Analysis of the importance and value of price in the demand of a tourism destination

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Abstract

Tourism sector companies use Revenue Management practices, namely dynamic pricing techniques to address issues such as seasonality, fixed inventory or perishability. Customers are aware of these practices and look for the best *Value for Money* they can get in their purchases. The concept of value has a quite relevant dimension. And the price is not only perceived as a number, a negative factor or resource consuming, it is many times a sign that advises customers on quality and value and, for this reason, absolute price is one of the most important attributes in value perception (Ceylana et al., 2014) and price perception.

Literature has focused largely on the management side of pricing strategy, specifically on Revenue Management practices. In what concerns customers literature has focused its attention on the acceptation of those practices, price fairness, and the attributes and less on how the price itself is perceived, how expectation is affected and how it affects choice and purchase decisions, that is on price perception.

It is fundamental to understand how consumers perceive prices and what factors influence those perceptions. How do prices influence demand? How do consumers judge destination prices when making choices? How does that judgement affect their buying intentions?

Methodology: a theoretical framework will be developed relating the variables of price, Revenue Management, service, perceived value, e-WOM and purchase behaviour, that will allow an investigation on how Lisbon tourists evaluate price.

Results may help companies, namely hotels, to improve their pricing and positioning strategies, keeping themselves competitive and profitable, and keeping customers happy.

This investigation is still in an early and exploratory stage; therefore, this communication will present the first approach to the theme.

Keywords:
Price, Revenue management, perceived value, buying intentions

1. Introduction

Revenue management (RM) has been widely adopted in the hospitality sector to improve profits and managers have realized that the "management of their revenue is critical to their organizations' success" (Hayes & Miller, 2011). Organizations have shown improved results between 2 to 6% when using RM techniques (Kimes & Wirtz, 2015), (Kimes & Anderson, 2011) and (Haley & Inge, 2004). RM consists in the application of several techniques and practices that lead to a set of dynamic prices aiming to sell the right product, at the right price to the right customer at the right moment (Cross R. , 1997) with the purpose of achieving the best profit.

Price is as important for sellers as it is for buyers (Brito, 2012). Price also affects market share, positioning, segmentation and the marketing programs of business organizations (Ceylana, Koseb, & Aydin, 2014). When designing price structures, organizations must focus on the customer and not only on costs or strategies. One of the biggest mistakes is focusing on the product and not on the customer (Brito, 2012). Price as a concept is "the amount of economic outlay that must be sacrificed in order to engage in a given purchase transaction" and it is also a criterion that customers use to evaluate quality and not just a negative factor (Lichtenstein, Ridgway, & Netemeyer, 1993). So, prices are set considering quality. Quality being what the customers value. Much research has been done focusing on quality and on how to deliver quality services. However, "quality and value are not synonymous" when considering the customers' perspectives (Hayes & Miller, 2011), because value is something perceived by customers rather than objectively determined by the seller (Hu, Kandampully, & Juwaheer, 2009). Customers have different perspectives of value, even the same customer may perceive distinct levels of value according to the purchase purpose. "In the hospitality industry, most buyers' assessments of value are determined by their individual perceptions of benefits derived from product quality and service quality, less (minus) the price they must pay" (Hayes & Miller, 2011). So, the true value of a product or service is equal to what a buyer will willingly pay for it, because customers make rational buying decisions based on what their perceptions of the value they receive, and they place different values on the same products or services, and as a result are willing to pay different prices for them (Hayes & Miller, 2011). It is from this reality that the dynamic pricing techniques have developed.

Customers are aware of these realities, so they search for the best value they can get spending the least money possible. Sites such as Trivago, Kayak or Hotelscan emerged from the fact that customers were willing to search for the "best deal" once they have found the hotel that most suited their needs. "Before making an online hotel reservation, consumers visit on average almost 14 different travel-related sites with about three visits per site, and carry out nine travel-related searches on search engines" (UNWTO, 2014). These numbers show that customers are conscious of the market reality and react to pricing dynamics by searching for the best price. Thus, customers assess price information by comparing the actual price with reference prices, leading to perceptions of fairness or unfairness (Chung & Petrick, 2015) and value.

Another aspect influencing customers choices are the reviews or e-Word-of-Mouth (e-WOM). Studies have shown that good reviews and reputation can lead to better financial results (Anderson, 2012).

So, it is necessary to investigate how the variables of reference price, RM practices and e-WOM affect the perceived price and ultimately the buying behaviour.

2. Literature Review

Price fairness has been studied and investigated for many years. Price fairness in the tourism industry, more frequently in the airline, hotel and restaurant industries, relates to the practices conducted by RM, that is, dynamic pricing. Price fairness perception is an important part for sustaining customer satisfaction, loyalty, and long-term profitability (Noone, Kimes, & Renaghan, 2003) so careful attention must be given. One of the first researches concerning perceived fairness was conducted by Sheryl Kimes

(1994) and showed that the common practices in the hotel industries were viewed as unacceptable (Kimes, 1994). Later, in 2002, fairness perceptions of RM in airlines and hotels are examined and the result was compared with that of previous study. This new study found the practices commonly used in the hotel industry to be perceived as unfair by consumers, so hotels must practice them in such a way that customers view transactions as fair (Kimes, 2002). So, after a few years of using dynamic practices, customers still saw them as unfair, although restaurant demand-based pricing in the shape of discounts rather than surcharges were seen as fairer (Kimes & Wirtz, 2003). Probably this opened a door to a future acceptance of RM practices. Further studies found that information about the hotel's room pricing practices offered to customers at the time of reservation has a moderating effect on the perception of fairness (Choi & Mattila, 2004) and no information leads to a perception of unfairness (Choi & Mattila, 2005). Another issue affecting price perception is reference price. Analysing reference price is paramount because it helps practitioners to better understand how their dynamic pricing policies affect how customers view and accept, or not, the prices. The reference price is the standard indication against which consumers evaluate prices to assess their attractiveness (Monroe, 1973 *in* Viglia, Mauri, & Carricano, 2016). The growth in Internet booking channels increased price transparency, allowing consumers to comparison shop multiple hotels to find the best deal (Noone, 2016), also affecting reference prices. Viglia, Mauri, & Carricano (2016) have examined several key aspects concerning reference price such as the temporal component: reference prices and sequences of historical prices – first, average, and last price, and highest and lowest price – and the contextual component, which refers to competition (Viglia et al., 2016). They highlight that the reference price identified by consumers tends to be closer to the cheapest hotel, so, when forming their reference price, people do not take into account only the average of past prices, and are also influenced by past peaks; people generally adapt more to lower prices (and fluctuations) than to higher ones (Viglia et al., 2016: 52). So, enterprises must be careful when lowering prices, since this influences the reference price, thus becoming more difficult to go back to higher rates and have them accepted by customers. Analysing competition is another recommended practice undertaken by practitioners of RM (Tanter, Stuart-Hill, & Parker, 2009), however Viglia et al. (2016) suggest that unfairness inferences happen when one hotel adjusts its prices based on the prices of another, and that there is a loss of revenue extraction from the highest-value customer segments. They also refer that "the negative effect on reference prices highlights how simultaneous pricing adjustments between hotels may induce feelings of unease, thereby leading to the perception of unfairness as well as the lowering of the reference price" (Viglia, Mauri, & Carricano, 2016: 52).

Dynamic practices must then be clear for customers who need to understand and trust those methods. "However, there still remains a sense that RM is something that is done *to* customers rather that something that is done *for* the customer. Building mutual value into the relationship that companies have with their customers should, therefore, be one of the primary aims of any organization" (McMahon-Beattie, 2011).

Trust also comes from reviews, since customers seek for confirmation among their peers. A research report from Cornell University's Center for Hospitality Research used data from three sources to confirm the impact of online reputation upon hotel performance. The report, using online reputation data from ReviewPro and hotel performance data from Smith Travel Research, shows that a 1% improvement in review score translates into about a 1% gain in revenue per available room (RevPAR) (Anderson, 2012). Value is equally an important concept due to the intangible nature of the service industry, since customers cannot experience the service before the purchase, they will look for cues of quality amid their peers.

Nieto-García et al., (2017) bring together these two relevant issues: the effect of e-WOM and reference price, dividing them in external and internal influences on consumer's willingness to pay (WTP), being the e-WOM the external influence and the reference price the internal influence (Nieto-García et al., 2017). This study is a relevant advance because of the proven significance e-WOM has had in the industry (Mauri & Minazzi, 2013). Relating the effects of e-WOM and reference price is very important for practitioners because it will help them make better decisions concerning dynamic pricing and customer value. Why? Because consumers value the two when making buying decisions. Nieto-García et al., (2017) consider two major aspects when observing e-WOM, those are the valence, meaning customer satisfaction, and volume, meaning the number of comments or rating assessments on a service. Concerning the reference price there are two points of view: the external reference prices, those communicated to the market (Nieto-García et al., 2017) which the practitioners might have some control over and the internal reference prices, which reflect the price that customers have encountered in past purchase occasions and stored in their memory (Rajendran & Tellis, 1994 *in* Nieto-García et al., 2017) and (Viglia et al, 2016).

These findings back up the UNWTO proposal of an integrated approach on hotel classification and online guest reviews, showing that there is a clear link between guest review scores and performance (UNWTO, 2014).

Customers of course seek the best prices and reviews but ultimately, they seek a product or service that meets their needs. To meet guests' expectations, suppliers use product versioning, that is, varying the form of product or service and then varying price (Hayes & Miller, 2011). Hotels do this by using room types, adding services, such as breakfast, bundling, payment terms and conditions, and discounts, all of which also affect price perception.

3. Methodology

The reflections presented in this work stand grounds for a study, still in an initial phase, included in a PhD thesis in Tourism, of the University of Seville, Faculty of Tourism and Finance, in the field of Tourism in Regional Economic Analysis. The study is still in the phase of the bibliographic review about the field of research that is projected to be investigated, and still trying to understand exactly which variables are most relevant, considering the possibility of correlating the dimensions of perceived price and how it affects buying behaviour. The respondents will be those visiting the city of Lisbon, that stay in 4 to 5-star hotels regardless of the segment (leisure or business).

The possible variables to be tested will be those which are considered to have an impact on price, those being service, RM practices, e-WOM, absolute price, value and buying behaviour. The literature review showed the impact that these variables have in pricing dynamics. Although the focus will be on the customer, managerial aspects of pricing strategies must also be observed, namely those affecting the absolute price. Further investigation needs to be done using a real context (Nieto-García et al., 2017) and (Viglia et al., 2016) and with a clear focus on how customers assess the prices they pay and how that ultimately affects their buying behaviour contributing to the success of hotels and destinations.

4. Conclusions

It can already be concluded that there is great margin for research in this field and there is a need for practitioners to have more information in these issues as the social media and internet purchases take over the tourism and hotel industry. Although differential pricing strategies in the tourism industries have raised fairness issues so far, price fairness studies from a consumer perspective are still lacking as opposed to pricing research based on the managerial approach (Chung & Petrick, 2015). Giving the right product or service to the customer at a price point seen a fair and correct will certainly create satisfaction, sense of value and favourable e-WOM. A cycle of value to both enterprises and customers

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