

THE PRICING POLICY AND PRACTICES FOR THE SAME DAY ARRIVAL GUESTS

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ABSTRACT

This study focused on pricing of hotel rooms for same day arrival guests and very late (after 11 PM) same day arrival guests. The data collection was achieved via a random sample of brand affiliated hotels and independent hotels of a list of 3,000 hotels provided by Smith Travel Research. Survey questionnaires were mailed to the general managers of the hotels and nearly 300 responses were analyzed using analysis of variance (ANOVA). The findings of this study can help hotel managers as they strive to effectively develop the pricing strategy, decision making, and practices.

Key Words: Room Pricing, Same Day Arrival Guest, Reservation Channels, Pricing Decision Maker, Brand Affiliated Hotels, Independent Hotels

INTRODUCTION

To maximize revenue, unsold hotel rooms are offered to same day arrival guests at relatively low prices through a variety of distribution channels (e.g., walk-in, hotel websites, mobile channels, global distribution systems). With the advancement of information and technology, hotels are able to offer a number of online distribution channels, and they have profitably and efficiently changed the way in which they make disposition of unsold perishable inventory. However, hotels are also facing challenges to control room pricing and inventory under a more competitive and complex environment because customers can easily compare prices among competitors using their mobile devices, and they are more likely to make their hotel reservations at the last minute to get discounts (Carrington, 2013; Enz, 2003).

A number of pricing studies tend to focus on technical, forecasting, and mathematical modeling issues (Kimes, 2002; Okumus, 2004), while the pricing decisions and practices of same day arrival guests have not been the subject of research to the best of our knowledge. In order to fill the gaps identified in the pricing literature, this study focused on pricing decision making and practices of hotels for same day arrival guests and very late (after 11 PM) same day arrival guests. Therefore, this study aims to answer the following research questions:

1. What channels were used to book same day reservations?
2. Who were the decision makers establishing the prices of same day arrivals and very late same day arrival guests?
3. Were there differences in the ADR for late day and very late day arrivals for weekdays, weekends, high-season and low-season?

Further, the research examines the pricing differences of same day arrival guests between brand affiliated and independent hotels and among small, medium, and large hotels. Therefore, this study can extend the pricing literature by providing valuable insights into the understanding of hotel pricing decisions and practices for same day arrival guests.

LITERATURE REVIEW

Hotel Room Pricing

Yield management is defined as “the process of finding the optimal mix of capacity, customer and price” (Kimes, 1989). It is based on the ability to affect hotel room demands by raising and lowering the hotel room prices (Badinelli, 2000). Pricing decisions are based upon many different factors: cost, competition, value, length, and quality of the relationship between a vendor and a customer, and the pricing strategy of the firm. Nagle et al. (2010) proposed a method of price segmentation along the time of purchase as an effective solution when a demand for the product varies according to the time period. They described that hotel pricing techniques include cost-based pricing, competition-driven pricing, and customer-driven pricing. According to them, cost-based pricing and competition-driven pricing are popular because they are all relatively easy to implement. However, the main shortcoming of cost-based pricing is that the unit costs are not easy to calculate precisely, which in turn leads to an over-pricing or under pricing problem (Collins & Parsa, 2006). Moreover, the disadvantage of competition-driven pricing is that it assumes that competitors understand the value consumers place on offerings (Danziger, Israeli, & Bekerman, 2006). Accordingly, this approach tends to lead to inappropriate price-cutting because a hotel firm seeks to obtain market-share (Collins, & Parsa, 2006). On the other hand, customer-driven pricing can encounter the problems of consumer unwillingness to reveal their reservation price, especially when the market price is lower than the reservation price (Danziger et al., 2006).

Israeli (2002) analyzed whether and how brand affiliation and star rating affect pricing decisions in different locations. The data for the study was based on 215 Israeli hotels in nine different locations. The result suggested that the impact of brand affiliation on hotel room prices was significant, while the star rating is a stable and consistent predictor of room prices. Espinet, Saez, Coenders, and Fluvia (2003) also examined the factors which affect room pricing according to different characteristics: hotel size, location, and services available to guests. They analyzed three hotels with the database of 82,000 tour operators’ prices, recorded daily from 1992 to 1998. The results indicated that prices are significantly affected by a hotel size especially during the low season because larger hotel operators are more aware of the principles of yield management and often use differential pricing to stimulate demand for their products.

Last Minute Booking

Nagle et al. (2010) proposed a method of price segmentation along the time of purchase when a demand for the product varies according to the time period. With the advent of the Internet, hotels can have access to communicate directly with segmented target markets and have the opportunity to utilize price to meet the demands of the specific segments (Nagle et al., 2010; Yelkur & DaCosta, 2001). In particular, the Internet and mobile devices are making it possible for customers to wait to find the best available price until the last minute (Leposa, 2013). Yelkur and DaCosta (2001) emphasizes the Internet marketing towards segmented targets can result in the extreme price competition when products are similar.

Wingfield (2012) reported in the New York Times that room discounts for last minute booking could be appealing toward price-sensitive travelers. However, it could be risky for hotels if customers come to depend on the lower rates because it may be less profitable for hotels (Levere, 2001). Additionally, the last minute booking could lead to undesirable consequences for hotels by upsetting their loyal customers, who may get to know about the lower last minute rates offered via on-line reservation channels (Tnooz.com, 2012). Due to a limited study on pricing of same day arrival guests, the following research questions are explored in this study:

RQ 1: What reservation channels were used to book same day reservations?

RQ 1a: Are there any differences between brand affiliated and non-affiliated hotels?

RQ 1b: Are there any differences among small, medium, and large hotels?

RQ 2: Who were the decision makers establishing the prices of same day arrivals and very late same day arrival guests (i.g., 11 pm)?

- RQ 2a: Are there any differences between brand affiliated and non-affiliated hotels?
RQ 2b: Are there any differences among small, medium, and large hotels?
RQ 3: Were there differences between overall average room rate and average room rates for same day arrival guests/very late same day arrival guests (i.g., 11 pm) during weekdays, weekends, high-season and low-season?
RQ 3a: Are there any differences between brand affiliated and non-affiliated hotels?
RQ 3b: Are there any differences among small, medium, and large hotels?

METHOD

Sampling and Data Collection

The main data collection was achieved via a random sample of brand affiliated hotels and independent hotels of a list of 3,000 hotels provided by Smith Travel Research. Survey questionnaires were mailed to a general manager of the hotels without mentioning the name and the title of the specific individual in charge of the pricing decision because Smith Travel Research provided only hotels' names and addresses to the researchers. Nearly 300 responses (about 10 %) were received and analyzed using analysis of variance (ANOVA). Data were analyzed using SPSS 17.0 software for results.

Measurement

The survey items for each research question were developed on the basis of previous pricing studies (O'Connor, 2003). Reservation channels that hotels use for same day arrival guests were measured with the following channels: "call the hotel directly," "walk in," "call the hotel's 800 number," "use the hotel owned website," "use global distribution systems," "use OTA," and "others." Respondents were requested to indicate the percentage of reservations received on the reservation channels provided. To measure decision makers for the pricing of same day arrival guests, titles such as "owner," "general manager," "revenue manager on site," "revenue manager from a regional office," "director of sales and marketing," "front office manager," "night audit/front desk associate," and "others" were employed. The same job titles were also employed to measure decision makers for the pricing of very late (i.e., 11 pm) same day arrival guests. The measurement items for pricing of same day arrival guests and very late same day arrival guests (that is, 11 pm) were asked along with overall average room rate based on different time periods (i.e., weekday, weekend, high-season, and off-season).

ANALYSIS AND RESULTS

1) Profile of Survey Hotels and Reservation Characteristics from Same Day Arrival Guests

The majority of hotels participated were independently owned (85%) and brand affiliated (82%). About 53% of the hotels were independently managed, followed by those managed by a management company (35%). The average room size of the hotels of respondents was 191. The majority of the respondents were general managers (72%). Others were owners (10%), directors of sales and marketing (7%), and revenue managers (4%), and others (7%). Respondents reported that reservations from same day arrival guests were about 19% of the total reservations. Other percentages according to different time periods were during weekday per day (18%), during weekend per day (20%), during high-season (21%), and during off-season (16%).

2) Pricing Policies and Practices for Same Day Arrival Guests between A Brand Affiliated Hotel Group and A Non-brand Affiliated Hotel Group

Reservation channels that hotels use for same day arrival guests

Mean differences by percentage of reservations received for same day arrival guests on each type of reservation channels were tested between a brand affiliated hotel group and a non-affiliated hotel group using ANOVA analysis. As shown in Table 1, there was a significant mean difference with a reservation channel of "call the hotel directly" ($p \leq .01$) between brand affiliated and non-affiliated groups. There was also a significant mean difference with a reservation channel of "walk in" ($p \leq .05$) between two groups. The reservation channel of "call the hotel 800 number" also showed a higher mean with a brand affiliated hotel group ($p \leq .01$). The rest of the reservation channels showed no significant difference between brand affiliated and non-brand affiliated groups.

**Table 1. Pricing Policies and Practices for Same Day Arrival Guests
between A Brand Affiliated Hotel Group and A Non-brand Affiliated Hotel Group**

	Brand Affiliated Hotel Group	Non-Brand Affiliated Hotel Group
Reservation channels for same day arrival guests		
Call the hotel directly	27.6% ^a	38.4%**
Walk in	20.2*	13.5
Use a hotel owned website	13.1	9.0
Use OTA	13.5	15.3
Call the hotel 800 number	12.0**	7.0
Use global distribution system	12.1	16.3
Others (i.g. email/text, travel agent)	1.5	.5
Decision makers for the pricing of same day arrival guests		
General manager	11.3% ^b	22.7%**
Revenue manager on site	41.5*	29.7
Owner	13.1	22.6*
Front office manager	10.3**	1.3
Revenue manager from a regional office	8.6	7.1
Director of sales and marketing	8.4	13.5
Night audit or front desk associate	6.8	3.1
Decision makers for the pricing of very late (i.g., 11 pm) same day arrival guests		
General manager	8.0% ^c	23.0%***
Revenue manager on site	28.8	18.6
Owner	8.1	11.5
Front office manager	5.2	.4
Revenue manager from a regional office	3.5	2.4
Director of sales and marketing	16.1	12.8
Night audit or front desk associate	28.1	28.9
Others	2.2	1.7
ADR difference index of same day arrival/very late same day arrival guests from overall ADR		
Weekday for same day arrival	.04* ^d	-.02
Weekday for same day arrival after 11 pm	.02 ^e	-.02
Weekend for same day arrival	.09	-.00
Weekend for same day arrival after 11 pm	.01	-.01
High-season for same day arrival	.04	-.02
High-season for same day arrival after 11 pm	.04	-.02
Low-season for same day arrival	.02	-.03
Low-season for same day arrival after 11 pm	-.02	-.04

^a: % of reservations received for same day arrival guests

^b: % of influence for the pricing of same day arrival guests

^c: % of influence for the pricing of very late (i.e., 11 pm) same day arrival guests

^d: ADR difference rates of same day arrival from overall ADR ((ADR of weekday for same day arrival overall-ADR)/ overall ADR)

^e: ADR difference rates of very late same day arrival guests (i.e., 11 pm) from overall ADR ((ADR of weekday for very late same day arrival after 11 pm -overall ADR)/overall ADR)

* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$ ^e

Decision makers for the pricing of same day arrival guests

This study tested mean differences between a brand affiliated hotel group and a non-affiliated hotel group by percentage on each different type of decision maker who influences the pricing of same day arrival. As shown in Table 1, both groups showed the highest percentage of influence by “revenue manager on site” on decision making for the pricing of same day arrival guests, and there was a significant mean difference with this type of decision maker ($p \leq .05$) between two groups. There were also significant mean differences with a decision maker of “general manager” ($p \leq .05$), “owner” ($p \leq .05$), and “front office manager” ($p \leq .01$) between two groups. The rest of the types of decision makers showed non-significant differences between a brand affiliated hotel group and a non-brand affiliated hotel group.

Decision makers for the pricing of very late (i.e., 11pm) same day arrival guests

In the same manner as above, mean differences were also tested between a brand affiliated hotel group and a non-affiliated hotel group by percentage on each different type of decision maker who influences the pricing of very late (i.e., 11 pm) same day arrival guests. In the brand affiliated hotel group, “revenue manager on site” had the highest percentage of influence among other decision makers on the pricing of same day arrival guests after 11 pm items (28.8%), while “general manager” had the highest percentage in the non-brand affiliated hotel group (23.0%). There was a significant mean difference with “general manager” ($p \leq .001$) between two groups (brand affiliated: 8.0%, non-brand affiliated: 23.0%). The others showed no significant differences between the two groups.

ADR difference indexes of same day arrival/very late same day arrival guests (i.g., 11 pm) from overall ADR

In this study, the ADR difference indexes of same day arrival/very late same day arrival guests (i.e., 11 pm) from overall ADR were compared between brand affiliated and non-affiliated hotel groups by using ANOVA analysis (see Table 1). First, the ADR for same day arrival/very late same day arrival guests (i.e., 11 pm) were examined for each of the following time periods: weekday; weekday after 11pm; weekend; weekend after 11pm; high-season; high-season after 11pm; low-season; low-season after 11pm. The ADR difference index was determined by subtracting the overall ADR from each time period ADR. Lastly, calculated ADR difference rates were determined by dividing overall ADR by the difference between overall ADR and each different time of ADR for same day arrival/very late same day arrival guests. There was a significant difference of ADR difference index with “weekday for same day arrival” between two groups. The rest of the times showed no significant difference between the two groups.

3) Pricing Policies and Practices for Same Day Arrival Guests among Different Hotel Size Groups

Reservation channels that hotels use for same day arrival guests

As shown in Table 2, mean differences by percentage of reservations received for same day arrival guests on each type of reservation channels were tested among different hotel size groups: small (below 100 hotel rooms); medium (100 to 300 hotel rooms); large (over 300 hotel rooms). All three sizes of hotels showed the highest percentage on “call the hotel directly” among the options. On the option of “use a hotel owned website”, the medium size hotels ranked highest (15.5%; $p \leq .05$). On the option of “use OTA” and “call the hotel 800 number”, the large size hotels ranked highest. The rest of the reservation options show no significant difference by the size of hotels.

Decision makers for the pricing of same day arrival guests

As shown in Table 2, the small size hotels showed the highest percentage was the “owner” (30.9%), which was significantly different from other size hotel groups. On the “revenue manager from a regional office”, there was a significant difference among groups ($p \leq .01$). On the “director of sales and marketing”, and “night audit or front desk associate”, there were also significant differences among groups ($p \leq .01$).

Decision makers for the pricing of very late (i.e., 11pm) same day arrival guests

Mean differences also were tested among the three different hotel size groups by percentage on each different type of decision maker who influences the pricing of very late (i.g., 11 pm) same day arrival guests. The small size hotels showed significantly higher percentage on “general manager” and “owner” than the other size of hotels. The medium size hotels showed significantly higher percentage on “front office manager” compared to the others. The large size hotels showed significantly higher percentage on “revenue manager on site” than the other size of hotels. The rest of the decision makers for the same day arrival after 11pm showed no significant difference by the size of hotel groups.

Table 2. Pricing Policies and Practices for Same Day Arrival Guests among Different Hotel Size Groups

	Small Size Hotel Group (Under 100 rooms)	Medium Size Hotel Group (Between 100 and 300 rooms)	Large Size Hotel Group (Over 300 rooms)
Reservation channels for same day arrival guests			
Call the hotel directly	31.5% ^a	29.6%	23.8%
Walk in	29.7***	14.9	9.6
Use a hotel owned website	10.1	15.5*	14.8
Use OTA	8.4	15.0	15.3**
Call the hotel 800 number	8.3	12.6	20.9***
Use global distribution system	10.0	11.4	14.5
Others (i.g. email/text, travel agent)	2.0	1.0	1.7
Decision makers for the pricing of same day arrival guests			
General manager	40.3% ^b	45.1%***	13.9%
Revenue manager on site	4.9	12.4	45.8***
Owner	30.9***	6.7	1.4
Front office manager	7.0	10.7	10.9
Revenue manager from a regional office	3.3	10.1**	13.8
Director of sales and marketing	4.5	9.1	10.5*
Night audit or front desk associate	8.3*	4.5	3.7
Others	1.4	1.7	.00
Decision makers for the pricing of very late (i.e., 11 pm) same day arrival guests			
General manager	34.5%*** ^c	28.0%	8.4%
Revenue manager on site	2.4	7.6	26.8***
Owner	28.4***	3.5	.27
Front office manager	5.2	21.6***	14.9
Revenue manager from a regional office	.48	5.3	8.2*
Director of sales and marketing	1.4	3.6	5.8
Night audit or front desk associate	25.4	28.8	32.4
Others	2.2	1.7	3.6
ADR difference indexes of same day arrival/very late same day arrival guests from overall ADR			
Weekday for same day arrival	.02 ^d	.01	.09
Weekday for same day arrival after 11 pm	-.01 ^c	.01	.06
Weekend for same day arrival	.02	.10	.04
Weekend for same day arrival after 11 pm	.00	.00	.04
High-season for same day arrival	.04	.02	.06
High-season for same day arrival after 11 pm	-.01	.03	.07
Low-season for same day arrival	.02	-.01	.04
Low-season for same day arrival after 11 pm	.00	-.03	.00

^a: % of reservations received for same day arrival guests

^b: % of influence for the pricing of same day arrival guests

^c: % of influence for the pricing of very late (i.e., 11 pm) same day arrival guests

^d: ADR difference rates of same day arrival from overall ADR ((ADR of weekday for same day arrival overall-ADR)/ overall ADR)

^c: ADR difference rates of very late same day arrival guests (i.e., 11 pm) from overall ADR ((ADR of weekday for very late same day arrival after 11 pm -overall ADR)/overall ADR)

* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$ ^c

ADR difference indexes of same day arrival/very late same day arrival guests (i.e., 11 pm) from overall ADR

The ADR difference index of same day arrival/very late same day arrival guests (i.e., 11 pm) from overall ADR were compared among different hotel size groups by using ANOVA analysis (see Table 2). First, different times of ADR for same day arrival/very late same day arrival guests (i.g., 11 pm) were examined for each group: weekday; weekday after 11pm; weekend; weekend after 11pm; high-season; high-season after 11pm; low-season; low-season after 11pm and then got the rate difference by subtracting each different time of ADR from overall ADR. Lastly, ADR difference rates were calculated by dividing overall ADR by the difference between overall ADR and each different time of ADR for same day arrival/very late same day arrival guests. There were no significant differences by the different size of hotel groups.

DISCUSSION AND IMPLICATIONS

This study contributes to extending the pricing literature by examining pricing decisions and practices of same day arrival guests in the context of the hotel industry. The major findings of the current study between branded affiliated hotels and non-affiliated hotels were as follows:

1. There were significant differences in pricing for same day arrival guests of branded and independent hotels when the price was set by the revenue manager on site, the general manager, the owner, and the front office manager.
2. There were significant differences in pricing the very late same day arrival guests (i.e., 11 pm) of branded and independent hotels when the prices were set by the revenue manager on site and the general manager.
3. The differences in ADR of same day arrival and very late same day arrival guests were evaluated as associated with branded and independent hotels. The only significant difference was noted for weekday same day arrivals.

This research also evaluated who made the decision as to what price to charge, ADRs, and reservation channels across hotel sizes. Several significance differences were noted as follows:

1. Walk in guests are more common with the small sized hotels .
2. Calling the hotel 800 number is more common with the large size hotels.
3. The price decision maker for pricing rooms for same day arrivals being the revenue manager on site is most prevalent with larger hotels.
4. The price decision maker being the owner for same day arrival guests is most common with the small size hotel group.
5. Similar pricing results were noted for pricing rooms for very late same day arrivals as with late same day arrivals.

The results indicate that the impact from revenue management services supplied by the hotel brand is significant. Further, it would be advisable for independent hotels to consider adopting such techniques to enhance revenue opportunities for the property. It is especially important to note the significant impact of night audit and front desk associates on pricing (and therefore revenue) for very late arrival guests. It may be that revenue is being lost at the expense of the 'sell-out'. Based on the ADR difference index results, it would seem that decision makers are ready to use discounted rates at a time of day (before 11pm) when such a decision is unnecessary. While this study did not take into account the various factors that go into pricing (such as weather, special events, and competition), it appears that revenue is being 'left on the table'.

LIMITATIONS AND FUTURE RESEARCH

There are areas for future study and limitations of this study. First, this study provides a large enough sample size for useful insights into pricing research. However, some limitations can still be considered in interpreting the findings of this study due to a low response rate (about 10%). A second mailing of the survey package was sent to those who had not responded in order to ensure an appropriate response rate, 20-30% of response rate for a mail survey to a large sample of firms (Henderson, 1990). However, when questionnaires are sent to representatives of organizations such as general managers of hotels, the response rate is typically lower compared to populations of

individuals (Baruch, 1999) because organizational representatives may decline to respond due to various reasons: too busy, a company policy not to complete surveys, considered relevance (Baruch, 1999). Secondly, in this study to provide a deeper understanding of room pricing of same day arrivals, future research may investigate some uncovered factors such as hotel service quality rating, location affecting pricing of same day arrival guests besides hotel size and brand affiliation.

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