



# THE ART & SCIENCE OF PRICING

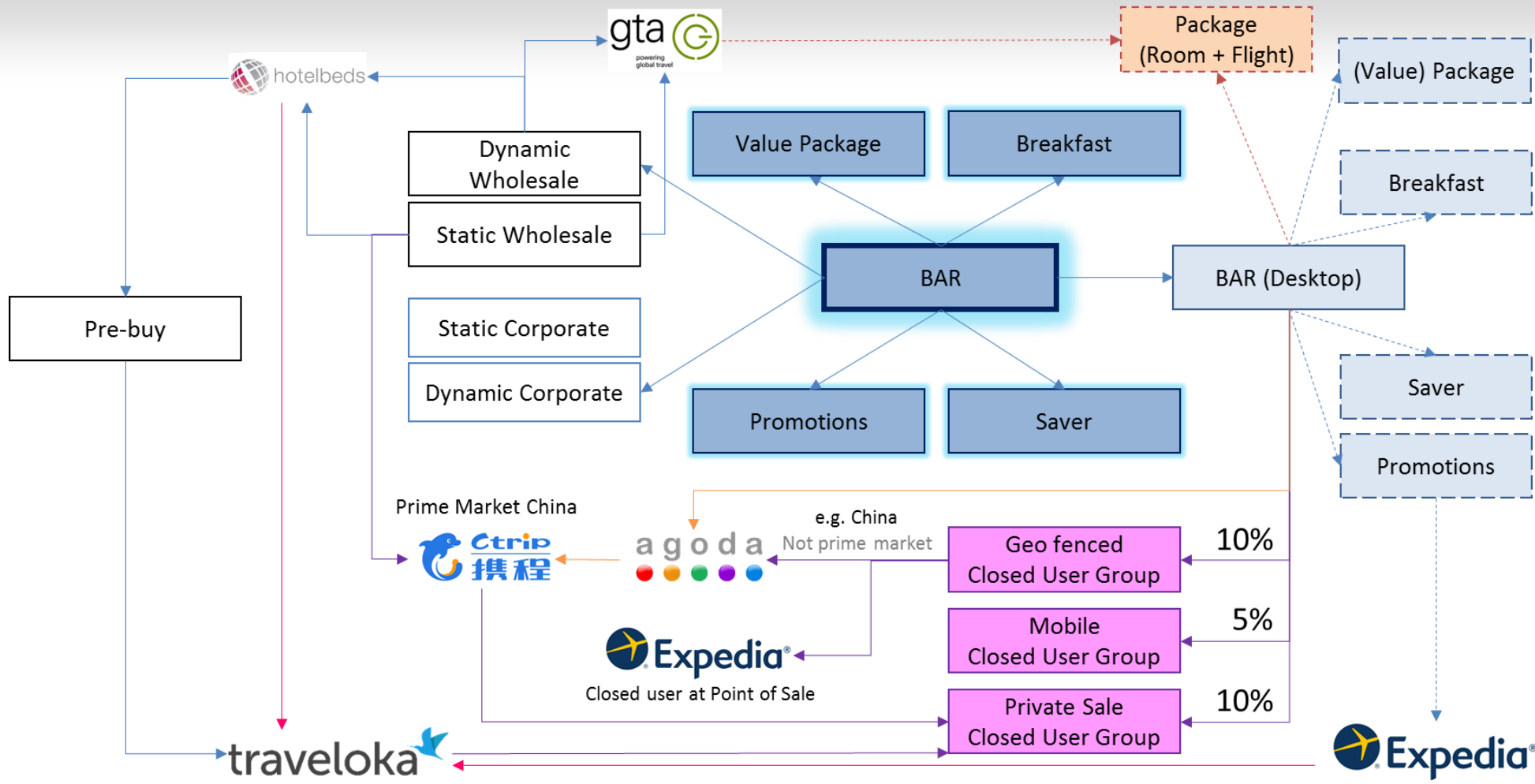
JAKARTA HOTEL WEEK – 9<sup>th</sup> NOVEMBER, 2018

Fabian Bartnick





# Pricing in today's world



# The industry today

**BAR** by day, BAR by Length of Stay, Blended BAR, Web BAR, Competitive BAR, **Pricing structure, continuous pricing, price optimization, sentiment pricing**, derivate pricing, channel pricing, contextual pricing, **decoy pricing**, pricing by room type, **rate** product pricing, segment **pricing**, rate code pricing, pricing **psychology**, neutral pricing, anchor **pricing, bundling, versioning, pricing followers, lead in pricing, derivative** pricing, add on **pricing**

# Baseline





# Funny thing about value

\$0.50 Multi pack

\$1.49 Supermarket

\$1.99 Convenience Store



\$3.75 Cafe

\$4.50 Restaurant

\$4.95 Mini Bar

\$2.50 Vending Machine

Price is only an issue **in the absence of value...**  
...but value is **relative!**



# Price is only an issue **in the absence of value...** ...but value is **relative!**

	Low Price	Medium Price	High Price
High Value	<b>Underpriced:</b> "What's wrong with this hotel?" pricing strategy."	<b>"More for your money" pricing strategy.</b> Attractive pricing: ideal for market penetration.	<b>Premium pricing strategy.</b> Exclusive, Prominent, Boutique.
Medium Value	<b>True bargain:</b> Tactical Rates to increase Volume and Revenue.	<b>"Square deal" pricing strategy:</b> Price and value are in balance, exclusive of other factors.	<b>Overpriced:</b> Informed buyers will stay away.
Low Value	<b>"Tourist trap"</b>	<b>Sales may turn into complaints.</b>	<b>Don't even think about it!</b>



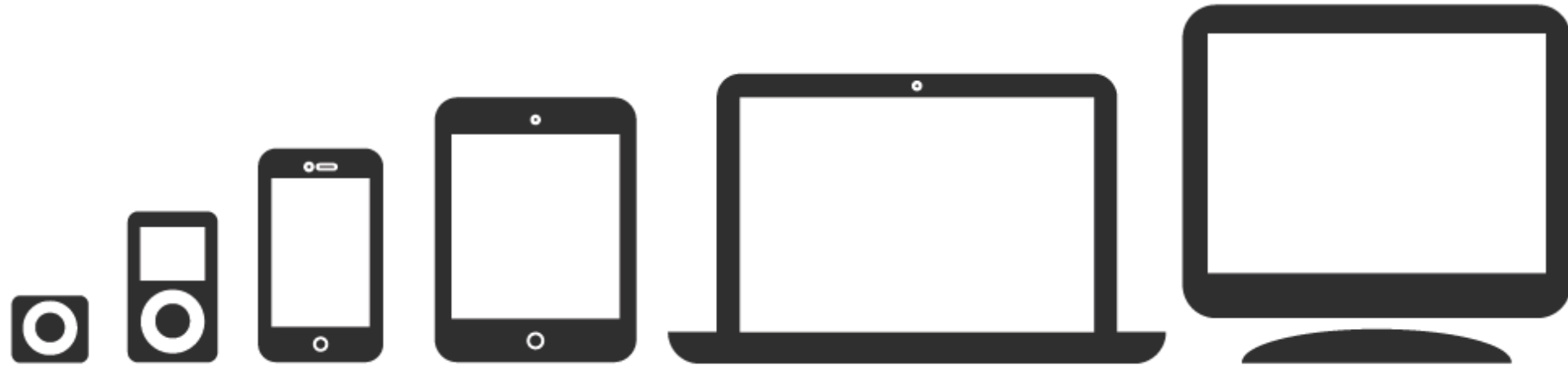
WHAT AM I CHARGING FOR

HOW MUCH DO I CHARGE



# Product differentiation

GAINING COMPETITIVE ADVANTAGE  
THROUGH PRODUCT DIFFERENTIATION



# Distinctive



A horizontal timeline of Apple products from 1992 to 2009+. The timeline is a grey bar with an Apple logo on the left and a search bar on the right. Above the bar, various Apple products are displayed with their names and award callouts. Below the bar, more products are shown with their names and award callouts.

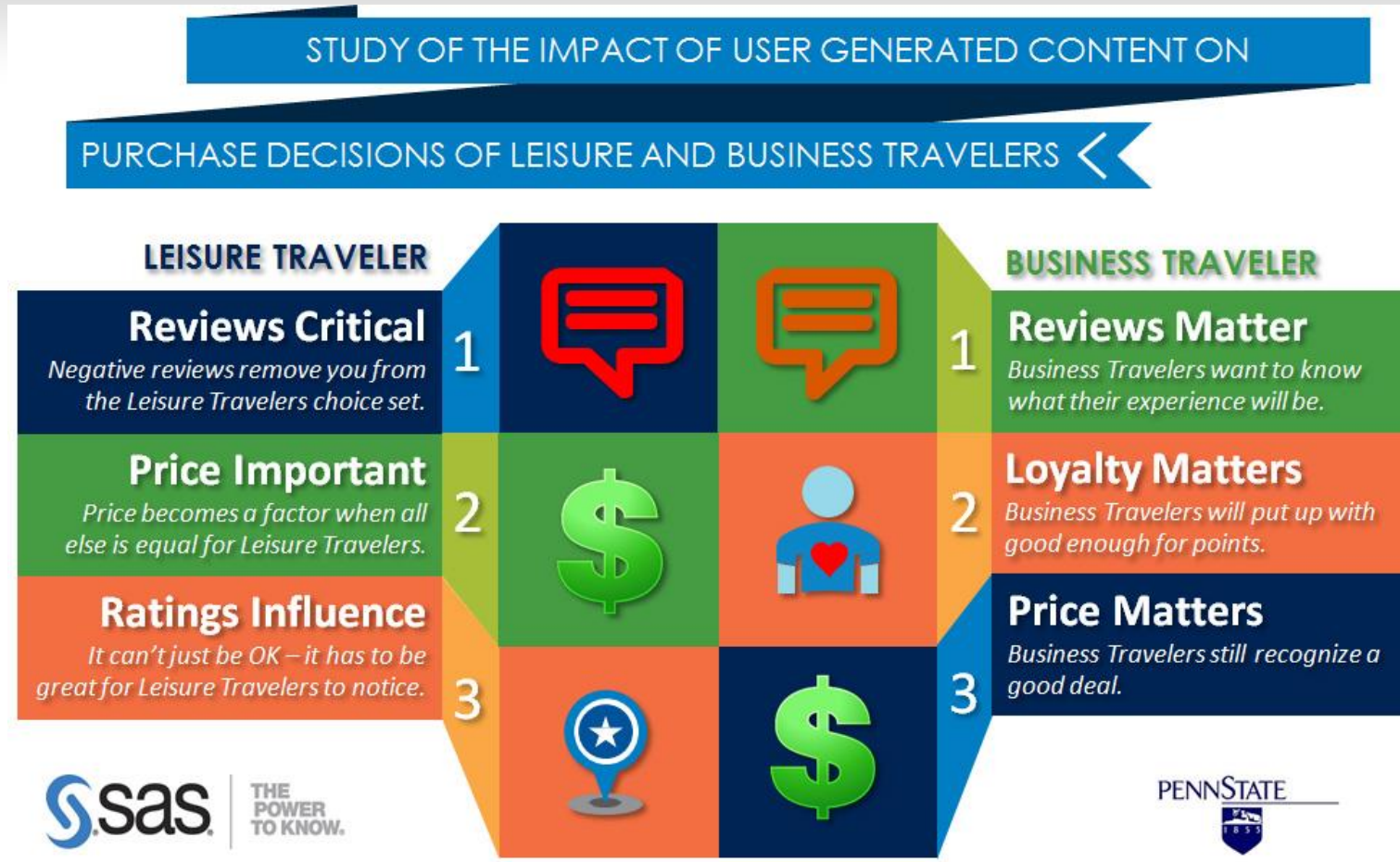
**Timeline Products and Awards:**

- 1992:** Apple II
- 1998:** iMac G4 (Award: "1998 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 1999:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2000:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2001:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2002:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2003:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2004:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2005:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2006:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2007:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2008:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")
- 2009+:** iMac G4, iMac G4 (Award: "1999 made the year that Apple's design was named the most innovative design in America by the American Design Awards.")

# Influencers on pricing



# Value perceptions



KELLY MCGUIRE & BREFFNI NOONE





# The bubble means money...



... if a hotel increases its review scores by 1 point on a 5-point scale (e.g., from 3.3 to 4.3), the hotel can **increase its price by 11.2 percent** and still maintain the same occupancy or market share

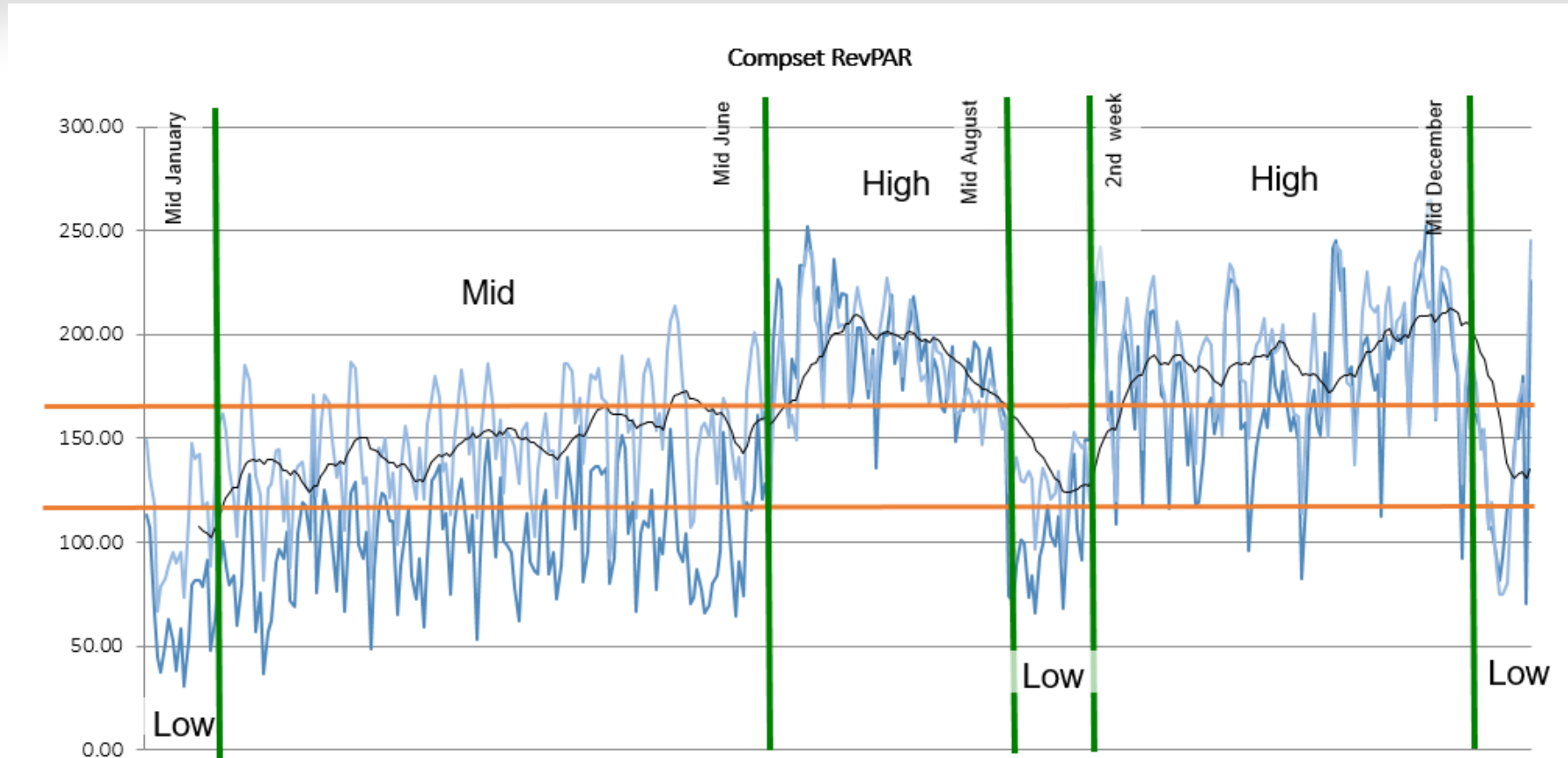
... the Review Score odds ratio means that increasing one point **increases the odds of being selected by 14.2 percent**

# Influencers on pricing

*MARKET DYNAMICS AND PRICING*



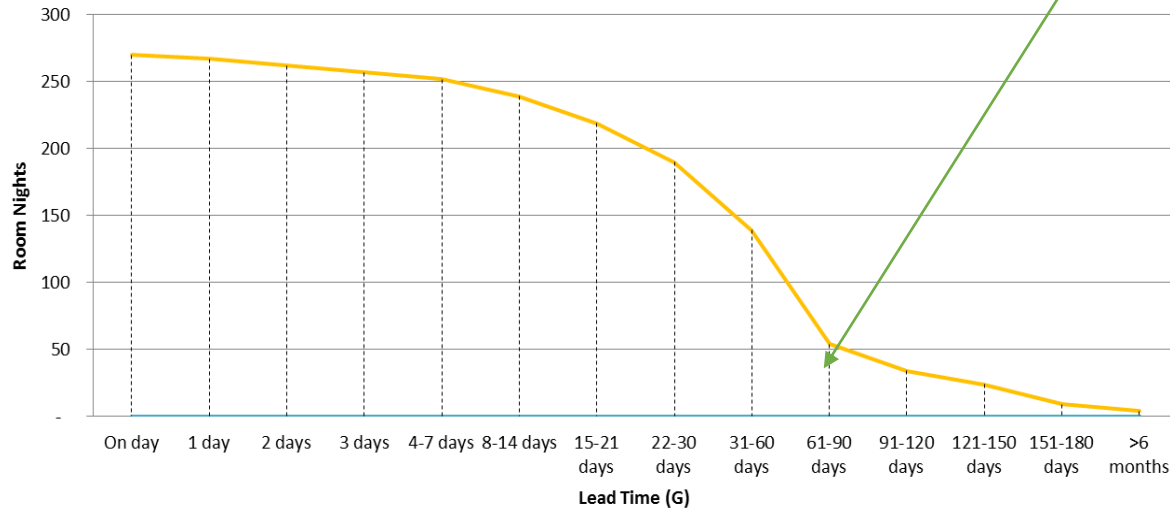
# Market vs. Competition vs. Hotel demand



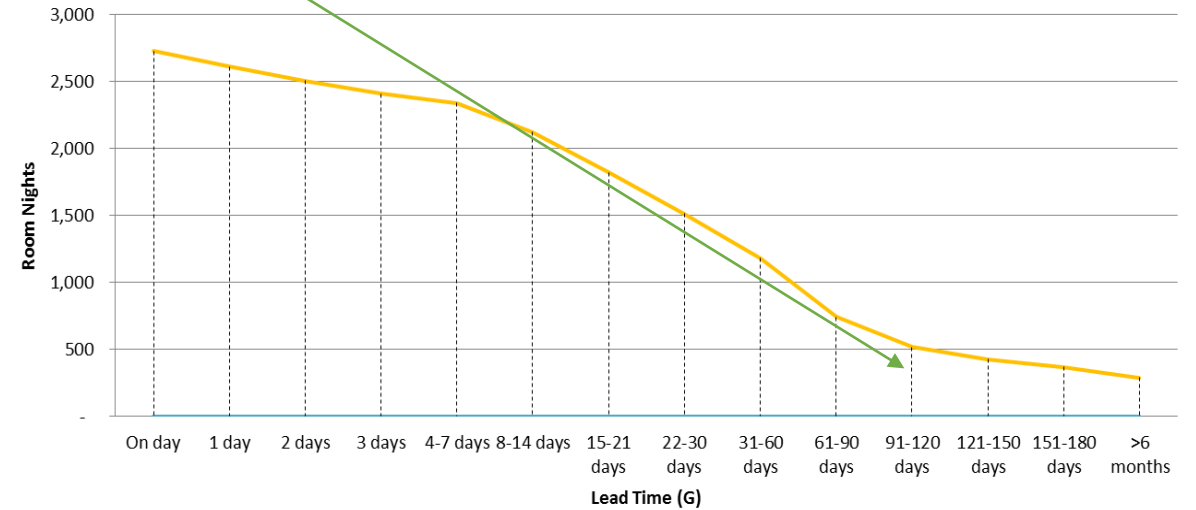
# Pace data

Variance in Lead time

### Chinese New Year



### Hari Raya Puasa



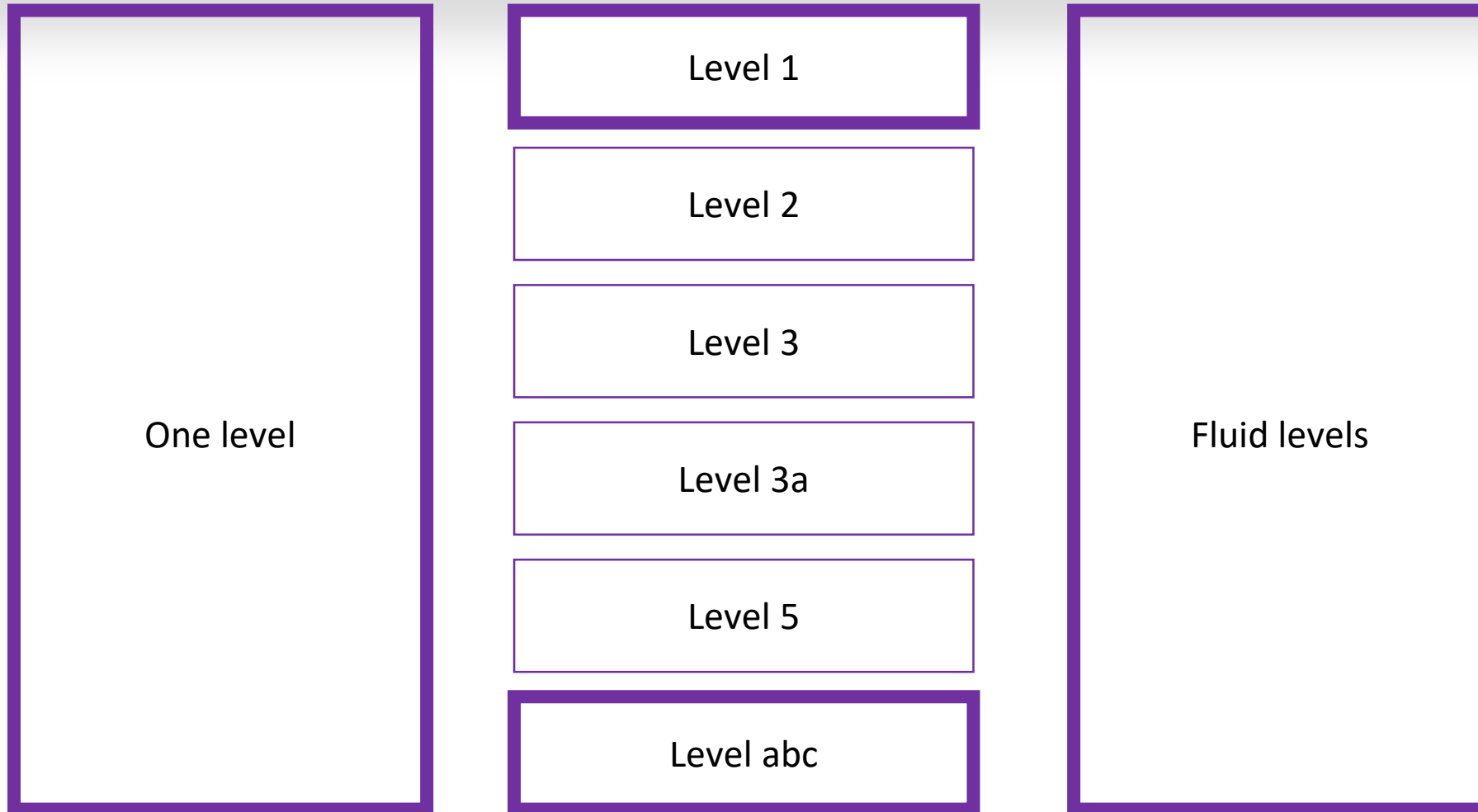
# Influencers on pricing

*STRUCTURES*

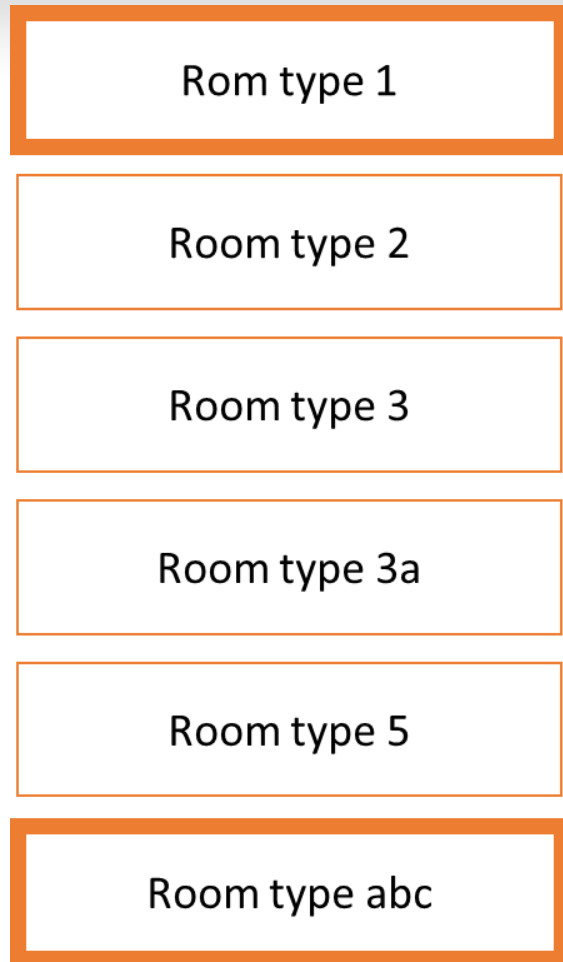




# Pricing structure



# Room type structure



- Room classes
- Bed configuration
- Value attribution
- Physical design
  
- Business rules
  - How much to add / subtract?
- Monetization rules
  - For what can I charge?

# Rate product structure

## Package Rate

- Room plus a 3<sup>rd</sup> Party Add on / Value add
- E.g.: Room plus transport tickets plus attraction tickets

## Flexible Rate

- Pay on Arrive / Departure
- E.g.: Flexible Cancellation rate

## Advance Purchase

- Room with fences
- E.g.: Rates with all add-ons prepaid

## Promotional Rate

- Room promotional
- E.g.: Room plus selected add on / ALL In minus Wifi

# Bringing it together – why we do it

## Package Rate

- Room plus a 3<sup>rd</sup> Party Add on / Value add
- E.g.: Room plus transport tickets plus attraction tickets

## Flexible Rate

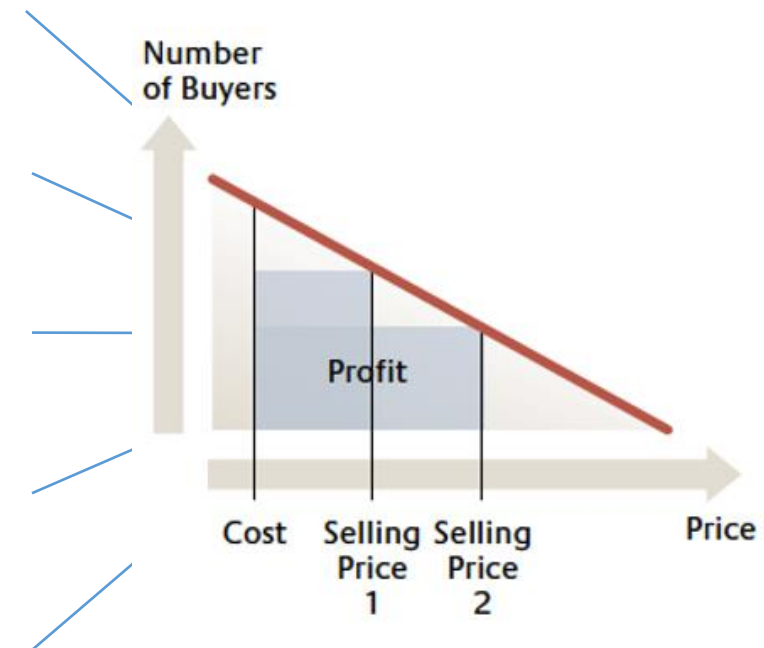
- Pay on Arrive / Departure
- E.g.: Flexible Cancellation rate

## Advance Purchase

- Room with fences
- E.g.: Rates with all add-ons prepaid

## Promotional Rate

- Room promotional
- E.g.: Room plus selected add on / ALL In minus Wifi



# Paradox of choice





# Pricing strategies



# Little bit of math...

$$8 \times 7 \times 6 \times 5 \\ \times 4 \times 3 \times 2 \times 1$$

1000?

2000?

1 x 2 x 3 x 4  
x 5 x 6 x 7 x 8

# 550

Anchoring is a **cognitive bias** that describes the common human tendency to rely too heavily on the first piece of information offered (the "anchor") when making decisions.

# Decoy & Anchor pricing

In 2013, Apple responded by launching 2 new models of the iPhone. The iPhone 5c, which started at £469 and the iPhone 5s which started at £549 in the UK

The iPhone 5c was immediately criticised by the press. "The C in 5C does not mean "cheap" as I had hoped. It means clueless, as in clueless about how the vast majority of new smartphone users are paying for their phones."

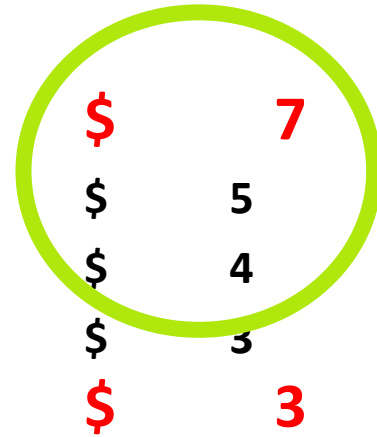
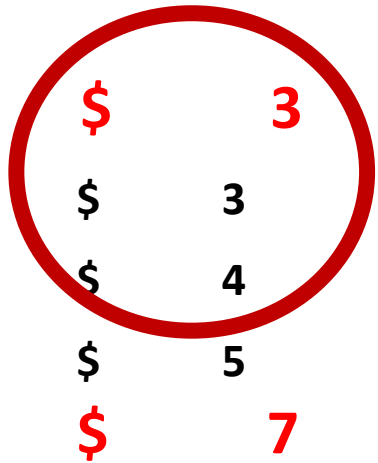
However, Apple was actually very successful in designing its price architecture. Whilst some people still bought the 5c model, the majority of people jumped at the most expensive 5s model.

The iPhone 5c was priced above equivalent phones by other manufacturers, but actually was designed to make the iPhone 5s appear the rational choice and seem better value for money

	iPhone 5s	iPhone 5c
Phone	  	  
	Available in silver, gold and space grey, iPhone 5s features an A7 chip, a Touch ID fingerprint sensor, ultra-fast wireless, an iSight camera with a larger 8MP sensor and iOS 7	Available in green, blue, yellow, pink and white, iPhone 5c features an A6 chip, ultra-fast wireless, an 8MP iSight camera and iOS 7
Capacity and Price	16GB £549 32GB £629 64GB £709	16GB £469 32GB £549



# Descending Order Effect



People chose more expensive beer – on average \$0.24 more

# Differential pricing

Differential pricing is the strategy of selling the same product to different customers at different prices.



# Versioning

A business practice in which a company produces different models of the same product, and then charges different prices for each model.

Choose one plan and watch everything on Netflix.

[Start Your Free Month](#)

	BASIC	STANDARD	PREMIUM
Price after free month ends on 11/8/15	\$7.99	\$9.99	\$11.99
HD available	×	✓	✓
Ultra HD (when available)	×	×	✓
Screens you can watch on at the same time	1	2	4
Watch on your laptop, TV, phone and tablet	✓	✓	✓
Unlimited movies and TV shows	✓	✓	✓
Cancel anytime	✓	✓	✓
First month free	✓	✓	✓

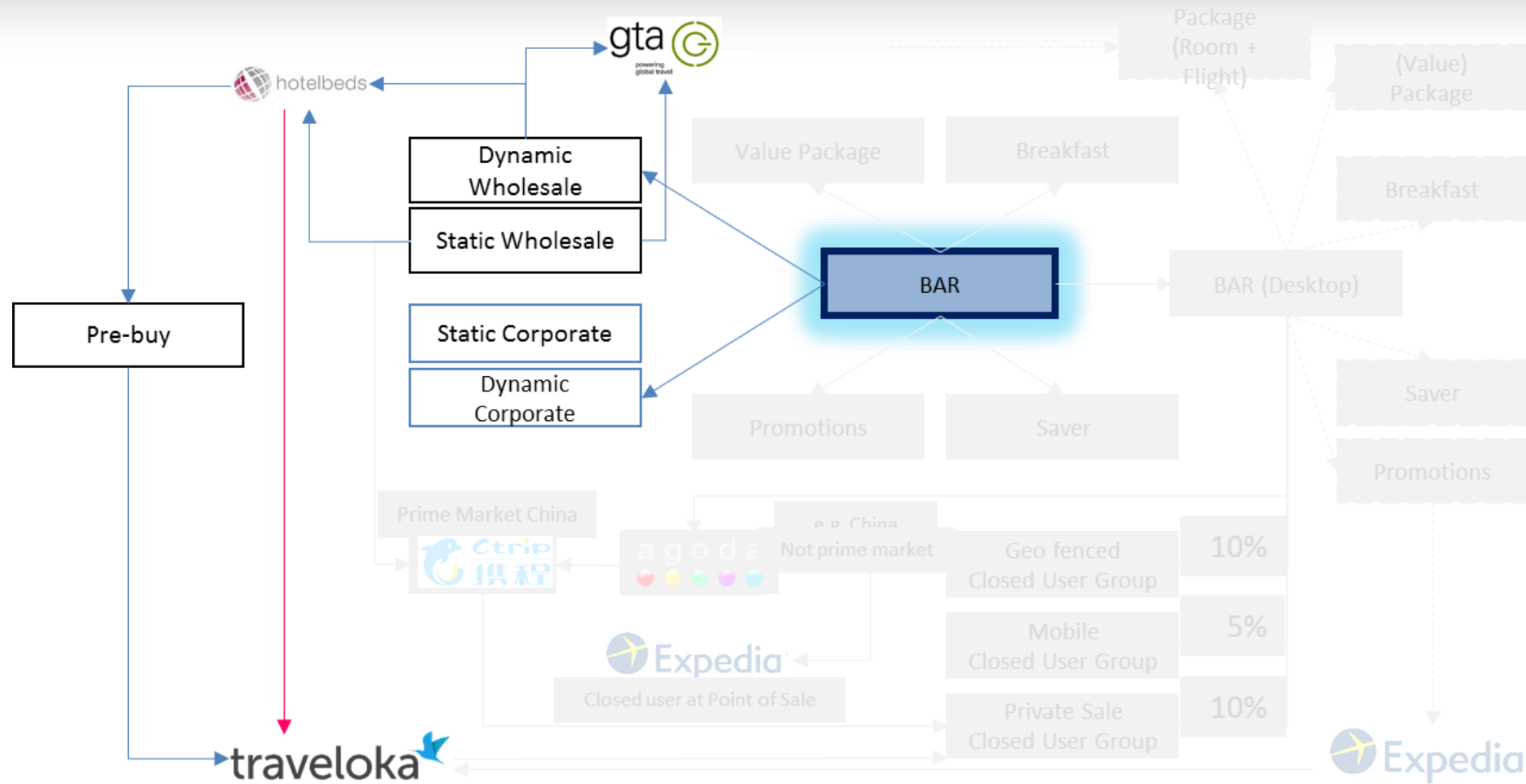
# Bundling

In a bundle pricing, companies sell a package or set of goods or services for a lower price than they would charge if the customer bought all of them separately. Common examples include option packages on new cars, value meals at restaurants and cable TV channel plans.

## THE SUPER PROFIT SYSTEM



# Dynamic vs. Static vs. Pre-buy



# Closed User Groups



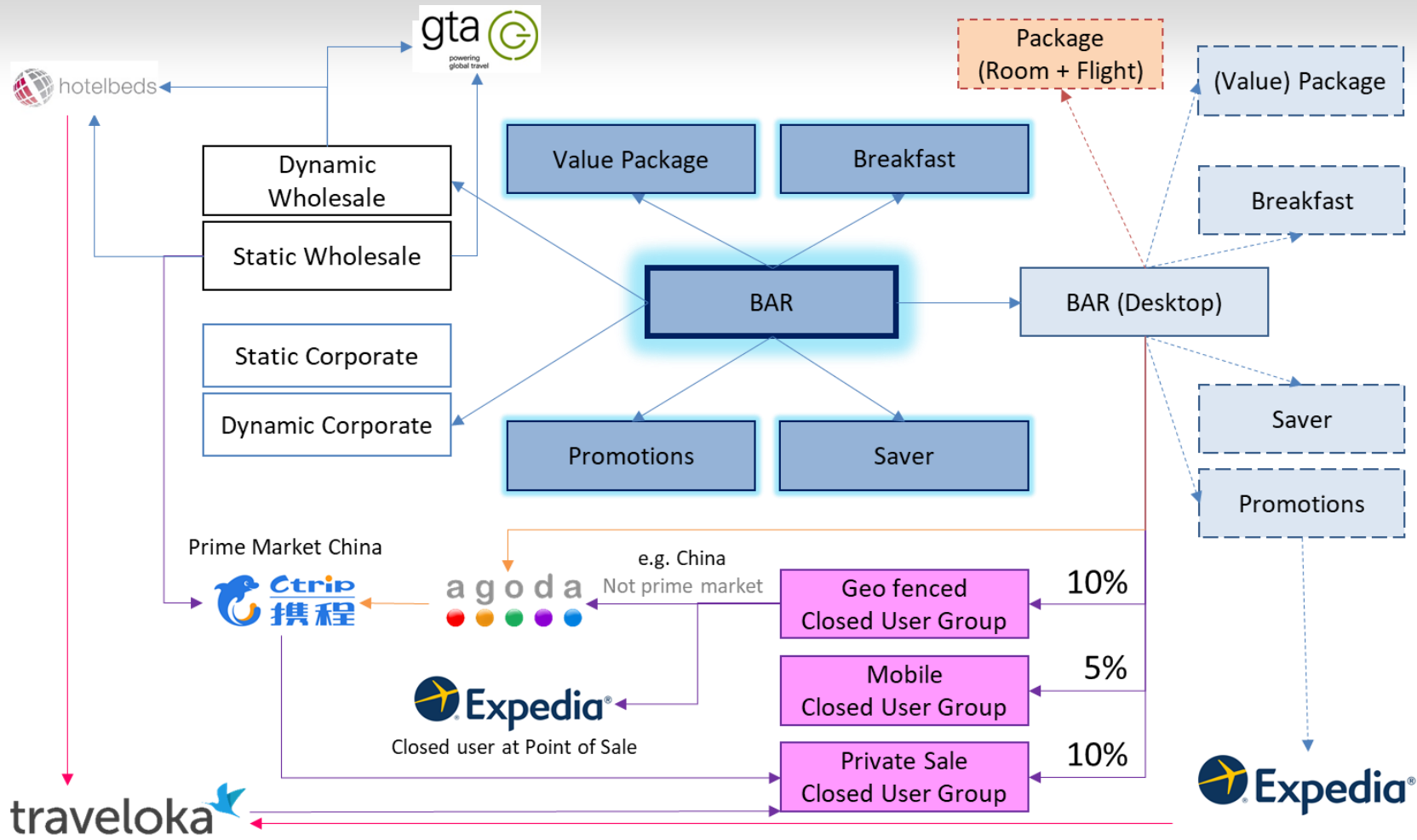


# Closed User Group

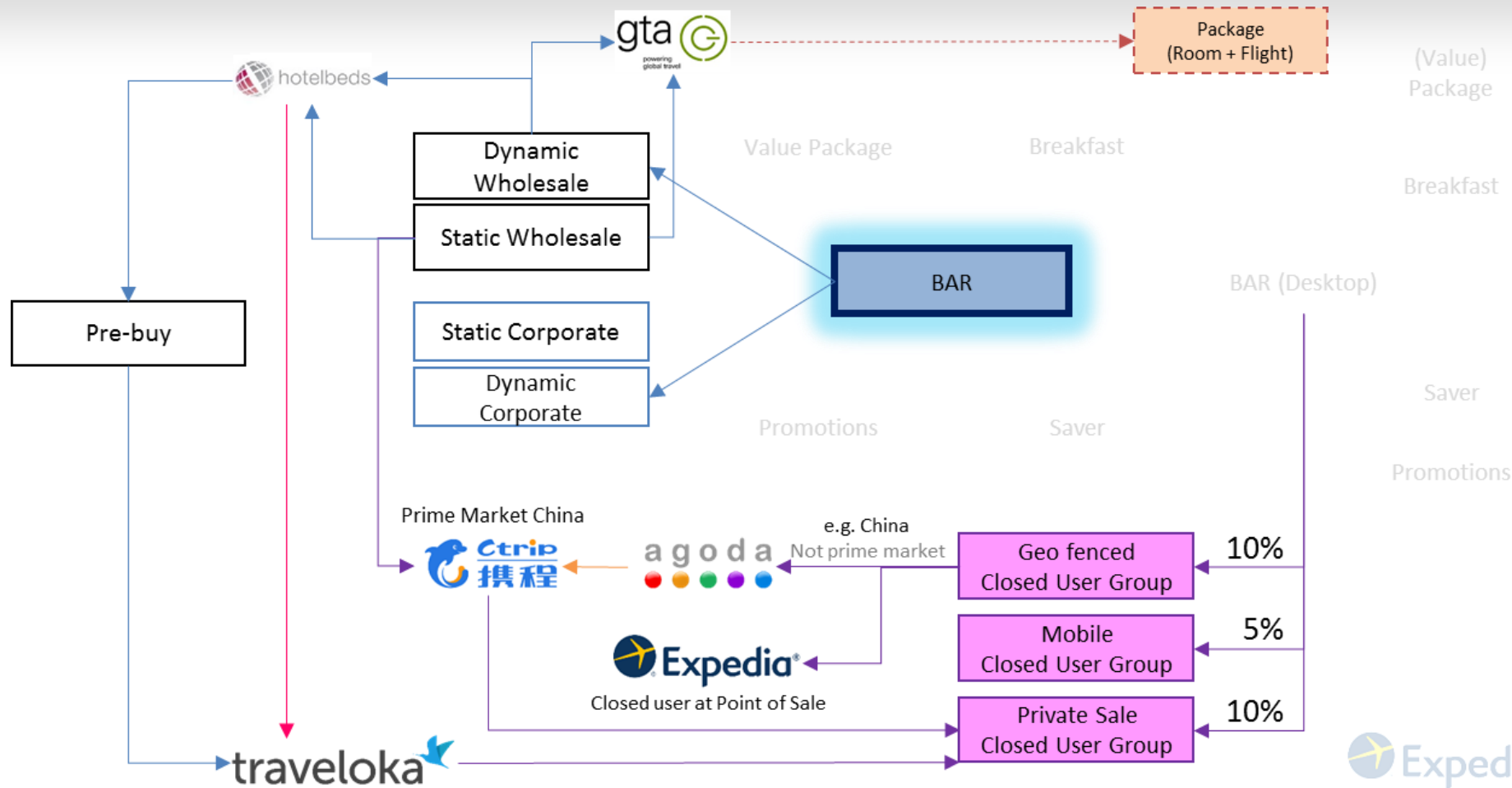
The screenshot displays the Agoda website interface. A dropdown menu titled "Select your preferred PointsMAX loyalty program" is open, listing various programs such as Air China, American Airlines AAdvantage, and United MileagePlus. A red box highlights this dropdown. Below it, a "Sign in / Sign up" section is visible, featuring a red-bordered box with the text: "Only agoda members get Insider Deals! Sign up now and receive exclusive offers with huge discounts from Agoda!". Below this text are input fields for "First Name", "Last Name", "Email", and "Password". At the bottom, a search bar is visible with fields for "Destination, hotel, or apartment" (containing "Kuala Lumpur"), "Check-in" (06 Apr 2016), "Check-out" (08 Apr 2016), and "Guests" (1 Room, 2 Adults, 0 Children), along with a "Search" button.



# Closed User Group




# Closed user group pricing in reality



# Discount trap

- A 50% decrease means a 100% increase

- Flash sales 
  - Deal-of-the-day (also called daily deal or flash sales or one deal a day) is an ecommerce business model in which a website offers a single product for sale for a period of 24 to 36 hours.

- Opaque / Secret Hotel 
  - An opaque inventory is the market of selling unsold travel inventory at a discounted price. The inventory is called "opaque" because the specific suppliers (i.e. hotel, airline, etc.) remain hidden until after the purchase has been completed.

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