



Article Title

Pricing strategies to maximize revenues in the lodging industry

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Abstract

Price-ending strategies may be utilized by hotels to signal value or quality. The current study presents that there is a directional relationship between room rates and price-ending strategies. It demonstrates that as average room rates decrease, the price-ending strategies change from whole dollar practice to dollar and cents practice. Results from the qualitative investigation were compared with the room rates from the Internet for 10 US cities. Based on this study, an innovative pricing strategy is presented with a potential gain of \$251 million dollars by conservative estimations (nearly \$555 million if estimated liberally) annually for the hotel industry in the USA. These potential sales are about 0.54% of revenues and 3.9% of industry-wide pre-tax profits. Further studies in consumer acceptance of the recommended pricing strategy are suggested.

Methods

Data for this study were collected in two ways: (1) qualitative interviews with selected hotel executives; (2) comparison of published room rates obtained from the Internet. Qualitative interviews were determined to be the most effective way to extract information regarding room rate strategies from industry experts due to the complexities involved in the pricing process and the exploratory nature of the study.

Results

In the qualitative interviews, eighty percent (80.0%) of the upscale, full-service hotels indicated that they utilize full dollar amounts with no pennies when establishing room rates. This indicates that the first hypothesis, which states that upscale, full-service hotels tend to prefer a pricing strategy using whole dollars without using pennies is supported. Second hypothesis, which indicates that limited-service, economy hotels tend to prefer a pricing strategy of using dollars followed by cents is partially supported in case of economy hotels but not in case of mid-priced hotels.

Conclusion

Price-ending strategies may be utilized by hotels to signal value or quality. Although this study provides a clear indication regarding the intentions of hotels relative to price-ending strategies, how consumers actually interpret these different strategies has not been determined by this study. As a result, a follow-up study is planned to explore how these strategies are interpreted by the consumer.