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A Full Guide for Dynamic Pricing for Vacation Rentals

Dynamic pricing for vacation rentals, also called **surge pricing, and time-based pricing** is a well-established pricing method. It's already being used in industries such as airlines, hotels, and many others.

Implementing this approach for short-term rentals is straightforward, as customers are accustomed to **fluctuating prices** in the hospitality sector.

The opposite would be to have fixed prices that never change, no matter if market conditions are shifting.

We'll dive into more details on dynamic pricing below.

Table of content

What is dynamic pricing?

Dynamics pricing is **one of the revenue management strategies** that serve to increase net profits. Basically, it means adjusting your rates to match demand.

In the current volatile market conditions, flexible pricing has proven to be an effective method for gaining more income.

Industry-leading software companies claim that dynamic pricing implementation results in **profit growth ranging from 20% to 25% on average.** Applied properly, a dynamic pricing strategy can boost your bottom line considerably.

Seasonal properties have traditionally employed a basic form of dynamic pricing, adjusting rates during **high and low seasons.** Hosts would increase prices during peak seasons and when there's a surge in demand. And the opposite is true – they lower them when demand is low. In this respect, dynamic pricing is not an entirely novel concept.

Nevertheless, advancements in technology and data analysis have come a long way. Technology has enabled us to fine-tune this process by incorporating **numerous factors and vast market data.**

We've now reached a stage where **nightly rates** can be adjusted daily, or more times per day if required.

The goal remains the same: to attract guests to book with us within the specified time frame.

You want to maintain competitive pricing so a potential customer browsing through listings perceives your property as **the most enticing offer**.

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Adjusting rates within a defined range of minimum and maximum values ensures your short-term rental remains profitable while not putting off potential guests.

Of course, make sure the price you charge is backed up by **excellent service.**

Guests appreciate the feeling that they're getting value for their hard-earned money.

Benefits of using dynamic pricing for vacation rental

Let's outline some key benefits you'll experience when implementing dynamic pricing:

1. **Maximizing profits**

Ensuring that each property yields maximum profit, so you'll never have to rent out at bargain rates.

2. **Revenue stability**

Instead of experiencing extreme fluctuations in bookings and income, you'll smoothly ride the waves of demand, maintaining a balanced profit.

3. **Higher occupancy rates**

Dynamic pricing includes various strategies, such as incentivizing longer stays, which can help fill up your calendar.

4. **Flexibility to market changes**

Gain full insights into booking trends, which will allow you to monitor market changes and predict the future with greater accuracy.

5. **Improved property management**

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Smart pricing tools streamline the management process, significantly reducing the time and effort hosts spend on rate adjustments so they run their business efficiently.

Is dynamic pricing for everybody in short term vacation rental space?

You can execute a dynamic pricing strategy both **manually and automatically.** If you manage a single property, you can gather data yourself, calculate your competitors' occupancy rates and pricing, and other market factors to estimate the ideal rates.

If you have multiple properties and want to **scale your income**, doing it manually can be excessively time-consuming. It makes sense to **use software to handle the grunt work for you.**

It's a game-changer for areas where **competition is fierce** and guest turnover is high.

Dynamic pricing might be redundant for some budget-friendly listings. If a property lacks a unique selling proposition beyond affordability, it will be very hard to sell at a higher price.

On the other end of the spectrum, we have value-based pricing, typically reserved for luxury or premium properties that provide a unique and enhanced experience.

Some examples are Airbnbs shaped like a potato or a spaceship on the beach. **Extravagant experiences** often come with an elevated price tag, although it doesn't mean prices never change. However, these accommodation types are less influenced by concepts of **deal-seeking and discounts.**

That said, the vast majority of Airbnbs will benefit greatly from dynamic pricing.

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How to make the most of a dynamic pricing strategy?

Incorporating smart pricing into your revenue management strategy doesn't eliminate an expert who oversees and manages these tools.

A decision-maker is responsible for guiding the course of the business by providing input and maintaining control over data.

Before implementing any form of automation, it's essential **to articulate your overall strategy.** Knowing the strategy, you will effectively leverage data insights in the desired direction.

When using software tools, make sure that:

Use data to make informed decisions

You may have a vast amount of data, but **don't get lost in the numbers.** Extract the **important metrics**, such as pinpointing peak demand periods throughout the week, month, or year. Use these insights to fine tune your strategy and proactively plan future moves.

Monitor and adjust in real time

One of the best practices is **analyzing booking trends and data** on a regular basis. Develop the habit of monitoring data reports. Once dynamic pricing parameters are set, you **can adjust** them to align with market demands and the particular goals you want to achieve. It's always beneficial to review the performance of a pricing strategy once in a while and readjust it when necessary.

Set minimum and maximum price limits

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Take into consideration **discounts.** For example, when running a promotion, make sure your intended final price isn't set too low after applying discounts. Customers often perceive greater value when they receive **discounts off the full price** rather than when offered lower prices outright. Ensure that the software you use is highly customizable, allowing you to adjust all desired parameters.

Meet guests expectations

It's essential to ensure that the price you set aligns with **the perceived value of your property** in the eyes of your customers. It is important to strike this balance to avoid customer dissatisfaction. **The risk is** getting too many reputation-damaging negative reviews by disgruntled guests.

The good news is that you **don't need to go overboard with expenses** to satisfy your guests. Keeping your rental clean and cozy, while ensuring that your listing accurately reflects the property. That's mostly sufficient to meet guests' expectations.

What factors does dynamic pricing software for vacation rentals take into account?

Dynamic pricing tools **consider multiple factors** when estimating nightly rates, including:

Seasonality – Peak season and off-season each call for a different pricing strategy.

Days of the week – Weekends are typically busier compared to the middle of the week as people plan weekend getaways.

Lead time – The period of time between the moment a guest makes the reservation and the actual check-in/arrival date.

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Vacation days – Typically revolve around specific dates or weeks, including summer and winter breaks, Christmas, and Easter celebrations, etc.

Important events – These refer to significant local events or festivals that draw in many tourists or visitors

Orphan days – Isolated vacant dates between reservations with a significantly lower chance of being booked.

Historical data of the property – Booking history with previously charged rates is also a factor software takes into account.

Airbnb Smart Pricing – a free solution for listings

Airbnb hosts have **a built-in smart or dynamic pricing tool** right at your disposal, and it's **completely free.** You can activate or deactivate it whenever you wish. Currently, no other online travel agency (OTA) provides such a tool.

The estimation is **derived from data** in the platform's possession, including demand, listing type, competition, the number of viewers, search volume, and listing reviews.

Airbnb Smart Pricing has its **pros and cons.**

One of the advantages is that **you can set the minimum and maximum rates** per night. It calculates prices based on real-time metrics. Then **you can shut this smart feature down** at any time.

For some hosts, Airbnb Smart Pricing works well, **boosting their revenue.** However, the others report mixed reviews. Some have mentioned that prices may be calculated lower than expected. Airbnb's commission per booking raises concerns among hosts that Airbnb **prioritizes the number of bookings over host income.**

An alternative is to subscribe to a professional dynamic pricing solution. This software works not only for Airbnb but also across all channels.

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Industry-leading dynamic pricing software tools for vacation rentals

Dynamic pricing or Airbnb pricing software tools adjust prices on **Airbnb, Vrbo, TripAdvisor**, and many other booking channels. They integrate simultaneously with the most popular vacation rental **PMS systems.**

Over the years, three of them have been established as **the best** dynamic pricing software solutions.

Beyod

The first dynamic pricing tool for vacation rentals, previously known as Beyond Pricing, offers many notable features.

What's great about this software is **a huge number of PMS integrations.** They have an advanced customizable feature set to help you increase profitability.

It's worth mentioning their unique **'Health Score,'** which is a metric that gauges the effectiveness of your pricing strategy.

Beyond charges a 1% fee on all bookings. You can check it out using a 30-day Free Trial.

Wheelhouse

One of the most popular pricing tools for Airbnb hosts is praised for **results and flexible pricing plan options.**

 It features an intuitive interface that allows you to select from **Recommended, More Aggressive, and More Conservative rate strategies.**

While it may not offer the same level of customization as PriceLabs, it generally **fulfills the needs of most hosts.**

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Regarding pricing plans, you choose between a 1% fee or a flat monthly fee based on your number of listings. Up to 10 listings cost $19.99 per listing per month, but discounts are available for more listings. There's a free plan with limited functionality (Instead of a free trial).

PriceLabs

A robust pricing software with **highly customizable options.** Price Labs allows you to set Dynamic Min-Stay Rules. These rules involve **cascading minimum stays,** keeping them higher further out from the booking date and lowering them as the date approaches.

Additionally, **steep volume discounts** make this solution cost-effective for hosts and managers who handle many properties.

PriceLabs charges a flat monthly rate, a one-unit plan costs $19.99 per month, while a 100-unit plan costs $644 per month. They offer a 30-day free trial.

Takeaway – Dynamic pricing for vacation rentals

Dynamic pricing is **an efficient revenue strategy** enhanced by technology. It allows you to put your daily work **on autopilot** while you focus on essential business operations.

However, it's important to remember that dynamic pricing should **align with your overall revenue strategy**, not the other way around. Tools don't eliminate the need for a professional who understands how to use them effectively.

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