

## **An Exploratory Study of Customers' Perception of Pricing of Hotel Service Offerings in Calabar Metropolis, Cross River State, Nigeria**

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### **Abstract**

*Over the years, the tourism and hospitality industry in Nigeria has been underdeveloped since the nation is a mono economy, depending on the oil and gas industry for the revenue needed for national development. The industry is only recently emerging as an alternative source for generating revenue and Cross River State is now ranked as the tourism hops in Nigeria. There is very little indigenous literature available about how the industry manages to create a balance between achieving productive efficiency and effectiveness and customers' satisfaction. Exploring customers' perception of pricing of hotel service offerings in Calabar Metropolis will add significantly to the burgeoning industry literature. The study investigated the attributes that affected hotel room pricing based on customers' perception in Calabar Metropolis, Cross River State, Nigeria. The study was carried out through a critical review of existing paltry literature and personal interviews conducted among purposively selected segment of customers. The methodology is therefore exploratory and narrative. Findings showed that the availability of regular electricity and water supply, among other factors were perceived highly by customers in their decisions about pricing of hotel offerings. The study recommended among others, the adoption of the L.E.A.R. (learning, empathizing, asking questions, and responding) approach, and prompt response by industry operators to customers' complaints.*

**Keywords:** Tourism and hospitality industry, hotel pricing, customer perception, Nigeria

### **1. Introduction**

Nigeria is considered as one of the developing countries in the world with weak infrastructure and economy. Much emphasis has been placed on revenue from the oil and gas industry, thereby leading to the neglect of other vital sectors of the economy such as agriculture, tourism, power, etc. It is based on this fact, that the hospitality industry has really remained under-explored in Nigeria for too long as alternative source of generating revenue.

The operations of hotels and other tourists' centers gave rise to the function of what we see today as the hospitality industry. The hospitality industry is an important variable in the affairs of a nation and most recently it has sprung up to be a viable fund generating medium in Nigeria. Tourists' centres to a great extent tend to bring investors and tourists, both local and foreign, to these countries which in turn, help to improve the productivity level of the nation. The hotels in an environment serve as residing and accommodating places for the people. These tourists, investors, leisure seekers many stay in the hotels for different reasons ranging from business meetings, conferences, leisure etc. The government on the other hand, derives revenue from the taxes imposed on these hospitality centres which they usefully utilize into other productive ventures.

It is observed that hotels and other tourism services are operating in a rapidly changing environment. In the past before the 70s, people did not have the privilege of having computer linked worldwide reservation systems, but that is not the case as of now, even since the 90s. Now people could sit in the comfort of their homes, offices and make reservations without having to visit the offices of these hotels or tourists establishments. This is courtesy of the development of internet facilities. The establishment of hospitality sector by the colonialist is apparent with the development of ubiquitous government. Hospitality law in Nigeria is rooted in the laws of the United Kingdom (UK) inherited with the colonization of Nigeria effective from 1<sup>st</sup> January, 1900. Nigeria is made up of 36 states and the Federal Capital Territory, Abuja. Cross River State is one of the tourism hops of Nigeria and has Calabar as the headquarters. There are 15 hotels in Calabar Metropolis which is the focus of this study.

This paper is sectionalized into eight parts: the introduction, the purpose of the study, literature review and discussion of related concepts, the research methodology, the discussion of the findings, identification of the limitations of the study and the recommendations. The last section presents the conclusion.

## 2. Purposes

This paper focuses on exploring customer's perception of hotel services offering and their pricing. The objectives are:

1. To determine customer's perception and how it influences the pricing of hotel services in Calabar
2. To evaluate how customers perceive lodging attributes in relation to the rates they pay for the rooms.
3. To investigate the types of rooms available in some of these hotels and their prices/rates
4. To identify the challenges on the part of customers as regard these room prices and how the operator seeks better ways for meeting customers' needs.

## 3. Literature Review of the Related Concepts

**3.1 The Customer:** Before we delve into what customer perception is all about let us first answer the question – who is a customer? A customer generally is perceived as that party who receives or consumes products (goods or services) and has the ability to choose between different products and suppliers (Baboo *et al.*, 2011).

A potential customer is every person who enters the business, even though may not actually purchase something at that time, they may purchase something some other time. There are three types of customers:

- The customer who knows what he wants.
- the customer who does not know exactly what he wants but actually has a need to satisfy; and
- The customer who does not actually know if he wants or needs anything.

The customer is also seen as that person that a marketer or firm believes will benefit from the goods and services offered by the organization. In view of this, the customer falls into three groups:

- Existing customer,
- Former customer, and
- Potential customer.

**3.2 Customer Perception:** A marketing concept that encompasses a customer's impression, awareness and/or consciousness about a company or its offerings. Perception is the process by which we select, organize, and interpret information inputs to create a meaningful picture of the world (Kolter and Keller, 2009). Perception is very important because it affects customer's actual behavior.

This is a concept that is constantly arising when trying to evaluate customer's satisfaction. This is in view of checking how the customer perceives or rates the organization in terms of product, quality, pricing, service delivery. It is a term frequently used to measure how products/services supplied by a company meet or surpass customer's expectation. Evaluating customer perception regularly helps in managing and monitoring business progress. When a particular firm has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective but very disastrous if negative and disloyal. Customer perception is how your target market sees your product or service and this can go a long way to determine the success or failure of any business. For example, if a particular hotel has a reputation as having the best customer services as well as internet facilities, the general customer perception would be that you should go there if you need assured services on those. This sentiment could influence the hotel's ability to make profit.

When the customer makes his buying decision, he evaluates the benefits to be derived from a particular service/product and compares it with the costs. In view of this, the competition among hoteliers gets fiercer. Many hotels try to win the battle for customers by reducing the rates of their services/products. The value the customer perceives goes most of the time beyond usability. Their perception are influenced by a variety of factors and the more experience he/she gets the more his perceptions shift from fact based judgments to a more general meaning the whole relationships gains for him.

According to Baboo and Robert (2011) the way your customer views quality or price is really only a reflection of their interactions with you and do not necessarily mirror the actual quality embedded within your product, and/or services.

Customers may already have impression about you or your establishment well before their first encounter with you. When customers believe your quality of product (goods or services) is lackluster, and then they will perceive poor quality in what you do and how you do it. Conversely, if they undergo a wonderful experience with your presale or public relations team, they could enter into a relationship with your company with a preconceived notion that there is quality imbued in everything you do.

A customer's perception is typically affected by advertising, reviews, public relations, social media, personal experience and other factors. It should also be noted that in as much as many organizations go a long way to have a well-crafted mission to delight their customers, in addition to product and services quality, that tend to exceed customer's expectations, the fact remains that many of their customers still have problems and disappointments with product quality and services delivery.

**3.3 Hotel and its Pricing:** Hotels provide facilities for the transaction of meetings and conferences and for recreation as well as entertainment activities. Middleton and Clarke (1999) as cited by Nasruddin and Abdullah (2010) see accommodation to play a functional role by providing the facilities that make travel convenient and comfortable. Hotels must therefore ensure that they provide the kind of services that will satisfy current customers and motivate new ones. Hotels provide series of services within the same or different buildings which are often available for use by both residents of the hotel or non-residents. These services provided would appeal to different customers in varying mix, depending on the class of hotels. What should be provided must be in line with the customer's expectation which is a management tool for decision making as well as planning and investment decision.

Price denotes the money that customers pay in exchange for goods and services (Azhar, 2008). It is important to the seller because it represents the returns on efforts. To the buyer of goods or services, price is the value that is assigned to the satisfaction of needs and wants. In hotel service delivery, pricing is considered as relative to the extent of satisfaction the hotel wishes to give to its customers. Customers on the other hand only perceive that it commensurate the satisfaction being offered as well as gained. Hotel pricing plans and policies can be affected by several characteristics as discount, mode of payment, allowance, payment period, credit terms, etc.

Hotel pricing could be set at a higher or low rate. The policy of setting high or low prices for their products and services is extensively used by hotels as a competitive tool. Pricing is therefore a major theme in many product and services delivery categories. Lower prices can aid for mass patronage. On the other hand, high prices, also known as the "premium pricing policy" also have a purpose. This is usually differentiated from lower prices by the phrase "class-versus-mass". Hotel room pricing is a difficult subject within the larger school of revenue management and as such it has garnered much study over the years. At the heart of any pricing discussion is the balance between healthy average daily rate and high occupancy, the metric representing this balance is revenue per available room (Jean, 2011).

A hotel is an establishment that provides lodging paid on a short term basis. The provision of basic accommodation, in times past, consisting only of a room with a bed, a cupboard, a small table and a washstand has largely been replaced by rooms with modern facilities, including en-suite bathrooms and air conditioning or climate control. Additional essentials found in a hotel are a telephone, an alarm clock, a television, a safe, a mini-bar with snacks, food and drinks, and facilities for making tea and coffee. Bigger hotels may provide additional guests facilities as a gymnasium, conference facilities, swimming pool, superstores, and social function services as the case may apply.

According to Michael (2012), hotels make money by understanding how pricing of their room can be used to gain proper or extra profitability. Hotels understand that when the "super bowl" comes to their town, prices need to be raised dramatically to take advantages of the guaranteed demand for their sleeping rooms. While the actual physical price of a room never change, the cost to the user depend on outside influence that create high, lower, medium demand.

Pricing has been identified to be the singular element in the accommodation marketing mix in that it impact directly on revenue (Chen and Rothschild, 2010). There have been various literatures on pricing in the hospitality industry.

Shoemaker (2003), identified four phases of pricing in the hotel business, as thus:

- Rates varying by season
- Yield management system (revenue per available rooms)
- Revenue management based on available customers.
- Value pricing (based on value received and not cost to produce).

Lewis and Shoemaker postulated that a technique known as price sensitivity measurement (PSM) can be used to determine how customers perception of values are affected by the interaction of price and quality. More recent literature however lay more emphasis on incorporating customer's value perception into the pricing of hotel accommodation. Varini *et al* (2003) believes that in spite of lodgers willingness to pay (WTP) for attributes, it is not sufficient for profit optimization, it is a first medication. White (2000), while studying hotels in Arizona showed that site and situation attributes are systematically reflected in hotel room rates.

**3.4 Tourism and the Hospital Industry:** There is not yet a consensus as regards the definition of tourism, as well as the hospitality industry. The definition varies and as such could be established based on the perception of a person, or an institution. Tugberk (2010) sees tourism as a collection of activities, services and industries which deliver a travel experience comprising transportation, accommodation, eating and drinking establishments, retail shops, entertainment businesses and other hospitality services provided for individuals or groups travelling away from home. It comprises those activities of persons travelling to and staying in place outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercises of an activity remunerated from within the place visited. The hospitality industry is a broad category of fields which accommodates the service industry that includes lodging, restaurants, events planning, theme parks, transportation, cruise line, and additional fields within the tourisms industry.

#### **4. Research Methodology**

The concept of pricing of hotels service delivery has become a part of business routine these days in hotel management, as well as tourism issues, yet, no significant research has been conducted in the past in this regard i.e., analyzing the perception of customers as it relates to hotel service pricing. This research would provide basic understanding of the subject under study and aid for further research in this field.

This paper covers hotels services in Calabar Metropolis, Cross River State, Nigeria. Calabar is headquarters of Cross River State and the list of hotels in the Calabar metropolis was obtained from the Department of Public Transportation, Cross River State. This is not a full blown research and as such the methodology is limited to related interactive literatures; personal interviews with/observation on some of the customers of hotels in the area selected for study.

#### **5. Research Findings and Discussion**

Today, hotels face lots of competition ever, thereby making their philosophy holistic and giving them better chance of improving their performance. The cornerstone of a well conceived business orientation is greatly based on strong customer relationship and perception. The only value your company will ever create is the value that comes from customers, the one you have now, and the ones you will have in future (Kottler and Keller, 2009). Customers are the only reason you build factories, hire employees, schedule meetings, or engage in any business. Without the customer, you don't have a business.

In the course of our study we discovered the attributes considered by customers when negotiating for a room as regards its price. The attributes include:

- Large room space;
- Location close to airport;
- Location close to city centre;
- Good room services;
- Serenity of the neighborhood;
- Availability of café/bar;
- Physical appearance of the guest house;
- Laundering services;
- Constant water supply;

- Availability of gymnasium;
- Availability of conference facilities
- Regular power supply;
- Availability of parking space;
- Availability of a club
- Affordable price rate;
- Customers also affirm that they lodge in hotels for different reasons as: business, leisure, tourism and others.

We also found out that issues of discount, mode of payments, allowance, payment period, credit terms, etc are usually the case where long term stay is involved. These benefits, most of the time is of interest to companies who lodge their staff (in-serving or expatriate) for the purpose of seminars, workshops, conferences, business meetings etc, over period of days, weeks, as well as months.

Certain factors can contribute to the differences between what customers expect and what the organizations offer/deliver. Such factors are:

- a) How accurate is the firm's understanding and interpretation of customers' expectations?
- b) Is this understanding of customer expectation effectively translated into product/service design?
- c) What is the gap between what is envisioned and what is delivered?
- d) How good is the match between what is advertised and what is delivered?

On the aspect of the pricing of these hotels, the perception of the customers varied in that what one sees as too expensive and extravagant, the other sees as normal rate and affordable. These rooms range from N8,500 (USD1 = N160 Naira) and above and the types of rooms available are;

- The executive studio - sleep 2
- The deluxe room - sleep 2
- The twin deluxe room - sleep 4
- The business suite - sleep 2

Furthermore we also know that customers decide on the particular room that suit their need and meet their financial standing. But the general note of these customers, is that the prices are sometimes extra expensive during festive periods especially in Calabar metropolis during December when the Calabar Carnival takes place, where people from far and near struggle to get accommodation placements. In view of this the customers expressed their frown at the margin established by these hotels which they considered as quite exploiting and inhuman.

It should be noted here therefore, that hotels that ignore customer perception of price and quality of service are simply giving their customers reasons to switch to the competitor. This then causes additional bad press for the company, since customers who are satisfied and/or dissatisfied are very good in verbally expressing their opinion/experiences to friends, relations and colleagues.

## **6. Limitations**

The major limitation of this study is that it is not considered a full blown research paper, and as such did not deal extensively with the subject matter, which would have done better with the use of questionnaire and good sampling techniques. Also, the use of a standard price theory would have helped buttress facts better. These should be employed in further research work.

## **7. Recommendations**

Some challenges were expressed by customers as regards complaints about their living from the arrival to departure time; to the neatness and decorations of the rooms; and even to its maintenance. The fact remains that the level of services rendered in relation to the price rate tends to determine if a client would come back or not. There are series of recommended ways of getting customers perception of hotels services/prices and how to better it.

1. Tracking customers' complaints is a major way of managing customer relationship. This is to ensure that prices are fixed at affordable reach of customers.

2. Develop best techniques for solving problems, discuss it with the employees, so that they can know how best to attend to these customers and when to give discounts for customers.
3. Future gains could also be excused by improvements in the whole atmosphere of the hotels.

Organizations must always strive to redraw what their customers perceived best imaginable experience, looks like. By continually refreshing such a customer perceived target, the organization is able to hand-pick the set of most meaningful and impactful continuous improvement to bridge the sometimes subtle but significant gaps in its operations that tend to shape customers' impressions. Company executives and managers need to constantly do the following (Baboo, *et al.*, 2011).

- a) Quality customer satisfaction and loyalty as they relates to your products, service delivery mechanisms and contract handling across all customers touch points.
- b) Locate specific areas of customer perceived disasters that cause the most damage to the bottom line, including erosion of loyalty.
- c) Determine profits foregone resulting from specific customer perceived quality issues.
- d) Identify the main factors that boost customers' perception of quality and price i.e. the key satisfiers.
- e) Understanding customer perceived quality of your competitive products and services.
- f) Evaluate the primary drivers that should be part and parcel of your ongoing efforts to continuously improve your customers' perception of quality as regards what they should pay for it.

Management can also use the LEAR approach to yield positive customer perception. LEAR here stands for:

- Listening
- Empathizing
- Asking questions about customers opinion of the rates and;
- Responding positively to these opinions

They should also conduct regular markets research to gain insight into customers' perceptions and preferences. Not forgetting to add is the need to use good measurement system in managing customer perception, i.e. the whole process of interaction through the customers' eyes.

## **8. Conclusion**

Achieving efficient and effective productivity in any organization, business or society, depend greatly on the end user – the customer. What a customer perceives of you, your product or service could go a long way to help or mar your long built reputation. Not much has been done as regards this area of study. This study has helped to open up some insights that have been over-looked in time past. This study has analyzed and appraised customers' perception of hotel service pricing in Calabar metropolis. We have to know what the customers consider when pricing hotel services.

It is worthy to note therefore, that the relevance of managing a good relationship as regards getting customers perception should not be taken for granted. It is the place of the management to ensure that they employ the recommended measures to prevent negative customer perception. Above all, some very vital points were exposed and dealt with, despite the limitations, which if looked into would be of help to future research and hotel management as well.

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