

**FACTORS INFLUENCING HOTEL RATES IN HUA HIN AND  
CHA-AM AREAS: A HEDONIC PRICE APPROACH**



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Thematic Paper  
entitled

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**FACTORS INFLUENCING HOTEL RATES IN HUA HIN AND CHA-AM AREAS:  
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**ABSTRACT**

The purpose of this study was to identify and measure the effect of different characteristics or attributes affecting hotel room rates in Hua Hin and Cha-Am areas by using the Hedonic Price Model. The researcher collected 100 items of secondary data based on the price lists and attributes of hotels from the on-line website travel agency, [www.agoda.co.th](http://www.agoda.co.th), in order to determine the room rates that hotels charge. These price lists are regressed against a number of attributes which include not only room quality characteristics, but also shared hotel facilities.

The results revealed that some attributes such as having a jacuzzi, DVD player, spa, meeting room, and tennis court are significant and have a positive effect on the hotel room rate. Therefore, the results imply that consumers consider these attributes prior to booking their hotel room. This research is expected to assist hotel managers or hotels owners to determine the appropriate price of hotel rooms and in providing facilities that consumers expect. In addition, this research is a good source of data for new business entrants when considering appropriate pricing strategies for their hotel business in the Hua Hin and Cha-Am areas.

**KEY WORDS: HEDONIC PRICE MODEL / HOTEL ROOM RATE/ HOTEL ATTRIBUTES /  
HUA HIN/ CHA-AM**

32 pages

ปัจจัยที่มีผลต่อราคาห้องพักของโรงแรมในเขตหัวหินและชะอำ โดยใช้ตัวแบบราคาเฮโดนิคในการศึกษา  
FACTORS INFLUENCING HOTEL RATES IN HUA HIN AND CHA-AM AREAS: A HEDONIC  
PRICE APPROACH

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บทคัดย่อ

งานวิจัยชิ้นนี้จัดทำขึ้น เพื่อศึกษาและประเมินผลกระทบของคุณลักษณะต่อราคาห้องพัก  
โรงแรมในเขตหัวหินและชะอำโดยใช้ตัวแบบราคาเฮโดนิคในการวิเคราะห์ข้อมูล ผู้จัดทำได้รวบรวม  
ข้อมูลราคาและคุณลักษณะโดยละเอียดของโรงแรมแต่ละแห่งเป็นจำนวนทั้งสิ้น 100 ตัวอย่าง โดย  
รวบรวมข้อมูลจากเว็บไซต์สำรองห้องพักล่วงหน้าเพื่อกำหนดให้เป็นราคาห้องพักที่โรงแรมคิดค่าใช้จ่าย  
ราคาเหล่านี้ได้ถูกหาความสัมพันธ์ระหว่างราคากับคุณลักษณะต่างๆ ซึ่งไม่เพียงแต่เป็นคุณลักษณะ  
ของห้องพักเท่านั้น ยังรวมไปถึงคุณลักษณะของสิ่งอำนวยความสะดวกส่วนกลางของโรมแรมด้วย

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สถานการณ์ของธุรกิจประเภทนี้ต่อไป

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## **CHAPTER I**

### **INTRODUCTION**

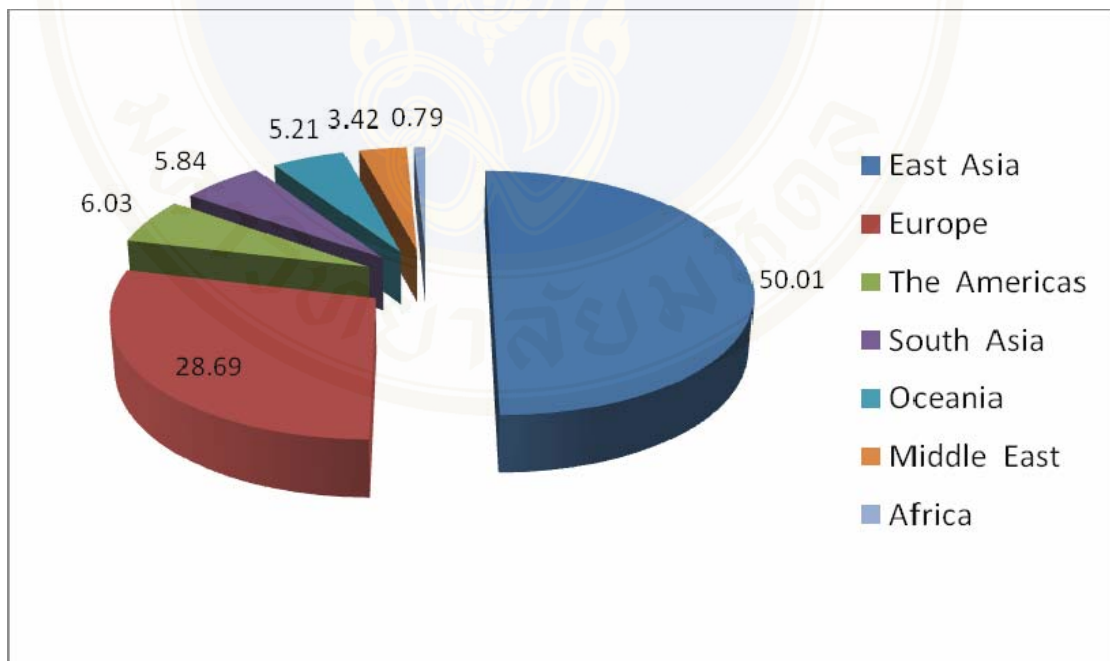
#### **1.1 Overview of tourism market**

Tourism is an important factor in global economic development because the tourism industry is an important source of income for many countries including Thailand. Meanwhile, the tourism business is made up of several different industries both direct industries such as transportation (surface communication and airline cruise line), accommodation (hotel, motel, guest house, etc.), food and beverages and other commodities (travel agencies and recreation services) and indirect industries such as tourist expenditures on the goods and services sold by the established industry at a tourist destination, and cultural resources. Apart from these industries, tourism attracts investments from other countries and may contribute to the development in many fields, such as new hotels, new airports, new restaurants, new department stores, healthcare sources, selected property developers, retailers and etc. As well as accommodation facilities, regional development, employment, travel industry, entertainment activities, culture and other hospitality services, environmental protection, infrastructure, transportation, health, education, etc. (Tezcan, 2004).

Thailand is definitely where tourists can enjoy unforgettable and amazing travelling experiences. Not only the number of beautiful tourist attractions such as islands, beaches, caves, hills, waterfalls, natural forests, sightseeing, historical places that attract travelers, but also the tropical climate, a variety of activities, delicious food, and welcoming and friendly Thai people. Each year, income from tourism plays a vital role in developing the economy in our country and contributes to a large proportion of Thailand's economic growth. As an example, Thailand got income accrued from tourism around 5.10 billion baht in 2009, 5.75 billion baht in 2008 and 5.80 billion baht in 2007 (Department of Tourism, 2010a).

From the information above, Thailand tries to promote itself as a tourist destination to attract travelers to visit Thailand. Recently, Thailand has become one of

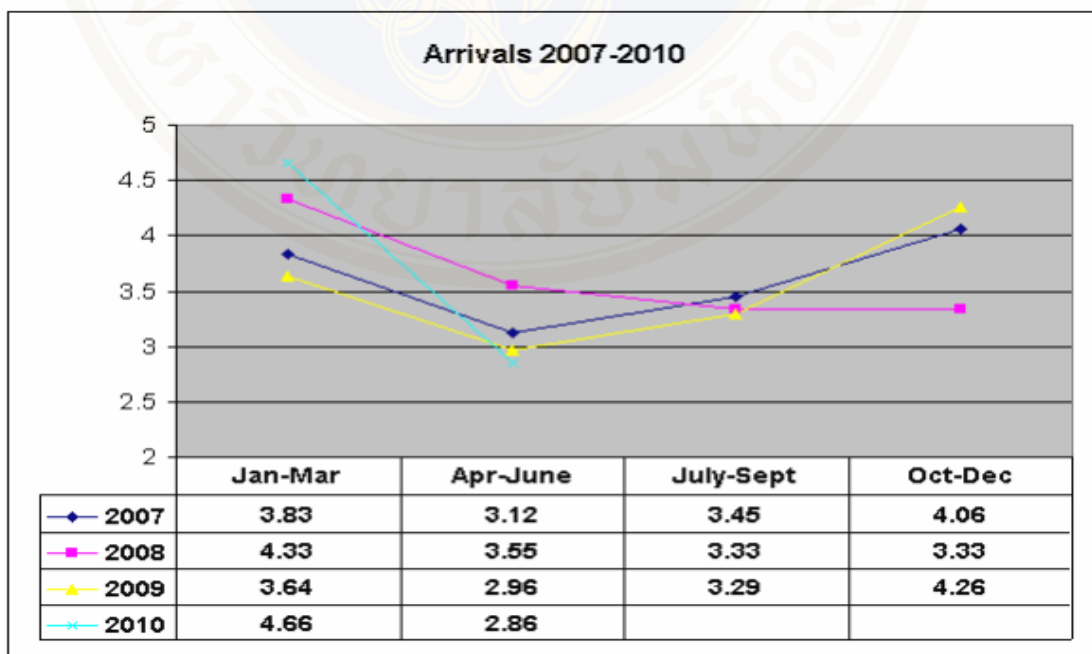
the top three leading destinations in South-east Asia in terms of inbound visitor arrivals in 2009, these top three countries are Malaysia, Thailand and Singapore, respectively (ASEAN Tourism Statistics Database, 2010). As an example, there were over 14 million international tourists from different countries arriving in Thailand in 2009 (Department of Tourism, 2010b). In 2009, the largest amount of foreigners inbound in Thailand were East Asian tourists, mostly Malaysian and Japanese, which represent 50.01 percent in market share. European tourists, most English and German, ranked second and represented 28.69 percent of international arrivals in 2009 followed by American tourists ranked third, and represented 6.03 percent of markets share (See Figure 1 for the proportions of international tourists in detail). It was not surprising that the largest portion of international tourists is from East Asia due to the short distance from their country, low cost of living and the products and services that Thailand offers them.



**Figure 1.1** The proportions of international tourists in 2009

**Source:** Department of Tourism, 2010b

However, there were some factors that affected a downturn in international arrivals to Thailand from 2008 to 2010 as shown in Figure 1.2. Regarding the political tension in November 2008 in Thailand, yellow-shirt protesters closed Suvarnabhumi Airport, which made Thailand suffer a decline in inbound tourists from 4.06 million visitors in the fourth quarter of 2007 to 3.33 million visitors in the fourth quarter of 2008. Regarding the global economic crisis known as the U.S. Hamburger Crisis and Thailand's political turmoil since late 2008, Thailand faced a decline in the number of inbound foreigners compared with the number of the tourist arrivals in early 2008 (A downturn from the end of 2008, 2009). In 2009, the political situation, the economic crisis, fluctuations in oil prices and the swine flu affected on the decline of the domestic tourism market (A downturn from the end of 2008, 2009). Hence, the number of foreign visitors decreased to 2.96 million from April to June 2009. Recently, the political disturbances in March to May 2010 might result in a serious downturn in the tourism industry for the whole year. After all, both domestic and international factors influence the tourism industry. Some tourists might postpone their travel plans and some might cancel their trips.



**Figure 1.2** The number of international visitors to Thailand between 2007 and 2010

**Source:** Thaiwebsites.com

In contrast to the inbound market, the movement of Thai domestic tourists is continuously increasing in terms of number of Thai tourists and revenue. A domestic tourism marketing target has also been developed. As shown in Table 1.1, the number of trips has significantly increased from 79.53 million per time in 2005 to 87.06 million per time in 2009 this represents a 9.47 percent increase. In addition, the tourist receipts from local tourists have been increasing from 334,717 million baht in 2005 to 407,600 million baht in 2009. However, the data shows that the length of stay has continuously decreased from 2.73 days in 2005, 2.65 days per trip in 2006, 2.63 days per trip in 2007, and 2.31 days per trip in 2008 to around 2 days per trip in 2009. This indicates that local tourists have to spend a shorter time on their traveling due to they have to save money in the economic recession.

**Table 1.1** The number of domestic travelers in Thailand, revenue and average length of stay between 2005 and 2009

Years	Thai Visitor		Revenue		Average
	Trip	Change	Million	Change	Length of stay
	(Million/Time)	(%)	(Baht)	(%)	(days)
2005	79.53	+6.33	334,717	+5.51	2.73
2006	81.49	+2.46	365,276	+9.13	2.65
2007	83.23	+2.14	380,417	+4.15	2.63
2008	84.70	+1.77	385,000	+1.20	2.31
2009	87.06	+2.79	407,600	+5.87	1.99

**Source:** Tourism Authority of Thailand (TAT), 2009a and Department of Tourism, 2010b

For the planning and strategy management, the Thai government has perceived tourism as a main part in developing the economy of the country by the inclusion of tourism promotion, through economic and social development plans. The main target is to promote Thailand as the tourism hub of South-East Asia. Tourism Authority of Thailand (TAT) as an agent of the government is putting an effort to develop more tourism areas and activities to offer to the global market as part of an international campaign. The newest TAT marketing's plan (Year 2008-2009), is an

attempt to position marketing strategies as a “*Amazing Thailand Amazing Value*” with 7 Wonders of Amazing Thailand which are Thainess with the concept of ‘The World’s Friendliest Culture’, Treasures with the concept of ‘Land of Heritage and History’, Beaches with the concept of ‘Sun Surf and Serenity’, Nature with the concept of ‘The Beauty of Natural Wonders’, Health & Wellness with the concept of ‘The Beauty of Wellness and Wellbeing’, Trends with the concept of ‘Your Senses with Unique Trends’ and Festivities with the concept of ‘The Land of Year Round Festivities’. This marketing action plan has become part of the market for tourism in Thailand in 2009 (Tourism Authority of Thailand (TAT), 2009a).

With the slogan "Land of Smiles" promoted around the world, Thailand has become one of the most popular tourist destinations in the world. There are many tourist destinations in Thailand. First introductions are made in, Bangkok one of the most cosmopolitan, with horrendous traffic, modern shopping malls and stunning Buddhist temples. Another famous destination is Chiang Mai, known as the rose of the north with its charming and distinctive diversity, a unique culture, and the wonderful hill tribes that attract tourists to visit Chiang Mai. Sliding down the southern coastal area is the largest island of Phuket, known as the pearl of the Andaman. The island is surrounded by the Andaman Sea with many popular diving sites such as the islands of Ko Bon, Ko Yao and Ko Maprao. Pattaya is another popular beach town on the North Gulf Coast of Eastern Thailand. Apart from stunning beachfronts, Pattaya city offer many activities to foreign tourists such as bungee jump, leisure flying, horse riding, massage, diving, shopping malls, and nightlife. Clearly, Thailand's beaches are stunning, charming and hedonistic for travelers.

Hua Hin has been chosen as one of the study areas because Hua Hin is one of the most well-known seaside towns. It is lying on the western side of the Gulf of Thailand. Hua Hin is situated 281 km. from south of Bangkok located in Prachuab Kiri Khan Province at a latitude of 12° 34' 7 north and a longitude of 99° 57' 28 east. The total area is 838.9 square kilometers (Tourism Authority of Thailand. (n.d.). For travelers, the magnetism of Hua Hin is an exotic and ancient culture which is surrounded by a wonderful atmosphere, a modern luxury beach resort and many other attractions such as Hua Hin railway station, Suan Son Pradiphat or Sea Pine Garden, Klai Kangwon Palace and the most popular now for Thai travelers is Plearn Wan

market and Cicada market. Today Hua Hin is full of facilities and accommodation such as boutique hotels, guest houses, and luxury condos for travelers who look for such accommodation. In addition, Hua hin is full of activities for travelers to spend their leisure time on such as golf courses, restaurants, bars, supermarkets, shopping complexes and movie theatres. There is no doubt that Hua Hin has become one of the more popular seaside towns in the minds of travelers in recent years.

As shown in Table 1.2, Hua Hin generates income from the tourism business, a total of 9,188 million baht in 2009 or in the top ten tourism receipts of Thailand. There were 989,963 visitors, both foreign and Thai, traveling to Hua Hin area in 2009 with accounting for an increase of 15.59 percent from 2008. Most of all, it is Thai travelers which is the largest market share around 67 percent. Regarding foreign visitors, it is the European tourists, especially tourists from United Kingdom, Sweden, Germany and Denmark, respectively. Thus it can be inferred that most European tourists choose to come to Thailand as their destination for their holidays, vacation or leisure time because Thailand provides nice sun and beaches, reasonable prices healthcare facilities, wonderful tourist destinations and quality service which can satisfy them.

**Table 1.2** Tourism receipts and number of visitor arrivals at accommodation in Hua Hin in 2009

Place	Tourism Receipts	Numbers of Arrivals at Accommodation		
	Amount	Total Number	Foreigners	Thais
	(Millions Baht)	(persons)	(persons)	(persons)
<b>Bangkok</b>	334,454	12,385,416	8,453,587	3,931,810
<b>Phuket</b>	94,006	2,721,269	2,171,238	550,031
<b>Pattaya</b>	44,657	3,493,506	2,512,870	980,635
<b>Chiengmai</b>	32,605	2,394,388	1,020,465	1,373,923
<b>Koh Samui</b>	23,336	723,610	650,788	72,822
<b>Krabi</b>	20,059	1,662,321	834,499	827,821
<b>Songkhla</b>	12,703	1,556,670	585,611	981,059
<b>Rayong</b>	10,800	1,991,868	498,982	1,492,886
<b>Cha-Am</b>	9,492	1,452,968	227,664	1,225,304
<b>Hua Hin</b>	9,188	989,963	318,373	671,590

Source: Department of Tourism, 2010

As shown in Table 1.3, the total number of hotel establishments in Hua Hin increased constantly from 141 hotels in 2005 to 210 hotels in 2009. Also, the number of hotels rooms in Hua Hin has been continually increasing from 5,805 hotel rooms in 2008 to 6,532 rooms in 2009, representing a 12.52 percent increase. This obviously implies an uptrend in the hotel industry in Hua Hin. Nonetheless, the average length of stay has decreased from 2.39 days in 2005 to 1.92 days in 2009. The decrease in average length of stay among travelers reflects the downturn of the economy in Thailand so travelers want to save money by taking a shorter trip.

**Table 1.3** The number of hotel establishments, hotels rooms, occupancy rate and average length of stay in Hua Hin area between 2005 and 2009

Years	Number		Number		Occupancy		Average
	of Hotels	Change (%)	of Hotels (Room)	Change (%)	Rate (%)	Change (%)	Length of Stay (Day)
2005	141	+36.89	4,300	+6.92	58.72	+3.64	2.39
2006	148	+5.06	4,434	+3	59.25	+0.90	2.35
2007	164	+10.81	5,321	+3	52.59	-6.66	2.35
2008	169	+3.05	5,805	+9.10	46.19	-6.69	2.06
2009	210	+24.26	6,532	+12.52	39.50	-9.69	1.92

**Source:** Tourism Authority of Thailand, 2010b and Department of Tourism, 2010

The Cha-Am area is also chosen in this study. Cha-Am is situated in Phetchaburi province at a latitude of 12° 47' 59 north and at a longitude of 99° 58' 1 east. Cha-Am is adjacent to the north of Hua Hin or 25 km from it with a total area of square 660.65 kilometers (Tourism Authority of Thailand. (n.d.). The charm of Cha-Am is long, white sandy beaches, great seafood, blue skies and many attractions such as Hup Kraphong, Marukhathaiyawan Palace, Lao Song or Thai Song Dam Tribal Villages, Tham Khao Yoi, Wat Khao Takhrao and Kaeng Krachan National Park.

As shown in Table 1.4, the total number of hotel establishments between 2005 and 2009 shows fluctuations with an increase of hotels to 135 hotels in 2008 and a decrease to 125 hotels in 2009. While hotels rooms in Cha-Am has been continually increasing from 4,762 rooms in 2006, 5,196 rooms in 2007, 5,523 rooms in 2008, to 5,844 rooms in 2009. This can inferred a boom in the hotel industry of Cha-Am. Similarly, the average length of stay has been continually increasing since 2006. However, the occupancy rate has dropped sharply from 45.91% in 2005 to 25.99% in 2009.

**Table 1.4** The number of hotels, hotel rooms, occupancy rates and average length of stay in Cha-Am area between 2005 and 2009

Year	Number		Number		Occupancy		Average
	of Hotels	Change (%)	of Hotels (Room)	Change (%)	Rate (%)	Change (%)	Length of Stay (Day)
2005	121	23.47%	4,762	5.49%	45.91	0.50%	1.93
2006	121	0.00%	4,762	0.00%	45	-1.98%	1.49
2007	126	4.13%	5,196	9.11%	48.48	7.73%	1.49
2008	135	7.14%	5,523	6.29%	42.04	-13.28%	1.70
2009	125	-7.41%	5,844	5.81%	25.99	-38.18%	1.87

**Source:** Tourism Authority of Thailand, 2010b and Department of Tourism, 2010

The rapid expansion of the hotel industry as well as the increase in travelers and entrepreneurs in the Hua Hin and Cha-Am areas has produced a highly competitive market. The increased value of tourism as an experience has forced hotels to develop packaged services, and to do everything they can to create a more value added product in travelers' minds. For business survival, one of the most important factors of hotel marketing strategies is to determine the appropriate price of hotel rooms, since consumers expect hotel room rates to be one of the main factors influencing booking a hotel room. While hotel room price lists differ widely in attributes such as the town in which the hotel is located, star category, type of rooms, size and the quality of service and etc., these attributes affect on the charging of higher premiums for hotel room rates under imperfect informational circumstances.

This study focuses on the analytical effect of characteristics or attributes on hotel room rates in the Hua Hin and Cha-Am areas. This indicates that a hotel room price is embedded with a combination of these attributes or characteristics. As a result, the Hedonic Price approach can be used as a tool to build a competitive advantage for the hotel attributes and understand the influence of each attribute or characteristic on price and the relationship between price and attributes.

## **1.2 Research Objectives**

With this thematic paper, the researcher aims to:

1. Study what attributes or characteristics of hotel rooms in Hua Hin and Cha-Am areas affect hotel price lists under the Hedonic Price method.
2. Provide guidelines for existing hotels in pricing and providing facilities.
3. Provide guidelines for new hotel developers in considering appropriate pricing strategies.

## **1.3 The Benefits of Research**

This study is to utilize the information on hotel price lists collected from an internet online website to construct Hedonic Price indices for hotel rooms in Hua Hin and Cha-Am areas under imperfect information because consumers do not know all the information about hotel attributes before they book a hotel room. In addition, to analyze the Hedonic Price indices in order to identify the relationship between the hotel price lists with other specific attributes. It would be beneficial for hoteliers to understand the factors influencing consumer willingness to pay. Above all, this study can help hotel managers, hotels owners and new business entrants to determine appropriate prices for hotel rooms, to understand what hotel attributes are valued by consumers and to provide facilities that consumers expect.

## **1.4 Scope of Study**

In this paper, the Hedonic Price Model will be used to identify and measure the effect of different hotel attributes on hotel room rates. The 50 hotels in Hua Hin and Cha-Am areas with a total of 100 room rates daily recorded in July 2010 will be covered. The hotel room rates and hotel information are taken from an on-line website travel agency, [www.agoda.co.th](http://www.agoda.co.th).

## **1.5 Limitation**

The major limitation of this research is that the hotel room rates do not cover all the hotels in the Hua Hin and Cha-Am areas and thus may not represent the entire hotel industry in the area. In addition, the data are collected from an on-line source which is the only one source in this study. Further research should adopt hotel room rates from many resources in order to improve the statistical results. Furthermore, this study adopts the rate charged for hotel rooms on a weekday in July, 2010 or only one time of the year which might not reflect price fluctuations at different times of the year. Further research should study hotel room rates from different seasons which can reflect different prices. To a greater extent, this research could add more variables that contribute to hotel room rates and generate further meaningful results.

## **CHAPTER II**

### **LITERATURE REVIEW**

Many previous researchers have studied Hedonic Price Methods from many points of view and for many various kinds of businesses to identify the key attributes affecting the consumers' willingness to pay (WTP). The early researches about the Hedonic Model are usually in the real estate area and focus on the interpretation of the estimated coefficients as the implicit marginal prices or the shadow prices. The typical model for a Hedonic Pricing Model is in a linear relationship between the dependent variables or real estate price and attributes variables.

The most frequently cited literature was in Rosen (1974), where the author analyzed characteristics or attributes of products under the Hedonic Price Model and under 12 conditions of perfect competition. The author stated that the price of products depended on its characteristics or its attributes. According to Halvorsen and Pollakowski (1981), they use the Box-Cox methodology for the Hedonic Price Approach. Later, Cassel and Mendelsohn (1985) adopt the Hedonic Price Method in examining how errors occur in measuring marginal attributes prices.

There are a few papers studying about the implicit price of attributes or characteristics in the hospitality industry under the Hedonic function. The first study under the Hedonic Method is Carvell and Herrin (1990) who examined 20 hotels in San Francisco between 1982 and 1986. The author regressed daily price hotel rooms' rates against several characteristics and facilities. They found that concierge service, valet dry cleaning and hotel amenities including distance from the tourist attraction are significant and can affect average daily rate of hotel rooms.

In Espinet (1999)'s paper, Hedonic technique was applied to identify the effect of hotel attributes on hotel room rates in Spain. The secondary data were collected from the tour operator catalogues from May to October 1999. The result showed that hotel region, hotel category, distance to the beach, availability of parking

place in the hotel and room equipment have a significant effect on hotel room rates both in peak price model and seasonality model. As a result, this paper assists hotel managers or hotel owners in determining the rate that hotels charge per room which can increase peak prices and reduce prices that differ from seasonality.

Later, White et al. (2002) examine room rates under Hedonic analysis for budget hotels and motels in four southwestern U.S. states which are Arizona, Colorado, New Mexico and Utah during 1998. The author applied the published 600 establishments' prices of a hundred national hotel chains to regress several hotel attributes such as spas, pools, free breakfasts, temperature and interstate location against hotel room rates. The author focuses on the effect of locational attributes on price. Therefore, the results of this study show that pool, spa, temperature, interstate location, urban setting and economic features of the surrounding are significant and affect room rates.

Another example is Espinet et al. (2003) who examined the effect on price of different attributes on sun and beach hotel rooms' price in a coastal town in Catalonia. This study adopts Hedonic Pricing Method by means of random effect models to estimate implicit price with characteristics or attributes. The population consists of the 82,000 prices daily recorded during 1991 to 1998 from tour operator catalogues. The attributes chosen to analyze in this study come from examination of tour catalogues and in-depth interviews with hotel managers and professionals in the hospitality area. The study found that hotel room prices of four star ratings differ from one or two star ratings. In higher rated hotels the number of rooms and availability of parking are significant in charging prices for hotel rooms. Also the distance from the beach and town location affect costs of building hotels in the summer and winter seasons.

Referring to Roubi and Litteljohn (2004), the Hedonic technique was used to analyze hotel sales prices in the UK. The secondary data about hotel attributes was gathered from a 211 sample size from Hotel Property Database between 1996 and 2002. There are several variables considered in this study which are property characteristics, locational characteristics and economic indicators included in the model. The result showed that the physical characteristics, such as swimming pool, tennis court amenity, and hotel and fitness facilities and locational characteristics such

as the gross domestic product per capita and the number of the employed persons were significant factors affecting hotel room rates. In addition, the result also showed that the most important factor affecting hotel sales price is the size of the room. The local economic conditions ranked it the second most important factor followed by recreational facilities and the year sold, respectively.

Later, Thrane (2005) examined the Hedonic function under tourism area by using information from a sun-and-beach package tour in Norway. The author adopts ordinary least square (OLS) especially focus on relationship between star ratings attributes and hotel room prices. The author regressed these attributes against price in order to identify the effect of them on overall package tour prices through the hotel star rating variable. The results assist consumers to know how much they have to pay for each package tour attribute. In addition, this study helps tour operators to determine the appropriate price for hotel room rates.

Thrane (2007) examines hotel attributes in Oslo the Norwegian capital of Norway. As previous researches on hotel attributes affect the room rates under the Hedonic Pricing Model stated that adopting a star rating as one of the independent variable can cause a problem in the results, such as multicollinearity with other independent variables. The author then discarded the star category from the model. The population of this study comprised the weekday rates of 74 hotels based on an internet online website in March 2005 for a one-night stay in a single or a double room. This study adopts unrelated regression (SUR) approach to analyze the model. In conclusion, this study found that some attributes which are hairdryer, mini-bar, free parking and distance to downtown are significant in extra room rate prices. In addition, multinational hotel chains are about 15% more expensive than the hotel room rates in non chained hotels. However, room service has a negative effect on room rates while previous papers about the Hedonic approach found that room service is significant.

Followed by Andersson (2010) who has extended the Hedonic Pricing Method in log-transformation by using information (transaction price) from online websites as dependent variables to analyze hotel room rates in Singapore. The population consists of 563 hotel customers who stayed at a double room or twin room at 63 hotels between January 1, 2006 and March 1, 2007. Also, the author combined

customer feedback in response to the hotels they stayed in to treat as one observation. The author found that most objective characteristics are significant such as star category, the convenience of being close to an Orchard road and the distance to CBD etc. including the value-for-money. In addition, those characteristics or attributes found a significant effect on prices charged for hotel rooms.

The recent example Ricard and Modest (2010) examined the effect of attributes on hotels price lists under the Hedonic Method. The author first adopts fully dimensional public attributes which are exclusivity, complementary products and services, crowdedness, natural environment or public safety on the Hedonic approach which are mainly concerned with price strategies, promotion and positioning of the hotel in the tourism market. The population considered in this study comprises a sample of 279 hotels in Catalonia in 2000. The author followed Espinet (1999) in terms of internal attributes. The result of this paper found that the distance from the beach, room service, star rating, seasonality, and etc. are significant. While the regression coefficients of the public attributes show that the presence of complementary products, the natural environment and public safety are significant. However, cultural and sports facilities and the number of hotel rooms shown are not relevant to the price but prices should follow the expected trend. The author also draws implications for managers and policymakers to add value to the firms.

Recently, Chen and Rothschild (2010) applied the Hedonic Price Model to measure the hotel room rate over its attributes. The data was collected from 73 hotels in Taipei from the on line travel agency website. The author adopts the hotel room rates both on weekdays and weekends for a one-night stay in a double room type. The result showed that an availability of LED TV in the hotel room, the meeting room facilities in the hotel and hotel location have a significance and affect both weekday and weekend hotel room rates. However, the internet and availability of fitness facilities affects hotel room rates on weekdays only. The result also found that the hotel room size has a significance only on the weekend hotel room rates.

## CHAPTER III

### METHODOLOGY

This study uses the Hedonic Price Model to examine the effect on price by attributes or characteristics. Basically, the hedonic function has the willingness to pay (WTP) on the left-hand side of the equation and variables on the right-hand side that affect the WTP. The function aims to examine consumer preferences regarding the product's characteristics. The basic function is as follows:

$$P_i = f(x_{1i}, x_{2i}, \dots, x_{ni}) \quad (1)$$

where  $P$  represents the WTP, and  $(x_1, x_2, \dots, x_n)$  are attributes or characteristics of product  $i$ . List or market prices are used as substitutes or proxies for consumer WTP. The Hedonic Pricing Method was widely used for different products in many research papers to identify the key attributes affecting the consumers' willingness to pay (WTP) such as cars (Irandoost, 1998 cited in Hamilton, 2007), computer equipment (Doms and Forman, 2005 cited in Hamilton, 2007) and agricultural products (Langyintuo et al., 2004, cited in Hamilton, 2007).

Hence, this study adopts equation (1) by adding dummy variables representing components of hotels attributes  $(x_1, x_2, \dots, x_n)$  such as number of hotel rooms, the year of hotel establishment, star category, types of rooms, hotel room attributes, locations, boutique hotel and international hotel chain are listed. In addition, this paper uses hotel room rates in the Hua Hin and Cha-Am areas ( $P$ ) offered by the online website to substitute for the consumers' WTP. The analysis in this paper uses a log ( $P_i$ ) on the left-hand side to translate the dummies' coefficients into percentage changes.

The dataset includes a total of 50 hotels in the Hua Hin and Cha-Am areas as shown in Table 3.1 and 3.2. For each hotel the researcher collected the room rate of the one-day, full-board package of single and double room on a weekday of July 2010.

The online information from the Agoda website provides centralized information which are the details of the package (length of stay, services included, price, etc), hotel characteristics (quality rating, shared hotels facilities such as pools, restaurants, athletic facilities), and characteristics of the locality (distance to beach, distance to the town) of hotels considered in this study.

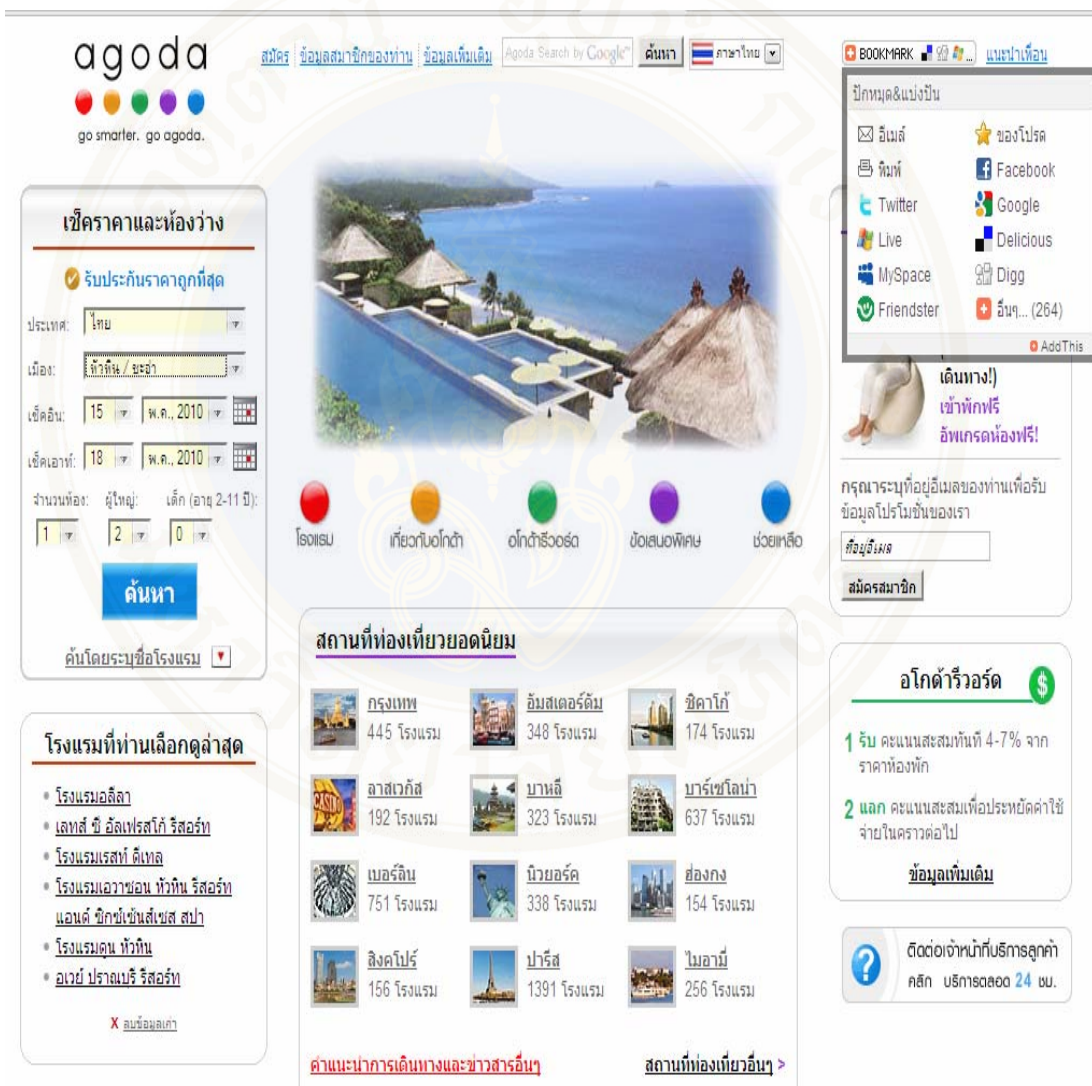


Figure 3.1 Display of the Agoda website

Source: Agoda (2010)

**Table 3.1** List of hotels in Hua Hin area considered in this study

No.	List of Hotels	No.	List of Hotels
1	Aka Guti Resort	17	My Way Hotel
2	Araya Residence Hotel	18	Narawan Hotel
3	Anantarra Resort&Spa Hua Hin	19	Nicha Suite Hua Hin Hotel
4	Asara Villa and Suite Hotel	20	Putahracsca Resort
5	Bann Bayan Hotel	21	Tanawit Hotel and Spa
6	Banyan Resort Hua Hin	22	Thipurai City Hotel
7	Citin Loft Hua Hin	23	The Hen Hua Hin
8	Dhevan Dara Resort&Spa	24	The Lapa Hotel
9	G House Hotel	25	Veranda Lodge hotel
10	Hilton Hua Hin Resort and Spa	26	Veranda Resort and Spa
11	Hua Hin Marriotte Resort and Spa	27	x2 Kuiburi Resort
12	Hua Hin Markwin Lodge Hotel	28	Sailom Hotel
13	Hua Hin White Sand Hotel	29	Sirin Hotel
14	Imperial Hua Hin Resort	30	Six Senses Hideaway Hua Hin
15	Kor Sor Resort&Spa	31	Sofitel Centara Grand Resort and villas
16	Let's sea Alfresco Resort	32	Sundance Hua Hin Hotel

**Table 3.2** List of hotels in Cha-Am area considered in this study

No.	List of Hotels	No.	List of Hotels
1	Alila Hotel	10	Golden Beach Hotel
2	Baan Talay Samran Hotel	11	Grand Pacific Sovereign Resort & Spa
3	Banlansuan Resort	12	Holiday Inn Resort Regent Beach Cha-Am
4	Bannpantai Resort	13	Springfield Beach Resort
5	Beach Garden Hotel	14	Springfield @ Sea Resort & Spa
6	Cher Resort	15	The Regent Chalet Regent Beach Cha-Am
7	Courtyard by Marriott Hua Hin	16	Unico Sandara Hotel
8	Devasom Huahin Resort	17	Veranda Resort & Spa
9	Dusit Thani Hua Hin Hotel	18	YaiYa Resort

Table 3.3 demonstrates the prices, variables, and the explanations of the attributes of hotels in Hua Hin and Cha-Am areas considered in this study.

**Table 3.3** Descriptive statistics of attributes variables ( $N = 100$ )

<i>Variable</i>	<i>Mean</i>	<i>Std Dev</i>	<i>Explanation</i>
<b>PRICE</b>	2,692.00	1,513.52	Hotel room rate per night in THB
<b>JACUZZI</b>	0.09	0.29	Jacuzzi is available in the hotel room (yes = 1)
<b>DVD</b>	0.53	0.50	DVD player is available in the hotel room (yes = 1)
<b>GARDEN</b>	0.47	0.50	Surrounding garden in the hotel (yes = 1)
<b>MEETING</b>	0.62	0.49	The hotel provides a meeting room facility (yes = 1)
<b>SPA</b>	0.76	0.43	Spa service is available in the hotel (yes = 1)
<b>TENNIS</b>	0.12	0.33	Tennis court amenity is available in the hotel (yes = 1)
<b>CHAIN</b>	0.10	0.30	Hotel is associated with an international chain (yes = 1)

Because of high competition in the hotel business, many entrepreneurs have to differentiate their hotels in design, service and facilities in order to attract tourists to choose or book their hotels. As a result, the service offerings by hotels such as an available of jacuzzi in the room, an available DVD player in the room, surrounding garden in the hotel, an available of spa facilities in the hotel, available of meeting room facilities, an available of tennis court amenities are consistently identified as important hotel selection criteria by consumers.

From the information above, the average hotel room rate of selected hotels in Hua Hin and Cha-Am areas for a one-night stay in weekday is THB 2,692.00. However, the hotel room rates in Hua Hin area are higher than hotel room rates in the

Cha-Am area. This might indicate that tourists prefer to choose or book hotels in Hua Hin area rather than in Cha-Am. In other words, Hua Hin might offer more attractions and accommodations in the travelers' point of view. In addition, the highest hotel room rate is offered by hotels associated with international chains.

The secondary data shows that most hotels highlight the importance of spa facilities, which represent around 76% compared to those without spa facilities. This indicates the importance of the spa sector in the tourism industry. Similarly, most of the data or 62% of the selected hotels in Hua Hin and Cha-Am areas provide meeting room amenities. This indicates that meeting room facilities are one of the hotel selection factors, as perceived by business travelers. The hotel room that includes DVD players represents 53% of the selected hotels in the Hua Hin and Cha-Am areas. All hotels surrounded by a garden in the area represent 47% of the selected hotels in the Hua Hin and Cha-Am areas. Hotels with tennis court amenities rank fifth, which represents 12% of the selected hotels in the Hua Hin and Cha-Am areas. The data shows that only 10% of hotels located in the Hua Hin and Cha-Am areas are associated with multinational hotel chains. For the hotel industry, tough competition in the hospitality industry in Thailand paves the way for multinational hotel chain as key factors for competitive advantage. The secondary data also shows that only 5% of the selected hotels in Hua Hin and Cha-Am areas offer jacuzzis in the hotel rooms. The reason for this outcome is hotels offering private jacuzzis in the room usually charge higher room rates and are not included in the room type considered in this study.

## CHAPTER IV

### RESULTS AND ANALYSIS

Table 4.1 shows the results from the Hedonic Pricing Model of Hotels in the Hua Hin and Cha-Am areas.

**Table 4.1** Results from the Hedonic Pricing Models

<i>Variable</i>	<i>PriceR</i>	<i>Log(PriceR)</i>
<b>JACUZZI</b>	1,445.47 (3.48) **	0.41 (3.03)**
<b>DVD</b>	754.13 (3.06)**	0.37 (4.65)**
<b>GARDEN</b>	788.51 (3.12)**	0.32 (3.91)**
<b>MEETING</b>	438.45 (1.94)*	0.15 (1.83)*
<b>SPA</b>	718.38 (2.77)**	0.33 (3.91)**
<b>TENNIS</b>	914.95 (2.27)**	0.37 (2.83)**
<b>CHAIN</b>	1,611.14 (4.06)**	0.60 (4.65)**
<b>N</b>	100	100
<b>Adjusted R<sup>2</sup></b>	0.45	0.56
<b>Durbin-Watson</b>	1.70	1.58
<b>F-Statistic</b>	12.55	18.53

**Note:** Numbers in parentheses are white heteroskedasticity-consistent t-statistics. \*\*

P-value < 0.05 and \* P-value < 0.10.

The results shows that the significant effects of several hotel attributes, which are jacuzzi (JACUZZI), DVD player (DVDPLAYER), garden (GARDEN), meeting room (MEETING), spa (SPA), tennis (TENNIS COURT) and hotels associated with international chains (CHAIN) have significant effects on room rates as expected. The presence of these attributes is an indicator of hotel quality and associated positively with room rates.

The rates for rooms that provide jacuzzis score a positive effect on room prices and the model shows that room rates increase by THB 1,445.47 at those establishments. The in-room jacuzzi is one hotel attribute that leisure travelers who look for relaxation, consider in selecting a hotel and a hotelier can charge higher price for those attributes. Likewise, leisure travelers, who travel as couples might consider paying more for an in-room jacuzzi for a romantic experience. The result also indicates that hotel rooms providing private jacuzzis have a larger size compared with rooms where jacuzzi is not available.

Based on the above results, DVD player is another hotel attribute with a positive effect on room rates and contains a price premium of THB 754.13. With in-room entertainment like DVD players, this result indicates that most hotels are attempting to make consumers feel more at home. In other words, some leisure travelers may want to relax at their rooms with hotel room entertainment and normally prefer their own equipment in a room. The result also indicates that hotel guests staying at hotels located a remote distance from the town might want to spend a relaxing time in their room rather than on activities outside, so they are willingness to pay more for these attributes.

The results also show that the rates in hotels offering a separate garden zone also offer a premium of THB 788.51. This result infers that a growing number of travelers living in town crave contact with nature, like a green space or garden zone to breathe fresh air and to relax. Those travelers live most their lives in towns and have to face a lot of pollution so they are willingness to pay more for hotels providing a garden zone. In addition, the hotel offering a garden might indicate a larger sized hotel.

The findings show that the rates in hotels providing meeting room facilities have a positive premium of THB 438.45. Meeting room amenities can be one source of the income for hoteliers, so it has been promoted in the tourism business to attract business travelers. This result infers that business travelers are willing to pay more for hotels providing a meeting room for their business activities, such as business meetings, sales meetings, conference attendance, executive meetings and training sessions. This might indicate that business travelers concentrate on their purpose for traveling, which is work. In addition, the Thai government has promoted our country

to be a hub of MICE (Meeting, Incentive, Convention and Exhibition) business center in the ASEAN region as one strategy to attract business travelers to visit Thailand for business purposes. As a result, the number of MICE travelers have continuously increased and contributed to the growth of the economy of our country every year. The growth in the MICE industry represents an average of 20 percent a year (Thailand Convention & Exhibition Bureau, 2010). For all the reasons above, MICE strategy can improve the hotel industry and develop the economy with the high purchasing power of business travelers.

Analytical results also indicate that the rates in hotels with a spa also have a positive premium on price. The result shows that room rates increase by THB 718.38 at these establishments. Many travelers not only crave comfortable hotel rooms but also an excellent spa for their health or relaxation when they travel. Nowadays, the number of spa businesses has continually increased in many places in Thailand. Not surprisingly, many hotels invest in the addition of spa facilities as one of many factors to attract travelers in hotels in the Hua Hin and Cha-Am areas. In addition, some hotels investing in the spa sector might offer their own brand of spa product and service to their consumers both for complementary reasons and for sales.

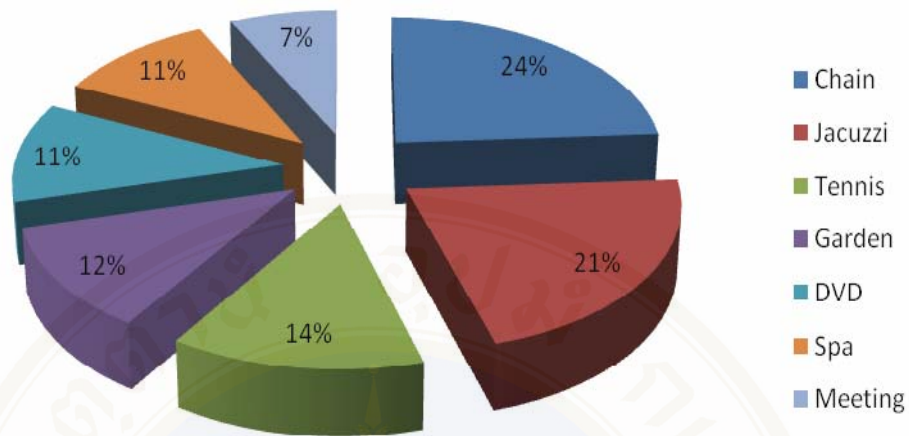
The rates in hotels with a tennis court amenity show a positive premium of THB 914.95. This result infers that hotels offering tennis court amenity have large areas according to the size of one recreational a tennis court which is around 3.53 m. by 16.46 m. In addition, sport is not only an exercise and a healthy trend but also a lifestyle trend and leisure activities attract any outdoor enthusiast.

Among the selected hotels attributes, hotels associated with multinational chains have the highest premium of THB 1,611.14 above other hotel attributes. Most international hotel chains generally have larger size which has an effect on higher room rates. Due to internalization and franchise trends in the hotel industry, some international hotels brands now operate in the Hua Hin and Cha-Am areas. Some leading multinational hotel chains in the Hua Hin and Cha-Am areas considered in this study are; Sofitel Centara Grand Resort & Villas Hua Hin (the French multinational hotel chain), Hilton Hua Hin Resort and Spa (the American multinational hotel chain), and Hua Hin Marriott Resort and Spa (the American multinational hotel chain). In addition, hoteliers can use a multinational hotel chain strategy to attract consumers and

improve their competitiveness. These multinational hotel chains take advantage of their powerful global brand in differentiating themselves in the consumers mind and contribute value to their hotels. These hotel chains could be attracting more consumers both local and inbound travelers and hence contribute to consumer satisfaction, hotel revenue and market share in the hotel business. In addition, hoteliers of multinational hotel chains and luxury hotels should target inbound travelers who have experienced the hotel chain in their countries which might influence them to stay in the same chain in their own country.

In addition, the researcher included other hotels attributes such as an available swimming pool in the hotel; the hotel located in front of the beach and star rating of the hotel in the model and the researcher expects that that hotel provide these attributes can charge higher price for hotel room rates. However, it is surprising to find that those three variables have no significant effect on the hotel room rates.

In order to rank attributes to the relative contribution of different attributes to the determinants of room rates, the researcher uses beta coefficients to measure the change in the dependent variables as demonstrated in Figure 2. The result shows the importance of multinational hotel chain (23.99%), Jacuzzi (21.52%), tennis court (13.62%), DVD player (11.23%), garden (11.74%), spa (10.70%) and meeting room (7.20%), respectively.



Key:	
JACUZZI	Jacuzzi is available in the hotel room
DVDPLAYER	DVD player is available in the hotel room
GARDEN	Garden surrounded in the hotel
MEETING	Meeting room facilities is available in the hotel
SPA	Spa service is available in the hotel
TENNIS	Tennis court amenity is available in the hotel
CHAIN	Multinational hotel chain

**Figure 4.1** Factors relative contributions to price setting

## CHAPTER V

### CONCLUSION

This paper adopts the Hedonic Pricing Models approach in order to quantify the relationship between hotel attributes and consumer willingness to pay. Also, to investigate the significance of selected hotels attributes in the determination of room rates in the Hua Hin and Cha-Am areas. Implicit price for different attributes were estimated in 100 hotel room rates for fifty hotels in the Hua Hin and Cha-Am areas from the online website. Table 5.1 summarizes the significant result of the hotel attributes in the Hua Hin and Cha-Am areas, which are the major determination of consumer willingness to pay.

**Table 5.1** Summary of significant results of hotels attributes from the Hedonic Pricing Models of hotels in the Hua Hin and Cha-Am areas

<b>Attributes</b>
1. Hotel associated with multinational hotel chain
2. An available jacuzzi in hotel room
3. An available tennis court amenity
4. Surrounding garden in the hotel
5. An available DVD player in hotel room
6. An available spa facility in hotel
7. An available meeting room amenity

This analysis shows that hotel attributes considered in this paper are significant determinants of a hotel room rate. It can be concluded that multinational hotel chains show the highest premium among other hotels attributes. Other attributes are jacuzzi in hotel rooms, DVD player in hotel rooms, separate garden zone in the hotel area, meeting room amenities, spa facilities and tennis court amenities were also found significant.

Due to high competition in the hotel business, a pricing determinant is important for hotels that want to stay competitive. In other words, consumers usually consider hotel room rates and price-quality relationship with products or services as important criteria in booking hotels. Consequently, this study gives hoteliers a good understanding of what attributes affect hotel room rates.

From a business perspective, this study shows a guideline to hoteliers in setting their pricing strategy in order to maximize revenue. For example, for high-priced hotels like hotel chains considered in this study, hoteliers normally charge high prices for hotel room rates. Hence, hoteliers should target high income consumer groups like foreign travelers, both individual and business, because they have high purchasing power. In terms of high-priced hotel room rates hotel guests normally expect high standards of service and hotel attributes. As a result, hoteliers should be aware of offering high quality of hotels attributes such as complimentary bottles of water in rooms, coffee maker, tea service, in-room and high-speed internet access, placing branded products in bathroom, online reservations, meeting lounges, well appointed business centers, concierge and international conference facilities to satisfy consumers and to attract consumers to revisit the hotel. Most importantly, hoteliers should promote their brands; build consumer loyalty in order to increase consumer willingness to pay.

Another example is a price strategy for mid-priced hotels. Hoteliers of mid-priced hotel normally charge lower room rates than high-priced hotels. The low-priced room rate indicates limited hotel attributes for travelers. The low-to-middle income consumers who are high price sensitive can be targeted because price plays a vital role in a consumer's decision in booking a room. From a consumer perspective, mid-priced hotels usually offer standardized traditional attributes like typical hotel amenities and typical facilities. Hence, hoteliers should establish low price to make a hotel stay more competitive and attract more travelers to book hotel rooms. However, hoteliers should aware of price determination in setting hotel room rates and should exclude unimportant hotel attributes which do not affect hotel room rates in order to lower hotel costs.

For new hotel developers, hoteliers should study the hotel attributes embedded in hotel room rates in order to set appropriate pricing strategies before

entering the hotel business in the Hua Hin and Cha-Am areas. Due to the competitive market, hoteliers might consider to target consumers with special interest tourism or Niche markets, such as medical tourism and business tourism and to serve consumers, who look for special and differentiated hotel attributes to fulfill their needs. For medical or health and spa tourism, hoteliers should provide spa facilities such as in-room jacuzzi to attract travelers who crave spa for their health and relaxation. For business travelers like the MICE group, hoteliers should provide meeting room amenities for business purposes. In addition, hoteliers should offer hotel facilities such as tennis court amenities and separate garden zones in the hotel for doing activities for business travelers who stay longer in the hotel and look for night life and other tourism options. Moreover, new hotel investors might build small hotels known as budget hotel to lower the cost of investment by providing limited hotel attributes. However, the budget hotel can offer hotel guests attractive room rates or a low price in the consumer point of views.

After all, the increased value of tourism has forced hotels to develop hotel attributes as an important tool to attract travelers and to create a more value added product in traveler minds. As a result, the Hedonic Price approach can be used as a tool to build a competitive advantage for hotel attributes and understand the influence of each attribute or characteristic on price and the relationship between price and attributes.

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