Dynamic pricing agreements of Norwegian hotels from the corporate accounts perspective

Jouni Hyrkäs
A common problem in the hospitality industry, perishable products and services, has led hoteliers to seek for new strategies in their pricing. Revenue management is a relatively new science that mixes together different revenue optimizing strategies. Dynamic pricing, a part of revenue management, is a familiar concept in the hotel industry and was presented to buyers about a decade ago. Dynamic pricing is already in use with the published daily rates of hotels, and increasingly with corporate clients. In dynamic pricing, the daily rate follows the demand and it is controlled by a revenue manager or sophisticated automated systems. There are buyers who perceive dynamic pricing as a positive value and others who perceive it as a negative value to their business. The question is how hotels can successfully implement a communication strategy that increases their customers’ acceptance towards dynamic pricing.

The purpose of this thesis is to determine the reasons behind the negative perceptions of the corporate customers who rather use static accommodation agreements than agreements based on dynamic pricing. The thesis focuses on buyers who use accommodation services in Norway. This study tries to understand what corporate customers think about the dynamic pricing and how much they know about the topic.

Literature about revenue management and dynamic pricing is scarce. For this reason, the qualitative research method was chosen to support and strengthen the secondary data. The primary data was gathered by interviewing companies in English or Norwegian. The interviews were high-structured, because the author wanted to penetrate the research problem and to find certain patterns in the research sample. The companies were interviewed face-to-face, on telephone or by email.

The results revealed that the buyers are not familiar with dynamic pricing and do not see how they could benefit from it. In general, the customers wanted to continue to use the static corporate agreements and not dynamic pricing. The information they have received from the hotels was mostly in the form of price examples that did not suit their travel profile. Further information and open communication were wished from the suppliers’ side. Dynamic pricing was also seen as harmful for the customer relations, even though modern revenue management should be customer-oriented. The companies acknowledged that dynamic pricing is here to stay and they were willing to test it in the form of hybrid agreements if their key destinations were not involved.

Key words
Dynamic pricing, revenue management, RevPAR, corporate accommodation agreement, Norwegian hotel industry, revenue
# Table of contents

1 Introduction.................................................................................................................... 1  
   1.1 Purpose and the objective of the thesis ............................................................ 2  
   1.2 Research problem and the scope of study.................................................... 3  
   1.3 Key concepts..................................................................................................... 4  
2 Price strategies........................................................................................................... 6  
   2.1 Traditional pricing strategies.......................................................................... 6  
   2.2 Revenue management...................................................................................... 7  
      2.2.1 Utilisation of technology .......................................................................... 9  
      2.2.2 On-line distribution channels .................................................................. 10  
      2.2.3 Forecasting............................................................................................... 12  
      2.2.4 RevPAR.................................................................................................... 13  
      2.2.5 Discounting.............................................................................................. 14  
      2.2.6 Location of hotels and rooms................................................................... 15  
      2.2.7 Future of revenue management............................................................... 15  
   2.3 Hotel industry’s pricing methods .................................................................... 16  
      2.3.1 Non-price methods .................................................................................. 17  
      2.3.2 Price-based methods .............................................................................. 17  
      2.3.3 Corporate agreements.............................................................................. 18  
3 Dynamic pricing......................................................................................................... 19  
   3.1 Benefits for both parties.................................................................................. 20  
   3.2 Problems to be solved .................................................................................... 21  
   3.3 Implementation demands for communication strategy.................................. 22  
4 Empirical research .................................................................................................... 24  
   4.1 Norwegian hotel markets.............................................................................. 24  
   4.2 The purpose and the objective of the research............................................. 25  
   4.3 Selection of interviewees............................................................................... 25  
   4.4 Research method............................................................................................ 27  
   4.5 Data analysis..................................................................................................... 29  
5 The results.................................................................................................................. 32  
   5.1 Dynamic pricing from companies’ point of view.......................................... 32  
   5.2 Dynamic pricing in practice.......................................................................... 33  
   5.3 Conditions for agreements.......................................................................... 35  
   5.4 Benefits and drawbacks............................................................................... 37
5.5 Future aspects .............................................................................................................. 38
5.6 Summary of the results.............................................................................................. 39
6 Discussion...................................................................................................................... 41
6.1 Main results in a nutshell......................................................................................... 41
6.2 Validity and reliability ............................................................................................ 43
6.3 Recommendations to the hotels.............................................................................. 44
6.4 Ideas for further research....................................................................................... 46
6.5 Reflections on the thesis process............................................................................ 47
Bibliography ................................................................................................................... 49
Appendices ..................................................................................................................... 54
Appendix 1. Thesis timetable......................................................................................... 54
Appendix 2. Invitation to the interview......................................................................... 55
Appendix 3. The interview questions ........................................................................... 56
Appendix 4. Overlay matrix of investigative questions .................................................. 58
1 Introduction

The author has a strong hotel background and the interest in the pricing strategies of the hospitality industry gave the idea for the thesis. The author also knew that there were discussions between hotels and their customers about the new pricing strategy, which many hotels want to implement as part of their business operations. The problem was that many of the buyers try to fight against the change and the author wanted to determine the reasons behind this. The research was done in Norway, because the author lives in the country. This thesis discusses corporate agreement dynamic pricing from the point of view of corporate accounts with an eye on Norwegian accommodation services.

Figure 1. Summary of the thesis structure.

For better understanding how hotel pricing strategies differ from other industries the reader is first introduced to traditional pricing strategies and after that to revenue management—a pricing strategy characteristic to hotel and flight industry. According to Forgacs (2010, 3), revenue management is a mix of different revenue maximization strategies and procedures that together increases the profitability of the chosen business. Similarity of revenue management to traditional pricing is that both are result of proactive strategic thinking in the long-term. The difference between these two pricing strategies is that in revenue management the product or service must be non-storable (Forgacs 2010, 6-8). The reader understands the reasons behind revenue management and how daily room rates fluctuate after demand. Modern revenue management should consider the vast technological possibilities and changes of the key measurements of revenue management in the future.
To understand the concept of revenue management is the key in understanding dynamic pricing, which hotel industry wants to implement as a new type of corporate agreement strategy. Forgacs (2010, 47) explains that dynamic pricing is a tactic where a hotel prices its rooms based on on-time market information and where pricing is done on terms of customers and how much each customer segment is willing to pay on that precise moment. Hotel agreements are based on annual accommodation volume of customers. In dynamic pricing agreements customers get a certain discount percentage from the fluctuating daily rates, whereas the traditional static agreements have only fixed rates, which do not change after demand.

Hotels are very familiar with dynamic pricing, but there are still some problems around it. Even though dynamic pricing increases hotel revenues and decreases travel costs of the customers, hotels have not been successful to give enough information about it to buyers. It is argued that to successfully implement dynamic pricing the hotel must create a communication strategy involving all the stakeholders in the process. For instance, if client managers or other persons working with customers do not know the principles of revenue management or dynamic pricing, it becomes rather difficult for customers to accept new pricing methods, simply because they do not understand them (Hayes & Miller 2011, 438-439). This thesis shows that customers wish to have more information and open communication with hotels. It is worrying that not even travel managers were fully familiar with dynamic pricing and how they could use different on-line booking channels as their tool.

1.1 Purpose and the objective of the thesis

Dynamic pricing was presented by the international hotel chains a while ago right after the airliner industry, but even today it divides the opinions of hoteliers and customers alike. Dynamic pricing is already used with rack rates (published rates), but not necessarily with corporate agreement rates that are still in most cases static. In dynamic pricing, daily rate can fluctuate according to demand and the rate of each customer segment in respective distribution channels is controlled by revenue manager(s) of the hotel. Accommodation agreements are based on estimated annual volume companies promise to provide to certain properties or hotel chains. The larger the volume is, the larger the discount will be. Price strategies differ from hotel to hotel and chain to chain.

The results of the thesis help hotels in Norway determine what their customers think about dynamic pricing, and do customers understand the possible benefits of it compared to traditional agreement pricing. The results give answers from buyers’ aspect how dynamic pricing
works in practice and what is expected from the future agreements. Also future aspects of the corporate accounts are shown in the results.

The outcome of the research can also be applied to other customer groups, as well, like leisure, incentive and meeting segments. The results of this thesis help Norwegian hotels to further investigate the topic and base their pricing strategies on the research findings. This paper offers valuable information also for Travel Managers and other professionals who want to have more information of the topic. The studied companies are not identified, neither their names are used in the thesis. This is to guarantee that the corporate accounts’ strategies are not revealed to hotels or to public, and that both parties have equal and fair business opportunities during agreement negotiations.

1.2 Research problem and the scope of study

The main research problem is how to get the companies to use dynamic pricing and to determine what they are thinking if a hotel chain changes its pricing from static and more traditional corporate agreement pricing to dynamic pricing according to the principles of revenue management. The answers to the main research problem are found with the following investigative questions (see also appendix 4 for the overlay matrix of the investigative questions):

- How do the companies see dynamic pricing?
- How do the companies see dynamic pricing works in practice?
- What sort of dynamic pricing agreements are there?
- What benefits and drawbacks do the companies see?
- How do the companies see the future of dynamic pricing?

The thesis combines different written sources with company interviews and qualitative research method providing important information and a holistic picture about the current attitudes towards dynamic pricing for the whole hotel industry in Norway. This paper concentrates on examining the opinions of corporate accounts using accommodation services in Norway leaving out leisure and MICE (meetings, incentives, conferences and exhibitions) segments or other hotels outside the country. The thesis does not cover marketing activities or revenue management of restaurants, rental cars, trains, spas or other non-storable services, but only the hotel revenue management. In addition, the thesis does not go deep in possible technological solutions available in the markets nor does it explain mathematical calculations of
revenue management and dynamic pricing. The whole concept of revenue management and dynamic pricing is a complicated new field of science and this thesis does not cover, unfortunately, all the areas of it (Hayes & Miller 2011, 11).

The thesis gives Norwegian hotel industry important information from the surrounding markets and new ideas and suggestions for better cooperation between Norwegian hotel industry and its customers. The industry also gets a good ground, on which it can base its pricing strategies and technological solution plans.

1.3 Key concepts

Revenue can be calculated by multiplying the number of rooms sold with the room price (Hayes & Miller 2011, 3). In modern hospitality industry room revenue is one of the most important factors that is carefully followed and where the revenue management strategies are based on (Forgacs 2010, 14).

Revenue management is a pricing strategy that is most commonly used by hotel and airline industries to maximize revenues by reflecting past events with future alternatives. It is important that the sold product or service can be counted, but not stored. (Besanko, Dranove, Shanley & Schaefer 2010, 419; Salerno.) Revenue management is a complex term that is a mix of price control, revenue flow control, distribution channel control, marketing activities, financial operations etc (Forgacs 2010, 3). Revenue management of a hotel, cluster of hotels or a whole chain is controlled by a revenue manager or several revenue managers (Hayes & Miller 2011, 11).

RevPAR comes from the words revenue per available room. RevPAR can be calculated by dividing the total room revenue in a certain time period by unsold rooms in the same period. The other option is multiplying the average daily room rate by the occupancy rate. (Hayes & Miller 2011, 21.) Both result alternatives give a ratio that measures daily performance of a hotel including only room revenue and excluding breakfast, discounts and other extra services. (Marriott Corp Annual Report 2006.) In short, RevPAR indicates how much hotel management has been able to turn its business potential into money (Forgacs 2010, 16).

Dynamic pricing is closely linked to revenue management where demand has an important role in affecting the hotel prices. Dynamic pricing is a method, where the hotel sets its pricing based on real-time market information, and where pricing follows customers’ willingness to
pay at that moment (Forgacs 2010, 47). In dynamic price agreements buyers get a certain dis-
count from the hotel's best available rate (BAR) based on annual accommodation volume
(Mannix 2008, 35). The discount usually applies to all the different room categories.

**Corporate agreements** are used to increase the loyalty of a buyer who gets a discounted,
either static or dynamic, room rate based on their annual accommodation volume (Hayes &
Miller 2011, 224). Hayes and Miller (2011, 109) continues that those segments who buy large
numbers of room nights usually are more aware of the rates and therefore get better prices
compared to smaller buyers. Agreement rates can be closed during peak periods or due to
other exceptions in the negotiated agreement. In most cases, different room categories have
different negotiated rates.
2 Price strategies

Companies should concentrate on strategic pricing rather than traditional pricing. It is common that those companies who do not use strategic pricing earn less in the same markets compared to those with intended price strategies. (Hogan & Nagle 2006, 1.) Pricing should strengthen the company’s market position, increase market share and be based on long-term strategy and not on short-term decisions (Simon 1989, 133; Forgacs 2010, 77). On the other hand, hotels should not ignore market fluctuations in case of economic depression or when markets are recovering (Enz, Canina & Lomanno 2010, 7).

2.1 Traditional pricing strategies

Strategic pricing should be a mix of value-based, proactive and profit-driven pricing. Different customer groups value product or service in different ways. For a company it is important to know precisely what their customers want and what they value in the product. Some customers, for instance, do not need the services around the product. The company should act according to this and sell the core product and services around it separately (Hogan & Nagle 2006, 8-9). Hayes and Miller (2011, 94) argue that companies should price their products and services based on how their customers value the sold items and services.

Pricing can also be done in a way that the core service or product has a lower price than services around it. The price for the supplementary services should be high if a company can create economies of scale. For a company to understand customer value better, it should use human intelligence of its own field agents. With good benchmarking the company can reach information about the price range the customer is willing to pay. (Hollensen 2007, 484-485.)

Today, companies’ pricing strategies are affected by external factors even more than before. Companies should actively be involved in pricing of surrounding markets (large buyers, competitors etc.) with spreading information, clear pricing policies and forced cooperation. Customers are more professional and well-aware about different pricing mechanisms and they are centralizing their purchases to professional retailers. (Hogan & Nagle 2006, 10.) As an example of buyers using professional distribution channels in the hotel industry we can mention Rauta-Ruukki Group from Finland that started to use Internet based reservation system, Hotelzon, as their main booking channel in 2007 (Härkönen 2007, 6-7). Internet works as an important information channel. The above mentioned external factors combined with seller’s
poor pricing strategies and technology or lack of it results that pricing will become reactive rather than proactive. (Hogan & Nagle 2006, 10.)

Hogan and Nagle (2006, 11) argue that even though every company wants to maximize its profits, fear of losing market share hinders them to make radical decisions. Hogan and Nagle continue that a firm should dare to take an advantage of the market situation by lowering the prices and decrease its market share by raising prices.

Compared to theories of i.e. revenue maximisation, the advantage of profit maximisation is that it covers alternative revenue and cost pricing ramifications. When trying to maximize profits it is important to make the difference between long-term and short-term effects. For instance, in times of recession should a company decrease funding of research and development in order to increase its profits? (Simon 1989, 10.)

2.2 Revenue management

Revenue management is a well-known concept in hotel industry today, but originally it was used by airline industry. Hotels started to realise revenue management in the end of 1980’s and today it is one of the most important pricing strategies in hotel industry. (REVPAR GURU 2010.) Revenue management is also known as yield management that is a term originally used by the airline industry (Forgacs 2010, 5). Besanko et al. (2010, 419) determine revenue management as certain techniques that maximize revenues by binding mathematical optimization models together with future alternatives that reflect the past events. For instance, airline industry uses revenue management in pricing decisions, determining fares in different price categories and reacting to changes in demand (Besanko et al. 2010, 419).

With the help of revenue management hotels try to cover high fixed costs first by selling a room with a lower rate and after the fixed costs are covered the rates should be increased in order to optimize revenue and profits. The overall profit will be affected by the extra revenue in cases where variable costs are small. (Forgacs 2010, 6-10; Salerno.) According to Salerno, in his article \textit{What the Heck is Hotel Revenue Management, Anyway?}, revenue management cannot be applied in every product or service. For revenue management to be applicable, sold resources should be possible to count, they cannot be stored, and that they are possible to be sold in different price for different segments (Forgacs 2010, 6-10).
Table 1. Examples of different imaginary companies using accommodation services at the same hotel during the same time period. Unit EUR per night.

<table>
<thead>
<tr>
<th></th>
<th>TUESDAY</th>
<th>WEDNESDAY</th>
<th>THURSDAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>B</td>
<td>0</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>C</td>
<td>0</td>
<td>270</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 1 illustrates three imaginary companies that wish to use the same hotel under the same time period from Tuesday till Thursday. Company A promises to pay 90 EUR per night from Tuesday to Thursday. Total revenue will thus be 270 EUR.

Company C needs a room at the same hotel as Company A and B, but only for one night from Tuesday to Wednesday. Because the hotel does not have many rooms left it needs to set a price where company C can stay overnight.

The price cannot be 90 EUR as it is for Company A, but it has to be at least 270 EUR for one night in order to cover the revenue loss of the blockage it caused to the hotel. The same applies with company B. It is assumed that all the companies wanted the same room category.

Meeting revenue management works with same principles. Depending on strategies hotel can deny a company for having a one day meeting in hope of having 3 days meeting instead. Hotel can also chose only those customers as meeting clients who make room reservations. Revenue management covers in the future other hotel operations, as well, including food & beverage, spa and golf functions (Kimes 2008, 14-15).

Since different customers are willing to pay different price for the same room a hotel can segment its markets. Revenue management is a pricing, but not a discounting strategy (Canina & Enz 2006a, 6; Withiam 2001, 4). The strategy is most effective, when revenue manager has found the segments that are willing to pay the premium and those who are more sensitive to prices, when considering the time the service is consumed or the booking made. If revenue management is done in a correct way, it should result in satisfied customers that feel their special needs have been heard. (Withiam 2001, 4-5.)

Salerno argues that hotels should concentrate on occupancy first and after that to room rates. When occupancy increases, so does the average room rate, also known as ARR (Salerno). At the same time hotels should have the courage to keep their room rates higher than their com-
petitors, because lower rates do not necessarily guarantee good occupancy numbers, but in-
creases overall performance (Enz et al. 2010, 7-8, 22). Enz et al. (2010, 22) argue that with moderate pricing a hotel results to the best revenue management policies. Overbooking is a common practice to maximize occupancy numbers and increase revenues, but it is interesting to note, that hotels have not succeed in selling non-refundable reservations in their efforts to make more profits (Withiam 2001, 7).

2.2.1 Utilisation of technology

REVPAR GURU (2010) argues that effective revenue management should be automated in order to leverage to full potential. There are some suppliers in the market, yet few for hotels. Many yielding programmes today are updating information only once a day, even though the reaction should happen on real time. (REVPAR GURU 2010.) Hotels should, however, carefully evaluate which of the revenue management systems suit for them and not believe all the promises system providers give (Forgacs 2010, 96).

REVPAR GURU (2010) encourages hotels to trust more in the available modern software by claiming that:

But the truth is, the only way to optimally manage the overwhelming number of sales channels is with the help of a comprehensive revenue management system that is capable of identifying demand levels on any one of hundreds of online portals where a hotel has inventory posted, then adjusting that rate or inventory allocation to maximize the revenue earned. Without automated channel management, this would be virtually impossible for even a talented team of personnel.

Technology is an important factor as competitive advantage. With the help of technology it is possible to influence customer behaviour or even create barriers for competitors. If the markets are mature and technology has existed for a long period of time, the suppliers should offer better quality and new features in terms of technical solutions. Companies should also realise that some known customer needs can be easily satisfied with new technology. (Johnson, Scholes & Whittington 2008, 497-500.)

Revenue management systems are complex, because revenue management itself involves many different aspects from price management and distribution channels to forecasting among other things. Forgacs (2010, 95) divides revenue management systems in recommendation and decision systems, where the first one needs human interference for decision-making,
and the latter one processes automated decisions. Both of the systems can monitor and forecast, but the decision system can even change rates and react to the occupancy of a hotel automatically (Forgacs 2010, 95-96).

Examples of benefits in using modern technology in yielding are according to REVPAR GURU (2010):

- No human interference needed
- Faster reactions to demand (on accuracy of one minute)
- Warning system for low room occupancy
- Warning system for wrong room rate
- Room rates calculated according to the real demand, not with human emotions and
- Automated inventory for the best booking channel.

Human interference should not be forgotten, even though automated systems are able to forecast demand and availability, analyze information, competitions and group business, to name rates and produce reports. The automated systems together with highly qualified revenue managers create the best results for the business of hotels. (Forgacs 2010, 96-99.)

### 2.2.2 On-line distribution channels

Distribution channels are sources to customers or tools utilized to communication between hotels and customers (Hayes & Miller 2011, 12). Hotels usually have more than one distribution channel, that are used to increase the sales of rooms, and that are controlled by revenue managers (Forgacs 2010, 86; Hayes & Miller 2011, 111). Non-electronic distribution channels change information between people, where as in electronic distribution channel the price and availability data does not involve face-to-face interaction (Hayes & Miller 2011, 268).

Distribution channels have been moving from call-centres and traditional travel agencies directly to the hands of ultimate buyers that are the end users of the hotel services. This brings savings and efficiency, not only for hotels, but also to corporate clients, because electronic distribution is closer to buyer and it is more informative both in contents and images it creates. This, however, results in travel managers, other people responsible for the company budget or individual business travellers making their own decisions based on information found on electronic sales channel. Hotels, on the other hand, prefer that the bookings are
made through their own homepages rather than via intermediaries. (Carroll & Siguaw 2003, 5-15.) According to Carroll and Siguaw (2003, 11), this not only reduce intermediary costs, but also tightens relations between hotels and its regular customers, because marketing activities can be directed more accurate to customer needs. One of the newest distribution channels are smartphones and their different applications providing their users instantaneous booking possibilities (Hayes & Miller 2011, 273).

Table 2. On-line distribution channels that are competitors with each other.  
(Carroll & Siguaw 2003, 6-7)

<table>
<thead>
<tr>
<th>Internet Companies</th>
<th>Hotels</th>
<th>Global Distribution Systems (GDS)</th>
<th>Travel Agencies</th>
<th>Distribution Service Providers (DSP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels.com</td>
<td>Scandic</td>
<td>Sabre</td>
<td>HRG</td>
<td>Pegasus</td>
</tr>
<tr>
<td>Travelocity</td>
<td>Choice</td>
<td>Galileo</td>
<td>Via Travel</td>
<td>Wizcom</td>
</tr>
<tr>
<td>Hotwire</td>
<td>Rezidor</td>
<td>Amadeus</td>
<td></td>
<td>GetThere</td>
</tr>
<tr>
<td>Booking.com</td>
<td>Rica</td>
<td>Worldspan</td>
<td></td>
<td>Leonardo</td>
</tr>
</tbody>
</table>

In Table 2 there are presented electronic distribution channels with examples of companies on the markets. Even though, companies in a same channel are competing with each other, also, different distribution channels are competing against each other. Some of the Internet companies did not exist in late 1990’s, but today they provide huge number of hotels to choose from. (Carroll & Siguaw 2003, 6-7.) Hayes and Miller (2011, 265) call this Internet based online reservation systems and channels as Internet distribution system (IDS). At the same time hotels are making efforts to increase their own on-line sales. GDSs and travel agencies have created new methods for gathering more revenues from hotel industry; GDSs are service providers and travel agencies who charge commissions from hotels and service fees from end buyer. DSPs connect hotel’s reservation systems with GDS (Pegasus), administer company’s travel management (GetThere) or provide content management and other services for small specified segments (Leonardo). (Carroll & Siguaw 2003, 6-7.) Revenue managers should remember that different distribution channels, like IDSs and GDSs, show not only their hotel prices, but also competitor prices to buyers, what creates even more pressure when making pricing decisions (Hayes & Miller 2011, 283).

Carroll and Siguaw (2003, 17-18) argue that unmanaged business travellers also demand accommodation agreements and better statistics over their travelling, just as it is offered to larger corporate accounts. In this way, also smaller accounts can better control their travel costs. Small volume companies are seen as a more and more important segment in hotel strategies,
because agreement rates are higher and intermediary costs low due to bookings made directly on a hotel’s homepage. (Carroll & Siguaw 2003, 17-18.) Forgacs (2010, 71-72) points out that the industry has just woken to “the mobile phone generation”, who, due to their nature of work, demands quick and easy-to-use booking channels. This segment wants to book their rooms on the road and not to stay in telephone queues or to find the next wireless Internet connection for their lap-tops (Forgacs 2010, 71-72).

### 2.2.3 Forecasting

Forecasting is used to estimate the need of personnel, number of goods purchased and to allow the investors to follow profitability of estates and for revenue managers to better control rates (Hayes & Miller 2011, 165-166). Forecasts should be up-dated all the time, because they are the next best assumptions that reflect the data available at the time the decision was made (Forgacs 2010, 35).

Hayes and Miller (2011, 188) have divided hotel forecasting into occupancy, demand and revenue forecast. Occupancy forecast gives estimates of room availability, reveals guests’ travel patterns and helps hotels to plan need of staff (Hayes & Miller 2011, 188). Each hotel chooses themselves how often forecast is done depending on their type of business and property strategy (Forgacs 2010, 39). Demand forecasts are used to recognize low seasons and to create sales strategies (Hayes & Miller 2011, 188). The long-term demand forecasts are based on past events and the present economic situation on markets. They are often less detailed than short-term forecasts which are based on guest statistic, current market trends, travel restrictions, substitute accommodation providers etc. Short-term forecast do not affect long-term strategies. Short-term forecast identifies factors giving them a name and putting them into numbers. Forecast reveals, for instance, which event was successful and are they successful in future. Forecasting also helps hotels to estimate, how much of each group has early check-outs (wash) and enquiries, to see how the price has resulted to potential customers to deny an offer or cancel reservations. (Forgacs 2010, 36-37.)

Hotel revenue management should take into account historical data, present market fluctuations and future data, which together increases accuracy of the forecasting (Hayes & Miller 2011, 188). In addition, it should be done for each hotel and not just on chain level (Enz et al. 2010, 22). Forecasting should be done often enough with careful planning and economic calculations (Withiam 2001, 7). An example programme for this, according to REVPAR GURU (2010), consists of two separate parts that together generates room rates:
However, Hogan and Nagle (2006, 312) also remind that managerial interference is necessary when analysing the past data. Neither does Forgacs (2010, 98) recommend the automated systems to work alone, since yielding programmes do not understand that bigger events, like Eurovision Song Contest, may not be repeated in future. Manager can read the statistics and make corrections if data is incorrect (Hogan & Nagle 2006, 312).

It is good to note that forecasting practices regarding fully individual travellers and groups differ due to their disparate nature. Large hotels and those updating forecast more often succeed better in their yielding performance than small hotels or those who neglect forecasting. (Withiam 2001, 16.)

2.2.4 RevPAR

RevPAR is used to indicate core revenues of a hotel on daily basis measuring average daily room rate (ADR). The abbreviation RevPAR comes from the words revenue per available room. RevPAR is not including any other costs, like breakfast or Internet connection, but only the revenue from the sold rooms. Simply put when a hotel’s occupancy increases, so does the profit. (Marriott Corp Annual Report 2006.) According to REVPAR GURU (2010), hotels having RevPAR as part of their strategy, are successful in revenue management as it is the best tool today measuring ADR.

Enz et al. (2010, 14-15) argue that for higher occupancy figures and better RevPAR it does not matter whether hotel is an upmarket or midmarket hotel as long as its room rates are higher compared to competing chains. Size of a hotel or hotel chain affects RevPAR in the same negative way, if pricing strategy is to offer lower rates than competitors (Enz et al. 2010, 17).
Canina and Enz (2006a, 12) also argue that hotels will increase their RevPAR if ADR is higher than competitors’ daily rate in the same market.

RevPAR penetration index is used to compare hotels in unit level or with competitors. It can be used, for instance, to determine market share (Marriott Corp Annual Report 2006). If the index number is high, competitor’s position in the same market is weaker. If the number is low, competitor’s position in the same market is stronger. RevPAR index demonstrate hotel’s success of giving value to its customer with the chosen price strategy. (Hayes & Miller 2011, 330-331.) The index can be read as follows according to the Marriott Corporation Annual Report (2006):

<table>
<thead>
<tr>
<th>Index Level</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>average performance</td>
</tr>
<tr>
<td>90</td>
<td>negative performance</td>
</tr>
<tr>
<td>110</td>
<td>positive performance.</td>
</tr>
</tbody>
</table>

RevPAR index is only one of the many competitive analysis set methods used in hotel industry.

2.2.5 Discounting

Canina and Enz (2006b, 19-20) admit that discounting does increase occupancy, but they argue that at the same time it decreases RevPAR. According to their research the correct pricing percentage is within +/-2 per cent, if a hotel is trying to increase both RevPAR and occupancy in its competitive set. They continue that with patient revenue management and even higher rates compared to those with competitors, hotel performs better economically, but if the strategy is to grow market share by large discounts, the outcome will definitely have a negative impact to RevPAR. Hayes and Miller (2011, 195) argue, as well, that demand should not have direct influence on price, but hotels should instead avoid discounting if they wish to improve ADR and RevPAR. Discounts have same effect despite the segmentation of customers, location of hotels or capital markets (Canina & Enz 2006b, 19-20; Enz, Canina & Lomanno 2004, 24-25). Enz et al. (2004, 24-25) also remind that rate changes in upscale hotels do not have much effect on consumer decisions as it may have amongst buyers with mid- or lower scale hotels. Forgacs (2010, 45) claims, on the other hand, that discounting has an impact on other
segments, but not necessarily the corporate segment. Forgacs continues that discounting can increase occupancy, market share and attract leisure segment, but on the expense of RevPAR.

2.2.6 Location of hotels and rooms

Market segments, proximity to markets, resources (city, attraction, infrastructure) and competitors both existence and the nature of other hotels are factors that affect location. Hotels may sometimes even benefit from the co-location of their competitors, because this might make the overall image of location more attractive to consumers, what allows better surveillance over competitors. (Enz, Canina & Harrison 2005, 7-9.) Location has a great impact in price, as well. Resorts attract different kind of clientele than urban hotels. For business travelers easy access to location is an important factor. This could be, for instance, non-stop flight connections or other central location of a hotel. (Forgacs 2010, 76.)

According to Enz et al. (2005, 19), upscale hotels perform poorly in terms of RevPAR compared to low-cost hotels operating in same location. Hotels locating near luxury or upscale hotels are able to increase their revenue, but location near budget hotels decreases revenue. The size of a hotel has an affect only if the property is luxury, upscale or budget hotel operating in the same geographical cluster. (Enz et al. 2005, 15-19.) Kalnis (2005, 14) argues, on the other hand, that all hotels face a decrease in RevPAR when new hotels are opened and that the decrease is even steeper if the hotel belongs to the same brand.

In addition, to location of the property, the location of room affects price, too. Rooms with better view, rooms on higher floors or on floors with special services (free snacks and beverage etc.) are often more expensive compared to a room on the first floor facing a busy street. Value of a room can also be increased by its size or category. (Hayes & Miller 2011, 212-213.)

2.2.7 Future of revenue management

Cross, Higbie and Cross (2009, in Enz et al. 2010, 18) argue that modern revenue management is much more than just updating daily rates for the best occupancy. Today’s revenue management should have customer focus that brings customers even closer relationship with hotel operator (Enz et al. 2010, 18-19).

Kimes (2010, 13) found in her research that most of the revenue managers strongly believe that modern technology will continue to shape revenue management in a way that overall picture of hotel’s strategy will be taken into account. Technology would allow revenue managers
to have more time to focus on strategic decision-making and profit driven revenue management. Also, social networks and mobile technology (i.e. smartphones) is a great unused asset and tool in future revenue management. (Kimes 2010, 7-15.) According to an article of Buyer Interactive (Murray 2010), mobile platforms are often economic and traditional Internet homepages should be able to redirect buyer to a mobile-friendly site. Smartphones bring hotel information closer to customer and making bookings or even advertisement easily available. (Murray 2010.) During last few years, smartphones have increased their fair share as a distribution channel for business people and, for instance, Choice Hotels International already provides a free iPhone application allowing immediate room reservations (Hayes & Miller 2011, 273).

In the survey of Kimes (2010, 9), the focus on own homepages was the most important factor when developing technology for the use of revenue management, but also mobile or social platforms came right after that leaving a smaller role to call and other reservation centres.

Revenue management is shifting from calculated decision-making done by one person in to a more strategic model that covers even marketing and financing of hotel operations including strategic planning. Pricing will become more analytical in details. (Kimes 2010, 7-9.)

The Chapter 2.2.4 underlined that today the most important performance measurement is RevPAR. Some specialists are suggesting that ADR or even GROPPAR (gross operating profit per available room) should define revenue management in future. (REVPAR GURU. 2010.) According to the research of Kimes (2010, 10-11), the majority of revenue managers believe that GROPPAR or even TotRevPAR (total revenue per available room) would best indicate the performance of a hotel in future.

Other trends in revenue management are that it will become either entirely centralized or at least regionalized operation. Revenue management will also be its own department. Organisational changes are needed, because revenue managers will need to analyse, not only one department, but possibly all hotel operations in future (Kimes 2010, 10-15; Kimes 2008, 14-15.)

2.3 Hotel industry’s pricing methods

For the best performance, in terms of RevPAR, hotels should keep their average daily rates close to the competitor rates or even a bit higher. Hotels having better economic stand, can take price wars longer than hotels with heavier cost structure. Discounting can have a negative
image to upmarket hotels, but a positive one to budget hotels that are now giving even more value to their customers. In times of recession, hotels should evaluate need of distribution channels, too. (Kimes 2009, 12-14.)

When deciding pricing strategies, it is vital to recognise what rates and policies are fair from customers’ point of view. The more information about rates and rules is given to the customers, the more their understanding and willingness for purchase grow. (Taylor & Kimes 2010, 8.)

2.3.1 Non-price methods

Psychological role of strategy can be involving stakeholders (employees and key accounts) to communicate together with management about their different goals and how to achieve right solution that satisfies all parties (Johnson et al. 2008, 574). Hotel can also let competing hotels to know what its pricing strategy is or will be (Kimes 2009, 13).

A hotel can improve the level of quality by publishing comparisons with competitors. Non-price methods also include strategic partnerships with distribution channels or third parties that may increase costs, but decreases pressure to lower the rates. (Kimes 2009, 13.)

Hotels may also temporarily restructure their reward programmes for regular customers, thus deepening customer relationship and create more revenue from the core product and surroundings services (restaurant, spa etc). In times of recession, hotels should focus on other facilities, like food and beverage, or even find new segments in order to increase property revenues. (Kimes 2009, 13.) As a psychological factor hotels can also use their brand attracting more customers. Brand must be strong enough to be remembered by consumers. (Taylor & Kimes 2010, 8-9.)

2.3.2 Price-based methods

By tailoring rates together, for instance, in a way that a longer stay gives better discounts to buyers, or that room rate already includes dinner in hotel restaurant, or refreshments are ready in the room on the time of arrival, is one example of price-based method that helps to go through lower demand times. (Kimes 2009, 13.)
On the other hand, a hotel can lower price of the core product (room) by charging all the other services from customers. Extra charge can be taken i.e. from breakfast, sauna, gym, and concierge services etc. (Kimes 2009, 13.)

In addition, hotels can seek cooperation with distribution channels, where they can sell their products anonymously to the customers, without risking damage their brand image and preventing competitors to get familiar with pricing strategy. At the moment there are, for instance, following suppliers operating on these markets: priceline.com and hotwire.com. (Kimes 2009, 13.) On the other hand, Hayes and Miller (2011, 295), do not recommend cooperation with opaque IDSs or at least carefully evaluate the potential risks for commoditization. As an option, a bid system can be offered (Hayes & Miller 2011, 295).

If special rates are offered to some customer, hotel should prevent other segments to purchase at this lower rate. These price fences can be room (the core product, amenities, and service), transaction (time, location and flexibility of reservation), consumption (time, duration and location of usage) or guest (volume, group affiliation, group size, location) related. (Kimes 2009, 13.)

2.3.3 Corporate agreements

Rack rate, sometimes called as published rate, is the highest rate of day hotels wish their customers to pay. Customers usually want to have discounts of this rate, and for those customers with large accommodation volume, hotels usually offer corporate agreements in form of discounts. Discount can be a lower fixed rate from the rack rate or a certain percentage off from the best available rate (BAR) that fluctuates after demand. Agreements can be negotiated to apply a certain hotel or the whole chain, depending on how much buyers promise to give volume. Agreements often include information on who are qualified to use rates, where rates can be booked, which room categories are included, black-out dates, seasonal restrictions or changes in rates, minimum lead times, is last room availability (LRA) allowed etc. (Forgacs 2010, 41-42; Hayes and Miller 2011, 225-226.) Hayes and Miller (2011, 224) makes a distinction between agreement rate and negotiated rate. According to them, agreement rates are long-term room rates valid for a certain period of time with negotiated availability, whereas negotiated rates are discounted rates whose availability is not necessarily guaranteed. The previous one is usually used for airliners flight crew and the latter for corporate accounts. (Hayes & Miller 2011, 224-227.)
3 Dynamic pricing

In dynamic pricing room rates are adjusted according to real-time information of markets and where pricing follows demand on a certain moment. Challenge for revenue managers is to find out the right price for each day or even hour. (Forgacs 2010, 47.)

Dynamic pricing has been in use for consumer prices, but is today taken in use for business segment, too. Scandic Hotels Ltd has had dynamic pricing in use since 2006 and Hilton Hotels 2004. For instance, Sokos Hotels in Finland has already used dynamic pricing since 2003. (Härkönen 2007, 6-7.) In dynamic pricing agreements corporate clients get a discount that usually is a certain percentage from BAR (Mannix 2008, 35).

In the article of Kauppalehti VIP (Härkönen 2007, 6-7), Ms Anne Pekkanen tells that the reasons for hotel industry to implement dynamic prices were a number of global events causing a sudden drop in the room occupancy and forced hotels to use new pricing methods. The reasons were the events of 9/11, SARS and Foot-and-Mouth disease in England. (Härkönen 2007, 6-7.) As another explanation the article of BTNonline (Serlen 2004), argues that fixed room rates do not meet modern requirements and is thus forcing hotels to move towards dynamic pricing.

Problems with fixed negotiated rates have also lead to a situation where dynamic pricing has been seen as more customer-friendly solution. Sometimes hotels offer lower rates than negotiated rates, which decreases customer loyalty and creates irritation amongst buyers. Dynamic pricing is more rational for buyers who get a percentage discount from BAR. (Forgacs 2010, 42-43.)

According to Härkönen (2007, 6-7), prices vary geographically and on hotel level. Peak times in business travel are from Tuesday to Wednesday which makes a hotel night more expensive than, for instance, during weekends (Friday-Monday). Customer can also get a cheaper rate the earlier he or she makes a booking. However, there might be special rules on pricing, for instance, that room rate is non-refundable.

Demand-based pricing is a common form of dynamic pricing according to Forgacs (2010, 47). Rates are divided into different rate categories that are controlled by a revenue manager. The more demand increases, rate category moves upwards, because lower rate categories are now
closed. Today revenue managers control rate categories with help of computer and it is done on real-time -also across the distribution channels. The distinct difference between dynamic and demand-based pricing is that in dynamic pricing rates can be adjusted to lower and higher rate categories during the same day, where in demand-based pricing rate category changes after a certain number of rooms are sold. (Forgacs 2010, 47-48.)

3.1 Benefits for both parties

Dynamic pricing offers a notable flexibility for hotels’ tactical pricing (Forgacs 2010, 43). The article of Eye for Travel (Eye for Travel 2009), argues that hotels have benefitted from dynamic pricing in the current economic situation in a way, that they have increased the number of booked rooms. Hotels can also seek for new business relations from small volume companies that before were left out from contracting, because of the lack of time (Eye for Travel 2009). Dynamic pricing would diminish number of lacking room nights from buyer statistics when more ultimate buyers would be respecting accommodation agreements (Eisen 2006).

Hotels have also noticed that dynamic pricing has reduced need of renegotiations of agreements, what is needed in traditional pricing with fixed rates (Hotelmarketing.com 2009). When demand changes, are dynamic prices more flexible with markets, and agreement does not need to be renegotiated as with traditional pricing (Darson 2009).

Denise Lodrige-Kover, Hilton's vice president of corporate sales argues in the interview by BTNonline (Eisen 2006), that other benefits are longer agreement periods, savings for buyers and clarity in pricing. Lodrige-Kover also notes that, even if buyers have fixed agreement rates, end users are booking lower rates via other channels. Lodrige-Kover continues that companies are interested in shorter negotiation process, that saves not only the hotels’ costs, but buyers also receive financial savings.

According to the Kevin Kelly from Hyatt Hotels & Resorts dynamic pricing changes need of LRA if a hotel gives a discount percentage on every room category the hotel has. This would then again increase the utilization rate of hotel. (Eisen 2006.) Another argument for dynamic pricing is that it simplifies rate loading to GDS if a right software solution is available (Mannix 2008, 36; Jonas 2007).

Having a successful dynamic pricing system depends entirely on technology used. Jim Kilroy from Starwood chain claimed the following: “Once a hotel company has the technology in place, it can
automatically trigger the return of the lower rate in the GDS.” (Serlen 2004.) For instance, Hotelzon, an online booking channel specialised into corporate travel, already offers dynamic price related services to hotels. Hotel can create its own rate codes that are either fixed or floating. With their programme called *Quick yielding* hotel controls occupancy and already uploaded rates. This kind of technology enables rates to be controlled on the micro-level. (Hotelzon 2009, 10-14.)

To attract more customers, hotels can offer buyers hybrid agreements that are combinations of fixed rates and dynamic rates. Large volume cities would offer fix agreement rates and rest of hotel chain floating rates. Hybrid agreements have so far given different results. (Baker 2007.) Hybrid model offers a customer lowest rate of the day meaning that if dynamic prices rise along demand, customer chooses lower fixed agreement rate (Darson 2009).

On contrast to BTNonline’s article Darson argues that dynamic pricing should be in use in larger cities. The reason for this is the complexity of fixed rate negotiations in the high demand areas. (Darson 2008.) If a hotel chain has more than one property in a city, customer has more alternatives to choose from in selecting lowest rate available. In this way, a hotel can also control where customers are staying at. (Härkönen 2007, 6-7; Darson 2008.)

It is also argued that the RFP (request for proposal) process will be simplified, because of dynamic pricing. Rates would be uploaded faster and RFP agreement periods longer than a traditional one year agreement. (Baker 2009.)

### 3.2 Problems to be solved

For customers dynamic pricing has been problematic, because agreements based on dynamic pricing are difficult to compare with offers of other hotels. Hotels have not been successful in bringing facts and proof to clients clarifying that the new pricing model has benefits, not only to a seller, but to buyer, as well. (Mannix 2008, 36.) Amongst buyers more evidence of the efficiency of dynamic pricing is wished in the form of measurable data in order to travel managers to analyse possible risks better. For travel managers, it is challenging to make budgets and follow company’s travel expenses. (Eisen 2006.)

One dilemma in dynamic pricing is that when demand grows, rates go up at the same time. Companies cannot control this, especially when talking about properties in larger cities. (Baker
Customers could be more interested in dynamic pricing if they knew the range and pattern of rate fluctuations (Eisen 2006).

In the article of Eye for Travel (Eye for Travel 2009), Joe McCormack from FCm Travel argued that dynamic pricing may cause losses in the short term, but in the long run it brings savings to companies. Floating rates have become more interesting for companies due to the financial crisis (Hotelmarketing.com 2009).

Hotels and customers see price in a different way; it assesses the exchanged value between the two parties during a purchase process. Revenue managers should also acknowledge that price cannot be determined only by mathematical determinants, but instead examine it as an approach, including both buyer’s and seller’s perspectives. After the seller has understood his own holistic needs, he needs to recognize the needs of the customer who tries to grow the portion of his own perceived value. Value of the buyer’s purchase must be greater than price. (Hayes & Miller 2011, 36-44.)

3.3 Implementation demands for communication strategy

Hotels that implement revenue management in their strategy will perform better than their competitors (Canina & Enz 2006a, 12). Hilton Hotels started their testing with dynamic pricing in 2004. They did not test the large accounts immediately, but they introduced the new pricing model to the small accounts first to get more field experience. (Serlen 2004.) Testing also requires a technology that fits the markets and the needs of the chosen customer (Johnson et al. 2008, 450).

All hotel staff must be well trained from general manager to receptionists in order to make sure that dynamic pricing is used in a right way; otherwise there is a risk of failure (Jonas 2007; Taylor & Kimes 2010, 13: Withiam 2001, 10). Hayes and Miller (2011, 479-480) recognize the need of training, as well, adding that it does not only increase the performance and work moral of staff, but also strengthens customer loyalty and brings more revenues.

When implementing new pricing strategy, buyer should be made familiar with pricing policies. This can be done, even though it may take some time before acceptance and familiarity towards new pricing methods of customers increase. Customers not understanding pricing policies, make their decisions based on rates. (Taylor & Kimes 2010, 8; Withiam 2001, 10.)
According to Johnson et al. (2008, 574), every strategy should include a communication strategy that informs on a reasonable level shareholders, employees and key buyers alike, what changes there are coming, because every stakeholder has their own opinion. For instance, employee engagement can be achieved with simplifying wanted message, creating a strong message, choosing a right tool for communication and involving the staff in the process. Implementation will fail if stakeholders do not understand what the strategy is about. (Johnson et al. 2008, 574-575.) Revenue management should always be customer-oriented putting aside short-term revenue accumulation (Hayes & Miller 2011, 11).
4 Empirical research

The own interest in revenue management and hotel background of the author are one of the reasons for existence of this thesis. The author had learned that hotels were on the edge of new and larger changes. These changes were that pricing strategies are moving from static pricing to dynamic ones. Even though hotels seemed to be ready for dynamic pricing, customers were not.

4.1 Norwegian hotel markets

Norway is one of the few countries that did not suffer that much during the recent economic downturn, also known as the financial crisis. Norwegian hotels are feeling pressure from numerous new hotel projects and hotel openings, however. These two factors cause rate pressure to Norwegian hotels that are trying to keep their RevPAR high and business profitable. (Horwath Consulting 2010a.)

When the average RevPAR increased with 9 % for the whole country in 2007 compared to 2006, it decreased in 2009 with 8, 9 % compared to 2008. Oslo had the largest RevPAR of 588 NOK in 2006 while for other larger cities it was 485 NOK during the same year. The country’s RevPAR average in 2006 was 407 NOK. The average occupancy in the whole country in 2009 was near 51 % when in 2007 it was almost 55 %. (Horwath Consulting 2007, 47-49; Horwath Consulting 2010b, 46.)

Table 3. Revenue per available room in Akershus, Oslo, Rogaland and Hordaland from January till October 2010 (Statistics Norway 2010)

| Hotels and similar establishments. Revenue per available room (NOK), by region, time and contents (January – October 2010) |
|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | March | April | May | June | July | August | September | October |
| Akershus | 461 | 466 | 479 | 464 | 424 | 581 | 260 | 450 | 584 | 457 |
| Oslo | 498 | 543 | 552 | 542 | 688 | 831 | 416 | 680 | 759 | 660 |
| Rogaland | 434 | 504 | 570 | 539 | 544 | 704 | 400 | 701 | 663 | 525 |
| Hordaland | 341 | 441 | 430 | 463 | 593 | 779 | 591 | 718 | 633 | 518 |

As we can see from the figures of Table 3 the RevPAR in Oslo between January and October 2010 was about 615 NOK. This could indicate that the drop in RevPAR 2009 has now stopped and is instead increasing. The reason could be slowly increasing demand and improved revenue management practices. However, Table 3 does not show RevPAR from the
two last months of 2010 and also new hotel openings in 2010 and 2011 should be considered, as well. (Horwath Consulting 2010b, 46.)

The largest hotel operators in the Nordic Countries were Scandic with 25,036 rooms, Choice Hotels with 24,700 rooms and Rezidor Hotel Group with 12,925 rooms in 2009. It is estimated that Choice will take the leading position as the leading hotel chain in 2013. In Norway the largest chains by number of rooms are Choice Hotels (16.3 %), Rica Hotels (12.3 %) and Thon Hotels (11.8 %). In two years, by the end of 2011 there will be 5000 new rooms in Norway. New hotels will mainly be opened in larger cities and at major airports (most important being Gardermoen). Bergen will not receive any significant increase in number of rooms before 2012. (Horwath Consulting 2010a; Horwath Consulting 2010b, 46.)

4.2 The purpose and the objective of the research

The purpose of this thesis was to determine what corporate accounts of Norwegian hotels know and think about dynamic pricing and how they would react if they were offered dynamic prices during agreement negotiation process. The research also tries to answer to the question if customers are interested in new pricing model and with what motives or incentives they would accept the floating agreement rates as a natural part of corporate agreements. The objective of this thesis was to find new tools that can be used during agreement negotiations with buyers. With the help of the research results hotels better understand their customers’ and can develop new pricing strategy (or model) for their corporate clients and further develop existing pricing methods. These results can also be combined with earlier research findings that handle revenue management or dynamic pricing strategies. The contents and results of this thesis gives better understanding of the topic to Travel Managers and other business people responsible for their company’s travel policies, as well.

4.3 Selection of interviewees

Kvale (1997, 59) recommends that in qualitative interviews the number of interviewed people should be from 10 to 15 participants depending of researcher’s resources and use of time. The author decided to choose for his research 10 companies due to limited access to resources, which caused problems with time management of the thesis. The selection criteria for the chosen companies were that they accommodated either their employees and/or guests in Norway. The headquarters or the decision-makers of the companies were not necessarily in Norway.
The selection of the companies was done randomly by searching the firms on the Internet and using the author’s contact network, because the hotels denied access to their own customer databases on grounds of trade secrets. For this reason, the examined companies are not from one customer segment, but from several segments with notable differences in their annual travel volume and size of business. This affects the final results, because there are several corporate segments mixed together.

According to Trost (2005, 40-41), a researcher should respect the wishes of interviewees and when confidentiality is demanded, it should also be given to them who asked for it. In this thesis revealing any information of the interviewed persons would risk the negotiation position of their companies and also cause a leakage of the planned strategies. For this reason, the author does not show any information about the field of business or number of annual accommodation volumes in this paper. The author promised full anonymity and confidentiality to the interviewed companies. All the companies are from different industries varying from micro companies to huge multinationals, and to present them, especially, with the annual volumes would easily reveal the names of the companies, especially the bigger ones. The Nordic hotel industry is a rather small industry that shares many of the same clients, what makes the competition even harder and requirements for the confidentiality higher.

Hollensen (2007, 162) emphasises that it is important to find correct companies with right persons, who have the needed information to provide the answer to the research problem. Brunt (1997, 27) also points out that there is a risk that the chosen person in an interview is not the person with correct information. The author only approved persons who were responsible for accommodation negotiations and travel policies in their company. This was secured by always asking for the person who had this authority and, for instance, those persons who only made room reservations were not accepted for the interviews. Below it is presented the titles of the interviewees clarifying what kind of persons are dealing with accommodation agreements:

- Purchasing Manager
- HR Consultant
- Economy and Accounting
- Global Procurement, Category Manager Hotels & MICE
- Managing Director
• Travel Manager
• Contracts and Procurement Manager and Travel Manager
• Country and Supply Manager (Travel Manager)
• Administration and HR Manager
• Senior Adviser and Negotiation Manager

The above listed persons had the required experience of agreement negotiations with hotels. This guaranteed that the interviewees knew what they were asked during the interview. The only person the author has doubts about having the correct information is the person with title “Economy and Accounting”. The author questions the amount of hotel related work of this person and estimates that it is concentrated more on the financial operations of the whole company in general.

4.4 Research method

For qualitative research it is characteristic that it tries to understand a problem in depth and to find certain patterns, rather than numbers or frequencies (Trost 2005, 14). Qualitative method of primary research can be used to support secondary data. One of methods is interviews, which can be high- or low-structured and high- or low-standardized interviews. High-structured interview means that researcher wants to find certain answers to one problem, and low-standardized interview means that interview situation differs to all participants. (Trost 2005, 19-20.) According to Hollensen (2007, 162), interviews make it possible that researcher can create discussion with respondent, and change questions and their order along interview. Misunderstandings of both parties during interview are possible. (Hollensen 2007, 161-162; Trost 2005, 112-113.) Trost (2005, 92-93) encourages researchers to ask feedback after interviews, so that any possible fallacies and misunderstandings or even additional data are found. It was vital that researcher has experience from fieldwork and is familiar with topic (Hollensen 2007, 162-163; Kvale 1997, 60).

There is not much of literature or other reliable academic reports written about revenue management or dynamic pricing and for this reason the qualitative research method was chosen by the author. The qualitative method of primary research was used to support the secondary data (theory and articles) and ascertain new information from companies that use accommodation services in Norway. This was done by interviewing the companies face-to-face, on telephone or by email. The interviews were high-structured and low-standardized interviews.
High-structured, because the author wanted to determine certain answers to the research problem and the interviews handled only one topic (dynamic pricing), and low-standardized, because the interview situations were not the same to all the participants. Misunderstandings from both parties during the interviews are possible, but they were tried to minimized as much as possible. All the interviewees were asked to read the results in the chapter 5 through and give feedback to the author so that any possible mistakes and misunderstandings or even new information was found. Only one company came back replying that there was no need to amend anything in the results.

All the companies were first introduced to the topic by phone calling them to increase the attractiveness to participate in the research and to determine the most suitable firms. After the introduction the companies received an invitation letter for the interview by e-mail (See appendix 2.). Also interview questions (See appendix 3.) were sent together with the cover letter to make it easier for the companies to familiarise with the questions in advance. The interview questions were based on the theoretical part and the own field experience of the author.

The research material was gathered during September and October 2010 with the help of telephone and face-to-face interviews in order to guarantee that all the chosen respondent participate in the research. Some of the participants gave their answers by email due to a lack of time they had in their work. According to both Trost (2005, 90) and Kvale (1997, 93), researcher loses the control of communication and cannot guarantee that the interviewees see certain concepts and questions as they should have if the researcher is not able to do telephone or face-to-face interviews. Trost (2005, 90) continues that it is important for researcher to control the pace of interview and clarify its goals. The author was not able to ask further questions or explanations to the answers from those companies who gave their replies by email. Recommended time for one interview is maximum one hour according to Brunt (1997, 27). In this research the interviews lasted from 30 minutes to 60 minutes.

Of about 30 invited companies only 10 were willing to participate in the research. The reasons behind the lack of interest towards the topic could be that dynamic pricing is not a familiar concept amongst companies and persons who are responsible for travel policies. The timing of the interviews was also wrong, since it was done during one of the most hectic business periods of the year – autumn. Some of the companies simply did not have the time to participate in the research. The limited economic resources due to the absence of the commissioning company caused that the author could not offer a reward to attract even more companies to interviews.
Interviewees can deny their participation to the research or alter their answers from truth if they do not trust researcher (Hollensen 2007, 171). Interviewer should be credible and easy to be identified with gaining trust of the possible interviewee; differences i.e. in age or social status can decrease the trust (Trost 2005, 82). Interviewees can question reliability of researcher if he/she is outside the organisation and its cultural environment (Johnson et al. 2008, 145; Hollensen 2007, 171). It is also common that interviewees see interviewer only doing his/her job without having any knowledge of the topic or being even incapable and non-educated (Trost 2005, 92).

Lack of trust towards a student asking delicate and sensitive questions that might put the buyers’ position in danger during the agreement negotiation process came clearly out as a factor that either hindered the company to participate in the research or affected the nature of answers. The companies questioned the reliability of the author, who was outside the organisation and its cultural environment, and did not want the possible trade secrets to be given to an outsider.

4.5 Data analysis

According to Trost (2005, 53-54), the use of recorders or video cameras is advisable. Trost continues that recording data with modern equipment makes it possible for researcher to examine the data later, even though this is a time consuming process. To capture even smallest emotions, the best solution would be a video camera. (Trost 2005, 53-54.)

The data was, however, gathered by doing careful written notes during the interviews. No recorders were used, because the author wanted to save time in the data analysis process. However, the recorder would have guaranteed that all the missing data from the notes exists in the recorder for later examination.

In order to get the most of the gathered data the interviews should be analysed by using the framework method. This method has five different stages that are familiarization, identification of thematic framework, indexing, charting and interpretation. (Brunt 1997, 151.)

The author chose to analyse the data according to framework method. Below there is listed the main characters of each stage according to Brunt (1997, 152-154):
Familiarization

- Notes regarding discussions arising from data relating to research purpose and objective

Identification of the thematic framework

- Reference to original research purpose and objective is important
- Identification of main topics

Indexing

- Certain answers from interviewees can be indexed according to earlier identified framework
- Numbers, symbols, colours etc. can be used for indexing
- Must be tested before taken in to use

Charting

- Placing key phrases with their indexes into a chart or table
- Each thematic framework must be put into a chart or table in the same way

Interpretation

- Most difficult phase
- Finding patterns and similarities
- Discuss, analyse and explain results in relation to original purpose and objective of the research and
- Conclusion of findings.

Kvale (1997, 161-163) also points out that the most difficult part of the research is indeed interpretation of findings and the problem occurs in how to generalize the results of the research.

The second problem with personal interviewing is that received information may be changed, misunderstood or interpreted subjectively by researcher (Hollensen 2007, 167; Gubrium & Holstein 2003, 232). Results give an initial and comprehensive, though a subjective picture of opinions of selected interviewees. Results are subjective if both research and analysing are done by the same person. (Hollensen 2007, 161-162; Trost 2005, 112-113.) Even though data analysis should be done objectively, human nature tends to affect final results subjectively. If
results are analysed by another person rather than interviewer, emphasis of findings would be different. (Kvale 1997, 142-143.)

The author aimed at as reliable generalization as he could with 10 interviewed companies by carefully selecting the interviewed persons, trusting his own strong experience around the topic and the existing theory, as well.

Translation from one language to another can cause translation errors that differ from original idea of interviewed persons and possibly affect final results (Hollensen 2007, 171). In this paper the language of the interviews was either English or Norwegian and the author is aware of the possible misunderstandings caused by the translation from Norwegian to English. However, the author has a strong knowledge in Swedish and good knowledge in Norwegian (Bokmål) after staying in Norway for 2 years.
5 The results

The companies who participated in the research were national, international or multinational enterprises with an annual accommodation volume from few tens to several tens of thousands overnights in Nordic level. Most of the participants were Travel Managers, but there were also Managing Directors, people from human resources and accounting department (see chapter 4.3 for full list). The interviewees had either full authority to negotiate the rates and sign the agreements or then a partial authorization power. As one interviewee answered:

“I sign the agreement. If there are changes in travelling I consult the higher management of company.”

This chapter discusses first how the companies see dynamic pricing and if they know how it works in practice. It is also discussed what kind of agreements customers wish to have and what the benefits and negative sides of dynamic pricing are. Finally, the results have a look at the future from the point of view of the participants.

Trost (2005, 134-135) recommends using direct quotations to strengthen results of research. The author decided to use the direct quotations of the interviewees when it was needed for emphasising the importance of the finding and showing the attitudes of the interviewees. Some of the interview answers written in the font size 10 are modified to protect the anonymity of the companies who participated in the research.

5.1 Dynamic pricing from companies’ point of view

Even though there were some who were not familiar and could not describe the concept of dynamic pricing, most of the interviewees knew that it has something to do with daily rates that are controlled by the hotel according to the demand. One interviewee described the concept as follows:

“It is a way the hotels optimize the room rates and maximize the revenue depending on demand.”

Some knew even that the rates can be inclusive or exclusive of certain services (i.e. breakfast) or that the time of booking affects the rates. Corporate accounts may also receive a certain discount from the hotel when using their services:
“It (dynamic pricing) differs from company to company. The suppliers (hotels) are changing the prices during the day and a week according to the availability in the hotel. For instance, the supplier gives 8 different price levels with 15 % discount on each level.”

The companies had received most of the information directly from the hotels. The most aggressive promoter of dynamic pricing in Norwegian hotel markets seems to be Choice, because the hotel chain was mentioned by three of the interviewees during the research. It was also clear that Choice did not offer fixed agreement rates at all to those companies who mentioned the name of this chain.

Further information about dynamic pricing was also searched from business newsletters and magazines, but also the own experiences increased the knowledge. The information the hotels have given to their customers was only in form of price examples outside of high-demand periods, which did not satisfy buyers:

“This (dynamic pricing) makes or even forces the companies to plan travelling more specific. Leisure travel can overnight during the weekends, but business travel cannot. Hotels gave us no options.”

“The hotels are saying that it is profitable to accept dynamic prices. The examples they gave us do not suit for us because our travelling has short lead times and we do not travel during weekends.”

The companies simply felt that they did not have all the access to the information hotels had or then hotels tried to hide the information they were looking for, while some companies had received very detailed calculations:

“Depends from hotel chain to hotel chain. They have different models. Some have provided very detailed calculations on potential savings opportunities based on our spent and travel profile.”

5.2 Dynamic pricing in practice

When asked if the companies are using the dynamic prices, nearly everybody replied that they are not using them. From one of the answers you can see how hard the interviewees were adhered to traditional pricing:

“We hardly use floating rates. We are fighting for fixed rates.”
However, there was one company using dynamic prices in Norway with Choice Hotels and one in Finland with Sokos Hotels. According to one company, they were only using dynamic prices in Finland, because they needed to make exceptions in some cases.

Even though the majority of the companies did not use dynamic pricing there were some who were using it with Choice and Thon Hotels. Other chains mentioned were Radisson Blu in Norway and Sokos Hotels in Finland.

Companies were not familiar with which of the booking channels offer dynamic pricing. Only one company mentioned that they can book dynamic prices through Via Travel’s Amadeus. Among other companies the most used booking channel for fixed rates was Amadeus. Other channels mentioned were Internet booking channels (hotwire.com, travelocity.com, and hotels.com), GDS channels, Hotelzon, HRD Online, Via Travel’s online booking tool or travel agents. One company admitted that dynamic prices might have been booked with non-agreement hotels booked via travel agent.

Technology was an important factor to nearly all of the companies. The reasons varied from finding the most inexpensive hotel alternative and maps to accommodation statistics provided by travel agencies. The biggest of the interviewed companies had their own self-booking tools that help the companies to look for the cheapest hotel option. With the help of technology companies also received accommodation statistics from hotels or booking channels.

The companies were asked how they control that their volume meets agreement and some companies had no control at all regarding their travelling pattern. Few also thought that because of dynamic pricing their company had lost or will lose the control over their travelling due to the lack of sufficient technology. According to one company fixed rates were easier to control compared to dynamic prices.

“Dynamic pricing gives us hardly any possibility to control agreement rates. That is one reason for us to refuse the dynamic price structure.”

“We don’t. It would take resources from the company. Lack of control is the worst consequence of dynamic pricing.”
5.3 Conditions for agreements

Most of companies negotiate their agreements for one year at the time and negotiations are done once a year. One reason was, for instance, steady travel patterns.

Sometimes agreements needed to be renegotiated. Reasons for renegotiations were fluctuating market conditions and one of the interviewed answered as followed:

“We negotiate the agreements several times a year, even though they are written for 1 year. Permissions to the agreement negotiations are asked from HQ abroad. The need for the renegotiations depends on the market situation.”

Those companies which had longer agreement periods did not want to renegotiate the agreement rates. One of the research participants was also interested in shorter agreement periods than one year. When asked how longer agreement periods would suite for companies the answers were split to nearly fifty-fifty. The reason to have a longer agreement period was to keep the company profitable.

Changing market conditions were one factor to refuse the longer agreement periods:

“We are always looking for market trends. If the markets are stable and hotel prices low we can look for agreement periods long as 2 to 3 years. If the prices are high we prefer to 1 year agreements.”

“They (longer agreement periods) do not suit for us because the changes in the world are so fast. We need the option for renegotiation because we need to keep up with these changes.”

Also if a special “clause” was added in agreements companies might accept longer agreement periods:

“In the current market situation it (longer agreement periods) would suite in key destinations with key hotels. But only with a step-out clause so that we can step out of the contract if required (e.g. office moves).”

During the interview companies were asked about their opinion on hybrid agreement which is a combination of static and dynamic agreement rates. A majority of them showed their interest in it, but on a condition that dynamic prices would be cheaper.

One company did not want key destinations to be affected by dynamic pricing, but saw that low-volume destinations could be in hybrid agreements. The reason why one interviewee did
not see the hybrid agreements realistic was insufficient technological solutions on the markets that made the implementation of hybrid agreements rather difficult.

When asked whether large cities should be under dynamic pricing, companies were afraid that it would increase their travelling costs due to the higher room rates. Companies also said that their travelling happens mostly during weekdays and not weekends, which made it impossible to book cheaper low-season rates. One of the companies argued its answer like this:

“Oslo, Bergen and Stavanger do not work with dynamic pricing because they are often full and have bigger pressure than other cities in Norway.”

The solution to decrease the pressure in bigger cities and to accept dynamic pricing was to significantly increase the number of hotels or to decrease own travelling to specific destination. The companies also thought that using dynamic pricing in large cities, where the number of hotels is often bigger compared to small destinations, would open up more hotel alternatives and thus guarantee better availability regardless the room category. One company categorized Stavanger as a small city with shortage of hotels for their needs.

The companies were reluctant to give away LRA, because they were so used to it already or they saw they would pay more for different room categories. One company would have accepted dynamic pricing only for standard room category and kept other room categories under fixed rates with LRA. Another company had obviously received a so called flat-rate, where same room rate applies through all the room categories, claiming that before dynamic pricing the companies got a suite with the rate of a standard room. On the other hand LRA was seen replaced by dynamic pricing, because it would anyway give access to every room category and because then the companies would not need to pay any extras for this either.

Dynamic pricing would be accepted if the agreement included the following issues: sufficient discount (most important factor), rates applicable during weekdays, only for standard rooms, breakfast, 6pm cancellation and no prepayments. Also, if there were more hotels in key destinations, companies would be interested in dynamic pricing:

“(We would accept dynamic pricing), If there is less pressure and more availability in the hotels, also in bigger cities.”
Companies had very different needs when it comes to their suppliers. Examples of needs varied from newsletters and updates to more intensive cooperation regarding centralizing the volume as chain wide if a suitable agreement was found.

One company wished that hotels would respect its decision to leave some chains out from agreement and not to upload rates in GDS channels where it confuses travellers:

“Hotels should follow the use of Amadeus and not to pretend that they are agreement hotels.”

### 5.4 Benefits and drawbacks

Companies saw that dynamic pricing has not affected their business at all. Those, who had experience of it, felt their travel expenses had increased. One company saw dynamic pricing as a threat to their flexibility:

“We have less control and smaller possibilities to act ad hoc. We cannot trade our flexibility.”

As benefits companies were hoping to have cheaper rates, but also better room availability in Oslo, Stavanger and Bergen. Other benefits mentioned were having access to better hotels, shorter negotiation time and lower rates during low season and low volume destinations. Even though companies were hoping to get better hotel deals with the help of dynamic pricing, nearly everybody answered they would not receive any savings at all or the savings would be minimal if they abandoned static prices.

The companies were hoping that there were more hotels in the high-volume destinations in order to increase availability and decrease rates. In this point Oslo, Stavanger and Bergen was mentioned again.

For one of the interviewees, central hotel location was in high importance:

“We are evaluating this (location) all the time. The hotels must have a central location because in that way we save i.e. in taxi costs.”

Companies were also asked negative aspects they had towards dynamic pricing. Reactions were rather strong and the feedback heavy. It came out clearly that the most problematic was
seen high prices and lose of control of forecasting. One company also hoped for more information and calculations from hotels:

“Hotels are trying to earn more money with dynamic pricing. --and there is not enough information how much the agreement will cost to us during the year.”

Dynamic pricing was also seen even as a threat to customer relationships, because hotels did not cooperate more with buyers. The companies felt that they were left outside.

“You don’t know the price in the future. Hotels cannot build loyalty to the customers because they are not given information on rates or room types. Dynamic pricing is not a customer friendly or long-term solution. Due to the short lead times there is no possibility to book the lower rates that are in the future.”

5.5 Future aspects

The financial crisis had affected the companies differently; some had not noticed any decrease in their bookings and some had been forced to decrease their travelling or meeting and flight reservations. Companies who also travelled abroad have noticed that they actually can now afford to accommodate their staff in better hotels due to the low prices.

At the time of the research there were also international companies whose Norwegian offices needed to explain their local accommodation needs more carefully and detailed for their headquarters abroad. The headquarters did not necessarily understand that the recession did not hit Norway that hard.

“It has not effected in Norway, but there is still a big pressure. Situation differs from country to country. HQ abroad does not necessarily understand that, because of the pressure we need 10 hotels in Oslo and 3 hotels are just not enough in big cities.”

In general, the companies agreed that dynamic pricing is not going anywhere, but is here to stay as an option. It was not seen as a solution for large volume companies, but instead only for smaller companies and if the travelling was not in the key destinations.

The detailed planning of agreement was hoped to make the dynamic pricing as a more attractive option. One of the companies wished evidence that they will actually benefit from dynamic pricing. The same company was also willing to try hybrid agreements.
Also technological solutions were wished in the future:

“There will be more of this (dynamic pricing) if there are technological conditions for that. We need to get technological solutions.”

A future problem that the companies considered as a negative factor was that hotels will try to exploit buyers. It was also hoped that revenue management was better planned, because one of the company had experienced that after they made a room reservation, hotel lowered its rates. This created a negative image in the buyer.

Dynamic pricing was also seen to spread to other products, as well.

“It (dynamic pricing) is here to stay. It will going to spread to retail and other products. You will get it cheaper if you accept i.e. no refund policies and more expensive for the last minute bookings.”

5.6 Summary of the results

Dynamic pricing from companies’ point of view

- Familiarity with concept varies from company to company
- Hotel controls room rates that fluctuate according to demand
- Most of the information received from hotels was only price examples
- Companies felt that hotels did not provide all the necessary information
- Hotels do not understand travelling patterns of their customers

Dynamic pricing in practice

- Companies use more fixed than dynamic agreement rates
- Choice Hotels, Thon Hotels and Radisson offer dynamic agreement rates in Norway
- Companies are note familiar with which booking channels offer dynamic prices
- Technology was seen important for statistics, reservations, finding the cheapest alternative etc.
- Most of the companies do not know how to follow their accommodation volume
- The majority of the companies considered that fixed rates makes it easier to follow and control travelling compared to dynamic agreement rates
Conditions for agreements

• Nearly all agreements are negotiated once a year and for one year period
• Market changes were seen as reason to renegotiate agreements or to refuse from the longer agreement periods
• Longer agreements were seen profitable, and acceptable if companies had possibility to terminate agreement
• Generally companies were positive towards hybrid agreements if dynamic prices were cheaper and key destinations were not affected by dynamic pricing
• Companies did not see any reasons to give up from use of LRA
• Companies would accept dynamic price agreements with following conditions: proper discount, rates available Monday-Friday, applies only for standard rooms, breakfast included, 6pm cancellation policy and no prepayments for the rooms

Benefits and drawbacks

• Companies thought that they would benefit from dynamic pricing in the form of cheaper rates and better room availability
• Companies thought that negative sides of dynamic pricing would be higher rates and lack of control over their travelling
• Companies wished to have more information about dynamic pricing
• Dynamic pricing was seen harmful for the long-term customer relationship between hotels and companies

Future aspects

• More rooms were wished in Oslo, Stavanger and Bergen to lower high rates
• Recession has not affected the travelling of companies, however, they have been forced to plan their travelling better
• Dynamic pricing is here to stay, but as an option for low volume companies
• Companies wished improvement of the accommodation agreements and better technological solutions if hotels were to present dynamic pricing to the markets.
6 Discussion

The concept of dynamic pricing is very familiar to the Nordic hotel industry, but companies who use accommodation services have rather narrow and limited image of it or no knowledge at all. The purpose of this thesis was to determine with what incentives the companies would start to use dynamic pricing and what they think in general about the whole concept. The results give answers to hotels and DSPs the companies’ aspect on how dynamic pricing is seen, how it works in practice and what kind of dynamic pricing agreements would be accepted.

6.1 Main results in a nutshell

It came as a surprise that companies are not familiar with dynamic pricing and that the amount of information varies from company to company. According to both Taylor and Kimes (2010, 8) and Withiam (2001, 10), hotels should be more open about their pricing strategies to their most important accounts increasing the mutual understanding. The customers who do not have all or the correct information will base their decisions only according to rates. From the results it became clear that companies felt they do not have enough information to accept agreements with dynamic rates. The information was also given as price examples only. Hotels should plan better their communication methods and to try to increase the awareness of companies regarding dynamic pricing, even though this might take some time (Taylor & Kimes 2010, 8; Withiam 2001, 10). It was surprising that the companies did not know what else dynamic pricing can offer. Only few of the companies knew that with dynamic pricing agreement they would receive certain percentage off from daily rates, but no further information was mentioned.

Companies also preferred to use fixed rates to dynamic prices even though there were hotel chains offering dynamic prices. However, companies were not able to argue the reasons behind this; the author’s belief is that the companies were only accustomed to have fixed rates.

The study also showed that companies did not know which of the booking channels offered dynamic pricing nor did they know how to follow their travel volumes. Hotels should look for strategic partners amongst different distribution channels offering dynamic pricing. As Murray (2010) writes in her article an increasing number of business travellers are making their reservations with their smartphones. In future, hotels could send “price alerts” directly to their customers via different mobile platforms. Could agreement rates be bookable for the most frequent users via mobile platforms? (Hayes & Miller 2011, 273.)
Many of agreements negotiated were for one year, because the companies wanted to react fast to market changes. On the other hand, longer agreement periods were seen as economic as the companies could direct their resources to their core business instead of constant negotiations.

The companies were also positive towards hybrid agreements that are a combination of fixed and dynamic rates in different low-volume properties. According to Baker (2007), benefits of hybrid agreements are still not that clear and should be tested before implementing in a wider range.

It felt quite paradoxical that at the same time companies saw benefitting from low prices and suffering from high rates if accepting dynamic prices. Why companies are afraid of high rates caused by dynamic prices if during high demand hotels anyway close even fixed agreement rates?

Most worrying was that the companies felt that dynamic pricing was affecting the long-term customer relationships. This should not be the case; if a hotel is successful with its revenue management, customers are satisfied, as well. The best strategy is to find segments that pay the premium and those who are more responsive to price changes. If customers are unhappy, there must be something wrong with hotel’s revenue management. Every customer has their unique needs that must be considered individually. (Withiam 2001, 4-5.) Modern revenue management should be customer-oriented (Enz et al. 2010, 18-19). Interestingly, Hayes and Miller (2011, 62-63) argue that companies are looking for value in what they purchase and that revenue managers should be able to recognize that value. By listening to customers and examining them, hotel should have a deeper understanding of their needs, value perceptions and travel patterns.

As a negative aspect the companies also felt that dynamic pricing will decrease their control over the travelling which can be interpreted as loss of control over the budget. Hotels should be more precise in their calculations and plan it according to each customer. They should also emphasise that even though there might be losses, it is only a short term effect, because benefits will become more obvious during longer period of time. (Eisen 2006; Eye for Travel 2009.) Revenue managers should also concentrate on data analysing optimizing strategic pricing, but they should at the same time understand the received information and ramifications.
of buyer behaviour, perceived value and how pricing should be done. (Hayes & Miller 2011, 84-86.)

Companies were also hoping to benefit from better availability if they would start using dynamic pricing. Now companies were using fixed rates and struggling with available rooms what is interpreted as availability of fixed agreement rates. The relief to the situation was hoped from new hotel projects in Oslo, Stavanger and Bergen. As Horwath Consulting (2010b, 46.) estimated there will be 5000 rooms more in bigger cities and at airports by the end of 2011 what lowers pressure and push rates down due to the competition. Bergen will not have any significant increase in number of rooms in near future, though. The results indicated that Choice Hotels were actively working with dynamic pricing and bringing the concept closer to the companies. Choice Hotels’ power in this matter will definitely increase, because according to Horwath Consulting (2010b, 46) it will be the leading hotel chain in the Nordic Countries by 2013.

6.2 Validity and reliability

The author aimed at reliable results by carefully going through the available literature and articles in the Internet before reflecting them to the interview questions. To get the latest information the reports of Cornell University were used and some of the revenue management literature was bought abroad to strengthen the validity of the theory. The theory was used to help formulating the interview questions and framing the topic.

For the results to be reliable the author carefully selected the persons for the interviews. Only persons with relevant information about the accommodation agreement negotiations were selected as qualified interviewees. As told before in chapter 4.3 the reliability of the results would have been even more accurate if the author had had the access to at least one of the Norwegian hotel chains’ customer database and carefully selected the biggest customer segments, so called key accounts, to the research. Now the results include many different customer segments with huge variations in their purchase power of room nights. Another problem with the selected companies also is that some of them used dynamic pricing and some of them were not using it. At least one of the companies used dynamic pricing agreement in Norway and a couple of others outside the country with non-agreement hotels that were booked either by themselves or their travel agencies.
When the author contacted the companies it was rather difficult to get the interviews from them. The topic seemed to be rather delicate to some of the interviewees, because they were asked questions that might affect their position with the hotels during the agreement negotiations. Two of the companies underlined several times that their answers should not be identified from the results. The author promised full confidentiality for all of the companies that participated in the research and even modified some of the direct quotations of the interviewees if such were used in chapter 5. It is possible though, that the interviewees kept some of the information with themselves, because they did not trust a student asking delicate questions concerning their business.

The results may include possible misunderstandings both from the respondents’ side and the author’s side. These misunderstandings, as explained in chapter 4.4, may be that certain concepts, like dynamic pricing, were seen differently or then the interviewees did not have sufficient knowledge around the topic. Even though 9 of the interviews were done in English there was only one native English speaking taking part in the research. One participant gave the answers in Norwegian. Language, if not managed well, can block or change information from the interviewee to the interviewer (see chapter 4.5). After the interviews were completed some of the information may also have disappeared or changed, because no recorders were used (see chapter 4.5).

The author also felt it difficult to be objective and not to take hotels’ or the buyers’ side during the thesis process. Hotel background of the author can be seen from the results, because most the recommendations are aimed towards hotels. However, the author wishes that the thesis will benefit also professional buyers who wish to have more information and discussion around the topic.

6.3 Recommendations to the hotels

Revenue management is a strategy (Canina & Enz 2006a, 6; Withiam 2001, 4), and dynamic pricing, which is part of it, is here to stay according to the companies. According to the results, the customers of Norwegian hotels wish to have more information regarding dynamic pricing and deepen their cooperation with the hotels. The hotels should find the best solutions to do this if they want to sustain long-term customer relationships. The most important factor is to find a communication strategy with the key customers who feel that they are left in the dark. As Johnson et al. (2008, 574-575) argue, any strategy will fail without a proper communication strategy that involves different stakeholders. Revenue management is not a simple con-
cept and the buyers should understand that dynamic pricing is part of a larger strategy. The author recommends that the hotels organise customer events aimed at selected accounts (either smaller or key accounts) and explain how dynamic pricing works. This would widen the knowledge of the buyers and possibly acceptance to try the new pricing method. The companies should actively participate in these customer events and further deepen their cooperation with the hotels. Another option is to train the Sales Managers of the hotels and let them introduce dynamic pricing to the buyers. The hotels should have patience when introducing dynamic pricing to their customers, because most likely the concept is not well-understood or is misunderstood during the first times. The planning of the introduction should be done carefully and the buyers should be given time to examine the topic and process it with their own expectations. The buyers’ responsibility is to ask the hotels any questions they might have about dynamic pricing, because the information flow between supplier and buyer is important.

Hotels should also re-evaluate if their revenue management policies are customer-oriented or not. If the customers are not taken care of, they will most certainly change to another supplier that puts their customer’s needs first. The author recommends the hotels to search information about the buyers, for instance, from the annual reports that are published in the homepages of the companies. The hotels should also investigate which of the booking channels their customers are using and on which dates or periods their customers are travelling. All in all, the hotels should gather as much of information as they can about their clients and design a customer profile. This would help the hotels to better understand their corporate customers and to design a pricing strategy that suits the needs of each buyer.

According to the study, the companies were not aware exactly what reservation channels offer dynamic pricing. The author recommends the hotels to look for strategic partners amongst different distribution channels offering dynamic pricing. The hotel and the distribution channels together could arrange an information meeting with the clients and demonstrate how bookings are made in practice, which are the benefits and how to gain from modern technology. Cooperation with distribution channels is also important since many of them offers travel management or other tailored services to corporate clients with a great influence power. It is strongly recommended to use the modern technology or further develop the existing solutions, because the social media is growing its influence power amongst buyers every day. Many IDSs already offer a mobile phone friendly booking channels to consumers, because they have realised that the bookings are not made in the office anymore, but instead “on the road”.
Hotels should also mention to the companies during agreement negotiations that dynamic pricing actually improves the reaction speed in market changes and thus there is no need for renegotiations. As it appeared in the results some of the companies were renegotiating one year agreements several times a year, because they wanted to improve their agreement rates. Hotels should emphasise to their customers that with dynamic pricing the need of renegotiation would not be needed. If needed, the longer contract could be terminated, for instance, with 3 months written notice.

Because the companies were interested in hybrid agreements, the hotels should select a segment they could be tested with. The testing of hybrid agreements could be done as the companies suggested in the interviews: fixed rates in high-volume and dynamic rates in low-volume destinations. For instance, in Oslo a hotel chain could chose one or two of the smallest properties offering only dynamic rates when at the same time the rest of the hotels in the same urban area offer fixed agreement rates. From the test period the hotel and the company could gather experience based on information of the functionality of the agreement and feedback from the employees using the accommodation services. Hotel chain should be large enough to carry out the testing in the capital area.

6.4 Ideas for further research

The outcome of the research can be applied with other customer groups like leisure, incentive and meeting segments. As the revenue management will cover all the hotel operations in the future the thesis can be used as a model for coming studies covering restaurant, spa and golf services etc.

The weakness of this thesis was that it examined both the customers who were using dynamic prices and those who were not using them. The topic should be further investigated and limited to more specific and larger customer segments that either use or do not use dynamic rate agreements. The future research should also consider the annual volumes of the companies.

Hotels should also investigate in detail why their customers prefer to use fixed rates to dynamic prices and evaluate on what incentives they could attract the customers to use dynamic pricing. The author believes that the companies were only accustomed to have fixed rates, but this should be investigated in detail with carefully selected customer segments.
The thesis is recommended to be read, not only by hotels, but Travel Managers and DSPs alike to find a mutual understanding around the topic and improving the cooperation of these parties. The author also encourages hotel industry and buyers to continue reading and examining the topic. Finding the best solution in the debate of dynamic pricing economic benefits will be achieved amongst all parties.

The author also noticed that the companies wanted to have more information about dynamic pricing. Here the author sees a potential, for instance, for a small information booklet about revenue management and dynamic pricing in general. Now, the customers feel they do not receive enough information from hotels and that they need to search for it by themselves. It would indeed be a positive act from hotels’ side to produce this kind of an information package to their customers.

Hotels should also acknowledge that younger generations are taking over the travel management tasks in the companies. In order to really stand out from the others, hotels could even produce an introduction video or other animated presentation that is saved into a memory stick and hand it out to buyers as giveaways. This would of course demand a careful work due to the copyrights and that the certain pieces of information do not go to competitors. This kind of a modern giveaway would definitely be an attractive information package to the new and younger generation of travel managers who is more familiar with modern technology and maybe even more willing to adapt to the changes in hotel industry.

6.5 Reflections on the thesis process

The author already had a lot of information about the topic, but the whole thesis process and the discussions with the companies widened the picture even more. There lies much more behind revenue management than one would think. It also was interesting to notice that modern revenue management should be customer-orientated and that it will expand to other service sectors in very near future.

The author learned a lot about the qualitative research method and found it more difficult research type than quantitative method, which he had experience of in his earlier studies. The difficulty in qualitative research occurred from the efforts of analysing the data as objective as possible. The thesis reflects the opinions of the author thus making the conclusions of the results subjective.
The thesis writing took longer time than expected due to difficulties of finding the academically reliable literature and the most suitable companies for the interviews, but the final results made it worth waiting. Problems with the time management also emerged, when he tried to combine the studies and work together. The best solution here would have been a timetable for each day or a week or then placing the whole research to the beginning of the year when the companies could have had more time to participate in the research.

The author was also surprised how expensive the research process became. The costs came from two academic books bought from United States, telephone calls and travel expenses. The estimated costs were about 250 €. The author should have had a budget for this thesis.

The most memorable experience from the thesis process was for the author the great opportunity to get familiar with different companies. The author learned that it is very important to listen to what customers are saying and to build strategies or product development on that information. If a company does not listen to its clients, this may have a negative impact for the future business.

From the cultural point of view the author also received good experiences, because the interviewees were from several countries or their strategic decisions were influenced by international relations. As the author is studying international business administration, the opportunity to write the thesis in Norway and to study international companies put all that he learned in practice.

The whole thesis process started from the own interest of the author towards the topic and he is hoping to have a career in revenue management in the future. The author has benefitted from the thesis writing and has taken in use the acquired knowledge in his present work explaining different clients why hotel or rental car prices varies from reservation channel to another and by the time, and why restaurants restricts the dining time of their guests.

Finally, the author would like to thank one of the interviewee for suggesting literature and, of course, all those companies who participated in the research. He also would like to thank the teachers of Haaga-Helia for supporting his work.
Bibliography


Appendices

Appendix 1. Thesis timetable

2009
November   Search for the cooperative company
December   Planning meetings with Hotel Norway

2010
January-February  Writing the research plan
February-March    Research plan seminar
September-October  Sending the invitation to interviews, interviews take place
November-December  Writing more theory

2011
January   Analysing the results
February-April Finalizing the thesis
May       Result Seminar in Helsinki, Finland
Appendix 2. Invitation to the interview

Dear (receiver’s name),

I am a student at Haaga-Helia University of Applied Sciences in Helsinki, Finland. My Degree Programme is International Business Administration (BBA). The topic of my thesis is to study what Norwegian corporate accounts think today about dynamic pricing of hotels.

I would like to invite you to an interview to discuss your thoughts about dynamic pricing. The language of the interview will be English. The interview will take a maximum one hour. I will be conducting the interviews in September 2010. We can agree on the exact date, time and place for the interview according to your wishes.

All the interview material will be handled as confidential during the whole research process.

I am looking forward to your reply by the 6th September 2010. Thank you for your interest!

With kind regards,

Jouni Hyrkäs
Student

Further information

Jouni Hyrkäs  tel  47 34 31 02
E-mail: jouni.hyrikas@haaga-helia.fi
Appendix 3. The interview questions

Background
1. For what company do you work for?
2. What is your position in the company?
3. What kind of authorization power do you have during the agreement negotiation process?

What is dynamic pricing from companies point of view?
4. How would you describe dynamic pricing?
5. How have you heard about dynamic pricing?
6. What information have the hotels given to you regarding dynamic pricing?

How does dynamic pricing work in practice?
7. When did you start using floating rates the first time?
8. With what chains are you using dynamic pricing?
9. Which GDS channels are offering dynamic pricing to your company?
10. What is the role of technology when booking floating agreement rates?
11. How do you control that the agreed room nights meet the agreement?

What kind of dynamic pricing agreements are there?
12. How many times a year you need to renegotiate the agreement rates?
13. How would longer agreement periods suit for your company?
14. Think if your company would use dynamic pricing in one or two hotels and fixed rates in others. Would this kind of new agreement cooperation be possible in your case?
15. Should large cities be under dynamic pricing agreement? Why or why not?
16. What need there will be for LRA if your company has access to every room category because of dynamic pricing?
17. On what terms would you agree to use dynamic pricing?
18. How would you improve the hotel agreements between your company and the Norwegian hotels?

What are the benefits and drawbacks of dynamic pricing?
19. How dynamic pricing has affected your business?
20. What benefits do you think your company would receive?
21. What negative effects do you think your company would face?
22. What kind of savings do you think your company would receive?
23. What benefits can the location and number of hotels bring you?

What is the future of dynamic pricing?
24. How has the current economic situation affected your bookings?
25. How do you see the future of dynamic pricing?
### Appendix 4. Overlay matrix of investigative questions

Table 1. Overlay matrix of investigative questions and data collection process

<table>
<thead>
<tr>
<th>Investigative question (IQ)</th>
<th>Relevant theory</th>
<th>Data collection</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>IQ1: How do the companies see dynamic pricing?</td>
<td>3.1, 3.2, 3.3</td>
<td>Face-to-face, telephone and e-mail interviews, asking feedback for the final results from the companies</td>
<td>5.1</td>
</tr>
<tr>
<td>IQ2: How do the companies see dynamic pricing works in practice?</td>
<td>2.2, 2.3</td>
<td>Face-to-face, telephone and e-mail interviews, asking feedback for the final results from the companies</td>
<td>5.2</td>
</tr>
<tr>
<td>IQ3: What sort of dynamic pricing agreements are there?</td>
<td>2.3, 3.1, 3.2</td>
<td>Face-to-face, telephone and e-mail interviews, asking feedback for the final results from the companies</td>
<td>5.3</td>
</tr>
<tr>
<td>IQ4: What benefits and drawbacks do the companies see?</td>
<td>2.2.6, 3.1, 3.2, 4.1</td>
<td>Face-to-face, telephone and e-mail interviews, asking feedback for the final results from the companies</td>
<td>5.4</td>
</tr>
<tr>
<td>IQ5: How do the companies see the future of dynamic pricing?</td>
<td>2.2.7, 4.1</td>
<td>Face-to-face, telephone and e-mail interviews, asking feedback for the final results from the companies</td>
<td>5.5</td>
</tr>
</tbody>
</table>