

Effects of Culture and Service Sector on Customers' Perceptions of the Practice of Yield Management

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Abstract

This research investigates the link between the practice of yield management and consumer perceptions of price. To analyze the possible effects of culture and service sector, a qualitative study and quantitative investigations in two cultures (Tunisia and France) and for two different activities (air transport and hotels) were conducted. These studies show that consumers perceive yield management as inequitable. The studies also confirm that culture influences the level of inequity perceived.

Keywords: Yield management, Price, Perceived equity, Culture, Hotel industry, Air transport

1. Introduction

Price perceptions and price-related information processing are popular topics in current research (Xia, Monroe & Cox 2004), and at the heart of many discussions about these topics rests yield management (YM) practices, which have consequences for customer satisfaction (Wirtz et al., 2003; Noone et al. 2003; Choi & Mattila, 2003) and customer loyalty (Bowen & Shoemaker, 1998; Shoemaker & Lewis, 1999; Reinartz & Kumar, 2002). Researchers generally agree that marketers must justify the price differences they institute through YM implementations (Kimes & Wirtz, 2002; Shoemaker, 2003). If they can do so, they might meet one of the basic conditions for YM deployment, namely, customer acceptance (Desmet, 2000). That is, YM cannot impact customers' perceptions negatively or trigger feelings of inequity, injustice, and dissatisfaction if the practice is to succeed. Such negative feelings might represent responses to unjustified price differences (Bolton, Warlop & Alba, 2003; Xia, Monroe & Cox, 2004), though an overly complex YM system also could generate negative reactions.

Some recent investigations suggest that customers' reactions depend more on the context in which YM gets implemented. For example, the industry might influence perceptions of price differences. According to Kimes (1994, 2002), hotel customers perceive price differences more negatively and accept them less frequently than do consumers in the airline industry. But if YM systems in hotels simply duplicate airline systems (Selmi, 2008; 2009), might negative customer reactions indicate a lack of familiarity rather than an outright rejection? In other words, will negative reactions disappear as customers become accustomed to YM practices? A 1985 survey by Fisk & Young concluded that price differences in the airline industry initially caused significant customer dissatisfaction and low repurchase intentions, yet today, such activities are widely accepted.

Another topic for debate involves the relationship between YM and the culture within which such practices get implemented. Mattila & Choi (2006) recently established that customers' satisfaction and perceptions of price inequity vary with the cultural context. However, moving beyond their conclusions and similar results (Lee & Ulgado, 1997; Kimes & Wirtz, 2003), another question arises: Do customers' perceptions of price differences and acceptance of YM techniques vary across their own culture?

This study attempts to answer both questions. After reviewing briefly the concept of YM, we present a synthesis of the impact of YM techniques on customer behavior. Next, we examine the link between YM and price perceptions. To clarify the effect of cultural context and type of industry on price perceptions, we conduct research that involves data collections from two countries (France and Tunisia) and two industries (airline and hotel). Thus, after we present the methodology, results, and recommendations, we outline the contributions, limits, and further possible developments of this research.

2. Yield Management (YM)

2.1 Definition

YM techniques rely on precise segmentation to determine different prices that will maximize revenues and optimize available capacity. The practices also pertain to managing capacity in real time to maximize revenues through timely price adaptations (Desiraju & Shugan, 1999) and segmentation (Desmet, 2000). A consensus seems to be found around the idea that yield management is a sophisticated form of managing the supply/demand relation by means of a simultaneous manipulation of rates and available capacities, largely adopted by sectors such as airlines or hotels (Avlonitis & Indounas, 2007; Selmi, 2009). From this perspective, we can say that yield management “manage the company’s existing capacity by monitoring the different market segments’ demand and charge maximum price to segments that they are willing to pay” (Avlonitis & Indounas, 2007, p. 742).

A large body of literature confirms the success of YM in industries including hotels (Selmi, 2009), car rentals, cruise lines, and rail transportation. The positive impact of YM on firm performance also appears to apply across various countries, including the United States (Kimes, 1989), the United Kingdom (Jauncey et al., 1995), Italy (Luciani, 1999), and Turkey (Emeksiz, Gursoy & Icoz, 2005). In addition, recent research has focused largely on the consequences of YM from a customer standpoint. Thus, the debates have moved away from the relevance of applying YM techniques.

2.2 Impact of YM Practices on Customers (Selmi N., 2008)

In research into the impact of YM practices on customer perceptions and behavior, the main recommendation has been to adopt a customer orientation (Wirtz, et al., 2003). Moreover, to avoid negative effects on the firm, YM techniques must follow an ethical strategic vision (Desmet, 2000) and reflect a culture focused on customer satisfaction (Reinartz & Kimes, 2002; Noone et al., 2003; Shoemaker, 2003).

Although YM techniques rely on a precise segmentation of the customer base, that segmentation does not remain static. Therefore, dynamic monitoring of demand within each price segment is necessary (Belobaba, 1989; Weatherford & Bodily, 1992). In most service industries, demand structures are neither stable nor homogeneous, but because reservation predictions in the hospitality industry require a reliable demand forecast, the forecast must include the concept of risk.

A reservation agent faces a dilemma (Selmi & Dornier, 2010): Sell a unit right now at a specified price or wait until a customer is willing to pay a higher price. Each option entails a risk. If the agent denies the current reservation at a low price, the unit may remain unsold (risk of spoilage). Conversely, accepting the lower-priced offer immediately may result in losing a subsequent customer ready to pay a higher price (dilution risk). In addition, overbooking comes into play as a third option. In the airline industry, 15% of travelers do not check in for their flights, so airline companies adopt high overbooking rates. Hotels have adopted similar practices to deal with last-minute room cancellations and no-shows. Ideally, the number of overbooked units equals the expected number of no-shows; when it is higher though, the company cannot provide the service to customers who have booked and perhaps paid in advance, which exposes it to very high risks of dissatisfaction, distrust, and disloyalty.

The costs associated with the risk of spoilage equal the estimated loss of revenue from unsold units, which likely are less than the costs of failing to provide a service promised to a customer. In the latter case, in addition to the tangible financial cost, the company suffers the difficult-to-quantify cost related to a deteriorated brand image. Thus, whereas the financial component represents the monetary value of the compensation that the service company must offer to make up for its failure, the unquantifiable component involves a poor brand image among customers who do not receive the service, despite their existing reservations.

Beyond these risks, especially those associated with the negatives reactions of disgruntled customers (Peterson, 2005), YM practices suffer several limits, as various implementations outside the airline industry effectively reveal. For example, there is a moral issue associated with charging two different customers two different prices for the same service (Desmet, 2000). A lack of visibility and transparency also may make customers perceive YM as unfair, prompting an ongoing theoretical debate among researchers about the very future of YM (Noone & Griffin, 1999; Kimes 2002, 2003; Boyd, 2004; Hendler & Hendler, 2004; Peterson, 2005). Table 1 feature a brief summary of the findings from this debate (see also Lindenmeier & Tscheulin, 2007; Selmi, 2008).

Table 1. How YM Affects Consumers (place here)

2.3 YM and Price Perception

The price variable has strategic importance (Simon, 1992). According to Kamen & Toman (1970), consumers accept any price less than or equal to the value they determine as a just price. Justice, in the context of a pricing system and as defined by Botton, Warlop & Alba (2003), implies a comparison with some standard of reference. According to Xia, Monroe & Cox (2004) that reference might be the customer's past experiences, an offer to another customer in similar conditions, or an offer from a competitor.

The notion of a just price first appeared in 1958 when Stoetzel defined it as the price above which the customer considers the product too expensive and below which the customer perceives the value of the product as too low. More recently, Chandrashekar & Jagpal (1994) confirmed that the notion of just price remains the key factor in evaluations of an offer and its acceptability. That is, the amount the purchaser must pay is still a key determinant of purchase decisions.

Equity (or distributive justice), one of the three components of justice (Oliver & Swan, 1989a), implies that a price perceived by the purchaser as unjust will be deemed unfair, which reduces consumer satisfaction (Vanhamme, 2002). Several authors (e.g., Rao & Monroe, 1989) suggest that the key to determining the best price is to relate the amount paid to the value received (Berry & Yadav, 1996). Customers will accept price differences if the firm can communicate a clear differentiation between the different offers (Kimes, 1994).

In turn, if a YM system uses a price elasticity-based segmentation, its success depends largely on the conditions of the transaction and the effectiveness of the prices (Selmi, 2006). The conditions include both benefits offered and penalties imposed, such that the restrictions related to the price vary with the price class. Broadly speaking, YM distinguishes between classes for which price is lower (i.e., economy, leisure class) and classes for which prices are higher (business class). Such customer segmentation generally is based on rigorous tracking of purchase behavior and booking patterns. With such information, firms can react immediately to demand changes by instituting price changes or new sales conditions. For example, the airline industry, the pioneer of YM, imposes restrictions such as the following, depending on the conditions in the market:

- Advance booking at lower prices.
- Higher prices for last-minute purchases when demand is high.
- Payment required at time of booking.
- Required round-trip purchases.
- No reimbursement in case of cancellation.
- Penalties to change reservations.

Yet Wirtz et al., (2003) argue that proposing benefits to customers may be more efficient than threatening them with penalties, because they perceive the sales conditions more positively when they appear linked to customer advantages. Thus, YM practices can be perceived as fair (Lindenmeier & Tscheulin, 2007), a concept that emerged from social psychology. Consumers also appreciate prices that seem equitable, as grounded in social comparison, reference group, and cognitive dissonance (Adams, 1963) theories. Perceptions of injustice always initiate negative emotional reactions. Furthermore, according to Adams (1963), two customers who pay two different prices for the same service both experience negative, though asymmetrical, reactions: The customer who pays more expresses anger due to a feeling of injustice, whereas the customer who pays less experiences an uncomfortable feeling of culpability. Therefore, our hypothesis suggests:

Hypothesis 1: Customers perceive the practice of YM negatively.

Leventhal, Younts & Lund (1972) find that perceptions of equity depend on the referents of comparison. Huppertz, Arenson & Evans (1978) also show that perceptions of price unfairness or inequity critically determine evaluations of the equity of an exchange, whereas a service inequity has a lesser importance (see also Oliver & Swan, 1989a; 1989b).

The comparison relative to a referent mainly involves the notion of reference prices (internal and external) (Adams, 1963; Adaval & Monroe, 1995) and reference transactions (Kimes, 2002; Kimes & Wirtz, 2003). However, we posit that the feeling of inequity may be associated with perceived contributions (sacrifices) and gains (benefits), not necessarily the actual amounts sacrificed and received. That is, inequity reflects a psychological nature, not a logical one. Therefore, the perception of prices likely depends on the historical and cultural context, and we must identify the values and norms displayed by customers to evaluate their perceptions of equity.

Recent publications support these claims by revealing that the historical context (i.e., duration of YM practice in an industry) and the cultural context both influence perceptions of inequity in pricing practices. For example, Lee & Ulgado (1997) conclude that in the food industry, U.S. and Korean consumers perceive price differences much differently. Similar conclusions appear in Kimes & Wirtz's (2003) comparison of consumers in Singapore, the Netherlands, and the United States (Lindenmeier & Tscheulin, 2007). We propose two hypotheses to extend these ideas:

Hypothesis 2: Perceptions of YM practice vary with the industry.

Hypothesis 3: Perceptions of YM practice vary with the culture of the customer.

3. Method

To determine the effect of YM practices on perceived equity, we undertake a comparative study in which we integrate culture and the scope of YM application in both air transport and hotel trade contexts, both of which generally feature YM techniques. We conduct our studies in France and Tunisia for two main reasons. First, considering the importance of tourism for both economies, they likely attempt to implement the best management techniques that will enable them to achieve durable profitability. Second, these two countries represent quite different cultures (Dion & Bonnin, 2004). Tunisia is a developing country in Africa, whose population is mainly Muslim, whereas France is a developed, secular country in western Europe. Consequently, people in these two different cultures should exhibit different perceptions of equity, especially with regard to the individualism that marks French culture and the collectivism that marks Tunisia (Dion & Bonnin, 2004). According to Zhang, Feick & Price (2007), the individualism versus collectivism distinction may be the most important dimension of cultural knowledge (Oyserman, Coon & Kemmelmeier, 2002). An individualistic cultural orientation emphasizes independence from others, whereas collectivism prioritizes harmony and links with the others. We conducted two data collections. The first is qualitative, with an exploratory goal, and the second is more quantitative, with the objective of determining the extent to which the industry and cultural contexts influence the degree of acceptance of YM practices.

Our analysis of equity/inequity involves only the point of view of the purchaser, because as Vanhamme (2002) notes, the concept of equity explicitly pertains to the two parties in an exchange (purchaser and seller). Furthermore, Oliver & Swan (1989 a, b) show that what the purchaser describes as an "equitable exchange" might be perceived as an "inequitable exchange" from the point of view of the seller, and vice versa.

3.1 Qualitative Study

We first undertook a qualitative exploratory study to enrich our understanding of the various positions of customers (acceptance or refusal) toward the practice of YM. The subjects include 55 French people delivered their opinions about YM practices. These answers provide the input for a thematic analysis, which then provides the various perceptions as output. The remarks are heterogeneous and sometimes very divergent, ranging from satisfaction with YM practices to total rejection, with calls to prohibit them completely.

As this qualitative approach attests, consumers perceive the techniques of YM, especially price differences, differently and thus express different levels of acceptance of YM practices.

3.2 Quantitative Study

Our quantitative study consists of a questionnaire distributed to two samples: 187 Tunisian person and 107 French person. Each sample also features of two subsamples that answer questions bearing on air transport or the hotel trade (see Table 2).

Table 2: Survey composition (place here)

The questionnaires feature three service scenarios, adapted from Kimes (2002). Most previous empirical studies of the consequences of YM similarly use scenario techniques (Lindenmeier & Tscheulin, 2007). Respondents evaluate the scenarios on a seven-point Likert scale, ranging from 1 (completely acceptable) to 7 (completely unacceptable).

The three scenarios ask respondents to evaluate the practices of (1) restrictions that impose penalties, (2) restrictions that highlight consumer benefits, and (3) price differences. The last scenario reveals different prices paid by two different customers, which responds to criticisms advanced by Xia et al., (2004) regarding the theories of distributive justice and equity. Specifically, they note that these theories assume that the purchaser's comparison focuses on the salesperson, but purchasers often do not know the cost structure for the seller or any other relevant information that would enable them to make this ratio comparison (Bolton, Warlop & Alba, 2003).

Therefore, we evaluate justice perceptions according to comparisons with other purchase situations that include different prices. The three scenarios are as follows:

- To minimize the number of no-shows and cancellations, an airline (hotel) imposes a penalty of 50% if the customer is not present at the flight time (check-in). Please evaluate this practice on the following scale...
- An airline (hotel) grants a discount of 30% if the customer makes his or her reservation one (1) month before the flight time (arrival). Please evaluate this practice on the following scale...
- Two passengers (guests) of an airline (hotel) find out during the course of a conversation that Helene (Tesnim) paid 500€ (DT) for his ticket (stay), whereas Raphael (Mosaab) paid only 400€ (DT). Helene (Tesnim) booked his reservation one day before his flight (arrival), whereas Raphael (Mosaab) made the reservation one month in advance. Please evaluate this practice on the following scale...

4. Results

We present the results (average and standard deviation) for the four subsamples in Table 3.

Table 3: Customers' perceptions of YM practices (place here)

As Table 3 shows, consumers overall consider the practices of YM unacceptable. This result is valid for both the Tunisian and the French samples. With one exception (scenario differences perceived by the French for the hotel, 3.33), all averages are greater than the neutral point (3.5). Therefore, we may conclude that regardless of the activity and the culture, price differences and restrictions imposed by companies, whether by imposing penalties or offering advantages, prompt negative perceptions among consumers. Therefore, we find support for H1.

To test the validity of H2, we first consider the upper half of Table 3. For the Tunisian sample, the averages calculated for both air transport and hotels indicate a lack of acceptance for YM practices (averages between 3.816 and 5.966 on 7-point scale). However, two of the three calculated averages indicate that consumers consider these practices slightly more acceptable in the hotel sector. The tests of difference for the averages do not reveal significant differences ($\alpha = .05$) between airlines and hotels though ($t_{\text{scenario 1}} = 454 < 1.645$ per 180 df; $t_{\text{scenario 2}} = 1.090 < 1.645$ per 180 df; $t_{\text{scenario 3}} = 1.63 < 1.645$ per 181 df). Therefore, the results do not support H2.

In the bottom of Table 3, we find that among the French subjects, negative judgments of YM practices are lower for airlines than for hotels. However, the tests of difference again indicate insignificant changes ($\alpha = .05$; $t_{\text{scenario 1}} = 1.435 < 1.66$ per 94 df; $t_{\text{scenario 2}} = .245 < 1.66$ per 94 df; $t_{\text{scenario 3}} = .696 < 1.66$ per 95 df). On the basis of the results for our samples from both Tunisia and France, we must reject H2.

Finally, to test H3, we adopt the same procedure as that we followed for H2 but consider the effect of culture on perceptions of YM. According to the averages calculated and reproduced in Table 3, we find a higher negative perception of YM practices in the airline industry among Tunisians across all three scenarios. These differences are statistically significant at the $\alpha = .05$ level ($t_{\text{scenario 1}} = 1.663 > 1.645$ per 147 df; $t_{\text{scenario 2}} = 3.345 > 1.645$ per 143 df; $t_{\text{scenario 3}} = 2.015 > 1.645$ per 146 df). This result supports H3.

The French participants exhibit greater acceptance of different prices and the restrictions in hotels than do the Tunisian respondents. The tests of the differences vary somewhat ($t_{\text{scenario 1}} = .233 < 1.645$ per 131 df; $t_{\text{scenario 2}} = 4.059 > 1.645$ per 131 df; $t_{\text{scenario 3}} = 1.350 < 1.645$ per 130 df). Thus, at the $\alpha = .05$ level, only the scenario 2 (restrictions and benefits) difference is statistically significant, in only partial support of H3. Overall then, our tests of difference indicate that H3 achieves partial validation.

5. Discussion, managerial implications and conclusion

In accordance with previous authors, we confirm that optimization techniques that rely on YM prompt little acceptance among consumers. Such lack of acceptance likely has negative effects for the profitability of companies that adopt such practices. Our study further reveals that regardless of the historical and cultural context, consumers do not accept, contest, and even sometimes reject YM practices.

According to previous research (Campbell, 1999; Xia, Monroe & Cox, 2004), perceptions of price injustice can lead to negative consequences for sellers, including termination of the relationship, negative word of mouth, and complaints to consumer organizations. Therefore, companies that engage in YM must carefully manage customer dissatisfaction, especially when the customers are unhappy enough to complain. As Crié (2001) indicates, when companies address customer complaints effectively, the consumer reaches a sense of equity in the relation, which enables him or her to continue the relationship and reduces his or her word-of-mouth intentions. Because YM practices create feelings of iniquity among customers, any company practicing it should be very attentive to any feelings of injustice or perceptions of iniquity. Managers in these industries must take special care to justify any differences in prices for customers.

When they compare the prices they pay, consumers develop one of three types of judgments: equality, privileged inequality (positive), or unfavorable inequality (negative). According to Xia, Monroe & Cox (2004), the perception of equal prices does not necessarily lead to a perception of justice, but perceptions of inequality almost invariably lead to judgments of injustice. In addition, customers compare prices not only with their own previous transactions but also with the transaction prices that other customers pay. Therefore, companies should justify their prices every time they differ by providing differentiated offers (Wirtz et al., 2003).

Unlike other research (Kimes, 1994; 2002), our study does not indicate that customers accept price differences in certain industries. It may be that our results reveal the familiarity of French customers with such practices in the hotel industry.

In contrast with the activity effect though, our study offers some support for a culture effect. Similar to previous findings (Lee & Ulgado, 1997; Kimes & Wirtz, 2003; Mattila & Choi, 2006), we find that the acceptability and perceptions of the iniquity of YM practices vary according to culture. As Mattila & Choi (2006) suggest, this result might reflect the more individualistic orientation of Western consumers (i.e., French in our study). Furthermore, Dion & Bonnin (2004) attest, “*individuals of the Arab culture tend to more excitable, emotional, and easy in their conceptions of time, as well as very directed toward other people. In addition, the Western countries would be more individualistic and follow communication with a weak context, whereas the Arab countries would be more collectivistic.*” (p. 50).

Our study reveals clear differences in the judgments of the French respondents in the first two scenarios (penalties and benefits), such that a sale presented with benefits is more acceptable than one presented with penalties. In other words, in the French cultural context, “advantageous” iniquity differs significantly from a “disadvantageous” one. This result reaffirms projections by several researchers (Ordóñez, Connolly & Coughlan, 2000; Xia et al., 2004) that perceived injustice would be lower when the inequality favors the purchaser.

In conclusion, YM practices that vary prices and impose restrictions prompt disapproval and a sense of iniquity among consumers. As a key managerial implication then, airline companies and hotel chains should better communicate and justify any differences in the prices they charge. Furthermore, if they want their YM practices to succeed, they should take cultural dimensions into account.

However, our study also features some limitations, primarily related to the characteristics of our sample, mostly its small size. Furthermore, people from different cultures use scales differently, especially in terms of choosing the extreme values, which may bias the results of our study.

To mitigate these limitations and replicate our results in other cultural contexts, further studies should compare other lines of business that use YM, such as car rentals, restaurants, recreational facilities, and so forth. Moreover, to attain a better understanding and explain differences in perceptions of YM, researchers might attempt to develop more complex models. We employ pricing scenarios that compare the experiences of two customers, but the effect of such a comparison in real life likely would depend on the availability of a similar or reference situation. As Bolton and colleagues (2003) recommend, it would be interesting to investigate scenarios featuring only the focal respondent but at different times or with different service providers.

Acknowledgement

The author wish to acknowledge Hamid Ait, Makram Ben Massoud & H  l  ne Goblet

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Table 1. How YM Affects Consumers

Problems	Findings
<i>Feeling of frustration</i>	Because of poor forecasting, the firm must turn away a customer who has booked a reservation, which results in a huge gap between the customer's expected quality and actual delivered quality. Monetary compensation usually cannot address customer dissatisfaction in this case.
<i>Moral problem</i>	A hidden objective of YM pricing practices may be to charge customers the highest possible price, in which case customers likely will perceive YM as unethical.
<i>Ethical issue</i>	Because YM is essentially a form of price discrimination, the distributive justice of these practices is at issue. For example, extreme differences in fares may influence consumer judgments when they compare their own transactions with transactions made by other customers.
<i>Possible contradictions</i>	Even after a price class becomes no longer available; YM may open it again and accept a customer at a price that it rejected for other customers. Such decisions may be perceived as contradictory and unjust.
<i>Multiplicity of channels and price complexity</i>	Customers prefer clear and understandable pricing policies, whereas YM through multiple channels of distribution increases their complexity. Customers must process a significant amount of information related to the various price points.
<i>Price transparency</i>	Price differentiation resulting from YM often seems unjustified to customers, which may reduce their trust and raise their doubts about the company's transparency.

Table 2. Survey composition

	Air transport	Hotel industry	Total
<i>Tunisia</i>	99	88	187
<i>France</i>	52	55	107
Total	151	143	294

Table 3. Customers' perceptions of YM practices

Country		Scenario	n	Average	Standard Deviation
Tunisians	Air Transport	Restrictions and penalties	99	5,43	1,88
		Restrictions and benefices	95	5,67	2,00
		Perceived differences	97	4,34	2,25
	Hotel Industry	Restrictions and penalties	88	5,38	2,10
		Restrictions and benefices	88	5,96	1,76
		Perceived differences	87	3,82	2,04
French	Air Transport	Restrictions and penalties	51	4,88	1,71
		Restrictions and benefices	51	4,53	1,81
		Perceived differences	52	3,59	1,94
	Hotel Industry	Restrictions and penalties	55	5,29	1,51
		Restrictions and benefices	55	4,62	1,88
		Perceived differences	55	3,33	1,74