



Article Title

Strategic and tactical price decisions in hotel revenue management

Citation

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Abstract

Dynamic pricing techniques allow using a number of variables in a tactical way compared to standard catalogue prices. This study merges in a conceptual model the relevance of the tactical and the strategic dimension of these variables, classified according to their tangible, reputational or contextual nature. To empirically validate the hypotheses, a database of 21.596 price observations was retrieved from booking.com. The study presents a hedonic price function, using the Shapley-Owen decomposition of the R^2 to elicit the importance of each group of factors. Further, a hierarchical cluster analysis measures the presence of heterogeneity across operators. The results show that online reputation is gaining importance over the traditional star rating. Despite the tangible variables remain of paramount importance, the findings suggest the relevant role of contextual variables in short-run price variations. The players operating in the tourism and hospitality industries should integrate these findings when designing pricing strategies.

Conclusion

This study builds and empirically validates a new framework to better understand the dynamic pricing applications in the tourism and hospitality industries. Specifically, the paper shows how dynamic pricing is based on three groups of variables: tangible, reputational and contextual, with interplay between strategic and tactical dimension. With a methodological approach based on a dynamic hedonic price function, the study supports that tactical price decisions tend to be heavily influenced by the informational power of contextual variables, in particular by the amount of competitors in real-time. Also reputation by means of online customers' reviews, a more volatile variable when compared with traditional forms of reputation, plays an increasing role in price decisions. These results support the argument made by Narangajavana et al. (2014) on the complexity of mechanisms used by tourism companies to incorporate different perspectives in their pricing strategies. Many managerial

implications arise. First, the power of tangible attributes remains relevant, and may be also used as a tool to enrich the available tactical options for revenue managers. For example, a hotel with almost fully occupied standard rooms many days in advance with respect to the check-in date might decide to remove the availability of the room, letting for a certain period only the option to book premium rooms. The same mechanism can be applied in other related industries, where different levels of tangible attributes are present (e.g. seats in business vs. economy class in travel companies). Second, online reviews acquires increasing importance in the reputational arena, therefore additional effort should be made to satisfy and improve customers' experiences and expectations over time, encouraging and supporting loyal customers to leave thorough feedbacks. A plan of action to effectively implement this is presented by Sotiriadis and van Zyl, C. (2013): trained staff members should constantly monitor reviews and address feasible suggestions with the goal of improving customers' experience. Finally, operators should enhance the adoption of techniques to monitor competition, especially geographically close competitors. Some are already doing it successfully, others tend to follow or to maintain a more prudential approach. An interesting case in the empirical validation proposed is given by the group of 5-star hotels, whose price tactics seem only 19 moderately influenced by contextual variables. A possible explanation for such finding is that adopting intense price variations just "following the crowd" (i.e. the competitors) might impact on their image, especially if such variations are not justified by a service upgrade in terms of tangible attributes.