**Service Marketing Integrating People, Technology, Strategy**
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**Lecture 16**
**Setting Prices and Implementing Revenue Management - Part 3**

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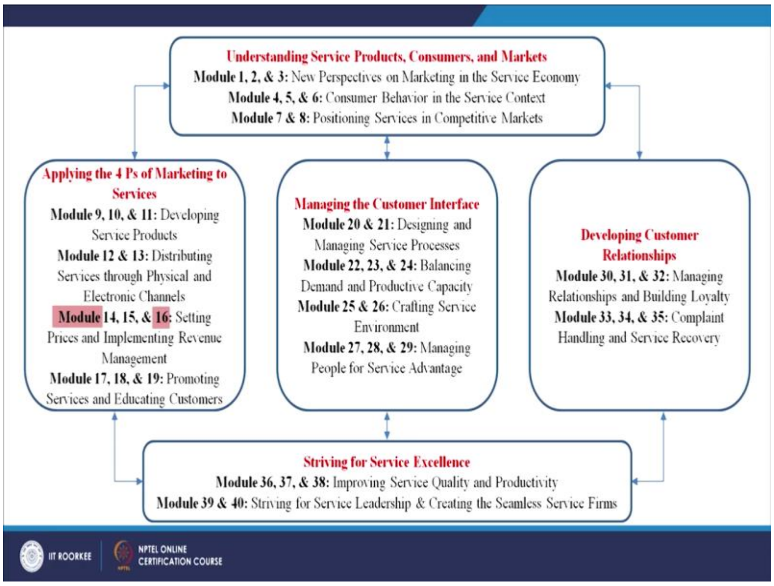


Welcome to this course of service marketing, now we will talk about module 16 as you have seen that, that in modules 14, 15 and 16 also, we will talk about setting the prices and implementing revenue management. So, now let us start with this module 16 and we are still talking about how to go about setting prices and implementing revenue management.

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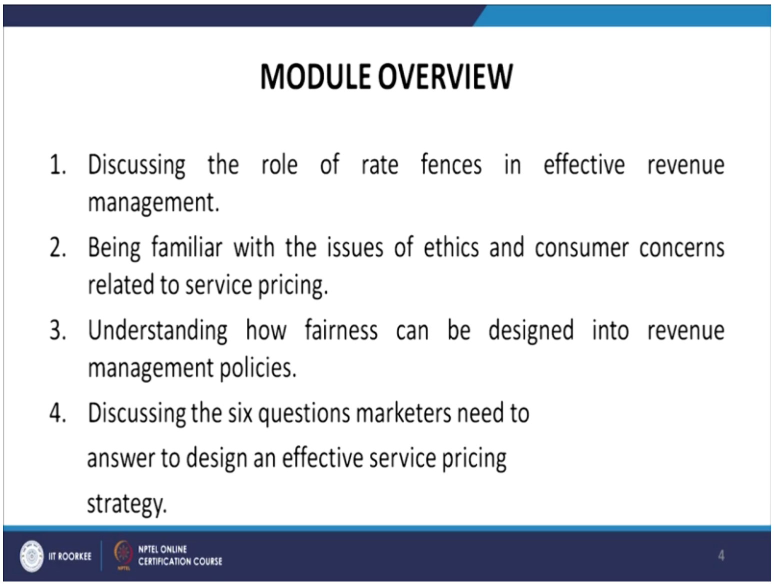

And we will talk about, we will discuss the role of rate fences in effective revenue management. So, what is the role of rate fences when we are talking of effective revenue management? Then, we will familiarize with the issue of ethics and consumer concerns related to service pricing.  So, are there some issues related to ethics and consumer concerns and service pricing? Then, we will understand how fairness can be designed into revenue management policies.

And, discuss the six questions marketers need to answer to design an effective service pricing strategy. So, for effective service pricing and strategies, there are six questions and we will talk about those questions and that will make the task of service pricing easier.

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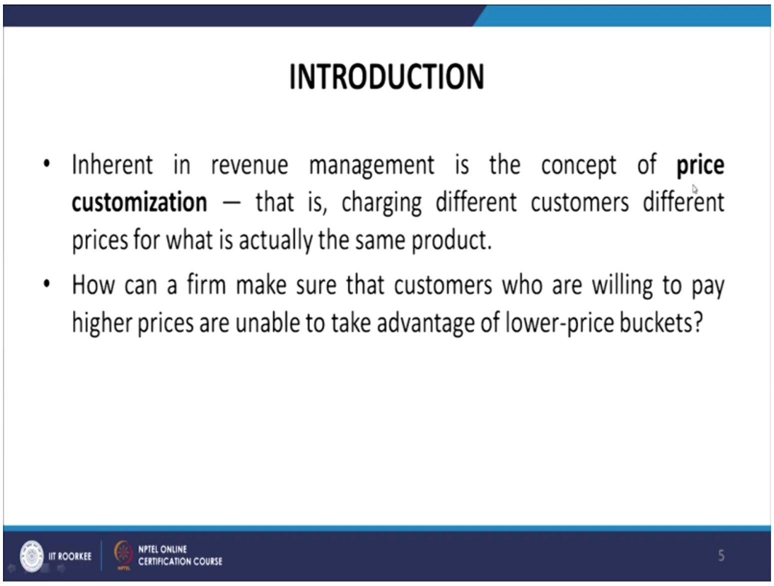


To start with inherent in revenue management is the concept of price customization so that we have seen in module 15, how to go about in charging different prices from different customers. So, the basic concept of this revenue management is price customization that is charging different customers different prices for what is actually the same product.

So, this is what this concept of price customization is that we are charging different prices for, from different customers but, the product may essentially be the same. So, how can a firm make sure that customers who are willing to pay high prices are unable to take advantage of lower price buckets? So, we are also worried about that the person, the customers who are willing to pay higher prices, they should not move to lower prices. So, how should that be made sure?

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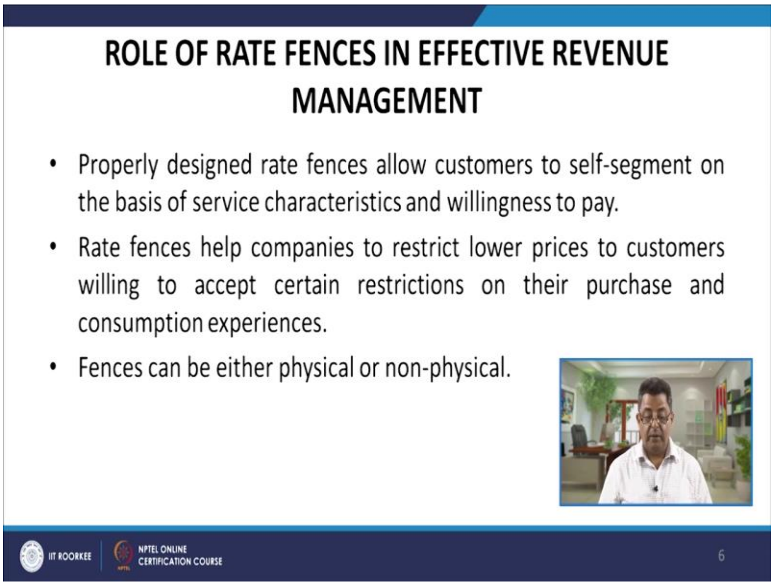


The role of this rate fences, now we will talk about the role of these rate fences in effective revenue management. Properly designed rate fences allow customers to self-segment on basis of service characteristics and their willingness to pay. So, now the customers are to self-segment them, how on the basis of the service characteristics and what is their willingness to pay.

Rate fences help companies to restrict lower prices to customers willing to accept certain restrictions on their purchase and consumption experiences. And there are some customers who do not want to restrict and there are some customers who do not want these kinds of restrictions and in return, they want to pay more. So, fences can be either physical or they can be non-physical.

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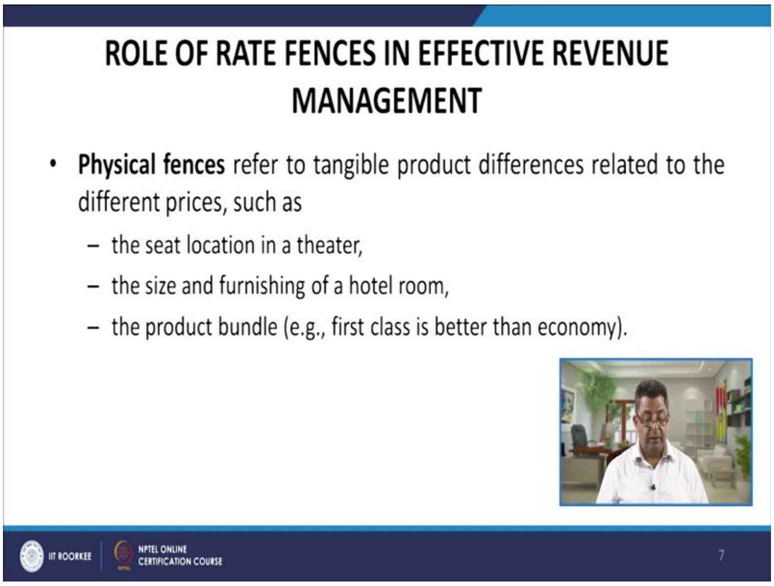


Let us look at what are these physical fences, it refers to tangible product differences related to the different prices such as the seat location in a theatre, so you will appreciate the fact that the rate of the theatre tickets, they are very according to the location. So, people sitting nearer to the screen are supposed to pay less and people sitting far away from the screen, they pay more. The size and furnishing of a hotel room, so bigger the room the more charges the hotel will charge and the product bundle that is first-class is better than the economy.

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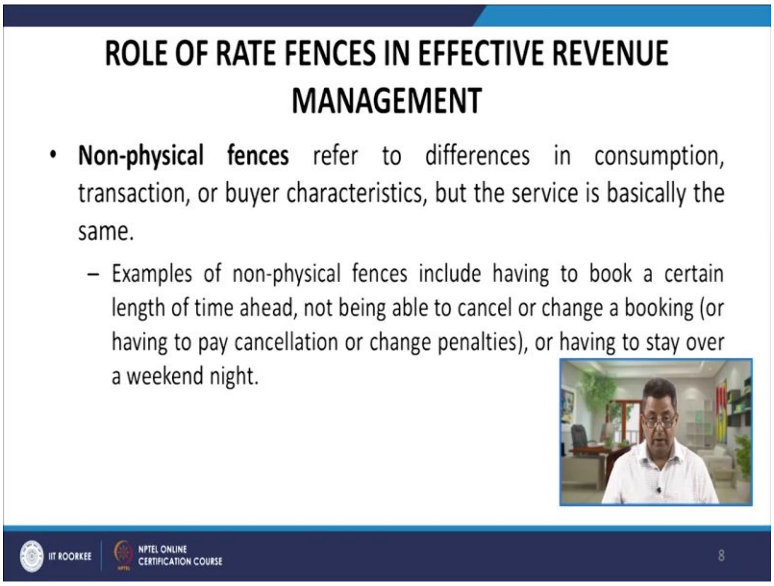


Then, there are some non-physical fences, they refer to differences in consumption, transaction, or buyer characteristics, but the service is basically the same. So, these non-physical fences they come from the differences in consumption, transaction and the buyer characteristics. But, not from the services, an example of non-physical fences include having to book a certain length of time ahead, not being able to cancel or change a booking or having to pay a cancellation or change penalties and having to stay over a weekend night. So, in some cases, you cannot change your booking or modify the booking or cancel the booking because then, you will have to pay more.

So, that is normal practice with airlines and in hotels also. So, earlier you cancel the lesser penalties you pay as you move on with time. So, when you reach the time of booking and then you want to cancel it, then you will have to pay higher prices, higher penalties for that.

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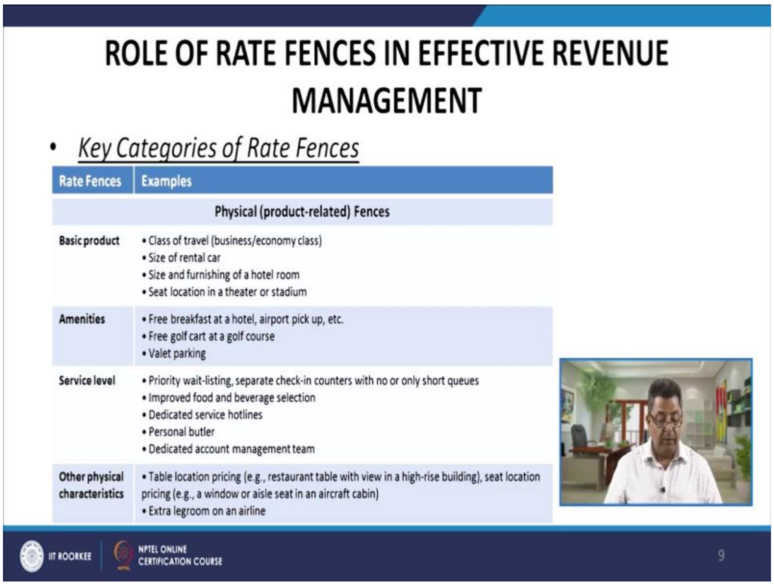


So, these are key categories of rate fences, on the left-hand side we have rate fences, then there are examples. So, there are examples related to physical or product-related fences. So, now let us look at the basic product, the example includes a class of travel that is business and economy travel, size of a rental car, size and furnishing of a hotel room and seat location in a theatre or stadium. The next rate fence is amenities, free breakfast at a hotel or airport pick up, free golf cart at a golf course and valet parking.

The third rate fence comes with the service levels and the example include priority wait-listing, separate check-in counters with low or only short queues, improved food and beverage selection, dedicated service hotlines, personal buttler, dedicated account management team and the last type of rate fence include other physical characteristic that includes table location pricing.

So, for example, restaurant table with a view in a high-rise building, seat location pricing window or aisle seat in an aircraft cabin. And then, extra legroom on an airline. So, you would have experienced several of these fences in airlines, that is a very common phenomena in all these fences, the use of all these fences in airlines is a common phenomena.

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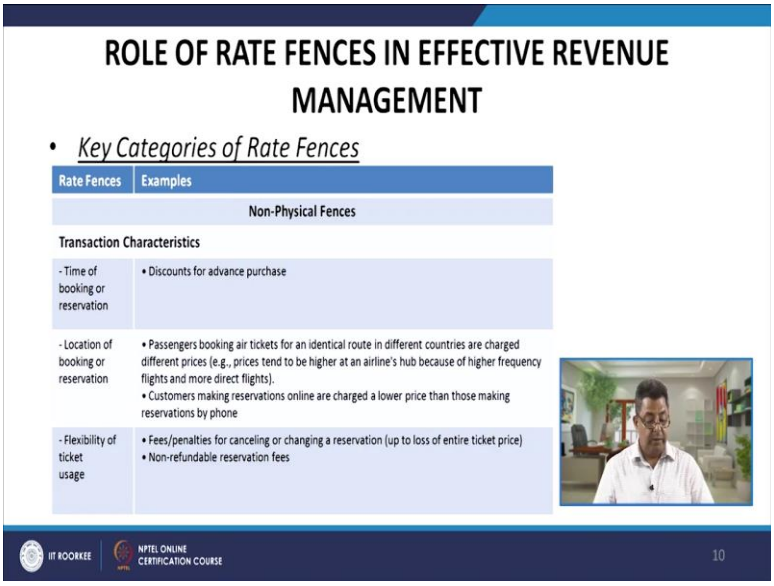


Then, there are some non-physical fences, that relates to transaction characteristics. So, one type of non-physical fence is the time of booking or reservation. So, when you have booked or reserved, discount for advance purchase. So, airline seats come for a lesser cost, if you book well in advance. Hotel rooms cost less when you gain book them well in advance. Location of booking or reservation, so passengers booking air tickets for an identical route in different countries are charged different prices.

For example, prices tend to be higher at an airline’s hub because of higher frequency flights or more direct flights. Customers making reservations online are charged a lower price than those making reservations by phone. Another type of rate fences are the flexibility of ticket usage, example includes fees, penalties for canceling or charging a reservation that is up to the loss of entire ticket price and there are non-refundable reservation fees.

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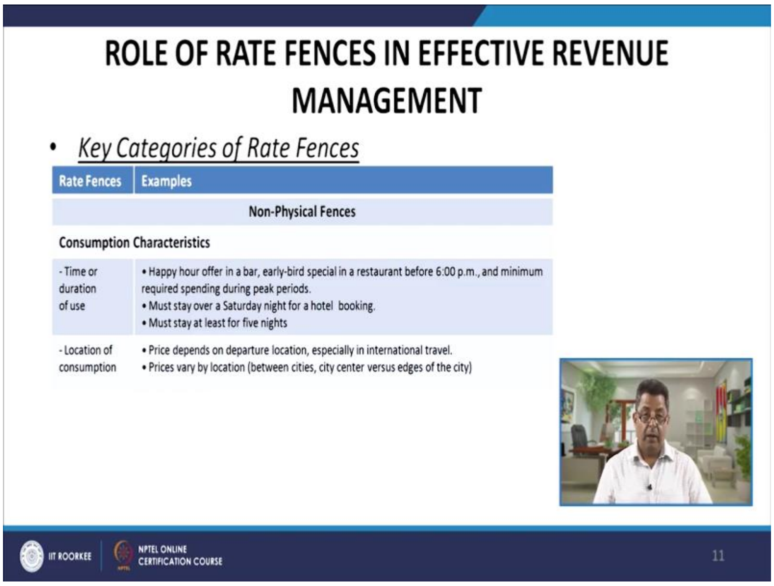


Then, there can be some consumption related rate fences, for example, time or duration of use, happy hour offer in a bar, early-bird special in a restaurant before 6 pm and minimum required spending during peak hours, then they must stay over a Saturday night for a hotel booking and they must stay at least for five nights. Then, there are some rate fences on the location of consumption. So, price depends on departure location, especially in international travel. Price vary by location between cities, city center versus edges of the city.

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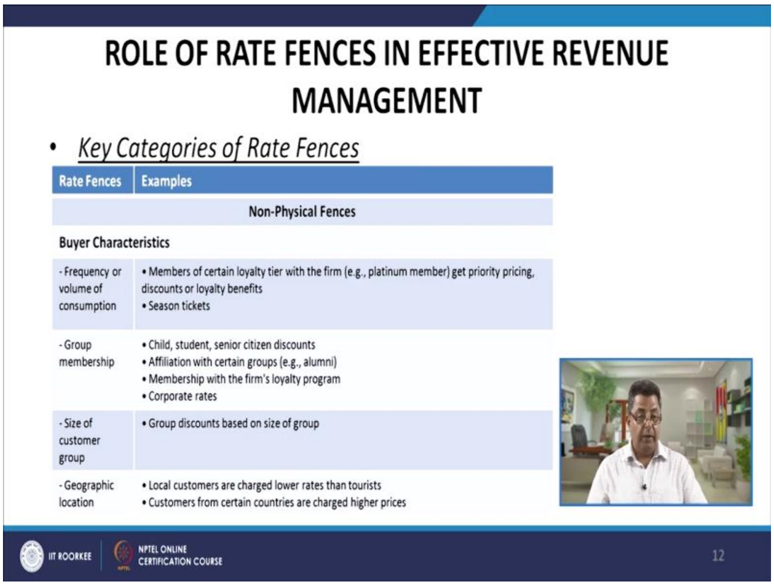


Then, let us now look at the price fences based on buyer characteristics. So, the first of that is the frequency or volume of consumption, members of certain loyalty tier with the firm that is platinum member get priority pricing, discounts or loyalty benefits.

Then, there are some season tickets for them. Another type of rate fence based on buyer characteristic is group membership, child, student and there are senior citizen discounts, affiliation with certain groups for example alumni associations, membership with the firm's loyalty program and also the corporate rates, so the corporates will get different rates and the individuals will get different rates.

The third type of rate fence based on buyer characteristics includes the size of the customer group, so the group discounts based on the size of the group. So, if you have a group from 5 to 10, then the rates and from 11 to 20 the rates are different. Then, the rate fence can also be based on geographic location, local customers are charged lower rates than tourists. Customers from certain countries are charged higher prices.

So, when we go to the conferences, then the registration fee is different, for example, people coming from developed nations, their conference registration fees is different and from developing nations it is different.

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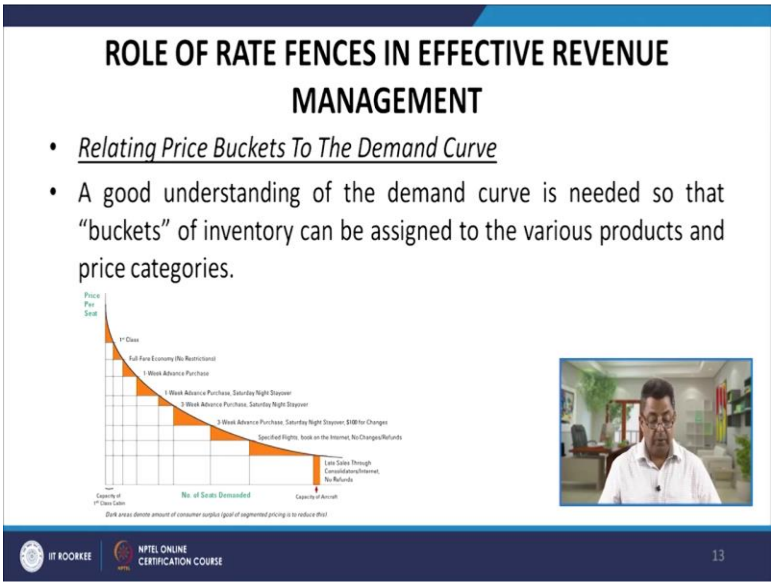


Now, let us look at the role of rate fences, we are looking at the role of rate fences in effective revenue management and we will look at relating price buckets to the demand curve. Now, let us look at how to relate price buckets to the demand curve. A good understanding of the demand curve is needed so that buckets of inventory can be assigned to the various products and price categories. So, now let us look at this graph, the dark areas denote the amount of consumer surplus, the goal of segmented prices is to reduce this. So, the goal of this segmented price is to reduce the dark areas.

On the y-axis, we have a price per seat and on the left, x-axis we have a number of seats demanded. So, now you look at this relationship of this demand curve. So, capacity of the first-class cabin is lower and the prices are obviously higher and as we move from left to right of this, so late scales through consolidation or internet and no refunds, that is the capacity of aircraft.

And, in between you have the full fare economy no restrictions then 1-week advance purchase, 1-week advance purchase, Saturday night stayover, 3-week advance purchase, Saturday night stayover. Then, again we have this 3-week advance purchase, Saturday night stay over plus dollar 100 for changes. So, this is how the price buckets are distributed over this demand curve.

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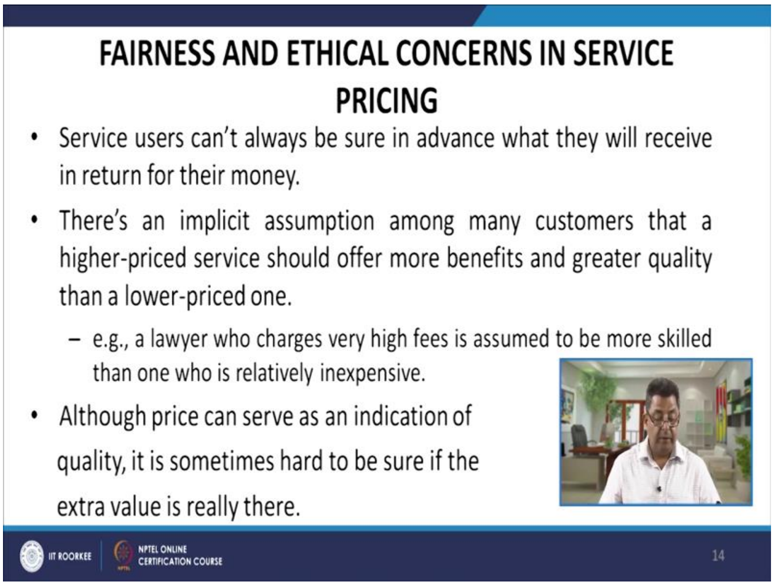


The next area of concern is the fairness and ethics involved in service pricing. Service users can not always be sure in advance what they will receive in return for their money because they have not seen the service. There is an implicit assumption among many customers that a higher-priced service should offer more benefits and greater quality than a lower-priced service that is pure simple price-quality perception.

For example, a lawyer who charges very high fees is assumed to be more skilled than one who is relatively inexpensive. Although price can be serve as an indication of quality, it is sometimes hard to be sure if the extra value is really there. So, how do we ensure that there is the extra value when we are charging extra value for the customer when the company is charging more.

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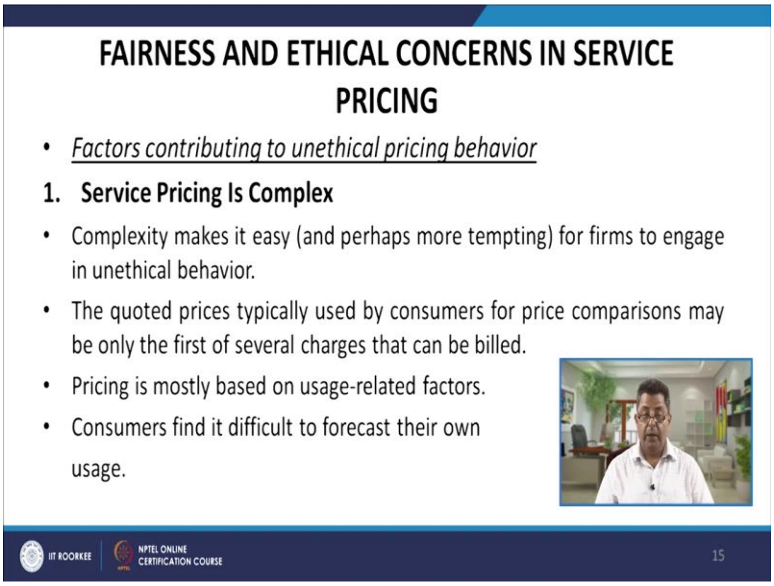


Let us look at the factors that contribute to unethical pricing behaviour. The first is, the first problem is that the service pricing is complex and this complexity makes it easy and perhaps more tempting for firms to engage in unethical behaviour because the service pricing is complex. Therefore, it becomes easier and more tempting for service firms to charge more.

The quoted prices typically used by consumers for price comparisons may be only the first of several charges that can be billed. So, there are several in build costs which are, which may not be there included in the quoted prices. So, pricing is mostly based on usage related factors and the consumers find it difficult to forecast their own usage.

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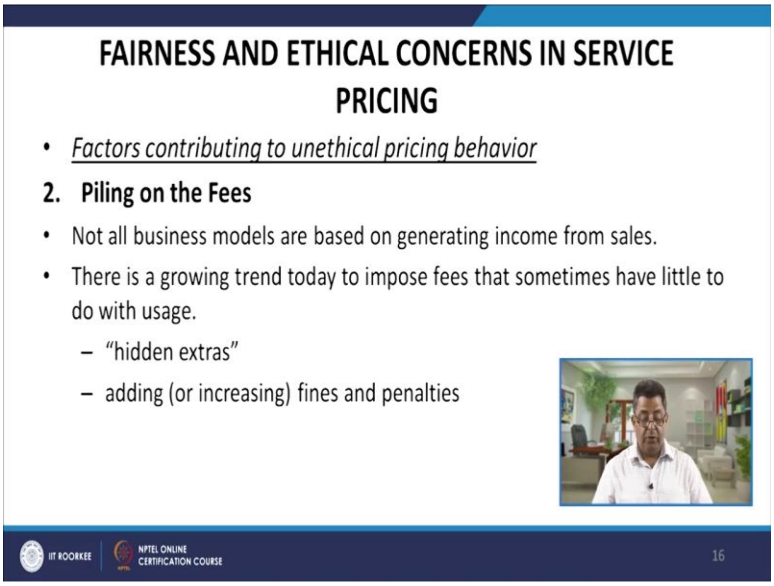

The second factor that contributes to this unethical pricing behavior is piling on the fees. Now, not all business models are based on generating income from the sale. So, there are some business models that generate income from sales and there are some business models that do not generate income from the sales only. There is a growing trend today to impose fees that sometimes have little to do with usage.

So, then there is, the company imposes certain fees which have got nothing to do with the usage. So, there are hidden extra costs, then adding or increasing fines and penalties. So, if you are one day late, then the penalty is for example 10 Rupees, but then if you are two days late, it can be 40 Rupees. So, that increases four times.

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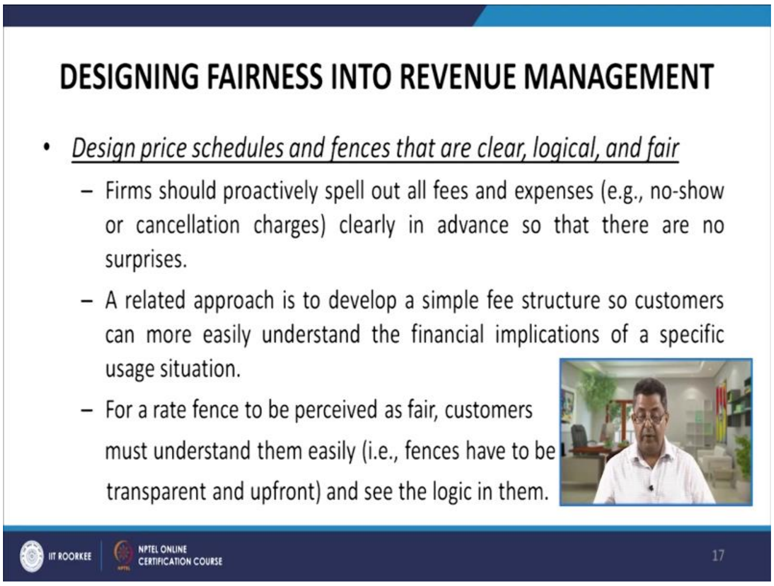


Designing price schedules and fences that are clear, logical and fair. So, we are still worried about how to make our prices fare and these are the steps in doing that. So, firm should proactively spell out all fees and expenses, for example, if a customer do not show up, then what will be the penalty and of they cancel, then what will be the penalty. And if they cancel one day before, what will be the penalty?

If they cancel one week before the appointed time, then what will be the penalty? So, they should be clear, that should be made clear in advance so that there are no surprises. So, all these kinds of penalties and cancellation charges should be made clear to the customer well in advance. A related approach is to develop a simple fee structure so customers can more easily understand the financial implications of a specific usage situation.

So, the basic rule of the firm is to make things more simple, the fees structure more simple, so the customers they can easily understand what will be the financial implications and for a rate fence to be perceived as fair, customers must understand them easily that is fences have to be transparent and upfront and see the logic in them. So, it is not only that the customers know about the fences but they should also see the logic in that. Otherwise, the customer, although you are fair to the customers but then they will still be cheated because you have not explained to them why it is so?

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Use high published prices and frame fences as discounts. Use high published prices and frame fences as discounts. So, rate fences framed as customer gains or discounts are generally perceived as fairer than those framed as customer losses, for example, surcharges, even of the situations are economically equivalent. Furthermore, having a high published price that is quoted price, written price help to increase the reference price and related quality perceptions in addition to the feeling of being rewarded for the weekday patronage.

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Then, the next important thing is to communicate the consumer benefits of this revenue management. So, marketing communications should position revenue management as a win-win practice. So, this revenue management is to be conveyed to the customer that it is a win-win thing situation for both the company as well as the customer.

Providing different prices and values enables a broader spectrum of customers to self-segment and enjoy the service. So, I know that if I book early, then I will get an early discount. If I book late then I will lose out on that discount. It allows each customer to find the price in a benefit that is the value that best satisfies his or her needs.

Hence, when communication makes customers more familiar with a particular revenue management practices, unfairness perceptions are likely to decrease over time. So, now with this communication customers are made familiar with this particular revenue management practice. And, their perception of unfairness and cheatedness will decrease over time.

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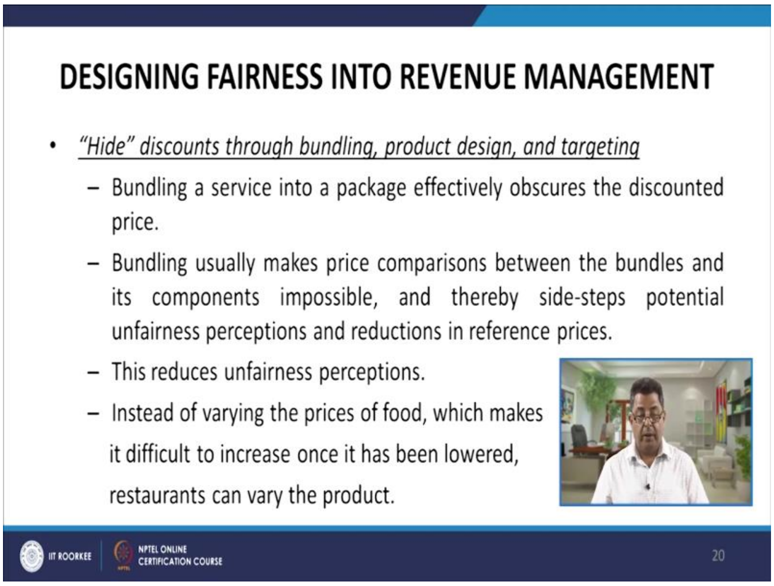


Hide discounts through bundling, product design, and targeting. So, bundling a service into a package effectively obscures the discounted price. Bundling usually makes price comparisons between the bundles and its components impossible and thereby side-steps potential unfairness perceptions and reductions in reference prices.

This reduces unfairness perceptions, instead of varying the price of food, which makes it difficult to increase once it has been lowered, restaurants can vary the product. So, the size of the product may be varied, the quantity of the product may be varied. Instead of decreasing or increasing the price or decreasing the price, because once decreased then it becomes difficult to increase the prices.

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Finally, instead of widely advertising low prices and thereby reducing the reference price and potentially quality perceptions, special deals can be offered only to members of a firm's loyalty program and be positioned as a benefit of the program, rather than a reduction in prices. So, members are likely to feel appreciated and the firm can generate incremental demand without reducing its published prices.

So, this is one way where the company is not reducing the published price, but they are still increasing their revenues and also making a part of their customers, a segment of their customers more happy.

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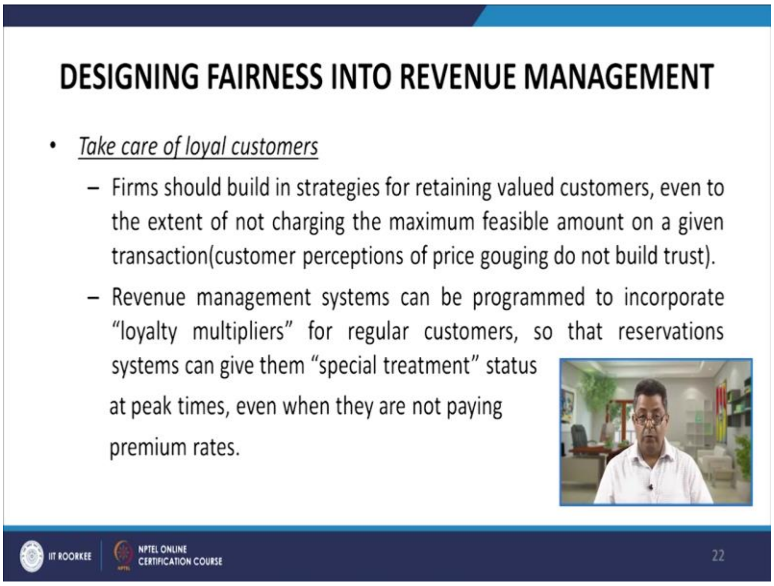


Then, you also have to take care of loyal customers. Firms should build in strategies for retaining valued customers, even to the extent of not charging the maximum feasible amount on a given transaction. That is customer perception of price gouging do not build trust. It is always necessary for all the companies especially the service companies to retain loyal customers and for these retention of loyal customers, it is necessary that the company should take care of those loyal customers.

So, revenue management systems can be programmed to incorporate loyalty multipliers for regular customers. So, that reservation systems can give them special treatments status at peak times, even when they are not paying premium rates.

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The next way is to use service recovery to compensate for overbooking. So, many service firms overbook to compensate for anticipated cancellations and no-shows. So, now the seating capacity was fifty and the company has booked fifty-five, because based on the historical data. They assumed that, there will be five people who will cancel or they will not show up.

So, profits in increase but so does the incidence of being unable to honor reservations. So, what happens is if an airline has overbooked the seats and all of them show, then what happens? So, that feeling of being bumped by an airline or walked by a hotel can lead to a loss of customer loyalty and adversely affect a firm's reputation.

So, a person who walks into a hotel and he told that there are no rooms, so then what, similar is with the airline, then the airline has overbooked because, on past, they know that all the customers those who have booked the seats will not turn up. So, there will be definitely some kind of cancellations and issues, but then it does not so happen at one particular day.

Then, what happens then so there are more customers, more number of customers standing there while there are no seats. So, that affects customer loyalty and it adversely affects a firm's reputation.

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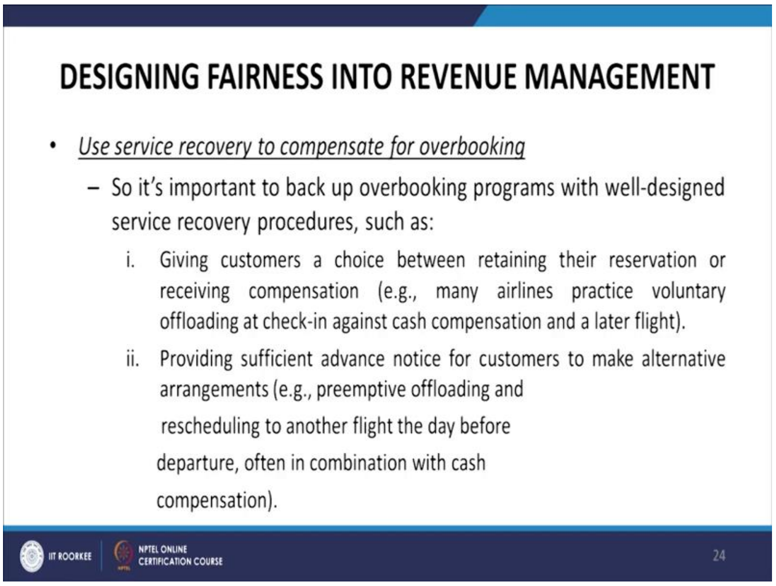


So, it is important to back up overbooking programs with well-designed service recovery procedures. So, there should be well-designed service recovery procedures in that kind of case. Such as giving customers a choice between retaining their reservation or receiving compensation many airlines practice voluntary offloading at check-in against cash compensation  and a late fight.

So, one thing that can be done is to give the customer a choice whether he will continue to retail a seat or he wants to get compensation and aa flight at some later point.  In time, providing sufficient advance notice for customers to make alternative arrangements, for example, preemptive offloading and rescheduling to another flight the day before departure, often in combination with the cash compensation.

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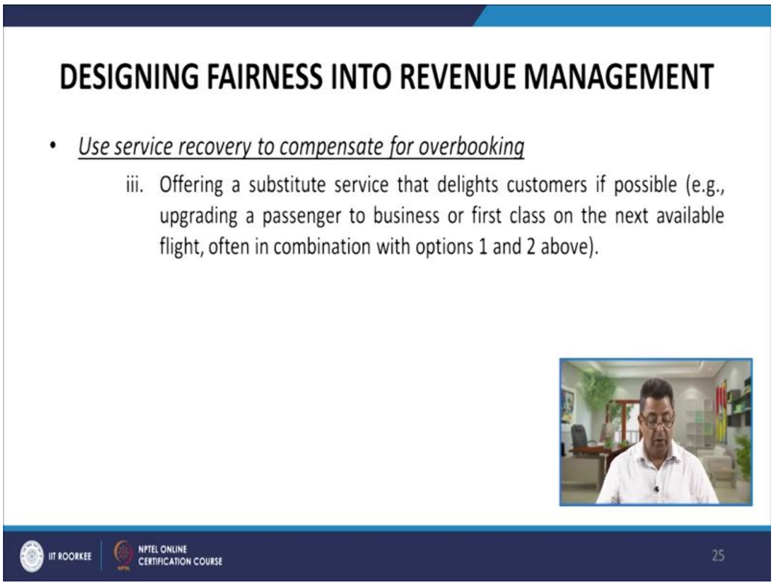


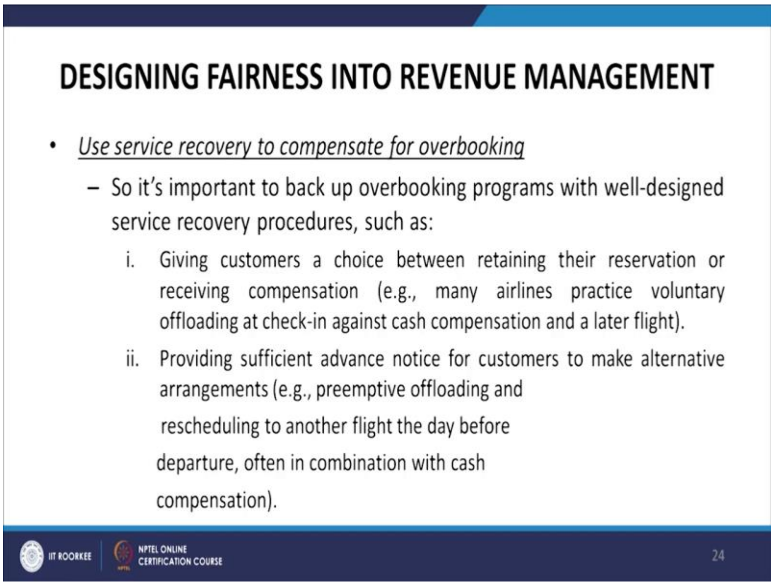


And the last thing to do here is, offering a substitute service that delights customers if possible, example, upgrading a passenger to business or first class on the next available flight, often in combination with the options 1 and 2 that we have talked about earlier. So, the first option was to give the customer a choice whether he wants to retain or he wants to get compensation and second is that you give them sufficient advance notice. So, the third option is this.

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Now, questions service marketers need to ask themselves to develop a well-thought-out pricing strategy. So, these are the six questions that we have mentioned in the module overview. So, the first question is how much should be charged for this service, and the options include what costs is the organization attempting to recover is the organization trying to achieve a specific profit margin or return on investment by selling this service this service? How sensitive are customers to various prices? What prices are charges by competitors? What discounts should be offered from basic prices?

Are psychological price points, for example, 4.95 versus 5.00 customarily used and should auction and dynamic pricing be used? The second question is what should be the basis of pricing? So, the first question was how much should be charged for this service and the second is what should be the basis of this pricing? The first option is the execution of a specific task, the second is admission to a service facility, the third is units of time, that it can be an hour, week, month, year.

The fourth question is the percentage commission on the value of the transaction, physical resources consumed. The geographic distance covered, weight or size of object serviced and outcome of service or cost-saving generated for the client.

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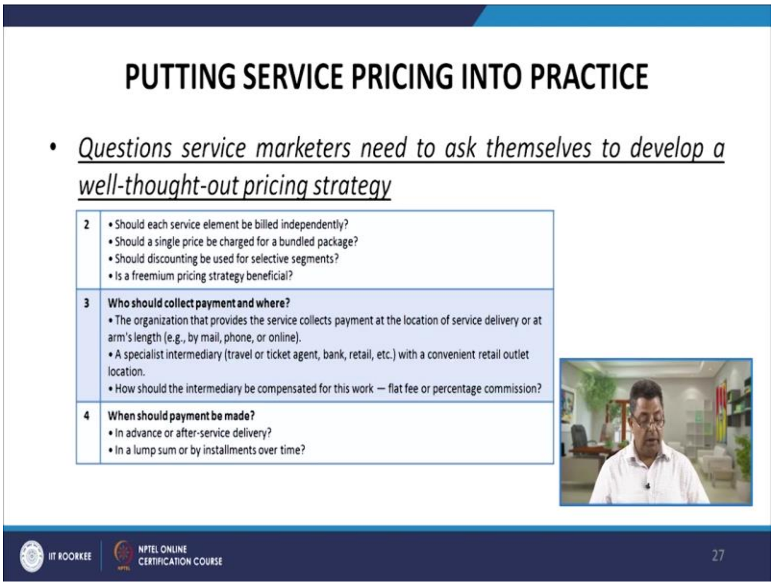


The next question is should each service element be filled independently? Should a single price be charged for a bundle package? Should discounting be used for selective segments? And is a freemium pricing strategy beneficial in this case? The third question is who should collect payment and where? The first option is the organization may provide the service collects payment at the location of service delivery or at arm's length by phone, mail or online payment.

A specialist intermediary, for example, a travel or a ticket agent, bank or retail, etc with a convenient retail outlet location and the third is how should the intermediary be compensated for this work, flat-free or percentage commission? The fourth question is, when should payment be made? In advance or after-service delivery? In a lump sum or by instalments over time?

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The fifth question is, how should payments be made? The first is the cash exact change is available or not? Token where can these be purchased? Stored value card, check how to verify? Electronic funds transfer, credit or debit card, a credit account with a service provider, vouchers and third-party payments for example insurance company or government agency?

The sixth question is, how should prices be communicated to the target customer? Now, that is important because that gives a feeling of transparency to the customers. So, through what communication medium?

Should it be advertising, signage, electronic display, salespeople, customer service personnel. So, how should that price be communicated to the customers? The second question is what message content? That is, how much emphasis should be placed on the pricing? Should the whole of the message be focussed on pricing? Can the psychology of price presentation and communication be used?

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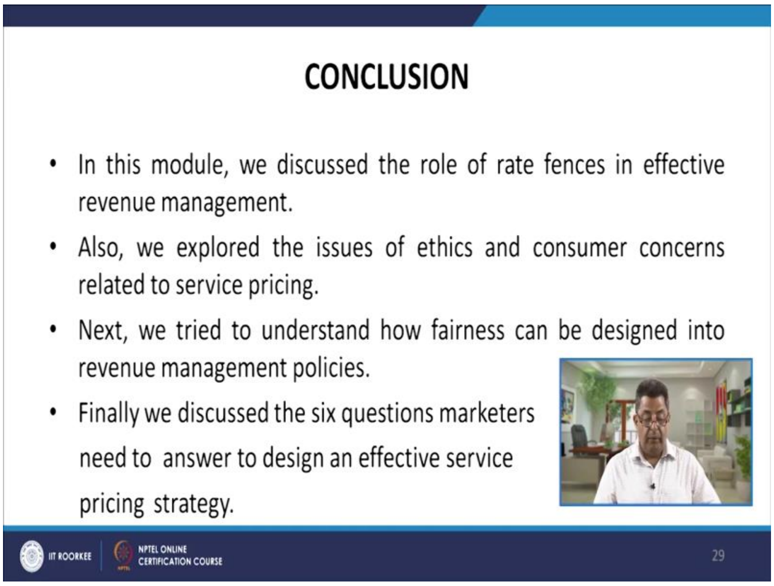


In order to conclude this module, we have discussed the role of rate fences in effective revenue management. We have also explored the issue of ethics and consumer concerns related to this service pricing. Then, we have tried to understand how fairness can be designed into revenue management policies and finally, we have discussed the six questions, marketers need to answer to design an effective service pricing strategy.

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And again these are the three books from which the material for this module has been prepared from, thank you.