

Price, Price Discrimination, Dynamic Pricing and Revenue Management

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June 03 Agenda

1. Information Economics
 - Consumer Behavior & Info. Econ. of Attention
 - Asymmetric Info & Market Failures
2. Different Types of Goods fm Economic views
 - Search Goods - Credence Goods
 - Experience Goods - Post Experience Goods
3. Implications & Discussion
 - Current Events : SARS, War, Econ. Down...
 - Key success for IO Hotel
 - Virtual Clustering and Win-Win Situation
4. Conclusion

Caveat Vendor

Let's the Seller Beware !



Consumer Behavior

When consumers buy any products [hotel room], they make choices by comparing price and quality among alternatives [Hilton, The Royal Paradise Hotel, independently owned and operated (IO) hotels...]

His or her choice is greatly influenced by

1. the availability of information channels and
2. the related uncertainties of information concerning different quality characteristic.

Information Economics 123

- On **supply side**, there exists production and transaction cost of information.
 - Cost in gathering data and turn into info
 - Cost in managing info into useful knowledge
 - Cost of disseminating info to the right persons
- On **demand side**, there exists a tradeoff between cost and benefit in searching for useful, timely and unbiased information.
 - Time value for money for each person is vastly different among us in different context.

Info Econ. of Attention 123

'A wealth of info create poverty of attention'

- Limitation of Human Comprehension
- Information consumes attention

Relevancy and relationship of info are vital.

- Search engine is very important.
- Internet is combination of broadcasting and point to point communication.
- Excessive marketing campaign can be detrimental to the firm.

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Consumer Resource

For Consumer,

VALUE = BENEFITS - COSTS

Cost = a consumer's resource for exchange

- Money,
- Time,
- Energy and
- **Psychic costs**

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Asymmetric Information & Market Failures

- Each and every person or buyer across society has varying amount of information on any goods.
- Buyers and sellers in a market transaction have different amounts of information
 - about the quality/attributes of the goods being traded,
 - how the goods is distributed and
 - often buyer values the goods subjected to seller's info.
- Information asymmetry is one of the primary reasons why any 'free exchange' market can fail.

Example : Lemon Market, Hotel or goods price for local and foreign tourist,

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4 Types of Goods, Pre- & Post-Cost of Quality Detection

Post-Cost of Quality Detection, Period	High, Long time	Post Experience Goods Ex : Health Travel, Vaccine..	Credence Goods Ex : Surgical Tour, Doctor..
	Low, Short time	Search Goods Ex : Room, Cola...	Experience Goods Ex : Rayawadee, Disney..

Ex ante **Low** Pre- Cost Ex post **High** Pre-Cost

Before Purchase or Pre-Cost of Quality Detection

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Search Product Implications : Product Differentiated Dimension

- 1. Core Offering :**
 - Features, service, performance, price, variety, flexibility, reliability, design...
- 2. The 'Intangible' Offering :**
 - Symbols, media, atmosphere, events...
- 3. The Augmented Offering :**
 - Delivery, customer preference fulfillment, personal attention, on demand service, warranties, loyalty programs...


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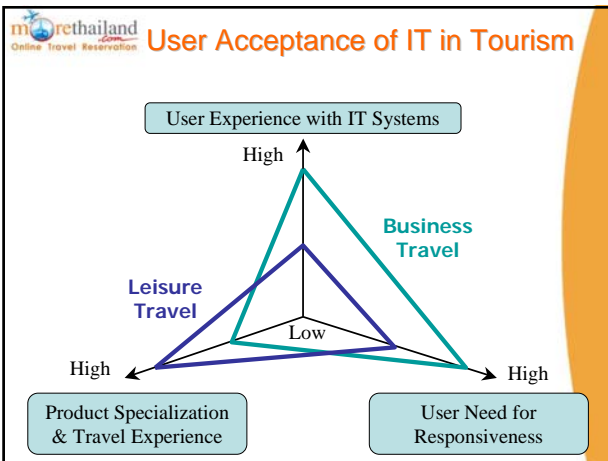
Dynamic Value-based Pricing

- 1. Price Discrimination for RM** - Pricing based on value placed by customer
 - **Instant room availability confirmation**
 - Senior or Business Traveler
- 2. Niche Market** - Design menu of different versions
 - Target different market segments
Ex : Long Stay, Last Minute check-in, etc.
 - Price accordingly (by induced self selection)
- 3. Bundle or Versioning Product** : emphasis on customer differences
 - Flight and Hotel – F, C, Y class
 - Hotel with Spa, Cooking Class, Diving, Golf...
 - Upgrade room for weekday / weekend stay

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Instant or Delay Booking - Anyone Room Availability Feature





Experience Goods (2)

2. **Experience Goods** : (Knowledge Acquisition in stage)

- Quality easily observable **after** purchase.
 - > Quality can be revealed **ex post**.
- High post cost of quality detection

* The more expensive the goods is the less search, exactly the opposite of search goods. Why ?

* Interactive with customer – **Keep Talking !!**

* Informative n content based ad. **by seller** required.

* **Secondary market** to evaluate the true value.

* Demand Pull, Product customization for **niche market**.

Ex : Selling 3D/2N Thai Cooking/Meditation class, Burasari -Phuket, Agricultural Tour..., Disney World

Travel as an Experience Goods

In the travel industry, the current trend is

- Experience is the product
- Travel business is in the business of creating experience goods.
- The today trend is toward 'soft' or risk free, adventure and toward privacy.
- The intend is to provide traveler a unique experience to remind him as a important tourist guest.

General Example :

- Eco-tourism : is a travel in disconnected world
- Agro-tourism : is a vacation in working in the farm and feeling in doing good for mankind.

Based on Pine & Gilmore's book "The Experience Economy" 18

BuraSari Hotel, Phuket

Story : Turing NPL property to be a small boutique hotel

Theme : Encompass all of our five exotic senses.

1. U shape low raise building surrounded by swimming pool with man made waterfall & garden.
 2. The room is aroused by 'lemon grass' aroma.
 3. The room is decorated by Sari and simple material.
 4. The choice of colour is vivid orange tone.
 5. Guests can test fine French food with great wine.
- Other : 50+ staff for 90 sleeping rooms in 2 rai plot of land, Patong beach [See more www.BuraSari.com]

Based on Pine & Gilmore's book
"The Experience Economy"

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Jasmina Spa, Amari Phuket

Story : Cliff top Spa with an open air treatment facility.

Theme : Breath taking view for your private moment

1. Climbing up the long stair case for the top
 2. The treatment room, shower, tub with no wall.
 3. The roof with 'no tile' – only 'coconut leaf'
 4. Breath taking view of Patong bay
 5. 'Ja ga jan' noises are everywhere.
 6. Fresh sea breeze and flower are unavoidable.
 6. Only fine oil body and massage in daring open air.
- 'Reduce form' of facility for new experience
 - Relaxing in natural and romantic setting.

Based on Pine & Gilmore's book
"The Experience Economy"

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Sun, Golf, Fun...

Post Experience Goods (3)

3. Post Experience Goods : (Info Realization in stage)

- **Low** cost of uncertain quality test
- **high** cost quality detection **long after** usage.

- * Firms have incentives to ensure quality by 3rd party for endorsement, accredited, certified.
- * Referral and Word of Mouth are important.
- * Advocacy Advertising; Tier Pricing for each segment.
- * Government intervention is needed.

Example : Health Travel, Eco-tourism, DivingEnglish /IT Summer Camp... Dentist, under-consumption for **Vaccines** and over-consumption for **Anti-biotic**

Yoga Oasis in Phuket (3a)

Yoga Oasis in Phuket as Post Experience Goods

- * a retreat center and a spiritual sanctuary for the mind and body in the tropical rainforest on Phuket Island
- * Detoxify your body with meditation, relaxation, hatha yoga, deep breathing and vegetarian food
- * For ongoing individual retreated, a coordination with Phuket holiday, custom tailored to your highlight intimate attention, organic nutritional meals and counseling is available upon your request.

Our facility is :

- * a friendly, safe, affordable, unique retreat beach hotel
- * About an hour from Bangkok, KL, Singapore
- * Favorite among Young Couple Europeans

Yoga Oasis in Samui (3a)

Yoga Oasis in Samui as Post Experience Goods

Daily Schedule

Morning: Meditation & Chi Kung
Morning Yoga Class with Deep Breathing Brunch
Leisure time: hot ponds, beach, spa, massage, or just do nothing.

Late Afternoon: Yoga and Yoga Massage

Dinner

Evening: meditation and lecture, special guest speakers, video, performance or event

Ex : A possible extension of www.TamarindRetreat.com

 **Small Town Thai Spa (3b)**

Krabi Hotel Thai Spa as Post Experience Good

- * The mineral waters have drawn visitors year after year seeking health and tranquility.
- * At the Krabi hotel, mineral water bathing is available year round.
- * The weather is sunny and bright during the day and refreshing cooler at night by sea breeze.
- * The gardens lead you to three sparkling pools.
- * The water is average 27 degree filled with mineral content includes sulfates, nitrates and carbonates

Our facility is :

- * a friendly, safe, affordable, unique retreat beach hotel
- * An hour fly fm BKK ; about 2.0 hours drive from Phuket, Samui
- * Favorite among Local & European Adults


 **Credence Goods (4)**

4. Credence Goods : (Knowledge Satisfaction)

- Quality **not** easily observable before purchase
- **high** cost quality detection **after** usage.

- * Seller's credentials are the fundamental factor.
- * Government intervention, international recognized institutions and consumer report are needed to ensure the quality and service with fair pricing.
- * 'Hidden' characteristics, action and info concerns.

Example : "Elderly friendly hotel" ?, Health Care Center, Retirement home, Nursery care, University Education..., Training..., Surgery Doctor, Cancer Medical Treatment

 **Surgical Tour in Phuket (4a)**

Surgical Tour in Phuket as Credence Goods

Do you need a surgical procedure with minimal stress and affordable to yourself and family ?

The Surgical Tours experience is about having a team who will arrange your...

- Surgical Procedure
- Accommodation
- Pre and Post Tour ...Meditation Class

In other words, a surgery whenever you want it, an you determine the luxury and style you like to add to your stay as well as your recovery (**with confidence**).

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Surgical Tour in Phuket (4a)

Surgical Tour in Phuket as Credence Goods

We offer the following world class procedure, carried out by our highly qualified and experience surgeons :

- Nasal Cosmetic surgery
- Knee Replacements, Ligament Surgery
- Stress incontinence bladder operation
- Hysterectomy
- Hand Surgery
- Eye Surgery
- Or any plastic surgery – Please, contact us.

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Surgical Tour in Phuket (4a)

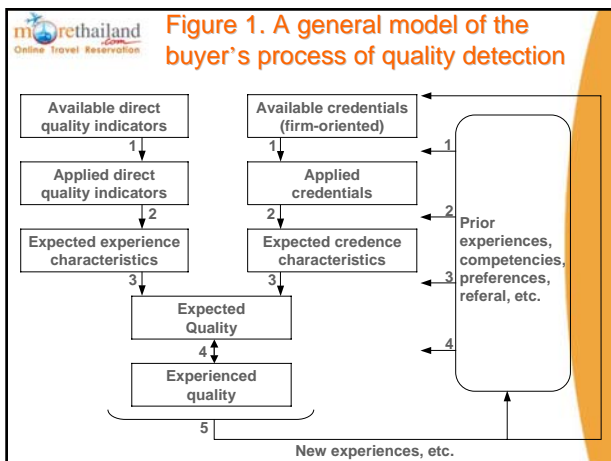
Surgical Tour in Phuket as Credence Goods

Phuket Hospital : High care, high touch, high tech internationally acclaimed and accredited by AAA,

- A member of Woldwide Medical Association
- Staffed by more than 1,200 professionals
- Provided more than 600 adult beds, 20 operating theatres and 56 specialized medical suites....

“Greet Wellness” Center : Pre / Post Operation Center

- Premier recovery and vacation house situated with walking distance from Mediclinic
- Filling with everything you need to minimize your discomfort and make your operation success
- **24 hours maid and nurse along with room service**
- **A Possible extension of www.Kwan-Jai.com , Samui**



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4 Types of Goods, Pre- & Post-Cost of Quality Detection

Post- Cost of Quality Detection, Period	High, Long time	Post Experience Goods Profit from the (uninformed) mass, Need Govt Interventio	Credence Goods 3 rd Party Endorsement, Credibility..High Margin and Loyalty customer
	Low, Short time	Search Goods Shop Around, Low Margin, Low Loyalty customer	Experience Goods Seller's Info Input, High margin, High Loyalty customer

Ex ante **Low** Pre- Cost Ex post **High** Pre-Cost

Before Purchase or Pre-Cost of Quality Detection

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Current Events Discussion

1. **Age of Anxiety** : Geo-Political Concerns, Epidemic Fear, High Volatility Financial Market
2. **Discussion** :
 - 2.1 'Unseen in Thailand' :
Swift from mass to niche ?, New Experience ?
 - 2.2 'Unseen Price in Thailand'/'Consumer Fair'
Perception of Search Good Only – Price War
> Other dimensions not consider :
Terrorist Attract, SARS Fear Factor :
Mental/ Physical Health Benefit :

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Age of Anxiety & Global Trend

The emerging trends are as follows :

1. **Escape Theme to Release Stress** :
 - 1.1 Physically :
 - * To visit and stay at remote, exotic destination
 - * To sweat out their stress via sport activities
 - 1.2 Mentally : Meditation, Spa, Yoga, Volunteer Work
2. **Soft Adventure** : Diving, Treking, eco-tourism ...
"A Peace of Mind & Healthy Body"

 **Age of Anxiety & Global Trend**

The emerging trends are as follows :

3. Educational Tour :

- a) Learning Traveler : Art, Culture, food, primitive living study, rural visit
- b) The Root : going back to our mother land...

4. Time Poverty, Attention Deficit = Weekend Getaway : many activities in many brief visit

“A Peace of Mind & Healthy Body”

 **‘Unseen in Thailand’ : From Mass to Niche (1)**

The current situations are as follows :

- Typical Mass Market : for FAM travel, City hotel – Ex : Bangkok, Chiang Mai
Popular Destination – Ex : Phuket, Pattaya..
- Normal time is boom and bust cycle.
Most of the profit is exploited by foreign owned travel, off and online, operators via allotment, fee..
- Distressed time is very lonely and sorrow.
Locals are left with financial problem with over capacity.
- **Balancing demand and supply is badly needed.**
Any mass ad does exacerbate this problem !

 **‘Unseen in Thailand’ : From Mass to Niche (2)**

The current situations are as follows :

2. Niche Market: ‘New Experience, Not overly exploited’

- Samui – Dream Destination for European
- Koh Chang –the ‘last virgin’ island in Thailand.
- Krabi – Gateway to 60 different Is-lets.

Normal time is good (if not over-sold).
Distressed time is not good, but not empty.

Narrow Product, Low Awareness, Poorly Package
De-centralized marketing campaign and ad

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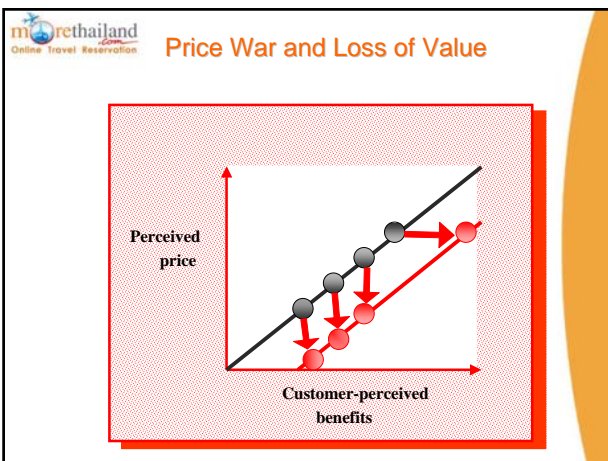
Inherent Industry Risk Levels : Which is your hotel industry ?

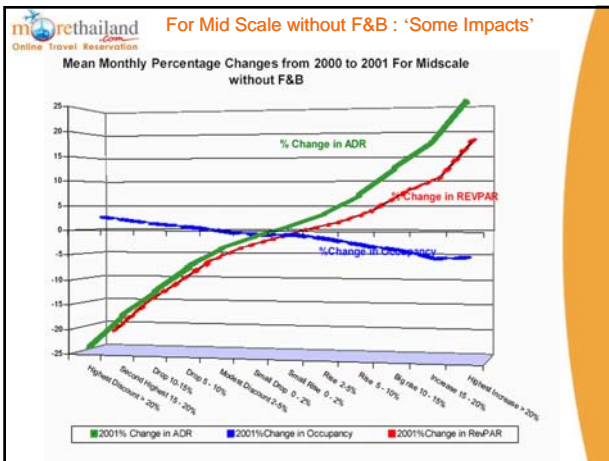
Industry characteristic	Lower Risk	Higher Risk
Product type	Differentiated	Undifferentiated commodity
Industry capacity utilization	high	Low
Market trend	Growing	Stable/declining
Customer concentration	Widely dispersed	highly concentrated (small)
Number of competitions	Few	Many
Price visibility to competition	Low	High
Barriers to swinging supplies	High	Low
Overall customer price sensitivity	Low	High
Cost trend	Stable	Volatile/declining

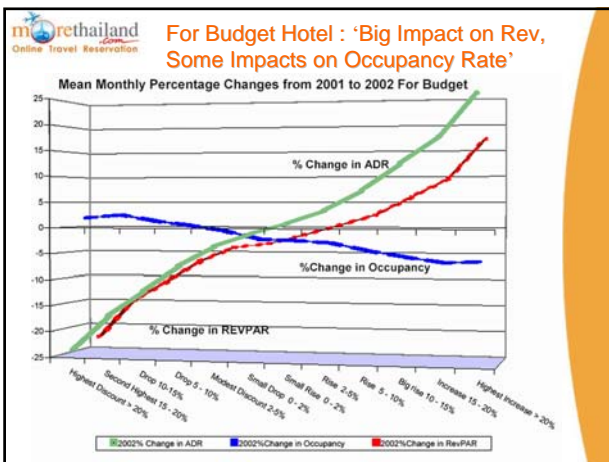
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Table 8.1: Characteristics of Major Infectious Diseases, 1993 Estimates by Death Counts (1)

Disease	Incidence (Millions)	Deaths Millions	Trend	Vector	Symptoms
AIDS	(AIDS)0.6 (HIV)4.0	0.7	Up	Virus, HIV, Sexual Contact	Autoimmune dysfunction progresses from asymptomatic to lethal;
Diarrheal diseases	1,800.0	3.0	down	Bacterium & virus, water & food-borne	Frequent liquid stools, sometimes bloody
Tuberculosis	8.8	2.7	up	Bacterium, airborne	Severe coughing, sometimes with blood, chest pain, exhaustion, weight loss & night sweats
Malaria	400.0	2.0	up	Protozoan, mosquito-borne	Fever, headache, nausea, vomiting, diarrhea, malaise, enlarged spleen, liver, renal, & respiratory failure, shock, pulmonary & cerebral edema







Assessing to the Market and adjust to it

Price too low

- Decreased customer chum
- Increased win-loss ratio
- decreased fixed cost per unit sold.
- higher volume growth than comparable competition.

Corrective mechanism

- Assess competitive value position
- Selectively increase prices (if value confers and advantage)

Optimal prices

- Stable market share
- Lack of quick pricing or volume swings.
- Positive field pricing

Things to watch for

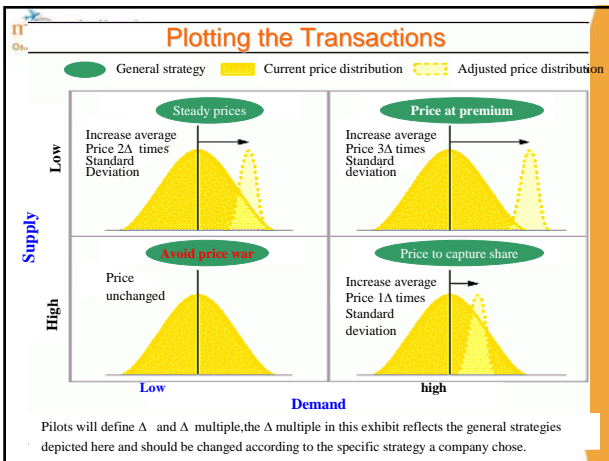
- Unique niche repricing opportunities
- New entrants and offerings.

Prices too high

- Increased customer chum
- decreased win-loss ratio.
- increased fixed cost per unit sold.
- Lower volume growth than comparable competition.

Corrective mechanism

- Selectively reduce prices align them with customer expectations.
- Selectively enhance benefits and provide additional value-added services.




Possible Government Actions

When Market failures, government has good reasons to intervene, perhaps as follows :

1. Command and Control : Sing., China, Thailand.
2. Economic Incentives :
 - 2.1 Hong Kong Style : reducing utility rate, rent,..
 - 2.2 USA Style : Gov't loan guarantee
3. Government Provision of Goods :
 - 3.1 Health Insurance for local and foreigner
 - 3.2 Medical check up before departure/arrival
4. Damage Prevention and Moral Suasion...

Our approach

- **Based on a basic economic principle, trade of any goods always widens opportunities.**
- **As a whole, all parties better off or at least not make them worse off.**

 **Our Possible Actions :
More Choice, More Value**

A friend indeed is a friend in need.

1. Room Swap : Across Destinations
Aonang Sunset Hotel for hotel in Bangkok
Imperial Chaewang Hotel for hotel in Phuket
Imperial Mae Ping Hotel for hotel in Chiang Mai
2. Time Sharing : Across Time
3,000 baht/yr for free golfing : UOBR Visa Golf
30,000 baht/yr for 60 hotel nights :
MoreThailandHotel Card

 **Our Possible Actions :
More Choice, More Value**

A friend indeed is a friend in need.

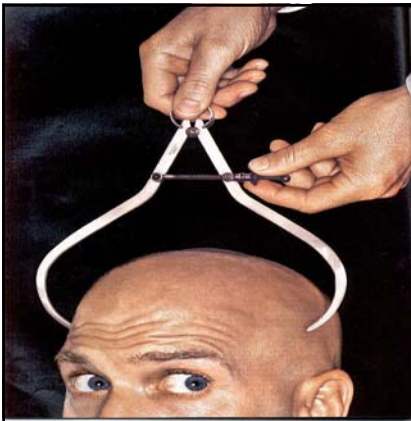
3. Barter Trade : > Bundling
Hotel for Spa, Green fee, Air ticket, ...
Hotel for website design, hosting, IT consulting..
Hotel for Spa product, wine, food
4. Pooling Resources: Innovation & Reducing Risk
Hotel + Spa
Hotel + IT training camp / eBusiness Conf.
Hotel + Health & Fitness seminar

 **Our Possible Actions :
More Choice, More Value**

A friend indeed is a friend in need.

5. Change our promotion mode :
Lessons from Pharmaceutical Company
 - > Drug as experience or post experience goods
 - > Why sell ? Just Give Away free sample
: Cut Ad. Cost to save \$\$ for Give Away !!
- Complementary 1 night free in Krabi, anyone ?
- Complementary cruise night for UNCEP staff

6. "Zero Profit" Margin Campaign



“Free Rider Problem”

- Everyone will try to take advantage of everybody else’s efforts.

Source : Business 2.0_November 2001_p58

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One should help oneself first !

From collective partnership,

- Political and business leaders, with power and interest, would mostly interact with institutionalized setting.
- Building a coalition and striking a bargain.
 - * Lower Cost in utility, renting, financing, Ad...
 - * Preserve Cash Out flow
 - * Internal Training/Ed. for Language, Services
- Embedded ‘social-political’ transaction

This is a path-dependence political economy process. Ex : “qwerty” Economic

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One should help oneself first !

Also, on your own, you need to

- Direct Contracting: Self imposed security check, weekly medical check up on the staff...
- Private Governance & Collaboration...
- Bundling more services to fit the guests of the ‘age of anxiety : Spa, Mediation, Herbal treatment.

In short, innovating your product away from search good to higher value added products [e.g. experience, post exp. And credence goods.]

Questions to consider

- What products/services have engaged you in a memorable way?
- Envision a valuable customer experience in
 - the industry you are studying
 - the industry you work in
- What capabilities are required to create it?

Key Success Factors for IO hotel

1. Concept
 - > Innovation
 - > Imitation and competition
 - > Entrepreneurship
2. Connection
 - > Networks and networking
 - > Connections and Intermediaries
3. Competencies
 - > Specialized labor force
 - > Talent
 - > Industry leaders
 - > Knowledge

Final Analysis for IO Hoteliers (1)

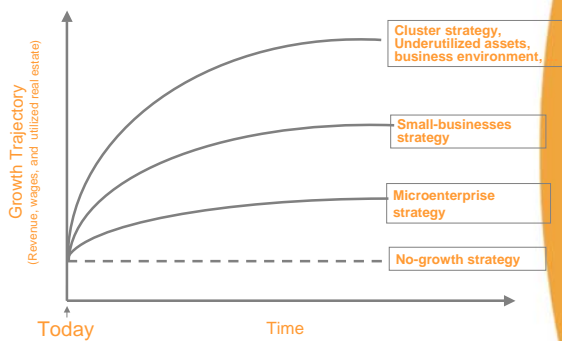
- IO hotel attributes are as follows :
- Family owned with Mon and Pop as founders and the son and daughter as the executives
 - Independent, dynamic with plenty of innovation
 - local based operation with high local knowledge
 - Limited info increases the risk of high concentration of inappropriate market segment.

Final Analysis for IO Hoteliers (2)

The main barriers for growth are

- Lack of the economy of scale – Marketing / sale force, capital, IT expert, etc.
- Limited Capacity and Carrying Capacity
- Costly computerized system and high training cost are not feasible for IO hoteliers to buy.
 - > Only 10 % in Swiss hotelier has customer DB.
 - > How many of you have customer DB ?

Alternative Strategy for SME Hotels



Why virtual Clustering for SME

1. **Critical mass for economy of scale** attracts positive externalities and corporation Ex :
 - 1.1 **Hard Externality** for mutual benefit
 - Specialized labor for productivity
 - More Choice for cost & quality
 - More Value for range of Joint Corporation
 - 1.2 **Soft Externality** from sharing knowledge
 - Association for vision, planning, influence
 - Trust building for networks
 - Learning for Know how, innovation,

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Why Virtual Clustering for IO

2. Benefits from Dynamic of Clustering

Flow of	Lead to
• Information	Greater Knowledge of Market
• Ideas	Diffusion for Improvement, Innovation
• People	Connection, Increased Experience
• Goods	More Value, Value Chain
• Services	More Choice, Expertise
• Capital	to Start up your ideas, to upgrade your existing production

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Why virtual Clustering for IO

3. Connected Community Fundamental

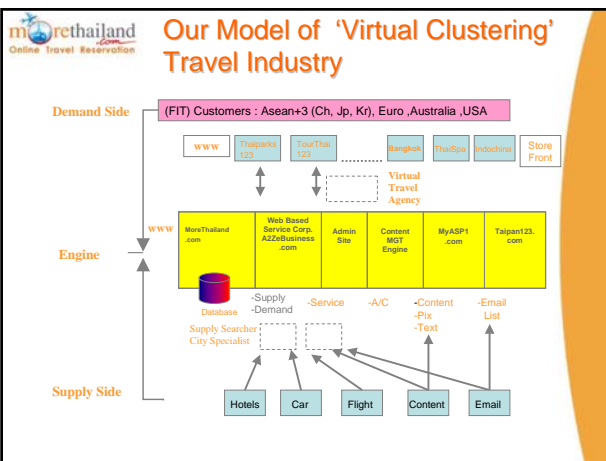
3.1 Community Member with common interests and desire to share Info

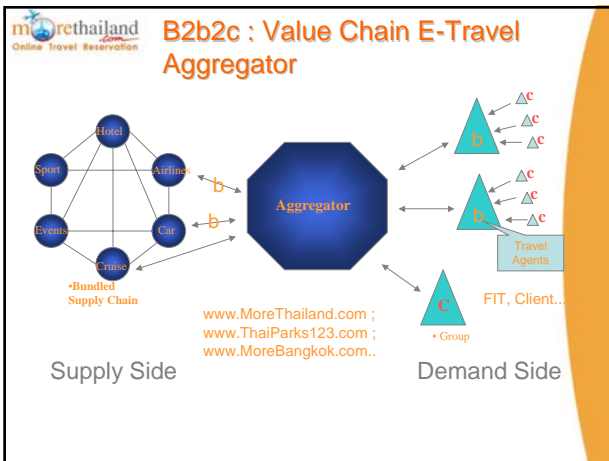
3.2 Community Content

- Business Management Tips – Marketing..
- Directories to Resources and Services : Technology, legal, marketing..
- Business Tool : Download seminar files..

3.3 Information Portal

3.4 Web based service





New IT Economics – Metcalf's Law

- The cost of a network expands linearly with increases in network size
- The value of a network increases exponentially with size
- "Critical mass" becomes critically important
- Big becomes beautiful

Our Win-Win E-Business value proposition (s)

E-Business solution:	Value proposition	Cost
•Web presence	•Infinite reach in cyberspace •Corp. Brochure	Free*
•Online community	•To share yr local knowledge, •true exp.	Free*
• SEO, AdWord Marketing •Branding •eMail market •Target niche Mkt •Bundle service offer	•Disseminated timely & trustworthy content •Cost Eff. Push marketing campaign •Destination marketing	Free*
•Online distribution channel •Sale •Reservation •Payment – Card Trans.	• Dynamic pricing, RM, • Bundling Goods • TIME Dim., Volume , Season • Improve profitability	Revenue Sharing = [0, xx %]
•Customer relation •Virtual travel agency •Loyalty program •CRM	• Repeated business • High retention customer	Revenue Sharing = [0, xx %]

Conclusion (1)

- With innovative ideas, your simple product can turn to many types of goods for more market.
- To capitalize on your innovation, you may need many valuable resources and network community.
- Virtual clustering offers many virtues, especially in economy of scope and scale.
- MoreThailand.com zero profit margin campaign, in short run, helps us work together during distressed time and building our relationship capital in long run.

Conclusion (2)

- MoreThailand.com family sites as IO hotel virtual clustering offers you a Win-Win value proposition with More Choice, More Value as above with no upfront fee (in limited time).
 1. Complementary Web Presence,
 2. Complementary Web Mail Service,
 3. Complementary single sign on system for hotel room availability module and
 4. And much More...

Reference :

Hara, T and Saltzman S [2002] 'The Economic Impact of Terrorism...9/11 Aftermath', Cornell U.
Shapiro, C and Varian H. R. 'Information Rule' [1997], U.C. Berkeley

END

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morethailand.com Online Travel Reservation 'Family TV Game' as Experience Good

The economic offerings of the 'Family TV Game' is simply evolved from

1. series of simple trivial questions (commodity),
2. delivered (search goods) and
3. finally staged (experienced goods).

"Education + Entertainment" : Best Combo.

Based on Pine & Gilmore's book
"The Experience Economy"

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morethailand.com Online Travel Reservation 'Family TV Game' as Experience Good

The 'Fun + Learning' values are derived in stage with climax building :

1. Setting : Two Competing Families with stories;
2. Simple questions and People Survey for team and public participation ;
3. Answering correct is not the only key;
4. Elements of chance or "surprise" play roles;
5. The winning team contests again for reward ;
6. Finally, the winner takes 'large' or 'small' token of appreciation.

Based on Pine & Gilmore's book
"The Experience Economy"

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Stages of Economic Development

Society	Game	Pre-dominant activity	Features Use of human labor	Unit of social life	Standard of living measure	Structure	Technology
Pre-Industrial	Against Nature	Agriculture Mining	Raw muscle power	Extended household	Subsistence	Routine Traditional Authoritative	Simple hand tools
Industrial	Against fabricated nature	Goods production	Machine tending	Individual	Quantity of goods	Bureaucratic Hierarchical	Machines
Post-Industrial	Among Persons	Services	Artistic Creative Intellectual	Community	Quality of life in terms of health, education, recreation	Inter-dependent Global	Information

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- ## Some Terms for Econ Exchange
- Goods : Desirable article fm demand side
 - Products : Supply/ production side view
 - Commodities : fm trading oriented view
 - Brand : related to particular organization

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Low tangibility	Internet support - Search - Order (after sampling) - Delivery - Payment - Exchange (after sampling) e.g., Advisory services	Internet support - Search - Order - Delivery - Payment - Exchange e.g., Stock market quotes
	Internet support - Search (preliminary) - Order (after sampling) - Delivery (physically) - Payment - Exchange (physically) e.g., Garments, Personal items	Internet support - Search - Order (after sampling) - Delivery (physically) - Payment - Exchange (physically) e.g., Music CDs, Books
	Experience goods	Search goods

Figure 1 The relationship between search goods, experience goods and product tangibility

