

THE IMPACT OF PERCEIVED DIFFERENTIAL FAIRNESS AND PERCEIVED PRICE FAIRNESS OF REVENUE MANAGEMENT ON REVISIT INTENTION

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ABSTRACT

This study will investigate the impact of three primary types of fairness (distributive, procedural and interactional) as well as revenue management familiarity on guest perceptions of overall hotel room price fairness and anticipated guest repurchase behaviors. Structural equation modeling will be used to test the proposed hypotheses. This study will reveal the type of fairness that is the strongest determinant of overall price fairness and of hotel guest repurchase behaviour. The proposed research will contribute to theory and practice by investigating nuances of guest responses to revenue management.

Keywords: Revenue Management, Fairness, Hotel

INTRODUCTION

Due to constrained capacity and the perishable nature of hotel room night inventory, the use of revenue management through dynamic pricing strategies is a popular approach employed within the hotel industry to maximize profits [20]. As the importance and popularity of revenue management continues to flourish, numerous studies have investigated the issue of perceived fairness surrounding revenue management practices. Guest reactions and fairness perceptions to differential pricing policies can impact the greater customer experience and subsequent perception of the overall value of a hotel room purchase. As most hospitality service offerings are intangible, customers generally have difficulty directly assigning value to purchases [24] [27] resulting in a need to determine if guests perceive services to be priced fairly [24] [31]. Familiarity with revenue management practices was found to influence perceived fairness [33], which consequently influences the functionality of revenue management itself [2] [23] [33] [6] [19]. Notably, multiple studies have identified that consumers' perceptions of fairness are a key criterion in evaluating how customers react to revenue management practices [11] and subsequently effect long-term profitability [33]. However, previous research has not differentiated among three key distinct types of fairness (distributive, procedural and interactional) and therefore failed to consider the nuances of guest responses to revenue management practices.

This current study addresses this gap by investigating, for the first time, the relationships of these three types of fairness with perceived price fairness in order to predict hotel guest repurchase intentions while considering the influence of revenue management familiarity.

LITERATURE REVIEW

Revenue Management

Initially known as yield management and originating in the airline industry in the 1980s, revenue management endeavours to maximize profits by managing time based inventory through dynamic pricing

strategies [18]. This practice has since been widely studied and adopted by other service based industries such as hotels, restaurants and car rental companies. Kimes and Wirtz (2002) [18] defined revenue management as “the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right place at the right time.” As revenue management utilizes differential pricing for essentially the same service, the implications of customer perceived fairness of revenue management need to be considered by firms implementing these practices.

Perceived Price Fairness

In the late twentieth century, service-centered dominant logic began to emerge and prevail over the previously ubiquitous goods-centered dominant logic [31]. As operant resources are primary to the service-centered dominant logic, there are critical implications regarding how customers perceived these services [31]. Compared to goods-centered operand resources, service-centered operant resources are likely to be invisible, intangible, dynamic and infinite as they produce effects [22] [32] [1] [31]. The difficulty of valuating a hospitality firm’s intangible services has increased the importance of service fairness perceptions to the industry, particularly to the relationship marketing function [24] [31] [27]. Defined as “a customer’s perception of the degree of justice in a service firm’s behavior” [27], service fairness consists of distributive, procedural and interactional justices [24]. The nuances of perceived fairness drivers need to be considered as customers who perceive unfair treatment are less likely to engage in repurchase behaviors [16].

Distributive Fairness

Characterized by the proportional relationship between inputs and outputs, distributive justice posits that equity is achieved when inputs and outputs are exactly proportional [24]. Distributive justice theories postulate that social comparative information is influential when evaluating outcomes [11] [30]. Prior research has tested distributive fairness as an antecedent to outcomes such as satisfaction and trust [8] [25] [21]. Chiu et al. (2009) [8] discovered a significant relationship between distributive fairness and both trust and satisfaction in the online shopping context. Notably, Ferguson et al. (2014) [11] found a significant relationship between distributive fairness and overall price fairness in the retail context. Within hospitality, there is a lack of research on the effect of distributive fairness on perceived price fairness and customer repurchase intentions. The current study addresses this issue and defines distributive service fairness as the degree to which guests feel that the value of the hotel room (e.g., output) is proportional to the price paid (e.g., input).

Procedural Fairness

Procedural fairness refers to the perceived fairness of procedures required to execute a transaction [8] [11]. While distributive fairness focuses on outcomes, procedural fairness is based on procedural justice [11]. Folger and Greenberg (1985) [12] found that it is possible for the transactional path to attain an outcome to be more critical than the outcome itself. The fairness heuristic theory posits that procedural fairness is easier to interpret and evaluate than distributive fairness [11]. When comparative information of outcomes is absent, consumers place additional emphasis on procedural fairness [11] [30]. Within the retail context, Ferguson et al. (2014) [11] found that procedural fairness can directly and indirectly affect overall price fairness perceptions. Prior research also found a significant relationship between procedural fairness and satisfaction and trust when purchasing goods or services in various fields [8] [29] [9]. Ferguson et al. (2014) [11] revealed that procedural fairness and the combination of procedural and

distributive fairness affects overall price fairness in the retail context. However, there is a lack of research investigating these relationships in the hospitality area.

Interactional Fairness

Interactive contact between guests and customer service representatives lead to guest perceptions of interactional fairness. For this current study, interactional fairness is defined as the degree to which guests consider they have been treated fairly by hotel customer service representatives throughout their stay. Past retail research has investigated the relationship between perceived consumer interactional fairness and satisfaction [7] to conclude that interactional fairness has a significant effect on satisfaction [29]. However, the relationship between interactional fairness and perceived price fairness within the hospitality context has not been previously studied. This study will pioneer an investigation of the relationships among hotel customers' perceptions of interactional fairness, their perceptions of price fairness, as well as their intentions to return to a certain hotel.

Familiarity

As the prevalence of revenue management practices continues to rise in various service industries, consumers are gaining familiarity with differential pricing techniques [17]. Customers are normally influenced by community customs, and unfairness perceptions usually decline when customers become familiar with certain practices [33]. During an investigation of the impact of procedural fairness on purchase intention and perceived quality, familiarity was found to act as a moderator [28]. Specific to revenue management, Wirtz and Kimes (2007) [33] found that familiarity moderates framing and fencing condition effects on perceived fairness, suggesting a positive correlation between familiarity and fairness perceptions of revenue management. Therefore, this study proposes that revenue management familiarity moderates guest price fairness perceptions and ultimately affects repurchase intentions.

Repurchase Intention

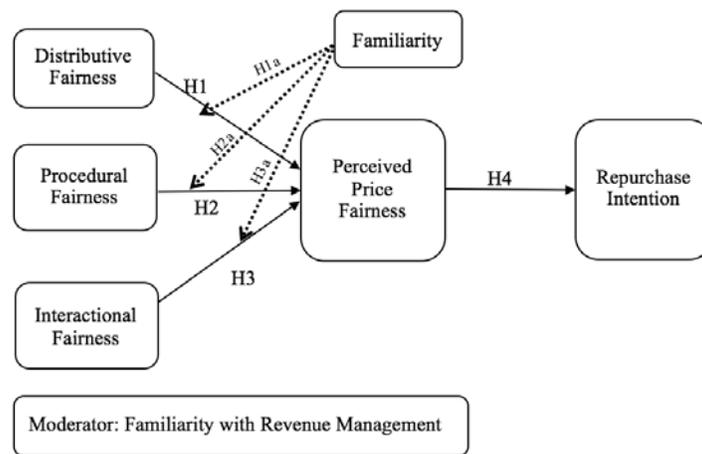
Repurchase intention is a consumer's assessment regarding a future procurement of a previously purchased service from the same company at a future date while reflecting upon his or her current situation [15]. Researchers have identified various antecedents of repurchase intention including perceived quality, value, perceived equity, satisfaction, trust and brand loyalty [15] [13] [7]. Although research has concluded that differential pricing practices can increase overall firm profits [10] [26], empirical findings have simultaneously found that consumers who end up paying higher prices or perceive prices as unfair have lower repurchase intentions [13] [14].

Theoretical Background

Prospect theory and the information processing theory of consumer choice will serve as the underpinning theories for this study. Prospect theory provides support that, despite two outcomes being economically equivalent, consumer perception can vary significantly contingent on the framing of the outcome. Applied to perceived fairness, customers are likely to perceive a price as fair when framed as a gain (e.g., discounted price) and perceive a price as unfair when framed as a loss (e.g., surcharge) [33] [5] [18]. The information processing theory of consumer choice [3] posits that individuals faced with a selection decision will engage in a memory based internal search for information. The reference price, defined as how much a customer thinks a service should cost, is often the last price paid or price usually paid [18].

Subsequently, the reference price influences consumer perceptions of fairness concerning the actual price. A memory based search for information may also reveal past familiarity with a firm’s pricing policies and, as a result, consumers may consider dynamic pricing strategies fair depending on revenue management familiarity. This study will examine revenue management familiarity as a moderator of perceived fairness and repurchase behaviors. The following hypotheses were derived from the above reviewed literature.

- H1: Distributive fairness is positively associated with perceived price fairness
- H1a: Familiarity moderates the relationship between distributive fairness and perceived price fairness
- H2: Procedural fairness is positively associated with perceived price fairness
- H2a: Familiarity moderates the relationship between procedural fairness and perceived price fairness
- H3: Interactional fairness is positively associated with perceived price fairness
- H3a: Familiarity moderates the relationship between interactional fairness and perceived price fairness
- H4: Perceived price fairness is positively associated with re-purchase intention



METHODOLOGY

Approximately 600 subjects will be recruited to participate in a Qualtrics survey. The target sample will comprise of hotel guests who have stayed in a hotel a minimum of two times within the past twelve months. The hypotheses will be tested through the use of structural equation modeling (SEM). A survey approach will be applied to test the following constructs: distributive fairness, procedural fairness, interactional fairness, familiarity, perceived price fairness and repurchase intentions. The survey instrument will be developed based on the literature discussing the above constructs [27] [6] [33] [11] [4]. Descriptive analysis will also be applied in order to analyze the demographic questions.

CONTRIBUTIONS AND IMPLICATIONS

This study will pioneer an investigation of the impact of three primary types of fairness (distributive, procedural and interactional) as well as revenue management familiarity on guest perceptions of overall hotel room price fairness and guest repurchase behaviors. The study will contribute to theory and practice by investigating nuances of guest responses to revenue management. Specifically, the study will add to the existing price fairness literature and will introduce familiarity with revenue management as a moderating factor, influencing hotel guest price fairness perceptions and repurchase behaviors. Finally,

the study will reveal practical implications such as providing a deeper understanding of hotel guest experiences with revenue management practices and guest price-value perceptions in this context.

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