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PRICING GUIDELINES FOR GRADED HOTELS AND GUESTHOUSES IN SOUTH AFRICA

ENGELINA DU PLESSIS AND MELVILLE SAAYMAN

Tourism Research in Economic Environs and Society (TREES), School of Business Management, North West University, Potchefstroom, Republic of South Africa

Pricing accommodation is a complex process. This study attempted to provide guidelines for determining competitive prices for hotels and guesthouses in South Africa, the two types of accommodation that hold the largest share of the South African market. A survey was conducted in cooperation with the major role players in South Africa's accommodation sector: the South African Tourism Service Association (SATSA), the Federated Hospitality Association of Southern Africa (FEDHASA), and the Tourism Grading Council of South Africa (TGCSA). A total of 2,288 questionnaires were sent out via e-mail and 247 were returned completed. The significance of the mean price differences of the star grading levels was tested, and hotels and guesthouses were compared using an independent *t* test. A significant difference was found between the prices of hotels and guesthouses, especially in the five-star category. The study also revealed a 20% difference between the prices of the star categories. The pricing guidelines provided here can sustain competitiveness with growing profitability.

Key words: Accommodation sector; Price strategies; Price methods; Price competitiveness; Grading; *t* Test

Introduction

The potential for any country's tourism industry to develop will depend on its ability to maintain a competitive advantage by delivering goods and services at the right prices. Dwyer, Forsyth, and Rao (2000) explain that the competitiveness of a destination as a general concept comprises price differentials, with exchange rate movements, the productivity levels of various components in the tourism industry, and the qualitative factors affecting the attractiveness of the destination. These factors make the task of management in a competitive world difficult. To achieve price competitiveness, the bottom-line requirement is value for money (Stevens, 1992). In the accommodation and hospitality sector, value for money primarily means the relation between price, quantity, and quality. Visitors must see a tourism product as being of a quality similar to or better than that of other countries or the competition, and they must

Address correspondence to Dr. Engelina du Plessis, Senior Lecturer, Tourism, Research in Economic Environs and Society (TREES), School of Business Management, North West University, Hoffmanstreet 11, Potchefstroom 2520, Republic of South Africa. Tel: +27 18 299 1497; Fax: +27 18 299 4140; E-mail: lindie.duplessis@nwu.ac.za

find the price attractive (Du Plessis, 2002; Stevens, 1992).

The increase in international tourist arrivals and the growth of the domestic market since 1991 have increased prices in the South African accommodation sector, especially in popular tourist areas such as Cape Town and Johannesburg. The tourism industry in South Africa prior to 1994 was characterized by limited supply and small demand, but exploded after the democratic elections of 1994. The country had a higher than world average growth rate in tourists arrivals, which was boosted by major events such as rugby, cricket, and soccer world events, to name a few. The demand toward tourism services and products increased rapidly and the industry responded by developing accommodation facilities. In addition, higher demand led to higher prices. This situation is marked by two characteristics. First, the local tourists are very price sensitive (Du Plessis, 2009), and many of these accommodation establishments focus on the international market that pays in currencies that are stronger than the South African rand (Saayman, 2001), and second, the bulk of these accommodation establishments are managed by owners or entrepreneurs also known as SMMEs (small, medium, and microsized enterprises) (Department of Environmental Affairs and Tourism, 2004). With this rapid explosion of the tourism industry and the opportunities presented to entrepreneurs, the accommodation sector started to experience an oversupply of accommodation establishments. Many new entrepreneurs in the accommodation sector find it hard to survive mostly because they do not have enough management knowledge and experience (Du Plessis & Saayman, 2011). The reason for the latter, according to Middleton and Clarke (2001), is that pricing is the least understood aspect of the management task and this is exacerbated by the absence of pricing guidelines. Many managers choose to take the easy way out by adopting prices set by large accommodation groups, creating a pricing method that is known as "price following." This method, as described by Rogers (1995), is a means of coping with the complexity of price decision making, whereby the price set by the market leaders becomes the ceiling under which smaller establishments are forced to operate. Price following could also be seen as a rough "guesstimate." The latter could jeopardize the domestic market, which, according to Porter (1990), is the building block for a country's competitiveness.

Price is a critical element in competitiveness. The literature shows that managers have taken price for granted, concluding that the function of price is merely to cover cost and generate a rate of return (Porter, 1989; Schindehutte & Moris, 2001). Pricing decisions, according to Rogers (1995), are based on more than just fluctuations in demand relative to the available supply of a product or service. This makes pricing a complex issue (Bolton & Drew, 1991; Chadee & Mattson, 1995; Kim & Crompton, 2002; Laarman & Gregerson, 1996; Lockyer, 2005; Rogers, Henderson, & Ginsburg, 1993). Contributing to this complexity are managers' different perceptions of how to set prices. Entrepreneurs and managers that often do not have the background and knowledge of financial matters do not take all factors in consideration when they determine a price (Cassidy & Guilding, 2007). A study by Du Plessis (2009) revealed a variety of factors that influence pricing: the image associated with the establishment, grading, value for money, environmental qualities, amenities, management, positioning, development cost, infrastructure service, location, marketing, and the overall pricing strategy of the establishments themselves. As a result, pricing is an art as much as it is a science and, according to Nagle and Holden (1995), "It depends as much on good judgment as on precise calculation" (p. 9).

The challenge lies in converting a complex issue such as price into guidelines that could help entrepreneurs to determine competitive prices for accommodation establishments in South Africa. These guidelines could ensure a competitive advantage for establishments and contribute to the sustainable development of South Africa as a tourist destination.

Literature Review

South Africa has experienced an increase in tourist arrivals (i.e., an increase in demand) since the early 1990s (South African Tourism, 2008). The media, statistics from Statistics South Africa (2007), and government statements all reported a significant rise in demand for accommodation

for the 2010 FIFA World Cup. Even with an increase in the supply of accommodation, the market responded with price increases of on average 15% per annum from 2006 to 2007 (Statistics South Africa, 2007). This is a surprisingly high increase, considering that this is just for accommodation, and food, transport, and entertainment are not yet included in the package (Statistics South Africa, 2007). Porter (1990), Ritchie and Crouch (1993), and Cassidy and Guilding (2007) caution that this type of significant price increases could cause a destination, such as South Africa, to lose its competitive advantage. A former CEO of Tourism South Africa, Cheryl Carolus, explains that with an increase of just 10% (which is set about 18 months in advance) and the strengthening of the rand (which is an external, uncontrollable factor), the South African tourism product became 40% to 50% more expensive than it had been 12 to 18 months before—a factor that can threaten the growth, sustainability and competitiveness of the industry (Bennett, Jooste, & Strydom, 2005).

Competitive advantage is of central importance to the success of organizations and destinations. Various authors (Cassidy & Guilding, 2007; Dwyer et al., 2000; Lewis & Chambers, 2000) have linked competitiveness to effective economic management, for example, the adopting of global trends, marketing, strategic perspectives, prices, quality, and consumer satisfaction. Successful pricing is not an end result in itself, but a continuous process of balancing the different price factors and approaches (Koc, 2006; Nagle & Holden, 1995).

The tourism industry is a competitive marketplace where only the best-managed destinations and establishments will prosper (Porter, 1990). Middleton and Hawkins (1998) point out that accommodation managers must balance the interests of owners and employees with the long-term sustainable interests of the establishment and at the same time meet the demands and expectations of domestic and international tourists. In the past, managers believed that to compete and be successful internationally they needed only enough tourist and destination's resources, low salaries for their employees, attractive exchange rates, and a favorable image (Vengesayi, 2003). Taking this perspective, they formulated and implemented strategies and policies that were aimed mainly at increasing tourist volumes. As the results of this approach were unsatisfactory, the need arose for more specific guidelines to pricing techniques (Vengesayi, 2003).

Economists argue that pricing is regulated by the widely accepted principle of elasticity of demand (Collins & Parsa, 2006; Pellinen, 2003;). In normative approaches, pricing usually focuses on physical products and is often presented by textbook writers as a set of alternative principles or techniques (Monroe, 1990; Nagle & Holden, 1995). There are three general approaches to pricing: cost-based, customer-driven, and competition-driven (Collins & Parsa, 2006; Monroe, 1990; Nagle & Holden, 1995; Pellinen, 2003). Pellinen (2003) adds time as a fourth basis for pricing.

Although these appear to be rational approaches to the pricing problem, managers and especially entrepreneurs in the tourism industry find it difficult to apply them without specific guidelines (Du Plessis, 2009). The tourism product is a package that includes transport, accommodation, food, and entertainment, which makes pricing complex (Bulhalis, 2000; Collins & Parsa, 2006; Koc, 2006; Kotler, Bowen, & Makens, 2003; Mangion, Durbarry, & Sinclair, 2005; Rohlfs & Kimes, 2007; Thrane, 2005). The various tourism products have two kinds of value for tourists: monetary value and their value for satisfying needs (Lovelock, 2000; Weaver, Weber, & McCleary, 2007). These values often depend directly on how tourists see the product, and these perceived values influence their decision to visit and to pay for the advantages the product offers. These perceived benefits often relate directly to the product and the decision to visit and pay for the advantage (Haarhoff, 2007). As tourists gain experience of other destinations that are directly or indirectly in competition, perceptions of quality and overall performance play a role in their decision-making process. Implicitly or explicitly, tourists make comparisons between accommodation facilities, prices, and service standards (Kozak & Rimmington, 1999), so it is important for an establishment to gain a competitive advantage. Most tourists are willing to pay a reasonable room rate provided they receive value for money, which implies that the prices of two products should not be different unless the products themselves are perceived as different by tourists.

Keeping the needs of tourists in mind, Koc (2006) explains that managers, owners, and entrepreneurs running accommodation establishments have three main goals: first, to be profitable; second, to be competitive; and third, to sustain the first two goals. To achieve the first goal, it is important to realize that profitability is the result of a combination of factors, with price being one of the most important (Dwyer et al., 2000; Pellinen, 2003). There is a strong relationship between the price charged by an establishment, its profit margin, and the quality of the service it offers to tourists (Koc, 2006). Improving service quality and making one's product and service offerings different from those of competitors plays a major role in overall tourist satisfaction. To achieve the second goal, setting a competitive price is of utmost importance. Researchers such as Bolton and Drew (1991), Rogers et al. (1993), Chadee and Mattson (1995), Laarman and Gregerson (1996), Kim and Crompton (2002), Lockyer (2005), and Haarhoff (2007) have stressed that pricing decisions are multifaceted and complex, requiring managers to use more than one approach. This also applies to entrepreneurs entering the market, who need to decide what prices to charge (Bulhalis, 2000; Rogers, 1995). Prices send clear messages to tourists as to what quality to expect of the product that is being offered (Schindehutte & Morris, 2001). Getting the balance right is the key to being perceived by tourists as a value-for-money product and sustaining a competitive advantage (Parasuraman, Zeithaml, & Berry, 1985; Swarbrooke, 1995; Wilkins, Merrilees, & Herington, 2007; Zeithaml, 1988). Hence, it is clear from the literature that although various factors play a role in setting prices, quality could be used as a measurement and guideline in directing managers and entrepreneurs in setting a competitive price (Du Plessis, 2009).

The grading system enhances the value of the overall quality system and makes it more transparent, allowing other grading associations to participate in the process (Tourism Grading Council of South Africa [TGCSA], 2008). Israeli (2002) also suggests that a high star rating is an asset for accommodation establishments that can consistently generate revenue and that it is not very sensitive to changes in the competitive environment. A study by Fernandes and Bedia (2004) supports the findings of Israeli and concludes that in four- and five-star hotels the value expectations as well as perceptions were significantly higher than those for the remaining categories, and the researchers suggested that these hotels should therefore have the liberty to ask higher prices. Lim and Hall (2008) demonstrate the strong relationship between grading and price, stating the actual prices asked in South West UK Hotels. Foster (2000) also refers to research on the customer's perception of grading and concludes that tourists expected to pay more at accredited establishments because of the "better quality of service and facilities" they expect to receive in return (p. 11). In the minds of consumers, managers are responsible for ensuring quality that reflects the star rating, and this is very important for the accommodation establishment to be competitive in terms of price (Du Plessis, 2009; Haarhoff, 2007).

The absence of guidelines for pricing policies and approaches adds to the difficulties South African managers and entrepreneurs experience in determining prices for different accommodation types with similar grading status (Haarhoff, 2007). Setting prices too high or too low can have a negative impact on the business. The accommodation types in South Africa include self-catering establishments, camping, chalets, lodges, caravanning, game reserves, guesthouses, bed-and-breakfasts, and guest farms (Haarhoff, 2007; Holloway, 2002; Pearce, Morrison, & Rutledge, 1998). Differentiating between these, as well as between the different grading standards and the different facilities, adds to the complexity of pricing (Pearce et al. 1998).

Several studies of pricing in tourism have used models such as the "almost ideal demand system" and the hedonic pricing model to analyze the extent to which the provision of different tourism product characteristics can contribute to an increase in prices for a particular accommodation type (Aguiló, Alegre, & Sard, 2003; Divisekera, 2003; Espinet, Saez, Coenders, & Fluviá, 2003; Haroutunian, Mitsis, & Pashardes, 2005; Mangion et al., 2005; Papatheodorou, 2002; Pellinen, 2003; Ruta & Pedroso, 2005). Thrane (2005) demonstrates that the hotel grading factor has, as expected, a positive and pronounced effect on the overall price of packaged tours, and suggests an 11% increase in price between the packages where there is a difference in the quality of accommodation. Koc (2006) supports

the all-inclusive pricing strategy for accommodation establishments and other tourism products, if well managed. This strategy allows tourism firms to monitor and improve performance continuously while at the same time reducing the cost (Koc, 2006). Research by Collins and Parsa (2006) on price-ending strategies (e.g., asking R299 rather than R300) revealed that hotel managers used these strategies to convey the impression that a price is lower than it actually is. Although various pricing strategies could be used to provide guidelines in setting competitive prices, the response of interest is the individual's perception of price. The accommodation establishment of these information cues as purchase decision inputs depends on the perceptual process an individual uses to give meaning to the product. Usually tourists have several choices for a contemplated choice toward accommodation whose prices may provide cues that facilitate the discrimination process. However, even if the numerical prices are different, it cannot be assumed that the prices are perceived to be different. Hence, the problem becomes one of determining the effect of perceived price differences on tourists' choices. And the major concern is when and under what circumstances are differentially priced but similar products perceived as different offers to a very price-sensitive market? Weber's law has often been cited as the basis for inferences about perceived price differences (Monroe, 1990). The Weber-Fechner law in psychophysics states that perception is a function of the relative, as opposed to absolute value of a change in stimulus. This law suggests that consumers perceived differences in proportional rather that absolute terms, a theory that is experimentally supported by mental accounting studies. In the context of reference prices, Weber-Fechner's law predicts consumer to be less responsive to given price change when their price expectation is higher (Nagle & Holden, 1995).

Although some literature is available on tourism-related price strategies, little attention has been paid to building links between theoretical and empirical findings from tourism pricing models and their relevance to managers' decision-making processes for determining prices (Mangion et al., 2005).

Figure 1 shows a conceptual pricing model developed from the literature review. The model indicates

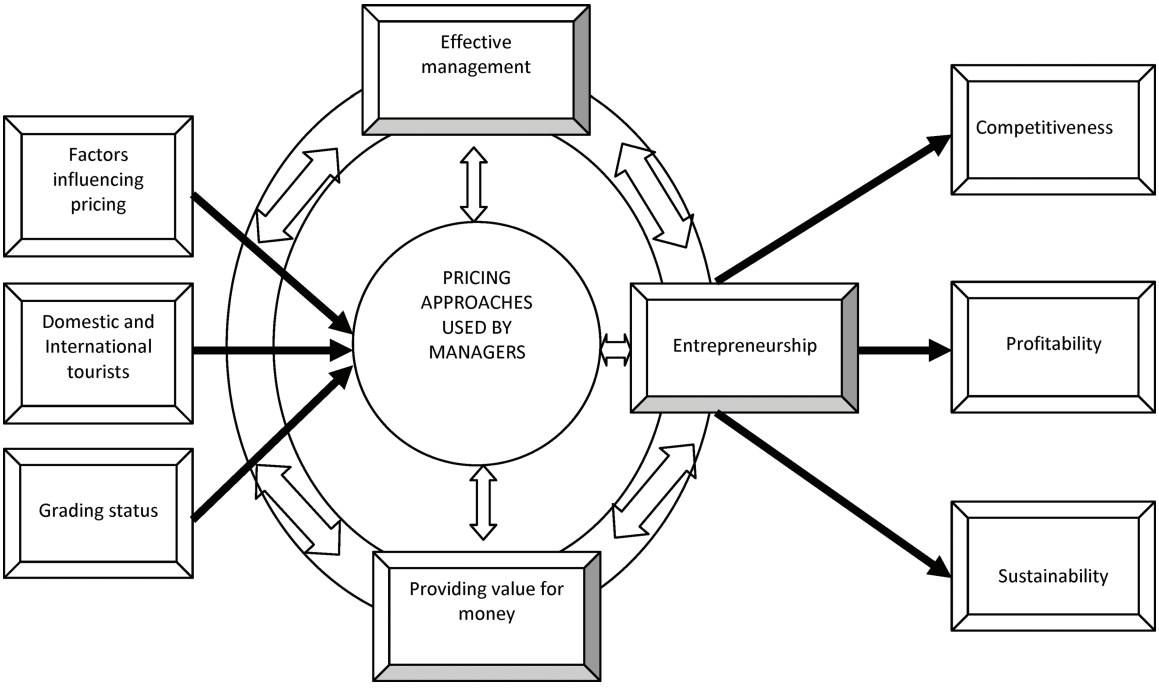

Figure 1. Conceptual pricing diagram for guesthouses and hotels of South Africa. Source: Du Plessis (2009, p. 66).

that price factors, grading status, and the demands and perceptions of domestic and international tourists all contribute to the constant interaction between effective management and entrepreneurship in providing value for money. Asking the right price should result in higher levels of sustainability and competitiveness, which in turn results in profitability.

Given that a wide range of variables influence pricing, it is important to determine guidelines that could help tourism managers, especially new entrants, to determine the viability of a planned accommodation establishment. It is always risky to make predictions, especially in the current economic climate, yet it seems safe to suggest that tourism will not become less important in the future, because people's urge to travel is increasing, as is evidenced by global statistics (South African Tourism, 2008; Statistics South Africa, 2007). This study therefore aimed to develop pricing guidelines for the South African accommodation market to help accommodation managers achieve a competitive advantage.

Method

The Questionnaire

Data used in the analysis were gathered from managers and owners of accommodation establishments in South Africa by means of a questionnaire. This empirical survey was conducted by means of an electronic mail survey, using a questionnaire developed from the studies by Ruta and Pedroso (2005) and Mangion et al. (2005) and the price factors identified by Dwyer et al. (2000), Lewis and Chambers (2000), and Middleton and Clarke (2001). The questionnaire had two sections. Section A asked for demographic details (type of accommodation, price per person, grading association, level of grading, province, primary market, and level of manager training), and Section B used Likert scale responses (1, *not at all important*; 2, *slightly important*; 3, *no opinion*; 4, *important*; 5, *very important*; and 6, *extremely important*) to determine whether respondents agreed or disagreed with each of 47 statements (Tustin, Ligthelm, Martins, & Van Wyk, 2005). This article uses mostly information obtained from Section A.

The Sample

The major source of the sampling frame was the three key associations in the accommodation sector in South Africa, the South African Tourism Service Association (SATSA), the Federated Hospitality Association of Southern Africa (FEDHASA), and TGCSA, which represented most of the accommodation establishments in South Africa. To achieve the largest possible sample, a total of 2,457 questionnaires were e-mailed in collaboration with the three associations (see Table 1). SATSA selected a sample of every fourth member of their 936-member database, FEDHASA sent questionnaires to their entire database of 660 establishments, and the authors sent a questionnaire to every fifth member of TGCSA. The selected participants were given the option to return the completed questionnaire to the researcher by fax or e-mail. One hundred and sixty-nine questionnaires were returned as having been undelivered. Of the remaining 2,288 questionnaires, 247 usable questionnaires were completed and returned, representing 10.8% of the sample, which is a representative sample for this population (Cooper & Emory, 1995).

The Method and Statistical Calculations

The data were analyzed in three stages. First, the demographic details of the various accommodation establishments were compiled with the help of SPSS (SPSS Inc., 2007). Second, the significance of mean price differences between two-, three-, four-, and five-star hotels and guesthouses was tested and

Table 1
Questionnaires Distributed, Completed, and Analyzed

Association	Number of Members	Sampling Size	Total Surveys Received
SATSA	936	238	
FEDHASA	660	660	
TGCSA	6,695	1,559	
Total	8,291	2,457	247

compared using an independent *t* test. The effect size for the difference between hotels and guesthouses in each grading status (two- to five-star) was also calculated, because this would indicate the magnitude of the differences between the two groups. For the interpretation of effect sizes, the following guidelines were used: a small effect where $d = 0.2$, a medium effect where $d = 0.5$, and a large effect where $d = 0.8$ (Steyn, 2000). The relevance of the effect size was to demonstrate the differences between the average prices for guesthouses at the various grading levels, then for hotels at the various grading levels, then for guesthouses and hotels combined at the various levels demonstrating the price differences. The grading criteria for hotels and guesthouses are in some cases different, and separating these two types of accommodation could clarify the effect sizes. The effect sizes therefore provide an objective measure of the importance of each effect (Field, 2005; Pallant, 2007; Steyn, 2000).

Finally, price differentials were determined between the grading levels (stars) of guesthouses and those of hotels. Price differentials according to the concept of the Weber-Fechner law help in evaluating price differences relative to the level of the base price, representing the relationship between the measured magnitude of a stimulus and the measured magnitude of response (Nagle & Holden, 1995). The basic assumption of this approach is that the subject price scale of the buyer resembles a ratio (logarithmic) scale rather than a natural scale. The differences in prices between products should reflect relative rather than absolute differences (Monroe, 1990).

Price differentials are calculated as shown in Table 2.

Table 2
Price Differentials

1. Rank products in ascending order of expected prices, i.e., from low to high prices
2. Determine the low-end price, $P_{\min}$
3. Determine the high-end price, $P_{\max}$
4. The price of the *j*th-ordered product is
   $P_j = P_{\min} k^j - 1 \qquad k > 1$
5. Thus, the problem is to determine *k*:
   $$\log k = \frac{1}{n-1}\left(\log P_{\max} - \log P_{\min}\right)$$
   where *n* is the number of products in the line

Table 3
Demographics of Accommodation Establishments

Variable	Averages
Type of accommodation	60.7% guesthouses, 22.3% hotels
Average price	R643.67 pppn
Grading association	93.9% have a TGCSA grading
Level of grading	47.9% have a four-star grading
Province	44.5% Western Cape Province
Primary market	45.7% South African market
Financial training of managers	32% diploma/degree

Results

A summary is given below of the demographic details of the various accommodation establishments, followed by the results of the *t*-test analysis and the price differentials among the grading levels of the two accommodation types, guesthouses and hotels.

Demographic Details of Accommodation Establishments in South Africa

The profiles of the accommodation establishments, captured in Section A of the questionnaire, are summarized in Table 3. These statistics support the findings of studies by Fraser (1999) and Van der Westhuizen and Saayman (2007) on the growth and establishment of guesthouses in South Africa. The table shows that accommodation types are predominantly guesthouses (60.7%) and hotels, with an average price of R643.67 per person per night, single occupancy. The largest group of accommodation establishments is graded by TGCSA and has received a four-star rating. Most of these are situated in the Western Cape, which supports the findings of studies by Du Plessis (2002) and Haarhoff (2007) and South African Tourism's (2009) identification of Cape Town and the Western Cape as the most visited and popular tourist destinations in South Africa.

Results of the Independent t *Test*

An independent *t* test was done to compare the two types of accommodation (guesthouse and hotel) and determine whether there are significant differences between their prices at each level of grading. The significant results are discussed in this section.

Table 4
t Test Analysis

	Hotels					Guesthouses						
Stars	Mean	Median	Min	Max	SD	Mean	Median	Min	Max	SD	*p* Value	Effect Size
2	300.00	300.00	300.00	300.00		298.75	280.00	235.00	400.00	70.75	0.988	0.02
3	541.11	485.00	450.00	825.00	124.52	323.73	350.00	120.00	650.00	98.38	<0.001	1.75
4	813.60	750.00	475.00	1,320.00	243.84	506.97	480.00	275.00	1,500.00	168.52	<0.001	1.26
5	2,234.25	2,007.50	870.00	4,000.00	973.06	516.00	500.00	250.00	1,000.00	216.60	<0.001	1.77

As Table 4 shows, there is a statistically significant difference between the prices of hotels and guesthouses for three-, four-, and five-star establishments. Five-star hotels are priced considerably higher (R2,234.25) than five-star guesthouses (R516.00). In both types of accommodation the prices differ between three-, four-, and five-star establishments, with the largest differences being between three and four stars for guesthouses and between four and five stars for hotels. The *p* value shows that the prices of two-star hotels and guesthouses are not statistically significantly different. The effect sizes for three-, four-, and five-star establishments showed a large effect ($d > 0.8$) that is important in practice and statistically significant.

Result of the Price Differentials

Taking into consideration the results of the *t* test (which demonstrated the large difference between the prices of guesthouses and hotels) motivated the researchers to calculate the price differentials separately to achieve a clearer picture of what is happening with price setting. If P_{min} is known, the price of any product in line can be set, thereby determining the price differentials between products.

According to the price differentials for hotels (Table 5), the actual prices of four-star hotels are set too low in comparison with five-star hotels, and the price differential suggests an increase of R327.15, which is approximately 40%. This could mean that either those four-star hotels set their prices too low or that five-star hotels set their prices too high.

To investigate this further, it was necessary to calculate the price differentials between two-, three-, and four-star hotels as shown in Table 6. This table shows that when five-star prices are eliminated and a price differential is calculated for two-, three-, and four-star hotels, the prices calculated for the four-star hotels in Table 4 are more acceptable. When a theoretical price is calculated for five-star hotels with $k = 1.646$, the price is reduced by almost R897, that is, approximately 40%.

These two price differential tables suggest a price margin between grading levels of either 95% or 64%, depending on whether the four-star hotel prices are considered to be set too low or the prices of five-star hotels too high.

Table 5
Price Differentials for Hotels

	Price (Rand, R)	
Model	Theoretical	Actual
Two-star	300.00	300.00
Three-star	585.00	541.11
Four-star	1,140.75	813.60
Five-star	2,224.46	2,234.25
$P_{min} = R300$	$P_{max} = R2,234.25$	$n = 4$
$\log k = \frac{1}{4-1}(\log 2{,}234.25 - \log 300)$	Three-star = 300(1.95) = 585 Four-star = 585(1.95) = 1,140.75 Five-star = 1,140.75(1.95) = 2,224.46	
$\log k = 0.290 \qquad k = 1.950$		

Table 6
Price Differentials for Hotels (Two to Four Stars)

Model	Price (Rand, R) Theoretical		Actual
Two-star	300.00		300.00
Three-star	493.80		541.11
Four-star	812.80		813.60
P_{min} = R300	P_{max} = R813.60		$n = 3$
$\log k = \frac{1}{3-1}(\log 813.60 - \log 300)$		Three-star = 300(1.646) = 493.80 Four-star = 493.80(1.646) = 812.80 Five-star = 812.80(1.646) = 1,337.87	
$\log k = 0.217$ $k = 1.646$			
Five-star	1,337.87		2,234.25

For comparison, Table 7 shows the price differentials between grading levels of guesthouses in South Africa. These price differentials demonstrate a $k = 1.199$ value that indicates a 19% increase from one grading (star) level to the next, with a strong correlation between the actual and theoretical prices. These price differentials support the findings of Van der Westhuizen and Saayman (2007) that the increase in the number of guesthouses in South Africa resulted in competition between these establishments that seemed to influence prices.

In Table 8, the price differential is calculated using the average prices of hotels and guesthouses combined at two-, three-, four-, and five-star levels. Here there is an increase of 66% in prices between grading levels. The largest significant price difference between actual and theoretical is at the four-star level.

Discussion

This section looks at the implications of the findings for managers of guesthouses and hotels in South Africa. The results of this research suggest significant price disparities, with an average of 95% between the grading levels of two-, three-, four-, and five-star hotel establishments. The results further indicate a more acceptable price difference of 20% ceteris paribus, between two-star and three-star, three-star and four-star, and four-star and five-star guesthouse establishments. These findings therefore corroborate the findings of Haarhoff's (2007) study of the price competitiveness of South Africa as a tourist destination, showing that tourists (the demand side) find four- and five-star hotels too expensive compared to the same level of accommodation provided by guesthouses and guest farms. One reason for this could be that the development costs were too high, which forces managers to ask such high prices? Alternatively, it supports the notion of price following. Studies by Israeli (2002) and Fernandes and Bedia (2004) also showed that tourists perceive prices of four- and five-star hotels as being much higher than those of other types of accommodation establishment.

Although it was clear from the literature review that a wide variety of approaches and techniques

Table 7
Price Differentials of Guesthouses

Model	Price (Rand, R) Theoretical		Actual
Two-star	298.75		298.75
Three-star	358.20		323.73
Four-star	429.48		506.97
Five-star	514.95		516.00
P_{min} = R298.75	P_{max} = R516		$n = 4$
$\log k = \frac{1}{4-1}(\log 516 - \log 298.75)$		Three-star = 298.75(1.199) = 358.20 Four-star = 358.20(1.199) = 429.48 Five-star = 429.48(1.199) = 514.95	
$\log k = 0.079$ $k = 1.199$			

Table 8
Price Differentials for Hotels and Guesthouses

Model	Price (Rand, R)	
	Theoretical	Actual
Two-star	299.38	299.38
Three-star	497.87	432.42
Four-star	827.96	660.29
Five-star	1,376.89	1,375.13
P_{min} = R299.38	P_{max} = R1,375.13	$n = 4$
$\log k = \frac{1}{4-1}(\log 1{,}375.13 - \log 229.38)$	Three-star = 299.38(1.663) = 497.87 Four-star = 497.87(1.663) = 827.96 Five-star = 827.96(1.663) = 1,376.89	
$\log k = 0.221$ $k = 1.663$		

can be used to set prices for accommodation (Bulhalis, 2000; Collins & Parsa, 2006; Koc, 2006; Kotler et al., 2003; Mangion et al., 2005; Rogers, 1995; Rohlfs & Kimes, 2007; Thrane, 2005), this research found that in the absence of strategic pricing policies for the accommodation sector in South Africa, managers use the strategy of "price following." This happens when entrepreneurs that enter this industry do not have the necessary knowledge or experience to set competitive prices, as indicated by Du Plessis (2009).

The results of this research have three important implications. First, the absence of pricing guidelines or policies could lead owners, entrepreneurs, and managers to set prices either too high or too low. This could jeopardize their efforts, especially in the long term, and make their businesses unsustainable. It is also evident that some of them have a policy that if the demand is high enough, then higher than normal prices will be acceptable. This is especially true of popular destinations such as Cape Town and Johannesburg. The downside of this is the perception that the South African accommodation sector is too expensive and that the high prices have the effect of excluding local tourists. According to Crouch (1994) and Dwyer et al. (2000), local tourists remain the backbone of a destination's tourism business and efforts should be made to accommodate them or they will travel to more affordable destinations elsewhere. Pricing guidelines can help managers to set affordable prices for the domestic market without compromising their profits.

Second, price following as a pricing method cannot be seen as a sustainable strategy over a long period and cannot be promoted because the factors influencing price differ from one accommodation establishment to the next. For example, the development cost might be higher for Product A than for Product B, so if the same price is asked the impacts on the viability of these establishments will be different.

The final important implication is that training of owners, entrepreneurs, and managers remains of the utmost importance to avoid the problems raised above. It is therefore suggested that local tourism associations such as SATSA, FEDHASA, and TGCSA should take the lead in providing training workshops to teach price-setting skills. The same applies for the training committees at universities to ensure that students get sufficient exposure to this universal matter.

Conclusions

The aim of this study was to provide pricing guidelines for the South African graded guesthouses and hotels. The research revealing significant differences in the prices charged by these two types of accommodation establishment, indicating that there is a need for such guidelines. After calculating price differentials for hotels and guesthouses, it was clear that the latter have a more acceptable percentage increase (20%) between grading levels than hotels. This supports the study by Thrane (2005), which suggests an 11% increase in price between the different grading levels indicated by the star symbol on the holiday packages. Similar calculations of price differentials between the grading levels of two types of establishment could not be found in the literature, which confirms the

complexity of pricing, considering different factors, methods, and policies.

The methods used in this study add value to the accommodation market and contribute to the knowledge about pricing for the supply side of the industry.

Based on the findings the following recommendations are made:

- First, all accommodation establishments should be graded to remain competitive and sustain that advantage.
- Second, guidelines for South Africa should suggest a 50% to 60% increase from one grading (star) level to the next for hotels and 15% to 25% for guesthouses. These price increases must be regularly tested against those of the competitors.

With regard to future research, it is recommended that different pricing policies and models could be tested in the South African accommodation scenario. The models could include the almost ideal demand system and the hedonic pricing model. The guidelines provided in this study could also be evaluated from the demand side, as tourists' views on prices for graded establishments could provide insights that would help make pricing guidelines more effective.

This study has shown that pricing is a complicated management tool. Managers in the accommodation market will need understanding and skill in order to choose the right factors, grading status, and approach to set prices that promote profitability and sustain competitiveness. The combination of factors and the effectiveness and credibility of grading systems should be tested and adapted to suit the unique characteristics of each establishment and its manager or owner.

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