

THE IMPACT OF PRICING STRATEGIES ON GUEST PURCHASE DECISIONS IN STAR RATED HOTELS IN NAKURU COUNTY, KENYA

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ABSTRACT

The study examined the effect of pricing strategies on guest purchase decision in star rated hotels. Objectives were to: establish the effect of value added, discounted and concession pricing strategies on guest purchase decision. The study was conducted in Nakuru County, Kenya. The study employed descriptive cross sectional research design. A sample size of 236 guests was derived. Purposive and proportionate sampling techniques were used to select hotels and guests respectively. Data was collected using a structured questionnaire designed using likert type of scale. Effect of value added, discounted and concession pricing strategies were modelled under multiple regression model. Significant levels were sought at $p < 0.05$. From the multiple regression analysis, the results showed that Value added pricing ($p = 0.000$) and Concession pricing ($p < 0.000$) influenced guest purchase decision significantly while discounted pricing ($p < 0.114$) did not. The major conclusion that the researcher drew from the study was pricing is a major component that influence guest purchase decision. The recommendation from the study is that the hotel practitioners should heavily invest in utilizing the value added and concession pricing and communicate to guests the benefits obtained from a service.

Key words: Values added, Discounted, Concession, and Purchase Decision.

Introduction

The travel and hospitality sector contribute significantly to global economic development (Manzo, 2019). Through different years, the sector has made significant contribution to the Gross Domestic Product, creation of employment as well as providing foreign exchange (World Travel and Tourism Council (WTTC), 2019). Countries within Africa have also benefited significantly from hotel sector. For instance, local communities' benefits from tourist hotels and lodges through job opportunities and purchase of local products (Mrema, 2015; Ampofo, 2020). The sector has also been identified as key in contributing towards countries revenue generation and economic growth (Ampofo, 2020; Sucheran, 2021). In Kenya, hotel sector contributes significantly to the country's economy. In the year 2018, the sector had a contribution of 16.6% to the annual Gross Domestic Product (GDP) which was a growth of 2.3% compared to that of 14.3% in 2017 Government of Kenya (GoK), 2018) This was supported by withdrawal and relaxation of travel advisories which consequently led to increase in hotel bed night's occupancy by 32.8% in 2018 compared to 31.2% in 2017 (GOK, 2018).

Despite the significant contribution of the hotel industry to the economy, purchase of hotel service are

greatly affected by natural disasters, travel advisories and global pandemics (Kim, Lee, & Tang 2020). In 2020, the sector was worst hit by COVID 19 pandemic. Globally, most hotels recorded a decline of walk in guest by about 90% and laying off about 80 % of the employees. This was instituted by international travel ban, social distancing initiatives and lock down imposed by many countries to curb spread of the disease. Arrival of guest also dropped to zero in many hotels (Dube, Nhamo & Chikodzi, 2021). During the same year there was massive cancellation of hotel bookings as well as low bookings which resulted to reduced purchase of accommodation services (Nhamo, Dube, & Chikodzi, 2020). Hotels in Africa were also not spared by the adverse effect of COVID 19 pandemic. Sucheran, (2021) in a case study of South Africa found 88.4% of the surveyed hotels had experienced a decline of more than 75% in income earned. During the same time most hotels indicated 91-100% of their employees were likely to lose their jobs. In 2020 the Kenyan hotel sector experienced a contraction of 83.3% compared to expansion of 12.1% in 2019 (GOK, 2020). Therefore, it is necessary to identify how purchases of hotel services can be improved and recover from the adverse effect of pandemic.

In the year 2021 and 2022, the hotel sector made significant steps towards recovery from the COVID 19 pandemic. Globally, an increase in occupancy percentage was witnessed in hotels across different regions. Widz, Krukowska, Walas, and Kruczek, (2022) in a case study of hotels in Poland Europe found that in 2021 the average occupancy of hotels in that county had increased to 37.7% from 26.8 % in 2020. However this was still low compared to 67.8% in 2019. In Kenya average hotel occupancy for 2021 was 31.6% (CBK, 2021). The central bank of Kenya Monetary policy committee hotel survey – 2022 further identified that 100% of the 80 hotels surveyed across the country had resumed operation compared to 90.3% in 2021 and 39.0% in 2020 (CBK, 2022). The recovery was attributed to the reopening of the economy, lifting of the restrictions, increased conference and meetings, as well as increased recognition of the hotel sector at the international markets (Ivanov & Ayas, 2017; Sucheran, 2021).

Despite the recovery steps made by the hospitality sector from the effects of COVID 19, purchase of hospitality services is still affected by other forces such as pricing strategies used by hotels, inflationary pressures and increased competition from serviced apartments. Nkukuu, (2016), in a case study of Kenyan market noted an Increasing shift in consumer preference away from mainstream hotels towards serviced apartments for accommodation. In 2016, serviced apartments in Nairobi County had an average occupancy of 90% which was higher than 33% of the hotels within the same region. The serviced apartments were also 33.5% cheaper than hotel rooms Nkukuu, (2016) which resulted to guests preferring them due to their cheaper prices, more se-

cure environment and with larger room sizes.

Hotels in Nakuru County have been greatly relying on cost based pricing strategies (Mugambi, 2017). Cost based pricing results to fixed prices which enables hotels generate profit from its services. However, despite hotels generating profit from cost based pricing, some guest perceive the fixed prices set to be unfair. Eventually guests' loyalty and purchases to the hotel services reduces which affects their long term performance (Ivanov & Ayas, 2017). Therefore this study aimed at identifying effectiveness of Value added, discounted and concession pricing strategies as an alternative strategy in influencing guest purchase decision in Nakuru County in response to prevailing market challenges.

Methodology

The study was conducted in Nakuru County, Kenya. The study adopted descriptive cross sectional research design. The target population was 978 guests from which a sample of 276 guests was obtained using (Krejcie and Morgan, 1970) sampling formula. The study employed purposive proportionate sampling procedures. Purposive sampling was used to select hotels in Nakuru County. This was done based on the researchers' knowledge and according to Tourism Regulation Authority of Kenya (2019) star classification. Proportionate sampling was used to select guests who gave responses to the research instruments. This is shown in table 1.

Table 1 Summary of Sample size for each hotel.

	Hotel	Star rating	Sample	Achieved sample
1	Sarova Woodlands & SPA	5	21	21
2	Sunbird Lodge	4	20	18
3	Sentrim Elementaita Lodge	4	20	13
4	Lake Naivasha Sopa resort	4	21	17
5	Lake Elementaita Mountain Lodge	4	25	15
6	Lake Naivasha Crescent camp	4	23	20
7	Ole Ken Hotel	3	24	20
8	Lake Elementaita Pebbles & SPA	3	21	19
9	Seasons Elementaita Country Lodge	3	25	22
10	Chester Hotel	2	26	25
11	Kabarak Guest House	2	26	24
12	Hotel county max	2	24	22
	Total		276	236

Data was collected using structured questionnaires. Reliability was performed using the Cronbach Alpha and the Cronbach Alpha coefficient was $\alpha = 0.895$ as indicated in Table 2. Therefore, the items in the questionnaire proved to be worthy to be retained. A pilot study prior to actual data collection was conducted to ensure validity of the research instruments.

Table 2: Results of Reliability Statistics using Cronbach's Alpha

Variable	Value
Scale reliability coefficient	0.895
Number of Items in the scale	25

The data collected using questionnaires was coded, organized, and then analyzed with aid of SPSS (Version 21) to search for patterns of relationship that exist among the variables. Analyzed data was presented using descriptive and inferential statistics. Descriptive statistic included measurement of percentages, mean, median and frequency particularly on demographic characteristics of respondents. Inferential statistics were used to compare the findings between variables. Multiple regression analysis were used to establish the relationship between value added, discounted and concession pricing strategies and guest purchase decision in Nakuru County. All test were carried out at 5% probability level.

Multiple regression equation.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

where;

Y = Guest purchase decision.

β_0 = Constant.

X_1 = Value added pricing strategy.

X_2 = Discounted pricing strategy.

X_3 = Concession pricing strategy.

ϵ = Error margin.

$\beta_1, \beta_2, \beta_3$ = regression coefficients.

Results and Discussion

Demographic Characteristics of the

Respondents

The response rate for the questionnaires filled and returned by the respondents was 85.51%. The distribution for the respondents is indicated in Table 1. Majority of the respondents in the study were male (56.49%) and minority were female (43.51%). Abrian, Adrian, and Surendra, (2019) reported consistent findings that most guests who visits hotels are males. It also indicates that majority of the respondents were leisure travelers, (30.96%) followed by business travelers at 28.03%. Conference participants formed (26.78%) of the respondents while those guests on family tour were the least (14.23%).

The frequency of visit to the hotel was measured using first time and regular guest with majority being regular guest (53.56%) and 46.44% being first time visitors. Han and Ryu, (2012) identified that guests who visits hotel frequently have information about their decision making patterns. With majority of guests being regular visitors 53.56%, the data collected could be used to provide information about guest purchase decision.

Majority of the respondents' age 36.4% lies between 36-45 years, 31.8% between 26-35 years, 14.23% between 46-55 years 12.13% between 16-25 Years with the least 5.44% between 55-65 years. From table 5, results indicated that majority of the respondents 30.67% average income ranged between Kshs. 40,001-80,000 per month, 19.33% earned between Kshs. 80,001-120,000, 17.65% between Kshs. 120,001-160,000, 15.13% between Kshs. 10,001-40,000, 14.71% between 160,001-200,000 while the least 2.52% earned between Kshs. 1-10,000.

Effect of pricing strategies and guest purchase decision

The study conducted inferential statistics using multiple regression analysis. This was done to determine the effect of value added, discounted and concession pricing strategies on guest purchase decision with significant levels sought at $p \leq 0.05$. Results indicated that the model was statistically significant (Adjusted $R^2=0.425$, $f=58.13$ $p < 0.01$). This means that 42.5% of the variance in guest purchase decision can be explained by value added, discounted and concession pricing strategies. This is indicated in table 3 and 4.

Table 3: Regression Model Summary

Model Summary					
Model		R	R square	Adjusted R square	Std. Error of the Estimate
1	12.31%	.658a	0.432	0.425	4.05373
a.	Dependent Variable Purchase Decision				
b.	Predictors (constant) Value-added, Discounted Concession				
					5.44%

Table 4: Regression ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2865.670	3	955.223	58.129	.000 ^b
1 Residual	3763.094	229	16.433		
Total	6628.764	232			
a. Dependent Variable: Purchase Decision					
b. Predictors: (Constant), Concession, Discounted, value-added					

Three independent variable were tested to determine their effect on guest purchase decision. This included; value added, discounted and concession pricing strategies. Value added pricing ($p=0.000$), discounted pricing ($p=0.114$) and concession pricing ($p=0.000$).

Table 5: Multiple regression coefficient

		Coefficients			
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	11.407	2.03		5.619
	Value added	0.411	0.062	0.362	6.68
	Discounted	0.358	0.121	0.16	2.95
	Concession	0.495	0.075	0.353	6.556

a Dependent Variable: Purchase Decision

Results indicated that value added pricing ($\beta=0.362$, $p=0.000$) and concession pricing ($\beta=0.353$, $p=0.000$) were found to have a positive and significant relationship with guest purchase decision. Discounted pricing ($\beta=0.16$, $p=0.004$), have a positive but insignificant relationship with guest purchase decision. This is shown in Table 5.

$$Y = 11.40 + 0.362X_1 + 0.16X_2 + 0.353X_3 + \epsilon$$

The study's result were similar to Yang et al., (2019) who in a case study of Los Angeles who found value added pricing to have a significant effect on guest purchase decision. The significance of functional, symbolic and emotional elements of value in influencing value added pricing were consistent with Bukhari et al., (2012) findings who identified them to have a significant effect on guest purchase decision. Lee, (2010) stated that hotel use value added as an important tool of influencing choice. The result of this study are similar to Lee, (2010). Moro, Rita and Oliveira, (2018) reported consistent findings that hotels in Portuguese utilize value added pricing attributes in determining their rates. The study's findings that discounted pricing didn't have a significant effect on guest purchase decision differed with Lee, (2016) who found that discounting prices influenced guest purchases significantly. The results for discounted pricing also differed with Kim, Roehl and Lee, (2019) who found that hotels utilize discounts to influence guests' acceptance of the hotels. However, the study showed similar results with Chao & Liao, (2016) that guests were not willing to increase their purchases in case they were offered discounts.

Globally hotels in different regions have been adopting strategies for enhancing purchase of their

services. Guillet & Chu, (2021), sought to examine the strategies hotels were using to enhance purchases of hotel services in Hong Kong China. From the analysis the researcher identified that due to the decrease demand of hotel services during COVID 19 pandemic, hotels were setting different rates for each market segments. Guillet & Chu, (2021) further identified discounting prices didn't influence purchases significantly since most guests were not willing to purchase reduced prices. In addition the findings showed that value obtained from the services consumed was a key concern to the hotels when setting pricing (Guillet & Chu, 2021). The utilization of value added and discounted pricing strategy in Nakuru County and its significant role in purchase decision is consistent with the findings of the utilization of the strategy in other parts of the globe. Both value added pricing ($p=0.000$) and discounted pricing ($p=0.004$) findings were similar to those of hotels in Hong Kong, China (Guillet & Chu, 2021).

The results that concession pricing influenced guests purchase decision significantly ($p=0.004$) were similar to Rapaccini, (2015) findings that guest negotiate with the hotels on the rates to be charged for a service. The significance of concession elements such as Wi-Fi, food and beverage discounts were similar to Xu, (2016) who found that hotels utilize these elements when setting concession prices. The findings of the study agreed with Zeng, (2019) who in a case study of China found that hotels and intermediaries were keen on the benefits each got from a service which was achieved through price negotiations.

The findings of the study were consistent with the study area characteristics for Nakuru County. Tourism is one of the economic activities carried out in Nakuru County due to the touristic nature of the area which attracts both domestic and international visitors. Price adjustment is one of the activities carried out in areas with touristic activities due to change in demand during different seasons (Abrate et al., 2012). According to Mohammed, and Law, (2019), the study area characteristic are expected to influence prices since they form part of the market forces. The significant results of utilization of value added pricing and concession pricing in influencing guest purchase decision were expected in this geographical area.

From the results of the analysis, hypothesis that there is no statistically significant effect of value added pricing strategy on guest purchase decision was rejected ($p=0.000$), there is no statistically significant effect of discounted pricing strategy was accepted ($p=0.004$) and there is no statistically significant effect of concession pricing strategy on guest purchase decision was rejected ($p = 0.000$).

The research findings in this study contributes significantly to pricing policies utilized in hotels. Abrate, Fraquelli, Viglia, (2012) identified that pricing policies adopted by hotels are key concern to both the guests and the hotels. Guo, Ling, Dong and Liang, (2013) identified that value added, dis-

counted and concession pricing strategy presents a win-win policy to both guests and hoteliers during purchase decision making process. Guizzardi, Pons, & Ranieri, (2017) identified that utilization of value added, discounted and concession pricing strategies had become a popular strategy across different hotels. Therefore this study's findings that pricing strategies influences' guest purchase decision significantly contributes to pricing policies used in hotels.

Conclusion

The study concluded that purchase of hotel services can be highly influenced by utilization of value added, discounted and concession pricing strategies. Therefore hotels need to ensure that the functional, symbolic and emotional elements of service are factored in the pricing process. The benefits incurred from consumption of a service needs to be communicated to guests to influence their decisions. Hotels need to encourage price negotiations with guests. Through the negotiations, hotels can clarify the complementary services included in their price packages. Despite price discounts having an insignificant effect on guests purchase decision, hotels can utilize them but only upon requests by guests as well as for conference packages.

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