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# Best-available-rate Pricing at Hotels:

## A Study of Customer Perceptions and Reactions

By Kristin V. Rohlf  
and Sheryl E. Kimes, Ph.D.

# BEST-AVAILABLE-RATE PRICING AT HOTELS:

## A STUDY OF CUSTOMER PERCEPTIONS AND REACTIONS

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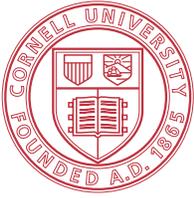
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# BEST-AVAILABLE-RATE PRICING AT HOTELS:

## *A Study of Customer Perceptions and Reactions*

**By Kristin V. Rohlf  
and Sheryl E. Kimes, Ph.D.**

VARIABLE PRICING, OR DEMAND-BASED PRICING, is a popular revenue management technique by which hotel managers set different nightly rates for the same room based on expected room demand. Operational policies and procedures associated with variable pricing may be confusing to customers, especially if they are not familiar with the practice. Best-available-rate (BAR) pricing is an attempt to reduce that confusion and to guarantee that the guest is quoted the lowest available rate for each night of a multiple-night stay. As a result, instead of paying the same price for each room-night, the guest would pay different prices each night. Understanding customers' perceptions of a BAR policy can help hotel managers better apply revenue management tools that maximize revenue without compromising guest satisfaction.

This study surveyed 153 travelers to measure their reactions to BAR pricing and their perception of its fairness, acceptability, reasonableness, and honesty. We found that for a multiple-night stay, customers prefer to be quoted individual rates for each night (non-blended rates) rather than the average price per night over the stay (blended rates). Overall, customers found individual rates to be significantly more fair, acceptable, reasonable, and honest than blended rates. However, custom-

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er reactions to non-blended and blended rates differed between frequent and infrequent travelers. Frequent travelers found no difference in fairness between blended and non-blended rates while infrequent travelers perceived non-blended rates to be more favorable.

The findings of this study can help managers more precisely tailor the way that they give rates and information to customers during the reservation process. Respondents preferred to be quoted individual rates, so that

they know they are paying the lowest available nightly rates, rather than blended rates, which conceal the actual nightly rates. To ensure that customers have positive perceptions of price fairness and honesty, managers should quote non-blended rates, such as those that accompany BAR guarantees. Managers should also pay close attention to the implementation of a BAR guarantee policy, as the poor execution of a complex variable-pricing policy could compromise its acceptance.

# Best-available-rate Pricing at Hotels:

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REVENUE MANAGEMENT has become widely used in the hotel industry. Broadly defined as determining which reservation requests to accept from which customers to maximize revenue, revenue management matches room supply with customer demand by using price controls to vary the prices offered and duration controls to regulate lengths of stay.<sup>1</sup>

One outgrowth of revenue management is pinpointing the actual rate for each room-night, even though most hotels typically quote a blended or average rate for multiple-night stays. With the ability to pinpoint nightly rates, a practice has grown of charging guests the individual price for each room-night of a multiple-night stay—that is, giving guests the best available rate. The purpose of this study was to measure customers' perceptions of and reactions to best-available-rate (BAR) policies. We

examined customers' perceptions of the fairness, acceptability, reasonableness, and honesty of best-available pricing to help hotel managers set appropriate policies and procedures that maximize revenue while preserving guest satisfaction. In this report, we explain best-available-rate pricing; present existing research on relevant issues; describe the study we conducted; present our findings; discuss managerial implications; and describe the limitations of our study and future research possibilities.

Duration controls allow hotels to manage customer arrivals and lengths of stay by clos-

<sup>1</sup> Sheryl E. Kimes and R.B. Chase, "The Strategic Levers of Yield Management," *Journal of Service Research*, Vol. 1, No. 2 (1998), pp. 156-166.

ing dates to arrivals, requiring minimum stays, or setting maximum stays. Price controls permit managers to charge different rates based on the desire of some customers to have more reservation flexibility and the desire of others to pay lower prices. Although hotels have been using duration and pricing controls for multiple-night stays, customers have long received the same price for each night of their stay, even if lower rates are available on particular days of the stay. For instance, suppose that a customer requested a reservation for a three-night midweek stay and the hotel's revenue management system indicated that the lowest price for the first two nights was \$205, but the lowest price for the third night was \$175. The hotel's pricing policy might suggest that the guest be quoted either a nightly rate of \$205 or an average nightly rate of \$195, as it was generally believed that customers preferred having one room rate (for the entire stay) over having several different rates.

In recent years, however, online distribution companies and hotel chains' internet sites have begun not only offering but also guaranteeing to customers the best available nightly rate. As a result, customers may pay different prices for each night of a multi-night stay. Third-party reservation companies (notably, Expedia, Orbitz, and Priceline) have instituted various versions of best-rate guarantees as a marketing tool to attract business.<sup>2</sup> As room rates have become transparent and customers could see the various prices offered through different distribution channels, hotel companies (including Cendant, Hilton, Marriott, and Starwood) have competed by offering their own best-available-rate guarantees.<sup>3</sup> Hotels also use best-

<sup>2</sup> See: [expedia.com](http://expedia.com), [orbitz.com](http://orbitz.com), and [priceline.com](http://priceline.com). For a discussion of how those best-price policies have operated, see: Gary M. Thompson and Alexandra Failmezger, "Why Customers Shop Around: A Comparison of Hotel Room Rates and Availability across Booking Channels," *CHR Reports*, Vol. 5, No. 2 (January 2005), available at [TheCenterforHospitalityResearch.org](http://TheCenterforHospitalityResearch.org).

<sup>3</sup> See: [cendant.com](http://cendant.com), [hilton.com](http://hilton.com), [marriott.com](http://marriott.com), and [starwood.com](http://starwood.com). For a discussion of how the chains' best-price policies have functioned, see: Thompson and Failmezger, *op.cit.*

rate guarantee policies to direct bookings to their websites, as it is generally the least costly reservation channel and it is thought that direct booking with the hotel helps build brand loyalty.

Revenue management had already made the reservation process complex, but the addition of best-rate guarantees has made the reservation process even more complicated for consumers to navigate and understand. Instead of quoting a single blended rate—roughly, the

***Revenue management has opened the way for best-rate hotel pricing, but do guests understand and accept it?***

average price for each night of a consecutive-night stay—many hotels now use best-available-rate (BAR) pricing. With BAR pricing, a hotel would quote the lowest available rate for each night of a multiple-night stay, meaning that customers pay different prices, or non-blended rates, for the same room. As reservations represent the first opportunity for customer contact, understanding guests' reactions to BAR pricing is essential for ensuring their satisfaction and building customer loyalty. The successful application of BAR pricing (and all revenue management) involves finding the appropriate balance between maximizing revenue and preserving guest satisfaction.

### **Elements of BAR Pricing**

In this section we describe the existing literature regarding key elements to understanding customer reactions to BAR pricing. We review research done on variable pricing, perceived fairness and acceptability, perceived reasonableness, perceived honesty, and premium and discount pricing.

### **Variable Pricing**

Variable pricing, or demand-based pricing, refers to hotels' charging different nightly rates

for the same room based on expected room demand. The use of variable-pricing strategies is possible when different customers are willing and able to pay different prices for the same product (and when the hotel is able to discern that willingness).<sup>4</sup> In the hotel industry, this process generally entails placing reasonable restrictions on what room prices are available to price-sensitive customers in exchange for a reduced price or, for those who want particular dates or features, offering upgrades, amenities, and fewer restrictions in exchange for a higher price.<sup>5</sup> These rules and restrictions, known as rate fences, allow hotels to maximize revenue from existing demand by letting customers differentiate themselves by price.<sup>6</sup>

**Based on their reactions to pricing scenarios, hotel customers find best-available-rate pricing to be acceptable, fair, reasonable, and honest.**

Hotels that use complex systems of rate fences must understand the value customers place on the price and restrictions of the service they are purchasing and communicate to customers how their needs are being met through pricing policies.<sup>7</sup> Customers are familiar with the variable-pricing practices of airlines, which a decade ago were found to be more acceptable than variable pricing of hotel rooms.<sup>8</sup> More recent research has shown that customers perceive hotel and airline variable pricing practices equally.<sup>9</sup>

<sup>4</sup> Robert J. Dolan and Hermann Simon, *Power Pricing: How Managing Price Transforms the Bottom Line* (New York: The Free Press, 1996).

<sup>5</sup> Sheryl E. Kimes, "Perceived Fairness of Yield Management," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 35, No. 1 (February 1994), pp. 22-29.

<sup>6</sup> Dolan and Simon, *op.cit.*; and Richard B. Hanks, R. Paul Noland, and Robert G. Cross, "Discounting in the Hotel Industry: A New Approach," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 33, No. 1 (February 1992), pp. 15-24.

<sup>7</sup> Dolan and Simon, *op.cit.*

<sup>8</sup> Kimes, *op.cit.*

## Fairness and Acceptability

Customers support companies that practice fair pricing.<sup>10</sup> A fair pricing policy is one that is generally accepted by customers and perceived as justified for social or economic reasons.<sup>11</sup> Creating and sustaining positive perceptions of price fairness can lead to improved customer satisfaction and profitability.<sup>12</sup>

Fairness is especially important in services because it is difficult to evaluate in advance what is being purchased.<sup>13</sup> Customers base their perceptions of fairness on their expectations, which come from reference transactions and reference prices. Reference transactions involve how a customer thinks a service should be delivered, and reference prices indicate how much the customer thinks the service should cost.<sup>14</sup> Reference prices are based on any number of customer experiences, including the price customarily paid, posted prices, and the last price paid.<sup>15</sup> Reference prices and transactions change over time as customers begin to accept some practices and avoid others.<sup>16</sup> Abrupt or substantial changes away from these reference prices and processes can violate customers' trust in the fairness of the company.

Customers expect a company to maintain policies that lead to acceptable profits.<sup>17</sup> If company profits increase without a corresponding increase in customer value or customer val-

<sup>9</sup> Sheryl E. Kimes and Breffni M. Noone, "Perceived Fairness of Yield Management: An Update," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 43, No. 1 (February 2002), pp. 28-29.

<sup>10</sup> Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," *American Economic Review*, Vol. 76, No. 4 (1986), pp. 728-741; and Richard F. Thaler, "Mental Accounting and Consumer Choice," *Marketing Science*, Vol. 4, No. 3 (1985), pp. 199-214.

<sup>11</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

<sup>12</sup> *Ibid.*; and Thaler, *op.cit.*

<sup>13</sup> Kathleen Seiders and Leonard L. Berry, "Service Fairness: What It Is and Why It Matters," *Academy of Management Executive*, Vol. 12, No. 2 (1998), pp. 8-20.

<sup>14</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*; and Sheryl E. Kimes and Jochen Wirtz, "Has Revenue Management Become Acceptable? Findings from an International Study on the Perceived Fairness of Rate Fences," *Journal of Service Research*, Vol. 6, No. 2 (2003), pp. 125-135.

<sup>17</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

ue decreases without a matching decrease in price, business practices are seen as unacceptable. Examples of unacceptable practices are overcharging customers, providing inadequate information, and not stocking advertised or discounted items, including bait-and-switch tactics.<sup>18</sup> Further, customers find price increases unfair if they cannot be attributed to cost increases or general market shifts.<sup>19</sup>

Several methods have been found that allow a company to change prices without jeopardizing customers' perceptions of unfairness. These methods include setting a high reference price (e.g., rack rates); increasing perceived costs; increasing the minimum purchase required (e.g., minimum five-night stay); obscuring the reference price (e.g., bundling room and breakfast); and selling the product or service in a non-traditional way for which no reference price is available.<sup>20</sup>

### Reasonableness

Customers judge fair and reasonable practices as being those that do not significantly diverge from standard business practices.<sup>21</sup> Companies that use unreasonable practices have a poor reputation among potential customers.<sup>22</sup> Research has shown that the reputation of a firm affects the perceptions that customers have regarding the firm's motives.<sup>23</sup> Positive perceptions of a firm's motives, on the other hand, can indicate high customer satisfaction and increased intent to return.<sup>24</sup>

### Honesty

Firms are expected to be socially responsible by not taking advantage of consumers.<sup>25</sup> A measure

of this accountability to customers is how honest customers believe a firm to be. Customers may perceive honest business practices as being unfair, especially if customers find a company is misusing its market power and manipulating consumers.<sup>26</sup> Demonstrating and rationalizing reasons for price increases are considered fair and honest practices, but increasing prices without any justification is not.<sup>27</sup> For example, briefly explaining pricing policies to customers as they make hotel reservations improves the perceived fairness of variable pricing.<sup>28</sup>

### Premium and Discount Pricing

When customers are faced with a current price that varies from their reference price, they generally view the difference as either a loss or a gain.<sup>29</sup> Customers view changes from their reference prices more favorably when those changes are framed as a gain instead of a loss.<sup>30</sup> From the customer's perspective of hotel pricing, a gain is paying a price lower than expected (a discount), while a loss is paying a price higher than expected (a premium).

### A Study of Scenarios

We used a survey based on four different scenarios to compare customers' reactions to a blended-rate pricing policy and an individual-rate policy. In all four scenarios, participants were told that they required a hotel reservation for a two-night, weekday stay, would like the lowest possible rate, and would be staying in the same room both nights. The survey types dif-

<sup>18</sup> Seiders and Berry, *op.cit.*

<sup>19</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

<sup>20</sup> Thaler, *op.cit.*

<sup>21</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

<sup>22</sup> *Ibid.*

<sup>23</sup> Margaret C. Campbell, "Why Did You Do That? The Important Role of Inferred Motive in Perceptions of Price Fairness," *Journal of Product and Brand Management*, Vol. 8, No. 2 (1999), pp. 145-152.

<sup>24</sup> Christian Homburg, Wayne D. Hoyer, and Nicole Kochate, "Customers' Reactions to Price Increases: Do Customer Satisfaction and Perceived Motive Fairness Matter?," *Journal of the Academy of Marketing Science*, Vol. 33, No. 1 (2005), pp. 36-49.

<sup>25</sup> Sarah Maxwell, "What Makes a Price Increase Seem 'Fair?'," *Pricing Strategy & Practice*, Vol. 3, No. 4 (1995), pp. 21-27.

<sup>26</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

<sup>27</sup> Maxwell, *op.cit.*

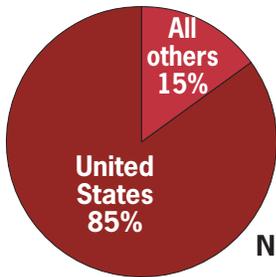
<sup>28</sup> Sunmee Choi and Anna S. Mattila, "Hotel Revenue Management and Its Impact on Customers' Perceptions of Fairness," *Journal of Revenue and Pricing Management*, Vol. 2, No. 4 (2003), pp. 303-314, and Kimes, *op.cit.*

<sup>29</sup> Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica*, Vol. 47, No. 2 (1979), pp. 263-291.

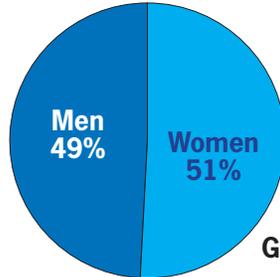
<sup>30</sup> Shih-Fen S. Chen, Kent B. Monroe, and Yung-Chien Lou, "The Effects of Framing Price Promotion Messages on Consumers' Perceptions and Purchase Intentions," *Journal of Retailing*, Vol. 74, No. 3 (1998), pp. 353-372; *Ibid.*; and Kimes and Wirtz, *op.cit.*

**EXHIBIT 1**

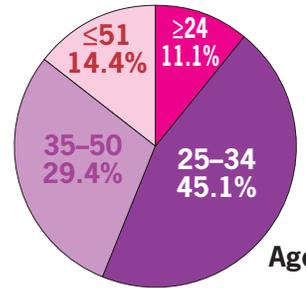
**Characteristics and booking preferences of survey respondents**



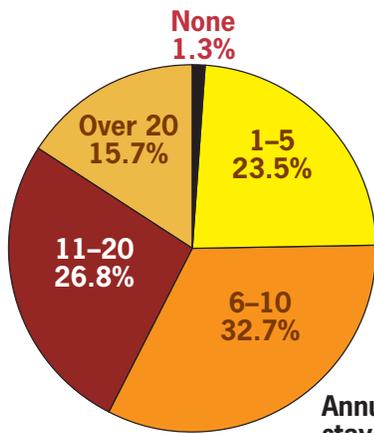
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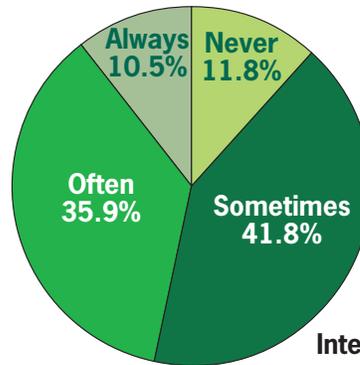
**Gender**



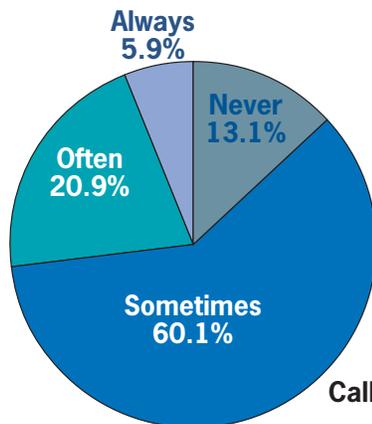
**Age**



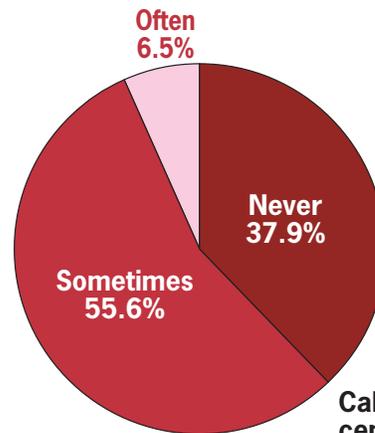
**Annual nights stayed**



**Internet booking**



**Call hotel**



**Call reservation center**

ferred by whether the pricing policy was blended or non-blended and whether the pricing policy was framed as a premium or a discount.

In the non-blended-rate scenario, respondents were quoted a different rate for each night of their stay. In the blended-rate scenario, respondents were quoted the same rate for both nights of their stay. This quoted rate was simply an average of the two different nights' rates. The premium version of both the blended and non-blended scenarios stated that the hotel anticipated a busier second night, so the lowest available rate on the first day was *lower* than the lowest available rate on the second day. The discount version of both the blended and non-blended surveys told participants that the hotel expected a slower second night, so the lowest available rate on the first day was *higher* than the lowest available rate on the second day. The four scenarios are presented at right.

We distributed the survey to 153 travelers in airports in Dallas, Pittsburgh, and Ithaca, New York. All survey responses were anonymous. Exhibit 1 presents the overall characteristics of survey respondents.

Each participant was given only one of the four scenarios to evaluate (that is, blended rates as a premium, blended rates as a discount, individual rates as a premium, or individual rates as a discount). Regardless of which scenario the participant received, the questions were identical, measuring respondents' perceptions of the fairness, acceptability, reasonableness, and honesty of the pricing policy in their scenario. Each question was answered on a Likert-type scale, anchored by 1 and 7. For the questions regarding fairness and reasonableness, 1 corresponded to extremely unfair and unreasonable, and 7 was extremely fair and reasonable. To ensure valid results, the scales were reversed for questions regarding acceptability and honesty. Thus, 1 corresponded to acceptable and extremely honest, while 7 corresponded to unacceptable and extremely dishonest.

We also asked questions on the frequency of respondents' hotel stays, their level of famil-

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## Four Survey Scenarios

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### Blended-rate scenario, presented as a premium

Imagine yourself in the following situation:

You need to make a hotel reservation for a two-night stay during the week. You will be paying for the room yourself and have asked for the lowest possible rate. You have checked the hotel's website and found that the lowest available rate on the first night is \$99 and the lowest available rate on the second night is \$149.

You call the hotel to verify these rates and are instead quoted a rate of \$124 for each night.

### Blended-rate scenario, presented as a discount

Imagine yourself in the following situation:

You need to make a hotel reservation for a two-night stay during the week. You will be paying for the room yourself and have asked for the lowest possible rate. You have checked the hotel's website and found that the lowest available rate on the first night is \$149 and the lowest available rate on the second night is \$99.

You call the hotel to verify these rates and are instead quoted a rate of \$124 for each night.

### Non-blended-rate scenario, presented as a premium

Imagine yourself in the following situation:

You need to make a hotel reservation for a two-night stay during the week. You will be paying for the room yourself and have asked for the lowest possible rate.

You are quoted a rate of \$99 for the first night. The hotel is expecting to be busier the next night and you are quoted a rate of \$149 for the second night of your stay. You will be staying in the same room both nights.

### Non-blended-rate scenario, presented as a discount

Imagine yourself in the following situation:

You need to make a hotel reservation for a two-night stay during the week. You will be paying for the room yourself and have asked for the lowest possible rate.

You are quoted a rate of \$149 for the first night. The hotel is expecting to be busier that first night, and you are quoted a rate of \$99 for the second night of your stay. You will be staying in the same room both nights.

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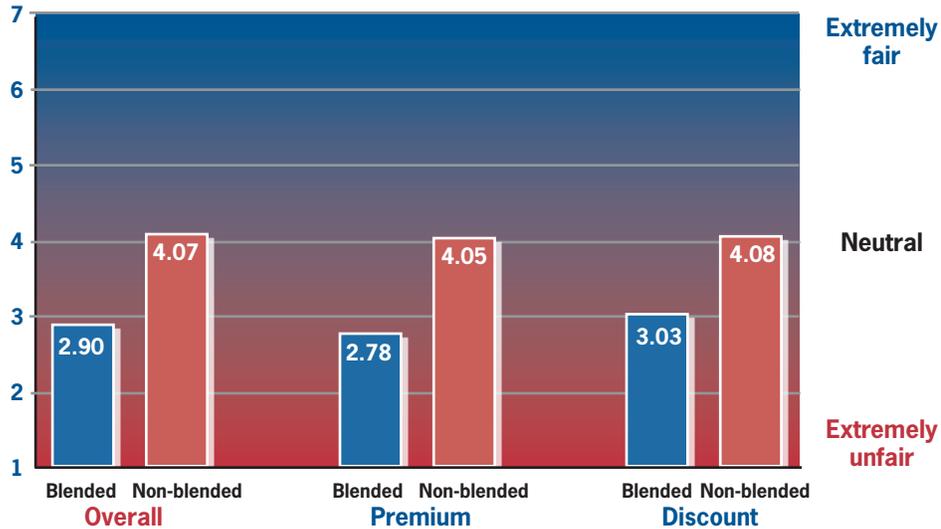
**EXHIBIT 2**
**Summary of findings by measure**

Measure		Average	Standard deviation	N
<b>Fairness</b> (Scale: 1, extremely unfair policy, to 7, extremely fair policy)				
Blended	Overall	2.90	1.53	76
	Premium	2.78	1.49	40
	Discount	3.03	1.58	36
Non-blended	Overall	4.07	1.29	77
	Premium	4.05	1.14	38
	Discount	4.08	1.44	39
<b>Acceptability</b> (Scale: 1, acceptable policy, to 7, unacceptable policy)				
Blended	Overall	5.01	1.87	76
	Premium	5.18	1.77	40
	Discount	4.83	1.98	36
Non-blended	Overall	3.58	1.51	77
	Premium	3.90	1.59	38
	Discount	3.28	1.38	39
<b>Reasonableness</b> (Scale: 1, unreasonable policy, to 7, reasonable policy)				
Blended	Overall	3.13	1.57	76
	Premium	3.05	1.52	40
	Discount	3.22	1.64	36
Non-blended	Overall	4.22	1.45	77
	Premium	4.13	1.44	38
	Discount	4.31	1.49	39
<b>Honesty</b> (Scale: 1, extremely honest policy, to 7, extremely dishonest policy)				
Blended	Overall	4.30	1.50	76
	Premium	4.48	1.32	40
	Discount	4.11	1.67	36
Non-blended	Overall	3.40	1.70	77
	Premium	3.63	1.79	38
	Discount	3.18	1.60	39

ilarity with variable pricing at hotels, and their level of familiarity with BAR pricing. We asked customers to indicate how often they made reservations through various distribution channels (i.e., internet, calling the hotel directly, or calling the hotel’s toll-free call center). In addition, demographic information was collected, including nationality, age range, and gender.

### Results: Familiarity Matters

The survey results were used to evaluate customers’ attitudes towards the use of blended and non-blended rates. Two statistical methods, analysis of variance (ANOVA) and regression, were used to analyze the respondents’ perceptions of fairness, acceptability, reasonableness, and honesty of the policies as presented in the

**EXHIBIT 3****Fairness perceptions of best-available-rate pricing**

Note: Mean scores are based on a Likert-type scale of 1 through 7, where 1 equals extremely fair and 7 equals extremely unfair.

scenarios. A summary of our findings is provided in Exhibit 2.

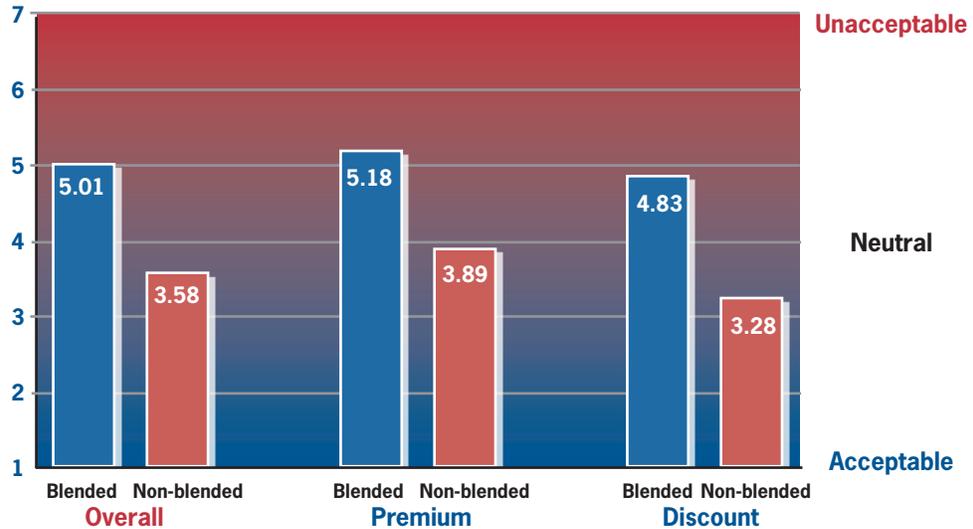
### Fairness

Our analysis found a significant difference in fairness perceptions between the blended and non-blended rate scenarios ( $p < 0.001$ , see Exhibit 3). The non-blended-rate scenario was rated significantly fairer (mean = 4.07) than the blended-rate scenario (mean = 2.90). The way in which the variable prices were presented (as a premium or a discount) had no significant impact on the perceptions of fairness for either blended or non-blended rates.

Age and familiarity with BAR pricing were found to affect fairness ratings. Of the four age groups (24 and under, 25 to 34, 35 to 50, and 51 and over), respondents in the 25-to-34 age group rated non-blended rates as significantly fairer than blended rates ( $p < 0.05$ ). No other age group identified a significant difference in the fairness of the two rate policies. Participants who were unfamiliar with BAR pricing rated non-blended rates significantly fairer than blended rates ( $p < 0.001$ ). On the other hand, participants who were familiar with BAR pricing perceived no difference between the fairness of blended and non-blended rates.

## EXHIBIT 4

### Acceptability of best-available-rate pricing



Note: Mean scores are based on a Likert-type scale of 1 through 7, where 1 equals acceptable and 7 equals unacceptable.

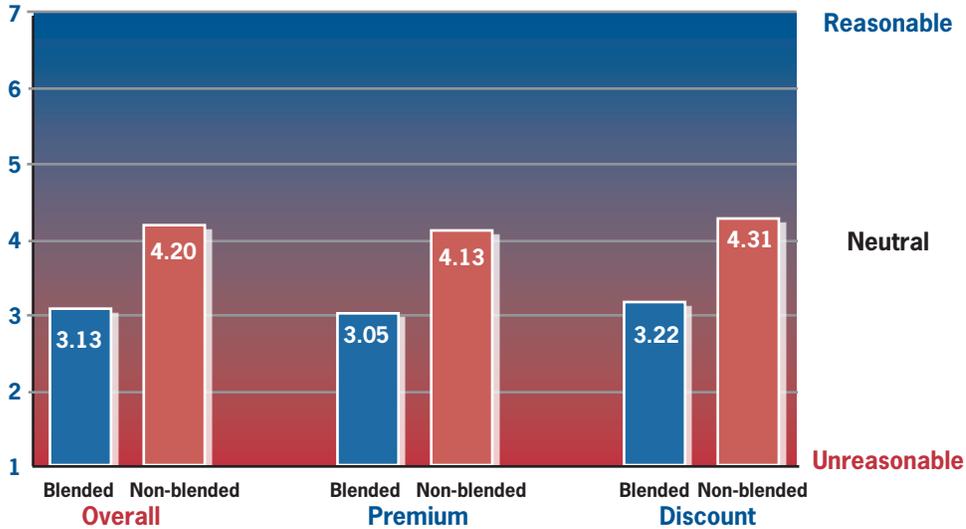
#### Acceptability

Non-blended rates were rated as significantly more acceptable (mean = 5.01) than blended rates (mean = 3.58,  $p < 0.001$ , see Exhibit 4). The manner in which the price differences were presented (i.e., as a premium or a discount) had no effect on customers' perceptions of the acceptability either rate policy. Once again, respondents between the ages of 25 and 34 considered non-blended rates significantly more acceptable than blended rates ( $p < 0.05$ ), but no other age group identified a significant difference between the acceptability

of the two. Participants who were unfamiliar with BAR pricing found non-blended rates significantly more acceptable than blended rates ( $p < 0.001$ ). Also, participants who were familiar with BAR pricing found no significant difference in the acceptability of blended and non-blended rates.

#### Reasonableness

Blended rates were considered to be significantly less reasonable (mean = 3.13) than non-blended rates (mean = 4.20,  $p < 0.001$ , see Exhibit 5). Presenting blended and non-blended rates as either a premium or a discount had no effect

**EXHIBIT 5****Reasonableness of best-available-rate pricing**

Note: Mean scores are based on a Likert-type scale of 1 through 7, where 1 equals unreasonable and 7 equals reasonable.

on the perceived reasonableness of these pricing policies. Respondents who were unfamiliar with BAR pricing found that non-blended rates were significantly more reasonable than blended rates ( $p < 0.05$ ), but respondents who were familiar with BAR pricing found no disparity between the reasonableness of blended and non-blended rates.

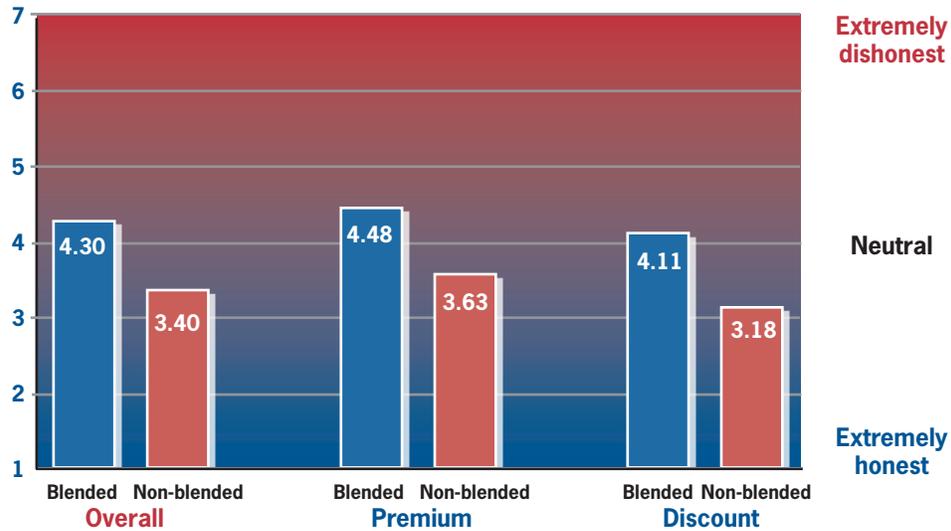
### Honesty

Non-blended rates were considered to be more honest (mean = 3.40) than blended rates (mean = 4.30,  $p < 0.001$ , see Exhibit 6 on the next page). No difference in perceptions of honesty was found in rates presented as premiums or

discounts. Frequency of travel affected customers' perceptions of the honesty of blended and non-blended rates. Frequent travelers (those who had stayed at hotels more than 20 nights in the past year) found no significant difference between the honesty of blended and non-blended rates. However, infrequent travelers (those who had stayed at a hotel one to twenty nights in the past year) rated non-blended rates as significantly more honest than blended rates ( $p < 0.05$ ).

### Implications for Managers

On balance, we found that customers prefer to be given full pricing information (i.e., non-

**EXHIBIT 6****Honesty of best-available-rate pricing**

Note: Mean scores are based on a Likert-type scale of 1 through 7, where 1 equals extremely honest and 7 equals extremely dishonest.

blended rates) when booking hotel rooms as they rated individual rates as more fair, acceptable, reasonable, and honest than blended rates. For managers, the results of our research indicate that respondents would rather be quoted the actual best rate for each night of their stay, rather than an average that conceals different nightly rates. Non-blended rates, such as those accessible through best-rate-guarantee policies, should be quoted to ensure positive perceptions of price fairness and honesty.

As previously mentioned, best-rate guarantees are currently used in many hotel reservation channels. Proper implementation and execution of a best-rate-guarantee policy is cru-

cial. Customers' perceptions of the fairness of the policy may be compromised if the policy's processes and procedures are unclear and unfair.<sup>31</sup> Recent stories in the popular press highlight problems customers have had with best-rate-guarantee policies, such as hotels' inability to verify or reproduce the same rate through the same reservation channel and therefore enact the guarantee.<sup>32</sup> Customers have also been confused over the detailed fine print that ac-

<sup>31</sup> Maxwell, *op.cit.*

<sup>32</sup> Christopher Elliott, "Best Rate? No Guarantees," *National Geographic Traveler*, in ProQuest, as viewed in January 2005; and James Gilden, "'Best Rate' Is Not Often, So Take Advantage of That Guarantee," *Los Angeles Times*, in ProQuest, as viewed April 25, 2004.

companies the guarantee, which often includes time limits on initiating a best-rate-guarantee grievance and restrictions on rates obtained from calling the hotel directly or using certain reservation websites.

To prevent confusion in applying a complex individual-rate policy, a hotel must train employees and communicate with customers. Managers should ensure that standard operating procedures connected to BAR pricing are fair and clear so that property-level employees who may encounter guests dissatisfied with these rate policies could better manage guests' perceptions. Explaining BAR rate policies and their restrictions to customers, as well as divulging the motivation behind these policies, makes them appear more reasonable, acceptable, and fair.<sup>33</sup> Including a simple explanation on reservation-channel websites, such as "the lowest available rates over your stay differ each night because our hotel has several conferences staying here on those dates," may be a quick and easy way to provide customers with desired information and manage perceptions of price fairness.

Our results also show that frequent travelers do not perceive blended and non-blended rates in the same way as do infrequent travelers. As stated earlier, business practices can gain consumer acceptance over time.<sup>34</sup> In our study, frequent travelers found no difference in fairness between blended and non-blended rates, but infrequent travelers reacted more positively towards non-blended rates. Because infrequent travelers preferred non-blended rates (and frequent travelers are happy either way), we suggest that managers should quote individual nightly rates to all customers.

### **Study Limitations and Further Research**

This study has shown that quoting nightly rates individually over a two-night stay—even if those prices differ—had improved customers' percep-

tion of variable-pricing policies. The scenario-based surveys measured customers' responses to a hotel's charging different rates for the same room during a customer's mid-week stay. However, this study is limited, since other factors may also influence customers' perceptions of BAR pricing.

One possible influential factor is the customer's purpose of travel (business or leisure) and, consequently, who is responsible for paying the hotel charges. Customers may have found BAR pricing favorable in this study simply because the scenarios tested were for customer-funded hotel stays. Furthermore, the reasons why the nightly rates fluctuate may also influence perceptions of BAR pricing. Customers may be more forgiving if a hotel charges different rates when a citywide convention is taking place, for instance, than when the hotel simply has a large conference in house.

Customers may make reservation decisions based solely on the total, or bundled, price instead of nightly rates. To better determine customers' preferences for hotel rate quotes, further study may compare perceptions of bundled prices with perceptions of non-blended rates. This line of research would also be beneficial when vacation and travel packages—bundling a hotel stay with airfare or car rental—is prevalent.

### **Customers Prefer the "Best" Price**

Variable pricing is a revenue management tool that is used by the hotel industry to help optimally match the supply of hotel rooms with customer demand. Policies and procedures that stem from a variable pricing strategy may be confusing to customers, so understanding customer reactions to these policies is important. Customers prefer to be quoted individual rates for each night over a multiple-night stay and find them to be generally more fair and honest than blended rates. Managers can use the findings of this study to better tailor the rates quoted and information given to customers when they make reservations. ■

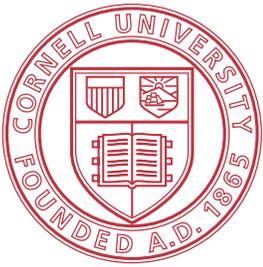
<sup>33</sup> Choi and Mattila, *op.cit.*; and Kimes, *op.cit.*

<sup>34</sup> Kahneman, Knetsch, and Thaler, *op.cit.*

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