



Universität St.Gallen

# Perceived Price Fairness in the Airline Industry – A Customer Perspective

**SiB Kongress – Wirtschaftskongress der Hochschule Bremen**

Aviation Student Research Workshop (G.A.R.S. e.V.)

Hochschule Bremen – Standort Airport

June 9-10, 2005

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# Agenda

1. Theoretical Background
2. Problem
3. Research Question
4. Objective
5. Model
6. Methods
7. Q&A



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## 1. Theoretical Background

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# Theoretical Background (1/2)

- Particularities of services (e.g. airlines)
- Price within the marketing-mix (revenues/profits and customer behavior)
- Customer value as prerequisite to absorb willingness of payment
- Behavioral or demand-based pricing theory:
- Price as an equivalent of the perceived utility of a service
- Price often key to customer satisfaction (Herrmann et al., 2001)
- Little research on relation of customer satisfaction and price satisfaction/fairness (Homburg, 2001 and Herrmann, 2001)
- First experimental research by economists in 1986: Kahnemann, Knetsch and Thaler (1986) explored antecedents and consequences of price fairness (dual entitlement and prospect theory)
- Former philosophical and sociological approaches of fairness two centuries ago (Aristoteles, Plato)
- Price fairness, considered to be part of marketing research, a quite recent research stream

# Theoretical Background (2/2)

## Selected definitions of price fairness:

- “[Price] Fairness has been defined as a judgement of whether an outcome and/or the process to reach an outcome are reasonable, acceptable or just.” (Xia, Monroe and Cox, 2004, p. 1)
- “A customer who pays more for a similar service and cannot perceive a difference in the service may view this situation as unfair.” (Kimes, 2002, p. 21)
- “Preisfairness, d. h. die bewusst oder unbewusst von Gerechtigkeitsüberlegungen geprägten Wahrnehmungen der Transaktionsbedingungen und Abläufe.” (Diller, 2002, p. 165)
- “[...] als eine minimale Differenz zwischen erwartetem und tatsächlichem Produktpreis.” (Herrmann, Wricke and Huber, 2000, p. 134)

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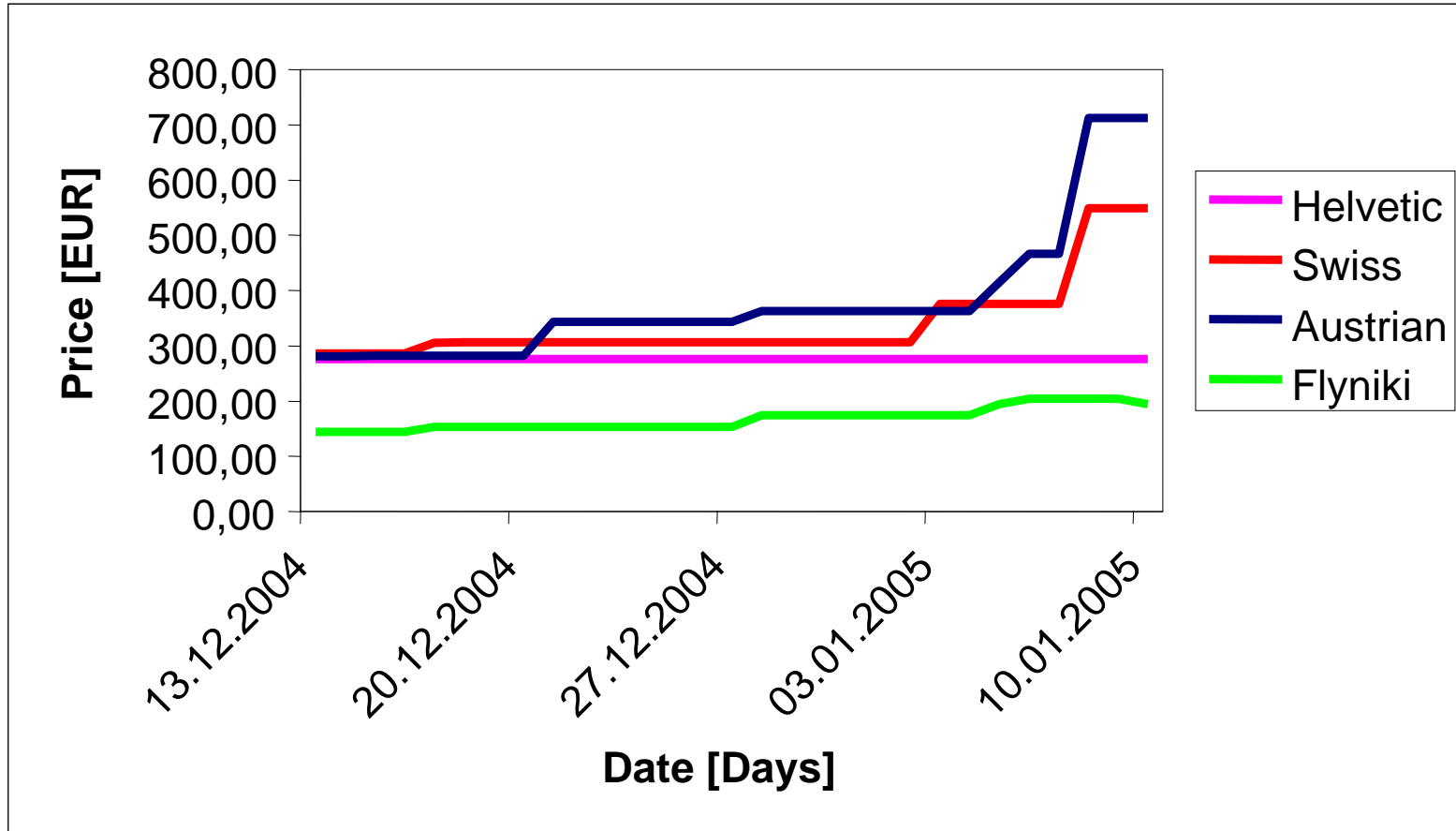
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# Problem (1/4)

## Airline Revenue Management (RM):



## Problem (2/4)

- Flying becomes a commodity
- High price sensitivity (price elasticity) among passengers (“smart shopper“)
- Dynamic pricing strategy (RM) enhances complexity for the customer
- Increased stress and risk perception due to lack of transparency (“when, how and why do prices change?“)
- Monetary and non-monetary burden of booking a flight not anticipatable
- Excessive yielding (price dispersion) and aggressive price promotions can lead to consumer confusion and erosion of the reference price
- Not getting a deep discounted fare could lead to the feeling of injustice and unfairness
- Airlines do react: *„This is a new pricing structure developed to establish lower, more consistent fares. There will be sales in the future, but this restructuring is intended to deliver everyday low fares in an easy-to-understand context.“* (Delta Airlines‘ “SimpliFare“, 2004)

## Problem (3/4)

- To orientate price to customer value, an airline needs to know, how it can create additional value for the customer
- Shortcomings of traditional economics (price-demand function, homo oeconomicus)
- Behavioral pricing theory (bounded rationality) as the theoretical background:
- *The construct of perceived price fairness has to be operationalized*
- *Perceived price fairness is of compensatory and unstable nature during the whole purchasing process*
- *A fair price structure has some quantifiable consequences for a service company*

# Problem (4/4)

## **Fruitful lack of research in the area of perceived price fairness:**

- *“Research in the area of price fairness has been sparse until recently.” (Xia, Monroe and Cox, 2004, p. 10)*
- *“The psychology of pricing has been neglected almost completely.” (Shapiro, 2000, p. 14)*
- *“Die Preisfairness ist bisher [...] wissenschaftlich wenig durchleuchtet.” (Diller, 2002, p. 183)*
- *“Unberücksichtigt bleiben dabei freilich Imageaspekte, etwa die von den Kunden empfundene (Un-) fairneß solcher Preissysteme“ (Diller, 1999, p. 47)*
- *“Eine Zusammenfassung der Literatur zur Preisfairness lässt erkennen, dass dieses Konstrukt für die Erklärung und Prognose des Kaufverhaltens eine zentrale Bedeutung besitzt.“ (Herrmann, Wricke and Huber, 2000, p. 133)*

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# Research Question

## Main research question:

*What consequences do airline revenue management systems have on perceived price fairness during the whole purchasing process?*

## Partial research questions:

- i. Which attributes of revenue management systems do customers/customer type perceive as being fair?
- ii. Is there a difference in the perceived price fairness of revenue management systems due to specific environmental conditions (booking channel, socio-demographics etc.)?
- iii. Which price fairness attributes have a particularly great influence on the customer's reaction?
- iv. How can a price-discriminating fare structure create customer value during the whole purchasing cycle?

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# Objective

## **Contribution to academia:**

- Synthesis-model of perceived price fairness (purchasing process & S-O-R)
- Conceptualization and operationalization of determinants of perceived price fairness (antecedents)
- Implications of a fair pricing model on customer's reaction (consequences)

## **Practical contributions:**

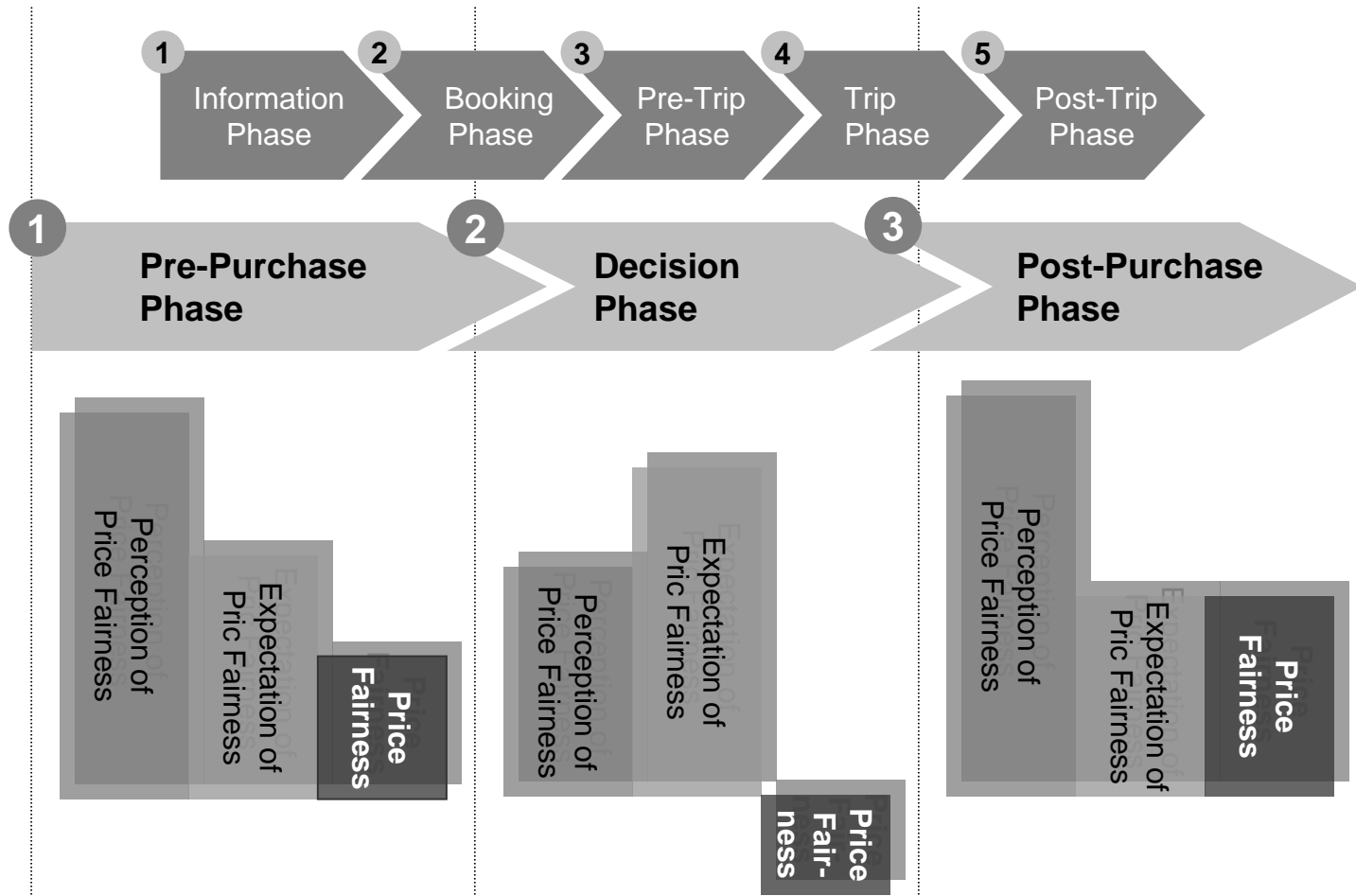
- Consequences of perceived price fairness
- Awareness of fair pricing within companies
- Optimum of fair, transparent and simple pricing system

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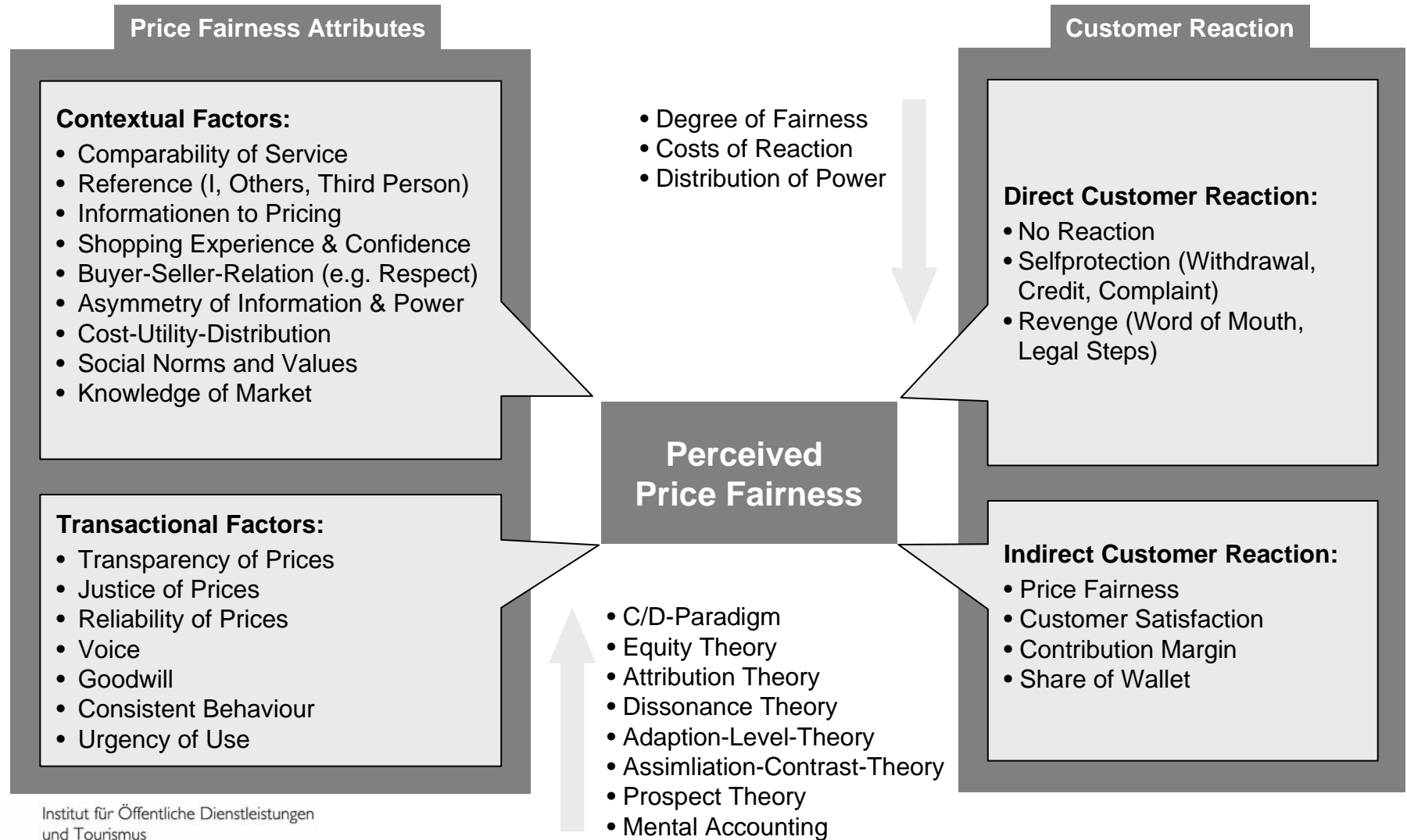
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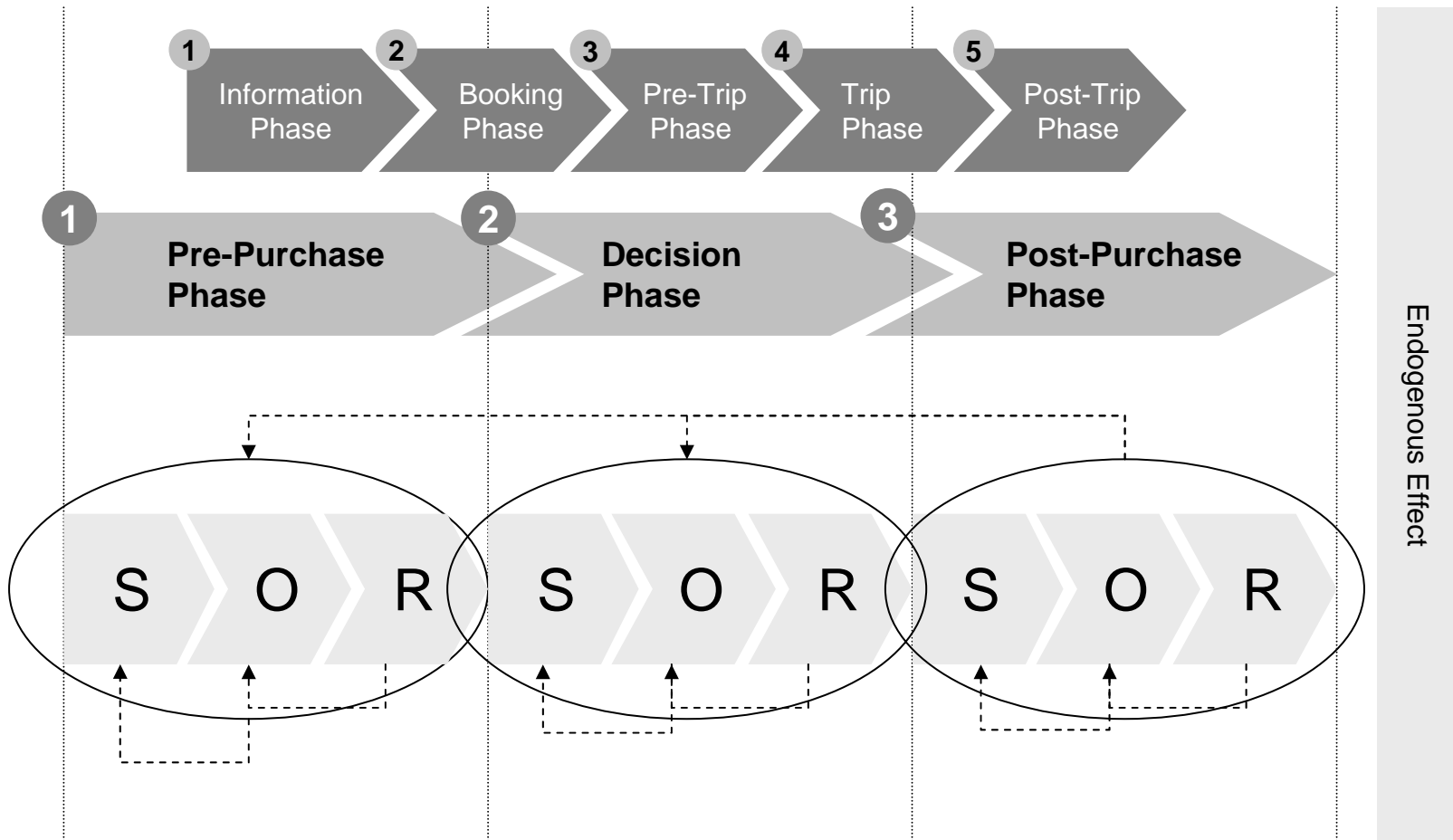
# Model (1/4)



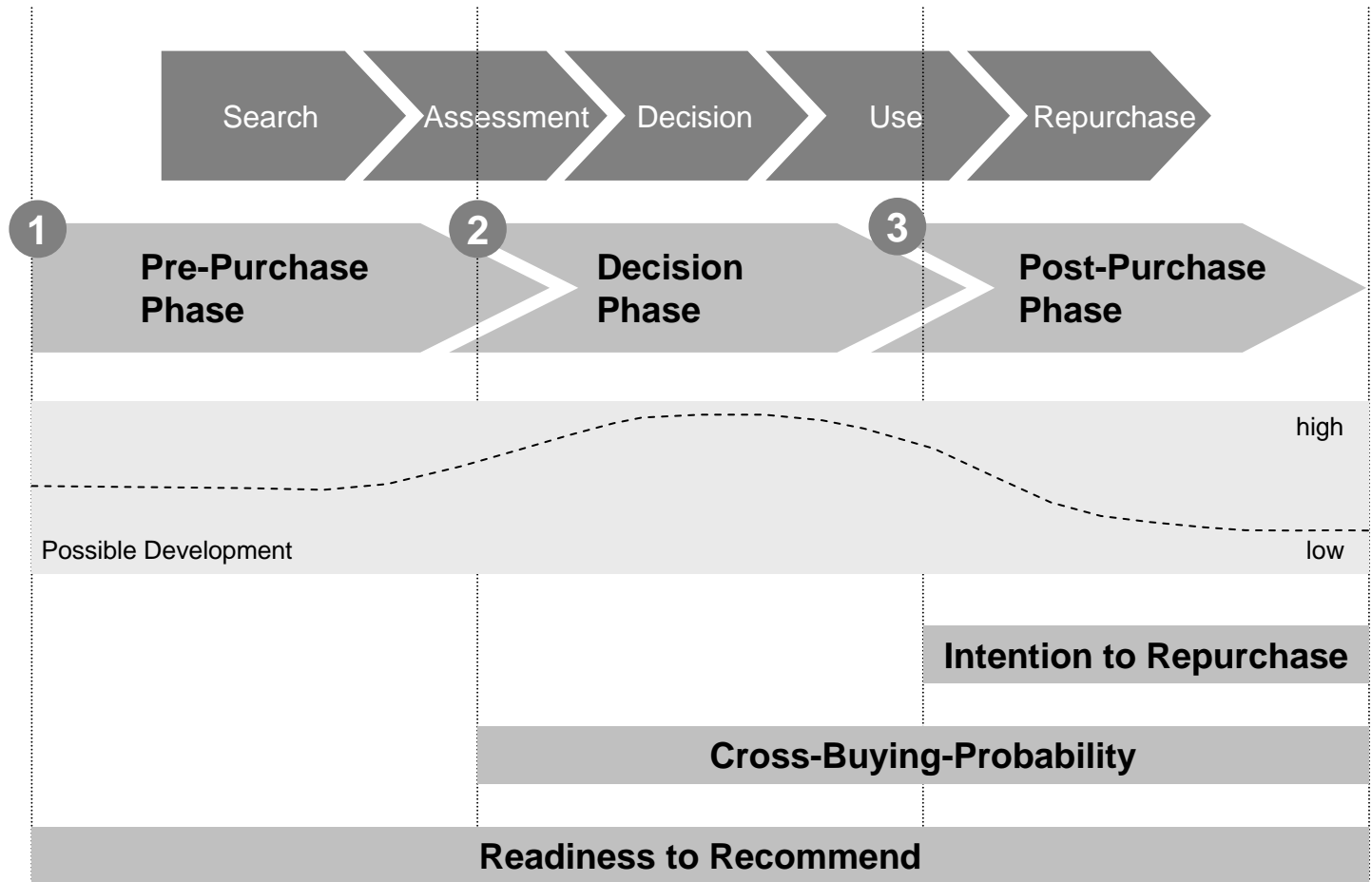
# Model (2/4)



# Model (3/4)



# Model (4/4)



Endogenous Effect

Development of Price Fairness

Exogenous Effect

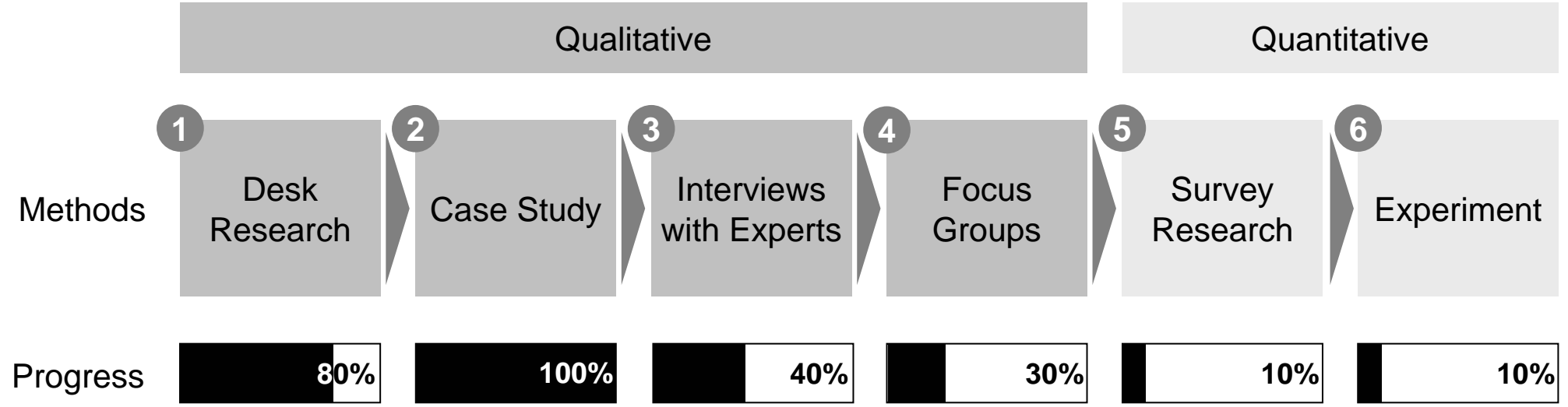


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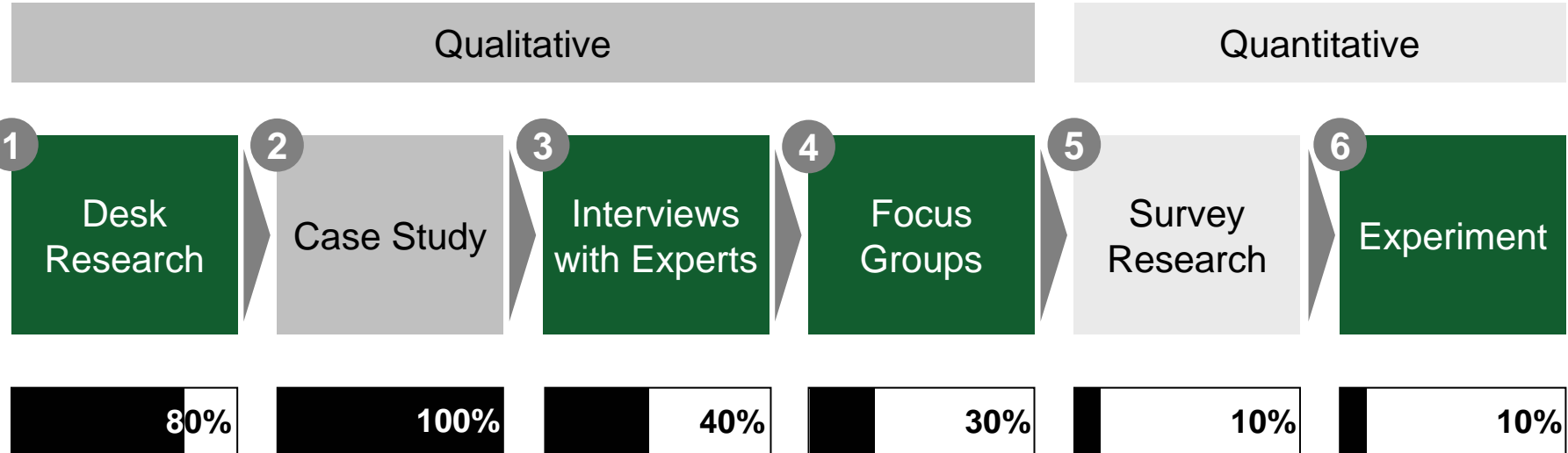
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# Methods



# Methods



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# Q&A

