

ONLINE REPUTATION AND ITS IMPACT ON HOTEL PRICING STRATEGIES

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Today's travellers have all means to obtain the travel information they need in order to make a purchase decision, due to the irruption of new communication channels, the Social Media. On the other side, the hotelier can communicate with its clients through these new Social Media channels in a direct and public way, which reinforces the relationship between hotel and client, no matter if this communication has a positive or negative nature.

Hoteliers often do not use this kind of information to improve their business results, though the importance of it is such, that it should count as an independent variable in the hotel's marketing strategy, mainly in the market positioning and in the pricing strategy.

With this study we demonstrate the impact of the online reputation on the hotel's business results, assuming as online reputation the whole group of reviews available through Social Media channels.

On the first hand, we try to prove that there is a relationship between the hotel's ranking in the Tripadvisor's Popularity Index and the price offered by the hotel. In order to do this, we analyze whether the hotels which hold the first place in its category and geographical location in the Tripadvisor's Popularity Index offer higher prices than its competitors.

On the second hand, we propose the online reputation as a variable which should be counted on from the hotel's side in order to establish their pricing strategies.

Online reputation is "the result of what clients, former clients, future clients, employees, etc. say, write and communicate to another anywhere in the internet social media based on their perceptions and experience in any moment of their relationship, direct or indirect, with the brand".

That is why nowadays the management of the brand's online reputation is a vital aspect of the business competitiveness (Hernández Estárico, Fuentes Medina, & Morini Marrero, 2012).

The main impacts of the online reputation identified from the consumer's perspective are related to the purchase decision process, the acceptance of the product, the

decrease of purchase' risk, the trust perception, the comparison between different hotels, brand awareness, purchase intention and loyalty. (Salvi, Serra Cantallops, & Ramón Cardona, 2013).

From the company's perspective, main impacts of online reputation involve quality control, new company procedures, **possibility to increase prices**, consumers' interaction and specific marketing strategies by target.

It is worth pointing out that price is one of the most important variables in the marketing strategy, since a minimal price fluctuation can have an important impact on the company's bottom line. Revenue Management is the art and science of managing prices and inventory in order to optimize revenues, trying to sell the correct product, at the correct price, at the correct moment, to the correct client, through the correct distribution channel. Pricing strategies are at the core of Revenue Management.

Despite the relevance of the subject, few studies have been done about the specific impact of online reputation on the company's pricing strategy.

Thus, taking into account all the previous statements, it is worth it for companies to invest on their reputation, since a good reputation softens the negative impact of a price increase. So, we propose two hypotheses:

H1: Hotels holding the first position in the Tripadvisor's Popularity Index have higher prices than their competitors located in the same geographical area and from the same category.

H2: Hotels with good online reputation take this fact into account as a variable in order to decide their pricing strategies.

It is of no doubt that Tripadvisor represents the main online reputation source from the travel industry, and specifically from the hotel business. According to Tripadvisor data, practically all travellers (98%) search the Internet for ideas and inspiration for their trips, and most of them (93%) do this through Tripadvisor.

In its global report from April 2014 (TripBarometer 2014 Global Report), Tripadvisor rates that on one side, three quarters of travellers use Tripadvisor as an inspiration source for their vacations; it is the most influential source closely followed by word-of-mouth. On the other side, it outlines that price is the most important factor for a traveller when selecting a hotel, followed by the online reviews of others that have stayed at the hotel. It is worth pointing out that in the last years' Global Report, location was the second factor in importance for a client to select an hotel. This fact can confirm as well the increasing relevance of online reviews on the purchase decision.

Regarding the research done for this study, we have selected four Spanish cities with a significant city hotel business: Madrid, Valencia, Sevilla and Bilbao. For each city we have selected the hotel holding the first position in the Tripadvisor's Popularity Index, from the four-star category and with a minimum of 25 rooms. We then have selected through Booking three competitors for each of the hotels, making a total of 16 hotels. In order to obtain the prices of each of the hotels, we have had the opportunity to work with Bitrevenue (a rate shopper program used by revenue managers), which made it possible for us to check daily prices through the month of April 2014 for a four-month

period (April - July 2014). In order to make the prices comparable, we have deputed the data, so that at the end we compare only Best Available Rates (the best offer without restrictions) only for double rooms and only for double occupancy.

After compiling and studying the previous literature about this subject and through the analysis of the data obtained with the research, we can conclude a clear first result: the hotel holding the first position in Tripadvisor's Popularity Index in a given geographical area sells its rooms an average of 22,26% higher than its competitive set in the same location. After the daily analysis during a four month period of the BAR price for a double room for a one-night stay, and in spite of the differences between cities, we have demonstrated that in all cases the hotel holding first in the ranking offers higher prices than its competitive set.

Figure 1
MAIN RESULTS:
AVERAGE DAILY RATE AND DIFFERENCES

	MADRID	VALENCIA	SEVILLA	BILBAO	MEDIA
HOTEL 1	181,29 €	87,35 €	182,46 €	137,99 €	147,27 €
COMPSET	125,10 €	86,84 €	168,81 €	101,07 €	120,46 €
AVERAGE DIFFERENCE	56,20 €	0,51 €	13,64 €	36,92 €	26,82 €
AVERAGE DIFF IN %	44,92%	0,59%	8,08%	36,53%	22,26%
MAXIMUM DIFFERENCE	93,27 €	59,01 €	114,84 €	83,93 €	93,64 €

Source: Bitrevenue.

As shown in figure 1, the average difference between the price offered by the hotel holding the first position and the average price of the competitive set is of 26,82 €, the difference being impressive in Madrid (56,20 €) and quite low in Valencia (0,51 €). There are of course variations depending on the city studied. For instance, in Sevilla the maximum difference between the price of the hotel holding the first position and the average price of the competitive set is 114,84 €. In Madrid, the maximum difference is 93,27 €, in Bilbao 83,93 € and in Valencia 59,01 €.

Having said that, we can conclude that the first of the hypotheses formulated in this study can be confirmed: H1: the hotels holding the first position in the Tripadvisor's Popularity Index offer higher prices than its competitors from the same category and located in the same geographical area.

Regarding the second hypothesis (H2: hotels with good online reputation take this fact into account as a variable in order to establish its pricing strategies), we have to point out that our data do not offer a scientific evidence to support that hypothesis, though we can infer that the higher prices offered by the hotels holding first position in Tripadvisor's ranking are due to a good online reputation.

We can conclude that our work demonstrates that a good online reputation, being understood as holding the first position in the Tripadvisor's ranking allows hotels to charge higher prices; specifically an average of 22,26% higher than its competitors.

In general, there are some considerations that need to be taken into account by today's hoteliers:

- Online reputation is a vital factor in establishing pricing strategies for a hotel.
- Having a good reputation according to the internet rankings of customer reviews allows the hotel to charge higher prices than its competitors.
- A good online reputation, if well managed, will result in an increase of the hotel's Average Daily Rate; if occupancy maintains same levels, this higher ADR will result in a higher RevPAR (Revenue Per Available Room).
- There are some hotels which already take into account the online reputation in order to establish prices; at the same time, there is a vast majority of hotels that do not consider online reputation in their pricing decisions.
- It is imperative that the hotel sector is aware of the fact that investing in quality and client loyalty through online reviews have a positive impact on the company's profits.
- Hotels need to improve (or maintain) their online reputation due to the importance of this fact during the purchase decision process.

The results concluded in this study open an array of future research possibilities. It would be interesting to study to what extent the hotel uses this reputation in order to decide pricing strategies, i.e. if it could be applied a "reputation factor" to the original price which increases or diminishes it.

Another research line could be opened to study if hotels who charge higher prices due to their "good reputation" increase their profits compared with their competitive set, or if those higher prices cause a decrease of market share and thus, less profit.

These questions and many more will be resolved in the coming years, as this subject is quite new and there is a lot of research to be done.