

Hotel Pricing Strategies

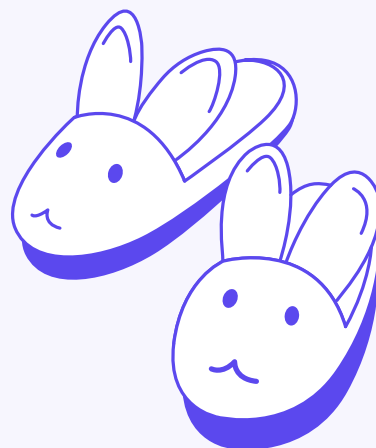


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A guide
for
Independent
Hotels

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1

Finding the Sweet Spot in Hotel Room Pricing

1. Finding the Sweet Spot in Hotel Room Pricing

There’s a saying: “You know you’re priced right when your customers complain – but buy anyway.” While giving guests reasons to complain is not an ideal way to run a hospitality business, there is some truth to this sentiment.

Hoteliers generally tend to price rooms lower than they need to, fearing they will lose potential bookings or receive bad reviews.

Research shows that when shoppers perceive a price as unfair, it activates the part of the brain that registers pain, which can reduce the likelihood of purchase and lead to complaints and bad reviews. On the other hand, when shoppers perceive a price as fair, it activates the part of the brain linked with pleasure.¹

So, you want your pricing to be perceived as fair, but travelers aren’t as rate sensitive as you might think. Over the past two years, even though hotel room rates have increased substantially, guest ratings have actually improved.²

Travelers understand that hotel rates can fluctuate, and they expect to pay higher prices during busier times. For hotels, the goal is to find the optimal balance between average rate and occupancy that maximizes revenue – while also keeping guests happy.

That’s the sweet spot in hotel pricing strategy.



¹ [Psychology Today](#) - The Price of Products Guides Consumer Expectations. May 2023.

² [Shiji ReviewPro](#) - Guest Experience Benchmark Q2 2023.

2

Setting Revenue Objectives

2. Setting Revenue Objectives

Whether you operate a boutique hotel, inn, hostel, vacation rentals, serviced apartments, or another type of independent lodging business, smart pricing starts with setting clear objectives. What do you wish to achieve through your pricing strategies?



Here we discuss four primary revenue objectives, along with the key performance metrics (KPIs) used to track and measure success.

1. Increase Occupancy

Building occupancy is important because bookings bring in revenue and help cover costs. It's also important because hotel room inventory is perishable. Each night a room sits empty, the opportunity to sell it that night is lost.

Sometimes increasing occupancy is a top priority. For example, a new hotel might offer special introductory rates to entice travelers to try the property for the first time. This will generate awareness and online reviews, helping to put the hotel on the map.

OCCUPANCY FORMULA

A hotel's occupancy percentage on a given date or over a period such as a month or year is calculated by dividing the number of occupied rooms by the number of available rooms and then multiplying by 100.

Occupancy % = Number of Occupied Rooms/Number of Available Rooms X 100

2. Increase Average Rate

Hotels often place too much emphasis on filling rooms and not enough on building average rate. As a result, they charge lower rates than they need to and capture less revenue. On the other hand, if hotels set prices too high, they risk losing potential bookings to competitors.

Industry experts agree that when a hotel realises revenue growth through rate, 95% flows to the bottom line, and if the growth comes through occupancy, approximately 50% flows to the bottom line.¹

It's a delicate balance. When demand for rooms is high, a hotel has more pricing power. When demand is low, it may need to lower rates to meet occupancy objectives.

ADR FORMULA

A hotel's average daily rate (ADR) on a given date or set of dates is calculated by dividing total room revenue by the number of rooms sold.

Average Daily Rate = Room Revenue/ Number of Rooms Sold

¹ **Source:** Evolving Dynamics: From Revenue Management to Revenue Strategy by D. Skodol and T. Wiersma

2. Setting Revenue Objectives

3. Increase Revenue

A key objective of revenue management is to find the balance between occupancy and rate that generates the most revenue. But it's not just about room revenue. If a property has a restaurant, bar, function space, spa, or other revenue outlets, maximizing total revenue might be more important.

For example, a hotel with function space may offer discounted room rates to attract meetings and events that will spend more money on property than independent travelers.

REVPAR & TREVPAR FORMULAS

A primary measure of revenue performance is revenue per available room (RevPAR). It is calculated for a given date or set of dates by dividing room revenue by the number of available rooms. TRevPAR is a measure of total revenue per available room.

RevPAR = Room Revenue/Number of Available Rooms

TRevPAR = Total Revenue/Number of Available Rooms



4. Increase Profitability

The ultimate objective of any property is to maximize profitability. To do so, hoteliers must find ways to bring in maximum revenue while also controlling costs.

Part of that means recognizing that some types of business bring in more revenue than others, some have higher costs of acquisition and servicing, and room revenue is generally more profitable than other types of revenue (though not always).

For example, if two guests pay the same price for the same room type, but one guest books on Expedia and the other books on the hotel's website, the latter guest will generally be more profitable because the hotel doesn't pay a commission on the room rate.

PROFIT MARGIN FORMULA

A hotel's profit margin is calculated for a given date or set of dates by taking total revenue and deducting operating costs, dividing the amount by total revenue, and then multiplying by 100.

Profit Margin = (Total Revenue – Operating Costs)/Total Revenue x 100

Annual Planning: Combining the Four Objectives

When preparing the annual budget, hoteliers use the above KPIs to set objectives for the coming year, breaking them down by month and day. Then they plan the strategies required to achieve the objectives, adjusting them as needed throughout the year.

3

Factors to Consider When Pricing Rooms

3. Factors to Consider When Pricing Rooms

When deciding how to price rooms, hoteliers must consider the many factors that influence demand for rooms and how much travelers are willing to pay. Here we summarize the key factors.

Your Property

When pricing rooms, it's vital to take a realistic look at your property and its positioning. What are its strengths and weaknesses relative to similar properties in the area? The type of hotel you operate, the class or segment, star rating, location, and quality of service, rooms, and facilities – all of these characteristics play a role in determining who wants to stay at your hotel and how much they will pay for rooms.



Time of Year

Most destinations are seasonal. During high season, demand is typically strong, and hotels can charge more for rooms. During low season, demand tends to be softer, and hotels generally offer lower rates to attract business. During the shoulder seasons in between, demand tends to fluctuate up and down. Throughout the year, demand may also be affected by holidays and special events.

Day of Week

Demand can fluctuate by the day of week too. For example, leisure hotels tend to be busiest on Fridays and Saturdays, when they can charge higher rates, but quieter during the week. For business hotels, it's often the opposite scenario.

Internal Demand

Internal demand is the number of guests who want to stay at a hotel on a given date. It can be measured in three key ways:

- **Rooms on the books (OTB).** How many rooms are sold vs. how many are still available to sell.
- **Booking pace.** The rate at which bookings are coming in, less cancellations and date changes.
- **Pickup.** The number of new bookings over a recent period such as the past week, less cancellations and date changes.

Hotels often compare internal demand with previous dates like the same time last year. If demand is stronger, it may be an indication that the hotel can increase rates. If demand is softer, the hotel may need to lower rates to reach occupancy objectives.

Market Demand

Market demand is the number of guests who want to stay at hotels collectively in a region on a given date. As with internal demand, it can fluctuate by season and day of week and during holidays and special events.

3. Factors to Consider When Pricing Rooms

Market demand is also affected by economic conditions, travel trends, availability of flights and other transportation into the region, and the supply of available rooms. If room supply is low and demand is high, hotel pricing power increases. If supply is high and demand is low, hotel pricing power decreases.

Price Sensitivity

Hotel rates are also affected by the price sensitivity of travelers. Price sensitivity, or elasticity, may vary depending on a variety of factors, including the nature of travel, time of year, and how much travelers desire to stay at a particular hotel.

If price sensitivity is high, a change in pricing will have a significant impact on demand. If price sensitivity is low, a change in pricing will have a low impact on demand. To understand price sensitivity, watch how changes to your prices affect internal demand.

Competitor Rates

The rates a hotel's competitors advertise provide another strong indication of the prices travelers are willing to pay. Travelers often compare rates among accommodation types when shopping for rooms. If a hotel's rates are much higher than comparable hotels in the area, it will lose booking opportunities. If the hotel's rates are much lower, it will fill rooms with low-rated bookings while other hotels will receive higher-rated bookings.

Online Reputation

Travelers also consult guest reviews and ratings on platforms like Google, Tripadvisor, and OTAs when deciding where to stay. Tripadvisor research has found that 79 percent of the site's users are more likely to book a hotel with a higher bubble rating when choosing between comparable properties.¹ Moreover, travelers are 72 percent more likely to pay more for a hotel with higher guest ratings, according to Expedia.²



¹ **Tripadvisor** - Online Reviews Remain a Trusted Source of Information When Booking Trips. 2019.

² **Expedia Group** - Tools: Post-stay Reviews. 2019.

4

Pricing Strategies & Tips

4. Pricing Strategies & Tips

Different travelers will pay different prices for the same room under different circumstances. Rather than offer the same price to everyone, hotels should strive to charge the right price to the right guest at the right time. Here we share key pricing strategies.

Dynamic Pricing

A big challenge with hotel pricing is the factors that affect demand can change frequently, up to several times a day. In the past, hotel pricing was relatively static. Room rates were established annually and rarely changed throughout the year. Today, most hotels practice some form of dynamic pricing, adjusting pricing frequently in response to changes in internal demand, market demand, and competitor pricing.

Competitive Pricing

Many hotels price rooms relative to their competitors, identifying a set amount or percentage differential they wish to remain above or below a competitor. When the competitor's rates change, the hotel adjusts its own rates to maintain the differential.

While it's important to price competitively, to blindly follow competitors is not an ideal strategy. Your competitors may not be following smart strategies, and their pricing objectives and internal demand may differ from yours. You therefore risk mispricing your rooms and missing out on booking opportunities.

Keep an eye on competitor pricing, but pursue your own strategies based on your objectives, property strengths, and internal demand. For example, if your hotel is almost sold out and your competitor lowers rates, you may decide to do the opposite.

Pricing by Room Category

Most hotels offer several room categories at different price points, providing guests with an array of choices. Some guests may want the cheapest room, others may be willing to pay more for a larger room or a better view, and the occasional guest will want the best room in the house.

PRICING TIPS TO CONSIDER

- If your inventory allows, create several room categories – but not too many, or you may confuse guests and create operational challenges.
- In addition to charging premiums for extra space and better views, charge for other popular features like a preferred bed configuration, fireplace, sitting area, balcony, large workspace, or kitchen.
- When demand is low or price sensitivity is high, oversell entry-level rooms to capture more bookings and then upgrade guests to balance out the inventory.
- When demand is high or price sensitivity is low, close out entry-level rooms once they are sold out to boost sales of premium rooms.
- If your entry-level room often sells out but premium rooms sit empty or are upgraded, try reducing pricing differentials between categories.
- When inventory allows, offer guests the opportunity to upgrade their room at a special reduced rate prior to arrival or upon check-in.
- When pricing rooms relative to competitors, be sure to compare similar categories.

4. Pricing Strategies & Tips

Pricing by Booking Pattern

Pricing and stay restrictions can be an effective way to encourage desirable booking patterns and discourage undesirable booking patterns.

Bookings patterns include:

- Stay patterns – The days of week guests arrive, stay, and depart.
- Booking windows or lead time – How far in advance guests book.
- Length of stay (LOS) – How many nights guests stay.
- Changes – How often guests change dates or cancel rooms.

PRICING TIPS TO CONSIDER

- Offer discounts for non-refundable rates year-round to bring in guaranteed revenue and cut down on cancellations.
- Offer early-bird discounts to encourage advanced bookings on low-demand dates.
- Offer last-minute discounts to fill empty rooms – but not too often because guests may learn to wait until the last minute to book.
- Target long-stay guests with promotions such as “Stay four nights, pay for three.” Offer deeper discounts for extended stays such as seven days or 30 days.
- On busy nights, implement a minimum length of stay or closed to arrival restriction to boost occupancy on shoulder nights.
- Monitor changes in booking behavior, adjusting pricing and stay controls as needed to capture more revenue.

Discounts and Promotions

Promotions can be a great way to boost bookings during times of low demand.

However, if your property is always on sale, guests will grow to expect low rates, and it will be harder to charge higher rates when things pick up. It can also lead to price wars with competitors. It's therefore best to offer discounts only when you need to.

PRICING TIPS TO CONSIDER

- According to Expedia, the most appealing deals for travelers are complimentary add-ons and discounts for booking in advance, last-minute, a package, or a longer stay.¹
- Rather than give set discounts, offer a percentage off the base rate so that rates can flex up or down depending how busy you are.
- Don't feel the need to discount all room categories; only discount the room types that need a boost.
- Offer value-adds instead of discounts to protect average rate. According to a survey from STR, traveler booking decisions are most influenced by free Wi-fi and free breakfast.²
- Bundle services to encourage guests to spend more on property, such as a bed & breakfast package, dinner package, romance package, or spa package.
- Recognize loyalty and entice guests to stay more frequently with special discounts or perks such as a free upgrade, welcome amenity, early check-in, or late checkout.
- Display special offers as slashed-through pricing to show travelers how much they are saving.

¹ Expedia Group - Traveler Value Index 2023. November 2022

² STR - Value of travel increasing in importance, while spending remains resilient. September 2022.

4. Pricing Strategies & Tips

- Be transparent. Don't surprise guests with hidden fees.
- Keep in mind that lowering rates isn't a fail-safe way to stimulate demand. If price sensitivity is low, you may be better off holding rates.
- Monitor pickup carefully and close promotions as soon as they are no longer needed.

Pricing by Market Segment

To be more targeted in pricing, hotels divide guests into market segments based on shared characteristics. The main market segments are leisure, business, and group. Larger hotels may divide these segments further.

PRICING TIPS TO CONSIDER

- Determine which segments are the most valuable to your property, and at which time of year, and prioritize efforts on attracting them.
- Target leisure travelers through promotions on online travel agencies (OTAs) and direct channels.
- Offer special rates to attract subsegments of travelers such as seniors, local residents, and members of clubs and associations.
- Target business travelers by approaching local companies with offers of special rates and perks in return for a minimal annual room night commitment.
- Rather than offer set corporate rates, offer dynamic rates that can flex up and down depending on how busy you are.
- Research companies, travel agencies, and planners that book meetings and events in your region and contact them to offer group rates.
- Partner with your local destination marketing organization (DMO) and visitors bureau to participate in promotions and bids for citywide conferences and events.

- Target blended or “bleisure” travelers who combine business and leisure on the same trip and often stay longer.

Pricing by Distribution Channel

Another pricing strategy is to offer different rates and booking conditions on different distribution channels. For smaller hotels, the main booking channels are:

- Direct (hotel website, phone, email, walk-ins)
- OTAs
- Wholesalers
- GDS (Global Distribution System)

PRICING TIPS TO CONSIDER

- Strive for a balance of bookings across distribution channels, prioritizing the channels that are the most valuable and profitable to your property.
- If contractually required, strive to maintain rate parity with OTAs, while ensuring that they never undercut your direct rates.
- If rate parity is not required (regulations may vary by region), offer the best deals on your direct channels and advertise a “best rate guarantee” on your website.
- Participate in OTA promotions to boost bookings on low-demand dates. But don't overdo it – commissions can erode your average rate and drive up distribution costs.
- Contact wholesalers and bed banks that book rooms in your region to offer net rates.
- If you're not already listed on the GDS, consider doing so to gain access to travel agents and corporate travel managers around the world.
- When demand is high, close out OTAs, wholesalers, and other low-rate, high-cost distribution channels.

5

How Do You Know If You're Priced Right?

5. How Do You Know If You're Priced Right?

With so many factors and strategies to consider, it's not always easy to know if you're making the right pricing decisions. To understand if your rates are too high, too low, or just right, look for these signs.

Priced Too Low

- Your booking pace is above normal.
- You're selling out more quickly than competitors.
- Guests are raving about what a good deal your hotel is.
- Recent review ratings are higher than normal.

Priced Too High

- Your booking pace is below normal.
- Your competitors are selling out before you.
- Guests are complaining about prices or value.
- Recent review ratings are lower than normal.

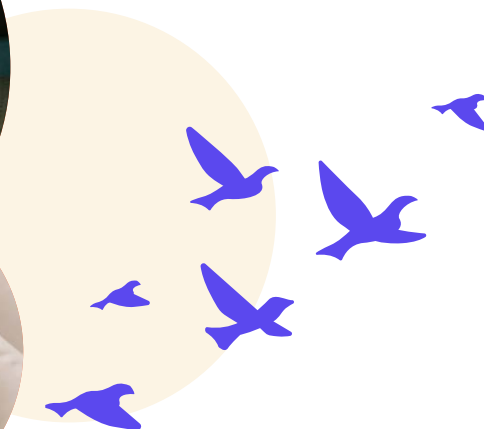
Boosting Value Perception

Pay attention to the signals, but try not to overreact. If guests occasionally complain about pricing but your booking pace remains strong, it's not enough reason to change your entire pricing strategy. Look for ongoing patterns.

And remember, do not only look at price as an isolated number but as a value proposition, focusing on what makes you unique to your target audience to reduce exposure to price-sensitivity buyers.

There are ways to boost value perception for your guests without lowering rates.

- Provide consistently high standards of service and quality commensurate with pricing.
- Set realistic expectations of the guest experience and strive to exceed them.
- Provide value-added amenities and services such as an upgrade, welcome gift, or free breakfast, Wi-Fi, or parking.



6

Automated Pricing: Taking the Guesswork Out of Rate Decisions

6. Automated Pricing: Taking the Guesswork Out of Rate Decisions

With so many moving parts, managing pricing effectively is virtually impossible to do alone. Fortunately, there's a solution designed especially for independent hoteliers with limited time.

Automated pricing software takes the guesswork and emotion out of pricing decisions, freeing up busy hoteliers to focus on other tasks. Here are just a few of the benefits.

Easy to use. Unlike revenue management systems, the software is quick to learn and simple to operate, requiring only a few hours of time each week.

Optimized pricing. The solution collects market demand data, competitor rates, and internal demand data, factoring it into its powerful algorithms to produce the optimal rate for every guest.

Automated pricing decisions. Pricing is customized by room category, lead time, and length of stay, capturing maximum value from every booking.

24/7 dynamic pricing. Pricing is automatically updated in the PMS several times a day, every day including weekends, for up to 18 months in advance.

Flexibility. Choose between full automation and recommendation mode, which allows the user to review rates and make adjustments before uploading them to the PMS.

Control. The hotel retains full control over pricing objectives and strategies, minimum and maximum rates, fixed pricing, and the preferred level of aggressiveness.

More revenue. With automated pricing, hotels have the data and tools they need to exceed revenue objectives, earning 22 percent more revenue on average year over year.¹



¹ RoomPriceGenie - Case Study – Exactly How Much Extra Revenue Does a Revenue Management System Make? May 2022.

7

Realize Your Revenue Potential

7. Realize Your Revenue Potential

A hotel is a big investment. With smart pricing strategies, operators can have more confidence they aren't underpricing rooms and leaving money on the table or overpricing rooms and losing bookings. They are optimizing performance every day.

Today, automation is transforming hotel operations. Hotels have a PMS to automate check-in, accounting software to automate bookkeeping, and a channel manager to automate distribution. Yet many hoteliers still manage pricing manually, leaving the property vulnerable to wasted time, pricing errors, and missed opportunities.

Why struggle to manage pricing when software can do it better and faster? Let a pricing solution handle the day-to-day tasks so you can focus on what you do best: taking care of guests, supporting your team, and running a successful property.



8

Now Is the Time to Embrace Automated Pricing

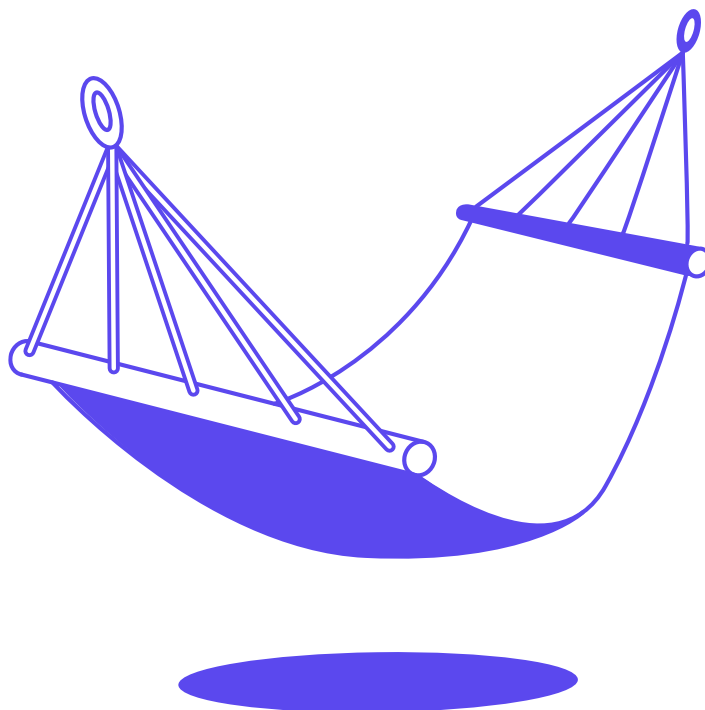
8. Now Is the Time to Embrace Automated Pricing

Automation is changing the accommodation business. It's helping hoteliers make smarter decisions and freeing them up to take better care of guests and support their team. This is especially crucial for small properties with limited resources.

Today, hotels that use automated pricing software are at a distinct advantage over hotels that don't. They have more time, less stress, and more revenue. However, adoption of these tools is happening so fast it won't be long before they become mainstream, and properties without pricing software will be at a serious disadvantage.

Now is the time to put automated pricing into place.

Not only will you make more revenue while you sleep, you will sleep more peacefully.





RoomPriceGenie is the easiest way to ensure that your rooms are priced right, every night. Purpose-built for the independent hotelier, RoomPriceGenie is fast to implement, intuitive to use and simple to understand.

In an uncertain world, it's revenue that you can count on.
To find out more about automated pricing, start your free trial today



**GET
STARTED**

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