

Research note

Analysing the online pricing practices of hotels in Hong Kong

Angie Tso^{a,1}, Rob Law^{b,*}

^a*Hotel Miramar Hong Kong*

^b*School of Hotel & Tourism Management, Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong*

Abstract

In spite of the general agreement on the importance of online pricing practices to the hotel industry, there are a very limited number of published articles investigating the hotel room rates offered on different online distribution channels. This research note reports on a study that examined the room rates of 45 hotels in Hong Kong in the third and fourth quarters of 2003, offered seven direct and indirect distribution channels. Adopting the rating system of hotels.com, 15 hotels in each of the three-, four-, and five-star categories were selected from the member list of the Hong Kong Hotels Association for examination. Thirty room rates were collected for each hotel on every selected channel. A comparative analysis revealed significant differences in average room rates among different channels. The empirical results indicated that the website of a local travel agent offered the lowest rates on all distribution channels and for all hotel categories.

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*Corresponding author. Tel.: +852 2766 6349; fax: +852 2362 9362.

E-mail addresses: angie_tso@yahoo.com.hk (A. Tso), hmroblaw@polyu.edu.hk (R. Law).

¹Angie Tso is affiliated with Hotel Miramar Hong Kong. Rob Law is a faculty member at the School of Hotel & Tourism Management, Hong Kong Polytechnic University.

1. Introduction

The rapid growth of the Internet has had a great impact on the hotel industry in recent years. A 51.6% increase in hotel room nights booked through travel websites in the third quarter of 2003 over the same period in the previous year has been reported, with total electronic room-night revenue for the period up 10.3% (Anonymous, 2004). Similarly, Greenspan (2003) has stated that traditional travel agencies will only have 18% of hotel sales in 2005, down from the current level of 21%.

The perishable nature of hotel rooms is prompting hoteliers to maximise their revenue by trying to achieve optimal prices with different online distribution channels in response to increasing demand from customers. Hoteliers, however, do not seem to know how to apply online pricing to achieve such a goal (Enz, 2003; O'Connor (2002, 2003)). The increasing number of online distribution channels is making it difficult for hotels to control their inventory, even as customers consider that good deals or lower prices can be obtained from online distribution channels (Enz, 2003). Some online travel intermediaries even promote themselves as places that can deliver the best hotel room rates. Consumers are thus confused by the different types of online distribution channels for hotel rooms and the price-offering practices of these channels (Enz, 2003).

It is generally agreed that hotel customers need reliable distribution channels that offer attractive rates in a consistent way. Likewise, hotel managers need a clear understanding of the online pricing of their products and services. However, there are a very limited number of published articles in the hospitality literature that examines the issue of online pricing. To fill this void, this study makes an attempt to investigate the online pricing practices of hotels in Hong Kong, a key travel destination in the Asia-Pacific region, with many world-class hotels. In this paper, online pricing practices refer to the hotel room rates that are available to the public at a specific time period. Having discussed the research motivation, the remaining sections of this research note present related studies on the subject, the methodology used in this research, and the empirical findings. This paper ends with a concluding section that summarises the study and suggests opportunities for further research.

2. Literature review

In the era of the Internet and e-commerce, the topic of online pricing has long been of interest to academic researchers and industrial practitioners. Quan (2002) studied pricing practices in the service sector, and showed that online reservations could provide a form of insurance for price-sensitive consumers to lock-in a price for future services. Similarly, Yelkur, and DaCosta (2001) examined the effect of differential pricing and segmentation on the Internet. In particular, pricing policies for online marketing were examined with an emphasis on differential pricing, customer loyalty, and segmentation. Research outcomes indicated that differences in segmentation and differential pricing did exist in hotels in the United States. Similar to this present

study, O'Connor (2002, 2003) checked the online prices of the top hotel brands that were published in mid-2000. Using a voice system and five online channels, the studies found that the majority of hotel brands used multiple online channels, and that most hotel companies offered multiple rates on each channel. However, the studies found that pricing practices were neither clear nor logical, nor was there consistency in terms of the room rates offered by the channels in the high-end market. Although the findings were of some interest, O'Connor's (2002, 2003) studies did not clarify the data collection period and only five sets of alternative dates were used for data collection. Such a small set of collected data might produce biased results, which would mean that the data cannot offer any insights about online pricing practices in general.

With the rapid growth of Internet-based distribution channels, the relationship among these channels is getting more complicated. Morrison (2002) commented that there were many online travel services, including new online travel agents that dealt with clients exclusively over the Internet. Starkov (2003) classified online intermediary websites into the following three models: the merchant model, the commissionable model, and the opaque model. In a merchant model, hotels assign their rooms to intermediate websites, which mark up and sell the rooms on their websites. The hotels do not pay commissions or fees to the intermediate sites. However, in a commissionable model, they pay the sellers a certain percentage of fees as commission. Lastly, in an opaque model, customers purchase rooms on websites without knowing the hotel brand before they make the payment.

3. Methodology

This exploratory study was primarily based on a collection of secondary data published on different online channels, and data revealed on the hotels' voice systems. Following the approach of O'Connor (2002, 2003), this research went through the processes of: (i) identifying the distribution channels and hotels, (ii) collecting data from the selected channels, and (iii) analysing the empirical results.

Having reviewed prior studies on the selection of channels (Inkpen, 1998; Law, 2000; O'Connor, 2002, 2003; Shaw, 2002), a total of seven distribution channels were selected. In addition to the models presented in the previous section, this paper classified hotel distribution channels into the two broad classes of direct and indirect distribution channels. Direct distribution channels are those that are directly managed and/or controlled by hotels such as hotel websites and voice systems; whereas indirect distribution channels are those controlled by third-party intermediaries. Examples of indirect distribution channels included websites of travel agencies, global distribution systems (GDSs), switching companies, wholesalers, and discounted travel companies. Table 1 lists the channels selected for examination in this study, together with the nature of these channels and a brief description of them.

The hotels selected for investigation were randomly chosen from the membership list of the Hong Kong Hotels Association in June 2003. Since Hong Kong does not

Table 1
The selected distribution channels

Type	Channels	Nature of Channels	Brief Description
Indirect	Expedia www.expedia.com	Commissionable model through GDSs	Microsoft's electronic travel agency, which provides a full range of travel services.
	Tavelocity www.travelocity.com	Commissionable model through GDSs	Supported by SABRE, it offers a wide range of travel-related services.
	TravelWeb www.TravelWeb.com	Switching company	Operated by Pegasus Systems, which is owned by THISCO, this site connects to many leading hotel reservation systems and an airline-booking system.
	Hotels.com www.hotels.com	Merchant model	A wholly owned subsidiary of InteractiveCorp, the website contracts with lodging properties to offer discounted prices.
	WingOn travel www.WingOntravel.com	Local travel agent	A wholly-owned subsidiary of Ananda Group, this is the leading tour operator in Hong Kong.
Direct	Hotel's own website	Direct distribution channel	Company's website that is owned and managed by the hotel.
	Voice channel		A direct sales medium that is managed by the hotel company.

have a formal star-rating system, the ratings offered by hotels.com were used. Binkley (2004) stated that the ratings in hotels.com were conducted by sales staff, who gave stars according to the standard rating system. Fifteen hotels were randomly selected from each of the three-, four-, and five-star rating categories. In this research, three-and-a-half and four-and-a-half stars, were treated as three and four stars, respectively.

The data were collected in the last two quarters of 2003, during which the local hotel industry experienced shoulder and high seasons (HKTB, 2003). To eliminate the discrepancies between weekday and weekend rates, hotel room rates were collected from Monday to Friday two weeks in advance, and public holidays such as Christmas were excluded. The room rates for each category of hotel were recorded on a specific day, and this was rotated for other categories until 30 rates were collected for each hotel. The lowest rate for single occupancy, and for overseas visitors, was recorded in each entry. Lastly, the value of the rate was set as the net rate, which included a 10% service charge and a 3% government tax.

4. Results and discussion

The collected data were computed for their average values on each channel and for each hotel category. The findings for all channels and their rankings were presented in Table 2.

As indicated in Table 2, WingOn, the local travel agency, consistently received the lowest room rates among all hotel categories. The highest room rates for three-, four-, and five-star hotels were recorded from the hotels' own website, Expedia, and TravelWeb. These results were different from O'Connor's (2002, 2003) studies, which claimed that upscale hotel brands were more likely to quote more expensive prices on their own websites than on other channels. Furthermore, all of the channels that were included showed a direct relationship between average room rates and hotel categories. ANOVA results showed significant differences in room rates among the seven channels. Post hoc comparisons using a Tukey analysis indicated that the rates offered by WingOn were significantly lower than those on all channels for three-star hotels. Similarly, WingOn offered significantly lower rates than other channels except Travelocity and hotels.com for four-star hotels. Lastly, other than Travelocity, the rates offered by all channels were significantly higher than WingOn. This reflected the fact that the merchant model hotels.com and the SABRE-supported GDS-based online travel agent also had considerably better pricing practices than other worldwide distribution channels in certain hotel categories. Another interesting finding is that the direct channels generally offered more expensive room rates than their indirect counterparts. This was particularly true for the three- and four-star hotels.

To maximise revenues, hotels offer different discounted rates to different groups of guests such as corporate travellers, local guests, and travel agents. Abbot and Lewry (1999) stated that a higher discounted percentage is usually applied to large travel agencies. In this research, the differences in online pricing practices among different channels were apparently associated with the specific contracts of suppliers and hotel management with regard to the booking of sales. The distribution

Table 2
Average room rates offered by different distribution channels

Category	Travelocity (\$)	Expedia (\$)	TravelWeb (\$)	WingOn (\$)	Hotels.com (\$)	Voice (\$)	Hotel's own website (\$)	F	Sig.
3-Star (N = 15)	718.50 (3)	747.19 (5)	736.54 (4)	580.74 (1)	709.87 (2)	781.18 (6)	943.59 (7)	18.21	0.00*
4-Star (N = 15)	1084.37 (2)	1222.80 (7)	1124.96 (4)	931.88 (1)	1107.18 (3)	1170.73 (5)	1197.95 (6)	5.23	0.00*
5-Star (N = 15)	1787.16 (2)	1820.48 (4)	1989.49 (7)	1541.19 (1)	1919.81 (6)	1799.30 (3)	1880.98 (5)	5.68	0.00*

Note: (i) All monetary values are in Hong Kong dollars (US\$1 = HK\$7.8).

(ii) Each number in parenthesis underneath the room rate represents the channel's ranking in the category, ranging from the least expensive to the most expensive.

* Significant at $\alpha = 0.05$.

channel's business nature, historical record, number of rooms allocated, and cut-off date for bookings could greatly influence the contracts and, therefore, the room rates. For instance, bulk sales could be related to the offering of higher discounted rates. Similarly, the earlier cut-off date for booking through a travel agent reduced the risk of hotels, enabling them to be more flexible about selling their product through other channels.

5. Conclusions and future research

The Internet has been, and will be, widely used by the hotel industry in general. With user-friendly reservation channels, consumers can select their preferred rooms at their preferred prices in specific hotels. Through a better understanding of online pricing practices, hotel management companies and other room distributors can then effectively manage the online market, leading to the capture of a high-yield business. In the hospitality context, the findings of this study are unique, involving as they do the largest number of channels, the longest period of data collection, and the largest number of collected room rates. Most importantly, the study offers a clear picture to hoteliers about the relative positions of their direct distribution channels. According to the empirical results, hoteliers in Hong Kong still need to spend more effort on selling rooms through their own direct channels. It is clear that a successful online pricing practice should offer competitive hotel room rates in a consistent way. Hotel managers should then identify realistic pricing policies for the hotel's online business partners.

Moreover, new tools have empowered consumers to search for information and to undertake the making of online reservations (Buhalis, 2003). Hotels in Hong Kong, for instance, should rapidly integrate with worldwide online distribution channels by leveraging the territory's world-class technological infrastructure. Through the integration of business partners such as a large network of tour operators, hotels in Hong Kong can control and shift from the traditional paradigm of mass distribution to target the specialised interests of sophisticated consumers in the increasingly popular online hotel room reservations market.

There are a few areas open for future research. A natural extension of this study is to repeat the research but with a larger coverage of geographical regions, for a longer period of time, and with more online distribution channels. This will offer a more comprehensive examination of the online pricing practices of the hotel industry as a whole. Also, this study only focuses on the best online prices of hotel rooms from the perspective of customers. Future studies can investigate the relationship between online pricing strategies and the interest of suppliers of hotel rooms.

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