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The Effect of Applying Price Discrimination Strategy on the Marketing Performance of Five Stars Hotels Located in Amman – Jordan

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Abstract
This study aims to investigate the effect of applying price discrimination strategy on the marketing performance of the five stars' hotels. The study investigates the impact of independent variables price discrimination types: first degree, second degree, third degree and combination of price discrimination, on the dependent variable: marketing performance. To achieve the objective of the study, (78) questioners were distributed to marketing decision makers in all the five stars hotels located in Amman- Jordan. The findings clearly show that applying price discrimination strategy: second degree and combination of price discrimination affected the marketing performance of the five stars hotels subject of the study. However there is no influence by first degree and third degree of price discrimination. The study recommends the need for marketing decision makers to adopt price discrimination strategies to influence their marketing performance.
Keywords: Price discrimination strategy, marketing performance.

1. Introduction

Pricing traditionally represents one of the central marketing instruments (McCathy 1960, Kirkpatrick 1982, p. 249; Kotler et al. 2008, p 633; Krohmer 2009, p. 159). Today pricing is more extensively understood as a complex, comprehensive management task that contains several strategic and operative decisions (Holden 2002; Hartline 2008, p 221; Siems 2009, p.5). Pricing includes a management process which contains a comprehensive analytical phase which examines the situations of the company, customers, and competition (Siems 2009b, p.14). Pricing can be defined as the analyses, planning, implementation, and monitoring of strategies and operative decisions which affect the nature, extent, and conditions of that which current and potential customers must pay for the utilization of a company's service, and how these are perceived by them. (Siems 2009, p.5; Monroe 2003, p.5; Kotler et al. 2008, p.639).

One of pricing strategies is price discrimination or yield management. Price discrimination is a classic part of price competition between firms seeking a market advantage or to protect an established market position, which occurs when a firm charges a different price to different groups of consumers for an identical good or service, for reasons not due to costs or product differentiation. However, there is a difference between price discrimination and product differentiation.

Yield management is the process of understanding, anticipating and influencing consumer behavior in order to maximize or profits from a fixed, perishable resource (such as airline seats or hotel room reservations). Yield management involves strategic control of inventory to sell it to the right customer at the right time for the right price. This process can result in price discrimination. Yield management is a large revenue generator for several major industries.

2. Theoretical Framework

2.1 Price discrimination.

Price discrimination exists when sales of identical goods or services are offered at different prices from the same provider, in a theoretical market with perfect information with no transaction costs or re-selling. This kind of pricing could be found in oligopoly such as the hotels, airlines, cellular service provider, and even in fully competitive retail or industrial markets.

In pure price discrimination, the seller will charge each customer the maximum price that he or she is willing to pay. In more common forms of price discrimination, the seller places customers in groups based on certain attributes and charges each group a different price.

To apply price discrimination strategy profitably, there are three essential conditions: Firms with market power, consumers with differences in price elasticity of demand between markets, and no arbitrage through existing barriers to prevent consumers switching from one provider to another.

Price discrimination requires market segmentation and some means to discourage discount customers from becoming resellers. This usually needs using one or more means of preventing any resale, keeping the different price groups separate, making price comparisons difficult, or restricting pricing information. So price discrimination is very common in services. (McAfee, Preston 2008)

Types of price discrimination:

- First degree price discrimination. Perfect Price Discrimination - optimal pricing (Customer willingness to pay)
  This type of price discrimination is primarily theoretical because it requires the seller of a good or service to know the absolute maximum price that every consumer is willing to pay, due to the fact that consumers have different price elasticity's. This means that the seller or sellers capture all market surpluses, where consumers bid for tenders.
- Second degree price discrimination. (Purchased volume)
  Price varies according to quantity sold. Larger quantities are available at a lower unit price.
- Third degree price discrimination. (Customer segment)
  Price varies by location or by customer segment or customer classes. For Example: Student or senior discounts, because they will have a different willingness to pay than other consumers. The supplier is once again capable of capturing more market surplus than would be possible without price discrimination.
- Combination: a company may vary pricing by location, and then offer bulk discounts as well.

Examples of price discrimination: Retail incentives, Travel Industry, Premium pricing, Segmentation by age group and student status, Discounts for members of certain occupations, Employee discounts, Incentives for industrial buyers, Gender-Based, Financial aid in education, International price discrimination, Price discrimination by online search, Possession of a club card or frequent buyers.

Examples of this can often be found in the hotel and airline industries where spare rooms and seats are sold on a last minute standby basis. In these types of industry, the fixed costs of production are high. At the same time the marginal or variable costs are small and predictable. If there are unsold airline tickets or hotel rooms, it is often in the businesses best interest to offer any spare capacity at a discount prices, always providing that the cheaper price that adds to revenue at least covers the marginal cost of each unit.

Peak and off-peak pricing and is common in the telecommunications industry, leisure retailing and in the travel sector. Telephone and electricity companies separate markets by time: There are three rates for telephone calls: a daytime peak rate, and an off peak evening rate and a cheaper weekend rate.

2.2 Marketing performance:

(Bernard J. 2008) Marketing performance should be measured by marketing effectiveness and marketing efficiency.

1. Marketing effectiveness measures the ability of achieving marketing goals. Such as: Market share, Growth through (market development, product development, penetration or diversification), new customer acquisition, Competitive advantage, Competitive position, Customer satisfaction Awareness level of the brand.
2. Marketing efficiency deals with the financial measures, such as: profitability, return on investment, cash flew and liquidity and return on sales, revenue from sales, the cost of customer acquisition, revenue generated by segments of the customer, profitability of customers by demographic segments and segmentation of customers by profitability.

3. Literature Review

3.1 Price discrimination

(Phillips 2002) studies the scientific journals market and he demonstrated that most scientific journals charge a higher subscription price to institutional subscribers and lower subscription price to individual subscribers. Such practice is considered an issue of third-degree price discrimination.

(Zheng and Kaisert 2012) examined what factors affect the degree of price discrimination for an academic journal by analyzing data on 190 of 208 economics journals indexed in the 2008 edition. They providing insights in three aspects: price discrimination by journal governance (for profit vs. nonprofit status), by publisher, and by how the differences in journal pricing behavior in the respective library and individual markets lead to various degrees of price discrimination. The study finds that: the library-to-individual price ratio of a for-profit journal is 37% higher than that of a comparable nonprofit journal. Journals with higher citations per page or impact factor are more prices discriminatory.

(Clerides 2002, McManus 2006,) have documented the existence of both second and third degree price discrimination in various markets. The few studies that have tried directly to relate how competition changes the extent of price discrimination have focused on settings with second degree price discrimination.

(Busse and Rysman ,2005) examine prices for Yellow Pages advertising, and show that where there are more competing publishers, the price of larger ads falls relatively more than the price of small ads. (Taylor ,2003) suggests that newspapers with a lower market share have a higher fraction sold at a discount.

(Stavins', 2001) findings were that the level of price discrimination decreases with market concentration. Price discrimination should not be practiced in perfect competition.

(Aydin, 2008) focused on the idea that price discrimination alone is not evidence of market power. When second-degree price discrimination is an option, the disadvantaged firm in an asymmetric duopoly is more likely to discriminate. The result of such price discrimination is clear in its effect on firms' profits. Both firms realize higher profits under price discrimination regardless of whether only one firm or both firms discriminate. Moreover, each firm directly benefits when its rival discriminates.

(Anderson and Dana, 2009) identified conditions on consumer surplus and willingness to pay for profitable price discrimination by a monopolist. They focus on the asymmetries between competitors that determine the profitability of second degree price discrimination. They find, first: that rebates would more often be offered by the disadvantaged firm. Second, the greater the disadvantage of the firm relative to its rival, the more beneficial rebates become to the firm's profits. Third, if consumer effort involved in obtaining rebates is not too high, the disadvantaged firm will typically offer a rebate, but the advantaged competitor would not.

(Borenstein and Rose,1994) find that airline routes with greater competition exhibit a greater level of price discrimination. Customers booking early with carriers will normally find lower prices if they are prepared to commit themselves to a flight by booking early. This gives the airline the advantage of knowing how full their flights are likely to be and a source of cash-flow in the weeks and months prior to the service being provided.

(Gerardi and Shapiro, 2007) find that price discrimination decreases with competition, and that the reduction is greater on routes where consumers have relatively heterogeneous elasticities of demand.

(Chen et al., 2001) they addressed in their model, some consumers are loyal to one firm, and other consumers always purchase from the firm with the lowest price. Both sets of consumers have identical received values, so the monopolist would charge both sets of consumers the same price equal to their received value. However, when a new competitor enters, the equilibrium outcome is that the firm should engage in third-degree competition and charge loyal consumers a high price and switchers a low price.

(Dogan et al., 2010) use a model where consumers have different sensitivities to product differentiation to show that rebating (second-degree price discrimination) can become profitable with increased competition.

(Chintagunta, 2002) examines the effect of retail competition on optimal pricing in the analgesics (pain reliever) category and finds that competition leads to lower prices. This also implies that competition is reducing the amount of price discrimination in that category.

3.2 Marketing Performance

(Asplund, Eriksson and Strand, 2008) demonstrated that recent theoretical work has shown that the incentive to target rival firm's customers with low prices can increase price discrimination, and that the strength of incentive depends on a firm's market position. By using data on Swedish newspaper subscription, they find strong support for these predictions. Newspapers with a local competitor sell a higher part of their circulation at a discount than monopoly newspapers. In competitive markets the use of discounts is inversely related to the newspaper's market share. They find no evidence that price discrimination based on observable and exogenous characteristics is influenced by the market structure. Price discrimination exists in many oligopolistic markets, where firms have the ability to condition prices on customers past purchasing decisions; competition might increase the extent of price discrimination beyond levels optimal for a monopoly. The ability to target new customers, which are often some other firm's customers with special offers, can create a situation with widespread use of discounting. This mechanism can help explain the abundance of promotions by credit card companies, retail banks, mobile phone operators, long distance telephone providers, magazines and newspapers.

(Aydin and Morefield, 2010) point-to-point and hub-and-spoke airlines have used price discrimination since the early 1980s; its use is less extensive among point-to-point airlines. At the same time, the low rate of return on capital experienced by major network airlines is an established fact. The networks earn normal, or slightly below normal, profits. The findings of this study support the notion that firms can effectively use price discrimination in situations where they have no control over entry, but can effectively groping consumers into market segments. Price discrimination can then be used to cover the carriers' common and separate costs.

Price discrimination is clearly in the interests of businesses who achieve higher profits. A company will maximize its revenues if it can extract from each customer the maximum amount that person is willing to pay. While Price discrimination allows a company to earn higher profits than standard pricing because it allows firms to capture every last dollar of revenue available from each of its customers.

An increase in total output resulting from selling extra units at a lower price might help a monopoly supplier to benefit economies of scale thereby reducing long run average costs. There is nearly always some supplementary profit to be made from this strategy. And, it can also be an effective way of securing additional market share within an oligopoly as the main suppliers' battle for market dominance.

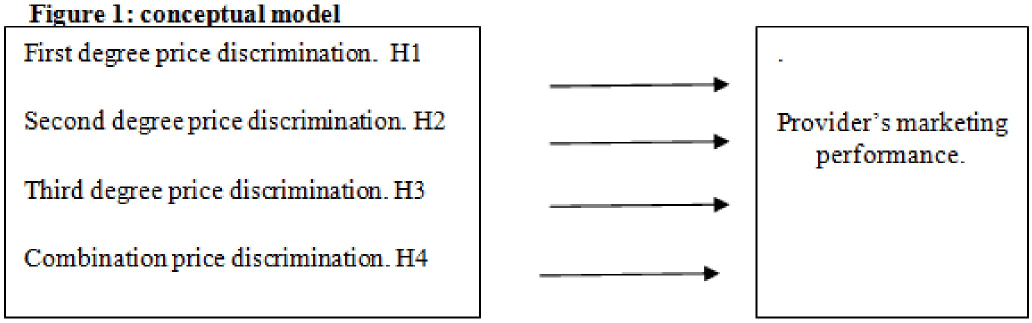
The purpose of price discrimination is generally to capture the market's consumer surplus. This surplus arises because, in a market with a single clearing price, some customers (the very low price elasticity segment) would have been prepared to pay more than the single market price. Price discrimination transfers some of this surplus from the consumer to the producer or provider. This indicates that the producer will always obtain higher revenues under price discrimination than under a single price strategy.

4. Methodology:

4.1 Hypotheses:

H1: Applying first degree price discrimination affecting the provider's marketing performance.
H2: Applying second degree price discrimination affecting the provider's marketing performance.
H3: Applying third degree price discrimination affecting the provider's marketing performance.
H4: Applying combination price discrimination affecting the provider's marketing performance.

Figure 1: conceptual model



Source: Developed by the author

4.2 Instruments

This research aims to examine the effect of applying price discrimination strategy on the marketing performance of the five stars hotels located in Amman-Jordan. To achieve this goal a questionnaire was developed to collect data from the targeted sample.

The questionnaire consisted of two sections; the first section is about which type of price discrimination the hotel applies, the second section is about the attitude of the participant about each statement regarding different types of price discrimination and marketing performance.

The instrument rely on a five –point Likert Scale, representing a range of attitudes from 1- strongly disagree to 5- strongly agree, in order to measure the effect of applying price discrimination types on the marketing performance of the five stars hotels located in Amman-Jordan.

3.3 Variable Measurement

3.3.1 Independent Variables:

Price Discrimination:

Stole (2003), "Price discrimination exists when prices vary across customer segments in a way that can't be entirely by variations in marginal cost". There are four types of price discrimination:

- First degree price discrimination.
  This type of price discrimination requires the seller of a good or a service to know the absolute maximum price that every consumer is willing to pay, due to the fact that consumers have different price elasticity's.
  This type of price discrimination was measured in this study by six items, namely: Our customer is willing to pay the price that we determined, the customer doesn't know the real cost of the service, our service is considered as one of guest's life style components, prices vary according the service package offered to the guest, we have a fixed price per room regardless the provided service package, service prices vary according to the service type offered to guest. These items were measured by a five-point Likert Scale with five levels, started with strongly agree (5) to strongly disagree (1).
- Second degree price discrimination. (Purchased volume)
  Price varies according to quantity sold. Larger quantities are available at a lower unit price. This means that bulk buyers enjoy higher discounts.
  This type of price discrimination was measured in this study by four items, namely: offering special price for families, offering special price for individuals, offering special price for tourist groups and having long contract price. These items were measured by a five-point Likert Scale with five levels, started with strongly agree (5) to strongly disagree (1).
- Third degree price discrimination.
  Price varies by location or by customer segment or customer classes.
  This type of price discrimination was measured in this study by three items, namely: having special prices offers for young people, having special prices offers for business sector and having special prices offers for college students. These items were measured by a five-point Likert Scale with five levels, started with strongly agree (5) to strongly disagree (1).
- Combination:
  Through this type of price discrimination the company used to mix two or more of price discrimination types together.

This type of price discrimination was measured in this study by twelve items four of them regarding way of booking , four regarding season or time and four Geographical area, namely: Offering different prices for different geographic area, having one price for all customers in all regions of the country, purchasing capabilities for the customers vary according to their place of residence, offering different prices for the customers according to their place of residence, offer special price for online booking, having different price for last minute booking, having different price for on counter booking, offer special price for early booking. having one day stay price, having long stay price, having off peak time price and offering a special occasion's price. These items were measured by a five-point Likert Scale with five levels, started with strongly agree (5) to strongly disagree (1).

3.3.2 Dependent Variable

Marketing performance was measured through: Applying price discrimination increases guest's benefits achieved by the provider, Applying price discrimination helps the provider in taking advantage of guest's willingness to pay Applying price discrimination helps the provider in reaching new guest's segments, Applying price discrimination helps the provider in being able to charge higher prices and Applying price discrimination helps the provider in achieving cost advantage. These items were measured by a five-point Likert Scale with five levels, started with strongly agree (5) to strongly disagree (1).

3.4 Population and Sampling

To collect data to test hypotheses, a survey was conducted to collect data from sample. In total 78 Questionnaires were distributed randomly to guests of hotels located in Amman- Jordan. Response rate was 71.79.Percent.

3.5 Reliability and Validity Assessment

Cronbach coefficient alpha (internal consistency) for the overall model was estimated at 0.794. For the first degree price discrimination 0.70, second degree price discrimination 0.785, 0.694 for third degree price discrimination, 0.749 for combination price discrimination and 0.795 for the provider's marketing performance. (Sekran,2003).

3.6 Descriptive Statistics Analysis

Table (1) Descriptive Statistics Analysis

	Statement	Mean	Std. Deviation
	Guest's willingness to pay:		
1	Our guest is willing to pay the price that we determined.	3.1923	.67830
2	The guest doesn't know the real cost of the service.	3.5231	.70948
3	Hotel service is considered as one of guest's life style components.	3.3277	.70982
	Quality of service:		
4	Service prices vary according to the service package offered to the guest.	4.1846	.63473
5	We have a fixed price per room regardless the provided service package.	3.4000	1.35554
6	Service prices vary according to the service type offered to guest.	4.2308	.63169
	Way of booking:		
7	We offer special price for online booking.	3.5385	1.14669
8	We have different price for last minute booking.	2.8000	1.09259
9	We have different price for on counter booking.	3.1231	1.15255
10	We offer special price for early booking.	2.9538	1.32795
	Geographical area:		
11	Offering different prices for different geographic area.	2.3692	1.31778
12	We have one price for our guests in all regions of the country.	3.8923	1.28845
13	Purchasing capabilities for our guests vary according to their place of residence.	3.1231	.80054
14	Offering different prices for our guests according to their place of residence.	2.9538	1.09588
	Guest's Group:		
15	We have special prices offers for young people.	2.8615	1.05885
16	We have special prices offers for business sector.	3.7462	.68536
17	We have special prices offers for college students.	3.1846	1.15775
	Sales Volume:		
18	We offer special price for families.	3.8615	1.11631
19	We offer special price for individuals.	3.7846	1.19232
20	We offer special price for groups.	4.6769	.47129
21	We have long contract price.	4.0000	.78661
	Season - Time:		
22	We have one day stay price.	3.7692	1.02727

23	We have long stay price.	4.4000	.84410
24	We have off peak time price.	3.6154	.91331
25	We offer a special occasion's price.	3.9538	.69441
	Marketing performance:		
26	Applying price discrimination increases guest's benefits achieved by the provider.	3.8615	.72623
27	Applying price discrimination helps the provider in taking advantage of guest's willingness to pay.	4.0000	.72887
28	Applying price discrimination helps the provider in reaching new guest's segments.	4.3231	.47129
29	Applying price discrimination helps the provider in being able to charge higher prices.	4.1231	.80054
30	Applying price discrimination helps the provider in achieving cost advantage.	4.3231	.53349
Indep1	First degree.	**3.3477**	**.62345**
Indep2	Second degree.	**4.0321**	**.72813**
Indep3	Third degree.	**3.2641**	**.77636**
Indep4	Combination.	**3.8512**	**.65115**
Dep.	Marketing performance.	4.0000	.72887

The second degree of price discrimination has the highest mean scores M= 4.03 with S.D = 0.728, followed by combination type of price discrimination M= 3.85 with S.D=0.651, then first degree of price discrimination M= 3.35 with S.D = 0.623, and the lowest was the third degree of price discrimination with M= 3.26 and S.D = 0.776. This means that there is an effect for the second degree and the combination type of price discrimination on the marketing performance of the five stars hotels located in Amman-Jordan. The high standard deviations mean the dispersion in a widely spread distribution.

3.7 Correlation Analysis – Relationship between the Variables

There is a significant positive relationship between second degree of price discrimination and the marketing performance of the five stars hotels (r= 0.301**, n=65, $p \leq 0.01$). Combination type of price discrimination and the marketing performance of the five stars hotels (r= 0.257*, n=65, $p \leq 0.05$). Which means that the second degree was the most important type of price discrimination which affect the marketing performance of five stars hotels, followed with the combination type of price discrimination.

3.8. Multiple Regression Analysis

Multiple regression analysis was used to examine the effect of price discrimination types on the marketing performance of five stars hotels located in Amman- Jordan.

The coefficient of determination, $R^2 = 0.258$ representing that 25.8 percent of hotels' marketing performance explained by the four types of price discrimination.

But the major effect was for the second degree of price discrimination and then for the combination type of price discrimination, while the first and third degree were excluded from the model, that shown in table (3) which represent the results of stepwise regression analysis.

Table (2) Regression results between price discrimination types and marketing performance:

Model	Beta	t	Sig
First degree	0.041	0.353	0.726
Second degree	**0.451**	**3.593**	**0.001**
Third degree	0.135	1.096	0.272
combination	**0.412**	**3.252**	**0.002**

$R^2 = 0.258$, Adjusted R2 = 0.208, F value= 5.210 , F Sig= 0.000 , $p \leq 0.05$

The proposed model is adequate at the F-Statistics p-value= 0.000 is significant at level $p \leq 0.01$. This indicates that the overall model is significant and there is an effect of price discrimination types on the marketing performance of the five stars hotels located in Amman-Jordan.

Table (3) Stepwise Regression results between price discrimination types and marketing performance:

Model	R^2	f	Sig	t	Sig
Second degree	0.091	6.269	0.015	14.63	0.010
Second+combination	0.242	9.902	0.000	10.93	0.000

5. Conclusion

The findings of this study demonstrated that 25.8 percent of hotels' marketing performance explained by the four types of price discrimination. The findings indicated also that the second degree was the most important type of price discrimination which affects the marketing performance of five stars hotels located in Amman, followed with the combination type of price discrimination.

This indicates that the hotels benefit from price discrimination than a single price strategy by achieving an observable marketing performance. Whereas resources are perishable, like hotel's room reservations.

By applying price discrimination, hotels - subject of the study - increase guest's benefits achieved, taking advantage of guest's willingness to pay, reaching new guest's segments, being able to charge higher prices and achieving cost advantage.

These results are consistent with the results of (Asplund , Erikssonz and Strand, 2008, Baumol, 1982, Dogan et al.2008).

6. Managerial Implication

Though pricing discrimination strategy the service provider charges customers different prices for the same services. While the purpose of price discrimination is generally to capture the market's customer surplus, it is important for the provider to segment customers into two segments regarding their price elasticity. This segmentation helps the provider to charge the low price elasticity segment higher prices for an identical service, because they would have been prepared to pay more than the other segment with high price elasticity. This means that the provider will obtain higher marketing performance under price discrimination strategy than under a single price strategy.

Depending on the findings of this study, the marketing decision makers in five stars hotels should rely on applying generally price discrimination strategy. Basically on second degree price discrimination by differing prices according to quantity sold, offering special price for families, for tourist groups and for long contract price, also to apply combination type of price discrimination. Varying pricing by location, offer bulk discounts as well, way of booking, season or time, geographical area.

7. Limitation and Future Research:

From the statistical side the relationship between applying price discrimination strategy and the marketing performance are reliable and valid for current study. The study was applied on the five stars hotels located in Amman – Jordan. This means that there is another level of hotels which excluded from such investigation. The results of this study could be generalized on the five stares hotel located in Jordan. Jordan is a Middle East country that has specific characteristics which are differing from other countries located in other regions in the world.

These limitations could be considered as a valuable field of study for future researches.

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