

# Customer Preferences in Tour Pricing

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# Customer Preferences in Tourist Excursions Pricing

Senior Project

Rochester Institute of Technology

Hospitality and Service Management

by

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## **Abstract**

In the present day experience economy four dimensions of choice (entertainment, education, escapism and esthetics) must be met in order to create the right experience. It is interesting to see how tourist excursions involving all of those four attributes react to the changing attribute of price. By using the choice-based conjoint analysis we established that price and excursions content are the strongest choice making criteria. Travellers, generally speaking, prefer natural beauties, sea, and beaches more than extreme sports or history. When a hypothetical excursion including the most desired attributes is compared to an already existing one tailored without those specific considerations, we can see that the demand for the type of excursion with the right attributes shows relatively low price elasticity.

Keywords: Value, Pricing, Conjoint analysis, Tourist excursions, Tourists, Dubrovnik, Personalization, Experience, Co creation

## **Introduction**

Due to rapid technological advancement (i.e. high speed connectivity, internet, smart technology) consumers nowadays have the propensity and education to engage in the creation of products and services. Information access helps consumers to understand products and services better which help them make decisions. Travellers can now learn about their destinations online, compare experiences, and seek alternative possibilities. Global view gives consumers an opportunity to obtain information about any business, price, product, service from around the world. Mobile phones and smart phones play a great role in consumers' networking; they create new communities regardless of location, social barriers, etc., that are completely independent and causing transformation and disruptions on the market. The more

consumers experiment with the content, the more they will be comfortable to discriminate between products and services, and then have a desire to interact with companies for co-creating value and experiences. (Prahalad & Ramaswamy, 2006)

Any consumer can be now informed about products or services in real time. The networked communication allows consumers to form their own perception based on other people's feedback as opposed to companies' marketing. Consumers then choose products and services based on their insight into other people's experiences that they share on social media, forums, etc. The global connectivity has spurred innovation which results in more of goods and services than ever before. However, there is a paradox here because many different products do not mean that consumer experiences will be of higher quality. (Prahalad & Ramaswamy, 2006) This paradox forces us to re-examine the processes of how value is created in the present technological context.

Value is defined as the extent to which goods or services are perceived by customers to fulfill their needs and wants. It is measured by customer's willingness to pay for it. (Anderson, Narus & Narayandas, 2009) Value is highly individualized because of the following four consumer definitions of value: low price where consumers want to pay less to get the same e.g. discounts, whatever consumer wants in a product is the most important for consumers because they look for satisfaction derived from consumption, the quality consumers get for what they paid which means they are willing to exchange price for quality, what consumer get for what he gives considering all relative components such as what is the best for „x“ amount of money. (Zeithaml, 1988)

### *Co-creation of the personalized tourist experience*

When a consumer actively engages in the creation of a product or service and customizes it to his preferences, then he is more likely to see value in it, i.e. to buy it. It is

important to understand that uniqueness of the individual shapes the co-creation process and the co-creating experience. A customer must engage in the network with all stake holders (i.e., company, consumer, producer, supplier, community) with access to information from everyone (Prahalad & Ramaswamy, 2006).

Furthermore, in the process of co-creation of value where dialogue, access, risk assessment, and transparency are fundamental for co-creation, they still do not guarantee the co-creation of the right experience, which is conditioned by the following four dimensions of choice of the consumer.

First is offer across multiple channels which are crucial for co-creation of experience because every individual has specific habits, need, wants, and backgrounds. A person who is not technologically educated will prefer to go to physical store to get informed, to buy, to check a product or service rather than do it online. Travel companies have to be consistent in the quality of co-creation experiences through all channels they operate, because they are paths for different experiences.

Second dimension is that co-creation happens through options for customers to add, to pick, to customize product or service for his wants or needs. There is a growing demand for non-standardized services and tourist behavior leads to satisfaction when their personalized needs are fulfilled. (Swarbrooke & Horner, 2016) This is also a result of technological advancement where shift from standardization to mass customization occurs. (Prahalad & Ramaswamy, 2006) For example, firms flexibility customize offers for different consumers (e.g. on a excursion to Peljesac peninsula customers can pick which wineries to visit, food, type of panorama-walking, bicycle, van or boat excursion, etc.)

Third is co-creation through transactions where every customer can choose his preferable way of payment (i.e., cash, card). Travel service providers have to put themselves

in the position of the customer end make sure their needs and preferences are followed through.

Fourth is price-experience relationship in co-creation experiences, the intersection of these two is place where consumers judge value. Price is typically related to costs in any business, but customers do not care how much it costs to organize an excursion, because one person will pick the excursion in the nature because is healthy for the kids, other will pick the same because of interest in local food. Their experiences are only thing that matters to them. The experience is different, therefore is the value for each individual. (Prahalad & Ramaswamy, 2006)

The quality of product or service is not what company offers as in the traditional business model, but giving the ability for consumers to create their own experiences. The quality can be seen as a puzzle with multiple parts of the same value, however they differ by its size, but must be perfectly combined into a whole in order to satisfy tourists. (Swarbrooke & Horner, 2016) The possibilities are endless because of heterogeneity of consumers and usage of different ways for interacting with the company, which is then innovation oriented.

To be ahead of the competition in tourism today companies should encourage learning and outsourcing to become a learning industry. Learning refers to establishment of new responses to the environment; cognitive learning is a problem solving thinking where active process of information encourages tourists to make an action. (Moutinho, 1987) In this respect, two core questions exist: how can new tourism be created with a combination of knowledge, innovation and culture? How is technology related to the creation? (Stamboulis & Skayannis, 2003) In a hypothetical example, when a consumer opens the webpage of an excursion agency, he can find attributes of excursion separated on the page which he can put in a virtual basket to create a highly personalized excursion. The consumer can have special

requests and suggestions from which service providers will be forced to constantly innovate, interact and improve their businesses.

Traditional tourism has to change according to new trends and travelers or companies will face less and less demand. One change is that tourists desire something different. This change can happen when new operators offer new themed packages and when traditional offer is gradually abandoned. Tourist can also create new demand by marketing his own product online through sharing content on social media, etc. (Stamboulis & Skayannis, 2003)

When a tourist comes to Dubrovnik his experience-based exchange happens when he interacts with actors, environment that has been “staged” by local community. There are four following realms of individual experience: entertainment, educational, aesthetic and escapist. The goal is to create sweet spot around all realms in order to create a greater experience with diversity of possibilities. (Pine & Gilmore, 1998)

When considering tourist excursions and related attributes, it is always advisable to look in the demographics of the guests. Tourist demographics in Croatia according to the Croatian Ministry of Tourism. Tomas research of 2017 show that spending per tourist increased for 17 percent in comparison to 2014, from 66 euros to 79 euros per tourist per day. A daily spending is divided on accommodation (49 percent), food and beverage (17 percent), and other services (34 percent) which had significant increase of 33 percent in comparison to 2014 which proves the importance of outside accommodation expenditures. Tourists from the following countries spend more than 115 euros per day: USA, UK, Russia, Spain and Scandinavian countries. Tourists come to Croatia mostly with their partners (48 percent), then families (38 percent) and friends (10 percent). Croatian tourists have an interest for new experiences and adventures in 31 percent of cases, gastronomy 29 percent, natural beauties 28, fun 24 percent, etc. There is also an increase in the number of tourists who directly contact

local service providers and tourist agencies, rather than going through their home travel operators or online platforms.

Tourist demographics in Dubrovnik show a large percent of tourist that traditionally come to Dubrovnik from United Kingdom, Germany, France, USA, Croatia, Spain, Norway, Ireland and Finland. According to Tourist Board of Dubrovnik, from January 1 until December 31 of 2017, Dubrovnik had 1, 125, 423 foreign tourists, 56, 042 domestic tourists and 36, 214 nautical tourists. (“Data of Touristic board“, 2018) According to E-visitor where all tourists have to be reported by providers of accommodation units, in Dubrovnik they realized 4, 211, 522 nights which is an increase of 17 percent in comparison to 2016. From total tourists visited Dubrovnik 646, 121 of them were in hotels, which is an increase of 6 percent, while 386, 911 where in the private accommodation, which is an increase of 28 percent.

#### *Tourist excursions in Dubrovnik*

Tourist excursions are short-term movement in the close or remote vicinity of a tourist destination. (Plavska, Romelic & Vuksanovic, 2009) Different excursions have different purposes, but most common ones are: observation, education, fun, and new experiences. A trip consists of at least two elements which are combining different services. Some of elements are: transport with a car, van, boat, etc., meals like lunches, dinners, entertainment such as live music, insurance in case of an accident, etc. Examples of trips can be visits to local markets where local food is offered, around the city to see historical monuments, to local vineyards and wineries where process of wine making is explained, to islands and explore caves, bays, cliffs with a speed boat.



Dubrovnik is a well-known and upscale destination rich with cultural monuments protected by UNSECO (city walls, churches, cathedrals, etc.), natural beauties with clear sea and environment. It is the center of cultural and touristic events: Dubrovnik's Summer Festival offers Croatian and world famous theater shows and musical performances, city of museums and galleries where tourist can see where e.g. Duke of Dubrovnik slept and dined. These values attract many tourists which create a demand for complex experiences in the peaceful place of Mediterranean climate.

Tourist self-image plays a great role for marketers when positioning a product or service because marketer can see to which target group of customers individual belongs. (Moutinho, 1987) For example, tourist that is physically active at home is more likely to pick panorama tour around the city with bicycle than with a bus. The tourist nowadays like to participate in activities i.e. tourist will pay to a fisherman to take him on the sea, but not just to observe the sea, fish, and other natural beauties, but to help the fisherman and have an unforgettable experience. (Katsoni & Velandar, 2017)

There are multiple tourist agencies in Dubrovnik that offer different types of excursions and packages for the tourists in destination and they also provide variety of other services i.e. rent a car, rent a boat, accommodation etc. More individuals that have private accommodation see the opportunity of creating excursions for their guests instead of redirecting them to the already existing offer. This results in an increase of competitors on the market annually, because these service providers do not want to pay commission fees to others.

Sales channels that agencies use for selling excursions are primarily stands or info desks where a booker is trying to persuade customer to buy an excursion. These stands can be found in hotels, ports, main bus stations, streets, squares and elsewhere where large flow of

people exists. Agencies have websites through which customers can inform themselves about the excursions and book them. Social media channels such as Facebook, Instagram, TripAdvisor also give ability to buy excursions through their platforms. Agencies that work with millennial tourists must account that generation's preferences are experiences over materials (i.e. guaranteed experience over better accommodation, flight seat, etc.) (Carnoy, 2017) A sale occurs through word of mouth from restaurants and private accommodation where agencies use non-digital promotional materials. Multiple means of payment: cash, credit card, PayPal, bank transfers, etc.

### *Price considerations*

Many experts consider that the price is the most important marketing decision especially when products or services are offered on touristic market. (Middleton, Clarke, 2012) In consumers mind the price is what he needs to give up on to get product or service. Price is defined as sacrifice because it is more of a “giving” than “getting” component. The distinction between an objective price and consumer's price must be taken into consideration because consumers often do not even remember the exact price; they encode it in the ways meaningful to them such as if the lunch at the restaurant was expensive or cheap. Price is not only a monetary sacrifice, but also sacrifice in terms of time spent for searching and informing about products and services, transportation all this factors from tourist perspective when on vacation is a sizeable sacrifice. (Zeithan, 1988) When a tourist picks destination he considers a price as a cost of living. First he compares it to the cost of living from his home country, and then he compares the cost to other potential destinations of choice. (Tsai, Song & Wong, 2009)

Characteristics of tourism and travel services that have influence on the price are: high price elasticity in all segments of leisure, recreation, and travel markets. No possibility of

stock holdings for service products, where stockholders are not communicating potential risk of a service. High probability of small cost changes because of exchange rates of money. Price cutting by competitors when supply exceeds demand. There is a high possibility of price wars between competitors in accommodation, transport and tour operator business. Official regulations may affect sectors such as F&B, for example, restaurant in the Old City can only have five tables on a terrace. High level of customer psychological involvement with products or services can be perceived as symbol of status or value. (Middleton, Clarke, 2012)

Some of the reasons for shifts between cost-based pricing to perceived-customer value analysis and value-based pricing are benefits that allow businesses to have better understanding of product or service from customer's point of view. Helpful is to see where a product is positioned on the market in comparison to competition, from which can be seen how much differences are worth to customer. A business is able to see how much higher price it can set than competition and be sustainable. How business should promote and position product on the market and properly stress comparative advantages. (Gale & Swire, 2006)

What we recognize based on the above literature review that consumers' purchasing decisions are complex. What I will analyze is sensibility of potential tourists on specific parameters which create offer because I plan to offer online baskets in which customers would customize their own excursion. I will concentrate on investigating which attributes (tourist excursion components) are valued the most among the customers. The method I will use is choice-based conjoint which is marketing insight technique for predicting how created product will perform when put on the market. (Sawtooth Software, n.d, 2018.) This research will help me understand which kind of personalization and pricing would make best for myself and my prospective clients.

## **Method**

The purpose of the primary research was to find out what excursions tourists in Dubrovnik are more likely to pick and how much will they pay for it. The intention was to help me, other private accommodation rentals, and touristic agencies to figure out what service packages to offer to tourists that come to our destination.

Participants of this survey were tourists in Dubrovnik or have visited in the past year. Sample size is 92 tourists and they were chosen randomly and approached in the streets of Old Town, Dubrovnik, and in local restaurant around the city. A tablet computer was given to the participants to access the link to the online survey. A part of participants that have visited Dubrovnik in past year were sent the link to complete the survey.

To find what tourists prefer I used a marketing technique called conjoint analysis typically designed for testing how new product would perform on the market. The focus was on understanding how much value is added with possible feature and performance improvements and finding levels that bring the most value to increase the overall worth of the product. Testing of what new features that can be included in the products relevant to improvements costs.

This analysis often does not consist of all real products that are competing on the market, but hypothetical constructions of what offers could be. If a monetary selling price is included in conjoint analysis, data can be used to estimate how much more customers are willing to pay for better performance. (Gale & Swire, 2006) Attributes and theirs levels that have been used in the conjoint in this research are in Figure 1.

I used Sawtooth Software which is survey and conjoint analysis tool from which data was downloaded and processed in Excel document.

## **Results**

The first step in analyzing the choice results is to conduct a "Counting" analysis. CBC's *Counts* program reports the percent of times each attribute level was chosen when it was available on the screen. *Counts* provides an intuitive measure of the impact of each attribute level on overall choice.

For excursion choice, 30.16% chose off-shore excursions, 29.12% chose exploring beautiful landscapes and nature, 25.17% chose enjoying traditional food and wine, 21.77% chose learning about history and culture and 11.84% chose extreme sports. (Figure 2)

For excursion duration, 24.88% chose an excursion in duration of 3 hours, 24.08% of 4 hours and 21.88% would choose excursion of 2 hours. (Figure 3)

Group size showed as a less significant factor when choosing an excursion and the results are the following: 26.14% chose size of a group of 1-3 persons, 22.57% chose a group of 3-6 persons and 22.12% chose an excursion group of 6+ persons. (Figure 4)

For price, 36.56% would pay 50 euros per person per excursion, 26.33% would pay 75 euros per person per excursion, 18.06% would pay 100 euros and 13.49% would pay 125 euros per person per excursion. (Figure 5)

In the next step we analyzed the Choice Data by complex multivariate analysis method logit, The CBC system makes it easy and nearly automatic to use this sophisticated technique.

Logit analysis estimates an effect, or logit "utility" for each level of each attribute. It also can be used to estimate interaction effects. A utility refers to a degree of worth or preference for a product feature.

The larger the utility, the more preferred the level. The utilities sum to 0 within each attribute (they are zero-centered). The report is displayed in appendix under Figure 6.

When looking at the types of tours, the graph (Figure 7) shows that tourists mostly preferred off-shore excursions part worth utility value 54.78, exploring beautiful landscapes and nature, enjoying traditional food and wine, while learning about history and culture and extreme sports is less preferred.

When it comes to group size, it is visible in a graph (Figure 8), that a small group of 1-3 people is the most preferred with part worth utility value 11.99, while the group of 3-6 people and 6+ people are in the negative quadrant meaning that tourists pay attention to the size of the group as long as it is small, while when it comes to larger groups, they do not mind if it is a group up to 6 people or more.

When analyzing the duration of an excursion, tourists would choose for a certain price, the graph (Figure 9) shows that the tourists are least likely to choose a short excursion of 2 hours, and would rather take a longer excursion of 4 hours for the price they paid. The most desirable duration of the excursion is 3 hours.

Another attribute which showed as the most important for tourists is price. The higher the price, the lesser is the probability for a tourist to choose a specific excursion, which is a normal phenomenon in marketing.

We want to analyze the relative importance of each attribute because we want to realize how it affects the overall preference of the product. We do this by considering how

much difference each attribute could make in the total utility of a product. That difference defines a different utility (part worth) value for each of the levels of a given attribute. An attribute with an importance of 20 (20%) is twice as important as an attribute with an importance of 10. Results are visible in Figure 11 in the appendix.

The attributes with the greatest impact on decision making of a tourist when choosing an excursion are the type of an excursion and its price. This can be clearly seen in the Figure 12.

For the reason of making a simulation, I took an offshore excursion in Dubrovnik from an established service provider with the following attributes: 4 hours, 100 euro/person and a group of 6+ people. I created a hypothetical offshore excursion with the attributes of 3 hours, 50 euro/person and a group of 1-3 people in order to compare the effects of the changing attributes.

The comparative analysis of these two excursions based on the above attributes gave us shares of preference among tourists for the competitor's excursion 25.28%, for the hypothetical 67.95%, while 6.76% would chose none of these.

If only the price is changed in the hypothetical excursion from 50 euro/person to 75 euro/person, share of preference will change to 31.42% for the competitor's excursion, for the hypothetical 60.17%, and 8.40% would chose none.

If the price is changed to 100 euro/person in the hypothetical excursion, share of preference will change to 38.52% for the competitor's excursion, for the hypothetical to 49.97%, and 11.51% would choose none.

If the price is changed to 125 euro/person in the hypothetical excursion, share of preference will change to 44.77% for the competitor's excursion, for the hypothetical 43.43%, and 11.97% would choose none. All tables can be found in Figure 13.

## **Discussion**

Generally speaking, tourists in Dubrovnik more prefer nature, walking, food, wine than more demanding forms of entertainment such as extreme sport or learning about history and culture. Out all the offered attributes, they prefer natural beauties the most.

The size of the group seems not be very important, which is good news from the cost point of view since larger groups are more profitable. Content and price are far more important attributes when choosing a excursion than duration and group size.

Even though travellers prefer cheaper excursions, 31.5% is ready to pay over 100 euros for a short one, which should be more profitable with some limitations regarding the cost of the included content.

A two hour excursion is too short for most tourists, while three and four hours excursions are more desirable, but not showing great difference in preference between the two. Daily and half daily excursions should be also considered, but that would be another research.

When an existing off shore excursion is compared to a hypothetical excursion with most preferable attributes among tourists, the difference in preference between my hypothetical excursion and the competitor's is 67.95% to 25.28%, while 6.76% would chose neither. This proves that by knowing what customer prefers I can create the right content based on the most desired attributes.



The changing attribute of price shows that the excursion with the attributes selected based on the research into the preferred attributes, shows the relative price inelasticity. A hypothetical excursion containing the most desired attributes with a 25% higher price relative to an existing one created without a special consideration for the most desired attributes would have the almost same level of demand.

Based on the secondary research, it is possible that an online component to the sales where customers could customize the excursion would be perceived as an additional value, but this should be further investigated.

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## Appendices

Figure 1, Attributes and their levels used in conjoint.

Attributes	Levels of attribute
Tour	<ol style="list-style-type: none"> <li>1. Learning about history and culture</li> <li>2. Exploring beautiful landscapes and nature</li> <li>3. Extreme sports (watersports, jet skis, ATVs, buggies, etc.)</li> <li>4. Off-shore excursions (hidden beaches, islands, cliffs, caves, etc.)</li> <li>5. Enjoying traditional food and wine</li> </ol>
Size of the tour group	<ol style="list-style-type: none"> <li>1. Size of a tour group 1-3 person/s</li> <li>2. Size of a tour group 3-6 persons</li> <li>3. Size of a tour group 6+ persons</li> </ol>
Price per person	<ol style="list-style-type: none"> <li>1. €50 per person for tour</li> <li>2. €75 per person for tour</li> <li>3. €100 per person for tour</li> <li>4. €125 per person for tour</li> </ol>
Duration of the tour	<ol style="list-style-type: none"> <li>1. Tour duration 2 hours</li> <li>2. Tour duration 3 hours</li> <li>3. Tour duration 4 hours</li> </ol>

*Figure 2, choice of tours.*

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<b>Tour</b>	<b>Total</b>
Total Respondents	92
Off-shore excursions (hidden beaches, islands, cliffs, caves, etc.)	30,16%
Exploring beautiful landscapes and nature	29,12%
Enjoying traditional food and wine	25,17%
Learning about history and culture	21,77%
Extreme sports (watersports, jet skis, ATVs, buggies, etc.)	11,84%

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*Figure 3, duration of the tour.*

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<b>Duration</b>	<b>Total</b>
Total Respondents	92
Tour duration 3 hours	24,88%
Tour duration 4 hours	24,08%
Tour duration 2 hours	21,88%

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*Figure 4, size of the tour group.*

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<b>Group size</b>	<b>Total</b>
Total Respondents	92
Size of a tour group 1-3 person/s	26,14%
Size of a tour group 3-6 persons	22,57%
Size of a tour group 6+ persons	22,12%

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*Figure 5, price of the tour.*

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<b>Price</b>	<b>Total</b>
Total Respondents	92
50 per person for tour	36,56%
75 per person for tour	26,33%
100 per person for tour	18,06%
125 per person for tour	13,49%

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Figure 6, the larger the utility, more preferred the level.

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**Average Utility Values**

Rescaling Method:	Zero-Centered Diffs
	Total
Off-shore excursions (hidden beaches, islands, cliffs, caves, etc.)	54,78
Exploring beautiful landscapes and nature	46,09
Enjoying traditional food and wine	20,84
Learning about history and culture	-5,86
Extreme sports (watersports, jet skis, ATVs, buggies, etc.)	-115,85
Tour duration 3 hours	11,99
Tour duration 4 hours	1,50
Tour duration 2 hours	-13,50
Size of a tour group 1-3 person/s	20,62
Size of a tour group 3-6 persons	-8,26
Size of a tour group 6+ persons	-12,35
50 per person for tour	87,31
75 per person for tour	30,68
100 per person for tour	-34,37
125 per person for tour	-83,61
None	-220,25

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Figure 7, types of excursions.



Figure 8, excursion size.

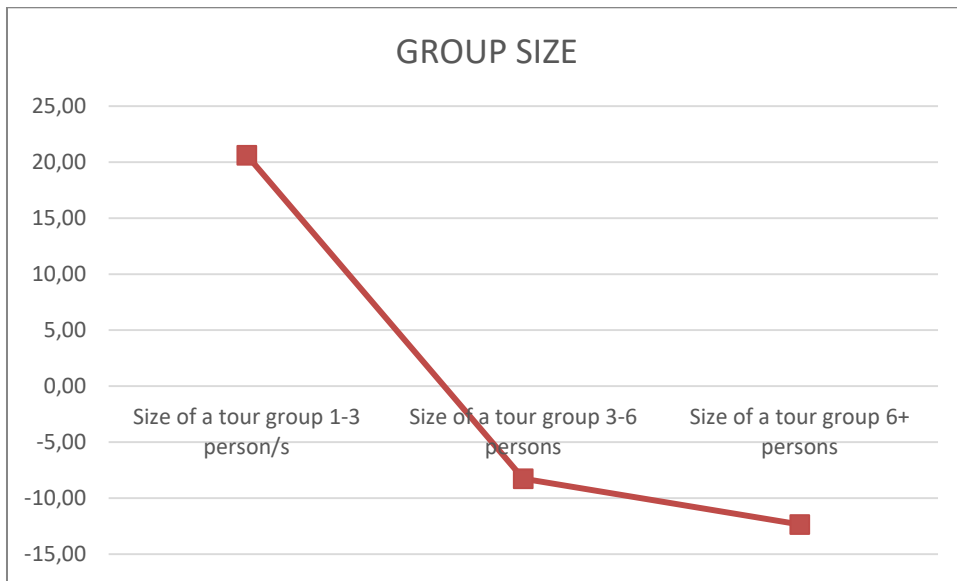


Figure 9, duration of an excursion.

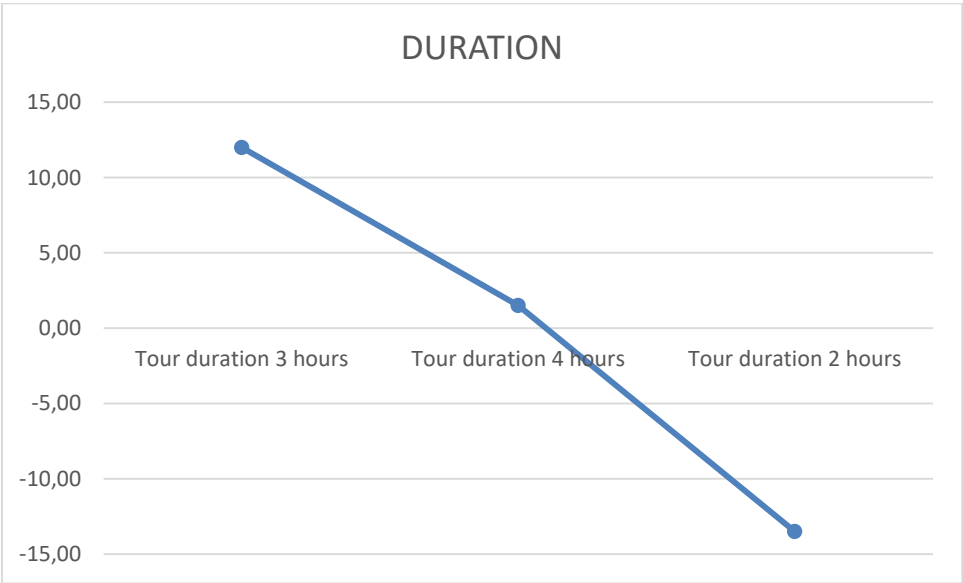
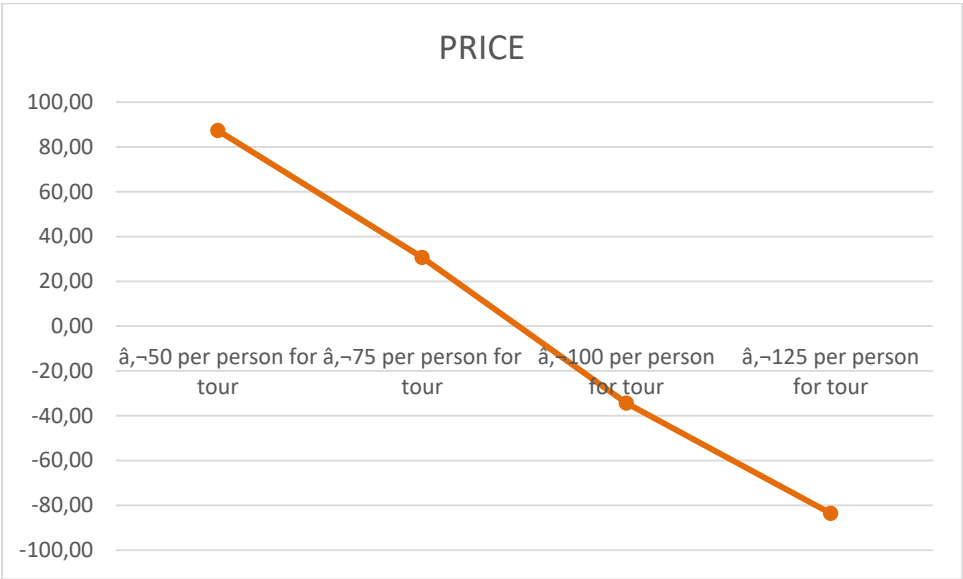


Figure 10, prices for excursions per person in euros.



*Figure 11, importance of attributes when a tourist makes decision.*

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<b>Average Importance</b>	
	Total
Tour	42,66
Duration	6,37
Group size	8,24
Price	42,73

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Figure 12, importance of attributes showed in graph.

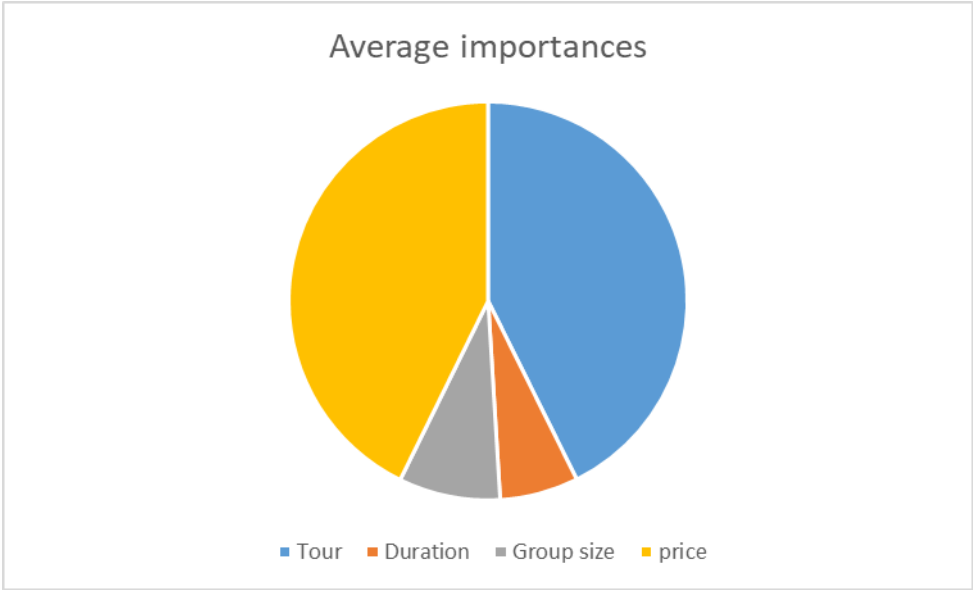


Figure 13, Product Shares of Preference among participants.

**Product Specifications**

	Tour	time	size	price
<b>Competitor's tour</b>	Offshore	4h	6+ person	100 euros
<b>Concept</b>	Offshore	3h	1-3 person	50 euros

**Product Shares of Preference**

Tour competitors	25,28
<b>Concept</b>	<b>67,95</b>
None	6,76

**Product Specifications**

	Tour	time	size	price
<b>Competitor's tour</b>	Offshore	4h	6+ person	100 euros
<b>Concept</b>	Offshore	3h	1-3 person	75 euros

**Product Shares of Preference**

<b>Competitor's tour</b>	31,42
<b>Concept</b>	<b>60,17</b>
None	8,40

Product Specifications

	Tour	time	size	price
<b>Competitor's tour</b>	Offshore	4h	6+ person	100 euros
<b>Concept</b>	Offshore	3h	1-3 person	100 euros

Product Shares of Preference

<b>Competitor's tour</b>	38,52
<b>Concept</b>	<b>49,97</b>
None	11,51

**Product Specifications**

	Tour	time	size	price
<b>Competitor's tour</b>	Offshore	4h	6+ person	100 euros
<b>Concept</b>	Offshore	3h	1-3 person	125 euros

**Product Shares of Preference**

<b>Competitor's tour</b>	44,77
<b>Concept</b>	<b>43,25</b>
None	11,97