

# Investigating the effects of pricing strategies on competitive advantages in the hotel industry: the case of Novotel

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Submitted: 25-02-2021

Revised: 05-03-2021

Accepted: 10-03-2021

**ABSTRACT:** The concept of Pricing Management (PM) has become very important in this competitive world and this strategy is pretty much accepted in hotel and hospitality industry because of the value driven services in this industry and now, in relevance to the industry, various pricing strategies are being adopted. The viewpoint of this particular topic can be made from the research paradigm and data is being collected and analyzed in the further part of report for the presentation of results and conclusions.

In this case, the pricing issues can be analyzed through the historical information related to the pricing. Therefore, we have chosen positivist paradigm for the conclusions of the research and the research question can be solved and the objective of research needs the Positivist research philosophy or paradigm in the research study.

The data analysis and findings will include the data representation in forms of graphs and charts which refers to the various sampling techniques. The impact of the pricing on the consumer behavior can be ascertained through these findings of analysis. The relation between consumer behavior and pricing strategies and management can be found through the research study and analysis of the data. In the conclusion part, it is analyzed that the pricing management decision makers have to understand the need of pricing and the values that has been provided to the customers while deciding on the factors of pricing and gaining competitive advantage at the same time.

## I. INTRODUCTION

The purpose of this research is being conducted to investigate the effect of pricing strategies on competitive advantages in the hotel industry. The case study of Novotel as a case study helps in finding the important factors of pricing strategies. The research is qualitative in nature and is largely focused on proving the feasible solutions for Novotel hotel in regards to gain competitive

edge over the competitors. The enquiry overview provides the gist and overview of research with an outline of rest of the paper. The main aim of this research study is to take an overview of the different pricing strategies in hotel industry and optimizing the profits of the company with the use of various conceptual models and theoretical issues related to pricing strategies and competitive advantage and gaining competitive advantage in the industry. In the enquiry overview, each chapter is concisely explained below so as to gain an overview of the research.

## II. AIMS AND OBJECTIVES

This case is specific to the service industry and the main aim of this case is to review different kind of pricing strategies with special focus on to the industry and to find out the possibilities and challenges for hotels at the time of optimizing their profitability. The specific objective of the study can be defined as:

1. To identify the key drivers for pricing strategies that can competitive advantage for the specific industry and drives the success of the organization
2. To review various conceptual models and theoretical issues as well as the impact of these conceptual models in the organization that are related to pricing strategies and competitive advantage
3. To review the effect of different pricing strategies that are explained in the further part of dissertation and their ultimate effect on consumers and the profitability of organization

## III. LITERATURE REVIEW

Research in the area of pricing strategies and competitive advantage is a very important as well as relevant factor for the consumer. Therefore, the pricing decision is an equally significant factor for the organizations also at the time of setting the price strategies. The pricing and competitive

advantage is a relative factor in hospitality industry because the consumers are very specific about their preferences and loyalty of the consumer can only be gained when the competitive advantage is present in the industry.

Market oriented strategic planning is the managerial process of developing & maintaining a viable fit between an organization objectives/skills/ resources and its changing market opportunities(Hart,2004).

Competitive advantage is a theory which seeks to address some of the factors related to competition and competitive advantage (Michael Porter, 1985). Competitive advantage theory states that businesses should pursue that kind of services and policies that create goods of high quality and to sell at high prices in the marketplace. (Warf, 2009).

Generic strategies can be described as a strategy consisting of three general types of strategies that are commonly used by businesses to achieve competitive advantage. (Porter, 1985). There are so many online companies with so many products sold online; they also show the comparison of the price with other competitors and help to choose the best offering price. Substitutes in the market affects a company's price decision same as the other factors. Porters five force model is also explain this theory that the substitutes affects the price strategy of the company.(Kingman, 2004)

Efficiency is the ratio of inputs to outputs. Inputs can be any materials, overhead, or labor that is assigned to the product or service. The outputs can be measured as the number of products produced or services performed. The firm that can achieve the highest efficiency for the same service or product can widen the gap between cost and perceived value and may have greater profit margins. (Ries, 2000)

### **Research Methodology**

The research study can be studied on the basis of nature of the research. There can be two types of research nature. They are positivistic or interpretive research philosophy, Which is explained in further research study? The research philosophy can be studied by the methodology applied in research methods that would be qualitative or quantitative in nature.

### **Research approach**

#### **Deductive**

The Deductive approach leads the case to more specific way from a generalized manner. This research approach is also called "top-down" approach. The approach concentrates on specializing the topic of research study. The

research topic can be broad to deal with the whole topic. So, this approach can narrow down the topic into more specific hypotheses. The specific hypothesis can be tested and a specific conclusion can be made out of the research.

#### **Inductive**

Inductive reasoning works on the opposite of the deductive research approach. The specific observations can be made broader or to the generalization. This approach is also called a "bottom up" approach. In inductive approach of research, the specific observations are being analyzed and then, observe and measure some patterns and regularities.

#### **Data collection methods**

In the case of Novotel hotel, the qualitative research methodology is used for the proper analysis of the research topic of study. The qualitative research has been conducted in this research because the main objective of the research is to investigate the effects of pricing strategies on the competitive advantage of the organization. There are various pricing strategies which can be adopted as per the needs and requirements of the organization. So, this purpose can be solved through the analysis of observation and findings of the primary data and the data should be based upon the theoretical part of the research study. The quantitative data cannot study the social and behavioral views of the respondents. So, the qualitative data can explain the behaviors of the consumers and the affect of pricing on the consumers can consecutively found out for the proper analysis and purpose of the study.

#### **Interviews**

In this case, the purpose can be solved by asking open ended questions to the respondents so as to know the understanding of the consumers related to price and know the response of customers in relation to the organization. The semi structured interviews are conducted in this research study to deal with the subjective experiences of the respondents. At the time of interview, 10 people were selected to present their opinions for the research topic contextfor a couple of hours. These people were chosen on the basis of their relation with the industry. And an unstructured interview technique is used to take the interview from these people.

The primary objective of choosing an unstructured interview technique is to have a set of open ended questions in which the set of customers can express their views in relation to the

organization and the pricing management of the organization. The business applications of pricing process have to cater the opinion of the customers and their understanding of the processes within the organization. It has also opened new views and points of conducts while getting information from the interviews.

**Questionnaire**

The questionnaire is designed on the following basis:

1. What are the tools that can be used at the time of setting the price and which of the tool is most effective for the growth of the organization?
2. What are the factors of pricing that need to be considered from the side of organization?
3. What is the frequency of changes in pricing of the services of the organization?
4. What is the unique selling proposition in the service offering by the organization?
5. What is the basis on which the organization tends to have the large set of loyal customers?
6. What is the impact of pricing on the organization and how does it plays a significant role with respect to consumer behavior?
7. Have the organization targeted a specific market?
8. What are the various methods of communication used by the organization?

**IV. DATA ANALYSIS AND FINDINGS**

**Findings of Interviews**

In this case, the open ended questions have been asked to the respondents in relation to the expectation of consumers related to different factors of pricing. The customer’s response in relation to the organization has also been analyzed for the purpose of examining the brand image of the organization. The customers have been responded in a positive manner. There were questions related to their preferences in hotels, services offered, special benefits to the customer, location constraints and the factors of pricing such

as price adaptability, suitability of prices at certain conditions and other environmental factors. The semi structured interviews are conducted to know the subjective experiences of consumers. The opinion of the customers related to the organization and brand was very good but on the basis of analysis of interviews from various respondents, it has been found that the consumers have realized relatively high prices in the organization as compared with the offered services. And the competition in the market has affected the business of organization in terms of revenue and volume of business because the consumers are very sensitive in terms of prices and services. The value added services are preferred by the consumers so as to worth their money as well as the satisfaction of consumers.

**Findings of Questionnaires**

The judgment of the response of the customers is to be analyzed for the findings of analysis. The sampling has to be conducted on the basis of the responses of the customers that are based on questionnaire. The questionnaire has been designed in such a way that can be completed in the research methodology. The findings of the questionnaire which has been designed for the partial fulfilment of survey will be outlined. Then after, the data can form the reports and provided for the research purpose of study.

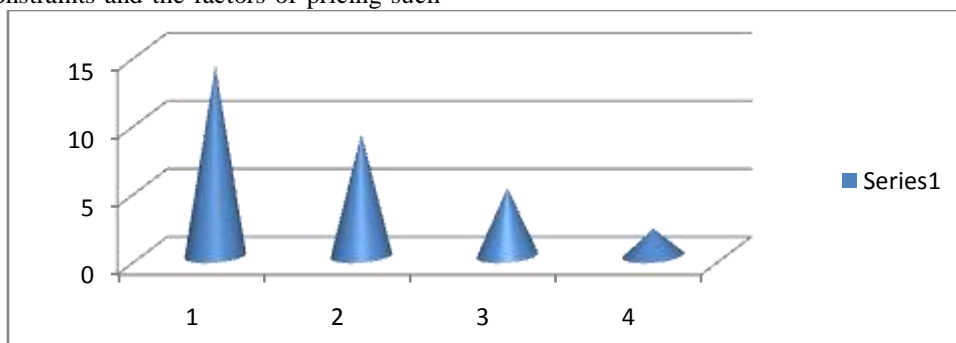
**Questionnaire Design**

What are the tools that can be used at the time of setting the price and which of the tool is most effective for the growth of the organization?

- A. Advertising
- B. Sales promotion
- C. Trade and road shows
- D. Customized services

**Results of question on the basis of sample:**

- A = 5
- B = 7
- C = 3
- D = 9

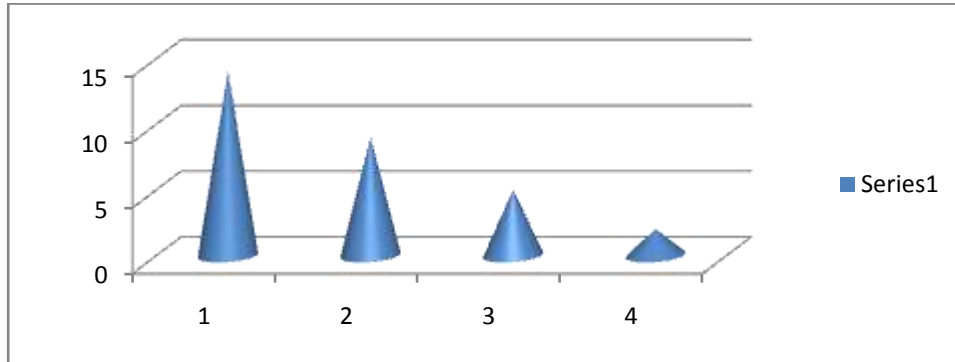


What are the factors of pricing that need to be considered from the side of organization?

- A. Customer behavior towards the service
- B. Response of customers
- C. Competitor response
- D. Environmental factors

**Results of question on the basis of sample:**

- A = 12
- B = 8
- C = 5
- D = 3



What is the frequency of changes in pricing of the services of the organization?

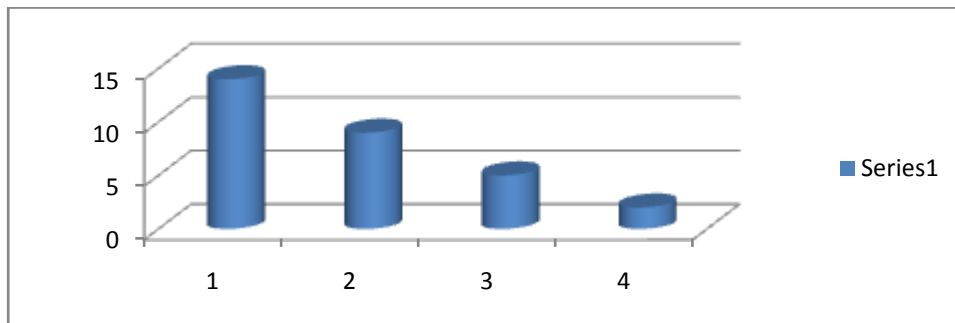
- A. Excellent innovation
- B. Good
- C. Average
- D. Poor

- A. Brand
- B. Hygiene
- C. Customized services
- D. Discounts and special offers

**Results of questionnaire on the basis of sample:**

- A = 9
- B = 5
- C = 8
- D = 3

What is the unique selling proposition in the service offering by the organization?



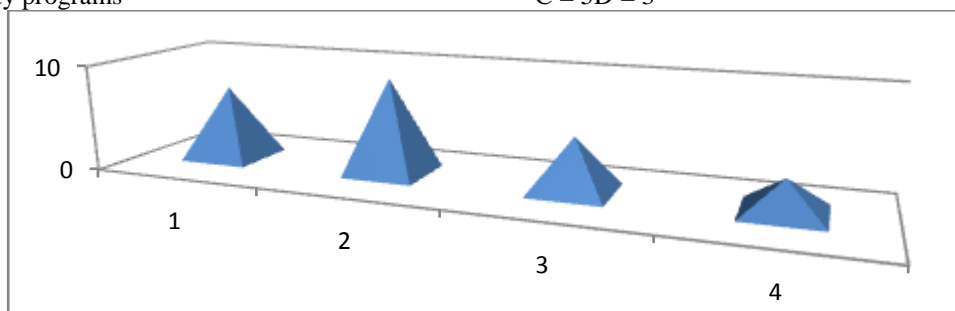
What is the basis on which the organization tends to have the large set of loyal customers?

- A. Retention of present customers
- B. Acquisition of new customers
- C. Loyalty programs

- D. Customized services

**Results of questionnaire on the basis of sample:**

- A = 7
- B = 9
- C = 5
- D = 3



Have the organization targeted a specific market?

- A. Yes
- B. No

- B. Seldom
- C. Less important
- D. Not important

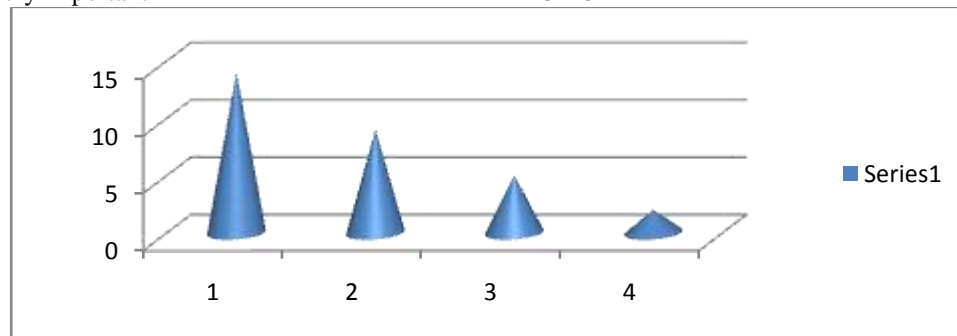
What is the impact of pricing on the organization and how does it plays a significant role with respect to consumer behavior?

- A. Very important

**Results of questionnaire on the basis of sample:**

A = 14 B = 9

C = 5 D = 2



**Analysis based on the results of the above questions.**

The questionnaire has dealt with the above mentioned questions. The questions act as a base for the analysis of the research. There are some other questions which are also considered at the time of questionnaire designing with reference to the demographics of the consumers. There are so many related factors which affects the pricing strategies and management of the company. The overview of impact of pricing strategies on the company and behavior of the customers can be gained by the particular analysis.

### Secondary Data Analysis

#### Factors led to the changes in pricing strategies

The questionnaire has been designed on the basis of various concepts such as demographics, acquaintances, consumer behaviour and the relation between revenue and price management of the company. The investigation of statistical data related to the sample population will be analyzed for the purpose of research (Kingman, 2004)

### Demographics

The demographic profile of the sample population is being analyzed for comparing the primary data and secondary data. Then after, the conclusions can be found out for the research study. In this case, the customers and their preferences about the services has been found and then, the elements can be addressed that have impact on the individual need of the customers that has to be investigated for the data analysis.

### General Acquaintance

The general acquaintances related to the responses of the customers about the company and the services of the hotel to satisfy the customers. The concept of marketing communication and pricing related factors has been analyzed as well as the awareness of the customer. The questionnaire is also designed to find out the pricing strategy which suits to the requirement of the customers and increase the loyalty of the customers for the betterment of the organization. The current customers and prospective customers are involved in the sample population. Therefore, the analysis can be concluded by the expectation of prospective customer and loyalty of the current customers; the overall review about the areas of improvement of the company. Also most of the customers favoured that pricing strategy plays an important role for customers, hence utmost importance should be given while designing pricing strategy to make it attractive and beneficial for the customers.

### Pricing Management and the relation between revenue and pricing techniques

Most hotels use the revenue management model for balancing the effects of the consumer behavior on the pricing management. The pricing strategy is related to the pricing of the competitor and service offerings of the company. The revenue management model is executed on the hotel that prices the services much higher than their competitors. The revenue and pricing techniques are closely related to the pricing management of the company. The prices of the hotels are based on the occupancy rate of the company. The hotels adjust



their prices in association with changes in occupancy. The hotels are heavily involved in revenue management so as to maintain the relationship between the revenue and pricing management.

## V. CONCLUSION

The pricing strategies have to be developed with the help of pricing strategy matrix. It is important to note that there is an implicit relationship between price and consumer behavior. The right pricing strategy has to be made for the betterment of the organization and it also helps in studying various perspectives of the organization. The relationship between price and value of consumer behavior can be assessed by triangular factors such as: what I wanted or needed to earn, my costs, and what the market would bear. Other than these factors, the secondary factors are quality, price, and market generally reached a dynamic balance where prosperity and service overlapped.

The overall marketing strategy consists of so many factors such as price, value, and customer base, relation of the company and most importantly, the price of the services. The prices of services should make worth to the customers. So, we can conclude that the customers are highly related to the pricing factors.

The strategies for the pricing have already been dealt in the previous part of the case. The key success factors implied by the organization are related to the various factors such as the price, consumers, quality, value and innovation. But there are also some drawbacks of the company which has been found at the time of research process. The company has a large business and have different operations and departments concerned with their specific jobs. The coordination is a main principle of the management that has to be maintained while setting the price or pricing management.

The company has to consider the fact that the service industry is very specific about the needs of the customers and ever changing requirements of the customers. The demands of the customers have to be ascertained for the satisfaction of the customers. The assessment of the customers is a very typical process as it includes various qualitative and quantitative information collections from the customers and work upon that information for the betterment of the organization as well as the customers in a substantial manner.

The set of questions which has been asked to the consumers in the form of questionnaire has an intention of improving the areas of the company. The results have been discussed on the

basis of survey and questionnaire on the sample population. It can be concluded that the company has given a lot of importance to the pricing and its effects on the consumers. The company spends a good amount of money on the survey and research methods in regards to the pricing management of the company.

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**International Journal of Advances in  
Engineering and Management**  
ISSN: 2395-5252



# IJAEM

Volume: 03

Issue: 03

DOI: 10.35629/5252

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