

Customer Perceptions of Variable Pricing in the Lodging Industry: A Justice Perspective

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Abstract

Revenue management, or real-time pricing, is a business practice used for selling the right inventory units, at the right time, to the right customers, for the right price (Choi and Mattila, 2004). This results in the same room being offered for different prices at varying points in time. This type of variable pricing could antagonize customers due to perceived unfairness, leading to decreased customer satisfaction. The purpose of this study was to determine customer perceptions of variable pricing in the lodging industry through the two lenses of perceived justice and membership in loyalty programs. Accordingly, 460 respondents were surveyed. This research found that customers do recognize the right of hotels to vary prices based on market conditions. Customer satisfaction levels

were higher when revenue management practices were disclosed at the time of booking. However, there is still an element of resentment over price variation depending on the channel of distribution. Loyalty program members accept variable pricing when it benefits them; however, they resent being left out when non-members are the beneficiaries. Satisfaction was higher when social and informational justice was perceived to be served. The hotel industry should widely disseminate the logic and necessity of revenue management practices to reduce perceptions of unethical and unjust processes.

Keywords: *Loyalty Programs, Revenue Management, Variable Pricing, Social Justice, Distributive Justice, Informational Justice, Customer Satisfaction.*

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1. Introduction

Revenue management (RM) and Customer Relationship Management (CRM) have received tremendous attention from the hotel industry in the past decade. RM involves adjustment of prices based on demand while CRM practices are methods used to interact with customers. Hotels use differential pricing strategies to optimize the use of their inventory and generate more revenues. Concurrently, hotels also use CRM practices to promote customer loyalty. With increased use of RM, customers end up paying different prices for the same/similar room in the same hotel, often leading to confusion and frustration. Therefore, it is important to understand how customers perceive the fairness of differential pricing. Due to CRM practices loyal customers are assigned a high value and are generally rewarded with privileges such as upgrades. However, RM practices could also result in loyal customers paying higher rates on occasions. This study aims at better understanding consumers perceptions of fairness and justice in the use of RM. Furthermore, this study seeks to explore how the perceptions of loyal customers may differ from the casual customer. Understanding these issues could present tremendous opportunity for revenue growth.

2. Review of Literature

Revenue Management

RM is widely practiced in the hotel industry, and has resulted in tremendous gains in revenues. The core concept underlying the use of RM is that of demand based pricing and managing the available inventory in an optimal manner (Cross, 1997). Revenue Management Systems (RMS) continually monitor demand in different time periods (off-peak season, low-medium season, medium-high season, and high season) from different segments of customers (business travelers, leisure travelers, group segments, and convention segments) and accordingly adjust the price that should be charged to customers (Varini, K., Engelman, R., Claessen, B., & Schleusener, 2002).

Several companies have invested in the RMS with an expectation of increase in revenues. Increase in revenues using RMS for major hotel chains such as Marriott, Hilton, and Hyatt has prompted many smaller businesses to do the same (Belobaba, 2001). Harrah casinos also implemented the RM concept across its properties (Noone, Kimes, and Renaghan's, 2003). Harrah's tracked 70% of its total revenue through the concept of RM. Detailed customer information, such as, name, age, amount of money won or lost, the time of arrival and departure, market segment (business, leisure, group, and convention), and other demographic information was compiled by Harrah's system. This information was used to predict high and low seasons, the amount of gambling during a certain period of time, and deciding room tariffs to meet the needs of different segments of customers (Noone et al., 2003). The implementation of RM at Harrah's resulted in a 15% increase in revenue per room across the hotel chain (Metters et al., 2008).

A room night in a hotel is a highly perishable product (Varini, Englemann, Claessen, and Schleusener, 2002). A room not sold today is lost forever. The hotelier has to balance the ability to fill rooms at low prices, with the pressure to generate greater revenue from less price sensitive segments, at the risk of empty rooms. To increase revenues in the hotel industry, it is imperative that hotels differentiate between business customers, who are willing to pay a higher price for a room, and leisure customers, who are very price sensitive. It is important that the hotels understand and correctly predict customer needs and wants. Meeting customer needs will generate revenue and satisfied customers (Noone et al., 2003; Hanks, Cross, and Noland, 1992). Hotels need to get as much information as possible about their customers, like name, age, race, gender, spending levels, room type preferences, and food preferences. This information helps make judgments about RM strategies and the resulting differential pricing to varied market segments. It is crucial to have the segmentation strategy working properly to achieve maximum revenue and increase profit for the hotel(s) (Hanks et al., 1992).

Several service industry sectors such as movie theaters, telephone companies, and private retailers are using RM practices extensively. For example, movie theaters alter ticket prices depending on the time of the day, customer's age (child rate, senior rate, student rate etc.), (Marburger, 1997). Due to the extensive use of RM across different industries, customers are more aware of the hotel's willingness to cut deals on room rates (Choi & Mattila, 2005). Understanding the concept of RM when booking a hotel room is vital because "customers who pay for one rate for a room may later realize they could have negotiated a lower room rate and might think ill of a hotel" (Hank's et al., 1992, p. 18). Unsatisfied customers with a negative perception about the hotel could cause substantial revenue losses in the future.

Research reveals that there is a strong relationship between customer satisfaction and the RM strategies used (Noone et al., 2003). The customer's lack of understanding of RMS could lead to misunderstandings, causing customer dissatisfaction. Furthermore, if RMS were not used properly, revenue could suffer. Hence, it is imperative that the complex system be fully understood and that predictive models be continually fine-tuned for optimum results (Belobaba, 2001). Thus, one could conclude that if RM was followed systematically, it could not only increase revenue for the hotel, but also satisfy customers.

Customer Relationship Management (CRM) in Hotels

Relationship marketing in the form of Customer Relationship Management (CRM) is increasingly used by hotels to enhance customer loyalty towards their brand (Bowen and Shoemaker, 2003; Noone et al., 2003; Songini, 2001). As the hotel industry is a mature and highly competitive marketplace, customers have several options to choose from, thus making customer loyalty very important (Bowen and Shoemaker, 2003). Benefits of having loyal customers include decreased price sensitivity, reduced marketing costs, positive word of mouth, reduced possibility of switching to

competitors, increased possibility of extra purchases and having high net present value (Reichheld and Sasser, 1990; Bowen and Shoemaker, 2003; Reinartz and Kumar, 2002; Schlesinger and Heskett, 1991; Clark and Payne, 1994, Kotler and Armstrong, 1994). Furthermore, it is found that a mere 5% increase in customer loyalty can result in a 25-125% increase in profits for a company (Reichheld and Sasser, 1990).

In 1981 American Airlines was first in the hospitality industry to introduce a frequent flyer program. The lead taken by the airline industry was soon followed by the hotel industry with their frequent guest programs (Kotler, Bowen, & Makens, 2003). Over time the frequent guest programs have evolved into highly sophisticated Hotel Loyalty Programs (HLP) that is an important part the CRM process.

CRM aims at aligning the various business processes and customer strategies to ensure customer loyalty and long-term profitability (Rigby, Reichheld, and Schefter, 2002). CRM strategies are used to better attract and serve the most valuable customers of the hotel. This is done by first ranking the customers, identifying the customers that generate the most revenue, and then differentially serving them (Haley and Watson, 2002). Common CRM practices in hotels include customized marketing communications, reward programs, and personalized services based on the like and dislikes of guests (Sigala, 2005; Haley and Watson, 2002; Oliva, 2002; Piccoli, O'Connor, Capaccioli, and Alvarez, 2003, Bowen and Shoemaker, 2003). With increasing competition and high need for differentiation in the hotel industry it is important that hotel operators utilize both RM and CRM techniques to increase profitability.

Perceived Price Fairness

There is normally a tradeoff between obtaining better services/products and paying a lower price (Zeithaml, 1988). Parasuraman, Zeithaml, and Berry (1994) found that service quality, product quality, and price all influence customer satisfaction.

The tradeoff between price and services/products rendered should be perceived as fair by customers, creating customer satisfaction (Zeithaml, 1988). Moreover, price plays an important factor in customer satisfaction, because whenever a product or service is purchased, the price is the foremost deciding factor (Anderson, Fornell, and Lehmann, 1994). In common parlance, fairness of price is based on customers' perceived knowledge in relation to price in the customer's market. Customer's perception of unfairness mainly comes from making social comparisons with other patrons at the hotel (Choi & Mattila, 2005). Additionally, lower perceived price was linked to lower perceived sacrifice (Zeithaml, 1988). However, lower perceived price does not guarantee higher customer satisfaction. Customers often look at price as a clue to purchase certain products or services. Hotels need to pay more attention to customer perception of price fairness, as these perceptions are closely related to customer satisfaction (Bei and Chiao, 2001). Furthermore, prior research has shown that that price fairness relates to customer satisfaction and the behavioral intentions of customers (Bolton, Warlop, and Alba, 2003).

Perceived Justice and Fairness

Customer evaluation of fairness depends on *perceived justice*, a concept that provides an in-depth understanding of the complaint process from initiation to completion. Additionally, researchers have confirmed that customer satisfaction is not only based on outcomes of service recovery, but also on procedures used to reach those outcomes (Sparks and McColl-Kennedy, 2001). In this study we focus our attention on understanding the fairness perception of consumers based on the social, distributive, and informational justice.

Social Justice

Each society views justice through its own perspective (Guiltinan, 2006). For example, the

death penalty is still applied in many states in the USA, where it is considered as the only form of acceptable justice. However, most countries have abolished the death penalty, as their societies think of it as being abhorrent. This makes the concept of social justice very important when studying the consumer perceptions of fairness. A study done by Greenburg (1993) classified organizational justice to encompass four forms of justice i.e. *Distributive Justice*- focusing on the fairness of the outcomes, given the inputs (Adams, 1965), *Informational Justice*- process of communicating the policies that govern the transaction (Greenberg, 1993), *Interpersonal Justice*- concerns the treatment received by people when transacting (Guiltinan, 2006), and *Procedural Justice*- relates to the perceptions of fairness of the process itself (Thibaut & Walker, 1975). The above discussed forms of justice are one dimensional; *Social Justice* on the other hand, encompasses all the above forms and is hence multidimensional. Examining an issue from the social justice perspective allows the researcher to analyze consumer perceptions on every dimension of differential pricing (Guiltinan, 2006).

Distributive Justice

Distributive Justice is derived from early work in equity theory (Guiltinan, 2006). The theory suggests that people balance the value of the inputs they put in against the outcomes they receive, particularly in relation to outcomes received by others. People value fair treatment; such treatment motivates performance and encourages loyalty (Adams, 1965). Contemporary work in organizational justice has shown that customers are highly sensitive to issues of inequity and perceived unfair practices, such as different room rates for different customers. On the other hand, when information about distributive justice is given to customers before they make a reservation, customers have positive perceptions, and are satisfied by the quality of products and services provided before they check in (Choi & Mattila, 2004). Several customers perceive RM practices as being unfair (Choi & Mattila, 2005). A

majority of customers have only a vague idea about price, cost, and profit in the service sector (Bolton, Warlop, and Alba, 2003). This lack of knowledge could result in perceived unfair pricing, which could directly relate to customer dis-satisfaction (Bolton et al., 2003). Choi and Mattila (2004) found that most customers thought that the hotel's pricing was unfair when they paid a higher rate than the other guests staying there. However, the authors recommended that perception of their fairness could be enhanced by informing the customers about the hotel pricing practices (Choi & Mattila, 2005).

Informational justice

Informational Justice includes communicating the information about the procedures being used in a timely manner and explaining the distribution of the outcomes. The perception of informational justice is higher when adequate information is given to consumers. (Ellis, Reus, & Lamont, 2009). Informational justice offers long-term benefits. Open-communication about policies decreases the perception of secrecy and enhances the perception of transparency, thus promoting the overall trustworthiness of the organization (Tyler and Bies, 1990; Colquitt's, 2001; Ambrose, Hess, and Ganesan, 2007; Choi & Mattila, 2004). The information provided about equity by the hotel reservationist at the time of reservation gives a clue of what to expect from the hotel, setting a cap on the customer expectation level. Furthermore, giving equity information satisfies the customer need for a sense of fairness in the marketplace (Kimes & Wirtz, 2002). Informational justice helps in positively influencing the overall attitude towards the organization, as it provides knowledge about the procedures and demonstrates regards for consumer concerns (Ambrose, Hess, and Ganesan, 2007; Gerald, 1993). Informational justice also relates to the communication regarding the policies and rules about availing discounts (Guiltinan, 2006). A study of hotel guests found that consumers perceived differential pricing policies to be unfair, when they were not provided complete information of the procedures used in deciding

the price they would pay (Kimes,1994).

Increasing use of RM in the hotel industry has brought consumer perceptions about differential pricing to the forefront. If the consumers perceive the price or policy offered by a company to be unfair, their trust in the sellers business practices may be diminished (Garbarino and Lee, 2003). It is important that consumers trust the sellers. Trust eradicates the fear of exploitation, helps promote loyalty, and enhances customer satisfaction (Colquitt, 2001; Konovsky, 2000; Ganesan and Hess, 1997; Harris and Goode, 2004). Research has shown that distributive justice, procedural justice, and transactional justice are important determinants of the consumer's perceived organizational trust (Colquitt, 2001). While the perception of justice is a subjective matter, its' potential consequences on customer relationship are important to managers (Guiltinan, 2006).

3. Need for Study

A key step in changing customer perceptions is to first identify the current perceptions. The purpose of this study is to determine customer perceptions of variable pricing in the lodging industry. Membership in loyalty programs are identified as a key variable and a potential proxy for level of "travel sophistication" of the respondents. Membership in loyalty programs of the hotel industry – Hotel Loyalty Programs (HLP) is studied. An analysis is also done through the lens of membership in these loyalty programs to determine their impact on customer perceptions.

Several studies have emphasized the importance of integrating customer relationship management and RM (Dickinson, 2001; Jonas, 2001; Belobaba, 2002; Liberman, 2002). A study has identified the customer segments which should be targeted to gain maximum benefit of RM practices (Noone, Kimes, and Renaghan, 2003). Other studies have examined RM models, approaches for solving RM problems, and customer perceptions with respect to RM (Cross, 1997; Feng and Gallego,

2000; Maglaras, & Zeevi, 2005; Baker and Caldentey, 2003; Aviv and Pazgal, 2005; Feng and Xiao, 2000; Choi and Mattila, 2005). However, no study has examined the perceived fairness of RM methods among loyal customers from a justice perspective. This study aims at addressing this gap in the literature.

4. Objectives of the Study

Accordingly, the specific research objectives of this study were:

1. To determine the relationship between the demographic profile of respondents, membership in hotel loyalty programs (HLP), and redemption of loyalty points for benefits.
2. To determine the impact of membership in hotel loyalty programs (HLP), redemption of loyalty points for benefits on customer perceptions of the *ethics* of:
 - a. Variable pricing in the lodging industry in a capitalist economy.
 - b. Variable pricing based on seasonality.
 - c. Variable pricing based on marketing/distribution channels.
3. To determine the impact of membership in hotel loyalty programs, redemption of loyalty points for benefits, on customer perceptions of justice of variable hotel pricing in different scenarios:
 - a. Hotel quoted a *higher* price than last visit
 - b. Hotel quoted a *lower* price than last visit
 - c. Friend paid a *higher* room rate for same type room
 - d. Friend paid a *lower* room rate for same type room, and
 - e. Friend in the same hotel, paid *same* room rate, but *friend was upgraded* to

a suite because of their membership in a loyalty program.

4. To determine the impact of membership in hotel loyalty programs, redemption of loyalty points for benefits, and customer perceptions of justice based on the hotel providing/not providing information about RM practices during the booking process

5. Methodology

Since the study was framed in the context of traveler's perceptions of pricing, it was decided to administer the survey at place where travelers congregate. Accordingly, the survey was administered by intercepting arriving passengers at a major airport in the southwest of the USA. The survey obtained information about customer perceptions of RM, demographics, membership in HLP, and ethical issues. This survey used a convenience sample of 460 business and leisure travelers. The participants were provided with a brief verbal definition of the RM system to help them better understand the concept. Individual responses were anonymous and confidential. No compensation was provided to the respondents.

6. Findings & Discussion

The majority of the respondents were White-American. Females comprised 51% of the respondents. Over 80% of the respondents were between the ages 18 and 49. Approximately half of the respondents reported a monthly household income between \$20,000 and \$59,000. Almost 52% of the respondents had a bachelor's degree or higher. Details of the demographic profile of respondents is found in Table 1. Approximately 40% of the respondents were enrolled in some hotel loyalty program out of which only one-fourth had actually redeemed their loyalty points for benefits (Table 2).

Table 1: Demographic Profile of Respondents

Gender	N	Valid%
Female	223	51.1
Male	233	48.9
Age	N	Valid%
18-29	184	40.4
30-39	103	22.6
40-49	92	20.2
50-59	66	14.5
60-69	10	2.2
Monthly Household Income	N	Valid%
\$0- \$19,999	76	17.0
\$20,000 - \$39,000	102	22.9
\$40,000 - \$59,000	92	20.6
\$60,000 - \$79,000	58	13.0
\$80,000 - \$99,000	43	9.6
\$100,000 and over	75	16.8
Highest Level of Education	N	Valid%
High School or less	49	10.9
Some College	128	28.6
2-Year College Degree	38	8.5
4-Year College Degree	143	31.9
Graduate Degree	90	20.1
Ethnicity	N	Valid%
African-American	61	13.8
Asian-American	20	4.5
Hispanic-American	56	12.7
Native American	6	1.4
White-American	298	67.6

Table 2: Loyalty Program Profile of Respondents

HLP Enrolled	N	Valid%
No	274	59.8
Yes	184	40.2
HLP Redeemed for Benefits	N	Valid%
No	360	78.9
Yes	96	21.1

Objective 1 – Demographic Profile, Membership in HLP, & Redemption

Significant differences were observed among respondents based on gender, age, household income, and level of education with respect to both enrollment and redemption of HLPs (Table 3). Males are more likely to be enrolled in and have redeemed their HLP benefits. Respondents in the age range of 50-59 years were more likely

to be enrolled in HLP and use the benefits of their membership. Furthermore, better educated respondents with income over \$100,000 were more likely to be enrolled in, and enjoy the perks offered by the HLPs (Table 3). This suggests that frequent travelers are older, better educated, and may have a job or money to support frequent travel and accumulate enough points through HLPs to enjoy their benefits.

Table 3: Demographic Profile - HLP Enrollment and Redemption

	HLP Enrolled			HLP Redeemed for Benefits		
	No	Yes	Chi-Sq	No	Yes	Chi-Sq
Gender						
Female	67.1	32.9	8.609**	85.1	14.9	10.12**
Male	53.6	46.4		72.8	27.2	
Age						
18-29	72.7	27.3	21.803**	85.9	14.1	17.224**
30-39	54.4	45.6		80.6	19.4	
40-49	52.2	47.8		74.7	25.3	
50-59	45.5	54.5		62.5	37.5	
60-69	60.0	40.0		70.0	30.0	
Household Income						
\$0- \$19,999	78.9	21.1	67.892**	86.8	13.2	41.119**
\$20,000 - \$49,000	82.4	17.6		93.1	6.9	
\$40,000 - \$59,000	53.4	46.2		82.4	17.6	
\$60,000 - \$79,000	58.6	41.4		75.4	24.6	
\$80,000 - \$99,000	37.2	62.8		62.8	37.2	
\$100,000 and over	32.0	68.0		58.7	41.3	
Level of Education						
High School or less	75.5	24.5	41.719**	87.5	12.5	13.501**
Some College	74.2	25.8		86.6	13.4	
2-Year College Degree	76.3	23.7		81.1	18.9	
4-Year College Degree	50.7	49.3		73.4	26.6	
Graduate Degree	38.9	61.1		70.0	30.0	
Ethnicity						
White-American	58.1	41.9	1.457	77.4	22.6	1.463
Other Ethnic Americans	64.1	35.9		82.4	17.6	

Note: *p<.05, **p < .01.

Objective 2 - Ethics Perceptions – Impact of HLP Membership & Benefits Redemption

The study examined the perceptions of respondents who are enrolled in HLPs and have redeemed the benefits, with specific reference to ethical issues such as:

1. The right of the hotelier to vary prices to maximize profits in a capitalist economy (like the United States of America),
2. Variable pricing based on seasonality, and
3. Variable pricing based on marketing channels.

No significant differences were observed among respondents who were enrolled in HLPs or redeemed the benefits on the first two of the ethical issues examined (Table 4). It may be assumed that Americans are well aware that the USA is a capitalist country and that businesses are entitled to change their prices to maximize revenues. The perceived fairness of pricing come from social comparison with others who are subject to similar price fluctuations, hence social justice is served. Furthermore, the concept of seasonal pricing is long standing and prevalent in many industries, which may be a factor in the

acceptance of this concept. Most people have experienced this practice, have information about this concept, and hence informational justice is served.

With reference to variable pricing based on marketing channels, marginal but significant differences were observed between respondents who were enrolled in HLPs and non-members. The respondents who were enrolled in HLPs considered variable pricing on the basis of marketing channels to be *unethical*. It appears that many respondents may not understand the idea of why they should pay different prices for the same room based on the marketing channels used to book the room. Loyalty program members probably make direct bookings with the hotel chain, using their toll-free number or website. Furthermore, since they trust the hotel chains and have invested their loyalty with them, they may not feel the need to look for deals and discounts on multiple channels. As a result, HLP members may feel that their loyalty is being penalized, rather than rewarded, when non-members get cheaper rates through alternate channels. To them, social justice, in the sub-categories of distributive justice and informational justice are *not* served in this scenario, leading to their perceptions that this practice is unethical.

Table 4: Ethics Perceptions – Impact of HLP Enrollment and Redemption

	HLP Enrolled		HLP Redeemed		Justice Perspective
	Mean	F	Mean	F	
Capitalist Economy					
Yes- Ethical	1.80	.282	1.69	1.003	Social & Informational
No- Not Ethical	1.71		1.42		
Seasonality					
Yes- Ethical	1.71	.519	1.47	1.561	Social & Informational
No- Not Ethical	1.81		1.72		
Marketing Channels					
Yes- Ethical	1.64	5.270*	1.54	1.649	Social & Informational
No- Not Ethical	1.91		1.75		

Note: *p<.05, **p < .01.

Objective 3 – Justice Perception – Variable Pricing, HLP Membership & Redemption

Respondents were asked about their response to variable pricing of hotel rooms across different scenarios. They responded to each of the scenarios on a 7-point Likert-type scale (range: 1 = *excited* to 7 = *angry*). Respondents were angry when they were quoted a higher price for the same room than they had paid in previous visits (Table 5). This is not surprising, as respondents may feel that distributive justice was not served as there was an imbalance between their inputs and the actual outputs they received. Respondents also expressed their anger when their friend paid a higher or lower price than what they paid (Table 5). People tend to make social comparisons and are bound to be unhappy when equal treatment is not given to all. This suggests that social and distributive justice were not served. No significant differences between HLP members and non members were observed for these scenarios.

The study found that all respondents were excited about the hotel when they were quoted a lower price than before (Table 5). Significant differences were also observed between respondents who had redeemed their HLP points versus those who had not redeemed their points. Those who had redeemed their HLPs were significantly *less* likely to be excited. Perhaps because they *expect* special favors as loyalty program members, they are angry when they end up paying more, but not particularly thrilled when paying less. From the social justice perspective, expectations of lower price probably flow from their input (loyalty), while negative reactions to the higher price create a sense of injustice, since their input (loyalty) is *not* rewarded.

The study found that all respondents were excited about the hotel when their friend (a loyalty program member) was upgraded. This is not surprising, since distributive and informational justice have been served – loyalty has been rewarded with an upgrade, and even non-members are well aware of the benefits of being a HLP member.

Table 5: Justice Perception - Variable Pricing, HLP Enrollment and Redemption

		HLP Enrolled		HLP Redeemed		Justice Perspective
		Mean	F	Mean	F	
Angry Range	Quoted Higher Price					
	No	5.01	.263	5.07	1.278	Distributive
	Yes	5.07		4.89		
	Friend Paying Higher					
	No	5.23	1.314	5.22	2.269	Distributive & Social
	Yes	5.07		4.98		
Excited Range	Friend Paying Lower					
	No	5.25	.081	5.27	.774	Distributive & Social
	Yes	5.21		5.11		
	Quoted Lower Price					
	No	2.48	2.370	2.48	5.815*	Distributive
	Yes	2.69		2.87		
	Friend was Upgraded					
	No	3.75	1.678	3.74	3.378	Distributive & Social
	Yes	3.58		3.46		

Note: *p<.05, **p < .01.

Objective 4 – Justice Perceptions - RM Information, HLP Membership & Redemption

The respondents were asked how they would feel if they were provided with information about the process of RM when they were making a reservation. A large majority (68%) were satisfied, a fourth (25%) were neutral, while a very small segment (7%) was dissatisfied. When asked about their reaction, when RM information was *not* provided a majority (52%) were dissatisfied, a third (34%) was neutral, while a small segment (14%) was satisfied (Table 6).

Membership in hotel loyalty programs was not a significant factor in the satisfaction levels of respondents when RM information was provided. However, when RM information was

not provided, HLP members expressed significantly higher rates of dissatisfaction (Table 6). As discussed earlier, from a distributive justice perspective, HLP members may expect higher levels of control over pricing in return for their loyalty. Loyalty members may be more satisfied if the hotel explained and justified its pricing policy to assure them that they are getting the best deal possible. This finding is consistent with other studies which state that providing RM information to guests may enhance their perceived fairness of the hotel pricing (Kimes, 1994; Choi & Mattila, 2004). Furthermore, this finding emphasizes the importance of satisfying the customer’s perceptions of informational justice which was found by several previous studies to be a very important factor in perceived fairness of price.

Table 6: Justice Perception - RM Information, HLP Enrollment and Redemption

	Rev Mgmt Info Provided		Rev Mgmt Info Provided		Justice Perspective
	Mean	F	Mean	F	
<i>HLP Enrolled</i>					
No	2.63	.002	4.62	6.615**	Informational
Yes	2.64		4.99		
<i>HLP Redeemed</i>					
No	2.61	.393	4.47	.478	Informational
Yes	2.72		4.86		

Note: *p<.05, **p < .01.

7. Summary & Implications

With the proliferation of channels of distribution in the hotel industry, rate integrity is certainly an issue. Prices vary with season, with website, with 800-numbers, with transparent and opaque intermediaries. Furthermore, membership in HLP programs is no guarantee of getting the “best” deal. Perceived price fairness is a strong influencer of the long-term commitment of consumers to any brand or organization (Ambrose, et. al., 2007). Is it any surprise that many customers are confused and even angry? Members of

loyalty programs are often upset upon discovering that loyalty is not necessarily rewarded with lower rates or better rooms.

This study attempted to examine the issues of customer perceptions of variable pricing in the hotel industry, particularly the perceived ethics of such practices and the perceived fairness of such practices. It looked at these perceptions through two lenses – membership in hotel loyalty programs and social justice.

This research has shown that customers do recognize the right of hotels to vary prices in

a market-based capitalistic economy. They recognize and accept that hotels change prices based on seasonality. Along the same lines, satisfaction levels were higher when RM practices were disclosed to customers at the time of booking. However, there was still an element of confusion and resentment over price variation depending on the channel of distribution.

Loyalty program members, who may be considered to be “more sophisticated” travelers, are likely to be familiar with RM practices. This research, however, showed that such familiarity does not breed consent; rather, it may foster resentment. While program members are happy to accept variable pricing and other privileges of HLPs when it benefits them, they resent being left out when non-members are the beneficiaries. The hotel industry would be well advised to widely disseminate the logic and necessity of RM practices if they want to gain widespread acceptance. For example, when many airlines put the customer on hold during a reservation call, a message often heard is, “lower prices may be available on our website.” Along the same lines, the action of some leading hotel companies to guarantee the lowest rates on their own websites is a step in the right direction. Such actions would serve to provide both informational and distributive justice, ameliorating the perceived sense of being wronged and the resulting customer dissatisfaction.

8. Limitations

The study is limited by the following factors: The study could only be generalized to travelers in North America. The study is a one-location cross-sectional study. Longitudinal studies at multiple locations would permit greater confidence in generalizing the findings.

9. Future Studies

Specific recommendations for future research as a result of this study are:

1. The survey can be used to study loyal travelers in different countries to understand the cross-cultural perception about RM.
2. The survey can be conducted in communist and socialist economies to examine traveler’s perceptions of fairness in the context of RM.
3. Research can be conducted to examine consumer perceptions of fairness in emerging channels of marketing and distribution such as *Facebook*, *Twitter*, etc.

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