Personalisation through pricing co-creation: Customer's willingness to pay and pricing strategies in the B2C context of hospitality

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Goal and objectives of the dissertation
Goal
To explore how customer expectations of personalisation affect the willingness to pay (WTP) in the hospitality industry

Objectives
RO1: To explore willingness to pay (WTP)
RO2: To explore customer expectations of personalisation (CeoP)
RO3: To explore the relationship between CeoP and their WTP
RO4: To develop and validate the CeoP-WTP typology
RO5: To develop practical implications emerging from the relationship between CeoP and WTP.

Methodology
The study was developed in three phases using a sequential mixed-method design. A qualitative Phase 1 started with a narrative literature review to establish the theoretical framework on personalisation, value co-creation, pricing strategies, and their connection to customers' willingness to pay (WTP). A qualitative Phase 2 involved semi-structured interviews to gather insights on how personalised offerings impact WTP. A quantitative Phase 3 employed a self-administered survey to explore the typology developed from the qualitative findings in Phase 2. Participants were selected based on their residency in the UK. Additional inclusion criteria required participants to have travelled within the 12 months before the data collection date. Data from 43 semi-structured interviews (conducted between April and May 2021) and 202 self-administered surveys (collected between May and June 2022) were analysed using Interpretive Phenomenological Analysis (Smith & Eatough, 2021) and K-means cluster analysis (Aksu et al., 2022). This methodology, aligned with customer-dominant logic (CDL) (Heinonen & Strandvik, 2015), explores customer understanding and expectations of personalisation, leading to the development of a novel customer typology.

Results
The findings significantly enhance the understanding of how utilitarian, hedonic, cognitive, and economic benefits and the desire for uniqueness influence and augment CeoP. This aligns with Research Objective 2 (RO2), which seeks to explore customer expectations of personalisation. The study identifies six distinct customer typologies - Budget Adventurers, Family Explorers, Relaxation Seekers, Relation Seekers, Delight Seekers, and Must-Have Customers. These typologies are categorised based on life cycle stages, personal philosophy, and consumption contexts, offering nuanced insights into varied personalisation perceptions and directly addressing Research Objective 4 (RO4) by validating the CeoP-WTP typology.

The research illuminates that WTP is not static or linear. It fluctuates based on intrinsic and extrinsic contextual factors rather than adhering strictly to annual disposable income levels. This contributes to Research Objective 1 (RO1) by exploring the dynamics of WTP. The analysis underscores that personalisation expectations and WTP are shaped more by contextual factors than by economic capacity alone, highlighting the interplay between customer contexts and value perception, a core concern of Research Objective 3 (RO3).

The findings support practical implications, fulfilling Research Objective 5 (RO5) by suggesting strategies for practitioners to optimise personalisation efforts and pricing strategies based on customer-specific contexts and preferences.

Theoretical conclusions

This study advances marketing and revenue management knowledge through the CDL lens, enhancing the understanding of experience co-creation, segmentation, and pricing. It underscores that a mix of extrinsic, intrinsic, and contextual factors influences customer WTP. Identifying six distinct customer types highlights the inadequacy of traditional demographic variables for market segmentation in the digital age. This evidence of a non-linear relationship between personalisation expectations and WTP provides valuable insights for marketing and revenue management (Tomczyk et al., 2022), enriching the literature on personalisation and pricing by highlighting specific benefits crucial for predicting customer WTP.

Practical Applications of the Dissertation

From a managerial standpoint, this study emphasises the critical relationship between customer expectations of personalisation and WTP, underscoring its role in co-creating personalised experiences. Practical recommendations include targeting different customer clusters at appropriate times, integrating psychographic and behavioural variables with demographics for comprehensive segmentation, and developing better-tailored offers across diverse service sectors. Managers are guided on suitable personalisation and pricing strategies to optimise revenue. Utilising K-means cluster analysis, the research identifies and defines key market segments that should be the focus of a company's marketing strategy.

Content of the dissertation

Abstract of Chapter 1

The expansion of the virtual world has revolutionised information distribution and the way people plan and purchase products and services. In the service sector, crafting personalised and memorable customer experiences remains essential. Effective customer service is vital for a brand's strategy and differentiation from competitors, as it facilitates the delivery of tailored content to individual customers and enhances positive interactions with service providers. While every element of the marketing mix can be tailored, personalisation involves monetary costs (higher prices) and non-monetary costs (time, convenience, privacy concerns) (Abrate & Viglia, 2016). Customers' WTP is crucial for a company's pricing strategy, as price is the only marketing mix element that directly generates revenue, making pricing decisions central to a company's marketing strategy (Ivanov, 2014). This study addresses a literature gap positioning customers at the centre of the inquiry, employing CDL as a theoretical framework to investigate the relationship between customer expectations of personalisation and WTP.

Abstract of Chapter 2

The first of three literature review streams examines pricing concepts and methods from a supply-side perspective, concluding with a discussion on the demand side, specifically customer WTP. Pricing has evolved with new methods for real-time price adjustments over the Internet, such as dynamic and personalised pricing (Abrate & Viglia, 2016). From the CDL perspective, personalised pricing places the customer at the centre of market valuation. As co-creation is integral to personalisation, it is inherently linked to customer WTP (Ranjan & Read, 2016). This chapter contributes to the study by exploring and addressing key aspects of WTP.

Abstract of Chapter 3

This chapter examines various aspects of personalisation, including its types, levels of granularity, benefits, costs, and processes. Although personalisation dates back to 1870 (Chandra et al., 2022), it remains fragmented, confusing, and often lacks clear boundaries. Modern customers are increasingly discerning in their search and shopping behaviours, continually seeking unique, individualised

products and services that meet their needs (Dey et al., 2021). Beyond addressing general theoretical issues such as terminology and division of interest among different fields, understanding customer expectations of personalisation is crucial for understanding their WTP. These expectations can be combined in various configurations to explain the purchase behaviours of different customer types. This chapter enhances the service marketing literature by providing a comprehensive overview of personalisation issues discussed in existing studies.

Abstract of Chapter 4
This chapter explores value (co-)creation. Value is an elusive and dynamic concept with numerous definitions. Customers have become active contributors in creating unique value and co-creating memorable experiences, as value is embedded in personalised experiences (Prahalad & Ramaswamy, 2004). Co-creation of value through customer participation is considered a critical characteristic of the personalisation process, where the customer determines the value (Heinonen & Strandvik, 2015). Since price is integral to the purchase and consumption experience, integrating personalised offerings, e.g., personalised discounts through customer identification, provides a solution for real-time price sensitivity considerations. This study challenges the common assumption that increased granularity of personalisation directly correlates with higher customer WTP, suggesting there may not be a single optimal configuration of personalisation factors that influence customer WTP.

Abstract of Chapter 5
A mixed-method data collection strategy was employed to achieve the study's goal and five objectives, comprising semi-structured interviews and a self-administered survey. These complementary methods facilitated an in-depth exploration of the relationship between customer expectations of personalisation and their WTP. Participants were recruited from UK residents through multiple channels, including Facebook, Instagram, and LinkedIn. Data from 43 in-depth interviews and 202 self-administered surveys were analysed using interpretive phenomenological analysis and *K*-means cluster analysis. This combination of analytical methods enabled a comprehensive understanding of customer expectations of personalisation and the development of a novel customer typology comprising six distinct customer groups.

Abstract of Chapter 6
The findings from the qualitative research phase significantly enhance the understanding of customer expectations of personalisation. This chapter makes a valuable contribution by examining the utilitarian, hedonic, cognitive, and economic benefits and the desire for uniqueness that shape and enhance these expectations. Recognising that customers often exhibit contrasting characteristics (e.g., individualistic vs. collectivistic, utilitarian vs. hedonic, price-sensitive vs. price-insensitive) (Kizielewicz, 2020), the research identifies six distinct types of customers through this process.

Abstract of Chapter 7
This chapter explores the six identified customer types more deeply, examining the impact of personalisation benefits on customer WTP. This study employed non-hierarchical cluster analysis to define the groups, aiming to maximise homogeneity within the groups and heterogeneity between the clusters (Ghuman & Mann, 2018). Each cluster exhibits unique preferences and behaviours influencing customer WTP for personalised services. Budget Adventurers prioritise low-cost options and are highly price-sensitive, often resigning from luxuries to save money. Family Explorers looks for value-for-money deals catering to all family members, emphasising activities and amenities suitable for children and adults. Relation Seekers cherish travel experiences that foster deep personal connections. Relaxation Seekers seek peace and comfort, favouring stress relief and leisure activities. Delight Seekers desire

luxurious, high-quality services that deliver unique and memorable experiences. Meanwhile, Must-Have Customers demand specific amenities or services tailored to their non-negotiable preferences, ensuring their exact needs are met.

Abstract of Chapter 8
This chapter reflects on the primary findings of Chapters 6 and 7. The study provides evidence that there is no linear relationship between customer expectations of personalisation and their WTP. The mixed-method approach reveals that customers' WTP varies based on personalisation expectations, life cycle stage, and specific context. The findings indicate that a higher level of personalisation does not necessarily result in a higher WTP. The discussion on customer expectations of personalisation highlights the need to revise approaches to customer segmentation, which is a fundamental aspect of marketing and revenue management.

Abstract of Chapter 9
This thesis addresses the gap in understanding the relationship between customer expectations of personalisation and WTP from the CDL perspective, within the service industry context. It represents an innovative contribution to personalisation research, offering significant insights for marketing and revenue management. As customers increasingly participate in co-creating their personalised experiences, marketers and revenue managers seek more effective ways to optimise value and revenue. The findings offer valuable insights for practitioners and policymakers, while also advancing academic research. This research enhances understanding regarding customer preferences, expectations, needs, and desires, facilitating better customer recommendations. Consequently, businesses can create a seamless and secure purchase experience, boosting revenue and generating proactive demand.

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