8 Pricing Tourism Services

Chapter outline

Price plays a major role in consumers' perceptions of value, and consequently their purchase decisions. A price is what a consumer agrees to exchange in return for a service they perceive as good value, both in terms of a desired benefit to meet a want, as well as monetary worth. Therefore, pricing is a marketing function, because the exchange taking place must reflect a mutually beneficial relationship, and because pricing is influenced by other elements in the marketing mix such as the costs of promotion and distribution. For tourism service providers, pricing is one of the most flexible elements in the marketing mix. Indeed, tourism businesses are increasingly using dynamic pricing to meet fluctuating levels of consumer demand, and to maximise yield. Since pricing is a function of supply and demand, the chapter discusses key internal factors and external forces influencing decisions about price setting. A range of different pricing options are presented, which represent both strategic and tactical opportunities. A key message in the chapter is that ultimately, pricing decisions must be both consistent with the brand identity and market positioning value proposition, as well as enhance the return on investment in the fixed costs of the business.

Learning aims

To enhance your understanding of:

- Pricing as a marketing function
- The key internal factors and external forces influencing pricing decisions
- The use of dynamic pricing for effective yield management.

Key terms

Value

Value is co-created by the service provider, who offers a value proposition, and the customer, who decides the extent to which the service is providing a benefit to meet a need.

Price

Price is the foundation in the relationship between supply and demand, and is what is exchanged by the customer in return for a product or service that offers perceived value.

Yield management

Dynamic (constantly changing) markets necessitate pricing decision making that is flexible to meet fluctuating levels of demand and to maximise yield (return on investment).

Value

As discussed in *6: Designing Tourism Services and Experiences*, service value is co-created by the provider in conjunction with the customer. The service provider offers a value proposition, and as discussed in *7:Tourism Branding*, what consumers generally value in such a proposition, when comparing offerings, will be on the basis of price and quality (e.g. cheaper, faster, or better). Ultimately the customer decides whether the service was good value for money, and this will depend on:

- Their individual wants and expectations,
- The extent to which they themselves take advantage of, and participate in, the consumption opportunities offered,
- Their level of satisfaction, in terms of whether the benefits promised met their wants, and
- The price they paid.

The marketer is pricing to sell value, in keeping with the brand's value proposition. It is important to note that regardless of whether consumers are considering a luxury purchase or a cheaper category, they still expect to get value for money.

Critical point: People will pay top dollar for a special experience

Any business owner offering an outstanding experience that is valued by consumers should not be afraid to charge a high price, particularly when it is a relatively small part of the total travel cost. Many people will happy in the knowledge they are paying top dollar for a special experience. For example, witness the number of high priced shows that play to sell-out crowds night after night at New York's Broadway theatre district, London's West End, the Las Vegas casinos, and at Paris' Moulin Rouge. While the admission ticket is usually expensive, as are the refreshments and souvenir programmes, the cost of the experience is small relative to the travel costs to get there.

Pricing

In competitive tourism markets, price plays a major role in consumers' perceptions of value for money, and consequently their purchase decisions. A price is what a consumer agrees to exchange in return for a service they perceive as good value, both in terms of a desired benefit to meet a want, and as a monetary worth. Pricing can be challenging for marketers. If the price is too high, demand will be soft, but if the price is too low there won't be a sufficient contribution towards fixed costs. If the price is the same as those of the competitors, there is the risk of substitutability. Each of these scenarios can affect business survival. Therefore pricing is a strategic function, which goes beyond an internal accounting analysis to understand the minimum price needed to cover costs (the price floor). What is also needed is an external marketing orientation to understand consumer behaviour in terms of what the target market will bear financially (the price ceiling) and what benefits consumers value in terms of their wants (market position).

Critical point: Develop an interest in numbers

If you are going to be involved in operating or marketing a small business, you will need to understand the principles of basic accounting, as well as marketing research. Otherwise, to what extent will you be able to trust your accountant or marketing researcher, if you don't understand the strengths and weaknesses of different options they recommend to you? Also, the level of understanding needed of financial and research data only increases the more successful the business becomes. The more successful the business the harder the decisions, and decision making is reliant on analysis of data. Putting aside a fear of numbers and being prepared to engage with data can lead to a better understanding of what constitutes *good information*, and therefore a competitive edge in the marketplace (and the job market) over those who shy away from numerical data.

For tourism service providers, pricing is one of the most flexible elements in the marketing mix. Every business' pricing decisions will be a function of supply and demand, and can be influenced by a range of internal factors unique to their operation, and external forces over which they have no control. From the *supply* perspective, the range of influences on the pricing decisions for a service include:

Internal factors unique to the business - Financial

- The business' current financial situation
- The current occupancy rate relative to the level of capacity
- The fixed costs of the business
- The variable costs of providing the service
- The distribution methods and commission levels
- Brand equity value, particularly in terms of customer loyalty.