



Article Title

Financial Implications of Competitive Pricing Strategies: Evidence from the Jordanian Hotel Industry

Citation

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Abstract

The present study aimed to investigate the differing effects of competitive pricing strategies on the performance of hotels operating in bad regional political conditions. To this end, two complementary analyses were carried out based on a three-year dataset (2014-2016) collected through a questionnaire from 120 star-rated hotels in Jordan. The results of the one-way multivariate analysis of variance revealed statistically significant differences in the key performance indicators between hotels adopting a discount pricing strategy and those implementing a premium pricing strategy. The results showed that hotels adopting a discount pricing strategy enjoy a relatively higher market penetration index, but lag behind their competitors in terms of revenue generation index. On the contrary, hotels implementing a premium pricing strategy have a relatively lower market penetration index, but outperform their competitors in terms of revenue generation index. The results of the detailed descriptive analysis further demonstrated that although lower-priced hotels compared to their competitors have relatively higher occupancy rates, they experience relatively lower RevPARs. By contrast, hotels with higher prices compared to their competitors lose some occupancy, but achieve relatively higher RevPARs. Overall, the results suggested that adopting a premium pricing strategy, as opposed to a discount pricing strategy, is the most convenient way for improving hotel long-term financial performance, especially when hotel demand is relatively inelastic due to poor regional political conditions.

Conclusion

The present study examined the divergent effects of competitive pricing strategies on the long-term financial performance of hotels. The study was conducted in the context of the Jordanian

hotel industry, which experiences weak demand and lack of price elasticity due to the prevailing political conditions in the Middle East. Two complementary data analyses were performed, using the one-way multivariate analysis of variance supported by a detailed descriptive analysis. The results of the multivariate analysis of variance revealed statistically significant differences in the key performance indicators between hotels that adopt a premium pricing strategy and those implementing a discount pricing strategy. While the adoption of a premium pricing strategy improves the comparative financial performance of hotels in the long term, the use of a discount pricing strategy boosts their comparative occupancy performance. More specifically, the results showed that although hotels that maintain their prices above the competition experience a relatively lower market penetration index, they have the upper hand on their competitors in terms of revenue generation index. By contrast, hotels that keep their prices below the competition enjoy a relatively higher market penetration index, but lag behind their competitors in terms of revenue generation. The results of the descriptive analysis further indicated that although hotels with higher prices compared to their competitors achieve relatively lower occupancy rates, they gain relatively higher RevPARs. By contrast, lower-priced hotels compared to their competitors have relatively higher occupancy rates, but experience relatively lower RevPARs. Overall, the results suggested that adopting a premium pricing strategy is the most convenient way for improving hotel long-term financial performance, especially when regional conditions are politically unfavorable. It should be noted that the above results were obtained from a small sample of 120 hotels whose competitive pricing strategies were examined over a three-year period from 2014 through 2016.