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Perceived unfairness of prices resulting from yield management practices in hotels☆

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ABSTRACT

This study analyzes the consumer perception of yield management (YM) with an example in the hotel sector. Hotels use these practices in order to increase their incomes. However, the dual entitlement theory suggests that customers perceive YM practices as unfair when they are not the result of cost increase or external factors. This study explores four YM practices that might be suitable in the hotel context through an empirical study of the behavior of 1010 customers. The study consists of non-parametric tests to analyze the perception of YM practices and Anova tests to identify relationships between the variables that may explain customer behavior. The results show that the manner of presenting the YM practices to consumers (positive or negative frame) has a considerable influence on their perception. Lastly, loyal customers perceive price changes the YM introduces as more unfavorable. From this point of view, firms can use several managerial levers in the communication of tariff practices and management of loyalty programs to avoid or reduce customers' perception of unfairness.

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1. Introduction

Many firms seek to use revenue management techniques to maximize profitability in capacity-constrained situations (Guadix, Cortés, Onieva, & Muñuzuri, 2010). Yield management (YM) is a tool used to maximize profits with limited available capacity, such as airline seats or hotel rooms. YM manages the capacity to optimize the firm's overall revenue (Mauri, 2006). YM is a tactic variable pricing based on understanding, anticipation, and desire to influence consumer behavior to maximize the income or profits from a fixed perishable resource. YM involves strategic control of stocks of places for sell and aims to sell to the right customer at the right time and at the right price. The originality of YM is the joint nature of control capacity and pricing discrimination, which are the two strategic levers of revenue management. However, if YM increases profitability, the consequences for the customers are not always positive. During the low season, customers benefit from YM because they can take advantage of rate reductions. However, at other times, customers may perceive YM practices as being unfair when they pay a high price for standard services. The consequences can be dramatic: The customer may not only break off all commercial transactions with the seller but also spread negative information about the seller (Campbell, 1999). Thus, firms need customers to see YM price increases as fair; hence the importance of knowing if firms can obtain a customer's perception of fairness of actually unfavorable YM practices. More precisely:

- Among the practices of YM which disadvantage customers, which ones do customers perceive as unfair?
- Does this perception of unfairness (or fairness) vary with customer profiles (their experience, price consciousness, etc.) and the characteristics of YM practices?
- Does this perception change according to the presentation of YM practices as gains (discount) or losses (surcharges)?

These questions are of great interest to management strategy. Proving that the level of perceived unfairness depends on customer profiles would enable decision makers to define YM strategies according to customer target groups.

This research aims to understand how pricing strategies influence customer reaction. The following section recalls the different forms of YM, highlighting YM's importance in the hospitality sector. Section three presents various analyses, like the theory of "dual entitlement" (Kahneman, Knetsch, & Thaler, 1986a), which refers to the notion of just price evolution. Section four shows an approach based on scenarios to assess customers' perception of each of these practices. The study tests customers' reactions to a positive and a negative presentation of YM practices.

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2. Literature review: perception of YM practices

The fair price is the price that a customer would be ready to pay (Chandrashekaran & Jagpal, 1994). For a price variation to be fair, the result (the posted price) or the process to make the price must be reasonable and acceptable (Bolton, Warlop, & Alba, 2003).

2.1. Theory of "dual entitlement", cost change and fair price

The theory of "dual entitlement" (Kahneman et al., 1986a) holds that consumers believe they have the right to a reasonable price and that the company should receive a reasonable profit. Two hypotheses emerge. First, customers feel that price increase to maintain profit level is fair. In other words, if service cost increases then consumers consider that the fair price will also grow. Second, a price increase in order to raise profits is unfair. The level of perception of unfairness results from a comparison with an expected price that the customer deems as the right price considering the value of goods. Evaluating a posted price's unfairness consists of comparing this price to a regular price, a reference, or a standard. This standard results from a transaction "reference," usually the most recent or the average transaction (the price most frequently paid) or by reference to what other people say they have paid for a similar offer (Kahneman, Knetsch, & Thaler, 1986b). After comparison with the internal reference prices, the customer then perceives the new price as "cheap" or "expensive" (Monroe & Lee, 1999; Scitovszky, 1944). The customer evaluates if the difference between the price the seller charges and a price the customer uses for comparison is acceptable (Xia, Monroe, & Cox, 2004). The price comparison is explicit when the customer really does have in mind a price or several prices for comparison: the price another customer has paid, price he or she has paid previously or the price of a competitor. Price comparison is implicit when the customer evaluates the unfairness of the price but cannot compare the price to a price that another seller charges.

In most situations when buyers lack information on benefits or costs (Thaler, 1985) of the provider as in the Hospitality sector, buyers evaluate fairness by comparing their benefit or cost to other buyers who are in an exchange relationship with the same vendor for the same product (Homans, 1961; Martins & Monroe, 1994). In the hotel sector the customer may have difficulties accepting that a room is more expensive for him or her than for another customer, or in comparison with a room booked a few days earlier (Kimes, 1989).

H1. Consumers negatively perceive YM practices.

For setting a price (with rebate or surcharge), customers must be able to understand the reasons behind that price (Kimes & Wirtz, 2002). What can lead to a perception of an unfair price may be both the posted price and the reasons behind this price (Xia et al., 2004). Vaidyanathan and Aggarwal (2003) show that customers can consider a price increase due to cost as unfair if consumers attribute the increase to internal factors the seller can control. Conversely, customers cannot consider price increase not attributable to higher costs as unfair if such increase owes to factors external to the seller. If sellers want to positively influence consumer perception of the fairness of a price increase, they need to explain the rise by external and uncontrollable causes.

H2. Customers perceive price increases (resulting from a practice of YM) attributable to external and uncontrollable causes as fair.

2.2. Unfair price and the manner of presenting YM practices as losses

The result in terms of price for the consumer, and the presentation of YM practice by the company modulate the effect of a price change on consumer perception and behavior. While most of previous studies assume a linear relationship between perception of fairness and the difference between the actual price and the internal reference price, several researchers observe asymmetric effects depending on whether the deviation is positive or negative (Kahneman et al., 1986b; Monroe & Lee, 1999; Scitovszky, 1944; Thaler, 1985).

Kahneman and Tversky (1979) further observed that a person losing $100 will lose more satisfaction than a person will gain satisfaction from a $100 windfall. This means that buyers are more sensitive and more responsive to loss (Martins & Monroe, 1994; Monroe & Lee, 1999; Scitovszky, 1944). A loss will probably appear more prominent than a gain in the mind of the buyer in the purchase decision process, so changes to lower or higher prices have no symmetric effect. Under this principle, tariff rules which present price increases will have a lower acceptance than those showing lower prices. Thus, using the theory of Kahneman et al. (1986a) and their analysis of potential framing biases, this study posits hypothesis 3.

H3. The perception of YM practices by consumers depends on YM's presentation (positive/negative frame).

Customer's sensitivity to price also influences the perception of unfairness. Taking advantage of YM, some consumers are saving on the average price. These consumers, who are particularly price sensitive, find YM to be satisfactory when they book in advance. Conversely, consumers who are less price sensitive and give more importance to access to the service at any time, will probably feel lower irritation toward a discriminating pricing policy which guarantees an access at any time against a price increase. Therefore, the type of room requested and the price agreed characterize each segment of customers. For example, leisure clients will look for the cheapest rooms and will book in advance, while business customers, due to a significant time constraint are less sensitive to price and have a preference for room availability at any time.

H4. Business customers perceive YM practices as less unfair than leisure consumers do.

Loyalty builds on a relational contract between seller and customer. Loyalty draws on respect of relational norms of solidarity (simply stated as the principle of getting something back for something given), reciprocity (what increases the utility of one party also increases the utility of the other party), communication between partners, and respect for supracontractual standards such as fairness, justice, and ethic. Thus when a customer benefits from a loyalty program, that customer perceives more the unfairness of YM practices.

H5. Loyal consumers perceive price changes resulting from YM as more unfavorable.

3. Method

In the hotel sector, YM generally consists in determining the minimum tariff the hotel can charge for a stay, taking into account the marginal costs resulting from the production of an additional unit (Mauri, 2006). Controlling demand by a differentiated tariff policy is a common practice in the hotel trade. The hotel industry differentiates its tariffs according to the season, the date of payment, the length of stay, and the time of departure. The temporal frame is central to regulating hotel tariffs. This empirical study tests four scenarios drawing on price variations due to a temporal constraint that involve unfavorable situations for the customer. Prices will vary according to dates or periods. Scenarios 1 and 4 aim at limiting congestion during certain periods thanks to techniques based on time (over the season or for days of the week). To encourage anticipation of reservations or cancelations, the price is higher for a last-minute cancelation and lower for an anticipated reservation. Scenarios 2 and 3 aim at encouraging customer anticipation

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