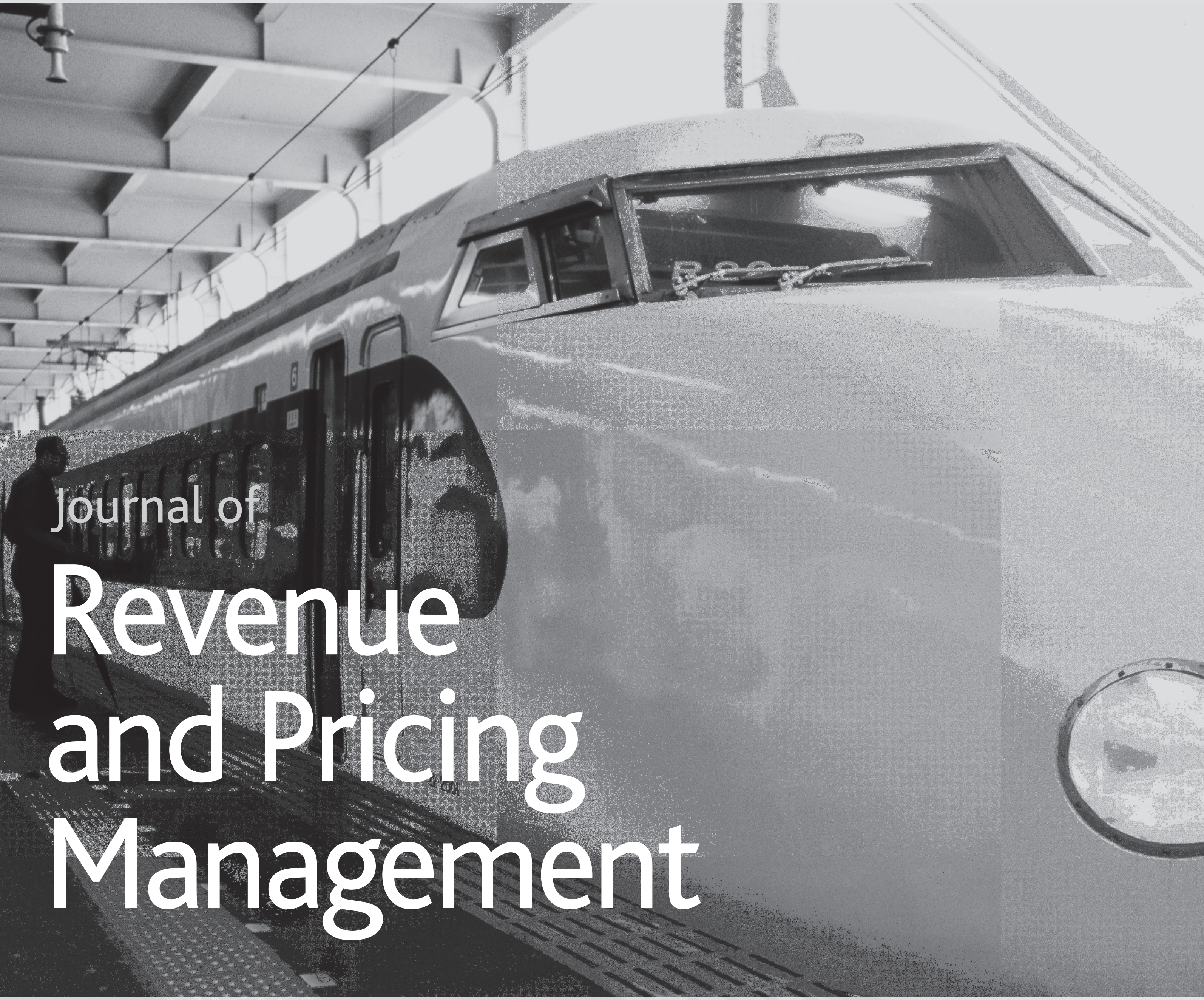
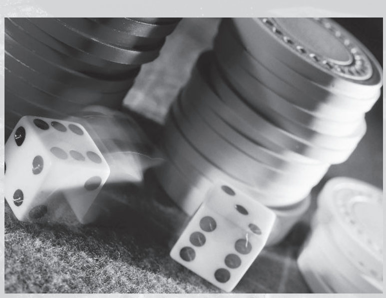
VOLUME 17 | NUMBER 1 FEBRUARY | 2018



Journal of
Revenue and Pricing Management

An Associated Publication of the INFORMS Revenue Management and Pricing Section

Special Issue: Implementing Pricing Strategies

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Journal of

Revenue and Pricing Management

Volume 17 | Number 1 | February 2018

Contents

Special Issue: Implementing Pricing Strategies

Editorial

Implementing pricing strategies **1**
Andreas Hinterhuber

Interview

Elevating the cost of doing nothing: an interview with Mark Shafer **3**
Andreas Hinterhuber, Evandro Pollono and Mark Shafer

Research Articles

Designing salesforce compensation programs to improve pricing execution **11**
Stephan M. Liozu

Nickel and dime guests for amenities: exploring guests' perceptions of resort fees **20**
Seung Hyun Lee and Jaeyong Lee

The importance of transparency signals in à la carte pricing **32**
Thomas Robbert and Stefan Roth

Quantified value first, then price: realizing the positive impact of a value pricing strategy **41**
Todd Snelgrove

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J Revenue Pricing Manag (2018) 17:1–2
https://doi.org/10.1057/s41272-017-0129-6

EDITORIAL

Implementing pricing strategies

Andreas Hinterhuber[1]

Published online: 13 November 2017

Abstract This Editorial presents the papers submitted to the special issue "Implementing pricing strategies." The papers discuss a variety of topics, notably the implementation of revenue management and pricing in Disney, the implementation of value-based selling and pricing in industrial companies, the design of effective sales force compensation systems to facilitate the implementation of value-based pricing and issues related to price presentation. The papers in this special issue suggest that the ability to implement pricing strategies is a watermark separating high-performing from merely average companies. We need more research on this important topic.

Keywords Implementation · Pricing · Value-based pricing · Performance · Organization · Value quantification · Value-based selling

Implementation is a tricky part in the strategy process. Strategy development requires creativity, analytical rigor, and an ability to master the internal political competition for scarce resources, but it takes place in a well-defined environment. Fast forward to strategy implementation: competitors that stubbornly fail to behave according to assumptions, new entrants, internal resistance, new opportunities, changing customer preferences, leadership changes, regulatory interventions, or market growth rates that change unexpectedly are some of the intervening variables between the strategy originally developed and the strategy actually implemented. On the continuum between top-down and bottom-up/emerging approaches to strategy implementation, there are numerous theoretical models—the 8-step change model by Kotter (1995), the Change Acceleration Process by General Electric (Ulrich et al. 2002), the influence model by McKinsey & Company (Keller and Price 2011), the switch model by the Heath brothers (Heath and Heath 2010)—all waiting to be empirically tested: Illuminating this fascinating process by analyzing how specifically pricing strategies are implemented was one objective of this call for papers "Implementing pricing strategies." We made modest progress, if at all.

This special issue consists of four papers plus one interview, selected after a competitive review process from eleven submissions after two rounds of review.

In the interview "Elevating the cost of doing nothing—An interview with Mark Shafer," *Andreas Hinterhuber* and *Evandro Pollono* discuss with *Mark Shafer* the implementation of revenue management and pricing at Disney from the perspective of the company's Senior Vice President of Revenue and Profit Management. Highlights of this interview that is bound to inspire research and practice include the comment that "the cost of doing nothing is not zero," suggesting that elevating the cost of inaction can overcome internal resistance to change and may thus be an important instrument for articulating the need for change. The interview also sheds light on the characteristics at the level of individual decision makers that facilitate the implementation of pricing and revenue management and reminds us of the ever present, frequently invisible biases in this process. Finally, the interview illuminates how *Mark Shafer* was able to instill a sense of passion for data and analytics in a company that is a legend in the entertainment industry.

The paper "Designing salesforce compensation programs to improve pricing execution" by *Stephan Liozu* examines

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the role of sales force incentive systems in the implementation of value-based pricing strategies. The paper is based on interviews with 12 pricing managers in large B2B companies. Pricing strategies live and die in the hands of sales managers. Incentive systems play a role, probably even an important one, in pricing strategy implementation: The literature indicates that the implementation of value-based pricing requires a shift from purely volume-based sales force compensation approaches to approaches that also reward profitability or price realization (Nagle et al. 2011). This paper presents data on the mix between volume- and profitability-based sales force incentive systems that some large companies use to facilitate the implementation of value-based pricing strategies. This paper suggests treating the introduction of new sales force incentive systems as a change management process, as opposed to a one-time event. This requires clarity on the envisioned future, planning, testing, a robust infrastructure (i.e., data), and top management support. This paper also points out that compensation is a highly sensitive topic. A sensible suggestion of this contribution is to allow sales managers to select the compensation approach of their liking during the transition period between the current and the new approach.

The paper "Nickel & dime guests for amenities: exploring guests' perceptions of resort fees" by *Seung Hyun Lee* and *Jaeyong Lee* examines travel reactions to resort fees—essentially discretionary surcharges hotels impose to improve profitability—by analyzing comments on an independent booking platform. The data collection method is problematic: ideally, customer perceptions and booking behavior are analyzed in a control and in a test condition during comparable periods. Not surprisingly, this paper finds that travel reactions to resort fees are mostly negative. Open communication about this mostly hidden fee would probably reduce these reactions.

The paper "The importance of transparency signals in à la carte pricing" by *Thomas Robbert* and *Stefan Roth* analyze the influence of all-inclusive and a-la-carte pricing on student perceptions in a laboratory experiment. The paper finds that, with prices being equal, purchase intentions and perceptions of value are higher for all-inclusive pricing. The unfavorable perceptions of a-la-carte pricing seems to be driven largely by the impression that this pricing tactic is self-serving (i.e., designed to increase profits or mislead customers) and not customer serving (i.e., designed to increase customer satisfaction or transparency). Transparency in a-la-carte pricing seems to decrease negative perceptions.

The practice paper "Quantified value first, then price: Realizing the positive impact of a value pricing strategy" by *Todd Snelgrove* examines the critical factors that executives should focus on when implanting value-based selling and value-based pricing in B2B. This paper reminds readers that compensation is not the only factor. *Snelgrove* suggests that the two critical components to successfully implement value-based selling and pricing are (a) the ability to sell value and (b) the motivation to sell value. The organizational ability is the result of a shared conceptualization about what value is, a value selling process, tools, trainings, and experiential learning. The organizational motivation is the result of sales force compensation, a flexible offer structure enabling customers to select from multiple buying options, a culture built on delivering and communicating value to customers, and appropriate customer selection mechanisms targeting customers most receptive to the value offered. These nine building blocks of implementing value-based selling and pricing in B2B will resonate particularly with practitioners: among a myriad of potential factors, *Snelgrove* points out the few levers that truly matter when implementing value-based pricing. The paper quips about sales managers and athletes asking why performing athletes train continuously to improve performance, whereas few sales managers seem to understand the importance of continuously improving their value-based selling capabilities. This paper takes a nuanced view on pricing strategy implementation and points out that putting into sustained practice ideas such as value-based selling is, indeed, all but straightforward.

As the papers and the fascinating interview in this special issue suggest, the ability to implement pricing strategies separates in very clear and tangible terms high-performing from merely average companies. The implementation capability is a watermark. I trust the papers in this special issue contribute toward better managerial practice and further studies. We need both.

Andreas Hinterhuber
Hinterhuber & Partners
Innsbruck, Austria
November 2017

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J Revenue Pricing Manag (2018) 17:3–10
https://doi.org/10.1057/s41272-017-0130-0

INTERVIEW

Elevating the cost of doing nothing: an interview with Mark Shafer

Andreas Hinterhuber[1] · Evandro Pollono[2] · Mark Shafer[3]

Published online: 20 November 2017

Abstract This interview discusses the implementation of pricing and revenue management in a large, diversified company—Disney. The interview explores success factors to improve profitability by leveraging the role of analytics in the discipline of revenue management and pricing. The interview also illuminates the characteristics at the level of individual revenue and pricing managers that discriminate between high and average performers. The interview finally points towards the existence of biases in revenue management implementation and reminds that the inability to perceive the inevitable biases severely undermines the ability to improve profitability.

Keywords Pricing · Pricing strategy · Revenue management · Implementation · Analytics · Psychological traits

Andreas Hinterhuber:

Mark, today we'll explore insights and key learnings on the implementation of revenue management. Let's begin with your own professional background.

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Mark Shafer:

Of course I always need to start off by saying, the views expressed are my own and not necessarily those of The Walt Disney Company. Any analytics strategies or techniques attributed to Disney are not necessarily those that Disney may use in a given situation.

Now to answer your question, my career started with a startup airline called People Express. After 3 years at People Express Airlines, they were bought out by Continental Airlines. I worked at Continental Airlines for 10 years in both revenue management and pricing roles. I was approached by Walt Disney World 21 years ago to start a revenue management department for their resorts. Disney has always been a leader in innovation; this was a time when the hospitality industry was still in their infancy with revenue management. They were looking for someone with experience from an industry where revenue management was a mature discipline, i.e., the airline industry, in order to bring a new kind of analysis to the company. I started in a traditional hotel-revenue management role at Walt Disney World leading the discipline of revenue management.

Like most early adapters, we started with something rather simple and it evolved to what it is today. As the models became more sophisticated the value noticeably grew as well. This gave us the opportunity to branch out into other businesses within Parks and Resorts. As an example, we implemented what we call the *Customer Centric Revenue Management system* which optimized our sales process at the call center to better understand our guests' needs when they are in the process of selecting a resort/room type. We used this system to ensure we provided the most relevant products for our guests, out of the thousands of possible products we have at Walt Disney World.

Then we introduced revenue management to table service restaurants where it is essential to forecast your turn times. Unlike a resort where it is easy to quantify your inventory by simply counting your rooms, for table service restaurants, you need to forecast your turn times so you will know your sellable inventory to appropriately accommodate your guests. To understand your inventory there is a wide array of things to consider: you need to forecast by day of the week, by time of day, by party size, and so on. With this revenue management solution, we were able to make better predictions of our sellable inventory and thus became better at accommodating our guests' needs.

As our successes grew, so did our opportunities. 10 years ago, we expanded to applying decision science solutions outside of Parks and Resorts to other segments of the Walt Disney Company. We moved away from traditional limited-capacity/perishable-inventory revenue management to leveraging applied science to drive a wide array of better business decisions company-wide. Today, we develop, implement, and integrate analytical software solutions to support the entire Disney Company to help solve some of our most difficult business problems.

One of our early successes beyond Parks was our dynamic pricing and revenue management solution for our Broadway shows such as the Lion King. The market took notice when Lion King was breaking all kinds of box-office receipt records even though it is neither the longest running show, nor in the largest theater, and we do not charge the highest prices on Broadway. Of course, something that cannot be overlooked is that the show is a phenomenal product, clearly this is a key component. However, the software solution we developed to yield manage and dynamically price show tickets certainly played a role in the revenue success. It was fun to see the solution that we developed achieve accolades in articles for the *New York Times* such as, "*Ticket Pricing Puts 'Lion King' Atop Broadway's' Circle of Life"* (Healy 2014), as well as in other major publications.

We have also developed analytical solutions for our media companies such as ABC, Freeform, ESPN, and our A&E partners as well as Disney Studios where we expanded applied mathematics to provide insights for marketing ROI, sales optimization, and viewership forecasts. In short, we expanded the scope and definition of revenue management to include leveraging applied science to drive better business decisions, improve long-term profitability and overall guest/client satisfaction.

Andreas Hinterhuber:

Who recognized the potential for revenue management? Was the initiative driven by middle management, or did it come from the top?

Mark Shafer:

At the very beginning, revenue management was only a forecasting tool to provide operations labor planning insights. Then the VP of Finance hired a revenue management team to get revenue management started and to implement it at Walt Disney Resorts. The decision came from senior-level executives who recognized the successes the airlines were having leveraging revenue management; they identified opportunities for success in Walt Disney World by applying it to our resorts as well. I would define our first solution as less science and more business rules, which eventually was replaced with a full science-based solution.

One of the lessons learned that I would share is not to limit yourself to your own industry, rather find the best overall solution and see if you can transform that model into something that might fit your particular industry. At Walt Disney World, we didn't just look at hotel-revenue management models, we also looked at airline-revenue management models. Recognizing that the airline models were clearly more sophisticated and probably a better fit for us, we basically took an airline-revenue management model and converted it into a hotel-revenue management model. That was our first real big success in revenue management.

Andreas Hinterhuber:

Revenue management is all about the intelligent use of data. What do you do to instill a sense of passion for data in Disney?

Mark Shafer:

That's a great question, we do a lot of things! To start with, we hold a 3-day annual conference on data analytics that we call the Disney Data and Analytics Conference, or DDAC. This year's conference was our sixteenth annual event and it was a big success. The conference has multiple purposes, however, it primarily serves to evangelize data analytics across the Walt Disney Company. We actually have a registered trademark for a term that describes just that, we call it *Evangalytics*® which is the spreading the gospel of analytics.

The first day of the DDAC is only open to Disney employees. This year we had about 800 internal employees attend of which roughly a third were executives from segments company-wide. During the first day, we share learnings in developing, implementing, and integrating the analytics enterprise wide. Of course, that's also a great opportunity to evangelize analytics at Disney and share intellectual property because during this time it's all internal employees.

The next 2 days we open it up to the general public. During these sessions, we invite outside speakers as well. This creates two opportunities. First, it provides our Walt Disney Company colleagues an opportunity to hear a perspective from outside the Disney Company. Second, it provides the Walt Disney Company an opportunity to showcase our dedication and efforts in applied science branding us as a leader in the field of analytics. So when the attendees (this year we had a total of about 1300 in attendance) see this massive forum focused around analytics, it demonstrates that applied analytics is a major discipline and investment at The Walt Disney Company.

So when people think about perhaps working for Disney, they may not instinctively think of us as a great company to pursue an analytics career. Normally when you think of Disney, you think of us as a great creative-content, guest-focused company, which we are. But a lot of that requires strong analytics. It's a big component of our success. One of our greatest opportunities is how we use analytics in unique and different ways that are only possible in a varied company like Disney.

Andreas Hinterhuber:

The key differentiating capability that allows Disney to implement revenue management across the different business units, from parks to studios to ESPN, is this focus on analytical capabilities?

Mark Shafer:

Yes, absolutely—and getting full buy-in across the entire organization. Earlier I talked about the value streams of our conference but there's another value stream in evangelizing analytics. A quote from Jeffrey Ma (who was a keynote speaker at the DDAC 2016) illustrates the point: "There will come a time in analytics where you'll make the right decision but have the wrong outcome". No different than in a football game where the math will recommend you go for a field goal; if you miss the field goal that does not mean you made a bad decision. So, *Evangalytics*® helps you work through these situations where there is a level of uncertainty. By educating and evangelizing analytics across your company, there is buy-in to the value of analytics. So when you have those moments where you made the right decision but had the wrong outcome, you can maintain the buy-in.

Andreas Hinterhuber:

That, Mark, is very well said. You make a distinction between the right process and the right outcome, and you say you would choose the right process 100% of the time, even if sometimes you get the wrong outcome.

Mark Shafer:

I want to mention one other piece. We have introduced something new to our DDAC this year, which we call the DDAW—Disney Data and Analytics Women—where we sponsored women college students to attend our conference. The idea is to help them recognize the career opportunities in analytics, as well as realize that Disney is a great company where they can pursue an analytics career. This was our first year with this initiative. The sponsored students had the opportunity to meet and discuss their careers with women executive leaders in analytics from across the Walt Disney Company and it was very well received by both the students and the executives.

Andreas Hinterhuber:

In terms of current research, one fascinating area explores the micro-foundations of pricing, the relationship between individual characteristics and behaviors and outcomes in pricing: Stephan Liozu and I had the privilege of editing a special issue on this interesting and little explored topic (Hinterhuber and Liozu 2017). This leads to the next question: What are individual traits that differentiate highly effective from less effective revenue managers? Are there differences across Disney's business units?

Mark Shafer:

That's a great question, and I'd say: a couple of things. I'll begin with the obvious. You need to have a strong math background, the desire to continually learn about applied analytics, and the ability to connect the dots. Then there are the characteristics that are often missed such as the need to have an entrepreneurial spirit in that you're always looking for new opportunities. Creativity and innovation are central to the Walt Disney Company. I would argue that revenue management/analytics are still in their absolute infancy. Recognizing all those opportunities that are out there and pursuing those should be a passion and a priority.

A piece that will also drive success is storytelling. Many folks are uncomfortable with math or analytics. You have to find ways to build stories around those analytics so that people can better understand the approach and buy into it. At Disney, we're storytellers. Analytics simply allows us to add numbers to help tell a better story.

Also, individuals who have the skills to identify with the end user of the analytical tools and grasp existing processes, will succeed greatly in this business. This is important as it is one thing to actually develop a software solution that provides the analytics and does a great job of that, but the next piece is what's often missed: the integration of those solutions. You have to understand the business and make sure the solutions integrate appropriately. Say you're working with a team and they've always worked in Excel. Many times we'll develop a software solution that has all the great intelligence behind it, but the front end will look very much like the Excel spreadsheet their team is familiar with, so there's very little process change required of those end users. It's about integrating complex analytics processes with user-friendly business solutions.

The last characteristic I would add is to act like a thermostat. Think of individuals as falling into two buckets, thermometers and thermostats. Your thermometers are going to tell you what's happening, call out opportunities, or potential risks but do very little to act on these opportunities or risks. The thermostats on the other hand are like thermometers and recognize opportunities and potential risks but they also act on these opportunities. That is absolutely critical. Because whether you're evangelizing, developing, or implementing analytics you can be assured you will hit obstacles. You will always run into issues: data issues, buy-in issues, science issues, and integration issues. Therefore, to be successful you have to have that tenacity and the will to succeed to overcome these obstacles. That is the thermostat-type behavior that is a critical characteristic.

Andreas Hinterhuber:

How do you begin to develop an analytical software solution?

Mark Shafer:

When you are looking for an analytic solution, you want to make sure that you don't just limit your search to your own industry. Every industry does something really, really well. What you want to do is identify the best in each of those industries and try to figure out how to leverage those insights. You need a skill set to try to connect those dots—the ability to see something that doesn't look anything like what you're looking for. But if you look with a critical eye, you recognize clearly that there are components from this industry that could actually work and carry it over to your own industry.

When we hire, we look for people with diverse backgrounds. A diversity of teams certainly helps us to approach business problems with varied and unique perspectives.

A great example of using other industries as examples was when we worked with this one airline-revenue management vendor and recognized the similarities between hotel and airline business problems. Airlines have origin and destination considerations which is very similar to hotels length of stay considerations.

This is one of the primary reasons our centralized organization at Disney has been successful. We have been able to leverage the knowledge across the segments within the Disney Company to solve some of the most difficult business problems.

Here is a simple example:

We forecast box-office receipts for studios for every movie. Keep in mind every release is a new movie. So how do you forecast something that hasn't happened before? This is a very similar business problem Disney Cruise Line faces every time they open a new itinerary. So we will leverage tactics and learnings from our studios forecasting to the Disney Cruise Line new itinerary forecasting.

Andreas Hinterhuber:

Great comments. You mentioned roadblocks to the implementation of revenue management.

Mark Shafer:

It's pretty much the traditional ones, which would be the buy-in issues, data issues, and integration issues. Also, in many cases, the business problems we are trying to solve have never been solved before, which is why we drive a lot of patents. So you have to figure out the appropriate science approach to solve our unique challenges. These are probably the biggest roadblocks that come to mind.

Andreas Hinterhuber:

You said before: don't be stuck to your own industry. Learn from the very best regardless of where they're coming from. This leads to the next question: from whom are you currently learning?

Mark Shafer:

Well, every industry does something really, really well, and they're all improving. You can't just look at any one industry and say "Oh, that's where you want to go." You've got to look at them all, and just really try to figure out the best of breed from these industries to solve your specific business problem.

And that is what I like about using the *Journal of Revenue and Pricing Management;* leveraging those learnings across industries, whether it's an airline example, or a hotel example, or a supply chain example, whatever the case may be. Whenever something is in there, because it is multi-industry, try to use that and leverage that for your own industry. Just look for the best. But you've got to stay on top of all those industries.

I would also say we do have a big focus on machine learning. We're finding more and more applications. So that's a big investment for us.

Andreas Hinterhuber:

You use artificial intelligence and machine learning to automate processes which are done manually at present?

Mark Shafer:

Yes, or even just an improvement to existing solutions. In some cases, we may use statistical models that provide segmentation and forecasting, and in some cases, we may move more towards machine learning because it just does a better job. Especially when you've got a lot of data coming in and it's an ever-evolving industry, particularly anything online. It's constantly evolving. If you have, like with machine learning, the ability to adapt and learn and make changes quickly, it certainly helps.

Andreas Hinterhuber:

How do you see the future of revenue management at Walt Disney? One important part clearly is the focus on machine learning and artificial intelligence.

Mark Shafer:

Yes. But the other piece—literally what we're always doing—is going out there and looking for where people are making business decisions. Just simply thinking about all the business decisions that are made in any company, probably thousands if not millions of decisions are made every single day. What we're trying to do is go out and identify some of those where, if we use analytics and decision science, we can drive better business decisions.

We don't limit ourselves to traditional revenue management, as I said before. Literally, we're looking for any place where we can simply drive better business decisions through the application of decision science.

Andreas Hinterhuber:

Great little piece. Evandro, you also had a set of questions.

Evandro Pollono:

Indeed: In the experience of Hinterhuber & Partners, you need a theory and a process to implement lasting changes in pricing and, quite frankly, in any other area that affects how people work together in organizations. I will cite the 8-step change model by Kotter (1995) or the Change Acceleration Process by General Electric (Ulrich et al. 2002) as examples of such a theory. What theory or process do you use to get buy-in for your initiatives in pricing and revenue management?

Mark Shafer:

We have very clear steps once we've got buy-in to start a process developing an analytics software solution. But before that, we have a lot of conversations. A couple of things we've learned over the years is that simply hearing the successes from us—a central function—is usually not enough. What better way to share success than from a partner who has already seen the benefit of our approach? So, many times we'll make sure that perhaps one key partner of ours will hear a success story from another key partner.

That's the advantage of the conference. Attendees get to hear the learnings from other business segments, not just from us. If you ever came to my office, you'll see that I have hundreds of books. I'm always giving out books. Again, hearing it not just from us but from a third party clearly makes a difference in getting people to buy-in to analytics. So if I know of a particular book that has a success story in it, where someone applied analytics in a very similar situation, I'll make sure I give our partner that book.

The other piece is constantly developing everyone's acumen when it comes to analytics. It's a huge component. The conference does just that; it is a forum for education. The best thing I can have is someone across the table from me, a partner of mine who helped develop that analytic solution, to be fully aware and knowledgeable when it comes to analytics. So the more I can get the company to reach that level, the better off we are. One of the key components is not just evangelizing it—we're also developing our customers into very smart analytic leaders. Besides the conference, we send out quarterly newsletters containing success stories and learnings from our various partners within Disney. As you can see, we are all about having multiple touch points for analytics education. But it doesn't stop there.

We also take the best presentations from our conference and present them online regularly throughout the year as part of our Speaker Encore series. So we're constantly exposing our partners with the opportunity of development when it comes to analytics. That development is essential to getting around the barrier of an unfamiliarity with analytics and more specifically what our department does to help drive business results.

Then, when there is an opportunity to pursue a new idea, you're already ahead of the game. So don't start just simply by saying "I found a solution" which you then go out and sell. Start way before that. Get everyone starting to buy-in to the value of analytics. Get them to understand the value of data-driven decisions. The value of moving away from averages, to quote Sam Savage and "*The Flaw of Averages*" (2009). I've probably given out a 100 copies of this book—it's very good, easy to read. Most places start with simply making decisions based on averages, which is not a bad place to start; however, if you can just move them away from averages, to understand the distribution around those averages, that's not only a huge science leap, it's also a huge win for the organization and in many cases drives significant value. We are always looking for these types of opportunities: science that improves decision quality that in turn creates value.

Evandro Pollono:

Great insight. The other, fundamental insight is to have a game plan in mind where you start almost like it was a journey and you continuously maintain the organizational energy towards analytics and revenue management.

Mark Shafer:

Absolutely. That's exactly right. It's never a single decision. It literally is a mindset. We always talk about revenue management as a discipline not an application. It's a mindset you have to get started. Like I said, don't wait for the opportunity to actually go ahead and apply analytics somewhere to start evangelizing analytics. Start fostering the mindset in advance of any analytical application.

There are many opportunities you'll never even see that are buried within your organization. I'd say right now, as an example, when we first began doing analytics for the enterprise, I'd say probably 90% of the opportunities came from us identifying them. I would say it's almost 50/50 if not 60/40 that now our clients, our partners, are reaching out to us: they are now identifying the opportunities. They have been able to identify them because they've developed their own framework on analytics and the discipline for how to think about their business, with our help of course. Self-realization is what continues to evolve.

Andreas Hinterhuber:

In summary: at the beginning, 90% of the opportunities in revenue management were identified at a central level, whereas now about 60% of opportunities are generated at a decentralized level by your own partners.

Mark Shafer:

That's exactly right. What's exciting is that opportunities are now generated by all of the segments and all departments across The Walt Disney Company. Analytics can solve the wide array of business problems in every discipline. So you have to make sure you bring this discipline across the organization and there are lots of unique ways that analytics are implemented across our company.

I think many people start out with something simple like, "I wanted to implement revenue management." Then they try to start evangelizing revenue management. But they should start even before that. Start evangelizing analytics, data-driven decisions, decision science, to everyone in advance, and all those various opportunities will start to unveil themselves. As I have mentioned, buy-in is always the greatest challenge so the earlier you can start promoting Evangalytics®, the better!

Evandro Pollono:

Great insight, very well said. I would like to explore one further point. You say you encourage people to bring new ideas from other industries. How do you decide which ideas to implement? Let's say you have ten people with ten ideas. How do you say "Okay, we're going with this one, run some experiments, but we will drop the other nine"?

Mark Shafer:

That's a very good question, Evandro. When we prioritize our workload—and we have to because, as you can imagine, I could be doing this for another hundred years and I wouldn't be able to catch up with everything that's still out there—we do a couple of things.

One obvious thing is to identify the highest value. Value could be defined as anything from enhancing the overall guest experience to improving profitability. Different projects have different definitions of value. The other things we certainly look for are speed to market. Also, how clean is the data? Has the data ever been used in this way before? The buy-in is huge. Is the opportunity being identified by the end client, or is it coming from us? If it's coming from the end client, that means there's a lot more buy-in typically. So we certainly prefer opportunities coming from decentralized units.

Lastly, I would say is take into account the ability to leverage components or learnings from one business problem to another. This in itself assists my earlier comment on the importance of speed to market. We have developed many really good solutions that we frequently leverage across our projects. When we see success with a solution, this makes the buy-in from our partners much easier to achieve.

Evandro Pollono:

Mark, are there any further points that we should explore in the area of implementing pricing and revenue management?

Mark Shafer:

There are a couple of things I want to make sure we call out. Many times when we think about applying analytics or applying revenue management, we think of it as a go or no-go decision. We tend to think the initiative has an investment profile. We tend to think about the value the initiative is going to bring. But the piece, I think, that's often missed is not only the potential expansion in revenues, but the effect on the organization if you do not pursue analytics. That is key: your competition does something like revenue management and you don't. Or your competition is smarter about movie selection or forecasting than you are—what are the implications of that? If I say that I will not pursue this opportunity today, I will do it in the future based on capital constraints—what are the potential financial repercussions of not acting? Recognize that you're not simply forgoing revenues, you may be forgoing your existing base, if you will. That's something you have to be very careful with.

I would argue today we're very much in a global analytics race. You have to recognize that yesterday's strategies, strategic advantage, can quickly become tomorrow's industry standard. So there's a cost to doing nothing. I think that's a piece we often miss.

Andreas Hinterhuber:

Mark, I will quote you on this one: the cost of doing nothing is not zero. This is a great, quotable quote.

Mark Shafer:

Thank you. The other piece I would also remind everyone about is that you're never done. Take our hotel-revenue management model. We implemented hotel-revenue management twenty-one years ago, and we're constantly improving it. Even though it is perhaps one of our more sophisticated solutions, we're not done. We are constantly evolving the solution: the science is getting better, the processing power allows us to do more, and the business environment is changing. You have to recognize that you're forever evolving. You are never done. There's a quote by Walt Disney that I like to use a lot: "Let your past inspire you. Let it motivate you. But never let it hold you back." It's something we think about a lot around here. We are always looking for ways to improve.

Andreas Hinterhuber:

Great. Mark, I really appreciate your insight on the cost of doing nothing. Essentially you suggest: elevate the cost of doing nothing to energize the entire organization to act.

Mark Shafer:

Exactly. One last piece, and I will finish here with this, is to recognize your system biases as well as your data biases. Be very transparent about those to the end user so they know how to interpret the results or recommendations. That is absolutely critical. We have a saying here: "All our solutions are tools, not rules." You still have to make sure that there is oversight in all these solutions. Our people are still very important to the success of our solutions. The key point is: be conscientious and transparent about the biases of the solution and the data. There are always biases, and you have to interpret the results appropriately. Educate your people and promote Evangalytics® in your organization in order to achieve maximum business success.

Andreas Hinterhuber:

I would agree with you on this one. Biases are real and pervasive and I, too study them passionately (Hinterhuber 2015). Mark, we really enjoyed our conversation. Thank you for your time and insights and for the privilege of this firsthand intellectual exchange on a fascinating topic.

Evandro Pollono:

Thank you; we really enjoyed this exchange of ideas.

Mark Shafer:

Thank you for this opportunity.

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J Revenue Pricing Manag (2018) 17:11–19
https://doi.org/10.1057/s41272-017-0131-z

RESEARCH ARTICLE

Designing salesforce compensation programs to improve pricing execution

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Published online: 7 November 2017

Abstract Despite progress over the past few years, the pricing function has far to go to reach the maturity of other business disciplines. In the area of pricing execution, also known as price getting, many firms do not fully realize the potential of their pricing strategies and are instead stuck in a zone of good intentions. Often, this lack of strategy-execution results is due to issues with salesforce compensation plans and how they might be encouraging the wrong behaviors. As the pricing and sales literature remains silent on the connection between pricing execution and salesforce compensation, we conducted qualitative interviews with 12 pricing executives to inform the relationship between the two constructs and to identify best practices in the design of salesforce compensation plans to improve pricing execution. Our results highlight the sensitivity of the topic of changing salesforce compensation and the need to add pricing as part of a basket of variables, to consider a 2- to 3-year transition period, and to embrace critical change-management considerations. Finally, the need for accurate and transparent pricing information is essential to the design of these profit-driven salesforce compensation plans.

Keywords Pricing · Pricing execution · Sales force compensation · Change management

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Introduction

Over the past 10 years, the pricing discipline has made great inroads (Hinterhuber and Liozu 2012b). More and more firms are adopting modern pricing practices (Liozu 2016), new pricing models are emerging to complement new-to-the-world business models (Hinterhuber and Liozu 2014), customer value quantification is becoming a hot topic (Johansson et al. 2015), and collaboration between pricing and sales teams has increased greatly (Hinterhuber and Liozu 2015).

Despite these major advancements, we have much work to do to embed pricing in the minds of top leaders as a top priority for growth and profitability. Even when they get started, companies find themselves stuck in a zone of good intentions (Hinterhuber and Liozu 2012a). Having great plans and pricing strategies is only half the battle. Executing them is another story (Liozu 2015b). Both price setting and price getting are necessary to delivering the impact that top leaders expect (Liozu and Hinterhuber 2014). One challenge is getting the salesforce on board (Liozu 2015a) and implementing the right compensation plans to motivate the sales team to embrace and execute pricing tactics (Pollono 2015).

Sales compensation is often mentioned in practitioner circles as one of the major issues facing pricing and sales operations team. The pricing and sales literature is silent on the topic of salesforce compensation to drive pricing execution. Over the years, scholars have addressed issues of pricing authority (Homburg et al. 2005), pricing delegation (Frenzen et al. 2010; Lal 1986; Mishra and Prasad 2004), and pricing confidence (Liozu 2015c; Liozu and Hinterhuber 2013). For the most part, discussion of salesforce compensation and pricing has been delegated to pricing consulting firms and practitioner circles.

To close this gap, we conducted semi-structured interviews with 12 executives in business-to-business (B2B) companies who have direct responsibility for and oversight of pricing and compensation plans. We conducted these expert interviews by telephone with the purpose of discovering best practices and critical considerations when designing salesforce compensation plans to drive pricing execution.

Our findings highlight the difficulties of changing salesforce compensation in general. Our experts agree that pricing cannot be the primary variable in what they call a basket of variables. Due to the considerable change-management challenge in changing salesforce compensation, they recommend adding a pricing key performance indicator (KPI) as a third item in the basket. They also propose that having accurate data is key to driving pricing execution. Finally, driving pricing execution through changes in salesforce compensation requires tremendous change-management support. Changes should be incremental and take place over a period of 2–3 years.

Prior research

The literature is rich in papers related to salesforce compensation, performance-based programs, and individual performance drivers of sales representatives. The pricing literature generally discusses pricing centralization, delegation of pricing authority, and price realization without offering any broad perspective on the impact of salesforce compensation plans. Literature focusing on both salesforce compensation and pricing is scarce. Most scholars have focused on peripheral and important dimensions impacting compensation systems. For example, strategic misalignment can lead to pricing issues and to potential irrational pricing decisions (Liozu 2013a, b). Misalignment of organizational incentives and goal systems is often mentioned as contributing to organizational tensions and potential challenges to performance (Kerr 1975; Hinterhuber 2008). 'Rewarding A while hoping for B' (Kerr 1975, p. 1) potentially leads to misaligned incentive systems and to the creation of organizational frictions in the firm (Barnard and Andrews 1968, p. 139). Incentive systems designed by top management can serve either to 'sharpen or to blunt their decisive effectiveness' (Walton and Dutton 1969, p. 75) depending on the background of the top leaders and their track record should they come from a sales background (Pollono 2015).

The literature on pricing, and specifically on the deployment and assimilation of value-based pricing programs, suggests that reward systems based on pricing and profit need to be formalized and implemented across the organization to break down silos thinking and remediate a potential lack of accountability (Hinterhuber 2004, 2008). Getting the salesforce to buy into a new compensation program focused on profitability requires involving more than just the salesforce (Liozu 2015b). A value-based transformation requires value-based incentives across the organization to generate an army of value merchants (Anderson et al. 2007). These value-based incentives must be based on performance-oriented goals—most likely as revenue, margin, growth, pricing—to drive positive change in salesforce behaviors and focus (Kohli et al. 1998; Coughlan and Joseph 2012; Silver et al. 2006). Other research findings also indicate that sales incentives are critical to successful pricing transformation (Liozu 2011). It is essential that sales and account management be rewarded based on appropriate performance criteria and also have 'skin in the game' (Liozu and Hinterhuber 2013).

Finally, pricing consulting firms have designed highly technical methodologies for creating data-driven salesforce compensation plans to improve price realization (Soulliard 2010; Zuponcic 2013). These methodologies offer customized approaches to firms interested in changing their salesforce compensation plans. Although these are useful, consultants do not propose generalizable and research-based approaches to deploying new compensation systems that include a pricing component.

About the research

We conducted qualitative interviews with 12 pricing and marketing executives from large B2B organizations (see Table 1). Our intention was to select senior executives with experience in designing, influencing, and deploying salesforce compensation programs.

Participants were selected based on their organizational seniority and their organization's pricing maturity. Selections were validated by the president of the Professional Pricing Society.

The primary method of data collection was semi-structured interviews conducted over a 3-month period, from April to June 2014. Twelve interviews were conducted by telephone at the respondents' place of employment. The interviews, averaging 30+ minutes, were digitally recorded and subsequently transcribed by a professional service organization. We focused on these executives' experiences in addressing pricing execution and with designing modern and progressive salesforce compensation plans to help execution. We asked open-ended questions to motivate rich and specific narratives and used probes when necessary to clarify and amplify responses.

Consistent with thematic data analysis techniques (Boyatzis 1998), transcripts were reviewed and treated

Table 1 Sample of respondents

Respondent	Title	Industry	Size
1	VP of pricing	Medical equipment	> 10,000 employees
2	Director of pricing	Telecom equipment	> 10,000 employees
3	Director of pricing	Safety equipment	5000–10,000 employees
4	Director of corporate pricing	Chemicals	> 10,000 employees
5	Director of marketing	Medical equipment	> 10,000 employees
6	VP of pricing and customer excellence	Tool and equipment	> 10,000 employees
7	VP of corporate pricing	Heavy industrial products	> 10,000 employees
8	VP of pricing	Specialty medical products	> 10,000 employees
9	VP of pricing	Chemicals	> 10,000 employees
10	VP of pricing and customer analytics	Knowledge intelligence services	> 10,000 employees
11	Operating partner—pricing and analytics	Private equity firm	5000–10,000 employees
12	Director of value realization	Building materials	Under 1000 employees

through several rounds of coding to identify relevant themes.

Findings

Our findings unveil the complexity of changing salesforce compensation plans in general. There is added complexity in tying salesforce performance to pricing performance, which requires intense preparation and supposes control over data, systems, and financial models. Finally, as with any transformational program, changing salesforce compensation to improve pricing execution requires a great deal of change management.

Finding 1 Any change in salesforce compensation plans is emotional, sensitive, and potentially explosive. It must be handled with extreme care.

All respondents agree that changing salesforce compensation plans is a sensitive and potentially explosive effort. There is nothing easy about messing around with the earning potential of a sales team:

> It's enormously sensitive. I was on commission for 12 years as a salesperson. My sales compensation was changed twice. Both times, I made more money from the change. Both times, I was furious and thought my bosses were trying to cheat me. And I don't think I am a crazy emotional person, but it's incredibly sensitive (Respondent 1).

> You are messing around with someone's pay. So that really gets people nervous when you start messing around it (Respondent 3).

> I think some of this is just trying to keep the peace. It is trying to maintain harmony with the salesforce because anytime you start monkeying around with someone's compensation, that is pretty sensitive (Respondent 4).

Adding a pricing component to a salesforce compensation program can add complexity, as pricing is often considered a complex process:

> Changing the salesforce compensation is not an easy proposition, especially when you want to include pricing components to variable pay. Both are explosive topics, and you have to prepare well (Respondent 12).

Considering the emotional nature of the topic, most respondents agree that there is much more to designing salesforce compensation plans with a pricing component than the mere technical aspects. The human and emotional aspects of the change need to be factored in, too.

Finding 2 Improving pricing execution with the salesforce requires a change in the target variables. Developing a basket of variables seems a good approach. Including a pricing KPI in this basket improves pricing execution.

One the technical front of the discussion, 11 of 12 respondents agree that a salesforce compensation plan that includes a pricing component has to be set up as a basket of variables, as shown in Table 2. The ideal number of variables is two or three.

Because sales reps are sales reps, most respondents agree that volume, or total sales revenues, should remain the largest component of variable compensation. Ten of 12 respondents declare that volume and total sales revenues need to remain the primary target and assigned the highest weight in the basket (50–75%). Most of our respondents also agree that there should be no capping of compensation plans when they are allowed to drive improved pricing execution. Similarly, most respondents are in favor of using escalator and de-escalator mechanisms to promote pricing and margin performance.

Table 2 Structure of compensation plan for greater pricing execution

Respondent	Number of variables in basket	Variables	Weight distribution	Capping?	Escalator/de-escalator?
1	3	Volume/growth/price	50%/40%/10%	No	Yes
2	3	Total sales revenues/margin/price	50%/25%/25%	N/A	N/A
3	3	Total Revenues/margin/pricing	50%/35%/15%	No	Yes
4	1	Contribution margin	50% individual/50% BU	No	Yes
5	3	Margin/total revenue/price	50%/40%/10%	Yes	Yes
6	3	Total revenue/avge discount/price	60%/20%/20%	No	Yes
7	2	Volume/sales mix/price	50%/25%/25%	No	Yes
8	3	Revenue/new client acquisition/price	60%/20%/20%	No	Yes
9	2	Sales revenue/EBITDA	50%/50%	N/A	N/A
10	3	Revenue/growth/price	50%/30%/20%	No	Yes
11	3	Volume/gross margin/price	75%/15%/10%	No	Yes
12	3	Total revenue/margin/price	50%/30%/20%	No	Yes

When asked what might be the most appropriate pricing KPI to use in a variable basket, most respondents consider year-on-year improvements in pricing to be relevant (see Table 3).

This pricing variable would be introduced as a third component of a basket and would represent 10–25% of the overall variable potential, as shown in Table 2.

Finding 3 Changing sales force compensation to drive pricing execution cannot be done overnight. Time to transition is necessary.

Changing salesforce compensation to drive pricing execution cannot happen overnight. Ten of 12 respondents agree that a transition time of 2–3 years is needed (see Table 4). Two respondents prefer a 'big bang' approach to make the change once and for all.

A transition time is necessary to deploy the changes incrementally and to show that the new compensation plan is neutral:

> We run dual compensation for 6 to 12 months and we pay them the most. So we run it both ways for that period of time. We are going to show that it is pretty neutral, but for 6 to 12 months we will pay you whatever is more or we will pay you the old way (Respondent 3).

> It is like the old Change Management 101 that just says 'be incremental so that you can phase the changes in' (Respondent 11).

> We have changed compensation over three years to let the sales organization adjust to it and to also

Table 3 Recommended pricing key performance indicators

Respondent	Pricing KPIs
1	List price realization
2	"Price quality": actual average sales versus plan
3	Year-on-year average discount improvement
4	Value realization (using EVE®)
5	Price realization versus prior year
6	Average sales price (ASP)
7	Year-on-year change in pricing
8	"Price erosion": year-on-year ASP
9	EBITDA
10	Year-on-year ASP
11	ASP—deal pricing realization versus expected
12	Year-on-year ASP and discount improvement

Table 4 Recommended transition time

Respondent	Transition time
1	2–3 years
2	3 years
3	At least 2 years
4	2–3 years
5	2 years
6	Big Bang—3 years of preparation
7	Big Bang
8	3 years
9	2–3 years
10	2–3 years
11	2–3 years
12	3 years

Table 5 Change-management considerations

Respondent	First	Second	Third
1	Pilot studies	Financial models	Psychology of winning
2	Top sales leadership on board	Lots of examples	Confidence in Data
3	Strategic contextualization	Reassurance on fair transition	Top sales leadership on board
4	Strong case for change	Data accuracy	Fair process with exceptions
5	Strategic contextualization	Data accuracy and transparency	Simplicity of the program
6	Confidence in data	CEO and C-suite Support	Fair process with bridging
7	Top sales leadership on board	Clear direction in the process	Simplicity in KPIs
8	Accuracy of data and systems	Design plan with sales force	Top sales leadership on board
9	Strategic contextualization	Aligned goals and objectives	Long term orientation
10	Simplicity of the program	Strategic Contextualization	Design committee with sales
11	Align business and compensation strategies	Financial models to test	Early stakeholder on boarding
12	Top sales leadership on board	Change communication	Tools, models, and data in place

> prevent any major disruption in the business (Respondent 12).

Finding 4 Improving pricing execution using salesforce compensation requires change management at all levels. Things do not happen overnight, and good preparation is key.

All respondents declare that change management should be taken seriously when adapting salesforce compensation plans to strategic profit priorities. Table 5 shows an overview of answers by respondents and by priority when they were asked what critical change-management considerations are important to the deployment of new plans.

Roles of top sales leaders

Consistent with previous research on top management championing of pricing efforts, our respondents often mention the role of top sales leadership (5 of 12) in the successful deployment of salesforce compensation plans for superior pricing execution:

> Change management is a huge undergoing. You have to have complete buy-in. Sales leadership has to believe in what you are doing, and you have to be able to link it directly back to the overall strategic vision of the business and what the financial impact objectives are for the business (Respondent 2).

> Without the top-level sales—not just the CEO saying it is a good idea and the president who supports it—it is not going to fly. You are going to be struggling (Respondent 3).

> What top sales leaders are saying is that the pain is not greater than the gain. They say, 'We have looked at this, and the pain of change is too big for the gain we expect to get' (Respondent 5).

Strategic contextualization

Similarly, 4 of 12 respondents mention the need to contextualize the changes in salesforce compensation for greater pricing execution in the overall strategic story of the firm:

> We did it just as compensation, but that probably the wrong way to do it. It should have been explained as part of the bigger strategy (Respondent 3).

> I think, first off, in an ideal world, it is an end-to-end process where you start with the right strategy with the right policies and with the right compensation plans. And your compensation should move your strategic objectives (Respondent 5).

> The business strategy is what is going to set your [compensation] objectives. We would then bring the tools and capabilities to measure and communicate how effective they are doing that (Respondent 9).

Need for simplicity

Keeping the new compensation plan simple was mentioned by 3 of 12 respondents:

> So I think you have to have your special sessions with lots of examples. And again, make it as simple as possible so that it can be implemented (Respondent 2).

> So we tweaked compensation. It was too complicated… My recommendation is to choose one system that is simple enough (Respondent 5).

> Sales teams are very fickle. You want to give them notice but not too much. You want the CEO saying the same thing as the head of sales. You want the message to be simple. Some of it, you need to dumb it down. Two dimensions are better than eighteen (Respondent 11).

Finally, one respondent highlighted the need to play on the competitiveness of the salesforce as a way to drive great sales at a higher price:

> Any time I am working with the salespeople, I am always talking about winning. I always use the word 'winning' because that is what they want to do. Any salesperson would prefer to win at a higher price and brag about that (Respondent 1).

Finding 5 Without proper data, you will not be able to gain the confidence of your salesforce. Pricing is often considered a black box. Data and systems are the backbone of your change process.

In line with our latest finding, where 6 respondents of 12 mention the need for accurate data (see Table 5), respondents listed some of the questions they had to ask themselves in preparation for their salesforce compensation transition plans, as shown in Table 6.

In general, all respondents agree that much attention should be paid to the accuracy of the data, as highlighted below:

> You are cobbling something together that is not originally designed to [be cobbled together]. You are not certain of the absolute accuracy of that. And you are paying people based on stuff that might not be perfectly accurate (Respondent 1).

> You have to make sure that you can do it correctly, because salespeople are very quick. They look at the data that is being used to justify the payout and challenge it (Respondent 4).

> You start getting into 'is the data available?' And things start falling off the rails right here. So you conclude that it is too much of a headache, too much risk, and that we do not have the data. Because if you do not have the data, you will always have sales reps arguing with you (Respondent 6).

All respondents mentioned that the dimension of data accuracy and transparency are necessary to give the salesforce confidence that the addition of pricing to the basket of variables is not only accurate but also fair. That notion of fairness is reflected in some of the answers listed in Table 5.

Table 6 Critical questions around data

1	Do I have reasonably **clean** transactional data?
2	Do I have clean **structured** pricing data?
3	Can I **replicate** the sales force informal compensation calculations?
4	Can I replicate and project current compensation levels using existing data?
5	Do I have the proper **systematic** tools and methods in place across all sales groups?
6	Do I sufficiently understand the **subjective** mechanisms that impact sales force compensations?
7	Do I fully understand customer **mix**, product mix, true pricing effect?
8	Do I have the right data to **model** future KPIs and drive behavior?
9	Is the data **readily available** to be able to dynamically inform the sales force on performance under new plan?
10	Have I sufficiently taken into account qualitative information (exceptions, deviations, special contracts)?

Conclusions and discussion

Our research project highlights some of the key considerations in changing salesforce compensation plans to drive greater pricing execution. Based on the state of prior research and insights from 12 top executives, we draw the following conclusions.

First, we highlight the fact that a basket of variables is the most appropriate way to add a pricing KPI to the variable-compensation equation. Moving from a single variable to a multi-variable basket requires proper attention to detail, as shown in the list of key questions to think about proposed in Fig. 1.

Essential to the discussion is selecting the proper pricing KPI and defining the proper distribution of weights in the basket. The selection of the variables to be included in the plan also might lead to the question of data availability and accuracy, as suggested by our respondents. This conclusion supports previous findings from other pricing scholars who have highlighted the strong need for alignment between business priorities and sales force compensation (Liozu 2015a; Pollono 2015). It also suggests that change management requires proper incentives to focus relevant stakeholders to the right reward system (Kerr 1975).

Second, we proposed that redesigning a salesforce compensation plan to include a pricing component requires a transition and a change-management process. Based on our respondents' insights, we propose three steps, as shown in Fig. 2.

Step 1 focuses on understanding of the current situation and forming a burning platform for change which might

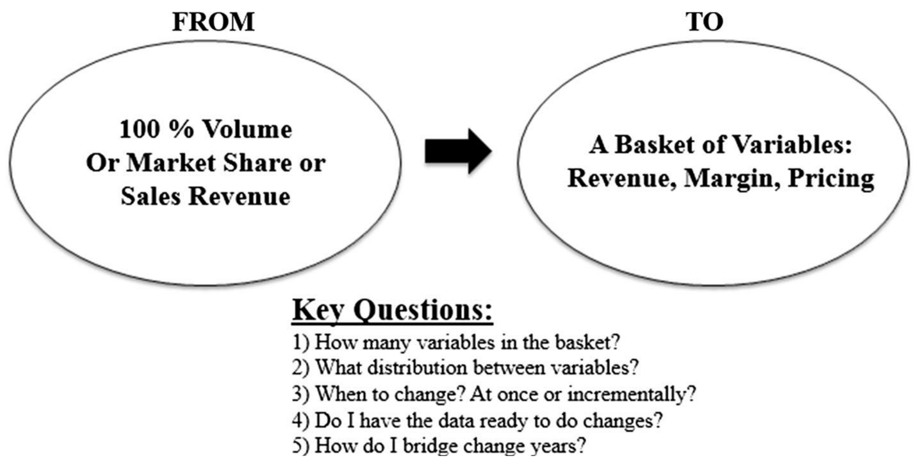

Fig. 1 A compensation based on a basket of variables

include the strategic contextualization often mentioned by our respondents. Step 1 also identifies and prepares relevant data. Step 2 focuses on designing and testing the new salesforce compensation plan by developing the change roadmap and designing the relevant financial models to project the future for the salesforce. Step 3 focuses on deploying and engaging the salesforce to build their confidence and help them assimilate the new plans. This transitional model focuses on all the critical considerations proposed by our respondents in Table 5. It also allows pricing and sales leadership to build the right level of confidence in the sales team (Liozu 2015c) so that they do not feel cheated in anyway. A transitional model creates a sense of rationality as they see the small changes in incentive plans without negative effect (Liozu 2015b).

Third, we propose that the factors critical to successfully designing a pricing execution-focus plan relate mostly to preparation and change management, as shown in Fig. 3.

One might argue that this list could be applied to any redesign of salesforce compensation plans and not just to those that might include a pricing component. We agree. But considering the emotional nature of pricing in general and the lack of pricing data in organizations, we want to reinforce the need for extra preparation and change-management preparation. Bringing the salesforce on board during the design phase of the new plan is essential (Liozu 2015a).

Fourth, and finally, this research also highlights the need for further discussion on the role of salesforce compensation to drive pricing execution. The words of Respondent 7 summarize this well:

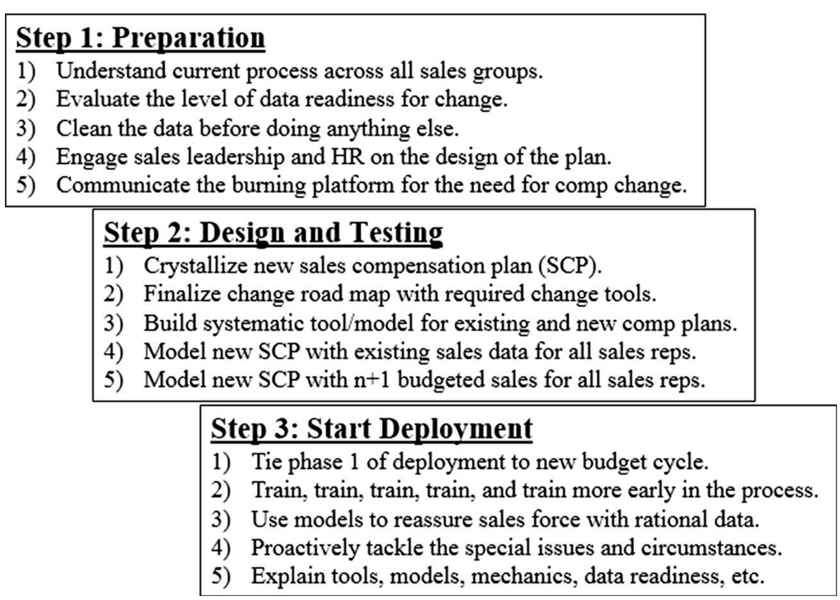

Fig. 2 Incremental change and transition process

1. Data, data, data, and **data**!
2. Understand where you are **starting** from.
3. Prepare a **roadmap** for compensation adaptation.
4. Create **advanced models** to project variations, to duplicate current and future plans, and to identify outliers.
5. Get **all levels of sales** involved in the change design.
6. **Communicate** extensively across the board.
7. Use all change management **tool box**.
8. Do not **rush** the process or be too process-oriented.
9. Be transparent, clear, mindful, **fair**, and consistent.
10. Remember that the last you need is a sales force **revolt**.

Fig. 3 Key successful factors for changes in salesforce compensation plans

> I think people want a magic measure to help them make perfect decisions and it does not exist. There is too much noise. There are too many bad behaviors. When somebody says 'I just want a better compensation system', what they are really saying is 'I do not want to manage prices'. All of that together and 'we still want to manage price through sales for incentives'. To me that does not make sense. To me I would rather say 'pay them any way you want, just do not let them make a price decision'.

In other words, do we manage the issue of price delegation or the issue of salesforce compensation to drive pricing performance? Is the gain greater than the gain? Should we make all pricing decisions for the salesforce and let them execute with no deviations? This question calls for further research on the trade-off between price delegation (Bhardwaj 2001) and salesforce compensation (Pollono 2015).

Limitations and future research

Our findings should be reviewed in light of several limitations. Our sample included only large B2B firms hand-selected based on their pricing maturity and the seniority of their executives. Including other sectors and firm sizes might yield different findings. We have significant experience in the knowledge of B2B pricing, especially in the area of pricing strategies and tactics. However, we remained mindful of the risk of bias (Corbin and Strauss 2008), using open-ended questions to elicit rich, unstructured responses to capture respondents' experiences and stories (Maxwell 2005), interpretations, and understandings of pricing challenges and salesforce resistance.

Our intention with this qualitative study was to establish a platform for future research. The impact of salesforce compensation plans on pricing execution should be studied more consistently across regions and sectors. There is a need to demonstrate a direct relationship between price-driven salesforce compensation plans and firm performance (Coughlan and Joseph 2012). The role of top sales leadership in driving changes to salesforce compensation plans also deserves some attention. We hope to stimulate the desire of scholars to further investigate the topic.

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J Revenue Pricing Manag
DOI 10.1057/s41272-017-0127-8

RESEARCH ARTICLE

Nickel and dime guests for amenities: exploring guests' perceptions of resort fees

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Abstract Resort fees refer to a mandatory daily surcharge imposed on guests for services and facilities. Although about 10% of U.S. hotels charge resort fees, there is a dearth of empirical studies on resort fees. Thus, this study takes an interpretative phenomenological approach and investigates guests' view of resort fees. Based on data from https://www.TripAdvisor.com/, guests' perceptions of resort fees are identified in three stages: the moment they learn about this fee, the assessment of quality, availability, variety, and usage of amenities during their stay, and the evaluation of the overall hotel stay experience. Practical and theoretical implications are suggested.

Keywords Resort fee · Guests' perceptions · Partitioned pricing · Lodging industry

Introduction

Resort fees refer to a mandatory daily surcharge imposed on guests for services and facilities that guests have access to while staying at a resort hotel. Described as an "amenities tariff," resort fees began to appear in the lodging industry in 1997 (Grimaldi 2012), and today at least 10% of U.S. hotels charge resort fees (Elliott 2012), most commonly at hotels in Florida, Hawaii, and Nevada. Resort fees range from $15 to $25 per room per night (Edelstein 2012). In a resort fee, services typically included are Internet access, the use of fitness facilities, local calls, newspapers, or bottled water (USA Today 2012).

From the management's perspective, hoteliers continuously deal with escalating operating expenses derived from increases in energy costs, insurance costs, and labor costs. In addition, guests become more sophisticated in their use of resources for vacations. Thus, hoteliers face more challenges in satisfying the evolving needs of guests. Hotels offering a higher level of services and facilities put up with associated expenses for installation and maintenance, leading resort operators to determine the best way to pass those costs along to customers (Finnegan 2010). Implementing a resort fee provides an opportunity to add revenue and thereby enable hotels to offset the costs of providing higher levels of services and facilities. In fact, most of the add-on fees have incremental profitability of 80–90% and serve as a way of generating additional revenue while avoiding overall base price increases (Hanson 2013). An estimated $1.55 billion in total fees and surcharges were collected by U.S. hotels in 2009 and these fees increased almost 20% to $1.85 billion in 2011 (Hanson 2013).

However, there is an ongoing controversy about the fact that, regardless of use or desire for the services and amenities, the resort fee is passed on to the guest (Elliott 2012; Repetti et al. 2015). Yet there is a dearth of empirical studies on resort fees in the lodging industry.

Therefore, the purpose of this study is to explore guests' perceptions of resort fees. In order to explore relatable and trustworthy guest perceptions, data were assessed from an online review website, https://www.TripAdvisor.com/.

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This site is utilized by hotel operators and guests and has been ranked as the top consumer review site in the lodging industry. The research question to be addressed is as follows: How do guests react to a resort fee when this hidden fee surfaces?

Literature review

Partitioned pricing

In an attempt to influence consumers' online search behavior, partitioned pricing has been utilized as an effective method in order to lower base prices (Morwitz et al. 1998). In partitioned pricing, a seller presents multiple prices for a single product or service instead of one, all-inclusive price (Carlson and Weathers 2008), and competes to attract consumers with a low base price for primary services and then charge more fees for add-ons (Fruchter et al. 2011). Partitioned pricing has received much attention in the retail and marketing literature, mainly in the effects of partitioned pricing on consumers' perceptions and purchase intentions (Hamilton and Srivastava 2008; Lee and Cheng 2002; Morwitz et al. 1998).

The widespread use of partitioned pricing by marketers may be the result of consumers' perceptions that it affects their processing and recall of total costs, which, in turn, enhances the perceived value of the offer. For example, Morwitz et al. (1998) tested how consumers process these partitioned prices and how partitioned pricing affects consumers' processing and recall of total costs and their purchase intentions. The results suggested that partitioned prices decrease the total costs of consumers and increase their demand. In addition, Völckner et al. (2012) claim that partitioned pricing is the preferable strategy considering the positive impact of partitioned pricing on the informational effect (i.e., price as an indicator of quality) that overcompensates for its negative impact on the sacrifice effect (i.e., price as a measure of sacrifice).

However, consumers may not react favorably to their price recall error when the recalled total cost is lower than the actual cost, especially when they perceive that the use of partitioned price information is responsible for the error. This negative affect will, in turn, unfavorably influence brand attitude formation and change (Lee and Cheng 2002). Inconsistent literature also suggests that compared to partitioned pricing it is better to combine everything into one charge (Hamilton et al. 2010) as customers' satisfaction, willingness to recommend, and repurchase intention all increase significantly when prices are bundled (Johnson et al. 1999).

To understand the effectiveness of partitioned pricing, other studies have been done related to framing effects (Goh and Bockstedt 2013; Carlson and Weathers 2008), consumers' cognition when processing pricing information (Burman and Biswas 2007), the reasonableness of a surcharge (Burman and Biswas 2007), and brand value (Love 2012). The manner in which the surcharge is presented influences how consumers react to partitioned prices (Morwitz et al. 1998). The framing effects of a multipart pricing scheme significantly influence a consumer's willingness to purchase a customized bundle of information goods, the size of the resulting bundling, and the consumer's perceptions of the transaction (Goh and Bockstedt 2013). The relative magnitude of a surcharge compared to the base price would impact consumers' perceptions of pricing fairness (Sheng et al. 2007). Hamilton and Srivastava (2008) examined how partitioning the total price differently across the components affects consumers' preferences. They found that consumers prefer partitions in which the price of the low-benefit component (e.g., labor) is lower and the price of the high-benefit component (e.g., auto part) is higher. Likewise, in the case of an eBay auction, consumers, even experienced bidders, appear to be subject to an anchoring and adjustment heuristic that leads many to ignore the less salient shipping costs when bidding (Clark and Ward 2008).

In their study, Carlson and Weathers (2008) investigated the effects of partitioned prices containing a variable number of price components, under varying levels of seller trustworthiness and with or without the presentation of the total price. The results indicated that partitioning into a large number of price components versus a small number of price components negatively affects perceived fairness and purchase intentions for less trustworthy, but not for more trustworthy, sellers when the total price is not presented. However, partitioning into a large number of price components positively affects fairness and purchase intentions, regardless of sellers' trustworthiness, when the total price is presented.

Cognition in processing pricing information influences how consumers react to partitioned pricing. For instance, Burman and Biswas (2007) examined the role of the reasonableness of a surcharge and the need for cognition in consumers' processing of pricing information. For consumers seeking out and elaborating relevant information, partitioned pricing has a more favorable effect than combined pricing when the surcharges are reasonable; these effects reverse when the surcharges are unreasonable. In another retail research study, consumers' affect for the brand name also influences how they react to partitioned prices (Morwitz et al. 1998). For example, bundles offered by low-tier brands are more attractive when they are offered in a combined price format than in a partitioned price format. The opposite is true for bundles offered by high-tier brands, which are more attractive when they are offered in a partitioned price format than in a combined price format (Love 2012).

Resort fees

Consumer reactions to partitioned pricing in the lodging industry have been noted (Collins and Parsa 2006; Noone and Mattila 2009; Oh 2002; Rohlfs and Kimes 2007), but only two studies have been done that focused on resort fees (Repetti et al. 2015; Roe and Repetti 2014). Roe and Repetti (2014) investigated the guests' perception of resort fees. Their descriptive data reveals that the majority of those charged a resort fee knew about the fee when they made their reservation from the booking website. For example, 66% of the sample knew whether they were paying for a resort fee or not. In addition, to identify which amenities would be preferred when paying a resort fee, participants ranked in order the common amenities that should be included in resort fees: Internet access, airport shuttle service, an entertainment discount, a food and beverage credit, and parking. Their preference for a rate structure shows that guests prefer paying a higher room rate with no resort fee (Roe and Repetti 2014).

In a follow-up study, Repetti et al. (2015) determined hotel customers' preference among hotel amenities' pricing strategies, specifically a bundled, all-inclusive charge or a la carte. The results of conjoint analysis showed that 67% of the respondents preferred bundled pricing over partitioned pricing. More specifically, guests preferred a bundled room rate ($165) and a resort fee ($0) over a partitioned room rate ($140) and a resort fee ($25). They concluded that although the presence of a resort fee does not impact travelers' hotel selection decisions, many guests paying a resort fee show a belief that the value of the amenities used was less than the amount of the resort fee charged.

There is still a dearth of empirical studies on resort fees in the lodging industry. While two existing studies on resort fees are limited to the case in Las Vegas, it may be worthwhile to expand the studies to a different location. In addition, this study is distinguished from the previous ones because data were assessed from the online review website https://www.TripAdvisor.com/. The World Wide Web contains a vast amount of consumer-generated content that holds invaluable insights for improving the product and service offerings of firms (Singh et al. 2011). Consumers share their experiences and express their opinions about products and services. Since these online reviews are written by consumers, viewers consider this information more relatable and trustworthy than marketer-generated information (Anderson 2013). Thus, this study made an attempt to provide an illustration using a real dataset from the website containing qualitative comments about paying a resort fee at a hotel.

Methodology

Case study: Orlando

Orlando is one of the most visited destinations in the nation. Orlando attracts tourists from around the world by offering a variety of attractions that include Walt Disney World Resort and the Universal Orlando Resort. In 2014, more than 62 million people visited Orlando. Record 32 million room nights were sold, resulting in bed tax collections topping $200 million in Orange County, Florida. As a primarily leisure destination, many resorts have been built in Orlando and many of those charge resort fees to tourists.

Data collection and analysis

In order to understand guests' perceptions of resort fees, data were assessed from a secondary data source, namely https://www.TripAdvisor.com/. TripAdvisor was used because it was selected as an important venue for the online marketing of hotels for reasons including strong referral effect of reviews and high likelihood of actual booking after reading the reviews. It is also considered to be the most influential review site by most hotel chains, and Online Travel Agencies (OTA) utilize reviews and rankings from the TripAdvisor to track their ranking, and these rankings are taken into account for a part of some hotels' evaluation matrix (e.g., Medallia). Lastly, TripAdvisor implements the fraud detecting system to identify and penalize hoteliers from influencing their ranking.

TripAdvisor is in a place to influence the expectations, perceptions, and hotel choices of consumers and is used as an innovative marketing strategy for attracting potential customers (Hsu et al. 2012). Using a real dataset from https://www.TripAdvisor.com/ containing qualitative comments about paying a mandatory resort fee at a resort hotel, the study attempted to illustrate a better picture of consumers' reactions to resort fees.

First, 256 hotels located in Orlando were identified using the keyword "resort fee" as it appeared on https://www.TripAdvisor.com/ as of November 5, 2015. Second, 256 hotels were sorted in order of appearance in the reviews. The first 100 hotels were selected as the sample to be a manageable size. Third, the number of comments mentioning "resort fee" was compared with the total number of reviews at each hotel. For hotels with resort fees ($n = 47$), the share ranged from 1 to 19% with an average share of 5 percent. For hotels without resort fees ($n = 53$), the share dropped, ranging from 0 to 10% with an average share of 1 percent (see Table 1). In other words, on average, 5% of all reviewers mentioned a resort fee at hotels that impose resort fees, whereas 1% of reviewers did at hotels that do not charge resort fees. In terms of overall quality score, there was a significant difference in the quality scores for hotels with resort fees ($M = 3.91$, SD $= .65$) and hotels without resort fees ($M = 4.23$, SD $= .33$) conditions; t (98) $= 3.044$, $p = .003$.

Lastly, to obtain a manageable sample size, 3% of the share was extracted for data analysis. A total of 867 comments mentioning a resort fee from 100 hotels in Orland were analyzed. Interpretative phenomenological analysis (IPA) was used to explore in detail the participants' view of the topic under investigation and the approach is phenomenological in that it is concerned with an individual's personal perception (Smith 1999). The aim of IPA was chosen to explore the participant's view of the phenomenon because it recognized the importance of context and language in helping shape participants' reviews. It may prove useful to look to an interpretative phenomenological approach as being able to mediate between the opposed positions of social cognition and discourse analysis. Thus, a study employing IPA might well enrich the literature of partitioned pricing and resort fees previously mainly studied quantitatively.

Findings

At hotels located in Orlando, reviewers mainly travel for leisure with their families. About half of the hotels charge a resort fee (52%). This fee ranges from $2.50 to $35.00 per night, with $15.00 being the median and $5.00 and $20.00 being the most common fees. These findings are slightly different from the case in Las Vegas where the resort fee ranges from $6.00 to $25.00 per room per night with $20.00 being the most common fee (Roe and Repetti 2014).

Even if 48% of hotels do not impose a resort fee, reviewers who stayed at these hotels mentioned a resort fee

Table 1 Share of reviews and overall rating by hotels with and without resort fees

	Hotels with resort fees ($n = 47$)	Hotels without resort fees ($n = 53$)	t value
Share range	1–19%	0–10%	
Average share	5%	1%	
Overall rating	3.92	4.23	3.044*

Overall rating is out of 5

*Denotes $p < .05$

on their reviews to make a point that these hotels do not charge a resort fee, which turns out to be a positive reinforcement; for example, a guest mentioned, "I specifically choose this hotel because they advertise in a big way, NO Resort Fee unlike other hotels." In other words, not charging a resort fee can become one of the motivations for guests to select a hotel.

Guest perceptions of resort fee

Through a process of interpretative activity, this study attempted to understand what respondents comprehend about resort fees and how they react. After listing the emerging themes and looking for connections between them, some of them cluster together and others are regarded as superordinate concepts. The typology of responses that emerged during the analysis is presented in Fig. 1. The outline reveals a process reflecting the moment a resort fee is introduced to guests, their instant reaction to the fee, and their assessment of the amenities, leading to an evaluation of their overall hotel stay experience.

Encounter

Information At what point guests learn about a mandatory resort fee is important: reservation, check-in, checkout, or billing. During the reservation process, only six reviewers learned about the fee either from the brand website, third-party website, or online review sites. It was worthwhile to note that guests made aware of a resort fee during reservation process seem more accepting of the fee. In such cases, guests mentioned a resort fee on their reviews in an informative tone without negative emotions, as one reviewer said, "We paid the resort fee upon arrival which we were aware of before arriving."

Nearly all guests learned about the resort fee during check-in. Guests appeared to be surprised when they were told they needed to pay a mandatory resort fee upon check-in as one recalled, "Resort fee—not clearly indicated on the reservation site. Big surprise." Guests immediately referred back to the quoted price during the booking and claimed that it is not advertised. However, all guests were told that the resort fee was mandatory and otherwise they would not be able to check into their rooms. In particular, through online travel agencies, guests prepay for rooms and other fees in advance and they arrive at the hotel assuming that they have paid everything in full. When a resort fee is introduced to them, this unknown additional cost was not usually welcomed:

"I booked this hotel online and pre-paid for everything including tax. During check in they asked for extra $20 per night as a resort fee. I don't know what does it mean and

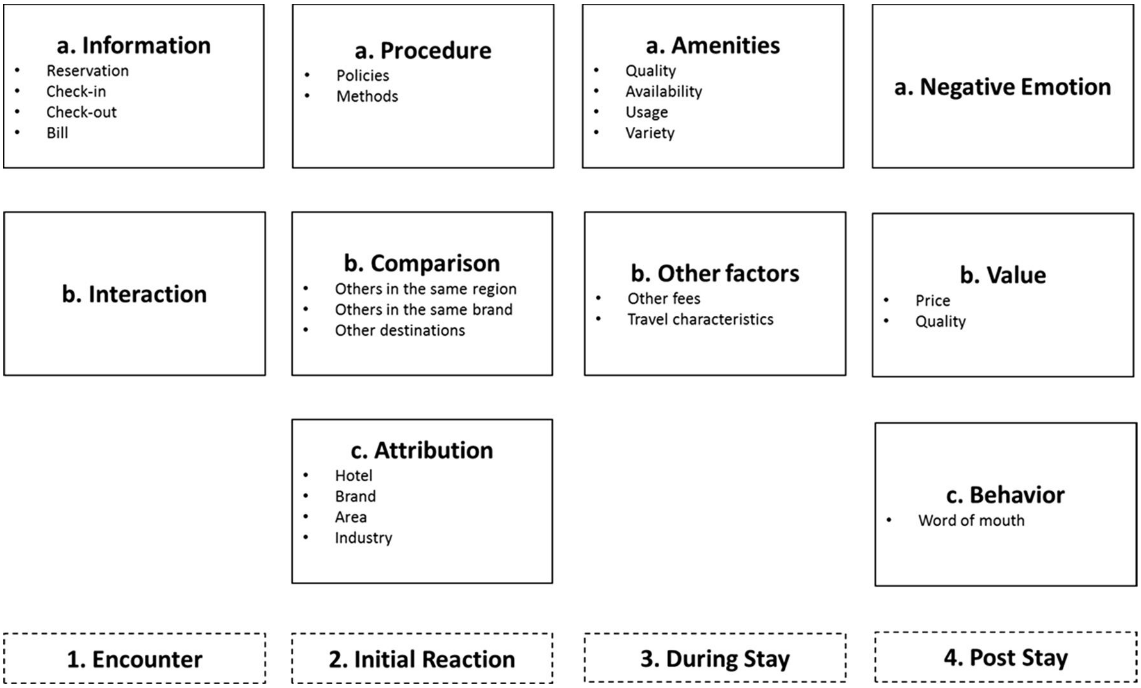

Fig. 1 Guests' perceptions of the resort fee framework

why this fee [was] not shown when I booked it? Is that sort of hidden fee? This is [a] totally hidden fee."

The more the guests seemed to react to a resort fee negatively, the later they learned about the fee. The most negative reactions towards a resort fee were observed when guests learned about the fee at check-out or post check-out. Guests appeared to be distressed because not only did they have to pay additional fees but they also missed the benefits that they had presumably already paid for, as one said, "I was shocked to check out and see the resort fee was already included in my bill! There are also signs in the room about bottled water being covered by the resort fee but no explanation about who gets that freebie. I did not touch the water for fear of another charge."

It gets worse when guests do not realize that they are charged a resort fee until they see it on their bill. In the guests' perception, a hotel misses an opportunity to inform guests of a resort fee throughout many encounters such as booking, confirmation of booking, check-in, during stay, and check-out. Guests talked about platforms such as the official brand website, travel agents, mobile apps, and/or phone conversation with a property that should have advised them about such information.

"I know 'everywhere else' has a resort fee and just about 'everywhere else' is charging for parking, but if this was included at the time of booking, it would allow for a much better checking out experience. Having to pay upwards of $700 at the end of a carefully budgeted holiday does leave a very sour taste in one's mouth."

"They did not inform me about this fee at time of reservation, check-in or check-out. I found it on my bank statement after I returned home. When I questioned them about it, they stated to me that everyone is charged this fee whether you use the services or not and refused to take it off my credit card."

Interaction Interaction is related to interpersonal treatment and clear communication through which employees could have some effect during the transactions. During the transaction of when a resort fee is introduced, interaction between guests and employees can influence how the guests perceive the fee. Guests seem more pleased with a clear explanation about what the unexpected resort fee covers. Guests complained that the front desk staff cannot clearly explain what a resort fee for. Oftentimes, it was observed that employees do not fully understand whether their hotel charges a resort fee, why their hotel charges a resort fee for, what amenities are included, and/or how amenities are redeemed. In addition, employees were not trained to handle concerns from guests:

"The staff was a little confrontational and very defensive when questioned about this fee and just said, 'everyone pays it.'"

"We were charged a resort fee of $10.00 + tax per day and when asked for what resort, the receptionist could not give us a straight answer."

Frequently, guests did not seem automatically defensive about a resort fee but rather disappointed about how the fee is communicated to them. Guests were simply trying to make a sense out of it and searching for an explanation. When a resort fee is clearly communicated to guests, they seem to accept it and do not mind paying the fee. For example, a guest gave an appraisal on the front desk employee by saying, “She was so knowledgeable about the resort and gave us so much information. I couldn’t thank her enough for telling me everything the resort fee includes!”

Initial reaction

Procedure Procedure is related to the systematic approach to any problems that dealt with its policies and methods leading the encounters. After guests learned about resort fees, at least 20 guests commented on the procedural problem. Some guests felt that since a resort fee is mandatory, the fee should have been included in a room rate even if it means a higher room rate and suggested hotels to get rid of the resort fee. In addition, many hotels charge a resort fee and this information is generally buried in the small print on the registration card at check-in. Guests felt like they were ripped off, especially when they were not properly informed about the fee:

“It is insufficient to say that information on their ‘resort fee’ was included in the registration card. I’ve never been subject to hidden charges such as this in any hotel I’ve ever stayed in. When checking in after a 9-h flight, waiting for luggage, waiting for a hired car and navigating unfamiliar roads, the last thing you worry about is checking the small print on a registration card. For such a material charge, I should have been explicitly advised at check-in. Nothing was said, most likely because it would cause issues for the desk staff. Nothing was said to me on check-out either—I came back with my keys, and they told me all was in order with nothing owing, so I did not even get a copy of the bill.”

Comparison Guests compared their hotel’s resort fee policy with those at other hotels in the area. If guests had knowledge about how other hotels in the area also charged a resort fee, they seemed more accepting of it, as one guest said, “Just like other hotels in the area, you will pay a resort fee.” In particular, guests compared the amount of the fee to ones that neighboring hotels charged and decided whether the amount was reasonable or not, as one guest mentioned, “The resort fee is very minimal for the area.” Or others may believe it was not reasonable, “Do not try to tell me this is the going rate for Orlando because we stay here all the time and this was the most I have ever paid for a resort fee!”

At the same time, other guests compared their hotel’s fee to those at other hotels that did not charge a resort fee. It confuses guests when they had to pay for services such as Wi-Fi, pool, and gym that other hotels in the area provide without a resort fee. A guest grumbled, “Apparently this is sold as a good deal and the receptionist will show you a list of services that this covers: the pool, long-distance calling, Internet, parking, et al…. Things found at other hotels for free.”

A few guests compared their experience with ones at other properties within the same brand; “I stopped in West Palm Beach and there was no extra cost and no parking fees.” Or some guests compared its practice with other hotels in other destinations such as Las Vegas; one said, “Be prepared to pay extra for everything (parking, Internet, resort fee, no refrigerator or micro in the standard room). It is a resort, so your room charge reflects this, and is in line with Vegas resorts.” However, the quality of amenities had to be comparable to other hotels in other destinations. Guests were not fully convinced about the resort fee as they saw no benefits of paying it, and one guest said, “When the Venetian in Vegas charges it, you usually get a few free beverages, newspapers by your door, chocolates on your pillow and access into the Canyon Ranch Club.”

Attribution Attribution is the process by which people explain the causes of behavior and events, and in particular external attribution refers to interpreting someone’s behavior as being caused by the situation that the individual is in (Kelley 1967). For example, if a guest is charged a resort fee, he/she may attribute that to the hotel industry; by making attributions to the industry, he/she can make sense of the event without any discomfort that it may in reality have been the result of his/her own oversight. Guests blamed the cause of this discomfort in paying an extra fee either to hotel property, area, brand, and/or the industry.

- *Hotel property* “It gives the impression that greedy management at [hotel name] see their guests as nothing more than walking cash machines. I hate feeling like I’m being ripped off.”
- *Area* “Only thing is silly RESORT fee that all hotels in Orlando feel they need to charge for additional profit centers.”
- *Brand* “The only reason for this extra fee is for the hotel to appear reasonably priced on third-party websites, encouraging people to book the hotel. Instead of putting a downer on people’s holidays, I would like to know why [hotel brand] and other hotels cannot be transparent and charge this fee on the room rate from the start?”
- *Industry* “The only reason they call themselves a resort is so that they can charge this resort fee which is not controlled in this hotel industry.” “These resort fees are

an insult and the industry needs to end this practice adding $$ to their bottom line."

Overall, guests showed negative reactions to the hotel industry and saw a need for the industry to control how hotels nowadays impose a resort fee.

During stay

Amenities Guests tried to justify and make sense of a resort fee after realizing that the mandatory fees are not avoidable. Since guests paid a resort fee, they came to a belief that they should be able to use the services for which they paid for and guests set the expectation to fully utilize the amenities included in the fees. It leads to higher expectations of the amenities and services the hotel offers.

If guests made a good use of high-quality amenities and services that a resort hotel offers, they did not mind paying a resort fee, but rather seemed thrilled to list out which amenities the hotel provided, what they have done, and how much they enjoyed them. Most importantly, guests liked having a good-quality Internet connection. Guests also enjoyed having timely transportation services from/to attractions. Other amenities enjoyed by guests were a lazy river pool, canoeing, kayaking, rock climbing, volleyball net, hammock, bicycling, paddle boating, and a driving range.

The most alarming reaction towards resort fees was observed in relation to usage. When guests do not use such associated services, they are not convinced by a mandatory resort fee. Some guests did not use amenities and services due to lack of desire, poor weather, busy schedule, or poor quality/maintenance.

In addition, when performance did not meet their expectations, guests showed negative reactions. The most frequently mentioned quality problem was a poor Internet connection. Since they were forced to pay for it, guests expected to have a secure Internet line that actually worked. Also, for the same reason, guests did not like the fact that the pool got too crowded and they had to wait when breakfast line was long. Overall, guests expected to see well-maintained, updated facilities at resort hotels.

The troubles arise when the hotel offers amenities that guests did not need or want or/and when the hotel did not offer what the guests needed or wanted. In such cases, guests would not see value in the additional services. Many did not like seeing unlimited domestic long-distance and local calls as a part of resort package because most of guests carry cell phones and would not need phone services in their room. The amenities that guests did not get but would like to have as a part of the package are as follows: sufficient parking (enough space, close by), complimentary breakfast, access to gym (on the property), and supplementary fees related to recreational activities.

Furthermore, Table 2 presents the list of amenities included in resort fees by 52 hotels charging resort fees. It should be noted that in many cases a list of amenities included in resort fees was not explicitly available upon the visit to their websites. Thus, the researchers had to rely on guests' comments listing out amenities included in resort fees. Most common amenities included in resort fees were an access to the Internet (76%) and to the pool (73%), followed by an access to the fitness center (39%), shuttle service to attractions nearby (37%), parking (29%), and bottles of water (29%). Then, the sample of the hotels charging a resort fee was divided into two groups (high resort fee vs. low resort fee) using the median resort fee ($15) as a splitting threshold. Both groups of hotels tend to include Internet connection (High: 85% vs. Low: 52%) and an access to the pool (High: 69% vs. Low: 78%) as a part of resort amenities. However, only the hotels with high resort fees offered distinctive amenities such as bottles of water (54%), pool with lazy rivers (19%), discounts at spa and restaurants (19%), jogging and walking paths (12%), and daily newspaper (8%).

Other factors Guests became disturbed when a hotel had separate charges for parking fee on top of the room rate and resort fee. Many of them claimed that parking should have been included in resort fee. Moreover, guests were not happy to see that some amenities offered as a resort package were already included in brand membership package, as one said, "What I find stupid is as a Gold member is that I already get free gym and Internet access. So they should either not charge elite members or give them a 50% discount on the resort fees."

In particular, many business travelers came to Orlando to attend conferences and meetings. While they did not have time to go to the pool and use other activities, they were still charged a resort fee. In a similar manner, some guests stayed at a hotel for one night. Nearly all one-nighters did not get to use most of the amenities offered but were still charged a resort fee for them.

Post stay

Negative emotion Emotional responses occur specifically during product/service usage, or as a result of the consumption experience (Westbrook and Oliver 1991). Negative emotions experienced in service-failure situations especially have a negative effect on overall satisfaction (Smith and Bolton 2002; Van Dolen et al. 2001; Zeelenberg and Pieters 2004). At the encounter of a resort fee imposition, negative emotions such as disappointment, deception, and unfairness were displayed. For example,

Table 2 Services provided by hotels imposing resort fees

Amenity	Hotels with resort fees ($n = 52$) (%)	Hotels with high resort fees ($n = 27$) (%)	Hotels with low resort fees ($s = 25$) (%)
Internet	76	85	52
Pool	73	69	78
Fitness center	39	42	35
Shuttle to attractions	37	27	43
Parking	29	23	35
Water bottles	29	54	0
Mini golf	14	19	9
In-room safe	12	12	13
Breakfast	12	8	17
Lazy rivers	10	19	0
Discounts at spas and restaurants	10	19	0
Basketball court	8	8	9
Shuffle board	6	8	4
Free movies	6	8	4
Jogging and walking paths	6	12	0
Playground	4	4	4
Local phone calls	4	4	4
Daily newspaper	4	8	0
Free breakfast for children under 12 years old	4	8	0
Inner tubes for the pool	4	8	0
Golf driving range access	4	8	0
Water sports (paddle boats, kayaks, canoes, sailboats, paddle boards and/or hydro-bikes)	4	8	0
Tennis courts	2	0	4
Hammocks	2	0	4
Poolside activities and recreation	2	0	2
Long-distance calls	2	8	0
Airline kiosk	2	8	0
Barbeque and picnic areas	2	8	0
Jacuzzis	2	8	0
Ping-pong	2	8	0
Fast pass at attractions	2	8	0
Free appetizer or dessert at restaurant	2	8	0
DVD rentals	2	8	0
Children's water feature	2	8	0
Bikes	2	8	0
Volleyball	2	8	0
Rock climbing wall	2	8	0

The median resort fee ($15) was used to split the sample of the hotel charging a resort fee between high resort fees and low resort fees

one reviewer said, "Overall disappointed in hidden fees." And another wrote, "They added on an additional 'self-parking fee' ($16) and a resort fee ($20), after I received a quote without these fees online. It's dishonest!"

Especially when guests were not informed of a resort fee during booking and told otherwise, their negative emotion escalated and guests were asking about fairness and taking the hotels' entire approach as dishonest, as one said, "There is no fairness to consumers as they [the resort] failed to disclose at every opportunity they had."

A few guests were really upset to the extent that they would take an action on the issue such as contacting the ownership/corporate and suing hotels:

"I really think patrons should sue hotels that deceive and falsely charge rates like this, then maybe they will properly charge for services rendered."

"In addition to disputing it to get it off my card, I'll be filing a complaint with all legal city state and county departments on them as I'm sure they can't get away with forcing resort fee without disclosing it."

Value Value is defined as the overall evaluation that an individual makes of based on perceptions of what is given in exchange for what is received (Zeithaml 1988). Such representation of value denotes a trade-off between the most prominent components of what is given (e.g., price) in exchange for what is received (e.g., quality). Guests would plan a vacation accordingly on a budget and look for compatible hotel rates. Consumers would refrain from purchasing a product or service when the price is considered to be too high (Gabor and Granger 1979; Monroe 1976; Saini et al. 2010). However, while this unpublished resort fee was not factored in when guests were planning for vacation, the hidden fee would surprise guests; one reviewer said, "I was surprised enough that I couldn't do anything but pay it. It was too late to get another hotel, I was on a budget so please just be up front with me."

Because of a higher price than expected, guests' expectations for quality grew accordingly. Guests evaluated quality in exchange for the price, and the extent to which price expectations are met influences individual's evaluation of service quality (Toncar et al. 2010). Guests' comments with regard to value perceptions were twofold: value of the hotel and value of the amenities. A resort hotel should have facilities and features that deserve to be called a resort. Otherwise, guests would negatively react to the fee. The dollar amount was not an issue, but instead the guests seemed bothered by a so-called 'resort fee' when they did not perceive the hotel to be a resort. For example, one guest wrote, "Did not consider this to be a 'resort' at all. I felt that the $10 'resort fee' was a joke. I've stayed at true resorts, this is NOT a resort, not even close."

Even if the overall price was not comparably expensive, guests seem disappointed with the fee: "Reasonable value even with the new resort fee that still leaves a sour taste in my mouth to be honest…."

Nevertheless, there are hotels that provide a variety of amenities and services that guests enjoy and get good value during their stay, as one said "After all, no one likes paying a resort fee, but when you can get a complimentary ride to Disney or complimentary dry cleaning (things you actually could use), it makes it feel like you are getting true value for your money." And some guests made sure that they take advantage of the activities and seemed pleased with the overall value: "Facilities and activities provided good value for the resort fee. This wasn't the cheapest resort fee, but as we had not planned to spend all our time at the theme parks as we made full use of the activities."

Behavior Behavioral intention is an evaluation based on an individual's intention to purchase again from a certain business (Hellier et al. 2003). In the context of online hotel room bookings, customers' perceptions of price fairness influence their behavioral intentions (El Haddad et al. 2015). White et al. (2012) suggest that customers who view the policy as unfair are less likely to express behavioral intentions (e.g., stay or increase future spending) and are likely to spread negative word of mouth (WOM). Negative WOM communication significantly reduces the perceived credibility of adverting as well as brand attitudes and purchase intentions (Smith and Vogt 1995).

In this online platform case, guests' word of mouth worked in two ways: warning and informing. Many reviewers warned readers and suggested them to go to another hotel if possible:

"BEWARE… this hotel charges a RESORT fee each night. That is a joke since this is in no way a resort. If I wanted to pay a resort fee, I would have stayed at an actual resort. For the money we had to pay, I would have rather stayed next door at a nicer hotel or at a resort that had more amenities."

However, some reviewers acted as informants and attempted to educate others:

"There are the usual resort fee and valet fees daily, but we don't mind these fees. We go on vacation to relax and be pampered and you have to pay for that experience. Everyone at this hotel is at your service. Top notch. Loved it. Enjoy!"

Discussion

This study investigates guests' view of resort fees and takes an interpretative phenomenological approach that is concerned with an individual's personal perceptions. This study is one of the few empirical studies to examine the guests' perceptions of resort fees. The outline of guests' perceptions of resort fees is introduced and captures guests' reaction to resort fees at (1) the moment they learn about this fee, (2) assessment of quality, availability, variety, and usage of amenities during their stay, and (3) evaluation of the overall hotel stay experience.

It is understood that faced with growing operating expenses and sophisticated guests in their use of resources for vacations, hotel managers are tied to offer a high quality of amenities and services. Besides implementing a resort fee, hotel operations seem to be left with no choice to offset the associated expenses for the levels of services and facilities. This study does not intend to stop hotels from charging a resort fee, but rather suggest that opportunities of resort fees exist when they implement it appropriately and effectively. It should be noted that guests seem more accepting of resort fees. When guests make a good use of high-quality amenities and services that a resort hotel offers, they do not mind paying a resort fee.

Hotel managers should consider how room rates and additional fees are presented to guests. The trouble was more related to consumers who are often unaware of these add-on fees (O'Reiley 2011). In learning guests' reactions to resort fees, the majority of guests had a difficulty locating the fee in the fine print during booking or upon arrival. Hotels should take steps to improve the disclosure of fees to guests at multiple stages such as time of booking, confirmation, check-in, and check-out. In addition, employees should actively inform guests throughout the stay in regards to benefits associated with the fee.

Consumers feel such fees only mean a bigger bill at the end of their hotel stay with no added value in return (Schwartz 2010). Therefore, hotel managers should evaluate the quality of their amenities included in resort fees and make sure that the fee covers a solid selection of value-added services. For example, if the resort fee covers shuttle service to attractions, fast pass at attractions, and free breakfast for children under 12 years old, family travelers with children that are in the area for attractions will love to take advantages of the resort amenities. Hotel managers can categorize their primary markets into subsets of guests who have common needs such as travel patterns and travelers' consumption patterns. Amenity bundle can target certain subsets of guests. Hotels may allow guests to choose their own amenities and bundle them together for a resort fee because guests prefer paying for amenities based on usage (Repetti et al. 2015).

The industry is thus encouraged to charge the fees but should be aware of the negative impacts of the fees on guest perceptions, guest loyalty, employee morale (from explaining and justifying the fees), and brand value to outweigh the benefits. Based upon the research, it is recommended that hotels that select to implement a resort services fee do the following:

- Clearly communicate the fee to guests at multiple stages such as time of booking, confirmation, check-in, and check-out.
- Offer better explanation to justify an additional resort fee and make guests understand the concept of the fee.
- Avoid charging other fees (e.g., parking fee) on top of a resort fee.
- Train employees properly in regards to what is included in a resort fee, how to redeem resort amenities, why the fee exists, and how to deal with guests' complaints.
- Ensure that the resort fee covers a solid selection of value-added services and amenities comparable to other resort properties nearby.
- Maintain the features and amenities included in a resort fee properly.
- Ensure that the resort fee does not duplicate services and amenities to which a guest may be entitled to on a complimentary basis, including as a member of a guest loyalty program.

In case hotels decide not to impose a resort fee on guests, not charging a resort fee can become one of the motivations for guests to select a hotel. Thus, these hotels should actively promote their stand on 'no resort fees.'

Many guests pay an additional resort fee for unused services. Hotel managers should categorize their primary markets into subsets of guests who have common needs such as travel patterns (booking channel, length of stay, and purpose of visit) and travelers' consumption patterns (brand membership and familiarity). Hotels are recommended to implement a resort fee with more caution to certain subsets of guests as follows:

- *OTA guests* Guests book through online third-party websites and arrive at a hotel assuming that they have prepaid everything, so often they are surprised to learn about an additional resort fee upon check-in.
- *One-night stays* Guests who stay for one night do not get to make full usage of resort amenities, so they are more reluctant to pay a resort fee.
- *Business travelers* Business guests do not get to use resort amenities. Companies' per-diem may not cover the expense, the so-called resort fee, thus leading to more resistance to pay the fee. Hotels can identify business travelers in five ways: a. corporate master accounts, b. travel purpose on reservation, c. rate codes for LNR (local negotiated rates), d. payment methods (direct billing, master credit cards, master billing accounts, to name a few), and e. identifying the travel purpose during check-in process.
- *Brand members* Brand members are privileged to receive certain amenities. When brand members get charged a resort fee for the same or similar amenities they get as a member, they become more resistant to paying the additional fee.

From the findings of the study, it appears that negative reactions towards resort fees can turn into disappointment, deception, unfairness, less loyalty, and negative WOM. It should, however, be noted that guests did not seem automatically turned away solely by an imposed mandatory resort fee, but the overall experience mattered. Guests evaluated every moment of truth during a hotel stay such as clean, comfortable, well-maintained rooms, convenient location, prompt and courteous service, safe and secure environment, and friendly and courteous employees (Knutson 1988). Their satisfaction with their stay and the value of that stay reflected the overall experience, and the encounter with a resort fee played a part in the overall experience.

Limitations and future studies

IPA is designed to examine phenomena from the consumers' point of view and characterizes their specific experiences in themes. While IPA delivers real views of how consumers react to the phenomena, it has limitations. It depends greatly on the consumers' use of language to describe their experiences and therefore their perceptions are expressed using their words and meanings that may differ from those of the researchers. Moreover, even though most recent reviews were pulled from each hotel, some reviews may be outdated and incorrect due to recall bias and entry error. The analytical process and interpretation of results tend to be influenced by the researchers' use of questions to previous concepts.

Due to limited resources, convenience sampling was used. Within the population, a sample of reviews (3%) was selected because it was readily available and convenient. It should be noted that using such a convenience sample cannot scientifically or presumably generalize about the total population from this sample due to lack of representations. However, as IPA researchers wish to analyze in detail how participants perceive and make sense of things that are happening to them, it is considered acceptable to use a flexible data collection instrument (Smith and Vogt 1995).

As it was mentioned previously, the results obtained mainly concern those guests that were not aware of the existence of a resort fee before booking (e.g., only six reviewers out of 867 reviews learned about the fee during the booking). Our data were collected during spring of 2016, and it is possible that lodging operators are doing better nowadays in terms of informing guests about resort fees before they arrive.

To understand consumers' perceptions of resort fees, other factors also need to be carefully considered. Because IPA does not provide an explanation regarding why consumers share these experiences (Willig 2001), further studies on causal relationships are recommended such as whether resort hotels should bundle or not and in which circumstances having a resort fee is positively evaluated by guests. Moreover, future studies can be done on negative reactions due to resort fees that may, in turn, unfavorably influence brand attitude formation (Lee and Cheng 2002). Another suggestion for future study is to compare the levels of guests' expectation in between hotels that charge a resort fee and hotels that do not charge a resort fee.

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J Revenue Pricing Manag (2018) 17:32–40
https://doi.org/10.1057/s41272-017-0128-7

RESEARCH ARTICLE

The importance of transparency signals in à la carte pricing

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Published online: 20 November 2017

Abstract The appearance of highly customized services has increased the need for à la carte pricing schemes, in which several components of the product or service are offered separately. Despite the positive consequences of customized services (e.g., better fit to customer requirements), consumer acceptance of à la carte pricing schemes is an important success factor. This study shows that consumers mostly infer self-serving rather than customer-serving intentions as a reason to implement à la carte pricing. However, it also shows that negative perceptions of such pricing can be reduced when a credible advertising claim stresses a customer-oriented transparency motive of the service provider.

Keywords À la carte pricing · Customized services · Partitioned pricing · Price transparency · Add-on pricing · Price bundling · Drip pricing

Introduction

The customization of services has become an increasingly popular method to meet the heterogeneous needs of customers. The main advantage of customization is that consumers can tailor products or services in a way that suits their desires. However, customization also demands special pricing strategies. Whereas a standardized product or service is often priced with an *all-inclusive price*, customization often makes use of *à la carte pricing*, in which prices for several components of the product or service are offered separately to consumers.

À la carte pricing is also becoming increasingly common for services that were formerly priced as all-inclusive such as hotels, airlines, and car rentals. For airlines, it has become fairly standard for customers to pay a fee for services that used to be included in the ticket price, such as checked bags, food, seat reservations, blankets/pillows, and headsets (Nason 2009). Thus, despite the positive idea of customization, evidence also shows that consumers feel "nickeled and dimed" by highly separated prices (Homburg et al. 2014; Robbert 2015). However, especially low-cost carriers such as Ryanair and easyJet do quite well, though they also often use à la carte pricing. These companies likely have the advantage in that they have always claimed to have a no-frills strategy (Wild 2014). Conversely, customers of traditional airlines might expect to receive more with a ticket purchase.

For such companies, a change in the pricing strategy from all-inclusive to à la carte pricing may lead to negative consequences. This article addresses the acceptance of pricing schemes from a customer's perspective and elaborates on influences and boundary conditions of the implementation of à la carte as a substitute to all-inclusive pricing. In particular, it addresses two research questions:

- How do customers react to à la carte pricing compared with all-inclusive pricing?
- How can companies increase customer acceptance when implementing à la carte pricing?

To address these questions, we present the results from two experimental studies in the context of airline pricing.

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The results indicate that consumers rate all-inclusive pricing more positively than à la carte pricing in terms of service provider evaluations and behavioral intentions; the findings reveal that this is especially true when customers are uninformed about the service provider's motives for an à la carte pricing scheme. Uninformed customers mostly infer motives that are beneficial for the service provider itself. When an advertising claim stresses a transparency motive for the pricing strategy, perceptions shift toward an inferred customer-oriented motive.

The article proceeds as follows: It begins with a discussion of the literature on all-inclusive and à la carte pricing and related literature streams. Then, research hypotheses are derived. Next, the design, implementation, and results of the first empirical study are presented. The second empirical study is again preceded by hypothesis development. The article concludes by discussing the limitations and managerial consequences.

Literature review

À la carte means "from the menu"; it is a pricing mechanism in which products and services offered to consumers can be sold in bundles but can also be individually listed and priced. Its use is intended to provide a higher degree of customization by enabling consumers to select the product or service bundles that maximize their utility in accordance with their needs and tastes (Granados et al. 2012).

Literature on pricing schemes that account for the customization of services is broad but not always conclusive. Research has especially investigated the influence of price partitioning (e.g., Burman and Biswas 2007; Hamilton and Srivastava 2008; Greenleaf et al. 2016), in which surcharges are disentangled from a base price of an offering. Morwitz et al. (1998) were among the first scholars to compare customer evaluation of complete prices and partitioned prices. They find that the separation of mandatory surcharges can actually increase purchase probability. However, Homburg et al. (2014) find that perceived price complexity resulting from the separation of surcharges negatively affects perceived transparency and, ultimately, purchase intentions. In addition, Xia and Monroe (2004) show that partitioned prices used inappropriately (e.g., several surcharges) lead to perceptions of unfairness and damage store trustworthiness. Robbert and Roth (2014) add that this negative impact is especially evident when the surcharges are not visible up front but appear sequentially as the customer goes through the buying process. This strategic masking of surcharges is also known as "drip pricing" and has been subject to governmental regulations (Shelanski et al. 2012). Robbert (2015) argues that drip pricing leads to a perceived deception that ultimately influences purchase intentions. Yet, given that many companies apply these techniques, current research is not able to fully explain their effects. This holds especially true when the surcharges are not mandatory.

Therefore, it is important to also examine research on price bundling. On the one hand, Stremersch and Tellis (2002, p. 56) describe price bundling as the "sale of two or more separate products or services as a package at a discount, without any integration of the package." In the context of travel bookings, this could mean that the price for a flight is bundled with offerings such as lodging, car rental, or other activities. Naylor and Frank (2001) find that providing an all-inclusive price package significantly increases customers' perceptions of value. Tanford et al. (2012) add that the itemization of individual package components and discounts is only preferable if it reduces uncertainty or simplifies the decision process. On the other hand, results show that all-inclusive pricing is more effective if the itemized components only complicate the decision process. For example, Kim et al. (2009) argue that bundling may or may not reduce the overall cost transparency. However, they agree that it could motivate consumers to rent a car or purchase an activity they might not have otherwise considered. Similar to price partitioning, literature on price bundling is also not able to give a comprehensive picture of à la carte pricing schemes. One of the main characteristics of price bundling is that all components of the bundle can be sold separately. While this is true for components such as car rental or lodging, it is not true for additional optional surcharges such as seat reservations or baggage transport.

Given the limitations and empirical evidence, literature streams on partitioned pricing and price bundling may seem incompatible. The former aims to consolidate information, while the latter separates it. Regarding the consequence on consumer behavior, research on product bundling suggests that consumers purchase packages because these simplify the decision process, reduce risk, and offer value. By contrast, research on partitioned pricing suggests that the separation of prices is superior because consumers anchor on the base price and fail to adjust all additional components. However, à la carte pricing for airlines, for example, is neither partitioned pricing nor price bundling as it comprises both partitioned and bundling components.

Hypotheses development 1

Research on price fairness indicates that not only the final price but also the motive to set a price is important to understand consumers' price reactions. Previous research suggests that firms' motives can either be beneficial to the firm itself or beneficial to external parties, such as customers (Dutta et al. 2007; Ho et al. 2011). In addition, empirical evidence shows that customers' evaluations of a firm's action, such as pricing decisions, are dependent on firm motives to engage in these actions. Consumers may judge a price increase as unfair when inferring that the reason for the increase is to exploit higher extra willingness to pay (Bolton et al. 2003; Homburg et al. 2005). However, consumers may perceive the same increase in price as fair when attributing the increase to a positive motive, such as increased costs or raw materials for the seller (Campbell 1999, 2007).

The theoretical foundation of this observation is attribution theory, which addresses how individuals use information to arrive at causal explanations for events and how they combine this information to form causal judgments (Fiske and Taylor 1991). That is, attribution theory assumes that people try to determine why other people or companies do what they do. A person who attempts to understand why someone did something may attribute one or more causes to that behavior. In line with this argument, consumers make inferences about the motives and intentions of a service provider that adopts à la carte versus all-inclusive pricing. A consumer may either infer that the provider uses à la carte pricing to deceive customers and mask high prices (*self-serving intention*) or infer that a provider splits prices on various parts to better tailor the offerings to customers' needs (*customer-serving intention*). Thus:

H_{1a} Consumers confronted with an all-inclusive price infer weaker self-serving intentions and stronger customer-serving intention than customers confronted with à la carte pricing.

The second hypothesis pertains to the role of perceived value. To illustrate how all-inclusive versus à la carte pricing might influence perceptions of value, we offer a simple price-value model. Research often conceptualizes perceived value as the tradeoff between benefits and sacrifices (Zeithaml 1988). When a price is all-inclusive, the cost for the offering can be easily perceived as it appears in one price cue. With à la carte pricing, evaluation of the total cost is not as easy because the price components are separate. Thus, we expect that an all-inclusive package will be a simpler and, therefore, more attractive choice given that the customer perceives a high value in the included components. Conversely, the price of every single component added under à la carte pricing is experienced as a separate loss. In line with prospect theory (Kahneman and Tversky 1979) and mental accounting (Thaler 1980, 1985), it is better to have one big loss compared to the separation of the same loss to single smaller losses.

H_{1b} Consumers confronted with all-inclusive price perceive a higher value of the offering than customers confronted with á la carte pricing.

Prior research has shown the positive influence of a high perceived value on purchase intentions (e.g., Grewal et al. 1998). Similarly, in line with attribution theory (Fiske and Taylor 1991), a firm's self-serving intention can be negatively associated with purchase intentions. If consumers attribute the use of an à la carte pricing scheme as a means to increase profits, their purchase intentions can be negative. By contrast, attributions of à la carte pricing to a customization motive can lead to a positive relationship between customer-serving intention and purchase intentions. Thus:

H_{1c} An inferred self-serving intention negatively mediates the influence of à la carte pricing on purchase intentions, while an inferred customer-serving intention and perceived value positively mediate the influence of à la carte pricing on purchase intentions.

Study 1

The aim of Study 1 is to elaborate on the evaluations and subsequent behavioral intentions when consumers are confronted with à la carte versus all-inclusive pricing. In particular, it investigates the inferred motives on why a firm uses one of the proposed pricing schemes.

Procedure

A quantitative approach is used to test the hypotheses. In particular, this study employs an experimental between-subject design with price presentation (all-inclusive vs. à la carte) as the independent factor with randomized group allocation. The advantage of this approach is that the full-factorial design is able to counter-balance any confounds, such as different evaluations of package components or psychographics between the groups. Thus, the results can only be attributed to the manipulation.

The chosen design has two groups. One group was confronted with an all-inclusive price, and the other group was confronted with an à la carte price with surcharges for several extra services. The implementation comprised a mixed scenario/stimuli-based experimental design in which participants were in the situation to book a flight from Frankfurt to Rome. Participants were asked to imagine that they already booked an accommodation so that the travel dates are given. Participants were told that the trip was purchased for leisure purposes. In addition, the flight should be paid for with a credit card, and a transfer to the airport is required. For the journey, one piece of luggage

Table 1 Price structure of conditions

	À la carte pricing	All-inclusive pricing
Advertised price	186.01€	305.90€
Baggage fee	50.00€	0.00€
Airport transfer	58.00€	0.00€
Credit-card fee	11.89€	0.00€
Sum	305.90€	305.90€

must be checked. Thus, the specification of the required package was given in detail. Participants further read that they found suitable flights on a flight-booking website. On the website, they saw screenshots with details on the flights and the prices. However, only one of the three shown flights matched the specified travel needs. The upcoming pages contained additional information on the flight. This information specified fees for baggage check-in as well as airport transfer and credit-card options. Table 1 lists the corresponding fees for these options. The total price for the exact same flight with all the components was the same in both conditions. After seeing the screenshots, participants answered questions about their evaluations of the offering and their behavioral intentions.

Participants

Data collection for the study took place in a computer lab of a German university. The data were collected together with data of another unrelated study. Participants received monetary compensation for their participation. The sample comprised 176 datasets with 35.4% female participants. Their average age was 23.35 years (SD 2.76), and 83 per cent had a net income less than 1.000€.

Measures

Well-established scales from the literature were adapted to measure the dependent variables. All constructs were rated on seven-point Likert scales (1 = *strongly disagree*, 7 = *strongly agree*). For purchase intention and perceived value, indicators proposed by Grewal et al. (1998) were used. We developed indicators for the self-serving and customer-serving intentions in line with Ho et al. (2011) and Homburg et al. (2014) that suit the special characteristics of the study. All measured constructs fulfilled common quality criteria, including Cronbach's alpha, indicator loadings, and average variance extracted. "Appendix" provides details on the measures.

Results

The results of a univariate analysis of variance (ANOVA) reveal the influence of the pricing scheme on evaluations of the offering. Participants in the à la carte pricing condition inferred higher self-serving motives of the seller ($M_{SSI} = 3.44$, SD = 1.72) than customers in the all-inclusive pricing condition ($M_{SSI} = 2.63$, SD = 1.32; $F(1, 171) = 11.70$, $p < .01$). In contrast, the inferences of customer-oriented motives were higher in the all-inclusive condition ($M_{COI} = 5.57$, SD = 1.02) than in the à la carte condition ($M_{COI} = 4.97$, SD = 1.55; $F(1, 174) = 8.86$, $p < .01$). We thereby find support for H_{1a}. Also supported is our hypothesis H_{1b}. For difference in means of perceived value, the results show that all-inclusive pricing led to significantly higher ratings ($M_{PV} = 4.68$, SD = 1.51) than à la carte pricing ($M_{PV} = 3.24$, SD = 1.28; $F(1, 173) = 45.59$, $p < .01$) (Fig. 1).

The results also show significant differences for behavioral intentions. Purchase intentions were significantly lower for à la carte pricing ($M_{PI} = 3.82$, SD = 1.79) than for all-inclusive pricing ($M_{PI} = 5.08$, SD = 1.71). A multiple mediation analysis as proposed by Hayes (2013) elaborates on H_{1c}. The analysis shows the influence of inferred motives on purchase intentions over and above the perceived value of the offering (Fig. 2).

To test the mediation hypothesis, we examined a multiple mediation model, which involves simultaneous

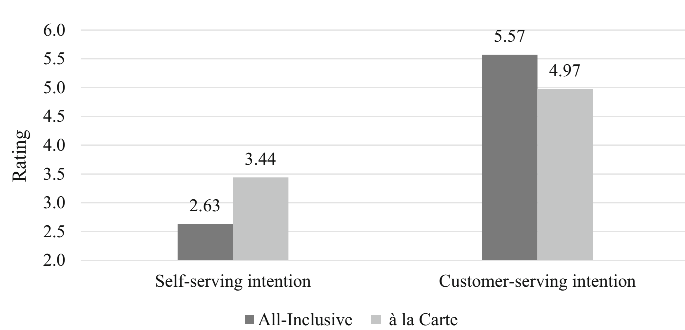

Fig. 1 Inferred seller motives (Study 1)

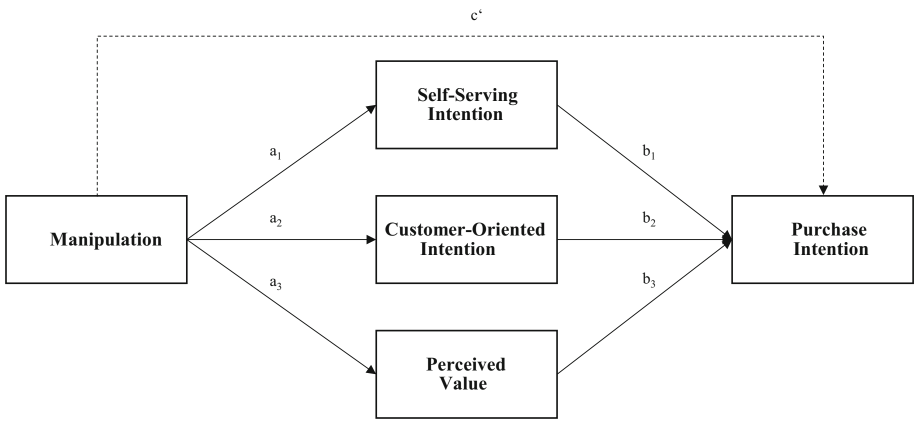

Fig. 2 Mediated regression model

mediation by multiple variables (Preacher and Hayes, 2008).[1] With regard to the hypothesized effects, evidence shows that à la carte pricing (coded as 1) compared with all-inclusive pricing (coded as 0) negatively influences purchase intentions through the self-serving intention ($a_1 = 0.773$, $p < 0.01$; $b_1 = -0.173$, $p < 0.05$). In contrast, lowers the perceived customer-serving intentions and thereby reduces purchase intentions ($a_2 = -0.629$; $p < 0.01$; $b_2 = 0.221$; $p < 0.05$). Value perceptions in à la carte pricing are also lower than all-inclusive pricing, leading to decreased purchase intentions ($a_3 = -1.486$; $p < 0.01$; $b_3 = 0.621$, $p < 0.01$). Bootstrapping based on 5000 samples showed that for the indirect effects ($a_1b_1 = -0.134$; $a_2b_2 = -0.139$; $a_3b_3 = -0.922$), the confidence intervals do not include zero (95% CI a_1b_1: -0.378 to -0.013; 95% CI a_2b_2: -0.391 to -0.002; a_3b_3: -1.385 to -0.577). The direct effect c' is not significant. The mediation analysis provides further support for H_{1c}.

To control for psychographic differences, an analysis of covariance (ANCOVA) with age, gender, and income as covariates was conducted. With self-serving intention as the dependent variable, the results show slight but insignificant evidence that ratings increase with age ($F = 2.51$; n.s.). All other covariates have no influence. The results also show insignificant evidence of all covariates with customer-serving intention as the dependent variable.

Discussion

The results indicate that in the condition with à la carte pricing, consumers believed that the seller's pricing strategy was driven by self-serving motives rather than consumer needs. In contrast, consumers inferred positive motives of the seller when confronted with an all-inclusive offering. Consumers confronted with à al carte pricing also perceived a lower offer value. This is surprising because the final prices of both sellers were exactly the same. Yet this observation is in line with the hypotheses and previous research, as it underscores the argument that consumers prefer to integrate their losses. From a pricing manager's perspective, the consequences of the results should be of concern. Even if managers implement à la carte pricing to better tailor their products to customers' needs, this strategy suffers from negative perceptions of the price presentation.

Hypothesis development 2

Despite the findings in Study 1, prior research indicates that price transparency on websites can improve customer welfare by increasing accessibility to information that may be useful in the decision-making process. Transparency occurs when the seller reveals how prices are set or why prices are changed, such as impending price increases (e.g., Campbell 1999).

Ferguson (2014) argues that consumers require information about prices to make informed decisions. Furthermore, knowledge about how sellers set and change prices may help consumers empathize with seller pricing decisions and could help them accept price increases with less negative reactions. In line with this, communication about why a pricing scheme is implemented is important to gain acceptance. Again, a major assumption of attribution

[1] Preacher and Hayes (2008) recommend that testing such a model should involve assessing every specific indirect effect of customer participation through each mediator on purchase intention (a_ib_i). In addition, an analysis of the total indirect effect, which is the aggregate mediating effect of all the mediators, is required. Thus, the total indirect effect is the sum of all specific indirect effects ($c' = \Sigma a_ib_i$). We used bootstrap analysis, a non-parametric sampling procedure, to test the significance of the indirect effects. To estimate the model, we used the PROCESS macro for SPSS.

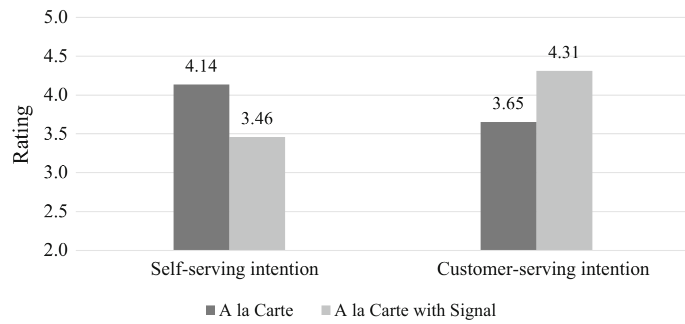

Fig. 3 Inferred seller motives (Study 2)

theory is that individuals try to understand why someone did something and may attribute one or more causes to that behavior (Fiske and Taylor 1991).

Study 1 reveals that customers attribute an à la carte pricing scheme to the motive to deceive customers and to make the price structure complex and non-transparent. Research on framing suggests that alternative frames for a given decision problem can influence how information is processed and the resulting ultimate decision (Tversky and Kahneman 1986). Thus, a frame that emphasizes transparency motives can influence inferred self-serving and customer-serving intentions. This frame can be created by a transparency signal such as an advertising claim or message that explains why a company uses à la carte pricing.

H_2 Consumers confronted with a seller that shows a transparency signal infer a stronger customer-serving intention and a weaker self-serving intention than customers confronted with a seller without a transparency signal.

Study 2

Study 2 aims to elaborate on how the perceived motive of a seller can be influenced through advertising messages such as a transparency signals. Thus, it investigates whether the negative perception of an à la carte pricing scheme, compared with all-inclusive pricing, can be reduced.

Procedure

To test H_2, Study 2 had a similar setting to that in Study 1. The study is a between-subject design with the existence of a transparency signal (signal/no signal) as the independent factor. Both groups faced a situation with à la carte pricing. In one group, the seller clearly advertises that it uses à la carte pricing to make the booking as transparent as possible, while the second group receives the same offer but without this ad claim. Similar to Study 1, Study 2 uses a mixed scenario/stimuli-based experimental design with the situation to book a flight from Frankfurt to Rome. Except for the transparency signal, all factors are the same as in Study 1.

Participants

Participants were recruited through an online survey with a personal invitation to participate and randomly assigned to one of the two experimental conditions. The total collected sample comprised 111 participants, 45% of whom were women. The average age of the sample population was 29.8 years (SD = 11.1). In addition, 46% had a net income greater than 2.000€, and 64 per cent had a college or university degree. Participants took part in a lottery to compensate for their effort.

Measures

The same measures ("Appendix") as in Study 1 helped assess the dependent variables in the experiment. Again, all common quality criteria were fulfilled, with all factor loadings greater than 0.7 and Cronbach's alpha greater than 0.8.

Results

The first step examines H_2 by means of ANOVA. The results indicate that the transparency signal decreased consumers' inferred self-serving intentions of the seller ($M_{\text{SSI, No Signal}} = 4.14$, SD = 1.67; $M_{\text{SSI, Signal}} = 3.46$, SD = 1.63; $F(1, 113) = 4.82$, $p < .05$). In turn, the signal made the seller appear more customer oriented ($M_{\text{COI, No Signal}} = 3.65$, SD = 1.65; $M_{\text{COI, Signal}} = 4.31$ SD = 1.76; $F(1, 113) = 4.15$, $p < .05$). Both findings support our hypothesis H_2 (Fig. 3).

In addition, the influence on perceived value is calculated. In line with the assumptions, the results show no significant influence of the signal on value perceptions ($M_{\text{PV, No Signal}} = 3.28$, SD = 1.37; $M_{\text{PV, Signal}} = 3.70$, SD = 1.45; $F(1, 109) = 2.39$, n.s.).

To further test the robustness of the findings, a multiple mediation analysis was applied. The results show that a transparency signal positively influenced purchase intention by decreasing inferred self-serving intentions of the seller ($a_1 = -0.770$, $p < 0.05$; $b_1 = -0.173$, $p < 0.05$). In contrast, a transparency signal significantly strengthened the perception that the seller had customer-serving intentions ($a_2 = 0.720$, $p < 0.05$; $b_2 = 0.414$, $p < 0.01$). A transparency signal did not influence value perceptions, but a higher perceived value led to significantly higher purchase intentions ($a_3 = 0.473$, n.s.; $b_3 = 0.470$, $p < 0.01$). Bootstrapping reveals that the indirect effects of the transparency signal on purchase intentions were both significant ($a_1b_1 = 0.135$; $a_2b_2 = 0.298$). Again, there is no significant effect of the transparency signal on purchase intention mediated by perceived value ($a_3b_3 = 0.222$). The direct effect c' is again not significant.

Again, an ANCOVA with age, gender, household income, and education as covariates was conducted to control for additional influencing factors. For the self-serving intention, only age turned out to be a weakly significant covariate ($F = 3.60$, $p < 0.1$). Older participants rated self-serving intention higher than younger participants. While the manipulation remained significant ($F = 4.81$; $p < 0.05$), all other covariates yielded no influence. For the ANCOVA with customer-serving intention as the dependent variable, a similar pattern emerged. Again, only age was weakly significant ($F = 3.40$; $p < 0.1$), with the manipulation remaining significant ($F = 3.94$; $p < 0.05$). Additional analysis for experience with online flight bookings and price consciousness revealed no significant influence.

Discussion

Study 2 shows that an advertising claim that articulates why an à la carte pricing scheme is chosen positively influences consumers' inferred motives. Whereas consumers believe that companies use à la carte pricing mainly for self-serving motives when no signal is shown, this negative perception is noticeably diminished by clearly communicating the motive. Similar to Study 1, slight evidence shows that age influences the level of self-serving and customer-serving intentions. Older consumers have slightly different ratings than younger consumers.

Discussion and conclusion

Although the customization of services is a widespread phenomenon across different industries, research on pricing of customized services is still scarce. On the one hand, there is a wealth of literature on partitioned pricing focusing on mandatory surcharges such as taxes; on the other hand, price bundling research largely investigates situations in which two products that could be sold separately are sold in a bundled package.

This research addresses add-on features (e.g., baggage fees, airport transport) in an à la carte versus all-inclusive pricing scheme. It shows that consumer acceptance of à la carte pricing can be a serious problem for service providers. The results indicate that purchase intentions are significantly lower under à la carte than all-inclusive pricing even when prices are exactly the same and both offerings equally match the customer's requirements. Empirical evidence shows that not only a reduced value perception accounts for this difference; more important, the inferred motive of the seller affects purchase intention. Whereas consumers perceive all-inclusive pricing as customer oriented, they perceive à la carte pricing as an instrument to deceive them. In addition, there is some indication that the inferred self-serving motive is somewhat stronger among older than younger customers.

The overall results suggest that acceptance of the pricing scheme is crucial for its success. Study 2 shows the importance of clearly articulating the motive to implement à la carte pricing to avoid negative consequences. A credible advertising claim that stresses the motive of price transparency can effectively diminish the negative perception of à la carte pricing. Yet the presented studies are subject to some limitations. Although the study used a scenario design to elaborate on the research questions, the offering was also perfectly aligned. To make à la carte and all-inclusive pricing comparable, a situation in which the specification of the desired service exactly matched the all-inclusive offering was created. Therefore, customers did not miss anything in the all-inclusive condition. However, with surcharges such as credit card or baggage fees being common, the results are still meaningful. Future research should also dig deeper into the valuation of various parts of the package. It seems reasonable to assume that people care more about certain parts than others. Another limitation is that we did not control for consumers' expectations. It is likely that consumers react differently in a situation in which they expect à la carte pricing than in a situation in which they do not expect it. However, an unexpected price change is a major assumption of our hypothesis on why the effects of an inferred self-serving motive can be reduced by a transparency signal. This might also explain why some "no-frills" airlines have successfully implemented à la carte pricing.

From a managerial perspective, companies need to be clear on why they are implementing pricing strategies. The British low-cost carrier easyJet provides a good example of this. On its website, the airline offers easily accessible information and a video clip that explain its reasons for applying dynamic pricing (http://www.easyjet.com/en/policy/dynamic-pricing). Thus, companies need to stress that the purpose of the implemented pricing system is to better tailor their products to customer needs. To achieve this, they can use ad claims, explanations, or even multimedia applications. Of importance is that customers understand the motive of the applied pricing scheme.

In addition to such framing, firms could evaluate implementing a mixed pricing scheme. For airlines, this could mean that customers who want the cheapest possible air transportation receive an à la carte pricing scheme. Customers who want some but not all extra services can also easily add extra services such as alcoholic beverages or more leg room to their bookings. Nevertheless, there is also a group of customers that is interested in simple all-inclusive price structures. Similar to mixed-bundling strategies, it seems appropriate to design some packages in which the most relevant services (e.g., checked in baggage) are already included. Ryanair's "Business Plus Tickets" is one example. Passengers with such a ticket get more flexibility, reserved seats, and baggage allowance (https://www.ryanair.com/gb/en/plan-trip/flying-with-us/business-plus). All these options are more typical for full-service airlines but still quite competitively priced. This research shows that if companies are considering implementing more differentiated pricing schemes, transparency signals are one factor to make them successful.

Appendix

Construct	Indicator	Factor loading[a]	Variance extracted[a]	Cronbach's α[a]
Purchase intention	The probability that I would consider for future bookings is high	.988	.976	.975
	If I were going to book a flight, I would consider this website	.988		
Perceived value	Booking this flight I think I would be getting good value for the money I spend	.975	.949	.946
	If I book this flight, I feel I get my money's worth	.975		
Self-serving intention	The website uses its price presentation to mislead their customers by a complex price structure	.958	.831	.897
	The website uses its price presentation to increase profits by deceiving its customers	.913		
	The website uses its price presentation to mask the actual price of the offering	.862		
Customer-serving intention	The website uses its price presentation to increase satisfaction with the booking process	.792	.713	.798
	The website uses its price presentation to assure that the price structure is easy to understand	.880		
	The website uses its price presentation to make costs for the price components transparent	.860		

[a] Study 1 measures

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J Revenue Pricing Manag
DOI 10.1057/s41272-017-0132-y

RESEARCH ARTICLE

Quantified value first, then price: realizing the positive impact of a value pricing strategy

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Abstract Creating a value pricing culture and methodology requires more than just a CEO's edict. It requires a thorough look at the people, processes, technology, and culture of your company. Once you have analyzed and challenged yourself if you create real customer value, then you can look at ways to enable customer's willingness and ability to pay for value by quantifying your value and entering into value- or performance-based agreements.

Keywords Value-based pricing · Value-based selling · Value quantification · Pricing strategy implementation · Quantified value proposition

Current situation

Great job—you should be proud that your company is following a value-differentiation strategy. It's the only way to create a long-term, sustainable competitive advantage. Of course, now your company needs to price and be rewarded for the value you're delivering versus your competitors. However, your sales team is resisting and reports back that the market is pressuring for price discounts and that procurement doesn't care about your "value." So now that you've done the price setting, how do you get the salesforce to realize that price, without refunding it to clients as larger "discounts" or as extra "free" services?

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Over the years, I've worked with and discussed all things "value" with one of the original "value merchants," James Anderson of the Kellogg School of Business at Northwestern. He noted through his research, interviews, and consulting engagements that many CEOs declared that they were going to take the value strategy to the market but that most if not all never realized the full reward from their efforts (Hinterhuber and Snelgrove 2016). What could be the reasons for why such a strategy was not realizing the desired results?

Before going into the areas of improvement to help sales realize the value of the strategy, let's make sure we're measuring all the possible ways to realize those benefits. Of course, higher prices and margins are assumed to best measure the realization of a value strategy. However, the value realized for your company could come from less discounting (effective higher net prices), more market share with customers (if I prove my value, I earn a higher share of wallet), faster sales cycles (I've developed a customized business case to help you justify to your management that the investment in my solution will drive higher profit for your company). The way you get paid for value can be different with different customers.

Why is it so hard to price for value and realize that value?

First, a value pricing strategy needs to be part of your company's holistic strategy. Will you be the value leader, create more value, communicate value, quantify your value, and then get paid for that value? Or will you be the company that pays value lip service but for whom it isn't a core strategy? Is your CEO talking to investors and customers about the value and at the same time messaging sales differently, saying "load the factories… get any order"? If so, this miscommunication will render the strategy ineffective. Once you start running a value strategy as a culture-change project with value pricing being only one of several aspects needed to gain your just reward, you will be much more likely to succeed. Here I take from my experience of our company becoming a Six Sigma operation. It had a key sponsor, a full-time program manager, focused measurements, C-level buy-in, employee recognition and rewards, among other aspects. Six Sigma succeeded when it became a how-we-work mindset, not a standalone separate program.

Figure 1 shows all the activities and support that a company truly needs to address in order to get paid for value. The experiences of marketing guru James Anderson, my experience as a global vice president of value for 15 years at a global industrial engineering firm, and our numerous discussions with other practitioners and academics revealed a common thread. Too often, less successful companies focus only on *the ability to sell value* area of competencies and tools. We found that companies achieved higher results and satisfaction with their value pricing strategy when they viewed this as a culture-change program, and thereby looked also at the constant reinforcement and the *want to sell value* along with the initial ability aspects listed in Fig. 1.

The starting point—where the CEO announces that as a company value will be created, a tool to quantify value for customers is built, training has been given on value selling, and so forth, to sales, and the CEO sets a target of cases created for all to meet—seems to have all the ingredients for a winner. Upper management feels that now it is all about implementation. Management then uses both the carrot and the stick approach. Some companies reward or "punish" sales for quantifying so much value or creating so many value cases. My experience is that this by itself doesn't work. Someone said that "the more you measure something the worse it gets." The goal was to have a growing library of well-documented value-realized case examples to use with other customers; however, as quantity becomes the focus, the database is filled with examples of simple cost avoidances (that all your competitors can also perform, such as free training, shipping) that salespeople create with the goal of just hitting a targeted number of uses. The value of the tool dramatically decreases, feeding upon the argument that customers don't care about your value. Targeting quantity, not quality, starts a vicious cycle.

Customer value has now been added as part of your new product or service conceptualization process; however, projects get pushed through to the next gate by throwing out "we think this is worth a *zillion dollars*" for a customer. The focus becomes the number of new offerings released to the market, not how well those new offerings create customer value and then how well they are received by the market.

"Value" is even added to your structured sales process; your customer relationship management system has a box to be ticked to show that you did value selling. You've created a calculator (doesn't mean it's good, clear, or realistic); then, at a sales meeting, some time is allocated to remind the sales team to sell that value.

"Initial value training" is squeezed into a single sales meeting; as we all know, for training to be effective it has to resonate, be applied, practiced, refined, and updated. As a once-and-done, it gets pushed to the back of the mind like

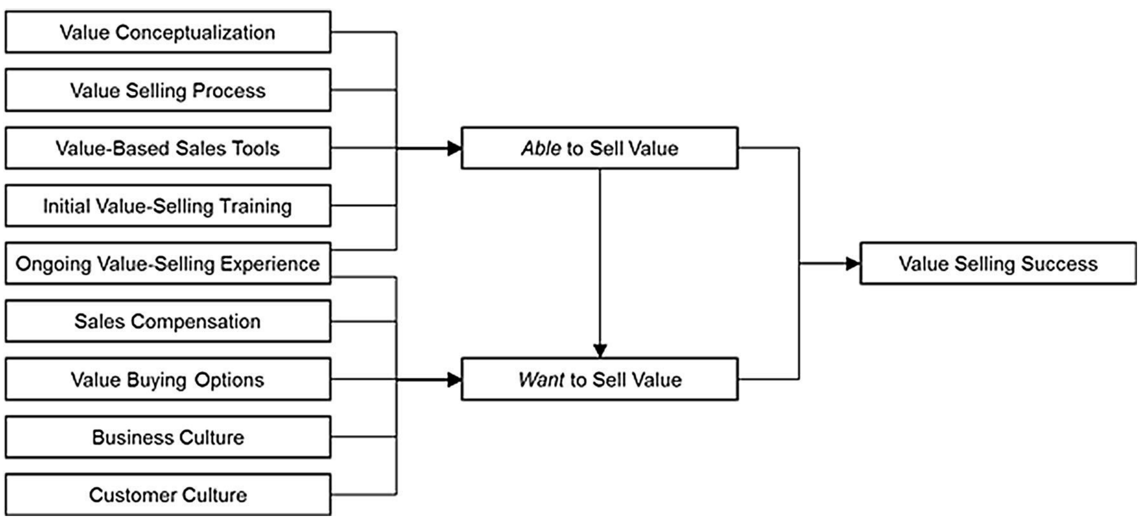

Fig. 1 What causes value selling success? Adapted from T.C. Snelgrove and J. Anderson, 'Muddling through on customer value in business markets?', in A. Hinterhuber and T.C. Snelgrove (eds), 2016, *Value First Then Price: Quantifying Value in Business-to-Business Markets from the Perspective of Both Buyers and Sellers,* Routledge, New York, Fig. 7.2, p. 77

all the other new great ideas pushed out from the head office in a sporadic way. I've heard salespeople say "this is just the flavor of the month… I just need to wait till they take a new focus… Why bother changing?"

So creating the ability to sell value is the foundation for realizing some of that value for your company. However, it can't end there.

The want to sell and buy value—the missing piece

What James Anderson and I found to be even more important in realizing the value than the initial tools, support, and training is an ongoing culture or change-management project approach that renders a program living and improving. Why is it that athletes who've been playing the same sport for decades continue to train fanatically but that salespeople don't? Is it possible to ever reach the point in sales where you can answer every customer concern? I don't think so. At regional meetings, discuss what worked, what didn't work, and why, and have the team share best and worst practices. Commit to reading some journals or books to keep yourself refreshed. One best-in-class company had each salesperson read one business book per year and then present the key takeaways to the rest of the team. There's no better way to get the team participating in the ongoing evolution of the concept than to make them part of it. I've also seen that people prepare and internalize the material if they will be presenting the findings to peers versus waiting for the head office to tell them what value to sell, and how.

Next, are you rewarding your sales team on selling and getting paid for value or on selling volume? If you have a process for cutting prices but you don't have a way to guarantee that you'll deliver value to your customers, you may need to re-prioritize where you invest your time and create the right processes. Professional procurement has the right, if you say that you're better than the rest, to say that they're willing to pay you once you've delivered that value. You need to agree beforehand on what is of value and how you will measure it; but if you're unable to drive value and profit for your customers, perhaps you should have to write a penalty check to them. At the same time, if you exceed the value number you are tasked with, you should be rewarded. In too many companies, I see the salesperson that convinces management to cut a price getting some of the largest annual bonuses; if you reward this behavior, sales will find a way to meet such a target.

Business culture is what reinforces your ideals to your team. Are the people being promoted the best value sellers? Do you have an annual award for the team or person that obtained the biggest value order? At my old company, SKF, our CEO would talk about creating, documenting, and delivering value to our customers all the time. For example, it was part of our annual report; in one memorable presentation, he showed how we'd saved industry more money than the average price increase we had put through the year before—showing that the more customers worked with us, the more profitable they would be. I attended numerous investor days to explain our program and results. It was what we were all about; it was our culture; it was why we deserved to be paid more.

Finally, have you invested in helping your customers change the way they view what you could do for them? Do customers see you as a commodity supplier to be leveraged and swapped out at will? Or do they see you as a supplier that can help them reach their business goals of differentiating their offering, helping them be more efficient and profitable? The time to reframe how customers think of your offerings is not in the middle of contract negotiations, and it won't come because of one sales call. You as a company need to constantly be in the marketplace saying "we do things differently and better and we can help you achieve your goals."

I can give an example here of a company and offering that was clearly focused and can deliver on the *ability to sell value* aspect. I have just joined ABB, a global industrial company focused on making industry more profitable through the better use of power and productivity. One of my tasks is developing different pay-for-performance models for an innovative offering called Collaborative Operations. ABB will help companies take the next step in their digitization journey, specifically helping industrial companies turn the millions of data points collected into useful and valuable information. Now the customer, and their head office, can look at possible problems proactively on demand and in real time to solve potential costly problems together and bring in the subject matter experts from ABB quickly and efficiently. ABB will help companies be more profitable and document that value, and they're willing to be paid based on the customer realizing that value.

What does value selling success look like?

How do you know if you've succeeded being a leader in the value space? I think of it more as a journey than a destination, as the focus needed will never end. You will always need to focus on it, lest your competitors catch you. However, one of the most obvious things is to look at your financials. Did your top line grow, exceeding the industry averages while increasing your margins? Do you have a process for entering into agreements based on value whereby you're rewarded for delivery but at risk if you don't hit a predetermined target? Are your new product introductions doing better at selling the amount and at the price point that was planned? Besides financial metrics, can you point to a person and team who are driving your value strategy? You will know it, because you can feel the buzz in your company. The language of market communication changes from technical lists of features to financial value quantification. Sales is discussing what the value agreement should look like, not what the discount structure should be. You are winning more customer awards because they see the value you can deliver. Finally, the sales team is pushing back, asking for more proof of value, training, marketing communications around why your company is better. When sales starts asking for support versus having programs forced on them, you'll know that you're on the right path.

When sales has all these things supporting and driving their behavior, then realizing the benefits of value pricing will follow. A 2011 study by the Monitor Group, now part of Deloitte, found that companies that priced for value and did it well—including communicating and demonstrating that value—were 36% more profitable than companies within the same industry that took a "let's make it up in volume" approach. It's not easy, and no silver bullet exists; however, the benefits for you and your customers are huge if you focus on quantifying value first, then price, and work side by side with customers in a collaborative way to drive sustained profit by driving the right costs out and increasing value. As Harvard professor Shoshana Zuboff has said, since her publication of *In the Age of the Smart Machine: The Future of Work and Power* (1988), "everything that can be measured will be measured" and "everything that can be monitored will be monitored." We must perform these activities to drive measurable bottom-line profit, and it is our jobs as suppliers to demonstrate and document that value so that customers are willing and able to pay for it.

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VOLUME 17 | NUMBER 1 FEBRUARY | 2018

Journal of Revenue and Pricing Management

An Associated Publication of the INFORMS Revenue Management and Pricing Section

Special Issue: Implementing Pricing Strategies

Contents

Editorial

Implementing pricing strategies 1
Andreas Hinterhuber

Interview

Elevating the cost of doing nothing: an interview with Mark Shafer 3
Andreas Hinterhuber, Evandro Pollono and Mark Shafer

Research Articles

Designing salesforce compensation programs to improve pricing execution 11
Stephan M. Liozu

Nickel and dime guests for amenities: exploring guests' perceptions of resort fees 20
Seung Hyun Lee and Jaeyong Lee

The importance of transparency signals in à la carte pricing 32
Thomas Robbert and Stefan Roth

Quantified value first, then price: realizing the positive impact of a value pricing strategy 41
Todd Snelgrove

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ISSN PRINT: 1476-6930
ISSN ONLINE: 1477-657X