

HVS Monday Musings: Price wars in the Indian hotels sector during the COVID era

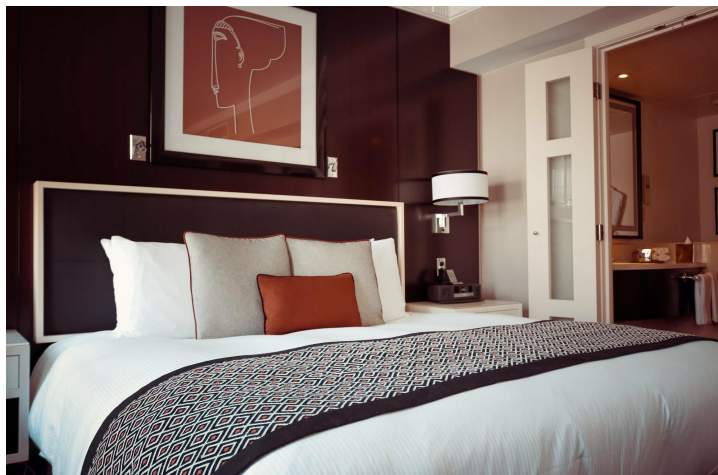
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Hotels need to come together and align themselves to the common goal of reviving the growth in the industry. They should think 'long-term' by promoting value-added services, targeting new customer segments or markets, and implementing cost optimization strategies instead of indulging in price wars, which can be detrimental for the growth of the sector. Brands can also play a crucial role in this by pushing the envelope on driving better revenue and rate management strategies.

The gradual revival of demand in the past few weeks is ushering in a new era of price war tactics in the Indian hotels sector. Hotels are resorting to drastic rate cuts in their quest to attract guests and stay afloat during these trying times.

Price wars are not a new phenomenon in the sector and our experience says that this is not the best strategy as it often results in more pain than gain. Occupancy may improve in the short-term due to the slashing of rates, but it is always difficult to recover rate degradation once demand picks up, which can, in turn, negatively impact the sector's growth and profitability in the longer-run.

The rate degradation will also lower the hotel's positioning in the eyes of the customer and change the guest profile. Moreover, the hotel will need to invest additional funds in marketing & promotional schemes to differentiate itself from the competition and change the guest perception at a later stage.



A classic example of price wars going wrong can be seen in the Indian telecom sector. The ongoing price war has been detrimental to the key players in the sector and has even pushed a few operators out of the market.

While the pressure to stay afloat in these trying times is fully understandable and can often be a compelling driver of pricing decisions, it is prudent to keep in mind that a short-term approach to pricing will likely have a severe impact on the long-term financial health of the business.

Therefore, in the current scenario, all the players in the hotels sector should come together and align themselves to the common goal of reviving the growth in the sector. They should think 'long-term' by promoting value-added services, targeting new customer segments or markets, and implementing cost optimization strategies instead of indulging in price wars. Brands can also play a crucial role in this by pushing the envelope on driving better revenue and rate management strategies.