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# Impact of hotel discount strategies on consumers' emotion and behavior in the presence of high and low involvement consumers

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IMPACT OF HOTEL DISCOUNT STRATEGIES ON CONSUMERS' EMOTION  
AND BEHAVIOR IN THE PRESENCE OF HIGH AND LOW  
INVOLVEMENT CONSUMERS

by

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Bachelor of Science  
University of Nevada, Las Vegas  
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of the requirements for the

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**Graduate College**  
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## ABSTRACT

### **Impact of Hotel Discount Strategies on Consumers' Emotion and Behavior in the Presence of High and Low Involvement Consumers**

by

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While hotels come up with various discount strategies to attract consumers, especially during a recession, both hotels and consumers seem to favor dynamic pricing. Yet there are not enough studies available to reveal that dynamic pricing would positively impact consumers. Studies also indicated that price discounts give consumers not only monetary benefits but also positive emotional responses. The purpose of this study was to investigate how uniform pricing and dynamic pricing influence consumers' emotion and behavior, in the presence of low involvement and high involvement consumers. The results of study suggested that high involvement consumers responded more positively to dynamic pricing than uniform pricing. Moreover, younger and female consumers are more likely to be involved in obtaining a discount, and high involvement consumers showed more positive feelings, and were more likely to tell others and make repeat purchases from a discount as compared to low involvement consumers.

**Keywords:** involvement, price promotion, consumer behavior, consumer emotion, dynamic pricing, uniform pricing

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## CHAPTER 1

### INTRODUCTION

The U.S. lodging industry has experienced significant declines in demand and profits (Woodworth, 2009). Since the economic downturn has heavily affected the hotel industry, hotels have made various discount strategies available in order to attract consumers. It is a well known practice that during tough economic times hotels drop prices to stimulate demand against competitors (Enz, Canina, & Lomanno, 2009) and to create the best cash flow possible in the short turn (Kimes, 2009).

Sahay (2007) noted that most companies use comparatively simple strategies to determine prices: uniform pricing, competitive pricing, or cost-plus pricing. In uniform pricing, companies let prices remain uniform over time, regardless of the changes in the environment (Farahmand & Chatterjee, 2008). In competitive pricing, companies set prices based on their competitors' prices (Enz et al., 2009; Sahay, 2007) while companies with cost-plus pricing calculate the cost of a good or service and then add a profit margin (Sahay, 2007). Among different pricing strategies, however, companies tend to favor dynamic pricing, and consumers seem to accept dynamic pricing. From a company's perspective, appropriately applied dynamic pricing will increase revenues and profits (Sahay, 2007). The success of dynamic pricing relies on the ability to segment consumers into different groups with different levels of willingness to pay (Dimicco, Maes, & Greenwald, 2003). In particular, the hospitality and airline industries have increasingly employed dynamic pricing since their inventories are perishable, demand can be segmented, the products or services are sold well in advance, and demand fluctuates substantially (Kimes, 1989).

Despite the increased interest in dynamic pricing, limited studies are available to reveal that consumers would react positively toward dynamic pricing. From consumers' perspective, consumers seem to accept the application of dynamic pricing where they are charged different prices for the same service or product (Choi & Mattila, 2009; Kimes, 2002) since dynamic pricing enables consumers to make a choice over the price. Dynamic pricing has been used as a tool to provide price promotion; for example, consumers receive discounted rates if they accept restrictions, or if they make reservations in advance (Kimes, 2002).

In addition, studies have showed that consumers react differently toward price discounts of the same products or services (Campo & Yague, 2007; Kimes, 2002). The concept of consumer involvement plays a significant moderating role. Baker, Cronin, and Hopkins (2009) noted that involvement can be used to segment consumers into low, moderate, and high involvement groups which encourages different promotional strategies. Thus, the different involvement a consumer attributes to a discount may not be independent from a consumer's preference on pricing strategies. Also, the involvement level may influence a consumer's discount receiving behavior, such as high involvement consumers demonstrating more positive feelings from obtaining a discount. In the current study, consumers are categorized as high and low involvement using Zaichkowsky (1985)'s Personal Involvement Inventory. Varki and Wong (2003) employed PII to measure a correlation between involvement and a consumer's willingness to maintain a relationship with a service provider.

Researchers have developed numerous theories related to the concept of involvement in an attempt to explain and predict consumer behaviors (Baker et al., 2009;



Varki & Wong, 2003; Zaichkowsky, 1985). However, there have been limited studies done to link involvement and pricing in terms of discounts. It would be worthwhile to study this linkage because hotels heavily rely on discounts due to the economic recession and become increasingly interested in discounts. The results obtained will be helpful for hotels to design price promotions. An experimental study is conducted to examine whether different levels of consumer involvement determine consumers to favor dynamic pricing or uniform pricing and to explore how different levels of consumer involvement impact the emotions and behaviors of consumers.

### **Purpose of the study**

The purpose of this study is to examine how discount strategies, dynamic and uniform, influence consumers' perspectives; particularly, their emotions and behaviors in the hotel industry in the presence of high and low involvement consumers. Other industries, facing increased price pressure during a recession, make more efforts to understand consumers' value perceptions (Ingenbleek, 2007). However, there are few existing studies on consumers' emotions and behaviors when the hospitality industry designs pricing strategies. Instead most companies set their prices based on cost information rather than on consumer value information (Avlonitis & Indounas, 2005; Hankinson, 1995; Ingenbleek, 2007; Noble & Gruca, 1999). In fact, the purely economic pricing models may not be adequate to understand the popularity of price promotions or develop models to guide management in their use (Schindler, 1998). It may be critical to understand the motivational process behind economic models in increasing the

effectiveness of a pricing strategy (Schindler, 1998), especially in times of economic downturns.

However, price promotions in the hospitality industry have not been studied as researchers have focused primarily upon price promotions in groceries and other manufactured goods (Wakefield & Bush, 1998). Yet a few studies in the hotel industry have been done on price promotions related to a cruise vacation (Duman & Matilla, 2003) and a tough economic time (Enz, Canina, & Lomanno, 2004; 2009; Kimes, 2009). Moreover, despite the popularity of dynamic pricing in the hotel industry, there have been limited studies that examine the impact of dynamic pricing on consumer emotions and behaviors. Therefore, it is necessary to examine how consumers react to different discount situations. In the current study, dynamic and uniform pricing strategies are compared in order to identify which discount strategy consumers prefer. Emotions and behaviors of consumers are investigated how consumers respond to dynamic and uniform discount situations.

Thus, the current study formulates hypotheses on whether the effect of using price promotions, for both uniform and dynamic pricing, varies according to the consumer's level of involvements. When individuals with different levels of involvement evaluate hotel pricing strategies, the results obtained may be expected to indicate that as follows:

1. Female consumers are more likely to be involved in obtaining a hotel discount than male consumers.
2. Younger consumers are more likely to be involved in obtaining a hotel discount than older consumers.
3. Consumers highly involved in obtaining a discount respond more

positively to dynamic pricing than uniform pricing.

4. Consumers highly involved in obtaining a discount experience more positive feelings from a hotel discount than low involvement consumers.
5. Consumers highly involved in obtaining a discount are more likely to tell others compared to low involvement consumers.
6. Consumers highly involved in obtaining a discount are more likely to make repeat purchases compared to low involvement consumers.

### **Definition of terms**

Dynamic pricing: Price changes in a response to a marketplace which can be implemented in several different ways (Dimicco, et al., 2003; Farahmand & Chatterjee, 2008). Price discrimination, yield management, or dynamic pricing are interchangeable with each other (Dimicco et al., 2003; Kimes, 1989; Sahay, 2007). In this study, dynamic pricing is used in terms of price promotion. Restrictions are imposed in exchange for a discounted rate. Dynamic pricing allows consumers to receive specific benefits if they accept certain restrictions (Kimes, 2002), such as making reservations in advance, a no refund/change policy, or minimum days of stay.

Uniform pricing: Uniform pricing lets companies have a fixed price over time, regardless of the changes in the environment and in the inventory level (Farahmand & Chatterjee, 2008). In the present study, the term “uniform pricing” is narrowly specified as the hotel offers a simple rate reduction from the rag rate.

High involvement consumers: High involvement consumers are defined as those who spend more time, effort, and money to search for better deals (Schindler, 1998).

Previous literature suggested that involvement could be measured by the time spent in product search, the energy spent, the number of alternatives examined, and the extent of the decision process (Engel & Blackwell, 1982; Schindler, 1998; Stone, 1984).

Low involvement consumers: Consumers are passive toward price deals (Farahmand & Chatterjee, 2008). Low involvement consumers may obtain discount deals when they accidentally encounter them.

### **Constraints**

This study is carried out with a convenience sample. Respondents are limited to the given area at that given time because the survey is conducted in a single place. Its results may not represent the views of the entire population. Also, respondents may not be representative because they select themselves as volunteers in response to oral requests (Zikmund, 2003, p. 380-382). The impact of discount strategies on consumers' emotion and behavior may result differently if the survey is conducted from a larger sample rather than a convenience sample. Therefore, projecting the results beyond the specific sample is inappropriate, and it may be the case that generalizations cannot be made.

## CHAPTER 2

### LITERATURE REVIEW

#### **Pricing**

Hotels in the United States (U.S.) are suffering one of the most drastic declines in occupancy and revenue in history (Vincent, 2009; Woodworth, 2009) due to the worldwide financial crisis, economic hardship, and falling consumer confidence (Butscher, Vidal, & Dimier, 2009). Firms use pricing as a key strategic lever to manage revenue (Noone & Mount, 2008). Despite the importance of understanding pricing, pricing is the least understood of the marketing variables (Kotler, Bowen, & Makens, 2003, p.446). Determining how much consumers should be charged is not simple in terms of predictions of demand and consumers' reactions. Charging too much chases away potential consumers, but charging too little can leave a company without enough revenue to maintain proper operation (Kotler et al., 2003, p.445). Moreover, pricing mistakes can harm firms much more heavily in a downturn than in an upturn. Therefore, to cope efficiently with an economic downturn, pricing becomes a difficult, complicated decision for hotel managers.

Yet a variety of pricing structures allows firms to use discounted rates that will stimulate demand for inventory that would otherwise remain unsold (Hanks, Cross, & Noland, 1992; Noone & Mount, 2008). In the retail industry, firms commonly use discounts as sales promotions. Marketers constantly identify different types of discounts to attract potential consumers (Duman & Mattila, 2003). Since the economic downturn has heavily affected tourism, hotels often cut prices, trying to create the best cash flow possible in the short term (Kimes, 2009). Drozdenko and Jensen (2005) suggested that

consumers have become more price-sensitive. Consumers are driven by lower rates and select the lower priced hotel, all things being equal, and their buying habits tend to respond accordingly to the increase and decrease in price. Yet, hotels should cautiously manipulate rates because in the long term potential negative effects may harm the hotel's profitability and image (Kimes, 2009), while many would feel that a survival is more important than a profitability or brand image.

Moreover, firms should understand the law of supply and demand, which is an economic model used to determine prices in a market. The relationship between supply and demand is explained to some extent by several early economists, such as Ibn Taymiyyah noted: "If desire for good increases while its availability decreases, its price rises. On the other hand, if availability of the good increases and the desire for it decreases, the price comes down" (As quoted in Hosseini, 2003, p.28-45). The law of supply and demand concludes that the demand for a product or service will increase when prices fall. In addition, before offering price cuts, hotels should recognize whether their lodging demand is price elastic or inelastic. Enz, Canina, and Lomanno (2004) discussed that price elasticity that reveals how much the demand for hotels changes in response to a change in price. According to Enz et al. (2004), if a certain percentage price cut brings not only greater demand but also revenue, then the demand is called elastic. If lodging demand is price elastic then as prices decrease, revenue will also increase. Conversely, if lodging demand is price inelastic, a particular percentage price discount will bring lesser than that percentage increase in demand. Therefore, when lodging demand is inelastic, price cuts will generate less revenue than before, so lodging profits will suffer even more.

In reality, hotels have taken different actions to attract consumers into their properties. Some hotels tend to simply lower room rates as Enz et al. (2004) illustrated; after the 9/11 attack, many U.S. hotels competitively dropped their prices, hoping to bring more consumers in against competitors. Among various pricing strategies, most companies use comparatively simple strategies to determine prices (Sahay, 2007). Uniform pricing lets companies have a fixed price over time, regardless of the changes in the environment and in the inventory level (Farahmand & Chatterjee, 2008), while competitive pricing allows companies to adjust their prices to competitors' prices (Enz, Canina, & Lomanno, 2009; Sahay, 2007). Cost-plus pricing is based on calculating the cost of a good or service and then adding profit (Sahay, 2007).

Traditionally, uniform prices would be set in the summer and be applied for the next entire year in a hotel; for example, hotels set a price in August or September for the following year. Uniform pricing requires hotels to commit to prices upfront, so those hotels may not have the ability to react to individual consumers (Aviv & Pazgal, 2005). Thus, uniform pricing has been evaluated as unrealistic since the hospitality business today is so dynamic that it needs to adjust to changes (Serlen, 2004). Drozdenko and Jensen (2005) advocated that if a company fixes discounts, the products commercialized under a discounted price may be perceived as low quality. On the other hand, consumers might prefer the simplicity of a known, fixed price that is not subject to any changes. Some hotels choose uniform pricing through distribution channels to avoid potential consumer confusion caused by price changes (Choi & Mattila, 2009; Yeaswich, 2004).

Among different pricing strategies, however, both companies and consumers seem to favor dynamic pricing (Dimicco, Maes, & Greenwald, 2003; Kimes, 1989; Sahay,

2007). Dynamic pricing refers to making price changes in a response to marketplace demand that can be implemented in several different ways (Dimicco et al., 2003; Farahmand & Chatterjee, 2008). Hotels with strong marketing tools and more funds have an ability to predict economic conditions and consumers' behaviors; they implement dynamic pricing in which hotels charge different prices to different segments of consumers.

When managed well, dynamic pricing helps improve revenues and profits by up to 8 % and 25%, respectively (Ashworth, 1997; Sahay, 2007). Dynamic pricing became a popular tool in many industries; this strategy is recognized as profitable for airlines and is practiced in other industries, such as hotels, cruises, and rental cars (Kimes, 1989; 2002; Duman & Mattila, 2003; Sahay, 2007). Not only does dynamic pricing offer greater profits but it also can be used to reallocate demand to more appropriate times and manage a limited supply base (Sahay, 2007). The concept of dynamic pricing helps a firm to sell the right inventory unit to the right consumer at the right time and for the right price (Kimes, 2002).

The success of dynamic pricing is resulted from an ability to segment buyers into different groups with different levels of willingness to pay (Dimicco et al., 2003). The cost of making changes to price is dramatically reduced due to electronic markets (Smith, Bailey, & Brynjolfsson, 2000). Enhanced electronic markets have enabled sellers to forecast demand, monitor booking activities, and, in response, realistically make immediate and timely adjustments to price (Dimicco et al., 2003). For example, the airline industry effectively uses technology to observe and adjust prices over time by regulating the number of seats available in each fare class (Dimicco et al., 2003; Smith,



Gunther, Rao, & Ratliff, 2001). Technology enables not only companies to deploy dynamic pricing at affordable prices (Sahay, 2007) but also allows consumers to choose from a broader range of available alternatives among competitive firms at low cost and with little effort (Kashyap & Bojanic, 2000). In particular, studies suggest that a suitable use of dynamic pricing will generate an increase in revenue in the hospitality industry where inventory is perishable, demand can be segmented, the product or service is sold well in advance, and demand fluctuates substantially (Coulter, 2001; Kimes, 1989).

Figure 1 illustrates that having two prices, compared to having one price, will generate more revenue when fixed and variable costs and the number of consumers remain the same. Beyond the point where the costs have been covered, the potential profits increase as the number of price points increase (Sahay, 2007). Hotels can increase profits through a larger volume of sales. If costs are controlled, then aggressive room pricing can elicit positive results; on the other hand, if low prices fail to cover costs such as maintenance, the long run benefit may be diminished (Enz et al., 2009). Thus, rate reductions must be targeted and differentiated. Since discounts are specifically designed for those who are more price-sensitive, companies do not want to see that consumers willing to pay higher prices take an advantage of discounted prices (Philips, 1981). As consumers perceive the product or service as an limited offer with special benefits, they may be less price-sensitive; consumers with young children are expected to pay a regular price to stay at a certain hotel due to the uniqueness of having a theme park on the property, so then the hotel wouldn't want to offer discounted rate to those particular consumers with young children (Duman & Mattila, 2003). Thus, hotels should segment the market effectively so that lower prices can be used to attract price-sensitive

consumers who otherwise wouldn't purchase, while retaining the price-insensitive ones who are willing to pay higher prices.

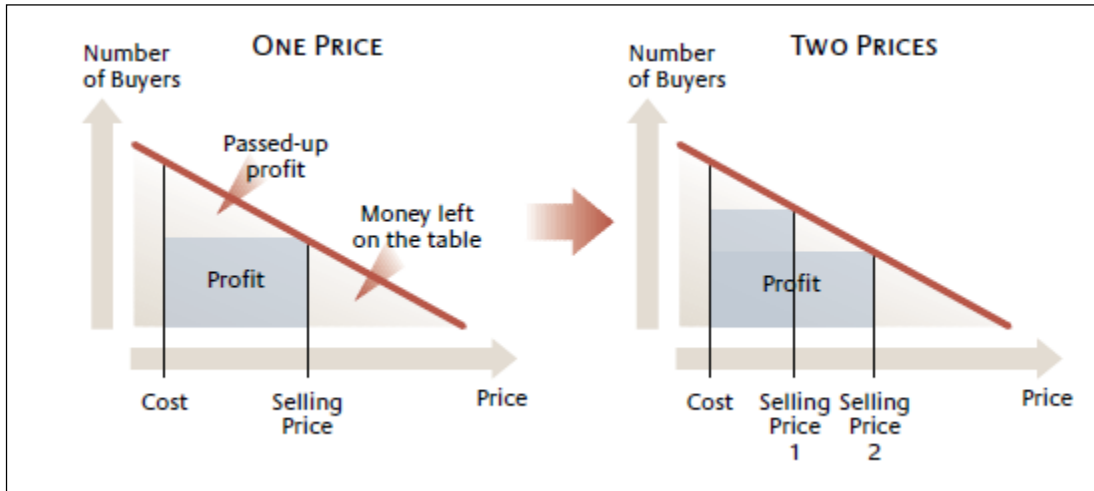


Figure 1. Effectiveness of dynamic pricing. Adapted from “How to Reap Higher Profits with Dynamic Pricing,” by A. Sahay, 2007, *MIT Sloan Management Review*, 48, p. 53–60.

Despite the potential benefits from appropriately applied dynamic pricing, many corporate travel buyers may be skeptical about the prospect of accounting for fluctuating rates that may be higher than uniform or negotiated prices; dynamic pricing makes business travelers tougher to estimate and budget (Eisen, 2006). The largest concern with dynamic pricing is whether consumers accept dynamic pricing as being fair (Kimes, 2002; Sahay, 2007). Consumers' perspectives of the fairness of dynamic pricing depend on the amount of information disclosed to consumers (Choi & Mattila, 2009; Kimes, 2002). Kimes (2002) suggested that a consumer may view a situation as unfair when he or she pays more for a similar service and cannot perceive a difference in the service. If

consumers perceive dynamic pricing as unfair, the increased revenues resulting from dynamic pricing may only be short term. However, dynamic pricing should be fairly accepted when information on the different pricing options are made available, including: substantial discounts are given in return for cancellation restrictions; reasonable restrictions are imposed in exchange for a discounted rate; and, different prices are charged for products perceived to be different (Kimes, 2002).

From a consumer's perspective, dynamic pricing enables a consumer to make a choice over the price, so he or she can receive special benefits from accepting restrictions or making reservations in advance. Aviv and Pazgal (2005) studied the optimal pricing of fashion goods, in the presence of strategic and myopic consumers and found that the announced uniform-discount strategies perform essentially the same as contingent pricing policies in the case of myopic consumers. Moreover, Sahay (2007) noted that consumers are more likely to accept dynamic pricing when they are more involved in the pricing process. Their participation represents an acceptance of the practice. By getting the consumers involved in the pricing process, firms are able to create an acceptance of dynamic pricing in the consumer's perspective. This finding advocates that consumers enjoy the participation and involvement of the pricing process, so they would respond more to a dynamic pricing than a simple pricing since dynamic pricing requires consumers to be more involved in the pricing processes. Based on the literature discussed above, consumers' reactions toward two different types of pricing, dynamic and uniform pricing, may vary according to the level of involvement in obtaining a discount.

## **Involvement**

In previous studies, the concept of consumer involvement has been widely researched. Zaichkowsky (1985) provided comprehensive concepts of involvement in consumer behavior. Consumers can be involved with advertisements (Murry, Lastovicka, & Singh, 1992), products, and purchase decisions (Zaichkowsky, 1985). When consumers appear to be involved in advertising, they are personally affected by advertisements; therefore are motivated to respond to the advertisements. When consumers appear to be involved in products, they are interested in product information based on their needs and values. Thus, when consumers are concerned with receiving a discount, they appear to be involved in obtaining a discount; therefore, consumers will be motivated to make a careful search for deals. While significant impacts are resulted from involvement on advertising (Gill, Grossbart, & Laczniak 1988; Murry et al., 1992) and information processing (Celsi & Olson, 1988; Park & Hastak, 1994), involvement with purchases has not been studied in great detail in the hospitality industry. In particular, few studies involve the concept of consumer involvement within the area of services marketing, despite involvement having an important role to play in service (Varki & Wong, 2003). Yet consumers have different responses in low and high involvement situations (Varki & Wong, 2003).

The concept of consumer involvement with purchases leads to be measured based on intensity of efforts spent in obtaining a specific activity. High involvement consumers are defined as those who spend more time, effort, and money to search for better deals (Schindler, 1998). Previous literature suggests that involvement could be measured by the time spent in product search, the energy spent, the number of alternatives examined, and

the extent of the decision process (Engel & Blackwell, 1982; Schindler, 1998; Stone, 1984). Stone (1984) defined behavioral involvement as time and intensity of effort expended in pursuing a particular activity. Other behavioral alternates for involvement are argued in a leisure context, such as frequency of participation, money spent, miles travelled, ability or skill, ownership of equipment and number of memberships (Kim, Scott, & Crompton, 1997). Conversely, low involvement consumers are considered passive toward price deals (Farahmand & Chatterjee, 2008). Low involvement consumers may obtain discount deals when they accidentally encounter them.

Some literature indicated that consumers' information search behaviors and purchase decisions could be influenced by demographics, such as a traveler's age and gender (Duman & Mattila, 2003; Fodness & Murray, 1997; Van Raaij & Francken, 1984). In particular, Duman and Mattila (2003) studied roles of demographic variables influencing cruise travelers' discount acceptance and usage behaviors, and indicated that younger and female travelers and travelers with prior experience with cruise vacations were significant predictors of discount usage. Discount receiving behaviors with cruise vacations might be linked with hotel experiences. Thus, the current study examines the role of gender and age in influencing consumers' level of involvement in obtaining a discount, and proposes two hypotheses as follows:

H1: Female consumers are more likely to be involved in obtaining a hotel discount than male consumers; and

H2: Younger consumers are more likely to be involved in obtaining a hotel discount than older consumers.

In addition, Campo and Yague (2007) analyzed how a purchase at a discount price affects the consumer's perception of price as a function of his or her personal characteristics; they found that individuals with different characteristics perceive the price differently. Varki and Wong (2003) examined the impact of consumer involvement on consumers' willingness to engage in relationships with service providers. Defined as consumers who seek to build a good relationship with service providers, highly involved consumers express a greater interest in engaging in relationships with service providers (Varki & Wong, 2003). Consumers perceive price differently according to individual characteristics (Campo & Yague, 2007); different people in different situations would lead to various levels of involvement (Houston & Rothschild, 1978). Some studies suggest that frequent consumers who are highly involved and identify with the organization may perceive little need for price discounts and these loyal, committed consumers are likely to enjoy a positive perception of regular prices for the service offered (Beatty, Homer, & Kahle, 1988). However, consumers are much more accepting of dynamic pricing when they are more involved in the pricing process. Their participation represents an acceptance of the practice; for example, an auction always has a higher degree of acceptance (Sahay, 2007).

In contrast, uniform pricing strategies perform essentially the same as dynamic pricing policies in the case of low-involved consumers (Aviv & Pazgal, 2008). Thus, higher levels of involvement lead to greater levels of consumer loyalty and a lower need for scarce marketing resources. Hence, involvement plays a significant moderating role in the purchase decision; in most cases the relationships are stronger for consumers with higher involvement (Baker, Cronin, & Hopkins, 2009; Varki & Wong, 2003). In addition,

the degree of involvement that the price promotion is able to generate can cause a large consumer response to a price promotion (Schindler, 1992). According to Schindler (1992)'s study, consumers can become far more involved in a price promotion than any simple consideration of the discount would seem to warrant. From the previous literature, the following hypothesis is proposed:

H3: Consumers highly involved in obtaining a hotel discount respond more positively to dynamic pricing than uniform pricing.

### **Emotional and behavioral responses to pricing**

Traditionally, literature suggests that consumers are interested in price promotions primarily because of the amount of money saved. A rational consumer would always choose to pay less money for a particular good, as long as the amount saved is large enough to make up for any costs associated with the discount (Ashworth, Darke, & Schaller, 2005). In addition to financial benefits, studies demonstrate that understanding consumer's value perceptions such as satisfaction, is critical, especially in the competitive environment (Ingenbleek, 2007; Noone & Mount, 2007). Weiner (1985) argued that consumers experience pride and positive feelings as a result of attributing positive outcomes to them. Yet only a few studies are concerned with the motivational factors underlying price promotions. The importance of consumers' emotions have become the subject of increasing consideration as more studies suggest that understanding consumer's value perceptions may lead to both higher sales and higher profit margins, especially with firms with increased price pressure in their business environment (Ingenbleek, 2007; Schindler, 1989).

Researchers suggest that consumers recognize themselves as efficient, effective, responsible, and cognitive when they make a decision which results in a good outcome (Babakus, Tat, & Cunningham, 1988; Mittal, 1994; Schindler, 1989; Shimp & Kavas, 1984). Researchers note that price promotions have an ability to bring out strong feelings such as pride and anger (Bandura 1977; Schindler, 1989). Schindler (1998) emphasized the term of “perceiving oneself as responsible.” In his study, Schindler (1998) concluded that the more consumers experience positive feelings from a discount, the more they attribute the discount’s cause to internal factors. Paying a low price leads a consumer to feel proud, smart, or competent (Holbrook, Chestnut, Terence, & Greenleaf, 1984).

Traditionally, consumers consider price as complete or fixed, but price promotions allow them to achieve emotional consequences of price from not only the ability to strongly affect individual purchase decisions, but also the potential to more broadly affect the shopping behavior of the consumer (Schindler, 1989). Rose (1988) mentioned that consumers feel accomplished or thrilled and in a small way victorious over large corporations when they obtain discounts. Schindler (1992) proposed that the degree of involvement can cause a large consumer response to a price promotion. For example, Harmetz (1988) mentioned “mileage maniacs,” who study airline routes and even take flights expressly so as to qualify for triple mileage on frequent-flyer programs. The existence of extremes in consumer involvement with price promotions suggests that marketers should make such activities as part of price promotions due to the fact that it may result in giving consumers feelings of responsibility and pride that could markedly increase their involvement with the discount (Schindler, 1989; Shimp & Kavas, 1984).



Moreover, Kelly's (1967) co-variation theory suggested that the perception of consumers that received a discount not received by everyone else will enhance the “smart-shopper feelings” which result from this discount. Thus, the literature suggests that a consumer’s willingness to take restrictions in order to get a discounted rate should lead to a greater achievement and excitement as a form of dynamic pricing.

Similarly, consumers will tell more about their purchase and make repeat purchases the more they attribute the discount’s cause (Schindler, 1998). Purchase intentions will increase when consumers perceive themselves as paying a good price for the benefits obtained (Ingenbleek, 2007). In addition, Leisen and Prosser (2004) suggested that consumers are more likely to forgive poor service due to factors outside the service provider’s control and that even if the service encounter is dissatisfactory, consumers will engage in positive behaviors.

However, pricing is understood to be completely under the firm’s control (Leisen & Prosser, 2004); therefore, price promotions may affect heavily on consumers’ behaviors. Consumer satisfaction engenders consumer loyalty in the form of repeat business from existing consumers and creates advocates for new business from positive word-of-mouth referrals (Leisen & Prosser, 2004; Patterson, 1993). Reynolds and Arnold (2000) pointed out that consumers tend to spread positive word-of-mouth and make repeat purchases when they feel they have a good relationship with the service provider. Benefits gained from such a relationship include discounts (Leisen & Prosser, 2004).

There are also some other characteristics that can strongly affect response to a price promotion by having an effect on consumer involvement. Schindler (1998) found that consumers experience more positive feelings from coupon usage when consumers

are highly involved in obtaining a discount. Involvement is likely to be a necessary component of the broader conceptualization of the process of engagement in that it mediates the relationship between satisfaction and commitment most significantly for repeat purchase consumers (Leisen & Prosser, 2004). Folkes (1988) suggested that consumers who feel proud about the price they pay are more likely than other consumers to brag, and thus spread information about the purchase (Schindler, 1989). Thus, the current study will apply these theories into the hotel industry and investigate whether high involvement consumers may respond more positively than low involvement consumers in obtaining a discount. Thus, the following three additional hypotheses are proposed in this study:

H4: Consumers highly involved in obtaining a hotel discount experience more positive feelings from a discount, compared to low involvement consumers.

H5: Consumers highly involved in obtaining a hotel discount are more likely to tell others, compared to low involvement consumers.

H6: Consumers highly involved in obtaining a hotel discount are more likely to make repeat purchases, compared to low involvement consumers.

### **Conceptual research model**

Based on the above discussion, those consumers who are highly involved in obtaining a discount may respond more positively to dynamic pricing than uniform pricing, while experiencing more positive feelings from a discount, be more likely to tell others, and make repeat purchases. As presented in the model shown in Figure 2, the current study categorizes consumers into two groups, based on their level of involvement

in obtaining a discount. The two within-subjects variables (high involvement and low involvement) and the between-subjects variable (uniform discount and dynamic discount) were fully crossed, yielding a 2 x 2 design. Both high and low involvement consumers encounter two types of pricing situations, and different reactions may be expected.

From the previous studies, consumers who were highly involved in coupon usage resulted in more emotional and behavioral consequence (Schindler, 1998), but those consequences could be both negative and positive (Louro, Pieters, & Zeelenberg, 2005). Since the current study deals with the impact of discounts, the results are expected to be positive; thus, the study focuses on only positive consequences from obtaining a discount. In the present study, the term “uniform pricing” is narrowly specified as the hotel industry offering a fixed, discounted price. On the other hand, dynamic pricing allows consumers to receive specific benefits if they accept certain restrictions, such as making reservations in advance, a no refund/change policy, or minimum days of stay.

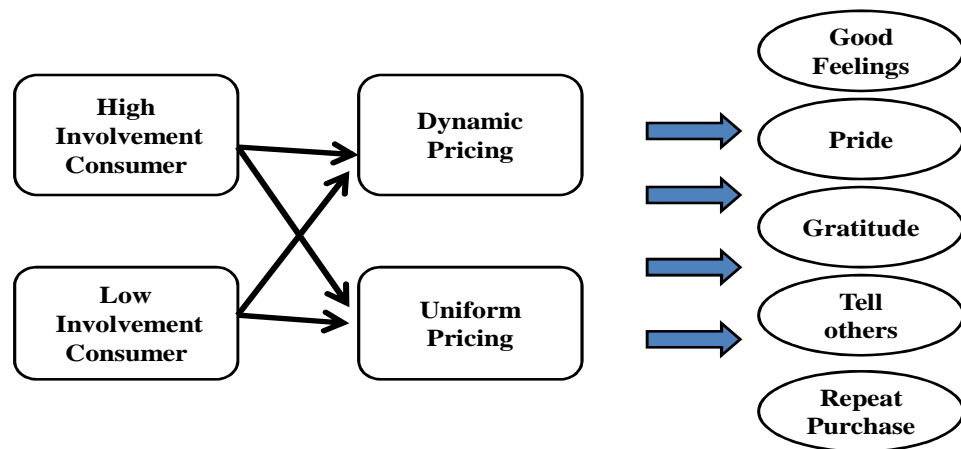


Figure 2. Perceptions of receiving a hotel discount.

## CHAPTER 3

### METHODOLOGY

#### **Measurement development**

An experimental study was conducted to examine the impact of pricing strategies on consumers' emotion and behavior with consumers' different levels of involvement. The study was designed by using scenarios. A two-page survey instrument included: five questions for each scenario regarding respondents' emotional and behavioral reactions toward a discount, one open ended question regarding a respondent's previous experience, twenty questions regarding the levels of involvement in obtaining a discount, and four questions regarding demographic characteristics (see Appendix A). The experimental method relied on Hoch (1988)'s study, which states that respondents tend to use their own feelings and reactions as a guide to evaluating the feelings and reactions of others (Schindler, 1998). The questionnaire was pretested on a sample of 30 respondents to check on the design of the questionnaire and the quality of measures employed.

To test hypotheses, t-test and a three-way analysis of variance (ANOVA) were carried out. Means and standard deviations given, ANOVA was used for testing Hypotheses 1 and 2; the groups of gender and age were compared to the mean of two different consumer involvements. Yet a t-test was employed for testing Hypothesis 3 because only high involvement consumers were taken into consideration to compare the means of emotional and behavioral responses between dynamic and uniform pricing. For testing Hypotheses 4, 5, and 6, ANOVA was employed since the data consisted of two different price strategies and two different consumer involvements to compare the means

of emotional and behavioral responses. ANOVA put all the data into one number (F) and gave one (P) for the hypotheses thus were appropriate.

In this study, split half method was used for checking internal consistency to test the measuring instrument is reliable. The results obtained from one half of the scale items were taken to check them against the results from the other half of the items (Zikmund, 2003, p. 301). Internal consistency is a measure based on the correlations between different items on the same test; it measures whether several items that propose to measure the same general construct produce similar scores (Revelle & Zinbarg, 2009). Internal consistency was measured with Cronbach's alpha, a statistic calculated from the pairwise correlations between items. An  $\alpha$  of 0.88 indicated good reliability. Moreover, the study has demonstrated its validity. Construct validity was established since the variables behave as the study expects them to do (Zikmund, 2003, p.303). To check on the validity of the measure, cross tabulation between involvement and dependant variables were run. The study has an evidence of the construct validity of the measure.

The manipulation was accomplished by creating a set of scenarios that describe the respondent receiving a discount under two different circumstances (Schindler, 1998). The length of stay was held constant for one night stay. The purpose of the trip was for leisure, and the product was a king size room at a mid priced hotel. The types of discount strategies and the levels of involvement were varied. The product, a king size bed at a mid priced hotel, was chosen because it is a category commonly promoted through direct price discounts in order to increase short-term sales. The justification for excluding business trips, in which consumers book a hotel room for business purpose, was that

business travelers tend to have less control over booking a room. Instead, companies often negotiate room rates based on their company policy.

### **Sample**

The proposed research study would utilize a quantitative research method to collect data directly from respondents by measuring their involvement, emotion and behavior intentions. A total of 120 usable surveys were received after seventeen responses were eliminated. The convenience sample consisted of respondents who the researcher encountered at a café inside a courthouse in a Southwestern metropolitan city in the U.S. The researcher was present at all times, explaining procedures and providing instructions.

### **Design**

To measure how a respondent reacts differently upon receiving a different discount, the current study adapted the experimental design from Schindler (1998). Table 1 refers to scenarios that were modified from Kimes (2002)'s and Choi and Mattila (2009)'s studies. Each scenario represented a uniform pricing and a dynamic pricing situation. The two within-subjects variables (high-involvement and low-involvement) and the between-subjects variable (uniform discount and dynamic discount) were fully crossed, yielding a 2 x 2 experimental design.

Table 1

*Scenarios*

Uniform Scenario	Dynamic Scenario
<p>Imagine that you need to travel to Las Vegas for leisure purpose. You want to book one standard room with a king-size bed in a mid priced hotel for one night. You found a hotel that advertises a special rate of 10% cheaper than its rack rate. You made a reservation right away.</p>	<p>Imagine that you need to travel to Las Vegas for leisure purpose. You booked one standard room with a king-size bed in a mid priced hotel for one night. You start having a conversation with someone who is sitting next to you in the restaurant. Your room is identical to his or hers, and the rooms are next to one another. It seems that the person paid \$100 for a room, but you paid only \$80. You made a reservation 30 days before arrival, and he or she made a reservation the day before.</p>

For each scenario, five questions, presented in Table 2, were served as dependant variables to each participant regarding how a respondent feels as the protagonist of the scenario and how a respondent responds after having received the discount: good feelings; pride; gratitude; tell others; and, repeat purchase. These variables are adopted from Schindler (1989). Questions concerning good feelings, pride, and gratitude were grouped together to explore emotional responses. In terms of behavioral responses, the likelihood of telling people about the discount and the likelihood of repeat purchase were measured. Each question was answered using a 7 point Likert scale. Although Schindler (1989) used a 9 point scale in his scenarios, Zaichkowsky's (1985) Personal Involvement Inventory (PII) used a 7 point Likert Scale. To keep the scale consistent and to balance it with the data, the scale was switched to a 7 point scale for this study. The scale for the first question, which asks about the participant's good feelings, was anchored at 1 (felt ok, but



not especially good) and 7 (felt really good). The scales for the other four questions are anchored at 1 (no) and 7 (yes).

Table 2

*Measurement of Emotional and Behavioral Responses*

Variable	Question
Good feelings	How good would you feel about receiving a discount?
Pride	Would you feel proud that you received a discount?
Gratitude	Would you feel gratitude to the hotel for offering a discount?
Tell others	Would you tell a lot of people that you received a discount?
Repeat purchase	Would you go to that hotel again the next time you are looking for a room?

*Note.* Adapted from “Consequences of Perceiving Oneself as Responsible for Obtaining a Discount: Evidence for Smart-shopper Feelings,” by R. M. Schindler, 1998, *Journal of Consumer Psychology*, 7, 4, p. 371-392.

To measure a consumer’s involvement of price promotion, Zaichkowsky (1985)’s Personal Involvement Inventory (PII) was employed. PII is a semantic differential scale and offers a comprehensive collection of measurement scales from many different areas of marketing. PII, presented in Table 3, was used to classify respondents into three groups on the basis of their involvement scores, ranged from 20 to 140. Each respondent was asked to judge a scenario given against a 7 point scale according to how they

perceive of obtaining a hotel discount. Items on the left are scored (7) being the highest involvement to (1) being the lowest involvement on the right. Some items were scored reverse to make sure respondents read each question carefully, so some items on the left are scored (1) being the lowest involvement to (7) being the highest involvement on the right.

Table 3

*Personal Involvement Inventory (PII)*

High involvement	Low involvement
Important	Unimportant
Relevant	Irrelevant
Means a lot to me	Means nothing to me
Valuable	Worthless
Interesting	Boring
Appealing	Unappealing
Needed	Not needed
Of concern to me	Of no concern to me
Useful	Useless
Fundamental	Trivial
Beneficial	Not beneficial
Matters to me	Doesn't matter
Interested	Uninterested
Significant	Insignificant
Vital	Superfluous
Exciting	Unexciting
Fascinating	Mundane
Essential	Nonessential
Desirable	Undesirable
Wanted	Unwanted

Note. Adapted from "Measuring the Involvement Construct," by J. L. Zaichkowsky, 1985, *Journal of Consumer Research*, 12, p. 341-52.

## CHAPTER 4

### FINDINGS OF THE STUDY

#### **Profile of respondents**

Based on the study sample of 120 respondents, Table 4 shows the categories of the profile of respondents. Some of these demographics had more than two categories in the survey form, but they were reported to simplify the data analysis. The results of demographic profile indicate that the age group of the respondents was evenly distributed between the younger and older group; 46.67 % belonged to the group of ages below 35 and 53.33 % to the group of ages 35 years or older. The gender distribution of the respondents was fairly comparable, representing 56.67 % of male and 43.33 % of female. The income was generally distributed; 45.83 % belonged to the group of income less than \$50,000 and 54.17 to the group of income \$50,000 or higher. Lastly, the education distribution was also comparable: 53.33 % belongs to the group of education with less than 4-year college and 46.67 to the group of 4-year college or higher. The sample size was considered adequate for the number of independent variables involved since 5-10 observations for each independent variable is usually enough. Thus, it seems that the sample of this study is a fair representative of consumers in the U.S. hospitality market.

Table 4

*Sample Profile*

Category	Frequency	Percent
Age		
Younger than 35	56	46.67
35 or older	64	53.33
Gender		
Male	68	56.67
Female	52	43.33
Income		
Less than \$50,000	55	45.83
\$50,000 or more	65	54.17
Education		
Less than 4-year college	64	53.33
4-year college or higher	56	46.67
Total	120	100

**Proposed hypotheses**

This study proposed six hypotheses as follows:

H1: Female consumers are more likely to be involved in obtaining a hotel discount than male consumers;

H2: Younger consumers are more likely to be involved in obtaining a hotel discount than older consumers;

H3: Consumers highly involved in obtaining a hotel discount respond more positively to dynamic pricing than uniform pricing;

H4: Consumers highly involved in obtaining a hotel discount experience more positive feelings from a hotel discount compared to low involvement consumers;

H5: Consumers highly involved in obtaining a hotel discount are more likely to tell others compared to low involvement consumers; and,

H6: Consumers highly involved in obtaining a hotel discount are more likely to make repeat purchases compared to low involvement consumers.

The above hypotheses were tested using t-tests and ANOVA. ANOVA was employed for testing Hypotheses 1 and 2 because gender and age were compared to the mean of two different consumer involvements. The t-test was employed for testing Hypothesis 3 because only high involvement consumers were taken into consideration to compare the means of emotional and behavioral responses between two price strategies. For testing Hypotheses 4, 5, and 6, ANOVA was employed since the data consisted of two different price strategies and two different consumer involvements to compare the means of emotional and behavioral responses. Hypotheses are often accepted if the p-value is less than 0.05 or 0.01, corresponding to a 5% or 1% chance respectively of rejecting the null hypothesis when it is true. In this study, p-value was considered significant at 0.05 level (Schindler, 1998; Varki & Wong, 2003).

## **Results**

The proposed hypothesis was tested using ANOVA. Table 5 refers the means and standard deviations of involvement scores based on gender and age groups. ANOVA of gender distribution revealed a significant interaction of involvement (see Table 6). The results revealed that the mean of female group was higher than that of male group at 5 % level of significance ( $M_F = 117.23$  vs.  $M_M = 108.62$ ,  $F = 7.75$ ,  $p < .05$ ). The p-value of the t-test ( $p < .05$ ) indicated a significant difference in the two means of involvement based on

gender. Thus, Hypothesis 1 was supported that female respondents are more likely to be involved in obtaining a discount.

Table 5

*Means of Gender and Age Groups*

Involvement	Mean	N	SD
<b>Gender</b>			
Male	108.62	136	22.92
Female	117.23	104	24.81
<b>Age</b>			
Younger	116.20	112	20.88
Older	108.98	128	26.20
Total	112.35	240	24.09

*Note:* Each involvement is ranged from 40 to 120 scores.

Table 6

*Analysis of Variance for Involvement Based on Gender*

Source of Involvement	df	F	MS	P
Gender	1	7.745*	4372.021	0.006

*Note.* \*p < 0.05.

Table 7 shows the categories of age distribution used in the analysis. Although age had more than two categories in the research instrument, it was regrouped to two

categories to simplify the data analysis and interpretation. Based on numbers of data points, the group whose age of younger than 35 years old was considered the younger group while 35 years or older as the older group. The results indicated that the mean of “younger than 35 years old” was higher than the older group at 5 % level of significance ( $M_Y = 116.20$  vs.  $M_O = 108.98$ ,  $F=5.45$ ,  $p < .05$ ). As presented in Table 7, ANOVA results of age distribution indicated a significant interaction of involvement with age. Therefore, Hypothesis 2 was supported that younger respondents are significantly more involved in obtaining a hotel discount.

Table 7  
*Analysis of Variance for Involvement Based on Age*

Source of Involvement	df	F	MS	P
Age	1	5.45*	3106.953	0.020

*Note.* \* $p < 0.05$ .

Zaichkowsky’s PII was used to classify respondents into three groups on the basis of their involvement scores (Zaichkowsky, 1985; Varki & Wong, 2003). From 120 involvement scores, which ranged from 20 to 140, the top forty responses were classified as high involvement consumers and the bottom forty as low involvement consumers, with the middle forty excluded. Based on the distribution of scores in the range of 20 to 140,

involvement scores between 20 and 104 were categorized as low involvement and scores between 127 and 140 were categorized as high involvement.

To examine consumers who are highly involved in obtaining a discount respond more positively to dynamic pricing than uniform pricing, only forty responses from those classified as high involvement consumers in the sample were included. Therefore, the number of responses amounted to 80 with 40 from the dynamic pricing group and 40 from the uniform pricing group. Then, five dependent variables were measured to see how high involvement consumers reported to dynamic and uniform pricing. Dependent variables concerning good feelings, pride, and gratitude were grouped together to explore emotional responses. Dynamic and uniform pricing strategies served as independent variables and emotional and behavioral response scores served as dependent variables.

Table 8 refers to the means and standard deviations of emotional and behavioral scores based on price strategies, and Table 9 to ANOVA results. In the presence of highly involved consumers, the mean of dynamic pricing for emotional scores was higher than the mean of uniform pricing at 0.1 % level of significance ( $M_{E, \text{Dynamic}} = 6.39$  vs.  $M_{E, \text{Uniform}} = 3.48$ ,  $p < .001$ ). In addition, the mean of dynamic pricing for “tell others” was higher than the mean of uniform pricing at 0.1 % level of significance ( $M_{T, \text{Dynamic}} = 6.40$  vs.  $M_{T, \text{Uniform}} = 3.70$ ,  $p < .001$ ). Similarly, the mean of dynamic pricing for repeat purchase scores was noticeably higher compared to the mean of uniform pricing at 0.1 % level of significance ( $M_{R, \text{Dynamic}} = 6.43$  vs.  $M_{R, \text{Uniform}} = 3.88$ ,  $p < .001$ ). Therefore, Hypothesis 3 was supported.



Table 8

*Means of Variables in Uniform and Dynamic Pricings*

Variables	Uniform		Dynamic	
	M	SD	M	SD
Emotion	6.39	1.01	3.48	1.86
Tell others	6.40	1.17	3.70	2.57
Repeat purchase	6.43	1.15	3.88	2.52

*Note:* Each dependent variable is measured on a 7-point scale.

Table 9

*Dependent Variables for High Involvement Consumers*

Variable	Price Strategies		t	Df
	Dynamic	Uniform		
Emotion	6.39 (1.01)	3.48 (1.86)	8.70*	78
Tell Others	6.40 (1.17)	3.70 (2.57)	6.06*	78
Repeat Purchase	6.43 (1.15)	3.88 (2.52)	5.82*	78

*Note.* \* $p < .001$ . Standard Deviations appear in parentheses below means.

With regard to Hypothesis 4, the two levels of consumers' involvement in obtaining a discount served as independent variables and emotional response served as dependent variable. To evaluate their positive feelings toward a discount, respondents were asked three questions: good feelings; pride; and, gratitude. Measuring consumers' emotional responses, an average of three scores was taken to run ANOVA.

Table 10 refers to the means and standard deviations of emotional and behavioral scores based on levels of involvement. The results of ANOVA, presented in Table 11, indicated a significant effect that consumers highly involved in obtaining a hotel discount experienced more positive feelings from a discount. Positive emotion measures were considerably affected by its involvement. The obtained results revealed that the mean of emotional scores for high involvement consumers were higher than the one for low involvement consumers at 5 % level of significance ( $M_{E, Low} = 4.14$  vs.  $M_{E, High} = 4.94$ ,  $F=7.319$ ,  $p < .05$ ). It appeared to have a significant interaction between the levels of involvement and positive feelings. Thus, Hypothesis 4 was supported: Consumers highly involved in obtaining a discount show more positive feelings from a discount.

Moreover, the mean of variable “tell others” scores for high involvement consumers were founded to be higher than the one for low involvement consumers at 5 % level of significance ( $M_{T, Low} = 4.05$  vs.  $M_{T, High} = 5.05$ ,  $F=8.128$ ,  $p < .05$ ). Likewise, the mean of repeat purchase scores for high involvement consumers were higher than the one for low involvement consumers at 5 % level of significance ( $M_{R, Low} = 4.46$  vs.  $M_{R, High} = 5.15$ ,  $F=5.062$ ,  $p < .05$ ). Therefore, the results of ANOVA supported Hypotheses 5 and 6 that consumers highly involved in obtaining a discount are more likely to tell others and to make repeat purchases. A positive interaction between the levels of involvement and the likelihood of telling others and repeat purchases was found.

Table 10

*Means of Variables in Low and High Involvement Consumer Groups*

Variables	Low		High	
	M	SD	M	SD
Emotion	4.14	1.63	4.94	2.09
Tell others	4.05	2.01	5.05	2.41
Repeat purchase	4.46	1.42	5.15	2.33

*Note:* Each dependent variable is measured on a 7-point scale.

Table 11

*Analysis of Variance for Variables Based on Involvement*

Involvement	df	F	MS	P
Emotion	1	7.319*	25.600	0.008
Tell Others	1	8.128*	40.000	0.005
Repeat Purchase	1	5.062*	18.906	0.026

*Note.* \*p < .05.

## CHAPTER 5

### SUMMARY, IMPLICATIONS, AND RECOMMENDATIONS

#### **Summary of finding**

Given today's economic situation, firms are encouraged to use pricing strategies effectively to influence consumers, and online environment enables firms to dynamically manage prices. In particular, the U.S. lodging industry has declined in demand and in profits (Woodworth, 2009), so hotels offer discounts to stimulate demand against competitors (Enz, Canina, & Lomanno, 2009). Yet pricing decisions should be made with a careful understanding of their impact on consumers' responses (Choi & Mattila, 2009) because pricing mistakes can harm firms much more heavily in a downturn than in an upturn. Therefore, to cope efficiently with an economic downturn, pricing becomes a difficult, complicated decision for hotel managers. Since discounts are specifically designed for those who are more price-sensitive, companies do not want to see those consumers willing to pay higher prices take an advantage of discounted prices (Philips, 1981). Thus, hotels should segment and target the market effectively so that lower prices can be used to attract price-sensitive consumers who otherwise wouldn't purchase while retaining the price-insensitive ones who are willing to pay higher prices.

While different pricing strategies are applied in the lodging industry, dynamic pricing, different prices are set for different consumers, gains the popularity of both hotels. In this study, the term of dynamic pricing is used as a discount strategy in which restrictions are imposed in exchange for a discounted rate such as advanced reservations, minimum nights of stay, and no cancellation/return policy (Kimes, 2002). Yet the term of uniform pricing refers to a discount strategy in which a simple rate reduction from the rag

rate. Dynamic pricing, managed well, helps firms to increase revenues and profits and reallocate demand to more suitable times and manage a limited supply base (Sahay, 2007). However, some hotels opt for uniform pricing through channels to avoid potential consumer confusion caused by such practices (Choi & Mattila, 2009; Yeaswich, 2004).

Moreover, literature suggested that individuals with different characteristics perceive the price differently (Campo & Yague, 2007), and individual consumers show different reactions to price of the same product in different situations, channels, and occasions of use (Kimes, 2002). While past literature indicated that demographics, such as traveler's age, income, education, gender, and the number and composition of the traveling group, influence consumers' information search behaviors and purchase decisions (Duman & Mattila, 2003), the current study also examined the role of gender and age in influencing consumers' level of involvement in obtaining a discount. The results of ANOVA indicated that female and younger consumers are more involved in obtaining a discount.

In addition, the present study through a scenario based experiment is conducted to explore how pricing strategies, uniform pricing and dynamic pricing, influence consumers' emotion and behavior, in the presence of low involvement and high involvement consumers. Consumers more highly involved in price are apt to favor lower price levels. Then Aviv and Pazgal (2008) proposed that uniform pricing strategies perform essentially the same as dynamic pricing policies in the case of low-involved consumers. Consumers highly involved in pricing process are more accepting of dynamic pricing because their participation represents an acceptance of the practice (Sahay, 2007). From a consumer's perspective, dynamic pricing enables them to make a choice over the

price, so they receive special benefits from accepting restrictions or making reservations in advance. The fundamental purpose of this study is to investigate how consumers' emotion and behavior are influenced by uniform pricing and dynamic pricing, in the presence of high involvement consumers. The results of the study indicate that consumers highly involved in obtaining a discount respond more positively to dynamic pricing than uniform pricing.

Moreover, literature suggested that price promotion have not only monetary benefits but also emotional achievements beyond the economic value of the money saved (Schindler, 1989). Researchers note that price promotions have an ability to bring out strong feelings such as pride and anger when feelings are considered important in human motivation (Bandura 1977; Schindler, 1989). Purchase intentions will increase when consumers perceive themselves paying a good price for the benefits obtained (Ingenbleek, 2007; Noonan & Mount, 2007). In an effort to understand consumers' emotions and behaviors of obtaining a discount, this study explores such influences of different levels of involvement on consumer reactions. The results of the study indicate a significant interaction between the levels of consumers' involvement in obtaining a discount and the levels of emotional and behavioral reactions. As compare to low involvement consumers, high involvement consumers significantly showed more positive feelings from a discount, and were more likely to tell others and to make repeat purchases.

### **Theoretical implication**

The theoretical contributions of this study have been carefully presented. This research has aimed at contributing to price promotion strategies of the hotel industry.

Most importantly, the argument addressed in this study has added to our knowledge of the importance of understanding price strategies from differential involvement perspectives. In terms of the knowledge, one of the most important contributions concerning the fundamental purpose of this study is to link between the levels of involvement and the varied price strategies. Discounts in the service industry has been the subject of limited study, which results in that managers in the service industry have little empirical basis on which to plan their price promotions (Wakefield & Bush, 1998).

While the concept of consumer involvement plays a significant moderating role, it has been largely used for advertisements (Murry, Lastovicka, & Singh 1992), products, purchase decisions (Zaichkowsky, 1985), and information processing (Celsi & Olson 1988; Park & Hastak 1994). Researchers have developed numerous theories related to the concept of consumer involvement in an attempt to explain and predict the behavior of the consumer (Baker, Cronin, & Hopkins, 2009; Varki & Wong, 2003; Zaichkowsky, 1985). However, there have been limited studies done to link involvement and pricing in terms of discounts. Thus, this study has attempted to examine differential involvements a consumer may attribute to a discount affecting consumers' preferences on price strategies. It has been worthwhile to study this linkage because hotels heavily rely on discounts due to the economic recession and are becoming increasingly interested in discounts.

This study has also suggested an understanding of emotional and behavioral responses with differential levels of involvement. While literature suggests that consumers are interested in price promotions primarily because of the amount of money saved (Ashworth, Darke, & Schaller, 2005), studies recommend that understanding a consumer's value perceptions such as satisfaction, pride, and positive feelings, is critical

(Weiner, 1985; Ingenbleek, 2007; Noone & Mount, 2007). Although the motivational factors underlying price promotions have not been considered to be as important in the literature, recently, consumers' emotions have recently gained more attention. It has been suggested that understanding consumer's value perceptions may lead to both higher sales and higher profit margins; especially for firms with increased price pressure in their business environment (Schindler, 1989; Ingenbleek, 2007). This study has made a considerable contribution to hospitality research because it may be the case that the levels of involvement influences a consumer's response, such as high involvement consumers demonstrating more positive feelings from obtaining a discount.

In addition, while past literature indicates that demographics such as a traveler's age and gender influence consumers' information search behaviors and purchase decisions (Duman & Mattila, 2003; Fodness & Murray, 1997; Van Raaij & Francken, 1984), the current study also examines the role of gender and age in influencing consumers' level of involvement in obtaining a hotel discount. This study has concluded that gender and age may represent important roles in relation to different levels of involvement. Therefore, this study extends the recognized fact that younger and female consumers are more deal prone.

### **Practical implication**

This research has several practical implications for hotel managers. First, hotel managers may consider offering various discounts aimed at younger and female travelers. The results of this study show that younger and female consumers are more involved in obtaining a discount than older and male consumers, respectively. Hotel managers may



want to use online advertisements more efficiently. Advertising online could be an effective way to reach young and female travelers who tend to rely on online websites for vacation-related information (Duman & Mattila, 2003). Therefore, hotel managers are recommended to develop discounts to attract female and younger consumers. Yet most companies set their prices based on cost information rather than on consumer value information (Ingenbleek, 2007). Having an understanding of the characteristics of consumers who pay regular or discounted prices would be highly beneficial to travel marketers (Duman & Mattila, 2003). Hotels that consider the characteristics of consumers in the design of discounts could generate more loyalty and revenue. Thus, it may be the case that hotel managers should learn about consumer characteristics and identify characteristics of the price promotion before launching any discount offers to the public, in order to maximize consumer response to a price promotion (Duman & Mattila, 2003; Schindler 1992).

Second, hotel managers are advised to identify dynamic pricing to attract their high involvement consumers. This target segment seems to be more prone to deal seeking consumers than low involvement consumers. According to the results of this study, high involvement consumers favor dynamic pricing rather than simple price cuts. High involvement consumers may experience a sense of great accomplishment when restrictions are imposed in exchange for a discounted rate. They may feel like taking an advantage of a hotel offering because the hotel would not give a discount unless consumers take certain restrictions. At the same time, consumers will experience more “smart-shopper feelings” which result from this discount when they receive a discount that not received by everyone (Kelly, 1967). If strong, positive feelings are resulted from

the process of obtaining a discount (Schindler, 1989), then hotels may consider designing discounts in a way consumers feel responsible for the discount. In addition, the results suggest that the hotel industry could incorporate the feelings of achievement, pride, and gratitude resulting from using it when they design price promotions. This theme can be embedded into the discount design as well as into various advertising messages (Schindler, 1989).

Third, discounts seem to attract high involvement consumers more effectively than low involvement consumers. According to the results of this study, high involvement consumers are more likely to show positive emotions, tell others, and make repeat purchases. The positive relationship between emotional and behavioral responses and the levels of involvement suggests the hotels would benefit from considering its involvement in the design of discounts. Hotel managers may design discounts that evoke involvements to appeal to high involvement consumers. In addition, such a discount appears associated with an increase in the likelihood to tell others about the discount. Thus, hotels would be more attracting due to word-of-mouth.

Lastly, taken together, the findings of this study recommend hotel managers to segment consumers into differential involvement groups. Hotel managers may possibly design price promotions targeting a specific group. Also, managers are advised to take a caution when introducing a new price promotion. Hotels may receive short term benefits from a price promotion, but it may find the practice to be unprofitable in the long run. Thus, hotels need to evaluate price strategies from the long term business perspective.

### **Limitation/Future study**

Limitations and future studies are discussed as follows. First, due to the lack of time and resources, the experiment was limited to a convenience sample. Since the survey was conducted in a single place, respondents would be limited to the given area at that given time. Its results would not represent the views of the entire population. Also, respondents may not be representative because they select themselves as volunteers in response to oral requests (Zikmund, 2003, p. 380-382). The impact of discount strategies on consumers' emotion and behavior may result differently if the survey is conducted from a larger sample rather than a convenience sample. Therefore, projecting the results beyond the specific sample is inappropriate, and generalizations should not be made since the sample would not be representative enough. In addition, consumers might have differential discount receiving perceptions in other industries. The study involves discounts on room rates solely, so discounts in restaurants or show tickets should be investigated to generalize and confirm the findings. Other types of product and services using more representative samples are needed before practical implications can be generalized. Also the study was conducted during tough economic times, so further studies should be carried out on good economic times to see if economy affects consumers' emotions, behaviors, and preferences about price strategies.

Second, this study was conducted based on scenarios, and this method solely relies on the tendency for respondents to use their own feelings and reactions as a guide to judging the feelings and reactions of others (Hoch, 1988). Respondents may be exposed to the bias of human nature. Also the interpersonal dynamics associated with service encounters should be excluded. There is a possibility that discount receiving

emotions and behaviors may be influenced by other factors, such as service experience. In addition, respondents' responses may be affected by different issues such as health, differences in mood, or weather.

Third, ages of respondents were regrouped into two categories to simplify the data analysis and interpretation, although there were more than two categories in the research instrument. It may seem to be unrealistic to categorize the group whose age of younger than 35 years old as the younger group and 35 years or older as the older group. Moreover, previous study argued that older housewives tend to deal prone (Webster, 1965). In addition, other variables such as income and education were not controlled in this study. Thus, it may be skeptical to generate that younger consumers are more involved in obtaining a discount. Future study is necessary to examine age would indeed influence levels of involvement with a discount when controlling other variables.

Forth, the participants in the present study evaluated hotel prices for a single location. Some respondents might thus lack a realistic understanding of appropriate price ranges for room rates. The size of discount might be considered as too small or too big. Future research can explore the role of the size of price differences. In this study, two prices of the hotel adopting the differential pricing policy varied by 10%. In addition, while both companies and consumers are apt to favor dynamic pricing, dynamic pricing may not appropriate in other industries, especially where fixed cost is low and variable cost is high.

Finally, a better understanding of the role of consumer involvement on price strategies is in acute need. Future study is therefore needed to better understanding the role of involvement on prices on consumer perceptions of variable price strategies. Future

studies should incorporate additional variables that are not considered in the present study such as family size or previous experience. Moreover, this study only involved US consumers. Cross-cultural samples may be helpful in revealing more meaningful results.

## APPENDIX A

### SURVEY

#### Part I. Perceptions of Receiving a Hotel Discount

Imagine that you need to travel to Las Vegas for leisure purposes and want to book one standard room with a king-size bed in a mid priced hotel for one night. You found a hotel that advertises a special rate 10% cheaper than its rack rate. You made a reservation right away.

	Felt ok and not especially good					Felt really good	
How good would you feel about receiving a discount?	1	2	3	4	5	6	7
Would you feel proud that you received a discount?	NO					YES	
Would you feel gratitude to the hotel for offering a discount?	1	2	3	4	5	6	7
Would you tell a lot of people that you received a discount?	NO					YES	
Would you go to that hotel again the next time you are looking for a room?	1	2	3	4	5	6	7

Imagine that you need to travel to Las Vegas for leisure purposes. You booked one standard room with a king-size bed in a mid priced hotel for one night. Then you start having a conversation with someone who is sitting next to you in the restaurant. Your rooms are identical, and they are next to one another. It seems that your neighbor paid \$100 for a room, but you paid only \$80. You made a reservation 30 days before arrival, and your neighbor made a reservation the day before.

	Felt ok and not especially good					Felt really good	
How good would you feel about receiving a discount?	1	2	3	4	5	6	7
Would you feel proud that you received a discount?	NO					YES	
Would you feel gratitude to the hotel for offering a discount?	1	2	3	4	5	6	7
Would you tell a lot of people that you received a discount?	NO					YES	
Would you go to that hotel again the next time you are looking for a room?	1	2	3	4	5	6	7

Please tell us more about your recent experience of receiving a discount on hotel room.

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Please choose a box below for the level of agreement when obtaining a discount on your hotel room.

Important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unimportant
Irrelevant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Relevant
Means a lot to me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Means nothing to me
Valuable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Worthless
Boring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Interesting
Appealing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unappealing
Not needed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Needed
Of no concern	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Of concern to me
Useless	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Useful
Trivial	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fundamental
Beneficial	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Not beneficial
Matters to me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Doesn't matter
Uninterested	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Interested
Significant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Insignificant
Vital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Superfluous
Unexciting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Exciting
Mundane	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fascinating
Essential	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Nonessential
Undesirable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Desirable
Wanted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unwanted

Part II. Demographics

What is your gender?

- Male  Female

What is your annual income range?

- Below \$20,000  \$20,000 - \$29,999  
 \$30,000 - \$39,999  \$40,000 - \$49,999  
 \$50,000 - \$59,999  \$60,000 - \$69,999  
 \$70,000 - \$79,999  \$80,000 - \$89,999  
 \$90,000 or more

How old are you?

- Under 18  18- 24  
 25 -34  35- 44  
 45- 54  55 -64  
 65 and over

What is the highest level of education you have completed?

- Less than High School  
 High School / GED  
 Some College  
 2-year College Degree  
 4-year College Degree  
 Master's Degree  
 Doctoral Degree  
 Others, please specify\_\_\_\_\_.

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