

Enhancing the Pricing Expertise of an Online Distribution Channel

Authors : Luis N. Pereira, Marco P. Carrasco

Abstract : Dynamic pricing is a revenue management strategy in which hotel suppliers define, over time, flexible and different prices for their services for different potential customers, considering the profile of e-consumers and the demand and market supply. This means that the fundamentals of dynamic pricing are based on economic theory (price elasticity of demand) and market segmentation. This study aims to define a dynamic pricing strategy and a contextualized offer to the e-consumers profile in order to improve the number of reservations of an online distribution channel. Segmentation methods (hierarchical and non-hierarchical) were used to identify and validate an optimal number of market segments. A profile of the market segments was studied, considering the characteristics of the e-consumers and the probability of reservation a room. In addition, the price elasticity of demand was estimated for each segment using econometric models. Finally, predictive models were used to define rules for classifying new e-consumers into pre-defined segments. The empirical study illustrates how it is possible to improve the intelligence of an online distribution channel system through an optimal dynamic pricing strategy and a contextualized offer to the profile of each new e-consumer. A database of 11 million e-consumers of an online distribution channel was used in this study. The results suggest that an appropriate policy of market segmentation in using of online reservation systems is benefit for the service suppliers because it brings high probability of reservation and generates more profit than fixed pricing.

Keywords : dynamic pricing, e-consumers segmentation, online reservation systems, predictive analytics

Conference Title : ICHMHI 2018 : International Conference on Hospitality Management and Hotel Industry

Conference Location : Prague, Czechia

Conference Dates : September 03-04, 2018