

Ensure that Guests Perceive Prices as Fair

In today's competitive hotel market, effective rate setting is crucial. As revenue management (RM) practices have become the norm, finding the right balance between a hotel's profit and guest's benefit, and convincing the guests that this is fair, is challenging. Still, too often guests consider RM as an opportunistic practice, which only hotels benefit from, rather than something that is done for the benefit of both the hotel and the guest.

Here is a familiar situation. A guest books a room at the best available rate (BAR) four weeks in advance. Upon arrival he finds out that the rate has dropped 20 percent. On top of that, the guest has booked a breakfast exclusive rate, and misunderstood the description given by the third-party online booking site. By this point he has become displeased. In fact, participants in a small empirical research study by Hotelschool The Hague rated this situation as very unfair. So, why do guests feel this way?

It seems that guests undergo a series of thought processes when deciphering the fairness of a price. According to David Messick's model of how people judge fairness, a guest who encounters a price offer will first weigh it against a personal norm – the so-called reference price. Emotions, gender, culture, familiarity with pricing policies and purpose of visit also play a role.¹ If the guest judges the room rate as personally unfair, feelings of distress and questions about the social fairness will arise. Does this rate meet society's standards? Is the rate worth the value? Does everyone pay equal rates? Is someone other than the hotelier to blame for such a high price? How is the price made? If the social norms are not met, a strong emotional response of anger is triggered. This may leave hoteliers empty handed, unless guests have great trust in the hotel and perceive its economic power as rather little.

What can revenue managers do to stand a better chance in winning over potential guests? These tips derived from literature and an empirical study should improve your chances.

1 Meeting the guest's personal norms is the fastest way to judgment of fairness. According to the research study of Hotelschool The Hague, both business and leisure guests consider competitor's prices as the most important reference price. Thus, correctly positioning yourself within a competitive set is of utmost importance. Second is to minimize rate volatility. For leisure guests up to 15 percent appears to be an acceptable range of fluctuation.

2 Revenue management can be perceived negatively as an increase of profit for a hotel at the expense of the guest. Make sure you always fulfill the norm of equity – a price must equal the value for the guest, and thus understand which benefits are valuable for which guests. The study of Hotelschool The Hague showed that business guests value (in descending order) breakfast, Internet access and room upgrade as the top three benefits that would offset a non-refundable restriction. Leisure guests value breakfast and a room upgrade as their top benefits.

3 Because the core of revenue management is segmentation, fulfilling the norm of equality is a challenge. Prices will differ for each segment. To ensure price fairness, restrictions and fences should make sense to the guest. The Hotelschool The Hague study found that both business and leisure guests may perceive special rates for last minute bookings as very unfair.

4 Giving guests a voice and choice in the pricing process will improve the perception of fairness and allow them to trust your hotel. If you can convince the guest that you are trying to find the best

possible package or rate, the guest will believe that he will get a good deal. Ensure that sales, revenue management and reservations work together as one united team.

5 To be considered as fair, your pricing policies need to be transparent. During booking, guests should be fully aware of the benefits and restrictions attached to a rate. Higher awareness of the rate policies during booking leads to higher fulfillment of expectations and higher value for money, as was found in the Hotelschool The Hague study. Guests who are more aware also consider revenue management as more fair. Reservations agents and third-party agents should thus be trained to ensure proper communication of your pricing policy.

6 Guests who are more familiar with revenue management consider the practice to be fairer than those who are not. Educate your guests on your pricing policies by making sure your line staff gives a full description of a pricing policy. Stating that prices change daily is not enough. Explaining how revenue management allows guests to choose preferences and needs brings mutual value into the relationship.

Fairness is an inseparable emotional part of economic decision-making. When room rates are judged unfair, it leads to lower perceptions of value and a reduction in the willingness to pay. Unfair pricing alienates guests by short-term profit for the hotel at the expense of the opportunity cost implications in the long-term.

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(Footnotes) ¹ Maxwell, Sarah (2008). *The Price is Wrong*. New Jersey: John Wiley & Sons.



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