ASSESSMENT OF PRICE DISCRIMINATION IN SELECTED HOTELS IN LAGOS, NIGERIA

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Abstract

Price discrimination has deep roots in the economics discipline, where it has long been recognized that it can be for the good or for the bad and sometimes even necessary for both the firm and customers. However, the lack of attention by regulators on the discriminatory effects pricing on the industry appeared even more clearly on the rise, because it hinders competition though beneficial for the consumers. The study examines price discrimination within the hotel industry in selected hotels in Ikeja, Ifako-ijaye and Alimosho local government areas, of Lagos state, Nigeria. 300 samples were selected from the about 663 hotels within the three local governments using quota, purposive and convenience sampling techniques. 300 questionnaires were initially administered with the support of six field assistants, however only 288 questionnaires were completed and returned after the second rounds of questionnaires were administered to validate the quality of the data. The data were analyzed using statistical package for social sciences. Result revealed that location, size/class of the hotels and intention to induce patronage are the main reasons for price discrimination among hotels. The study concludes that there exits selective price cuts strategies, whereby hotels cut its prices selectively, but not below costs, to customers that might switch to a competitor. We recommend investment in credible risk assessment valuation and service segmentation to maximize the benefits and reduce the adverse effects of price discrimination on both the hotel and guests.

Keywords: Guests, Hotels, Price discrimination, Products, and Services

Introduction

The quest for survival within the competitive hotel sector has driven many investors and hoteliers to take critical decision of on product pricing, hotel image, profit maximization, guest retention and branding among others. The pricing of hotel products and service has being challenging for practitioners as many factors are taken into consideration before arriving at the appropriate rate for a product or service. However, the interest of the firm and analysis of her expectation are factored in when making critical decision on the prices and rates which it is likely to fix for its own differentiated products or services.

Generally, economics referred to price as the product of the interaction between forces of demand and supply of a good or service. But if some firms or group of firms have some control of, or influence upon the price at which the product is sold because of differentiation of the product or otherwise, then the actions of those firms are of the greatest significance (Saxton, 1914). Conversely, if a firm or group of firms has control on the price of a product or service not differentiated, then it is also important to understand the rationale for the discrimination. Particularly if price fixing or price control is in variance with established theories or distorts regulatory framework and fails to promote equity and fairness in the treatment to all customers and other stakeholders.

The hotel sector in Nigeria have been characterised with varying price fixing practices by individual firm in a situation conventionally described as imperfect competition. These have led to several incidence of price discrimination to hotel guests in recent time. Most hotels now fix prices at will because they have absolute control of their own volume of input and output of their products and services, regardless to whether it is favourable or adverse to the industry and other stakeholders.

The lack of attention given to price discrimination and its attendant effects on hotel guests and the industry at large has become so alarming. That some hotels charged different prices to different groups of customers for more or less the same goods or services for no justifiable reason. When such incidence occurs, then there is a price discrimination against the consumer. This phenomenon is currently on the rise and more predominant among small size hotels and have been applied to different product or services segmentation, and to nearly every market. A survey reported by Corder (2020), shows that most hotels usually sell off unused inventory of hotels that would not otherwise be able to be sold.

Generally speaking the hotel sector in Nigeria is predominantly known to manifest various degrees of price discrimination as well as price differentiation, as managers, investors and entrepreneurs seek to achieve and realize the profit maximization goal, in the face of stiff competition and market downturn.

Firms usually segment products according to price sensitivity in order to price discriminate and increase profits. In some quarters, consumer heterogeneity can be directly observed and a firm can base its pricing upon contractible consumer characteristics. While in other settings, heterogeneity is not directly observable, but can be indirectly elicited by offering checklist of products and prices and allowing consumers to self-select. In both cases, the firm seeks to price its wares as a function of each consumer's underlying demand elasticity, extracting more surplus and increasing sales to elastic customers in the process.

In every industry there are statutory arrangements or methods by which prices are arranged or quoted between buyers and sellers. It is possible that from an investigation of these methods or arrangements of bringing buyers and sellers together, we may be able to discover whether or not in the industry one or more firms are in a position to influence the price (Saxson 1914). Price discrimination would be the cost of movie tickets. Prices at one theater are different for children, adults, and seniors. The prices of each ticket can also vary based on the day and chosen show time. Ticket prices may also vary depending on the portion of the country as well. Industries use price discrimination as a way to increase revenue. It is possible for some industries to offer retailers different prices based solely on the volume of products purchased. Price discrimination can also be based on age, location, desire for the product, and customer wage.

The prominent of price discrimination among hotels cannot be discussed without identifying and evaluating the underlining factors responsible for the various degree of price discrimination. First, the prices depend on consumers' past purchases, and thus incorporate explicit dynamic considerations (Chen, 2005). Miravete (2005) submitted that two basic elements serve to classify the numerous methods that firms use to price identical units of the product differently: is the amount of information available to the seller regarding how different the valuations of consumers are, and the seller's ability to avoid arbitrage. This shows that the amount of information available to the guest or consumer about the pricing of a good or service, determines his venerability to price discrimination, but on the contrary the case of arbitrage dose not really occurs with hotel services.

It can also be said that based on the maxim of equity and fairness that hotels treats their customers differently or unjustly with regards to products rates or prices that are charged. Furthermore, there are instances where a particular customer pays different rate at different time without improvement in service quality or product composition. This depicts a sense of imbalance in the management of guest and sends negative signals to the credibility and efficiency in services delivery within the industry.

There are also different schools of thoughts within the hotel sectors, as the sector is yet to draw a convergence on whether same class of hotels should charge the same rate for identical products and services. Or whether rate should be determine base on the prevailing market condition by allowing the force of demand and supply to be the sole deterministic variable for price variation from one hotel to another.

It is from this viewpoint that this study assesses the extent of price discrimination and categorizes the forms price discrimination among hotels in Lagos, Nigeria. This study matches and validates the divergence in theory and practices by hotels with reference price discrimination. Among all the features of industry it would be difficult to determine one which is the more common or typical and regard that as the general case for all firms in all industries. It is more satisfactory to examine each industry separately, and for price-fixing policy significant conduct may be discovered to explain the actions of some and may be all of the firms in an industry (Saxton, 1914).

Literature Review

Price discrimination is the business practice of charging different prices for different units or charging different buyers different prices, according to how responsive various consumers of the particular good or service are to a change in its price (Bishop and Colwell, 1989; Gehrig and Stenbacka, 2005). Philps (1985) defined Price discrimination as a situation where the same commodity is sold at different prices to different consumers, even though, the price differences cannot be explained by the difference in marginal cost of making the goods available for the various consumers (Drake 2005 and Armstrong, 2005). Stigler (1987) suggested that discrimination exists when two similar products are sold at prices that are in different ratios to their marginal costs, though the costs of producing for the two customers are the same (Makin, 2009). Price discrimination also may occur when customers in different market segments are charged different prices for the same good or service, for reasons unrelated to costs (OECD 2003).

Thus price discrimination is very common among business enterprises, where different intermediaries in a supply chain take advantage of unsuspecting consumers. Price discrimination has been regarded as a dubious practice from a legal perspective (Varian, 1989). When firms have information about consumers' previous purchases, they may use this information to offer different prices and/or products to consumers with different purchase histories (Fudenberg and Villas-Boas, 2006). Grundey and Griesiene (2011) reported that there are economic, marketing and business dimensions to price discrimination, however, not all price differences are illegal. Price discrimination is illegal unless a price differential has a basis in actual cost differences in selling products to one customer relative to another customer (Hartline and Farrell, 2008). The law recognized that not every difference in pricing should be construed as price discrimination, but attempts to define exactly what should and what is not legal were unsuccessful (Varian, 1989).

Gehrig and Stenbacka, (2005), opened that price discrimination can be explicit, as when different customers are offered different prices/rates on the basis of customer-specific characteristics such as age, sex or location. Or implicit, as when all customers are formally offered the same menu of options, but different customers de facto pick different options and thus end up paying different prices (for example, volume discounts offering better deals to large customers).

Pigou (1922) distinguished between the various classifications of price discrimination from first to second and third degrees depending on the amount of information regarding consumers' preferences that is available to the seller. These three degrees of pricing have been found to be operational within the hotels industry as well. Similarly, Stole (2003), suggested that there four categories price discrimination, with the fourth being a mix of the first three degrees stated by Pigou. Hotels practically ensure price discrimination thrives, by placing guest in groups, based on certain attributes and charge each group a different price. Such attributes may include tourists, excursionists, students, government officers among others. However, in pure price discrimination; the seller will charge each customer the maximum price that he or she is willing to pay.

In other words, price discrimination is common majorly to oligopolistic, monopoly, duopoly and competitive markets. That is when an organization offers a product or service at different prices that do not show a proportional difference in cost. Fundamentally, there is a difference between price discrimination and product differentiation; theoretically both practices are voluntarily applied by business without recourse to it attendant effects on the market, or the economy at large. Differentiation of the product gives the supplier greater control over price and the potential to charge consumers an excellent price (Grundey and Griesiene, 2011), because of noticed differences in the quality of a good or service. Conversely, price discrimination occurs, when the same commodity is sold at different prices to different consumers due to some prevailing market conditions.

Several studies have examined the effects or impacts price discrimination in various markets. Geradin and Petit (2005), examined an analytical framework which distinguishes between different categories of price discrimination depending on their effects on competition within the EU competition law. Phillips and Phillips (2002) studies the scientific journals market and reported 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. Similarly, Zheng and Kaisert (2012) examined factors that 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 provided 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. Busse and Rysman (2005) examine prices for Yellow Pages advertising, and show that where there are more competing publishers, the price of larger adverts falls relatively more than the price of small adverts. Taylor (2003) concluded 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. 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.

Table 1: Forms of Price Discrimination in Hotels

Location pricing	The same product priced differently at different locations.
Customer-segment pricing	Different consumer groups are charged different prices for the same product or service.
Image pricing	Pricing the same product at two different levels based on image differences
Channel pricing	Different price depending on whether it is purchased.
Product-form pricing	Different versions of the product are priced differently but not proportionately to their respective
Time pricing	Prices are varied by season, day or hour.

Source: compiled from Stole (2006); Konkurrensverket (2005)

Clerides (2002) and McManus (2007) also confirmed the existence of both second and third degrees price discrimination in several markets. 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.

However, few studies that have tried directly to assess the extent of price discrimination among hotels. Ahmed (2010) assessed the impact of price discrimination on behavior intention of 233 hotel guests in Egypt, result shows that marital status, occupation, monthly income, and age had significant contribution in predicting perceived pricing fairness. While Santosy, Kosováz and Koulayevx (2011) examined price discrimination strategies in the online sales channel for hotels in the US, and submitted that hotels with online distribution channel differ in several ways, and online prices are consistently higher across quality segments and other hotel attribute. Tomalieh, (2014) also investigated the effect of applying price discrimination strategy on the marketing performance of the five stars' hotels, and concluded that different forms of price discrimination affected the marketing performance of the five stars hotels. Pulina and Santoni (2018) reviewed hotel online pricing strategies from three different perspectives: demand, supply and regional characteristics from the demand side. Some school of thought are in agreement with Landman (2009), that If you do not have prices available for the potential clients with a higher budget range you will lose them to other hotels. Or if your prices are too low for what people are willing to pay, you will lose profit margin if they book you. Of course if your prices are too high for travellers with a lower budget you will lose out on bookings.

Methodology

This study was conducted in Lagos state, Nigeria. The study population for this study consist of all 663 two and three stars hotels in Alimosho, Ifako-ijaye, and Ikeja local government areas of Lagos state. Multiple sampling techniques such as quota, purposive, and convenience sampling were used to select 288 hotels that participated in the survey. This commenced with the use of quota sampling technique, since the local governments are not of equal sizes. While purposive and convenience sampling methods was to select respondents from each quota. 300 questionnaires were designed and administered with the support of six field assistants, however only 288 respondents completed the questionnaires. From each hotel that was selected the manager, or sales manager and any other management staff were chosen and administered the second rounds of questionnaires as a validity test. Data collected were subjected to statistical analysis using SPSS descriptive statistical measures and results were presented in tables and charts.

Result and Discussion

Table 2: Socio-Demographic Characteristic of Respondents

Demographic	Categories	Frequency	Percentage (%)
Sex	Male	209	72.6
	Female	79	27.4
Age	18-35	110	38.2
	36-55	161	55.9
	>56	17	6.0
Religion affiliation	Christianity	160	55.6
	Islam	92	31.9
	Africa Traditional	36	12.5
Marital Status	Single	46	15.9
	Married	146	50.7
	Separated	96	33.3
Educational Level	Diploma	32	11.1
	HND/BSc.	222	77.1
	M.Sc /MBA	32	11.1
Designation	MD/CEO	144	50.0
	Hotel Manger	114	39.6
	Sales Manager	30	10.4

Source: Author's field survey

Table 2 present the characteristic of the respondents that participated in the survey. Result shows that 72.6% are male and 27.4% are female, this indicates and further asserts the dominance of male in the managerial top echelon of hotel hierarchy. The age composition reveals that 38.2%, were within the age of 18 and 35; 55.9% were within the age of 36 and 55 years while 6.0% of the respondents are age 56 and above. Result further reveals that 55.6%, 31.9% and 12.5% are Christian, Muslim and Africa traditional worshipers respectively. Form the respondents 15.5 were single, 50.7% were married while 33.3% were separated. The result also shows that 11.1%, 77.1% and 11.1% are diploma, bachelor, and master degree holders respectively, from which 50% are managing director or chief executive officer, 38.6% are managers while 10.4% sale managers.

Table 3: Peak and Off-Peak Rates of Products and Services

Hotels Location	Main Products & Services	Peak Rates	Off Peak Rates		
		Standard rates (₦)	Same as standard rate	Discounted rate	Varied rate
Ikeja GRA	Accommodation	25,000 - 75000	No**	Yes	Yes
Ikeja	Accommodation	18000 - 85,000	Yes ****	No	
Ogba	Accommodation	16000 - 35,000	Yes ****	No	
Magodo GRA	Accommodation	20,000 - 35000	Yes ***	Yes	
Ojodu	Accommodation	12,000 – 25,000	No **	Yes	Yes
Agbado Ijaye	Accommodation	8,500 - 25,000	Yes ****	No	
Egbe/Idimu	Accommodation	8,500 - 25000	Yes ***	Yes	
Egbeda/Akowonjo	Accommodation,	9,500 - 35000	No **	Yes	Yes
Ikoun/Igando	Accommodation	7,500 - 25,000	No **	Yes	Yes
Ifako-Ijaye	Accommodation	12,000 - 35000	No *	Yes	
Iju Ishaga	Accommodation	7,500 - 25000	Yes ***	Yes	
Alakuko	Accommodation	8,000 - 25000	No *	Yes	
Alagbado	Accommodation	15,000 - 35,000	No**	Yes	Yes
Oregun	Accommodation	15,000 - 75,000	No *	Yes	
Maryland	Accommodation	8,500 - 35000	Yes ***	Yes	Yes
Anifowose	Accommodation	15,000 - 35,000	No **	Yes	Yes
Opebi	Accommodation	15,000 - 35,000	No **	Yes	Yes
Alausa/agindigbi	Accommodation	18,000 - 85,000	Yes****	No	Yes

*not same as standard but discounted, ** not same as standard, discounted and varied, ***same as standard but discounted, **** same as standard but discounted & varied

Source: Author's field survey

The table 3 shows the products and services available in the selected hotels and if the services are subjected to different price review during peak and off peak period or otherwise. Peak and off-peak pricing is common in the leisure and hotel sector; there are usually three different rates for guests: standard/regular rate, weekend rate and the varied rate. Four different scenarios from the study revealed the reaction of the selected hotels at different period under review. The first scenario shows that hotels offers guest discount rate during peak and off-peak seasons below the published standard rates. This implies that the so called standard rates only exited on paper at first, as guests are meant to pay lower rate base on their bargaining power. Similarly the second scenario just like the first offers discounted rates during peak and off-peak periods, but such discounts are premise on some underlining conditions. This indicates that guests must meet certain conditions to be qualified for such rate differentials. The third scenario shows that hotel rate are same for peak and off-peak periods, however, guests are offered discounts based on the volume of room booked and the length of stay. The fourth scenario revealed that hotel also charges similar rates for peak and off-peak periods but do not offer discount on luxurious suites and services.

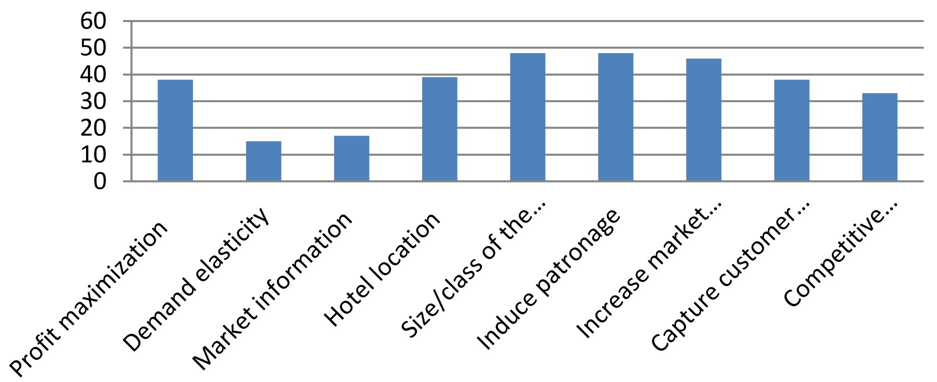

Figure 1: Percieved Reasons for Price Discrimination in Hotels

Source: Author’s field survey

Figure 1 presents the likely reasons for price discrimination among hotels. It was clearly observed that the major reasons for price discrimination or differential as the term applies are the size/class of the hotels and intention to induce patronage with 48% scores each. Additional reason for discrimination is hotel location with 49% score. This implies that the class and location of the hotel were critical factor used by hotel management to allot prices for their products and services, in order to woo guest. Other reasons for price discrimination by the hotels include; to increased market share, profit maximization and capture producer surplus with 48%, 38% and 38% respectively. This means hotels offer different rates to different groups of guest to increase its market share and profit maximization, as hotelier always look forward to the amount of benefit that will accrue for very element of service provider to guests. Furthermore, the sample hotels also offered same product to different customer at different prices in other to gain competitive advantage and demand elasticity have 33% and 15% respectively. This implies that price is fixed and changed base on the response of guests in terms of patronage.

Conclusion

Price discrimination exited and implemented in selective price cuts strategies whereby hotels cuts its prices selectively, but not below costs, to customers that might switch to a competitor. It was clearly observed that hotels willingly gave discounts for bulk service purchases, as guests are charged per unit of product/service demanded. There are also special price package for different classes of guests, depending on quality and quantity of product and services they are willing to buy and their loyalty to the hotel.

Though the prevailing price discrimination strategy permits the hotels to charges guest different rates/prices for the same services, the reasons for the discrimination (location, hotel size/class, market information, intention to induce patronage and so on) varies from one hotel to another. Generally, it is important for the hotel to segment guest/customers into segments, and each segment is allotted different rate/price. This segmentation helps the hotels 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, which allows hotels to attain higher performance under price discrimination.

The study concluded that price discrimination is a common and necessary practice in the hotel industry to increase sales and ensure sustainability. And recommended that hotel owners and operators should invest in credible risk assessment valuation and service segmentation or classification to maximize the benefits and reduce the adverse effects of price discrimination on both the hotel and guests. Furthermore, appropriate and reliable costs drivers should be identified that would provide conventional billing system for hotel services.

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