



Why Price Elasticity Is Important for Revenue Management Systems in Hotels

Student name: Sumit kumar

Student ID number: sumit
kumar 240346

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Price elasticity of demand refers to the degree to which customers change their purchasing behavior in response to price changes. In hotel revenue management systems (RMS), price elasticity is a crucial concept because hotels sell a fixed and perishable product—once a night passes, an unsold room cannot generate revenue. Understanding elasticity allows hotels to make informed pricing decisions that maximize total revenue rather than focusing only on room occupancy.

One key reason price elasticity is important is its role in demand forecasting. Revenue management systems rely on elasticity estimates to predict how changes in room rates will affect booking volumes. For example, leisure travelers booking resort hotels during off-peak seasons tend to be highly price elastic. A small reduction in room rates can lead to a proportionally larger increase in bookings. RMS uses this insight to recommend discounts or bundled offers to stimulate demand and increase overall revenue.

In contrast, price elasticity helps identify situations where demand is inelastic, meaning customers are less sensitive to price changes. Business travelers staying in city-center hotels during weekdays often show inelastic demand because travel is driven by work obligations rather than price considerations. In such cases, revenue management systems may increase room rates during high-demand periods—such as trade fairs or conferences—without significantly reducing occupancy. This allows hotels to raise their Average Daily Rate (ADR) and total revenue.

Price elasticity is also central to dynamic pricing and segmentation strategies. Different customer segments respond differently to price changes based on booking timing and purpose of travel. For instance, early bookers are generally more price sensitive, while last-minute bookers tend to be less elastic due to limited alternatives. RMS incorporates elasticity data to offer lower prices far in advance and higher prices closer to the stay date, capturing maximum willingness to pay across segments.

Additionally, elasticity supports inventory control and overbooking decisions. Accurate elasticity estimates ensure that prices are neither too high (leading to unsold rooms) nor too low (leading to missed revenue opportunities). By understanding how demand shifts with price changes, RMS can balance occupancy levels with profitability, reducing revenue leakage.

In summary, price elasticity is vital for hotel revenue management systems because it underpins pricing optimization, demand forecasting, customer segmentation, and dynamic pricing decisions. By accurately measuring how different customers respond to price changes, hotels can sell the right room, to the right customer, at the right price, and at the right time—maximizing revenue from a limited and perishable inventory.