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Discussion paper

Why is a change of company pricing policy so hard to implement?

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A B S T R A C T

This paper analyzes the process of changing a competition-oriented room rate pricing approach into a company-wide value-based pricing process from the perspective of the resource-based view. From a sample of 33 hotels in 16 countries it evaluates data from 55 open-ended interviews, documentation and archival records. Employing systems methodology the study illustrates that pricing is an intra/inter-organizational activity involving cross-disciplinary processes at various hierarchical levels. It finds that changing to value-based pricing involves a remarkable level of especially intangible resources. The study identifies these resources and their impact, identifying how constraints and tensions influence the shift in pricing orientation. It suggests that pricing in a value-driven policy comprises a capability. Without this capability interpersonal realities and goal conflicts, most prominently between sales and revenue, are found to impose major effects on the alignment of functional levels, the change in pricing processes, and the degree to which these are really value-driven.

1. Introduction

Over the years, room rate pricing has received continuous research attention in the hospitality management literature. While initially conceptual in nature (e.g., Gu, 1997; Kim et al., 2004), a wide variety of topics have been empirically investigated, such as 'oligopoly pricing' (e.g., Baum and Mudambi, 1995), 'price fairness' (e.g., Oh, 2003), 'pricing strategy' (e.g., Enz et al., 2004), 'online pricing' (e.g., Tso and Law, 2005), or, more recently, 'price determinants' (e.g., Zhang et al., 2011a), 'price modeling' (e.g., Zhang et al., 2011b), 'dynamic pricing' (e.g., Abrate et al., 2012), 'competitive pricing' (e.g., Becerra et al., 2013), 'price cues' (e.g., Noone and McGuire, 2013), 'third party pricing' (e.g., Guo et al., 2013), and 'price bundling' (e.g., Repetti et al., 2015). Despite the amount of research, little attention has been paid to room rate pricing as a 'strategic process': the human and social activity, influenced by its organizational and environmental context, which affects company performance. As an exception, Pellinen (2003) studied the pricing routines of two hotels in Lapland. He found that room rate pricing was an ongoing and planned annual team activity, a holistic, creative and intuitive process driven by a formal revenue management system mixed with trial-and-error methods. Pellinen (2003) established three categories of pricing decision-making routines, the: (1) imitator; (2) customer enticer; and (3) strong calculator. These routines were strongly affected by external and internal stakeholders, including the managers of other hotels (i.e., regional and inter-regional network context) and decision-makers within the hotel chain. However, this study is dated and lacks a theoretical foundation to explain why these pricing activities occur.

Pricing as a 'strategic process' has been more recognized in the generic business literature. For example, Vorhies and Harker (2000) found a direct positive relationship between the processes needed to set prices and superior firm performance. Moreover, Vorhies (1998) found that the relationship between information processing capabilities and performance was mediated by pricing (as part of marketing capabilities development). Pricing also arbitrated the relationship between product-market strategy and business unit performance (Vorhies et al., 2009). In addition, Dutta et al. (2003) found that firms can capture value by combining and developing pricing resources in ways that improve pricing processes and, hence, prices and revenue. In particular, they stressed the importance of comparative advantages in pricing resources in the pursuit of superior performance. Their findings were supported by Blyler and Coff (2003), who suggested that the informational benefits of managerial ties with customers and suppliers optimized pricing, and by Kemper et al. (2011) who found that pricing processes were significantly influenced by top management's social capital, a relationship which was negatively moderated by power distance. In this way, a strategic perspective on pricing draws attention to what is perhaps most relevant to pricing: the actual means necessary to determine price (Van der Rest and Roper, 2013). That is, the literature is gradually accepting of the notion that it is not only variations in *price* that should

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be explained (in models), as there are so many prices possible at different points in time, but that *pricing* processes should be given more research priority.

What is still missing, however, is a series of in-depth case studies that provide insights into pricing at the individual level to stimulate broad theoretical discussions on the behavioral effects that shape pricing activities, processes and resources in an organization. Descriptive analyses of this internal perspective, as a first start, are vital to gain a better understanding of the variety of pricing behaviors and environments that exist, and, in turn, for theory development (Cyert and Hedrick, 1972; Monroe and Mazumdar, 1988). In the words of Earl (1990, p. 277):

> A behavioral perspective suggests that the forces likely to shape pricing decisions are much more complex than parties on either side of debate over marginalism are usually willing to admit. Complexity may be expected to […] vary in different contexts, […]. Hence the pricing behavior of firms in a particular industry may be easy to explain in terms of a given pricing rule, and yet difficult to reconcile with another rule that seems to match observations in other sectors or in the same sector at different points in time.

Thus, an essential research step is to 'document the pricing practices encountered in various products and markets' (Raviv, 1984, p. 37).

Therefore, this paper explores how human interactions and human behavior at various organizational levels influence room rate pricing processes in a European hotel group. The study utilizes arguments that follow from the resource-based view to analyze how individuals who comprise the organization strategically deal with pricing (Dutta et al., 2003; Liozu and Hinterhuber, 2013). In so doing the paper answers to Cross et al. (2009) who argue that a move away from just opening and closing room rates to a deeper strategic understanding of "right pricing" is essential for hotel revenue management. As pricing in the hotel industry is inherently competitor-oriented (Enz et al., 2016), and value-informed pricing still weakly grounded in theory (Ingenbleek, 2014), an European hotel group was investigated that was attempting to strategically change its cross-country pricing practices to a value-driven approach. In this way, the paper also answers to Ingenbleek (2002, 2014) who calls for more qualitative research and case studies, especially detailed work on cross-national, cross-cultural differences in pricing practices, institutional barriers to pricing competence development, and industries not previously examined. The paper begins by reviewing previous research on pricing processes. This is followed by a justification of the methodology. Next, the findings are reported and discussed. The paper concludes with implications for theory and practice, and provides directions for future research.

2. Literature review

Early investigations on pricing processes can be found in the economic literature (e.g., Hall and Hitch, 1939; Kaplan et al., 1958; Hague, 1971). This literature on price behavior challenged the profit-maximization assumption of the theory of the firm, and, thus, disagreed with the widely accepted marginal rules of behavior. Therefore, it tended to concentrate on the normal cost hypothesis, strategic interaction and the procedure for calculating prices rather than investigating pricing as a social and human interactive process. As collective price agreements were gradually outlawed, firms were forced to look afresh at their pricing practices. This initiated a whole new range of non-empirical papers prescribing how businessmen should set prices (e.g., Dean, 1949; Oxenfeldt, 1960). Much of the earlier work on room rate pricing was of this nature, especially during the 1990s (e.g., Dunn and Brooks, 1990; Lewis and Shoemaker, 1997). Moreover, akin to the price behavior literature in economics a new line of work (in marketing) emerged seeking to empirically determine the relevance of different pricing factors, objectives and methods, in particular the widespread existence of cost and competitor orientations in pricing (e.g., Udell, 1964; Nimer, 1971; Abratt and Pitt 1985; Tzokas et al., 2000). Offering limited practical guidance these studies dominated the generic pricing literature for many years.

A number of studies deviated from the neoclassical approach in economics including those by Morgenroth (1964), Farley et al. (1971, 1980), Bonoma et al. (1988), and Carson et al. (1998). The central weakness of this descriptive research was that it did not relate specific observations to general patterns in order to formulate hypotheses that could be explored, tested and finally developed into general conclusions and theories. However, in three studies, Dutta et al. (2001, 2002, 2003) reported a more theory-guided analysis of pricing. Their studies were novel in terms of being a first attempt to conceptualize the price-setting process using arguments that followed from the behavioral theory of the firm, evolutionary theory, and the resource based view of the firm. In the view of Dutta et al. (2003), in addition to competing through value-creating resources, firms also competed by investing in value-capturing resources. As these resources were not easily imitated, traded for, or substituted for, they found that pricing was a capability. This capability required extensive investment in time, effort, technology and staff. Advantages of these investments were only recognized after years as confidence and benefits accumulated. Benefits included an increase in know-how, tangible and intangible skills, as well as creativity in solving pricing problems. As a result, the authors concluded that 'a theory of the process by which prices are determined must address the different resources and capabilities required to set and change prices' (Dutta et al., 2003, p. 618). In a (quantitative) response, Liozu and Hinterhuber (2014) validated a specific scale to measure pricing capabilities, as pricing in the context of financial performance had only been measured as a subset of marketing capabilities (e.g., Zou et al., 2003; Vorhies and Morgan, 2005; Morgan et al., 2009, Kemper et al., 2011). Three years later, in a special issue of the *Journal of Business Research*, Töytäri et al. (2017) and Hallberg (2017) further explore the development of pricing capabilities by investigating how individual activities and personality traits influence pricing activities at the organizational level. Highlighting the strategic nature of pricing, Hallberg (2017, p.1) finds that 'individual judgment, human capital, and commercial experience' are crucial in implementing a pricing strategy. Moreover, in a study focusing on barriers to implementing value-based pricing, Töytäri et al. (2017) identify three types of barriers that individuals need to overcome: individually, organizationally, and externally induced barriers. Despite this increased attention for pricing as a strategic organizational process, Hinterhuber and Liozu (2017, p.2) conclude that the literature is still very much in its infancy, as 'these papers barely scratch the surface of this rich and complex domain'.

'What applies to a single-market setting holds even more true for pricing in a global marketing context' (Stöttinger, 2001, p. 40). As Sharp (1994, p. 132) stated: 'in multinational corporations (MNCs) price management is especially complex because pricing choices have to be made under joint complexity of environmental uncertainty arising from both exchange-rate volatility and changing global competitiveness, and the intra-organizational diversity typical of large MNCs servicing worldwide markets with many products'. It is this cross-functional, cross-border, and cross-disciplinary complexity for which executives most wish to have guidance (Kinnear, 1999). Pricing practice research in international business, however, has received scant attention. Research in this area has been largely conceptual (e.g., Walters, 1989), with some rare exceptions. For example, Stöttinger (2001) found that international business executives did not employ separate objectives for pricing decisions. The success or failure of pricing was only derived from overall performance. In nearly all firms MDs or CEOs decided on international prices. In a subsequent study Solberg et al. (2006) examined the information use, strategic approach, and managerial control behavior in the export practices of 24 firms based in Austria, Norway, and the United States. They found that information sources tended to become more varied and sophisticated as a firm became more internationalized. The same positive relationship was