 541.

²⁰² Cf. Reid; Bojanic, 2006, p. 541.

²⁰³ Cf. Shoemaker et al., 2007, p. 372; Bowie; Buttle, 2004, 150.

²⁰⁴ Cf. Bowie; Buttle, 2004, p. 150.

²⁰⁵ Cf. Reid; Bojanic, 2006, p. 541.

²⁰⁶ Cf. Defranco, 2010, p. 586; Kotler et al., 2014, p. 299; Bowie; Buttle, 2004, p. 150.

²⁰⁷ Cf. Hayes; Miller, 2011, p. 47.

²⁰⁸ Cf. Özer; Phillips, 2012, p. 3.

²⁰⁹ Cf. Defranco, 2010, p. 586.

²¹⁰ Cf. Joy, Joseph, 2007, <http://www.marketingprofs.com/7/strategic-tactical-pricing-basics-joseph.asp> [23.09.2014].

example, a pricing decision should take into account the following: maximization of owner investment objectives, contribution to brand integrity and perception, satisfaction of heterogeneous guests, minimization of the effect of room perishability and minimization of cost incurred.²¹¹ In addition to stakeholders' interests and the characteristics of the room product, a room-pricing decision may incorporate issues related to timing, market, technical knowledge, and other external and economic factors.²¹²

2.3.1 Fundamentals of Pricing and Its Levels of Implementation

The literature of pricing shows that there is no single, universal approach to set price,²¹³ which can be accepted by all hotels, at all times and in all places. Hotel pricing faces the complexity of human activities and environmental circumstances, which involves various approaches ranging from statistical models to common-sense best practices.²¹⁴

2.3.1.1 Fundamental Approaches to Pricing

Generally, companies can base their pricing decisions on three types of information or factors.²¹⁵ From an economic or market perspective, cost and competition are key factors in pricing decisions,²¹⁶ whereas the products' perceived value is the third key from a marketing perspective. Based on these three factors there are in the literature three general pricing approaches. Due to the fact that each of these common approaches has both pros and cons, Defranco suggested that hotels' pricing decisions are not based on any one single factor, but on a mix of these three. Therefore, it is better to use the terms cost-informed, competition-informed, and value-informed pricing, instead of the common terms cost-based,²¹⁷ competition-led or value-

²¹¹ Cf. Steed; Gu, 2004, p. 369.

²¹² Cf. Ibid.; Kotler et al., 2014, p. 299 ff.

²¹³ Cf. Defranco, 2010, p. 586.

²¹⁴ Cf. Steed; Gu, 2004, p. 370.

²¹⁵ Cf. Defranco, 2010, p. 586; Kotler et al. 2014, p. 311.

²¹⁶ Cf. Shaw, 1992, p. 31.

²¹⁷ Cf. Defranco, 2010, p. 586.

oriented pricing as in the literature. The following is a summary to the three traditional pricing approaches, which outlines the basic principles for each of them:²¹⁸

- *Cost-informed pricing*: product costs set a floor for the price.²¹⁹ It is considered a financially driven approach to pricing in which products are priced to yield an equitable profit, ensuring that a company remains viable.²²⁰ The common methods to this pricing approach are the following: cost-plus pricing, break-even analysis, and target profit pricing.²²¹
- *Value-informed pricing*:²²² Consumers' perception of the product's value sets the ceiling for prices.²²³ It is considered a market driven approach to pricing in which the highest price that customers are willing to pay for a product is a key determinant of the price the company charges.²²⁴ Some authors have called this approach demand-oriented pricing,²²⁵ since it involves choosing a price after developing estimates of market demand based on how potential consumers perceive the value of the product or service.²²⁶ Meanwhile, the price charged based on this approach strives for extracting sufficient consumer demand from the market.²²⁷
- *Competition-informed pricing*: once the floor and ceiling for price has been set by the costs of a product and the buyers' perceptions of value, competition deter-

²¹⁸ Further reading for more detailed coverage of these approaches will be found in: Kotler et al., 2014, pp. 311–314; Reid; Bojanic, 2006, pp. 550–556; Shoemaker et al., 2007, pp. 379–398; Bader, 1977, pp. 140–218.

²¹⁹ Cf. Kotler et al., 2014, p. 311; Bowie; Buttle, 2004, p. 161; Shaw, 1992, p. 31.

²²⁰ Cf. Collins; Parsa, 2006, p. 93; Bowie; Buttle, 2004, p. 161.

²²¹ Cf. Kotler et al., 2014, p. 311 ff.

²²² Note: this approach can be found in the literature under the term customer-driven pricing and it is not to confound with value-based pricing method, which presented by Nagle and Holden (2002) and aims to proactively change the customer's pay willingness by learning and leveraging the value perceived by the customer.

²²³ Cf. Bowie; Buttle, 2004, p. 161; Kotler et al., 2014, p. 311.

²²⁴ Cf. Collins; Parsa, 2006, p. 93; Bowie; Buttle, 2004, p. 161; Kotler et al., 2014, p. 313.

²²⁵ e.g. Reid; Bojanic, 2006, p. 553.

²²⁶ Cf. Shoemaker et al., 2007, p. 382.

²²⁷ Cf. Reid; Bojanic, 2006, p. 553.

mines where between these two extremes the best price will fall.²²⁸ When a company is aware of its competitors' prices and offers, it can use this information to decide its own prices.²²⁹ A hotel might position itself, either at, below, or above its competitive set.²³⁰ This depends on the valued differentiation of its product from the competitors' products.²³¹

2.3.1.2 Levels of the Pricing Implementation

Hotel room pricing has changed notably over the years.²³² Traditionally, pricing has been recognized as a more strategic tool,²³³ when initially hotel pricing involved changing rates every season according to some demand forecasting.²³⁴ Nowadays, pricing decisions are becoming more tactical and operational in nature. Companies need to make pricing decision more and more rapidly in order to respond to short-term market dynamics, including competitive action and market changes, or even their own inventory situation.²³⁵ According to Phillips, *“the rise of e-commerce necessitated the ability to manage and update prices in a fast-moving, highly transparent, online environment for many companies that had not previously faced such a challenge”*.²³⁶ Many authors have revealed that in hospitality, short-term tactical price change is often not consistent with strategic objectives, and can send out strong negative messages to customers with damaging, long-term consequences.²³⁷ Therefore, recognition of pricing as a strategic tool as well as tactical tool, and distinguishing between these two perspectives is essential to effective management of hospitality and pricing decisions.²³⁸

²²⁸ Cf. Shaw, 1992, p. 31; Kotler et al., p. 311.

²²⁹ Cf. Kotler et al., 2014, p. 310.

²³⁰ Cf. Reid; Bojanic, 2006, p. 555; Kotler et al., 2014, p. 314.

²³¹ Cf. Shoemaker et al., 2007, p. 396.

²³² Cf. Sölter, 2007, p. 51; Shoemaker et al., 2007, p. 376.

²³³ Cf. Westermann; Lancaster, 2011, p. 199.

²³⁴ Cf. Shoemaker et al., 2007, p. 376.

²³⁵ Cf. Phillips, 2005, p. 5.

²³⁶ Ibid.

²³⁷ i.e. Bowie; Buttle, 2004, p. 150; Hanks et al., 2002, p. 95; Shoemaker et al., 2007, p. 375.

²³⁸ Cf. Shaw, 1992, p. 39.

Unfortunately, based on an extensive review of the literature of pricing, there is no broadly accepted model or framework which integrates tactical pricing activities with strategic pricing decisions and shows clearly the interdependence between them. Therefore, it is useful to highlight different viewpoints in this field.

According to Shaw, “*price level decisions, that is, minimum and maximum price positioning thresholds are strategic pricing decisions. Actual price determination within the positioning thresholds framework is tactical pricing*”²³⁹; whereas, positioning, as defined by Shaw is “*the customers’ perception, real or perceived, of a product’s value and worth to them*”²⁴⁰. Thus, Shaw suggests that the customer should be placed as the focal point for strategic and tactical pricing decisions.²⁴¹ She concluded that, although actual price determination is a tactical decision, it supports the positioning decision and can be especially essential for incremental sales considerations.²⁴²

Henkoff suggests that “*when it comes to thinking and acting strategically, managers still have to depend, to some degree, on a few devilishly unquantifiable factors, like experience, instinct, guesswork, and luck*”²⁴³. Perhaps this is why many authors and researchers argue that pricing is an art as much as it is a science.²⁴⁴

According to Hayes and Miller, the science of pricing emphasizes the data collection and analysis of it. Whereas, the art of pricing emphasizes the importance of applying experience, intuition, and insight to revenue optimization decision making. In this context, insight can be defined as the ability to see clearly and intuitively into complex customers, determination of product value, and instances in which strategic prices must be determined.²⁴⁵ Accordingly, Hayes and Miller define strategic pricing as “*the application of data and insight to effectively match prices charged with buyer’s*

²³⁹ Shaw, 1992, p. 31.

²⁴⁰ Ibid.

²⁴¹ Cf. Shaw, 1992, p. 31.

²⁴² Cf. Shaw, 1992, p. 38.

²⁴³ Henkoff, Ronald, 1990, http://archive.fortune.com/magazines/fortune/fortune_archive/1990/12/31/74518/index.htm [13.10.2014].

²⁴⁴ i.e. Nagle; Holden, 2002, p. 9; Green; Lomanno, 2012, p. 172; Hayes; Miller, 2011, p. 84 ff.

²⁴⁵ Cf. Hayes; Miller, 2011, p. 84 ff.

*perceptions of value*²⁴⁶. This supports the viewpoint of Nagle and Holden that “*pricing depends as much on good judgment as on precise calculation*”²⁴⁷. They make a distinction between price setting and strategic pricing, and describe it as the difference between reacting to market conditions and proactively managing them. Thus, price setting is a tactical decision in a sales effort.²⁴⁸ It is typically made in reaction to a pricing problem and arrived at by analyzing only the immediate impact on profitability. Whereas, strategic pricing is planned to exploit an opportunity and it considers how the reactions of customers or competitors may change the picture. Accordingly, they suggest that managers should think strategically about pricing.²⁴⁹ Based on the principle that optimizing long-term profitability necessitates price setting, which occurs within the context of a pricing process and structure that is proactive, Nagle and Holden present a value-based pricing technique which proactively changes and manages the customers' willingness to pay by changing their perception of value instead of reacting to it.²⁵⁰

Phillips presents pricing and revenue optimization together as a tactical function, which recognizes that prices need to change rapidly and often and provides guidance on how they must change. According to Phillips, while the goal of strategic pricing is typically to establish a general position within a marketplace by determining how a product must in general be priced relative to the market, the goal of pricing and revenue optimization is to ensure the right price for every product, to every customer segment, through every channel, and to update those prices over time in response to a changing market situation. Thus, strategic pricing sets constraints within which pricing and revenue optimization operate to determine the prices that will be in place tomorrow and next week.²⁵¹

²⁴⁶ Hayes; Miller, 2011, p. 62.

²⁴⁷ Nagle; Holden, 2002, p. 9.

²⁴⁸ Cf. *Ibid.*, p. 149.

²⁴⁹ Cf. *Ibid.*, p. 1.

²⁵⁰ Cf. *Ibid.*, p. 148 ff.

²⁵¹ Cf. Phillips, p. 1/26

2.3.2 The Financial Power of Pricing

Pricing is far and away one of the most powerful levers to increase profitability available to most companies.²⁵² Neither occupancy increase nor cost optimization can be as fast and cost-effective a way to affect the profitability of a hotel as pricing.²⁵³ There is considerable research into the effects of pricing and price cuts on company profitability.²⁵⁴ According to a pioneering study by McKinsey, based on the average income statements of *the S&P 1500 companies*, the McKinsey researchers concluded that a 1% improvement in price, if volumes remain steady, would generate an 8% increase in operating profits. This corresponds to an impact nearly 50% greater than that of a 1% fall in variable costs and more than three times greater than the impact of a 1% increase in volume. Unfortunately, the pricing is a double-edged sword. A decrease of 1% in average price has the opposite effect, bringing down operating profits by that same 8% if other factors remain stable. Companies may hope that higher volumes will compensate for revenues lost from lower prices and thereby raise profit. But this rarely happens, because volumes would have to increase by 18.7% just to offset the profit impact of a 5% price cut.²⁵⁵

Price cuts or discounting in the hotel industry are a natural reaction of many operators to excess capacity²⁵⁶ in the hopes of stimulating customer demand, gaining additional market share from their competitors, and augmenting revenue.²⁵⁷ Although in low-occupancy times room rates remain the most effective lever hoteliers have at their disposal,²⁵⁸ this can be counterproductive if applied in the absence of structured and logical roles. While hotels who initiate price cuts may gain market share, eventually competitors are forced to respond, and thus a price war ensues.²⁵⁹ If a

²⁵² Cf. Jacobson et al., 2012, p. 893; Phillips, 2005, p. 28.

²⁵³ Cf. ÖHV, 2007, p. 1; Phillips, 2005, p. 28.

²⁵⁴ i.e. Enz et al., 2004; Enz et al., 2012; Jacobson et al., 2012, p. 894; Bowie; Buttle, 2004, p. 170; Butscher et al., 2009, p. 407.

²⁵⁵ Cf. Marn et al., 2003, p. 29.

²⁵⁶ Cf. Bowie; Buttle, 2004, p. 170.

²⁵⁷ Cf. Enz et al., 2004, p. 6.

²⁵⁸ Cf. Butscher et al., 2009, p. 406.

²⁵⁹ Cf. Bowie; Buttle, 2004, p. 170.

price war occurs, guests begin to expect a lower *price reference*, reacting unfavorably when hotels try to increase prices later.²⁶⁰ Furthermore, a straightforward rate decrease bears the risk of irreversible effects on the perceived value of upscale hotels, making it difficult to recover their initial positioning once again.²⁶¹ Conventional wisdom and microeconomic theory suggest that as prices fall, demand for a given product will rise. However, the other factor is known as price elasticity, which reveals how much the demand for hotels changes in response to a change in price. Price elasticity acts as follows: if a certain percentage decrease in price yields more than a certain percentage increase in sales, demand is called elastic and total revenue is greater than before. As a result, changes in revenue depend on the price elasticity of demand.²⁶²

With those associations in mind, Enz et al. conducted extensive research to document the empirical relationship between occupancy and RevPAR performance of a hotel's deviations in pricing from its local competitors. Figure 4 summarizes their finding for European Hotels for the period 2006 through 2009 and shows the downside of reducing ADR to boost occupancy. Their studies have found an outcome opposite to what the hotel might expect, because lower rates mean lower RevPAR. The same authors published more extensive research that reached the same conclusion in the U.S. and Asian markets.²⁶³ Most critically, these studies indicate the inelasticity of hotel demand, given that demand is not stimulated by sinking prices in relation to competitors.²⁶⁴ In particular, the luxury hotels that have an ADR that is higher than their competitors have the same or slightly lower occupancies, but have a 8 to 14 percent higher RevPAR than their competitors. Conversely, hotels that have a lower ADR than their competitors have about the same or slightly higher occupancy levels, but report RevPAR that is 3 to 9 percent lower than their competitors.²⁶⁵

²⁶⁰ Cf. *Ibid.*

²⁶¹ Cf. Butscher et al., 2009, p. 406.

²⁶² Cf. Enz et al., 2004, p.6.

²⁶³ i.e. Canina; Enz, 2006; Enz; Canina; Lomanno, 2004.

²⁶⁴ Cf. Enz et al., 2010, p. 4 ff.

²⁶⁵ Cf. Kimes, 2009, p. 12 f.

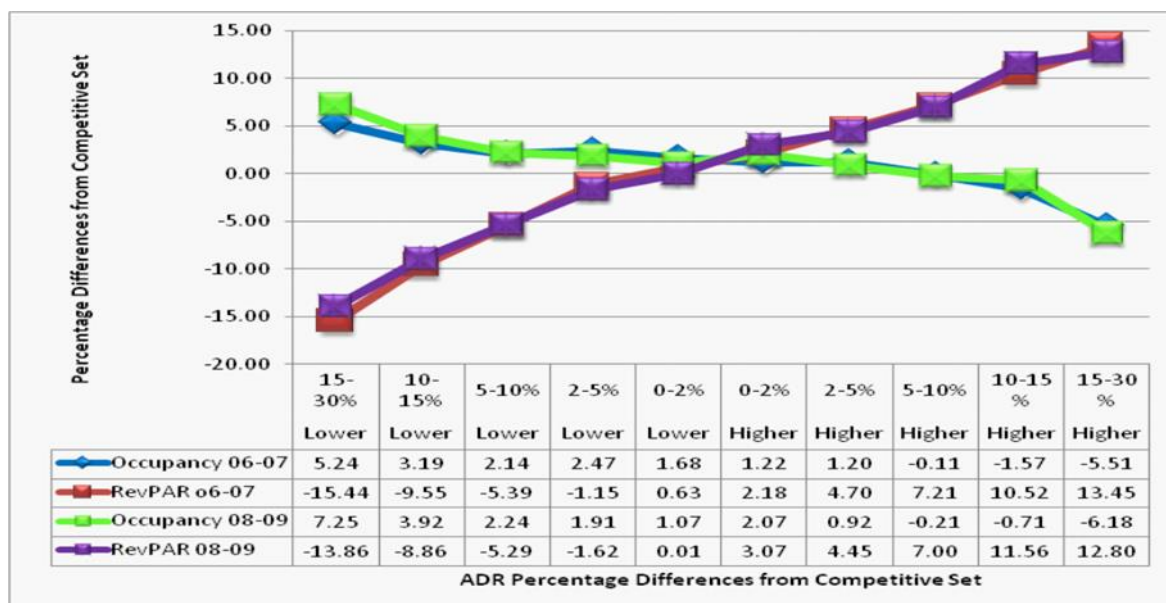


Figure 4: The harmful impact of discounting on RevPAR

Source: Enz et al., 2010, p. 8.

2.3.3 Pricing tactics and Practices

Given the fundamental principles of pricing reviewed so far, it can be concluded that strategic pricing sets the limit within which tactical pricing operates or is implemented as a control tool to optimize revenue and thus maximize profitability. So, pricing is here considered on the tactical and operational level. While pricing as a tactical function aims to maximize revenue according to short-term dynamic conditions, the reader should keep in mind that pricing is a marketing tool. Marketing grew out from the economic principle that the economy responds to the customer. Therefore, when it comes to setting room rates, this basic theory needs to be recalled. Room rates should be set with the long-term customer in mind, and should not only focus on the short-term margin.²⁶⁶ Exactly how hotels can adjust and optimize their basic prices in a strategic fashion to maximize revenue or profit without losing their long-term objectives, in particular the customer, is the subject of this section. This section treats two of the most important practices that hotels can use to optimize price and thus maximize revenue, namely, differential pricing and variable pricing. Though, the distinction between these two concepts is not always clear and both are frequently cited together in the literature.

²⁶⁶ Cf. Lewis, 1986, p.21; Shoemaker et al., 2007, p. 375.

2.3.3.1 Differential Room Pricing and Rate Fencing

A common definition of differential pricing is the practice of a seller charging different prices to different customers, either for exactly the same product or for slightly different versions of the same product.²⁶⁷ Implicit in this definition is the factor of time. Therefore, the distinction between differential pricing and variable pricing is usually rare. In light of this subtle point, the author of this paper refers to a slightly modified definition of the term. According to Kimes and Chase, differential pricing is “*charging customers using the same service at the same time different prices, depending on customers and demand characteristics*”²⁶⁸. This is sometimes referred to segmented pricing²⁶⁹, discriminatory pricing²⁷⁰, price differentiation²⁷¹, multiple pricing²⁷², or demand-based pricing²⁷³. In an effort to make the distinction between variable pricing and differential pricing clearer, the author of this paper rejects the use of the term demand-based pricing as a synonym for differential pricing until the point where variable pricing is discussed in the coming section.

Recall the fundamental approaches of pricing from section 2.3.1.1; an appropriate pricing strategy depends on cost, customers' perceived value, and competition. Commonly one or more of these factors vary significantly across market segments. When this occurs, a pricing approach based on a single price²⁷⁴ for all sales is an imperfect compromise.²⁷⁵ Customers make rational buying decisions based on their perception of the value they receive for the price they pay, whereas different cus-

²⁶⁷ Cf. Phillips, 2005, p. 74; Hayes; Miller, 2011, p. 94.

²⁶⁸ Kimes; Chase, 1998, p. 162.

²⁶⁹ i.e. Nagle; Holden, 2002, p. 227; Reid; Bojanic, 2006, p. 556.

²⁷⁰ i.e. Kotler et al., 2014, p. 316.

²⁷¹ i.e. Phillips, 2005, p. 74.

²⁷² i.e. Shoemaker et al., 2007, p. 401.

²⁷³ i.e. Guillet et al., 2013, p. 187.

²⁷⁴ This is sometimes referred to as fixed pricing, flat pricing or single pricing and defined as the practice of the seller charging the same price to all buyers. Cf. Hayes; Miller, 2011, p. 94. In the discussion of differential pricing the author uses the term single or one-price approach in order to prevent the reader from thinking of this approach as an antonym to variable pricing, which changes over time. More accurate for this term is the definition by Kimes and Chase, 1998, p. 162: “*charging customers using the same service at the same time the same price*”.

²⁷⁵ Cf. Nagle; Holden, 2002, p. 227.

tomers place different value on the same products or services and thus are willing to pay different prices for them.²⁷⁶ This is the basic principle of differential pricing.

Figure 5 represents a simple example which illustrates the economic principle behind differential pricing. The figure at the left side illustrates a hotel that offers a single room rate. However, some guests who book a room would have been willing to pay more than €200, represented by the upper triangle in white. This saving on the part of the buyer is referred to by economists as *consumer surplus*.²⁷⁷ Others guests are unwilling even to pay €200 and leave rooms unfilled, represented by the lower triangle in white. Together, those triangles represent unrealized revenue. The realized revenue is €10.000 based on 50 room-nights sold at €200 each. The figure at the right side illustrates a hotel applying differential pricing and thus offers 3 different room rates according to different customers' willingness to pay. While some guests still cannot be accommodated by those 3 hypothetical rates, their number and the unrealized revenue that they represent is much smaller than in the figure at the left side. The hotel realized revenue of €17.500.²⁷⁸

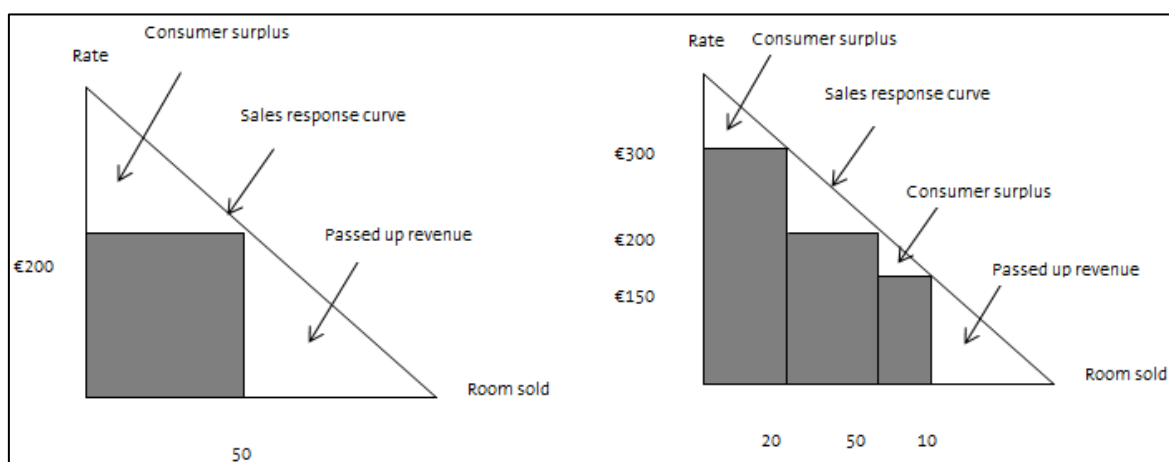


Figure 5: The economic principle of differential pricing

Source: Own illustration based on: Shoemaker et al., 2002, p. 402; Hanks et al., 2002, p. 96 f.

²⁷⁶ Cf. Hayes; Miller, 2011, p. 92.

²⁷⁷ Cf. Nagle; Holden, 2002, p. 227; Hayes; Miller, 2011, 97.

²⁷⁸ This example contains the author's own numbers and represents a modified example based on Hanks et al. 2002, p. 96 f. The reader could refer to Shoemaker et al., 2007, p. 401 ff. or Hayes; Miller, 2011, p. 94 ff. for more detailed examples on differential pricing.

Charging every customer exactly his willingness to pay is known as first-degree or perfect price differentiation in the economic literature.²⁷⁹ Although the implementation of such one-to-one pricing fails usually due to the complexity of determining the individual willingness to pay²⁸⁰ and legal reasons,²⁸¹ it is important to note that differential pricing is often applied within a hotel's specific market segment. For instance, within a hotel's transient segment, prices might be greatly differentiated based on defined sub-segments.²⁸² This is why the use of the term differential pricing instead of segmented pricing in this context can be more useful.

Phillips emphasizes that there is both an art and a science to differential pricing. The art lies in finding a way to divide the market into different segments so that higher prices can be charged to the high-willingness-to-pay segments and lower prices to the low-willingness-to-pay segments. Whereas, the science lies in setting and updating the prices in order to maximize overall return from all segment.²⁸³ Based on a broad review on the literature of pricing, eleven generic elements can impact differential pricing in the lodging industry.²⁸⁴ These are shown in the Figure 6.

²⁷⁹ Cf. Klein; Steinhardt, 2008, p. 43.

²⁸⁰ A possible way to identify individual willingness to pay is the use of auction sites.

²⁸¹ Cf. Klein; Steinhardt, 2008, p. 44.

²⁸² Cf. Hayes; Miller, 2011, p. 104 f.

²⁸³ Cf. Phillips, 2005, p. 74.

²⁸⁴ i.e. Schrand; Schlieper, 2011, p. 221 ff.; Barth; Theis, 1998, p. 189 ff.; Gardini, 2009, p. 447 ff.; Reid; Bojanic, 2006, p. 556 ff.; Hayes; Miller, 2011, p. 106 ff.; Nagle; Holden, 2002, p. 229 ff.; Becher, 2008, p. 36 ff.; Klein; Steinhardt, 2008, p. 45 ff.; Philips, 2005, p. 78; Sölter, 2007, p. 60 ff; Bader, 1977, p. 236 ff.

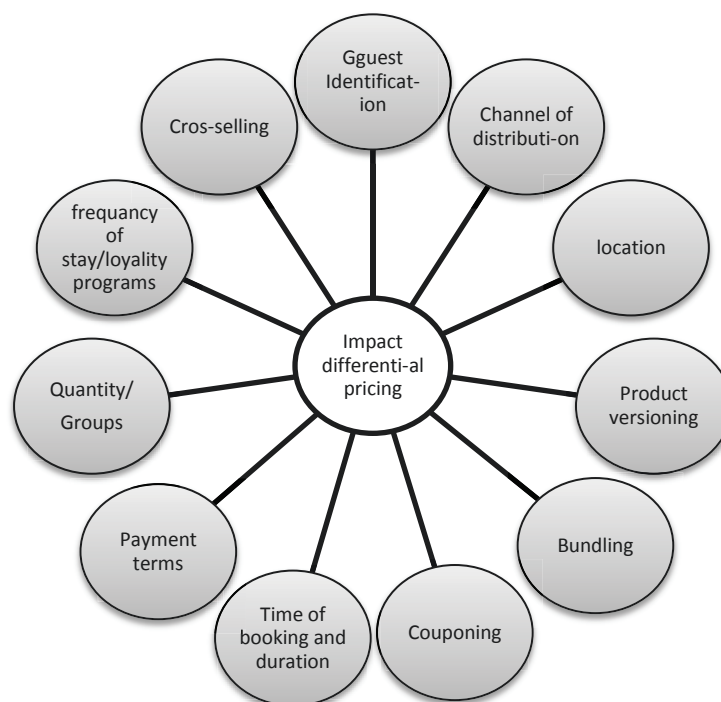


Figure 6: Factors impacting differential pricing

Source: Own modified illustration based on Hayes; Miller, 2011, p. 106

Price differentiation based on some of the techniques illustrated in the figure above is very prevalent in the hotel industry. Hotels typically offer multiple tiers of rates such as corporate rates, seniors' rates, and loyalty program rates. According to Hanks et al., segmentation practices that employ restrictions based on the booking characteristics of the guest, e.g., time of booking rather than on status or group membership, have stirred up controversy.²⁸⁵ Because this thesis concentrates on the room rates being offered on the web and is confined mainly to the public rates²⁸⁶, it is useful to move to the more relevant practice of differential pricing, namely, rate fencing. Rate fencing can be considered the art of differential pricing. Rate fences have been defined as *“logical, rational rules or restrictions that are designed to allow customers to segment themselves into appropriate rate categories based on their needs, behavior, or willingness to pay”*²⁸⁷. A distinguishing feature of market segmentation, motivated by the desire to maximize revenue, is that the hotel does not have precise infor-

²⁸⁵ Cf. Hanks et al., 2002, p. 97.

²⁸⁶ This means the rates every guest is able to book.

²⁸⁷ Hanks et al., 2002, p. 98.

mation about the preferences²⁸⁸ and willingness to pay of individual guests²⁸⁹. The empirical research has indicated that almost every consumer behavior variable can be proposed for segmenting a market; however, traditional segmentation variables such as age, income and occupation are, in general, poor predictors of willingness to pay.²⁹⁰ Properly designed rate fences enable guests to self-segment on the basis of their willingness to pay²⁹¹ and allow hotels to effectively maintain profitability.²⁹² Rather than running counter to guest orientation, fences allow guests to purchase the product they want, when they want and to accept the cost trade-off consequences.²⁹³ Three characteristics distinguish well-developed rate fences: A) they allow a hotel to sell discount rooms to one customer segment without allowing higher-rate customers to trade down; B) they are easy to explain to guests, and every rate has a rationale;²⁹⁴ C) they make sense to guests so that guests believe that the rate they are paying is based on their choice, not on greed on the part of the hotel²⁹⁵. Although fences can make comparisons very difficult for customers and thus could improve the perceived fairness in the practice of differential pricing,²⁹⁶ the downside of fences is that they are more difficult to manage than other approaches.²⁹⁷ Hotel rate fences can be physical or nonphysical in nature. Physical rate fences include tangible features such as room type, view, room location, and presence of certain amenities whereas nonphysical rate fences include cancellation or change penalties and benefit based on when the reservation was booked, desired duration and group membership or affiliation.²⁹⁸ In an initial effort to organize the characteristics of fences,

²⁸⁸ Cf. Zhang; Bell, 2012, p. 149.

²⁸⁹ Cf. Phillips, 2005, p. 77.

²⁹⁰ Cf. Zhang; Bell, 2012, p.

²⁹¹ Cf. Kimes; Wirtz, 2003, p. 128.

²⁹² Cf. Zhang; Bell, 2012, p. 149.

²⁹³ Cf. *Ibid.*

²⁹⁴ Cf. Hanks et al., 2002, p. 98.

²⁹⁵ Cf. Shoemaker et al., 2007, p. 403.

²⁹⁶ Cf. Zhang; Bell, 2012, p. 149.

²⁹⁷ Hanks et al., 2002, p. 99.

²⁹⁸ Cf. Kimes; Chase, 1998, p. 163; Hanks et al., 2002, p. 98 ff.

Zahng and Bell presented the taxonomy of fences based on purchase patterns, product characteristics and customer characteristics.²⁹⁹³⁰⁰

2.3.3.2 Variable Pricing

In a perfect world, a company would maximize its revenue by selling its products or services to customers at the highest price each customer is willing to pay for it.³⁰¹ In section 2.3.3.1 it has been outlined how a hotel can maximize its expected profit by offering different prices with only a single period to consider. This practice would maximize profit when the supplier has the freedom to produce as much of a product as he wants and he knows with certainty the price-response curve he faces.³⁰² Unfortunately, things are a bit more complicated in the real world of the hotel industry. Hotels face a fixed capacity in the short run and variable demand over time. The acceptance of a lower-value booking request, which arrives early in the booking window, may prevent sufficient capacity from being available for later booking requests of higher value. This means revenue displacement. Conversely, declining early booking requests may result in *idle capacity* at the time of service delivery. This means revenue loss.³⁰³ This leads to the *tactic* of variable pricing, which is used when a supplier has multiple units of fixed capacity and can change prices in order to balance supply and demand.³⁰⁴ In the literature this practice is sometimes referred to as dynamic pricing or demand-based pricing. From the viewpoint of the author it is more accurate in the context of this thesis to keep using the term variable pricing, since each of the other terms leads to a misunderstanding of the practice of variable pricing. The use of demand-based pricing undermines the role of the capacity situation and can be confused with the strategic approach of demand-based pricing³⁰⁵ outlined in section 2.3.1.1. Whereas, dynamic pricing leads to the conclusion that price

²⁹⁹ Cf. Zhang; Bell, 2012, p. 151 ff.

³⁰⁰ The classification provided by Zhang and Bell (2012) is actually not much different from what has been illustrated in the figure 6. The authors of this thesis recommend the article of Zhang and Bell for providing more understanding of the function of each fence.

³⁰¹ Cf. Reid; Bojanic, 2006, p. 559.

³⁰² Cf. Phillips, 2005, p. 99.

³⁰³ Cf. Von Martens; Hilbert, 2011, p. 87.

³⁰⁴ Cf. Phillips, 2005, p. 99.

³⁰⁵ This is also called value-based pricing.

fluctuates too rapidly, and this is not necessarily the case. According to Rohlfs and Kimes, “*Variable pricing or demand-based pricing, refers to hotels' charging different nightly rates for the same room based on expected room demand [and available capacity, A/N]*”³⁰⁶. “*(...) [It, A/N] is used by the hotel industry to help optimally match the supply of hotel rooms with customer demand*”³⁰⁷. By virtue of this, hoteliers can control customer demand to enhance profitability.³⁰⁸ In essence, prices fall when demand is weak and supply exceeds it, whereas prices rise when demand is strong and exceeds supply.³⁰⁹ This is based on demand elasticity in response to a price at a specific point in time. Moreover, variable pricing can also shift demand from a peak period to a weak period. This is called diversion or demand shifting and occurs when some customers are flexible and will shift their consumption to other periods if they can save money.³¹⁰

A challenge faced by the hoteliers when they apply variable pricing is the multiple-night stays issue. If a guest arrives on an off-peak demand day and wants to stay through several peak demand days, the hoteliers are not sure which rate should be quoted.³¹¹ In an attempt to reduce the confusion associated with the operational policies and procedures of variable pricing, a practice of BAR pricing has grown to pinpoint the actual rate for each room-night of a multiple-night stay. As a result, the guest pays different prices each night, instead of paying the same price for each room-night.³¹² Accordingly, a best available rate can be defined “*as the lowest available rate per room available to the general public on a given night*”³¹³. Thus, BAR pricing is not a fixed rate but a flexible model that includes various BAR levels that vary over time. In this case, the hotel adjusts prices not by changing the price but by opening and closing BAR classes.

³⁰⁶ Rohlfs; Kimes, 2005, p. 7 f.

³⁰⁷ Ibid., p. 17.

³⁰⁸ Cf. Kimes; Chase, 1998, p. 156.

³⁰⁹ Cf. Steed; Gu, 2005, p. 371.

³¹⁰ Cf. Phillips, 2005, p. 109.

³¹¹ Cf. Kimes, 1989, p. 18.

³¹² Cf. Rohlfs; Kimes, 2005, p. 4 ff.

³¹³ Tranter et al., 2009, p. 132.

While variable pricing can provide high profitability, it is not without a downside. According to Kimes and Wirtz, many service companies are unwilling to implement variable pricing because of potential customer dissatisfaction.³¹⁴ Customers may perceive variable pricing as unfair because reference prices affect customer reaction to variable pricing. If customers view a peak-demand price as higher than their reference price, then customers may perceive the price charged as unfair or gouging, especially if customers believe that the supplier is not providing more value for a peak-demand price. Whereas, the discount available during off-peak demand periods may reduce the customer's reference price and make them perceive future buying at the regular or premium rate as unfair.³¹⁵ Therefore, the best way is to accompany the science of variable pricing with the art of rate fencing. As Kimes and Chase stated, the mechanism of rate fencing provides the opportunity to alter price while maintaining goodwill.³¹⁶ Using a well-developed set of rate fences, hotels can implement variable pricing for their inventory, opening up low rates when demand is weak and closing them during a peak-demand period.³¹⁷

2.3.4 Controversial Concepts in the World of Hotel-Room Pricing

2.3.4.1 Rate Parity

Rate parity shows up in the hotel industry in different contexts. Moreover, in the literature of pricing there are many definitions for rate parity. According to Gazzoli et al. *“rate parity is defined as setting the same rate structure across all distribution channels”*³¹⁸. Whereas Shoemaker et al. defines rate parity as *“the uniformity of retail rates across different channels of distribution that provide the same product”*³¹⁹. Shoemaker et al. stated that when the same product was sold with different restrictions, a different price could be applied to that product without affecting rate

³¹⁴ Cf. Kimes; Wirtz, 2003, p. 127.

³¹⁵ Cf. Ibid.

³¹⁶ Cf. Kimes; Chase, 1998, p. 163.

³¹⁷ Cf. Hanks et al., 2002, p. 98.

³¹⁸ Gazzoli et al., 2008, p. 376.

³¹⁹ Shoemaker et al., 2007, p. 394.

parity.³²⁰ The reason for this variation in the meaning of rate parity could be that it is not always considered a pricing principle. Rate parity appears in some contexts as a TPI contract provision. For instance, the so-called “best price clause” used by HRS had obliged its hotel partners to offer their lowest room rate with the most favorable booking and cancellation conditions. However, this clause became prohibited since it violates competition law.³²¹ Room rate parity, however, is somewhat difficult to define. The extent to which the rate can vary in terms of booking conditions³²² while still maintaining rate parity depends greatly on the contract between hotel and TPI.

From the viewpoint of hoteliers, the basic principle of rate parity has both pros and cons. Based on the fact that a guest repeatedly looks to book a particular hotel, it makes sense for a hotelier to maintain consistent rates across all channels, so that price becomes less of a consideration in the booking decision.³²³ This means that any value added that is provided on the hotel's website comes into play in the decision process.³²⁴ Meanwhile, rate parity improves customer satisfaction because online bookers are intolerant of inconsistent information, and may react to disparate rates on different channels by switching their purchase to competitors.³²⁵ Furthermore, rate parity protects a hotel's relationships with its TPI partners, since no channel is being favored over another.³²⁶ For instance, if a hotel is not in parity in a specific TPI, the hotel can eventually find itself on the low end of the sort order for related search.³²⁷ Conversely, rate parity can restrict a hotel from managing price. Tranter et al. stated that “*where a consumer buys is often as important as what they buy*”³²⁸ Different distribution channels exist because they appeal to diverse types of cus-

³²⁰ Cf. *Ibid.*

³²¹ Cf. http://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2013/20_12_20_13_HRS.html [23.10.2014].

³²² e.g. Cancellation conditions, nonrefundable or fully prepaid.

³²³ Cf. Thompson, Failmezger, 2005, p. 4.

³²⁴ Cf. *Ibid.*, p. 15.

³²⁵ Cf. O'Connor, 2003, p. 90; Tranter et al., 2009, p. 123.

³²⁶ Cf. Mourier, 2010, <http://www.4hoteliers.com/features/article/5492> [23.10.2014].

³²⁷ Cf. <http://www.sceptrehospitality.com/blog/importance-of-knowing-the-difference-rate-parity-vs-rate-integrity/> [23.10.2014].

³²⁸ Tranter et al., 2009, p. 130.

tomers.³²⁹ For example, some guests prefer to book through a specific channel and they are willing to pay more, or they may feel that they should pay less when they book through that channel. Thus, from a differential pricing perspective, distribution channels can help hoteliers to attract different willingness-to-pay guests.³³⁰ Furthermore, recall from section 2.2.6 the costs related to selling through different channels can vary greatly. Therefore, one potential strategy³³¹ to balance these distribution costs is to charge higher prices on channels with higher distribution costs. This has two potential implications, namely, the high rate would either compensate for the high distribution cost or drive customers towards cheaper channels.³³² Additionally, depending on a hotel's distribution channel strategy, it may want to reward a specific channel that produces a high level of booking by maintaining rate parity with it while charging more on another channel.³³³ Since the savvy customers are aware that hotels pay commission to TPI, they cannot logically fathom why this cost-saving is not passed down to them by booking directly through the hotel.³³⁴

2.3.4.2 Rate Integrity

Rate integrity is much mentioned in the hotel industry but seldom discussed in the literature of pricing. The reason for this could be that rate integrity is not a concrete concept. While rate parity is somewhat difficult to define, rate integrity seems not as clear cut as rate parity. Shoemaker et al. defines rate integrity as “*the trust in the fair price of a hospitality product*”³³⁵. They added that it is commonly achieved when consumers believe they would not find lower prices for a given product through other channels. They argue that many hotels achieve this by guaranteeing that they have the lowest Internet booking rates.³³⁶ Whereas, Tranter et al. define it as “*the mainte-*

³²⁹ Cf. Hayes; Miller, 2011, p. 112. See the typology of the IDS regards to the value proposition p. 27.

³³⁰ Cf. Ibid., p. 113.

³³¹ This is using pricing control; however, hoteliers may use inventory control techniques to achieve this. In addition, that rate may not be controlled by the hoteliers on merchant websites.

³³² Cf. O'Connor; Murphy, 2008, p. 163 f.

³³³ Cf. <http://hotelrevenue.com/?page=parity> [23.10.2014].

³³⁴ Cf. <http://www.eyefortravel.com/revenue-and-data-management/rate-parity-should-it-stay-or-should-it-go> [23.10.2014].

³³⁵ Shoemaker et al., 2007, p. 394.

³³⁶ Cf. Ibid.

nance of consistent prices for similar purchase conditions".³³⁷ According to this definition, perhaps that is why some argue that rate parity and rate integrity go hand-in-hand. When a hotel controls rate parity, rate integrity is assured.³³⁸ Regarding the statement of Shoemaker et al., it is common to observe in the hotel trade magazines that a specific hotel chain tries to maintain rate integrity by offering best-rate guarantee.³³⁹ For instance, Bruce Wolff, senior vice president of distribution sales and marketing for Marriott pointed out that their thinking behind the adoption of a best-rate guarantee is to address the misperception of a lack of rate integrity due to the Internet sites.³⁴⁰ Boger et al. argued that focusing on the guest is half of the equation when measuring rate integrity.³⁴¹ Rate integrity is gauged by comparing the various available rates through different means.³⁴² However, by definition, the word integrity means the *"quality of having an intuitive sense of honesty and truthfulness in regard to the motivations for one's action"*³⁴³, so it makes sense that every hotelier's opinion regarding rate integrity might change a bit across the board.³⁴⁴ Therefore, as Boger et al. implied rate integrity is a culture of individual hotels.³⁴⁵ Finally, since rate integrity is not a concrete concept, it is the hotelier that must have integrity in mind when setting their rates.³⁴⁶ Whether it is maintaining integrity through rate parity, by justifying differential pricing, resisting price cuts, offering a logical rate fences, or a combination of these practices, it is important for hoteliers to have a rational rate structure. For instance, if a guest paid less for a room, it would follow that the guest booked an advance purchase rate that is cheaper because it is

³³⁷ Tranter et al., 2009, p. 123.

³³⁸ Cf. Gazzoli et al., 2008, p. 376.

³³⁹ i.e. Travel Agent, 15.12.2003, 315: 2, p. 14; Meeting News, 26.01.2004, 28:1, p. 11; Hotel & Motel Management, 16.09.2002, 217: 16, p. 1/74.

³⁴⁰ Cf. Wolff, Bruce, 2003. In: Travel Agent, 15.12.2003, 315: 2, p. 14.

³⁴¹ Cf. Boger et al., 2000, p. 21.

³⁴² Cf. Wolfe; Boger, 2001, p. 18.

³⁴³ Mourier, 2010, <http://www.4hoteliers.com/features/article/5492> [24.10.2014].

³⁴⁴ Cf. Ibid.

³⁴⁵ Cf. Boger et al., 2000, p. 21.

³⁴⁶ Cf. Mourier, 2010, <http://www.4hoteliers.com/features/article/5492> [24.10.2014].

nonrefundable.³⁴⁷ For this study, the author looks at rate integrity mainly in terms of the rational structure and use of rate fences.

2.3.4.3 Best-Rate Guarantee

As was mentioned in section 2.3.4.2, many hotels and hotel companies have adopted best-rate guarantee programs³⁴⁸ on their own websites in an effort to enhance their rate integrity. Typically, such programs promise that if a guest books a room on the hotel's website and then finds a lower rate for the same room within 24 hours on a TPI, the hotel will match the lower rate. Most hotels even offer an additional discount on the matched price.³⁴⁹ These programs attempt to provide guests with the assurance that the rates offered at hotel websites are the lowest available, so that the guest would stop shopping for lower rates at other TPIs.³⁵⁰ However, because rates might change prior to the prospective arrival date, guests face ongoing rate uncertainty. As a result, guests might continue to search after having made their reservation in the hopes of finding a lower rate to substitute for the room rate they booked.³⁵¹ Because of these consumers' search-and-switch behavior, Carvell and Quan examined the present programs by calculating their option value, and they determined that they are of little value to consumers. Instead, based on an application of option-pricing-approach, Carvell and Quan demonstrated a best-rate guarantee that would provide value to consumers by offering the guest the option of purchasing this guarantee. Such an approach gives the guest the lowest rate up to the arrival date and enables hotels to eliminate the incentive for guests to engage in search-and-switch behavior.³⁵²

³⁴⁷ Cf. *Ibid.*

³⁴⁸ This is sometimes referred to as low- or lowest-rate guarantee.

³⁴⁹ Cf. Carvell; Quan, 2008, p. 164.

³⁵⁰ Cf. *Ibid.*

³⁵¹ Cf. Carvell; Quan, 2005, p. 7.

³⁵² Cf. Carvell; Quan, 2008, p. 168.

2.4 Revenue Management

It may seem unusual to the reader of this thesis that the term revenue management has not yet been formally mentioned and defined. However, there is a reason for this. Although in the literature there are many definitions for revenue management, the definition provided by two gurus of hospitality revenue management would be sufficient for the purpose of this thesis. Kimes and Wirtz described revenue management as follow:

*“Revenue management is the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right price at the right time [and at the right place, A/N]. The determination of “right” entails achieving both the most contribution possible for company, while also delivering the greatest value or utility to the customer”.*³⁵³

As revealed from this definition RM involves the utilization of different tools to maximize revenue or profit.³⁵⁴ As Figure 7 shows, these tools can be broadly divided into pricing and non-pricing tools. Pricing tools (or price control) that a revenue manager can use to maximize revenue or yield has already been discussed in this chapter. However, strategic pricing sets the limit within which RM operates, so pricing is here considered on the tactical or operational level.³⁵⁵ Non-pricing tools do not influence pricing directly and mainly relate to capacity control such as overbooking, inventory-allocation and channel management.³⁵⁶ For decision making regarding such factors various methods and sophisticated revenue management systems³⁵⁷ have been developed.³⁵⁸ Nevertheless, price and capacity controls can also be applied simultaneously.³⁵⁹ For instance, prices vary not only based on room type, lead time or booking

³⁵³ Kimes; Wirtz, 2003, p. 125.

³⁵⁴ Apart from cost minimization.

³⁵⁵ Cf. Meissner; Strauss, 2008, p. 121.

³⁵⁶ Cf. Ivanov; Zhechev, 2012, p. 179.

³⁵⁷ e.g. Expected Marginal Revenue (EMR)

³⁵⁸ Cf. Choi; Kimes, 2002, p. 24.

³⁵⁹ Cf. Meissner; Strauss, 2008, p. 121; Ivanov; Zhechev, 2012, p. 179.

conditions, but also vary based on distribution channel.³⁶⁰ In conclusion, this research does not directly deal with capacity control aspects, which are essential for effective revenue management. That would open up new areas of research as broad as pricing itself. This thesis focuses mainly on the application of revenue management to hotel-room pricing on the web, and it is by no means an exhaustive exploration of the methods or applications of revenue management. For instance, forecasting, and overbooking control are not explored here.

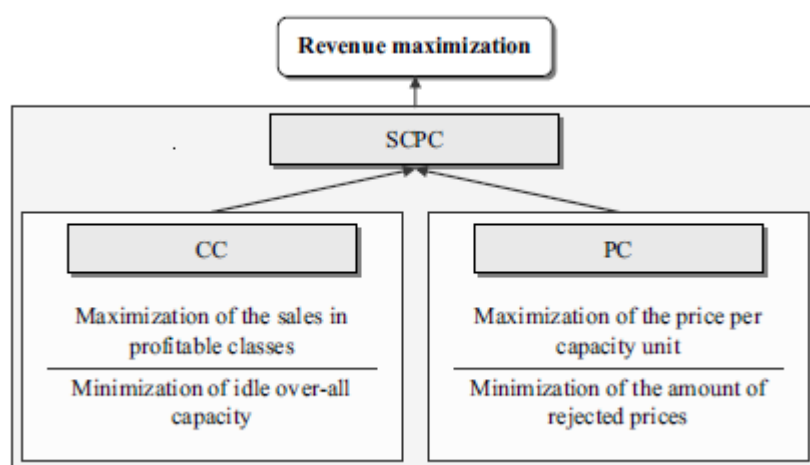


Figure 7: Pricing and capacity controls as RM tools and its objectives

Source: Becher, 2008, p. 27

³⁶⁰ Cf. Ivanov; Zhechev, 2012, p. 179.

3. RESEARCH METHODOLOGY

Saunders et al. believe that a critical review of the literature is an essential part of any scientific research.³⁶¹ Three major reasons exist, among others, for reviewing the literature of a subject area of a research topic. Firstly, it acts as preliminary search that helps the researcher to generate and refine the research idea.³⁶² Secondly, even after a research idea has been given, it is still necessary to gain a greater understanding so that the research question and objectives can be further refined. Thirdly, it helps to discover and provide an insight into research approaches, strategies and techniques that may be appropriate to the research questions and objectives.³⁶³ After reviewing the empirical and theoretical literature on the subject area of this thesis, the author was able to move on to the research. Saunders et al. defined research as “*something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge*”.³⁶⁴ A part of the meaning of the phrases “systematic way” and “to find out things” in this definition is that the research involves the collection of data in a systematic way and, in particular, with clear purposes.³⁶⁵ In contrast to pure research³⁶⁶, business and management research that is of direct and immediate relevance to practitioners addresses issues that they see as important, and is presented in ways that they understand and can act on is termed applied research.³⁶⁷ In view of this context and the research motivation, problem depiction, significance of this research and its objectives that are outlined in the first chapter, this thesis can be considered applied research.

³⁶¹ Cf. Saunders et al., 2009, p. 59.

³⁶² Cf. Ibid., p. 30.

³⁶³ Cf. Ibid., p. 61 f.

³⁶⁴ Saunders et al., 2009, p. 5.

³⁶⁵ Ibid.

³⁶⁶ This is sometimes termed basic or fundamental research.

³⁶⁷ Cf. Saunders et al., 2009, p. 8; Clark et al., 1998, p. 8.

3.1 Research Design

3.1.1 Overview of the Research Design and Philosophy

This research is exploratory in nature. Research can be classified according to its purpose, whether exploratory, descriptive or explanatory.³⁶⁸ Robson states that exploratory research is a valuable means to “*find out what is happening, particularly in little understood situation; to seek new insights; to ask questions; to assess phenomena in a new light and to generate ideas and hypotheses for future research*”.³⁶⁹ One feature of the exploratory research is that it is flexible and adaptable to change. This means the researcher who is conducting exploratory research must be willing to change direction in response to new data that appear and new insights that are obtained.³⁷⁰

According to Sanders et al. three principal ways of conducting exploratory research are as follows: searching through the literature, interviewing experts in the subject or conducting focus group interviews.³⁷¹ However, Rogers suggests that a common limitation of research on the use of new technologies is to rely upon stated behavior rather than measuring actual behavior.³⁷² With these considerations in mind, the author of this study decided to choose a *mixed method approach*. Thus, rather than only interviewing hoteliers on their stated online pricing practices, the researcher used firstly prices on hotel and TPAs websites in order to measure actual behavior, and then conducted interviews with hoteliers to support the findings and to gain additional insights into the related issues. *Mixed method research* is a specific type of multiple methods research, which means the use of quantitative and qualitative data collection techniques and analysis procedures either at the same time or one after the other but not combining them. This means that quantitative data are analyzed quantitatively and qualitative data are analyzed qualitatively.³⁷³ One of the

³⁶⁸ Cf. Saunders et al., 2009, p. 139.

³⁶⁹ Robson, 2002, p. 13.

³⁷⁰ Cf. Saunders et al., 2009, p. 140.

³⁷¹ Cf. Ibid.

³⁷² Cf. Rogers, 2003, cited in: O'Connor; Murphy, 2008, p. 165.

³⁷³ Cf. Saunders et al., 2009, p. 152 f.

reasons for using a mixed method design is illustrated by the term *triangulation*. “The term *triangulation* is borrowed from surveying where it is used to denote the use of three reference points to check the position of an object”.³⁷⁴ Accordingly, the use of different research methods to examine a particular phenomenon may improve understanding of that phenomenon and each method may reveal facets of the phenomenon that would not be yielded by the use of just one method.³⁷⁵ In plain language, this ensures that the data are telling the researcher what he thinks they are telling him.³⁷⁶ Thus, the author of this paper believes that the qualitative data collected using the interviews with hoteliers is a valuable way of triangulating the quantitative data collected by the online observation from the various web-based distribution channels.

3.1.2 Sample Selection

3.1.2.1 Hotels Selection

The top four primary cities³⁷⁷ in Germany were selected based on the overnight-stay volume in 2013 as indicated by HOTOUR Hotel Consulting. These cities are Berlin, Munich, Hamburg, and Frankfurt am Main.³⁷⁸ The study includes only city hotels since the author believes that the majority of resorts and resort hotels tend to distribute their rooms as part of packages. As mentioned prior, this study is limited to luxury hotels. The reason for this is that prior research had shown that the majority of economy and midscale hotels offer just a single price based on the season or a special event.³⁷⁹ In addition, the performance of luxury hotels in Germany as outlined in the first chapter motivates the researcher to confine his study to this segment in the hope of generating some implications that are practicable for the current situation. The luxury hotel segment in Germany is broken down into two

³⁷⁴ Clark et al., 1998, p. 39.

³⁷⁵ Cf. Ibid.

³⁷⁶ Cf. Saunders et al., 2009, p. 146.

³⁷⁷ Primary cities for hotels defined as cities with at least 100.000 inhabitants and more than 4 million overnight stays per year.

³⁷⁸ Cf. HOTOUR Hotel Consulting, cited in: IHA, 2014, p. 88.

³⁷⁹ Cf. Canina; Enz, 2006, p. 9; Murphy et al, 2006, p. 108.

groups, namely, five and five star superior hotels. The hotels included in this study were classified as luxury hotels based on the official hotel classification system in Germany, which was masterminded by DEHOGA. This system includes a total of 129 luxury hotels in Germany, including resort hotels, thereof 31 hotels located in the selected cities.³⁸⁰ Therefore, sampling techniques were not used in this stage, as nearly all luxury hotels located in the selected cities were included. However, 2 hotels are excluded from the study since they have a capacity of less than 70 rooms. The reason behind their exclusion is that the author believes that hotels with less than 70 rooms are less likely to apply revenue management pricing. In addition, their inclusion in the study would bias the results. It is important to note that the other 3 primary cities excluded from this study had a total of just 8 luxury hotels based on the official classification of DEHOGA.³⁸¹ As Table 4 displays, the hotels included in this study are a total of 29 properties. Both brand and independent hotels were included in order to provide an additional basis for comparison. However, the number of independent hotels was far less than brand hotels because the number of classified independent hotels in the luxury segment is limited in the German hotel market. The 75.9 percent brand hotel properties belong to 11 different hotel companies, thereof 9 are international. The names of the hotels will not be disclosed in the findings section. Alternatively, an ID for each property has been created. A detailed breakdown of the hotel properties included in this study is provided in appendix A.

Table 4: Overall breakdown of the hotel samples

Source: Own Representation

Brand/ Independent	Munich	Berlin	Hamburg	Frankfurt	Total	Percent- age	capacity 70 – 150 rooms	capacity 150 +	No. of soft brand members	Best-rate guarantee
Brand hotels	4	8	5	5	22	75,9	5	18	11	18
Independent	2	1	3	1	7	24,1	3	3	6	2
Total	6	9	8	6	29	100	8	21	17	20
Percent %	20,7	31	27,6	20,7	100	100	27,6	72,4	58,6	69

³⁸⁰ Based on www.hotelsterne.com, accessed [July 01, 2014].

³⁸¹ Cf. Ibid.; The other 3 cities are Cologne, Düsseldorf and Dresden.

3.1.2.2 Channels Selection

Having considered the typology of the IDS outlined in section 2.2.4, the researcher was able to identify a total of 11 B2C web-based channels for this study. These include both direct and indirect channels. The direct channel included is the *hotels' own websites*, which are owned and managed directly by the hotels. However, it is interesting to note that only 2 of the brand properties maintain their own websites³⁸², whereas, the others were bookable through their branded company websites. The indirect channels (TPIs) were selected firstly on the basis of their importance as the largest producers of online hotel reservations in Germany. These are as follows: *Booking.com*, *HRS*, *Hotel.de* and *Expedia.de*.³⁸³ However, *Booking.com*, *HRS* and *Hotel.de* are considered accommodation booking websites that operate predominantly using commissionable and override models. *Expedia* is considered both a travel mega website and a dynamic packaging website, which operates predominantly using a merchant model. *Hotelreservierung.de* was also chosen because it is a part of *Unister group*, another leading online reservation producer in the German market. However, *Hotelreservierung.de* is considered both hotel room booking website and a meta-search website. *Lastminute.de* was also included since it acts as a last-minute deals website and belongs to *Travelocity.com*. *Ebookers.de* was included as a part of the leading global online travel company *Orbitz.com*. *Amoma.com* was chosen as it is considered a young accommodation booking websites. In addition, the official *city portal* for each city out of Munich was selected. The city portal of Munich was excluded from this study since it facilitates the booking using a booking engine provided by *HRS*. As another point of comparison, the *soft brand websites* for the hotels that were members of one or more of them were also incorporated into this study. Appendix B provides a breakdown of the indirect channels and their domain names. All of the above mentioned channels offered their rates using the euro currency.

³⁸² This means they obtain own domain names.

³⁸³ According to disclosures of (IHA), *Booking.com* had in 2013 online booking share of 42.5%; *HRS* 32.5%; *Hotel.de* 11.5%; *Expedia* 2.3% and *Unister* 0.8%. Cf. IHA, 2014, p. 226.

3.2 Data Collection

3.2.1 Online Observation and Tracking of Room Rates

Having identified the hotels and distribution channels for this study, the author had to decide upon a reasonable way of data collection. Since the statistics reveal that the largest percentage of online hotel bookers is in the leisure segment, the researcher decided to keep the focus of this study on this segment. According to disclosures of IHA, the total percent of the business segment that stayed in 5 star hotels in 2012 was only 3.5%.³⁸⁴ Moreover, the researcher believes that the majority of the business guests have special contracted rates through their companies, whereas, the matter of this study is public pricing. In order to ensure that business guests are excluded from this study and that hotels did not consider this segment in their pricing practices, the arrival date of *Saturday, the fifth of July, 2014* was chosen for tracking the room rates. The researcher believes that it is less likely for a business guest to arrive on a Saturday, especially because it is followed by a work-free day. In addition, that check-in date was selected because there were no special events or public holidays around it in the 4 selected cities. This decreases the possibility of room unavailability on the early stages of data collection. In order to ensure minimal change to availability and rates during the data collection, the researcher started this process at 12:01am, mainly on the Saturday of each date of data collection. For the majority of people, Saturday is often used for social life. Regarding the hoteliers who are responsible for the update process of room prices and availability, they are unlikely to be on duty at that point of time. To test how rates may fluctuate over time, 6 booking windows were determined as data collection dates. These were as follows:

- BW-26 days in advance (09 June 2014)
- BW-21 days in advance (14 June 2014)
- BW-14 days in advance (21 June 2014)
- BW-7 days in advance (28 June 2014)
- BW-3 days in advance (02 July 2014)
- BW-0 Arrival day (05 July 2014)

³⁸⁴ Cf. IHA, 2014, p. 129.

The arrival date of 06 June was Pentecost Monday, which maintained the characteristics of the Saturday outlined above. The arrival date of 02 July was a Wednesday, which was chosen as a very short advance booking window. On each time of data collection, the researcher attempted to reserve a room for two persons for a one-night stay in each hotel property via each channel. The double occupancy was preferred because it seems to offer more points of analysis regarding differential pricing than the single occupancy. In order to additionally decrease the likelihood of having rates open or closed while the researcher was checking each property-channels combination, the researcher recorded the data for each hotel across all channels within a time span of no more than 30 minutes. However, the collection process for all properties across all channels lasted until around 12:00pm. Since the researcher assumes that some channels might alter the price or availability after the user advances in the booking process, he went a step further into the booking process rather than just recording the data displayed. But, in no case did the researcher complete the reservation. When the hotel requested was bookable on the particular channel, the following data were recorded in a systematic pre-developed Excel table for analysis:

- Number of room categories displayed
- Lowest room category displayed
- Number of rates displayed for the lowest room category
- All rate codes of the lowest room category if applicable excluding packages
- All rates displayed for the lowest room category excluding packages (prices)
- Conditions of each displayed rate including, bed and breakfast or bed only, cancelation policy, guarantee policy, and payment policy.

Since the study is explorative in nature, the researcher recorded any unusual phenomena that he observed during the data collection process in order to be tracked later. The rates recorded by the researcher were all published rates that can be booked by any prospective guest. To help ensure reliability during the data collection, room description was checked until the researcher ensured that the displayed room rate was for the same product across the channels. The rates recorded were final rates in euro, including all taxes. The package rates were excluded because the researcher cannot make any judgment regarding these rates during the analysis so

long as he has no precise information about individual price for each component included in these packages. Bed and Breakfast rates, which are considered a simple type of bundling, were included since it was easy to inquire about the individual price of each component. It is important to note that sometimes the lowest room category of a particular hotel was not available through all channels in one or more of the inquiry dates, making it difficult to compare the corresponding room rate. To solve this problem in that case, the researcher also included the second lowest room category that was available across all channels.

3.2.2 Interviewing

As indicated in section 3.1.1, the researcher conducted two interviews in order to gain additional insights related to the objectives of this study. These interviews were carried out with the *Regional Director of Revenue Management Germany & Austria* and the *Regional Web & E-commerce Executive Europe* of a global hotel company that is one of the 9 companies included in this study. This company as well as the interviewees cannot be revealed, since the researcher promised confidentiality in return for their cooperation. Clark et al. indicate that the guarantee of confidentiality can increase the reliability and truthfulness of a respondent's inputs to a research study.³⁸⁵ The interviews were conducted personally in the form of a semi-structured interview. Saunders et al. state that a semi-structured interview can be very helpful when the purpose of a research study is explorative in nature, since it can help the researcher not only to find out what is happening and how but also to explore why it is happening.³⁸⁶ Based on the objectives of this study, the researcher designed a semi-structured guide for each of the interviews conducted. These guides contained a range of open-ended questions that provoke intermittent discussions. These questions were developed based on the extensive literature review stated in chapter two and the initial themes that have emerged from the online observation conducted across the distribution channels. By so doing, the researcher aimed to explore and explain those themes. The interview with the revenue management expert was ap-

³⁸⁵ Cf. Clark et al., 1998, p. 42.

³⁸⁶ Cf. Saunders et al., 2009, p. 321 f.

proximately one hour and twenty minutes in length, and with the web expert forty minutes. Both of these interviews were recorded using an audiotape.

3.2.3 Data Analysis

The quantitative data that were obtained from the online observations and by tracking the room rates on the web were analyzed by means of descriptive statistics. The approach used here followed the one provided by Tukey, which is called “exploratory data analysis”. This approach emphasizes the use of diagrams by the researcher to explore and understand the collected data, which guides the researcher to the choice of analysis techniques. In addition, this approach allows the flexibility to introduce previously unplanned analysis to respond to new findings. Therefore, it formalizes the common practice of looking for other relationship in the data, which the research was not initially designed to test.³⁸⁷ Such an approach emphasizes the importance of discovering facts before they can be confirmed.³⁸⁸ The data analysis was undertaken by using the analysis software Excel. The specific measures and statistical techniques that were used to answer each of the research questions are outlined below hand in hand with each of the research findings.

Because the interviews were conducted with just two interviewees who belong to the same hotel company and come from different fields of function, a sophisticated qualitative data analysis procedure was not necessary. As mentioned earlier, the interviews were conducted as a supplementary approach that improves the researcher's understanding of the phenomena discovered through the online observations. Some of the insights that were gained from the interviewees were used hand in hand with the interpretation of each of the research findings. A summary of the interviews is provided in the end of the findings chapter.

³⁸⁷ Cf. Tukey, 1977, cited in Saunders et al., 2009, p. 428.

³⁸⁸ Cf. Church, 1979, p. 433.

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Channel Used and Availability Patterns

As can be seen in Figure 8, each of the hotels distributes their rooms simultaneously using a multiple channels. The percentages of hotels use of each channel were based on the booking availability of at least one room type via the particular channel on each booking date. Based on the long-in-advance booking window, it can be concluded that all hotels offered the facility of real-time booking on their websites. The most commonly used indirect channels based on the first booking window were the soft brand websites, Expedia, Booking.com and Hotelreservierung.de. However, it should be noted that the reason for the high level of booking availability through Hotelreservierung.de can be that it operates additionally as a meta-search engine, which facilitates the booking transaction on its website. What is surprising is that one hotel had no availability through its website up to the BW-21, but was available through some TPIs until the arrival date.³⁸⁹

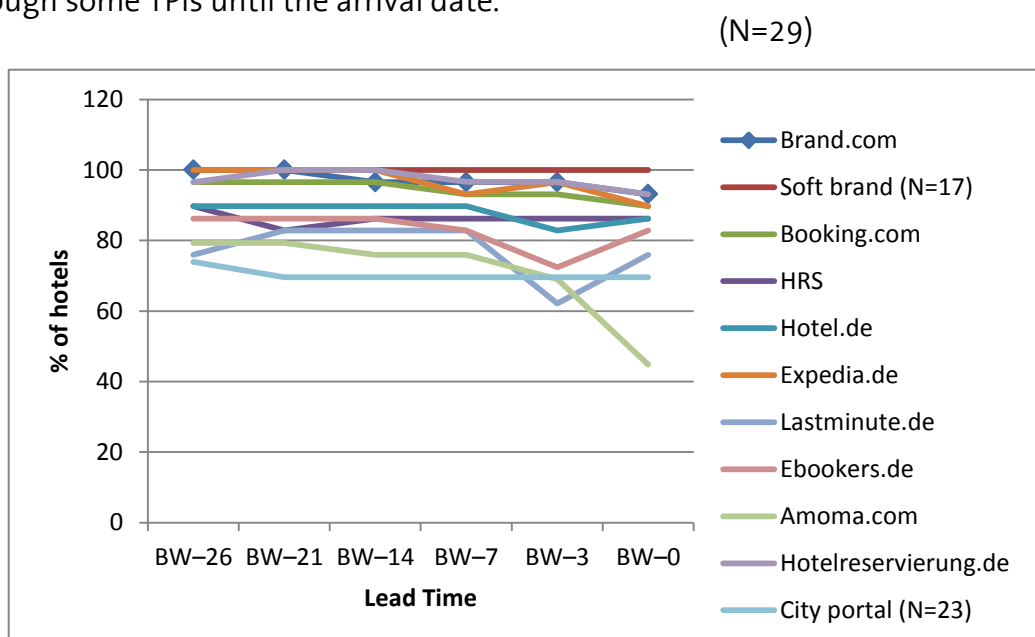


Figure 8: Percentage of hotels' booking availability over time and across channels

Source: Own representation

It was also surprising that the number of channels used by hotels as well as the booking availability by each channel did not considerably decrease as the booking

³⁸⁹ i.e. Hotel W in Hamburg.

date grew closer to the arrival date. The exception to this was the decreased use of Amoma.com over time, which is not surprising since the respondent mentioned that Amoma.com typically draws its data from B2B merchants.³⁹⁰ The researcher assumes that the bookings received by the hotels grew as the arrival date drew nearer. Therefore, a hotel acting logically, and proactively managing its distribution channels, would close expensive TPIs when a specific amount of bookings are assured in order to drive bookings toward their lower cost distribution channels and maximize GOPPAR. However, since the researcher had no precise information regarding demand and *booking pace* (projected occupancy), an exact judgment cannot be determined. The finding that Expedia yielded a comparatively high level of booking availability over time is not in itself surprising, as it is known that Expedia draws its data from various GDSs besides a direct contract with hotels, even though such a channel is considered by hotels to be one of the most expensive TPIs.³⁹¹ Because Lastminute.de is considered a last-minute deals website, the researcher assumed that if the hotels did not proactively manage their inventory or had a high amount of distressed inventory as the arrival date drew near the booking availability via this channel would increase as the booking date approached. In this case, however, the finding did not match this assumption: in the two closest booking windows to the arrival date, the percentages of booking availability through Lastminute.de actually decreased. The city portals yielded the lowest value in terms of the channel used by hotels, even though in very few cases the city portal of Hamburg yielded booking availability for hotels that were not bookable through their own websites. Although this is not the matter of this research, it is interesting to note that city portals were not very user friendly.

4.1.1 Room Types Availability across Channels

As can be seen from Table 5, each of the hotels analyzed offered a diverse choice of room category to their guest. This approach is based on the principle of price differentiation, which in this case is set according to physical fences. The values highlighted in the table below were based on the farthest-in-advance booking window as

³⁹⁰ Cf. Interview (RM expert).

³⁹¹ Cf. Ibid.

well as the total number of hotels that were available through each channel. On average, each channel presented five room categories in response to the request, with more being offered to the customer through the hotels' own websites than through the other channels surveyed. Rate fences that are based on such physical features are highly acceptable for the customers since it is easy to justify and explain them. Depending on the principle of value-based pricing, hotels typically possess a limited number of the higher room types or suites. However, the higher a room category distributed through a TPI, the higher the cost of distribution paid by the hotels, and thus the lower the profit generated from this room. Taking the hotels' own websites as an example, the values displayed in the table below can be interpreted as follows: Basically, a small standard deviation in this case means that the number of room types offered by the individual hotels to the customer through the particular channel are close to the mean, on average, and a large standard deviation means that these numbers are farther away from the mean, on average. Because of the relatively low number of samples, the researcher calculated the exact percentage values of hotels that offered a number of room types that fall within plus or minus one Std. Dev. of the mean on each channel. Accordingly, 72.4% of the hotels analyzed offered 5 to 9 room categories to their guests through their websites. ((Mean(x) \pm 1*Std. Dev.(x) i.e. $7.24 \pm 2.53 = 4.71$ and 9.77)).

Table 5: Number of room types offered to the customer by channels

Source: Own illustration

Channel	Mean	Std. Dev.	% of ± 1 Std. Dev. of the mean	Max.	Min.
Brand.com (N=29)	7.24	2.53	72.4	15	3
Soft brands (N=17)	6.41	2.23	58.8	10	3
Booking.com (N=28)	4.6	1.31	57.1	7	3
HRS (N=26)	2.88	1.39	76.9	7	1
Hotel.de (N=27)	3.85	2.33	74	9	1
Expedia.de (N=29)	3.79	1.63	65.5	7	1
Lastminute.de (N=21)	3.57	2.56	57.1	11	1
Ebookers.de (N=25)	4.12	1.9	68	8	1
Amoma.com (N=23)	3.21	1.85	73.9	8	1
Hotelreservierung.de (N=28)	4.03	1.4	75	7	1
City portals (N=17)	1.64	0.93	82.3	4	1
Weighted arithmetic mean	4.18				

It can therefore be seen that the hotels' own websites were the best channel in terms of the number of room categories that were available to the customer, followed closely by the soft brand websites that offered 5 to 8 room categories for 58.8% of the hotels that were available on their websites. With the exception of the soft brand websites, Booking.com was the best performing TPI on this measure, offering a range of 4 to 5 room types for 57.1% of the hotels listed on its site and at least 3 room types for each hotel. Followed by the city portals that offered just 1 to 2 room categories for 82.3% of the hotels, HRS was the poorest performing channel in this measure, offering 2 to 4 room categories for 76.9% of the hotels that were available through its website. In general, most hotels offered a substantial number of room categories over each TPI.

As an informal follow-up, the researcher suggests the following explanation for the findings revealed above: A soft brand is considered a strategical partner of a hotel, which as its name implies is a brand in itself. Therefore, it is not surprising that the hotels made almost all their inventory available through such a channel even though the respondent stated that by taking into account the whole marketing and distribution costs, the distribution via a soft brand website is substantially more expensive.³⁹² Surprisingly, in three cases the brand websites yielded a larger choice of room types than the hotels' websites. As the respondent expressed, Booking.com has started in some German cities to apply a revenue-dependent commissionable model. This means that the higher the revenue generated from a hotel, the lower the commission percentage paid to Booking.com.³⁹³ Accordingly, the comparatively higher performance of Booking.com in terms of the room types offered may be due to the incentive approach of this model for the hotels contracted with Booking.com. The researcher assumes that the modification to the general terms and conditions of HRS that occurred gave greater liberty for the hotels, which resulted in comparatively lower performance for HRS in this measure. For 75% of the hotels that were listed on Hotelreservierung.de, the request to book a room for two persons through this channel yielded a range from 3 to 5 room types. It should be noted, however,

³⁹² Cf. Interview (RM expert).

³⁹³ Cf. Ibid.

that more than 2 out of 3 of those rooms were generated through other TPIs. These were mostly wholesalers, either a TO or a B2B merchant such as DERTOUR, TROPO and Travelcube.

One possible element of a contractual hotel room arrangement is the concept of *run of house*. Run of house can simply mean that all room types will be available to a certain company or TPI based upon its agreement with a hotel. Tranter et al. suggest that a hotel should hold the best products for its best customers, which sometimes means saving the best for last. This is based on the assumption that the last-minute guests are typically less sensitive to price and are willing to pay higher rates than early booking guests. If the best inventory is available at the highest rate, they will usually accept this. They often assess a high price/value to the experience too as the inventory was upgraded along with the price.³⁹⁴ Although the judgment in this context typically depends on the understanding of a hotel's guests and their purchasing behavior as well as the hotel's *booking pace*, the finding suggests that many hotels behaved illogically in this consideration. This is best demonstrated by the rooms displayed on Hotelreservierung.de, which, as mentioned prior, were mostly an inventory allocated to wholesalers 26 days in advance to the arrival date. The rooms that are allocated to a wholesaler are typically based on a net rate arrangement, which could have been sold at the retail rate if they had not been sold or allocated to wholesalers at the net rate. This point is speculative at this time, because the researcher possesses no information other than the respondent's statement that the guests nowadays book their stays closer to the arrival date.³⁹⁵

In regard to the distribution of different room types through multiple channels, the researcher observed a critical shortcoming. In many cases the TPIs did not provide a sufficient description of the rooms displayed on their websites. Furthermore, the same room displayed on a TPI had a different name than that which was originally identified by the hotel. Such a kind of information disparity among channels and inadequate differentiation between products can be confusing to the customers. A successful multi-channel strategy must at least ensure similar static content among

³⁹⁴ Cf. Tranter et al., 2009, 132 f.

³⁹⁵ Cf. Interview (RM expert).

the channel used, since the perceived value is the decisive factor in having a strong link to price acceptance by the customer. This means, for example, updating the rooms' related content on the various channels used by the hotels. Following this finding, the respondent was asked about the content management and the extent to which the hoteliers have to influence their presence on TPIs. The respondent stated that the static content is typically maintained by each property via the access to the extranet of each channel.³⁹⁶ Despite the fact that few channels still use inflexible methods by which hotels update their static content, such as sending it per email or on CD-rom, the finding suggests that many hotels are not actively updating the static content displayed on the TPIs.

It is interesting to address one uncommon practice encountered in this research, where a hotel distributed its basic room type neither via the hotel's website nor via the soft brand website until 1 week before the arrival date.³⁹⁷ However, this room was available to the customers via the rest of the TPIs from the farthest in advance booking date. As mentioned earlier in chapter 2, pricing and RM approaches range from statistical models to common-sense best practices. Given that best practices should be effective, readily understandable and have a practical application, the question of whether the practice of this hotel can be viewed as a best or worst practice must be asked. The researcher can informally suggest a possible interpretation for such a practice. It is commonly agreed that the customer who searches on TPIs is more sensitive to price and less loyal to a particular brand or property. Meanwhile, the lower the room category booked through a TPI, the lower the cost of distribution paid by the hotel. Arguably, the hotel used this practice in order to prevent its higher-paying customers who book via the hotel's website from trade downs to a lower room category, while attracting the more price sensitive customers through the TPIs. Conversely, the shortcoming of such a practice is that it can bear the risk of frustrating customers or motivating them to book their stay through a TPI. This is clearly illustrated by the fact that the hotel failed to sell those rooms category through the TPIs and thus offered them on its website as the arrival date approached.

³⁹⁶ Cf. Interview (E-commerce expert).

³⁹⁷ i.e. Hotel A in Munich.

4.2 Room Rates and Pricing Patterns across Channels

4.2.1 Rates Portfolio Offered

With the exception of two hotels surveyed in this study,³⁹⁸ all the hotels offered multiple rates to the customer. Table 6 illustrates the number of rates offered by each channel in response to the request of booking the basic room of each hotel via the particular channel. This was based on the farthest in advance booking window. The large majority of the hotels, that is, 72.4%, presented 2 to 4 rates for the particular stay. The remaining 27.6 hotels presented 5 to 7 rates, except for two, which offered single rate pricing. It is clearly shown that Hotelreservierung.de, Amoma.com and in few cases the soft brand websites are the only TPIs that offered a higher average number of rates than the hotels themselves. This can indicate lack of the hotels' control in regard to pricing over these channels.

Table 6: Number of rates offered to the customer per channels

Source: Own illustration

Channel	Mean	Std. Dev.	% of ± 1 Std. Dev. of the mean	Max.	Min.
Brand.com (N=29)	3.31	1.42	72.4	7	1
Soft brands (N=17)	3.59	1.58	82.3	7	1
Booking.com (N=28)	2.57	1.14	57.1	5	1
HRS (N=26)	1.77	0.71	84.6	3	1
Hotel.de (N=27)	2	0.96	81.4	5	1
Expedia.de (N=29)	2.38	1.01	68.9	5	1
Lastminute.de (N=21)	1.86	0.85	80.9	4	1
Ebookers.de (N=25)	2.36	0.99	72	5	1
Amoma.com (N=23)	4	2.41	78.2	10	1
Hotelreservierung.de (N=28)	9.5	4.18	71.4	17	1
City portals (N=17)	1.59	0.80	94.1	4	1

As was outlined earlier in chapter 3, presenting multiple rates to the customer can be beneficial for both the hotel and the customer. However, in order to achieve this mutual benefit the rates must be based on logical and easily understandable fences. Otherwise, the multiple rates may backfire and cause the hotel a loss of customers.

³⁹⁸ i.e. Hotel S and U in Hamburg.

This is best demonstrated by the cases of Hotelreservierung.de and Amoma.com, where 71.4% of the hotels had 6 to 13 different rates available for the particular room-date request on Hotelreservierung.de and 2 to 6 rates for 78.2% of the hotels on Amoma.com, with few (if any) appreciable differences in the rate descriptions. Evidently, such a situation would create confusion in the mind of any customer who intends to book one of those hotels, since they would not be sure what they would get for their money. According to the respondent, a challenge that the company faces when distributing their products on the web involves offering B2B rates for the public as well as offering package rates in the form of room-only rates. Offering more than 5 rates per room can be counterproductive, since the potential customer may become confused about which choice matches their needs.³⁹⁹

In addition to the best flexible (or available) rate, different rate fences were identified on the hotels' websites. A total of 20 hotels offered their guests a discount in the form of a nonrefundable (or very restricted) early booker rate, 4 of them kept this rate until 21 days prior to the arrival date, 16 of them kept this rate available until 14 days before the arrival date. Starting at 7 days prior to arrival, 14 hotels offered a discount in the form of a last-minute rate. These rates, in fact, were early bird rates that simply remained open until at least 3 days prior to arrival date, or were re-named to create a last-minute promotion. Only one hotel encountered in this study offered a last-minute promotion but no advance purchase rate.⁴⁰⁰ It is generally known that a long lead-time discount enhances the pace of booking and the cash flow of a hotel, while a short lead-time discount trains guests to believe that they will get a lower rate if they wait. Moreover, based on the assumption mentioned earlier, i.e., that the customers who book closer to the arrival date are less sensitive to price, a short lead-time discount can cost the hotels a larger loss of revenue by increasing the customer surplus than they would gain through selling a few incremental rooms at the last-minute rates. It is interesting to note that the majority of the hotels tended to use the long lead-time discount more for their higher room types than their lower room categories, and these rates were kept open closer to the

³⁹⁹ Cf. Interview (RM expert).

⁴⁰⁰ i.e. Hotel A in Munich.

arrival date than rates for the other rooms. When the researcher asked about the logical reason behind such an action, the respondent supposed that in so doing the hoteliers may intend to push their best inventory. With all due respect to this viewpoint, the researcher does not share this opinion. For instance, a hotel has in rare cases more than one presidential suite, and this is typically 50 times more expensive than a basic room. Assuming that the regular rate for this suite is €15,000, with a typical long lead-time discount of 20%, a hotel will lose €3,000 in revenue each night. This €3,000 equals a 20% discount on 50 basic rooms that regularly sell at €300 per night. Typically, a guest who is willing to stay in such a presidential suite would not weigh the 20% discount in their booking decision, while a guest who is more sensitive to price and thus is willing to stay in a basic room would perceive this discount as affecting their booking decision.

Naturally, one would expect that all luxury city hotels would offer their guests the possibility of choosing at least between a room-only rate and a bed & breakfast rate when they book through their websites. Unfortunately, that was in some hotels not the case. Three hotels offered BB rates but no room-only rates,⁴⁰¹ while seven hotels offered room-only rates but no BB rates.⁴⁰² A worse scenario than this is when a particular hotel had a room-only rate on the TPIs but not on its website.⁴⁰³ The researcher can fathom a hotel that does not offer its bed and breakfast rate through TPIs in order to reduce the commission paid but not a hotel that does not offer its room-only rate on its own website. The room-only rate is considered an unbundling approach, in which a hotel bases its rate on only the essential room product, and thus can charge a modest base rate, while the guests are allowed to choose any additional service they would like. In contrast, the bed and BB rate is considered a kind of bundling approach that helps to camouflage the actual room rate and encourages up-selling. Indeed, even the majority of those hotels that simultaneously offered room-only rates and BB rates did not adequately exploit them. This was indicated by the percentage of individual breakfast prices that the hotels added to the room-only rate in order to set their BB rates, which were as follows: 4 hotels charged just 7 to

⁴⁰¹ i.e. Hotel A in Munich as well as X and Y in Frankfurt.

⁴⁰² i.e. Hotel B in Munich, G in Berlin, U, Q and S in Hamburg and Z as well as BC in Frankfurt.

⁴⁰³ i.e. Hotel A in Munich.

26%,⁴⁰⁴ 4 hotels charged 35 to 57%,⁴⁰⁵ 9 hotels charged 69 to 88%,⁴⁰⁶ and one hotel charged 100% of the unbundled price of breakfast.⁴⁰⁷ Stranger than that was a case of a hotel that quoted its BB rate irrespective of the number of guests that would occupy the room.⁴⁰⁸ Such a scenario and others, where a 6-hour difference in the cancelation period equates to a price variance of 15% for the same room cannot be reasonable for the guest, and clearly runs counter to the principle of rate integrity.⁴⁰⁹

In addition to the rate fences mentioned above, the researcher was able to investigate whether the hotels would employ the double and single occupancy factor for the same room in order to differentiate the price. This investigation found that only nine properties⁴¹⁰ adopted such an approach while the remaining hotels quoted a similar price for the room irrespective of the number of occupants.⁴¹¹ According to the respondent, the reason that such a kind of price differentiation is not adopted by many hotels is that the majority of the guests do not accept it, since they believe that the cost of occupying a room will not be affected by the number of occupants.⁴¹² Yet the question to be asked is whether charging a double occupancy rate to the single traveler is justifiable? And whether employing the occupancy factor will help the hotels attract different segments to fill their unoccupied double rooms during the off-peak demand time? The researcher deliberated about whether, from the view point of the hotels, the type of bed is a sound basis for differentiating price, and whether it is reasonable from the viewpoint of the guests. This deliberation was based on the assumption that couples who are staying in a room with a king-size bed (a room with one double bed) are likely to pay out of the same pocket, and are thus more sensitive to the rate paid. In contrast is the assumption that two guests

⁴⁰⁴ i.e. Hotel E, I, O and V.

⁴⁰⁵ i.e. Hotel H, M, N and R.

⁴⁰⁶ i.e. Hotel J, F, K, L, P, T, W, AB, and CD.

⁴⁰⁷ i.e. Hotel C.

⁴⁰⁸ i.e. Hotel D.

⁴⁰⁹ i.e. Hotel A.

⁴¹⁰ i.e. hotel H, R, Q, T, U, W, X, Y, Z and BC.

⁴¹¹ Apart from that is possible room(s) that is assigned just for one person.

⁴¹² Cf. Interview (RM expert)

who are staying in a twin-bed room (a room with twin beds) are likely to split the cost, and are thus less sensitive to the rate paid.

4.2.2 Variable Pricing Behavior

After filtering out the hotels that were able to sell out their basic room inventory before the arrival date as well as those that opened and closed the availability of this rooms type on their own websites during the lead time, the researcher was able to monitor the price change activity of 24 hotels over the 6 predetermined consecutive booking windows. Figure 9 illustrates this by breaking down the hotels by city. The term “property” signifies a branded hotel, while the term “hotel” signifies an independent hotel. Initially, it should be noted that the constant price trend of those 4 hotels shown in the figure below does not necessarily mean that those hotels are not applying any variable pricing. As previously discussed, some hotels left their early booker rate open until the arrival date or changed its code to last-minute rate, while other may have offered an early booker rate, but long in advance before the start of the data collection process. Therefore, such a judgment cannot be ascertained by the researcher.

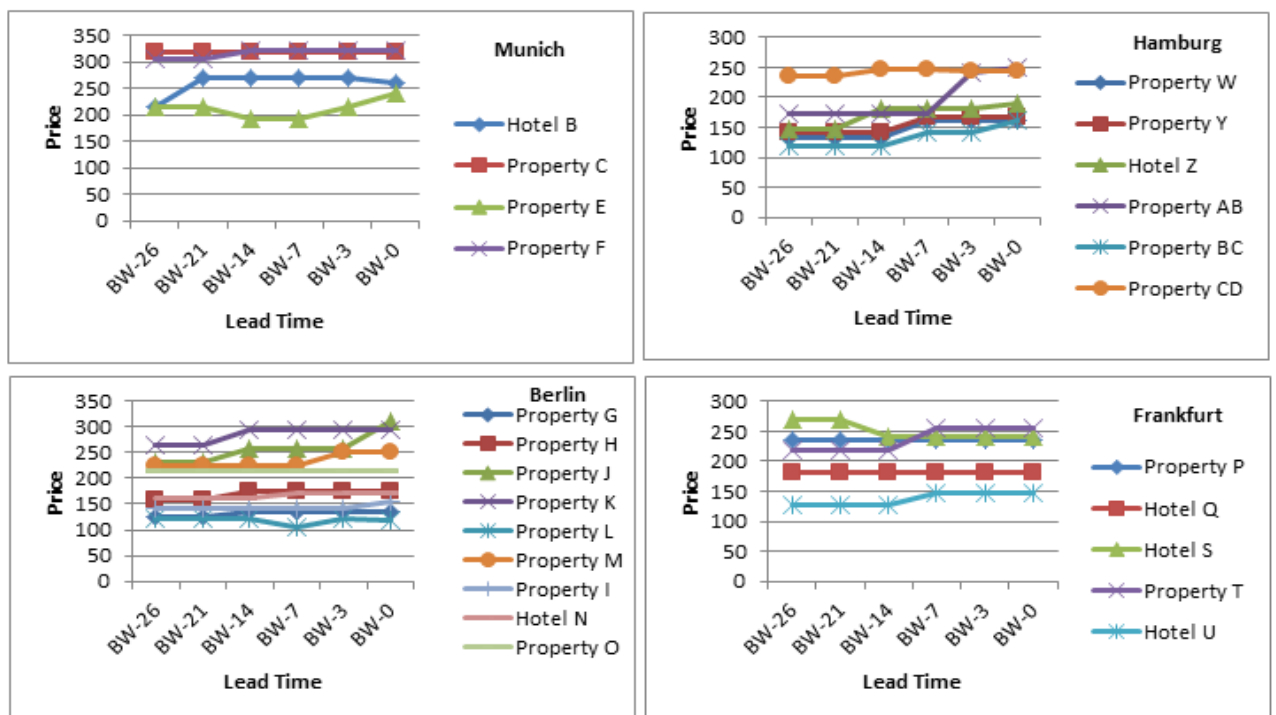


Figure 9: Price change activity of the hotels over time by cities

Source: Own Illustration

However, the overall price trend of the hotels in all cities can be grouped as follows: A) a total of 12 hotels increased their prices as the arrival date approached and let them remain steady until the arrival date. B) 4 hotels increased their prices repeatedly as the arrival date approached. C) One hotel increased the price during the lead time, but decreased it as the arrival date approached. D) One hotel decreased its price as the arrival date approached. E) One hotel decreased its price during the lead time, but increased it once the arrival date drew near. F) One hotel started by decreasing its price in response to the arrival date, then increased it only to decrease it once again just before the arrival date. A decrease in the price at both ends of the arrival timeline can, generally speaking, be a sign of underachievement of a hotel's revenue management. According to this measure, the aforementioned groups, A and B, performed well. However, the shortcoming of some of them is, as outlined earlier, that the early booker discounted rates remained open too close to arrival, and thus the prices had been increased too late. Such a principle was acknowledged also by the respondent. According to the respondent, once the advance purchase rate is closed, the rate should never decrease but can increase.⁴¹³ Concerning the principle of rate integrity from the viewpoint of the guest, a discounting for a long lead-time customer and then the same or a heavier discount for a short lead-time customer may not be justifiable for the customer who booked long in advance and accepted certain restrictions in order to ensure the best bargain.

4.2.3 Price Comparison across channels

As mentioned prior, rooms were not always available via every channel or there was room availability via a particular channel but for a different type of room. Therefore, in order to ensure the reliability of this finding, the analysis of this section includes only the instances where a hotel had a similar room category that was available via its website and TPAs.⁴¹⁴ Thus, the channels that had availability for a different kind of room inventory were excluded from the analysis. The room rates that were included in this analysis were the lowest room-only rates. The exception to this were the cas-

⁴¹³ Cf. Interview (RM expert).

⁴¹⁴ Note: Soft brands N=92; Booking.com N=149; HRS N=138; Hotel.de N=142; Expedia N=157; Last-minute.de N= 126; Ebookers N=137; Amoma N=115; Hotelreservierung.de= 157; City portals= 87.

es in which the hotels offered only a BB rate across the board and the TPIs that offered a BB rate with the identical price or a better price than the room-only rate quoted via the hotel's website. The price comparison was conducted between each hotel website rate and each TPI rate. Price variance was defined as at least 3 euros difference between the hotel website rate and each TPI rate. Because the time-series analysis involved in this study did not yield a considerable effect on rate parity or disparity among the hotel websites and the TPIs, the total number of observations and instances that occurred over the 6 data collection dates was involved in this measure in order to ensure that a particular instance did not occur by chance. Figure 10 shows the percentage of instances in which each hotel was in parity with each channel, or offered a lower rate on its brand site, or in which the rate was lower on the TPI.

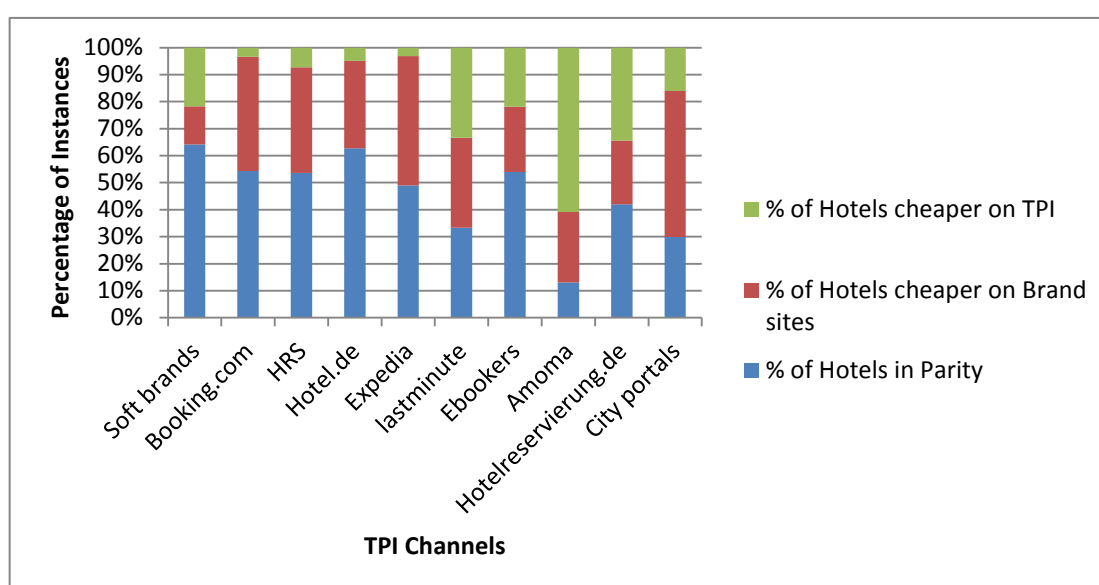


Figure 10: Price comparison between the hotels' websites and TPIs

Source: Own Representation

As can be seen from the figure above, the highest level of rate parity was observed among the hotels' websites, soft brands, Booking.com, HRS, Hotel.de, Expedia, and Ebookers. With the exception of the soft brand websites, when the hotels were not in parity with the aforementioned channels, their rates were in most instances cheaper on their own branded websites than on TPIs. Although the respondent stated that rate parity is generally still included as a primary clause in TPIs' agree-

ments,⁴¹⁵ the instance of those hotels that were able to offer a lower rate than the TPIs provokes the question of how they achieved this? A possible answer to this question may be that those hotels had no direct contracts with those TPIs, but were bookable through the interface of the TPIs to a GDS. For example, the respondent mentioned that the hotel can decrease the commission paid to particular TPIs from 23% in the case of direct contract with the hotel to 10% in the case of a room booking by these through the GDS. However, in so doing the hotel's exposure on that site will be decreased to its lowest limit by the site operator, and thus the hotel will less likely be booked on this site.⁴¹⁶ Such TPI behaviors have been seen time and again during the data collection process. For example, when the researcher requested a particular hotel, the TPI used bait tactics such as banner ads in order to lure the user towards higher margin products. The lowest degree of rate parity was observed between the hotels' websites and Amoma.com, Lastminute.de, city portals as well as Hotelreservierung.de. In the cases of Amoma.com and Hotelreservierung.de, they offered mostly lower rates than the hotels' websites. Lastminute.de was able to undercut the hotels' direct prices in 33% of the instances, while in other 33% of the cases the hotels offered a lower rate. In the case of the city portals, the hotels offered cheaper rates on their websites in 54% of the instances.

Three potential reasons can be suggested for the disparity in rate and price undercutting on those channels. Firstly, the lack of the hotels' control over the inventory distributed through those channels. This reason may be valid in the cases of Amoma.com and Hotelreservierung.de, since they are able to distribute the product of a hotel without any direct contact with this hotel. As outlined earlier, they generate a considerable amount of their inventory from tour operators or wholesalers. The respondent admitted that sometimes they cannot keep track of where they are bookable and through which distribution partner.⁴¹⁷ Secondly, the lack of the hotels' control over the pricing decision on those TPIs due to their operation models. In particular, Lastminute.de and Ebookers had mostly obliged the customers to pay them directly when they book by them. This can signify that the rooms allocated on those

⁴¹⁵ Cf. Interview (RM expert)

⁴¹⁶ Ibid.

⁴¹⁷ Cf. Interviews (E-commerce expert); (RM expert)

channels were based on the merchant model. Regarding the city portals, the researcher cannot make any judgment, since he owned no precise information about their revenue models and how they generate their inventory. However, it is clear that they have a minor significance in the IDS. Thirdly, ineffective technological interfaces may be a reason for the lack of rate parity. The respondents put emphasis on the importance of the channel manager technology, which they set as a main requirement when they distribute their products through a certain TPI.⁴¹⁸ This last factor does indeed play a role in rate disparity, but based on the findings outlined in this section which were based on six time-series observations for each hotel-channel combination, the researcher concluded that it is only one of the factors involved.

4.2.4 The Myth of Best-Rate Guarantee

As can be seen from Figure 11, the best-rate guarantee was examined over each date of data collection.⁴¹⁹ It was found that when hotels failed to fulfill their best-rate guarantee, it was most often far ahead of the arrival date. 26 days before the arrival date 55% of the hotels failed to fulfill their best-rate guarantee; 21 days before, that percentage stood at 50%; and 14 days before, it was 55%. Whereas, as the arrival date approached, the percentage of hotels that fulfilled their promise increased noticeably.



Figure 11: Best-rate guarantee fulfillment by booking date

Source: Own Illustration

⁴¹⁸ Cf. Ibid.

⁴¹⁹ Note: (N on BW-26= 20 hotels) (N on BW-21= 20) (N on BW-14= 20) (N on BW-7= 19) (N on BW-3= 18) (N on BW-0= 18).

The reader may ask the question of why the hotels were mostly able to fulfill the best-rate guarantee close to the arrival date but not far in advance. In fact, the answer is simple. Typically, for guests to submit a best-rate guarantee claim, they had to have found a rate (Comparison rate) on another website that is lower to the room rate that they have booked on the hotel's website. This comparison rate means that the booking conditions applicable to it, such as advanced payment and deposit, change and cancellation conditions, must be identical to (or better than) the booking conditions of the rate booked on the hotel's website. Long in advance of the arrival date, many hotels offered a (prepayment) non-cancellable rate. These two conditions were the main reason that many hotels did not manage to fulfill their best-rate guarantee long in advance to the arrival date, since the TPIs, such as Lastminute.de, Ebookers, Amoma.com and Hotelreservierung.de, typically required that the guests pay them directly rather than later in the hotel. Meanwhile, because the early booker rate is usually non-cancellable, it leaves the hotels no possibility of having a better cancellation conditions in order to avoid the non-fulfillment of their best-rate guarantee. On the other hand, even when the hotels offered last-minute rates they were still giving the guests the possibility of paying them upon the arrival or check-out, and thus maintaining better booking conditions than those TPIs. To sum up, the fulfillment of the best-rate guarantees offered by the hotels does not necessarily mean that there is no lower price than theirs on any TPIs. Indeed, lower prices were time and again observed, but with hard distinguishable rate conditions in favor of the hotels. Given that many of the lower rates being offered over TPIs have less advantageous booking conditions than the higher rates being offered on the hotels' websites, the question to be asked is whether the better booking conditions are more advantageous to the customer than the lower price.

4.2.5 Terms and Conditions

The price may be the major issue for a guest in choosing a channel through which to book a particular hotel. However, when the price of the requested core product is the same across multiple channels, other factors that influence the decision-making of the guest come into play. In the first instance, these are the terms and conditions of the booking transaction that all parties must recognize once a reservation has been done. Therefore, this section involved the investigation of three main terms and con-

ditions that belonged to the quoted rates via the various distribution channels that were included in this study. The comparison was made only between the channels that were in parity with the hotels' own websites in terms of price and those that offered a lower price than the one offered on the hotels' websites. The findings of this investigation are represented in Figure 12.

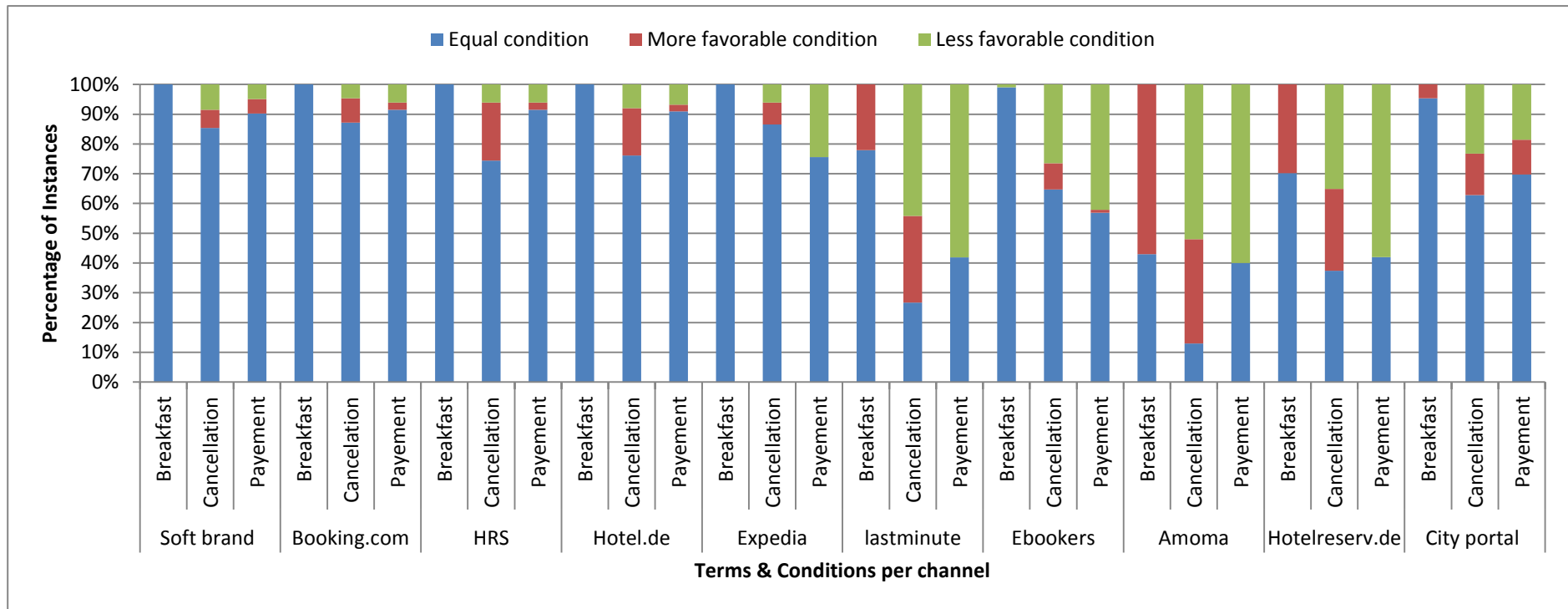


Figure 12: Comparison of Terms & Conditions between the Hotels' websites and the TPIs

Source: Own Representation

As can be seen from the figure above, Lastminute.de, Amoma.com and Hotelreservierung.de were the channels that most frequently offered the guests an included breakfast with the same or lower price than the room-only rate that was offered through the hotels' websites, with higher percentage of frequency in the case of Amoma.com than the other channels. This finding evidences the challenge that the hoteliers confront by allocating a share of their inventory to the wholesaler and TO, since these BB rates are a typical kind of TO allotment. In terms of the cancellation condition, the channel analyzed had shown a high level of parity with the hotel's websites. The exceptions to this were once again Lastminute.de, Amoma.com and Hotelreservierung.de. In most instances they provided less favorable cancellation conditions than the hotels' own websites. According to the statement of the respondent, the parity clauses with TPIs are also subject to the parity of the terms and conditions.⁴²⁰ Thus, the evidence of this finding signifies the absence of parity agreements between the hotels and those channels that provided dissimilar terms and conditions than the hotels' websites. The terms of payment for the online booking was also investigated. The favorable condition to the customer in this measure was identified as paying the hotels directly upon the arrival. For instance, when a channel obliged the customer to pay the rate directly upon the booking transaction, as opposed to giving the guests the possibility to pay directly upon arrival when booking through the hotel's website, this was evaluated as a favorable condition of booking through the hotel's website. The importance of this measure to the customers is well illustrated by the decision of Expedia to change its so-called "Expedia Collect" business model, which obliged the guest who books through Expedia to pay directly upon the booking transaction. As can be seen in the figure above, the typical agency model websites such as Booking.com, HRS and Hotel.de as well as Expedia and the soft brands offered the customer in most instances a similar payment policy as that offered by the hotels. The channels that provided different payment policies than the hotels' websites tended to oblige the bookers to pay them directly upon the booking transaction.

⁴²⁰ Cf. Interview (RM expert).

It should be noted that the finding outlined above involved a cumulative percentage analysis, which divided the cumulative frequency of each instance by the total number of observations over the 6 data collection dates.⁴²¹ Therefore, an analysis of each data set that was collected over time might alter the picture a little bit. The cases of providing more favorable cancellation conditions than the hotels' websites were due to the offering of non-cancellable advance booking rates on the part of the hotels. For instance, Amoma.com typically assesses a cancellation penalty fee of €20 for most rates. In spite of this, the comparison of the non-cancellable advance booking rates that were offered on the hotels' websites with the restricted rates offered by Amoma.com revealed that Amoma's cancellation conditions were still more favorable. Therefore, a comparison of the best flexible rates across the channels would produce a different result in favor of the hotels' websites, since many hotels offered expensive rates that were cancelable free of charge, even until 6:00pm on the arrival date. This constraint is also applicable to the payment policy. With the exception of the early booker rates that almost must be paid in advance, the hotels request credit card information from the customers in order to guarantee their arrival, but did not oblige them to pay the rate upon the booking transaction. On the other hand, Ebookers.de, Lastminute.de, Amoma.com and Hotelreservierung.de oblige the guest to pay them directly upon the booking transaction regardless of whether the rate is restricted or flexible. As mentioned earlier, Expedia was the only channel that left their customers choose between paying them directly or later in the hotel. However, this option was not always applicable even to the flexible rates. This led the researcher to the assumption that those flexible prepaid rates offered by Expedia might have been allocated by the hotels to Expedia according to the merchant model. However, the respondent stated that the hoteliers who distribute their room via such a TPI have to participate in both programs of payment.⁴²² In terms of the payment solutions that were available to the online booker, it is clear that the TPIs offered the bookers a wider range of solutions than the credit card solution that was adopted by all hotels. This raises the question of why the hotels do not exploit such a

⁴²¹ N of channel–hotel observations: Soft brands=82, Booking.com=86, HRS=82, Hotel.de=88, Expedia=82, Lastminute.de=86, Ebookers.de=102, Amoma.com=100, Hotelreservierung.de=131, City portal=43.

⁴²² Cf. Interview (RM expert).

payment solution like *Giropay* or *direct debit authorization*. It is agreed that it is less likely that a guest who books a luxury hotel does not own a credit card, but compared to payments by credit cards, which allow similar usage, bank fees for a Giro-card direct debit are much lower.

4.2.6 The Dilemma of Multiple-Night Stay Pricing

As explained earlier in chapter 2, the time and duration of stay are key considerations of the revenue management pricing. Accordingly, a revenue manager matches the room supply with guest demand by varying the prices offered over time and regulating customer arrivals and their lengths of stay. Based on these considerations, the hotels may use restrictions for certain rates, such as minimum length of stay and closed-to-arrival restrictions. Although the concept of variable pricing is straightforward and, as the respondent stated, has become very acceptable to the guests,⁴²³ the applying of variable pricing to multiple-night stays and simultaneously with duration control can make for a complicated decision. An unwise decision regarding the implementation of variable pricing to the multiple-night stay could compromise its acceptance. The implementation of BAR pricing, which quotes the lowest available rate for each night of a multiple-night stay, is a solution to reduce potential confusion for the customer. In an effort to investigate how the hotels are dealing with this issue, a pilot experiment⁴²⁴ was carried out on the hotels included in this study. The experiment involved the flexible rate for the analysis and ignored any rate fences, such as early booker rates or last-minute rates. The study found that 21 hotels implemented a BAR pricing policy and thus pinpointed the actual rate for each room-night, while the remaining 8 hotels quoted a blended rate for multiple-night stays. The following are blended-rate scenarios that were identified from these 8 hotels:

- *Blended-rate scenario, presented as a loss to the customer.* In this scenario the hotels quoted on their websites a different daily rate for two or more consecutive one-night stays. For instance, €340 for the first night and €239 for the second

⁴²³ Cf. Interview (RM expert).

⁴²⁴ This involved the checking of the hotels' rates on at least three different prospective random arrival dates for a multiple-night stay and checking each of these dates for one-night stay.

night. By requesting to book these two dates as a multiple-night stay, the hotels quoted a single rate of €320 for each room-night. This means €61 more than when booking the two-night stay individually. It should be noted that the booking terms and conditions were identical in the two cases and both of them were flexible rates.⁴²⁵

- *Blended-rate scenario, presented as gain to the customer.* In this scenario the hotels quoted on their websites, for example, €425 for the first one-night stay and €255 for the second one-night stay. By requesting to book these two nights as a two-night stay, the hotel quoted a single rate of €325 for each room-night. This means a €30 saving for the guest. According to the rate details, there was no information about a minimum-length-of-stay restriction.⁴²⁶
- *Blended-rate, based on the higher room-night rate.* In this scenario the hotels quoted, for example, €295 for the first one-night stay and €320 for the second one-night stay. By requesting to book these two nights as a two-night stay, the hotels quoted a single rate of €320 for each room night, which is the highest room-night rate of the entire stay.⁴²⁷
- *Blended-rate, based on the lower room-night rate.* In this scenario the hotels quoted, for example, €295 for the first one-night stay and €320 for the second one-night stay. By requesting to book these two nights as a consecutive two-night stay, the hotels quoted a single rate of €295 for each room-night, which is the lowest room-night rate of the entire stay.⁴²⁸
- *Blended-rate as the average price of each room-night of a consecutive-night stay.* In this scenario the hotels quoted, for example, €245 for the first one-night stay, and €275 for the second one-night stay. By requesting to book these two nights

⁴²⁵ i.e. Hotel H, T and CD.

⁴²⁶ i.e. Hotel P and T.

⁴²⁷ i.e. Hotel K, F, A and R.

⁴²⁸ i.e. Hotel K.

as a two-night stay, the hotels quoted an average nightly rate of €260 without pinpointing the actual rate for each room-night.⁴²⁹

As can be noticed from the 4 scenarios above, some of those hotels did not even implement a consistent policy. In particular, the first and third scenario can clearly be confusing to the customer and thus be perceived as unfair pricing practice. A study conducted by Rohlfs and Kimes has found that for a multiple-night stay, customers prefer to be quoted individual rates for each night rather than the average price per night over the stay. They found that individual rates were perceived as significantly more fair, acceptable, reasonable, and honest than average rates by the customers.⁴³⁰

4.3 Findings Outside the Scope of the Study

Although the opaque websites and the flash sales websites, which, due to their pricing structure are not comparable and thus are not included in the empirical part of this study, the explorative nature of this study allows the researcher to address phenomena found outside the core scope of this study.

The first one is relates to the use of brand opaque websites by the hotels in order to push their distressed inventory in such a way that no reference price is available. This might allow hotels to sell rooms at deep prices without connecting the price directly to the brand while also maintaining rate integrity and improving revenue. In fact, what was found in this regard compromises all these promised benefit for the hotels. The researcher has seen time and again during this study that one or more of the meta-search websites listed the inventory and price of the opaque websites on their result menu. In particular, this happened in the case of the websites that operate at the same time as brand opaque channels and normal channels, such as Last-minute.de, which operates the so-called “Top Secret Hotels” model. Furthermore, the description of the hotels that was available on the brand opaque websites provided in many cases clear markers that allow the savvy booker to identify the undisclosed

⁴²⁹ i.e. Hotel K and CD.

⁴³⁰ Cf. Rohlfs; Kimes, 2005, p. 4.

hotel. Some of these opaque websites even provided photos of the hotels, which were the identical photos that were displayed on the non-opaque websites.

The second phenomenon is related to the hotels' use of other non-traditional ways of pushing their distressed inventory, namely, the flash sales websites. As outlined earlier in chapter 2, the supposed advantage of the use of such a channel for the hoteliers is that the prices are not publically available to every guest. The reality is that many of these sites, such as Secretescape.de, are not more private sale sites in the narrow sense of the word. These websites require a simple form of membership, which allows every guest to log into this site and thus receive the deal. Nevertheless, when it is necessary for the hotels to use such sites, they should be used with a very short lead-time. However, the researcher observed on the booking calendar of the flash sale site that the hotels' inventory was allocated for more than two months in the future.

4.4 Summary of the Expert Interviews

4.4.1 Interview with the Revenue Management Expert

The company XY employs a revenue manager at the property level, in addition to regional revenue managers who are deployed geographically. The key responsibility of these regional revenue managers is to mentor the revenue managers at the properties, and they act as the interface between the revenue manager at the property and the revenue management department at the corporate level. The revenue management in each property is an independent department, although it is not separated from the e-commerce functions. Thus, all related aspects of e-commerce must be reported to the revenue manager. Revenue management is critical to the success of the company, which is primarily viewed by the company as business intelligence and a market understanding. Technology plays a strong role in RM. The importance of pricing in RM nowadays is not in the pricing process itself, but rather where prices should be distributed. Online distribution is becoming increasingly important. The share of direct bookings continues to go down and the number of online channels that the revenue manager should control is increasing. The proportion of the bookings that are generated through electronic distribution channels is 45%, thereof 25% is generated through TPAs and 12% is through the hotel's own website, while the rest

is generated through the GDS. Direct bookings through the traditional channels, such as the telephone, have the highest ADR. Therefore, one important channel-related task of revenue manager is that of managing pricing in such a manner as to move the online bookers from higher-cost channels to lower-cost channels.

The rate structure is a mutual decision which is set at the beginning of the year by the director of revenue management, the general manager and the director of sales and marketing. This rate structure contains a range of prices for each room category. Once the rate structure has been set, the daily change in price is the task of the revenue manager in each property. The company uses a revenue management system that makes a recommendation on rates. The system can suggest a change in price 3 times in the day. This suggestion must be validated by the revenue manager. The company is moving away from fixed corporate rates to dynamic corporate rates, which give the contracted firms a discount on the basis of the best available rate. The RevPAR and Market Penetration Index are still the main performance measurement of the revenue management; however, the importance of the profit-oriented metrics, such as GOPPAR and total revenue per available room, is increasing. A price war exists in the luxury hotel market in Berlin, Frankfurt and Vienna because of the increased competition and the increased number of new luxury hotels that have opened recently in these cities. The problem is that many hotels are still not convinced of the fact that lowering rates will not generate enough demand to cover the discounting. The differentiating of rates on the web-based channels on the basis of their profitability for the hotel is still not possible due to the parity clause. The tactic being used is to close channels with high distribution costs in periods of high demand. However, due to the terms of the TPAs contracts, this is only possible when the hotel has only a few rooms that are still available. Rate integrity is viewed by the respondent as the transparent price structure which aims to gain the trust of the guest.

The major concerns of the company in choosing the distribution partner are the capability of connectivity to the existing channel manager system, ability to reach specific markets, and the appropriateness of the website for the company's image. The online reputation is the largest external factor that influences the pricing. Therefore, a revenue manager should understand how online bookers are using these reviews

and rankings with price to make a booking decision. For example, when the hotel has a better ranking than one of the hotels from the competitive set, the hotel should charge the customer a higher price than this competitor. Otherwise, the customers could patronize the competitor, since they use the ratings in their price-value perception. Tracking and understanding the booking curve for each channel is a key element of revenue management, since the bookings that come from various channels vary in terms of how long they come from the arrival date. Generally, the transient bookings are coming closer to the arrival date. However, this can be forecasted and therefore the hotel never offers a last-minute rate for this reason. Revenue managers now require a sound understanding of all aspects of e-commerce and e-marketing. One of the main disadvantages of distribution through TPAs is that they typically deliver to the hotel no information about the guests other than their names. The main benefits resulting from using the TPAs are the global distribution of the hotel's product and increasing the visibility and exposure of the hotel particularly in a foreign market where the brand is not well-known. The respondent believes that being listed on TPAs creates a billboard effect and thus can increase the bookings on the hotel's website. The respondent acknowledges that the distribution without the TPAs in terms of occupancy would be weak, since there are guests who book just through a specific TPA. Especially for the city hotels, the TPAs are still very necessary because the option of hotels that available to the guest is wide and many guests put little emphasize on the brand. Overall, the respondent is satisfied with the customer structure that comes to the hotel through TPAs. However, the guest structure that comes through channels like opaque websites and flash sales websites is very different from the type of customers that the hotel goes after and is therefore evaluated negatively. These channels are only used by the hotel when necessary but with a short-lead time. The respondent acknowledged that the unauthorized listing of the opaque inventory at the meta-search sites on the part of the opaque channels does indeed occur. The sensitivity of the guests to price varies greatly depending on the source market. For instance, Russian guests show a higher level of price sensitivity. Also, depending on the nationality, many guests are willing to bargain with the hotel to get a lower price. The best-rate guarantee which is

adopted by the company is valuable to the customer because the hotel has a strategy that rejects an ongoing lowering of prices.⁴³¹

4.4.2 Interview with the e-Commerce Expert

The special aspect of the e-commerce department in the company XY is that it belongs to RM. However, the respondent personally believes that the functions of e-commerce belong to both the marketing and revenue management department. The e-commerce department is responsible for all aspects of the online marketing, such as SEO, SEM, social media and content management. The communication with TPis as well as the maintenance of the dynamic content, such as prices, is the responsibility of the revenue manager. The interaction between revenue management and the functions of e-commerce is important in order to match the online marketing campaign with the booking situation. For instance, pay per click campaigns are carried out in consultation with the revenue manager.

The respondent sees no disadvantage in the fact that not each property obtains a discrete domain name on the web, since each property is able to maintain its content on the company website. The primary goal of the company website is to sell rooms. Therefore, increasing the conversion rate of the own website is always the hotel's concern. Compared to 6 years ago, the conversion rate has considerably increased from 0.6% to 1.4%. The hotel's own website alone is not sufficient for an exhaustive presence on the web; therefore, the use of TPis is indispensable, especially in reaching specific market segments. The so-called billboard effect is one of the reasons for using TPis; however, due to the lack of an inbound link between the hotel's website and the TPis, this billboard effect as well as the search-and-switch behavior of the guest cannot be tracked. Although the TPis have a larger budget for heavy investment in online marketing in comparison to the hotel, the hotel investment in online marketing to enhance the direct distribution is worthwhile. The reason that the company website is not displayed on meta-search engines is a connectivity problem on the part of the hotel company website. One of the reasons that many guests are booking through TPis is that the booking process through many TPis is easier

⁴³¹ Interview (RM expert).

than through the company website. The respondent acknowledged that the booking process on their own website could be more user-friendly. For instance, providing the website with a booking calendar that shows the availability and the price without checking each prospective night-stay date is an advantage to the guest. Because the hotel online distribution landscape has become more complex, the respondent feels that sometimes keeping track of the numerous web-based distribution channels becomes difficult. For the purpose of updating the static content, such as photos and room descriptions, on the indirect channels, the hotel possesses no XML interface to the TPIs; instead the content is maintained by the hotel through an extranet.

The respondent views the online reviews as one of the significant external factors that influence the online bookings. Therefore, the managing of online reputation nowadays is essential for the hotel. The hotel uses the online reputation management tool “ReviewPro”, which enables the hotel to automatically be informed about reviews that are posted on any of the review websites so that the hotel can rapidly respond to these reviews. The hotel has no technology that enables it to identify whether the guest who posted the review on a review website really is a guest that was accommodated in the hotel. And if the guest was accommodated in the hotel, it has no way of knowing through which channel the reservation was made.⁴³²

⁴³² Interview (E-commerce expert).

5. CONCLUSIONS

5.1 Conclusion

The transparency of the web and its ease as a mechanism for information acquisition has made the comparison of room price as well as its related information between hotel brand website and TPIs a matter of course for many guests who are looking to book a certain hotel property via the web. Meanwhile, the prominence and transparency of the web as a distribution channel has created a need for hoteliers to ensure coherent and transparent pricing practices on the hotels' own websites as well as on their utilized TPIs. With these considerations in mind, this study is something of a reality check of the pricing behavior of luxury hotel operators in Germany through both direct and indirect web-based distribution channels. The study provided an in-depth understanding of the current pricing practices of hotel rooms on the web.

The study revealed that the hotels simultaneously use multiple web-based distribution channels, making a considerable number of their room categories available to the customers through these channels. In addition to the hotels' own websites, the soft brand websites, Booking.com, Expedia and Hotelsreservierung.de were the most used channels by the hotels and thus offered the customers the best value in terms of room availability over time and the number of room categories.

The study found that the room rates were not set completely consistently across all channels. A high level of rate parity existed among the hotels' own websites and the agency websites, namely, Booking.com, HRS and Hotel.de as well as the soft brand websites and Ebookers.com. In particular, Amoma.com, Hotelreservierung.de and Lastminute.de were the channels that in many instances offered lower prices than the prices offered on the hotels' websites. This indicates the loss of control over pricing on these channels by the hoteliers. The data suggest clearly that the hotels are allocating a share of their rooms to wholesalers such as B2B wholesalers and TO. The findings suggest that the distribution of these B2B rates and wholesale rates on the web as B2C rates is the greatest challenge that the hoteliers confront when distributing their rooms on the web.

In terms of which channel consistently offers the lowest price and the best terms and conditions, such a broad generalization was difficult to make. However, the fact is that guests who look around to book may find lower rates and favorable terms and conditions than those offered on the hotels' own websites. The investigation of the best-rate guarantee found that many hotels are still not able to constantly fulfill their promise by either offering the same rate, a lower price or at least favorable terms and conditions on their websites. Amoma.com, Hotelreservierung.de and Lastminute.de were the channels that may offer the customers a bed and breakfast accommodation with the same or even lower room-only rate offered on other channels. Regarding the cancellation conditions and payment policy, these seemed to be considerably dependent on the booking window as well as the type of rate. Mostly, for the customers who are looking for flexibility and payment upon arrival, the hotel website is the channel to be booked through. The question to be asked in this regard is to what extent these terms and conditions influence the booking decision of the guests.

The finding suggests that the difference in cost of distribution did not seem to be a factor that influences the rate and availability offered through the different channels. This indicates that the use of channel-specific practices to optimize revenues was not exploited by the hotels. This outcome may be attributed to the contractual agreements between the hotels and the TPIs.

The findings demonstrate that many hotels are not actively managing their presence on their portfolio of TPIs. This study has shown that in many cases the hotels' data was inadequately displayed on the TPIs. In particular, there were no sufficient (if any) descriptions of the different room categories that were offered on the TPIs. Some room categories were even displayed on the TPIs under different names that did not match their names on the hotels' own websites.

Although the data clearly show that almost all hotels practice revenue management-pricing, the finding revealed that these practices seemed unsophisticated. The analysis of the data found that in many instances the pricing practices were illogical from the viewpoint of the hoteliers who aim to use price to optimize their revenues while at the same time maintaining rate integrity and ensuring guest satisfaction. This finding was especially evident in the instances of inadequate implementation

of the rate fences, the adoption by many hotels of blended-rate scenarios for multiple-night stays, and the fact that they did not fully integrated customer behavior into the pricing decision in order to optimize revenues.

The overall findings of this study indicate that many of the hotels included in this research should review their current pricing practices on the web. The following section outlines the practical implications of this study to the hoteliers and formulates professional recommendations that would be useful in order to re-evaluate their pricing practices.

5.2 Implication and Recommendations

The practical implications of this study to the hotels are to a large extent a factor of the logical assumptions that were used in the interpretation of the research findings. In the end, the hotelier is the one who retains the valuable information about his guests, his market and demand situation. Therefore, the hoteliers may use the insights that were derived from the interpretation of the study findings together with the information that they own in order to rethink their current practices and take action if they are to benefit from this study.

As a result of the findings of this study, the following recommendations have been derived. The first action that the hotels need to take is to conduct a review of their rates as well as their presence across their portfolio of TPIs. This can be achieved through a simple mystery booking survey, such as the one used in this study, in order to verify what prices customers receive across the different channels and how they are represented to the customers on these channels. The sympathetic understanding of how customers see the rates and the room-related information on the different channels will provide the hoteliers with rich awareness to constantly improve their distribution and pricing on the web and establish control over how and where their product is bookable so that the customers' propensity to book their hotels will increase.

Second, if the use of TPIs is still indispensable for the hoteliers and their contractual agreements do not allow hotels to offer lower rates on the hotels' own websites, then the hoteliers should at least ensure consistent rates across the channels. Now-

adays, guests are more familiar with the cost of distribution and understand that the hoteliers cut costs by bookings that come through their own websites. Therefore, they expect to find lower rates or at least consistent rates with better value on the hotel own website. Obtaining a lower rate through a TPI rather than through the hotel website will not be logical from the customer's point of view and thus serve the TPI by persuading the customers that they are the channel to book their accommodation through.

Third, the hoteliers should not offer the TPIs run of the house inventory. In other words, the best rooms or suites should not be offered through TPIs long in advance to the arrival date. In addition, this approach will save the associated cost of distributing these rooms through TPIs, this approach will add a USP to the hotel's own website. Another approach that may lead to the same positive effect is to keep the special rates, such as the BB rate and packages, only found on the hotel own website. The suggestion that the TPIs focus on price is supported by the fact that the parity clauses typically oblige the hotels to offer their lowest available rate on the TPIs. Therefore, the hotels should use this scenario in their favor by focusing on value-added on their own websites.

Fourth, the hoteliers should understand that offering last-minute discounts is generally an indication of underachievement of proactive pricing tactics and bears more disadvantages than the advantage of gaining some revenues from the perishable rooms. Therefore, they should proactively offer advance-purchase rates, but well ahead of the arrival date. By doing so, the hoteliers will build an appropriate booking pace that will compensate for potentially unoccupied rooms, decrease the customer surplus of those who are willing to pay the full rate, and avoid the use of opaque channels and flash sale websites that will divide the generated revenues with the hotels nearly in half and might harm the rate integrity.

Fifth, the hoteliers may use complex and well-developed revenue management systems to optimize their price point, which is a great chance to support the decision-making regarding variable pricing, but these systems do not ensure the clarity and integrity of the online rate structure offered to the guests. The essence of successful pricing is in understanding customer perception of product value and accurately aligning product price so that the customers receive the best value for their money

and the hotels generate the best possible revenue. In addition, successful pricing approaches must guarantee a balance between revenue maximization and customer satisfaction. Therefore, the hoteliers should anticipate customer reactions to differential pricing and provide the different rates with appropriate information and explanations that help the potential customers to easily grasp the logic behind the different rates. If customers do not find much distinction between the different rates offered or do not perceive these differences as logical, then the differential pricing may work against the goal of the hotel.

Sixth, the strategic partnership with soft brand websites is a great way for the hoteliers to expand their exposure in markets where the hotels have little presence as well as to benefit from their electronic distribution technologies, but the sovereignty over price must remain in the hands of the hoteliers. In some cases it seemed clear that the hotels use a booking engine that was provided to them by the soft brand partners, and some of the rates were even set under names that reflect the soft brand rather than the hotel brand itself.

Finally, the hoteliers should carefully choose their portfolio of TPIs. Having a presence on all channels without an adequate presence in line with the brand image and the pricing strategy is generally a flawed strategy. If the offering of net rates to TPIs is still unavoidable, then a contractual obligation must ensure the following on the part of the TPI: A) Net rates in the form of packages must not be distributed as room-only rate. B) Net rates that are allocated to a wholesaler or hotel consolidator in the form of B2B rates must not be distributed to the end-customer in the form of B2C rates through any TPIs. C) In the worst case, if the hoteliers allocate net-rate inventory to TPIs in the form of a room-only rate, then the mark-up margin must be controlled by the hoteliers so that rate parity is achieved. In addition, the allotments should be carefully allocated to the TPIs and the cutoff date should be considered in order to avoid a situation where the hotel has no room availability but the TPI does and avoid the risk of having unsold inventory at the last minute. The phenomenon of having no availability on a hotel website but availability on a TPI was observed many times during the data collection process. Another important factor that the hoteliers should consider when working with TPIs in general is their ability to let the hotel manage the inventory and price in a real-time and effective way, e.g., through a

channel manager system and not via extranet, in order to keep control over their price and inventory.

5.3 Limitations of the Study and Avenues for Further Research

As with any study and especially, to the author's best knowledge, as the first attempt of its kind in Germany, this study has several limitations, which future research could overcome. Firstly, the generalization of the research findings is not the concern of this study. There are several reasons that make the findings not representative of the industry as a whole and thus not generally applicable. The study is limited to the 29-DEHOGA luxury hotel members in the top 4 German cities. The German luxury market includes a considerable number of hotels that are not members in the DEHOGA classification system. Therefore, using a different sampling technique to include non-DEHOGA hotels in future research will increase the sample and thus may make the findings at least applicable for the luxury hotel market in Germany. Further research which expands the geographical constraints and includes other hotel segments are encouraged so that a representative sample can be generated and wider generalizability of the findings can be provided.

Secondly, because there are a limited number of members of luxury independent hotels in the DEHOGA classification system, as compared to the branded hotels, the study failed to provide a clear comparison between independent hotels and branded hotels. Using other sample methods which allows for the inclusion of an equal number of both independent and branded hotels could have assisted in determining whether independent and branded luxury hotels differ in terms of their pricing practices on the web.

Thirdly, although the channels that are included in this study were carefully selected, the self-selection method makes the representativeness of these channels a moot point. Yet, as 5 of the 10 selected TPIs represent nearly 90% of online hotel rooms booked indirectly in Germany in 2013,⁴³³ the researcher believes that alternative channels should have little effect on the research findings.

⁴³³ Cf. IHA, 2014, p. 226.

Fourthly, the study was limited to a single selected arrival date, which pertains only to the leisure transient segment. Surveying multiple arrival dates that pertain to both leisure and business segments would be interesting. This would enable the researcher to consider the pricing behavior of the hoteliers regarding both segments and investigate the differences between them.

Fifthly, the data was collected over 6 time points in a period of 26 days prior to the arrival date. Lengthening the data-recording period to cover longer booking windows would increase the reliability of the findings and provide a more comprehensive view of the pricing practices. However, due to the time constraints of this research as a master's thesis as well as the fact that the researcher had to check rates unassisted, such a lengthening was not feasible. An alternative method of data collection would have been to use some form of automation, such as the snapshot systems that are used by TPAs in order to track the rate parity or those that are used by meta-search sites. However, the researcher believes that the use of such automated tools to collect the data for the purpose of this research was not appropriate, since it would have affected the reliability of the data by ignoring the terms and conditions of the rates and any potential hidden booking fees at advanced booking stages. Therefore, for future research, the researcher recommends having multiple researchers employ a manual survey.

Finally, one important limitation of this study is that the researcher provided some interpretation and judgments regarding the hotels' pricing behavior without precise knowledge of important, related information, such as the projected occupancy rates and the demand situation. This could have assisted in making a true judgment regarding the effectiveness of pricing practices of each hotel. The insights that were generated from the respondents helped with some of the interpretations that were provided in the findings section. For future research the researcher suggests the use of benchmarking hotel data, such as the STAR report or MarketVision. The interviewing of more hotel revenue management professionals or conducting a group discussion that would follow the research would also be beneficial to increase the reliability of the research findings.

Further research should go beyond descriptive statistics as a method for data analysis. The researcher should conduct inferential statistics to test the verification of the variables and hypotheses that were identified in this study.

In closing, despite the above-mentioned limitations, the researcher believes that this study will increase the knowledge and understanding of the current online pricing practices of the German luxury hotels and the findings will be of use to them and to any researcher who is interesting in the topic area.

Appendixes

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Appendix A) Detailed breakdown of the hotel properties included in this study

Hotel Name	City	Type	Name of Company	National/International	Capacity R & S	Star Rank.	Cooperation Partner with Booking	Best-rate Guarantee
Bayerischer Hof	Munich	Independent			350	5 S	LHW/Preferred HG	N/A
Fairmont Hotel Vier Jahreszeiten	Hamburg	Chain/Group	FRHI Hotels & Resort	International	156	5S	LHW	N/A
Felming`s Delux hotel Frankfurt Main Riverside	Frankfurt	Chain/Group	HMG Group	DACH	149	5	Worldhotels	Ja
Felming`s Hotel Delux Frankfurt City	Frankfurt	Chain/Group	HMG Group	DACH	106	5	Worldhotels	Ja
Grand Elysee Hamburg	Hamburg	Independent			511	5S	Worldhotels	Ja
Grand Hyatt Berlin	Berlin	Chain/Group	Hyatt hotels corporation	International	342	5S	N/A	Ja
Grandhotel Hessischer Hof	Frankfurt	Independent			121	5S	LHW/Preferred HG	Ja
Hotel Adlon Kempinski	Berlin	Chain/Group	Kempinski	International	382	5S	LHW/Global hotel alliance	Ja
Hotel Atlantic Kempinski	Hamburg	Chain/Group	Kempinski	International	245	5S	global hotel aliance	Ja
Hotel Brandenburger Hof	Berlin	Chain/Group	Dormero	National	72	5	SLHW	N/A
Hotel de Rome	Berlin	Chain/Group	Rocco Forte	International	146	5S	LHW	Ja
Kempinski Hotel Bristol	Berlin	Chain/Group	Kempinski	International	301	5	global hotel alliance	Ja
Kempinski Vier Jahreszeiten	Munich	Chain/Group	Kempinski	International	300	5 S	LHW/ global hotel alliance	Ja
Louis C. Jacob	Hamburg	Independent			85	5s	LHW	N/A
Mandarin Oriental	Munich	Chain/Group	Mandarin Oriental	International	73	5S	N/A	Ja
München Palace	Munich	Independent			74	5	Preferred HG	N/A

"Continued"

Park Hyatt Hamburg	Hamburg	Chain/G roup	Hyatt hotels cor- poration	International	252	5S	N/A	Ja
Privathotel Lindtner Hamburg	Hamburg	Inde- pendent			128	5S	N/A	N/A
Regent Berlin	Berlin	Chain/G roup	Regent Hotels & Resorts	International	195	5S	N/A	N/A
Sofitel Hamburg Alter Wall	Hamburg	Chain/G roup	Accor	International	241	5S	N/A	Ja
Sofitel Munich Bayerpost	Munich	Chain/G roup	Accor	International	396	5S	N/A	Ja
Soitel Berlin Kurfürstendamm	Berlin	Chain/G roup	Accor	International	311	5S	N/A	Ja
Steigenberger Frankfurter Hof	Frankfurt	Chain/G roup	Steigenberger Hotels AG	International	303	5S	N/A	Ja
Steigenberger Hotel Hamburg	Hamburg	Chain/G roup	Steigenberger Hotels AG	International	233	5S	N/A	Ja
Steigenberger Hotel Metropol- itan	Frankfurt	Chain/G roup	Steigenberger Hotels AG	International	131	5S	N/A	Ja
The Charles Hotel	Munich	Chain/G roup	Rocco Forte	International	160	5S	LHW	Ja
The Mandala Hotel	Berlin	Inde- pendent			158	5S	Design Hotels	N/A
The Ritz Carlton	Berlin	Chain/G roup	The Ritz-Carlton	International	303	5S	N/A	N/A
Villa Kennedy	Frankfurt	Chain/G roup	Rocco Forte	International	163	5s	LHW	Ja

Appendix B) Indirect channels and their domain names

Channel	Domain Name
Soft brands <ul style="list-style-type: none"> • Leading Hotels of the world • Global Hotel Alliance • Small Luxury Hotels of the Worlds • Design Hotels • World Hotels 	www.lhw.com www.gha.com www.preferredhotelgroup.com www.slh.com www.designhotels.com www.worldhotels.com
City portals <ul style="list-style-type: none"> • Berlin • Hamburg • Frankfurt am Main 	www.berlin.de www.hamburg.de www.frankfurt-tourismus.de
Booking.com	www.booking.com
HRS	www.hrs.de
Hotel.de	www.hotel.de
Expedia	www.expedia.de
Lastminute.de	www.lastminute.de
Ebookers	www.ebookers.de
Amoma	www.amoma.com
Hotelreservierung.de	www.hotelreservierung.de

Glossary of Terms

Average Daily Rate: Total room revenue divided by number of rooms sold.

Best Price Clause: clause which required HRS's hotel partners to offer their lowest rates on its booking website.

Booking engine: is the technology that allows reservations to be made on a website. This usually refers to the technology needed to power the booking function of a website so that visitors can make a hotel reservation. It is comparable to a shopping cart on a retail website.⁴³⁴

Booking pace: refers to the pattern and tempo (rate) of receipt and acceptance of advanced reservations.⁴³⁵ It also measures how many bookings a hotel has on the books at any given time for a future date.⁴³⁶

Booking window (Lead time): refers to the period between booking date and arrival date. Generally, the length of the booking window is a co-determinant of the price that must be paid for a hotel room-night.

Business model: A method of doing business by which a company can generate revenue to sustain itself.⁴³⁷

Central Reservation System: The CRS is essentially a database distribution system, providing hotel room rates and availability for many different channels such as the GDS, 3rd party websites and brand websites etc. Among other functionalities, the CRS can administer room allocations of single properties or on the hotel chain level. Furthermore, rates can be controlled and availabilities in the distribution channels can be monitored. The CRS of a hotel chain transfers data to the distribution channels.⁴³⁸

⁴³⁴ Cf. Green, Lomanno, 2012, p. 184.

⁴³⁵ Tranter et al., 2009, p. 318.

⁴³⁶ Cf. <http://hotelrevenue.com/?page=starting> [14.12.2014].

⁴³⁷ Turban et al., 2010, p. 72.

⁴³⁸ Cf. <http://www.h2c.eu/optimization/glossary/c-channelmanagement-crs/>

Customer purchasing propensity: the probability that an organization's products or services will be purchased by a customer in the future.⁴³⁹

Cutoff date: The last day on which rooms may be picked up from a group block. It is also the date after which any unreserved rooms remaining in the block are to be released for public sale.⁴⁴⁰

Destination management system: systems which distribute a wide variety of tourism products (focused primarily on the leisure customer), are generally government sponsored, and pay particular attention to representing small and independent tourism suppliers.⁴⁴¹

Distressed Inventory: Inventory that a hotel is having difficulty to sell it.

Dynamic packaging: A package for which the overall price and component prices change based on business rules or customer input (e.g., the combination of package elements, the value of the customer to the supplier, packager or intermediary).⁴⁴²

Giropay: is an Internet payment System in Germany, based on online banking. Introduced in February 2006, this payment method allows customers to buy securely on the Internet using direct online transfers from their bank account.⁴⁴³

Global Distribution System: A group of companies that electronically connect travel-related businesses such as airlines and hotels with those individuals and companies seeking to buy from them.⁴⁴⁴

Idle production capacity: the condition that exists when a service is available but there is little or no consumer demand for the service offered.⁴⁴⁵

⁴³⁹ Cf. Tranter et al., 2009, p. 90.

⁴⁴⁰ Hayes; Miller, 2011, p. 222.

⁴⁴¹ O'Connor, Frew, 2002, p. 34.

⁴⁴² Cf. Rose, 2004, p. 1.4.

⁴⁴³ <http://en.wikipedia.org/wiki/Giropay> [27.11.2014].

⁴⁴⁴ Hayes; Miller, 2011, p. 262.

⁴⁴⁵ Hayes; Miller, 2011, p. 78.

Interfaced: To be electronically connected.⁴⁴⁶

Internet Distribution System: The group of online reservation systems and travel portals that utilize the Internet to connect travel-related businesses such as hotels with those individuals and companies seeking to buy from them.⁴⁴⁷

Inventory or capacity management: the process of controlling the number of units and availability of products and services across various channels of distribution.⁴⁴⁸

Net booking value yield: is the proportion of the standard retail rate (BAR) for a room sale that is actually realized by a hotel after subtracting the cost, fee and assessments associated with the specific distribution channel responsible for the room's sale. The formula is: $(\text{Standard retail BAR} - \text{Distribution channel costs}) / \text{standard retail BAR} = \text{Net booking value or BAR yield}$.

Package: A combination of two or more different travel components, such as an airline flight with a hotel reservation, offered at a single price.⁴⁴⁹

Profit and Loss Statement: A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year. These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs. The P&L statement is also known as a "statement of profit and loss", an "income statement" or an "income and expense statement".⁴⁵⁰

Property management system: The hardware and software used to record reservations, guest stay information, and payments, as well as to record and store other relevant hotel operations data.⁴⁵¹

⁴⁴⁶ Hayes; Miller, 2011, p. 217.

⁴⁴⁷ Hayes; Miller, 2011, p. 265.

⁴⁴⁸ Tranter et al., 2009, p. 140.

⁴⁴⁹ Rose, 2004, p. 1.2.

⁴⁵⁰ <http://www.investopedia.com/terms/p/plstatement.asp> [25.09.2014].

⁴⁵¹ Hayes; Miller, 2011, p. 111.

Reference Price: is one of the most important pricing terms firms need to understand. This is the price for which clients believe the product should sell. The reference price is formed when consumers consider such aspects as the following: price last paid; price of similar items; price considering the brand name; and perceived cost of product failure.⁴⁵²

Revenue per Available Room: Hotel's total guestroom revenue divided by the total number of available rooms of days in the period being measured.

Soft hotel brands: These brands provide marketing, sales and reservations support to independent hotels and small chains so they gain the sales and marketing capabilities of a larger chain and still retain their management independence. These soft brands do not have ownership or management agreements with their hotels and the hotels do not take on the name of the soft brand, except as a part of the reservation network. Examples of soft hotel brands are Preferred Hotels and Leading Hotels of the World.⁴⁵³

Static package: A package with fixed components defined by suppliers, for which component prices do not change based on customer input or business rules (itinerary dates may be flexible but the component options are fixed).⁴⁵⁴

Tactic: skillful method used to achieve desired results. It is the action steps taken to fulfill a strategy.⁴⁵⁵

The S&P 1500 or S&P Composite 1500 Index: is a stock market index of US stocks made by Standard & Poor's. It includes all stocks in the S&P 500, S&P 400, and S&P 600. This index covers 90% of the market capitalization of U.S. stocks. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks.⁴⁵⁶

⁴⁵² Cf. Shoemaker et al., 2007, p. 386.

⁴⁵³ Cf. Green, Lomanno, 2012, p. 189.

⁴⁵⁴ Rose, 2004, p. 1.3.

⁴⁵⁵ Cf. Tranter et al., 2009, p. 327.

⁴⁵⁶ Cf. <http://us.spindices.com/indices/equity/sp-composite-1500> [30.09.2014].

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Erklärung

Masterarbeit gemäß § 14 Abs. 3 und 4 bis 9 der Allgemeinen Prüfungsordnung (APO) der Hochschule für angewandte Wissenschaften - Fachhochschule München vom 29.01.2008 sowie § 9 der Studien- und Prüfungsordnung für den Masterstudiengang Tourismus-Management an der Hochschule für angewandte Wissenschaften - Fachhochschule München vom 26.08.2008 in derzeit gültiger Fassung.

Ich versichere, dass ich die vorliegende Masterarbeit selbständig angefertigt, nicht anderweitig für Prüfungszwecke vorgelegt, alle benutzten Quellen und Hilfsmittel angegeben, sowie wörtliche und sinngemäße Zitate gekennzeichnet habe.

München, 16.12.2014

Ashraf Abueed