

EUROPEAN INSTITUTE OF INNOVATION, ENTREPRENEURSHIP AND TECHNOLOGY

MODULE

Operations Management in Hospitality

Perceived Fairness of Discounts and Cancellation Conditions in Revenue Management

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Introduction

Customer perceptions of fairness in revenue management (RM) are shaped less by the existence of price differences themselves than by whether those differences appear proportionate, transparent, and logically connected to a genuine difference in what the customer receives (Abdou, 2026). This principle explains two seemingly opposite outcomes: why customers readily accept deep discounts offered in exchange for stricter booking conditions, and why they reject the seemingly similar practice of pairing an insignificant discount with a strict cancellation policy.

1. Why Deep Discounts for Stricter Conditions Feel Fair

Rate fences, the conditions that separate one price tier from another, are perceived as acceptable when they are clear, understandable, and logical to the customer (Abdou, 2026). A deep discount offered in exchange for a non-refundable booking, a stricter cancellation policy, or limited flexibility satisfies all three criteria at once. The customer can see exactly what they are giving up, flexibility to change or cancel, and can weigh it directly against exactly what they are receiving in return, a substantially lower rate. Because the size of the discount is proportionate to the size of the restriction, the exchange reads as a fair trade rather than a penalty.

This logic is reinforced by a closely related principle: customers accept different prices when the underlying product itself is genuinely different (Abdou, 2026). A non-refundable rate is not the same product as a fully flexible one; it carries more risk for the guest and, in exchange, the hotel prices it lower. Framed this way, the discount is not an arbitrary discount at all but the natural price of a lower-value, higher-risk product tier, similar to the accepted logic behind weekday-versus-weekend rates or standard-versus-deluxe rooms (Abdou, 2026). Because RM in general depends on segmenting guests according to their willingness to pay and their need for flexibility (Ivanov & Zhechev, 2012), a deep-discount, non-refundable fence is simply this segmentation logic operating visibly and proportionately, which is what makes it easy for customers to accept.

Full transparency around these conditions matters as much as their proportionality. When a hotel clearly communicates prices, booking conditions, and cancellation terms up front, customers can make an informed choice about which product tier suits them; hiding this information, by contrast, destroys trust regardless of how the price itself is structured (Abdou, 2026). A deep discount for a non-refundable rate, disclosed clearly at the point of booking, gives the customer full information

and a proportionate trade-off, the two conditions research on RM fairness identifies as central to how guests judge whether a pricing practice is ethical (van der Rest, Wang, & Miao, 2020).

2. Why Insignificant Discounts with Strict Conditions Feel Unfair

The opposite scenario, a very small price reduction paired with strict cancellation or amendment penalties, breaks the same proportionality logic that makes deep discounts feel fair (Abdou, 2026). Here, the customer is asked to give up something substantial, the ability to cancel or amend a booking without a significant financial penalty, in exchange for something trivial, a marginal reduction in rate. Because the size of the restriction no longer corresponds to the size of the benefit, the rate fence stops looking like a logical, understandable trade-off and starts looking like a condition imposed purely for the hotel's benefit, with little regard for the guest's interest (Abdou, 2026).

This disproportionality directly undermines the criteria that make rate fences acceptable in the first place: clarity, logic, and a sense that the customer understands why the condition exists (Abdou, 2026). A guest who receives only a marginal discount has little reason to interpret the strict cancellation terms as compensation for a lower price; instead, the restriction reads as existing mainly to lock in revenue certainty for the hotel, which triggers exactly the kind of perceived injustice, unfairness, and dishonesty that scholarship on RM ethics identifies as damaging to customer trust (van der Rest et al., 2020). Broader research on RM fairness reinforces this: guests' sense of whether a policy or fee is fair depends heavily on whether it is proportionate and well explained, since unfamiliar or poorly justified charges are consistently associated with lower perceptions of fairness and weaker brand image, even when the monetary amounts involved are relatively small (van der Rest et al., 2020).

Industry-facing research on hotel RM practice adds a further dimension: revenue managers must continually balance the drive to personalise pricing and protect revenue against the risk of being perceived as inconsistent or unfair, since guests increasingly compare rates and conditions across channels and against other guests (Galea, 2025). An insignificant discount attached to a strict cancellation policy is especially vulnerable to this comparison, because it is easy for a guest to conclude that the hotel imposed a harsh condition while giving almost nothing back in return, damaging trust in a way a deep, clearly proportionate discount does not (Galea, 2025).

Conclusion

Both outcomes rest on the same underlying fairness logic. Customers do not object to rate fences or restrictive conditions in principle; they object when the restriction and the benefit are out of proportion, or when the connection between them is unclear. A deep discount for a non-refundable rate reads as a transparent, proportionate exchange and is therefore accepted, while an insignificant discount paired with a strict cancellation penalty reads as an imbalanced exchange that serves the hotel far more than the guest, and is therefore rejected. Revenue managers seeking to preserve customer trust must ensure that any restriction imposed on a booking is matched by a benefit large enough, and clearly enough explained, to justify it in the guest's eyes.

References

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