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THE INFLUENCE OF PRICING, CANCELLATION POLICY, LOCATION AND FACILITIES ON THE PERFORMANCE OF 3-STAR HOTELS IN INDONESIA

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ABSTRACT

This study aims to show the factors that influence the performance of 3-star hotels in Indonesia. This study uses a quantitative approach to analyze the influence of pricing, cancellation policies, location, and facilities on hotel performance. Data are generated from booking.com, which is the largest online travel application in the world. In addition, interviews with informants were also conducted to enrich the discussion of this study. Statistical analysis was carried out using Structural Equation Modeling (SEM) using SmartPLS. The results of the statistical analysis show that price and facilities have a significant influence on the performance of 3-star hotels in Indonesia, with t-values of 6,387 and 5,679 (p-value <0.05). On the other hand, cancellation policies and location do not show a significant influence on hotel performance with t values of 1,655 and 1,348 (p-value> 0.05).

KEYWORDS *Hotel Performance, Price, Cancellation Policy, Location, Facilities*

INTRODUCTION

The hotel industry is one of the most important sectors in the Indonesian economy. With the increasing growth of tourism, hotels are affected because they are one of the main destinations for domestic and international tourists. Study (Cholik, 2017). proves that infrastructure is the most important factor in the tourism business. One of the physical infrastructures is the hotel. Although almost all business sectors decreased during the COVID-19 pandemic, after the pandemic ended it could be predicted that the hospitality business for domestic tourists would increase. (Effendi et al., 2021).

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A hotel's star rating is an internationally accepted indicator of the quality, cleanliness, and amenities of the hotel. The higher the star rating on the hotel, the higher our expectations of the hotel service. Star ratings on hotels can also be used to determine hotel prices (Israeli, 2002). As shown in Figure 1, Indonesia's Central Bureau of Statistics (BPS) reports that there are 4129 hotels in Indonesia, with a majority of 3-star hotels, as many as 1606 hotels or 38.89% of all hotels in Indonesia in 2023 (Katadata, n.d.). While 5-star hotels have the smallest number of 252 hotels. 1,2, and 4-star hotels are between 500-900 hotels. These become the basis for research to focus on 3-star hotels in Indonesia.

Research on 3-star hotels in Indonesia is important to conduct as it contributes to several sectors in Indonesia. Studying 3-star hotels in Indonesia can contribute to the tourism industry by providing insights into the market structure, behavior, and performance of the hospitality industry, which is crucial for attracting and accommodating tourists. (Nababan *et al.*, 2023). Tourism is the largest contributor to the Indonesian economy, and 3-star hotels play an important role in the tourism sector in Indonesia. (Gozaly, 2017). In addition, tourism growth in Bandung impacts increasing competition, especially for middle-class hotels (2/3 stars), which require continuous innovation to remain competitive (Lestari and Laode, 2018).

Many factors determine customer satisfaction when staying at a hotel. These factors include accommodation, employee expertise, waiting time, and customer interaction. Based on Decree No. KM/37/PW/304/MPPT-86, 1-5 star hotels are distinguished by the number and area for each type of standard room and suite. Based on Maryati (Maryati and Husda, 2020) price also affects customer satisfaction of 3-star hotels in Bandung. (Hotel and Larashati, 2019).

Price is one of the factors that determines customer satisfaction. Customers tend to choose hotels with low prices compared to hotels with the same stars. Customers will be satisfied if the price quoted is below average and they get good room conditions and facilities. Conversely, customers will be disappointed if the price is below average, and they get poor room conditions and facilities.

In addition, the cancellation policy can also affect the customer's review value. Usually, prospective customers will book a hotel far in advance. As the booking day approaches, there are times when prospective customers have sudden interests. Prospective customers like this will usually cancel their reservations. Some customer experiences and reviews expressed disappointment if they did not get a refund when canceling. If the cancellation process succeeds, the money can be returned in full or in part.

Customers will be satisfied if the hotel they stay in has a strategic location. The strategic location will make it easier for customers to access tourist areas and gathering places. Customers staying in Bandung will be happy if the hotel is around Braga and the square. Surabaya hotel customers will be satisfied if the hotel is close to the Zoo and Ciputra World. A strategic location also makes it easier for customers to access taxis and public transportation.

Hotel facilities are also a concern for customers when providing hotel reviews. Facilities can be divided into hotel facilities and room facilities. Customers will be happy if they get hotel facilities such as a refrigerator, water heater, balcony, and other main facilities. Regarding room facilities, customers prefer hotels with breakfast, parking lots, and WiFi. Apart from availability, the price and condition of the facilities also affect the customer's assessment of the facilities.

Hotel bookings by prospective customers can be made suddenly or planned. For planned bookings, prospective customers can consider other people's experiences through reviews either through personal channels or online travel applications. Online travel applications make it easier for prospective customers to choose accommodation because it is possible to see many accommodation options and reviews from many customers. Some online travel agents often used are booking.com, Expedia, Airbnb, Hostelworld, Agoda, Trip.com, Hotelbeds, Vrbo, Traveloka, and Despegar/Decolar.

Reviews on online travel applications can be used to measure customer satisfaction (Shu *et al.*, 2023). Study (Zhang and Niu, 2024) showed that online reviews affect hotel demand by forecasting using the *long-short-term memory Interaction-based Convolutional Neural Network* (LICNN) model. LICNN can predict demand with a *Mean Absolute Error* (MAE) of 8.1%. Therefore, hotels need to maintain their hotel reviews on online travel apps.

Booking.com is the largest online travel app in the world. As shown in Figure 2, Booking.com has the highest sales of 15.07 billion USD. Followed by Expedia, Trip.com, Tripadvisor, and Trivago, which are included in the top 5 online travel applications. Booking.com can also support accommodation booking in Indonesia. Booking.com provides important information such as price, cancellation policy, hotel stars, number of beds provided, breakfast, and swimming pool that can affect hotel performance. This hotel performance can be represented in the guest review score. This study will analyze the effect of this important information on the review score for the case of 3-star hotels in Indonesia.

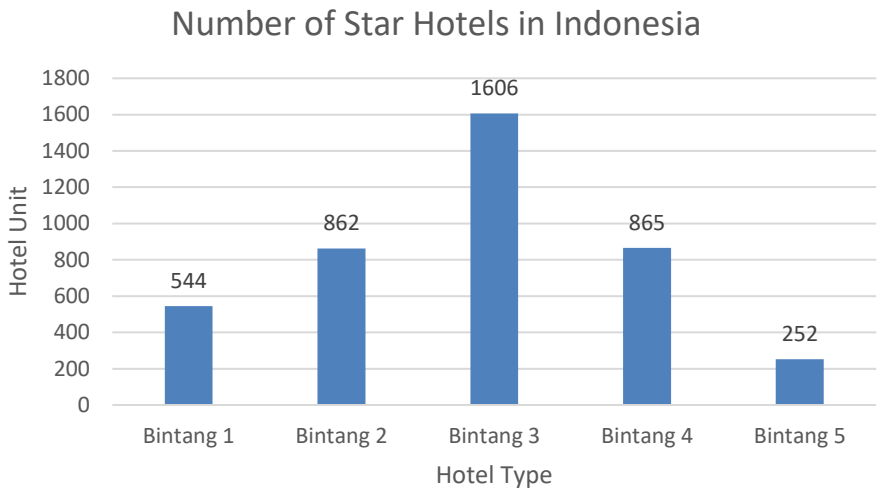

Figure 1 Number of Star Hotels in Indonesia 2023
Source: katadata.co.id 2024

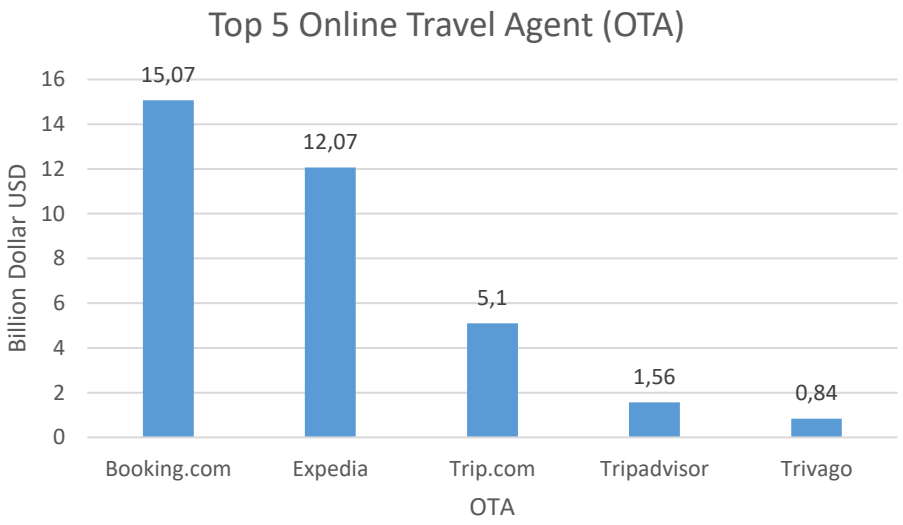

Figure 2 Top Five Largest Online Travel Apps in the World 2019
Source: mize.tech 2019

Previous research has extensively analyzed the factors influencing guest review scores and satisfaction. For example, Rahma Yulita (2023) found that service quality, price, and facilities significantly impact customer satisfaction at Grand Hawaii Hotel Pekanbaru. Similarly, Wahyuni and Erawati (2022) concluded that service quality and price affect guest satisfaction at Hotel Maya Ubud Resort & Spa. Putri, Utomo, and

Mar'ati (2021) discovered that while service quality and location do not impact customer loyalty at Grand Wahid Hotel Salatiga, price and digital marketing do. Lastly, Falakh (2016) established that price, service, facilities, and location all influence customer satisfaction at Hotel Bintang Tawangmangu. This body of research underpins the current study's investigation into factors affecting the performance of three-star hotels in Indonesia.

This research investigates the impact of various factors on the performance of three-star hotels in Indonesia. Specifically, it examines how pricing strategies, cancellation policies, location, and facilities affect hotel performance. The objectives are to explore the influence of these factors on guest reviews and gain a comprehensive understanding of what drives hotel performance. The study benefits hotel management by providing insights to enhance their reputation and influence guest decisions. For the researcher, it offers an opportunity to apply academic knowledge to a real-world case, analyzing the determinants of hotel review scores on online platforms.

Hypothesis

Based on the framework that has been discussed, the research hypothesis can be obtained as follows.

H1 : There is an influence between pricing and hotel performance.
H2 : There is an influence between the cancellation policy and hotel performance.
H3 : There is an influence between location and hotel performance.
H4 : There is an influence between facilities and hotel performance.

RESEARCH METHOD

This study is non-experimental quantitative research aiming to produce numerical data for statistical analysis to test the impact between variables. The quantitative approach allows the development of mathematical models, theories, and hypotheses related to the phenomena. A non-experimental approach is used because the researcher does not manipulate independent variables to observe their effect on dependent variables. The research is ex post facto, analyzing existing data to see the impact of pricing, cancellation policies, location, and facilities on the performance of three-star hotels in Indonesia.

The population for this study includes all three-star hotels listed on Booking.com in major Indonesian cities. A census technique is employed, meaning that the sample comprises all 377 three-star hotels in these cities: Jakarta (176 hotels), Bandung (90 hotels), Surabaya (53 hotels), Medan (28 hotels), and Makassar (30 hotels). To avoid the impact of holiday pricing and demand, hotels were selected for booking on May 15, 2024, with data collected on March 19, 2024.

The research involves two types of variables: dependent and independent. The dependent variable is hotel performance, measured using an interval scale from 0 to 10 based on guest review scores from Booking.com. Independent variables include pricing (room price per night), cancellation policies (categorical: 0 for non-cancellable, 1 for

cancellable), location (categorical: city names), and facilities (various dimensions such as bed type, breakfast availability, kitchen presence, balcony presence, and refrigerator presence). Operational definitions detail how each variable is measured, ensuring replicability.

The study uses secondary data obtained through web scraping from Booking.com using Outscraper. Data collection involves several steps: visiting Booking.com, filtering accommodations to three-star hotels, and using the filtered links to scrape data. Data is analyzed using descriptive statistics and Structural Equation Modeling (SEM) to explore relationships between variables. Hypothesis testing includes t-tests to examine the effect of each independent variable on the dependent variable and R square tests to determine the influence of independent variables on hotel performance. Additional tests for convergent validity, discriminant validity, and reliability may also be conducted.

RESULT AND DISCUSSION

Data Characteristics

In this study, there are 377 3-star hotel data in Indonesia consisting of several variables categorized as dependent variables and independent variables. Data is evaluated using the Structural Equation Modeling (SEM) model using SmartPLS software. In analyzing data using SEM it is important to know the characteristics of the data used. The following are the characteristics of each variable in the data used.

Price Characteristics

Price is a key factor influencing customer decisions when choosing a hotel. In this study, prices are expressed in rupiah units. The price distribution can be seen in the figure below.

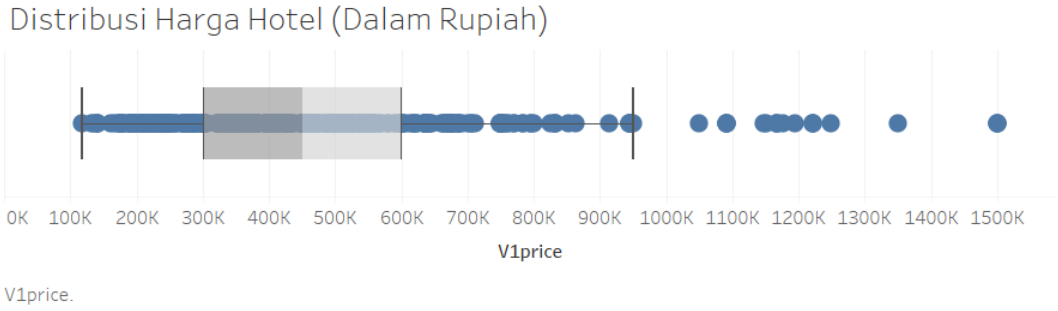

Figure 4 Hotel Price Distribution

With more detailed information can be seen in the table below.

Table 1. Distribution Detail Information

Upper Whisker	949.876
Upper Quartile (Q3)	600.000
Median (Q2)	450.000
Lower Quartile (Q1)	302.661
Lower Whisker	117.775

It can be seen in Figure 4 and Table 1 that the median value for hotel prices is IDR 300,000. Q1 is Rp 302,661, and Q3 is Rp 600,000; this shows that 50% of the houses have prices in the range of Rp 302,661 - Rp 600,000. In addition, there are some outliers, namely prices that are too expensive outside the boundaries of the upper whisker, which reaches Rp 1,500,000.

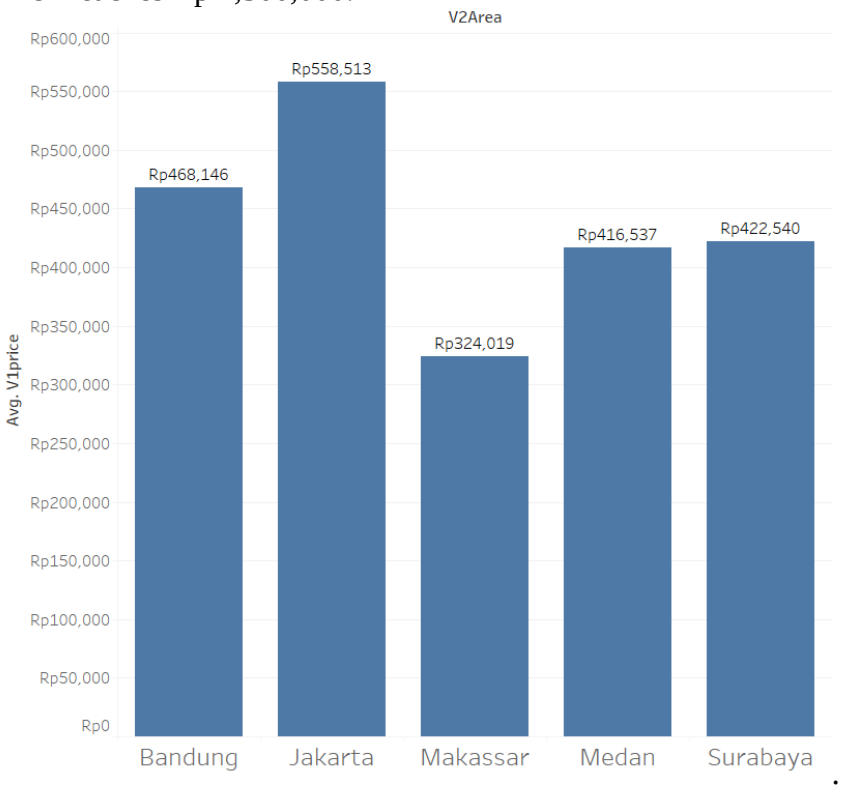

Figure 5 Hotel prices by region

In addition to the distribution of hotel prices, we can see the difference in average hotel prices per night in various major cities in Indonesia. Figure 5 shows that Jakarta has the highest average hotel price, at IDR 558,513. Meanwhile, Makassar has the cheapest hotel price, at IDR 324,019. Hotels in Bandung, Medan, and Surabaya have an average price of 400 thousand.

Characteristics of Cancellation Policy

The cancellation policy is one of the factors determining customer satisfaction that directly impacts hotel performance. In Figure 6, 150 hotels cannot be canceled. If canceled, the money already paid cannot be returned. Of the 227 hotels that apply free cancellation, most will waive the cancellation fee two days before check-in at 106 hotels. Figure 6 also shows that hotels implementing the free cancellation policy give a week before check-in to attract potential customers.

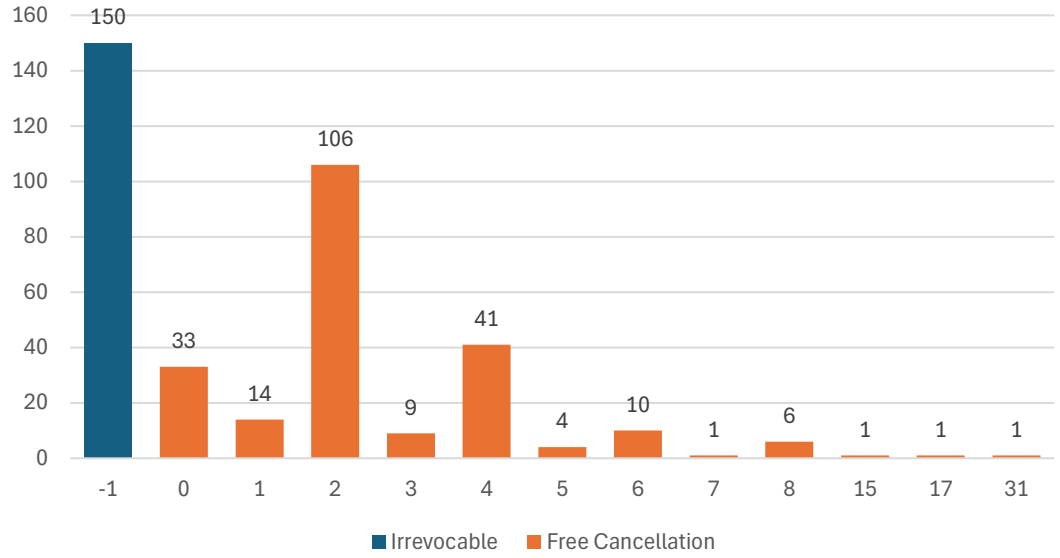

Figure 6 Distribution of Hotel Cancellation Policy in 3-Star Hotels in Indonesia

Location Characteristics

Location can improve hotel performance in general. A location close to tourist access or public facilities will help customers to enjoy their stay at the hotel. In Figure 7, it can be seen that there are 233 hotels located near the city center mainly within a radius of 0 - 3 km. At a distance of 10 km and above, there are only 21 hotels located there.

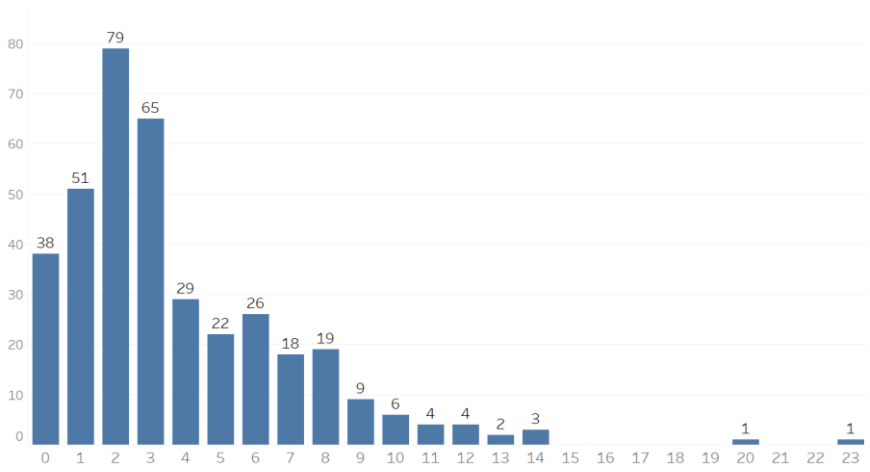

Figure 7 Distribution of Hotel Distance to City Center (in km)

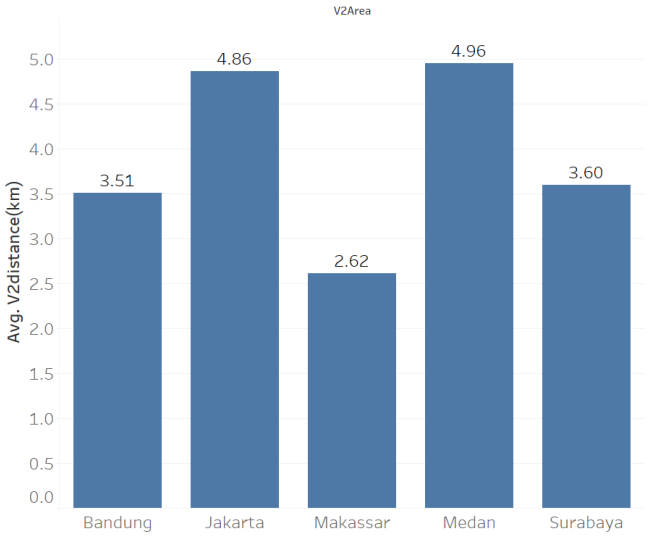

Figure 8 Average distance from hotel to city center (in km) in various cities

The data also shows the average distance of hotels to the city center. In Figure 8, it can be seen that hotels in Makassar have the closest distance to the city center with an average distance of 2.62 km. Meanwhile, hotels in Medan and Jakarta have the farthest distance with an average distance of 4.96 km and 4.86 km. Hotels in Surabaya and Bandung are around 3 km from the city center.

Facility Characteristics

The characteristics of the facilities owned by hotels in Indonesia can be seen in Table 2 and Table 3.

Table 2. Distribution of Breakfast Facilities at Hotel Indonesia

Breakfast Availability	Number of Hotels	% Number of Hotels
Not available	192	51%
Available	185	49%

Table 3. Distribution of Refrigerator Facilities at Hotel Indonesia

Availability of Refrigerators	Number of Hotels	% Number of Hotels
Not available	284	75.33%
Available	93	24.67%

In table 2, the proportion of hotels that provide and do not provide breakfast is almost equal at 51% and 49%. Meanwhile, 284 hotels in Indonesia do not provide refrigerators. This shows that most hotels in Indonesia do not provide refrigerators, with a percentage of 75.33%.

Hotel Performance Characteristics

Hotel performance can be seen in hotel reviews on booking.com. The results of this review are in the form of an index with a scale from 0-10. The following is the distribution of hotel performance expressed in the histogram in Figure 9.

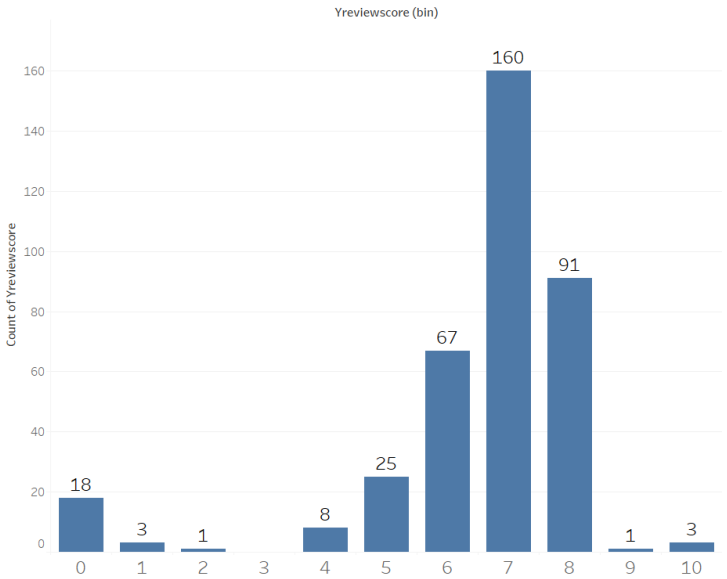

Figure 9 Distribution of 3-Star Hotel Review Score in Indonesia

Based on Figure 9, Most 3-star hotels in Indonesia get a review score of 7, with a total of 160 hotels (42.44%). After that, followed by the second and third highest ratings with a value of 8 (24.13%) and 6 (17.77%). Only four hotels get the best value, 9 and 10. In addition, 18 hotels have the lowest value (value 0).

Reliability and Validity Evaluation

Reliability and validity evaluation is the first step used in SEM analysis. It aims to ensure that the measured constructs are consistent and accurate. This section discusses convergent validity, discriminant validity, and reliability tests of the SEM model analyzed. The following is the SEM model used in this study.

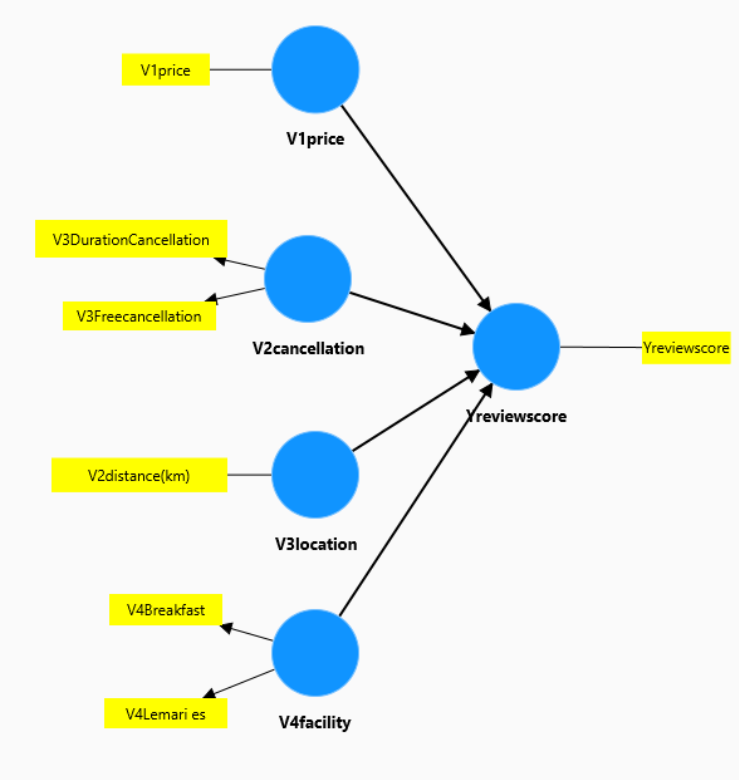

Figure 10 SEM Model

Figure 10 is a research model that has been adjusted in SmartPLS software. The dependent variable is named Yreviewscore to represent hotel performance. There are four independent variables named V1price, V2cancellation, V3location, and V4facility.

Convergent Validity

Convergent validity aims to measure the relationship between indicators and latent variables well. One of the convergent validity tests used in SEM is the loading factor. Each indicator must have a loading factor value to be considered valid

(Haryono, 2016). A PLS-SEM algorithm simulation can be carried out to get the loading factor value. After that, we can check outer loading. The resulting loading factors can be seen in the table below.

Table 4. Convergent Validity Testing Using Loading Factor

	V1price	V2cancellation	V3location	V4facility	Yreviewscore
V1price	1				
V2DurationCancellation		0.655			
V2Freecancellation		1			
V3distance(km)			1		
V4Breakfast				0.812	
V4Ice cabinet				0.636	
Yreviewscore					1

In Table 4, all indicator loading factor values for their variables are over 0.5. The table shows that all indicators are valid.

Discriminant Validity

Discriminant validity is a tool to measure how well a construct is different from other constructs. There are many ways to measure this discriminant validity, such as the Fornel-Larcker Criterion, Heterotrait-Monotrait Ratio (HTMT), cross-loading, and others. This study uses cross-loading with the rule that the correlation between indicators and their constructs must be greater than the correlation with other block constructs (Haryono, 2016). The following are the results of the discriminant validity test based on SEM simulations.

Table 5. Discriminant Validity Testing Using Cross Loading

	V1price	V2cancellation	V3location	V4facility	Yreviewscore
V1price	**1**	-0.12	0.06	0.262	0.323
V2DurationCancellation	0.028	**0.655**	-0.076	0.053	-0.005
V2Freecancellation	-0.125	**1**	-0.04	-0.02	-0.118
V3distance(km)	0.06	-0.042	**1**	-0.089	-0.069
V4Breakfast	0.211	-0.024	-0.017	**0.812**	0.255
V4Ice cabinet	0.168	0.002	-0.13	**0.636**	0.193
Yreviewscore	0.323	-0.115	-0.069	0.31	**1**

Based on Table 5, the correlation value between indicators and their construct variables is greater than the correlation with other block constructs. The table shows that all indicators are valid.

Reliability Test

The reliability test aims to ensure that the measured construct variables are consistent and stable. The test also indicates that the information obtained can be trusted and is in accordance with the reality in the field. Reliability testing can use composite reliability and Average Variance Extracted (AVE). The following are the results of measuring the composite reliability and AVE values in SEM.

Table 6. Reliability Testing Using AVE

Variable	Composite Reliability	Average variance extracted (AVE)
V2cancellation	0.827	0.714
V4facility	0.691	0.532

To be able to determine whether a variable is reliable, it can be seen whether the AVE value is over 0.5 or not. An AVE value exceeding 0.5 indicates that the constructed variable can explain more than half of the variance of its indicators. In addition, a composite reliability value between 0.6 and 0.7 is acceptable in research (Hair Jr, Joseph F., et al, 2021). In Table 6, it can be seen that the cancellation and facility policy variables are reliable. This conclusion can be shown by the composite reliability values of 0.827 and 0.691 and the AVE values of 0.714 and 0.532 for the cancellation policy and facility variables.

Inner Model Evaluation

Inner model evaluation relates to the model's ability to explain variance in the dependent variable and the ability to predict the dependent variable well. To evaluate the inner model, you can use the R-square value and Hypothesis Test.

R Square Value

R square is a value that shows the proportion of the dependent variable that can be predicted using the independent variable. In other words, R square shows how much the independent variable affects the dependent variable. The following is the R-square value generated from simulations using SEM.

Table 7. R Square Value Model

	R-square	**Adjusted R-square**
Yreviewscore	0.170	0.161

Based on Table 7, the R square value of the hotel performance variable is 0.17. This indicates that the variable pricing, cancellation policy, location, and facilities can explain the hotel performance variable by 17%. The R square value obtained is smaller than 0.19, so the model is weak (Haryono, 2016).

Hypothesis Test

After going through validity and reliability testing, we can test the hypotheses that have been made before. Here are the simulation results of hypothesis testing.

Table 8. Hypothesis Testing

	T statistics	P values
V1price->Yreviewscore	6.387	0
V2cancellation->Yreviewscore	1.655	0.098
V3location -> Yreviewscore	1.348	0.178
V4facility -> Yreviewscore	5.679	0

The following conclusions are obtained based on Table 4.8.

- Variable V1price has a t statistic value of 6.387> 1.96 or a p-value of 0 <0.05, so H1 was not successfully rejected, which means that price has an effect on hotel performance.
- Variable V2cancellation has a t statistic value of 1.655 < 1.96 or a p-value of 0.098> 0.05, so H2 is rejected, which means that the cancellation policy has no effect on hotel performance.
- Variable V3location has a t statistic value of 1.348 < 1.96 or a p-value of 0.178> 0.05, then H3 is rejected, which means that location has no effect on hotel performance.
- Variable V4Facility has a t statistic value of 5.679> 1.96 or a p-value of 0 <0.05, so H4 was not successfully rejected, which means that facilities affect hotel performance.

Discussion

The previous section obtained research results and hypothesis testing. In this discussion section, the research results will be discussed and enriched with the results of interviews with several 3-star hotel customers in Indonesia. The interviewees are career men and women aged 29 - 32.

The Effect of Price on the Performance of 3-Star Hotels in Indonesia

This research hypothesis states that pricing influences the performance of 3-star hotels in Indonesia. Statistical analysis of the data obtained states that price has a significant effect on hotel performance, with a t-statistic value = 6.387 and a p-value = 0. So, Ho was not successfully rejected, and it can be concluded that pricing has a statistical effect on hotel performance.

The results of this study are in line with the research of Rahma Yulita (2023), Wahyuni & Erawati (2022), Putri, Utomo, & Mar'ati (2021), and Falakh (2016). In this study, it states that price affects customer satisfaction both partially and simultaneously. Customer satisfaction can be interpreted as hotel performance in this research.

The results of the interviews conducted also support this hypothesis. Based on the interview results, the price of 3-star hotels in Indonesia ranges from Rp 300,000 to Rp 1,000,000. Meanwhile, the price that meets their ideal expectations ranges from Rp 350,000 to Rp 500,000. Interviewees considered that the price should be in accordance with the facilities obtained, the condition of the room, and the location of the hotel itself. Hotels can also offer promotions or discounts so that guests can save to fulfil other needs.

The Effect of Cancellation Policy on 3-Star Hotel Performance in Indonesia

This research hypothesis states that there is an influence between the cancellation policy and the performance of 3-star hotels in Indonesia. Statistical analysis of the data obtained states that the cancellation policy has no significant effect on hotel performance, with a t-statistic value = 1.655 and p-value = 0.098. So Ho was successfully rejected, and it can be concluded that the cancellation policy has no statistical effect on hotel performance.

The results of this study contradict Chen & Xie's research (Chen & Xie, 2013). The study says that the cancellation policy has an effect on revenue and guest booking behavior. This guest booking behaviour can be influential in analyzing hotel performance.

The interviewees also had other opinions related to the results of the statistical analysis of this research. Based on the results of the interview, the interviewee believes that the flexibility of the cancellation policy is very important for guests. Interviewees want a flexible cancellation policy so that they can anticipate if there is a sudden change in plans. They feel more comfortable booking a hotel with a flexible cancellation policy, and this affects their decision to stay at the hotel. The maximum time given for cancellation is two days before the hotel is occupied. This cancellation policy should also be implemented well because it also has an impact on guest satisfaction. Some interviewees have experience of canceling with a long return process. Therefore, they are reluctant to choose that hotel in the future.

The Effect of Location on the Performance of 3-Star Hotels in Indonesia

This research hypothesis states that location influences the performance of 3-star hotels in Indonesia. Statistical analysis of the data obtained states that location has no significant effect on hotel performance, with a t-statistic value = 1.348 and a p-value = 0.178. So, Ho was successfully rejected, and it can be concluded that location has no statistical effect on hotel performance.

The results of this study are not in line with the research of Putri, Utomo, & Mar'ati (2021), and Falakh (2016). In this study, it states that location affects customer satisfaction both partially and simultaneously. Hotel research in Spain by (Lado-Sestayo et al., 2017) also has a different view of the results obtained. In this study, location is the second most important factor of hotel attributes that determine the performance of the hotel.

Although the analysis results show that location has no effect on hotel performance, the interview results are still an important factor for guests. Interviewees want a hotel close to the city center, tourist attractions, and souvenirs. They also consider location important because it facilitates access to transportation and food. Although distance from the city center is not always a major consideration, ease of access to important places remains a factor that can affect guest satisfaction.

The Effect of Facilities on the Performance of 3-Star Hotels in Indonesia

This research hypothesis states that facilities influence the performance of 3-star hotels in Indonesia. Statistical analysis of the data obtained states that facilities have a significant influence on hotel performance, with a t-statistic value = 5,679 and a p-value = 0. So, Ho was not successfully rejected, and it can be concluded that facilities have a statistical effect on hotel performance.

The results of this study are in line with the research of Rahma Yulita (2023), (Zheng et al., 2019), (Nur & Zulkiffli, 2019) and Falakh (2016). In this study, it states that facilities affect customer satisfaction both partially and simultaneously. Customer satisfaction can be interpreted as hotel performance in this research.

The results of the interviews conducted also support this hypothesis. Based on information from the interviewees, guests are very concerned about the facilities provided by the hotel. Some examples of facilities referred to by the interviewees are free WiFi, availability of breakfast, TV, and refrigerator. Apart from the availability of the facilities, the condition of the facilities also plays a very important role. They prefer clean rooms and smoke-free public facilities. The availability of good facilities is a determining factor for guests in deciding whether to stay at the hotel or not. Positive experiences with hotel facilities also increase guest satisfaction and enable them to give positive reviews and recommend it to others.

CONCLUSION

The results of data analysis and interviews show that price and facilities are factors that significantly influence the performance of 3-star hotels in Indonesia. Although the cancellation policy and location did not show a statistically significant effect, the interviews showed that these two factors remain important for guests in determining the choice of hotel. Therefore, 3-star hotels in Indonesia need to conduct an analysis to consider the factors of competitive prices and adequate facilities. In addition, it is important to provide flexibility in cancellation policy and strategic location selection.

Given this study's limitations, the researcher would like to provide suggestions related to factors that influence hotel performance. Further research can explore non-quantitative factors such as facility and service quality. In addition, research can be conducted to compare the factors that influence the performance of 3-star hotels and other-star hotels. Research can also involve the latest technology by creating predictive

models using machine learning to predict hotel performance based on information from several variables.

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