

UNIVERSITI TEKNOLOGI MARA

**PRICING STRATEGY AND ITS
IMPLICATION ON HOTEL FINANCIAL
PERFORMANCE**

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Thesis submitted in fulfilment of the requirements
for the degree of
Master of Science

Faculty of Hotel & Tourism Management

June 2010

ABSTRACT

The major issues that affect a firm's revenue is to get the price right. Price plays an important role since it is one of the strategic marketing variables that have direct impact on sales revenue or financial performance. However, the studies of pricing within the marketing discipline were very few particularly in hotel industry. This study was to ascertain the implications of hotel room pricing strategies adopted by 5 star-rating hotels in Malaysia with regards to their financial performance. Apart from that, this study was also aimed to examine the relationship between hotel pricing strategy, financial performance and external environment as moderating variable. The pricing strategies construct were derived from various articles on pricing in services industry and integrated according to four dimensional measures of cost-based, competitive, differential and psychological pricing strategy. Meanwhile, financial performance was measured by means of average room rate (ARR), occupancy percentage and revenue per available rooms (RevPAR). Samples for this study comprised of 72 hotels (5-star) with 100 rooms and above throughout Malaysia in which hotel manager was selected as a respondent. The statistical analyses used involved Multiple Regression, Hierarchical Regression and Moderated Regression analysis. Results indicated that cost-based pricing and differential pricing have a negative relationship with hotel financial performance, whereas competitive pricing and prestige pricing showed a positive relationship. This supported the notion that, for example; when a hotel that used cost-based pricing increased their room rates, it will lead to decrease in their financial performance or vice versa. Generally, the relationship between pricing strategy and financial performance were supported since the overall model showed that it was significant. Overall, the proper selection of pricing strategy by the hotel managers may lead the organization to their targeted revenue or income. Furthermore, it would also profitable for a hotel organization to implement more than one pricing strategy in their marketing strategy.

ACKNOWLEDGEMENTS

In the name of Allah s.w.t., I thank You for giving me the strength and all the blessings from beginning until the end of my master's program. Without Your guidance, comfort, strength, and love, I could not achieve my master's degree.

I would like to express my deep and sincere gratitude to my supervisor, Dr. Salleh Mohd Radzi. His wide knowledge and his logical way of thinking have been of great value for me. His understanding, encouraging and personal guidance have provided a good basis for the present study. Not to forget for his detailed and constructive comments, patience and for his important support throughout this work.

I warmly thank Dr. Artinah Zainal for her valuable advice and also in reminding me on the submission of my thesis. My sincere thanks are also due to Associate Professor Dr. Salehuddin Mohd Zahari and Associate Professor Dr. Rahmat Hashim. Their kind support and guidance have been of great value in this study.

I owe my loving thanks to my wife Ida Rosmini Othman and my son Wan Amsyar Dini. They have lost a lot due to my research work and life. Without their encouragement and understanding, it would have been impossible for me to finish this work.

Last but not least, to my parents, thank you for your support and pray. May Allah bless you in this life and the hereafter. Thanks to my friends for your support and thank you once again from the bottom of my heart.

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CHAPTER 1

INTRODUCTION

The purpose of this chapter is to outline the flow of the research. It begins with the development of Malaysia hotel industry and the contribution of this sector towards Malaysia economically and socio-economically. Next, the issue of this research were highlighted and supported by the problem statement within the same context. To seek on the findings, the research objectives, research questions and research hypotheses were derived. Then, the significance of the research was explained and the study framework was portrayed in later part of this chapter. Lastly, the variables involved in this research were describe in brief in order to give a better understanding on what this research is all about.

Malaysia Hotel Industry

The Malaysian services sector continued to be the key driver of growth in the year 2006 and is expected to expand at a steady pace. This sector accounts for the largest share in Malaysia's Gross Domestic Products (GDP). In the year 2006, 51.8 per cent were contributed by the services sector with the growth rate of 7.2 per cent (Malaysia International Trade and Industry Report, 2006). As part of the services industry, tourism sector also plays an important role in the Malaysia financial system. The sector has evolved from one that served domestic and regional tourists in the 1970s to cater for mass tourism in the 1980s (Malaysia Economic Report, 2007/2008). This sector continued to