Price and Distribution Policy of Seaside Holiday Hotels on the Bulgarian Black Sea Coast in the Conditions of the COVID Crisis

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Abstract

The object of this article is pricing and distribution in the hospitality industry, and the subject is the relationship between pricing and distribution policy in seaside holiday hotels. Based on the literature review and direct observations of the author on the activities of seaside holiday hotels on the Bulgarian Black Sea coast, the author aims to reveal the importance of pricing for the successful distribution of the seaside holiday product. A special emphasis is placed on interdependence between pricing and distribution policy of seaside holiday hotels in the conditions of Covid-19 crisis in tourism.

Keywords: seaside hotels; price; pricing policy; distribution policy; Covid-19

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Introduction

Today, travellers are more informed and selective than ever before. They research destinations, hotels, and travel experiences in detail before booking a trip to ensure they get the most value for their money. As a result, hotels must develop effective pricing policy to ensure their hotel remains profitable under these changing conditions. The hospitality market has been facing fierce competition pricing.

Price is a major criterion both when deciding on a destination and when choosing a place to stay. It is also the only element of the marketing mix that brings revenue to the hotel, and it is also the main tool for positioning the product. Its flexibility enables revenue managers to model it according to the requirements of each individual situation within a very short time frame. This makes it the main means of combating competition. Its proper management will allow the hotel to achieve its financial goals in full.

The COVID-19 pandemic led the world economy into the most severe recession since World War II, with global GDP falling by 4.3% in 2020 (World Bank, 2021). Hospitality and tourism were among the most affected industries, and the pandemic caused a drop of 74% in international tourism arrivals in 2020 compared to 2019 (UNWTO, 2021).

COVID-19 is a crisis that has shake up the business world, and unfortunately, it did not provide the flexibility of time to cope up. This resulted in the sudden changes in the functionalities of business which had its results on social, economic and environmental dimensions of the enterprises. Many of the very well-established theories in the business world were challenged by the pandemic and the pricing policy was no exception to this. Fundamentally, one of the objectives of revenue management is to fix the price to maximise the revenue growth (Strauss et al., 2018). Some of common strategies adopted for revenue growth are: promoting online booking, building revenue management culture, selling products of other branded hotels, leveraging events and attraction, and specifically under the revenue management culture, the prominent choices in pricing are – value-added pricing, discount pricing, price per segment, length of stay, positional pricing, penetration pricing, and skimming. Even though there is a very well-established procedure for implementing each of these strategies and tactics, it is very important to identify which one of the pricing strategies would be effective in a given unforeseen circumstance. So, there is a need to study the effectiveness of these strategies under the pandemic situation based on the real-life data.

Strategic pricing strategies are critical at demanding times such as the pandemics. Few researchers have dealt with this topic in their studies. Bertini et al. (2020) have provided evidences in his research and developed a model to understand the cost of the bias under different market conditions and emphasise the importance of appropriate strategy in marketing. Kirca et al. (2020) have examined the extent to which product and brand portfolio characteristics interact to affect brand performance and emphasise upon the breadth, depth and innovativeness of the product portfolio.

In economics, there is a proven direct relationship between pricing and the positioning of a company and its products, turnover, and market share.

Pricing also has a crucial operational role. It is a variable that needs to correspond to your hotel marketing, such as brand positioning, and your adaptation to the various market segments.

Distribution plays an important role in the context of greater price variation and hotels search for increased price attractiveness to consumers. Many hotels see it as an economic performance driver closely linked to price policy and revenue growth. Selling every day, and at an optimal price, all the fixed capacity and related services is the key to profitability.

With the development of the Internet and e-commerce, the cooperation and collaboration among different channels increase profit using pricing strategies. Hotel companies that use traditional pricing, such as demand-based pricing and best available rate (BAR) strategies, are facing new challenges due to the advancing technology, complex pricing mechanisms, and prevalence of internet booking (Jiang and Erdem, 2018).

In a world of increasing global competitions, choosing an effective distribution channel is crucial for hoteliers to deliver value for their products and services. As hotel rooms are perishable, if they are not sold each night no revenue will be generated. So, we always see the distribution channel as one of the most important parts in the selling process. With the explosion of Internet commerce and computer usage, online distribution is fast growing up to become one of the popular and effective distribution channels in use. Although these distribution channels are currently the most popular, it not simply means that traditional ways can be replaced. So the purpose of this study is to show different channels of distribution used by seaside hotel managers and their interrelation with pricing policy.

1. Pricing

Pricing in tourist markets largely follows price formation according to general economic principles. The price is a derived economic category reflecting the intersection between the customer's willingness (ability) to pay for the relevant tourist service or product, and on the other hand, the supplier’s desire to receive optimal remuneration for his product. The price is a balancing contract value between the economically opposing interests of providers and consumers. (Rakadzhiyska et al., 2020)

Prices are the main regulator of the tourist market and the ratio of tourist demand and tourist supply. With increased tourist demand, prices increase, and with increased tourist supply, they decrease in order to equalize the two elements of the tourist market. Some economists see prices as the third fundamental element of the market. The price is a monetary expression of the value of the good, which is determined by the necessary costs for its production.

Every consumer of tourist goods and services associates the price with the amount he has to pay to get the corresponding tourist product. A tourist product is a set of tangible and intangible goods provided to the tourist during his trip and stay, together with all the services and goods that make tourist consumption possible. In the field of tourism, companies and organizations offering tourism products should look for a price that is higher than the cost of the service and lower than the level that can make customers abandon it or find substitute. Unlike the cost price, which includes all costs for the production and realization of the good or service, the price is a monetary expression of their value.

The price is determined by market supply and demand and can be influenced by a number of factors. Prices in tourism are an important factor in choosing a destination to decide whether and where to travel.

Many factors influence the formation of the prices of tourist goods and services, such as the existing public need for tourism and the degree of its satisfaction, the economic policy of each country and tourist enterprises in the field of tourism, exchange rates, etc. This sometimes leads to a significant deviation of prices from their basis-value. A particularly large role is played by the costs of live labor - in territories with relatively cheaper labor, they are lower, and hence the value of produced tourist goods and services decreases. Prices also deviate from seasonality in the work of tourist enterprises and the production of tourist goods and services.

However, the change in prices is not limitless. They usually fluctuate around an average value. The upper limit of prices is usually determined by the amount of money that can be set aside for buying tourist goods and services by the average, most popular category of tourists. In the conditions of intensified competitive struggle, the upper limit of the price is often taken as the price announced by the competitor. The lower limit is determined by the necessary expenses that each tourism enterprise incurs in connection with its activity, plus the average profit for the tourism industry.

Generally, pricing theory suggests that a hospitality operation should price its rooms to control costs and maximize profit, while at the same time offering guests an appropriate value for their money. The reasoning behind the pricing theory is that owners should be provided with a satisfactory return on investment if the products being sold are properly priced.

The method used to price products will dictate whether financial goals will be achieved. If prices are too high, customers will come to believe that they are not receiving sufficient value for their money and seek other sources to provide the product and services. On the other hand, if prices are too low, sales potential is not maximized. In either event, profits can be expected to be lower than they should be.

Hotel room rates change frequently because of the dynamic demands and pricing strategies. According to Collins and Parsa (2006), pricing can be market-driven, customer-driven, or competition-driven. Pricing strategies, such as odd pricing, discount framing, best available rate (BAR), package/bundling, participative pricing, and flash deals/daily deals, are commonly used practices in the hospitality industry (Mattila & Gao, 2016). Hotel pricing strategies have evolved over time. Traditionally, hotels set the price using cost-driven pricing to gain a profit margin based on product costs, while some hotels use competition-driven pricing to compete for market share (Nagle & Holden, 2002). Demand-based pricing and past-price dependence rely on customer-driven and firm-driven costs and benefits, such as category penetration, brand market share, and brand demand sensitivity to price (Mattila & Gao, 2016).

Hospitality organizations might differ in their approaches but broadly keen on three major category which are cost-based pricing, competition-based pricing, and values-based pricing.

Cost-based pricing is an approach where an organization calculates the cost and return on the investment or certain markup of the cost. Sometimes also known as break even pricing or markup pricing, this approach is easy to implement due to availability of data. This approach ignores the customer perception on value of the services and competition or market price levels.

Competition-based pricing: A market- or competitors-driven approach where prices are influenced with competitors are charging to their customers. This approached monitors both existing and prospective competition to determine the price levels. The pricing overlooks the cost but reduces the risk of price war. Competition-based pricing has been in practice, justified as price has been one of the prime factors for the consumers.

Customer value-based pricing: The customer value-based pricing identifies and uses data on perceived value that the customer has determined for your product or service. This approach is influenced with the reference price or value that has been assigned by the customer. It is driven by the knowledge of customer needs, elasticity, and willingness to pay can be increased despite increasing competition. This approach has given prime importance to customer's value rather that cost and competitor pricing.

Dynamic pricing models such as price-posted mechanisms and price-discovery mechanisms offer the hospitality industry various marketing opportunities (Nagle & Holden, 2002). Demand-based pricing is a commonly used method in the hotel industry recently. As a price discrimination strategy, the demand-based pricing strategy indicates that prices should be charged depending on the customer, time, location, product, or channel (Armstrong & Kotler, 2000). Aside from the traditional goods market, in which price change is more responsive to variation of costs than to variation of demands, price increases and decreases are largely driven by demands in the service industry where the service products are perishable. However, the perceptions of consumers on the fairness, acceptability, reasonableness, and honesty of the pricing policies vary for different pricing tactics. Among them, time is one of the key factors that determines an optimal demand-based pricing strategy in the hotel industry (Nagle & Holden, 2002). Hotel room rates can change depending on the time of the day, week, or year. Therefore, the attitude and expectations of consumers change because of the price difference (Mattila & Gao, 2016).

Price transparency and high competition make target market quite price sensitive and it becomes key component for revenue manager while making strategies for prices. Price-sensitivity measurement indicates the value the customer perceives through pricing and quality of product or service. Price sensitivity of demand or elasticity of demand is the percentage of change in demand due to percentage in price. If a price is too low, it will attract huge demand but will dilute revenue. If the price is too high, it might not generate enough demand to generate potential revenue. Hoteliers can remove the resistance to purchase by influencing the factors affecting the perception value of customers. Kimes (2003) has also highlighted the need to have in-depth understanding of price sensitivity of customers and rates applied in different distribution channels. The author also highlighted the gap in price optimization methods as hotels possess less knowledge in understanding the relationship between hotel demand and room rates.

The process to set the price, and offering any kind of discount in peak season or in low season is called the seasonal pricing strategy. Seasonal pricing is considering how much rates can vary between times of high and low demand. Therefore, seasonal pricing is an essential component of generating profit for hospitality business. The most crucial and fundamental pricing plan that any hotelier should consider to increase income is the seasonal pricing strategy. Hoteliers must understand the significance of pricing in the hospitality sector in order to survive and expand. A seasonal pricing strategy for hotels will boost the total profitability and also increase the Average daily rate (ADR) and Revenue per available room (RevPAR).

The hoteliers want to make a profit from the peak season and do not want their business to go down in the low season so they have a seasonal pricing strategy. This is common in pricing policy of seaside holiday hotels on the Bulgarian Black Sea coast. The prices of coastal recreational hotels are very dynamic and strongly influenced by seasonality. Initially the summer season has been divided into three periods- low, which includes the months of May and October, middle for June and September, and a high season including July and August. The shortening of the season in recent years has lead to a drop of October almost entirely from the summer season of the accommodation establishments on the Bulgarian Black Sea Coast. (Marinov & Ilieva, 2018)

As a part of pricing strategy a cancellation policy is vital for any hotel. This carries the tules and regulations that need to be followed while cancellation of any bookings. The cancellation policy has before how many days of stay the customer can cancel the booking and how much he will charge for the booking cancellation. So this will reduce the number of cancellations and protect the hotel from loss. Most customers when their plans are confirmed would opt for an advance purchase or a non-refundable price, which needs to be at the lowest best available rates to attract more in advance. Whereas, flexible pricing (cancellation up to the same day) may result in lower revenue, as there is a risk of guests cancelling their bookings at the last minute. For most of the seaside holiday hotels on the Bulgarian Black Sea coast before COVID-19 crisis the cancellations were allowed up to 21 days prior arrival in high season. The situation with the COVID-19 crisis has completely changed the cancellation policy of the seaside holiday hotels on the Bulgarian Black Sea coast. In recent years, marked by the COVID pandemic, the hotel cancellation policy was changed up to 5 and 7 days before arrival. In 2022, more and more hotels are trying to gradually restore their pre-pandemic cancellation policy up to 10 and 14 days before arrival.

Another important point in the building the pricing policy of the seaside holiday hotels on the Bulgarian Black Sea coast is overbooking strategy. Late room cancellations and no-shows are a common occurrence in the travel industry. The solution is to anticipate the number of cancellations and no-shows and to overbook the same number of sales. The successful calculation of the overbooking rate needs to compensate the number of late cancellations and no-shows. This is where we can see a difference in the risk-taking strategies of yield managers. If five rooms may be unsold at a specific date in a specific hotel, overbooking two or three clients is considered normal practice and without risk. Conversely, overbooking four, five or even six clients becomes riskier since the likelihood that one of the clients will show increases for each new client in overbooking. If we overbook, the likely five cancellations and no-shows, and in the end only four clients do not turn up, we are now confronted with a client who has duly booked his/her room and cannot be accepted. This refusal, implies the book-out (the term used in the hotel industry) of the client which we are responsible for. The guest will be 'relocated' in another hotel, as close as possible, and likely under the same price and comfort conditions. This refusal is not without costs. There are direct costs, linked to the relocation costs if the hotel room is more expensive - as the difference is, of course, not paid by the guest - or if there are taxi or restaurant charges. There are also indirect costs such as the guest dissatisfaction (i.e. reflected in a negative on-line review). Practice has shown that refusing a guest brings a gap between the quality expected and the quality the company aims to achieve. Therefore, the customer frustration must be taken into account at all times. This is why some companies, in addition to paying for the direct costs, will offer monetary compensations in the form of gift vouchers, or coupons off their next stay, designed to address the customer dissatisfaction. The hotelier should take great care to avoid refusals with the best high-end guests and/or regular guests.

Length of stay is a great hotel pricing optimization strategy, which can be adjusted on the length of stay of the guests for each hotel. Naturally, extended length of stay always benefits the bottom line. For the customer, hotelier propose a package of one price over 2-5 nights rather than them viewing different pricing options. The ultimate goal is to maximise the length of stay, especially on special event days. Many of the seaside holiday hotels on the Bulgarian Black Sea coast apply this strategy during the hight season and set a requerment for minimum stay of 5 or 7 nights.

We can infer from above discussion that pricing has a prominent role in driving value for consumers. Hotels organizations are practicing various modules like price optimization, segmentation, differentiation, demand management, and so forth, to engage with customers especially in sensitive and competitive markets. Information on competition and customer value has always helped hotels to strategize and retain customers in fierce competitive and sensitive markets.

2. Distribution

Distribution is a process of creating maximum convenience for the consumer regarding where and how to purchase the product. The distribution of the tourist product is a specific and complex component of the marketing mix due to the objectively determined spatial separation, and especially the distance of producers from consumers. In tourism, unlike trade in material products of other economic sectors, consumers move towards goods and services, not the other way around. (Marinov, 2017)

In order to successfully implement its product on the market, every organization creates a distribution system, the main elements of which are distribution channels. In the context of a distribution system, a distribution channel can be defined as a set of independent organizations that are linked in an orderly manner to provide convenient access to the product to the consumer.

(Marinov, 2017) From this point of view, the distribution policy represents a choice of channels through which the hotel enterprise can sell its products on the market. Therefore, the main component of this policy is the distribution channel, which favors the process of delivering the product to the consumer.

The specific nature of the hotel product implies similar channels for its distribution, corresponding application and similar distribution strategies. The term "distribution channel" is from marketing theory and refers to the configuration of organizations and individuals between the hotelier and its customer who make the product available. The main purpose of distribution channels in the hospitality industry is to provide enough information to the right clientele, in the right place at the right time, to support a purchase decision. Channels also provide the buying mechanism, they are the most important link between supply and demand.

In practice, a product is rarely consumed immediately, the same is true in the hospitality industry. To buy a hotel product does not mean to spend the night in the establishment of residence - that is the consumption. The act of purchase is the reservation of the room, the price of which is paid in advance or, in most cases, subsequently.

The hotel product is commercialized in two known ways - direct and indirect (or through an intermediary). Very rarely are residences that sold entirely without an intermediary. At the present stage, there is a fierce competitive struggle between the primary producers regarding the commercialization of the hotel product. Intermediaries in the distribution of the hotel product have existed for a long time. Their choice is determined by the characteristics of the hotel such as type, capacity, season, location and transport accessibility, the specific characteristics of the users, etc. Due to the territorial interrelation between hotel management and tourist resources, sales through a travel agent prevail, but of course the decision for this is individual for each hotel, according to its specifics.

In this rather complex situation, accommodation establishments must find the most favorable options for selling their product. Moreover, for the financially weaker and distant from the outbound markets, the intermediaries are used as an essential way of survival and the establishments often fall under their strong dependence. Therefore, indirect channels are chosen after careful research.

The travel industry works both online and offline. Hospitality is among the main divisions of the tourism industry, whose distribution process is characterized by a complex distribution landscape crossing multiple channels. Each electronic distribution channel has costs and benefits, and each is developing at a rapid pace based on new information technologies. Online travel agencies battle with internet search engines and hundreds of hotel sites for the user's attention. (Ilieva, 2015)

Distribution plays an important role in the context of greater price variation and hotels search for increased price attractiveness to consumers. Many hotels see it as an economic performance driver closely linked to price policy and revenue growth.

Selling every day, and at an optimal price, all the fixed capacity and related services is the key to profitability. The hotel’s objective is thus twofold when it comes to the distribution:

1. Sales optimization and revenue growth through choosing networks which are adapted to the guests and are commercially efficient
2. Distribution cost control

Several years ago the battle began to reduce distribution costs. The battle was lead mostly by airline companies who fought to stop paying commissions to the traditional providers in the world of tourism such as travel agencies and Global Distribution Systems (GDS).

Today, direct sales via the Internet or via their call centres enable airlines to avoid paying high commissions to intermediaries. Direct sales, however also generate costs (e.g. human, financial, technical resources). Nevertheless, the benefits in nearly all instances outweigh the negatives of being able to sell direct.

Online direct is the fastest-growing hotel distribution channel in Europe. From 2017 to 2023, online direct hotel bookings are forecast to grow by over 10 percent in Europe, whereas most other distribution channels, such as phone and walk-in are expected to see a decline. The only other hotel distribution channel that is forecast to also grow is online travel platforms, where a growth rate of 3.3 percent is forecast for the same time frame (Figure 1).

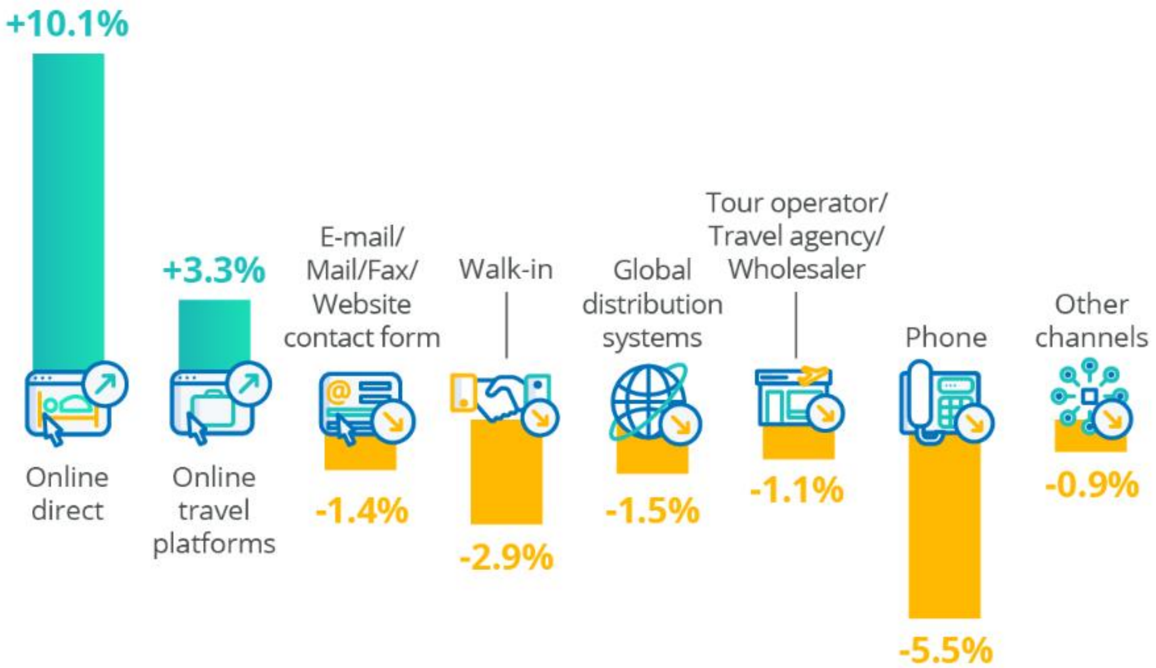

Figure 1. Hotel distribution channel growth in Europe, 2017 to 2023
Source: Statista (26.09.2022г.)

The OTA market share is increasing. Today, there are key players in distribution networks all over the world. The choice of the OTA you decide to work with, the cost and the control is important. The commission rate paid by hotels and other service providers often ranges (on average) from 15% to 20%, but it can be as high as 30% (Statista, 2022).

During pandemic crisis, increase of 8% of direct booking from 47% in 2019 to 55,20% in 2021 (nearby level of 2013), while online intermediaries remain stable (Figure 2).

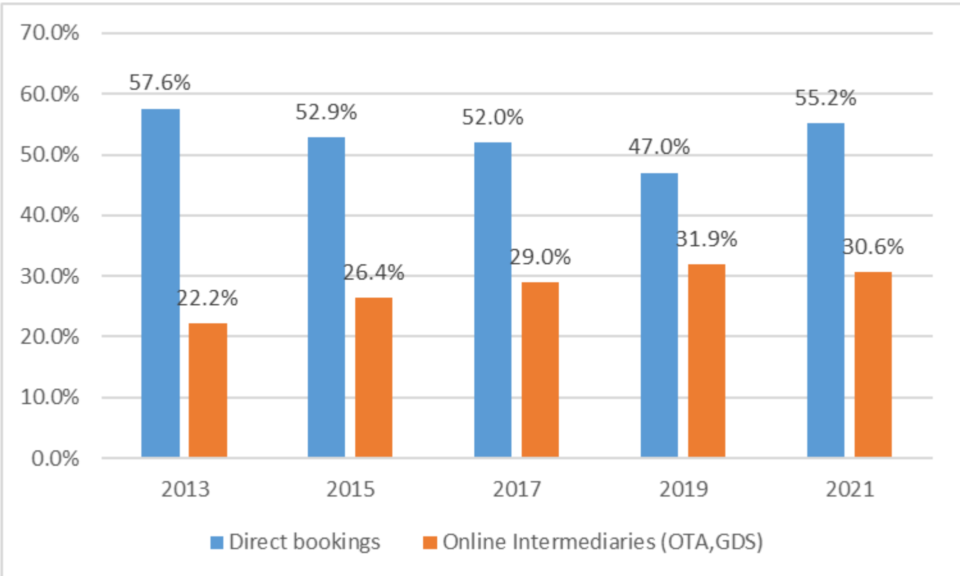

Figure 2. Evoluation of direct bookings and bookings via online intermediaries in Europe
Source: HotRec European Hotel Distribution Study (26.09.2022г.)

Moreover, hotels must respect carefully the rate parity in order to avoid conflict with their online distribution partners. Rate disparity is a dangerous game to play, but inventory disparity is accepted, for example, if a hotel wants to keep full control of the sales of a limited number of rooms or prestigious suites. It might prefer to sell those products itself (direct sales) instead of giving a full access to the inventory to all OTAs.

The issue of revenue management and distribution are closely linked. Differential pricing coupled with inventory management according to the determined price and associated with effective monitoring of distribution and its costs, contributes to greater economic effectiveness of hotel companies.

3. Interrelation between the pricing and the distribution policy

When a hotel tries to achieve the highest occupancy at the highest prices, it must include a combination of many segments of tourists that come to the hotel through many different distribution channels. Complexity in hospitality product distribution stems from the difficulty of maintaining timely pricing and availability across hundreds of channels, as well as tracking the path each customer takes to select a hotel and make a reservation. (Chulwon, 2004)

O'connor (2002) performed an empirical analysis based on 50 internationally branded hotels using electronics B2B distribution channels and found that the pricing strategies through the electronic routes significantly contributed not only to the revenue growth of the hotels, but also enhanced customer satisfaction to a considerable extent.

OTAs try to stay connected with customers as much as they can by using e-communication (Li et al., 2015). Sending pricing information is one of the methods they use. Unlike the retail industry, which often advertises reduced prices (Bobinski et al., 1996), dynamic demand in the hospitality industry drives marketers to communicate price increase information to their consumers, which establishes reference prices in the minds of consumers. The timing of sales promotion is found to be affected by the reference price of consumers (Kalyanaram and Winer, 1995).

Digital technological innovations have radically changed the economic consciousness of the promotion and distribution of services, opening up global resources to scale the sales activities of hospitality entities. The efficiency of digital distribution of services depends on the right choice of a distributor who has a high reputation capital and conversion of marketplaces. It also involves the evaluation of distribution channels, which requires constant monitoring, quality feedback, as well as iterative adjustments to business strategy and tactics. Pandemic quarantine-driven digitalization has implemented new standards in the social and economic space, creating new requirements for the competent management of economic entities. Latently initiated in the 1960s, transforming information capabilities is now becoming a must in communications for all types of marketing relationships: B2C, B2B, B2G, G2D, G2C, creating digital interoperability technologies.

In the hospitality sector, the COVID-19 outbreak impacted the market by simultaneously changing conditions in demand and supply, similar to what happened during other health crises such as SARS (Chen, Jang, & Kim, 2007). Travel bans (which in most cases also limited within-country mobility) were introduced by public authorities during the lockdown, affecting the demand. In addition, in the post-lockdown phase, the difficulty of travelling under strict safety measures, jointly with the substantial uncertainty related to how restrictions would be lifted, and the tighter budget constraint triggered by the economic recession, shifted the demand curve down. On the supply side, the introduction of health and safety protocols and regulations, jointly with other limitations involving daily activities (from buffet breakfast to the use of common areas), generally increased production costs.

In an industry strongly characterised by advance booking (Abrate, Nicolau, & Viglia, 2019), the reaction to shocks is mainly driven by information clues about the future and agents' expectations. With the COVID-19 outbreak, customers and tourism operators learned that leisure activities and travelling were increasingly becoming more difficult. Information on the pandemic's diffusion, the new rules imposed by governments to consumption and production activities, and the limitations in social interaction were embodied into the pricing structure and distribution methods available at different lead times and dates of posting. This is relevant for the whole pandemic period: with the outburst of the disease, when news impacted agents' behaviour while limitations were progressively imposed; during the lockdown, when information about future reopening was circulated by public authorities, with agents thereby adjusting expectations; after the lockdown, when demand started to revive, with hotels changing their offer to the progressive lifting of rules and protocol.

Conclusion

Before the pandemic, the hotel industry was already facing challenges and increasing pressure, due to customer-centric, digital, agile, and more sustainable factors. The COVID-19 crisis has affected health and economy, urging the hotel industry to come up with innovations that influence positively their current business models, hereby increasing competitiveness. Faced with this unprecedented scenario, hotels can no longer rely on past patterns to forecast demand. They must find entirely new ways to manage revenue. Demand for hotel stays has plunged worldwide, with a huge increase in room cancellations and financial losses, as well as massive uncertainty in the short- and long-term demand for hotel rooms. Crucially, this slump in demand has also disrupted demand-based pricing, which includes the standard practice of setting higher room prices when the expected demand is high or exceeds a hotel’s capacity.

Also seasonally changing demand for vacation hotels increasingly require the use of dynamic pricing as a method for optimal hotel occupancy and satisfying consumer expectations.

The right pricing is the basis of the successful distribution of the hotel product. To achieve maximum occupancy at the best price, hotels must be able to offer the right prices, at the right time and in the right distribution channels.

If prices do not vary by market segment, channel and demand, hotels risk missing sales opportunities. To attract buyers for their hotel product, hotels must optimize rates for each distribution channel.

To maintain or increase profitability, hotels will need to find ways to reduce costs, increase market share and implement a smart distribution strategy that reflects today's market conditions. Hotels have virtually unlimited options when it comes to distribution channels, but with a limited number of rooms to sell and limited resources available, they must be careful in choosing the channels that will provide the highest profits for their properties.

As the industry begin to recover from the COVID-19 pandemic, hotels should make well-timed, evidence-based decisions about their pricing and distribution practices. Faced with conceivably permanent changes in consumer behaviour and the uncertain future of the global economy, hotels should continuously monitor business and leisure trends as well.

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