The Online Pricing Practices of Up-market Barcelona Hotels – An International Comparison

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Abstract

The number and variety of web based distribution channels over which the customer can purchase the hotel product continues to grow, which has resulted in increased price transparency. Customers can use the web to easily and conveniently compare prices across alternative channels, which from the perspective of the seller making having a coherent strategy important. Using Barcelona up-market hotels as an example, this study evaluates hotel property’s pricing and distribution strategies by surveying room rates across a set of consumer focused distribution channels and analysing the findings in terms of consistency and logic. Findings indicate that Barcelona hotels do not have a coherent strategy and could benefit from re-evaluating the prices at which they sell their rooms on each channel. The findings are also compared to prior studies to benchmark their performance against international norms.

Keywords: Pricing, electronic distribution, e-commerce, hotel industry.

1 Introduction

For hotels, the importance of electronic distribution has grown substantially since the adoption of the Internet as a consumer orientated sales and marketing channel (Choi & Kimes, 2002). According to studies published by Horwath International (2004), the percentage of reservations made directly with hotel properties have fallen dramatically, with the corresponding growth being focused exclusively on electronic media. This may be in part due to the large number of online travel intermediaries that have developed in the online travel arena, each competing to become the booking channel of choice for the consumer (O’Connor & Frew, 2002). Hotels themselves have also realize the power of online distribution, noting in particular the potential for lower transaction costs and the elimination of intermediary commissions, and many are taking steps to encourage customers to book through direct company own websites rather than through other (online or offline) channels (Carroll & Siguaw, 2003). PhoCusWright estimate that in the US market approximately one in five
hotel bookings are made online, with Europe lagging behind with an average of only one in sixteen (Carroll & O'Connor, 2005). However, given the growth in eCommerce currently taking place in Europe, coupled with the suitability of travel products for sale online, it is forecast these figures will quickly follow US trends and that online travel sales will increase from their 2004 level of Euro 19.2 billion to approximately Euro 41.6 billion by the end of 2006 (Carroll & O'Connor, 2005).

Pricing is one of the key aspects of successfully selling good and services in the online environment. A variety of studies identify price as being one of the key motivating factors that encourages consumers to purchase travel online (see, for example, Gomez, 2000, PhoCusWright, 2001 and TIAA, 2001). For example, the PhoCusWright study found that competitive pricing is the best way to attract customers to online channels. When travelers who had not bought online were asked what would encourage them to do so, sixty-four percent said that saving money would make them more interested. No other benefit—saving time, getting bonus loyalty-club points, more control, or obtaining better information—came close to this level of response. Unfortunately, while online distribution has made it easier to influence the customer, it has also made managing price more difficult (Enz, 2003). Yesawich, Pepperdine & Brown (2000) claim that almost six out of ten leisure travelers now actively seek out the lowest possible price when booking travel services. Unlike in the physical world, the transparency and convenience of the Internet means that consumers can easily and quickly shop multiple alternative sites, comparing the product offered on each one in terms of price and features (Stone et al, 2002). Jiang (2002) claims that, by reducing search costs, the Internet intensifies price competition and increases consumer search for better prices. Research has shown that this certainly seems to be the case with travel products. Online travel consumers usually compare multiple sites before purchasing (Varini et al, 2003). Dedicated software tools and websites (for example, TravelAxe, Sidestep, cheapaccommodation.com and Kayak.com) are now also available to automate the search process, comparing the same product across dozens or even hundreds of online retailers and reporting back with the most appropriate or cheapest match.

O'Connor & Piccoli (2003) claim that many hotels are using electronic channels without understanding how their actions affect pricing and revenue. However this case with which customers can compare across different channels and sites means that hotels must have a coherent and logical pricing strategy. Finding the same product for the same dates on different websites is confusing and frustrating for the customer (Biswas, 2002). In a best case scenario, they may book the cheapest offering (Thompson & Failmezger 2005 estimate that a consumer can save over 5% per booking by engaging in such practices), but in general inconsistent or illogical pricing lowers customer satisfaction (Murphy & Schegg, 2004) and can potentially alienate