

THESIS

**IMPLEMENTING THE STATIC RATES TO INCREASE
ROOM REVENUE AT ARCHIPELAGO INTERNATIONAL
INDONESIA HOTELS GROUP**



POLITEKNIK NEGERI BALI

NI MADE DWI YULIANTI

**POLITEKNIK NEGERI BALI
BADUNG
2024**

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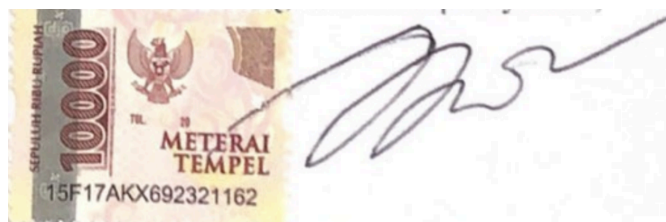
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THESIS

Prepared as One of the Requirements to Obtain
The Master's Degree in Applied Tourism (M.Tr.Par)
Tourism Business Planning Study Program, Applied Master Program
at Tourism Department, Politeknik Negeri Bali



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THESIS
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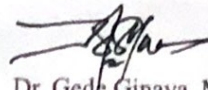
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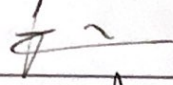
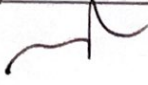
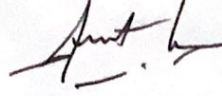


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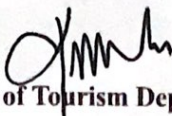
APPLIED RESEARCH THESIS
IMPLEMENTING THE STATIC RATES TO INCREASE
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PREFACE

Praise and gratitude the author prays to Ida Sang Hyang Widhi Wasa / Almighty God because of His blessings and grace the author was able to complete the thesis entitled “Implementing The Static Rates to Increase Room Revenue at Archipelago International Indonesia Hotels Group” on time.

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Constructive criticism and suggestions from various parties are needed to complete the writing of this thesis. The author hopes that this thesis can be useful for all parties. Finally, the author would like to apologise if there are still errors in writing this thesis.

Badung, 10 July, 2024

Author

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ABSTRACT

The research being conducted examines the implementation of static rates to increase room revenue at Archipelago International Indonesia Hotels Group. While the majority of Archipelago International management considers that dynamic rates are more effective at increasing room revenue, the impact of global economic events such as the COVID-19 pandemic, wars, and earthquakes (force majeure) has been underestimated. Static rates can be used to respond to economic downturns induced by these occurrences, which reduce demand. Most current research focuses on the effectiveness of dynamic pricing; however, static rates may be utilised during a hotel's low occupancy as well as the pre-opening phase to ensure room occupancy and give fixed room revenue.

This study uses qualitative research methodologies to assess current practices and offers ideal static rate models. The findings highlight suboptimal implementation challenges and propose two models: (1) Static Rates Stand Alone: managed by the channel manager for a minimum two-night stay, beneficial for remote or pre-opening hotels, during low occupancy or economic downturns; and (2) Bundle Packages: combining room rates with other services to increase revenue and promote additional facilities. These models provide consistent pricing, improved forecasting, and increased brand awareness. Implementing these models can help Archipelago International optimise its revenue plans and financial performance.

Keywords: Static Rates, Room Revenue, Archipelago International, B2B Agents.

CHAPTER I

INTRODUCTION

1.1 Background

The hotel management has to prepare its pricing strategy to boost revenue and achieve the revenue targets that have been assigned. Many strategies have been planned within the sales and marketing plan, especially in structuring the room rates or deciding the rates. A pricing strategy is the means to determine relative price levels by considering influential factors and thereby realising certain business objectives in a specific situation (Noble and Gruca, 1999; Tellis, 1986; Kienzler, M., & Kowalkowski, C. 2017). The pricing strategy provides a systematic depiction of some elements that must be managed to achieve profitable performance in a business. These elements generally include the intended pricing objective, including profit maximisation, the relative target price level, which considers the associated costs, competition, and/or customer value, and the internal and external factors (e.g., the market environment) that face the business.

Apostolos (2016) stated that the intuition behind pricing decisions can be based on either a static or dynamic approach. Apostolos further stated that the hotel management has to select strategic rates to generate room revenue. Pricing strategy is very important to determine to maximise overall revenue achievement.

Dynamic pricing is most likely chosen by the hotel management whenever they would like to raise the Average Room Rate (ARR), and it is easy to change whenever there is high demand. Dynamic pricing can achieve a finite market

seller's goal of selling its entire inventory (El-NEMR et al., 2017). But practically, in some destinations, like in remote areas, dynamic pricing with high rates cannot be reliable when the hotel is facing low occupancy. Moreover, Lim et al. (2015) stated that dynamic pricing models are not appropriate for the hotel industry due to two main reasons. Firstly, the hotel must determine and reveal the booking price for rooms on each day. The reason behind this is that any extension or reduction in the length of stay may require an adjustment in the payment. Secondly, explicit constraints are required to ensure that customers do not make a reservation if the hotel is out of rooms for any day during their stay.

Static pricing, whereby the price for each product is fixed, is also frequently observed in practice (Zhang et al., 2013). Static rates have organic growth in room production as well as helping the hotel in a crisis by bringing back dependency on wholesalers (Rashek and Mihailescu, 2016). However, prices and profits would stagnate if hotels used static rates all the time. The hotel must have a sign whenever they would like to set dynamic or static pricing.

Archipelago International is one of the hotel management companies founded in 1997 and is Southeast Asia's largest privately held hotel management company with over 40,000 rooms and residences in over 200 locations around Southeast Asia, the Caribbean, the Middle East, and Oceania, they designed their managed hotel with a pricing strategy to achieve the room revenue plan. This company also uses the Global Distribution System (GDS) to supply hotel rates to their affiliated distribution partners. Moreover, a global distribution system is easy

to connect to the channel manager. Both static and dynamic rates can be connected to their partners by interfacing with a channel manager.

Archipelago International is a reputable hotel chain with award-winning brands including ASTON, Aston Collection Hotels, Alana, Huxley, Kamuela, Avanika, Harper, Quest, Hotel NEO, fave, Nordic, and Powered by ARCHIPELAGO, they play with two rate types in most of their all managed hotels, with both static and dynamic rates, to help them achieve their monthly plan. Considering the advantages and disadvantages of each rate type, the author seeks to show that static rates are a good choice whenever bad conditions happen, such as an economic crisis, e.g. the covid 19 pandemic. Static rates are also a good strategy that can be used during low occupancy and for new opening hotels, especially in a remote area (not in a tourism destination).

Archipelago International Hotels Group, especially in all Indonesia areas, currently has about 150+ operated hotels in 2024. In terms of pricing strategy, the lowest static rates are issued to B2B travel agents that can be connected through the channel manager to easily manage room availability. Channel Manager is a cloud-based product whose function is to automatically update information between a hotel's Property Management System (PMS) and its online channels of distribution (Truong, B., 2014).

Hotelbeds and MG Bedbank are two major wholesalers of B2B agencies that have become preferred partners of the Archipelago International Hotels Group. These two agencies connect a system with Archipelago International Hotels Group's channel manager to distribute hotel room rates and availability to

their subagents. They contribute significantly not only to room revenue but also to the marketing exposure of Archipelago International, particularly in Indonesia. Table 1 illustrates the number of rooms generated at the static rates supplied to both agents from the year 2021 to 2023

Table 1. Static Rates (B2B Agents) Contribution Performance at Archipelago International (Indonesia Properties)

Year	Room Nights	Production in IDR		Growth (Room Revenue)
		ARR	Room Revenue	
2021	31,858	346,976	11,053,969,576	-
2022	70,536	339,274	23,931,002,049	116.49%
2023	63,253	365,856	22,942,332,765	-4.13%

The data shows that the highest room revenue was generated in 2022, while average room rates (ARR) were high in 2023. This does not appear to be an even correlation between room revenue and ARR. As a result, further research is needed to determine how to strike a compromise between them to make static rates more efficient in terms of increasing room revenue while still maintaining the ARR.

There were certain difficulties encountered when implementing the static rates that Archipelago International, particularly Indonesia Hotels, provided to B2B agents, such as:

- (1) Static rates are the lowest rates provided by the hotel; after this rate is applied and published on B2B agents, the online travel agent can absorb the rates and present the lower rates, which may result in disparities in rates.

(2) Some enterprises that are highly concerned about ARR (average room rates) prefer to stop sales and deactivate the static rates for B2B agents.

This might hurt the hotel's business performance.

ARR (average room rate) is a crucial indicator in the hotel business that shows the average rate a guest pays for a room per day. It is an important aspect in determining the revenue and profitability of a hotel. Increasing room revenue necessitates a strategic approach that takes various things into account, including ARR and the competitive landscape, particularly regarding the hotel's star rating. Understanding market dynamics, optimising ARR, and strategically positioning the hotel within its environment of competition are all part of a complete approach to generating room revenue. Long-term success in the hospitality business must analyse and change plans based on market trends and guest preferences.

However, the hotel requires a business; thus, pricing strategy is very important, and static rates to B2B agents are still required to increase room revenue for some hotels that are still below performance. Static rates are used to meet the base occupancy, which refers to the minimal amount of guaranteed bookings that a hotel anticipates or obtains, thereby providing a basic source of revenue. This is the estimated number of rooms or lodgings that will be occupied. Base occupancy provides hotels with a consistent and predictable revenue stream, allowing them to lay the groundwork for financial planning and operational stability. It often contains reservations that are fully committed and guaranteed, adding to the hotel's overall income expectations. This idea is critical for hotel

management to assess and maintain a sustainable business model that ensures a baseline level of occupancy that supports operational costs and profitability.

This research provides a comparison of four literary works. Firstly from Surya, et al (2019) with the title "*The implementation of e-commerce dynamic rate To generate room revenue*". Secondly, Cahyani, et al. (2020) with the title "*Increasing Room Occupancy and Room Revenue through Price Decision Strategy*". Thirdly, El-Nemr et al. (2017) conducted a study entitled "*Determinants of Hotel Room Rates,*". Lastly, the research conducted by Santi and Suastini (2019) entitled "*Analysis of Wholesale Pricing Strategy to Increase Room Revenue at Bvlgari Resort Bali*".

Building on the findings of the previous studies, there is a need for further research to thoroughly investigate the static rates implementation supplied to B2B agents as a technique to increase room revenue. The research gap identified in this context suggests that the majority of hotels under Archipelago International prefer to apply dynamic rates, believing them to be more effective in increasing room revenue. In addition, the research found that hotels under Archipelago International are permitted to apply the dynamic rates starting from 0% occupancy, tiering the Best Available Rates (BAR) from lowest to highest depending on demand. Once occupancy reaches 70%, it is suggested that the hotel stop selling the static rates. This belief is supported by revenue management reports showing that the revenue index from online travel agents outperforms from offline sources. However, the impact of global economic circumstances such as the Covid-19 pandemic, wars, or earthquakes (force majeure) on the efficacy of

these rates has been underestimated. Static rates emerge as a response to economic downturns, resulting in a decline in demand. While most current research focuses on the effectiveness of dynamic pricing, static rates could be applied during periods of low occupancy and in pre-opening hotels to fulfil room occupancy requirements and provide fixed room revenue.

The author employs a qualitative approach to analyse the research on the implementation of static rates to increase room revenue at Archipelago International Hotels Group. Based on the research background and concept described above, the author firmly believes that static rates remain valuable and necessary for the hospitality industry to boost room revenue. This study will offer solutions to the challenges faced in the hotel industry and can serve as a valuable reference for hotel management, specifically within the Archipelago International Indonesia Hotels Group.

1.2 Formulation of Problems

Based on this background, the following problem formulation is proposed in this study:

1. How does Archipelago International Indonesia Hotels Group implement static rates to increase its room revenue?
2. What static rate model can be implemented to increase room revenue at Archipelago International Indonesia Hotels Group?

1.3 Objectives of The Study

This research is expected to achieve the following objectives based on the limitations that are the focus of this research and the aims to be achieved:

1.3.1 General Objective

The overall purpose of this research is to obtain new information or create discoveries, particularly on the subject of revenue management. Aside from that, this research establishes, tests, or validates previous knowledge and truth concerning revenue management. Finally, expand on prior knowledge, particularly static rates.

1.3.2 Specific Objective

There are two strong reasons for the researcher to undertake this specific study:

1. To analyse the static rate currently implemented by Archipelago International Indonesia Hotels Group in boosting room revenue.
2. To develop a model of static rate implementation to more effectively boost room revenue.

1.4 Significances of The Study

This research has two general benefits:

1.4.1 Theoretical Benefit

Through this research, it is expected to be possible to apply what has been learned, particularly green tourism sales and marketing, in this context concerning revenue management, particularly static rate pricing techniques. Furthermore, the

findings of this study might provide students with insight and expertise for resolving a pricing strategy difficulty faced by the hotel business, notably Archipelago International Indonesia Hotels Group.

1.4.2 Practical Benefit

The following are the practical benefits of this research:

1. For Student

It is envisaged that this research will provide new insights and experiences, particularly in revenue management specifically for pricing strategy, in formulating policies for boosting room revenue and filling the room occupancy in the hotel business.

2. For Politeknik Negeri Bali

As the author has read numerous publications created by several instructors and students at the Politeknik Negeri Bali, no one has raised research on utilising the static rates offered to B2B agents. As a result, it is hoped that this study will bring new insights to all educators and students at Politeknik Negeri Bali, particularly regarding the pricing strategy with fixed prices.

3. For Research Company

This study can be utilised to keep static rates alive, referring to the phenomenon in which many hotel managements have abandoned static prices in favour of dynamic rates alone in their pricing strategies. Because not all hotels in some destinations can only be sold online, static rates should be used efficiently before applying yield management to meet

monthly performance plans, especially at Archipelago International
Indonesia Hotels Group.

CHAPTER VI

CLOSING

6.1 Conclusion

The research aimed to explore the implementation of static rates that were given to the B2B agents at Archipelago International Indonesia Hotels Group. The implementation found previously with stand-alone rates with minimum nights. Revenue was generated specifically during the low season, economic downturns, pre opening hotels, remote area destinations or for those hotels who need more business to fulfil their revenue target. The hotel destinations that can be sold with static rates to the B2B agents are located in almost all regions of Indonesia.

The static rate model integrates with various other income divisions, such as food and beverages, spa, yoga, gym, laundry, transportation, tour packages, and cooking classes. The key points discussed and the findings are as follows:

1. **Static Rates Stand Alone:**

Offering static rates stand alone can attract guests seeking transparent and consistent pricing.

2. **Static Rates Bundle Packages:**

Integrating various other income divisions and activities, provide value-added options to enhance guest experience and increase revenue.

This kind of model creates comprehensive packages that appeal to different guest preferences and aims to increase overall spending.

3. Benefits of Static Rate Implementation:

Implementing static rates for B2B agents leads to improved revenue forecasting, streamlined pricing decisions, and strengthened brand awareness. Consistent pricing across various channels is very crucial for maintaining guest trust and loyalty.

4. Output of the Static Rate Model:

The static rate model results in optimised revenue strategies driven by data analytics and yield management techniques. Enhanced pricing decisions based on market demand and competitor analysis are key drivers of financial performance improvement.

5. Impact of Static Rates Model Implementation:

Implementing static rates maximises room revenue and ancillary sales across all income divisions, leading to overall revenue elevation. Consistency in pricing and the provision of comprehensive bundle packages attract and retain guests, ultimately driving revenue growth.

In conclusion, the implementation of static rates at Archipelago International Indonesia Hotels Group has significant potential to elevate revenue through consistent pricing, improved revenue forecasting, and the creation of attractive bundle packages that enhance guest experience and encourage higher spending.

6.2 Recommendations

Based on the findings and conclusions of this research, the following recommendations are proposed for Archipelago International Indonesia Hotels Group:

1. The Archipelago International hotels should adopt a comprehensive static rate, by implementing the static rates stand alone for transparency and consistency in pricing, appealing to guests seeking straightforward rate structures. In addition to that, developing and promoting static rates bundle packages that integrate services from other income divisions, such as food and beverages, spa, yoga, gym, laundry, transportation, tours, and cooking classes, aims to enhance guest experience and increase overall revenue. This is also considered based on their hotel market demand and the hotel facilities as well as their capability.
2. Leveraging data analytics for yield management by utilising data analytics and market demand analysis to optimise pricing decisions and revenue strategies. Additionally, doing the regular review and adjusting static rates based on competitive market analysis to ensure the rates remain attractive and competitive. Adjust static rates are also based on the hotel conditions and not below the room base cost.
3. Enhance marketing and brand awareness by promoting the benefits of static rates and bundle packages through targeted marketing campaigns. The efforts suggested highlighting the value-added services included in the

bundle packages to attract diverse guest segments and encourage longer stays.

4. Strengthen collaboration with B2B Agents by establishing stronger partnerships with B2B agents to effectively market and sell the static rate offerings across various regions of Indonesia. Secondly, providing the B2B agents with comprehensive training and promotional materials to effectively communicate the benefits of static rates to potential clients.
5. Monitor and evaluate performance by continuously monitoring the performance of both static rate models and their impact on room revenue and ancillary sales. Gather guest feedback to assess satisfaction with the static rate offerings and make necessary adjustments to improve the overall guest experience.
6. Implement consistent pricing across channels, by ensuring that static rates are consistently applied in Hotelbeds and MG Bedbank to maintain guest trust and loyalty. This includes the new hotels. Regularly audit pricing practices to identify and correct any discrepancies.
7. Expand and innovate bundle packages, by exploring new and innovative bundle package options to keep offerings fresh and appealing to repeat guests. This is also considered with the hotel facilities and their capability to provide the product and services. In addition to that consider seasonal or themed packages that align with regional events or holidays to attract more bookings during specific periods.

Archipelago International Indonesia Hotels Group is suggested to implement these recommendations to effectively leverage static rates to increase revenue, improve guest satisfaction, and strengthen its market position across Indonesia.

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