



UNDERSTANDING HOTEL DYNAMIC PRICING

Abstract

As hotel demand becomes more volatile and price transparency increases across digital channels, traditional pricing models are no longer sufficient to protect margins or capture revenue upside. This article examines how hotel dynamic pricing strategy has evolved from a tactical rate-setting exercise into a core commercial capability within modern hotel revenue management and hotel yield management disciplines. It explores why dynamic pricing matters now, the demand signals and data inputs that power effective pricing decisions, and how hotels can operationalise pricing through disciplined governance, accountable KPIs, and integrated technology stacks.

Pricing is one of the most powerful levers in the hotel industry. Metrics such as Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) are shaped by volatile demand conditions. Shorter booking windows, unpredictable cancellations, and price transparency across digital channels have made guests

more informed and price-sensitive. In this environment, seasonal rate cards and infrequent pricing reviews can no longer maximise upside or protect margins. Hotels that adopt a modern dynamic pricing strategy, embedded within disciplined revenue management practices, are better equipped to respond

to rapid market shifts. By continuously aligning prices with demand signals, channel economics, and customer behaviour, dynamic pricing enables faster, more precise decisions at scale. As a result, it now sits at the core of modern hotel revenue management, supported by intelligent, AI-enabled platforms.

Why dynamic pricing matters now

Several structural shifts are reshaping how hotels price their inventory. Together, these forces explain why dynamic pricing has moved from an operational tactic to a core commercial discipline.



Fluctuating demand increases the cost of pricing errors

Dynamic pricing allows hotels to adjust room rates to reflect real-time market conditions rather than holding constant prices, capturing revenue when demand increases. Dynamic pricing also helps prevent missed revenue opportunities during peak demand and low occupancy during slow periods.

Rising price sensitivity requires granular control

Increased price transparency, flexible booking policies, and widespread comparison tools have heightened price sensitivity across customer segments. Hotels must differentiate rates by channel, segment, and booking window to accurately reflect varying willingness to pay and avoid revenue leakage.

Technology adoption gap: a competitive imbalance

While revenue leaders increasingly rely on automated pricing and forecasting tools, adoption across the broader hotel industry remains uneven. This gap creates a competitive advantage for hotels that modernise their revenue management operating model and embed dynamic pricing into daily decision-making.

Growing investment signals a shift in pricing strategy

Investment in revenue management technology is accelerating. The global revenue management systems market is projected to grow at [over 8% CAGR through the decade](#), reflecting rising demand for scalable, data-driven pricing. Hotels that translate demand signals into timely pricing actions are structurally better positioned to protect margins and sustain revenue performance.

When demand is both strong and unpredictable, dynamic pricing is the fastest and most controllable lever for margin protection.

Core inputs and data signals that power effective dynamic pricing

Dynamic pricing advantage comes from knowing which signals matter most at each decision point. In volatile markets, pricing accuracy depends less on historical data and more on early indicators such as pickup velocity, booking lead-time shifts,

and cancellation risk. External cues, including search intensity, flight capacity changes, and city-level activity, add critical forward-looking context, helping teams distinguish short-term demand spikes from sustained

market momentum. When these inputs are applied within clear decision thresholds, pricing teams reduce reaction lag, protect rate integrity, and make fewer but better-timed pricing moves that consistently stay ahead of the market.

Advanced signals, AI enablement, and the role of human judgment

As pricing inputs mature, competitive advantage is shifting from what data hotels collect to how intelligently that data is interpreted and acted upon. Advanced revenue teams track signals such as search behaviour, demand volatility, and price response to assess both demand levels and demand confidence.

AI plays a decisive role by testing scenarios, simulating rate outcomes, and recalibrating recommendations as conditions change. AI-augmented pricing engines enable continuous adjustment of pricing recommendations in response to changing demand signals. Human judgment remains the strategic

anchor. Revenue leaders apply context that AI cannot infer, including brand positioning, risk appetite, displacement considerations, and long-term customer value. This ensures pricing decisions balance growth, credibility, and margin resilience.

Sustainability integration in dynamic pricing

Incorporating sustainability considerations into dynamic pricing frameworks allows hotels to align environmental responsibility with commercial decision-making. Rather than treating sustainability as a separate initiative, pricing teams can reflect eco-friendly practices within rate structures, creating differentiated offers for guests who value lower-impact stays. Advanced pricing systems can factor in operational signals such as energy

sourcing, water efficiency, or seasonal resource availability to shape sustainable packages and encourage demand during less intensive periods. This approach supports smarter occupancy management while reinforcing brand values. As regulatory expectations and guest awareness continue to rise, sustainability-led pricing helps hotels strengthen loyalty, remain compliant, and evolve dynamic pricing into a strategic capability.

Dynamic pricing in practice: Two repeatable commercial playbooks

Pricing frameworks are effective when they support consistent execution. Two common scenarios illustrate how dynamic pricing delivers value in practice.

Event-driven demand surge (urban hotels)

In urban markets with frequent events, demand can build rapidly within short booking windows. In these situations, hotels apply a dynamic pricing strategy by adjusting rates continuously as demand materialises, rather than relying on fixed event pricing set in advance. In practice, dynamic pricing actions typically include:

- Gradually increasing BAR levels as booking pace accelerates
- Restricting low-margin channels to protect rate integrity as compression builds
- Applying short-term controls to corporate and negotiated rates to avoid displacement

The outcome is higher ADR without sacrificing profitable occupancy, illustrating how dynamic pricing translates real-time demand shifts into stronger revenue performance.



Shoulder-period demand stimulation (leisure or resort hotels)

During periods of softer demand, static discounts often weaken both brand perception and margins. Hotels using a dynamic pricing strategy adjust offers in response to booking behaviour and demand patterns, allowing them to stimulate demand without broadly lowering rates.

In practice, dynamic pricing enables hotels to:

- Introduce time-bound offers linked to specific booking windows
- Use bundled packages that protect room rates while lifting Total Revenue per Available Room (TRevPAR)
- Apply targeted loyalty pricing supported

by non-monetary benefits rather than cash discounts

The benefit is more controlled demand stimulation, where pricing remains flexible and value-led, and ancillary revenue plays a stronger role in sustaining performance during low-demand periods.



Measuring success: pricing performance must be accountable

The scenarios above highlight how dynamic pricing decisions play out under different demand conditions. To understand whether those decisions are delivering the intended results, performance measures need to provide clear, practical feedback.

Alongside ADR and RevPAR benchmarks,

tracking pickup versus forecast accuracy can help surface where pricing adjustments lag or overcorrect. Reviewing channel contribution margin adds context on profitability, while length-of-stay and cancellation patterns offer insight into price sensitivity by segment. Total Revenue per Occupied Room (TRevPOR) helps

capture the broader revenue impact of pricing choices. External benchmarks from [Smith Travel Research \(STR\)](#) and [American Hotel and Lodging Association \(AHLA\)](#) remain useful reference points for sense-checking performance over time.

Software options: choosing the right revenue technology stack

As hotels increase their reliance on technology, the trade-off between simplicity and flexibility is shaping revenue system choices. Findings from a survey of 300 hotel professionals point to a clear shift toward specialised, Best-in-Class platforms. Among hoteliers planning to change their tech stack, 30% of All-in-One

users intend to move to Best-in-Class systems, compared with 14% moving in the opposite direction, reflecting a growing need for control, configurability, and data precision.

When evaluating revenue technology, prioritise AI capabilities that enhance decision-making rather than replace

it. The most effective solutions use AI to analyse complex data, surface clear recommendations, and reduce manual effort, while leaving strategic judgment firmly with revenue leaders.

At the same time, avoid fragmented technology stacks. Excessive point solutions often create data gaps, inefficiencies, and execution risk. Lean toward a consolidated core platform that provides pricing, forecasting, and performance visibility, supplemented

selectively by specialised tools where they add clear value. The goal is not maximum functionality, but a balanced stack that improves data consistency, workflow efficiency, and long-term commercial control.

With [93% of hotels not having a](#)

[comprehensive, company-wide AI strategy](#), scalable, well-connected systems are becoming essential to sustaining revenue performance in dynamic markets.

The operating model behind successful dynamic pricing

Technology alone does not guarantee pricing success. Dynamic pricing is an ongoing discipline that requires clear ownership, structured collaboration, and defined escalation paths. High-performing hotels formalise pricing ownership within revenue teams while maintaining close alignment with sales,

marketing, and distribution functions. This ensures pricing decisions reflect demand signals, group commitments, promotional activity, and channel economics. Equally important is decision cadence. Structured weekly or intra-week pricing reviews help teams respond to market changes without overreacting. Clear

thresholds for manual intervention preserve human oversight while allowing automation to handle routine decisions. Hotels that define decision rights, review rhythms, and accountability mechanisms are far more likely to sustain pricing discipline at scale.



The real risk: technology without governance

Many dynamic pricing initiatives fail not because of poor tools, but because of weak operating models. Common pitfalls include:

- Poor data hygiene
- Inconsistent room or rate mapping
- Over-automation without explainability, which erodes team trust
- A lack of cross-functional alignment

between revenue, sales, and marketing

- The absence of clear escalation paths and override governance

Pricing performance improves when revenue decisions are reviewed through structured forums with clear KPIs and accountability. This is where BPM-led approaches, combining process, analytics, and governance, become decisive.

The strategic takeaway for hotel leaders

Dynamic pricing is about operating smarter. Hotel dynamic pricing strategy embedded within disciplined [hotel revenue management](#) frameworks is better equipped to manage volatility, protect margins, and scale commercial performance.

As demand patterns continue to evolve, pricing agility will separate commercially resilient hotels from those forced into reactive discounting. The question is no longer whether to adopt dynamic pricing, but how effectively it is operationalised across the organisation.

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