

The background of the slide features a hand in a dark suit pointing upwards with a pen, overlaid on a light blue background with faint white grid lines and various data visualization elements like dashed lines, solid lines, and dots. The Revmax logo is positioned in the upper left corner.

REVMAX

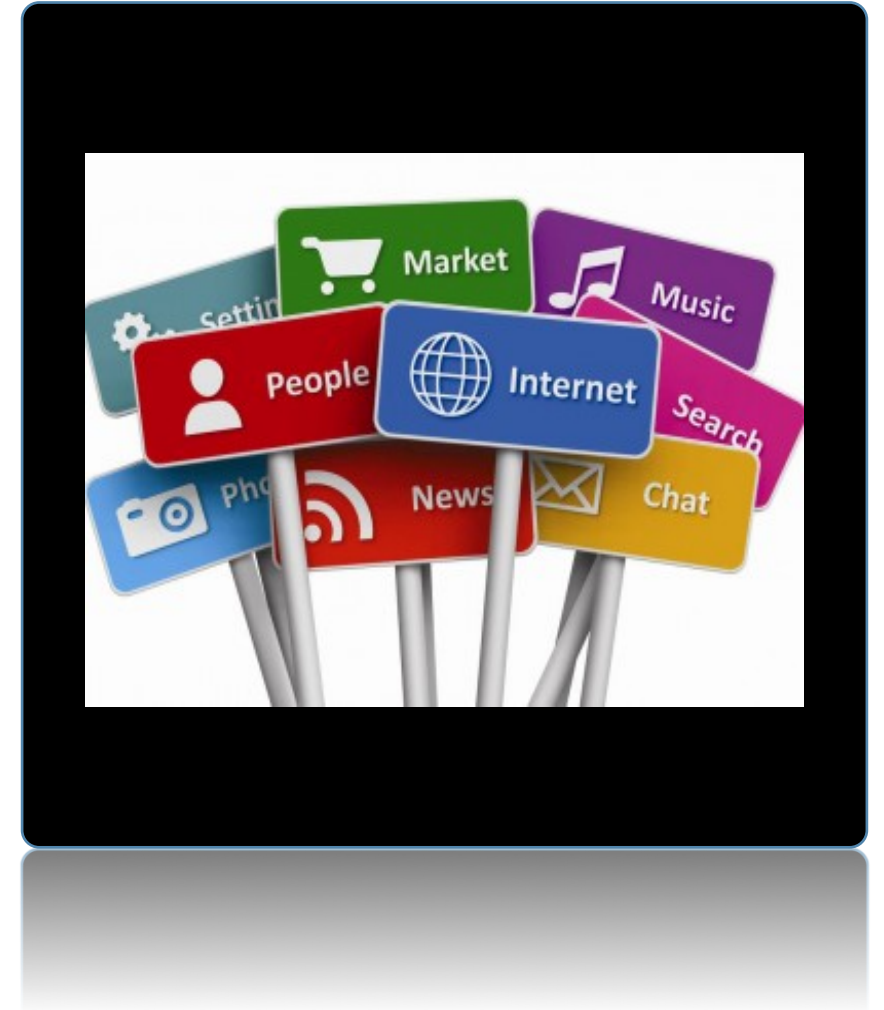
LEARNING FINTECH INSIGHTS

Demystifying Pricing

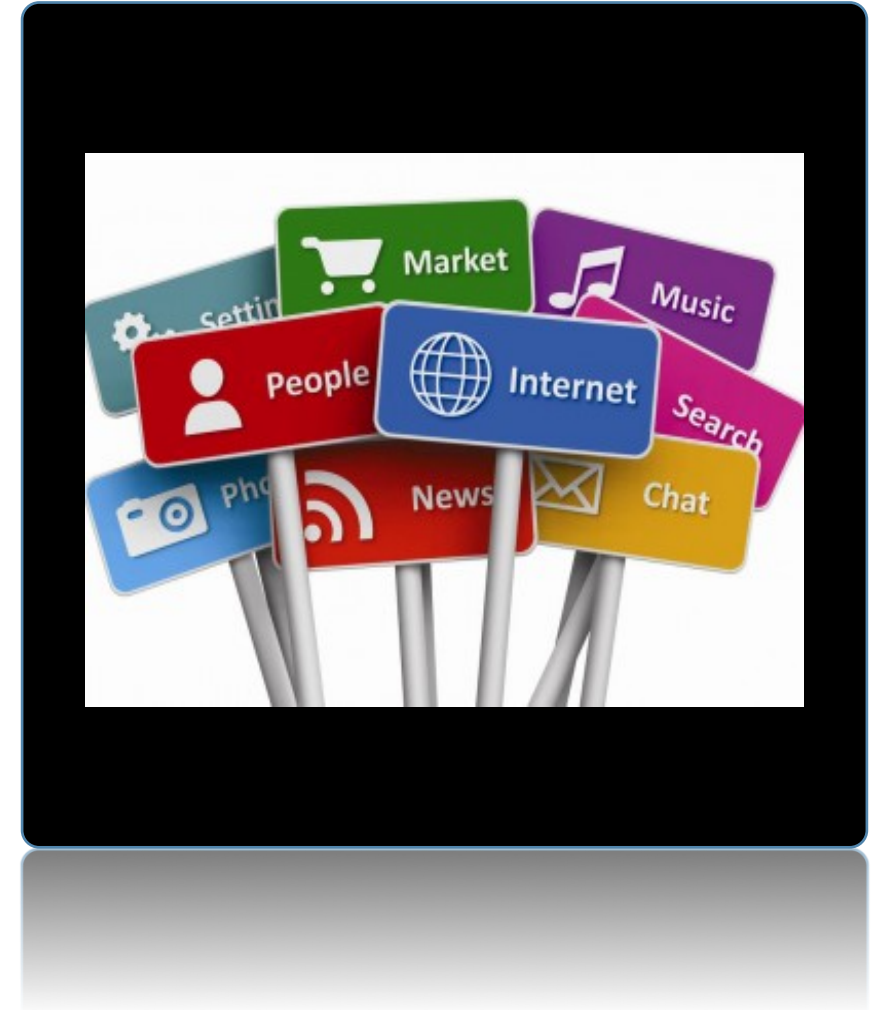
HSMAI ROCET – June 3rd 2016

- Consumer Trends
- What is Pricing?
- History of hotel pricing
- Overview of pricing
 - Dynamic vs Static
 - Qualified vs Unqualified
 - Fenced vs unfenced

- Value seekers
- Questionable Loyalty
- Highly involved and connected
- Multiple distribution channels
- Online & Offline engagement

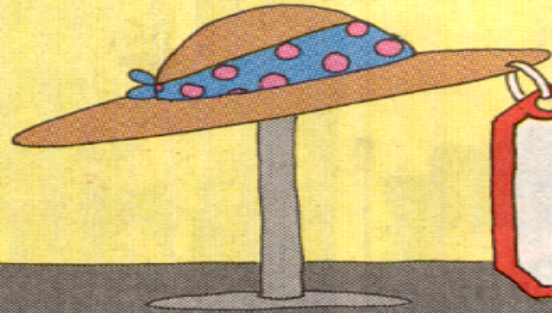


- Lookers vs Bookers
- Information Gap
- Wide range of offers
- Expectation of uniformity
- Expectation of consistency
- Time / convenience consciousness



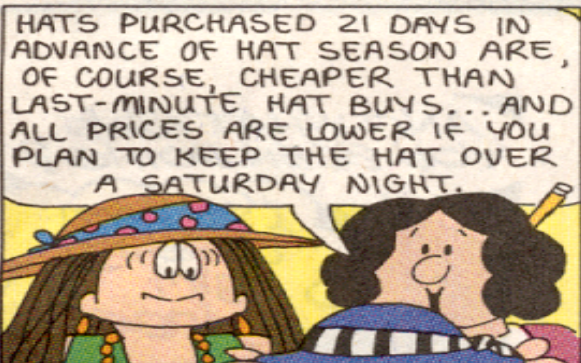
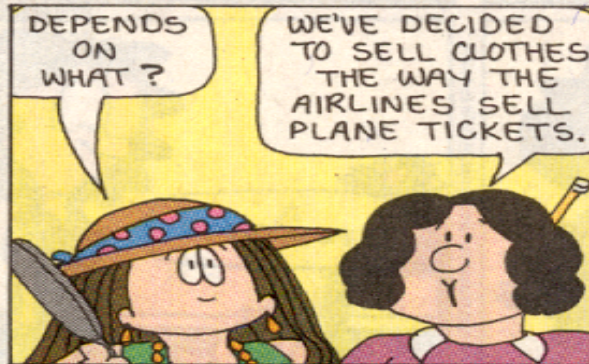
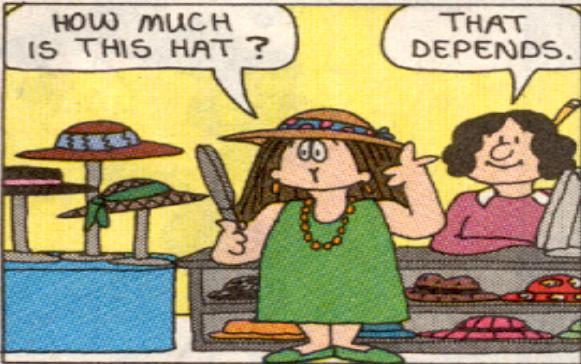
Pricing

Cathy
by
Cathy Guisewite

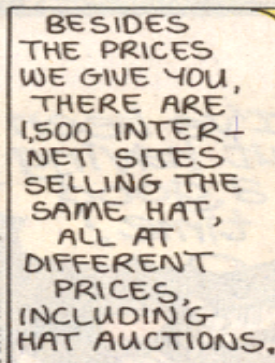


- FIRST CLASS - \$240
- BUSINESS CLASS - \$140
- FULL COACH - \$90
- SAVER - \$80

- SUPER SAVER - \$75
- SUPERDUPER SAVER - \$70
- RED EYE - \$60
- ROCK BOTTOM - \$48



© 2000 CATHY GUISEWITE distributed by Universal Press Syndicate



- Best Available Rate – General Public Pricing
 - Price elasticity of demand
 - Seasonal pricing
 - Determining Price Points
 - Pricing Process



What is Pricing?

- Price is determined by what
 - a buyer is willing to pay
 - a seller is willing to accept
 - the competition is allowing to be charged.
- Pricing or value based pricing is defined by offering your product at a **fair** and **reasonable** price that makes sense to the purchasing customer and the price of the product/ service is set according to **value perceived** by the customer.

What is Pricing?

- Value is subjective.
- Value is a benefit but a benefit is not necessarily of value to all customers.
- Benefits have different values for customers and they do not assign value to the same benefits.

HISTORY OF HOTEL PRICING

THEN

- ❑ Static/Fixed Pricing
- ❑ Opaque Pricing – the rate conditions are not properly stated and the guest is not always sure if they are getting the Best Available Rate.
- ❑ Irrational pricing – prices across segments are not related. For example a room and breakfast promotion may be less than a room only rate.
- ❑ Different Channels had different prices for the same booking condition
- ❑ Top down selling of rates – bargain with the guest

NOW

- Dynamic Pricing
- Transparent Pricing – the Best Available Rate is offered across all channels for the same conditions.
- Rational Pricing – prices across segments are related rationally based on duration, conditions, production and customer profile.
- Single Image Inventory – all channels have the same price for the same booking condition
- Price Integrity - Best Rate Guarantee.

AN OVERVIEW OF PRICING

An Overview of Pricing

- Dynamic vs Static Pricing
- Qualified vs Unqualified Rates
- Fenced vs Unfenced Rates

Dynamic vs Static Pricing

Dynamic Pricing

Demand driven or demand based pricing

Changes in demand result in changes in price

Prices differ based on demand -for example for different length of stays for a particular arrival date.

Static Pricing

Prices remain constant despite changes in demand

Prices stay fixed throughout

Qualified vs Unqualified Rates

Qualified Rates

Rates are offered to a set of individuals based on the qualifications they meet.

The guest's profile must satisfy certain conditions to qualify for the rate. Eg Contracted rates such as corporate rates.

Unqualified Rates

Rates offered to the general public.

The guest's profile need not meet any conditions to qualify for this rate. Eg BAR rates.

Fenced vs Unfenced Rates

Fenced Rates

Rates are offered to the general public as long as certain booking conditions are met.

Examples of booking conditions

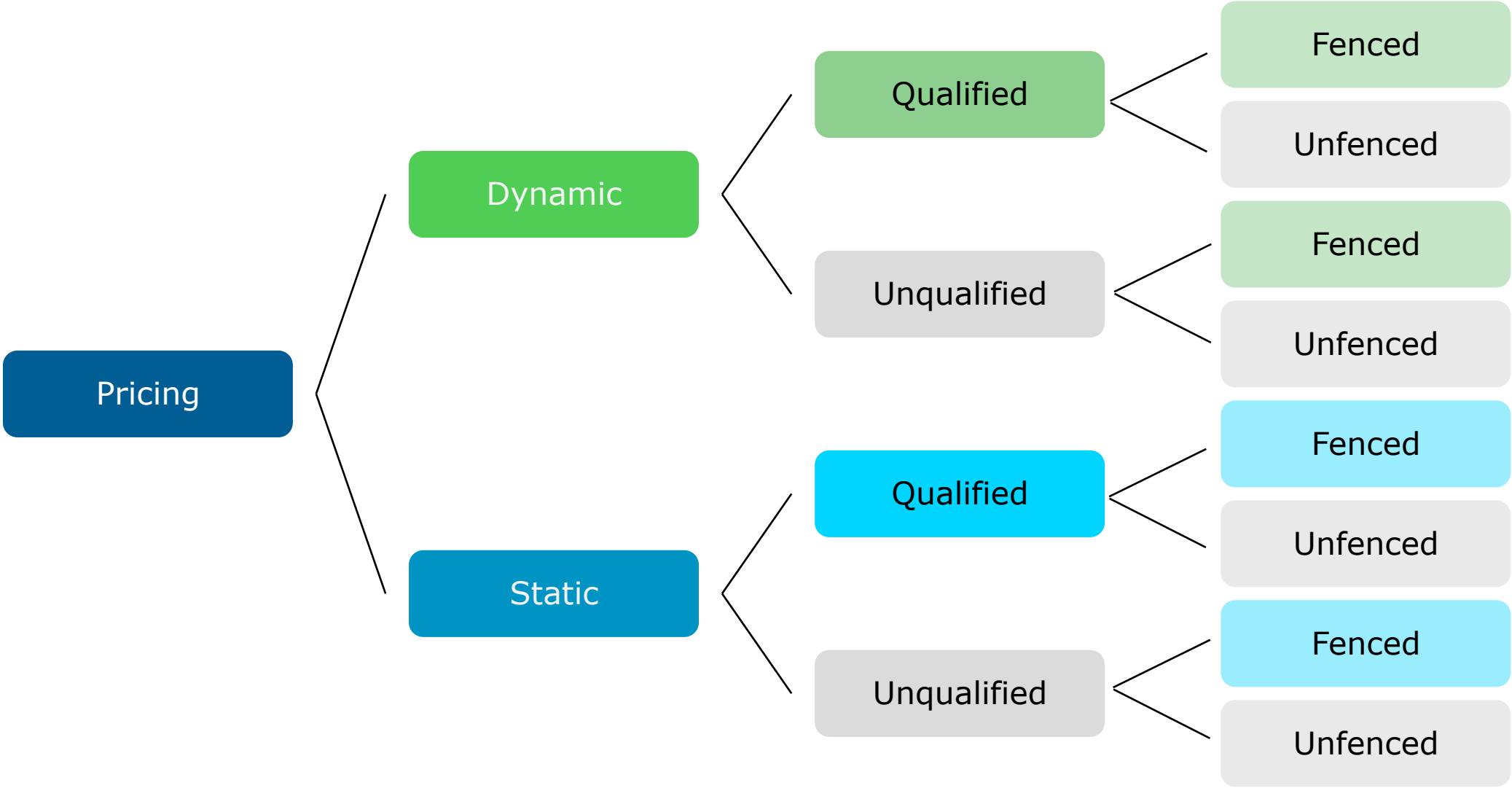
- Minimum stay
- Sat night stay
- Non-refundable
- Advance booking
- Fully prepaid

Unfenced Rates

Rates offered to the general public without any booking conditions.

For example, BAR Rates.

An Overview of Pricing



Example of Pricing

Best Available Rate (BAR)

- Dynamic
- Unqualified
- Unfenced

Fixed Corporate Rate

- Static
- Qualified
- Unfenced

Advance Purchase Rate (x% off BAR)

- Dynamic
- Unqualified
- Fenced

Corporate Rate at 15% off BAR

- Dynamic
- Qualified
- Unfenced

BAR or GENERAL PUBLIC PRICING

PRICE ELASTICITY OF DEMAND

- Price Elasticity of Demand measures the relationship between changes in quantity demanded of a good to changes in its price.

Mathematically,

$$\text{Elasticity of Demand} = \frac{\text{\% Change in Quantity Demanded}}{\text{\% Change in Price}}$$

Understanding Price Elasticity of Demand

Price Elasticity of Demand

Elasticity of Demand	Meaning	Change in Price vs Change in Qty	Price Increase Effect on Revenue
0	Perfectly Inelastic	$\Delta P, \Delta Q$ stays same	Revenue Rises
$0 < E_d < 1$	Relatively Inelastic	$\Delta P > \Delta Q$	Revenue Rises
$E_d = 1$	Unitary Elastic	$\Delta P = \Delta Q$	No change
$1 < E_d < \infty$	Relatively Elastic	$\Delta P < \Delta Q$	Revenue Falls
$E_d = \infty$	Perfectly Elastic	$\Delta P, \Delta Q = 0$	Revenue falls to 0

- Factors that influence the price elasticity of demand are
 - Substitutes
 - Percentage of Income
 - Necessity
 - Time
 - Breadth of Definition

Understanding Price Elasticity of Demand

Price Elasticity of Demand

The more substitutes, the higher the elasticity, as people can easily switch from one good to another if a minor price change is made.

Substitutes

The higher the percentage that the product's price is of the consumers income, the higher the elasticity, as people will be careful with purchasing the product because of its cost.

**Percentage of
Income**

The more necessary a product is, the lower the elasticity, as people will buy it no matter the price, such as insulin for diabetic patients.

Necessity

Price Elasticity of Demand

The longer a price change holds, the higher the elasticity. For example, if the price of blueberries doubles, you may buy them this time, but you might not again unless the price drops back down.

Time

The broader the definition, the lower the elasticity. For example, Company X's fried dumplings will have a relatively high elasticity, where as food in general will have an extremely low elasticity.

Breadth of Definition

Calculate P Elasticity of Demand

- In reality, it is extremely difficult to accurately calculate the price elasticity of demand for a hotel. The closest hotels come to calculating price elasticity is to calculate the price resistance.

- Even though we do not have enough data to calculate the impact of the factors affecting price elasticity, it is extremely important to use them as guidelines for understanding our guest and study their buying behaviour.

- Price sensitivity is defined as the percentage of unconstrained demand that finds us expensive.
- Price sensitivity is used to understand the guests response to our pricing.

METRIC 4 – PRICE SENSITIVITY

Price Sensitivity	Hotel Situation	Comment
High	Empty	We are Over Priced. Lowering the price will generate demand.
High	Full	Right Price.
Low	Empty	Lowering price will not generate demand. Need to work with marketing and sales to create new demand
Low	Full	We have possibly underpriced ourselves.

SEASONAL PRICING

THE NINE BAR LEVELS

Super High Season

Congress/
Citywide

Highly Price
Inelastic Guest

High Season

High Demand

Relatively Price
Inelastic Guest

Mid Season

Medium
Demand

Mixture of
Guests

Low Season

Low Demand

Highly Price
Elastic Guest

Show of Hands Question - 1

SUMMARY QUESTION 1 - METRIC 4

Denials are created when

- a. We say no
- b. The guest says no
- c. No one says no

The correct answer is **a- “we say no”**

SUMMARY QUESTION 3

Factors that influence the elasticity of demand are

- a. Substitutes
- b. Necessity
- c. Breadth of Definition
- d. Percentage of Income
- e. Time
- f. None of the above
- g. All of the above

The correct answer is **g – all of the above**

How to Determine Your Price Points

HOW TO DETERMINE BAR

- Competitive Value Assessment
- Price Positioning Analysis
- Price Resistance Analysis
- Price Production Analysis
- Pricing Tactics

COMPETITIVE VALUE ASSESSMENT

Competitive value assessment analyzes price comparisons based on guests perspective of value of product/service offerings.

This analysis should ideally done by market segment.

Competitive Value Assessment

This analysis looks at these factors from the guest's perspective

- Location
- Market Positioning
- Quality of Meeting Rooms
- Technical Facilities
- Level of Service
- Brand Program
- Price Value
- F&B Outlets, Creativity and Quality
- Sales Staff Responsiveness
- Leisure Facilities

Competitive Value Assessment

Depending on the market segment each factor is given a weight percentage such that the total weight across all factors must be 100%.

Each factor is then scored for each of our competitors

- A score of +1 to +3 is given to a competitor that is better than our hotel for that factor. With +1 being slightly better and +3 being a lot better.
- A score of 0 is given to a competitor that is the same as our hotel for that factor.
- A score of -1 to -3 is given to a competitor that is worse than our hotel for that factor. With -1 being slightly worse and -3 being a lot worse.

Competitive Value Assessment

Based on the weight and score of each factor a Overall Quality Assessment for each competitor is calculated. This is then compared to the typical price that competitor offers the market segment under review.

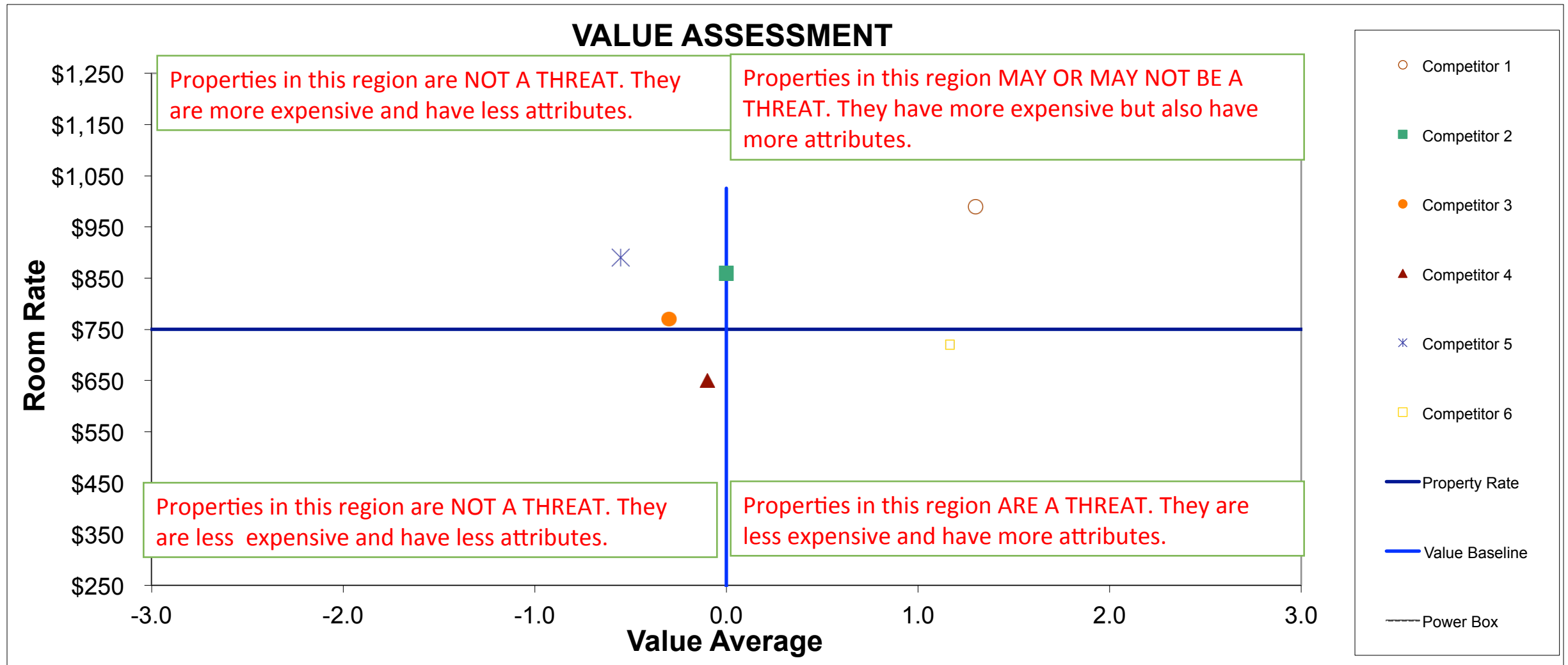
Competitors we need to worry about are ones that offer the same or better product/service at the same or lower price.

Competitive Value Assessment



Peninsula Anywhere	Meeting Room Total Sq. Footage	Number of Guest Rooms	Rate as of 30/5/2013	FACTOR WEIGHT INDICES							TOTAL	
				30%	10%	25%	10%	10%	10%	5%	100%	
				Business Location	Hotel or venue Image	Level of Service	Spa & Other Recreation Services	Wireless Internet Availability	Dining Options & Creativity	Sales Staff Responsiveness	Overall Quality Assessment	
US												
Peninsula	29,000	800	\$ 750									
COMP												
Comp 1	12,000	400	\$ 990	0	3	2	2	3	0	0		1.3
Comp 2	32,000	700	\$ 860	0	0	0	0	0	0	0		0.0
Comp 3	22,000	633	\$ 770	0	-2	1	0	-2	-1	-1		-0.3
Comp 4	20,000	650	\$ 650	0	2	-2	0	2	0	0		-0.1
Comp 5	18,000	490	\$ 890	1	0	-2	-2	0	-1	-1		-0.6
Comp 6	15,000	560	\$ 720	0	0	-1	0	0	0	0		1.2

Competitive Value Assessment



For new hotels

- Previous years competitive price for
 - congress, high, medium, low demand
- Previous years rates for target markets
- Base your rates on value assessment score

PRICE POSITIONING ANALYSIS

Price Positioning Analysis

- This is only a directional tool
- Compare year on year change in MPI, ARI, RGI with competitive set

Price Positioning Analysis

MPI	ARI	RGI	Score	Description
↑	↑	↑	OK	Fairly Priced: Your property may be fairly priced.
↓	↑	↓	OVER	Potentially Over Priced: Your property is growing ARR faster than the market.
↓	↑	↑	OVER	
↑	↓	↑	UNDER	Potentially Under Priced: Your property is growing ARR slower than the market.
↑	↓	↓	UNDER	
↓	↓	↓	DANGER	Danger: Your property is dropping in ARR, Occupancy, and overall RevPAR compared to the market.

PRICE RESISTANCE ANALYSIS

- Percentage of unconstrained demand that finds us expensive.
- Analysis must be conducted by market segment.

PRICE POINT PRODUCTION ANALYSIS

Price Point Production Analysis

BAR PRODUCTION ANALYSIS

Historical data by Price Point

- Amount sold by Price Point
- Denials by Price Point
- Regrets by Price Point

Based on the above data calculate the Price Point Price Resistance

Compare the Price Point Production with the Price Point Price Resistance

PRICING TACTICS

Price Point Strategy

- Highest Price Points
 - Highly price inelastic guest
 - Highest price in market
- Lowest Price Point
 - Highly price elastic guest
 - Most competitive price in market

Pricing Difference Strategy

- Higher Price levels further apart, lower closer
 - Difference between Highest and Next - \$200
 - Difference between Lowest and Next - \$10

Room Type Strategy

- Variable Room type premium.
- Greater at higher price levels
 - Highest Price Point – Upgraded Room is \$200 above standard room
 - Lowest Price Point – Upgraded Room is \$20 above standard room

PRICING PROCESS

Pricing Process



Evaluate Past
Performance

Assess Competitive
Rate/Value
Positioning

Establish rates for
the common room type
and validate
its Price Positioning

Evaluate Past Performance

What was last year's occupancy?

During which periods was market share lost?

During which periods did demand exceed capacity?

What kind of customer was driving this demand?

What was the percentage of BAR in comparison to total occupancy?

Assess Competitive Rate/Value Positioning

How does my product offering compare with my competition?

What is my competitive offering by segment?

Did I lose marketshare to one competitor hotel due to rate?

Establish rates for the most commonly sold room type and Validate Price Positioning

- Are your customers willing to pay these rates?
- Will your customer consider your rates as good value in comparison to the competition rates?
- Will these rates create long term guest loyalty?
- Will your property achieve it's financial goals with these rates?

- Are your rates in line with your hotels positioning?
- Are your prices from other segments rationally related to your BAR rate?
- Are these rates still rational compared to historical ADR by market segment or will they compromise your rate setting in other transient and group segments and price points?

Summary Question 1

Show of Hands Question - 1

Methods of determining your price points include

- a. Competitive Value Assessment
- b. Price Positioning Analysis
- c. Price Resistance Analysis
- d. Price Point Production Analysis
- e. Pricing Tactics

The correct answer is **All of the Above**

Summary Question 2

Show of Hands Question - 2

Which of the following are not a part of Pricing Process

- a. Evaluate Past Performance
- b. Assess Competitive Rate/Value Positioning
- c. Establish BAR rates for the most commonly sold room type and Validate Price Positioning
- d. Review fenced and qualified rates.

The correct answer is **d- Review fenced and qualified rates.**

The background of the slide features a hand in a dark suit sleeve pointing upwards with a pen. The hand is positioned over a light blue background with a grid of dashed lines and several data series represented by lines with circular markers. One prominent series is a solid white line with an arrowhead pointing towards the top right. Other series include dashed lines and dotted lines with various markers. The overall aesthetic is clean, modern, and professional, typical of a corporate presentation.

REVMAX

LEARNING FINTECH INSIGHTS

Thank you