Chapter 5
The Use of Differential Pricing in Tourism and Hospitality

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ABSTRACT

Due to the widespread adoption of revenue management strategies within the hospitality business, pricing has become more and more a central topic both for academics and practitioners. In particular, pricing has evolved towards value-based approaches, dynamic and customized through the use of price differentiation. "Rate fences" are the criteria that hotels adopt to separate customer segments whose service values may differ. The purpose of this chapter is to analyze the academic literature as well as the business practices relating to this subject. The authors propose a logical link between rate fences and the hedonic pricing approach. Main topics are 1) rate fence classifications and 2) the effectiveness of rate fences and their impacts on perceptions of fairness. Overall, this contribution suggests that time-based rate fences are fundamental at the destination level, and they are strictly connected to seasonality. Destinations' policymakers and firms can consider strategies and tools for overcoming seasonality, including special events that may take place in a destination.

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INTRODUCTION

Pricing research has primarily developed in microeconomics and marketing, although with different approaches. Whereas pricing studies in microeconomics are largely theoretical, research in marketing is principally oriented toward managerial decisions (Rao, 2009). In this regard, Nagle (1984) observed that economic models are abstractions and are not intended to describe realistically the methods firms use in making their pricing decisions and the manner in which consumers respond to those decisions.

Despite the centrality of pricing for firms' performance, until a couple of decades ago, research on pricing was relatively limited: *price is so important to the firm's success, one wonders why pricing has not received more attention* (LaPlaca, 1997, p. 192). However, in more recent years, the subject has received increasing attention, in part due to studies related to yield and revenue management. Within this context, price differentiation plays a central role, and the means (price fences) used to make different customer segments pay a different price are a key point. In practice, fences are able to augment or reduce the features and value of products, thus facilitating price differentiation. This brings the hedonic pricing approach to mind, even if the link between rate fences and hedonic price it is still in its infancy. Consequently, the authors propose to expand this connection.

Finally, the topic is approached with regard to considering elements and fences that are more destination dependent. Time-based rate fences are fundamental at the destination level, and they are connected to seasonality. Destinations' policy makers and firms can therefore consider strategies and tools for overcoming seasonality, including special events that may take place in a destination.

This chapter offers three main contributions. First, it reconciles the price discrimination conceptualizations used in marketing and economics. Second, it presents the interplay between rate fences and hedonic pricing, offering managers clear guidance on how to approach these managerial levers. Third, it applies these tools to hospitality and tourism, showing the peculiarities and possible synergies between hotels and destination for revenue maximization.

PRICE DISCRIMINATION AND PRICE DIFFERENTIATION

In recent years, pricing has received increased attention from academics and operators, a change which can be related both to technological progress and to an evolution in the approaches firms commonly employ to choose their prices.

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