

## Cornell Study Says: How To Make Money In The Hotel Business - Keep Your Prices Strong

2006-03-16

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Discounting doesn't work as a strategy for hotels that are trying to earn more revenue than the other hotels in their immediate competitive set. A new study from the Cornell Center for Hospitality Research revisited the question of whether discounting works to bring in more money, compared to direct competitors.

The study, by Cornell professors Linda Canina and Cathy Enz, found that a hotel that maintains a pricing premium, compared to its immediate competitors, also records a higher RevPAR than those competitors do. In contrast, hotels that keep their prices below those of their competitive set have relatively higher occupancy but their RevPAR doesn't hold up. This report, 'Why Discounting Still Doesn't Work: A Hotel Pricing Update,' is available at no charge from the Cornell Center for Hospitality Research

(<http://www.hotelschool.cornell.edu/chr/research/centerreports.html>).

Using data from Smith Travel Research, Canina and Enz updated an earlier study of 6,913 United States hotels to determine whether the industry's recovery changed this relationship. In short, the answer is, no. When a particular hotel's average room rates are compared to the average ADRs of that hotel's immediate competitors, the hotels that discounted recorded lower RevPAR than those that priced at a slight premium, compared to the competitive set.

'What this means is that regardless of the economic situation, the way to achieve stronger revenue than competitors is to charge more than those competitors do,' suggested Canina, an associate professor of finance at the Cornell University School of Hotel Administration.

Beyond the comparison of ADR and RevPAR, the researchers also checked whether the proportions changed among hotels that were pricing above or below their competitive set. Again the answer is, no.

'We concluded that hotels in the aggregate maintain a more or less consistent pricing relationship with their competitive set during recession, recovery, and prosperity,' noted Enz, who is associate dean for industry research and affairs and the Louis G. Schaeneman Jr. Professor of Innovation and Dynamic Management at the Hotel School.

### **About The Center for Hospitality Research**

A unit of the Cornell School of Hotel Administration, The Center for Hospitality Research (CHR) sponsors research designed to improve practices in the hospitality industry. Under the lead of the Center's 44 corporate affiliates, experienced scholars work closely with business executives to discover new insights into strategic, managerial and operating practices. The Center also publishes the award-winning hospitality journal, the Cornell Hotel and Restaurant Administration Quarterly. To learn more about CHR and its projects, visit [www.chr.cornell.edu](http://www.chr.cornell.edu).

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This article comes from Hotel News Resource

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