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Online Pricing Practice for Hotel Room Rates in China: The Case of Shanghai

Abstract

Travel websites that enable hotel room reservations have created unprecedented business opportunities. However, they have also overloaded hotel customers with information. This situation is particularly true of China, an emerging country with the largest population in the world and the most promising growth prospect in tourism. This study investigated the room-rate pricing practice of five online distribution channels, measured by the lowest available rates. These online channels priced hotels of different categories in Shanghai, China's largest city. Empirical findings indicated that local websites offered lower room rates than international websites for the selected hotels in different categories. Specifically, Chinatravel consistently offered the lowest room rates for the selected hotels.

Keywords

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Online Pricing Practice for Hotel Room Rates in China: The Case of Shanghai

By Rob Law and Dave Man

Travel websites that enable hotel room reservations have created unprecedented business opportunities. However, they have also overloaded hotel customers with information. This situation is particularly true of China, an emerging country with the largest population in the world and the most promising growth prospect in tourism. This study investigated the room-rate pricing practice of five online distribution channels, measured by the lowest available rates. These online channels priced hotels of different categories in Shanghai, China's largest city. Empirical findings indicated that local websites offered lower room rates than international websites for the selected hotels in different categories. Specifically, Chinatravel consistently offered the lowest room rates for the selected hotels.

INTRODUCTION

The practice of price discrimination in marketing to encourage customers to purchase has long been of interest to industrial practitioners. According to VanHoose (2003), perfect price discrimination refers to charging different customers unequal prices for identical goods or services. When imperfect price discrimination is adopted, varying prices are charged to the same customer depending on whether the customer is part of a group that generally purchases relatively low or high volumes of the organization's products. VanHoose (2003) further stated that customers are always price sensitive, especially in a competitive market. Customers are even more sensitive to prices in the cyber market, where they can do their price comparisons easily. The understanding of pricing practice for online room rates, one of the largest Internet applications, would hence be beneficial to both consumers and industrial practitioners.

Yelkur and DaCosta (2001) stated that hotel products are relatively expensive. They are infrequently purchased, having an intangible value proposition, and high differentiation from competitive products. With the emergence of the Internet, O'Connor and Frew (2002) argued, hotels can sell their rooms online through travel agents, hotels' own websites, and other online intermediaries. In addition, the perishable and intangible nature of hotel products motivates hoteliers to maximize their revenues by using a variety of online distribution channels to manipulate optimum price. Still, hoteliers are unsure of how to apply online pricing practice. Surveying different online distribution channels, O'Connor (2002) found a wide range of values for hotel rooms. Similarly, customers are overwhelmed and confused by the extensive range of choices for online distribution channels and price offers (O'Connor, 2003).

Ever since its accession to the World Trade Organization (WTO) in 2001, China has been, and will likely be, experiencing rapid growth in various business sectors. Worldwide travelers and business people visit the world's largest country in terms of population for its wealthy cultural background and business opportunities. Among the existing distribution channels, the Internet appears to be one of the channels easiest to use; it has a rich amount of travel-related information.

Among the Chinese cities most frequently visited by international travelers, Shanghai appears to be the best-known destination. Shanghai is popular not only because it is China's largest city, but also because it is an attractive, cosmopolitan city and the cultural, commercial, financial, industrial, and communication center of Asia. A study of hotels in Shanghai would certainly shed some light on the Chinese hotel industry's online room rates. The primary objective of this study, therefore, was to investigate Shanghai hotels' online pricing practices, measured by the lowest available room rates, on international and local web sites. Empirical findings should be of interest to international travelers to China.

LITERATURE REVIEW

The increasing level of Internet applications has extended the traditional boundaries of both suppliers and consumers. In the virtual environment, without any geographical and time constraints, business products and services are more accessible to potential customers. As well, suppliers can remotely promote their products to worldwide consumers. The Internet has shown itself to be a perfect fit for tourism's interactivity, flexibility, accessibility, and service improvement (Sheldon, 1997). It was predicted that more customers would use travel websites to book their hotel rooms and that the monetary amount of online hotel reservations would increase from US\$5 billion in 2001 to US\$14.8 billion in 2007 (PhoCusWright, 2003). This shows the huge potential of business opportunities for online hotel reservations.

Among other factors, the primary aim of a website is to be a medium for selling the right products to targeted customers at the appropriate time (Briggs, 2001). Hoffman and Novak (1996), as well as Werthner and Klein (2000), have argued that the Internet is revolutionizing tourism marketing by reaching tourists efficiently. For travelers who have not previously visited a destination, the Internet can serve as an easy-to-use medium from which they can get first-hand information, and subsequently purchase online. Similarly, hotels can promote their products and services in an attractive and price-competitive way.

Moreover, distribution channels are increasingly regarded as essential to marketing as they can determine a business's competitiveness and profitability (Christopher, 2000; Stern & El-Ansary, 1992). According to O'Connor and Frew (2002), a distribution channel is basically a mechanism that provides enough useful information to the right audience at the right time, thereby facilitating the decision to purchase. O'Connor and Frew (2002) conducted a study of qualified experts' perspectives of hotel electronic distribution. The study showed the web-delivered channels related to hotel chains that would grow the most. Moreover, Yelkur and DaCosta (2001) performed a study of differential pricing and segmentation of hotel websites, and suggested that dynamic pricing would benefit hotels. In response to immeasurable business opportunity, various types of travel websites have been set up in order to get a share of this potential market. Despite the popularity of Internet applications in hotels, the existing tourism and hospitality literature has a limited number of prior studies on online hotel-room-rate pricing practices. In other words, neither the customer nor the practitioner has enough knowledge about how different websites promote hotel rooms. More importantly, the literature on online pricing for Chinese hotel rooms is basically non-existent. In view of the rapid growth of the China's tourism industry, it would, therefore, be beneficial to examine the practice of room-rate offerings for Chinese hotels.

METHODOLOGY

This research (1) identified online distribution channels and hotels, (2) collected the lowest room rates published for the selected hotels on the included channels, and (3) compared and analyzed the empirical findings.

Selected Websites

Having considered prior studies on online hotel-room rates (O'Connor, 2002, 2003; Tso & Law, 2005) and consulted with 12 hotel guests and practitioners in a focus-group discussion, we selected five websites as the online distribution channels for room reservations in Shanghai hotels. The selection was based on different scopes of business nature and geographical coverage. These websites were both local (*Chinatravel* and *Ctrip*) and international (*Expedia*, *hotels.com*, *Zuji*). Except *hotels.co*, which is an online hotel consolidator, all websites are online travel agents. The following presents these websites' backgrounds.

(1) *Ctrip.com* is an online provider of hotel accommodations and air tickets in China. The website acts as an online agent handling all booking transactions. *Ctrip's* main target customers

are non-group business and leisure travelers to China. Having experienced substantial growth since 1999, *Ctrip* has become China's number one online provider of hotel rooms and air tickets.

(2) *Chinatravel.com*, founded in 1928, is the official website of China Travel Service. A major business of the company is to offer packaged tours to China. The company also provides a reservation service for hotel rooms, air tickets, trains, and ferries, as well as visa processing and travel insurance. The long history of business makes the company a leading travel service provider specializing in China travel.

(3) As one of the major online hotel consolidators, *hotels.com* offers thousands of hotel properties in hundreds of destinations. The website serves as a good starting point for searching worldwide hotel rooms. Different from other third-party travel agents, *hotels.com* directly contracts with lodging properties for bulk purchases, leading to the guaranteed availability of hotel rooms at competitive prices. According to Law and Chan (2004), *hotels.com* is one the world's largest travel websites and is recognized as a key industry player by various news channels, such as *CNN*, the *Wall Street Journal*, and the *New York Times*.

(4) Launched in October 1996, the Microsoft-supported *Expedia.com* is now one of the world's largest online travel websites specializing in various types of travel-related products and services. The website features a large selection of hotel rooms through a wide range of business partners.

(5) Aiming to be a leading travel website in Asia Pacific, *Zuji.com* is a comprehensive regional travel website with a large network of business partners. The website was founded by fifteen Asia Pacific-based airlines, and cooperates with *Travelocity*. In addition to offering online hotel-room bookings, *Zuji* makes available other travel-related services, such as tailor-made packages for individual travelers.

Selected Hotels

Three-star hotels and above were selected for this study, as hotels in lower categories were not popular for online distribution (Tso & Law, 2005). All hotels that could be found on multiple websites were recorded. In case a hotel received different ratings, the mode of these ratings was used, and the rating from international websites was used for other cases. At the end, 63 hotels were included, which comprised 30 three-star hotels, 24 four-star hotels, and nine five-star hotels.

Data Collection

The lowest available room rates for single occupancy were recorded (these rates excluded additional charges). The data collection was performed one month in advance, from late-2005 to mid-2006, during which time 30 room rates were systematically recorded for each hotel on the included websites. Both seasonal and holiday factors were considered during the data-collection period.

RESULTS

Room Rates for All Hotels

The average room rates for the selected hotels ranged from US\$109.62 to US\$136.27 (Table 1). The local websites, *Ctrip* and *Chinatravel*, offered room rates lower than those of their international counterparts. Specifically, *Chinatravel* and *Zuji* were the websites that offered the lowest and highest room rates, respectively. ANOVA results showed the significant differences among room rates offered by the 63 hotels on the five channels.

Table 1
Average Room Rates for All Hotels (N=63)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
<i>Ctrip</i>	119.31 (83.14)	35	471	22.067	0.00*
<i>Chinatravel</i>	109.62 (51.7)	47	273		
<i>hotels.com</i>	128.26 (62.43)	46	381		
<i>Expedia</i>	121.43 (60.43)	40	420		
<i>Zuji</i>	136.27 (71.56)	40	1421		

*Significant at $\alpha=0.05$

Room Rates for Three-star Hotels

For the three-star hotels, *Ctrip* had the lowest room rate, US\$79.68, and *Chinatravel* ranked second lowest (Table 2). As for the findings for all hotels, the highest average room rate (US\$104.0) was found on *Zuji*. This indicated that local websites were more competitive in terms of room rates. ANOVA results indicated the significant difference among the room rates offered by different hotels on the five selected channels.

Table 2
Average Room Rates for Three-star Hotels (N=30)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
<i>Ctrip</i>	79.68 (46.13)	35	287	38.405	0.00*
<i>Chinatravel</i>	93.26 (40.78)	47	201		
<i>hotels.com</i>	103.85 (33.83)	46	221		
<i>Expedia</i>	95.71 (33.97)	40	221		
<i>Zuji</i>	104.0 (33.41)	40	191		

*Significant at $\alpha=0.05$

Room Rates for Four-star Hotels

Table 3 presents the average room rates of the four-star hotels on different online distribution channels. According to Table 3, *Chinatravel* offered the lowest room rate (US\$107.86), whereas *Zuji* had the highest average room rate (US\$129.70). Unlike the three-star hotels, *Ctrip* closely matched *Zuji* and ranked the second highest in terms of average room rates in four-star hotels. Again, significant differences were found among the room rates for the selected hotels on the five online distribution channels.

Table 3
Average Room Rates for Four-star Hotels (N=24)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
<i>Ctrip</i>	129.69 (69.08)	50	420	8.079	0.00*
<i>Chinatravel</i>	107.86 (41.67)	64	208		
<i>hotels.com</i>	120.83 (56.8)	57	353		
<i>Expedia</i>	120.22 (50.65)	56	363		
<i>Zuji</i>	129.7 (52.47)	63	361		

*Significant at $\alpha=0.05$

Room Rates for Five-star Hotels

Average room rates for the five-star hotels are shown in Table 4. As with four-star hotels, *Chinatravel* made available the lowest room rates (US\$150.79) for the five-star hotels, and *Zuji* consistently performed the worst in terms of room rates (US\$ 224.14). Similar average room rates were found on other websites. As for the other hotel categories, ANOVA findings showed significant difference among the room rates offered on the five websites.

Table 4
Average Room Rates for Five-star Hotels (N=9)

	Mean (s.t.d.)	Minimum	Maximum	F	Sig.
<i>Ctrip</i>	210.04 (107.42)	81	471	20.206	0.00*
<i>Chinatravel</i>	150.79 (64.24)	74	273		
<i>hotels.com</i>	214.91 (58.86)	122	381		
<i>Expedia</i>	215.34 (65.77)	105	420		
<i>Zuji</i>	224.14 (98.29)	105	1421		

*Significant at $\alpha=0.05$

DISCUSSION

Apparently the selected hotels all used multiple distribution channels. In other words, customers were able to access room rates, together with other related hotel information, on different channels. In addition, international channels, both globally (*Expedia* and *hotels.com*) and regionally (*Zuji*), offered higher room rates for hotels in Shanghai than did their local counterparts (*Ctrip* and *Chinatravel*). The tradeoff, seemingly, relates to global reach or local intelligence. In this study, international websites are better known and would be more appealing to Western customers. Hence, they are able to offer higher room rates for Shanghai hotels. Interestingly, the Asia Pacific-based *Zuji* consistently had the highest room rates in all hotel categories. Whether these findings are applicable only to the selected hotels, or indicates that *Zuji*'s primary business focus is not on Chinese hotels, deserves further investigation. Although both *Ctrip* and *Chinatravel* were able to offer lower room rates, these local websites did exhibit unequal pricing practices. Being the largest online travel agent in China, *Ctrip*'s main business target was clearly three-star hotels. Such a pricing practice could be related to market demand or

business partnership with hotels. *Chinatravel*, instead, was much more stable in terms of pricing practice in all hotel categories. In short, the online pricing practice for Shanghai hotel room rates relates to the background of distribution channels and hotel categories.

CONCLUSION

The Internet has been applied to different business areas in tourism and hospitality. To remain competitive, these businesses are now using the Internet as a dynamic tool that enables both information research and online reservations. From the consumers' perspective, different websites render price comparisons easily; thus price discrimination cannot be performed as readily in the virtual environment.

The pricing practice as indicated in the findings of this study reveals that local travel websites are more competitive in terms of online room rates for Shanghai hotels. Specifically, *Ctrip* offered the lowest room rates for three-star hotels, and *Chinatravel* dominated the four-star and five-star hotel categories.

Since local websites offer lower room rates, it would be beneficial for *Ctrip* and *Chinatravel* to increase their exposure to Western consumers. Also, international websites should learn more about the way of doing business in China. The traditional Western style of business operation may not necessarily be applicable in China. In any case, it is important for travel websites of any background and scope to establish clear business strategies for focused targets of business partners and more importantly, their potential consumers.

While the findings of this study are of use to practitioners and hotel consumers, future research should help us better understand how different travel websites price Chinese hotel rooms. A natural extension of this study is, therefore, to increase the number of online distribution channels and to include more cities in China. The large variance in income and development levels in different Chinese cities and the lowest-rate-guaranteed program offered by some hotel chains could generate unexpected yet interesting empirical results.

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