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The determinants of price tolerance in the casino hotel industry

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THE DETERMINANTS OF PRICE TOLERANCE
IN THE CASINO HOTEL INDUSTRY

by

Jangwon Cho

Bachelor of Arts
Dongguk University, Kyoungju, Korea
1999

A thesis submitted in partial fulfillment
of the requirements for the

Master of Science Degree in Hotel Administration
William F. Harrah College of Hotel Administration

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ABSTRACT

The Determinants of Price Tolerance in the Casino hotel Industry

by

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As a hotel industry gets competitive to a greater extent these days, attracting and retaining more guests become significant issues for the management. Guests tend to perceive intangible service on the basis of an offered price so implementing successful pricing strategy is important for managers to attract guests. Providing a loyalty program is believed to have a positive effect on retaining guests. This study investigates factors which are expected to influence price tolerance of hotel guests and compares price tolerance between two different guest groups: guests who are members of a casino loyalty program and guests who are not members.

This study exhibited that there was a positive relationship between satisfaction and price tolerance and that switching costs also positively influenced price tolerance. The results of the study indicated that casino loyalty program members possessed higher switching costs and price tolerance than non-members did.

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CHAPTER I

INTRODUCTION

Within the hotel industry, understanding customer behavior in order to forecast demand and to set the right price is an important issue. Since the pricing policy of hotel rooms directly influences overall revenue, it would be valuable to investigate how hotel guests perceive price changes and what factors influence their price tolerance. Because a hotel's room inventory is both perishable and intangible, it is more difficult for hotel managers to establish the right price level than in other industries such as manufacturing. This perishability forces the manager to determine the right price for the right time because the product cannot be stored for future sale. The intangibility drives the guests to develop preperception towards service based on a price.

Studying guest price tolerance may give managers a guideline which assists in the establishment of an optimal price point to increase both company profitability and guest satisfaction. To effectively set price levels, as well as to change prices, hotels need to understand guests' reactions to these strategies (Homburg, Koschate, & Hoyer 2005). Antecedents or factors which influence their reactions to price changes should be carefully studied. Hotels that understand the role of factors that affect price tolerance will be able to incorporate these insights into their pricing decisions and thereby increase profitability (Herrmann, Huber, Sivakumar, & Wricke, 2004).

Purpose of the Study

Notwithstanding the increasing recognition of the importance of price tolerance in the hotel industry, there is a paucity of published research concerned with how hotel guests perceive price as a cue for service quality and what influences hotel guests' level of price tolerance. The purpose of this study is to examine prospective factors affecting price tolerance of hotel guests for room rates and to increase hotel managers' understanding of price tolerance. The study also looks into how the level of price tolerance varies between guests who are members of a casino loyalty program and guests who are not members by examining factors presumed to affect price tolerance.

Research Questions

The following questions should be thoroughly examined and answered;

1. What factors influence price tolerance of hotel guests?
2. What are the relationships between factors and price tolerance?
3. How does each factor vary between guests who are members of a casino loyalty program and guests who are not members of a program?
4. How does price tolerance vary between guests who are members of a casino loyalty program and guests who are not members of a program?

Hypotheses

Among various factors influencing price tolerance, satisfaction and switching costs will be tested to project guest price tolerance. These two factors have been repeatedly studied by researchers in other industry settings and are believed to influence

price tolerance positively (e.g., Anderson, 1996; Dolan, 1995; Herrmann et al., 2004; Oliver, 1993; Urbany, Madden, & Dickson, 1989). Thus, it would be also expected that guest satisfaction and perceived switching costs would have a positive impact on price tolerance of hotel guests. These two factors are selected for this study because satisfaction is more closely related to voluntary price tolerance while switching costs to involuntary price tolerance (Herrmann et al.). Price tolerance is the maximum price increase customers are willing to pay or tolerate before switching (Anderson). Customers are willing to pay more without resistance when they are satisfied with service and therefore are emotionally attached to the company. Involuntary price tolerance can be witnessed when customers will tolerate a high and unfair price as long as they consider switching barriers to be more prohibitive (Herrmann et al.).

Another purpose of this study is to compare the levels of price tolerance of guests who are members of a casino loyalty program and guests who are not members of a casino loyalty program. The effectiveness of a loyalty program has been given great attention by many researchers across various industries (Bolton, Kannan, & Bramlet 2000; Uncles, Dowling, & Hammond, 2003).

Playing games in a casino and staying at the hotel are closely related, especially when both gaming and accommodation features are provided in the same single property. Thus, identifying the variation of price tolerance for room rates between the two different groups can shed a light on measuring the effectiveness of a casino loyalty program which possesses not only the gaming attribute but also accommodation characteristics. Customer loyalty (behavioral loyalty) of member guests can be evaluated indirectly through the comparison of their price tolerance with that of non-member guests. On the

basis of strong support from previous literature, guests who are members of a casino loyalty program are considered to have higher satisfaction and higher switching costs due to their engagement with the current property (Berry & Parasuraman, 1991; Bolton et al., 2000; Barsky & Nash, 2003). Thus, it can be assumed that price tolerance will be higher for guests who are members of a casino loyalty program than guests who are not members.

Based on the above reasoning, the following hypotheses are presented.

H₁: Price tolerance will be positively related to guest satisfaction.

H₂: Price tolerance will be positively related to switching costs.

H₃: Guest satisfaction will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

H_{3a}: Switching costs will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

H_{3b}: Price tolerance will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

Significance of the Study

Increasing prices can be a difficult strategy for managers to employ since it can provoke negative reactions from customers (Homburg, et al., 2005). In general, a price increase can diminish the attractiveness and utility of the service which can then lead to lower sales or even customer boycotts (Sen, Zeynep, & Vicki, 2001). Having a better understanding of customer behavior towards price tolerance and identifying factors affecting their levels of price tolerance will enable hotel managers to deal more

effectively with these negative reactions. Therefore, managers will be able to set price policy and implement price changes more effectively. To enhance managers' decision-making tools for setting the right room rates for the right time, the determinants of price tolerance should be thoroughly investigated. Additionally, this study helps managers understand how their casino loyalty program members and non-members may react to a change in price.

This study expands current pricing literature and also provides a foundation for further study concerning the relationship between customer loyalty and price tolerance. Many researchers have studied price tolerance of general customers across various industries and findings from those studies provide reasonable explanations for customer behavior with regards to price changes. However, few studies have focused on the hotel industry, and the perishable and intangible nature of services may warrant a different approach. It is also expected to provide a basis for investigating how a loyalty program moderates the relationship between price tolerance and customer loyalty.

Definitions of Key Terms

There are key constructs which are significant for this study. These terms are defined appropriately for the purpose of this study.

Price tolerance: A price span within whose boundaries the guest does not change his or her behavior (Herrmann et al., 2004).

Satisfaction: A post-evaluation indicating the difference between predicted service and perceived service (Liljander & Strandvik, 1993; Oliver 1981, 1997; Szymanski & Henard 2001).

Perceived service quality: The antecedent of guest satisfaction playing a significant role in forming satisfaction (Anderson, Fornell, & Lehmann, 1994; Brady, Cronin, & Hult 2000; Fornell, 1992).

Switching barriers: Any factor making it more difficult or costly for guests to change hotels (Beatty, Jones, & Mothersbaugh, 2000).

Switching costs: Guest perceptions of the magnitude of changing service providers in terms of time, effort, financial, and psychological costs (Beatty et al., 2000; Dick & Basu, 1994; Sengupta, Krapfel, & Pusateri, 1997).

Casino loyalty program: An identifiable package of benefits offered to guests rewarding repeat purchase (Uncles et al., 2003).

CHAPTER II

LITERATURE REVIEW

Defining Price Tolerance

Basic economic theory implies that a utility-maximizing customer will reasonably respond to variations in incremental price by marginally changing his usage level (Einhorn, 1994). This means that customers will rationally adjust their buying habit to price increases by reducing or terminating their purchase. However, previous marketing researchers find that this economic view does not always hold true. They indicate that in many cases, customers are willing to accept a moderate price increase without switching to another brand or product (Abe, 1998; Monroe, 1990). This non-reaction has been called price tolerance and can be described as the price span extent to which the customer's buying behavior remains constant (Herrmann, Huber, Sivakumar, & Wricke, 2004). In other words, each customer possesses his or her own subjective range of the price variation that he or she is willing to tolerate.

Many researchers have supported this finding. Economists refer to price tolerance or willingness to pay as the reservation price (Monroe, 1990). In early research, Marshall (1890) focuses on the consumer's evaluation of the purchase to describe willingness to pay by relating it to the concept of consumer surplus. He argues that the excess of the price which a man would tolerate rather than give up the service is the economic measure of his satisfaction surplus. Thus, price tolerance is a measure of the value that a person

assigns to a consumption or usage experience in monetary units (Homburg, Koschate, & Hoyer, 2005). Being consistent with satisfaction surplus theory, Anderson (1996) presents similar definition of price tolerance. He argues that price tolerance is the maximum price increase satisfied customers are willing to pay before switching. Therefore, the concept, consumer surplus is closely related to consumer price tolerance. Howard and Selin (1987) also characterize price tolerance as the extent to which customers are willing to pay price increase without expressing considerable resistance.

On the basis of previous studies, price tolerance can be defined as a price span within whose boundaries the customer does not change his or her behavior (Herrmann et al., 2004). This price span is closely related to the response of customers to the price increase of a product. The tolerated price range expands from the actual price paid by a customer to the maximum price which a customer is willing to pay for the product. The price tolerance of customer (PT) can be formally described by the following equation: $PT = P_{\max} - P_{\text{act}}$ (Herrmann et al.). Similar to this characterization, willingness to pay can be illustrated as the maximum amount of money a customer is willing to spend for a product or service (Cameron & Michelle, 1987; Krishna, 1991).

Factors Influencing Price Tolerance

There are many variables that affect price tolerance. The two factors having the most relevance to the casino hotel industry are guest satisfaction and switching costs. These factors have repeatedly appeared in the pricing literature, and have a logical relationship with the price-tolerance phenomenon on the basis of domains such as microeconomic theory, adaptation-level theory, and assimilation contrast theory

(Herrmann et al., 2004). Satisfaction and perceived switching costs are believed to influence voluntary price tolerance and involuntary price tolerance respectively (Herrmann et al.). Customers are willing to pay more without resistance when they are satisfied with service and therefore emotionally attached to the company. Involuntary price tolerance can be witnessed when customers will tolerate a high and unfair price as long as they consider the switching barriers to be more prohibitive (Herrmann et al.). Company forces customers to pay more by imposing financial disadvantages on them.

Satisfaction and Price Tolerance

Many researchers have tried to define concept of customer satisfaction employing different models or theories. The broadly accepted view says that customer satisfaction is an emotional construct arousing after or during the purchasing process. Consumer behavior studies have revealed that customer satisfaction plays a core role in the post purchase period (Westbrook & Oliver, 1991). One definition given large recognition is driven by expectancy disconfirmation model. According to the expectancy-disconfirmation paradigm (Oliver, 1980), customers are assumed to formulate prepurchase expectations towards the product. Once customers have experienced the product, they tend to evaluate the perceived product or service performance by comparing it with previously held expectations (Oliver 1980, 1981; Tse & Wilton, 1988; Yi 1990). This evaluation decides the size and direction of the difference between expected and actual service performance (Anderson, 1973; Bearden & Teel, 1983; Oliver, 1989). After the evaluation, confirmation may occurs if the actual product or service performance precisely fulfill expectations. Disconfirmation may occur when actual performance either exceeds or is below expectations. Performance above expectations

will positively affect satisfaction to increase while performance below expectations negatively will affect satisfaction to decrease (Oliver, 1980). Therefore, customer satisfaction can be defined as a post evaluation indicating the difference between predicted service and perceived service (Oliver, 1981, 1997; Szymanski & Henard, 2001; Liljander & Strandvik, 1993).

Another view describing customer satisfaction is equity theory. The basic assumption of this theory is that customers tend to compare their investments and results with those of relevant others such as friends (Oliver & Swan, 1989). In general, consumers are believed to be more satisfied when they perceive equitable treatment compared to others. Oliver and Swan (1985) argued that equity and disconfirmation are two independent concepts and both of them should be taken into consideration together to explain satisfaction better.

On the basis of this equity theory, the nature of the relationship between customer satisfaction and price tolerance can be theoretically justified (Homburg et al., 2005). Focusing on fairness in social exchange, equity theory demonstrates that parties related to transaction perceive equitable treatment when they observe fair balance between inputs and outputs from an exchange (Adams, 1965; Homans, 1961). Whenever the balance is broken by changes made by company, customer changes their behavior intentions to reestablish equity. Satisfied customers tend to perceive a high outcome from an exchange and therefore are willing to pay more than less satisfied customers because this still maintains an equitable ratio of outcome to input (Bolton & Lemon, 1999).

Previous marketing research has also demonstrated the positive relationship between customer satisfaction and price tolerance. A satisfactory purchase experience is

significant factor to maintain ongoing interest in a product or service that might lead to repeat purchasing (Oliver, 1993a). The satisfaction process evokes behavioral intentions such as repeat purchase behavior, willingness to pay more, and switching behavior (Anderson, Fornell, & Lehmann, 1994; Anderson & Mittal, 2000; Smith, Bolton, & Wagner, 1999; Zeithaml, Berry, & Parasuraman, 1996). These findings imply that customers who are satisfied enough will tolerate a moderate price increase to repurchase. Anderson (1996) also argues that one possible way to counterbalance the potential negative effects resulted from a price increase would be to strive for higher levels of customer satisfaction. Herrmann et al. (2004) exhibit that price tolerance is directly affected by customer satisfaction. The implication of this finding is that in general, an increased satisfaction provokes higher price tolerance and makes the implementation of a premium price easier.

Switching Costs and Price Tolerance

Microeconomic price theory suggests that under a monopolistic margin where price increases have only little to no effect, companies can raise price without losing customers within the margin's borders (Herrmann et al., 2004). Similar to this suggestion, it can be proposed from marketing perspective that companies which have unique selling points or customer service with high competitive advantage can establish barriers that will prevent customers from switching to other alternatives. Therefore, switching barriers can be defined as any factor making it more difficult or costly for customers to change providers (Beatty, Jones, & Mothersbaugh, 2000).

Switching costs are parts of switching barriers. They are another category of switching barriers that emerge from an analysis of the literature (Colgate & Lang, 2001).

Switching costs are customer perceptions of changing service providers in terms of time, effort, monetary, and psychological costs (Beatty et al., 2000; Dick & Basu, 1994; Sengupta, Krapfel, & Pusateri, 1997). Switching costs are influenced by perceived risk, customer's perception of the uncertainty and adverse consequences of switching behaviors (Dowling & Staelin, 1994). These costs are one time costs contrary to the enduring costs associated with utilizing services based on a repeat-purchase relationship (Porter, 1980).

Switching costs involve search efforts and costs for other alternatives. Customers remain with the company when additional search costs for a new service provider exceed the perceived gains from switching (Urbany, 1986). It is argued that establishing switching costs can support customer retention strategies by making it more difficult for customers to take alternatives (Beatty et al., 2000; Herrmann et al., 2004). Switching to a new service provider compels customers to invest efforts, time, and money, which act as significant barriers (Colgate & Lang, 2001). Therefore, it can be drawn that customers with higher perceived switching costs have higher price tolerance in order to remain with the current provider.

Many previous studies on switching costs support the positive relationship between switching costs and price tolerance. Urbany, Madden, and Dickson (1989) argue that a majority of bank customers will not switch to a different bank even when fees increase. The main reason for not switching was the high cost of changing banks. This cost may include time, effort, and psychological cost. Customers will tolerate a high price as long as they perceive switching barriers to be more prohibitive. Dolan (1995) also exhibits that switching inhibitions affect price tolerance. As difficulty of the search and

time to be spent increase, customers tend to maintain their current business relationship, causing price tolerance to increase. It is further noted that price tolerance depends on customers' perceived switching costs.

A Casino Loyalty Program and Factors Influencing Price Tolerance

A Casino Loyalty Program

A loyalty program is an identifiable package of benefits offered to customers rewarding repeat purchase (Uncles, Dowling, & Hammond, 2003). Hartley (1997) demonstrates that a loyalty program encourages guests to make return visits by offering incentives to repurchase. These incentives include such things as room discount and motivate guests to revisit the property. This program makes guests feel more closely bonded to the hotel and, theoretically, provokes customer loyalty. It also enables the hotel to collect guest information by keeping track of an individual's stay and usage patterns through information technology.

Similar to a hotel loyalty program, a casino loyalty program also encourages players to visit the casino and play gambling repeatedly by offering benefits such as complementary meals, rooms, shows, and shopping discounts (Barsky & Nash, 2003). These rewards basically depend on the betting amounts of the players. In other words, players are required to put some time and monetary investments to receive these benefits. The behavior-tracking technology of a casino loyalty program provides casino hotels with unparalleled customer knowledge and, in turn, the ability to distribute generous benefits while maintaining a profit margin in the customer relationship.

In this study, a casino loyalty program is a diverging point to classify hotels guests into two groups. With regard to casino resorts like Las Vegas Strip casinos, the casino alone cannot lure players without accommodation; players need somewhere to stay. One of the attractive rewards of a casino loyalty program is the complimentary room. It is logical to conceive that a casino loyalty program is closely related to hotel accommodation attribute.

The evaluation results of the fourth quarter 2002 report from the Market Metrix Hospitality Index support this relationship between a casino loyalty program and accommodation (Barsky & Nash, 2003). This report evaluates a hotel loyalty programs using two indicators, participation and effectiveness. Participation is represented by the percentage of guests who are members of a loyalty program while effectiveness is measured by the importance of that program in the guests' decision to stay at that brand. The strength of a loyalty program is determined by combining results from the participation and effectiveness categories. According to this study, loyalty program strength represents program popularity among a brand's customers and its effectiveness in advancing guest retention. Casino hotels achieved much higher scores for their loyalty programs on both participation and effectiveness than general hotels did. Casinos especially excelled in program effectiveness which is measured by the importance of that program in the guests' decision to stay at that hotel. The loyalty programs of casino hotels in average were almost 50% more effective in advancing guest retention than those of the top three general hotels (Barsky & Nash, 2003).

The results imply that a tighter bond exists between members and a casino loyalty program than between members and a general hotel loyalty program and, if guests intend

to switch the current casino, they also mean to change the current hotel because hotel accommodation is part of a casino loyalty program. This program encourages customers not only play more games but also visit and stay more often at the property. In this light, to project a casino loyalty program members' price tolerance for "room rates", it is reasonable to refer to any factors such as satisfaction and switching costs that pertain to a casino loyalty program and that influence their behaviors.

A Casino Loyalty Program and Guest Satisfaction

Bolton, Kannan, and Bramlet (2000) exhibit that members of a loyalty program of a finance services company are generally less sensitive than other customers to perceptions of lower service quality from the company and any price disadvantage relative to competitors. This finding implicates that members of a loyalty program are less quality sensitive than non-members.

Perceived service quality plays a significant role in forming customer satisfaction. Oliver (1993b) argues that customers must possess contact experiences of some qualities first in order to decide whether they are satisfied or not. Thus, service quality can be conceived as the antecedent of satisfaction which is an affective reaction (Oliver, 1999). Likewise, most researches have regarded service quality as the antecedent of customer satisfaction (Anderson et al, 1994; Brady, Cronin, & Hult, 2000; Fornell, 1992). Gronholdt, Kristensen, and Martensen (1999) also argue that perceived quality is one of the major drivers of customer satisfaction.

Perceived quality is the one construct that positively and directly impacts overall customer satisfaction. Thus, as the level of perceived quality increases, the level of overall customer satisfaction also increases (Chiao, Tai, Yu, & Wu, 2005).

According to Bolton et al. (2000), it is likely that members of a loyalty program will perceive higher service quality more often than non-members because they are less sensitive to perception of low service quality. As higher perceived service quality elicits higher customer satisfaction, it can be inferred that a casino loyalty program members are more satisfied than non-members.

A Casino Loyalty Program and Switching Costs

As discussed earlier, switching costs are the magnitude of the additional costs perceived by customers, if they were to change providers (Patterson & Smith, 2003). When hotel guests who have joined a casino loyalty program attempt to switch to other casinos or hotels, they need to consider future expected rewards and investments in time and money. These expected benefits and investments will be converted into termination costs formulating switching costs or reinforcing existing switching costs in guests' minds. Hotel guests who are not members of a casino loyalty program are relatively unrestricted from switching to other casinos since they do not expect any rewards from the current casino. Berry and Parasuraman (1991) also support above reasoning. They argue that customers' dependency is increased by effective relationship-specific investments because those investments raise the costs of switching to competitors. When they change their service providers, customers would lose the benefits from the relationship-specific investments which are not readily available from the competitors.

Burnham, Frels, and Mahahan (2003) categorize switching costs into three different costs: procedural switching costs, financial switching costs, and relational switching costs. Procedural switching costs consist of economic risk, evaluation, learning and setup costs and this type of switching costs primarily involves the expenditure of

time and effort. Financial switching costs consist of benefits loss and financial-loss costs and this type of switching cost entails the loss of financially quantifiable resources.

Relational switching costs consists of personal relationship loss and brand relationship loss costs and this type of switching cost involves psychological or emotional discomfort due to the loss of identity and the breaking of bonds. All three switching cost types significantly and positively affect consumers' intentions to maintain their current business relationship.

When hotel guests who are members of a loyalty program taken into consideration, they generally have high switching costs because they have been engaged with the current property through a loyalty program. Switching to competitors will require them to spend time and effort on searching another alternative and to relinquish expected financial benefits from a casino loyalty program. As shown earlier, switching to different casinos means switching to different hotels. Thus, the switching costs are related not only with casinos but also hotels.

CHAPTER III

METHODOLOGY

Two variables (guest satisfaction and switching costs) were examined in this study to explain the perception of price tolerance among hotel guests. The following conceptual model illustrates the research scheme.

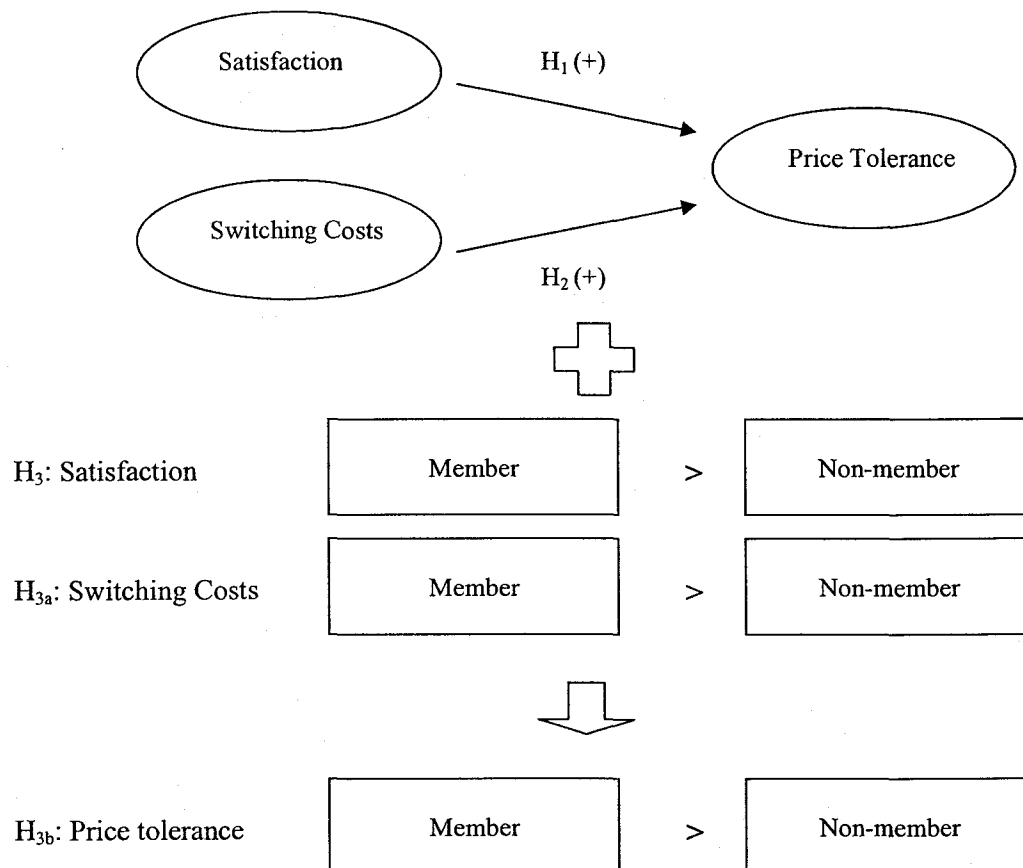


Figure 1. Conceptual framework.

Sampling

A non-probability sampling method was employed to collect the data for this study. The population of this study consists of all the hotel guests who stay at the hotels in Las Vegas. A convenience sampling method was employed since a large number of completed questionnaires can be obtained quickly and economically. It is considered convenience sampling since not all casino hotel guests have a known nonzero probability of selection (Zikmund, 2003). Quota sampling was also employed to ensure that enough samples were collected for each group: guests who are members of a casino loyalty program and guests who are not members of a program.

The main reason to conduct a non-probability sampling or convenience sampling is its practical easiness and quickness in collecting data (Zikmund, 2003). When two different groups are compared, it is better to secure an appropriate number of samples for each group. Thus, quota sampling was employed.

The major drawback of the sampling method adopted in this study was the representativeness of the sample collected. It was unlikely that this sample of individuals contained essentially the same variations that existed in the population. The lack of representativeness would seriously influence the generalizability of the study. To generalize from the sample to the population from which it is drawn, the sample must be representative. Since the sampling method of this study was a non-probability sampling, it was expected that the sample of this study would not possess similar characteristics to its population. Therefore, the feasibility of generalizing from the sample to the population was somewhat limited (Zikmund, 2003).

Another weakness was that the sampling error could not be estimated. Sampling bias such as self-selection bias, response bias, acquiescence bias, and extremity bias were expected (Zikmund, 2003).

Data Collection

To examine price tolerance of hotel guests, a survey with self-administered questionnaire was conducted. The questionnaires were distributed on the Las Vegas Strip and at other places such as Fremont Street to travelers who were staying at the hotels in Las Vegas. It was critical that the questionnaire be highly standardized and quite structured to minimize any misrepresentations (Zikmund, 2003).

Before being asked to answer the questionnaire, travelers on the Las Vegas Strip were asked whether they were staying at any hotel in Las Vegas or not. This ensured that the right sample population was collected. Travelers were also informed that the participation in the survey was completely voluntary.

An informational letter explaining purpose of the survey, instructions, and contact points was attached to the questionnaire. The questionnaires were collected immediately after respondents completed their questionnaires. The samples were collected in March of 2006. Thus, it was ensured that travelers who stayed at hotels in Las Vegas during this period constituted the sample population. Travelers were provided with small souvenirs to increase the response rates.

As many travelers as possible were asked to participate in the survey until the enough samples were collected to project the variation of price tolerance between the two groups with different traits.

Scales and Instruments

To measure the previously mentioned variables, different types of scales and instruments were employed for measurement purposes. These scales were nominal scales (category scale, simple-dichotomy question) with fixed alternative questions, open-ended questions and a 7-point numerical scale.

To measure switching costs, the instrument designed by Burnham, Frels, and Mahahan (2003) consisting of thirty items measuring the eight identified dimensions of switching costs were modified and employed (Caruana, 2004). Among those thirty items, eight questions which were most appropriate for the casino hotel industry were selected for this study. Four items were employed from procedural switching costs and three items were used from financial switching costs. One item was selected from relational switching costs.

As previously mentioned in the literature review, procedural switching costs consist of economic risk, evaluation, setup, and learning costs (Burnham et al., 2003). Since it is relatively easy for hotel guests to enroll in a casino loyalty program and learn how to utilize a program, items from set up costs and learning costs were excluded. Two items asking perception of hidden costs and unexpected hassles were selected from economic risk costs. There are various casino loyalty programs offer different benefits and thereby comparing those benefits would require time and effort. Thus, two items related to these issues were selected from evaluation costs.

Financial switching costs include benefit loss costs and monetary loss costs (Burnham et al., 2003). A casino loyalty program encourages players to visit the casino and play games repeatedly by offering benefits such as complementary meals, rooms,

shows, and shopping discounts (Barsky & Nash, 2003). Switching to other hotels means losing these benefits from a casino loyalty program. Therefore, two items were chosen from benefit loss costs. The guest should pay regular rate when staying at the new hotel as he or she is not qualified to receive casino rate. Even though, there is no access fees or deposits to enroll in a casino loyalty program, this difference between regular and casino rate may play as access fees. Thus, one item was employed from monetary loss costs.

Relational switching costs consist of personal relational costs and brand relational costs (Burnham et al., 2003). One item was employed from personal relational costs because personal interactions with employees are inevitable in a service process.

A 7-point numerical scale was used to measure this variable. The scale anchors represented “strongly disagree” and “strongly agree.”

Guest satisfaction was measured with two different aspects of service: tangible attributes and intangible attributes. Tangible attributes of service included room amenities, interior, and other hotel amenities. Intangible attributes of service mainly focused on the employees of the hotel, such as their friendliness, timeliness, responsiveness, and etc. These items were measured on a 7-point numerical scale and the scale anchors were “strongly dissatisfied” and “strongly satisfied.”

To measure price tolerance for room rates increase, respondents were required to answer the question asking their likeliness to switch to another hotel should their current hotel's room rate rise by 10%. Suggesting price increase in percentage terms rather than absolute values allows comparison of price tolerance across the different hotel room rates (Anderson, 1996). A 7-point numerical scale was employed to measure this variable. The scale anchors represented “not very likely” and “very likely.” The respondents were also

asked to write maximum price increase before switching in percentage terms (Anderson).

To identify whether the guest was a member of the casino loyalty program, a simple-dichotomy question was used. Since the purpose of this study is to compare loyalty program members and non-members regarding price tolerance, not the level of their loyalty, the respondents were asked to indicate whether they were enrolled in a loyalty program or not. Open-ended questions were employed to ask their room rates per night and the number of casino loyalty programs enrolled. They were asked to answer in dollar amount and percentage respectively. A category scale was used to obtain types of room rate paid and respondents' demographic information such as age, gender, income, education level, marital status, and purpose of visit.

Data Coding and Entry

Since the respondents wrote the answers themselves, in-house editing was conducted. The consistency of data was examined. For example, ten items for guest satisfaction and eight items for switching costs were asked for the examination. The completed questionnaires were rigorously investigated to determine whether there was an inconsistency or discrepancy among the items measuring the same variable. For unanswered questions, a basic rule was followed. Nothing was done to these questions unless the answers could be inferred from related questions. If the questionnaire had too many items unanswered, it was discarded.

The 7-point numerical scale items were coded according to the number circled by the respondents. Regarding simple-dichotomy questions, answer "yes" was coded as "1"

and “no” as “2.” For the category scale, each alternative was numbered according to the order within a question.

All the data were entered into SPSS version 13.0 directly after coding was completed. The descriptive statistics function of SPSS was run to identify any data entry error or missing data. Entered and corrected data were compared with the original questionnaires for accuracy of the entry.

Tabulation and Evaluation of Data

First, the normality of data was checked, and descriptive statistics for each measured variable was tabulated. To check the reliability, the reliability analysis of SPSS was run. The Cronbach’s Alpha index, which ranges from 0 to 1, measures the reliability. A higher alpha value indicates higher internal consistency.

Two statistical methods were employed: independent-samples T test and simple linear regression analysis. Since there were two groups to be compared, independent-samples T test was used to measure and compare the level of guest satisfaction and perceived switching costs for two different groups: guests who were members of the casino loyalty program and guests who were not members. The means of each group’s level of satisfaction, switching costs, and price tolerance were compared. Simple linear regression analysis was run to demonstrate the relationship between the independent variables (guest satisfaction and switching costs) and the dependent variable (price tolerance).

Testing of Hypotheses

The following hypotheses were tested for the study.

H₁: Price tolerance will be positively related to guest satisfaction.

H₂: Price tolerance will be positively related to switching costs.

H₃: Guest satisfaction will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

H_{3a}: Switching costs will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

H_{3b}: Price tolerance will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not.

If the data analysis indicates that hotel guests who show higher guest satisfaction, are willing to pay more or show higher price tolerance, H₁ can be supported. In other words, if the R² value at the significant level ($p < .05$) is large enough to explain the variability in price tolerance, H₁ can be supported. When hotel guests who express higher switching costs show higher price tolerance, H₂ can be supported. The R² value at the significant level ($p < .05$) should be large enough to explain the variability. In similar way, if the results indicate guests who are members of a casino loyalty program show higher satisfaction and perceived switching costs than guests who are not members of a loyalty program, H₃ and H_{3a} can be supported. This implies that, in order to support H₃ and H_{3a}, both the mean satisfaction and the mean switching costs should be higher for members at the significant level ($p < .05$) when independent-samples T test was run. H_{3b} also can be supported if guests who are members show higher price tolerance than guest who are not

members. The mean price tolerance should be higher for members at the significant level ($p < .05$) when independent-samples T test was run for those two groups.

CHAPTER IV

RESULTS

Profile of Respondents

Among 189 respondents, 67.7 % were not enrolled in a casino loyalty program offered by the hotel at which they stayed while 32.3% of them were enrolled in a program (See Table 1). Among those who were enrolled in a casino loyalty program at their current hotel, 62.3% joined more than one casino loyalty program (See Table 2).

Table 1

Enrollment in a Casino Loyalty Program by the Current Hotel

Loyalty Program	n	%
Enrolled	61	32.3
Not Enrolled	128	67.7
Total	189	100.0

Table 2

Number of Casino Loyalty Programs Enrolled

Number of Loyalty Program	Enrolled		Not Enrolled	
	n	%	n	%
0	0	0.0	101	78.9
1	22	36.0	5	3.9
2	12	19.7	0	0.0
3	10	16.4	0	0.0
4	7	11.5	0	0.0
5	4	6.6	0	0.0
More than 5	5	8.2	0	0.0
Missing	1	1.6	22	17.2
Total	61	100.0	128	100.0

Among all the respondents, 82% visited Las Vegas for pleasure while 11% for business. About 7% visited Las Vegas either for visiting acquaintances, marriage, or gambling (See Table 3). Approximately 30% of the total respondents received the hotel special package rate while 15% of them were offered casino rate (See Table 4). The noticeable point of this composition is that about 41% of the respondents who were enrolled in a casino loyalty program of their current hotel received the casino rate.

Table 3

Purpose of Visit

Purpose	n	%
Business	21	11.1
Pleasure	155	82.0
Visiting Acquaintances	1	0.5
Other	12	6.3
Total	189	100.0

Table 4

Types of Room Rate

Room Rate Type	n	%
Convention rate	18	9.5
Casino rate	28	14.8
Hotel special package	53	28.0
Internet rate	9	4.8
N/A	59	31.2
Other	11	5.8
Sub Total	178	94.2
Missing	11	5.8
Total	189	100.0

Almost 55% of the total respondents paid below or equal to \$150 per night for their room and about 30% of the guests paid between \$151 and \$400 for their room. Only 3% paid above or equal to \$401 per night for their room (See Table 5). About 76% of the guests stayed at their current hotel for the first time while 21% of the guests stayed at the hotel more than once.

Table 5

Room Rate per Night

Room Rate per Night	n	%
Below or equal to \$150	103	54.5
\$151 ~ \$400	56	29.6
Above or equal to \$401	6	3.2
Sub Total	165	87.3
Missing	24	12.7
Total	189	100.0

Table 6

Frequency of Stay at the Current Hotel

Frequency of Stay	n	%
1 time	144	76.2
2 times	9	4.8
3 times	13	6.9
4 times	4	2.1
5 times	1	0.5
More than 5 times	13	6.9
Sub Total	184	97.4
Missing	5	2.6
Total	189	100.0

About 51% of the total respondents were female while 49% of them were male (See Table 7). With regard to age group of the total respondents, 41.3% were between 21 and 29 years old while 25.4% were between 30 and 39 years old. Approximately 33% were above 39 years old (see Table 8). According to their nationalities, respondents were

divided into two groups: American or Non-American. About 74 % of the total respondents were American while 23.8% were Non-American. 2.1% of the respondents did not choose to answer with regard to their nationalities. Non-American includes Canadian, Chinese, English, German, Irish, Italian, Korean, Mexican, Taiwanese, and other (See Table 9).

Table 7

Gender

Gender	n	%
Male	92	48.7
Female	97	51.3
Total	189	100.0

Table 8

Age

Age	n	%
21 – 29	78	41.3
30 – 39	48	25.4
40 – 49	39	20.6
50 – 59	14	7.4
60 – 69	8	4.2
Over 69	2	1.1
Total	189	100.0

Table 9

Nationality

Nationality	n	%
American	140	74.1
Non-American	45	23.8
Missing	4	2.1
Total	189	100.0

Reliability Tests

A Cronbach's Alpha value higher than 0.7 is generally accepted to be reliable. The reliability analyses were conducted for guest satisfaction levels and switching costs. Guest satisfaction levels were measured with two different aspects of service: intangible and tangible service. Five items were utilized to measure satisfaction for intangible service while another five items were employed to measure satisfaction for tangible service. Both aspects of service had acceptable alpha values which were very close to 1 (see Table 10).

Switching costs were classified into three different costs. Three items were used to measure the level of financial switching costs of hotel guests and four items were used to measure procedural switching costs. Only one item was employed for relational switching costs that the reliability analysis was not run for this variable. Both financial and procedural switching costs exhibited high Cronbach's Alpha values (See Table 11).

Table 10

Reliability Test for Guest Satisfaction

Items	Cronbach's Alpha	Number of Items	n
Intangible Service	.881	5	187
Tangible Service	.916	5	186

Table 11

Reliability Test for Switching Costs

Items	Cronbach's Alpha	Number of Items	n
Procedural Switching Costs	.843	3	187
Financial Switching Costs	.865	4	185
Relational Switching Costs	-	1	189

To secure the validity of variables measurement, all the questionnaires were developed on the basis of previous literature where the validity was tested and proved.

Results of Hypotheses Testing

Two different types of analyses were employed to test the hypotheses of the study. With regard to H₁ and H₂ which were established to examine the relationship between two variables, simple linear regression analysis was applied to test the hypotheses.¹ For H₃, H_{3a}, and H_{3b} which compared the means of two different groups, independent-samples T test was used to examine those hypotheses.

¹ Since two different types of satisfaction levels were too much correlated, multiple linear regression analysis could not be employed. Similarly, three different types of switching costs were also too much correlated that employing multiple linear regression analysis was inappropriate.

As previously mentioned in the methodology section, guest satisfaction level was measured with two different aspects of service. Ten items in total were used to measure guest satisfaction level. These ten items were combined and averaged into one separate variable, "guest satisfaction". Satisfaction and price tolerance of hotel guests were entered as the independent variable and the dependent variable respectively to be examined for their relationship.

The assumptions necessary for single linear regression analysis were evaluated before the actual analysis was performed². Normality of error, homoscedasticity (constant variance), independence of errors, and linearity were examined for the assumption check (Berenson, Levine, & Krehbiel, 2004; Norušis, 2004).

The correlation coefficient between guest satisfaction and price tolerance was 0.377 (see Table 12). The correlation coefficient had a *p*-value approaching zero representing that the probability is almost zero of observing correlation coefficient at least that large and of the same sign when the population correlation coefficient is zero (Berenson et al., 2004; Norušis, 2004). This finding supported that there is a positive relationship between guest satisfaction level and price tolerance.

² Normality of error was examined by reviewing the histogram, stem-and-leaf plot, normal Q-Q plot, detrended normal Q-Q plot, and boxplot of the studentized residuals. Both histogram and stem-and-leaf plot showed symmetric distribution with a single peak. The boxplot also exhibited symmetric distribution. The studentized residuals fell close to the straight line in normal Q-Q plot and fell randomly in a band around 0 in detrended normal Q-Q plot (Norušis, 2004). Homoscedasticity was also examined by checking the scatterplot of studentized residual and predicted value. No funnel shape was observed. The Durbin-Watson test was employed to check independence of errors. The range of this statistic is from 0 to 4. The statistic should be close to 2 or between 1.5 and 2.5 if there is not correlation between successive residuals. The observed value was 1.634 (Norušis, 2004). The linearity was evaluated by examining the scatter plot of an independent variable and a dependent variable. The results met the requirement. No assumptions were violated with regard to satisfaction and price tolerance.

From the simple linear regression analysis, the R value, 0.377 and the R^2 value, 0.142 were calculated (See Table 13). This indicated that 14.2% of the variation in price tolerance of hotel guests can be explained by the variability in the level of guest satisfaction as measured by a 7-point numerical scale (Norušis, 2004). The model was significant ($p < 0.05$, $F = 30.032$). Therefore, H_1 was supported; price tolerance will be positively related to guest satisfaction. Table 14 exhibited that if the guest satisfaction level ($p < 0.05$, $\beta = 0.377$, $t = 5.48$) increases by 1 unit, price tolerance increases by 0.679 units.

Table 12

Correlations between Satisfaction and Price Tolerance (n=183)

		Price Tolerance	Guest Satisfaction
Pearson Correlation	Price Tolerance	1.000	.377
	Guest Satisfaction	.377	1.000
Sig. (1-tailed)	Price Tolerance	-	.000*
	Guest Satisfaction	.000*	-

Note. * $p < .05$.

Table 13

Regression Analysis with Satisfaction (n=183)

R	R^2	Adjusted R^2	df	F	Sig.
.377	.142	.138	1	30.032	.000*

Note. * $p < .05$.

Table 14

Regression Coefficients with Satisfaction (n=183)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	β		
(Constant)	.522	.667		.782	.435
Guest Satisfaction	.679	.124	.377	5.480	.000*

Note. * $p < .05$.

Three different types of switching costs were measured with 8 items in total. Those 8 items were combined and averaged into one separate variable, "switching costs." Switching costs and price tolerance of hotel guests were entered as the independent variable and the dependent variable respectively to be examined for their relationship.

When all the respondents were considered and simple linear regression analysis was run, no significant result was produced ($R = 0.055$, $R^2 = 0.003$, $p = 0.462$, $F = 0.544$). To have better and more accurate results, the appropriate group of guests was selected from all the respondents. Guests who paid between \$151 and \$400 per night for their room were chosen because this range of room rates was almost consistent with that of daily room rates of the leading hotels on the Las Vegas Strip (Smith, 2006). Also, guests who pay lower than \$151 are likely to formulate switching barriers, which are not high enough to be measured for the relationship with price tolerance. Guests who pay above \$400 are likely to establish switching barriers according to the excellent service quality rather than the monetary value.

All the assumptions necessary for simple linear regression analysis were evaluated by exactly the same way employed for guest satisfaction and price tolerance before the

actual analysis was performed. Normality of error, homoscedasticity (constant variance), independence of errors, and linearity were examined for the assumption check (Berenson et al., 2004; Norušis, 2004). No assumption was violated with regard to switching costs and price tolerance.

The correlation coefficient between switching costs and price tolerance was 0.355 (see Table 15). The correlation coefficient had a p -value of approximately 0.004 representing that the probability is almost zero of observing correlation coefficient at least that large and of the same sign when the population correlation coefficient is zero (Berenson et al., 2004; Norušis, 2004). This finding supported that there is a positive relationship between switching costs and price tolerance.

From the simple linear regression analysis, the R value, 0.355 and the R^2 value, 0.126 were calculated (See Table 16). This indicated that 12.6% of the variation in price tolerance of hotel guests can be explained by the variability in the level of switching costs as measured by a 7-point numerical scale (Norušis, 2004). The model was significant ($p < 0.05$, $F = 7.500$). Therefore, H_2 was supported; price tolerance will be positively related to switching costs. Table 17 exhibited that if the switching costs ($p < 0.05$, $\beta = 0.355$, $t = 2.739$) increases by 1 unit, price tolerance increases by 0.498 units.

Table 15

Correlations between Switching Costs and Price Tolerance (n=56)

		Price Tolerance	Switching Costs
Pearson Correlation	Price Tolerance	1.000	.355
	Switching Costs	.355	1.000
Sig. (1-tailed)	Price Tolerance	-	.004*
	Switching Costs	.004*	-

Note. * $p < .05$.

Table 16

Regression Analysis with Switching Costs (n=56)

R	R ²	Adjusted R ²	df	F	Sig.
.355	.126	.109	1	7.500	.008*

Note. * $p < .05$.

Table 17

Regression Coefficients with Switching Costs (n=56)

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	β	t	
(Constant)	2.828	.640		4.421	.000
Guest Satisfaction	.498	.182	.355	2.739	.008*

Note. * $p < .05$.

Multiple linear regression analysis was employed to examine which factor from H_1 and H_2 has a greater effect on price tolerance. When all the respondents were considered, only guest satisfaction influenced price tolerance ($R = 0.394$, $R^2 = 0.155$, $p < 0.05$, $F = 32.190$). When only those respondents who paid between \$151 and \$400 per

night for the room were considered, both guest satisfaction and switching costs had a effect on price tolerance. The first model indicated that guest satisfaction correlated most highly with price tolerance ($R = 0.373$, $R^2 = 0.139$, $p < 0.05$, $F = 8.070$). The second model indicated that switching costs made the next largest contribution to the model, given that guest satisfaction had already been selected ($R = 0.497$, $R^2 = 0.247$, $p < 0.05$, $F = 8.021$, β for satisfaction = 0.340, β for switching costs = 0.330).

To examine the difference of satisfaction levels between hotel guests who were members of a casino loyalty program and guests who were not members, independent-samples T test was employed. Prior to performing the test, the assumption necessary for the analysis was evaluated. Normality of each sample from both groups was confirmed by thoroughly examining each histogram, stem-and-leaf plot, normal Q-Q plot, detrended normal Q-Q plot, and boxplot. On the basis of Central Limit Theorem, appropriateness of running independent-samples T test was secured.

The mean satisfaction of hotel guests who were members of a casino loyalty program was 5.349 with 1.084 standard deviation while the mean satisfaction of those who were not members was 5.216 with 1.185 standard deviation (See Table 18).

Results from Table 19 indicated that H_3 was not supported; guest satisfaction will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not. The p -value, 0.226 which was greater than 0.05, implied that if the population mean difference is zero there is 22.6% chance of observing sample mean difference 0.133 (Berenson et al., 2004).

Table 18

Means of Guest Satisfaction

Enrollment in a Program	n	Mean	SD	SD. Error Mean
Yes	59	5.3492	1.0838	.1411
No	125	5.2160	1.1851	.1060

Table 19

T-Test for Guest Satisfaction

t	df	Sig. (1-tailed)	Mean Difference
.755	123.534	.226*	.1332

Note. * $p < .05$, equal variances assumed.

To examine the difference of perceived switching costs between hotel guests who were members of a casino loyalty program and guests who were not members, independent-samples T test was employed. Prior to performing the test, the assumption necessary for the analysis was evaluated. No assumption was violated.

The mean switching costs of hotel guests who were members of a casino loyalty program was 3.567 with 1.326 standard deviation while the mean switching costs of those who were not members was 2.956 with 1.326 standard deviation (See Table 20).

Results from Table 21 indicated that H_{3a} was supported; switching costs will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not. The p -value, 0.002 which was smaller than 0.05, implied that if the population mean difference is zero there is 0.2% chance of observing sample mean difference 0.614 or larger (Berenson et al., 2004).

Table 20

Means of Switching Costs

Enrollment in a Program	n	Mean	SD	SD. Error Mean
Yes	59	3.5699	1.3256	.1726
No	124	2.9556	1.3264	.1191

Table 21

T-Test for Switching Costs

t	df	Sig. (1-tailed)	Mean Difference
2.929	114.207	.002*	.6143

Note. * $p < .05$, equal variances assumed.

To examine the difference price tolerance between hotel guests who were members of a casino loyalty program and guests who were not members, independent-samples T test was employed. Prior to performing the test, the assumption necessary for the analysis was evaluated. No assumption was violated.

The mean price tolerance of hotel guests who were members of a casino loyalty program was 4.705 with 1.944 standard deviation while the mean price tolerance of those who were not members was 3.772 with 2.109 standard deviation (See Table 22).

Results from Table 23 indicated that H_{3b} was supported; price tolerance will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not. The p -value, 0.002 which was smaller than 0.05, implied that if the population mean difference is zero there is 0.2% chance of observing sample mean difference 0.933 or larger (Berenson et al., 2004).

Table 22

Means of Price Tolerance

Enrollment in a Program	n	Mean	SD	SD. Error Mean
Yes	59	4.7049	1.9437	.2489
No	124	3.7717	2.1089	.1871

Table 23

T-Test for Price Tolerance

t	df	Sig. (1-tailed)	Mean Difference
2.997	127.604	.002*	.9332

Note. * $p < .05$, equal variances assumed.

The maximum percentages of price increase to be tolerated by two different groups were also compared. The mean percentage increase of hotel guests who were members of a casino loyalty program was 13.947% with 12.257 standard deviation while the mean percentage increase of those who were not members was 10.140% with 9.999 standard deviation (See Table 24).

Results from Table 25 indicated that H_{3b} was also supported; price tolerance will be higher for hotel guests who are members of a casino loyalty program than for hotel guests who are not. The p -value, 0.024 which was smaller than 0.05, implied that if the population mean difference is zero there is 2.4% chance of observing sample mean difference 3.807% or larger (Berenson et al., 2004).

Table 24

Means of Percentage Increase

Enrollment in a Program	n	Mean	SD	SD. Error Mean
Yes	57	13.9474	12.2568	1.6235
No	107	10.1402	9.9995	.9667

Table 25

T-Test for Percentage Increase

t	df	Sig. (2-tailed)	Mean Difference
2.015	96.352	.024*	3.8072

Note. * $p < .05$, equal variances not assumed.

CHAPTER V

CONCLUSIONS

The purpose of this study was to examine the relationship between factors and price tolerance of hotel guests. The study was also designed to identify whether guests who were members of a casino loyalty program possessed higher price tolerance than non-members did. The samples were collected on the Las Vegas Strip and at other places such as Fremont Street. The hypotheses were tested by employing simple linear regression analysis and independent-samples T test. The results indicated that there were positive relationships between factors and price tolerance, and that members possessed higher switching costs and price tolerance than non-members did.

According to the test results of the first hypothesis, it seemed that there was a positive relationship between guest satisfaction and price tolerance; those guests who expressed higher satisfaction with intangible and tangible services from the current hotel at which they stayed seemed to possess higher price tolerance. This result can be explained by the reasoning from the previous studies. Guest satisfaction is a very subjective matter and individuals may perceive the same service differently and evaluate their satisfaction levels accordingly. Satisfied guests usually expect a high outcome from an exchange and therefore are willing to pay more than less satisfied customers because this still maintains an equitable ratio of outcome to input (Bolton & Lemon, 1999). Thus, the finding from this study is very consistent with the results from other previous studies.

Satisfactory experience plays a significant role in evoking desirable behavioral intentions such as willingness to pay more and repeat purchase behavior (Anderson, Fornell, & Lehmann, 1994; Anderson & Mittal, 2000; Oliver, 1993a; Smith, Bolton, & Wagner, 1999; Zeithaml, Berry, & Parasuraman, 1996). These findings imply that customers who are satisfied enough will tolerate a moderate price increase to repurchase. The potential negative effects resulting from a price increase can be counterbalanced with higher levels of customer satisfaction (Anderson, 1996). Herrmann, Huber, Sivakumar, and Wricke (2004) exhibit that price tolerance is directly affected by customer satisfaction.

How price tolerance is related with perceived switching costs was tested in Hypothesis 2. Guests who paid between \$151 and \$400 per night for their room were selected to measure the relationship between the two variables, switching costs and price tolerance. The reason for grouping the respondents on the basis of their room rates paid and selecting a group who paid between \$151 and \$400 was that this group was expected to provide better and more accurate results. This range of room rates is almost consistent with that of daily room rates of the leading hotels on the Las Vegas Strip. For the first quarter of 2006, the daily room rates of the leading hotels on the Strip ranged from \$170 to \$350 (Smith, 2006). Most appropriate results can be expected with the samples from the leading Strip hotels since the service quality and amenities of the hotels are similar to those of the nationwide hotel chains. In addition, the number of hotel rooms of the leading Strip hotels accounts for 41% of total hotel and motel rooms in Las Vegas (Las Vegas Convention & Visitors Authority [LVCVA], 2006; Las Vegas Strip, 2006). Also, guests who pay lower than \$151 are likely to formulate switching barriers, which are not high enough to be measured for the relationship with price tolerance. They have invested

somewhat less monetary value as compared to those who pay between \$151 and \$400. Guests who pay above \$400 are likely to establish switching barriers according to the excellent service quality provided by the hotels rather than the monetary value which they have invested.

The results from testing Hypothesis 2 exhibited that there was a positive relationship between perceived switching costs and price tolerance; those guests who established higher switching costs measured on the basis of three different typologies seemed to possess higher price tolerance. Switching to new service providers forces customers to spend time, effort, monetary, and psychological costs for other alternatives and to lose benefits from their current service providers (Beatty, Jones, & Mothersbaugh, 2000; Dick & Basu, 1994; Sengupta, Krapfel, & Pusateri, 1997; Urbany, 1986). Customers are likely to maintain the current business relationship when perceived switching costs for a new service provider exceed the expected outcome from switching (Urbany, 1986). Thus, customers who established higher perceived switching costs are willing to pay more in order to remain with the current provider. The finding from this study is very consistent with the results from other previous studies. Much research has shown that switching costs positively influence price tolerance (Beatty et al., 2000; Dolan, 1995; Herrmann et al., 2004; Urbany, Madden, & Dickson, 1989).

The results from testing Hypothesis 3 did not reveal any significant differences in the guest satisfaction level between hotel guests who were members of a casino loyalty program and those who were not members of a loyalty program. Even if the results did not support H_3 , the statistics itself should be considered a meaningful value. When only the outcome from testing H_3 is taken into consideration, a casino loyalty program does

not seem to perform its adequate role. Casino loyalty programs offered by Las Vegas hotels failed to facilitate higher satisfaction.

The discrepancy between the hypothesis and the result can be explained by some factors. If a more appropriate sample population for this hypothesis test was provided, a more significant result could have been achieved. Approximately 47.5% of the hotel guests who were members of a casino loyalty program stayed at the hotel for the first time. These respondents might not have experienced the loyalty program sufficiently enough to evaluate their satisfaction levels differently from non-members.

The samples used for the comparison of guest satisfaction levels between guests who were members of a casino loyalty program and those who were not members should be drawn from the same hotel. Respondents from the same property may evaluate their satisfaction level on the basis of consistent service quality provided by the same service provider. Guests from different hotels may not be appropriate in comparing their satisfaction levels since their satisfaction is derived from different service qualities provided by various hotels. For example, the satisfaction level of both casino loyalty program members and non-members would be similar if non-members stayed at high-end hotels while casino loyalty program members stayed at other hotels.

When two different groups are drawn from the same hotel, each group may show different levels of satisfaction from experiencing the same service quality. According to the previous study, it is likely that members of a loyalty program will perceive higher service quality more often than non-members because they are less sensitive to perception of low service quality (Bolton, Kannan, & Bramlet, 2000). As higher perceived service quality elicits higher customer satisfaction, it can be inferred that

casino loyalty program members are more satisfied than non-members (Anderson et al., 1994; Brady, Cronin, & Hult, 2000; Chiao, Tai, Yu, & Wu, 2005; Fornell, 1992; Oliver 1993b).

Hypothesis 3_a was concerned with examining which group established higher switching costs. The results demonstrated that hotel guests who were members of a casino loyalty program were more likely to possess higher switching costs than those who were not members of a program. Switching costs are pertained to terminating a current business relationship and securing an alternative (Patterson & Smith, 2003). Hotel guests who are members of a casino loyalty program inevitably invest more time, effort, and money in their hotels than guests who are not members of a program. They also expect higher rewards from their hotels as their investments increase. These anticipated benefits and investments contribute to formulating higher switching costs in the minds of loyalty program members.

The major findings of this study were that there were differences in price tolerance between hotel guests who were members of a casino loyalty program and those who were not members of a program. The results from testing Hypothesis 3_b revealed that loyalty program members possessed higher price tolerance than non-members did. This appears mainly due to their perception of switching costs than their strong satisfaction with their hotels. Since there was a positive relationship between switching costs and price tolerance, and loyalty members possessed higher switching costs, higher price tolerance in loyalty program members could be partially explained by switching costs. Even though guest satisfaction positively affects price tolerance, satisfaction cannot be concluded to be a partial explanatory factor because there was no significant

difference in guest satisfaction between guests who were members of a casino loyalty program and those who were not members of a loyalty program. The satisfaction factor may, however, be used to explain the result from testing Hypothesis 3, if samples were drawn from the same hotel.

A fundamental component of the study was to examine the determinants of price tolerance in the casino hotel industry. As the results suggest, guest satisfaction and switching costs positively affect price tolerance. From the simple linear regression analysis, the R^2 values indicate that both satisfaction and switching costs partially explain the variability in price tolerance. 14.2% of the variation in price tolerance can be explained by the variability in the guest satisfaction. 12.6% of the variation in price tolerance can be explained by the variability in switching costs. According to the results, it can be reasonably conceived that there are factors which also affect price tolerance besides guest satisfaction and switching costs. Previous studies suggest that other factors such as evoked set size, product involvement, and perceived price fairness also affect price tolerance (Herrmann et al., 2004).

Managerial Implications

The purpose of this study was to examine how guest satisfaction and perceived switching costs are individually related to price tolerance. Comparing levels of guest satisfaction, switching costs, and price tolerance in hotel guests who were members of a casino loyalty program with guests who were not members of a program was another objective of this study. The empirical results generated from this study provide hotel managers with not only significant insights into the price tolerance determinants in the

casino hotel industry but also a basis for establishing and implementing more effective pricing strategies. The study also supported how a casino loyalty program can be a powerful tool for guest retention in terms of price tolerance.

Hotel managers should give attention to guest satisfaction and may not be neglectful of increasing the level of guest satisfaction. By doing so, the hotel would be able to gain a competitive advantage in implementing price strategies. Since more satisfied guests will tolerate higher price increases, the hotel can be relatively less restrictive in performing its price strategies. This enables the hotel to remain profitable even in economic downturn. Hotels should invest more resources in training employees and improving the hotel atmosphere in order to enhance service quality. High service quality ultimately will induce high guest satisfaction. The investment will eventually be realized by being able to impose more competitive pricing on the guests. In other words, hotel managers will obtain more marginal discretions in their price strategy implementation. Hotel managers should keep in mind that they can minimize the negative reactions expected from price increases by increasing satisfaction levels.

Guest satisfaction should be given more focus because it is believed to influence voluntary price tolerance (Herrmann et al., 2004). This implies that guests who are more satisfied, and therefore are willing to pay more, will also be more likely to remain with their hotels voluntarily when adverse incidents such as price increases occur. Thus it can be inferred that these guests possess a greater potential to become loyal customers.

It was concluded that switching costs affected price tolerance positively. Hotel managers should then also focus on creating effective switching barriers in the mind of the guests. The critical point of establishing switching costs is that hotel managers should

encourage their guests to invest in the hotel both emotionally and financially. Effective relation-specific investments increase customers' dependency because investments raise the costs of switching to other competitors (Berry & Parasuraman, 1991). Hotels may increase financial switching costs of hotel guests by offering appropriate rewards or benefits according to their frequency of visits. Once the guests invest enough monetary value and time in the hotel to receive the rewards, they have already established switching costs high enough to outweigh the expected benefits from the alternatives. Hotels may effectively utilize their loyalty program to establish this type of switching costs. Hotel guests can be stimulated to formulate switching costs if they receive unforgettable service or personalized attention from the hotel. These relational or emotional switching barriers are intimately related with satisfaction. Thus, if hotels put their best efforts to increase guest satisfaction, they also influence the guests to establish relational switching costs.

Perceived switching costs are believed to influence involuntary price (Herrmann et al., 2004). More specifically, financial switching costs appear to possess greater characteristics of this kind. As financial investments prohibit guests from switching to other hotels, guests may involuntarily remain with the hotel. These guests are very vulnerable to promotions or discounts from the competitors as this may make the perceived gains from switching exceed switching costs (Urbany, 1986). On the other hand, relational switching costs seem to be generated from the emotional attachments of the guests and these costs are likely to influence voluntary price tolerance. Those guests who have a stronger brand and personal relationship with the hotel will be willing to stay with their current hotel even when price increases occur (Burnham, Frels, & Mahahan,

2003). Thus, if hotel managers are to increase voluntary price tolerance of hotel guests, they should give attentions to guest satisfaction and relational switching costs.

The effectiveness of a casino loyalty program was to be measured by comparing the tested determinants of price tolerance between guests who were members of a casino loyalty program and those who were non-members. Even though the results showed that there was no difference in guest satisfaction between the two groups, a casino loyalty program should nevertheless be utilized to increase guest satisfaction levels. Since one of the reasons for offering a casino loyalty program is to increase the frequency of visits by hotel guests, thereby also increasing the sales volume, the hotel guests who are members of a casino loyalty program have more opportunities to be exposed to the hotel's services. The hotel should utilize this opportunity to increase guest satisfaction levels by making guests experience its outstanding services and amenities. A casino loyalty program can be an excellent tool for promoting the hotel by linking guests and the hotel more closely. The hotel should augment its service quality by retaining highly-trained employees and its efficient organizational structure while offering differentiated service to casino loyalty program members.

According to the finding that loyalty program members established higher switching costs than non-members, a casino loyalty program also proved to be a strategic device for preventing guests from terminating the current business relationship and switching to the competitors. The hotel should utilize a casino loyalty program more effectively to prevent members from switching to other competitors while trying to meet increased expectation levels of the guests. A casino loyalty program forces the guests to invest more money and time in the hotel and establish stronger switching barriers by

offering the attractive rewards. As guests invest more resources in the hotel than in other alternatives, they tend to expect greater benefits from the hotel. Thus, the hotel should provide those guests who are members of a casino loyalty program with appropriate compensations for their commitments if the hotel wants to build strong switching barriers.

It is encouraging for hotel managers to find that guests who are members of a casino loyalty program possess higher price tolerance than those who are not members of a loyalty program. From the research results, it is apparent that casino loyalty program members are willing to pay more than non-members are because they have established higher switching costs. Even if it cannot be concluded that members have higher price tolerance because they are more satisfied, guest satisfaction still plays a significant role in increasing price tolerance of hotel guests and contributing to building strong business relationships.

In conclusion, price tolerance is an essential factor in guest retention and a useful measurement tool for examining the effectiveness of a casino loyalty program. A more effective casino loyalty program enables hotel managers to implement various pricing strategies more easily under less restrictive circumstances. This allows the hotel to maximize profits without adversely affecting the current hotel guests. Hotel managers may be able to adopt premium price strategies relatively more easily for loyalty program members than for non-members (Herrmann et al., 2004).

The most effective way to achieve more productive outcomes from a casino loyalty program would be to increase relational switching costs by increasing guest satisfaction levels. As mentioned previously, these two factors are presumed to influence

voluntary price tolerance. The hotel should utilize a casino loyalty program to enhance its business relationships with hotel guests by enticing them with a memorable experience.

Limitations

In order to facilitate a better understanding of the findings from this study, there are several issues to be discussed. The limitations of this study should be taken into consideration before other future studies in this area are undertaken.

As the R^2 values indicated, the two independent variables which were presumed to be the determinants of price tolerance did not sufficiently explain the variability in price tolerance. This finding implies that there should be more factors which affect price tolerance of hotel guests besides guest satisfaction and switching costs. Thus, one of the most significant limitations of this study is that not all of the factors are considered to predict the variations of price tolerance and to explain the differences in price tolerance between casino loyalty program members and non-members. There should be other various factors that drive each group to a certain behavior after price increases.

The generalizability of the study is limited because the representativeness of the sample was not adequately secured. The samples were limited to guests who stayed at hotels located in Las Vegas. Generalizing the findings of this study to the overall hotel industry seems to be somewhat unreasonable. As most hotels in Las Vegas operate casinos within their properties, the Las Vegas hotel industry is significantly different from the general hotel industry. For example, the average occupancy rates of Las Vegas hotels in 2004 and in 2005 were 92.0% and 91.8% respectively (LVCVA, 2006). Such high figures are rarely observed in other hotel industries. In addition to the sampling

limitations explained above, this study focuses only on casino loyalty program members. As such, it would be difficult to apply the findings to other non-gaming hotel loyalty programs.

One other limitation resulting from this sampling is that respondents stayed at various types of Las Vegas hotels ranging from economy to upscale properties. This limitation was problematic especially when guest satisfaction levels were compared between the two different groups. It would be reasonable to conceive that two different guest groups should experience the same service quality in order to compare their satisfaction levels more accurately. Samples from the same property would be likely to provide better comparison results.

Only one percentage term of price increase was given to measure price tolerance. Different levels of price increases in percentage terms should be provided to examine the relationship between factors and price tolerance.

The fact that the number of samples for each group was different could be a minor limitation for the study. The standardized questions could have affected the validity of the study even if they were derived from previous studies.

Recommendations for Future Research

This empirical study was the first attempt to examine the determinants of price tolerance in the casino hotel industry. Further studies may be necessary by employing more factors presumed to affect the price tolerance of hotel guests. The factors which were dealt with in the previous literature in other industry settings are product involvement, perceived price fairness, evoked set size, and reference price. If all these

factors are considered in future studies, perhaps more accurate and meaningful results can be obtained.

How these independent factors are related to each other and which factors mostly influence price tolerance may provide another meaningful finding to both marketing literature and the hotel industry. In other words, incorporating as many presumed factors as possible will furnish more clues to understanding price tolerance in a multidimensional way.

Since the study did not consider the level of loyalty, it would be interesting to examine how price tolerance would change as the level of loyalty varies. Identifying the relationship between these factors influencing price tolerance and loyalty can be another valuable research study.

As previously mentioned, examining other factors affecting voluntary price tolerance and involuntary price tolerance may provide valuable findings. In addition, comparing the activities of guests with higher voluntary price tolerance and guest with higher involuntary price tolerance will be able to provide hotel managers with the tools to approach each group appropriately.

APPENDIX I

1. Which hotel are you currently staying at in Las Vegas?

- ☐ Aladdin ☐ Bally's ☐ Bellagio ☐ Caesars Palace ☐ Excalibur ☐ Flamingo ☐ Luxor
☐ Mandalay Bay ☐ The Mirage ☐ Monte Carlo ☐ New York-New York ☐ Paris
☐ Palms ☐ Rio ☐ Treasure Island ☐ Tropicana ☐ Venetian ☐ Wynn
☐ Other (Please Specify _____)

2. Was this your first stay at the hotel in which you are currently staying?

- ☐ Yes ☐ No

If you checked 'Yes' in question 2 above, go to question 4 otherwise please continue with question 3.

3. How many times have you stayed at your current hotel?

- ☐ 1 time ☐ 2 times ☐ 3 times ☐ 4 times ☐ 5 times ☐ More than 5 times

4. How satisfied are you with the following aspects of your current hotel's service? Please circle the number to rate your satisfaction level.

Service Aspects	Strongly Dissatisfied						Strongly Satisfied	
	1	2	3	4	5	6	7	
The friendliness of hotel employees	1	2	3	4	5	6	7	
The responsiveness of hotel employees to my requests	1	2	3	4	5	6	7	
The timeliness of hotel employees in dealing with my needs	1	2	3	4	5	6	7	
Appearances of hotel employees (uniform, groomed appearance, etc.)	1	2	3	4	5	6	7	
The courteousness of hotel employees	1	2	3	4	5	6	7	
The cleanliness of the room	1	2	3	4	5	6	7	
Comfort of the room	1	2	3	4	5	6	7	
The ambience in the hotel (interior design / décor)	1	2	3	4	5	6	7	
The amenities offered in the guest room	1	2	3	4	5	6	7	
The amenities offered in other parts of the hotel (fitness club, restaurant, etc.)	1	2	3	4	5	6	7	

5. How strongly do you agree or disagree with the following statements regarding the hotel at which you are currently staying? Please circle the number.

Statements	Strongly Disagree						Strongly Agree	
	1	2	3	4	5	6	7	
Switching to a new hotel would mean losing or replacing points or credits that I have accumulated with the current hotel	1	2	3	4	5	6	7	
I will lose benefits of being a long-term customer at the current hotel if I switch to a new hotel	1	2	3	4	5	6	7	
Switching to a new hotel would involve some up-front costs (set-up fees, membership fees, etc.)	1	2	3	4	5	6	7	
Switching to a new hotel will involve hidden costs. (time, efforts, and etc.)	1	2	3	4	5	6	7	
Switching to a new hotel will result in some unexpected hassles.	1	2	3	4	5	6	7	
I cannot afford the time to get the information to fully evaluate other hotels besides the current hotel.	1	2	3	4	5	6	7	
Comparing the benefits of the current hotel with those of other hotels takes too much effort.	1	2	3	4	5	6	7	
I would miss interacting with employees at the current hotel if I switch to another hotel.	1	2	3	4	5	6	7	

6. What is your current room rate per night? \$ _____

7. If your hotel raised your room rate by 10%, how likely would you be to switch to another hotel? Please circle the number.

NOT Very Likely						Very Likely	
1	2	3	4	5	6	7	

8. Hotels offer guests different rates because of the purpose of the stay. Please indicate if you received any of the below special rates on this stay.

☐ Convention rate ☐ Casino Rate (ex: comp room) ☐ Hotel special package ☐ N/A
☐ Other (Please Specify _____)

9. Are you enrolled in a casino loyalty program (ex: Players Club, Total Rewards, One Club, Venetian's Players Club, Club Palms, and etc.) offered by your current hotel?

☐ Yes ☐ No

10. How many casino loyalty programs in total are you enrolled in? Please write in number. _____

11. What percentage price increase are you willing to pay before switching to another hotel? Please write in percentage. _____%

Demographic Information

12. What is your gender? ☐ Male ☐ Female

13. What is your age? ☐ 21-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐ 60-69 ☐ over 69

14. What is your nationality? _____

15. What is the purpose of your visit to Las Vegas?

☐ Business

☐ Pleasure

☐ Visiting Acquaintances

☐ Other (Please Specify _____)

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