

PRICING STRATEGY FOR HOTELS IN MANADO: A QUALITATIVE STUDY*STRATEGI PENETAPAN HARGA PADA HOTEL-HOTEL DI MANADO: STUDI KUALITATIF*

By:

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Abstract: The aim of this research is to find out the pricing strategy that is utilized by hotels in Manado and what are the factors affecting pricing decision. This research using qualitative approach and the data was gathered by in-depth interview with seven informants, in this case the sales and marketing manager and accounting manager of the hotels. The result shows that each hotel using two pricing strategies and there are three hotels using similar strategy and the others using different pricing strategy than the other hotel. This research found the most preferable pricing strategy used by hotels in Manado are Hi-Lo season strategy, Demand-based pricing, Competition-based pricing, cost-based pricing, price per segment, and customer willingness to pay. The research recommends the hotels to keep updating their strategy because most of the hotels in determine the price depends on the market demand and seasonality. In this case, the hotels have to do more in promoting their hotels especially during low season. For additional, the government also have to develop the tourism in Manado so that many tourists arrive which results in the demand for hotel room increase.

Keywords: *pricing strategy, price determinants, star hotels in manado, qualitative study*

Abstrak: Tujuan dari penelitian ini adalah untuk mengetahui strategi harga yang digunakan oleh hotel-hotel di Manado dan faktor-faktor yang mempengaruhi keputusan penetapan harga. Penelitian ini menggunakan pendekatan kualitatif dan data dikumpulkan melalui wawancara mendalam dengan tujuh informan, dalam hal ini manajer penjualan dan pemasaran hotel. Hasilnya menunjukkan bahwa masing-masing hotel menggunakan dua strategi penetapan harga tetapi ada tiga hotel yang menggunakan strategi yang sama dan yang lainnya menggunakan strategi penetapan harga yang berbeda. Penelitian ini menemukan strategi penetapan harga yang digunakan oleh hotel-hotel di Manado adalah strategi musim Hi-Lo, penetapan harga berdasarkan permintaan, penetapan harga berbasis persaingan, penetapan harga berdasarkan biaya, harga per segmen, dan kesediaan pelanggan untuk membayar. Penelitian ini merekomendasikan hotel untuk terus memperbarui strategi mereka karena sebagian besar hotel dalam menentukan harga tergantung pada permintaan pasar dan musiman. Dalam hal ini, hotel harus lebih mempromosikan hotel mereka terutama saat lagi sepi. Sebagai tambahan, pemerintah juga harus mengembangkan pariwisata di Manado sehingga banyak wisatawan datang yang berakibat meningkatnya permintaan kamar hotel.

Kata Kunci: *strategi penetapan harga, faktor penentu harga, hotel berbintang di manado, studi kualitatif.*

INTRODUCTION

Research Background

Tourism in Manado City has been known throughout Indonesia and even overseas, which is respond the foreign tourists to come in Manado City which in recent years has been dominated by tourists from China. This is because there are direct flights from China to Manado so that in the last four years the level of tourist arrival increased. Starting from 2014 there were 34,443 tourists and 2017 there were 92,729 foreign tourists. Followed by the number of domestic tourists that continuously increased from year to year like in 2014, the number of domestic tourists were 832,015. So in 2017 it increased up to 1,647,000. (Badan Pusat Statistik, 2018).The increasing number of tourists, both domestic and foreign which creates a demand for goods and services, especially demand for accommodation like hotels. The existence of a hotel can be seen from the level of high or low occupancy rates of the hotel rooms and the occupancy rate is influenced by many factors and one of them is price. Price is one element of marketing mix that affects the consumer's decision to buy a product or a service (Kotler and Armstrong, 2012).

Pricing is not an easy thing especially pricing a service it is different compare to pricing a product. Pricing strategy in hotel industry if comparing with other industry or other businesses like boarding house, the owner just like "sell and get profit" it just depends on them without think that they have to pay for the worker and count the operational cost every time. But different thing with hotel, the factors on hotels are much more complex. In hotel industry, pricing a hotel room is a challenging problem because, besides setting different prices for various categories of rooms such as standard rooms, deluxe rooms, superior rooms, etc. The hotel management also must take a look at the customer categories whether they are tourist or business groups or governments who want to do a meeting, and so on. The hotel manager must continuously update the prices (Cho, *et al*, 2018). Furthermore, the hotel must set the right price at the right customer and at the right time. That's why each hotel must have their own pricing strategy which strategy that is suitable for their hotel, what pricing strategy they are going to use in order to maximize their RevPAR (Revenue per Available Room). In this research specifically identified the pricing strategy that is utilized by star hotels especially in Manado.

Research Objective

The objective of this research is to find out the pricing strategy that is used by the star hotels in Manado and to find out the main factors affecting the implementation of pricing strategy.

THEORETICAL FRAMEWORK

Marketing

Marketing is about to satisfy customer's needs and wants. Therefore Marketing as the process by which companies create value for customers and build strong customer relationship in order to capture value from customers in return (Kotler and Armstrong, 2012). According to McDaniel and Gates (2011) Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. American Marketing Association (2013) defined, Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Service Marketing

Kotler and Armstrong (2012) stated that Service is a form of product that consists of activities, benefits, or satisfactions offered for sale that is essentially intangible and does not result in ownership of anything. For example like hotel, banking, airline travel, retail, spa, courses and many more.

Marketing Strategy

Marketing strategy is a whole business game plan to reach people and turn them into customers of products or services provided by businesses (Chen, 2018). Boone and Kurtz in Dudovskiy (2013) explained that Marketing as a set of instructions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (Dudovskiy, 2013). According to

Kotler and Armstrong (2012) Marketing strategy is the marketing logic by which the company hopes to create customer value and achieve profitable customer relationship.

Marketing Mix

1. Product is an item that is produced in order to meet the needs of a certain group of people. Products can be intangible or tangible because they can be in the form of services or goods.
2. Price is the amount when the customers pay to enjoy it. Price is a very important component of marketing plan because it determines the company's profit and survival. Adjusting product prices has a large impact on all marketing strategies and greatly influences product sales and demand.
3. Place is about what channel you want to distribute the product and how the product will be made available to the consumer. Placement mostly involves distribution among other aspects. The appropriate placement strategy must assess the best and most suitable distribution channel for the product.
4. Promotion is a marketing strategy used to advertise the product or service to the target customer. Promotion includes activities such as special offers, advertisements, public relations, and also sales promotions. Every promotional channel used must always be suitable for products, consumers and prices (Acutt, 2015).

Pricing

Pricing is the art and science of setting a price in order to maximize the profits of a firm (Spacey, 2015). Pricing is one of the components of 4Ps that consist of Product, Price, Place, and Promotion. Different pricing methods place various level of emphasis on selection, estimation, and evaluation of costs, comparative analysis, and market situation. When doing a business, pricing is one of the most important things because pricing makes revenue and also affecting the consumers' decision whether to buy the product or not. According to Zeithaml, Gremler and Bitner (2003), there are three pricing methods:

1. Cost-based pricing
In this method, pricing is based on counting all of the cost that consist of variable cost, fixed cost and semi-variable cost, and plus a certain amount (markup) in order to cover direct cost, overhead, and profit or loss.
2. Competition-based pricing
This method is focusing on the price implemented by other companies. There are three approaches when a company wants to follow the others. First, setting a lower price than the other company in order to attract more customers. Second, set the same price with the competitor and the last is, setting higher price rather than competitor with the assumption that the products or services they offer have better quality.
3. Demand-based pricing
A method that emphasizes various factors that influence customer tastes and preferences based on the ability and willingness to buy, the benefits provided by the product and general consumer behavior.

Previous Research

Avlonitis and Indounas (2006) investigated the pricing method in service companies. In this research, the data were collected by interview in 170 companies in six different service sectors. The research found that two most popular pricing methods are the traditional "cost-plus" method and "pricing according to the market's average prices", while all the other methods (including customer-based methods) are adopted by a small number of companies in the sample. Similarly, "service cost" along with "competitors' prices" were found to be the two most important characteristics that are taken into consideration when setting prices.

Collins and Parsa (2006) analyzed about pricing strategies in lodging industry found that Price-ending strategies may be utilized by hotels to signal value or quality. The current study presents that there is a directional relationship between room rates and price-ending strategies. It demonstrates that as average room rates decrease, the price-ending strategies change from whole dollar practice to dollar and cents practice.

Cant, Wiid, and Sephapo (2016) investigated the factors influence for SMEs. The study found that SME's generally agree that price setting is influenced by competitor information and macro environmental factors such as fuel prices and inflation. There was a general agreement amongst the SME's that consumers relationships and the benefits that they, the consumers enjoy form the product as well as product performance are important aspects to consider when determining prices.

Conceptual Framework

Conceptual framework describes about the relationship between the variables in this research that consist of pricing strategy and star hotels in Manado.

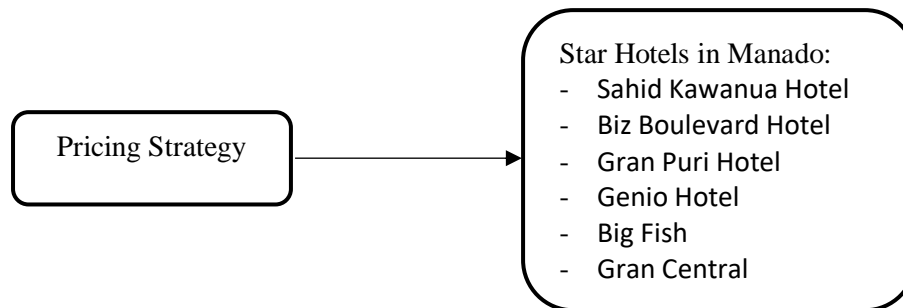


Figure 1. Conceptual Framework

Source: *Data Analysis Method, 2019*

RESULT AND DISCUSSION

Result

Informant 1

According to informant 1, the hotel use competition based pricing and hi-low season pricing strategy as the basic to determine the price of the hotel's rooms, the hotel also take notice on the competitors' prices as one of the main factor for the pricing strategy. The hotel has several types of rooms such as superior, deluxe, executive suite with variety of prices as well. The prices can change considering the competitors tendency, the hotel tend to follow the competitor's rate of prices. On high season because there are lots of customers coming from other country, the room rates increase according to the number of customers that also gaining in number. During the low season the hotel offer the chance to the customers for bargaining the price of the room, the hotel already have a standard for the prices in which it cannot be surpassed any lower by the customer's during the bargaining process. Mostly, the low season usually happen during the first 3 months of the year. There are also the external and internal factors affecting the pricing decision like when materials increase in prices then the hotel tends to increase the room rate. Several materials within the hotel include the cost of sandals, laundry and other internal materials within the hotel. When the cost is up to 30%, the hotel will formulate a strategy so the rate of profit will stay around 70%.

Informant 2

Based on the interview result, the pricing strategy that is used by this hotel is the high-low season pricing strategy where the price is mostly influenced by the market demand. The hotel changes the room rate during the high season and put it higher than the corporate rate or even the published rate. Usually the high season period is starting from 6th month until the end of the year. During the low season the hotel will put the prices lower than the corporate rate and tend to give some promotions. Furthermore, during the low season the hotel will try to increase sales by having a sales call strategy which is they go to the some companies or some institutions directly in order to get more customers and several employees from the hotel will try to attract customers by giving promotion straight to potentials customers. The hotel choose the Hi-Low Season strategy because the hotel is a Business Hotel concept and the hotel tend to follow the market condition because mostly the hotel have guests for doing business meetings on several times, most of the business meetings are mostly come from the governments and other entities as the other. The external factor influencing the room rate is competitor's price. Informant 2 said "the competitor's price is really affecting the pricing decision". So, in this case the hotel tend to follow the competitors prices and do not set the price below the competitor's price with daily monitoring and also information from other hotel's sales.

Informant 3

In this hotel, the pricing strategy used are demand-based pricing and cost-based pricing as the main factors of their pricing strategy. So, in order to set their price, it is depending on the occupancy rate at the moment. When the occupancy rate increases, then the hotel tends to increase the price too. Conversely, when the occupancy rate getting low the hotel can decrease the price too. Fluctuation rate can happen in weekly basis, on OTA the prices can change in daily basis. The market demand, competitor's prices and occupancy also have a big role. If the occupancy rate reaches 80%, usually the hotel will increase the room rates. About the cost pricing strategy which is the price is setting by calculate all the cost like in this hotel the operational cost is calculated and divided it per room. Then from the cost, the hotel sell it 20-30%. In addition, the hotel also has its own lower limit price that is determined through the meeting of all departments. As for the external factor that affect the room rate, that is competitor's price. The hotel influenced by the competitor's prices and on several cases the prices can be lower than the competitors. But for them, the competitors' prices do not have a big impact toward the hotel and there is a daily monitoring done by the hotel to gain information from other manager from other hotels, sharing occupancy is one of the example that the hotel do. In addition, the hotel's management have the final decision to not increase the room rate extremely even with the high occupancy rate, except in some cases they also increase the price but it still in normal price. From the internal factor, it depend on the meeting of budgeting and forecast for the next few months; the change usually happen to the corporate rate and the lowest standard room as well.

Informant 4

This hotel used price per segment strategy in which the hotel offer the same product or service at different prices to different types of customers. The informant said, "...to set the room rate, first, based on the segmentation". Each segment has their own prices so, the hotel have to determine different prices for each customer segment. First is OTA, the hotel make a contract with them like traveloka, pegipegi, etc, and give special price for them and the price is lower than the normal price. The second one is FIT and Walk In, for this segment, the guest come without any booking first. So, the guest make a reservation directly at the hotel and give them the published rate which is more expensive rather than in online price. For corporate and government, they give the same rate for both of them and give special rate too. The other is Travel Agent which is the price lower than corporate rate. So, based on the segmentation the hotel changes the rate in order to get more revenue. When the high season comes up, the hotel can increase the rate too. The other factor affecting the room rates is competitor's price. As the informant said that the competitor's price is very influential in determining the price of the room. Other hotel can take the competitor's price if from the hotel seeing that the competitors have many guests, so they decrease the price lower than their competitors with the aim of attracting more customers and the hotel also often monitor competitors' price, even every day monitor through online prices and also from various advertisements. In addition, this hotel set their price lower than their competitor.

Informant 5

According to the informant, the hotel utilize demand-based pricing strategy which is the pricing is influenced by the demand for the hotel rooms and mostly based on the occupancy rate.so, the rate is adjusted to the occupancy rate. For example, in the morning weekend, first, they see the occupancy rate and then give promotion with the lowest price because for the type of business hotel, Sunday Monday is rather quiet or only a few guest arrived. So, it is uncertain if all the rooms rate are just the same at the same day which mostly it is different. Usually when the occupancy rate more than 50% the hotel will increase the price. Apart from the factor above, there are two types of customers whose prices are based on contracts, they are corporate and the government. Both types, the price was given based on a contract that has been made before. Even though the hotel is in a crowded state, but for corporate and government must be given a special price. But the reservation must be one day before check-in date. The other factor affecting the rate is competitor's price. This has a strong effect to the hotel and they are very often in monitoring the competitor's.

Informant 6

The hotel used customer based strategy, the main determinants mostly come from the income of the customers and also factor such as the price of raw materials because the hotel rely on heavily on the food and beverage sector, the increase prices of raw materials have significant impact effect toward the hotel's pricing strategy. According to the informant, it is affected by the Provincial Minimum Wage. If the UMP rises, it will have an impact on the increase in the price of goods and especially for food prices. Especially for this hotel, the

effect is more on food and beverage and also the price of the blanket. In addition, the room rates every year is always up by around 4%. Last year, the room rate was Rp 625,000 and this year around Rp 650,000. So every year it rises around 4%. From the internal factor that determines the room rate is based on how much the budget that has become a ceiling. Informant said "how much is their funds, there are those who go up and down. This hotel is flexible enough to adjust the budget of an agency". Another external factor affecting the pricing decision is competitor's price. They check the price of their competitor whether the price goes up or down from the previous year. For this hotel, they tend to maintain the price or raise the rate. In the situation of last minutes sales of available room usually the price of this hotel is flexible but sometimes they tend to raise the price because it is very profitable.

Discussions

Pricing Strategy

The result above shows that, all of these hotels utilize different pricing strategy but also there are hotels use similar pricing strategy. In average, each hotel using two pricing strategies. In result, two informants indicated that the most preferable pricing strategy is Hi-low season strategy which is influenced by the external factor. During the high season, these hotels will increase their price because there are so many guests at that time whether it is domestic tourist or foreign tourist. Especially when there is a big event in Manado like recently Bunaken Festival, mostly the hotels are fully booked and the occupancy rate can reach until 100%. During the low season, the occupancy rate getting lower then they will decrease the price too. But, in order to increase the sales, each hotel do a sales call in which they go to several companies, institutions, and anywhere as long as they can find customers to stay at their hotel. In addition, they will give some promotions too. In other words, this strategy is like following the market condition at the moment. This is accordance with Henricks' finding stated that One of the most common and effective solutions is to offer seasonal prices. That means charging different prices for products and services depending on whether it's the high season or the low season. The idea is to smooth demand by attracting customers at low prices during slow periods, while maximizing revenue at higher prices when demand is strong (Henricks, 2016). Three informants are found make use of demand-based pricing strategy which is depends on the occupancy rate. In this strategy, when demand is high, prices usually increase. When the demand is low, prices usually decrease and it happened in these three hotels. According to Elmaleh-Riel, it is a strategy that takes into account known periods of high demand and establishes prices accordingly to maximize sales over a given period (Elmaleh-Riel, 2017).

Cost-based pricing is utilized by two hotels. According to the informant 3, before they set the room rate they calculate all the cost like operational cost and divided it into cost per room. After that they determined the price. furthermore, informant 6 said that first of all they make budgeting and seeing if the raw materials like sandal and blanket increase, then they have to increase the price around 4% from the previous year. Furthermore, one informant said that the hotel make use of customer based strategy because the factor affecting them to set the price is based on the Provincial minimum wage, the informant said that if the UMP raise from the previous year then the price of the goods or raw material will increase too. So, based on that, the hotel will increase their room rate. There is also one pricing strategy that is utilized by a hotel, that is competition-based pricing. According to one informant that competitor's price is very influencing them in determining the price. If in average the competitor decrease their price, then the hotel tend to decrease their price too. This is accordance with the previous journal by Avlonitis and Indounas, the research said that in competition-based pricing, there are four ways; first the company set the price above the competitor, the second the company set the price similar with their competitor, and the third one is the company set their price lower than their competitor, and the last is Pricing according to the dominant price in the market (Avlonitis and Indounas, 2006). One informant said that, the hotel use price per segment strategy which is each segment has its own price or different prices for each segment. But, for the corporate and government usually will get special rate because there is already agreement with them. One of the most commonly used pricing strategies for those in the hotel industry is price per segment, and this is where you offer the same product at different prices to different types of customers. While "open market" prices should be subject to a rate parity strategy, prices for corporate segments could be lower, especially if they commit to a certain number of rooms, or a certain number of meals. Another option would be to sell multiple rooms to travel agents for a lower rate, so the travel agent can include the rooms in packages.

Weekdays and Weekends

On weekdays, these hotels have a similarity which is the demand on weekdays is higher rather than on weekends. That's why the hotels set the price higher compare to weekends. On weekends, these hotels decrease the price because they are type of hotel business which mostly the guest stay on weekdays. That's why they give some promotions in order to attract more customers. This findings are opposite with a journal by Abratea, Fraquellia, and Viglia (2012) which is investigated pricing strategy in European Hotels. They found that on weekdays which is mostly are business people, the hotels seem to give the lowest price in that period. Instead, on weekends when the leisure customer are predominant, prices tend to increase. This is different because of the differences of culture and this observation is accordance with the opinion by Harkonen in Hyrkas (2011), said that prices vary geographically and on hotel level. Peak times which mostly the guest is dominated by business group are from Tuesday to Wednesday which made the night of the hotel more expensive than on weekends. In which this happened in Manado where the price on weekdays is higher compare to weekends.

Special Event and Holiday

When there is a big event in a city, there will be so many guest come out and all the hotels will be fully booked. Just like in Manado, when there is a big event, these hotels will raise the price because it is an opportunity for them to get more revenue and all the hotels will do the same thing. But, in this case there are two types of events, the first one is event from the government like Manado City birthday and there are many guests to come. For the other Hotels, with the condition like that, the hotel cannot raise the price because there has been an agreement with the government and they were asking the hotel to give these guests a special price. The second one is just like an international event or the event held not from the government. Like in this September, there is a medical event such as Indonesian's Doctor Assembly which is based in Manado City, where there are around 2000 participants. With that much amount, then of course there will be full reservation of hotel rooms. In some hotels, there are already earlier reservation for that event on that date. In addition, for the event like this all hotels will increase their price. So, there are two conditions; first is an event from government which is the hotel cannot raise the price and the second one an international event where the hotels can increase the price. This is supported by what Forgacs (2010) said that, in special event period, hotel tend to charge higher price while in the off-season, hotel may charge only the operating cost of the establishment. According to Herrmann in El-Nemr, Depitre, and Taghipor (2017), special events, festivals, and concerts allow optimal pricing of room rates.

Type of Customers

These three hotels have implemented different prices for each type of customers. Except, corporate and government which have the same prices because there is already an agreement between hotel and corporate and government. So, the hotel give special price for them like give 20%-30% discount. Conversely with Online Travel Agent (OTA), if people make a reservation through OTA, they will get lower price because mostly the hotel give OTA a commission around 15% because the OTA must give such number of guest to the hotel, they have their own target with their own price. Furthermore, for the walk-in guest, they will get the published rate which is higher than normal price. In average, each hotel has three until ten type of customers. Moreover, Goldman et al., in Schütze (2008) said that, the hotel offer the same room to different type of customer with different prices. Biz Boulevard Hotel is one of hotels that always change their price for several times within a day. The result has a correlation with an investigation by Abratea *et al.*, (2012) that found more than 90% of room rate changed many times, and the changes are depending on the customer's type which mostly business guest and leisure traveller and also depending on the star rating. So, it means that the hotel must set vary prices for various categories of customers.

Supply and Demand

In this context, supply means the availability of rooms and demand related with the number of reservation from the customer which means the demand of rooms from the customers. From the interview result, usually, in the last minutes sales of available room such as only two or three rooms remain, the hotel make use of this situation by raising the price if there is still demand in such condition, but if there is no demand anymore, the hotel will maintain the existence prices or reduce the price by giving some promotions so that these empty rooms can be filled. It means that the remaining number of rooms affects the room rate. As well as demand, where both affect each other. In addition, Hyrkas (2011) found that in order to optimize the room rate and maximize the revenue,

mostly it depends on the demand. Furthermore, Pellinen (2003) said that demand that varies within a year, monthly, or weekly causes the accommodation price is different on different days during the week.

Competitor's price

Competitor's price has a big impact to determine prices because from the result above, all the respondents said that competitor's price greatly influence the room rates. Because of that, they monitor the competitor's price everyday whether via online or get information from their own informant. For some hotels, they tend to set their price lower than their competitor, the reason is because they want to get more customers. But for other hotels, they tend to set higher price than their competitors or maintain their current price. This hotel wants to see whether their competitor's price increase from the previous year. This finding also concur with Abratea, Fraquelli, and Viglia (2012), which stated, the hotel manager always monitor the local market by looking at competitor's availability and adjusting the price accordingly. Another study by Falalieiev (2014) said that most of the firms determined their prices based on cost, competitor, and customer demand. The same thing is proven by Avlonitis and Indounas (2006) which stated that competitor's price as the main factor affecting pricing decision.

CONCLUSION AND RECOMMENDATION

Conclusion

Based on the analysis, it can be conclude that each hotel have their own pricing strategy and they use two pricing strategies which mostly different with other hotels. But for the hotel industry, mostly the hotels tend to follow the market condition, such as during high season then the hotels will increase their price. But during low season the hotels tend to decrease the price. The occupancy rate as well becomes the hotels reference to change the price whether it is within a day or change it daily or weekly. In hotel business, usually in determine the price is influenced by external factors such as seasonality, market demand, and competitor. From these five hotels, competitor's price is greatly influence the hotel to determine the price, even the hotels always monitor their competitor's price every day. To one hotel, competitor's price is not really influence their pricing decision.

Recommendation

The competition in Hospitality industry in Manado is dominated by business hotels even though tourism in North Sulawesi is big. Therefore, the government must play an active role in developing the existing tourism sector, economic development, improving services. If the tourism sector in North Sulawesi develops, especially those in Manado, it will have an impact on the increasing demand for hotel rooms. If so, then the most demand is not only during weekdays, but later there will be a lot of demand on weekends. So that these hotels can be more actively in adjusting their prices on demand because, on average, hotels today tend to set higher prices during weekdays than on weekends. Even though maybe both are balanced, then the price will be more flexible and thus can increase their income.

For future research that would investigate about pricing strategy, the researcher recommends to take more sample because in this research there are only six hotels as the sample. So that, other researcher can find more about the pricing strategies used by hotels. In addition, the other research can analyze the pricing strategy for higher star rate of hotels because in this research is dominated by 3-star hotels and only one 4-star hotel.

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