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Utilizing Static Pricing to Boost Room Revenue in Archipelago International Indonesia Hotels Group

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ABSTRACT

Purpose: This research 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.
Research methods: This research uses qualitative research methodologies to assess current practices and offer ideal static rate models. It is supported by three concepts and theories: static rates, room revenue, and hotel management. This research also uses tourism economy and revenue management as theoretical foundations.
Results and discussion: The findings highlight suboptimal implementation challenges and propose two models at Archipelago International Indonesia Hotels Group: (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.
Implication: These models provide consistent pricing, improved forecasting, and increased brand awareness. Implementing these models can help Archipelago International optimize its revenue plans and financial performance.

Keywords: static rates, room revenue, archipelago international, B2B agents

INTRODUCTION

A pricing strategy is the means to determine relative price levels by considering influential factors and thereby realizing particular business objectives in a specific situation (Noble & Gruca, 1999; Tellis, 1986; Kienzler & Kowalkowski, 2017). The pricing strategy provides a systematic depiction of some elements that must be managed to achieve profitable performance in a business. Apostolos (2016) stated that the intuition behind pricing decisions can be based on either a static or dynamic approach. Apostolos further noted that the hotel management

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has to select strategic rates to generate room revenue. Pricing strategy is essential in determining how to maximize 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 remote areas, dynamic pricing with high rates cannot be reliable when the hotel faces low occupancy. Lim *et al*. (2015) stated that dynamic pricing models are inappropriate for the hotel industry for two reasons. Firstly, the hotel must determine and reveal the booking price for rooms 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 and help the hotel in a crisis by bringing back dependency on wholesalers (Rashek & Mihailescu, 2016). However, prices and profits would stagnate if hotels always used static rates. 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 Indonesia, will have about 150+ operated hotels in 2024. In terms of pricing strategy, the lowest static rates are issued to B2B travel agents, who can be connected through the channel manager to easily manage room availability. Channel Manager is a cloud-based product that automatically updates information between a hotel's Property Management System (PMS) and its online distribution channels (Truong, 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

 e-ISSN 2828-2590
p-ISSN 2828-5093

their subagents. They contribute significantly to room revenue and Archipelago International's marketing exposure, 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 is not 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 increasing room revenue while 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 essential in determining a hotel's revenue and profitability. Increasing room revenue necessitates a strategic approach considering various factors, including ARR and the competitive landscape, particularly regarding the hotel's star rating. Understanding market dynamics, optimizing 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 analyze and change plans based on market trends and guest preferences.

The hotel requires a business, so a 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 guaranteed bookings that a hotel anticipates or obtains, providing a primary revenue source. 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 fully committed and guaranteed reservations, adding to the hotel's overall income expectations. This idea is critical for hotel management to assess and maintain a

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Volume 3 Number 3 Year 2024 Pages 242-254 p-ISSN 2828-5093
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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, Surya et al. (2019) titled "Implementing 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 & 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 rate 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 dynamic rates starting from 0% occupancy, tiering the Best Available Rates (BAR) from lowest to highest depending on demand. Once occupancy reaches 70%, the hotel is suggested to stop selling the static rates. This belief is supported by revenue management reports showing that online travel agents' revenue index outperforms 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 fulfill room occupancy requirements and provide fixed room revenue.

The author employs a qualitative approach to analyze 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.

RESEARCH METHODS

This research uses a qualitative method to analyze the implementation of static rates given to B2B agents to increase room revenue in all Indonesian properties at Archipelago International Hotels Group. The qualitative method describes the problem, including the solution, in-depth and systematically. Qualitative researchers also collect field data at the locations where participants experience the problem or issue to be studied. In addition, the qualitative method also gives the author free space to continue to find out/investigate the research phenomena.

The author uses two types of data in this study: qualitative and quantitative. The data is sourced from primary data, which is obtained directly from Archipelago International, and secondary data. This research was collected

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e-ISSN 2828-2590
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through interviews with the key persons on this topic (with Archipelago International and the two B2B agents—MG Bedbank and Hotelbeds), participatory observation, document study, and holding a focus group to conduct a discussion with the key persons at Archipelago International.

The data demonstrated that static rate implementation is still effective during low season and economic downturns. However, hotels at Archipelago International are still applying hybrid models of static and dynamic rates to achieve revenue targets. Static rates are used to fulfill the base occupancy whenever the hotel is in low demand, while dynamic rates are used to maintain the average room rates. Static rates with fixed rates for a long-term period aim to make it easy to forecast revenue, get exposure from B2B agents, and fulfill guest satisfaction.

RESULTS AND DISCUSSION

Archipelago International is a well-known hotel management firm in Southeast Asia, notably recognized for its properties in Indonesia. They employ two pricing strategies to achieve their hotel revenue targets: dynamic rates and static rates. Dynamic rates allow businesses to respond to fluctuations in demand, optimize revenue, and achieve higher yields. Static rates apply to fixed pricing that stays constant independent of demand or market conditions. Both rates can potentially increase room revenue and also increase brand awareness.

The effectiveness of dynamic pricing is context-dependent and may not always be the most suitable approach (Bitran & Caldentey, 2003), especially since Archipelago International's properties in Indonesia are located in city centers remote areas, and emerging tourism destinations. According to the Archipelago International data (Figure 1) and input from their stakeholders, the majority of room revenue contributions come from online platforms, as shown below:

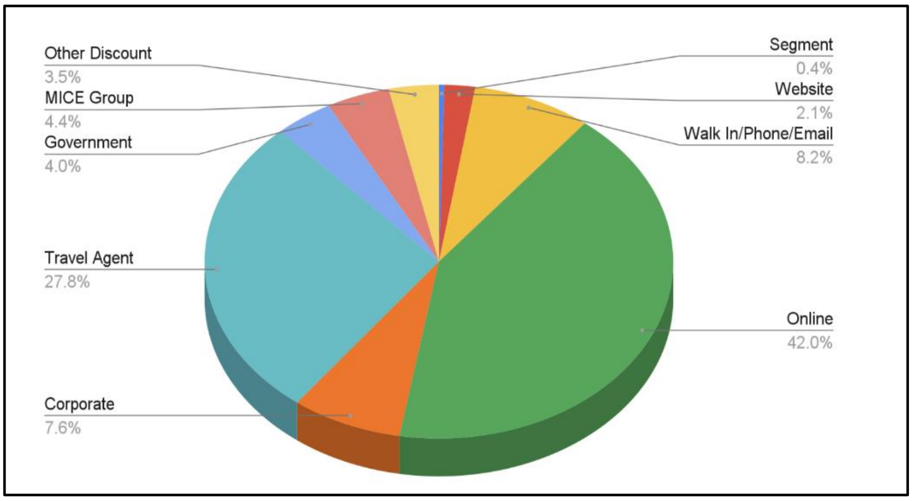

Figure 1. Summary of Revenue Contribution Across Indonesia Properties Year of 2021 – 2023
[Source: Archipelago International Revenue Management Team, 2024]

However, static rates given to offline travel agents and B2B agents (27.8%) should still be considered, as they are the second largest revenue contributor.

e-ISSN 2828-2590
p-ISSN 2828-5093

The research found that this approach helps ensure equitable revenue distribution across the region.

The static rates are employed in all Indonesian hotels to ensure a baseline level of occupancy. As occupancy increases, the hotel team adjusts dynamic pricing on the brand website and online travel agent platforms. The research demonstrated that static rates are the lowest tier rates among all rate types, typically about 25% lower than dynamic rates (Best Available Rates). Static rates are constant for a long period (Dumrongsiri *et al*, 2008), for a minimum 1-year period. Archipelago International applies this approach and offers these rates to B2B agents.

Archipelago International continues to implement static rates, particularly for B2B agents, because these rates contribute to and support their dual pricing strategies (static and dynamic). During periods of high demand, they can adjust their sales systems and interfaces to promote dynamic rates, whereas, during low-demand conditions, the hotels emphasize the sale of static rates. Additionally, the data demonstrates their capability to set geographic IP addresses based on the destination markets. For example, a hotel in Canggu, Bali, seeking to attract more European guests can increase its visibility by boosting IP addresses in Europe. This strategy allows the hotel to implement targeted discounts or other tactical promotions. The IP address serves as a unique identifier for computers/mobile on the internet, enabling website owners to track visits and facilitating data delivery to the correct devices.

The research demonstrates that although some big hotel chains have abandoned the static rates, particularly with B2B agents, due to potential reductions in average room rates, Archipelago International believes it will continue to apply static rates for the following reasons: (1) Static rates provide stability during periods of low occupancy, as well as the pre-opening of new hotels or economic crises like the Covid-19 pandemic, earthquakes, or other unforeseen situations. Additionally, static rates offer predictability because room rates are fixed, making it easier for the sales teams to calculate and strategize their efforts. This aligns with the theory discussed by Liu and Buhalis (2019). (2) Static rates are fixed prices that can be bundled with flights or other services provided by the B2B agents, maintaining their base cost unless adjusted for tactical promotions. This approach also enhances brand awareness and provides the hotels with free exposure.

The static rate implementation mechanism practically involves the following processes: planning, organizing, monitoring, and evaluation, as follows: (1) Static rates are annually contracted by the sales and distribution team with the B2B agents. Changes to hotel units, such as room rates or room type name changes, and planned events (e.g., Christmas and New Year dinners and events), are communicated to the agents. (2) The distribution team continues to onboard new hotel registrations, with connections handled by the connectivity team. (3) The revenue team manages all pricing concerns, including price leaks. (4) The sales and distribution team oversees all tactical or promotional offers made by the B2B agents and requests from the hotel units. They also serve as the primary communication link between B2B agents and hotel units, including conducting business reviews. (5) The helpdesk or partnership services team is available 24 hours a day, seven days a week to assist the hotel team with booking, rate, and inventory concerns.

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Volume 3 Number 3 Year 2024 Pages 242-254 p-ISSN 2828-5093
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Archipelago International operates over 150 hotels in Indonesia, most registered with B2B agents and available for sale. However, regulatory restrictions imposed by the enterprises prevent some hotels from selling static rates to B2B agencies. Despite this, these hotels still could maintain dynamic pricing linked to B2B agents, which continues to provide them with exposure.

The research demonstrated that Archipelago International hotels are implementing the following strategies to achieve and increase room revenue as follows: (1) Room inventory is managed by the channel manager according to Archipelago International's policy. If a hotel intends to increase sales, the hotel team can request additional inventory beyond the allotment by contacting their respective cluster sales or distribution manager. (2) When static rates leak to the online travel agents, Archipelago International has the authority to suspend room availability for the entire contract period, while notifying B2B agents to refrain from selling to online travel agents. Once rate parity is restored across all channels, they may resume selling static rates. (3) Participates in promotions offered by the B2B agents, often engaging in quarterly tactical promotions. The hotel team actively participates while managing blackout dates to minimize unwanted bookings, especially during high and peak seasons. Additionally, participating in these promotions ensures free brand recognition and promotion exposure.

B2B agents can support hotels by providing cash flow for upcoming initiatives such as new hotel openings, renovations, or other financial needs. Hotels typically offer static rates for one to two years (or as agreed upon by both parties), while B2B agents may provide upfront/cash payments of up to IDR 1,000,000,000.

Archipelago International serves various market segments, including corporate accounts (manual reservations management), corporate accounts with promotional codes, government accounts, travel agent domestic accounts, travel agent international accounts, and online travel agent accounts. According to Table 2, the highest room revenue over the last three years was achieved in 2023, reaching IDR 1,721,615,884,525. This indicates that management has improved price analysis compared to previous years.

Table 2. Production Report for All Market Segment
at Archipelago International (Indonesia Properties)

Year	Room Nights	Production in IDR		Growth (Room Revenue)
		ARR	Room Revenue	
2021	2,534,908	360,150	912,946,523,984	-
2022	3,382,575	413,495	1,398,678,633,453	53.20%
2023	3,671,767	468,879	1,721,615,884,525	23.09%

[Source: Revenue Management Archipelago International, 2024]

The financial performance chart in Figure 2 illustrates the contribution of the static rates to performance, reflecting the research findings showing the highest room revenue in 2022 at IDR 23,931,002,049. This figure decreased in 2023 due to a reduction in the contracted B2B agents. This decline was

International Journal of Travel, Hospitality and Events
Volume 3 Number 3 Year 2024 Pages 242-254
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e-ISSN 2828-2590
p-ISSN 2828-5093

influenced by the B2B agents providing static rates to online travel agents, leading to incorrect rates and room type bookings due to system synchronization issues. Additionally, transitions in channel managers during that year resulted in a decrease in the room revenue.

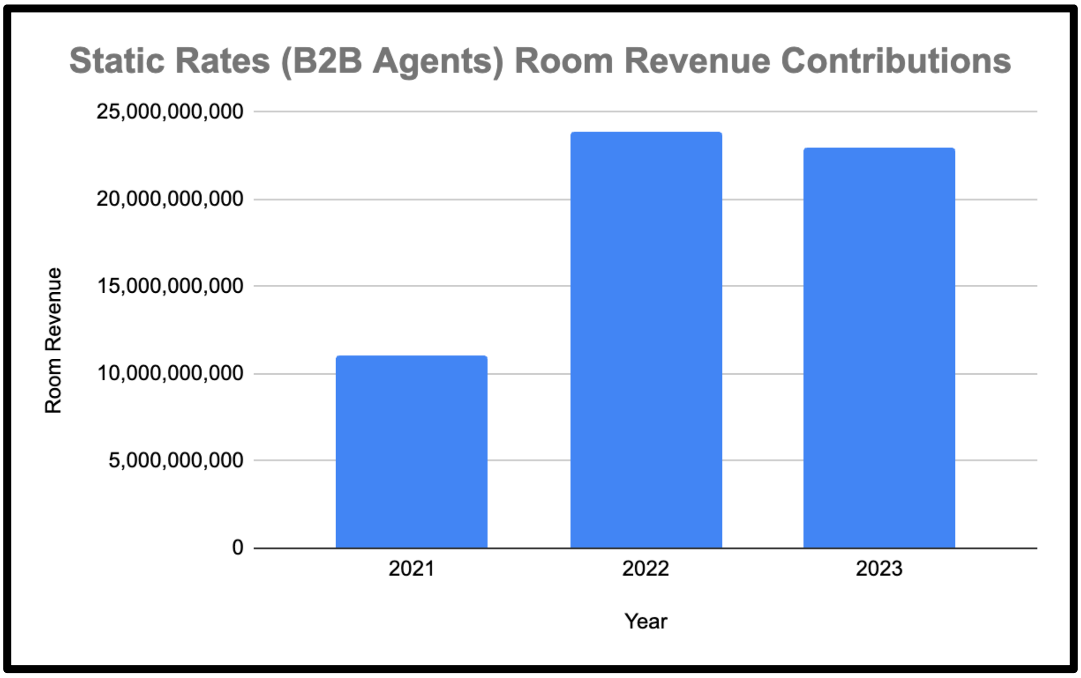

Figure 2. Static Rates (B2B Agents) Room Revenue Contributions
[Source: Revenue Management Data of Archipelago International, 2024]

Archipelago International currently offers static rates only to two B2B agents: MG Bedbank and Hotelbeds. MG Bedbank, owned by PT. Mitra Global Holiday, is one of Indonesia's travel agents, with the headquarters located at Jalan Majapahit No. 16 Jakarta Pusat 10160. They have an integrated system with extranet access for each hotel to check their booking reports, payment status, and other reservation-related information. MG Bedbank has 12 offices around Southeast Asia, holds over 20,000 direct contracts with hotels in Indonesia and Southeast Asia, and handles over 5,000 daily bookings (https://www.mgbedbank.com/home).

Hotelbeds is a travel technology company established in Palma de Mallorca, Spain, that provides a distribution channel for accommodation businesses. It operates in over 190 source markets, processes 4 billion searches per day, and employs 3,000 local experts (https://discover.hotelbeds.com). Like MG Bedbank, Hotelbeds provides an extranet for each hotel to check booking reports, payment status, and other reservation-related information. Both companies are the major travel agents in Indonesia and abroad.

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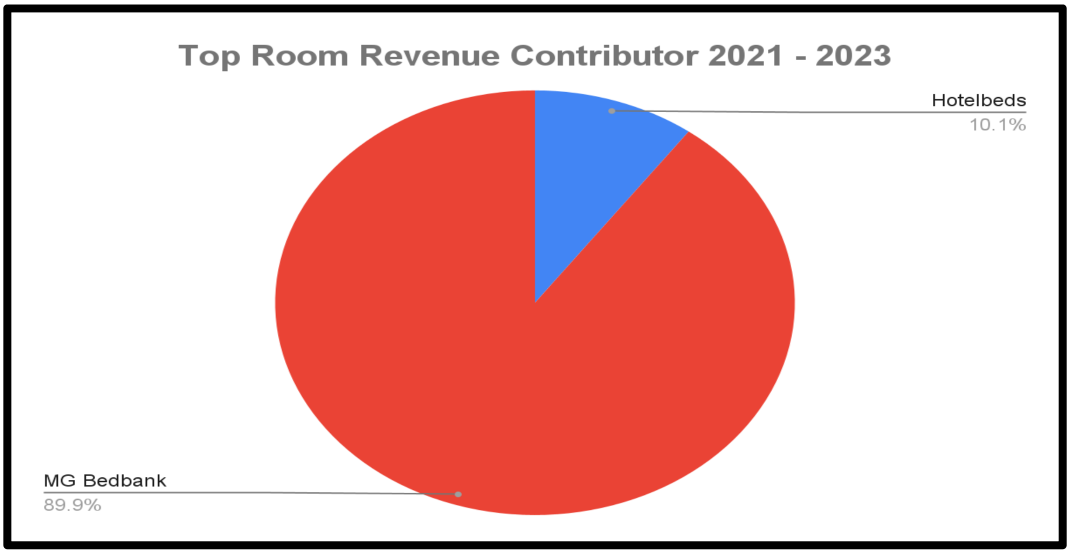

Figure 3. Top B2B Agents Room Revenue Contributor
[Source: Revenue Management Data of Archipelago International, 2024]

According to Figure 3, MG Bedbank contributed the most to room revenue from the static rates for three consecutive years, 2021-2023, with a percentage of approximately 89.9%. This indicates that MG Bedbank made significant efforts to promote and sell the hotel unit of Archipelago International, and since their headquarters are in Indonesia, it is relatively easy for them to promote Archipelago International domestically. Additionally, the research found that MG Bedbank employs various tactical promotions to increase room revenue, such as floating deposits and kickback incentive programs. Hotelbeds employed a similar approach to MG Bedbank, although their program was more recent.

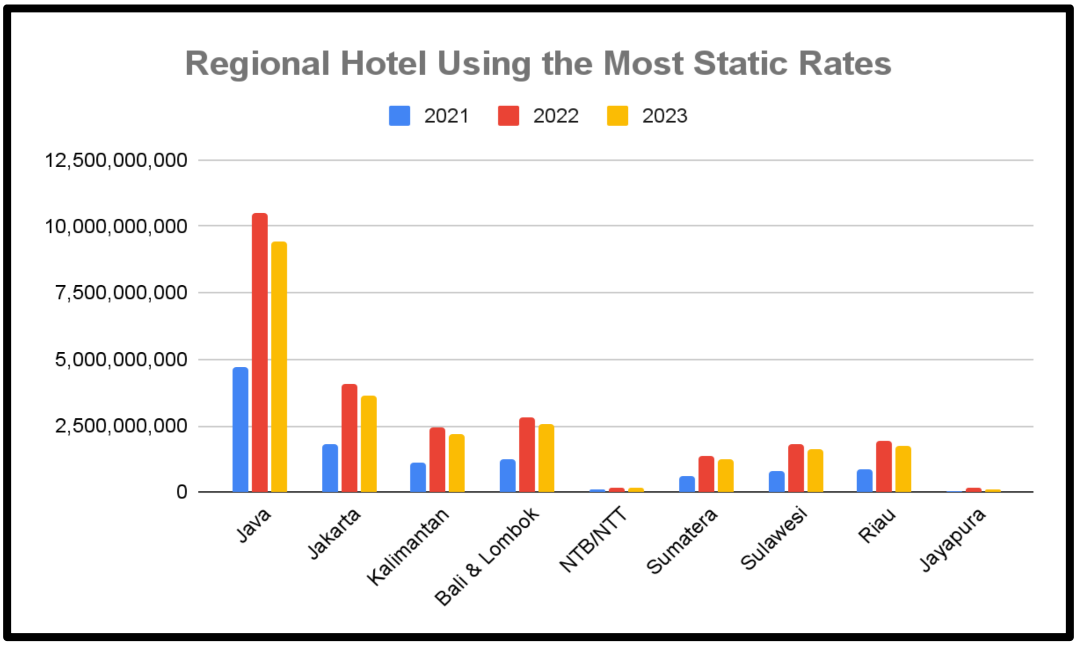

Figure 4. Regional Hotel Using the Most Static Rates at Archipelago International
[Source: Revenue Management Data of Archipelago International, 2024]

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Static rates are utilized in almost all properties in Indonesia. Figure 4 shows that Java Island has the highest utilization of the static rates. The research found that most guests come for business and leisure. Additionally, Java Island has more Archipelago International hotels than other regions. Jakarta is the second most popular destination as Indonesia's capital and has more business-oriented guests. Bali and Lombok also utilize static rates after Jakarta, with guests mainly coming for leisure, and some business from corporate accounts and government. Kalimantan is also performing well in terms of government sectors and is set to become Indonesia's new capital by 2024. Sulawesi, Riau (including Batam and Bintan), Jayapura, and West Nusa Tenggara/East Nusa Tenggara are also catered to, but not as extensively, given the location and the primary purpose of stays, which is primarily business-oriented.

Based on the problem formulations and the discussion of research results, a model has been constructed to assist in improving Archipelago International's financial performance through the implementation of static rates. This model's fundamental purpose is maximizing room revenue by properly controlling static rates. Additionally, this approach addresses the difficulties raised in Problem Formulation. Figure 5 provides more details about this model.

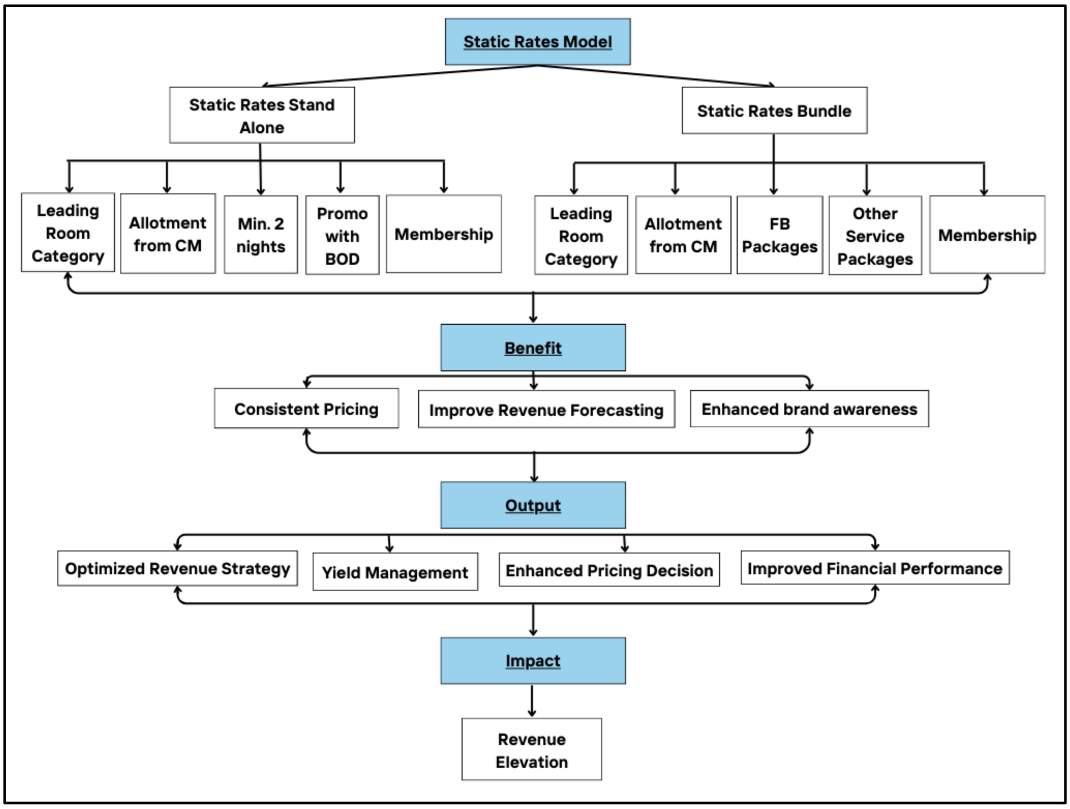

Figure 5. Static Rates Model
[Source: Author modifications, 2024]

Static rates in Archipelago International hotels typically apply to the leading room categories, offering the lowest rates and standard amenities. Managed through a Channel Manager tool, these rates allow for efficient room allocation to B2B agents, optimizing inventory distribution and reducing overbooking risks. Implementing a minimum 2-night policy helps manage demand, optimize

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revenue, and enhance operational efficiency by minimizing gaps in occupancy and preventing rate leakage to online travel agents. Additionally, promotions with blackout dates strategically avoid discounts during high-demand periods, enhancing the exclusivity of promotions and maximizing revenue. The membership program provides B2B agents various benefits, such as loyalty rewards, discounts, and special room rates, thus enhancing client satisfaction and loyalty. By bundling static rates with food and beverage packages or additional services like transportation and wellness, hotels add value, simplify logistics, and foster long-term partnerships. This comprehensive approach strengthens the Archipelago hotels' value proposition, positioning them as preferred partners in the competitive B2B tourism market.

Potential surcharges during peak seasons support consistent pricing, which ensures better revenue forecasting and enhanced brand awareness. B2B agents promote Archipelago International properties through their platforms, while the hotels' marketing channels, including email marketing and social media, amplify promotions. Optimized revenue strategies, yield management, and enhanced pricing decisions lead to higher revenue as well as improved financial performance, particularly for Indonesian hotels under Archipelago International.

Overall, the static rates model provides predictability, increases hotel occupancy, and simplifies revenue management. This strengthens customer relationships and offers a competitive edge, contributing to financial stability and sustainable growth. When effectively implemented, static rates secure immediate revenue and build a foundation for long-term profitability and success for hotels.

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 was previously found to have stand-alone rates with minimum nights. Revenue was explicitly generated during the low season, economic downturns, pre-opening hotels, remote area destinations or for those hotels who need more business to fulfill 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 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 optimized 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)

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Impact of Static Rates Model Implementation: Implementing static rates maximizes 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, implementing static rates at Archipelago International Indonesia Hotels Group has the 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.

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