AN EXPLORATORY INVESTIGATION OF TOURIST ACCOMMODATION PRICE SETTING IN AUSTRALIAN STRATA TITLED PROPERTIES

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Abstract

Strata title units owned by investor owners represent the vast bulk of Australian self catering tourism units. In many areas, such as Australia’s Gold Coast, strata title owned properties have overtaken hotels as the most popular form of tourist accommodation. (Warnken, Russell and Faulkner, 2003). Despite this, there is a paucity of prior documented research relating to this tourism accommodation sector.

Field study findings concerning tourism accommodation price setting practices in strata title owned properties in Australia’s Gold Coast are reported. It was observed that:

1. Despite a significant normative literature on accounting based approaches to room rate setting, there was no evidence of such approaches being applied. The pricing strategies applied appeared to be largely ‘intuitive’ (Lewis and Chambers, 2000) and ‘unsophisticated’ (Morrison, 2002).
2. The industry is characterised by significant price discounting which appears to be conducted in a somewhat ad hoc manner.
3. The pricing philosophy applied is contingent upon several key location factors.
4. There appeared to be a lack of accountability to owners with respect to pricing policy applied.

Keywords: Strata title management, resident managers, room rate pricing.
1.0 Introduction

This study is concerned with the price setting process of tourist accommodation in Australian strata titled complexes. Australian strata title complexes comprise multiple dwelling units in a shared community title scheme with separate owners owning the units independently of one another. These complexes can assume a variety of physical forms. They can be designed as detached villas, duplexes or townhouses; as two to three storey complexes comprising usually around six to twelve units; or as high rise apartment complexes generally comprising eight or more storeys and up to 500 or more units.

Empirical data for the study was collected by interviewing resident unit managers (RUMs) in large strata title complexes in the Gold Coast, which is Australia’s largest city with a tourism dominated economy (Mullins, 1991). It is also a city where 66% of tourist accommodation is accounted for by strata title owned properties (Warnken, Russell and Faulkner, 2003). The Gold Coast is similar to many coastal resorts globally where large numbers of holiday homes in the form of medium to high-rise apartment buildings are built and referred to as condominiums or strata title units. A significant factor relating to this tourism accommodation sector concerns the number of stakeholders involved. Warnken et al. (2003) provided the following list of stakeholders: a) entrepreneurs (property developers) b) individual owners c) body corporates d) RUMs and e) real estate agents. This list can be broadened when considering the pricing issue. Large block sales of accommodation can result in the participation of travel wholesalers or booking agents.

The study’s focus on RUMs results from the fact that it is the RUM who assumes complete authority and has responsibility for setting short-term rental prices in Australian strata title complexes. RUMs secure this responsibility by purchasing the management rights of a strata titled complex (Ardill, Everton-Moore, Fredline, Guilding and Warnken, 2004). RUMs receive a salary for the provision of caretaking services for their complex, however in large tourism-based strata titled complexes, the largest part of their income derives from short-term letting commissions. It is this large type of tourism-based strata titled property that is the focus of this study.1

Given the significance of the strata title industry to the tourism accommodation sector and also the somewhat idiosyncratic organisational nature of the sector, the paucity of interest shown by tourism researchers in the industry is surprising (Guilding, Ardill, Fredline, and Warnken, 2005). It was in light of this apparent void in the literature that the study reported herein was conducted. The study’s objective is to investigate the nature of accommodation price setting approaches used by RUMs in tourism-based strata title complexes located in Queensland’s Gold Coast.

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1 For a discussion of the nature of a RUM’s responsibilities and governance issues surrounding a RUM’s management rights, see Guilding et al (2005).
The remainder of the paper is structured as follows. The next section provides literary context for the study. Subsequent sections address, in turn, the research method employed, the study’s findings and a conclusion that provides an interpretation of the findings as well as the limitations of the study.

2.0 Literary Context of the Study

The literature search undertaken has identified several studies concerned with accommodation price setting in hotels and tourism enterprises, but no studies relating to the strata title sector. For this reason, the literature reported here has a hotel and tourism industry orientation. None of the journal papers cited below were found to have much of a bearing on the study reported herein, and for this reason the overview is relatively succinct. The lack of developing themes in this room rate setting literature appears conspicuous by its absence (Rogers, 1995).

Balmer and Baum (1993) drew on Herzberg’s hygiene factors in an exploration of factors affecting short-term accommodation room rates charged. They found that physical specifications account for significant room rate differences in lower quality hotels and that standard of service was a significant factor in higher quality hotels. In an Australian study, Bull (1994) outlined a method for determining what value a hotel’s location contributes to room rates charged. Rogers (1995) surveyed UK tourist attractions and found that 65% of surveyed businesses saw “what the market will bear” as a primary influence on pricing decisions and 51% of respondents saw costs as a primary influence in price setting. Related to this study, Pellinen (2003) found minimal application of cost-plus pricing in six small tourism based organisations in Finland, where it appeared marketing issues predominated over the accounting perspective in price setting.

Finch, Becherer and Casavant (1998) provided a theoretical perspective on hotel room pricing by synthesising yield management concepts from the property management literature with option pricing theory from the finance literature. The researchers explored option pricing theory and the pricing of perishable services by way of a worked example. A further theoretical contribution has been provided by Baker and Collier (1999) who explored yield management heuristics in a simulated hotel operating environment. The researchers concluded that heuristic selection is dependent on hotel operating environmental factors. A further theoretical contribution has been provided by Israeli and Brown (2004) who incorporated the sensitivity of occupancy levels and average room rates in a room rate decision making model.

Two studies focusing on customer demand sensitivity to room rate levels have also been noted. Firstly, Rogers, Henderson and Ginsburg, (1993) report a significant association between occupancy rates and room rate levels. Secondly, Lewis and Shoemaker (1997) explore room rate setting in connection with a consideration of what the market can bear. This study also discusses customer perceptions with respect to reference prices (e.g., most recent previous price paid), pricing’s impact on perceived quality and price-value attitudes.

These studies provide limited insights in terms of tools and techniques that can be used by managers when setting short-term accommodation prices. In light of this and also the
absence of a strata title unit pricing research literature, the scope of the literature review was broadened to include normative accounts concerned with recommended accommodation price setting procedures pertinent to the provision of short-term accommodation. This literature can be subdivided into hospitality management texts that have either an accounting or marketing orientation.

A common theme in these textbooks is an acknowledgement of the complexity of the room rate setting issue. Atkinson, Berry and Jarvis, (1995) view pricing as usually the only active revenue creating decision made within a business, as all other decisions tend to focus on costs. Middleton and Clarke (2001) talk of price as a management tool that relates to the pursuit of business objectives and also as a tactical tool concerned with the management of short run demand. Kotler, Bowen and Makens (2003) see pricing determined by internal and external factors. Internal factors include the pursuit of marketing objectives, management of costs and the marketing mix strategy as well as other organisational considerations. External factors include the nature of the market, demand, competition and other environmental elements. Middleton and Clarke (2001) feel that for most businesses in tourism, “pricing is more art than science” (p.139); similarly Lewis and Chambers (2000) see pricing in the realm of intuitive decision making. Guilding (2002) sees the room rate setting decision as particularly problematical, as no two hotel stays constitute exactly the same experience. In light of these perspectives, Kotas’ (1994: p.125) view that pricing is a “complex matter that cannot be resolved by one simple formula” appears particularly pertinent.

The major price setting tools and techniques described in hospitality accounting and marketing texts are summarised in Tables 1 and 2. Table 1 summarises the coverage of four accounting oriented pricing techniques and two accounting oriented issues relating to pricing that has been provided by five accounting authors. Table 2 summarises the coverage of pricing issues provided by six marketing authors. The empirical phase of this study has been conducted to investigate the extent to which these types of accounting and marketing based approaches to short-term accommodation price setting are applied by RUMs in tourism-based strata title complexes located in Queensland’s Gold Coast.

**INSERT TABLES 1 AND 2 ABOUT HERE**

Each of the four accounting oriented pricing methods referred to in Table 1 will now be briefly described. The “Rule of a Thousand / Rule of Thumb” is based on the simple principle that a one dollar nightly rate should be levied for each $1,000 invested in a room by the property’s developer. While Middleton and Clarke (2001) see the approach as unsophisticated and Lewis and Chambers (2000) describe it as ‘archaic’, it may provide an initial frame of reference for a newly constructed hotel that has few close competitors. The ‘Required Rate of Return’ approach involves the determination of room rates that are sufficient to cover all costs and provide a profit that meets the owners’ targeted return on investment. The ‘Relative Room Size’ approach involves estimating the number of square metres that will be sold on an average night, and then determining at what rate each square metre must be charged to provide the desired total accommodation revenue. The ‘Revpar’ (revenue per available room) approach concerns
finding the optimal balance between the pursuit of high occupancy levels and a quest for high average room rates charged.

The approaches to price setting described in the marketing literature and outlined in Table 2 are more numerous than the approaches described in the accounting literature. The marketing literature sees a loss leader as a product or service that is advertised at a low price in order to attract customers to the point of sale with the hope that they will purchase other product or service lines. Going-rate pricing involves the establishment of prices that are based largely on competitors’ prices. Prestige pricing occurs when a hotel sets relatively high prices in order to convey a high quality or luxury image. Market skimming involves setting high prices when the market is insensitive; for example, the owner of a hotel that has negligible local competition can maintain high prices. Market penetration involves setting low initial prices in order to achieve high initial sales in an attempt to develop a high sustainable market share. Product bundle pricing involves packaging several services (e.g., ‘bed and breakfast’) and offering the package at a discounted rate.

The remaining marketing approaches referred to in Table 2 represent price adjustment strategies applied in the light of particular market and customer contexts. Volume discounts can be provided to hotel customers who purchase a large number of rooms at one time or over the course of a year. Discounts based on time refer to out of season or early booking price reductions. Discriminatory pricing refers to segmenting the market and establishing prices tailored to the price elasticity differentials evident across these segments. Last minute pricing has recently grown in significance with the advent of widespread internet access. Psychological pricing considers price-setting from a consumer’s psychological perspective. Price lining involves pricing different services in a service range at various levels, dependent on size and features, to increase the size of the target market. Discounts based on place refers to the fact that there can be price differentials across different sales outlets. Promotional pricing involves temporarily pricing products or services below list or even cost price. This can frequently be linked to the application of loss leader pricing.

3.0 The Research Method

Field study research involving semi-structured interviews with seventeen RUMs in large strata title complexes located in South East Queensland, Australia was conducted. Ryan, Scapens and Theobald (1992) refer to five types of case and field study work, classifying them as: descriptive, illustrative, experimental, exploratory and explanatory. The primary orientation of the field study conducted here may be best characterised as exploratory. Gunn (1994) notes that tourism does not have a long history of research and, as such, descriptive and exploratory studies are providing worthwhile data.

Knight (2002) sees lightly-structured interviews as the mainstay of social research and notes that they are used extensively in the early stages of inquiry. Given the paucity of prior documented research and the nature of the descriptive data sought, this exploratory research method represented the most appropriate approach to data collection. The semi-structured interview approach adopted enabled the clarification of concepts through considering “the specific view of the specific categories that the participants use to conceptualise their own world view” (Anfara, Brown and Mangione, 2002: p.6). This approach was also conducive to acquainting and familiarising the research team with
unanticipated issues, as well as the context of strata title tourist accommodation price setting. With respect to this type of research design, Petersen comments “The goal is to develop extensive information from a few people. … Interviews are particularly useful in travel research when the goal is to understand.” (1994: p.487; 489). Another important facet of this research methodology, as noted by Morse, Barrett, Mayan, Olson and Spiers (2002), is that it is more iterative than quantitative research as it allows the researcher to move back and forth between the design and implementation to ensure congruence between question formulation, literature, recruitment, data collection strategies and analysis.

A purposive approach to sample selection was applied, due to the fact that information was sought from the specific people who exercise short-term accommodation price setting authority in strata title complexes. The secretary of the Queensland Resident Accommodation Managers Association (QRAMA) agreed to support the study by providing the contact details of 20 RUMs in the Gold Coast area. The following two criteria for selection within this sample frame were established: a RUM must work in a complex where the letting pool comprises a minimum of 15 units and represents more than 50% of the complex’s total units. Three of the RUMs contacted declined to participate in the study, with the result that 17 constituted the sample interviewed. All of the 17 interviewees were members of QRAMA.

The Gold Coast region of Queensland was selected as it provided relative ease of access for the research team and for some time it has been widely recognised as Australia’s premier tourist region (Russell and Faulkner, 1999). The Gold Coast also has a high density of large strata title complexes used for short-term tourist accommodation (Warnken et al, 2003). Relative to a broader cross-section of Australian strata title complexes, a distinguishing feature of the complexes visited in this study is their predominant focus on the tourist market. As tourism demand is highly seasonal, it appears reasonable to expect that the unit accommodation rate decision making approach in the complexes visited is more complex than in strata title complexes with a higher proportion of long term rentals.

The size of the complexes represented by the RUMs interviewed ranged between eighteen and seventy-four units. An overview of the subjects interviewed is provided in Table 3. The first column provides an alphabetical reference for each interviewee. The next four columns provide information on the strata title complex managed by the interviewee: the complex’s location in the Gold Coast, total number of units, the number of units in the letting pool, and the percentage of units placed in the letting pool. The penultimate column records the interviewee’s years of experience as a RUM, and the final column provides a brief profile of the RUM as well as his/her career prior to becoming a RUM.

**INSERT TABLE 3 ABOUT HERE**

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2 In the context of a large building complex, the term “unit” is generally used in Australia in a manner equivalent to the way “condominium or apartment” is used in the USA, and “flat” is used in the UK.
Consistent with the approach suggested by Knight (2002), the interview schedule developed for the study was classified according to six probed areas. These six areas were: a) RUM background; b) approaches to price discounting; c) accounting-based approaches to price-setting; d) marketing-based approaches to price-setting; and f) benchmarking to prices charged by competitors. The interview schedule served more as a checklist of issues to be considered, rather than a rigid questioning tool. Following Gardner and Lehmann’s (2002) suggestion of involving stakeholders and industry bodies in the design phase of a new project, the QRAMA secretary reviewed and assessed the appropriateness of the interview schedule, in light of his familiarity with the typical RUM’s work context. All interviews conducted ranged in duration from 45 to 85 minutes, were tape recorded and then transcribed. The interviews were conducted ‘on site’ in the RUM’s office or unit.

Due to the minimal extent of prior related research, the analysis of data collected had a strong inductive orientation. The approach involved repeated review of the data collected to facilitate the bringing together of quotations and observations that reflected similar underlying concepts and themes, and then placing them into categories based on these concepts and themes (Knight, 2002; Shepherd and Achterberg, 1992). Interpretation of these themes was facilitated through the identification of stories and examples provided by the interviewees that exemplify key issues associated with each theme (Arminio, 2002). The approach taken to the interview data analysis can also be characterised as representing a quest for latent underlying patterns (Huberman and Miles, 2002).

**4.0 Findings**

This section of the paper is structured as follows. The first two sections present observations that have a contextual orientation, i.e., they provide some insights into the environment in which strata title unit short-term letting rate decisions are made. The first section briefly outlines the degree to which RUMs act in an autonomous manner when setting short-term unit letting prices. The second section highlights the importance of location for price setting practice. The third section presents a marketing perspective on unit rate setting practice and the final section provides an accounting perspective on RUM unit rate setting practice.

**4.1 Contextual factors pertaining to short-term accommodation unit price setting**

A first key observation relates to the relative degree of influence exercised by RUMs in connection with determining short-term unit letting prices. In all seventeen complexes visited, it was apparent that the RUM exercised complete control in unit price setting. Not one of the RUMs interviewed involved unit owners in this decision. While this RUM autocracy with respect to price setting appeared to be a well-established convention, it did appear that some tension can arise between RUMs and unit owners with respect to the rental rates levied. Interviewee J commented: “We’ve got good owners, but there are some owners that believe that they should be getting more than what they are”.

With respect to the remuneration received by the RUM in connection with unit subletting, with the exception of one complex, all RUMs levy a percentage commission for
room night sales. It was found that the Real Estate Institute of Queensland 13.3% rate (inclusive of goods and services tax), was the norm.

Most of the RUMs use the software program ‘Hirum’ or ‘RMS’ (Reservation Management System) which has a room allocation capability and an optimising feature that helps to spread the distribution of rentals across the rental pool equitably. The extent to which room allocation is managed equitably is questionable, however, as most RUMs acknowledged that they regularly manually manipulate the output of the electronic system in light of operational factors. These operational factors include the standard of a particular unit’s refurbishment and a guest’s stated preference for a particular location in a building.

4.2 Significance of location and unit pricing philosophies

The importance of “location, location, location” is a frequently cited adage in the real estate industry. It appears particularly worthy of reiteration here as three dimensions of location affecting RUM approaches to unit rental price setting in the sample under investigation were apparent from the field data collected. These dimensions are (in order of significance to unit price setting approaches):

- a) proximity to the beach;
- b) Gold Coast region (for the purpose of this study, these have been defined as Central, Northern and Southern); and
- c) unit location within the complex.

With respect to beach proximity, it appears that those complexes close to the beach experience relatively low demand price elasticity (Guilding, 2002). As a result, RUMs in these complexes were found to exhibit a relatively high price-making orientation (i.e., attached little importance to the rates charged by other properties when setting prices). RUMs in complexes located further from the beach exhibited more of a price-taking orientation (i.e., prices set were highly influenced by the rates charged by competing properties). It was widely-recognised that customers were willing to pay a significant premium for a beachfront location. The following two comments made by RUMs in complexes close to the beach support this view:

- I just say to people that’s the price. You’re right on the beach…. No, I stick to my prices (Interviewee K).
- I always put the prices up every year…I just go up $10 or $20…I find the people will pay it (Interviewee O).

For complexes located less adjacent to the beach, market related factors appeared to be more prominent as issues affecting RUM price setting approaches. These factors included domineering wholesalers, price-matching competitors, and heavy rate discounting practices during low demand periods.

While proximity to the beach appeared to be the predominant factor affecting price setting approaches, it appeared to be moderated by a second proximity effect relating to the Gold Coast region in which the strata title complex is located. Observations made in the study suggested the existence of three distinct Gold Coast regions: Central, Southern and Northern. These regions can be characterised as constituting distinctive market places with different physical infrastructures.
Following the lead of Warnken et al. (2002), “Central” can be viewed as comprising the strip of development between Main Beach and Broadbeach (this includes Surfers Paradise). The properties in this region (with the exception of beachfront properties), exhibit relatively consistent pricing strategies. This region contains Gold Coast’s greatest accommodation intensity and a proliferation of hotel complexes. Due to development booms of the late 1950’s and early 1960’s, the age of properties and their respective facilities and furnishings is similar. These characteristics combined with the relative small geographical size of the area underscore the limited scope for the maintenance of cross-property price differentials. Warnken et al. (2002) explain:

Surfers Paradise and Broadbeach were, at the time, the two suburbs in which original beachside lots were amalgamated to allow construction of mostly two to three storey condominium complexes... with Surfers Paradise hosting the first high-rise building in 1960 (p. 156).

The high degree of commonality in the strata title properties in this area has resulted in it being perceived as constituting a relatively homogeneous accommodation market place with limited potential for service differentiation. This appears to be a significant factor that has contributed to the region becoming a very competitive tourist accommodation market with a relatively high incidence of heavy accommodation price discounting. The following comment provided by Interviewee P whose complex was located in the Central region typifies the prevailing pricing philosophy in the region: “I mean there are circumstances when, you know, someone’s going to walk out the door for the sake of $30. Well you give it to them”.

Relative to the Central region, the Southern region has a lower level of accommodation density. It also has a higher density of timeshare properties. One RUM noted that close proximity to timeshare properties represents a double-edged sword. When the timeshare properties are full, overflow bookings are frequently redirected to the strata title complexes and these redirected guests have been generally found to pay well for tourist accommodation. The RUM also noted, however, how proximity to timeshare complexes can also work against a quest for high yields as they signify a broader choice of local self catering holiday accommodation, a factor than can put pressure on the RUM to discount unit rates.

It was also noted that the Southern region caters more to the retiree market, which is a market characterised by longer stay guests. The implication of this is that the threshold for long stay discounts in the Southern region tends to be set at around eight weeks. This lies in stark contrast to the Central region, where the long stay threshold for discounting purposes was seen to be around six nights.

The Northern region can be distinguished from the Central and Southern regions by its comparatively under-developed tourism accommodation infrastructure. The region, which is dominated by old style complexes, is more heavily reliant on the long-term residential market. It has only four large strata title properties offering tourist accommodation. Consistent with a stratified sampling approach to interviewee selection, only one of the RUMs interviewed was located within the Northern region. The characteristics of this region appeared to provide greater scope for a RUM to develop a
differentiated pricing strategy as part of a quest to distinguish the service provided from that provided by other RUMs operating in the same locale.

The third dimension of location that appeared to affect a RUM’s approach to tourist accommodation pricing was “unit location within the complex”. Price differentiation was very evident with respect to this location dimension. The issue revolves fairly simply around the quality of sea view afforded to the guest. A low level unit on the coastal side of a building was generally regarded as providing limited or compromised sea views. Several RUMs provided examples of pricing policy that reflected a differentiation based on floor level.

Most people who come to the building want to be up high …. We find the people are prepared to pay that additional, in 99% of the cases they are prepared to pay it (Interviewee D).

Believe it or not, there is a huge difference in the rentability of a unit depending on how high it is. It is very difficult to rent a unit on the ground floor and the first floor, even the second .... They all like the views, being up high and so on (Interviewee E).

Significant implications for unit owners’ return on investment arise from unit location within the complex, with vastly different rates of growth being earned by two owners holding a unit with the same configuration and quality of refurbishment in different parts of the same building. Investors need to be aware that two units that are identical in all regards except for their outlook are capable of providing very different rental revenue yields, as the unit with the sea views will tend to be in much greater demand. It should be noted, however, that some units without sea views can possess other compensating features such as pool side or canal views. These units fared better in their respective letting pools relative to those not offering above average views.

4.3 Unit price setting and the marketing perspective

All RUMs agreed that marketing activities had the potential to positively impact on tourist accommodation enquiry levels. It appeared that short-term stay promotion had little effect on pricing levels, however. The majority of the marketing activity undertaken by the RUMs consisted of complex promotion, with minimal reference made to price. When questioned on this, the RUMs indicated that their short-term stay prices are seasonally dependent and it appeared the RUMs were reluctant to compromise price setting flexibility. This is an interesting observation as the marketing literature promotes reference to special rates as an inducement in accommodation advertising, however this practice appeared to be rarely used by the sample investigated.

It should be noted that there were a couple of exceptions to this observation, however. One concerned Interviewee B who had significant prior experience in an advertising agency. He appeared to be relatively atypical with respect to the way in which he applied his marketing expertise to strata title management. He commented:

I knew from my marketing background that we needed a sampling program …. We devised this three nights, $48 a night, and advertised to get people to come and try us ..... Once they came and experienced the facilities and so on, they would want to come back again and tell their friends about it.
In the course of conducting the study, this was one of very few observed instances of a strategically oriented pricing policy tailored to the pursuit of a specific objective.

A particular facet of the marketing perspective on unit price setting appraised in the interviews concerned the RUM’s approach to price discounting. The significance of the seasonality of demand for accommodation was again notable when this issue was addressed. Most RUMs indicated that they provide no price discounting during school holidays. In quieter periods however, it appeared that price discounting was used extensively in an effort to maximise total revenue. The significance of seasonality with respect to the application of discounting practices is evident from the following Interviewee D comments:

We’ve got July school holidays coming up - no discounting. We know we’ll fill up in the July school holidays… (during quiet periods) its not about taking what we can get, it’s a matter of if the phone rings we want it.

Also, Interviewee E commented:

At the recent surf lifesaving championships, we were charging higher than Christmas prices, and we’re booked out for the next seven years.

There appeared to be limited constraint on a RUM’s propensity to discount prices. This is because regardless of the level of price discounting applied, the RUM still earns their commission and it appears to be the unit owner who bears the brunt of the lost income. Interviewee M commented:

If I’ve got plenty of units spare, it doesn’t matter if we go for rock bottom rates …. Oh yeah, we still get a commission, so whether we go $100 dearer its no real difference to our commission …. We see it impact on our owners the most, you know, in our monthly statement.

This comment is significant as the RUMs have no costs to bear as a result of letting out a unit. All rental costs (unit cleaning, etc) are passed on to the owner. This signifies that the RUM could drop the letting rate so low that the owner would receive no net benefit from the rental (i.e., if the cost of the rental is the same or surpasses the owner’s net rental revenue), but the RUM would still receive a percentage commission for the rental levied. From the perspective of the owner, this signifies a shortcoming in the incentive mechanism for RUMs and can be seen as an extension to Guilding et al’s (2005) commentary on the agency relationship between RUM’s and owners.

Another marketing dimension appraised in the interviews concerned the use of wholesalers to market units. Roughly half of the RUMs interviewed chose to use wholesaler services. Several of the RUMs who had not engaged the services of a wholesaler exhibited some misgivings as they acknowledged that these agencies provide significant marketing reach that they cannot match as an independent single player. Others felt they were achieving satisfactory occupancy levels and appeared loath to support the wholesaling agencies.

3 “Wholesalers” is the term used by the RUMs to describe booking agencies that provide short-term accommodation marketing services.
It was very clear that the RUMs’ primary concern in connection with wholesalers was the margin lost due to the wholesalers’ commission charge. The rate charged by the wholesalers and booking agents ranged between 10% and 45%. When a wholesaler is engaged, the RUM still levies a 13.3% commission in addition to the wholesaler commission. This highlights the degree to which an owner is receiving a greatly diminished proportion of the rent paid when a wholesaler is used by a RUM to generate more sales. It was interesting to note that Interviewee I, who had discontinued his association with wholesalers, also cited problems arising from errors committed by the wholesalers. He commented “…… and I gotta say, we didn’t miss them at all, ….. not at all ….. They tried but I always sent them packing. They always make mistakes”.4

The RUMs who did engage wholesalers, expressed very negative views about the relationship. They exhibited a strong feeling of resentment which was aligned to a sense of sacrificed power. These RUMs also appeared to be characterised by a fear of losing a significant share of their bookings as the wholesaler had the power to switch their future reservations to another strata title complex. The relative dictatorial capacity of the wholesalers is evident from the following comments:

They’re nothing but a bunch of Ned Kellys’ (Interviewee H);
So you are pretty much held over a gun barrel ….. Wholesalers, they dictate the pricing policies here on the Coast dramatically’(Interviewee A);
If we don’t meet their terms, we don’t get into their programs (Interviewee C).

This relative power of the wholesalers appears to have emerged in the relatively recent past. Interviewee A stated:

Operators like myself and my wife and others in management rights still had a lot of clout. We were able to determine pricing policy with those large companies cause they had not become aware of how much power they had. …. But after a few years, the pendulum swung from our favour to their favour and then they realised, hang on a minute, these guys are dictating the terms to us and we can actually dictate terms back. So they said we can give you exposure, we can give you frequency of exposure ….. you can be part of our holiday program, providing you give us 30%.

A fairly fundamental marketing dimension of a RUM’s approach to unit rental pricing concerns the extent to which a “price-making” or “price-taking” philosophy is applied. A significant factor underscoring a RUM’s capacity to be a price-maker has already been outlined above in connection with the discussion of complex location, i.e., a price-making approach can be applied for a well-appointed unit close to the beach. Table 4 presents an overview of differences between price makers and price takers. The table’s upper panel highlights the distinct traits of the two orientations, and the lower panel presents some indicative comments made by RUMs representing the two groups. The comments are provided to further illuminate the distinct perspectives of the two orientations.

4 Noted wholesaler errors included: incorrect check in and out reservation dates, delays in releasing unsold block bookings, and booking inappropriately configured units for travelling groups.
The empirical data collected in this study is insufficient to suggest that Table 4 represents an exhaustive listing of the characteristics representing the price-maker / price-taker dichotomy. Rather, it has been compiled following an analysis of patterns emerging from a limited data set collected in one tourist region. Neither a price-maker nor a price-taker will necessarily exhibit all of the polarised characteristics identified in Table 4’s upper panel. For this reason, the elements within the profile set should be viewed as independent traits that collectively affect a RUM’s likely price-making / price taking disposition.

With respect to the subjects interviewed in the study, two appear as anomalies that do not conform to the profiles outlined in Table 4. One price-taking RUM operated a beachfront property, while a second was a price-maker but worked in a complex well-removed from the beach. Close analysis of the transcribed interview data pertaining to these two managers indicates highly different managerial styles. The price-taking RUM had no previous exposure to property management (consistent with most other RUMs), and this appeared to account for an apparent failure to capitalise on the rental potential provided by his property’s location. His natural management predilection also appeared to have a risk averse orientation. By way of contrast, the price-making RUM had previous experience in managing strata title complexes and also the real estate industry. He exhibited a significant knowledge of trends within the industry. This knowledge appeared to equip him well for his application of a relatively aggressive pricing strategy, despite his property’s relatively inferior location. Aside from these two exceptions, the remaining RUMs could be correctly assigned as a price maker or taker by considering the degree to which they exhibited the traits outlined in Table 1.

The extent to which RUMs benchmark their prices to prices charged in competing buildings has also been appraised. It has been found that benchmarking was conducted by most RUMs in a relatively unstructured manner with respect to frequency and extent. Benchmarking was primarily restricted to competing properties in the same locality. Benchmark data was collected in a variety of ways that included: speaking directly to competing RUMs, reviewing competitors’ web sites and securing feedback from visitors who had obtained quotes from other properties. When asked what triggers the acquisition of such benchmark data, the following response, provided by Interviewee L, typifies the reactive, as opposed to pro-active, approach adopted by most RUMs: “When we are in trouble. When it’s too quiet. When we see a ‘no vacancy’ sign up and we’ve got vacancies” (Interviewee L).

Despite hotels entering the strata title industry by converting sections of their accommodation facilities to strata title ownership, no evidence of independent RUM benchmarking to prices charged by “strata-titled hotels” was found. Somewhat interestingly, it appears that hotel run strata title accommodation units were viewed as operating in a distinct sector of the tourist accommodation market. This might be because hotel managed units provide more limited self-catering facilities and hotels use different marketing channels to strata title properties managed by a resident unit manager.
As a final note on unit rental pricing and the marketing perspective, several observations made indicated some application of the traditional ‘two-tiered accommodation pricing’ model (Middleton and Clarke, 2001). ‘Two tiered’ essentially signifies one tier of prices set twelve to eighteen months in advance for brochure production, international wholesalers and booking agents (in order to meet publishing and distribution deadlines the year prior to consumers booking the trip). The second tier can be seen as the application of tactical rate adjustments by the RUM on a weekly, daily, or hourly basis as the date of the accommodation period in question approaches. Despite evidence of continued two-tiered pricing, it appears that technological advancement facilitating greater ease for consumers obtaining internet-based information signifies a diminution in the importance of brochures, which could, in turn, signify reduced application of two-tiered pricing.

4.4 Unit price setting and the accounting perspective

In light of the consideration given to hotel accommodation price setting by accounting for hospitality management texts, it appears pertinent to appraise the extent to which RUMs apply these, or similar techniques, when setting tourism accommodation rental rates in strata titled properties. From the review provided earlier, it is evident that the issues and techniques generally referred to in this literature include: price elasticity, pricing aligned to room size, yield management, pricing to achieve a required rate of return, revenue per available room and rule of a thousand. Underlying several of these techniques is an appreciation of cost and a quest to secure a desired margin over cost. A case can be made that RUMs have an innate appreciation of price elasticity due to the widespread discounting of prices during the low season. By discounting prices during the off-season, RUM’s are demonstrating an appreciation that demand (and total revenue) can be increased by dropping prices (Atkinson et al., 1995). Despite this observation, no RUM used the term “price elasticity” in the course of any of the interviews.

The RUMs exhibited negligible familiarity or application of any of the other pricing approaches referred to in the accounting literature. It appears as particularly surprising that no interviewee referred to relative floor size in connection with pricing decisions. Only two out of the seventeen interviewees had heard of yield management pricing and not one of the complexes visited utilised a yield management system. With respect to achieving a required rate of return, RUMs claimed that they tried to maximise the return for unit owners, however there was no evidence of any analysis conducted to establish what unit rates need to be achieved in order to provide owners their required rate of return. There was also no evidence of any analysis of revenue per available room, or the application of rule of a thousand.

5.0 Conclusion and Discussion

The most salient contributions of this study are:

1. It highlights a significant dimension of tourism accommodation management that has attracted negligible research interest from the hospitality academic community.
2. Despite a significant normative literature on accounting based approaches to room rate setting, minimal application of this pricing orientation is apparent in
3. Heavy discounting of room rates was found to be common in the sample studied.
4. The pricing philosophy applied appears to be heavily contingent upon several key location factors.
5. Strata title complexes can be usefully classified according to a price making, or a price taking, philosophy.
6. A lack of accountability to owners with respect to pricing policy appears to be a feature of the industry.

Further to this final point, the lack of influence that a unit owner is able to exert with respect to setting short-term letting rates is a striking aspect of the study’s observations. It appears RUMs exercise complete discretionary power with respect to setting unit letting rates in Queensland strata title complexes. This could well signal a significant source of tension within the governance model applied in the industry, as there may be many poorly informed investors who prior to ownership had anticipated that unit ownership would signify a degree of influence in unit rental price setting. This problem is likely to be aggravated if there is validity in the widely-held perception that real estate agents have a tendency to inflate projected unit returns when attempting to secure the sale of a unit to an investor.

The issue of whether a unit owner should be allowed to influence rental prices charged, perhaps through a collective such as the body corporate committee, is one that is perhaps worthy of review by industry policy makers. This is particularly the case when the agency problem associated with the absence of a lower limit with respect to RUM discounting of letting rates is considered. As the RUM receives a commission calculated as a percentage of rental income, there are likely to be many instances during the quiet season when a RUM feels motivated to heavily discount rental rates, as a low commission earned can be viewed as better than no commission. The unit owner still has to meet the costs associated with a rental (unit cleaning, etc), however, regardless of the rental revenue levied. This signifies that the RUM could drop the letting rate so low that the owner would receive no net benefit from the rental (i.e., if the cost of the rental is the same or surpasses the owner’s net rental revenue), but the RUM would still receive a percentage commission for the rental levied. This observation can be seen to extend the RUM/owner agency problems noted in Guilding et al. (2005).

The issue of rental discounting was significant in much of the marketing oriented discussions that took place in the interviews. It was noted that some RUMs had a greater propensity to discount (price-takers) than others (price-makers). Price-makers tended to be in higher quality complexes that were close to the beach. While some discounting was in evidence in all complexes during the low season, it appeared the discounting approaches were conducted in a relatively ad hoc manner that did not adhere to the ‘specifically planned’ or ‘strategic’ methods described by Hanks (2002) and Kimes (2002). Another significant feature of the marketing oriented discussions is an apparent uneasy relationship between RUMs and tourism accommodation wholesaling agencies. Many RUMs appeared intimidated by the wholesalers’ marketing economies of scale and also their ability to prioritise which units they will rent first from their large pool of units. An apparently widely-held perception amongst RUMs that the wholesalers charged too high a commission represents a further source of disquiet amongst RUMs.
Only time will tell whether increased affordability of web page design will enable RUMs to compete on a more level playing field and win back some of the power they appear to have lost in their relationship with wholesaling agencies.

The study also found a paucity of accounting informed analysis in unit rate setting decisions taken by RUMs. It is particularly surprising that no algorithm linking unit rates to unit size was found in any of the complexes visited. It can also be seen as somewhat concerning that no goals or targets informed by an analysis of owners’ required rates of return were developed by any of the RUMs. Failure to set appropriate goals signifies an inability to monitor whether a RUM’s performance is satisfactory, thereby signifying a loss of RUM accountability.

On the whole, the RUMs appeared to be deficient with respect to the type of management skills that one would generally expect of management in other accommodation provision sectors. In other sectors, such as the large hotel sector, the prerequisite for securing a managerial position is the possession of experience combined with a minimum level of pertinent education or training. At present the prerequisite for employment in the strata title accommodation management field is the capacity to fund the purchase of the management rights. The lack of training appears to be particularly manifested by the minimal sophistication with which RUMs approach the determination of short-term letting rates. Corroborating this, the following comments provided by Interviewee O, typified the perspective taken by many of the RUMs interviewed:

We just make it up as we go along a lot of the times. We got our price structure but then it depends on the situation. If we’re busy we say don’t worry about it. This is our price. Try next door or down the road.

It appears that the nature of marketing tourist accommodation in strata title complexes has undergone a series of changes since the late 1960s boom construction period occurred at Surfers Paradise which lies at the heart of the Gold Coast. As depicted in Figure 1, initially RUMs undertook to market tourist accommodation in their buildings. Following this, airlines became involved in block booking units in order to provide holiday package deals. Subsequently, as outlined above, large wholesaling agencies became extensively involved in the industry. Some comments made by the interviewees suggest that we are now entering a new era of marketing tourist accommodation in strata title complexes. It appears that internet technology which has signified the development of web-based marketing, electronic bookings and last minute booking sites will usher in a distinctly different marketing environment for the industry. The literature suggests that while consumers have embraced the technological advances in the area of booking travel and related services online (Middleton and Clarke, 2001; McMaster, 2002), many operators are a little slower in adapting (Bainbridge, 2003). The lack of RUM training and education already noted signifies that they are unlikely to be leaders in applying new technology, however the commercial imperative is likely to force many strata title complexes into a new electronic marketing era. Many of the interviewees acknowledged the significance of the online market, however few appeared equipped to realise the potential offered by the new technology.
It should be noted that this study suffers from the limitations generally associated with qualitative research. These limitations include the degree of subjectivity that is bound to be invoked by researchers when conducting interviews and analysing data collected, and also the fact that the size of the sample precludes any confident generalisation of the findings to a wider sample. Reference to the sample size limitation is particularly pertinent as an interpretation based on smaller sub-samples (i.e., the Northern, Central and Southern regions) is provided. Due to the study’s limited sample size, the findings should not be viewed as providing a sound basis for making generalisable assertions. Rather, the findings should be viewed as providing much-needed groundwork for formulating further research enquiry, by providing clarification and illumination of factors associated with short-term accommodation price determination in Gold Coast strata title complexes.

It should also be remembered that the findings are based on the personal integrity of RUMs and their levels of honesty in regard to current pricing policies. Due to the competitive nature of the industry and the recent changes with wholesalers and the legislation, there were occasions when it appeared some RUMs were reticent when providing information. For these reasons, the study’s findings should be viewed in an exploratory light.

A potentially useful way of building on this study’s initiative would be to extend the investigation to include representation of the views of owners. The study could also be extended by conducting a survey of RUMs. This would provide a stronger basis for generating a more generalisable understanding of strata title accommodation pricing procedures. In any further work the issue of equitable allocation of bookings across owners appears worthy of further investigation, as negligible application of any accountability systems designed to monitor the RUMs’ performance in this regard were noted in the study reported herein.
References


Table 1  
Pricing methods commentaries provided in the normative hospitality accounting literature

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<td>Region</td>
<td>Total units in complex</td>
<td>Units in letting pool</td>
<td>% of units in letting pool</td>
<td>Years experience as RUM</td>
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### Table 4

**Comparison of price-makers and price-takers**

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<thead>
<tr>
<th>PRICE-MAKER TRAITS</th>
<th>PRICE-TAKER TRAITS</th>
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<tr>
<td>Located close to beach or absolute beachfront.</td>
<td>Located at least 200 metres from the beachfront</td>
</tr>
<tr>
<td>Minimal or no contact with wholesalers.</td>
<td>Heavily dependant on wholesalers and booking agents.</td>
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<tr>
<td>Most rooms offer some (partial or full) views of the sea.</td>
<td>Limited differentiation of rooms (usually in high density building areas).</td>
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<td>High level of repeat business.</td>
<td>Low level of repeat business.</td>
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<td>Low level or no discounting.</td>
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<td>Low level or no use of last minute pricing specials.</td>
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<td>Low level of promotional marketing activities.</td>
<td>High level of promotional marketing activities.</td>
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</table>

**PRICE-MAKER COMMENTS**

- ‘I just say to people that’s the price’
- ‘They’ll go (other RUMs) below whatever we go, so we don’t attempt to match them’
- ‘They’ll come in and say what are your standby rates and we say, we don’t have one’

**PRICE-TAKER COMMENTS**

- ‘It’s a good price so we gauge from what peoples reactions are’
- ‘You can market all you want, but it doesn’t seem to be doing any good’
- ‘We are competing with a lot of newer apartments here, and this place is 20 years old’
Figure 1
Evolution of the Strata Title Unit Accommodation Marketing Environment