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ROOM FOR SALE

A critical review of different pricing strategies within
the hotel industry; with a special focus on Revenue Management

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ABSTRACT

- Title: ROOM FOR SALE
A critical review of different pricing strategies within the hotel industry; with a special focus on Revenue Management
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- Authors: Gökhan Erol, Karl E. Svensson & Hampus Waldemarson.
- Tutors: Szilvia Gyimóthy & Bo Markulf.
- Purpose: The purpose of the thesis is to critically review different pricing strategies with a special focus on Revenue Management and discuss the possibilities and challenges for hotels when optimising their profitability.
- Methodology: We have conducted three case studies on hotels located in the Öresund region. The studies were done with a qualitative research approach. The respondents are all working on a managerial level in the hospitality industry.
- Conclusion: Hotels face a number of possibilities and difficulties when working with their pricing strategy. We identify a number of challenges that hotels have to deal with; for instance whether to focus on the market or the customer and how to balance supply and demand. The hotels need to carefully consider how they want to position themselves in the mind of the customer and select their pricing strategy in relation.
- Keywords: hotel, pricing strategies, revenue management, customer relationship, market change, blue ocean strategy

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1. INTRODUCTION

Throughout the last years the concept of Revenue Management (RM) has become a more accepted strategy within the hotel businesses and many hotels and hotel chains have in some extent implemented RM. RM has also become a popular term, often mentioned in media and studies.

RM is a way of optimising revenue by ensuring that a company sells the right product to the right customer for the right price at the right time. RM is not the only way of optimising revenue. Other theories, new and old, contradict RM and we are interested in getting front seat tickets for the fight. We are interested in the challenges that hotels face when optimising revenue and the effects it has on customer relations and satisfaction. Studies and literature that we are reading mainly focus on the management perspective and the obtainable increase in profitability through optimising revenue.

As students of service management we are well acquainted with theories, which focus on customer satisfaction. Therefore we are broadening the study's grasp to include changes in customer relations besides the more business economics thoughts of optimising revenue.

1.1 Purpose

The purpose of the study is to:

- Critically review different pricing strategies with a special focus on Revenue Management and discuss the possibilities and challenges for hotels when optimising their profitability.

1.2 Questions at issue

1. Which possibilities and difficulties do hotels face when optimising their revenue?
2. In which way can hotels work with pricing strategies to balance supply and demand?
3. How does the choice of pricing strategy affect the relation between hotels and their customers?

2. METHOD

During this chapter choices of methods are presented. The chapter also informs on the choice of theories and data. The idea is to form a firm foundation on which the study is built. In addition the chapter includes limitations of the study.

2.1 Selection of method

We have chosen a qualitative approach, which enables us to in-depth studies of our collection of data and increases our chances of intercepting real-world aspects. These are important since an organisation acts in the reality and consists of people.¹ In order to be able to answer the questions at issue, we have conducted interviews with management representatives of three different hotels in the Öresund region.

It is common to use a quantitative approach within management research, but this method often lacks real-world inputs.² The qualitative approach, especially the opportunity of asking follow-up questions, increases the probability of capturing more emotional aspects of management; such as customer relations and empowerment of employees. These emotional aspects might seem unintentional at first, but are nonetheless often significant when leaders are making decisions of various impacts.³

According to Bryman the first step in a qualitative research is to ask general research questions.⁴ We were interested in seeing how the hotel industry deals with pricing strategies. We therefore ask questions such as how the choice of pricing strategy influences the balance between supply and demand.

Besides being qualitative our approach is deductive. We have raised a number of hypotheses centred on our knowledge of RM and other related theories and investigated their validity empirically.

¹ Gummesson (2000)

² Ibid.

³ Ibid.

⁴ Bryman (2004)

2.2 Selection of theory

Once we had defined our subject field, we started reading literature about pricing and RM to gather insight within these topics. Besides we read literature covering more general fields in order to be able to see the subjects in a broader context. The literature ranges from pure theory books to scientific articles with real life cases and has been chosen from a variety of sources such as university libraries, scientific magazines and electronic databases of universities.

Our theoretical frame of reference starts with defining the concept of strategy and why companies need to have such. We will then present a number of different pricing strategies and their characteristics, with a focus on RM due to its growing popularity within the hotel sector. Subsequently we bring in other management concepts, which are not business economic orientated, such as Customer Relationship Management (CRM).

It is now our ambition to present the selected theories in brief, thereby creating a vocabulary and understanding of core notions used through out the thesis in order to make it easier for the reader. A clear strategy is something that most companies have to achieve their goals and maximise profits. We are bringing up the concept of strategy because it is of importance for all companies to make an overall choice, which suits how the company wants to profile itself. This choice has to imbue the specific choices, such as selecting a pricing strategy. Different pricing strategies are introduced to see RM in a broader context.

RM is a way for companies to optimise revenues through focusing on selling for the highest possible price. RM has become very popular within the hotel industry in the latter years. Although changing the focus from expense to revenues, RM is also an approach to leadership. Another way of looking upon possible improvements in the hospitality sector can be find in the thoughts of CRM, which recommend companies to focus on the relation with the customer. We thereby intend to take a different approach on the pricing and RM concepts than the purely economical one. Besides we are going to scrutinise the choice of pricing strategy from a perspective that differs from the traditional way of examining it.

We originally worked with a deductive approach. However when necessary we have adjusted our selection of theories and in a single case added a new theory to our study. Thus the Blue Ocean

strategy was introduced to us by one of our respondents. This can be referred to as a more inductive approach.⁵

2.3 Selection of hotels and respondents

As a second step in a qualitative research you need to find relevant sites and subjects.⁶ We wanted to get aspects from hotels that are comparable as well as different, in order to cover more than just one aspect of the industry and still be able to generalise the answers of our respondents. We decided that three would be an adequate number of respondents in order to be able to make more general conclusions. Despite the fact that we spoke to representatives of three different types of hotels, there are a number of things that they have in common. All of the three hotels are operating with business travellers and the MICE⁷ segment and are all located in larger provincial towns in the dynamic Öresund region. All hotels are facing challenges regarding change in the buying behaviour of their customers and finally all respondents have an academic background.

We decided to speak with managers and sales executives, as they would be expected to know more about RM than the front staff employees. From a wish to make the reader abstract from eventual preconceived opinions about a familiar hotel, we have decided to make the hotels and respondent of the study anonymous. We thereby hope to increase the possibility of a more objective reading and perception of our findings and conclusion.

The first hotel of our research is a city hotel that has recently implemented RM practises. The hotel is part of a chain represented by a total of 17 hotels nationally. All of the hotels are centrally located in larger towns and it is the ambition of the hotel to give the guests “a total experience and mediate a feeling of tradition, quality and vanity”.⁸ This hotel will throughout the study be referred to as the city hotel, while the respondent of the hotel will be called Lisa.

The second hotel is a conference centre located by the sea. The hotel has specialised in arranging conferences and promotes itself as “having the human being in focus and that it offers an informal mode of expression, a high service level and quality.”⁹ The management has chosen a

⁵ Bryman (2004)

⁶ Ibid. p 269

⁷ MICE = Meetings, Incentives, Conferences & Events.

⁸ The website of the city hotel (2007-04-25)

⁹ The website of the conference centre (2007-04-30)

different path; a Blue Ocean strategy instead of RM. This hotel will be called the conference centre and the respondent will be given the pseudonym John during the study.

The third hotel of our study is a low budget hotel. The hotel markets itself with friendly, helpful staff and comfortable rooms at the best price. It promises to “solve any problem within 15 minutes in what they call their quality commitment.”¹⁰ We will refer to the hotel as the low budget hotel, while the respondent is called Steven.

2.4 Collection of Data

2.4.1 Preparation of interviews

The third step in a qualitative process is to collect relevant data.¹¹ Once having decided what areas we wanted to give attention we contacted a number of hotels by e-mail with a request to assist us by taking part in an interview session. One of our supervisors provided us with relevant contacts within the hotel industry. We received a number of positive confirmations and prioritised whom we found the most suitable respondents. We then made phone calls to those who had caught our interest and asked if they were willing to participate in an interview session of approximately one and a half hour.

We then created an interview guide with key questions that we would concentrate each of the interviews around. The questions were open-ended and the order that they were asked in was modified during the development of the interview. For instance when we needed to ask additional questions for following up an answer. This type of interviewing is known as semi-structured.¹²

A few days in advance of each interview session our respondents were provided with the interview guide consisting of a number of topics. These topics were similar in all of the interview guides with only few differences; depending on what information we had received from the respondents in advance. We tried not to follow the questions too strictly in order to make the respondents speak as freely as possible. Thereby we made them use their own definitions and attempted to not influence their views as little as possible.

¹⁰ The website of the low budget hotel (2007-04-30)

¹¹ Bryman (2004)

¹² Robson (2002)

2.4.2 Conducting interviews

The interviews took place on the respondents' work place, which enabled them to feel more comfortable and gave us the opportunity to visit the hotels. Thereby we got first hand impressions of their locations and the physical environments our respondents and their colleagues are working in. We thereby got an access to reality, which is of "vital importance for scientists."¹³

Each of the interviews lasted about 90 minutes and was recorded by the use of a dictaphone in order not to miss any important information. We took advantage of being more interviewers by taking different tasks during the interviews. One was the main interviewer, who mainly focused on getting as much information as possible, another took notes and asked follow up questions when needed, while the last one, at the occasion when all three of us were present, was checking that the technique was functioning and taking notes.

It is important that the interviewer tries to create an atmosphere that makes the respondent feel secure enough to speak freely about his or her experiences and thoughts so that the interview becomes more than a polite conversation.¹⁴ Thus before each interview we briefly presented ourselves as well as the purpose of our research. We then started with an opening question and afterwards tried to let the respondent speak relatively freely, while still leading the conversation towards our subjects whenever needed.

2.4.3 Recording and transcribing of interviews

In order to be able to catch up as much information as possible from the interviews we decided to record, transcribe and print all three of them word by word. Although this is a very time consuming process, it enabled us to focus on the questions asked and formulating eventual follow-up questions during the interview, instead of having to concentrate on making notes. In a qualitative interview it is not only what is said, but also how it is said that is important.¹⁵ Since one of our reasons for choosing qualitative methods was to take the real-world inputs, we find this aspect especially important.

¹³ Gummesson (2002) p 15

¹⁴ Kvale (1997)

¹⁵ Bryman (2004) p 329

2.5 Interpretation of data

Once having conducted the interviews and transcribed them we started interpreting the information, which is step four in the qualitative research.¹⁶ In order to get a better overview of the data collected we categorised the answers of the three respondents into a number of topics relevant for our research. Afterwards we related the categories into more general themes and tried to find similarities, which could eventually show general patterns and provide a basis for the analysis. In qualitative research you describe general impressions, whole and concrete environments and whole persons, not just isolated variables.¹⁷ We then tried to relate our findings to our selected theories and find connections and contrasts between them. These connections and contrasts were used as a foundation to build upon throughout the thesis.

2.6 Reliability and validity of the method

When conducting a study there are several criteria to take into consideration. One concern is whether a study is reliable; are the findings of the study repeatable and consistent?¹⁸ We are aware of the difficulty with external reliability; that it is impossible to "freeze" a social setting.¹⁹ Our study is therefore influenced by the specific context it has been conducted in. However we believe similar studies covering the same subject would find alike comments, as those found in our research. Many of the statements expressed by our respondents are general concerns for hotels and other hospitality companies. Another criterion is the intern reliability; since we were three observers and interviewers, we all have individual perceptions of what the respondents have said.²⁰ However we have discussed our different perceptions in-depth and reached consensus. We therefore believe our study to be consistent.

The validity of the study also needs to be taken into consideration. This regards the integrity of the conclusions, generated from a piece of research and is in many ways the most important criterion.²¹ Intern validity deals with the match between the researchers' observations and the theoretical ideas developed.²² We believe that our background as Service Management students has given us an insight that makes us capable of applying relevant theories from our field to our findings. External validity is concerned with the degree to which findings can be generalised

¹⁶ Bryman (2004) 269

¹⁷ Repstad (1993) p 97

¹⁸ Bryman (2004) p 28

¹⁹ Ibid. p 273

²⁰ Ibid. p 273

²¹ Ibid. p 28

²² Ibid. p 273

across social settings.²³ A problem regarding qualitative research is that researchers tend to employ case studies and small samples.²⁴ Although three hotels may not seem a lot, we consider the hotels of our study to be representative for the hotel industry. We therefore consider it possible to make more general conclusions based on our findings and that this approach will give us the necessary tools to answer our questions at issue.

2.7 Limitations of the study

The field of management theories is vast and it would be impossible for us to centre our discussion in a way so that it covers all aspects on pricing strategies. Therefore we have chosen to focus on the theory that is relevant for our study and concentrated on that field. Another factor that influenced our choice of theory is the desire to write about something that is popular. Our theories reflect these considerations. We have done our research within a limited field but still believe that our findings can be applied on a general level. Others researchers might have chosen different theories. However we believe that a similar approach to the one of our study would lead to equal findings.

The original aim was to meet with staff from both management and the frontline to be able to analyse how well revenue management is implemented throughout the organisations. However it turned out that employees were not very involved in the pricing processes in any of the hotels of our study. We therefore decided to adopt a management perspective. Interviews with front staff may have added an extra dimension to the study.

Another concern is that our interpretation of data is a reconstruction and therefore it might not be hundred percent accurate. The use of a dictaphone was of great help, but has the disadvantage that it only catches what is said during the interview. It lacks the visual aspect in the form of body language, facial expressions and other emotions behind the words.²⁵ The focus will automatically be on what is said more than how it is said, even though the latter can sometimes be of vital importance for what a respondent actually means.

²³ Bryman (2004) p 273

²⁴ LeCompte & Goetz (1982) in Bryman (2004) p 273

²⁵ Kvale (1997) p 147

3. LITERATURE REVIEW

This chapter is meant to present vital theories, which will be compared to the collected data in chapter five. The main focus is directed towards strategy, management and pricing theories. The theories presented are also chosen for the way that they agree with and contradict each other.

3.1 Strategy

“Strategy is concerned with planning how an organisation (...) will achieve its goals.”²⁶ “The goal of strategy is to ensure the survival and prosperity of a firm.”²⁷ Chandler was one of the first to define strategy, which according to him means, “planning and executing company growth”²⁸. Another of the pioneers within the field, Ansoff, suggests that the objective of a firm is to maximise economic return.²⁹

3.1.1 Competitive advantages and generic strategies

Some of the most important goals for companies are growth and profit. In order to obtain these goals Porter explains that companies need a competitive advantage over their rivals.³⁰ A company can choose between different generic strategies when trying to obtain this advantage.³¹ A firm can achieve a higher profit either by having a cost advantage or by creating a service that is so differentiated that the customers considers it to be unique. Customers will then be willing to pay a higher price due to its superior value in comparison with the service of the rivals.³²

3.2 Pricing

According to Kotler it is important that managers have an understanding of price, since charging too much chases away potential customers. On the other hand charging too little implies a risk of companies being left with too little revenue to maintain the operations of the business properly.³³ When deciding what price to charge, companies must take internal as well as external factors into consideration. Internal factors are for instance survival of the firm, quality and cost of the service,

²⁶ Grant (2005) p 18

²⁷ Ibid. p 22

²⁸ Chandler (1962) in Herrmann (2005)

²⁹ Ansoff (1965) in Herrmann (2005)

³⁰ Porter (1980)

³¹ Ibid.

³² Grant (2005) p 241ff

³³ Kotler et al. (2006) p 447 f

whereas external factors include demand of the product, customers' perceptions of price in comparison with value and price sensitivity.³⁴

3.2.1 Cost-based pricing

Cost-based pricing is a strategy where companies calculate the cost for the service and then add a margin. This is done through multiplying the cost with the wanted margin.³⁵ Stedman argues that a problem with this pricing policy is that companies do not know how the customers perceive the value of the service. This can lead to a price that is too low and companies not getting optimal revenue.³⁶

3.2.2 Competition-based pricing

When using competition-based pricing, the price has to be similar to what the competitors charge. The price does not depend on cost, supply or demand but should be modified according to the competitors.³⁷

3.2.3 Price-discriminating pricing

The main purpose of price discrimination is to make some customers pay more than others. This is not based on their nationality, gender or religion but based on when they travel. An example of this pricing is having varying prices during weekdays and weekends. The reason is that weekend travellers are usually leisure travellers while weekday travellers are usually business travellers. As the business travellers have to be at a specific place at a specific time they do not care about the price as much as leisure travellers do.³⁸

3.2.4 Peak-user pricing

Peak-user pricing is a solution to the problems related to high and low peaks in demand. Most companies usually have to use more resources, employees and equipment to handle the peaks. This leads to an overflow when there is an off-peak and thereby generates extra costs. The idea of peak-user is to have higher prices during peaks. Having a higher price during high peaks will even out demand and make the company less vulnerable to seasonal changes.³⁹

³⁴ Kotler et al. (2006) p 448 ff

³⁵ Ibid. p 464 f.

³⁶ Stedman (2000) p 58

³⁷ Kotler et al. (2006) p 469

³⁸ Ibid. p 473 ff.

³⁹ Friedman & Lewis (1999) p 9

3.2.5 Using Revenue Management in pricing

RM is a pricing strategy with a focus is on optimising revenue by selling the right product to the right customer for the right price at the right time. Some of the characteristics of companies working with RM are; focus on the demand instead of the costs of a service when deciding what prices to charge, selling to segmented micro markets instead of mass markets, making decisions based on knowledge instead of supposition and continually re-evaluate revenue opportunities.⁴⁰

3.2.6 Value-based pricing

The concept of value-based pricing is to find out how much a service is worth to the customer. Knowing how much a service is worth the company can set a price, which is neither too high nor too low. Value-based pricing estimates what the customer is willing to pay; the perceived value is more important than the actual cost.⁴¹ Kotler implies the role of the customer is bigger in value-based pricing than cost-orientated pricing.⁴²

3.3 Revenue Management

RM is a segmented type of pricing that has become popular in the latter years. It rests on the supposition that no two customers value a service exactly the same way. Therefore the amount of money that they will pay for the service will differ. According to Cross the essence of RM is consequently to ensure that the company sells the right product to the right customer for the right price at the right time.⁴³

The point of RM is to increase the profit of the company through actively working with different prices depending on the supply and demand, rather than cost-cutting and downsizing. Consequently RM focuses on the customer behaviour and collect information about the customers, which is then analysed and used to predict the behaviour patterns. Although it can be used on a number of scales and probably has been, it is not until the last decade that RM has received recognition as a way of doing business. It is widely used within the hotel and the flight sector.⁴⁴

For revenue management to work Cross mentions seven objectives that have to be achieved:

⁴⁰ Cross p 61 ff

⁴¹ Stedman (2000) p 58

⁴² Kotler et al. (2006) p 467 ff.

⁴³ Cross (1997)

⁴⁴ Lee et al. (2007)

- Focus on the price rather than the costs when balancing supply and demand
- Replace cost-based pricing with market-based pricing
- Sell to segmented micro markets, not to mass markets.
- Save your products for your most valuable customers.
- Make decisions based on knowledge, not supposition.
- Exploit each products value cycle.
- Continually re-evaluate your revenue opportunities.⁴⁵

3.3.1 Focusing on the price rather than cost when balancing supply and demand

According to Cross it is almost impossible for a company to attain a balance between supply and demand. It is common that hotels hire more staff when there is a period of high demand. In contrast when demand reduces they have to reduce the costs, which they do by reducing staff. RM attacks the demand and supply problem by focusing on the price, when the demand is low a company should not reduce the production capacity but rather lower the price to attract the price sensitive customers. Doing so will also even out demand over time and reduce low and high season differences. A problem for hotels using revenue management to the fullest is that the prices are very high when there is a high demand which does not attract every customer. This leads to some customers staying somewhere else and not coming back.⁴⁶

3.3.2 Replace cost-based pricing with market-based pricing

A company that sells TV's will set the price based on what it costs to produce and sell a TV. When the company has established the total cost per unit they will add a margin. This way of pricing is the most commonly practised. Critics pinpoint that cost-based pricing does not have the customer in focus and that this can be problematic as the customers are not concerned with the company's costs. Customers often only care about their own economy. If the customer does not have the money or the need for a service they will not buy it. If there is an alternative service that is cheaper the customer will most likely pick the cheaper one. This leads to companies no longer having the power to set the price. The concept of market-based pricing is to find the price that is accepted by the market. This requires that the company is flexible so that they can change the price whenever it is needed.⁴⁷

⁴⁵ Cross (1997) p 61

⁴⁶ Ibid. p 61 ff

⁴⁷ Ibid.

Since hotel and other hospitality businesses are selling perishable services they should be even more concerned about finding the right price than traditional production based companies. If a TV is not sold today it can still be sold tomorrow or the day after, however this is not the case with a hotel room. A room not sold is a room not sold that particular night even if you sell it tomorrow. Services can not be stored so if hotels are to maximize their revenue they must be able to deal with their capacity and demand.⁴⁸

3.3.3 Sell to segmented micro markets, not to mass markets

Most companies today try to sell their products or services to the mass market. These companies are determined to find a price that suits everyone, which usually creates a loss in potential revenue. They lose revenue because there are those who actually are willing to pay more than the average price. One could say that this pricing philosophy focuses on the average customer. However the problem is that there is no such thing as an average customer. Every customer has his or her own needs and economy. The art of optimizing revenue is to divide customers into different segments. A classic example is the high prices of the hotels during the weekdays, when business travellers, who are not so price sensitive but time sensitive, are common customers.⁴⁹

3.3.4 Save your products for your most valuable customers

The traditional concept is to sell the service to the first one who wants it. This concept does not consider the possibility of some customers being more valuable than others. An example is the cinemas, where some customers buy a ticket and only watch the movie, while others are big spenders and purchase a lot to drink and eat while visiting the cinema. If some from the latter groups are being refused at the entrance, since there are no seats left, the cinema will lose the extra revenue that the big spenders would have generated. Companies need to explore their customers and see if there is a pattern between when a booking is made and what days in the week the so-called big spenders show up.⁵⁰

3.3.5 Make decisions based on knowledge, not supposition

Traditionally companies have used their own experience, observations and guesses to predict what will and will not work in their market, but this way of forecasting is not enough. If RM is going to work, the company has to gather more information about the customers, for example how much they are ready to pay and how much they are willing to buy. When the companies

⁴⁸ Kotler (2006) p 45

⁴⁹ Cross (1997) p 71 ff

⁵⁰ Ibid. p 77 ff

have gathered the required information it needs to be analysed.⁵¹ Based on the analysis a hotel can make the proper decisions about pricing and how many rooms to sell at that price.⁵² This is all vital when it comes to predicting the future behaviour of the customers and the market.⁵³

Companies who are established in fast changing markets, such as the travel industry, have to be flexible when it comes to pricing and supply.⁵⁴ The prices can change as often as every minute.⁵⁵ The Internet has made it easier to communicate versatile pricing instantly to customers. Changing the price often does however create the needs for good communication between companies and their customers. Customers must be made to understand why they pay more or less than others, through a pricing strategy that is rational, understandable and communicated properly.⁵⁶

3.3.6 Exploit each product's value cycle

The art of optimising revenue is to know exactly when to drop the price; if the company drops the price too early they will not get the highest revenue possible and if the price is dropped too late the hype will be gone and the company will again not get optimal revenue.⁵⁷

3.3.7 Continually re-evaluate your revenue opportunities

Traditionally managers have been taking all the major decisions leaving front staff powerless when it comes to solving problems and reacting to changes in customer needs. The market is dynamic and the customers' values change everyday and sometimes changes during the same day. Subsequently it is important to have fast decision ways in order to always be prepared and ahead of market changes. It is therefore vital that management gives the frontline staff tools that they can use to successfully act in a dynamic market.⁵⁸

As the frontline employees are the face towards the customers it is rather important that they get properly educated so that they can make the right decisions. The employees should be able to make decisions without constantly having to consult managers. This is of extraordinary importance when problems occur since customers react in a positive way when there is a fast reaction from the company. More importantly the employees get more confident as the company

⁵¹ Cross (1997) p 80 ff

⁵² Walczak & Brumelle (2007) p 66 ff.

⁵³ Cross (1997) p 80 ff

⁵⁴ Ibid. p 84

⁵⁵ Malmqvist, Johan (2007-03-16)

⁵⁶ Cross (1997) p 234

⁵⁷ Ibid. p 85 ff

⁵⁸ Ibid. p 93 ff

believes in them. This will result in the customers getting better service and the company getting an increased customer loyalty. As the frontline staff is the face of the company they also get a lot of feedback from the customers. This makes them a significant source when it comes to finding problems and adjusting them to achieve improvements.⁵⁹

When companies make forecasts they have to foresee the cancellation risk as well as demand and the customers price sensibility. Hotels and other service companies can not store their services and therefore they have to make the most out of the possible capacity; they have to sell as many rooms as possible otherwise they will lose revenue. A reason why reservations have become so popular in this sector is that if the customer orders the room early he or she will get a low price.⁶⁰

3.4 Blue Ocean strategy

As an alternative to Porter's idea of successful businesses being either low-cost providers or niche-players Kim and Mauborgne have created what they call a Blue Ocean strategy. Ocean refers to the market or the industry and "Blue Ocean" is a metaphor for an uncontested market space with little or no competition. This is contrasted by the "Red Ocean", which is a saturated market with severe competition. When operating in red oceans companies need to beat the competition, exploit existing demand and make a strategic choice between differentiation *or* low cost. Conversely in a blue ocean the company makes the competition irrelevant, creates and captures new demand and can therefore pursue competitive advantages through both differentiation and low cost.⁶¹

A Blue Ocean strategy involves taking the old and making it new, for instance twisting an existing concept upside down. On the contrary the products of firms competing in red oceans tend to become commodities, the Blue Oceans represent an untapped potential for growth from truly creative thinking for instance by turning commodities into products. The point is for companies to be willing to explore and see new and different potentials in otherwise familiar concepts.⁶²

⁵⁹ Grönroos (2004) p 382 ff.

⁶⁰ Walczak & Brumelle (2007) p 66

⁶¹ Kim & Mauborgne (2005)

⁶² Mientka (2006)

3.5 Customer Relationship Management

Traditionally companies did not consider customer loyalty important. This led to the fact that the firms did not have their focus on the existing customers but prioritised selling as much as possible instead. When the focus of a company is to sell as much as possible the purchase becomes a simple transaction between a company and a customer. This way of marketing is called transaction marketing.⁶³ The transaction is symbolised by short-term transactions where the customer chooses the company because of the price.⁶⁴

Sometime after the 1970's there was a big change within marketing; a model, which put the interaction and relationship between the company and the customer in focus, was introduced. This type of marketing became known as Customer Relationship Management (CRM).⁶⁵ The basis of CRM is to provide a long-term service, companies are meant to create a relationship with the customer.⁶⁶ The core in this point of view is the relationship and how it will lead the consumer to frequently return.⁶⁷

One of the reasons for the change in marketing is that the markets since the 1970's have had more supply than demand which makes it hard for companies to attract new customers. As it gets harder to obtain new customers it gets more important to keep the ones that the company already has.⁶⁸ Within the service industry customer relationships seem to be more effective than transaction marketing; the customer is repeatedly in contact with the company which makes it important that the service is good and to have a good relationship. If the customer does not get satisfied he or she will not come back.⁶⁹

3.6 Critics of optimising hospitality

As the competition increases the options for the customers amplify, which makes it harder for companies to keep their customers and obtain new ones. This is where customer loyalty becomes important. A report about the UK financial industry brings up the fact that competition is getting more and more intense as markets get more global. One of the banks investigated had CRM as

⁶³ Grönroos (2002) p 31

⁶⁴ Lindgreen et al. (2006) p 58

⁶⁵ Grönroos (2002) p 31 ff

⁶⁶ Lindgreen et al. (2006) p 58

⁶⁷ Grönroos (2002) p 33

⁶⁸ Ibid. p 34

⁶⁹ Ibid. p 33

an answer to the competition. However the report showed that there was no connection between customer satisfaction and profitability.⁷⁰

According to Ritzer, certain trends in the hospitality sector are becoming more inhospitable. While being genuinely hospitable implies authentic motives, some of the behaviour practised within commercial hospitality, is provided to gain profit and is thereby a threat to the industry. Ritzer gives the example of a drive-through window in fast food restaurants, which gives the customer the signal that management does not even want them to enter the restaurant; a rather inhospitable impression.⁷¹

Ritzer lists a number of concepts and how they implicate the hospitable sector. For instance he mentions that hospitality organizations are trying to achieve higher efficiency inspired by some of the fast food concepts. Even luxury hotels let their customers do a lot of the service functions themselves; such as pouring coffee, cooking toasts etc. This is in Ritzer's view in direct contradiction to the meaning of genuine hospitality.⁷²

Other points of criticism are increased predictability, calculability and control. This leads to a lack of individual treatment of customers, focus on quantity and rapidity instead of quality and service, as well as limited authority and empowerment of the front staff. These are all factors that prevent service staff from being hospitable. Also the replacement of human staff by computerization, leads to a lack of contact between human employees is questioned.⁷³

⁷⁰ Lakhani & Smith (2007)

⁷¹ Ritzer (2007)

⁷² Ibid.

⁷³ Ibid.

4. Presentation of findings

In this chapter findings from the conducted interviews are presented. The point is to tie the opinions of the different respondents together in order to find differences and similarities in their arguments. No theories or other information besides the conducted interviews are included or taken into consideration in this chapter.

4.1 A short presentation of hotels and respondents

We have conducted three qualitative interviews with hotel staff from three different hotels. Throughout the presentation the hotels will be called city hotel, conference centre and low budget hotel. The respondents will be called Lisa (city hotel), John (conference centre) and Steven (low budget hotel).

The city hotel is a four star hotel with a central location. The hotel houses 190 rooms, conference rooms, restaurants and a banquet room. The hotel is a part of a national hotel chain with 17 hotels spread out over the country.⁷⁴

The conference centre is a modern complex. The centre houses about 120 rooms, conference rooms, auditorium, kiosk and restaurant. The hotel has specialised in providing the best facilities possible for carrying out a seminar for organisations.⁷⁵

The low budget hotel is a two star hotel with a peripheral location. The hotel houses 67 rooms and a restaurant. The hotel also offers free parking in front of the building. The hotel is a part of a large worldwide chain.⁷⁶

4.2 Challenges and possibilities in applied pricing

The city hotel has recently implemented RM. Before implementing RM they used what they call a standard way of pricing, the approach which most hotels have been using. The main idea was to use higher prices during weekdays, which are when business travellers use their hotel and lower prices during weekends when private travellers stay in the rooms. Besides the different pricing based on day of week they also had special holiday prices, for example during Christmas when

⁷⁴ The website of the city hotel (2007-04-25)

⁷⁵ The website of the conference centre (2007-04-30)

⁷⁶ The website of the low budget hotel (2007-04-30)

rooms are harder to sell. Vice versa prices would be higher during holidays when rooms are easy to sell for example during the annual town festival.⁷⁷

Week 11, 2007 the city hotel went live with RM and they are using it ever since. The biggest difference is that they now work with seven different price levels instead of the two they used to work with. The different prices can also occur during any day of the week so it is not necessarily cheaper during weekends anymore. This means that borders between weekdays and weekends as well as borders between high and low seasons are toned down. This is all done with the purpose of stimulating as well as smoothening demand and with a hope of increasing the profit. At the initiation of RM on the city hotel the sales department was given the task to complete a calendar showing all major events that takes place in the region. The calendar is used to find high and low season peaks that can be used in the RM pricing system.⁷⁸

The conference centre uses a Blue Ocean strategy. The hotel mostly focuses on business travellers and conferences and therefore the high seasons of the hotel are during spring and autumn. John believes that high and low season has been created by the hotels themselves and is therefore something that they will have to deal with.⁷⁹

The conference centre also acts as a buffer to local tourist hotels during summer. When the regular hotels are booked, the centre sells their rooms to tourists. John also explains that if a customer for example books a party or a conference in the hotel, they might get a discount on the room fare and that such customer at least will have the right to a negotiation.⁸⁰

The conference centre has a few big key-customers who have special contracts. The special contracts are not necessarily asked for, but rather something that the hotel gives to keep big customers happy and coming back. The respondent calls it customer care. The hotel actually calculates with discounts. They have named it opportunity costs and it means that they get a better position in the long run when negotiating if they give the discount on their own initiative instead of when customers are asking for it.⁸¹

⁷⁷ Interview with Lisa (2007-04-24)

⁷⁸ Ibid.

⁷⁹ Interview with John (2007-05-02)

⁸⁰ Ibid.

⁸¹ Ibid.

The low budget hotel does not use RM instead they focus on constant low pricing. Their main idea is to be the cheapest alternative and they are always trying to have a pricing that's 10-20 percent lower than their competitors.⁸² Just like the city hotel used to do the low budget hotel also uses different pricing during weekdays and weekends. The main ideas are the same; during weekdays rooms are sold to business travellers and during weekends rooms are sold to private travellers.⁸³

Instead of using RM the low budget hotel focuses on a strong concept that is promoted with the motto "Good service at a human pricing". The concept is used throughout the chain and works as a guideline for all effort being done. The price is always just for the room and just like on low price airlines everything else, such as breakfast, has to be bought as add-ons. "The price is cheap, it is up to every customer to decide whether it is worth it or not, it is kind of like Lidl."⁸⁴

4.3 Experienced market changes

Two of the respondents emphasised that the hotel market has changed during the last years. Lisa says that more and more guests book their rooms through Internet and travel agencies. She believes that the guests' way of booking and information availability has changed and that the hotel industry needs to change with it. Lisa says that guests today book later and later⁸⁵, Steven fills in saying that most bookings do not come in until four days before. "The guest has become more impulsive".⁸⁶

Steven believes that today's market is better for their hotel. When the customers have a better view of the alternatives they are more inclined to choose the low price alternative. "As long as the guests get a bed and adequate service they are happy".⁸⁷ Again this change in the market can be compared to low price airlines, where the customers just want to get from point A to point B. John is of a different view and believes that all guests should pay full price. "No matter the price you can not control the entire market, you are always going to loose some and win some customers".⁸⁸

⁸² Interview with Steven (2007-05-03)

⁸³ Ibid.

⁸⁴ Lidl = German low budget supermarket chain

⁸⁵ Interview with Lisa (2007-04-24)

⁸⁶ Interview with Steven (2007-05-03)

⁸⁷ Ibid.

⁸⁸ Interview with John (2007-05-02)

4.3.1 The lack of customer loyalty

The respondents all describe customer loyalty to be low, especially in the private markets.⁸⁹ When asked both Steven and Lisa answers that the price is very important when private guests choose a hotel.⁹⁰ Lisa believes the price to be one of the most important parts of selling rooms⁹¹, while Steven believes that there are a few factors that are more important; “(...) it is not the price that affects loyalty but the service rate”.⁹² Lisa thinks that the Internet has made customers less loyal. “A lot of customers are steered by price, especially when they can compare prices using the Internet”.⁹³

4.3.2 The greater need for planning

Since the city hotel is using RM it demands greater planning than the old system. The hotel manager and sales executive meet every week for a three to four hour long RM meeting, where they plan at least three months ahead. Besides the meeting the hotel manager has the possibility to change prices as often as she finds it necessary. Future bookings, competitors, pricing and events are major values when pricing with RM.⁹⁴

Just like the city hotel, the low budget hotel plans far ahead. During the interview Steven told us that he was planning for June, July and Christmas at the moment. “It is harder to affect bookings of tomorrow than the bookings further ahead”.⁹⁵

Steven and Lisa both empathises that the private guests are disloyal and very price sensitive.⁹⁶ However Steven adds that guests also need adequate service to be happy. “I can pay another 2000 crowns as long as I know that I will get good service and that the sales person cares”.⁹⁷ He even compares this with the home electronics industry; “If I want a television I would buy it where I get treated well”.⁹⁸

John believes that hotels need to listen to both customers and competitors. The conference centre always tries to keep their regular prices but there are exceptions to all rules. “If we can get

⁸⁹ Interviews with Lisa (2007-04-24), Steven (2007-05-03) and John (2007-05-02)

⁹⁰ Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

⁹¹ Interview with Lisa (2007-04-24)

⁹² Interview with Steven (2007-05-03)

⁹³ Interview with Lisa (2007-04-24)

⁹⁴ Ibid.

⁹⁵ Interview with Steven (2007-05-03)

⁹⁶ Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

⁹⁷ Interview with Steven (2007-05-03)

⁹⁸ Ibid.

a big conference during the summer then the price is negotiable”.⁹⁹ The respondent believes that customers pay full price in 90 percent of all bookings. It is up to the booking manager to make the decision whether to give a discount or not.¹⁰⁰

4.4 Difficulties of approaching segmented markets

4.4.1 Importance of the local market

All respondents agree on the importance of local markets. Even though it can be helpful to have the support of a national organisation and network, the local differences are vast and every hotel needs to focus on their own market.¹⁰¹ Both Lisa and Steven annually attend national conferences where they meet employees from other hotels. They both feel the importance of having a face on national co-workers.¹⁰² Steven explains that their hotel chain has a concept that runs through all hotels in the world and that their pricing is the same all over the world. The concept strengthens him in his work, but he pinpoints that he is the one responsible for the local market and the sales of his hotel.¹⁰³

Steven thinks that comparisons between hotels are important, but he thinks that comparison with local competitors can be of more use than comparison with sister hotels.¹⁰⁴ Lisa discusses in similar terms describing their need to keep an eye on local competitors as more important than comparison with the other 16 national sister hotels.¹⁰⁵

The conference centre focuses on the business segment and especially organisations. All associations need a place to meet, especially when they geographically spread and that is therefore a huge segment. The conference centre tries to find a local chapter and asks them when their next annual regional meeting or world congress takes place and then asks if they need a place to be gathered.¹⁰⁶

4.4.2 Tools for targeting specific market customers

The city hotel tries to entice customers with the possibility of buying whole packages of experiences instead of just renting out rooms. Their most popular package is one where guests

⁹⁹ Interview with John (2007-05-02)

¹⁰⁰ Ibid.

¹⁰¹ Interviews with Lisa (2007-04-24), Steven (2007-05-03) and John (2007-05-02)

¹⁰² Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

¹⁰³ Interview with Steven (2007-05-03)

¹⁰⁴ Ibid.

¹⁰⁵ Interview with Lisa (2007-04-24)

¹⁰⁶ Interview with John (2007-05-02)

get a dinner in the hotel restaurant and a boat trip combined with a stay in the hotel. Other examples of packages are a shopping package and a casino package.¹⁰⁷

The low budget hotel believes their price to be so low that they do not have to work with specific micro markets. Steven explains that their doors are open to anyone and they do not want to keep any customers locked out.¹⁰⁸

The conference centre is of the opinion that it is hard to divide the customers into specific segments. According to the respondent most groups have a very individual behaviour and he sees the so-called association market as the only relatively homogenous group with similar demands and requests.¹⁰⁹

4.4.3 Valuing customers

The conference centre always tries selling their rooms at full price. This means that they do not have as much fluctuation in estimated customer value.¹¹⁰ Steven explains that he usually wants to save 10 percent rooms for valuable customers.¹¹¹ “It happens that guests call last minute wanting to book four or more rooms over a long period, those are very valuable customers whom we do not want to give away to competitors”.¹¹² The city hotel always tries to get as much value as possible out of every customer. As mentioned earlier they use seven different price categories and through careful planning they constantly work towards getting, as much guests at the highest price allowed by the market.¹¹³

Both the city and the low budget hotel have membership programs through which they offer discounts.¹¹⁴ Lisa tells us that it is their only category discount. “(...) laws do not even allow different pricing on male and female haircuts”.¹¹⁵

The conference centre calculates the customer value based on the number of days customers stay in the hotel or use their conference premises.¹¹⁶ This has similarities with the opinion of the low

¹⁰⁷ Interview with Lisa (2007-04-24)

¹⁰⁸ Interview with Steven (2007-05-03)

¹⁰⁹ Interview with John (2007-05-02)

¹¹⁰ Ibid.

¹¹¹ Interview with Steven (2007-05-03)

¹¹² Ibid.

¹¹³ Interview with Lisa (2007-04-24)

¹¹⁴ Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

¹¹⁵ Interview with Lisa (2007-04-24)

¹¹⁶ Interview with John (2007-05-02)

budget hotel. Customers who stay longer can easily get discounts. When customers stay longer the costs and problems with bookings decrease since less rooms needs to be sold to fill the hotel. Steven tells that he can give free breakfast and Internet access to good customers staying longer.¹¹⁷

4.5 Keeping an eye on the customer

4.5.1 Gathering information

The low budget hotel does an annual questionnaire. Guests rate the hotels rooms, restaurant, service, booking etc. Besides the questionnaire the hotel also gathers market information through their membership database. The hotel chain has over 30,000 members who all get targeted marketing and discounts. The membership is free.¹¹⁸ The city hotel also has a membership program. They use it in a similar way sending targeted marketing through email and giving discounts. The hotel uses the database on a local as well as a regional level.¹¹⁹ Steven also tells about developments in their membership database. In the future members will be given questionnaires through Internet.¹²⁰

Steven argues that keeping up with local and regional news keeps him updated. ”You have to read newspapers, listen to people and the city, catching news on television etc. The more you listen the more information you will gather”.¹²¹ The respondent uses the information to slight adjustment in prices, direct marketing, or rather sales calls, and as chat during sales meetings and calls.¹²²

The conference centre is mainly an order-taking hotel, but the hope is to become more aggressive in terms of sales and marketing in the future. According to John most hotels ask the wrong questions when wanting the customers to evaluate their stay. They ask: “Were you pleased with the room, the food or some specific experience?” when what is actually important is to ask; “Did you achieve the result that you expected?” For instance the conference centre has evaluation systems and tools that can help their customers carrying out a better conference. John does not

¹¹⁷ Interview with Steven (2007-05-03)

¹¹⁸ Ibid.

¹¹⁹ Interview with Lisa (2007-04-24)

¹²⁰ Interview with Steven (2007-05-03)

¹²¹ Ibid.

¹²² Ibid.

think that price is the most important aspect when a potential hotel guest decides where to stay. On the contrary it is the extra services that are of importance.¹²³

4.5.2 Using hunch – supposition equals knowledge

All respondents consider supposition to be knowledge in a way.¹²⁴ When asked how they find problems with their pricing both Lisa and Steven mention the importance of sales and front staff.¹²⁵ The employees that are meeting guests are the ones who know when something is out of order and exactly what the guests like and dislike. John talks about the importance of constant evaluation instead of waiting for statistics. In this work it is important to involve employees in the strategy of the hotel. At the moment John argues that there would be a better understanding of the strategy among the staff if the hotel had more academics working for it.¹²⁶

4.5.3 Knowing the competition

Lisa feels that almost all local hotels are possible competitors. "... in [city name] there are so many, but all hotels have their own style or niche in some way".¹²⁷ The respondent believes that the location of the hotel is what attracts many guests. "...the international and continental atmosphere and the location by the water have quite the pull effect".¹²⁸ Steven agrees that local hotels are competitors but his hotel is foremost competing on the low budget market. The respondent recognizes three other hotels working on the low budget market, but he claims that their hotel has the lowest prices with a large margin.¹²⁹ The conference centre mainly competes with larger conference complexes. John explains that even if they compete with others, they feel unique and they are striving towards always being unique.¹³⁰

4.5.4 Staying ahead of competitors

Both Lisa and Steven use benchmarking as a tool to keep an eye on their main competitors.¹³¹ Every morning the manager of the city hotel uses The Bench¹³² to find out the local average booking rate and average price per room sold. The respondent also tells about a new system

¹²³ Interview with John (2007-05-02)

¹²⁴ Interviews with Lisa (2007-04-24), Steven (2007-05-03) and John (2007-05-02)

¹²⁵ Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

¹²⁶ Interview with John (2007-05-02)

¹²⁷ Ibid.

¹²⁸ Interview with Lisa (2007-04-24)

¹²⁹ Interview with Steven (2007-05-03)

¹³⁰ Interview with John (2007-05-02)

¹³¹ Interviews with Lisa (2007-04-24) and Steven (2007-05-03)

¹³² An Internet system for benchmarking specialised for the hospitality business sector (www.thebench.com)

similar to The Bench called RateView¹³³, which they have just started using. With RateView users can find out average prices on up to five different sales channels. This helps the manager when pricing up to three months ahead.¹³⁴ Steven also uses The Bench but instead of benchmarking with local hotels, he also compares his rates and bookings with larger hotels in regions close by. Further Steven reads Restauratören¹³⁵, which updates him on markets issues and competitors.¹³⁶

4.6 Evaluation of strategy

4.6.1 Opinion about Revenue Management

Steven considers that RM is about selling as much as possible. As the low budget hotel has a price which is very low they can not modify the price, but they do have lower prices during weekends so that they can control and have a more stable demand overall. They try to earn money through the rooms and not by the add-ons. They do however give away free breakfasts and other add-ons instead.¹³⁷

Lisa defines revenue management as flexible as one can change the price to influence the customers. The respondent believes that using revenue management will make it easier to have a stable demand; if a customer thinks that the price is too high then the hotel can recommend other dates, which have a lower price. Lisa considers this being equitable for the customer.¹³⁸

According to John RM is about setting the price in relation to the market. John does however not believe that the concept works everywhere; he believes that the concept applies to hotels in the city and in more populated areas. These hotels also use a system that finds out what the market price is and from that they can compare. John believes that if RM is going to work there has to be full information, free competition and the customer should not be loyal but should constantly think about him or herself and get the cheapest option.¹³⁹

John also believes that not everyone is that price sensitive and that quality triumphs low price; there are those who would rather pay 200-300 crowns extra and dine in a nice restaurant and sleep in a nice room with a comfortable bed. The difference between hotels that use RM and the

¹³³ An Internet system for benchmarking specialised for the hospitality business sector (<http://www.travelclick.net/Tours/rateview/index.html>)

¹³⁴ Interview with Lisa (2007-04-24)

¹³⁵ Restauratören is a weekly magazine with focus on the hotel and restaurant industry (www.restauratoren.se)

¹³⁶ Interview with Steven (2007-05-03)

¹³⁷ Ibid.

¹³⁸ Interview with Lisa (2007-04-24)

¹³⁹ Interview with John (2007-05-02)

conference centre is that the centre uses a price policy, which does not focus on the market or competition but on the customer itself and his or her preferences.¹⁴⁰

4.6.2 Blue Ocean

The blue ocean strategy is about focusing on a single product or market. John says that creating something unique does not have to be too hard. Instead of creating new products you can create the feeling of uniqueness in already existing products. The conference centre is focusing on creating experience conferences; "...an experience product is created in the encounter between the guests and the hotel".¹⁴¹ The respondent argues that understanding of guests needs only comes through interaction and compassion. The conference centre is therefore trying to create a compassionate conference centre that understands their guests' needs, their requested product and their estimated result. Together the conference centre and the guest then struggle to reach that result. It is also important to activate and stimulate the guests during their visit.¹⁴²

John explains that using a blue ocean strategy requires a very innovative and flexible organisation. The respondent sometimes feels the need for more academics working on the hotel, academics that can understand Blue Ocean and the strategy of the hotel better. He believes that Blue Ocean intangible and abstract and contradicts what hotel employees are traditionally used of. They usually have to follow clear orders and this strategy implies that they suddenly have to be reflective and creative. Besides it can easily create confusion among the staff if management starts talking about a Blue Ocean. John thinks that to get the right people working for you, is extremely difficult since people that can see themselves in a different context and navigate fast and on their own initiative are rarities in the hotel industry. John thinks that a lot of experience in the industry can sometimes be a disadvantage, since the employees often have been taught to think in a uniform way.¹⁴³

4.6.3 Thoughts on the future

The conference centre stands in front of a major strategic decision. To be more aggressive in sales they need to focus more on finding the correct market prices. "If we are going to lose it is going to be because of our product and not because of the price". To make these changes John

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Ibid.

¹⁴³ Ibid.

emphasises that there has to be changes made to the sales staff and the organisation of the sales department. He believes their competitors to be stronger sellers today.¹⁴⁴

John thinks that if the hotel can build a unique product or at least a better product than their competitors, the focus will stay on the product instead of the price. "Its like selling water, the price is different in Finland than in Sahara". If the market has a need for the product you sell the price can be set at a higher level. If you sell your unique product at the same price as your competitors are selling their less unique products, customers are likely to choose your product. The respondent believes that when selling a unique product there is no need to use RM.¹⁴⁵

Steven hopes that tomorrow's pricing will be more RM inspired. "I hope the next step is to think like SJ¹⁴⁶, a limited number of offers for every stage, meaning that the price will change depending on when the guest books the room".¹⁴⁷

Steven does not need any new tools to change his work. "All I need is an OK from above in the organisation".¹⁴⁸ The respondent thinks that it is important that any change is applied all over the organisation at all the different hotels at the same time. "The local work is a 100 % up to me but it should be applied from a central position".¹⁴⁹

The city hotel implemented RM in March this year and is now looking to develop the concept. The respondent is looking forward to implement revenue management on conferences and business guests. When implementing revenue management further and using it on business guests, the respondent feels that she will be more affected by the concept in her daily work. The development also includes today's contract guests. If the price is lower than the contract price they will get the lower price. In the future revenue management might change the business and conference market.¹⁵⁰

¹⁴⁴ Interview with John (2007-05-02)

¹⁴⁵ Ibid.

¹⁴⁶ Statens Järnvägar – Swedish state owned railway company

¹⁴⁷ Interview with Steven (2007-05-03)

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

¹⁵⁰ Interview with Lisa (2007-04-24)

5. ANALYSIS

In this chapter texts from chapter #3 literature review and #4 empirical findings are compared. The point is to find patterns where theory and empirical findings agree and disagree.

5.1 Applied pricing and approach towards optimising revenue

Since hotels aim to increase their revenue they must try to get the highest possible utilization of the capacity as well as charging the highest possible price. RM is a pricing strategy that has evolved in order to achieve these aims and rests on the supposition that everyone values an offered service differently. It has similarities with price-discrimination-, peak-user- and competition-based pricing. Besides RM have resemblances with transaction marketing. Using RM implies that the price fluctuates according to the demand, varies depending on the season and that the hotel constantly needs to compare its prices with the competitions.

The city hotel of our study has just implemented RM as its pricing policy in order to increase their profit and even out the demand. However CRM theory focuses on the more emotional aspects of the customers' decision. It suggests that a good relationship between the hotel and its guests creates a customer loyalty that makes the customer prefer the hotel instead of the competitors. A loyal guest will value relation highly and therefore be a less price sensitive guest. When giving discounts the conference centre practises giving a special contract to the guests, John calls it customer care. This pricing policy is supported by the thoughts of CRM, where focus is on the relationship with the guest instead of each transaction. With a CRM approach companies focus on creating value over time, which makes the revenue of the single transaction inferior to the revenue produced through out the relationship. CRM is therefore comparable with a value-based pricing, where the customers' satisfaction is in focus instead of the pure economic aspects.

John believes price to be more or less irrelevant and does not think that there is a need for RM as long as what one is selling is unique. The conference centre values quality and customer relationship when it comes to pricing; therefore makes use of a Blue Ocean strategy. The point is to make competition irrelevant as well as create and capture new demand. John believes that if the conference centre offers a service at the same price as its competitors, the uniqueness will most likely make customers choose the centre. Blue Ocean is a strategy, which has a focus on what, the customer values and wants and therefore it has links to the value based pricing.

The main idea of the low budget hotel is to be the cheapest alternative and they are always trying to have a price that is 10 to 20 percent lower than their competitors. This pricing policy is a typical example of competition-based pricing. This way the guests, who are price sensitive and appreciate simple things such as having a place to sleep chooses the low budget hotel. The low price of the room is what attracts these customers. There is a strong concept within the low budget hotel chain, which affects the choice of pricing strategy. The hotel positions itself as the cheapest alternative, which is an example of Porter's low cost competitive advantage.

5.2 A changing market forces change of strategy

5.2.1 A changing market

Lisa and Steven both mentioned changes in the market, which has lead them to change their approach to pricing. Cross empathises that customers are disloyal and often choose the cheaper alternative. This means that companies no longer have the power to set their own prices. CRM has a different approach to cope with the changing market. The theory criticises transaction marketing and dismisses it for constantly focusing on price rather than the customer.

CRM and RM agree that it is almost impossible to keep a balance between supply and demand. While CRM argues that frequent customers are most important, RM argues that pricing is the solution to the problem. This difference can be found in the arguments of the three respondents; while the city hotel applies RM, the low budget hotel and the conference centre have list prices and therefore are bound to find other competitive advantages. Blue Ocean strategy suggests that a company can make itself independent of the market through capturing new demand by being unique. Through creating a new demand the hotel makes itself independent from the market, hence the influence of supply and demand.

The city hotel has the opportunity to change their prices when necessary. The hotel uses seven different price categories, which for example changes when bookings are either low or high. Following the thoughts of Cross the city hotel uses the price as a tool for balancing supply and demand, trying to smoothen high and low seasons and the differences between weekends and weekdays.

The low budget hotel always tries to be the cheapest alternative while keeping up a good service and satisfied guests. CRM focuses on the fact that customers need good service to keep coming back.

John has the customers' needs in mind and the focus of the conference centre is therefore to be unique and make the customer satisfied. He believes that the experience of a conference guest is created in the interaction between the guest and the conference centre. Therefore it is impossible to create a standard package that suits all guests. The idea is to make a unique experience together with each customer, which is an example of a Blue Ocean strategy. John does not find it relevant to focus on the market instead of focusing on the customer.

Ritzer also brings up changes in the market. He believes that hospitality companies are letting the customer do a major part of the work and compares the development with the fast food industry. The low budget hotel focuses on having a low price and a good service. The hotel mainly sells rooms; all other products like breakfast and Internet availability are sold as add-ons. Steven compares their concept with the airline industries, where the market has changed and all the customers are interested in is a chair on a plane. Ritzer points out that the market of today focuses a lot on quantity and rapidity.

5.2.2 Dealing with a more impulsive customer

Lisa and Steven feel that their guests have become more impulsive; they are booking later and have become more price sensitive. RM brings up a major point; hotels can not save their stock for tomorrow; what is not sold today will not be sold at all. This has led to the city hotel increasing their focusing on the price.

The low budget hotel also focuses on the price but Steven considers that they already are the cheapest alternative and that they need to keep up the service to keep guests coming. The strategy of the low budget hotel has similarities with thoughts of both RM and CRM. Steven says that the price is important but that it comes in second hand to other factors such as service.

The change in customer attitude has made the need for planning greater. To meet to the changes in the market, all the hotels have to be more flexible. Lisa describes the possibility of changing the price as often as every hour and communicating it through Internet. The hotel has to explain so that the customer understands the constant change in price. Steven believes that customers

already have grown acquainted with constant changes in price through the railways and the airline industry. Cross empathises that changing the price often raises the need for good communication with a companies customers. The city hotel has weekly RM meetings where pricing is planned at least three months ahead. Steven has full authority to adjust the pricing of the low budget hotel and give away add-ons when selling. He also plans three months ahead believing that is harder to change tomorrow than it s to change next week. The conference centre has a list price that only varies according to high and low season and although John thinks that if only the product is good enough and unique the price will not be important. He equals the process to selling water in Sahara. This contradicts RM theory that describes the fact that customers only focus on their own economy.

The city hotel differentiates itself using packages where customers buy a room and get an experience included in the price. For example guests get a boat trip, a dinner at the hotel restaurant. The hotel arranges all excursions and almost acts like a travel agency. The low budget hotel focuses more on the concept of simplicity; easy is not unique but according to Steven it is what the market wants.

5.2.3 Using Internet as a sales and communication tool

All respondents agree on that the meeting between the customer and the hotel is important, as it gives the hotel the chance to answer questions and to show them around if needed. CRM puts a lot of focus on the relationship between the hotel and the customers. However Steven believes that booking a room through the Internet damages the hotel, as the personal contact gets reduced and the relationship between the customer and the hotel gets a smaller chance to evolve. This is why the low budget hotel prefers having a face-to-face meeting or some kind of interaction. In the conference centre bookings are made through the Internet, although most of its bookings come through the established relationships. Lisa says that the best way of selling for them is to have meetings with their business travellers, either on the hotels or by having a presentation at the companies.

5.2.4 Targeting segmented markets

Cross argues that companies can not sell to mass markets; instead they should focus on smaller segmented markets, where they can optimise their profit. The city hotel has followed Cross' recommendations and is optimising their revenue through differentiated pricing and locating segmented markets through selling packages.

Steven believes that the mass market is the best market; all customers are welcome. Cross' criticism is that there are no average customers and no average price. This means that companies focusing on mass markets will have a loss in potential revenue. According to Steven the strength of the low budget hotel lies in the worldwide concept of "good service at human prices". Cross upholds the fact that every customer has his or her needs and size of wallet. Steven believes that no matter the size of the wallet, many customers want the cheaper alternative when it comes to hotels. The conference centre only sell to segmented markets, it is not the market that is segmented but rather the product of the conference centre.

5.2.5 Gathering and using market information

Cross explains that companies need good intelligence when to find both the right segments to target and the most valuable customers. The conference centre is quite new in the private market and has poor marketing and knowledge channels. John wants to develop their market department. John believes that they have too little understanding of the market when pricing.

Lisa and Steven both gather information through questionnaires and free membership programs. The information gathered is used for marketing and self-improvements. However both of them feel that the most important intelligence is to know your customers as well as the prices and service rates that they are giving their customers. Both hotels use benchmarking daily to get a good insight in the market. Cross writes about the importance of analysing and storing the information gathered. None of the hotels examined have good channels to properly store and analyse their data effectively.

5.2.6 The role of staff in pricing

The employees of the city hotel have received training about RM but do not have authority to make decisions regarding pricing. According to Lisa the employees have got enough training to answer any questions that guests might have about the price. Lisa believes this to be very important because the employees need to explain how the pricing policy works so that guests do not feel deceived. The employees of the conference centre have nothing to do with the pricing and John therefore does not find training necessary. Steven has no guided principals from the headquarters about giving any kind of authority to the employees. He has however given the employees the authority to sell as much as possible, even if that means selling two rooms for the price of one and a half.

When giving employees empowerment, it is important that they get trained all the time and are given the authority to make decisions at any given time and situation. Supporters of this view argue that empowerment is needed since the guests interact with front staff. The front staff is the face of the hotel and it is therefore important that it has the authority to do what is necessary to please the guest. If the employees receive authority they feel more confident, as the hotel trusts them to do their work and this confidence will cause better service and happier employees. When the employees are happy and confident they will affect the guests in a positive way, which eventually will lead to a good relationship.

CRM confirms how important it is that the employees are doing their best to create a good relationship, as they are the one to interact with the guests. However a report states that there is no connection between the profitability of a company and customer satisfaction. RM does not value the relationship in the same way; RM focuses on the sales moment as a transaction rather than an interaction.

The conference centre does not practice empowerment when it comes to pricing. According to John the front staff is only to follow instructions and charge what it says on the cash register. John thinks that there can not be democracy amongst 165 persons and that an organisation needs a clear hierarchy. Therefore the employees do not have to get trained or educated about the pricing.

Lisa believes that employees of the city hotel are able of answering questions from the guests and explain why the new pricing policy is better. She finds this very important. The city hotel uses two kinds of bonus systems; the difference in the systems is that one affects all the employees if the hotel has a good year, while the other one affects each of the employees individually when they have achieved something good. This encourages the employees to do their best and to take some action when it is needed. So the city hotel does practice empowerment on an everyday basis but not when it comes to the pricing. At the conference centre the front staff has nothing to do with the pricing and therefore it does not have any kind of authority in this area.

5.2.7 The controvert of using supposition as knowledge

Cross emphasises that decisions concerning pricing and the market should be made based on knowledge and not supposition. All of the hotels mentioned the use of supposition to understand the market. For example Steven mentioned that the employees with direct customer contact are the ones to notice, when something is wrong and when the guests are satisfied. The hotels seem to use supposition as a fuse, discovering mistakes in for example pricing.

Lisa describes the front staff's role in making the customer understand their pricing system. Cross also considers it important to make customers understand why they pay more or less. Since prices can change more than one time a day, Lisa finds it important to inform every potential customer about the pricing system.

5.2.8 Saving rooms for valuable customers

Cross pleads that companies should not sell their products to the first customer in line. Instead he states that some customers are more valuable than others. Steven is of the opinion that all customers are welcome, but he also states that some guests are more valuable than others. For example Steven usually tries to keep 10 percent of his hotels rooms not booked in case customers who are planning on a longer stay will show up.

The city hotel works with RM when pricing, always trying to get as much value out of every customer or best put every day. The conference centre does not work with discounts; instead they believe every customer to be valuable. This also has its roots in the more cost-based pricing of the conference centre.

6. CONCLUSIONS

This is where the study makes its points; answering the questions asked. The goal is to present the study's conclusions in a short and powerful text. The chapter begins with a repetition of the questions at issue, asked in the beginning of the study.

Questions at issue

1. Which possibilities and difficulties do hotels face when optimising their revenue?
 2. In which way can hotels work with pricing strategy to balance supply and demand?
 3. How does the choice of pricing strategy affect the relation between hotels and their customers?
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6.1 The struggle of optimising revenue

We find that the most important focus of RM, besides being a tool for optimising revenue, is the fact that it gives hotels an opportunity to even out demand. We find this important since a stable demand enables hotels to keep a constantly high service level and please different groups of customer no matter their size of wallet. We also see possibilities that the increased market knowledge, gained through working with RM, will facilitate the hotel with a better planning of their activities and assist them in setting the right price at the right time. We also believe that increased market information will help hotels identify the needs of their customers and make it easier to adjust to these requirements. We believe that a great challenge when using RM, is to keep guests satisfied and content with the fluctuant pricing system. We see a potential risk of loyal customers being disappointed that their loyalty is not rewarded when they find out that a first-time guest is getting a lower price for the exactly same service due to the prevailing market circumstances. According to RM hotels should try to get as much value possible out of every customer. At least that is the perspective of hotel management. From a customer point of view it might rather be: Does this approach necessarily imply giving the highest possible value for money to the customer?

We argue that both Blue Ocean and CRM have a reversed way of looking upon things, where the focus is on the customer and not on the market, thereby avoiding “turning its back towards the customer” as John put it. Blue Ocean strategy has its focus on the customer and wants to create a unique experience and relation with each customer. However the challenge we find with such a focus is that the hotel by ignoring the market risks losing the ability to face its competitors. Even if competition is made less important it is still going to exist and even if market forces are weaker

they still exist and must be counted upon. The main idea of Blue Ocean is to make products unique. We believe that even if unique products do not suffer from direct competition it suffers from substitutes. John says that selling a unique product is like selling water in Sahara. We feel that he forgets about the companies selling beer and coke in Sahara. Even if it is not water it still focuses on meeting the same need as water; thirst. We strongly imply that it is not enough for a company to just focus on its own strength and weaknesses, thereby ignoring its surroundings.

A great possibility with CRM is to optimise pricing while tying the customers to the hotel, thereby increasing customer loyalty and revenue. The challenge with CRM as we see it is to create a relation with each customer as every individual has its own preferences and values. Another difficulty is that even if the customer values the service highly that does not mean that the price is insignificant. The importance of price in customer satisfaction is questionable. Or at least it should be according to us.

We believe that Ritzer's opinion about the increasing standardisation has certain relevance in the changing market of today. For instance constant benchmarking between hotels when deciding on their pricing implies a risk of many hotels offering similar services, which can make it hard for customers to tell the difference. Standardised offers, focusing on speed instead of quality and employees behaving like robots are phenomena known from the fast food industry and according to Ritzer they also constitute a treat to the rest of the hospitality sector, including the hotel industry. We believe that low budget segment hotels need to examine their development to stay away from traps. As a contrast to the fast food industry an anti-movement has evolved in the shape of the slow food idea. In same way Blue Ocean can be said to go against the conventional ideas in the rest of the hotel industry by clearly recommending organisations to try to different. We don not recommend all hotels to use Blue Ocean, as much as we feel the need of development in more areas than revenue. The main challenge of optimising revenue could be to find the right middle ground; balancing service and customer relations with gain in revenues and efficiency.

6.2 The art of finding balance

We believe RM to be a tool with indisputable qualities in balancing capacity with demand and thereby optimising revenue. Hotels aiming to increase their revenue must get the highest utilisation of their capacity at the same time as they are charging the highest possible price. We have established that price is the outmost effective tool when trying to affect demand. It might sound easy but the real challenge is knowing how to set the right price; triggering demand and

optimising revenue at the same time. According to us the most important aspect when balancing supply and demand is to use information to know when to lower the price and when to hold out. RM has the tools for gathering, using and storing the right information. Throughout the study we have found different channels that can be used to gather information and plan ahead.

Benchmarking gives managers a good view of prices and booking rates of competitors. Information can be used to change prices and evaluate the hotels own success rate. Special calendars can be made by hotels to keep track of holidays and other events that affect their demand, hence their bookings, which in turn affect the price. Through statistics managers know what to expect from booking rates and it gives a good hunch of expected demand. History and statistics also have the advantage of long-term planning; hotels that have operated many years should have a good idea of which demand that is expected.

CRM argues that since the demand is smaller than the supply hospitality companies must focus on gaining frequent customers. Gaining frequent customers that pay full price instead affecting demand through pricing is similar to the approach of Blue Ocean. Blue Ocean strategy points out that demand is not necessarily gained but can also be created. We believe that to be a half-truth. We accept the fact that hotels can affect their demand both by uniqueness and relationships but we also believe the price to have an effect. No matter which service rates, relations, experiences or uniqueness a service has; the price tag is going to count. If a hotel wants to reach out to more than a small micro market we believe RM to be the stronger alternative.

6.3 Making room for all guests

Ritzer points out that all customers are different and it is not enough to divide them into different segments when it comes to price. Hotels have to adjust to guests that prefer a higher level of service and to be lead by the hand as well. We consider that hotels choice of strategy effects expectations of guest behaviour. For example hotels working with RM might expect the customers to be rational and do all the work by themselves because that is what the theory says. Believing that guests will always make an active search in their favour might make hotels cut down on important activities such as marketing and customer care. This implies a focus on each transaction and a risk that the hotel exaggerates their price focus and might slip up and cut down on their service or other core values. CRM builds relations but our critique can be reversed; we are sure that some customers only want a cheap night and are not interested in building relations. It will therefore be an unnecessary effort to try and treat them in a special way. Blue Ocean can be criticised for assuming that being unique is equal to being good in the perception of all

customers. There are most probably niche groups some who are interested in uniqueness but many people often just want things simple and as cheap as possible.

We find that different sales channels affect customer differently. Meeting the customer for example gives the hotel and the customer a chance to interact and form what the conference centre believes to be experiences. We agree that using Internet is a good way of communicating for hotels that change their price often. Internet makes it possible to communicate “minute prices”. The problem with Internet is the lack of personal interaction; we believe that one can not form a unique experience without personal interaction. We mean that customers using Internet when booking should be personally contacted as well, at least important customers or larger groups and company customers.

We feel that staff is an important resource that most hotels neglect. It is the staff that meets the customers, communicates with them and analyses them. A higher degree of empowerment among employees can increase the chances of creating and obtaining a relation with the customer, as well as making it possible for the staff to solve unexpected problems. Thus we feel that the employees should be used for gathering information about the customers, as well as sharing their views and ideas with management. This information should then be taken into consideration when management is to make decisions. At the moment the tools used for pricing in RM are based on statistical figures of buying behaviour and benchmarking the hotel in comparison with its competitors. Yet the customer’s individual experience and preferences are not taken into consideration. We feel strongly for RM arguments that staff needs more intention and greater space to act.

Moreover we see further potential for hotels when it comes to making use of staff. The role of the staff is important within RM and by recognising front staff as key players they will be more motivated and help the hotel in profiling themselves in the mind of the customer. Having a clear profile internally will make it easier for all employees to work towards the same goals and thereby also create a better image in the mind of the guests.

7. SUGGESTION OF FURTHER STUDIES

We believe that this study is covering the field in a way so that our findings can even be used on a more general level. We believe that the field that we have covered are interesting and that much more scientific research that combines a financial approach with a CRM approach would be an interesting field to cover more in-depth. Our study has a clear management perspective and we consider that an approach that even includes a front staff point of view could be an interesting perspective for further studies. We therefore suggest that other researchers within management follow up on the work we have started an even includes employees on lower levels.

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Oral sources

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Interview with Lisa (2007-04-24) at the city hotel, 10 a.m. to 11.30 a.m.

Interview with Steven (2007-05-03) at the low budget hotel, 8.30 a.m. to 10 p.m.

Electronic sources

The Bench: www.thebench.com (2007-04-27)

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The website of the city hotel (2007-04-25)

The website of the conference centre (2007-04-30)

The website of the low budget hotel (2007-04-30)

RateVIEW: <http://www.travelclick.net/Tours/rateview/index.html> (2007-04-27)

APPENDIX

Guiding questions

Runway; differentiated pricing

- How did you use to work with differentiated pricing (before RM was implemented) [in broad outline]?
- How does it differentiate from the work today (regarding RM) [in broad outline]?
- How do you reach the right customer with the right price at the right time?

RM

- Has RM given a positive influence since its implementation?
- How do you perceive RM and its influence?
- How was the procedure of the RM implementation (centrally/locally, management/front staff level)?
- Did you experience any problems or difficulties regarding RM?
- Is RM being managed centrally or locally in the hotel? How does that influence the work?
- In which way are attention drawn to local market differences?
- How is the RM work being evaluated?

Market & Information

- How do you work with different market segments?
- Which segment or niche is your target group?
- Which role does the customer play in pricing according to RM?
- How was the role of the customer in pricing before RM?
- How do you collect information regarding the segments?
- Do you have your own databases?
- How is the collected information being handled?
- Who has access to the collected information?
- Which are your extern information sources?
- How do you secure the quality of the information sources?

Sales

- How do you sell and where do your sales take place?
- How do you work with rewarding systems?
- How is price being communicated to extern booking sources?
- Is the price level one and the same on all your booking alternatives?
- (If yes above): How is the commission being dealt with, differences in currency etc.?
- How is internet being used as a tool in the selling process?
- Which problems are related with internet as a sales field?

The customer

- How do you make the customers accept your pricing policy?
- How do you reach your selected segments without collisions?
- Have you had comments from clients regarding the changes since the implementation of RM?
- What tools do you have to discover shortcomings regarding the pricing?

Employees

- How did the hotel work with its front line staff at the implementation of RM?
- Which education have the employees conducted in relation to the implementation of RM?
- Have the tasks of the front line staff changed since the implementation of RM?
- Which authority do the employees have regarding RM?
- To which degree do you feel that the employees are aware of RM?

Final questions

- What are the advantages and disadvantages of RM according to you?
- What is the next step (in your opinion)?