

## Pricing for the Future

Jun 26, 08 | 2:00 am

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With the advent of the internet and other online customer forums, consumers are becoming more aware of factors that influence pricing. With this increase in consumer awareness, there is a growing imperative for hospitality organisations to be aware of the effect that pricing can play on their revenue potential.

While it is widely accepted that poor marketing can damage the reputation of a business, hospitality organisations and hotels across the APAC region are beginning to recognise that *poor pricing strategies* have the potential to not just negatively impact on the revenue of an individual business, but can damage an entire market.

The effect of poor pricing strategies has been seen in recent years across a number of global markets, from retail in North America to the tourism industry in South Africa. Local tourism industry figures in Cape Town have recently complained about, *'prices at restaurants and hotels, which were "very, very high and getting higher,"* \* which has led to a situation whereby, *'some operators had confirmed they were taking their business to other African destinations, such as Kenya.'* \*

Local tourism representative Lynne Brown even commented that although the government could not regulate pricing, her department would *'impress on local operators that they would cause "long-term harm" to the province and the country.'* \*

While Nils Heckscher of the Federated Hotel Association of Southern Africa disagreed; he said *'the issue of overpricing was like Christmas - "it comes around once a year" The perception was often a result of just a couple of incidents,'* \* his assertion that it was only a few incidents that cause the wider perception problems for the Cape Town tourism industry underlines the impact that the pricing of an individual hotel (or restaurant) can have on the wider tourism and hospitality sectors.

Pricing is, and always will be one of the most profit impacting decisions that a hotel or resort can make and as such is also inherently complex and fraught with potential risks. The current hospitality industry is faced with a situation that sees some hotels employing poor and potentially risky pricing strategies. Market pricing involves being able to sell a maximum amount of rooms and associated packages through the balancing of perceived benefits and an intelligent price.

How a particular hotel decides their own pricing strategy ultimately depends on the product they are offering, the market in which they operate and their competitors. When all these factors are taken into proper consideration, pricing becomes dynamic as a direct result.

Dynamic pricing has the added benefit of acting as a safeguard against potential scrutiny and complaints leveled by consumers and regulatory bodies. In a recent high profile case, companies managing airport car parks throughout Australia were called into question after their pricing was deemed too high. The Herald Sun Newspaper reported:

*'AUSTRALIA'S consumer watchdog will monitor car parking costs and revenue at the nation's five major airports, the Federal Government said today. Total car parking revenue at Australia's airports reached \$206 million last year, and Infrastructure and Transport Minister Anthony Albanese said by international standards parking charges at some of the airports were "high".'* \*\*

Employing dynamic and fair pricing strategies will not only help limit the risk of pricing scrutiny, but the flexibility of this approach will allow for businesses like hotels to be able to better respond to fluctuations in market conditions, which will ensure a sustainable approach to pricing.

If hotels decide to employ negative pricing strategies without fully considering the wider implications, there is now a greater chance of them damaging their reputation amongst their existing and potential consumer base and even impacting on the perceptions of their market overall.

By investing time and resources into successfully navigating the complex nature of dynamic pricing, companies are not only guaranteeing themselves a pricing advantage but also an ongoing strategic advantage over the competition. Dynamic pricing allows for the viewing of fiscal strategies in a broader market context and is essential for companies who wish to remain ahead of the competition at any given time.

There are a range of different factors that need to be taken into consideration when determining how best to implement dynamic pricing strategies. The positioning of key products to key market segments is a vital aspect of dynamic pricing. Whilst gaining an understanding of the competition, both existing rival and future competitors and what they are offering consumers is also necessary to gain a strong competitive advantage.

Dynamic pricing is not without its challenges, as one could expect with such a complex program. One of the most inherent and common challenges with the installation of dynamic pricing is a lack of clarity and consistency through companies at different times.

With consumers throughout Asia being more aware of market trends and understanding which booking mediums to approach at which time for the best room price, there is more emphasis on hotel management to carefully consider their pricing strategies and the flexibility of their pricing structure.

Trusted revenue management partners and dynamic pricing specialists, like IDEaS Advantage can assist hotels to address the issue of dynamic pricing and ensure that they are best equipped to react to and anticipate market fluctuations; ensuring that their hotel's pricing always remains competitive and achieves its full potential.

### About IDEaS Revenue Optimization

IDEaS Revenue Optimization is the premier provider of enterprise revenue management and optimization solutions and consulting. By providing Forecasting, Optimization and Pricing solutions and services, coupled with IDEaS' On Demand Software as a Service (SaaS) applications, IDEaS can help make an immediate impact on company revenue and profitability.

IDEaS goal is to work hand-in-hand with clients to identify strategically important, complex business problems and then develop unique revenue management and optimization strategies that enable global organizations to understand, anticipate and react to consumer behavior in order to maximize company-wide

revenue or profits.

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