

Cornell Hotel Industry Research Finds Discounting Costs Asian Hotels Money

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Newly released hotel research study finds Asian hotel demand defies expectations - failing to show market-share increase from competitors' rate cuts

Conventional wisdom says hotels can undercut their competitors' room rates to grab market share and boost room revenues. A new hotel industry research report published by Cornell's Center for Hospitality Research (<http://www.hotelschool.cornell.edu/research/chr/pubs/reports/2008.html>) finds that this gambit doesn't work at all for upscale Asian hotels.

The hotel research report, 'Pricing for Revenue Enhancements in Asian and Pacific Region Hotels: A Study of Relative Pricing Strategies,' is written by Linda Canina and Cathy A. Enz, both faculty members at the Cornell University School of Hotel Administration.

Hotel Industry Research Again Challenges Conventional Use of Discounting to Raise Occupancy

By comparing average percentage differences in occupancies, average daily rates (ADR), and revenue per available room (RevPAR) between individual upscale Asian hotels and their competitive set between 2001 and 2006, Canina and Enz found that hotels that raise their rates slightly above those of competitors improve their revenues. On the other hand, Asian hotels that price below their competitive sets do not gain concomitant occupancy boosts and see revenue reductions.

'In this set of Asian hotels, we found that relative occupancies remained stable even when hotels charged less than their competitors did,' said Canina. 'At the same time revenues went up when a hotel priced above its competitive set and down when it undercut competitors.'

Canina cautions that the results cannot be generalized to all hotels, because this study examined just 135 upscale hotels in Asia. 'Even with that limitation, however, our findings with respect to relative gains and losses of RevPAR in Asia were similar to an earlier study we conducted for hotels in the United States,' she continued. 'Thus, we must caution hotel managers to think carefully before reducing room rates compared to competitors.'

Meet and interact with Dr. Enz, an active member of the executive education faculty at the School of Hotel Administration, when she presents sessions in the Professional Development Program:
<http://www.hotelschool.cornell.edu/industry/executive/pdp/>.

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