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An Analysis of Various Rooms Pricing Strategies Employed by Medium and Large/Big Accommodation Establishments. A Case Study of Lilongwe and Blantyre Cities.

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ABSTRACT

Hotels, Motels, guesthouses, lodges, inns, and resorts are the components of the lodging industry, which composes the greatest part of the tourism and hospitality industry in general. The tourism and hospitality businesses can be divided into small, medium and large based on the number of employees employed, with the medium and large/big enterprises up the large proportion of the business now. In this study, the researcher used purposive/judgmental sampling. Judgmental sampling is a non-probability sampling method in which the researcher uses his or her judgement to choose appropriate members of the population which he/she believes can provide information that is useful for his/her research topic, thus this study was only involved the managers and the property owner as the respondents of this study. The sample size was twenty-five [25]. After data collection, quantitative analysis was carried out to come up with descriptive and inferential statistics. Hence charts, graphs and percentage figures were generated using Microsoft Excel Package. My assumption in this study was that the pricing strategies that most medium and large/big accommodation establishments use were competitive and cost-based pricing.

INTRODUCTION

The main question of this study is to find out various pricing strategies that are employed by medium and big/large accommodation establishments in setting their room prices in the cites of Lilongwe and Blantyre. Pricing strategies and customer happiness are related. In the context of this research, customer satisfaction is positioned as the dependent variable, and pricing strategy is the independent variable. This strategic segmentation allows for a more in-depth investigation of the methods in which the adoption and effectiveness of pricing strategies affect customer's overall satisfaction levels, specifically in relation to medium and big/large accommodation establishments in the cities of Lilongwe and Blantyre. Malawi, Central Africa.

four essential features of pricing strategies are examined as the main focus of the investigation: pricing strategies, people responsible for rooms pricing and the perception of customers on these prices as well as competitive advantages. These factors were selected because they play crucial roles in determining how customers perceive their experiences and how satisfied they are. The term "usability" refers to how simple and effective it is for customers to use these medium and large/big accommodation establishments in a retail manner. Customers' level of reliance and confidence in the power of money and affordability of these medium and large/big accommodation establishment's is what brings loyalty and trust. Customers' subjective evaluation of the possible high charges and not getting the value of their money connected to the rooms pricing strategies, such high charges or weak value of their money, leads to losing business to the competitors and failing to meet the companies objectives..

This chapter lays forth the research's goals, objectives, and underlying logic, acting as the framework for the study. The study's background offers a contextual backdrop that describes how the tourism/hospitality industry is changing and how pricing strategy technics are becoming more and more common in coming up with prices. In light of this, the issue statement establishes the foundation for the significance and applicability of the research by outlining the knowledge gap that currently exists about the relationship between pricing strategies and reaching the competitive advantages.

The overall goal and particular aims sought by this research Endeavor are encapsulated in the study's purpose and objectives. The study intends to provide useful insights for tourism/hospitality industry stakeholders by providing a systematic investigation of the relationship between pricing strategies and competitive advantage of the company through the establishment of well-defined objectives. Simultaneously, the research questions and hypotheses outline the specific questions and preliminary claims that direct the empirical investigation, offering a formal framework for gathering and evaluating evidence.

The study's scope establishes the parameters that govern its operations, outlining the geographical, sectoral, and conceptual bounds of the inquiry. The study recognized the distinct socio-economic and cultural dynamics present in this setting, which may have an impact on the conclusions and implications drawn from the research, by concentrating on medium and large/big accommodation establishments in Lilongwe and Blantyre Cities of Malawi.

LITERATURE REVIEW

Empirical Evidence

Broadly, price is defined as a sum of the values that customers exchange for the benefits of having or using the product or service (Bhattacharjee, 2006). (Diaz, 2006) noted that companies often use price as a tool for promotion. More importantly, as part of a company's overall value proposition, price plays a key role in creating value and brings customer relationships. (Hudson, 2008) further views price as one of the most important elements that determine a firm's market share and profitability. Most firms globally, including hospitality operators base their prices according to the costs incurred in producing their products (Adams, 2006). However, when setting prices, companies must think beyond the costs. For instance, they must consider several internal and external factors, including competitors' strategies and prices, the overall marketing strategy and mix, the nature of the market demand and seasonality (Zeithml et al., 2013). (Pelzer et al., 2008) added that firms should also consider customer perceptions of the product's value in setting their prices. This is because if customers perceive that the product's price is greater than its value, they will not buy the product or service and as such, the company's profits will suffer a lot.

Although pricing remains a critical tool for the success of the business organization, (Kurtz and Boone, 2011) pin-pointed price as the number one problem facing many marketing executives and many companies do not handle pricing well. Although pricing brings a big headache, smart managers treat pricing as a strategic tool for creating and capturing customer value (Kotler & Keller, 2006).

Companies today face a fierce and fast pricing environment. Value seeking customers have put increased pricing pressure on many companies. In response, every company is looking for ways to cut the prices although cutting prices in some cases is not always the best answer (Drury, 2008). Reducing prices unnecessarily can lead to lost profits and damaging price wars. It can cheapen the brand by signaling to customers that price is more important than the customer value which the brand delivers (Zeithml et al., 2013). Hence as noted by (Grewal and Levy, 2011) companies should try to sell value, not just price. In most cases, this means persuading customers to pay a higher price for the company's product which is justified by the greater value they gain.

Factors Influencing Pricing Decisions

In pricing hospitality products, the company must consider several internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives and marketing mix. External factors include the nature of the market and demand and other environmental factors like economic factors and the degree of competition.

Corporate Objectives

Price is one of the elements of the company's marketing strategy. Thus before setting price, the company must decide on its overall marketing strategy for the product or service. If the hospitality operation has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward (Oxenfeldt, 2010).

Pricing usually play an important role in helping to accomplish company objectives at many levels (Hudson, 2008). (Kotler and Keller, 2012) further commented that marketing strategies tend to differ from one company to another because of the heterogeneous nature of the company objectives. For instance, a hospitality firm can set prices to attract new customers or profitably retain existing ones. It can also set prices low to prevent competition from entering the market or set prices at competitors' levels in order to stabilize the market (Drury, 2008).

Customer Benefit and Perceived Value

Customers will accept a basic price for any hospitality product but many will be prepared to pay more for the added benefits. Customers will pay more for what they consider "good" value but only if the price reflects the value ascribed (Kotler & Keller, 2012). Ascribed value can be on any aspect that is considered important to the buyer i.e. quality, delivery, image, packaging etc. Small and medium hospitality establishments therefore, try to provide the benefits at minimal cost in order to keep profits high. They can also use the "reduced benefits" approach to attract buyers (Avlonitis & Indounas, 2006).

The Market Demand

Good pricing starts with an understanding of how customers' perceptions of value affect the prices they are willing to pay. Hospitality consumers balance the price of a product or service against the experience or benefits of owning it. Thus, before setting prices, hospitality operators must understand the relationship between price and demand for the company's products (Mankiw, 2004). For instance, during the low season, prices may be reduced to stimulate demand for the product and during the high season prices may be raised to compensate the lost revenue incurred during the low season.

The Economy

Economic conditions can have a strong impact on the hospitality firm's pricing strategies (Reid & Bojanic, 2006). (McDaniel et al., 2010) noted that economic factors such as a boom or recession as well as inflation affect pricing decisions because they affect consumer spending. For instance, during the economic recession, most families cut down on expenditure particularly travel. This calls on hospitality operators to reduce their prices in order to stimulate demand for their products. This in the end results in low business and low profits for the hospitality operators.

Other External Factors

The company must consider several other factors in its external environment when setting prices. It must know what impact its prices will have on its competitors within its business environment (Garrison et al., 2006). The Travel & Tourism Economic Impact (2012) also explained that social concerns have to be taken into account too. Social concerns relate to society's welfare i.e. the welfare of employees, customers and the environment. Therefore, in setting prices, hospitality company's short-term sales, market share and profit goals may need to be tempered by broader societal considerations. There is therefore a need for hospitality firms not to produce cheap products or use cheap materials for the day-to-day operation of the business i.e. room cleaning chemicals, that are harmful to society in a bid to lower costs and charge lower prices to its customers (Oxenfeldt, 2010).

RESEARCH METHODOLOGY

Research Design

Research design is the general plan of how the researcher will go about answering the research questions (Saundes, Lewis and Thornhill, 2009). Altinay and Paraskevas, (2008) listed seven strategies of how the researcher can undertake research which include experiment, survey, case study, action research, grounded theory, ethnography and archival research. Hakin, (2000) in Saundes, Lewis and Thornhill, (2009) says that experiments are used to study causal links; whether a change in one independent variable produces a change in another dependent variable. Survey is a research strategy that involves the structured collection of data from a sizeable population and is most frequently used to answer who, what, where, how much and how many questions (Saundes, Lewis and Thornhill, 2009). Robson, (2002) defines a case study as 'strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. The case study will be of particular interest to a researcher if a researcher wishes to gain a rich understanding of the context of the research and processes being enacted (Morris and Wood 2001).

Sampling Methods

Sampling is the process by which researchers select a representative subset or part of the total population that can be studied for the topic so that they are able to draw conclusion regarding the entire population (Altinay and Paraskevas, 2008). Altinay and Paraskevas (2008) mentioned two groups of sampling methods that are used in research, probability and non- probability or purposive sampling. Probability sampling is whereby each member of the population has a known, nonzero chance of being selected into the final sample (Shukla, 2008), whereas purposive sampling do not follow a proper procedure, rather they rely on personal judgment of the researcher (Shukla, 2008). Altinay and Paraskevas, (2008) argue that sampling is very important in quantitative research for statistical validity of the study as it will enable inferences for the entire population and generalization of the findings whereas in qualitative research the same authors argue that sampling method must serve the purpose of in-depth understanding and must be selected for the information rich-data it can yield. The study therefore will use two sampling methods, judgmental sampling and convenience sampling. According to Shukla, (2008), judgmental (purposive) sampling is applied where the researcher believe that the information that the researcher is looking for can adequately be provided by certain people of the society.

Sample Size

(Dawson 2002) defined a sample as a segment of the population selected to represent the population as a whole. According to the statistics available at the Ministry of Tourism, Wildlife and Culture at its regional office in Lilongwe City, by January 2020, Lilongwe and Blantyre Cities had an estimated population of about 47 and 30 (adding up to 78) medium and large accommodation establishments that were registered and licensed respectively. Considering the fact that researchers budget constraints are severe, proportional for cost efficiency formula was used. This allows the researcher to consider 30%-50% of the population for smaller population like 78.

1. 30% of 78: 78* 0.3=23.4 therefore the sample size would be 23 if we round it.
2. 50% 0f 78: 78* 0.5=39 therefore the sample size could be 39

The researcher thought of having a sample size of over 30% in these accommodation establishments based on the above facts where property owners or managers will be employed as the respondents for this topic of study and the sample size is 25.

DATA ANALYSIS AND INTERPRETATION

Study responses and presentation of findings

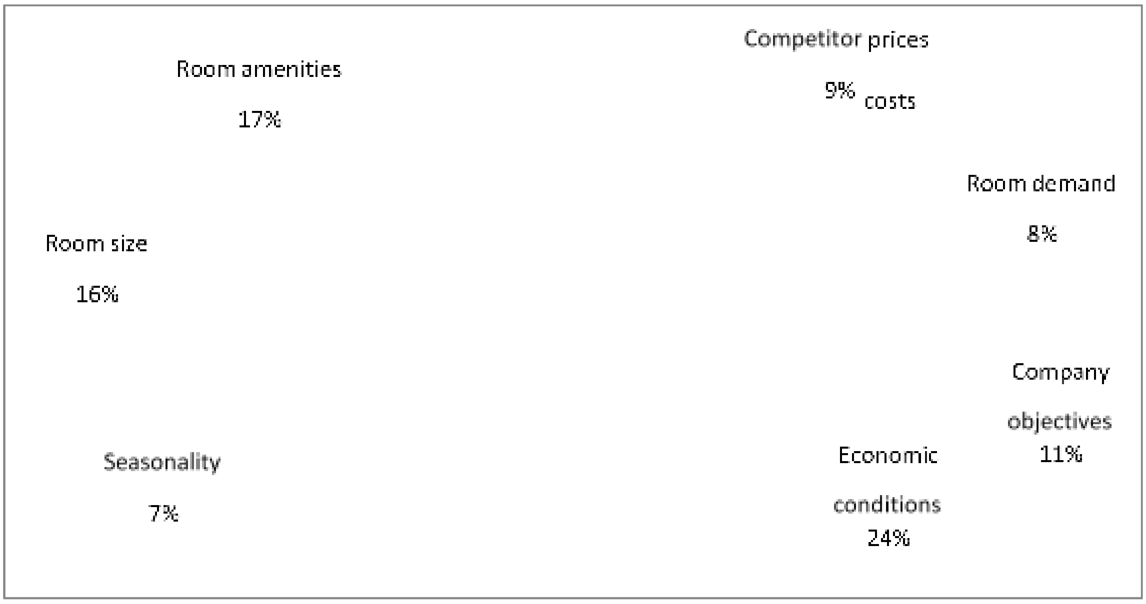


Figure 1: Factors that are considered by medium and large accommodation establishments in setting room rates in Lilongwe city

As shown above, most operators base their room prices on economic factors (24%). This might be the case because economic factors such as increase in fuel prices drives the many economies of the world which increases the cost of operation. This agrees with Rijamampianina (2012) who found out in his research endeavor that economic factors have a huge impact on hospitality firm's prices such that many lodging properties he researched tend to raise their room prices in order to make a profit as a result of the economic meltdown.

However, the research found out that many properties pay less attention to seasonality, room demand as well as competitor prices among others. About only 7% of respondents said they consider seasonality, only 8% pays attention to rooms demand and only 9% pays attention to the competitor's prices. This contrasts with what (West et al., 2010), (O'Fallon, 2007), (Kotler & Keller, 2012), (Soteriades & Makrigianakis, 2007) found, who recommended that hospitality firms should go beyond the economic factors when coming up with prices for their rooms. They recommended that factors such as competitor's prices, seasonality as well as rooms demand not be ignored when revising or coming up with room rates for their accommodation facilities.

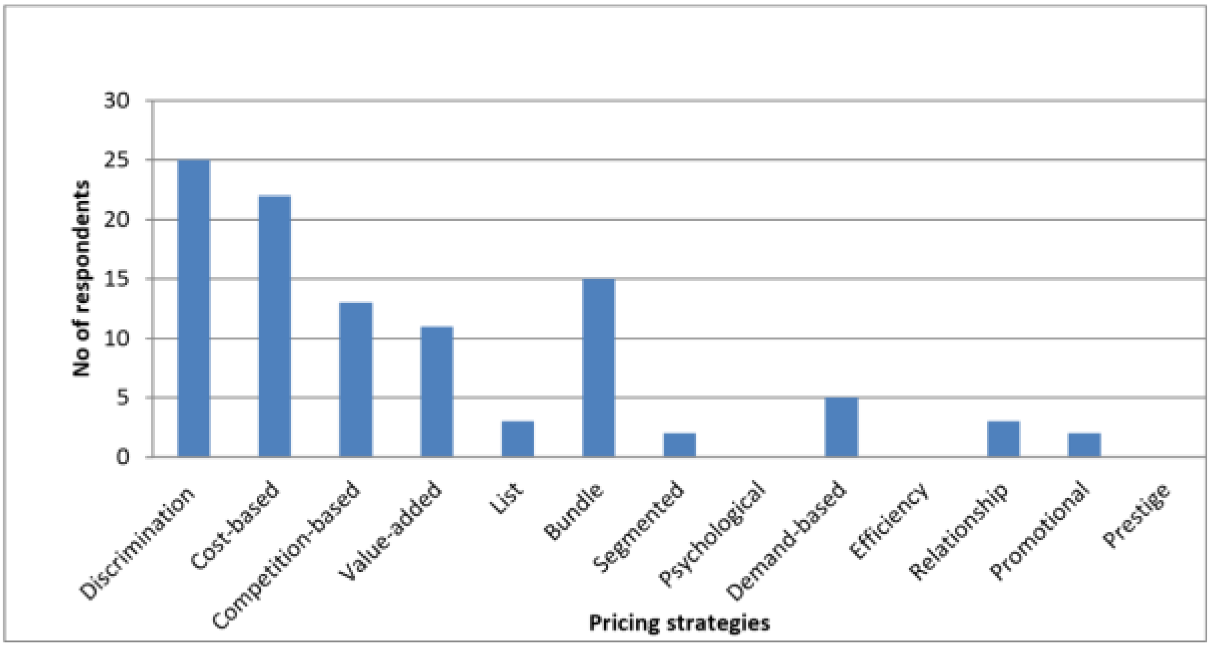


Figure 2 shows the pricing strategies that are employed by SMEs in the hospitality industry in Lilongwe city

This research found out that price discrimination is a commonly used pricing policy employed by medium and large accommodation units. Under price discrimination, firms charge different prices to different customer segments.

Customer segments from the hospitality operator's point of view is primarily based on room types namely standard, executive and superior, with each room type having a different rate category. This agrees with what (O'Connor, 2003), (Zeithml *et al.*, 2013) and (Avlonitis & Indounas, 2006) found. They stated that most hospitality operations easily adopt this pricing method because it is easy for them to categorize the rooms according to the common characteristics and then determine a rate for each room type.

However, efficiency and psychological pricing strategies are the least adopted policy by most of these small and medium accommodation establishments. With regards to efficiency pricing method, the operators confessed that accommodation properties have higher fixed costs, such that minimization of such costs in order to lower prices may not be practical. In this regard, minimization of such costs associated with the provision of rooms would involve a reduction in the items provided in rooms which may compromise guest's stay which may drive customers away.

Psychological pricing too proved very difficult for the medium and large accommodation operators to adopt it. This is because this may call for the operators to charge a higher price to create a perception in consumers' mind since high prices are usually associated with high quality. This pricing method is not adopted by accommodation establishments because according to the property's owners they do want to provide their customers with services or facilities that only demonstrate the value of the price they charge. Similarly, as confessed by some property owners, such a high price on the other hand may prohibit some customers with constrained budgets from sleeping in these establishments which may make them to lose business to competitors.

The other pricing policy which is not embraced by these accommodation units is the prestige pricing. This is possibly because these accommodation facilities do not have high standard structures, amenities as well as high qualified staff that deliver excellent service to guarantee them charge higher prices. Charging higher prices may also mean the lost revenue because customers can easily switch to a competitor who offers the best value for the room offered.

RECOMMENDATIONS

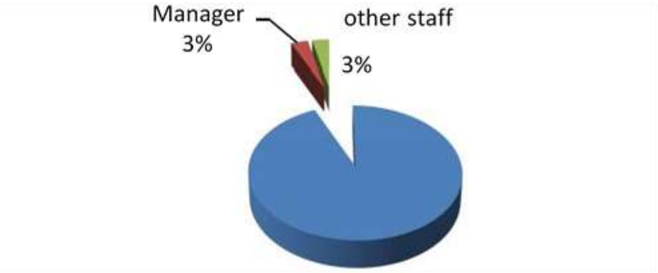
A participative approach between the owners and employees is vital when revising or setting room rates because the members of staff are very closer to the customer and therefore they have a better understanding about how customers react towards the organization's room prices and may as well have a better understanding of their competitor's pricing strategies and offers.

The study also revealed that some operators mainly consider internal factors such as costs of operation and their offerings thereby paying a blind eye on competitor's pricing policies, costs and offers when pricing their rooms. It is therefore important for these lodging facilities to consider both internal and external factors when setting the room rates. These lodging establishments should therefore consider their product offerings, costs and company's objectives, demand for rooms as well as competitor's in-room offerings and prices when setting their room rates. This helps accommodation firms to constantly maintain its position in the market thereby sustaining their competitiveness in the industry.

The study also revealed that some operators of these small and medium accommodation establishments adopt only one pricing method. For instance, a good number of operators indicated that they mainly use price discrimination and cost-based pricing methods with most of them paying a blind eye on competitor's pricing policies, costs and offers. It is therefore important in this regard that firms should not only employ one pricing policy but rather a blend of pricing methods should be employed to suit the ever-changing business environment. This can help the firm to sustain its competitive advantage in the industry.

With regards to the frequency of revising the room rates, the study recommends that both long-term and short-run room pricing should be used. Long-run setting of room prices should be mainly used when setting the strategic goals of the organization. However, when there is a likelihood that these long-run objectives are not going to be realized due to the unpredictable business environment, it is therefore important to revise them only after conducting a careful Analysis of the company's costs and offers, rooms demand as well as the competitor's pricing strategies and offerings. This is very vital in order to keep the company's objectives on track.

The research also revealed that most customers are not loyal to these establishments. The operators confessed that most customers complain about high prices charged by their accommodation units. It is therefore important that prices which these firms charge should not originate from mere intuition but rather should originate from the rational examination of the firm's costs and offers, company objectives, demand for rooms as well as competitor's offerings and prices. By carrying out an assessment of both internal and external environment of the firm helps operators to charge their rooms at prices that demonstrate value for money. This increases customer's loyalty. Loyal customers help the firm to grow the business which helps the firm to sustain its competitiveness in the industry for the unforeseeable future.



Conclusion

In conclusion, the study highlights several key areas where medium and large accommodation establishments can improve their room pricing strategies. By considering both internal and external factors, adopting a more participatory approach to pricing, and regularly revising room rates based on comprehensive market assessments, operators can enhance their competitiveness and customer loyalty. Ultimately, by aligning pricing strategies with customer needs and market dynamics, accommodation establishments can achieve long-term success and sustainability in an increasingly competitive hospitality industry.

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