External and internal impacts on a hotel

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Price is the sum of the values consumers exchange for the benefits of having or using the product or service and is the only marketing element that produce revenue. Therefore managers must have an understanding of price in order to formulate their pricing strategies. Pricing strategy integrates marketing and finance in an attempt to create mutual satisfaction to both buyer and seller. The product or service attributes must be combined with price to provide enough value to satisfy customers while enabling the firm to cover costs and make an adequate profit. There are several factors that the hotel must consider when setting the prices. These factors are categorized in two groups: internal and external factors.

Internal factors:

Marketing objectives: the hotel must select a product strategy before establishing the price. The strategic decisions on market positioning have a major influence on price that's why the hotel should be clear about its objectives in order to set the prices easier. These objectives are:

- Survival is used when the economy slumps or a recession is going on. The hotel in this case can cut the rates to create the best cash flow.
- Current profit maximization: many companies want to set a price that will produce the maximum current profit, cash flow and seeking for financial outcomes rather than long-run performance.
- Market-share leadership: when companies believe that a company with the largest market share will eventually enjoy low costs and high long-run profit, they set low opening rates and strive to be the market-share leader.

- Product-quality leadership: hotels like Grecotel chain charge a high price for their high-cost products to capture the luxury market.

Other objectives are: stabilize market, create excitement for new product and draw more attention.

Marketing mix strategy refers to the coordination of price with product design, distribution and promotion decisions in order to form an effective marketing program. A hotel should consider all marketing mix decisions together when developing a marketing program.

Costs: all companies set their prices in order to cover their costs and to make profit. The hotel needs to charge a price that covers its costs for producing, distributing and promoting the product. Costs take two forms, fixed and variable costs. Fixed costs are costs that remain the same no matter of the sales level of a hotel, such as depreciation, insurance, interest, rent, salaries, and wages. Variable costs are costs that change with the level of production, such as raw material, distribution costs, energy usage and labor.

Organizational considerations: management should decide who within the hotel should set the prices. Usually in small hotels the top management is the one who will take the decisions about the prices. On the other hand, large hotels have a revenue management department and its responsibility is to set the prices and to coordinate with the departments that influence price.

External factors:

Nature of the market and demand: costs set the lower limits of prices and the market and demand set the upper limit. Consumers and buyers use to

balance the product's price against the benefits it provides and this is the reason why the marketers before setting the prices must understand the relationship between price and demand for a product. Marketers before setting the prices should consider also the following elements that are related with market and the demand:

The hotel can use cross-selling, which is the encouragement of a customer who buys a product to buy a related or complementary product. Up-selling is another technique that the hotel can use and in order to do that the hotel must train the sales and reservation employees to offer continuously a higher-priced product that will better meet the customer needs, rather than setting for the lowest price.

Consumer perception of price and value: it is the consumer who decides whether a product's price is right. When setting prices, the hotel must consider how customers perceive price and the ways that these perceptions affect customers buying decisions, that means that the price must be buyer oriented. The price decision requires a creative awareness of the target market and recognition of the differences between the buyers.

Analyzing the price-demand relationship: the higher the price for a product or service is, the lower the demand for this product.

Price elasticity of demand: the hotel must understand how responsive demand will be to a change in price. If demand hardly varies with a small change in price, the demand is inelastic, if demand changes greatly, the demand is elastic. Buyers are also less price-sensitive when the product is unique or when it is high in quality. Consumers are also less price-sensitive

when substitute products are hard to find. In case that the demand is elastic the sellers tend to lower the prices in order to produce more revenue. There are several factors that affect price sensitivity:

- Unique value effect: creating the perception that your offering is different from those of your competitors avoids price competition.
- Substitute awareness effect: lack of the awareness of the existence of alternatives reduces price sensitivity.
- Business expenditure effect: when someone else pays the bill, the customer is less price-sensitive.
- End-benefit effect: when the price of the product accounts for a large share of the total cost of the end benefit, the consumers are more price-sensitive.
- Total expenditure effect: the more you pay for a product, the more sensitive you are for the product’s price.
- Sunk cost effect: purchasers who have an investment in products that they are currently using are less likely to change for price reasons.
- Price quality effect: consumers usually equate the price with the quality of a product, especially in case that the buy the product for first time.
- Competition: the hotel should consider the prices and offers that the competitors have before deciding its own pricing. The hotel should make a research and collect information for the existing hotels and other hospitality establishments in the area, as concern their prices and the products that they offer.

Otherenvironmental factors: economic factors such as inflation, boom or recession and interest rates affect pricing decisions. Meeting new government regulations can cause costs to increase or governments can streamline processes, reducing costs.

Companies set prices by selecting a general pricing approach that includes the following:

- Cost Based Prices
- Competition Based Pricing
- Prestige Pricing
- Market-Skimming Pricing
- Market Penetration Pricing
- Product Bundle Pricing
- Volume Discounts
- Discounts Based on Time of Purchase
- Discriminatory Pricing

Explain briefly the different strategies with examples from the hospitality industry.

Cost based pricing is a method in which a fixed sum or a percentage of the total cost is added to the cost of the product to arrive at its selling price. For example, in hotels the F & B manager use this method in order to decide the selling price for wines. They usually multiply the cost of the wine by 3 to make its selling price. A wine that is cost 20€*3= 60€ â†’ is the price that the hotel is going to sell the wine.

Competition based pricing is a price set by a company for a product to compete other companies pricing, with less attention paid to own costs or the customer demand. The hotel may charge the same, more or less than its competitors. An example here is same category hotels which offer similar products and services, compete each other by offering better prices in order to attract more guests.

Prestige pricing is a pricing strategy in which prices are set at a high level, recognizing that lower prices will slow down the sales but on the other hand consumers will associate a high price for the product with higher quality. High quality hotels and restaurants use this method of pricing in order to support their position as luxurious and elegant and these establishments usually targeted in a higher level market which interested in superior services. In case that the establishment lowers its prices, there is a great possibility to lose its customers.

Market skimming pricing is a pricing approach which is setting a high price when the market is price-sensitive to attract buyers with a strong desire for the product and the resources to buy it. This pricing method is used more in industries with high research and development costs such as computer firms. An example in hospitality industry is the hotels in Araxova during the winter season. In that period, hotels are setting higher prices because the demand for snow activities is higher, knowing that the strong desire for these activities will lead the consumers to pay.

Market penetration pricing is a method which is setting lower initial price to penetrate the market quickly and deeply, attracting many buyers and

winning a large market share. For example a new hotel can open with lower prices than its competitors in order to attract more guests.

Product bundle pricing is a strategy in which various products sold to a customer together and are offered in a price less than the sum of the prices of the products sold individually. An example here is when a hotel sells weekend packages in special prices which include room and meals.

Volume discounts is a method used most from the hotels in which hotels have special rates to attract customers who are likely to purchase a large quantity of hotel rooms, either for a single period or throughout a year. For example, hotels usually offer special prices to corporate meeting planners. In such cases hotels can give the rooms with lower rates or make a deal with the meeting planner in every 20 rooms booked one is free.

A discount based on the time of purchase is a price reduction to buyers who purchase goods when the demand is lower. For example a hotel offers seasonal discounts in periods where the demand is lower in order to keep demand steady during the year.

Discriminatory pricing often involves discrimination on the bases of race, religion, age or gender. Segmentation of the market and pricing differences based on price elasticity characteristics of the segments. In discriminatory pricing the company sells a product at two or more prices, although the difference in price is not based in cost. It maximizes the amount that each customer pays. For example a hotel can sell the same room in different prices depend on several facts: if a guest is a repeater usually the hotel offer a lower price for the room, if a guest book a room for first time may the hotel

charge the room in a higher price, if a guest book two or more rooms the hotel usually gives better prices for the room. In the hospitality industry we have numerous examples of price discrimination.