

Customer Perceptions Crucial to Tourism Industry Revenue Management

Customer perceptions determine the viability of revenue management practices in the tourism industry note the SHTM's Cindy Heo and a co-author. The researchers recently published their findings from a survey of industry customers in the United States, revealing perceptions of familiarity with and the fairness of revenue management in six tourism sectors, and how they relate to perceptions of capacity scarcity during high-demand seasons. A crucial point is that familiarity with revenue management practices does not guarantee they will be considered fair. The industry needs to understand why this is the case to develop effective management strategies for long-term revenue growth.

Revenue Management and its Repercussions

Revenue management is used in capacity-constrained industries to set demand-based variable pricing. It is common in airlines and widely used in hotels, with a general result of increasing profitability. However, early attempts at revenue management focused on short-term profitability without consideration for long-term sustainability and tended to generate negative perceptions amongst customers.

Perceptions of fairness seem to be at the core of whether revenue management is sustainable. The key issue, explain the researchers, is "customers' perceptions of value for a service or a product, rather than the cost". When customers do value a service they become loyal and are thus less price-sensitive. Yet understanding what customers actually perceive is a difficult task and has limited the use of revenue management in some sectors. In particular, little is known about how it would be received in service environments such as restaurants and theme parks.

Nonetheless, the increased profitability that revenue management brings is appealing and a number of sectors are considering its use or have recently taken it up. This spurred the researchers to investigate how customers perceive the fairness of revenue management practices, how they perceive capacity scarcity during high-demand

seasons and their overall perceived familiarity with revenue management practices in airlines and hotels as traditional sectors and restaurants, golf clubs, galleries and museums, and theme parks as non-traditional sectors.

Customers Surveyed

To gain information on customer perceptions, the researchers conducted an online survey amongst students and staff at a university on the west coast of the United States. They specifically avoided using the term 'revenue management' to guard against a lack of familiarity with it rather than with the practices involved. After asking respondents questions about the fairness of revenue management practices, perceived capacity scarcity and overall familiarity with revenue management, the survey collected information on gender, age, income, education, employment status and service industry employment experience.

Of the 670 respondents, almost three quarters were female, and around the same number were aged under 29 years. About half of the respondents earned under US\$50,000 each year and just over half had been educated to the bachelor or graduate degree level. In terms of service industry experience, just over half of the respondents had experience in one of the sectors examined by the researchers.

Perceived Fairness

An initial interesting finding is that these customers were ambivalent about the fairness of revenue management practices in the six sectors overall, but not in one of the sectors. The researchers note that the customers perceived revenue management practices in the airline sector to be the least fair, even though it was the "birthplace" of those practices and had used them "for almost 30 years". They do, however, provide a possible explanation for this negativity – the "airlines' recently adopted unbundling pricing policies: charging for previously 'free' meals, snacks and luggage". This, they reckon, could have had an overall negative effect on perceptions of pricing throughout the sector.

In a more general sense, the customers had clearer perceptions of the fairness of revenue management practices in airlines and hotels than in the non-traditional sectors. In relation to restaurants, golf clubs, galleries and museums, they had more neutral opinions, considering revenue management practices in these sectors as “neither fair nor unfair”. One deviation from this norm is that the male customer minority considered the practices fairer in theme parks than did their female counterparts, but there was no overall perceptual difference between the genders in other aspects of their responses.

Perceived Capacity Scarceness

When asked about the perceived scarcity of capacity during high-demand seasons, the customers considered the capacities of airlines and hotels to be the most constrained, followed by theme parks, restaurants, golf clubs and museums and galleries. As the researchers suggest, these responses indicate that customers perceive capacity scarceness to be less common in sectors that have not traditionally employed revenue management.

An immediate implication of this perception is that customers might not consider revenue management practices relevant to non-traditional sectors. The researchers suggest that those sectors “may want to limit capacity during high-demand seasons by charging premiums because their services become scarcer during high-traffic periods”. The customers already considered theme parks to have somewhat scarce capacity, but the other sectors may need to change customer perceptions first before implementing revenue management. This would necessarily involve giving customers clear reasons and pointing out potential benefits, such as the creation of more pleasant environments in galleries through less crowding.

Perceived Familiarity with Revenue Management

In terms of overall familiarity with revenue management practices, the customers surveyed were aware of them mostly in airlines and hotels, followed by theme parks, golf clubs, restaurants and galleries and museums. The researchers make the strong point that this familiarity does not ensure perceptions of fairness, given that airlines had the most noticeable practices but were considered the most unfair in deploying them.

To remedy this situation, the researchers urge airlines to learn what their customers think about revenue management so they can develop practices and strategies more acceptable to the people who use their services. Hoteliers should also consider better understanding their customers’ perceptions as the respondents ranked hotels second in both familiarity with revenue management practices and the perceived fairness of those practices. While it might not seem that the other sectors have much to worry about in this regard, the researchers do warn that they need to understand the factors that help to create negative perceptions of revenue management practices amongst those familiar with them.

The Way Ahead

Ultimately, the viability of revenue management practices in hospitality and tourism sectors that have not traditionally used them will depend on how customer perceptions are managed. Perceptions of the ways those practices are already used in airlines, and to a lesser extent hotels, offer a guide to what theme parks, restaurants, golf clubs, galleries and museums can expect as they expand or initiate revenue management efforts.

Points to Note

- Revenue management can maximise profitability in capacity-constrained tourism sectors.
- Little is known about how customers react to it in non-traditional revenue management sectors.
- Customers in the US are most familiar with and disapproving of revenue management in airlines.
- Other sectors should consider the importance of such customer perceptions in developing revenue management strategies.

Heo, Cindy Yoonjoung and Lee, Seoki (2010). Customers’ perceptions of demand-driven pricing in revenue management context: Comparisons of six tourism and hospitality industries. *International Journal of Revenue Management*, Vol. 4, No. 3/4, pp. 382-402.