

EUROPEAN INSTITUTE OF INNOVATION, ENTREPRENEURSHIP AND TECHNOLOGY

MODULE

Operations Management in Hospitality

Factors Influencing Pricing Decisions in Hotels

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Roll Number:	206
Matric Number:	DE240206
Date:	21 January 2026
Word Count:	500

1. Factors Influencing Pricing Decisions in Hotels

Hotel room pricing is rarely set by a single rule; it responds to a wide set of product, demand, distribution, organisational, and external factors that interact with one another (Abdou, 2025).

Product- and market-related factors. A hotel's category or classification, the quality and value it delivers, its brand image and reputation, the additional services included, and its location all shape what price the market will accept (Abdou, 2025). Empirical evidence supports this: augmented room view and facilities have been shown to hold a significant relationship with the differential pricing hoteliers apply across otherwise similar rooms, since guests are willing to pay more for a superior view or added amenities (Awara, Anyadighibe, & Ekoh, 2017).

Demand- and competition-related factors. Competitor pricing, sales volume, the current level of demand, and how sensitive that demand is to price changes all push room rates up or down (Abdou, 2025). Demand-side pricing sensitivity is amplified online: research on hotel booking behaviour shows that price acts as a moderating factor alongside consumer ratings and brand image, meaning hotels must set prices with an awareness of how they will be perceived relative to reviews and competitor offers on the same booking platform (Koshy & Bhatta, 2024).

Distribution and affiliation factors. Whether a hotel is affiliated with a chain and the bargaining power held by distributors, such as online travel agencies, also influence achievable rates, since different channels carry different commission structures and different customer expectations around price (Abdou, 2025).

Internal strategic and organisational factors. A hotel's marketing strategy, goals, and organisational structure shape pricing internally (Abdou, 2025). Research into Irish hotels confirms that room pricing functions as a social and organisational practice embedded in each hotel's specific context rather than a purely economic calculation, with rates settling along a continuum between a floor price and the ceiling rack rate depending on internal decision-making dynamics and external institutional pressures (Mattimoe, 2007).

Macro-environmental and cost factors. Taxation, government regulations such as price ceilings or floors, and underlying costs set the outer boundaries within which hotels can price (Abdou, 2025). Seasonality also falls within this category of external pressure: the timing of local events

has been found to have a significant relationship with differential pricing, prompting hoteliers to adjust rates around predictable seasonal peaks (Awara et al., 2017).

Taken together, hotel pricing decisions emerge from the interaction of what the hotel offers, what competitors and demand allow, how the room is distributed, how the organisation is structured, and the external constraints it operates under, which is why no single pricing rule applies uniformly across the industry.

References

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