Practice Article

Trust, fairness and justice in revenue management: Creating value for the consumer

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ABSTRACT In recent years much mention has been made in both professional and academic literature of the rise of customer centric revenue management (RM) and pricing strategies with their focus being on even finer segmentation of the market and the effective targeting of specific market segments. Understanding customer behaviour and price elasticity, it is argued, will allow service companies to charge the right price for a well-tailored product to each customer. However, there still remains a sense that RM is something that is done *to* customers rather that something that is done *for* the customer. This article explores how value can be built into the buyer-seller relationship by examining customer perceptions of price differentials and how they may affect feelings of trust, fairness and justice.

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In recent years, there has been much mention in both professional and academic literature of the rise of customer-centric revenue management (RM) and pricing strategies with their focus being on even finer segmentation of the market and the effective targeting of specific market segments. Understanding customer behaviour and price elasticity, it is argued, will allow service companies to charge the right price for a well-tailored product to each customer (Milla and Shoemaker, 2008). However, there still remains a sense that RM is something that is done *to* customers rather that something that is done *for* the customer. Building mutual value into the relationship that companies have with their customers should, therefore, be one of the primary aims of any organisation.

One of the ways to build value is to establish a trusting relationship between buyer and seller.

However, it could be argued that price discrimination, which is inherent in RM may undermine trust in an organization where the customer perceives that they have been treated less fairly in terms of price than other buyers (McMahon-Beattie *et al*, 2004; McMahon-Beattie, 2009). What companies require is a firm understanding of consumer perceptions of price differentials. However, research remains fragmented and more needs to known about the impact of pricing policies that might influence consumer perceptions of trust, fairness and justice.

Trust is a complex relational construct that has received much attention in marketing literature in recent years. Indeed, it has been seen to be at the philosophical heart of Relationship Marketing with its focus on establishing, developing and maintaining effective, ongoing relational exchanges (Morgan and Hunt, 1994; Takala and Uusitalo, 1996) and it has been positioned as an important antecedent, mediator and outcome of buyer–seller relationships. Trust is at the heart of Relationship Marketing strategies, however, there would appear to be a potential conflict between the aims and operation of Relationship Marketing/Customer Relationship Management and RM. The essential difference here is the time horizon for revenue maximization with RM focusing on maximizing revenue from each individual transaction and Relationship Marketing focusing on the lifetime revenue per customer (Mathies and Gudergan, 2007).

Perceptions of trust and indeed fairness become a particular issue where modern IT based systems of individual pricing allow multiple prices to be charged for ostensibly identical units of output, and where the results are less visible and may only be compared indirectly. This lack of openness in pricing creates conditions for mistrust. Garbarino and Lee (2003) have noted that dynamic pricing that results in unexplained price differentials leads to diminished trust in the seller. Kahneman *et al* (1986) have examined how consumers' perceptions of the 'fairness' of price increases were influenced by the circumstances that led to them. In line with the theory of dual entitlement, they found that buyers typically perceive a given price increase as 'fair' if it is a reaction to an increase in seller costs, but as unfair if it is a reaction to increased consumer demand. Furthermore Haws and Bearden (2006) suggest fairness concerns limit consumer acceptance of individual level price discrimination whereas Bolton *et al* (2010) indicate that consumer acceptance of price discrimination may vary over cultures. In relation to RM, Kimes (1994) noted that a lack of information regarding discounts was an issue of concern to buyers. Furthermore Choi and Mattila (2006) have contended that the provision of an appropriate level of information on the hotels' pricing policy is believed to have a positive impact on customers' perceived fairness of RM. Rohlfs and Kimes (2005) indicate that consumers (in hotels) will accept the idea of variable prices as long as they understand that they are receiving the 'best-available-rate' for each night of a multiple night stay. Thus, perceptions of fairness and trust seem to have a reciprocal relationship (Maxwell, 2008).

Connected to the concept of fairness is that of procedural justice. Thibaut and Walker (1975) found that the primary element of this, in terms of the law, was process control or influence. As the concept was extended to organisational research, additional elements were added in relation to policies or procedures, for example, consistency of application across individuals and time and ensuring that accurate and complete information is exchanged (Colquitt *et al*, 2001; Guiltinan, 2006). Inherent within procedural justice is the dimension of informational justice, which is 'concerned with the communication of the process about the rules for obtaining a discount' such as the quality of the explanations' (Guiltinan, 2006, p. 389). In relation to RM, Kimes (1994) found that customers perceive discounting unfair when they do not have the full information about options available.

Notably, however, recent research has indicated that variable pricing in itself in itself does not cause consumer trust/mistrust (McMahon-Beattie, 2009, McMahon-Beattie *et al*, 2010). Rather it is consumers' level of knowledge of the 'rules' in which variable pricing operates may well cause trust/distrust. From experience of the benefits that variable pricing may bring to a consumer, and based on an understanding of how and why these benefits may be obtained (for example, low hotel prices to clear spare capacity at a quiet time of year), consumers may come to trust a business' use of variable pricing as a legitimate business practice. These findings may bode well for both customers and RM professionals.

However, the effect of rule familiarity on the level of consumer trust remains under researched. Further research is required, which will establish a construct for Rule Familiarity and the development of appropriate scale items for its measurement. In practical terms, consideration of the impact of rule familiarity on consumer trust will allow for more effective framing and presentation of price offer information and will contribute to the development and maintenance of ongoing buyer-seller relationships. It will also potentially highlight any differences between customer segments and indeed between cultures.

Consideration of the impact of price differentials on consumers and how customer centric data can enhance the buyer-seller relationship is essential if companies are to build mutual value for themselves and their customers. However, research into the human side of RM remains sadly neglected and will continue to be one of the challenges for academics and professionals alike in the coming years.

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