

Determination of Hotel Room Rental Rates Using the Cost-Plus Pricing Method

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ABSTRACT

Room rental rates in the hotel business is the one of the customer consideration for selected the hotel. This study aims to compare the pricing determined by the hotel with the price-plus pricing method. The study was conducted a hotel in a tourist area in Banten by analyzing the operational costs incurred by the hotel and the standard cost that has been made. Determination of price based on full costing method obtained Standard room Rp 556.688, deluxe room Rp 722.855, Junior Executive Rp 1.077.091, Executive Rp 2.111.098, President Suite room Rp 3.546.987. But when using Variable Costing, the price of Standard room is Rp 246,089, Deluxe Room Rp 344,432, Junior Executive Rp 345,678, Executive Rp 487.244, President Suite Rp 1.934.805, so it is possible to win the competition because the price can be cheaper.

Keywords: Cost of Employee Salary, Room Cost, Maintenance costs, Depreciation Fees.

Introduction

In the tourism industry, hotels play an important role as lodging facilities provider. Based on several parameters, disclosure fare is one of customer's consideration for choosing the hotel type (Lomanno, 2008; Enz & Canina, 2010). Hotel managers should be able to prepare strategies in determining hotel rates in order to compete with other hotels. Hotels based on service quality and prices are differentiated into luxury, upper upscale, upscale, midscale (full service), midscale (limited service), and economy hotels. This difference relates to amenities, facilities, and services, as well as rates (Enz, Canina, & Lomanno, 2009). Pricing in each class is made by taking into account customer needs, profit demands, macroeconomic factors and other factors (Steed, & Gu, 2005).

Determination of room rental rates at a Hotel in Anyer Serang based on the calculation of operating costs per unit and rates determined based on competitor prices. This determination is not necessarily in according to the hotel condition because the hotel's operating costs are different. Many methods can be used to determine room rental rates, one of them is cost-plus pricing method which has the concept of adding profit objectives to product costs (Kotler, Bowen, & Makens, 2009). This approach sets prices based on fixed costs and variable costs and adds margins above these costs to provide benefits for the company (Irrene, 2007). This strategy allows hotels to be able to profit estimates based on several predetermined variables.

This research tries to compare hotel strategy in determining rent room rate with cost-plus pricing approach. The results of this study are expected to give suggestion for hotel managers in determining room rental rates to attract consumer interest by considering the benefits will be obtained.

Cost-plus pricing method is an approach to determining the price of goods or services by entering profit factors (Irrene, 200; Sahay, 2007). This method relies on full / absorption costing principles as the main basis in determining the price under normal conditions. The fundamental problem in determining prices is the market prices. Large companies have a strong influence to controlling prices (Guilding, Drury, & Tayles, 2005).

This price determination is constrained in determining income targets that are heavily influenced by external factors. Errors in this determination have an impact on predetermined profits. One thing can be used to anticipate this by let anticipated pricing determine the costs incurred rather than the other way around (Nagle, & Müller, 2017). This pricing should be evaluated gradually by seeing market conditions so that the prices can be competitive.

Cost-plus pricing can be calculated with two approaches, namely full costing and variable costing. Price calculation with full estimate relates to direct and indirect costs associated with the volume of products added to the expected profit in the markup calculation. The full cost is a fixed cost variable such as the cost of employee salaries, administrative, and general costs as well as the cost of depreciation. Variable costs that occur such as food & beverage costs, room costs, marketing costs, and maintenance costs.

METHODS

The study was conducted at a hotel in a tourist area in Banten Province. Data collection is done by direct interview (Chief Accounting, Personal Manager, and Hotel Training Section), observation (direct observation in the field), and documentation.

Data analysis techniques use a price-plus pricing method with steps to determine the cost of forming a hotel room selling price, analyze fixed costs, variable costs, and semivariable costs, and separate semivariable costs into fixed costs and variable costs. The next step is to allocate fixed costs and variable costs to each type of room based on the activity of the costs arising, calculating the percentage of mark up, and the price (Mulyadi, 2007).

$$\text{Markup percentage} = \frac{\text{Expected profit} + \text{costs that are not directly affected}}{\text{costs that are directly affected by product volume}} \times 100\% \quad (1)$$

$$\text{Selling price per unit} = \text{costs directly affected by product volume per unit} \times \text{Percentage of markup} \quad (2)$$

RESULTS AND DISCUSSION

Data processing is based on company data in 2014 consisting of fixed costs, variable costs, and semivariable costs. Fixed costs consist of employees' salary, administrative and general costs, depreciation expenses. These fixed costs are constant and unaffected by the volume of hotel room occupancy. The variable cost is the total cost change in proportion to the change in the occupancy rate of the hotel. Variable costs consist of food & beverage costs, room costs, and maintenance costs, Semi-variable cost is a cost that has a fixed cost element and variable costs. Semi-variable costs such as water, telephone, electricity and heating costs.

Semi-variable costs in it are two elements of costs, namely fixed costs and variable costs. This cost is included in the semi-variable cost because the total amount changes according to the change in the occupancy rate of the hotel room, but the nature of the change is not comparable. Then these costs must be separated into fixed costs and variable costs. Steps to separate semi-variable costs into fixed costs and variable costs using simple regression methods.

After calculating all operational costs in 2014, then the calculation of the rent cost for each room type carried out, by adding up all operational costs, both fixed costs and variable costs, then divided by hotel occupancy for one year. Based on calculations carried out the

amount of operational costs per unit with the full costing method for each room type Standart Rp. 792,026, Deluxe Rp. 968,496, Junior Executive Rp. 1,312,851, Executive Rp. 1,496,226, President Suite Rp. 3,193,775. Whereas in the calculation using the Variable Costing method for each room type Standart Rp. 181,320, Deluxe Rp. 211,320, Junior Executive Rp. 256,871, Executive Rp. 302,201, President Suite Rp. 377,751. Operational costs per day obtained become the basis for calculating room rental rates per day with an expected surplus target of 33% of unit cost or cost of goods

Table 1. Classification of Costs by Type of Expenditures (Rupiah)

Cost Type	Fixed	Variable	Semi Variable
Cost of Employee Salary	Rp. 847.946.565		
Costs of Water, Telephone, Electricity and Heating			Rp. 398.452.590
Food and Beverage Costs		Rp. 294.250.343	
Room Cost		Rp. 151.859.054	
Maintenance costs		Rp. 65.918.250	
Administration and general cost	Rp. 75.150.112		
Depreciation Fees	Rp. 444.877.000		
Total	Rp. 1.367.973.677	Rp. 512.027.000	Rp. 398.452.590

Table 2. Allocation of Water, Telephone, Electricity and Heating Fees for Each Room Type in 2014

Room type	Income (%)	Fixed Cost	Variable Cost	Cost allocation
Standart	15,47%	Rp 61.255.645,90	Rp 386.790,49	Rp 61.642.436,39
Deluxe	47,90%	Rp 189.650.642,50	Rp 1.197.523,33	Rp190.848.165,83
J. Executive	17,32%	Rp 68.592.835,08	Rp 433.120,18	Rp 69.025.955,26
Executie	17,62%	Rp 69.767.250,46	Rp 440.535.87	Rp 70.207.786,33
President Suite	1,69%	Rp 6.686.028,17	Rp 42.218,02	Rp 6.728.246,19
amount	100,00%	Rp 395.952.402,11	Rp 2.500.187,89	Rp 398.452.590,00

Based on table 3, there is a significant difference, especially when it calculate using the full costing method. The result turned out that the proposed tariff is partly larger and partly smaller than the actual hotel tariff, the difference for Standard of the proposed tariff is less than the actual rate of the hotel is Rp 17,871, and for Deluxe Room type, Junior Exective, Executive & President Suite. The proposed tariff is greater than the actual rate. For Deluxe Room type Rp 45,571, Junior Executive Rp 259,480, Executive Rp 233,173 and President suite Rp 2,266,830 This proposal tariff is bigger than actual rate, the biggest difference is in the president suit room room that is Rp 2,266,830 to use Full Costing method , the smallest difference is in the Deluxe room type Rp. 45,571. But when using Variable Costing, found the difference between the proposed rate and the actual hotel rate which can be seen Standard room Rp 246.089, Deluxe Room Rp 344.432, Junior Executive Rp 345.678, Executive Rp 487.244, President Suite Rp 1.934.805, competition because prices can be lowered (Table 4)

Difference from calculation by using full costing and variable costing method is at calculation using method of full costing of operational cost still be taken into account whereas hotel occupancy in year 2014 relatively small, so there is big enough difference of deficiency to actual tariff, due to income in year 2014 decreased compared to last year's revenue.

Whereas when using the variable costing method, the proposed rate is smaller than the actual rate, because this calculation is only calculated according to the level of activity of the

hotel and only use costs that affect the level of activity of the hotel, so that not all costs go into the calculation based on this variable costing.

Table 4. Comparison of Tariffs for Proposed & Real Tariffs (Full Costing Method)

Room type	Cost of goods sold	Proposed Rates	Surplus Rates	Actual Rate	Difference
Standart	792,026	1,182,129	261,369	1,200,000	17,871
Deluxe	968,496	1,445,517	319,604	1,400,000	(45,517)
J. Executive	1.312.852	1,959,480	433,241	1,700,000	(259,480)
Executive	1,496,226	2,233,173	493,755	2,000,000	(233,173)
President Suite	3,193,776	4,766,830	1,053,946	2,500,000	(2,266,830)
	7,763,376	11,587,129	2,561,914	8,800,000	(2,787,129)

Table 5. Comparison of Proposed Rates and Real Tariffs (Variable Cosing Methods)

Room type	Cost of goods sold	Proposed Rates	Surplus Rates	Actual Rate	Difference
Standart	181,321	270,628	59,836	1,200,000	929,372
Deluxe	211,541	315,733	69,808	1,400,000	1,084,267
J. Executive	256,871	383,390	84,767	1,700,000	1,316,610
Executive	302,201	451,047	99,726	2,000,000	1,548,953
President Suite	377,752	563,808	124,658	2,500,000	1,936,192
	1,329,685	1,984,605	438,796	8,800,000	6,815,395

CONCLUSION

In general, the determination of room rental rates in a hotel in 2014 is appropriate and in accordance with the operational costs of each room type, although still by comparing the competitor rates not based on the room type tariff. However, when compared to the cost plus pricing method, a significant difference is found that is quite significant with the actual hotel rates. Pricing is based on the full costing method. The standard room is Rp. 556,688, deluxe room is Rp. 722,855, Junior Executive is Rp. 1,077,091, Executive Rp. 2,111,098, President Suite room Rp. 3,546,987. But when using Variable Costing, we get the price of the Standard room Rp. 246,089, Deluxe Room Rp. 344,432, Junior Executive Rp. 345,678, Executive Rp. 487,244, President Suite Rp. 1,934,805, so it has the possibility to win the competition because the price can be lowered. with the multi-stage synthetic model by combining other important variables that influence hotel room pricing such as bundle pricing, psychological pricing, value pricing, customer-switching behavior, and price-sensitivity measurement.

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