

The Emirates Academy

***A Critical Analysis of Supply and Demand
Factors impacting the Pricing Strategy of
Luxury Hotels Room Rates in Malta***

A Thesis submitted on the

12st August 2021

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In partial fulfilment for the requirements of the Degree of

Master of Business Administration

DECLARATION

I, Charmaine Camilleri, declare that this is an original piece of work, produced entirely by me, and that all source material has been appropriately referenced. In addition, I attest that no portion of the work referred to in this thesis has been submitted in support of any other course, degree, or qualification at this or any other university or institute of learning.

Charmaine Camilleri

ABSTRACT

Rooms are a critical asset for 4/5 Star Hotels as they are the source of income that maximise profits and enhance the return on investment to shareholders. The importance of the right pricing strategy to determine room rates according to demand and supply forces becomes central in management decisions. This scenario is being experienced in Malta with key stakeholders within the tourism and hotels industry stating that there is overcapacity of rooms within the luxury hotel accommodation whilst demand remained unpredictable. The dissertation addresses this problem by adopting a critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta. The study methodology is of qualitative nature based on a non-probability, convenience and purposive sampling representing 21% of the 4/5 Star Hotels segment in Malta and supported by another set of interviews with three entities that support the hotels industry in Malta.

The study determined that the demand for luxury hotel accommodation in Malta is greatly influenced by the Government of Malta and its tourism strategy. The role of the Malta Tourism Authority (MTA) is acknowledged yet, the lack of coordinated effort with the hotel segment representative body was noted and the supply of hotel rooms is mostly uncontrolled as expansion of new hotels is mushrooming. The study further revealed that there is a deficiency on how demand for rooms in this segment is determined both by the Government of Malta and by the key industry players and association representing the 4/5 Star Hotels. Nevertheless, the study confirmed that demand for accommodation has a significant impact on revenue management and that information systems are a determining factor that have specific parameters for price setting, frequently being inflexible to adapt to changing market conditions and circumstances. The study determined that demand and supply projections lack detailed, reliable and accurate forecasts based on statistics and scientific foundations. It seems that the lack of trust and transparency between the operators in the industry is a hindrance towards data collection and processing to generate such reports. The differentiation strategy towards customer service between the main competitors is also an influencing factor towards price setting of room rates in 4/5 Star Hotels in Malta. It is recommended that the key players within the industry have to be consulted and their expertise consolidated in an organised manner. Moreover, it is suggested that the supply of hotel rooms in Malta are assessed in a scientific manner and a carrying capacity study is done by hands-on hoteliers.

Key Words: Demand, Supply, Pricing Strategy, 4-5 Star Hotels, Room Rates

ACKNOWLEDGEMENTS

I am grateful to my dissertation Supervisor Dr Alfred Mifsud. He was instrumental in this research through his support and guidance.

I would sincerely like to thank the key participants of this study namely, Mr.Johann Buttigieg; Mr.Paul Bugeja, Mr.Andrew Agius Muscat and Mr Simon Mifsud and also the representatives of 4 & 5* Hotels. Without their participation this study would have never materialised.

Finally, I thank my daughter Aimee, my colleagues at the Waterfront Hotel and my CEO Ms Maria Micallef. Their patience and unconditional support throughout this journey contributed towards the achievement of my dream and the fulfilment of a long-awaited objective to graduate in tourism studies.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

1.1 Background Scenario

The hotel industry is continuously being faced with fierce competition among rivals and new entrants in the region in which they are operating. Faced by a complex and challenging environment, the industry is further pressured to sell a service which is a perishable product over a finite time horizon as Weatherford & Bodily (1992) remarked. Being a perishable product, any revenue lost from an empty hotel room for one night will be lost forever and cannot be made up for in the future. Similar to all other organisations doing business, the aim of firms owning hotels is to maximise profits and return on investment to shareholders. Many scholars and academics including Porter (1987); Finch et al (1998) and Nagle & Holden (1995) emphasized the importance of pricing strategies in order to influence customer purchase decisions in a market segmentation approach. Despite the importance of all the factors composing this mix, authors claim the importance of pricing to be one of the critical factors that generate revenues. Yet, the determination of hotel room rates depends on the supply of rooms at the particular time and the demand for rooms in luxury hotels.

1.2 The context of the Tourism and the Hospitality Industry in Malta

The trend of international tourism is set to grow in the coming decade although the COVID-19 circumstances changed the entire scenario, and it could take long before the forecasts prior to the pandemic can ever be reached in the medium term. As the number of people reacher higher social starta and their disposable income and freedom to travel for tourism purpose increase, the global tourism projections were forecasted toward growth and higher volumes. The projected number of global tourists by the UNWTO was 1.8 billion per year prior to Covid-19. In Europe the forecasts were leading towards 620 million tourists by year 2030.

The region where Malta operates and competes in the Mediterranean, South of Europe was also expected to grow and destinations themselves widening

thereby leading to an increased influx of tourists as a ratio to resident population. Tourists in Malta prior to COVID-19 is 400 tourists per 100 of population by year 2030 whilst the Mediterranean region countries are projected to have 103 tourists per 100 of population. It is the Government of Malta policy through its Malta Tourism Authority to continue working towards cementing its brand as a leading holiday destination in the years to come.

Tourism is one of the key fundamental pillars of economies from a global perspective and is expected to grow exponentially over the next decade, although the recent COVID-19 epidemic changed the entire scenario. Notwithstanding this, the research proposal is being put forward post-recovery of Covid-19 and should be read as such. The impact of tourism on the hospitality industry is undoubtedly the determining factor of any strategic direction and decisions taken by current and potential future investors especially for those intending to expand their business in luxury hotel accommodation both for 4 and 5-star hotels. The hospitality industry, including that in Europe and consequently that of Malta have diversified their product and units of accommodation in order to accommodate the ever-increasing expectations of travellers whether this is for business travel, holiday or other specific purpose. Particularly for clients whose wants and aspirations tend towards type of lifestyle choices which makes their hotel stays an experience rather than purely satisfying any basic needs.

The accommodation sector in Malta is a key component of tourism. In 2019 it was estimated that a total of 18.5 million nights were spent by tourists in accommodation generating an expenditure of €690 million. The ratio of private accommodation against hotel accommodation is approximately 1:2 as hotel accommodation accounts for double that of private accommodation. The number of hotels in Malta throughout the period 2006-2019 are shown in Figure 1. Although some forms of regulation are in place, reports indicate that the private accommodation is creating an unfair disadvantage to the detriment of licenced premises such as 4-5 Star Hotels in Malta leading to situation where tourists are paying for accommodation which might not necessarily provide value for money.

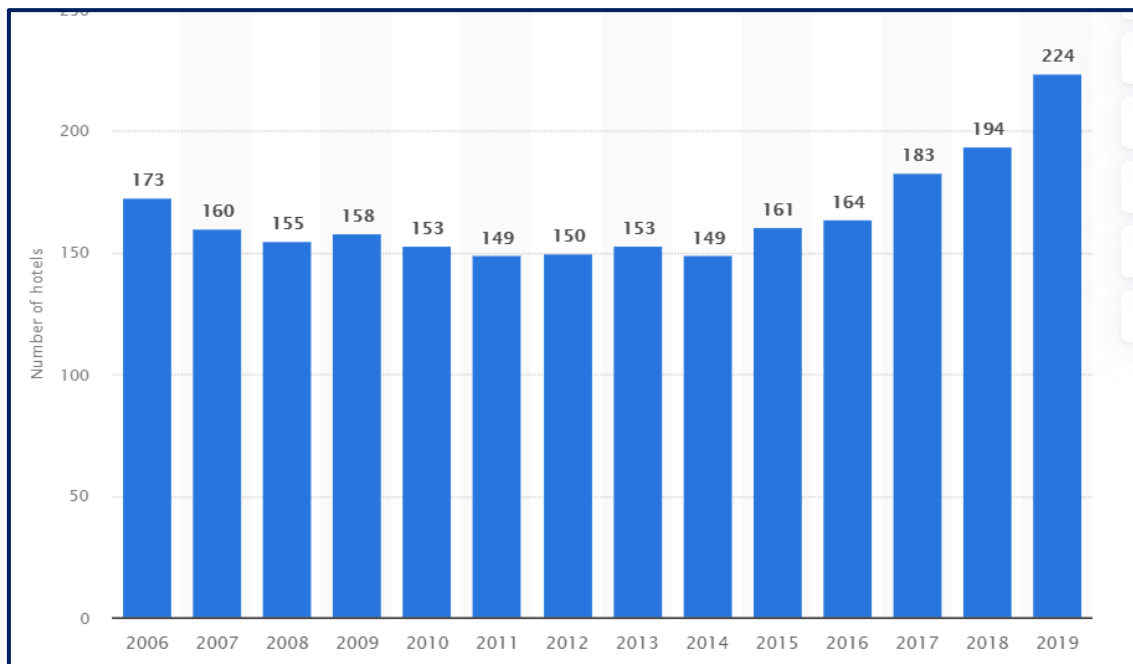


Figure 1
Number of Hotels in Malta (2016-2020)

In terms of hotel accommodation, the issue of the location in a small island like Malta comes into play. Total guests and nights spend in hotels in Malta can be seen in Figure 2.

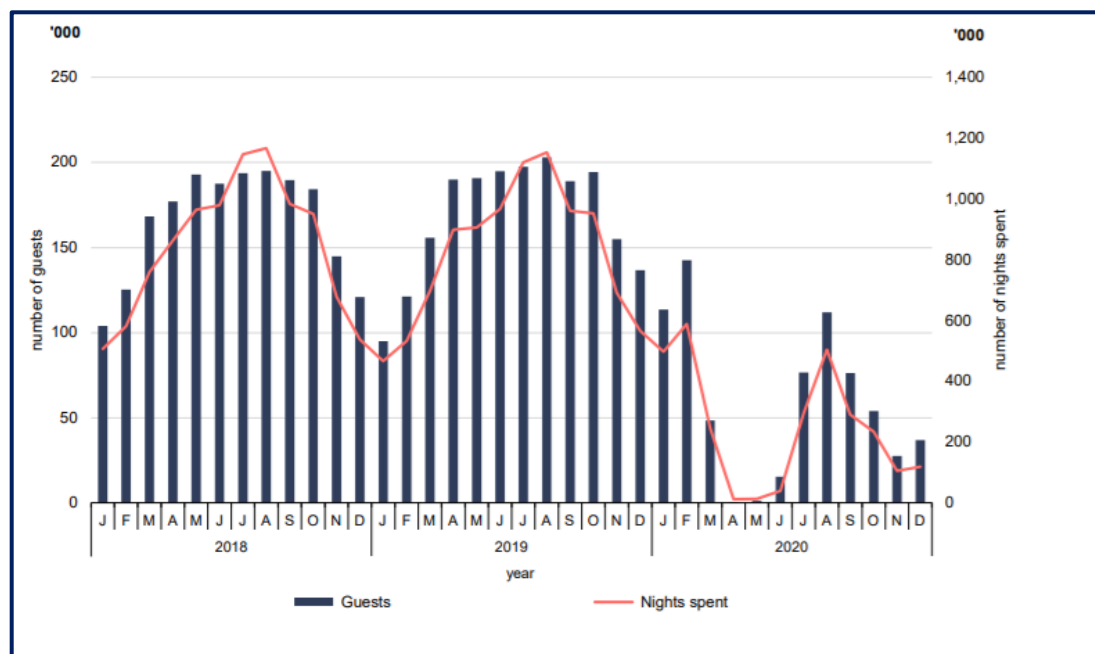


Figure 2
Total Guests and Nights Spent in Hotels in Malta (2018-2020)

Upscale accommodation needs due attention as the growing demand for high level high yield accommodation units is increasing whilst the risks associated with an oversupply of 4–5-star beds must not be ignored. The number of nights spent in hotels in Malta can be referred to in Figure 3 and the net use of bed places in Malta can be referred to in Figure 4.

| Type of accommodation | July-September 2020 ^{1, 2} | October-December | | January-December | |
|---|--|------------------|-------------------|------------------|-------------------|
| | | 2019 | 2020 ² | 2019 | 2020 ² |
| | | MALTA | | | |
| Hotel | 1,003,200 | 2,045,343 | 414,802 | 9,190,590 | 2,703,835 |
| 5 Star | 191,566 | 358,668 | 80,447 | 1,567,644 | 471,366 |
| 4 Star | 521,944 | 1,072,194 | 181,929 | 4,841,789 | 1,400,854 |
| 3 Star | 263,482 | 538,965 | 134,414 | 2,476,372 | 723,918 |
| 2 Star | 26,208 | 75,516 | 18,012 | 304,785 | 107,697 |
| Other collective accommodation³ | 85,766 | 166,275 | 44,579 | 720,692 | 240,683 |
| Total | 1,088,966 | 2,211,618 | 459,381 | 9,911,282 | 2,944,518 |
| | | Malta | | | |
| Hotel | 944,133 | 1,987,247 | 388,767 | 8,899,593 | 2,584,497 |
| <i>of which:</i> | | | | | |
| 5 Star | 168,885 | 343,427 | 70,544 | 1,493,173 | 426,628 |
| 4 Star | 497,835 | 1,047,754 | 171,756 | 4,721,566 | 1,353,205 |
| 3 Star | 254,407 | 522,988 | 130,325 | 2,391,263 | 704,090 |
| Other collective accommodation³ | 78,022 | 160,535 | 42,113 | 691,065 | 227,057 |
| Total | 1,022,155 | 2,147,782 | 430,880 | 9,590,658 | 2,811,554 |
| | | Gozo and Comino | | | |
| Hotel | 59,067 | 58,096 | 26,035 | 290,997 | 119,338 |
| <i>of which:</i> | | | | | |
| 5 Star | 22,681 | 15,241 | 9,903 | 74,471 | 44,738 |
| 4 Star | 24,109 | 24,440 | 10,173 | 120,223 | 47,649 |
| 3 Star | 9,075 | 15,977 | 4,089 | 85,109 | 19,828 |
| Other collective accommodation³ | 7,744 | 5,740 | 2,466 | 29,627 | 13,626 |
| Total | 66,811 | 63,836 | 28,501 | 320,624 | 132,964 |

¹ Revised.

² Refer to methodological note 7.

³ Comprises guesthouses, hostels and tourist villages.

Note: Monthly tables available on the excel version of this news release (Table 2a):

Figure 3
Nights spent by type of accommodation and period of time in Malta

| Table 3. Net use of bed-places by type of accommodation, period and region | | | | | |
|--|---------------------------------------|------------------|-------------------|------------------|-------------------|
| Type of accommodation | July-September 2020 ^{1,2} | October-December | | January-December | |
| | | 2019 | 2020 ² | 2019 | 2020 ² |
| | | per cent | | | |
| | | MALTA | | | |
| Hotel | 30.7 | 58.7 | 13.5 | 67.3 | 26.0 |
| 5 Star | 32.2 | 61.1 | 12.6 | 67.6 | 22.4 |
| 4 Star | 33.8 | 62.8 | 12.8 | 70.4 | 29.8 |
| 3 Star | 26.2 | 51.6 | 15.0 | 63.0 | 22.7 |
| 2 Star | 22.4 | 52.8 | 17.3 | 58.3 | 26.7 |
| Other collective accommodation ³ | 23.5 | 42.7 | 12.5 | 50.1 | 19.9 |
| Total | 30.0 | 57.1 | 13.4 | 65.7 | 25.4 |
| | | Malta | | | |
| Hotel | 30.2 | 59.6 | 13.2 | 68.1 | 25.9 |
| of which: | | | | | |
| 5 Star | 30.5 | 63.0 | 11.8 | 68.9 | 21.6 |
| 4 Star | 33.7 | 63.8 | 12.6 | 71.3 | 30.2 |
| 3 Star | 25.7 | 51.6 | 14.7 | 63.2 | 22.4 |
| Other collective accommodation ³ | 23.5 | 44.2 | 12.8 | 51.8 | 20.2 |
| Total | 29.5 | 58.1 | 13.2 | 66.6 | 25.3 |
| | | Gozo and Comino | | | |
| Hotel | 44.6 | 39.7 | 20.1 | 49.4 | 28.5 |
| of which: | | | | | |
| 5 Star | 54.2 | 36.4 | 23.7 | 49.0 | 34.4 |
| 4 Star | 36.2 | 36.7 | 15.3 | 46.7 | 22.3 |
| 3 Star | 56.6 | 53.5 | 31.7 | 57.0 | 38.9 |
| Other collective accommodation ³ | 24.4 | 21.8 | 9.5 | 28.6 | 15.9 |
| Total | 40.7 | 37.0 | 18.4 | 46.3 | 26.4 |

Figure 4
Net use of bed-places by type of accommodation in Malta (2019-2020)

The basic theory of demand and supply dictates that the most logical way to stimulate demand is by way of improving the product offering whilst making sure that the right level of supply is in place for 4–5-star hotel accommodation. It is within this scenario that the study will attempt to delve into how these impacts the pricing strategy of luxury hotels room rates in Malta.

1.3 Research Problem

It is fair to comment that excluding the COVID-19 pandemic circumstances, the tourism boom in Malta has given an impetus for new development in the tourism industry sector which has encouraged and motivated construction developers and business entrepreneurs in Malta to maximise the opportunities for growth in profitability and “make hay, while the sun shines”. The number of night stays in Malta mushroomed and expanded to nearly full capacity throughout the entire seasons throughout the year. Bookings exceeded expectations and on-line sources have dwarfed the tour operators diluting their power when negotiating hotel room rates. Subsequently visitor nights spent in Malta continued to increase steadily and exceeded 16.5 million nights in 2017, almost 50% more than in 2010 (Attard 2018). By January of 2019 there were 38,158 registered beds available per night in Collective and Private Accommodation (NSO, MTA²). There are a further 20,000 beds planned to be available in the next couple of years (MTA Licensing Dept). Yet, the level of uncertainty, vagueness and insufficient long-term planning on hotel rooms supply whilst demand forecasts, although improving in accuracy, are still proving to be difficult to sustain leading 4/5 Star Hotel business operators to believe that these circumstances are unsustainable.

The risks involved in the unpredictability of supply of rooms and the oversupply being noticed in the last couple of years are leading business entrepreneurs in this industry sector to question their profitability forecasts and thereby cause doubts as to any further re-investing in upgrades of customer service, value propositions through service and product enhancements as well as investment in innovative, digital marketing strategies for the years to come. Apart from the problem of having ‘too

many hotels', the construction industry situation in Malta has reached "intolerable levels", with Malta quickly becoming "a construction site experience for tourists" (Zahra 2019).

Thus, CEOs and Financial Managers need to have strategic direction, knowhow, competence and knowledge on how to find solutions for setting room rates within this industry sector now that matters have complicated much more as the COVID-19 exceptional circumstances will have a far longer impact in the years to come than ever projected or planned. Within this problem scenario, the research study title has been identified and stated hereunder:

A critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta

The above title for the study investigation leads towards the determination of the research question, aims and objectives that the study intends to address and answer.

1.4 Research Question

Referring to the research problem stated throughout the previous critical discussion on the background scenario, the study aims to find an answer to the research question stated hereunder:

Which are the critical supply and demand factors which must be addressed by CEOs when determining the price strategy for luxury hotels room rates in Malta?

The research outcome shall not provide a complete solution to the problem due to the complexity and specific industry conditions within which 4/5 Star Hotels are operating in Malta. Yet, the study shall present practical insights to resolve the problem and address the research question in a practical, realistic and reliable way that enhances the probability of successful outcomes

of managerial decisions when dealing with demand and supply factors throughout the phase of determining room rates.

1.5 Research Rationale

Debates on what is considered to be a surplus of supply of hotel rooms within the luxury market segment and the decrease in visitors to Malta looking for luxury accommodation has been the talk of the day amongst business leaders in the hospitality industry and entrepreneurs who are looking to invest in new luxury hotel buildings. Numerous seminars, networking activities including business breakfasts, reports outcomes and conclusions and formal strategies have been set up by the Government of Malta and the Tourism Authority in Malta on how to mitigate the risk of demand and supply volatility within the industry segment of 4/5 Star Hotels in Malta. Additionally, strategies set up by individual hotel business and through hotel groups or chains have been set and applied, there is still a considerable level of uncertainty on how profit maximisation can be achieved by setting room rates when demand and supply are so unpredictable in today's market in Europe including Malta.

From an academic perspective the topic of supply and demand and its impact on pricing has been investigated in detail throughout the past decades. Numerous scholars have addressed the concept of demand and supply on hotel room rates but none of the studies addressed the context of 4/5 Star Hotels as the studies were mostly generic and covered large geographical areas. Little was traced on 4/5 Star market segment and none of the studies investigated the context of Malta.

Thus, the significance of the study became pertinent especially for the researcher herself in her role as a General Manager very much involved in revenue management for one of the leading 4-Star Hotels in Malta. The dissertation investigation and results are of great interest to the researcher because within a managerial position, the researcher can influence and have a direct responsibility with key decision-making and leadership elements to enhance the profitability of the firm. This can be achieved through the maximisation of the room capacities and determining the right room rates at

the appropriate time becomes central within the role of General Manager. More importantly, it is within the General Manager's responsibility to have a sound basis of forecasting abilities and skills that apply specific techniques and models to predict the demand and supply of rooms within the hotel itself. Moreover, through networking the General Manager can have a good understanding and knowledge on how the Maltese market is developing in terms of supply of hotel rooms within the specific market segment of 4-5 Star Hotels whilst testing the demand in the context of the Government of Malta strategies, policies and initiatives taken from time to time. The outcome of the study was intended to provide an insight on the problem being investigated and thus the research aim, and objectives are stated in the section to follow.

1.6 Research Aims and Objectives

The aim of this study is to determine the extent to which the demand and supply for 4/5-Star Hotels accommodation in Malta influences and impact the pricing strategy that are set for rooms throughout the different seasons in a year. Furthermore, three specific objectives were set for the study investigation that are to be achieved at the end of the study as stated hereunder:

Objective 1:

To determine the current models, techniques and systems that are applied by hotels in their attempt to determine room rates within the market segment of 4/5-Star Hotels in Malta.

Objective 2:

Assess the extent to which demand and supply factors impact the pricing strategies of hotels and how these differ from those currently practiced in Europe and in Malta.

Objective 3:

Recommend a list of practical initiatives that the Management of 4/5-Star Hotels in Malta can apply in practice to enhance the pricing strategy for

rooms taking into consideration the unpredictability of demand and supply in the short, medium and long-term.

1.7 Research Proposition

Referring to the research aims and objectives and based on the notion that the research study is based on the mono-method of qualitative data through the application of one-to-one interviews, a research proposition was set and stated hereunder:

The pricing strategy of room rates for 4/5 Star Hotels in Malta is significantly influenced by supply and demand factors.

The above proposition will form the basis on which the conclusive statements and the recommendations made. Therefore, the study will either corroborate the above proposition or reject it. The aim of setting this proposition is to determine the extent to which demand and supply factors impact and influence the pricing strategies in the context of 4/5 Star Hotels in Malta. This proposition makes more sense in the context of post COVID-19 circumstances as demand and supply variables were driven out of the norm. Thus, key players and stakeholders within the industry segment are very much interested to assess the outcome of this study based on the above proposition.

It is within this proposition that the notion of supply and demand and the factors that would interact to ensure the price equilibrium that the hotel would expect is based on the economics theory of supply and demand and this is dealt with in detail in the findings of the study in Chapter 4.

1.8 Key Topic Terms

Referring to the dissertation title and the in-depth study investigation undertaken, it is appropriate to state the key topic terms referred to in this dissertation. The definitions of the key topic terms will enhance the understanding of the terms applied within the context of this study. Three key terms were identified, and the definitions are presented for the term

Demand & Supply; Pricing Strategies and 4/5-Star Hotel (Luxury Hotel market segment).

Demand and Supply

Demand is associated with the needs of people. Supply on the other hand is linked with the extent to which resources are available in the market within which the organisation operates (Yamamoto, 2005). Demand is related to wants. Conversely, supply is related to the amount of goods and services that companies supply. Yet, scarcity, which is a fundamental point in economics, people must make choices in what they demand in relation to the supply that is available (Cosh, et al., 2012).

Pricing Strategy

Baker & Hart (2008) suggest that the pricing strategy is set on five stages. The first stage consists of setting the organisation's pricing objectives as they might be related to financial and sales targets. The second state is to assess the demand. Estimates and forecasts of demand have to be put into the context of the firm. The third stage involves the evaluation of the competitors activities leading the organisation to take decisions on pricing policies and strategies. The fourth state is setting the price range within which the hotel offers its rooms. The fifth stage is the price offering to the clients that attracts customers to the product and service offering.

Luxury Hotel within a 4/5-Stars Market Segment

It is thus appropriate to define the term luxury hotel as stated by the Forbes Travel Guide (2014) as “the exceptional properties providing a memorable experience through virtually flawless service and the finest of amenities supported by a team of intuitive, engaging and passionate staff who are eagerly ready to deliver a service above and beyond the guest's expectations”. This definition will be referred to within the context of this dissertation for 4-5 Star Hotels in Malta and excludes any reference to potential 6-Star Hotel category which are planned to be introduced in future.

1.9 Overview of Research Study Structure

The research study is structured in six chapters which are presented with a logical and sequential structure to enable the reader to follow-through with ease of understanding and knowledge on the investigation on demand and supply factors that impact the price-setting strategy for rooms in 4/5 Star Hotels in Malta. An overview of each chapter is thus presented.

Chapter 1: The Introduction, introduction of the topic and providing a background scenario on the concept of demand and supply and how these two factors impact and influence the decision-makers in 4/5 Star Hotels operations in determining the room rates throughout the different phases of the year in Malta. A background of the industry in Malta is presented. It further led to the statement on the research problem and the aim of the study is stated whilst highlighting the justification of the study both from an academic and practical perspective. The research study proposition is stated, and the key topic terms applied in this study are highlighted.

Chapter 2: The Literature Review is a detailed critical discussion and analysis of studies undertaken by scholars and academics throughout the past four decades focusing on the demand and supply notions in the context of hotel rooms availability. The challenges and options on how demand and supply impact the pricing strategies for rooms are evaluated and past empirical studies within the context of Malta are contrasted and compared reaching towards the research gap identified.

Chapter 3: The Methodology is a critical explanation of the methodological choices with the options available based on the Research Onion Framework as presented by Saunders et al (2009). The chapter covers the research philosophy, strategy, approach, methodological choices, time horizons and explains the way in which the data collection and analysis were carried out. It further gives an account of the sampling method and sampling size applied and justifies the use of qualitative data as compared to quantitative. The chapter presents the way in which the primary data was collected in the form of interviews and the validity, reliability and robustness of the study has been applied. Ethical considerations for the study are highlighted.

The Findings, Analysis and Interpretation in Chapter 4 are presented of the primary data collected through interviews conducted with a sample of 4/5 Star Hotel CEOs and three external stakeholders in the form of Government of Malta, Malta Tourism Authority and the Association of Hotels and Restaurants. The findings are then compared and contrasted with the literature review outcomes as part of the secondary data and direct quotations from participants are included to support the argumentative interpretations.

Chapter 5: Conclusions & Recommendations, highlights the conclusive statements derived from the findings and analysis and refers to the research aims and objectives and concludes on the extent to which these were addressed whilst answering the research question of the study. The concluding chapter includes conclusive statements on the outcome of the comparative analysis with theory and finally concludes on the research proposition and how this is verified for its compliance or rejection based on the outcome of the study. The limitations of the studies are stated, and areas of further research identified. A list of recommendations that can be practically applied by Hotel CEOs and CEOs in the chosen organisations is presented. The recommendations provide an insight to the external stakeholders in their strategy formulation and policies on 4/5 Star Hotels and how the projections of demand and supply can be addressed to possibly set room rates in a way to maximise the profitability of the chosen companies.

CHAPTER 2

LITERATURE REVIEW

2.0 Literature Review

2.1 Chapter Introduction

This chapter critically evaluates, discusses and explains past literature on the key topic terms of the research studies. It commences by making reference to the link of tourism with the concept of luxury hotel accommodation. It proceeds by defining the term luxury hotel accommodation and assesses studies undertaken throughout the years. The focus is on the demand aspect of hotel accommodation in luxury hotels including 4-5 Star Hotels from an international perspective. The chapter then presents the demand and price elasticity and how the internet and on-line booking is impacting the demand for hotel rooms. The literature review focuses on the mentioned segment where differentiation of the service provided can be an influencing factor on how prices are set for hotel rooms. Pricing strategies are assessed and the methods used to set prices based on both internal and external factors are discussed. Finally, the chapter concludes with the literature review gap and a conceptual framework is presented.

2.2 The link of tourism with luxury hotel accommodation

Tourism is one of the key fundamental pillars of economies from a global perspective and is expected to grow exponentially over the next decade. This scenario has been impacted by the recent COVID-19 epidemic that changed the entire scenario. Nevertheless, this research proposal is based on a post COVID-19 recovery scenario. The impact of tourism on the hospital industry is undoubtedly the determining factor of any strategic direction. Decisions taken by current and potential future investors especially for those seeking to expand their business in luxury hotel accommodation (Anjos, et al., 2005). The European hospitality industry has increased its options of accommodation to satisfy the needs of travellers. This is reflected both on business holidays and other purposes, to enable them achieve their expected needs. The customers dream for lifestyle enjoyment and pleasure is satisfied by staying in a luxurious hotel that makes their stay an experience rather than just fulfilling their needs (Fibich, et al., 2005).

2.3 Defining Luxury Hotel – a 4- and 5-Star Perspective

It is thus appropriate to define the term luxury hotel as stated by the Forbes Travel Guide (2014; p124). This has been described as “the exceptional properties providing a memorable experience through virtually flawless service and the finest of amenities supported by a team of intuitive, engaging and passionate staff who are eagerly ready to deliver a service above and beyond the guest’s expectations”. Medlik & Ingram (2001) sustain that it is imperative that the supply of hotels rooms in the luxury segment is adequate enough to meet the ever-growing demands of customers. This led entrepreneurs towards expansion projects in building 4-5 Star Hotels. This growth has been noticed in Malta too.

Quintano (2014) argues that 4 and 5-star hotels are classified as superior hotels that demonstrate homogeneity in a local context characterised by various common factors. These factors are the aspect of being managed by a “Chain” of hotels. Such businesses are owned and managed by a franchisee and a hotel management company and which has a global presence. 4 and 5-star hotels are identified by a strong brand name which could be both local or through a chain of hotels. Additionally, 4 and 5-star hotels market their products not only on individual business travel but also by hosting group meetings, conferences and other incentive business. This approach is taken throughout the shoulder seasons including Malta. Lastly, they tend to offer dynamic booking services mostly done on-line by-passing the traditional intermediary or travel agent.

Recently, it has been noted that the provision of improved services, better design and enhanced facilities is leading towards increase in demand. The vast majority of luxury hotels have state-of-the-art finishing and excellent customer service, yet, the occupancy rate is not encouraging. Silverstein et al (2015) remark that social and economic forces are affecting the supply and demand for 4 and 5-Star hotels on a global scale including Europe.

2.4 The Link of Demand with Revenue Management

Ding, et al, (2006) argue that the way in which revenue is managed by hotels is influenced by the managerial decisions on room rate and the allocation of customers in a specific period of time. Elmaghraby & Keskinocak (2009) believe that revenue management is part of the overall strategic corporate objective to sustain the long-term viability of the firm. Furthermore, the strategy shall ensure growth in a competitive environment. Hotel Managers and Executives attempt to sell the room at the highest prices possible without risking to be overpriced to generate the highest revenue possible for the firm (Fibich, et al., 2005). It is common practice to apply pricing of rooms based on the room inventory. Managers take decisions to ensure that demand-management decisions are based on the premise of revenue maximisation (Feng & Xiao, 2006). Scholars have come up with three models on how to set room rates. These models have been debated and argued on their strengths and limitations for the past four decades. Yet a compromise was found to have a common understanding on these three models that are practical and effective (Bitran & Caldentey, 2003). The three decisional models are: structural, price and quantity decisions. The structural approach consists of the decision by the management on the type of structure used to segment the market based on differentiation (Baker & Collier, 2003). Bertismans (2005) maintains that the price decision is associated with the method that the management decide to use when offering prices based on individual offers. The prices for rooms are based on different product categories offered by the hotel. Moreover, Goldman, et al (2002) proclaims that the decision to set the price must take into consideration the time-phase or season when the booking is “locked”. This also apply to discounts over the lifetime of the product offering (Goldman, et al., 2002). Additionally, Anjos, et al (2005) sustain that the quantity decision is normally based on negotiation process as to whether to accept or reject the offer. Other considerations are how to allocate the room capacity to the different customer segments. Furthermore, the decision on when to withhold a product to be sold in the market is taken into consideration.

Based on the capacity of rooms, traditional hotel management approaches the rates of hotel rooms that gives considerable flexibility to the information system to allocate the room to maximise revenue in due course (Canina & Carvell, 2005). 4-5 Star hotels pricing policies are a fundamental component of the hotel operations. This is because the price is considered to be the effective variable that hotel managers use to encourage or discourage demand in the short or medium term.

2.5 Demand for Luxury Hotel Accommodation

The most common research on hotel demand focused on consumer behaviour, the quality of service offered, customer loyalty and environmentally friendly initiatives. Leadership in hotel revenue management also took the centre stage of considerable number of research projects. In the study undertaken in China by Chen & Peng (2014), consumer behaviour was tested on 4 and 5-star hotels. Another study undertaken in Middle East by Ryan & Steward (2009) in Dubai reported how ecotourism and luxury hotels are interconnected. In another study in India, Mohsin and Lockyer (2020) reported that service quality is a critical success factor for luxury hotels. From a South American perspective, Colmenar et al (2014) argued that solar thermal systems for luxury hotels in Brazil provided cost savings advantages. Patiar & Mia (2009) reported how the leadership style in luxury hotels in Austria can be an effective tool towards profitability enhancement. In the US, the World Luxury Index (2018) remarked that the 75% of the global luxury hotels are situated in the US and many researchers attempted to find why the US has a high rate of 76% of occupancy all year round in luxurious hotels.

2.6 Demand and price elasticity

When referring to the hotel room rate set for accommodation in a variety of rooms, one cannot ignore the economics concept. Economics is concerned with the consumption based on the demand and supply of a product or service. In fact, the demand and supply relationship are the center of economics. Defining the term 'demand' is associated with the needs of people. Supply on the other hand is linked with the extent to which resources are available in

a market within which the organisation operates (Yamamoto, 2005). Demand is related to wants. Conversely, supply is related to the amount of goods and services that companies or the market supply. Yet, resources are scarce and thus people must make choices in what they demand according to the supply available (Cosh, et al., 2012).

With movements along the curve, one must keep in mind that such movement is based on the factors that determine the price, if all things remain constant. Therefore, any variable in factors that impact demand will influence the curve of supply and demand changes. A classic example is the COVID-19 pandemic that struck the global tourism industry. Customers' demand in tourism came to a standstill. Thus, the demand curve changed its course leading room rates to collapse.

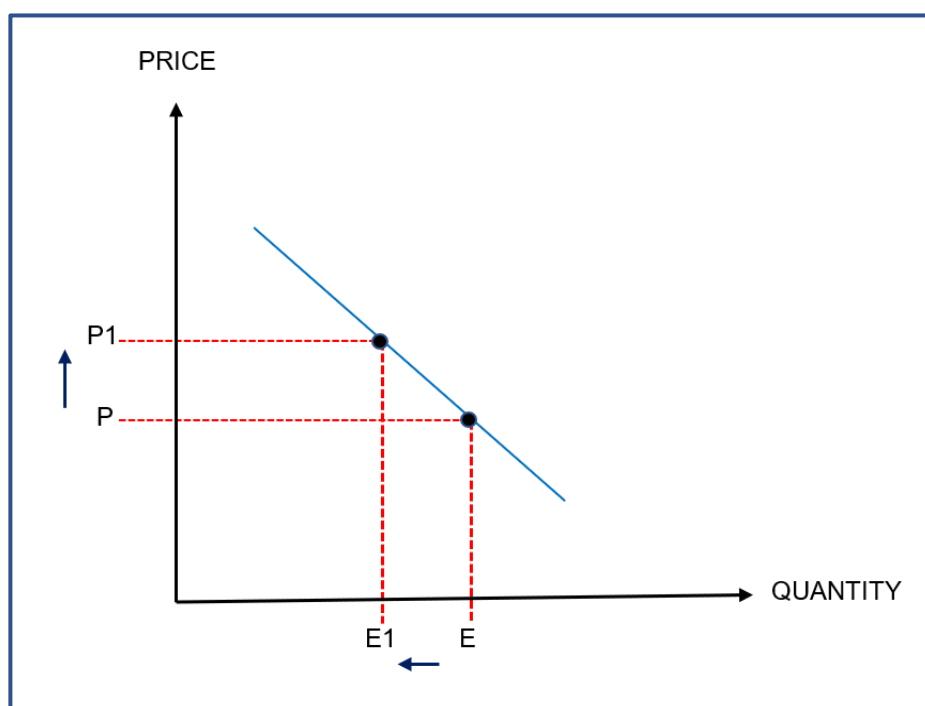


Figure 5
The Movement Along the Demand Curve as Prices Increase

In figure 5 above, as price increases from P to P_1 , the equilibrium quantity decreases from E to E_1 because consumers will demand less of this service when the price increased.

One of the hardest hit sectors due to the global pandemic has been the hotel 4/5-star accommodation sector. Millions of people became redundant, losing their jobs or working fewer hours per week as the consumers' priorities changed. Throughout the Covid-19 pandemic, customers could not afford to travel, and they were also restricted or banned from doing so. This has led to the demand of the hotel accommodation and hospitality industry to fall dramatically (Global Tourism Forum, 2021). This caused an inward shift in the demand curve. For the same price, consumers were demanding more nights to stay for accommodation. A movement in the supply curve would trigger the price to be pushed downwards (Böhme, et al., 2015). If the price is not adjusted to the new equilibrium, the market would end up with excess supply leading towards empty hotels rooms. As a consequence, this has forced hotel room rates to fall further.

2.7 The impact of demand from the internet on room rates

Research undertaken shows that 4/5 Star hotel rooms demand is surprisingly low and many suggest that it is still in its infancy. Elmaghrby & Keskinicak (2009) argue that online booking is being undertaken by customers who are more price-sensitive looking for ways on how to safeguard themselves against possible room rate changes in the future. Bailey (1998) further remarked that the internet is driving hotels to compete solely on the price, and through discounting tourists are encouraged to move from one distribution channel to another. This is leading hotels to set different room rates to specific distribution channels to enable them to generate better revenues. Moreover, there is considerable evidence to suggest that target market segmentation is leading towards price segmentation when setting room rates. In contrast with economy hotels, where room rates are mostly uniform within all electronic channels, 4/5 hotel rates vary according to the booking platform (online intermediary). Economy hotels offered lower prices on their websites whilst 4/5 Star hotels have insignificant differences in their rates between electronic channels and their own websites (Canina & Carvell, 2005). Other studies conducted by Tso & Law (2019) confirmed that hotels offered different room rates on different online intermediary. The highest room rates were observed

on the hotel's own website using Expedia and Travelweb (Waltz, et al., 2006). According to Varini, et al (2003), these circumstances demonstrate that online pricing practices are set by hotels with different contracts between the hotel management and the online intermediary based on sales arrangements.

The internet has provided hotels with the opportunity to adjust prices through the system as the adjustment costs and administration requirements have been drastically reduced. Price variations are expected from 4/5 Star hotels as they need to adapt to the changes in the economic conditions in a specific season (Canina & Enz, 2006). Yet, hotels must be vigilant in the process of changes in hotel rates as their reputation may be prejudiced. Customers are very much aware of how prices are varying and changing between competitors within specific times (Thompson & Failmezger, 2005). This is because today customers have the leisure and time to monitor and check changes from the comfort of their home or whilst travelling on their smartphones. Smartphone applications are dominating the on-line booking transactions and customers can swiftly browse, compare and contrast prices with results provided in seconds (O'Connor, 2002). The accessibility and speed of internet service is becoming a commodity and "taken for granted" and customers have the edge on the seller in terms of comparing prices. Referring to Porter's (2001) 5-Forces of competitive advantage, the bargaining power of the buyer has increased dramatically when it comes to the 4/5 Star hotel industry. The customer can switch hotel brands and is far less loyal when it comes to the choice of the hotel. Therefore, the hotel management must be sensitive on the way in which room rates are changed over a very short time span.

Referring to other studies undertaken by Clay, et al (2002) it has been noticed that 4/5 Star hotels have little option other than improving their service. This can be done by differentiating amongst competitors in order for them to increase the room rates when demand is higher. The higher the quality of service provided, the greater the probability of the hotel being successful in having its rooms booked with higher prices (Schwartz, 2004). This approach leads towards more market power by the hotel. The 4/5 Star hotel segment have the facilities, resources and capabilities, especially in terms of software

provision. The software enables such firm to check prices and set room rates. This process is less costly and taking decisions on the room rate is therefore more cost-effective than other segments within the hotel industry (Bertismans & De Boer, 2005). Therefore, 4/5 Star hotels tend to change prices more often than the other group of hotels in 2-3 star categories. Moreover, Varini, et al (2003) argues that the studies confirm that 4-5 Star hotel chains are more reluctant to change room rates than those who are not part of a chain. The main reason behind this is that the former hotels are bound by corporate strategies, policies and procedures with uniform, standard price setting policies. The internet has provided a platform for on-line customers to compare prices and therefore they tend to wait to book rooms at a later stage when the rate may be lower. Hotels may be reluctant to reduce rates too often if they do not have a system in place on how to monitor the rates of their rivals. Hotels who have the capabilities to monitor the rates of the rivals in an effective and efficient way are inclined to change their prices more often than those who do not have this facility (Krishnamoorthy, et al., 2010).

Quite surprisingly, studies carried out by Jauncey, et al (1995) have established that an increase in competitors in the market has an insignificant effect on the decision taken on room rates. The increase of competitors does not force hotels to raise, lower or maintain room rates. It is because of these circumstances that hotels in the 4/5 Star industry are very careful on how they lower prices. Price reduction can damage the image of the hotel brand and should therefore be avoided as much as possible (Bertismans & De Boer, 2005). On the other hand, service differentiation is a determining factor that explains why specific hotel chains, groups and other hotels do not necessarily need to reduce their prices to attract more customers (Clay, et al., 2002). Rather than lowering room rates, 4/5 Star hotels offer additional services and conditions that differentiate themselves in the eyes of the customer. The “value for money” concept might also create risks as customer perception is difficult to determine (Krishnamoorthy, et al., 2010). This leads scholars to believe that any pricing policy has to attract price-sensitive customers without reducing revenues from less price sensitive customers. Differentiation is key because if the mentioned objectives are achieved, the 4/5 Star hotel is not

forced to compete with its immediate rival by reducing the room rates (O'Connor, 2002). Nevertheless, Bailey (1998) suggests that independent hotels within the 4/5 Star category need to pay attention to the competitors' prices when setting their own room rates especially when dealing with different distribution intermediaries.

2.8 The impact and influences on the demand of Luxury Hotel accommodation

Referring to the models of hotel room demand, many researchers have focused on the relationships of demand with income and prices across different countries. The work of Uysal & El Roubi (1999); Li et al (2006); Vogt (2008); Canina and Carvell (2005) and Choic (2003) are all evidence of these approaches in research whilst Damonte et al (1998); Hiemstrand Ismail (1993) and Vanegas (2005) explored the price elasticity notion of lodging demand for customers. Dritsakis (2004) approached demand from an econometric technique in tourism demand analysis whilst Kulendran & Witt (2001) attempted to focus on a different model using the least square regression model. Hiemstra & Ismail (1993) analysed the impact of taxes on demand whilst Palakurthi & Parks (2000) focused on sociodemographic factors including gender, occupation, age and income when assessing the demand patterns for 4 and 5-star hotels. Sorensen (1999) explained how seasonality is associated with hotel room demand and how this varies both from a time and location perspective. Song et al (2011) argued that hotel room demand is affected by the income of origin markets, relative prices and economic criteria. Whilst Canina & Carvell (2005) sustained in their study that demand in 4 and 5-star hotels is impacted by income. This is inelastic to the hotel demand and demand decreased when the room rates increased. Finally, Rossoff (1998) found out that in the long run, GDP was closely related with hotel room demand. It would therefore follow that the GDP in the source market being the country of the tourist would have a correlation to the demand for tourism accommodation.

An important study carried out by Tran (2015) on supply and demand patterns in 4 and 5-star hotels in the US found out that US customers have the tendency to stay more nights in luxury hotels when their income increases. Additionally, those from Europe have no intentions of staying longer if their income increase. As an exception, German tourists normally stay longer when their income increases irrespective whether the luxury hotel rates increase. This proves the previous theories that guests from the US and Germany are impacted by economic factors both in the long and short run estimates. Both tourists switched from non-luxury to luxury hotel when their incomes increase (Baker & Collier, 2003). The findings also found out that the market is price inelastic meaning that managers can increase room rates without the risk of losing their target customers. Therefore, it is concluded that the increase in room rate has little impact on the decision of customers choosing to stay in 4 and 5-star hotels as they are earning a higher income and are therefore insensitive to price (Thompson & Failmezger, 2005). Guests with a higher income will choose to stay at luxury hotels.

The relevance of hotel room occupancy is not surprisingly linked with revenue and profitability amongst the hospitality industry. Those who invest in running a 4/5-star hotel are aware that the primary source of revenue from the property is the room occupancy. This provides the dominant share the hotel profits (Ingram, 2000) Barrows & Powers (2011) estimate that room occupancy generates 70% of revenue in 4/5 Star hotels. According to Knowles et al (2004) there is a strong positive correlation between hotel occupancy and the growth of the firms operating within this industry sector. It is therefore important that the management of 4/5-star hotel establish an accurate, reliable and valid system on how to forecast the demand for hotel rooms occupancy. The strategic approach towards demand will also determine the pricing strategy, future growth programmes and the segmentation of the market. This will ensure that the marketing strategy is effective within specific markets as Song & Witt (2000) suggest. Jeffrey & Barden (2000) further maintain that an increase in demand for hotel accommodation and achieving high occupancy rates are the prime targets within the operations of a hotel. Demand projections also determine the room

rates. Tsai et al (2006) sustain that it is prudent for managers in the hospitality industry to understand, have knowledge and apply leadership skills to be able to take the right decisions in setting room prices. Managers must understand the factors that can affect the demand for 4/5-star hotel rooms. It is their responsibility to respond effectively to demand changes in order to maximise their resources and sustain the firm's competitiveness (Jeffrey & Barden, 2000).

Various studies give a clear indication that demand for hotel accommodation is influenced by globalisation. Instances of excess capacity for luxuries hotel room in many countries led to fierce competition amongst the main key players in many counties. This led firms to fight for survival based on how much they are able to satisfy the customer needs effectively and efficiently (Nicholls & Roslow, 1989). Therefore, the firm has to establish the demand trends to be able to set the right room rates. The firm has to build its competitive edge through the provision of a differentiated service level as suggested by Calantone & Mazanec (1991).

2.9 Segmentation of clients in need of luxury hotel rooms

Song & Witt (2000) and Jeffrey & Barden (2000) suggest that the leisure travel phenomenon is defined as the need of individual clients, couples, families or groups of people to travel and stay in luxurious hotels. The economic influence of travellers determines the choice of the client amongst a range of room rates in luxurious hotels. (Bitran & Caldentey, 2003). The individual corporate client is typically the senior executive type and is normally a frequent traveller. Business people do make several short to medium haul trips to business meetings away from the place of work and this leads towards a constant demand for luxurious hotel rooms (Song & Witt, 2000). With the rapid growth of on-line booking, one needs to assess the role and importance of an efficient internet booking engine (Schwartz, 2004).

2.10 Pricing Strategies

When the management in hotel businesses are setting corporate strategies, they have to take into consideration how the corporate objectives will be cascaded down to each function of the business (Bailey, 1998). It is thus pertinent that the objectives of the marketing and operations functions are synchronised with the corporate strategy and objectives (Baker & Hart, 2008). Brassington & Petit (2006) sustain that within the marketing function, the marketing plan involves a structured and systematic process that enables the business to distinguish itself from its competitors. It further aims to target a specific segment in a particular market to position itself amongst its competitors. The aim is to attract customers, retain them and possibly generate repetitive sales whilst looking for new customers in new markets to further expand the business (Cateora, 2019). Sales generate revenue, which is the lifeline of the firm and thus the revenue management function becomes critical in a business operating in the hotels industry sector (Brassington & Petit (2006).

The marketing mix framework forms part of the plan that sets the organisational marketing goals in terms of the product, place, price and promotion (Hamper, 2013). Lately, the 4Ps concept was expanded towards the 7Ps as economies shifted from manufacturing and retail to the service industry. Within the 7Ps model the Price component has significant importance. Prices not only generated the revenues to create and retain customers at a profit, but it can also be the bargaining tool to compete (Solomon, 2012). Customers frequently use the price as a mean to compare and contrast services. They compare specifications and terms and conditions and evaluate the value for money for the service provision (Stone, et al., 2000). Therefore, setting service prices for hotel room becomes critical. If the prices set is too high, the customer will reject the offering. If it is too low, the customer becomes suspicious that it is too good to be true (Garcia, 2014). It is important for the market to understand the meaning of prices as seen from the customers point of view. Price is therefore the value that is placed on a service or produced. However, a price does not necessarily mean that it is perceived the same way by different customers. The buyer and the seller may well have different perspectives on what the price means (Goodwin & Ross,

1990). From a buyer perspective, price is the value attached to the service. When assessing the price, the customer is looking for benefits and therefore common influencing factors come into place (Clemons, et al., 2002) as illustrated in figure 6 below.



Figure 6
Factors influencing customers price assessments p433

In the hotel industry, the customers perception presents a considerable number of challenges because the customers' perception on the service provision is different (Goodwin & Ross, 1990). Customers perception on value for money relates to the room's functionality, such as the bathroom size, the bathroom, air-conditioning system and the safe deposit box (Smith & Taylor, 2002). In terms of quality, the customer perceives the quality of service as the courtesy with which the clients are greeted in the lobby, the breakfast service quality, the room cleanliness, and the check-in/out service (Bitran & Caldentey, 2003). The operational perspective is associated with the efficiency in resolving customer complaints and how the management deals with special requests (Hughes & Fill, 2007). Additionally, Bitran & Caldentey (2003) argue that customers look at the way how the hotel staff deal with people with special needs, accessibility and mobility in the hotel. Other considerations by customers include the method of payment (Anjos, et al., 2005). The personal benefit is an extremely important factor in the way how customers perceive the quality of service. This relates to the

psychological benefits gained through the price. Price perceptions are therefore associated with status, comfort and self-image. Room rates are thus perceived by customers as an opportunity towards self-satisfaction (Hughes & Fill, 2007). It leads customers to believe that the choice was right based on the price valued against the physical room amenities and the service provision (Kottler & Armstrong, 2000). One of the major influencing factors in the perception of the customer towards the price of a hotel room booking is the way how the staff behave and performs his/her duty (Hughes & Fill, 2007). The skills of individuals who are in contact with the customer on a face-to-face basis makes their contribution indispensable. Furthermore, external influences impact the marketing manager's decision on the pricing strategy on which the latter has little, if any power to control. The external influences on the pricing decision consisting of the legal and regulatory framework within which the business is operating, the channels of distribution, the competitors, the demand and price elasticity and the customers themselves (Smith & Taylor, 2002).

In setting pricing strategies, the management must be organized and disciplined. Baker & Hart (2008) suggest that the pricing strategy is set on five stages as illustrated in figure 7. The first stage consists of setting the organisation's pricing objectives as they might be related to financial and sales targets. The financial targets can be associated with profits or cash flows (Goodwin & Ross, 1990). Sales objectives will be linked with the market share that the organisation intends to achieve and the brand name position within the market segment. The second stage is to assess the demand (Baker & Hart, 2008). Estimates and forecasts of demand have to be put into the context of the firm. Marginal analysis is one way on how to find the optimum level of room occupancy that covers costs and makes a profit. The relationship between costs, profit and capacity shall be taken into consideration leading to a breakeven analysis (Jauncey, et al., 1995). Therefore, the volume of room sales at a given price shall lead to an output that covers costs and a profit margin established. The third stage involves the evaluation of the competitors activities leading the organisation to take decisions on pricing policies and strategies. Skimming (high premium

pricing signaling a quality service) and penetration (lowering the price of room rates to gain large market share quickly) are examples of marketing strategies. (Baker & Hart, 2008) Pricing of specific rooms have to take into account the moves made by competitors within the market. The fourth stage is setting the price range within which the hotel set room rates. It can be cost based, demand based, or competition based. In practice, hotels might blend all three strategies throughout different phases of the hotel booking seasons. The final stage of the price setting strategy consists of setting pricing tactics and adjustments. Throughout this stage the firm allows for unique or short-term opportunities through price manipulation offering discounts and adjustments to specific customer segments (Bertismans & De Boer, 2005)

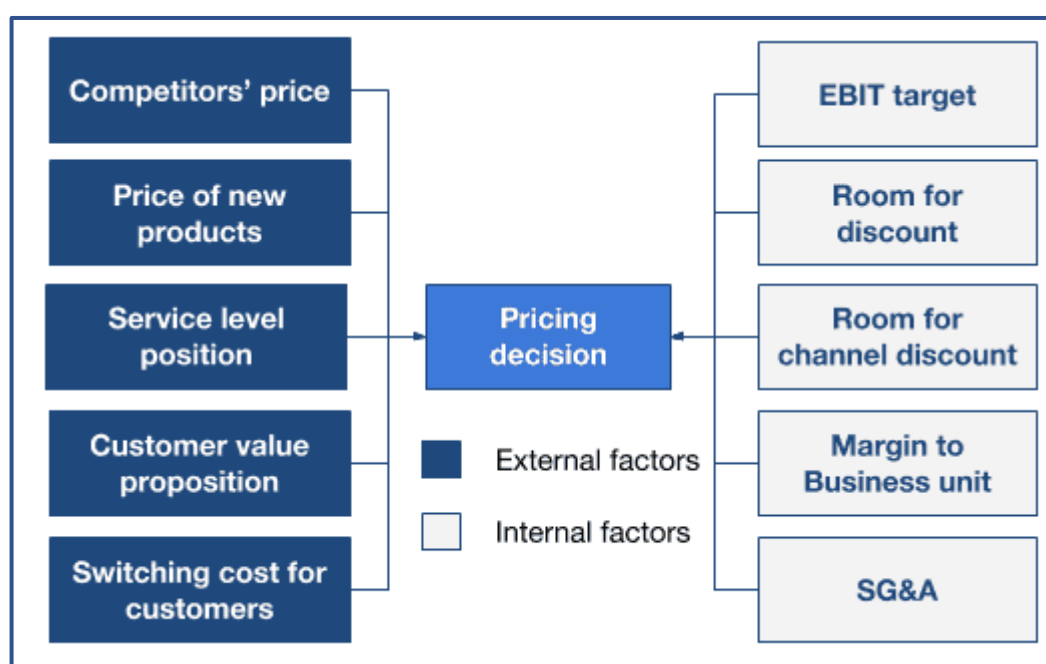


Figure 7
The external influences on the pricing decision p443.

2.11 Setting Room Rates in 4/5 Star Hotels

Throughout the work of various authors and academics, hotels in 4–5-star category set a number of different price categories for rooms and it then assigns a number of rooms for each selected category which forms the basis of their pricing strategies. Normally, low-priced categories are assigned for

bookings which are done by clients at the earliest stage once the hotel management sets the room rates (Anjos, et al., 2005). This could spread over a 12-month period in advance. Once the entire capacity is booked, the system leads the booking office towards the higher-rated categories. Bitran & Caldentey (2003) suggest that if the management allocates too-many rooms to the lower-priced room category, these are filled-up to capacity in a short-time. As a result, it will enable a high room fill-rate to be achieved (Thompson & Failmezger, 2005). Yet, this approach leads towards less revenue as the higher-priced categories might have an opportunity of lost sale because of capacity constraints. Conversely, allocating excessive room capacity to higher-price category could potentially lead towards rooms which are never booked (Bitran & Caldentey, 2003). This is a situation where in the service industry, a lost sale is never recovered.

The intangibility of the service industry puts it at a disadvantage that unsold “product” cannot be stocked for later sale as once capacity is lost, it is lost forever (Thompson & Failmezger, 2005). These characteristics lead to higher process complexity when setting room rates because empty room represents a lost revenue. Thus, hotels commonly offer discounts in their attempt to fill their rooms generating business from price-sensitive guests (Tomczak, et al., 2018). Yet, Wang et al (Wang, et al., 2009) argue that discounting only works where the revenue generated is greater than the marginal cost of selling the room. On the other hand, customers tend to wait for better deals through on-line booking. Therefore, hotel management must be very careful on how to reduce room rates for last-minute deals (Canina & Carvell, 2005). Apart from these factors, revenue management decisions have to base their revenue streams on forecasts and the probability of a booking being confirmed. Thus, optimization of rooms and setting room rates models tend to solve part of the forecasting and demand problem. The use of accurate and suitable estimation tools will ensure that the margin of error is reduced to a bare minimum (Smith & Taylor, 2002)

2.12 The impact of Competitors and Agents on Hotel Room Rates

Competitive rivalry between hotel groups within the industry influence hotel room rates. However, room rates are also influenced by the intermediaries such as travel agents and tour operators. Based on a commission basis, the room rates could also be set taking into consideration the demand generated by travel operators (Hamper, 2013). On the other side, the impact of the internet has changed the entire business model for hotel bookings. This is because in the past decade, on-line booking is making up the majority of sales through individual or group bookings. Bookings are done using online platforms such as booking.com; trivalgo.com, eDreams and the hotel's website itself (Kingsnorth, 2019).

Undoubtedly, the internet had a significant impact on the way how hotels compete in the market. Through online distribution channels it is becoming evidently clear that the influence of the management on price setting has diminished. The option of hotels to differentiate in the service provision is thus becoming more dominant within the hotel industry (Stone, et al., 2000). Through information and communication technologies hotels operating within the 4/5 Star sector are changing their competitive strategies. This is because, there is now much more transparency in prices as the internet has reduced information asymmetry between the customer and the hotels (Bailey, 1998). This is leading hotels to establish pricing policies which are dynamic. Through better management systems, the revenue manager engaged in hotels enhance their capabilities and flexibility to change prices according to the market conditions in real-time. The notion of agility comes into place as the management needs to be responsive to the changing market environment (Christopher, et al. 2002). The management must continuously be responsive to forecasted demand to maximise revenue on a daily basis, sometimes even on an hourly basis (Fibich, et al., 2005). In recent years, the idea of agility in manufacturing firms has shifting towards the hotel industry. The industry has to set room rates based on how customers are responding to the demand and supply forces (Christopher, et al., 2002)

This scenario is leading firms within the 4/5 Star hotel industry to adopt dynamic pricing strategies to enable them to compete. This phenomenon is

driven by the increase of data availability and the flexibility of changing prices (Stone, et al, 2000). Innovative technologies and the availability of decision-supporting tools is enabling the management to analyse demand data and change prices with speed and accuracy (Daft, 2019). Another factor affecting the dynamic pricing strategy of hotels includes the organisational culture (Scholes, et al, 2015). Organisational culture includes management structures, systems of work and control systems; the cost of implementing price changes and the seasonality of demand whilst the shocks of demand and cross elasticities cannot be ignored (Christopher, 2000). Accurate and timely information on demand is critical to the revenue manager because decision-making is mostly centralised in hotels.

2.13 A local perspective - hotel supply and demand of hotel accommodation in Malta.

Discussions on surplus supply of private accommodation, as well as additional new hotels have been evaluated in Malta. The decrease in quality tourism has been persistent among Maltese hoteliers and the local industry for the past three years, since 2017. Despite a general agreement on its negative effects, efforts to quantify overcapacity and supply do not exist. The dissertation attempts to set a base line model in this regard. As these efforts are hampered by the difficulty in evaluating the ideal capacity, this study will provide a framework for a revenue-maximizing exercise within the industry. Moreover, as capacity decision is made before the demand is known, the effect of demand uncertainty on capacity decision will be examined within the context of 4/5 Star hotels in Malta.

2.14 Research Gap

Referring to the past literature undertaken in the past five decades, it is fair to claim that the debate on the pricing strategies to set room rates has been quite extensive. Significant number of empirical studies and research covering various sectors of the hotels industry have been done. These are classified as luxurious hotels including those within the 4-5 Star category. Studies have been undertaken in many contexts including large and multi-national hotel

chains or individual hotels. Other studies covering large geographical areas within all five continents around the globe were conducted. Similarly, scholars attempted with a degree of success to create models that determine the best scenarios for profit generation when pricing strategies are set for hotel rates based on demand and supply forces. Academics have investigated methods of maximising the capacity of hotel rooms to generate the greatest profit whilst holding their reputation high. This has been done, without jeopardising its perceived value for money. Scholars studied systems and frameworks on how hotels cater for the new phenomenon of on-line booking and the diluting of the travel agency bargaining power. This led to other researchers that challenged the changes in hotel room prices whilst new intermediaries evolved such as hotel booking platforms. Yet, all studies were very rarely applied and investigated or compared within the economic conditions in Malta. No empirical research was traced that tackle the problem of supply and demand factors in hotel accommodation in Malta

It is noted that the bed capacity of the 4/5 Star Hotel category, the total beds available as per MTA statistics in 2019 was of 21,912. The statistics that demonstrate the utilisation of hotel beds both prior and after the COVID-19 pandemic is not available in Malta. This is because, most of the hotels do not participate in providing data to generate such information. It is within this background that this study will attempt to fill this gap in the literature and critically assess the supply and demand factors that impact the pricing strategy of 4-5 Star hotels room in Malta. The conceptual framework identifies this gap and which will be addressed in this dissertation.

2.16 Conceptual Framework

Referring to past research and taking into consideration the literature review gap identified for this study, the conceptual framework on which the research study will be investigated in a sample of 4-5 Star hotels in Malta is presented in Figure 8.

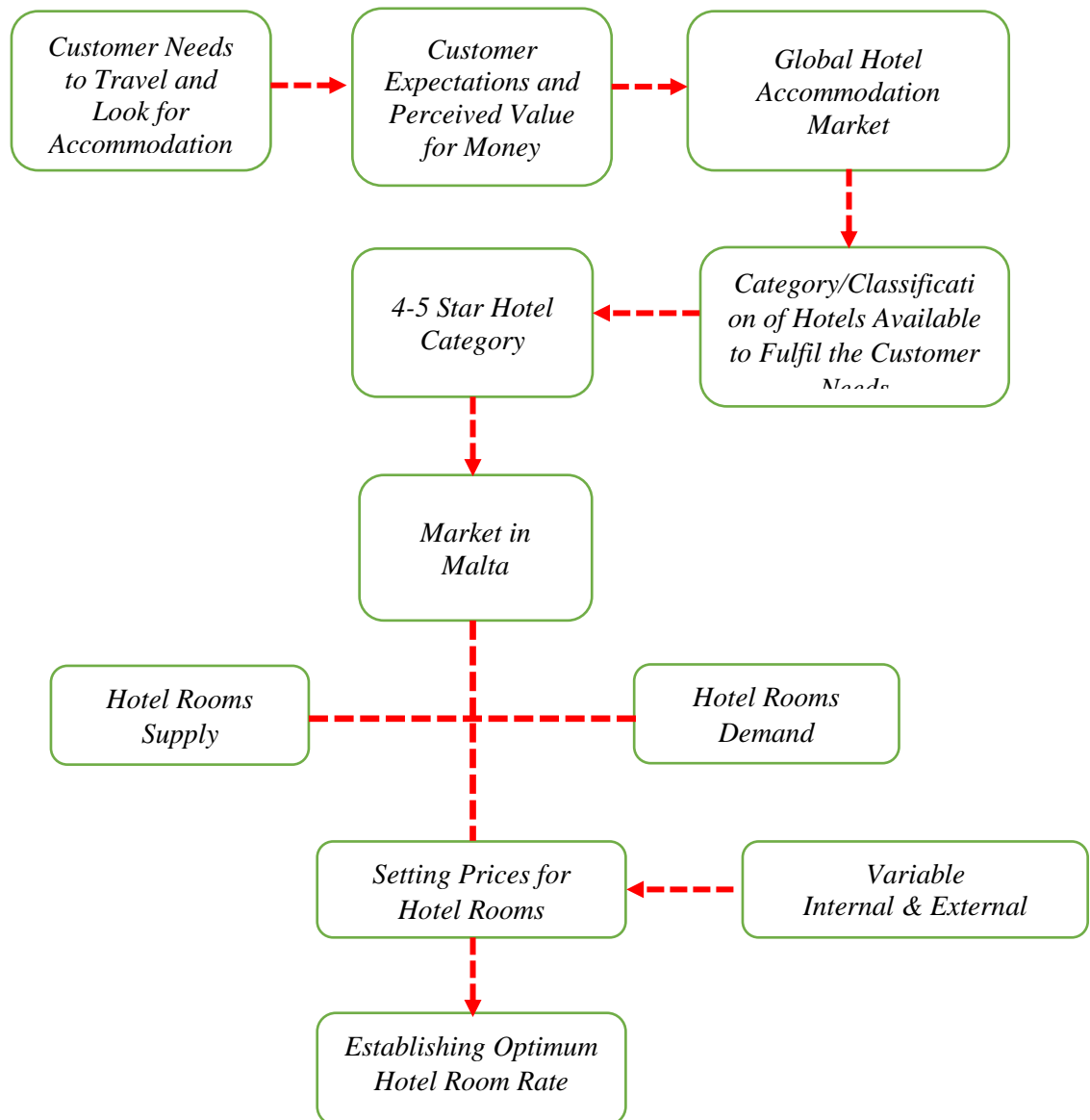


Figure 8
The Conceptual Framework Proposed for this Research Study

CHAPTER 3

METHODOLOGY

3.0 Methodology

3.1 Chapter Introduction

This section of the research proposal provides a detailed critical discussion on the choices and justifications of the methodologies applied based on the key paradigms that take into consideration assumptions and options amongst a choice of research study methods. The methodology will be based on the framework of Saunders et al (2009), the Research Onion and each step through the methodology is evaluated and discussed. Each phase represented by the “onion peel” is cross-referenced in Figure 9 in which the section of the chapter is referred to where the methodological choice is discussed. The proposed research philosophy, approach and strategy and how the proposition will be addressed are explained. The chapter proceeds by identifying the research approach options and after in-depth consideration a justification of the chosen approach is highlighted.

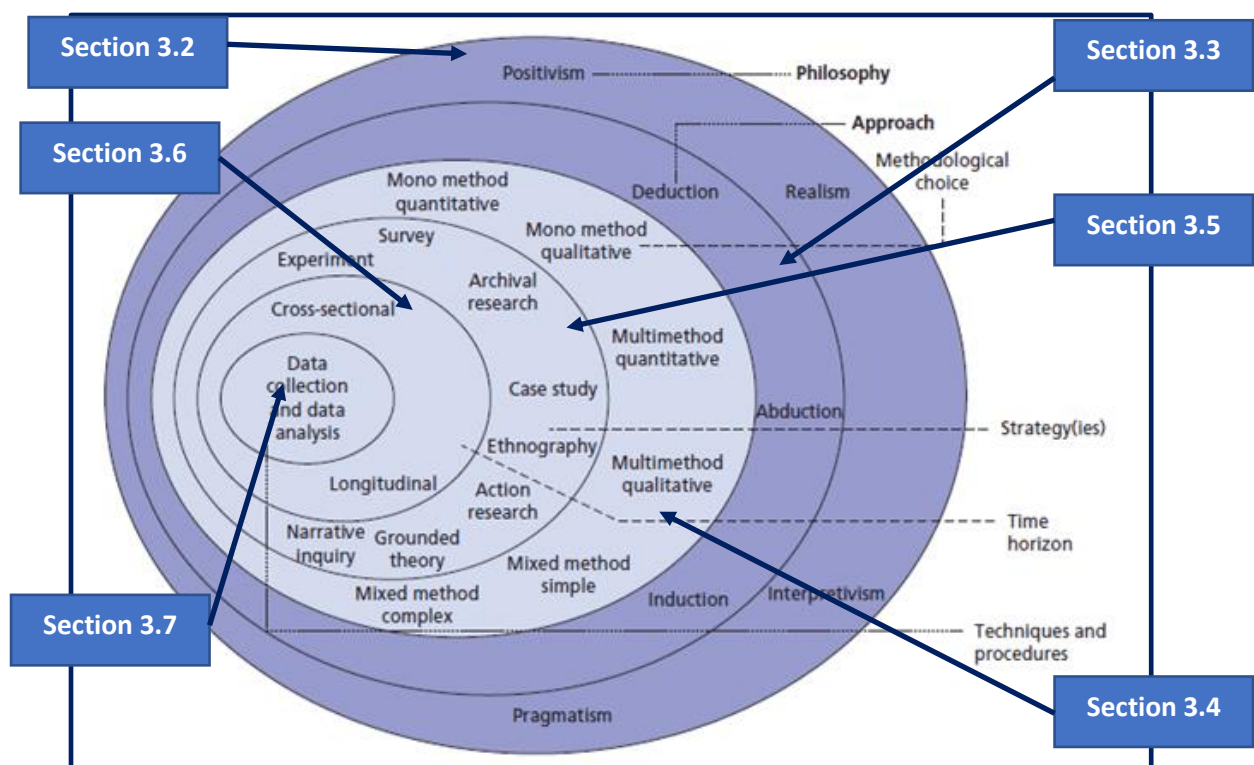


Figure 9
The Research Onion Framework
Adapted from Saunders et al (2019)

Referring to the next step of the model, the strategy for the methods applied is critically evaluated and chosen amongst a number of options. The methodological choices are then explained providing a detailed account on how the mono method was preferred to the mixed method of research, focusing on qualitative methods through one-to-one interviews. The timing of the dissertation based on a cross-sectional approach is explained followed by a detailed account on how the data collection method was conducted based on the sampling type and sample size referring to the non-probability sampling and justifying why this was the most appropriate for this study. The process of data analysis and interpretation is then assessed and the method of comparative analysis between the literature review and the primary data collected is explained. Ethical considerations are explained, and the chapter concludes with a description of the validity and reliability of the methods chosen highlighting the limitations.

3.2 Research Philosophy

The choice amongst five key management philosophies referred to by Saunders et al (2019): the pragmatism, realism, positivism, interpretivism and postmodernism. The positivism philosophy is based on scientific models associated with data and real evidence whilst realism is fundamentally set on the researcher's experience and the processing of mental thoughts. The pragmatist philosophy is applicable in research study where the researcher is looking to resolve practical, tangible and realistic problems whilst Kilduff and Mehra (1997), imply that Postmodernism challenges the way how the thinking is being done on a specific topic. The interpretivist philosophy attempts to make interpretations towards the behaviour of individuals and interprets the actions of the participants perspectives (Scotland, 2012).

Amongst the philosophical options, the interpretivism approach was deemed the most relevant because the study investigated the perspectives of experts and officials in 4/5 Star Hotels, Associations and the Maltese Government views on how demand and supply impact the room rates. The interpretive approach enables the researcher to collect qualitative, in-depth and rich data on the subject matter. Furthermore, Bryman (2012) argues that through the

interpretivist philosophy, the researcher can resolve research problems associated with business and management research.

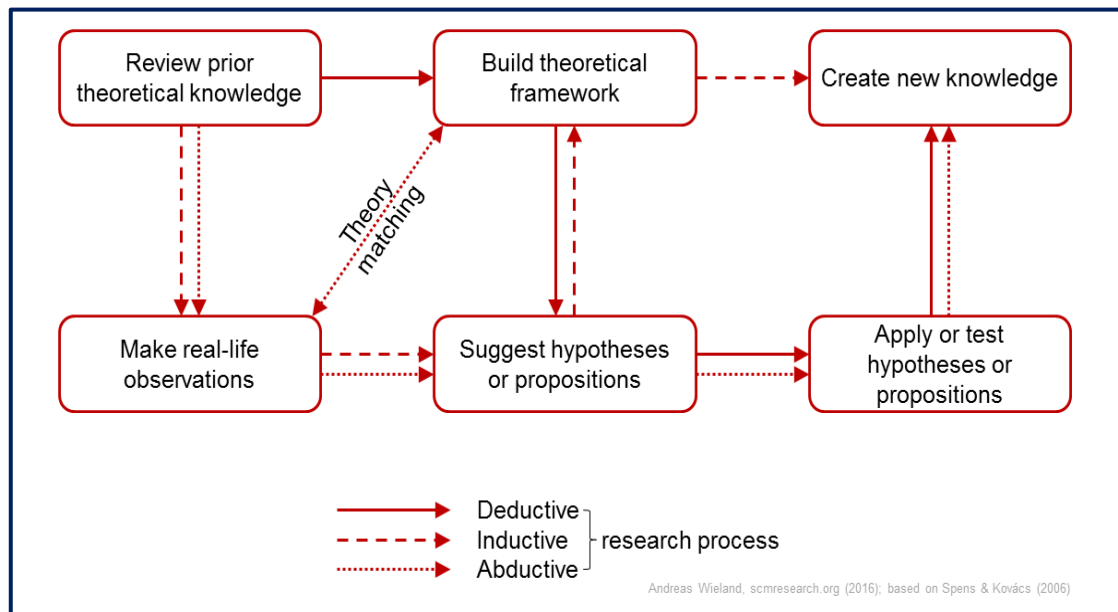


Figure 10
The Deductive, Inductive and Abductive in the Research Approach

3.3 Research Approach

The Research Approach choices refer to the Inductive, Deductive and Abductive. In terms of the Deductive approach, the idea is to develop a hypothesis and the research will find out the current theories in place and test the validity of the theories based on the research case (Snieder & Lerner, 2009). Based on the critical review of the various options, the Deductive approach was deemed as the most fitting for this study as illustrated in Figure 10 above. This is because the intention was to first review the current theoretical knowledge on supply and demand that effect the room rates in 4/5-star Hotels in Malta and then build a theoretical framework on which a proposition will be suggested and tested. Knowledge is created for further analysis, interpretation, and application of the outcomes by Managers in the 4/5 Star Hotel segment in Malta.

3.4 Methodological Choice

Referring to the Methodological Choice, the options to apply the Mono or Multiple Methods was assessed. Both options are branched into quantitative and qualitative studies and a Mixed-Method Research option can be applied too. The best option identified for this study was the Mono Method focusing purely on rich, in-depth, qualitative data collection. This is because the study's strength lies on the expertise, knowledge, experience and in-depth knowledge of officials and chief executives that otherwise could have been impossible to collate. The participants represent an excellent sample of the key experts in the field both from a business perspective and from a strategic and long-term approach by the Maltese Government and the Associations representing the 4/5 Star Hotels in Malta. The selection of the qualitative study was chosen to comprehend the perceived view on how the supply and demand is impacted by key factors within the industry and how can a pricing strategy for hotel room rates be applied taking into consideration these factors.

The study conducted the exploratory design because it sought to find solutions and explore implications that are influenced by the supply and demand for 4/5 Star Hotel accommodation in Malta and how this impacts the room rate in specific phases throughout the year.

3.5 Research Strategy

The fourth step in the research methodology framework is the Research Strategy. The multi-case study strategy was deemed to be the most apt because the experimental and the ethnography theories are more included to be used in laboratory experiments whilst the latter is associated with the study of culture amongst different groups of people. The archival research is apt for research using historical documents as suggested by Shani and Pasmore (1985). This option was discarded because of archival research. Action research is intended to be used in solving organisational issues through action observation, which was not the intention of this study. The survey study was excluded because as Ponto (2015) remarked, this option is applied in research where large samples and statistical inferences are sought representing a broad

demographic sampling. The other two options consisting of the grounded theory (linked with statistical inferences) and the narration analysis involves storytelling and investigation were both excluded in this study through the same advice of Hancock, et al (2009) and Tashakkori & Creswell (2007).

The choice was therefore to apply the Multi-Case Study Strategy because the aim of the study is to investigate the demand and supply influences of price setting strategies for rooms in 4/5 Star Hotels in Malta representing multiple cases, leading towards the investigation of twelve hotels in Malta. In line with what Stake (1995) argues, through Multi-Case Strategy, the research was able to cross-check, validate, compare and contrast the different strategies applied by hotels in the same industry segment and addressed the research question stated in the introductory chapter.

Furthermore, a Multi-Case Strategy provided an excellent insight on the extent to which the problem can be commonly resolved within the industry and provided insight to key decision makers in strategy formulation for the industry involving three stakeholders in Malta: Malta Med Air, the Malta Hotels & Restaurants Association and the Malta Tourism Authority. This real-life scenario was tested against past literature and empirical studies as suggested by Yin (2003).

3.6 Data Collection and Analysis

Amongst a list of fifty-five, 4/5 Star Hotels in Malta, twelve hotels were chosen that represent the geographical area of the entire Maltese Islands but which also represents the concentration of visitors stays throughout the entire year round seasons in Malta. The criteria applied to select the twelve hotels was based on the convenience sampling method. This is because the managers of these twelve hotels have accepted to participate without hesitation and they were available immediately to be interviewed. Moreover, the hotels in question represent a sample of 4-5 Star Hotels which have been operating for more than 20 years in Malta. Therefore, they have enough knowledge and understanding of the problem being faced within this industry sector. Five CEOs, one from each hotel were chosen to participate. The

justification of the CEO amongst all roles is that it is the CEO that is mostly involved in the pricing strategy and is responsible for the hotel rates and ensuring that the room accommodation is maximised throughout the entire year. That is why the sample is referred to as purposive, because the CEOs are selected purposely due to their knowledge, understanding, experience and competence on room rates, occupancy and generating the greatest return through maximisation of room occupancies. Each participant chosen will have to meet all the criteria set in Figure 11 below and which should tick the “Yes” column for all criteria. The sample of the 4/5 Star Hotel representatives will thus have a representation of 12/55, which is 21% representation of the entire population of the hotel segment. This sample size is adequate and appropriate for qualitative and case-study research studies as remarked by Saunders et al (Saunders, et al., 2019, p. 297) suggesting a minimum sample size of 5-25 for semi-structured/in-depth interview for non-probability sample, as in the case of this study.

The other group of 3 participants will be based on the same convenience and purposive qualitative sampling type. This is because the chosen participants represent the following institutions which all have a significant contribution towards the study. The three chosen organisations that will participate are:

- Malta Tourism Authority
- Malta Hotels & Restaurants Association
- Malta Med Air

| Ref | Criterion | Yes | No |
|-----|---|-----|----|
| 1 | Is available and voluntary accepts to participate in the study as per consent form attached. | | |
| 2 | Has a minimum of 2 years' experience as a CEO within a 4/5 Star Hotel in Malta | | |
| 3 | Have over 2 years' experience in setting room rates and is responsible for the maximization of room occupancy | | |
| 4 | Knowledgeable and Competent with relative Qualifications in the Hospitality Industry | | |
| 5 | Has been involved in setting strategies based on supply and demand concepts in the hotel accommodation in Malta | | |

Figure 11
Set of Criteria for CEOs
as Participants in the Research Study

The chosen participants, one from each organisation were chosen after meeting all criteria as listed in Figure 12 below:

| Ref | Criterion | Yes | No |
|-----|---|-----|----|
| 1 | Is available and voluntary accepts to participate in the study as per consent form attached. | | |
| 2 | Have been involved in influencing and taking decisions that impact the 4/5 Star Hotels occupancy in Malta | | |
| 3 | Participated and contributed to strategies that impact 4/5 Star hotel room rates in Malta | | |
| 4 | Knowledgeable and Competent with relative Qualifications in the Hospitality Industry in Malta. | | |
| 5 | Has knowledge, understanding and competency to discuss and critically evaluate demand and supply factors affecting 4/5 Star Hotels occupancies in Malta | | |

Figure 12
Set of Criteria for participants

A set of ten open-ended Interview Questions were set (refer to Appendices A) for the five Hotel CEOs. Similar to what Silverman (2003) suggests, a copy was provided prior to the interview and a pilot interview conducted to ensure that the interview questions are clearly understood and interpreted and to test the time duration lasting not more than one hour. Another set of open-ended interview questions (refer to Appendices B) were set addressed to the officials chosen to participate in the study as key stakeholders in strategic decisions on demand and supply and room hotel prices in Malta. The selection of interviews rather than questionnaires/surveys is based on the premise that it has enabled the researcher to delve, probe and ask complimentary questions whilst feedback is immediately received. Additionally, as Hennink, et al (2020) remark, the fascial expressions and body language proved to be a determining factor in the interpretation of their responses as noted by the researcher.

3.7 Research Proposition

A research Proposition and will be tested within this study investigation. The proposition was tested, and the study outcomes based on the research study were identified and which were addressed through the research study to either confirm or reject it as stated below:

The pricing strategy of room rates for 4/5 Star Hotels in Malta is significantly influenced by supply and demand factors.

Bryman (2012) argues that multi-case study approaches include the in-depth analysis of various organisations and therefore it fits the context of 4/5 Star hotels in Malta. In fact, the study compared and cross-checked the perceived views and opinions of key experts and executives in the field of 4/5-Star hotel accommodation and how supply and demand is impacting the room pricing strategies. The views were compared and contrasted through nine one-to-one interviews with key players in the industry segment.

3.8 Informant Selection

Amongst the various types of non-probability sampling method, the best option identified as best fitting the research study is the judgemental sampling referring to the selection of a number of participants representing the population based on the researcher's own judgement. This approach was deemed to be the most apt because the number of officials within the Ministry of Tourism and the Associations or entities that represents the 4/5 Star Hotel industry segment who were ready to participate was extremely limited. Considering the confidentiality and sensitivity of the subject matter, setting room rates and divulging the strategic approach towards pricing has put-off many managers who are engaged in this industry segment. Although anonymity was guaranteed to all participants, many showed scepticism to participate. Thus, applying random selection candidates would have been impractical and it could have failed to conduct a study with a reliable sample.

The risk of failing to have a valid sample number was too high to ignore. As suggested by Yin (2009), five 4/5 Star Chief Executive Officers representing 4- or 5-Star Hotels in Malta were identified by the researcher and voluntary accepted to participate in the study. A threshold was set to ensure the validity of their responses ensuring that the CEOs had more than 5 years' experience in their role within the company and that they were very much involved and were key decision makers and involved in the operation strategy to determine

the room rates. The sample size of five CEOs represents 35% of a population of fifty-five 4-5 Star Hotels in Malta. Tashoakkori & Teddlie (2010) argue that a sample size representing more than 25% is reliable and valid for multi-case research study based on qualitative responses.

Additionally, the study included three interviews with key and high-level officials from the Malta Tourism Authority (CEO), the Malta Hotels & Restaurant Association (The President) and Malta Med Air (CEO). These three specific participant selections were based on the notion of a purposive sampling because they are the key officials who are involved in the strategy and decision-making that concerns the demand and supply of hotel rooms and the pricing strategy for 4-5 Star Hotels in Malta. Their selection was deemed as appropriate because they were ready, and voluntary accepted to take part in the research study providing extremely valuable, unbiased and relevant views on the subject matter.

3.9 Accessibility

Having access to the hotels premises to undertake the study and conduct the interviews with the CEOs was rather hectic especially throughout the COVID-19 pandemic. Yet accessibility was confirmed for face-to-face interviews with all necessary precautions and safe guards throughout all eight interviews undertaken for this study. Permission was requested to conduct the interviews with the five hotel's CEOs and the three officials representing the three entities associated with the hotel industry. Similar to deVaus (2002) argument, every endeavor was fetched throughout this phase of the study to ensure accessibility in a legitimate, organized and approved manner. Non-disclosure agreements were sought where necessary whilst the Gatekeeper Form was signed by all nine entities that participated in this study. The Gatekeeper Forms are attached to this study and can be referred to in Appendix C & D. The forms provide a formal permission to gather primary data from each of the organisations chosen ensuring that all ethical considerations are in place as stated in the form itself.

3.10 Research study rigor

Throughout this study, it was pertinent to have rigor when constructing and presenting the methodological choices. Rigor has been stressed by Guba & Lincoln (1981) claiming that throughout the research study phases, the researcher has to ensure that the confirmability, dependability, transferability and credibility are adhered to.

Referring to the credibility of the study, it is fair to remark that every effort has been undertaken to ensure that the outcomes of the study demonstrate the true picture and a genuine reflection of the reality within which the social background of the strategic decisions taken within the context of 4/5 Star Hotels are operating to set a room pricing strategy within the different scenarios and business circumstances within which they operate in Malta. An audit trail of the processes and tasks conducted to collect the data was safely kept ensuring references when and if required.

In terms of transferability, the outcome of this study has its strength as the knowledge gained and the conclusive statements and recommendations can be transferred to other cases of 4/5 Star Hotels. This is due to the rich and in-depth data gathered throughout the interviews undertaken both with the Hotels' CEOs and the Officials representing the Associations' and Maltese Government's entities. The detailed account of experience, knowledge and practice gathered throughout the interviews forms a very good basis and sufficient detail for others to share, learn and possibly apply within their roles and fields in the same industry.

When referring to the dependability, the study has considerable detail and in-depth elements of demand and supply and price-setting characteristics for room rates within the chosen hotel industry sector that others can replicate as suggested by Kvale (2007). The replication consists of various analysis and interpretations from the outcomes, and which can be evaluated and assessed in another context providing insights on how strategic decisions are taken within the chosen industry sector in Malta.

Confirmability was applied throughout all phases of this research because the researcher was not involved in any way with the chosen organisations and therefore could not influence the outcomes. As an “outsider” within the chosen organisation, the research had no influence at all that might have directed the participants towards a specific outcome. Moreover, the outcomes of the interview were referred back to all participants to confirm that the given account, argumentation and interpretation genuinely and accurately reflects their stated views.

3.11 Ethical Considerations

Ethical considerations in a research study are a critical element in the methodological choices undertaken (Walsham, 2006). Research ethics has a significant impact on the validity of the study as it provides clear statements on the researcher’s moral values and beliefs when undertaking the study. Referring to ethics in research, Gray (2009) argues that it consists of the safeguarding of the participants’ interests based on high moral principles that cannot be compromised. Thus, various guiding principles were followed throughout the phases of the research investigation based on Bryman & Bell (2015) ; Yin (2009) and Easterby-Smith, et al (2008).

It is thus appropriate to state that following ethical in-depth considerations, the participants’ names representing the hotels were kept anonymous to safeguard the sensitivity of information shared and any business associated data was not divulged. Each participant signed the Consent Form as recommended by Kvale (2007) which included the option to pull-out of the interview at any point in time without the necessity to provide a reason. The Consent Forms can be referred to in Appendix C & D. The Gatekeeper Form (referred to in Appendix E & F) is evidence of permission granted by each organisation having the full knowledge of the Directors or Management of the organisation participating in this study. This includes the safeguarding and the adherence of the study through the Personal Data Protection Act in Malta. Research Ethical standards were strengthened as the Participant Information Sheet (Appendix G) was sent prior to the undertaking of interviews in line with Burndard’s (1991) recommendations. Therefore, background

information on the study was stated and the aims of the study were stated and a time-schedule was given to the participants to plan the interviews in advance.

The primary data was gathered through data recorder and the responses were transcribed at a later stage. Nevertheless, as suggested by Trivedi & Shukla (1998) the participants were informed in writing that the data will be deleted from the hard drive once the dissertation grade and certificate are awarded whilst the data was kept secured and safe through computer passwords. This is in line with what Hancock, et al (2009) suggested. Participants were also provided with debriefing sessions throughout the research study. Ethical standards were safeguarded as the interpretation's outcome were confirmed and validated by the participants and corrections done when and if necessary to make sure that the detailed responses and direct quotations stated in the study reflect the true, correct and accurate version of the participants' views as argued by Saunders et al (2009).

CHAPTER 4

FINDINGS & DISCUSSION

4.0 Chapter 4: Findings and Discussion

4.1 Chapter Introduction

This chapter is a detailed discussion and analysis of the findings collated from participants representing a sample of 4-5 Star Hotels operating in Malta and three key experts in the field of tourism in Malta. The primary data collected through a set of one-to-one interviews were converted into a comparative analysis between the participants and the literature review findings and the critical analysis is presented in five thematic areas. An overview of the participants profile and their contribution is highlighted, and the thematic areas chosen for the discussion and analysis are mentioned for ease of understanding. The chapter refers to the interview questions and the outcomes represents the views of the respective organisations that participated in this study. A summary of the findings concludes the chapter.

4.2 Overview of participants

The findings and analysis presented are based on interviews held amongst five Chief Executive Officers (CEOs) of 4-5 Star Hotels operating in Malta representing:

1. DB San Antonio Hotel
2. Westin Dragonara Hotel
3. AX- Victoria Hotel; The Palace; Saint John; Rosselli; Palazzo Capua; Sunny Coast and SeaShells Resort
4. Marriot Hotel
5. Salina Bay Resort Hotel
6. Waterfront Hotel

These hotels represent 12% of the bed capacity within the 4-5 Star Hotels category in Malta. In fact, the total bed capacity of these hotels is 2,677 from a total overall capacity of 21,000 (MTA statistics, 2019). The justification of this sample size has already been explained and justified in the Methodology section. For ease of referencing, the CEOs will be referred to HCEO1-05 in order as listed above.

The five CEOs all have considerable experience in leading 4-5 Star Hotels in Malta with over 5 years' experience in their positions. Their knowledge, competences and abilities in setting strategies, planning and executing the long-term competitive strategies in a very volatile tourism market in Malta is considered of paramount importance within the subject of setting hotel room rates and what are the key factors that impact the prices and the extent to which the demand and supply of hotel rooms have an influence in setting the pricing strategies in different seasons. Their contribution towards this study is considered as valuable as they are the key decision makers and are very much involved in high level strategic financial aspects when it comes to setting prices. Their decisions on how to react to competitive and market forces and their proactive approaches when supply and demand varies is considered as critical and thus their input has considerable weight in this study. An overview of the five CEOs is presented:

Claire Zammit Xuereb – AX Group

Claire has been in the hospitality industry for the past thirty years and manages a portfolio of seven hotels in Malta. She holds a BSc in International Hospitality Management from University of Wales.

Charles Polidano – Westin Hotel and Marriott

Charles is a leading entrepreneur in the construction and hospitality industry with over forty years' experience as director and owner of various businesses ranging from hotels, Montecristo Estates and completed various large projects including Lufthansa Technik and Portomaso.

Maria Micallef – Waterfront Hotel

Maria has been CEO for twelve years leading numerous businesses of a large scale in Malta including, General Soft Drinks Ltd, Institute of English Language Studies and Waterfront Hotel. Maria holds an MBA from Maastricht School of Management.

Arthur Gauci – DB Group

Arthur was CEO of DB Group and member of the board of Directors of the same group for 27 years, eleven years of which as the Managing Director and later CEO. He started his career with an audit firm in Malta later becoming a Financial Controller and continued up the ladder to a CEO position.

Philippe Lonfat - Salini Resort

Philippe 25 years of experience within the hotels industry, specifically in 4/5 Star hotels which led him to his current role of CEO.

Another set of three one-to-one interviews were set with three organisations that influence and are very much involved in the 4-5 Star Hotels industry through their leading roles in setting, monitoring and providing support to this important industry in Malta. The three participants were:

- The CEO of the Malta Tourism Authority (MTA), Mr. Johann Buttigieg
- The President of the Malta Hotels and Restaurants Association (MHRA), Mr Tony Zahra
- The CEO of Malta Med Air (MA) a subsidiary of AirMalta, Mr Paul Bugeja.

The input of the three key experts in their respective fields was critical in this study. The MTA sets the overall strategic direction and implementation of the Government of Malta's strategies in tourism and thus has an influence on the demand created through policies and initiatives that impact the 4-5 Star Hotels in Malta. The MHRA is the key lobby association that takes care of the hotel business interests and thus it has an influencing role to ensure that this industry is profitable, operating efficiently and meeting the needs and exceeding the expectations of the 4-5 Star Hotel clients. From a demand perspective, MA has become a key player that provides airlinks to and from Malta to European destinations that has an impact on the air tickets booking that create demand for hotel accommodation in Malta. For the purposes of findings and analysis discussion, the three representatives will be referred to

as MHRA, MTA and MA Executives abbreviated as MHRAE; MTAE and MAE respectively.

4.3 Findings and Analysis discussion structure

The interview findings were based on a set of open-ended, semi-structured interviews held with the participants. The questions for the Hotel's CEO can be referred to in Appendix A and another set of questions asked to the three key executives representing hotels and tourism organisations can be referred to in Appendix B. The responses for both questions were collated in four thematic areas listed below:

- Thematic Area 1: Tourism in Malta and its link with Luxury Hotel Accommodation
- Thematic Area 2: Demand and Revenue Management of 4-5 Star Hotels in Malta
- Thematic Area 3: Demand and Supply Influences on Hotel Accommodation in Malta
- Thematic Area 4: Pricing Strategies for 4-5 Star Hotels in Malta

The responses are supported by direct quotations where specific points were stressed, and which highlight the key points that were being stressed by specific participants. Responses are compared and contrasted between the Hotel's CEOs and the three Hotels & Tourism Organisation's Executives. For each thematic area, a comparative analysis was conducted with the primary research findings with the secondary research findings derived from the literature review. Theories on supply and demand and how this impact the prices of room rates of hotels are contrasted with practice within the 4-5 Star Hotels industry in Malta. The outcome will lead towards the answer to the proposition stated in the methodology chapter 3 and which will then lead to the conclusive statements stated in Chapter 5 of this research study.

4.4 Findings & Analysis

The outcome of the interviews held are presented in five thematic areas and which are compared and contrasted between the two sets of participants, and which are later compared to the literature review findings where theories are confirmed or contradicted.

4.4.1 Tourism in Malta and its link with Luxury Hotel Accommodation

A general consensus was noticed amongst the five CEOs interviewed on their perceived view on how to define “luxury hotel accommodation”. Although each one answered independently, their view could be consolidated in one suggesting that “luxury” is all about commanding the price, having the best product and offering flawless service. All three are based on having the best rates. The responses of the CEOs managing luxury hotels in Malta within the 4-5 Star Category were quite comprehensive and in agreement that the dynamics of tourism in Malta are rather complex, unpredictable and frequently changing in a way that makes it difficult, although not impossible to predict and forecast the long-term expected occupancy within this hotel accommodation market segment. Tourism in Malta is very much following the trend of other Mediterranean countries and the challenges that Malta faces is that there are still peak of demands which lead towards 80-90% occupancy rates and the rest of the seasons is averaged on 60%.

A general consensus was demonstrated amongst the CEO participants that for a sustainable competitive advantage, hotels within the luxury market segment have to keep themselves abreast of new and innovative initiatives that attract and retain clients to increase the probability of repetitive visits to the same hotel throughout the calendar year rather than creating sporadic demand for hotel accommodation. On the other hand, as argued by the MTAE, the supply of hotel rooms is more dependant on dominant developers and entrepreneurs within the hotel and tourism industry that risk their capital to expand, improve and build new hotels that supply additional hotel rooms for the luxury accommodation market in Malta. Nevertheless, the MHRAE remarked that the Government of Malta input within the overall tourism strategy cannot be ignored and it is pertinent that such input is reflected in the overall tourism

strategy planned for long-term implementation. The set strategy will definitely have an impact on the luxury hotel room availability generated through a possible balance between supply and demand. Additionally, a very interesting point was raised by the MAE remarking that the question of how tourism impacts the luxury hotel accommodation has to be taken within the context of the geographical area where the hotels of such standards are located. Within the context of Malta, as a micro economy, the question about the location of the hotel rooms availability might seem to be exaggerated. Yet, the MAE stressed the point that:

“The question here is whether we should evaluate by area or in total. In my opinion, we should start by area, but after having designated and planned what kind/type of accommodation that best fits that area. It could also be that we want to change/upgrade that area and hence the evaluation should be done with this in mind”.

Referring to the notion of tourism in Malta and its link with luxury accommodation in Malta, the MHRAE maintained that a clear vision, mission and strategic approach must be demonstrated and communicated by the Government of Malta, and which must be reflected within the strategies of luxury hotels in their marketing plans towards this specific market segment. A general agreement on how the link shall be in place was demonstrated amongst the three executives representing supporting organisations to the luxury hotels segment. The link between the central government represented by the Ministry of Tourism and the representatives of business owners of luxury hotels in Malta should be through an effective communication system that informs investors of potential hotel room requirements for the next five years going up to the year 2026 taking into consideration the exceptional circumstances of the COVID-19 pandemic. The Government of Malta as the key regulator towards the expansion of tourism generating clients who need luxury hotel accommodation shall also find the balance not to encourage the overdevelopment of 4-5star hotels without having tangible and sound evidence that there will not be any oversupply. MHRAE further sustained that:

“As members of the EU we live in a free market so dictating numbers of hotel rooms maybe tricky. What’s key is the establishment of high-quality standards regulating facilities and service and accordingly the relative enforcement by the regulator in a destination”.

When asked about the definitions of luxury hotels and the specific market segment in Malta, all respondents were in agreement that such clients look for uniqueness, exceptional service and innovation through customer service and product offerings. In fact, HCEO4 remarked that there is still vagueness and ambiguity amongst the stakeholders within the tourism industry in Malta on what can “differentiate” between such market segment and the rest. HCEO1 further sustained that any strategy on tourism in Malta must reflect the needs of such clients and how best they can be accommodated in 4-5 Star Hotels. HCEO2 and HCEO5 agreed that this differentiation strategy has rarely been reflected by the MTA.

Referring to the interview questions undertaken with the CEOs of five 4-5 Star Hotels in Malta, a common and consistent view was uncovered that the entrepreneurs investing in this industry that operates in a very specific market segment are not being adequately consulted in a timely manner when tourism strategies are being crafted by the Government of Malta. This is because although various platforms and structures are in place to share and create ideas on how this market can meet the expectations of the clients. According to HCEO4, this can be achieved through high-quality hotel room accommodation, insignificant progress was registered on how a compromise can be found between the supply of hotel rooms through the construction of additional hotel rooms and demand through efficient and effective links with new European destinations supported by links through additional flight options from different airports. HCEO3 remarked that although the number of tourists has improved dramatically in the last decade, the changing trends of hotel accommodation in 4-5 Star Hotels is commonly being ignored. HCEO3 further sustained that:

“Malta’s level of incoming tourism at 2.6-2.7 million tourists a year is already almost reaching saturation due to infrastructural challenges. People have also become more adventurous in their travels and less traditional and thus the fact of staying in an apartment/villa booked through Airbnb nowadays suits the travel trends of many, who would have traditionally stayed in a hotel”.

Although there were some disagreements in the responses of the Hotels CEOs on the extent to which the new constructions of 4-5 Star Hotels or expansions of their rooms available for accommodation is leading towards oversupply of hotel rooms, the responses were generally in agreement that the situation cannot be sustainable in the long-term especially now with the exceptional circumstances of the COVID-19 pandemic as tourism figures will probably take four years to be within the same levels of the year 2019. The HCEO5 further remarked that:

“The effect of oversupply is already being felt to a certain extent, let alone knowing the number of hotels and tourist developments still in construction/finishing process, where thus the available bed stock will surely increase over the coming months and years. Private accommodation bed availability will continue to increase as well, also knowing the amount of apartment developments scattered all over the island, most for either long- or short-term rental”.

The findings and analysis clearly demonstrated that the link between the Malta tourism strategy seems to have worked quite well in the past decade especially in maximizing the luxury hotel rooms accommodation occupancy. Yet, there is considerable concern by the key entrepreneurs who are investing in the luxury hotel business that the oversupply issue will be a reality in the coming months and years due to a mismatch between the Malta tourism strategy and the business models currently being executed by 4-5 Star Hotels in Malta.

When contrasting the literature review findings on this thematic area with practice in Malta, the theoretical argument of Medlik & Ingram (2001) has

been corroborated. This is because the term “luxury” in the context of hotel accommodation in 4/5 Star category has been confirmed within this study as being associated with price, product and service. Together with the notion of the Forbes Travel Guide (2014) that this market should lead clients towards an accommodation providing a memorable experience through virtually flawless service and the finest of amenities supported by a team of intuitive, engaging and passionate staff who are eagerly ready to deliver a service above and beyond the guest’s expectations and it is thus critical that the supply of hotels in the luxury segment is adequate enough to meet the ever-growing demands of customers who are looking for the lifetime experience. The findings further reveal that similar to what Silverstein et al (2015) remark, the occupancy rate is not always and everywhere encouraging and social and economic forces are affecting the supply and demand for 4 and 5-Star hotels. Similar to what Silverstein et al (2015) remarks this led to entrepreneurs in Malta who have gone through expansion projects in building four and five star hotels.

4.4.2 Demand and Revenue Management of 4-5 Star Hotels in Malta

When asked about the relationship between the demand for rooms in 4-5 Star Hotels in Malta and the function of Revenue Management, the three Executives representing the organisations that support this market segment in Malta confirmed that from a revenue perspective they have little direct influence on the business performance of the hotels within this segment. Yet, all three participants argued that their role to support the business organisations is driven by the strategy that demand should be “levelled”, as much as possible, throughout the entire calendar year. By levelling the demand, hotel entrepreneurs, strategists and CEOs will be able to improve their revenue forecast and provide more price stability throughout the year. The MHRAE remarked that through its internal feedback processes amongst hotel entrepreneurs it clearly emerged that although every effort is done to maximise profits through price setting strategies, the revenue can only be “valuable” by cost control and cost reduction initiatives. The MHRAE further remarked that at the end the bottom line is how costs are controlled and monitored to ensure that the revenue generated is not diluted through

excessive costs. The MAE further remarked that through broader links to European cities and more frequent flights and seats availability, the 4-5 Star Hotel market segment can benefit as the probability of maximising the room rate occupancy will increase leading towards higher revenues. The MTAE however remarked that 4-5 Star Hotels entrepreneurs must be vigilant on the Government of Malta's tourism strategy implementation to ensure that their revenue expectations are not hindered with ad hoc decisions that impact negatively their projections of revenue. In fact, the MHRAE remarked that in more than one instance, the COVID-19 pandemic reaction was rather haphazard leading to sporadic and unexpected decisions on how tourists will be managed to keep health risks low whilst supporting this hotel market segment revenues. In fact, the MTAE argued that:

“The disruption to demand brought about by COVID-19 and its resultant impact on the realisation of a number of projects which were in the pipeline. The ideal baseline model should be one where returns are maximised, negatives are minimised and incremental activity continues to produce marginally better rates of return. This can be achieved through a spectrum of mixes of headcounts, overnights, spend, motivations, geographical mix, season and accommodation usage”.

Referring to the Hotel's CEO responses the outcome uncovered the notion that the determining factor for generating revenue is the price factor, basically the decision on when to offer a specific price for the hotel room with the aim to maximise profits. This opinion was shared by HCEO1, 2, 4 and 5 whilst HCEO3 response was more focused on the demand or quantity of requests generated through the system. Additionally, all five CEOs were in agreement that setting revenue targets is complex and frequently problematic as the demand peaks in summer whilst six months out of twelve in a year are mostly unpredictable in terms of occupancy and expectations of demand especially throughout the months of September to December. As a matter of consideration, all five CEOs remarked that the information system is a determining factor in projecting revenue based on demand. The parameters set by software developers together with revenue and CEOs can be problematic

to change frequently according to different projections of demand. Thus, there is little time and room for analysis and interpretation of results generated by the system itself to assess the extent to which revenue is maximised based on demand projections. HCEO5 ascertained that although some flexibility is in place towards price-setting, the system does not support frequent changes to its parameters.

When comparing the outcome of the primary data with the secondary data derived from the literature review, the study revealed that Elmaghraby & Keskinocak (2009) theory sustaining that revenue management is part of the overall strategic corporate objective to sustain the long-term viability of the firm has been confirmed. Generally, this is what is being practiced in Malta. As Fibich, et al (2005) remarked, practice in Malta amongst 4-5 Star Hotel leads to the notion that hotel managers attempt and sell the room at the highest prices possible without risking to be overpriced to generate the highest revenue for the firm. It further reaffirms the argument of Feng & Xiao (2006) that pricing of rooms is based on the room inventory and its control to ensure that demand-management decisions are based on the premise of revenue maximisation. Yet, the study contradicts Bitran & Caldentey (2003) view that structural, price and quantity (in terms of demand) are the determining factors for revenue generations. This is because most pricing decisions are based on the theory of Bertismans (2005) suggesting that the price decision is associated with the method that the management decide to take when offering prices based on individual offers, those prices for rooms which are reserved and how to set a price across the different product categories offered by the hotel.

The study confirms that the framework Canina & Carvell (2005) suggest that is based on the capacity of rooms, traditional hotel management approaches the rates of hotel rooms that gives considerable flexibility to the information system to allocate the room to maximise revenue in due course. It further reaffirms the theory that pricing policies within 4-5 Star hotels have thus become a fundamental component of the hotel operations as the price is considered by many to be the effective variable that hotel managers use to

generate revenue and thus encourage or discourage demand in the short or medium term.

Referring to the influences of demand and supply on hotel accommodation in Malta the study clearly revealed the lack of statistical data, scientific research and modelling techniques applied to determine a reliable forecast and projections of demand in the 4-5 Star Hotel industry in Malta. The outcomes from the interviews lacked detailed and in-depth data both in qualitative and quantitative terms. The MTAE remarked that the overall business models applied by hotels within the specified market segment are quite “hidden” and are very rarely made public. As a public official within the Ministry of Tourism, the MTAE ascertained that the basic economic theory of supply and demand stands, when it is a simple linear model and thus excessive supply of hotel room accommodation may lead to “diluted prices”. Yet, the MTAE argued that:

“Experience also shows that within a category, performances vary widely due to individual business positioning and pricing models apart from client mix and product investment. We need to focus more by focusing on those establishments offering a high level of quality product and service whilst placing increased pressure on those which are not, thus pulling down destination profile and rates in the process”.

Asserting the MHRAE was rather vague and unclear on how supply and demand might influence hotel room rates although the association might have some basic information on this matter. Yet, it is very rarely, if ever that the members in the association will share data on demand and there is still lack of transparency and insufficient trust amongst the key competitors as members of the association to share knowledge and competence to measure supply. The MHRAE argued that uncompetitive room rates by 4-5 Star Hotels will become unsustainable in the long-term. The impact of over supply through too much development might suffocate the market in Malta risking the sector losing its appeal to its client base. The MAE was more cautious and remarked that the impact on hotel room rates of supply and

demand is also determined by the hotel's cost elements. The MAE further remarked that:

“Concurrently hotels should continue to find ways and means of reducing costs, as much as possible without compromising on quality and committed deliverables, to ensure sustainability all year round. This change in itself would by default move the industry and tourism into a new business model, though this depends on how many empty rooms we are referring to. The study of demand can be further strengthened by operators and key players in Malta. I believe that with the data we have in hand we can analyse the demand worldwide, refer to the proportionate increase in demand in Malta (by country), look at the various peaks and troughs we experienced and look at the pattern of supply locally. With this data, we could then extrapolate in the future and try to assess and forecast. It will not be an easy task, but considering the advances made in data collection; this should not be an impossible task to accomplish”.

The responses from the five hotel CEOs were more inclined towards their concern on the increase in supply of hotel rooms in Malta especially as more tourists within the luxury accommodation are booking on-line choosing alternatives to 4-5 Star Hotels by staying in luxury apartments which are rented on short-term stays, farmhouses and other self-catering luxury properties such as townhouses and villas located in prime locations in Malta. HCEO2, 3, 4 and 5 were all in agreement that the supply of such properties has increased dramatically over the past year as a result of the COVID-19 pandemic circumstances, and it could be considered as a threat to the 4-5 Star Hotel industry segment. Additionally, HCEO1, highlighted with conviction the point that on-line booking has driven clients towards better room rates as the baseline for comparing prices is transparent, efficient and reliable. Nevertheless, when further probed to provide some statistics, reports or tangible evidence of scientific and reliable studies undertaken to prove their point, all CEOs suggested that this was their “gut feeling” based on informal feedback, networking amongst executives of the industry, Government of

Malta representatives within the tourism and hotels and leisure industry sector and results of surveys carried out by real estate agents in Malta. In terms of demand, the CEOs were in total agreement that this is a critical factor on hotel rooms rates determination mostly influenced by the Government of Malta's strategies, policies and initiatives undertaken throughout the calendar year to generate demand in the market. HCEO1 suggested that the demand forecasts have improved in their accuracy due to a set of initiatives by the Government of Malta through planned calendar events and activities. Yet, all CEOs remarked that specific data is rarely shared by the competitors themselves in terms of demand projections and this might be one of the factors leading towards insufficient data that can provide stability to come up with a pricing strategy that compliments the business models for each hotel.

When comparing and contrasting the field interview outcomes with the literature review, the findings reveal that the theory of Elmaghrby & Keskinicak (2009) arguing that online booking is being undertaken by customers who are mostly price-sensitive looking for ways on how to safeguard themselves against possible room rate changes in the future has been corroborated. Moreover, the notion of Bailey (1998) remarking that the internet is driving hotels to compete solely on the price and through discounting is being experienced by 4-5 Star Hotels in Malta. Yet, the notion of Canina & Carvell (2005) asserting that 4-5 Star hotels have insignificant differences in their rates between electronic channels and their own websites has not been corroborated. There was also little mention if any, in this study that confirm the studies conducted by Tso & Law (2018) suggesting that hotels offered different room rates on different online intermediary whilst the highest room rates were observed on the hotel's own website using Expedia and Travelweb (Waltz, et al., 2006).

This study further confirms the theory of Thomposn & Failmezger (2005) suggesting that hotels must be vigilant in the process of changes in hotel rates as their reputation might be at stake. It is pertinent to state that customers are very much aware on how prices are varying and changing between competitors within specific time. The accessibility and speed of internet

service is becoming a commodity and “taken for granted” in the majority of countries around the globe and therefore, customers have a competitive edge over the service provider as suggested by Porter (2018).

4.4.3 Pricing Strategies for 4-5 Star Hotels in Malta

When asked about pricing strategies for 4-5 Star Hotels in Malta, the three Executives representing organisations that support the 4-5 Star Hotels sustained that considering the high-quality product and service offered is considered as competitive and realistic within the context of the season, demand and supply factors and the economic situation, mostly in Europe. The MTA Executive remarks that through various surveys undertaken throughout the years, the MTA has concluded that as a regulator, the MTA provides consultancy and advice to the operators as the market set the prices itself within the dynamics of the economics concept. The MHRA Executive remarked that

“The 4-5 Star Hotel industry sector Invest in high quality standards and these services and products are monitored through their relative enforcement by the regulator. The goal should be to embrace service excellence at all levels of hospitality and promote high quality accommodation across different star categories of hotels”.

Further strengthening this point the MTA Executive remarked that

“Pricing strategies of this sector depends on the business models that these hotels apply. Malta is already going for a new tourism business model based on elements such as higher value added, sustainable tourism parameters, the delivery of quality across all elements of the value chain, improved visitor satisfaction and a type of tourism that more tangibly resonates with the socio-environmental values which the destination and its resident population represents. The selected strategy places these values above all else and therefore the focus will be on what development is needed to reach Malta’s tourism objectives rather than what tourism is needed for the development taking place”.

The Hotel's CEOs responses ascertained that the customer service offering, and the differentiation strategy based on quality and the personal attention are the major factors that determines the price. Yet, the demand factor cannot be ignored as this is part of the corporate objectives and operational strategies as highlighted by HCEO1,3,4 and 5. The pricing strategy is conditioned by the information system that generates prices based on specific parameters on demand. Yet, according to HCEO4, manual intervention is critical within the system as it is the value for money which is given considerable weighting by the finance and CEOs in collaboration with the marketing and sales managers. Pricing strategies are also set on customers' feedback on the service provision especially by the hotel staff and support service as this is valued by customers within this market segment. Competitors prices are very rarely taken into consideration within this segment in Malta as they normally stabilise and are consistent without prior screening. Moreover, the flexibility for discounts as an internal decision from the operations and sales managers is critical when setting pricing strategies. Nevertheless, all five CEOs agreed that the room for channel discount such as booking on-line within the hotel's website, using tour operators and using booking platforms (such as booking.com) can also be an alternative pricing strategies as online booking is increasing in a dramatic way.

Referring to the literature review findings the findings corroborate with the works of Baily (1998) and Baker & Hart (2008) suggesting that business managers design their corporate strategies taking into consideration how the corporate objectives will be cascaded down to each function of the entire business operations so that each function objectives reflect the corporate objectives. The findings also confirm the notion of Brassington & Petit (2006) that within the marketing plan a structured and systematic process enables the business organisation to distinguish itself from its competitors and target specific segment in a particular market to position itself to combat competition.

The study corroborates the notion of Stone, et al (2000) suggesting that customers frequently and consistently use the price as a means to compare

and contrast products, their specifications, the terms and conditions associated with the product or service and judge the value for money against the product quality. The study revealed that as claimed by Goodwin & Ross (1990), the price is therefore the value that is placed on a service or product and that from a buyer perspective, price is the value attached to the service or product and when assessing the price, the customer is looking for benefits.

The findings further reveal that the theory of Smith & Taylor (2002) has been confirmed because customers are looking at the functional benefits that determines their value for money (Smith & Taylor, 2002). As argued by Kottler & Armstrong (2000), the personal benefit is most probably, the most important of all factors in 4-5 Star Hotels in Malta as it is the measurement of the service provision based on the individual, psychological benefits gained through the price. Price perceptions are therefore associated with status, comfort, self-image and being intangible, room rates are perceived by potential clients as an opportunity towards self-satisfaction and leading one to believe that the choice was right based on the price and the room standards, both physically and the service provision. Yet, the outcome of the findings contradicts the work of Baker & Hart (2008) who suggested that the evaluation of the competitors activities leading the organisation to take decisions on pricing policies and strategies. On the other hand, the findings reveal that similar to what Bertismans & De Boer (2005) sustained, the pricing tactics and adjustments that allows the host to take advantage of unique or short-term opportunities and will thus include manipulating prices to offer discounts and adjustments to specific groups of customer segments.

CHAPTER 5

CONCLUSIONS

&

RECOMMENDATIONS

5.0 Conclusions

5.1 Chapter introduction

The conclusions and recommendations chapter highlights the key conclusive statements derived from the findings and analysis based on the interviews conducted with executives representing three organisations that support the hotels and leisure industry in Malta and five 4-5 Star Hotels CEOs representing a sample amongst this market segment operating in Malta. A list of recommendations follows. The research question and objectives are re-stated and the extent to which these were answered and reached is discussed. The limitations of the study in terms of the methodological approach are highlighted and areas of further research stated.

5.2 Conclusions

Referring to the findings and analysis derived from the primary data collection, the following conclusions are stated:

5.2.1 Demand is influenced by the Government of Malta Tourism Strategy

It is concluded that the Government of Malta tourism strategy impacts the luxury hotel accommodation sector in terms on how demand is generated as this is done through long-term plans that generate and attract tourists mainly from Europe. Although positive and encouraging results were achieved throughout the past decade through the tourism strategy as incoming tourists' numbers exceeded all expectations, the luxury hotel market segment might not necessarily benefit enough from the tourism boom. The role of the Malta Tourism Authority contributes towards the strategy formulation and implementation yet, there seems to be lack of coordinated effort with the representatives of the 4-5 Star Hotel market segment. This was reflected and observed by the operators themselves as their concern is based on the fact that the supply of hotel rooms is uncontrolled as construction of new hotels and expansions seems to be mushrooming over the island. The study further concludes that the MTA and the Ministry of Tourism have no tangible, detailed and scientific data and information on the supply and demand projections. Clearly, the study confirms that there is a deficiency in the

tourism strategy and the demand for luxury hotel accommodation in Malta, the availability and room maximisation through the entire seasons of the year. The differentiation factor of 4-5 Star Hotels in Malta is yet to be clearly understood, determined and promoted by the Ministry of Tourism in Malta whilst the geographical areas within which 4-5 Star Hotels are located is being ignored within this strategy.

5.2.2 Demand for accommodation in 4/5 Star Hotels in Malta has a significant impact on Revenue Management

It is further concluded that the demand for 4-5 Star Hotel rooms in Malta has a significant impact on the management of revenue. This is because demand is still very unpredictable in the shoulder season and there is some level of scepticism that the same demand will be “levelled” to create more stability and consistency in revenue generation amongst this market segment within the hotel industry. The mismatch between the Government of Malta tourism strategy and actual implementation as perceived by the operators is evident when it comes to how demand can be maintained throughout the entire year. The study further concludes that this industry sector has yet to acknowledge that generating revenue needs to have a cost-conscious policy to ensure that profits are not diluted with excessive and unnecessary costs. The study uncovered the notion that the information system is a determining factor that determines revenue through specific parameters for price setting based on various factors. It was also noted that such systems might have some inflexibility and although manual interventions are possible, they are not very common.

5.2.3 Demand and Supply projections for 4/5 Star Hotels in Malta lack statistical inferences

The study concludes that the demand and supply influences on hotel rooms in 4-5 Star Hotels in Malta are complex and lack statistical and scientific data that could facilitate the decision-making process to forecast demand. It is concluded that factors that influence demand are on-line booking which has given more “negotiating power” to the client and which is also increasing the demand volatility with uncertainty and unpredictable bookings. Secondly, it

is clear that the lack of regulation by the Government of Malta towards accommodation for tourists is leading other players in the market to offer luxurious apartments, villas and farmhouses leading to direct competition with 4-5 Star Hotels. This is further diluting the demand of 4-5 Star Hotels in Malta. The lack of trust and transparency between the operators in the industry is also leading towards demand projections that are prone to inaccuracies. Some level of mistrust is in place as it is very rare that demand projects are shared by the key players, and this is leading towards insufficient data that can be used to forecast demand for the entire industry sector. From a supply point of view, the perceived view of the operators indicate that supply is uncontrolled. On the other side, the MTA seems to have no influencing power on supply of rooms whilst the MHRA's lobbying seems to have insignificant effect, if any at all.

5.2.4 The differentiation of customer service is a major influencing factor on the pricing strategies

Finally, the study concludes that the major influencing factor of pricing for room rates, apart from to some extent the demand and supply factors is the differentiation effort of the hotel to offer specific and unique customer service levels and a quality product delivered through professional, competent and skilled staff. Yet, the price setting strategy as set by the information system parameters seriously lack statistical or mathematical models that recommend room rates taking into consideration the demand factors that are influenced by on-line bookings, competitors' offerings and service offerings through reliable forecasts.

5.3 Recommendations

Further to the findings and analysis conclusive statement, a list of three recommendations is highlighted that can potentially improve the pricing strategies for room rates considering the unpredictability of demand and supply of 4-5 Star Hotel rooms in this specific market segment in Malta.

5.3.1 Consulting and consolidating the expertise of key players in the industry

The knowledge, experience and competence of professionals, executives and managers of 4-5 Star Hotels in Malta shall be consolidated, shared and critically evaluated amongst the key players of the industry. An effort must be done through lobbying, consultation, negotiation and participation that enhances trust and confidence amongst the stakeholders to collate reliable, concrete and statistical data on demand and supply based on scientific modelling that generate reliable forecasts. Although one must acknowledge that sensitive and confidential business data cannot be divulged, the business leaders together with other stakeholders shall make a collective and joint effort to come up with practical solutions to determine the current situation of demand and supply of hotel rooms in the Maltese market, something which currently is not available. It is through a sound statistical inference that key managerial decision-making can be done to determine reliable figures of demand and supply.

5.3.2 Assessing the supply of hotel rooms in Malta

The Malta Tourism Authority shall embark on a project to assess the supply of hotel rooms in Malta, specifically on how to plan, monitor and control new construction sites for hotel expansions and new hotel developments. The project shall involve the key stakeholders of luxury hotel accommodation to propose to the Government of Malta initiatives that can be taken to determine the current situation of supply in Malta. The aim should be to regulate the supply without hindering construction projects through the Ministry of Tourism in collaboration with the Ministry of Finance and the Ministry of the Environment. This shall lead to a more sustainable development whilst safeguarding the interests of the general public of Malta, construction developers, the hoteliers and other individual players who offer luxury accommodation.

5.3.3 Set-up a Carrying Capacity Study driven by hands-on Hoteliers

Finally, it is recommended that Financial, Revenue, Operations, Information Systems, Sales and Marketing managers engaged with 4-5 Star Hotels shall organise themselves in a “Think Tank” to identify how information systems

and software can better assist managerial decision-making in long, medium and short-term forecasting for demand of hotel rooms for this specific market segment. This working group shall identify common issues, opportunities and best practice that enable demand for on-line booking to be forecasted in a reliable way and which can lead pricing strategies to be set in a realistic and practical way. Through this initiative, more stability can be achieved reducing risks of volatility in demand and supply for the benefit of business organisations operating in this complex and dynamic market.

5.4 Conclusions on the research question, objectives and proposition

5.4.1 Conclusions of the Research Question

It is pertinent to refer to the research question stated in Chapter 1 and which is re-stated below:

Which are the critical supply and demand factors which must be addressed by CEOs when determining the price strategy for luxury hotels room rates in Malta?

It is concluded that the critical supply factor is the oversupply of rooms for luxury accommodation through the unregulated and uncontrolled development and construction of new hotels and expansion projects. Additionally, the oversupply is being further inflated through the supply of luxury villas, apartments and farmhouses which are being offered as an alternative to 4-5 Star Hotel accommodation. The study further concludes that the critical demand factor that determines the price strategy is differentiation of the product and service offered by the hotel. Although the information system has specific parameters towards price setting based on demand, the peaks of demand in summer and the unpredictability of the demand through on-line booking are both significant demand factors impacting the pricing strategy for room rates.

5.4.2 Conclusions on the Research Objectives

Referring to the research objectives stated in the Introduction Chapter 1, it is concluded that the three objectives were successfully achieved. In terms of

first objective, the study determined that the current systems applied by 4-5 Star Hotels to determine room rates are demand set on peaks and troughs throughout the seasons which are mostly inflexible within the information system as they are based on specific parameters. In terms of objective 2, the demand and supply factors have significant impact on the pricing strategies as practiced and through the literature review findings. Yet, these differ from practice in Malta as there is little evidence, if any of the applications of statistical, scientific or mathematical modelling and techniques to improve forecast accuracy both of supply and demand. In terms of objective 3 to recommend improvements that can enhance the pricing strategy for room rates taking into consideration the unpredictability of demand and supply, these recommendations were listed in section 5.3 of this dissertation.

5.4.3 Conclusions on the Research Proposition

Re-stating the research proposition,

The pricing strategy of room rates for 4/5 Star Hotels in Malta is significantly influenced by supply and demand factors.

the study concludes that the pricing strategy of room rates is influenced by supply and demand factors but not to a significant level. This is because there is lack of statistical and scientific data amongst the key operators, Government of Malta entities and the Hotels' lobby association which proves this is true and correct.

5.5 Critical evaluation of the methodology and areas for further research

Although the results of the study have practical and academic strength, the limitations within the methodology which the study itself was conducted cannot be ignored and are therefore stated.

The qualitative approach undertaken to collect data using the interview instrument has its limitations as opinions and views stated do not necessarily reflect the company's strategy as CEO tend not to divulge sensitive and confidential business information and thus, they might have not fully

disclosed their opinions of the subject matter. From the executives representing the influencing organisations on the tourist industry and 4-5 Star Hotels business, they might have been excessively cautious in their comments to safeguard their roles and positions and the organisation's interests. Therefore, their critical approach might have been lacking in their answers.

The sample size and type are a limitation to this study as the convenience sampling limits the generalisability of the study outcome. Although every effort was done to reduce this limitation, the sampled interviewees' responses might not reflect the entire industry opinion especially since data was collected throughout exceptional circumstances of the COVID-19 pandemic. In terms of the organisations chosen to provide their views as key influencers within the tourism industry in Malta, it is fair to remark that the Ministry of Tourism was not represented as none of the officials was available to provide his input. Thus, the view of the Government of Malta was not fully represented although the Chairman of the Malta Tourism Authority was a participant of this study.

Considering the mentioned limitations and the outcome of the study, there are opportunities for further research to be conducted on the subject matter that can be based on the results of this study.

Further studies can be conducted by identifying a larger sample size of the 4-5 Star Hotel industry and use statistical inferences through the use of questionnaires covering a wider range of components of supply and demand factors that have an impact on the pricing strategies. Moreover, further studies can be conducted by collating detailed data from Financial Controllers, Sales Managers and CEOs. These roles can provide more detailed and specific information on pricing strategies although the challenge to divulge and share information on the subject matter are not easy to surmount. Finally, further studies can be conducted by including the Government of Malta officials especially those within the Ministry of Tourism and the National Statistics Office that can potentially provide information and data associated with demand and supply of hotel rooms in Malta. Having sound statistical data is

paramount to further strengthen further in-depth studies on the subject matter.

Thus, three specific titles for other studies are proposed:

- (a) A Demand & Supply Projection for 4/5 Star Hotels Accommodation in Malta – A Statistical Approach
- (b) The Contribution of Government Entities Towards Demand Forecasts for 4/5 Star Hotel Sector in Malta
- (c) The Impact of Excessive Construction Projects on Luxury Guests planning visiting Malta.

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APPENDICES

INTERVIEW QUESTIONS 4/5 STAR HOTELS CEOs

Question 1

Please provide an overview of the organisation, the customer base and your role and key strategic responsibilities associated with hotel accommodation, prices and planning of rooms allocation.

Question 2

How do you define luxury hotel accommodation in Malta and what are the differentiating factors from other market segments?

Question 3

What is your opinion on the supply of hotel rooms within the luxury hotel segment in Malta? In what ways do you plan to manage the supply of the local market?

Question 4

Can you please explain how demand for hotel room accommodation is projected within your organisation? What is the influence and impact of the Maltese Government tourism strategies on the demand?

Question 5

To what extent does the Malta Tourism Authority and the Hotels & Restaurant Association influence the demand of tourists for 4/5 Star Hotel accommodation in Malta?

Question 6

How do you manage the residual room demand and how can the market absorb oversupply of hotel rooms accommodation? What is the extent to which private accommodation supply impact the 4/5 Star Hotels accommodation?

Question 7

What type of business models do you suggest for the 4/5 Star Hotels to combat competition, both internally and externally and which could maximise the capacity of rooms?

Question 8

To what extent does competition influence the pricing strategy for room rates? How does on-line booking (individually or through tour operators) impact the price?

Question 9

What are the key challenges to set prices within software systems that automatically set prices set on parameters?

Question 10

Does supply and demand factors affect the pricing strategy of your organisation? To what extent? What can be done to improve demand and supply forecasts?

THANK YOU

**INTERVIEW QUESTIONS
PUBLIC & HOTEL ASSOCIATIONS OFFICIALS**

Question 1

Please provide an overview of the organisation, your role and key strategic responsibilities associated with tourism, tourist arrivals and Malta's competitiveness in tourism.

Question 2

How do you define luxury hotel accommodation in Malta and what are the differentiating factors that in your opinion should hoteliers apply?

Question 3

What is your opinion on the supply of hotel rooms within the luxury hotel segment in Malta? In what ways does your organisation support 4/4 Star Hotels to manage the supply of the local market?

Question 4

What is your organisation's opinion on the way how demand in Malta for luxury hotel rooms is generated and marketed within the strategy set in the short, medium and long-term? How do you contribute and influence towards reliable forecasts?

Question 5

To what extent is revenue generation in 4/5 Star Hotels a key priority in your organisation's policies and strategies? To what extent does the Malta Tourism Authority and the Hotels & Restaurant Association influence the demand of tourists for 4/5 Star Hotel accommodation in Malta?

Question 6

Can you please provide your opinion on how you perceive the pricing strategies of 4/5 Star Hotels accommodation within the different seasons of the year? How do you compare these with similar destinations in the Mediterranean countries?

Question 7

What type of business models do you suggest for the 4/5 Star Hotels to combat competition, both internally and externally and which could maximise the capacity of rooms?

Question 8

Some hoteliers argue that there is over supply of hotel rooms within the 4/5 Star Hotels category. To what extent do you agree to this statement especially within the context of large construction projects undergoing in Malta to build more luxury apartments and extensions of hotels?

Question 9

What are the key challenges for 4/5 Star Hotels segment in terms of supply and demand factors to maximise their room capacities?

Question 10

How can your organisation contribute towards the improvement of demand and supply forecasts for 4/5 Star hotel accommodation that enhance customer value, differentiation and ensure that room rates are both profitable for the hotels and provide value for money to the client?

THANK YOU

SAMPLE CONSENT FORM **Chief Executive Officers Interviews**



Research Participation Consent Form

"A critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta"

I, _____, understand that the purpose of this interview / focus group is solely based for research purposes.

I am notified and understand that:

- I have read the information sheet regarding the study and could ask any questions relating to the study or my participation.
- My participation is completely voluntary, and I am free to drop my participation at any time of the study.
- My identity will be kept confidential but ascribed to as a 'Participant', without mentioning the place of work or specific job role.
- I commit to keeping the identity of other participants confidential.
- I have the right to abstain from answering any of the questions in the session.
- I reserve the right to end my participation at any time by leaving the focus group session.
- Only anonymised data will be sent to the supervisor.
- The audio recording will be stored on a home computer in a secure place and saved password protected in an encrypted format.
- The audio recording will be destroyed once the study is completed.
- I was provided with the contact details of the researcher and the supervisor.

By completing and submitting this form I give my consent to Charmaine Camilleri, ID no 161368M, to process the information provided by myself for research and the completion of the Master's thesis as approved by ITS and in line with the applicable ITS rules and regulations and Maltese Legislation.

| | |
|---------------------------------|--------------------|
| Participant Name: _____ | ID number: _____ |
| Participant Signature: _____ | Date: _____ |
| Researcher: Charmaine Camilleri | ID number: 161368M |

SAMPLE CONSENT FORM
PUBLIC AND HOTEL ASSOCIATIONS OFFICIALS



Research Participation Consent Form

"A critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta"

I, _____, understand that the purpose of this interview / focus group is solely based for research purposes.

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- I have read the information sheet regarding the study and could ask any questions relating to the study or my participation.
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| | |
|---------------------------------|--------------------|
| Participant Name: _____ | ID number: _____ |
| Participant Signature: _____ | Date: _____ |
| Researcher: Charmaine Camilleri | ID number: 161368M |

SAMPLE GATEKEEPER FORM FOR 4/5 STAR HOTELS

Dear Participant,

Thank you for agreeing to participate in my research, your help was much appreciated, and I can confirm the following:

The information I collected from you will be used in my dissertation for as part of my MBA at ITS.

There will be in no way or method or intention to deceive the participant throughout this research study as the researcher is driven by high ethical values, believes reflecting in his/her behaviour.

The study aims to provide a critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta

The information you provided will only be used for the dissertation, and will not be disclosed to any third party, except as part of the dissertation findings, or as part of the supervisory or assessment processes of ITS.

The data you provided will be kept until 31st December 2021, so that it is available for scrutiny by ITS as part of the assessment process.

If you would like to reflect on your input to the research a debrief can be undertaken by request at any phase throughout the dissertation.

Please do not hesitate to contact me if you have any queries relating to this study.

Email: chamaine.camilleri001@its.edu.mt

Thank you.

Charmaine Camilleri

**SAMPLE GATEKEEPER FORM FOR PUBLIC & ASSOCIATION
OFFICIALS**

Dear Participant,

Thank you for agreeing to participate in my research, your help was much appreciated, and I can confirm the following:

The information I collected from you will be used in my dissertation for as part of my MBA at ITS.

There will be in no way or method or intention to deceive the participant throughout this research study as the researcher is driven by high ethical values, believes reflecting in his/her behaviour.

*The study aims to provide a critical analysis of Supply and Demand
Factors impacting the Pricing Strategy of Luxury Hotels Room Rates
in Malta*

The information you provided will only be used for the dissertation, and will not be disclosed to any third party, except as part of the dissertation findings, or as part of the supervisory or assessment processes of ITS.

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If you would like to reflect on your input to the research a debrief can be undertaken by request at any phase throughout the dissertation.

Please do not hesitate to contact me if you have any queries relating to this study.

Email: chamaine.camilleri001@its.edu.mt

Thank you.

Charmaine Camilleri

Appendix G

SAMPLE PARTICIPANT INFORMATION SHEET

Information Letter – Interviews

Dear Hospitality Industry Representative,

I am currently reading a Master's in Business and Administration (MBA) in International Hospitality Management at the Institute of Tourism Studies, Malta in affiliation with the Emirates Academy of Hospitality Management.

Part of my studies include a thesis titled "*A critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta*" and my supervisor is Dr. Alfred Mifsud.

Debates on what is considered to be a surplus of supply of hotel rooms within the luxury market segment and the decrease in visitors to Malta looking for luxury accommodation has been the talk of the day amongst business leaders in the hospitality industry, entrepreneurs who are looking to invest in new luxury hotel buildings. Yet, there is little, if any evidence on the extent to which oversupply is negatively impacting this hotel category in Malta. No empirical research was traced to quantify the extent and deepness of this problem, if ever is in place. Although statistics from the National Statistics Office in Malta are available, they are mostly generic and have never been linked or focused on hotel rates, pricing and based on supply or demand factors. It is within this background scenario that the intention and purpose of this study is to fill the literature review gap and undertake a critical analysis of Supply and Demand Factors impacting the Pricing Strategy of Luxury Hotels Room Rates in Malta.

In this regard, I would like to invite you to participate in an online interview and through these interviews I would like to discuss with you the fundamental bases of the factors that the study will attempt to delve into how these impacts the pricing strategy of luxury hotels room rates in Malta. These interviews will last for 20-30 minutes. Your participation is highly appreciated and important to my research. Please be assured that all data collected will be kept anonymous.

Should you accept my invitation, please read, and sign the attached consent form and send back at your convenience via email on the email address provided below. Ethical clearance from Academic Research and Publications Board at ITS have been granted.

Please note that:

- Participation in this study is entirely voluntary and you are free to decline participation.
- Participants will be protected when disseminating results using coding.
- Only anonymised data will be sent to the supervisor.
- Audio recording will be stored on a home computer in a secure place and saved password protected in encrypted format.
- Audio recording will be destroyed once study is completed.
- You have the right to abstain from answering any of the questions in the session.

Should you wish to discuss any issues regarding the research, or receive a copy of the results after completion of the study (June 2021), please feel free to contact me or my supervisors using the contact information below:

Researcher:

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