International Journal of
Business Diplomacy and Economy

ISSN: 2833-7468
Volume 2 | No 7 | Jul -2023

Price Differentiation on the Example of the "Hilton" Hotel

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Abstract: The main aim of this thesis is to study the price differentiation in organizations, because price is one of the elements of the market, the monetary expression of the value of goods and services. The price is the most important element of the marketing mix, since the achievement of a complex result depends on the price, and the correctly chosen pricing strategy has a long-term and decisive effect on the competitiveness of both hotel products and the entire hotel enterprise.

The pricing strategy is commonly used in the hospitality and service sectors where prices fluctuate a lot such as those airline tickets or hotel accommodations you were looking at in our opening example. It can also be used in industries such as restaurants or establishments with admissions or ticket fees.

Key words: Price, differentiation, price discrimination, hotel, Hilton.

1. Introduction. Most firms and organizations set, as a rule, not a single price for their products, but a whole system of price modifications, depending on the same market conditions. This price system takes into account both possible differences in the assortment, product modifications, and differences in external sales conditions (for example, geographical differences in costs and demand), demand intensity in different market segments, different product sales times, etc. All these factors are of great importance in pricing and are specifically taken into account when developing a firm's pricing strategy. The main types of price modifications are geographic differentiation, modifications through a system of discounts to stimulate sales, price discrimination and step-down prices for the proposed range of products.

2. Literature Review

2.1. Price discrimination

Often a firm adjusts its base prices to the specifics of individual customers, product modifications, or differences in standards. But it is customary to speak of price discrimination only when a firm offers the same product or service at two or more different prices.

The term "discrimination" comes from the Latin "discrimination", which means difference, distinction. Based on this, price discrimination is understood as the establishment of different prices for the same product, provided that the differences in prices are not related to costs [1].

It is, therefore, a special method of pricing firm-seller. The point of discriminatory behavior is to use every opportunity to charge a maximum price for each item sold. This means that both the same buyer (for example, depending on the quantity of goods purchased) and different buyers can be discriminated against. It is no coincidence that we have emphasized here the absence of a connection between price differences and costs. The prices of real transactions usually differ from each other due to a mismatch in the terms of delivery, insurance, packaging, credit, additional service, bundling or individual manufacturing (quality). In cases where the buyer pays for the features of individual transactions that require corresponding costs, price differences are not discriminatory. Conversely, when paying for something that does not require additional costs (or requires, but not to the extent that prices are differentiated), the buyer is said to be subject to price discrimination. It should be noted that price discrimination does not mean a violation of the laws of market exchange. The very posing of the question of price discrimination presupposes a fairly high degree of development of market relations. One-time, random transactions, indeed, have always been made at different prices. The more developed the market economy and the degree of its competition, the closer to uniform, averaged price levels [2].

However, within a competitive market space, there are dividing factors that serve as the basis for price discrimination. Therefore, we can say that price discrimination arises on the basis of real contradictions of the market mechanism. In the market, all participants are different. But behind the general dependence on demand lies a set of different individual value assessments of consumers with different budgetary possibilities. This means that at a single market price, there are always buyers willing to pay more for the same quantity of goods.

2.2. Terms of price discrimination.

In order to implement price discrimination in practice, certain conditions are necessary. First, the seller must be able to control prices. Of course, it is easiest for a monopolist to do this, so in microeconomic theory it is customary to talk about price discrimination in relation to a monopolist and the monopoly structure of the market. However, in the practice of pricing, the field of price discrimination is much wider. It is widely used by firms in oligopolistic and even competitive markets and marks the emergence of some elements of market power in them. However, this fits in well with the realities of a market economy, where it is almost impossible to find examples of perfectly competitive markets. At the same time, the trend in the dynamics of market structures is such that the opportunity to influence the consumer's consciousness and consumer choice on the part of the company through various marketing communication tools is constantly increasing. Therefore, new areas of market power are constantly emerging in otherwise competitive markets. The main thing is that competitors could not sell their product cheaper where the company would like to sell it more expensive. Power over prices is also related to the number of buyers opposing the firm-seller. If there are few buyers, so that the exit of any of them from the market is noticeable to the seller, then the possibilities for price discrimination are limited.

Secondly, buyers should not be able or willing to buy where they sell this product cheaper. Limiting purchases at lower prices can be achieved in different ways. These barriers may be of a regulatory nature (for example, specially introduced benefits for pensioners) or come from natural conditions (for example, the territorial distance of different points of sale). However, often these barriers are conditional in nature and are specially supported by the marketing services of the seller (for example, the prestige factor of buying expensive goods in a store, say, in a boutique) [3].

Thirdly, the costs of implementing a firm's discriminatory policy in practice should not exceed its economic benefits from this activity. To carry out price discrimination with the introduction of many individualized prices, it is necessary to carefully study the demand, conduct expensive marketing research with constant subsequent monitoring of the market, control over the activities of the trading network, and other activities that are expensive for the seller.

2.3. Price differentiation on the example of the "Hilton" hotel

The basis for generating hotel income is the sale of its services. Therefore, a significant factor affecting income is the price of these services and, above all, the price of the room. So, if a hotel considers itself luxurious, then it sets the room rate higher than most hotels. If the hotel defines itself as a limited service accommodation, then it offers rooms for budget-minded travelers, so its market position requires low prices.

Hilton Worldwide — An American company that owns and operates chains of hotels and resorts. Manages the international network of Hilton Hotels & Resorts [4].

Hotel chain «Hilton Hotel Corp.» also builds its policy of winning and retaining customers on the basis of a price differentiation strategy. This chain has different brands, each of which specializes in a certain segment of the tourist market. Interestingly, the failure of one of the brands is minimally reflected in the image of other brands. The main interest for the "Hilton" company has always been large and prestigious hotels - "thousanders" (by the number of rooms), where price for the room is extremely high. Among them is the world's most famous hotel "Waldorf Astoria" (1380 rooms), which to this day is an indicator of the success, wealth, luxury of this hotel's clients. Other giant hotels include: Hilton New York & Towers (2041 rooms), Hilton Hawaiian Village (2545 rooms), Hilton San Francisco & Towers (1895 rooms), Hilton Chicago & Towers (1543 rooms), Palmer House Hilton (1639 rooms), Hilton Washington & Towers (1123 rooms), Hilton New Orleans Riverside (1600 rooms) [5].

What is more, Hilton has hotel for customers with “average income”, such as Doubletree, Hampton Inn., Red lion hotels and Inns. And so on. In these hotels there are a lot of sales and discounts for clients. In terms of the number of innovative technologies in the field of service and sales, the trade mark "Hilton Hotel Corp." leader in the global hotel industry.

3. Methodology. The method of theoretical research was used as methods for studying price differentiation. The theoretical method is associated with the study of literature. It provides an opportunity to find out which aspects and problems have already been sufficiently well studied, which ones are being scientifically discussed, what is outdated, and which issues have not yet been resolved. When writing this thesis 3 articles related to this theme were read to find authentic and reliable data about pricing in organizations. All articles can be find in references.

4. Discussion. It is irrefutable from data given above that every company and hotel set a price based on, firstly, their position in the market. For instance, hotels and high-class restaurants operating in the high price segment tend to use a strategy of prestigious prices, since their services have a demonstration effect. If they are sold at lower prices, then they will lose their appeal to the target market - those buyers who rely on a high demonstration effect of what they buy.

Moreover, it is recognized fact that, the consumer considers the price as an indicator of quality. This is especially important in the hotel business due to the fact that initially a potential consumer does not have complete information about the quality level of services provided.

In this incarnation, the price enables the consumer to make a choice without much effort from the mass of similar services. Thus, by setting the price level, the hotel positions itself in the market. In this case, the following setting applies - the higher the price of the hotel, the louder it declares to its customers that its product or service is of high quality. Although, of course, this may not actually be the case.

5. Conclusion. The price increase strategy is also difficult for the hotel, because it must be sure that competitors are ready to follow it. The degree of this readiness depends on current market conditions. They are favorable when production capacities are fully loaded and demand is growing. Before taking action, the hotel should assess the availability of wiggle room.

When conducting a price increase campaign, the hotel must do everything not to create the image of a “price predator”. It is better to raise prices when customers feel justified in this step: increase in food prices, utilities, increase in the minimum wage, rising inflation, the product (service) is unique, it is advertised a lot (for example, within the framework of regional marketing), the market is too small, for in order to attract competitors, there is information that buyers are willing to pay more.

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