Pricing and positioning in the tourism industry
- case studies of two small travel operators

Edit Lundman Kerekes, Linda Tonvall
Preface

We would like to take the opportunity to thank everyone who has helped us in writing this thesis. First of all we would of course like to thank Tomas Torbjörnsson, Rätt Resa and Jiri Polacek, Tjeckien Experten, who made our case studies possible. We also like to give our supervisor, Rickard Wahlberg, a thank you for providing us with support and advise.

Others that have contributed to this thesis by giving valuable comments and suggestions are the other students in our seminar group. Thank you for helping us to figure out what is relevant and what is not.

Last but not least we would like to thank our families and friends for being understanding and supportive.

Luleå June 2001

Edit Lundman Kerekes Linda Tonvall
Abstract

Tourism plays a major role in the world economy and is expected to become even more important in the years to come. According to the European Union Conference, Agenda 2010,1998, in European tourism small and medium-sized enterprises account for 90 percent of all businesses and more than 94 percent of them are micro operators employing less than ten individuals. The purpose of this bachelor’s thesis is to study how small travel operators are pricing their products, and if there is there any connection between pricing and positioning and if that is the case how the two marketing activities effect each other. In order to achieve this purpose, case studies of two small travel operators were carried out. The required data was gathered through interviews over the telephone. The outcome of this thesis shows that pricing is mostly done based on the non-formal practises, and that there are a connection between positioning and pricing in many aspects. The study also found that smaller travel operators are aware of these connections, but they do not use the knowledge in any scientific way. Instead they use their accumulated experience and are pricing their products according to the upper limit set by the price insensitivity, which varies for each segment.
Sammanfattning

# Table of contents

1 Introduction .............................................................................................................................1  
  1.1 Background ......................................................................................................................1  
  1.2 Problem discussion ..........................................................................................................1  
    1.2.1. Pricing ......................................................................................................................1  
    1.2.2 Segmentation and positioning ...................................................................................4  
  1.3 Purpose .............................................................................................................................5  

2 Pricing .....................................................................................................................................6  
  2.1 Pricing methods ................................................................................................................9  
    2.1.1 Cost-orientated pricing ..............................................................................................9  
    2.1.2 Competitor-oriented pricing .....................................................................................10  
    2.1.3 Marketing-oriented pricing .......................................................................................11  
    2.1.4 Strategic and tactical prices ......................................................................................14  
    2.1.5 Pricing objectives .....................................................................................................15  
    2.1.6 High or low price .....................................................................................................16  
    2.1.7 Initiating price changes .........................................................................................18  
    2.1.8 Reacting to competitors price changes ....................................................................20  
  2.2 Positioning and pricing ....................................................................................................22  
    2.2.1 Positioning methods ...............................................................................................24  
    2.2.2 New products - in the aspect of positioning and pricing ........................................25  
    2.2.3 Existing products - strategic objectives of pricing ..................................................25  

3 Methodology ........................................................................................................................26  
  3.1 Research approach .........................................................................................................26  
  3.2 Research method .............................................................................................................26  
  3.3 Sample selection .............................................................................................................26  
  3.4 Data collection ................................................................................................................27  
  3.5 Data analysis ..................................................................................................................27  
  3.6 Validity and reliability ....................................................................................................27  

4 Empirical study ....................................................................................................................29  
  4.1 Rätt Resa AB ................................................................................................................29  
    4.1.1 Pricing .....................................................................................................................29  
    4.1.2 Positioning and pricing ...........................................................................................30  
  4.2 Tjeckien Experten AB ..................................................................................................31  
    4.2.1 Pricing .....................................................................................................................32  
    4.1.2 Positioning and pricing ...........................................................................................33  

5 Analysis ..................................................................................................................................34  
  5.1 How do smaller travel operators price their products in the market of tourism? ..........34  
    5.1.1 Pricing decisions .....................................................................................................34  
    5.1.2 The characteristics of the tourist product ................................................................34  
    5.1.3 Influences on pricing decisions ..............................................................................36  
    5.1.4 Price changes .........................................................................................................39  
    5.1.5 Quality and high price ...........................................................................................41  
  5.2 How do pricing and positioning influence each other in the market of tourism? .......44  
    5.2.1 Competitive advantage .........................................................................................44  
    5.2.2 Two sides to the positioning ..................................................................................44  
    5.2.3 Ways of positioning .............................................................................................45  

6 Conclusions and implications ...............................................................................................47  

References .............................................................................................................................49  

Interviewed persons .................................................................................................................52  

Appendix  

Interview guide
Chapter 1 - Introduction

1 Introduction

This chapter presents the background of our chosen topic to give the reader a view of the problem area. Here we also deal with the problem discussion, purpose and the research questions.

1.1 Background

As Rita (1998) writes in his article, tourism is the largest generator of wealth and employment in the world. Tourism is an economic engine for developed and developing economies worldwide. Rita is using statistics from World Travel and Tourism Council showing that the tourism industry constitutes 11 per cent of global GDP, supports 200 million jobs worldwide, which represents, 8 percent of total employment. As Rita (1998) continues, according to the European Union Conference, Agenda 2010 (1998), small and medium-sized enterprises account for 90 percent of all businesses in European tourism and more than 94 percent of them are micro operators employing less than ten individuals. There are 2.7 million small and medium sized enterprises in tourism located in West, Central and Eastern Europe employing 17 million people, this according to the World Tourism Organisation (1998). Witt and Moutinho (1995 p ix) together with other authors also agree on the fact that tourism plays a major role in the world economy and is expected to become even more important in the years ahead. As Fernström (2000, p 250) writes, the tourism industry, which is growing continuously with 5-7 percent both in Sweden and in the rest of the world, represents both possibilities and threats. Two of the most important factors are the customers’ increased power and demand in deciding for themselves how to travel, but also in getting personal service. This requires that the travel operators specialize themselves and aim to target chosen customer groups, where they can offer them added value and personal service. The travel agents become more and more like a consult and adviser, the customers prefers to book their travels with the same person whom they have trust in and who knows their preferences and wishes. It can be rather difficult for large companies to provide this kind of personal service.

1.2 Problem discussion

There are many interesting fields in connection with tourist markets such as pricing, segmentation and positioning, consumer behaviour, communication, promotion, service quality and distribution that would be worth to research. As these involve an extremely large number of issues and factors, which we could not possibly handle within the frame of a bachelor thesis, we had to choose to disregard a number of them. To be able to conduct a deeper research, we have chosen to study two of them: pricing and positioning.

1.2.1. Pricing

An interesting and vital issue in the tourist business connected to target market is pricing. In general, Middleton (1994, p 81) writes, buyer behaviour in travel and tourism markets in all countries appears to be highly price-sensitive, and many operators act on the assumption that price is a key segmentation variable. In other words, there are segments of customers to be identified and located who respond to different price bands. Jobber (1998, p 292) enhances that price is a key element of the marketing mix because it is the only factor that represents what the company receives for the product or services that is being marketed. Therefore marketers needs to be very clear about pricing objectives, methods and the factors influencing price setting. As Jobber (1998 p 303) writes, price setting is much more sophisticated than simply asking: "How much can I get for this product?" The pricing process starts by asking
more fundamental questions like: “How is this product going to be positioned on the market?” and “What is the appropriate strategic objective for this product?” Only after these questions are answered the price can be sensibly determined. Middleton (1994, p 95) continues, while price is a vital decision in the marketing of all types of products, the characteristics of tourist products explain the industry's particular preoccupation with price. According to Middleton (1994, p 96) the tourism business operate prices at two levels. The first level of price is the price that an operator is obliged to publish months in advance of production, in brochures, guides, on admission tickets, and so on. This price structure reflects strategic marketing decisions concerning product positioning, value for money, long-run return on investment requirements, and corporate objectives such as growth, market share, and profit levels set for the operation. As Middleton (1994, p 96) continues the second level, is corresponding to marketing operations or tactics, is the price at which an operator is prepared to do business on a weekly, daily or hourly basis. It changes as the date of production approaches and in the light of bookings and expectations at the time. This often may be many weeks or months after the published price decisions were made. The tactical price may be widely known, advertised and published, as are the 'sale' offers regularly put out by tour operators as they seek to achieve additional last-minute bookings.

Setting price in the tourism business is dependent on many factors, a small travel operator\(^1\) has to be flexible and the pricing must be seen as a process, not just as setting a price and sticking with. As Jobber (1998, p 310) enhances, there are a number of situations that initiates price changes and the operator has to consider, not at least the reacting to competitors price changes. In sum, price is a central concern in marketing all types of products. As Jobber (1998, p 292) points out, price is an important part of the positioning strategy since it often sends quality cues to the customers. It is therefore also a part of the customer's economic criteria when evaluating alternatives. Further in the discussion Jobber enhances the importance of that the pricing a product should be in line with the marketing strategy. The danger is that price is viewed in isolation with no reference to the other marketing decisions such as positioning and strategic objectives. Jobber continues that it has to be recognised that the price decision is dependent on other previous decision in the marketing planning process. For new products or services, price will depend upon positioning strategy. This in turn will again have a major influence on price. Product positioning involves the choice of target market and the creation of a differential advantage. Each of these factors can have an enormous impact on price. For existing products or services price will be affected by strategic objectives for the product. According to Middleton (1994, p 103) price is often an obsession in many travel-markets and it is essential to see it in its proper perspective. It may often be the dominating influence in the short run, but it is a very important factor in the long run. It may often be the dominant influence in the short run, but it is also a very important factor in the long run. Witt and Moutinho (1995, p 367) recognises tourism pricing as a complex decision, made even more so by the variability of the product, the high degree of competition in certain markets and the difficulties in accurately forecasting the level of demand. As a result there is no universally accepted pricing method and the approach can vary considerably from one tourism organisation to another. Despite this, tourism pricing has received and continues to receive increasing attention in recent research. Middleton (1994, p 99) also enhances that there are many influences determining price setting in practice. The figure below shows the range of influences that marketing managers in the tourism industry have to take into account when setting prices, especially at the strategic level. At the tactical level the considerations focus more on day-to-day demand management in relation to competitors’ actions. It should be noted that there are two circles of influence surrounding pricing decisions. The \textit{inner circle} reflects primary influences like corporate strategy and

\(^{1}\)A company with less than ten employees, which is mostly in co-operation with other travel- and transport companies in arranging travels
positioning. As Middleton writes, (1994, p 99) these decisions set the context for marketing operations over a 3 to 5 year time span or longer, and effectively set realistic upper and lower limits within which product prices are likely to move. Marketing objectives, Middleton continues (1994, p 99), is also an important consideration because of the fact that price is a highly influential component of the marketing mix, which is adjusted to meet particular short-run objectives for each product/market sector of a business. Market segments, according to the Middleton, (1994, p 99) knowledge of segments reveals practical ways in which pricing may be made relevant to one group of customers but inaccessible to others. Operating costs, in order for a business to survive over the long run, the average prices charged must be high enough to generate sufficient revenue to cover all fixed and variable costs and provide an acceptable return on the assets employed. Last but not least Middleton (1994, p 99) brings up the influence coming from competitors’ actions, it is at the level of tactical marketing that price-competition becomes a dominant influence. In all countries generating or receiving tourist flows the travel trade press is likely to contain frequent examples of competitive, tactical pricing decisions. The outer circle on the other hand reflects primary influences like the characteristics of the product, non-price options, and legal constraints. Characteristics of products, when products have close substitutes and producer organisations have surplus capacity, it is highly likely that price will be the dominant consideration in marketing tactics, explains Middleton (1994, p 100). Still, some products, even with large capacity, are able to secure a unique niche or position within the minds of potential customers, which reduces perceived substitutability and lessens their sensitivity to price. Non-price option, there are several marketing ways in which it is possible to limit the intensity of price competition. Most of these ways are aspects of adding value to the services offered through product augmentation. Legal and regulatory constraints, while pricing is essentially a decision based on commercial influences, travel and tourism prices are often also subject to government regulation. For reasons of public health and safety, and to ensure competition between suppliers and achieve consumer protection, governments in all countries frequently intervene in or influence pricing decisions.

Figure 1. The network of influences on pricing decisions
Middleton “Marketing in Travel and Tourism” 1994, p 98
1.2.2 Segmentation and positioning

Travel operators are facing tough competition and as Jobber (1998, p 171) states, in such a competitive market in the tourist industry\(^2\) the aim is to satisfy the customers, even though it does not guarantee the success. The real question is whether a firm can satisfy customers better than the competition. To be able to create a competitive advantage it is not enough to only provide a greater value than other companies. The company has to have strategies regarding issues like their target markets, their pricing, the quality of their products, and their way of conducting promotion, which make the customers choose them instead of others. Jobber (1998, p 171) continues by explaining that if the company wants to successfully satisfy customer needs, different products and service offerings must be made to the diverse customer groups that typically comprise a market, since not all customers want or are prepared to pay for the same things. According to Middleton (1994, p 73) segmentation is the groundwork for the positioning and a number of other managerial management decisions. That’s why we also decided to write a little about segmentation before looking into positioning and pricing. He points out the usefulness of market segmentation, which has been recognised in the travel literature for long time. Kastenholz, Davis and Gordon (1999) are stating that the segmentation according to all definitions is the process of dividing a market into distinct and homogeneous groups of people with similar needs and wants who will respond to unique product offerings and marketing mixes. Middleton (1994, p 73) points out the importance of the process of segmentation in achieving greater efficiency and increased cost-effectiveness. For any business in the tourism industry\(^3\) it is important to know how the customers react for the different kind of strategic decisions, continues Middleton (1994, p 73). Not only the choice of the target market, but also the strategy of positioning the product is important. Every decision will be mirrored in the behaviour of the customers, and that is why it should be considered as a sensitive guide, worth listening to.

Mudambi and Baum (1997) points out that the primary appeal of market segmentation is that it allows planners and service providers a means to gain a competitive advantage and helps to efficiently allocate scarce marketing resources toward attracting and retaining highly profitable tourist segments. As a result, researchers and practitioners alike are all increasingly recognizing the strategic importance of offering customized offerings to distinct segments in what is becoming an increasingly sophisticated travel marketplace. Mudambi and Baum (1997) also writes that despite the continued dominance of mass tourism offering for example in Europe, there are clear indicators that more tailored offerings will be required in the future. Tourism operators have an increasingly complex range of supply options at their disposal in order to meet specific tourism needs. The focus is on a scenario where destinations compete to attract tourists. According to Middleton, (1994, p 75) there are seven main segmentation methods, all of which are used in practice in the travel and tourism industry. Many businesses in the tourism industry use at least three of the methods for any particular segment; all of them could be used if the segment being analysed as important enough to a business.

- Purpose of travel
- Buyer needs, motivations, and benefits sought
- Buyer or user characteristics
- Demographic, economic, and geographic characteristics
- Psychographic characteristics
- Geodemographic characteristics
- Price

As far as positioning is concerned Witt and Moutinho (1995, p 325) defines the product position as the place the tourist product occupies in the consumer’s mind with respect to a

---

\(^2\) All the individuals who are willing to buy tourist products and travel-related products

\(^3\) The industry that includes all companies in some way related to business with travels and travel products
small number of key attributes, which can be tangible or intangible. A tourist product’s position is affected not only by the actions it initiates but also by the activities of its competitors. The potential value of product differentiation is based on the introduction of differential advantages to the tourist product, this in terms of product attributes, features, services, level of quality, image and price range that will shape the perception of the consumer in a positive manner.

Considering the above discussed factors and the fact that we have chosen to study small travel operators, our research will be conducted according to the following questions:

1. How do small travel operators price their products in the market of tourism?

2. How do pricing and positioning influence each other in the market activities of small travel operators?

1.3 Purpose

The purpose of this thesis is to see how small travel operators of today is pricing their offers and if there is any connection between their way of conducting their pricing and positioning.
Chapter 2 - Pricing

This chapter deals with relevant theories, which support the base of this thesis. With the help of these theories we have to be able to understand and analyse the actual problem area and hopefully answer the raised research questions in a later phase of the thesis. The chapter present different kind of positioning and pricing methods.

Understanding how to set prices is an important aspect of marketing decision-making according to Jobber (1998, p 292), not least because of the changes in the competitive arena due to the impact of the Single European Market. Since price is a major determinant of profitability the developing of a coherent pricing strategy assumes major significance. According to Campbell (1999) setting and managing prices are critical elements of the marketing manager’s job. Whereas the other three areas of marketing; product, promotion, and distribution, involve the outlay of resources, the price is the one element of the marketing mix that directly influences the inflow of resources. From the marketing manager’s perspective, the price is what the consumer is willing to pay for the value of the bundle of attributes offered is also what produces the resources that cover all of the other activities of the company. From the consumer’s perspective, the price represents what the consumer must sacrifice to gain the value of the product. In addition, it is clear that prices can mean more to consumers than just a monetary exchange of value. According to Kamen and Toman (1970) and Monroe (1973) it is well established that a consumer’s psychological reaction to a price is an important determinant of the overall response to the price. Monroe and Petroshius (1981) contribute to the discussion by saying that consumers’ perceptions and inferences about prices are significant components of consumers’ evaluations of and responses to the prices that marketers set. Thus, it is critical for marketers to understand how consumers are likely to perceive a given price.

Witt and Moutinho (1995, p 367) also enhances that in the tourism marketing mix pricing is one of the most important elements. Tourism customers often rate the product at a price and without price there is no indication of value. Pricing decisions are therefore essential for the profitability of the tourist establishment, as they have a tremendous impact on demand and sales volume. Pricing is also considered to be an indication of quality. Attitudes to price also relate to the amount of risk the buyer feels is involved in the purchase decision. These are some of the reasons why the setting of tourist pricing through the cost-based methods can be dangerous, these methods real value lies in the determination of lower limits of price. Scarborough and Zimmerer (1984) also agree with this. Although the pricing element is the most important ones of the marketing mix in terms of profitability, it cannot be seen in isolation of the other elements. The interrelationships with the other marketing mix elements must be taken into consideration.

In his article, Lancioni (1988) enhances that price setting should be done on two levels. The first one, the external level includes factors such as customer price sensitivity, competitive price levels and government regulation. The internal level on the other hand considers costs reduction goals, return on investment objectives, sales volume requirements and production volume quotas. Setting prices is according to Lancioni based on two general factors, the internal cost consideration of the firm and how the market forces affecting the market. Cost-driven pricing typically looks at the cost incurred in the project as a basis for setting prices. This takes the form of the traditional cost build-up approach where the cost of production, product development, marketing and distribution are added up and an allowance for profit is attached. The other approach that is used to set prices is based on a marketing perspective. Here the pricing threshold of customer, for price levels, comes from the market and not form internal cost considerations. Market-driven pricing demands that the firm constantly keeps an ear to the marketplace in order to know what the customers are thinking and uses that as a
basis for setting prices. Skinner (1970) shares this opinion and even notes that cost-plus pricing is very much influenced by competition and demand. Vellas and Bécherel (1999, p 5) claim that there are different kinds of influencing factors, which have an effect on pricing. They say that there are a number of generally accepted features of the tourism product. According to Witt and Moutinho (1995, p 367) these basic characteristics of the tourist industry is affecting pricing, for example the following:

**Intangibility:** As physical entities, goods are tangible. They can be touched, seen, and examined before they are bought and once bought they belong to the purchaser. In contrast, services cannot be owned. They are performed and evaluated in terms of expected results and experiences enjoyed or suffered. Most tourist products have tangible elements such as the hotel and aircraft, but the tourist offer is in fact service and therefore has the characteristics of services.

**Perishability:** This Vellas and Bécherel (1999, p 5) describes as, in contrast to tangible goods; hotel nights and airline seats cannot be stocked or stored for future use. If they are not used they are lost forever. Service products are said to be perishable. Witt and Moutinho (1995 p 367) contribute with saying that this will influence the profitability of the tourism organisation, especially when the fixed costs often incurred by the industry are considerable. Vellas and Bécherel (1999, p 5) continue with describing the following characteristics:

**Inelasticity of supply:** Tourist products are inelastic because they do not adapt well to changes in short- and long-term demand. Short-term increases and falls in demand for a product will have little influence on its price. It is the long-term fluctuations that determine the composition of the product and its selling price. Tourism products are dependent on existing superstructures at destinations such as transport and accommodation.

**Elasticity of demand for tourist products:** Demand for tourism products, On the other hand, reacts very quickly to events and changes in the environment like security threats such as war, crimes, and terrorism; economic changes for example exchange rates and recessions; and changing fashion.

**Complementarity:** The tourism product is not just one single service, it is composed by several complementary sub-products. Production of the overall service and its quality depend on the components complementing each other. A shortcoming in one of the sub-products can undermine the final product. This remains one of the greatest difficulties for tourism marketers to contend with.

**Inseparability:** Production and consumption takes place at the same time, there is no transfer of ownership. To consume the product the customer has to be present when the service is performed. In fact, tourists are often involved in the production process. Their participation in the holiday, the activities and entertainment they enjoy, is often a vital component of its success.

**Heterogeneity:** The tourist product is said to be heterogeneous, this because it is virtually impossible to produce two identical tourism services. There will always be a difference in quality even if the nature of the proposed service remains constant. This heterogeneity allows the possibility of a certain amount of substitution within the different sub-products. However, the resulting product will never be exactly the same. The substituting of one hotel for another, even if they are in the same category, will create a different experience and produce a different final product. The experience can also vary even if the stay involves the same hotel, size of the rooms are rarely the same, they have different window view and different situations during the stay can occur.
Chapter 2 - Pricing

**Labour intensity:** Tourism is a “people industry”. One of the most important parts of the travel experience is the quality of the services that the visitors receive and the skills of the staff in tourist companies and at the destinations. Therefore, the tourist product is characterised by a high staff-to-client ratio, particularly staff in direct contact with the customer. The cost of having this intensive staff employed, is pointed out by Witt and Moutinho (1995, p 367). They continue that another problem here is that most of the tourism establishments and facilities are very dependent on occupancy levels at peak-off times, in order to justify the retention of staff these periods.

The following two characteristics are described by Witt and Moutinho (1995, p 367):

**Customer characteristics:** Different tourist destinations will appeal differently to various income groups and social classes, who will have different patterns of spending and length of stay, and activities.

**Competition:** the competition in the tourist industry is characterised by fluctuating levels of demand and overall business conditions.

According to Middleton (1994, p 94) the main characteristics of services or tourist offers product are summarised below from a pricing viewpoint:

- High price elasticity in the discretionary segments of leisure, recreation and vacation travel markets.
- Long lead times between price decisions and product sales. Twelve months or more are not uncommon lead times when prices must be printed in brochures to be distributed months before customer purchases are made, as is typically the case for tour operators.
- No possibility of stockholding for service products, so that retailers do not share the burden and risk of unsold stocks mid tactical pricing decisions with the producers.
- High probability of unpredictable and major short-run fluctuations in cost elements such as oil prices and currency exchange rates.
- Near certainty of tactical price-cutting by major competitors if supply exceeds demand.
- High possibility of provoking price-wars in sectors such as transport, accommodation, tour operation and travel agencies, in which short-run profitability way disappear.
- Extensive official regulation in sectors such as transport, which often includes elements of price control.
- Necessity for seasonal pricing to cope with short-run fixed capacity.
- High level of customers' psychological involvement, especially with vacation products, in which price may be a symbol of status as well as value.
- The high fixed costs of operation, which encourage and justify massive short-run price cuts in service operations with unsold capacity of perishable products.
- High level of vulnerability to demand changes reflecting unforeseen economic and political events.

In the discussion on manipulating price in order to manage demand, Middleton claims (1994 p 94), that while most businesses in the tourism industry publish standard prices, and are often required by law to display them, there are usually many opportunities to vary the published price in practice. For some businesses, such as visitor attractions, average prices are relatively stable over a year. For others such as tour operators and scheduled airlines, prices may vary widely as managers seek to optimise their short-run revenue. The use of price changes to manage demand is common throughout the industry, and is often a daily concern for many marketing managers. Witt and Moutinho (1995, p 367) also say that tourism pricing affects and is affected by future demand. As a consequence, the impact of price must be carefully considered: should a company use an initially low price to encourage
long-run demands, and as a weapon aimed at capturing market share from existing competitors and discouraging potential competitors from entering? Alternatively, if the market situation is monopolistic, this for example due to location, should the price be high, aiming at gaining short-term profits and risking attracting potential competitors? Basically, Witt and Moutinho (1995, p 368) continues, there are four factors that influence pricing decisions:

- **Cost structure**: in the long run, the price of a tourist product must be higher than the full costs incurred by the tourism organisation.

- **Competitors price**: these should be taken into account in formulating price strategies.

- **The price the customers are willing to pay** or in other words their relative elasticity of demand for a particular tour, holiday, tourist experience etc. This factor has been labelled “customer focus”. However, in using the customer focus approach, due consideration should be given to the level of demand that correlated with the break-even point when fixing the price level.

- **The tourism organisation’s objectives**: prior to deciding the pricing objectives, the tourist organisation must identify and quantify the potential demand for the particular tourist establishment. In order to achieve this, a market feasibility study must be conducted which should examine a number of factors such as the nature and extent of existing facilities in a particular location, socio-economic structure of potential visitors, potential business from industries and other sources, infrastructure, the form of existing and proposed transport networks, etc. Market research must also be conducted to identify who are, or will be, the customers on whom its strategies will eventually be targeted, and what needs they have in terms of standard of services, facilities, atmosphere, location etc.

### 2.1 Pricing methods

Shapiro and Jackson (1978) have identified three methods used by managers to set prices: Cost-oriented which reflects a strong internal orientation and is based on the company’s costs, competitor-oriented pricing strategy emphasises the activities of the competitors, and marketing-oriented which focuses on the value that the customers place on the product or service in the marketplace and its marketing strategy.

#### 2.1.1 Cost-orientated pricing

Jobber (1998, p 293) refers to Shipley (1981) in saying that companies often use cost-oriented pricing methods. Two methods are normally used; these are full cost pricing and direct cost pricing.

*Full cost pricing*

Jobber (1998, p 294) writes that the first problem with full cost pricing is that it leads to an increase in price if sales fall. Second, the procedure is illogical because a sales estimate is made before a price is set. However, through forcing the managers to calculate costs, it does give an indication of the minimum price necessary to make a profit. Once direct and fixed costs have been measured a break-even analysis can be used to estimate the sales volume needed to balance revenue and costs at different levels. Therefore the procedure of calculating full costs is useful when other pricing methods are used since full costs may act as a constraint. If they cannot be covered then it may not be worthwhile launching the product or service.
Direct cost pricing

Jobber (1998, p 294) continues with saying that the use of this method involves calculation of only those costs, which are likely to rise when output increases. The obvious problem is that this price does not cover full costs and so the company would be making a loss selling a product or service at this low price. However, there are situation where selling at a price above direct costs but below full costs make sense. Direct cost pricing is useful for service marketing, for example where seats in aircraft or rooms in hotels cannot be stored, if they are unused at any time the revenue is lost. In such situations, pricing to cover direct costs plus a contribution to overheads is sensible. The risk is that the customers who have paid the higher price finds out and complain. Direct costs indicates the lowest price at which it is sensible to take business if the alternative is to let for examples the seats or the rooms lie idle. Direct cost also does not suffer from the impact relationship of “price up when demand down problem” as the full cost pricing does. This renders from the fact that it does not take the fixed cost into account in the calculation of the price. Finally, it avoids the problem of allocating overhead charges found with full cost pricing for the same reason. However, when business is buoyant it gives no indication of the correct price because it does not take the customers’ willingness to pay into account. Nor can it be used in the long-term as at some point fixed costs must be covered to make a profit. Nevertheless, as a short-term expedient or tactical device, direct cost pricing does have a role to play in reducing the impact of excess capacity.

2.1.2 Competitor-oriented pricing

Jobber (1998, p 295) continues with this approach to pricing. Competitor-oriented pricing can take two forms such as going-rate pricing and competitive bidding.

Going-rate pricing

In situations where there is no product or service differentiation a producer may have to take the going-rate for the product or service. This accords most directly to the economist’s notion of perfect competition. To the marketer, one the other hand it is a somewhat forbidden pricing activity because of one of the fundamental marketing principles of creation of differential advantage to build up monopoly positions around their products or services. This allows a degree of price discretion dependent upon how much customers’ value the differential advantage. Even for what appear to be commodity markets, creative thinking can lead to the formation of a differential advantage upon which a premium price can be built.

Competitive bidding

Here Jobber (1998, p 296) points out that many contracts are won or lost on the basis of competitive bidding. The most usual process is the drawing up of detailed specifications for the product or service and putting the contract out for tender Potential suppliers quote a price, which is confidential to themselves and the buyer (sealed bids). Ceteris paribus, the buyer will select the supplier, which quotes the lowest price. A major concern for the suppliers is the likely bid prices of the competitors. Some statistical models have been developed by management scientists to add a little science to the art of competitive bidding. In the extreme case of a company fighting for survival, a more sensible bid strategy might be to price below full cost and simply make a contribution to fixed costs. Clearly the use of competitive bidding models is restricted in practice. However, successful bidding depends on having an efficient competitor information system. The reliability of the salespeople as the information network is crucial to the analysis of the competitor bidding. Sometimes there of course were in the interest of the salespeople to quote a lower successful bid price than actually occurred.
2.1.3 Marketing-oriented pricing

As Jobber (1998, p 297) enhances, marketing-oriented pricing is more difficult than the other two pricing approaches, this because it takes a much wider range of factors into account. All together there are ten factors that need to be considered according to Jobber. These are:

- **Marketing strategy**
  The price of a product should be set in line with the marketing strategy. The danger is that price is viewed in isolation, as with full cost pricing, with no reference to the other marketing decisions such as positioning, strategic objectives, promotion, distribution and product benefits. The result is, according to Jobber (1998, p 297), an inconsistent mess that makes no sense in the marketplace and causes customer confusion. The way around this problem is to recognise that the price decision is dependent on other decisions in the marketing planning process. For new products or services, price will depend upon positioning strategy and for existing products or services price will be affected by strategic objectives.

- **Value to the customer**
  A second marketing consideration when setting a price is estimating a product’s value to the customer. Already when discussing marketing strategy it is importance has been outlined: price should be accurately keyed to the value to the customer. This renders in the conclusion of that the more value a product gives compared to the competition the higher price can be charged. There are a number of ways of estimating value to the customer (c.f Jobber 1998, p 298). According to Lace (1982) pricing policies in the small business should therefore be a marketing responsibility where customers come first and everything that is possible is done to meet their needs.

- **Price-quality relationships**
  Jobber (1998, p 307) continues that a third consideration when adopting a marketing-oriented approach to pricing is the relationship between price and perceived quality. This mainly because many people use price as an indicator of quality, especially in the case of products, such as drinks and perfume, where objective quality-measurements are not possible to conduct. A study conducted by Erickson and Johansson (1985) of price and quality perceptions of, for example, cars found that higher priced cars were, unjustifiably perceived to possess high quality.

- **Product line pricing**
  Under this factor Jobber (1998, p 307) is discussing that marketing-oriented companies also need to consider where the price of a new product fits into its existing line of product. Though by producing a range of products at different price levels companies can cover the varying price sensitivity of customers and encourage them to trade-up to the more expensive, higher margin products.

- **Explicability**
  The capability of the company to explain a high price to customers may constraint price flexibility according to Jobber (1998, p 308). In markets where customers demand economic justification of prices, the inability to produce cost and/or revenue arguments may mean that high prices cannot be set. In other circumstances the customer may reject a price that does not seem to reflect the cost of producing the product.

- **Competition**
  Competition factors are important determinants of price as Jobber (1998, p 308) points out. At the very least competitive prices should be taken into account. Though, companies must be careful when defining competition, there are also a number of ways of defining the competitors. Many companies do that through listing other companies that supply technically similar product, this as the immediate competition, however this is only on of the layers of competition. Secondary competition comes from dissimilar products that are solving the same problem in a similar way. A last layer of competition can be seen as products solving the problem in a dissimilar way.
• **Negotiating margins**
  In some markets, Jobber (1998, p 309) continues, customers expect a price reduction; the price that is paid is therefore very different from list prices. The difference can be accounted for by, for example, order-size discounts, a fast payment discount, promotional allowances, and competitive discounts in the form of a discretionary discount negotiated before the order is taken. Built in negotiating margins allow prices to fall from list price levels but still permit profitable transaction prices to be achieved.

• **Effect on distributors/retailers**
  When products are sold through intermediaries such as distributors or retailers, the list price to the customer must reflect the margins required by them. The implication of this, according to Jobber (1998, p 310), is that price strategy is dependent on understanding not only the ultimate customer, but also the need of the distributors and retailers who form the link between them and the producer. If their needs cannot be accommodated product launch may not be viable or different distribution system is required.

• **Political factors**
  Companies need to take great consideration to that their pricing strategies are not seen to be against the public interest, this as Jobber (1998, p 310) writes. Exploitation of a monopoly position may bring short-term profits but incur the backlash of a public inquiry into pricing practices. Where price is out-of-line related to the producing costs, political pressure might act to force down prices.

• **Costs**
  As a part of an outward-looking marketing-orientated approach this may seem a contradiction, but in reality cost do enter the pricing equation. The secret, according to Jobber (1998, p 310), is not to se it in isolation from the other considerations, what should be avoided is the blind reference to costs when setting prices.

By taking these ten marketing-oriented factors, managers can judge the correct level at which to set prices.

**Further pricing methods**

Witt and Moutinho (1994, p 369) see that, in periods of recession tourist establishments often use pricing as a tactical, short-term tool. It should therefore be expected that the pricing systems, used in practice, found to be market oriented. Traditionally more formal cost-oriented pricing structures have been used.

**Cost-plus**
  This method calculates the price on the basis of variable costs to which is added a certain percentage that is regarded as covering other fixed costs and proving a satisfactory profit margin. Typically, an operator will set this percentage on known industry practise or by analysis and projection of the market conditions. This method is easy to use and apply, but it has a number of drawbacks, especially so for the accommodation sector of the tourism industry. The cost-plus method does not take into account demand for the product. This method is appropriate for cost-oriented industries but not for the market-oriented ones.

**Rate of return**
  Those concerned with financial analysis will argue that the true function of a tourist enterprise is to provide a satisfactory return on the capital invested. The cost-plus method concentrates on the associated with running the business, while the rate of return method concentrate on the profits generated in relation to the capital invested. The criticism of the rate of return pricing is that it is a rather mechanistic, rigid an unduly profit oriented. It ignores more factors influencing pricing policy for example the importance of sales volumes.
Its approach to problems is therefore too simple to be realistic. Its greatest failure is that it
looses sight of the customer and market demand generally. Thus, in a market-oriented
business it cannot be wholly acceptable.

Backward pricing
This method of pricing adopts the procedure of going from price, normally the price of a
competitor, to cost. It starts with a predetermined market price and a given specified profit
and it attempts to achieve the latter by adjusting variable service and qualitative aspects to
reduce costs. As such it must be used with care, as a thorough analysis of attitudes,
psychology, and requirements of the tourist customer must be made before price selection,
while making allowance for existing or potential competition for the psychological effects of
pricing implying quality levels.

Marginal pricing
Witt and Moutinho (1995, p 370) describes the approach to pricing decisions which
recognises that decision-making is essentially a process of choosing between competing
alternatives, each with its own combination of income and costs. By estimating the demand
curve for a particular product or service, it is possible to see what would happen to total profit
if the selling price are raised or lowered. Such an approach could be useful in a highly
competitive industry with corresponding elastic demand and a high ratio of fixed to variable
costs. In such an industry, it is possible to set a range of prices, all of which are economically
possible, i.e. each price generates enough revenue to cover total costs and provide some
profit. The crucial question to be answered here is what price would maximise total
contribution to fixed costs and profits. This is a useful technique for industries with high
fixed costs, like tourism enterprises with large facilities. Marginal pricing permits a more
aggressive pricing policy, by segmenting the market and using product differentiation to gain
advantage of the different layers of consumer demand, and for selecting the most profitable
pricing when capacity is limited, as for example, in the peak season.

Flexible pricing
According to Witt and Moutinho (1995, p 371), this method takes into consideration the
market demand and enables discrimination according to time, place, version or volume.
Although clearly the most profitable way to price is according to what the market will bear, it
is not always easy to discover the correct level, and in the process some costly mistakes may
be made. “Charging what the market will bear” comes down to segmenting the market and
producing different prices for different segments based on willingness and ability to pay.
Hankinson (1991) also agrees with this. In other words, this is price discrimination. There
are several types of discriminations are possible, for example in the hotel industry the manager
could conduct discrimination by time, which is applicable where there are peaks and troughs
of demand; discrimination by place, where one example could be hotel rooms with a balcony
overlooking the sea, commanding higher prices than the ones overlooking the service yard.
The third one is discrimination by volume; here the volume and quantity discounts where
end-users are concerned for example in the case of tour operators care must be taken that the
actual bookings reach their promised level as otherwise concessions are lost. An example of
price discrimination is the airline companies pricing techniques. According to McGee (2000)
on any given day it is conceivable that an airline carrying 400 passengers sales their seats for
400 different fares. Even statistics says that the world’s largest computer reservation system,
offers more than one billion airfare combinations during the course of an average day.

Market penetration
This involves setting a price below that of the market competition to capture custom in the
hope that prices may rise at a later date while retaining a high proportion of the custom that
have been built up. This approach offers economies of scale both in production and in marketing.

**Skimming**
In tourism, Witt and Moutinho (1995, p 371) continues, this may be applied to a very differentiated product, such as a new destination where premium prices may be charged. This pricing policy can be adopted only in circumstances where an inelastic demand exists for the product or service offered. Ownership of a certain unique location often offers an opportunity to charge particularly to charge high prices.

**Yield and revenue**
Attempts to maximise by increasing the revenue from the existing level of demand. It is suitable and used particularly as a short-term approach. Some of the pricing methods presented above are particularly suitable to small tourism enterprises and operators; examples are the cost-plus method, marginal pricing technique and market penetration pricing. According to Lace (1982) most small businesses will base pricing on a combination of what the market will bear and cost-plus.

Witt and Moutinho (1995, p 371) continues that small tourism businesses must carry out the following actions to arrive at a decision in developing a pricing policy:

- Undertake a market feasibility study and market research to determine: the customers and the nature of demand; the quality and quantity of the product required and its costing elements; the nature of the competition; and the price that the customers are willing to pay for the product.
- Set clear pricing objectives, for example to attain a certain level of occupancy.
- The price strategies depend highly on the customers serviced, the small tourist organisation strengths and weaknesses, the opportunities and threats in the marketplace, the competition and certain tourism non-controllable marketing variables for example weather, government intervention and regulation of tourism activities, economic circumstances, etc.

### 2.1.4 Strategic and tactical prices

According to Middleton (1994, p 96) the tourism business operate prices at two levels. *The first level*, which corresponds broadly with marketing strategy, and *the second level*, which corresponds to marketing operations or tactics. This shows the role of price in strategy and tactics. In pricing, as in all other elements of the marketing mix, the tactical or operational decisions have to be made within a strategic framework, that steers the business toward its chosen goals. The strategic role of regular or published prices, to start with, reflects corporate strategies such as maximum growth or maximum profit. It also communicates chosen positioning and image for products among target segments, communicates expectations of product quality, status, and value to prospective customers, reflects stage in the product lifecycle, determines long-run revenue flows and return on investment, determines the level of advance bookings achieved. The tactical role of prices such as discounted and/or promotional prices is for example the conducting of manipulating marginal often in a last-minute perspective, in the tourism market the obvious example is the last-minute pricing of left over flight seats and so on. This is done through incentives that may be general or more often restricted to particular segments. Another example is that this kind of prices is a means of matching competition by the quickest available route, as Middleton puts it. Tactical role can also include acting as a short-run tool for crisis management and of course the price determines the short-run cash flow.
At the strategic level, as Middleton (1994, p 97) continues, growth strategies in price-sensitive markets are often based on relatively low or 'budget pricing' in order to secure a rapid impact on a large number of potential buyers. Such strategies usually aim for a high volume of sales at low profit margins per unit sold. The life-cycle stage of a product is also very much a strategic consideration, and older, mature products will often be more price-sensitive because of the competition they face from newer, developing products in high demand. Because of the fact that many service products cannot be seen or easily evaluated before purchase, the product's image and implications of quality have added significance for prospective buyers. Price is a highly relevant symbol in signalling or communicating what buyers should expect in terms of product quality and value for money. Important as pricing decisions are in a strategic sense, they play an even more dominant role in a tactical sense. This is because of the inseparable and perishable nature of service production and consumption, and the inability of service producers to carry over unsold stocks as a buffer to cope with future demand. To achieve this, it requires what amounts to a continuous obsession with demand manipulation, in which tactical price cuts are usually important and often the only available tool. Surplus capacity in any market heightens this obsession. The typical seasonal and daily variation in demand for most travel and tourism products, and the seasonal pricing structure devised to respond to it, also heighten the concern with tactical pricing decisions.

2.1.5 Pricing objectives

Lancioni (1988) defines the price setting as a deliberate procedure of developing a set of objectives, evolving a set of strategies to achieve these objectives and implementing a series of tactics in a marketing program. More specifically:

- A pricing objective points out specific returns on investment, cost recovery goals or market-share objectives
- Pricing strategies stress how the pricing mission or objectives will be achieved
- Pricing tactics state what will be done to achieve the objective

The pricing objectives that a firm sets depend on a variety of factors including the orientation of the firm's management, the stage a product is in, in its overall lifecycle, the financial goals of the organization and the competitive situation in the market place. According to Lancioni (1988) there are, in general, four pricing objectives that a company can set in marketing.

Return on revenue

Setting a return on revenue for a pricing program can focus on either a return on sales or a return on assets. Either approach makes sense depending on the type of industry the firm is in or the measures the firm has used to determine the return it gets from its investments. Return-on-revenue price objectives in marketing make sense when the firm is the low-cost supplier in a market and the profit on sales is high. Also, the above objectives are useful when the market will take the volume at the price that is established by the firm. The firm can be sure that it will generate a stable return on the sales or assets over time. This objective also makes sense of the company is a price leader and sets the pace for the establishing prices in the market. Such a situation occurs in oligopolies where a major price leader is present.

Price stability

Price stability is according to Lancioni (1988) the desire of all companies in the market because it eliminates the need to review schedules constantly and develop pricing programs for customers. Price stability is a desirable goal in commodity markets where a firm has little chance of developing a value orientation for its products, since there are close substitutes immediately available. In commodity markets, companies do not enjoy longer periods of price stability because of the competition forcing new pricing arrangements. Price stability can be an attainable objective when a customer’s product options are limited, when a product
is a significant cost element for the customer and when it is not available from any other source. Price stability can also be achieved when a company enters long-term contracts with the customer.

Market Prestige and Image
As pricing objectives they are generally associated with consumer products that have many intangible benefits associated with them. Products such as expensive cars, personal care products (perfume, jewellery, clothes, etc.), real estate and fashions are examples. The higher the value level a firm can develop for its products the higher price can be charged.

Meeting competition
One of the most popular strategies in marketing is to meet the competitive price. Many firms use this as a pricing objective, especially those in a price sensitive market or where their products that has easily accessible substitutes which can be supplied quickly by other companies. The main pricing objectives in the tourism industry, according to Witt and Moutinho (1995, p 368), are:

- Profit maximisation: this is the most common cited pricing objectives because it acts as a measurement of management efficiency; provides cash flows; and in the hotel industry, can be used to compensate for lower income in the off-peak season.

- Maximisation of return on investment: this is very important in the tourism industry, which normally has a very high level of fixed costs.

- Survival: this objective is applicable where low levels of demand are experienced because of seasonality, intensity of superior competition, economic recession, etc. Examples are cheap holiday package for off-season periods and cost cutting exercises such as the ones undertaken by, say, Spanish hotels following a period of very high labour inflation which resulted in a trend towards self-service buffets, instead of usual sit-down meals.

- Volumes of sales: maximisation occupancy. This is closely connected with profitability-unsold beds means lost profits. Stabile occupancy is also important, again this is aimed at achieving high sales connected with profitability. In this case though increased occupancy may have to be achieved through low rates and special discounts for long stays, certain hotels offer particularly low rates to guests staying long periods during the winter season and airport hotels operate special, lower prices at weekends when occupancy tends to fall sharply.

2.1.6 High or low price

Two major questions in pricing:
- When is it sensible to use a high price (skimming) strategy?
- When should a low price (penetration) strategy be used?

To answers these two questions the manager need to understand the characteristics of market segments that can bear a high price and which segments cannot.

High price
These are the high-price characteristics that Jobber (1998, p 299) enhances:
Product provides high value
Customers have high ability to pay
3. Consumer and bill payer are different
4. Lack of competition
5. High pressure to buy
Chapter 2 - Pricing

The first characteristic is that the market segment should place high value on the product, which means that its differential advantage is substantial. There can of course be different kinds of high value or several different kinds of value connected to the product such as psychological or functional value. Second, high prices are more likely to be viable where customers have a high ability to pay. Cash rich segments in organisational markets often correlate with profitability. As a third condition Jobber mentions that in certain markets the consumer of the product is different from the bill payer. This distinction may form the basis of a high price market segment. For example, airlines charge more for a given flight when the journey is for less than seven days and does not include a Saturday night. This because that type of traveller is more likely to be a businessperson, whereas the more price sensitive leisure traveller who pay for themselves and tend to stay at least a week at a lower fare. Rail travel is also often segmented by price sensitivity; early morning long-distance trips are more expensive than midday journeys since the former are usually made by business people.

The fourth characteristic, Jobber continues, of high price segments is lack of competition among supplying companies. The extreme case is of course a monopoly where customers have only one supplier to buy from. When customers have very little or no choice of supply power to determine price is largely at the hands of the supplier. The final situation where customers are likely to be less sensitive to price is where there is high pressure to buy. For example, in an emergency situation where a vital part is required to repair a machine that is needed to fulfil a major order, the customer may be willing to pay a higher price if supplier can guarantee a quick delivery. It is unlikely that all five conditions will apply for the chosen target market for the new product or service but the more that these characteristics are found in the segment, the higher the chances that a high price can be charged.

**Low price**

These are the conditions for charging a low price listed by Jobber (1998, p 300):

1. Only feasible alternative
2. Market presence of domination
3. Experience curve effect
4. Make money later
5. Make money elsewhere
6. Barrier to entry
7. Predation

The first situation is when a analysis of the market segment using the checklist of characteristics for the use of skimming pricing strategy and this reveals that a low price is the only feasible alternative. For example, a product which has non-differential advantage launched on to a market where customers are not cash rich, pay for themselves, have little pressure to buy and have many suppliers to chose from has no basis for charging a higher price. At best it could take the going-rate price but more likely be launched using penetration strategy, otherwise there would be no incentive for the customers to switch from their usual brand. There are however more positive reasons for using a low price strategy. First a company may wish to gain market presence or domination by aggressively pricing its products or services. Low prices may also be charged to increase output and so bring down costs through the experience curve effect. Research done by Abell and Hammond (1979) has shown that for many products costs decline by around 20 percent when production doubles.

Cost economies are achieved by learning how to produce the product more effectively through better production process and improvements in skill levels, this diminishing of costs is shown by the experience curve. The advantage of economies of scale is another way to lower costs as production rises. Marketing costs per unit of output may also fall as other fixed costs as production reaches higher levels. Fourth, a low price strategy can make sense when
the objective is to *make money later*. Two circumstances can provoke this action. First, profitable after-sales services and/or spare parts may follow the sale of the basic product or service. Second, the price sensitivity of the customers may change over time, initially customers may be price sensitive implying the need for a low price but as circumstances change they may become much less sensitive to price. One reason why marketers charge low prices is to *make money elsewhere*. For example, retailers often use loss leaders that are advertised in an attempt to attract customer to their store and to create a low-cost image. The customers get the picture of the store as only selling products at low price. Manufacturers selling a range of products to organisations may accept low prices on some goods in order to be perceived by customers as a full-range supplier. In both cases, sales of other higher priced and more profitable products benefit.

Low price can also act as a *barrier to entry*, a company may weigh the longer-term benefits of deterring competition by accepting low margins to be greater than the short-term advantages of a high price, high margin strategy that may attract rivals into its market. Finally, low price may be charged in an attempt to put other companies out of business, called *predation* strategy.

2.1.7 Initiating price changes

Jobber (1998, p 310) enhances that in a highly competitive world, pricing is dynamic and managers need to know when and how to raise or lower prices and whether to react or not to competitors’ price moves. Three key issues are associated with price changes, these are: *Circumstances*; that may lead to required price changes, *Tactics*; that can be used and, *Estimating competitor reaction*; to know to follow or not.

*Circumstances for raising price*

Jobber (1998, p 311) continues that a price increase may be justified as a result of marketing research, which reveals that customers place a higher value on the products than is reflected in its price. Rising cost and therefore also reduced profit margins may be another reason for raising price. Excess demand is another factor, a company that cannot supply the demand created by its customers may choose to raise prices in an effort to balance demand and supply. This can be an attractive option as profit margins are automatically widened. The final example of potential circumstances are when a company are starting to implement actions for a harvest objective, here prices are raised to increase margins even though sales may fall.

*Circumstances for lowering price*

Jobber (1998, p 311) points out that price cuts may be provoked by the discovery that price is high compared to the value that customers place on the product. Falling costs and the desire to bring down costs further through the experience curve is another example. Where there is excess supply the lowering of price is a means of correcting the situation that is leading to excess capacity. A further circumstance is a company’s the adoption of a build objective, when customers are thought to be price sensitive, lowering of price may be used to build sales volumes and market share. This can be done as long as a price war is unlikely to occur, otherwise it will only have negative consequences.

Jobber’s final circumstance that may lead to price cuts is the desire to pre-empt competitive entry into a market. According to Kucher and Simon (1987) proactive price cuts, before the new competitors enters, is painful to implement because it incurs short-term sacrifices of profit but it immediately reduces the attractiveness of the market to the potential entrants and reduces the risk of customer annoyance if price are reduced only after further competitive entry.
Tactics
The price increases and lowerings can be implemented in a number of ways, Jobber (1998, p 311) continues. The most direct is the price jump or fall that increases or decreases the price by the full amount through one price-altering action. A price jump avoids prolonging the pain of a price increase over a long period but may raise the visibility of the price increase to customers. Using staged price increases might make the price rise more “palatable” but the company then runs the risk of being charged with the customer opinion of ‘always raising your prices’. A one-stage price fall can have a dramatic effect that can be heavily promoted but also has an immediate impact on profit margins. Staged price reductions have a less dramatic effect but may be used when a price cut is believed to be necessary but the amount required to stimulate sales is unclear. Small cuts may be initiated as a learning process, which proceeds until the desired effect on sales is achieved. Price can also be raised by using escalator clauses as Jobber (1998, p 312) points out, this is a clause in a contract that allows the supply to stipulate price increases in line with a specific index, for example increases in industry wage rate or the cost of living.

Price bundling is another tactic that effectively raises prices. Many product offerings actually consist of a set of products to which an overall price is set. Price bundling allows each element in the offering to be separately priced in such way that the total price is raised. A variant of this process is charging for services previously included in the product’s price. For example, producers of mainframe computers have the option of unbundling installation and training services and charging for them separately. A final tactics, discussed by Jobber is to maintain the list price but lower discounts to customers. For example quantity discounts can be manipulated in order to raise the transaction cost to customers.

Estimating competitor reaction
A key factor in the price change decision, according to Jobber (1998, p 312), is the extent of competitor reaction. A price rise that no competitor follows may turn customer away while a price cut that is met by the competitors may reduce industry profitability. Jobber claim there to be four factors that affect the extent of competitor reaction: their strategic objectives, what is in their self-interest, the competitive situation at the time of the price change, and past experience.

- Strategic objectives
Jobber (1998, p 312) continues by pointing out that companies try to gauge their competitors’ strategic objectives for their products. By observing pricing and promotional behaviour, talking to distributors and even hiring their personnel, there can be made estimates of whether competitor products are being built, held or harvested. This is crucial information because the success of company’s price actions will depend on the competitors’ reactions. They are more likely to follow the first company’s price increase if their strategic objectives are to hold or harvest. If their intent is to build market share, they are more likely to ignore the price change done by the first company. Conversely, competitors are more likely to follow a price-reduction if they are building or holding and more likely to ignore if harvesting.

- Self-interest
This is also important, according to Jobber (1998, p 312), while managers initiating price changes should try to put themselves in the position of their competitors. What reaction is in their best interest? This may depend on the circumstances of the price change. For example, if price is raised in response to a general rise in cost inflation, competitors are more likely to follow than if the price is raised because of the implication of a harvest objective.
Chapter 2 - Pricing

- Competitive situation
Price may also depend upon the facts of the situation for the competitors. If competition has excess capacity a price cut is more likely to be matched than if this is not the case. Similarly, a price rise is more likely to be followed if competitors face excess demand.

- Past experience
Competitors’ reaction can also be judged by looking at their reactions to previous price changes. Past experience is though not always reliable, it may provide insight into the way in which competition view price changes and the likely responses the might conduct.

2.1.8 Reacting to competitors price changes

When competitors initiate price changes, companies need to analyse their appropriate reactions. Three considerations are relevant here: when to follow, what to ignore and the tactics if the price change is to be followed.

When to follow
Competitor price increases are, as Jobber (1998, p 313) has mentioned, more likely to be followed when they are due to general rising cost levels or industry-wide excess demand. In these circumstances the initial pressure to raise prices is the same on all parties. Following the price rise is also more likely when customers are relatively price insensitive, which in this situation means that the follower will not gain much advantage by resisting the increase in price. Where brand image is consistent with high prices, a company is more likely to follow a competitor’s price rise in order to prevent inconsistency between price and the brand’s positioning strategy. Finally Jobber (1998, p 313) takes the situation of a company pursuing a harvest or hold objective, it is more likely to follow because in both cases the emphasis is more on profit margin than sales/market share gain. Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins. Excess on the other hand means that the company is unlikely to allow rival to make sales gains at their expense.

Lowering of price will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for the price lowering company. The image of the company can also affect reaction to price cuts, some companies position themselves as low price producers or retail outlets. In such circumstances the would be less likely to go unchallenged for to do so would be incompatible with their brand image. Finally, as Jobber (1998, p 313) point out, build and hold objectives are factors that increase the probability for following of a price cut. In such circumstances an aggressive price move by a competitor would be followed to prevent sales/market share loss. In the case of a build objective, response may be more dramatic with a price fall exceeding the initial competitive move.

When to ignore
The circumstances associated with companies not reacting to a competitive price move are in most cases simply the opposite of the above mentioned by Jobber (1998, p 313). Price increases are likely to be ignored when costs are stable and falling, which means that there are no cost pressures forcing a general price rise. In the situation of excess supply companies may view a price rise as making the initiator less competitive and therefore allow the price to take place unchallenged, particularly when customers are price sensitive. Companies occupying low price positions may regard a price rise in response to a price increase form a rival to be incompatible with their brand image. Finally, companies pursuing a build objective may allow a competitor’s price rise to go unmatched in order to gain sales and market share. Price cuts are likely to be ignored in conditions of rising cost, excess demand.
and when servicing price insensitive customers. Premium price positioners may be reluctant to follow competitor’s price cuts for to do so would be incompatible with brand image. Lastly, price cuts may be resisted by companies using a harvest objective.

**Tactics for adjusting to price changes**

When a company decides to follow a price change it can do so quickly or slowly. A quick price change reaction is likely when there is an urgent need to improve profit margins. Here the competitor’s price increase will be welcomed as an opportunity to achieve this objective. Conversely, a slow reaction to a price change may be desirable when an image of being the customer’s friend is being sought. According to Ross (1984), the first company to announce a price increase is often seen as the high price supplier. Some companies have mastered the art of playing the low cost supplier by never initiating price increases and following competitor’s price increases slowly. The key to this tactic is timing the response either too quickly so that customers do not notice, or too long that profit in forgone according to Jobber (1998, p 313). The optimum period can be found only by experience but during it salespeople should be told that the company is doing everything it can to hold prices as long as possible. A quick response to a competitor’s lowering of price will happen to ward off a competitive threat. In the face of undesirable sales/market share erosion, fast action is needed to nullify potential competitor gains. However, reaction will be slow when a company has a loyal customer base to accept higher prices for a period so long as they can rely on price parity over the longer term.

Witt and Moutinho (1995, p 367) summarises tourism pricing as a complex decision, made even more so by the variability of the product, the high degree of competition in certain markets and the difficulties in accurately forecasting the level of demand. As a result there is no universally accepted pricing method and the approach can vary considerably from one tourism organisation to another. Despite this, tourism pricing has received and continues to receive increasing attention in recent research and publications. In their article McGoldrick, Betts and Keeling (2000) claim that it is fair to say that marketers have been guilty of relying on tactical considerations and their own intuition in the setting of prices. This statement several other authors, like Carson (1993) and Hankinson (1991), Redinbaugh and Neu (1980) and Watkins and Blackburn (1986) agree too. Redinbaugh and Neu (1980) also add that the apparent absence of a technical approach to pricing in the small company, pricing is more of a managerial art than a science. The factors that influence price setting are often apocryphal or judgmental. Subrahmanyan and Shoemaker (1996), in discussing the use of quantitative models in price setting, remarks on how retail buyers “… consider pricing and ordering decisions as an art form and most of them do not use any analytical model to help them in these decisions.” Worse still than a reliance on “feel” or qualitative assessment in pricing strategy is the absence of any real strategy at all. Marketers who will spend hours debating the finer details of promotional or advertising strategy treat pricing decisions with what amounts to abandon. “Stick a 50 percent margin on, we always do that for this type of product.” Pricing decisions are not made according to any sensible rationale but out of a sense of habit. There are some further presumptions and assumptions made about pricing that contribute to problems and difficulties. The first of these is an assumption that consumers assume an automatic link between price and quality. It may be true that the price is a quality cue but its value as a cue is moderated by other factors such as image, consumer experience and pricing history. Hiking the price does not mean that consumer opinions about the product will change. McGoldrick, Betts and Keeling (2000) wraps it up by saying that basically, marketers face one pricing dilemma. Put simply, this is the trade-off between setting prices low to stimulate sales volume or setting prices high so as to communicate a quality image and secure higher margins.
2.2 Positioning and pricing

According to Witt and Moutinho (1995, p 327) tourists or consumers of tourist services evaluate and buy products based on perceptions and image that are unique to each tourist product or brand. Any tourist company can create a position through market segmentation and product differentiation. A tourist product can be differentiated through bringing out its unique benefits to the intended target market, in order to create a desired position in the tourist’s mind. This is what positioning is about. As Jobber (1998, p 292) enhances, price is another important part of the positioning strategy since it often sends quality cues to the customers. Price is the only thing in the marketing mix that is a revenue earner. The price of a product or service is what the company gets back in return for all the effort that is put into manufacturing and marketing the product or service. The other three Ps are representing costs. Jobber (1998, p 171) points out that very few products can satisfy all customers in a market. Not all customers want or are prepared to pay for the same things. For example, airlines recognise that business and pleasure travellers are different in terms of their price sensitivity and level of service required. In the watch market, the type of person buying a Rolex is in most cases very different from a person buying a Swatch. Jobber (1998, p 292) continues the sales of many products; particularly those that are a form of self-expression such as drinks, cars, perfume and clothing could suffer from prices being too low.

Middleton (1994, p 84) also writes, that the ways in which products are put together are the most important responses marketing managers make to what they know of their customers’ needs and interests. Product decisions, with all their implications for the management of service operations and profitability, reflect all aspects of an organisation’s management policies, including long-term growth strategy, investment, and personnel policy. They largely determine the corporate image an organisation creates in the minds of its existing and prospective customers. To a great extent the design of products determines what prices can be charged, what forms of promotion are needed, and what distribution channels are used. For all these reasons customer related product decisions are ‘the basis of marketing strategy and tactics’. Middleton (1994, p 91) continues by claiming that in common with most services, the benefits provided by tourist products are essentially intangible and strongly identified with personal goals and aspirations at levels which Maslow termed ‘self-actualisation’. Accordingly, the image or identity chosen for the purposes of promoting tourism products is a matter of the greatest importance to marketing managers. Middleton (1994, p. 92) continues that knowing what the customers want is not too helpful if a dozen other companies are already servicing their wants. In such circumstances producers are not just concerned with satisfying customers’ needs, but doing so in ways that are recognised as unique or very strongly identified with a particular organisation, and which cannot be easily copied by any other producer. Images provide identities both for products and for organisations or destinations that produce them.

Middleton (1994, p 92) continues that for destination marketers, perhaps the most significant aspect of an image is its influence on travel behaviour. Basic consumer behaviour theory suggests that consumers make product choice decisions based on the images they form of different brands, this Middleton states with reference to MacInnis and Price (1987) and Runyon (1977). The last author continues with pointing out that the consumer knows and identifies a certain brand by the image that exists in his or her mind. Leisen (2001) refers to Reynolds (1965, p 69) as he describes an image as a “... mental construct developed by the consumer on the basis of a few selected impressions among the flood of total impressions; it comes into being through a creative process in which these selected impressions are elaborated, embellished and ordered.” Middleton (1994, p 92) claims that the modern approach to product positioning is based on the well-tested hypothesis that products,
companies and tourist destinations have images or perceptions with which they are identified in the minds of existing and potential customers.

Witt and Moutinho (1995, p 327) points out that when new tourist products are designed, the aim is to achieve a particular position in the market by altering specific attributes to fill a new position. In either case, positioning and repositioning strategies forces marketing managers to assess carefully the competition, tourists’ perception of each tourist brand in the market, and to determine the tourist products attributes in designing new products and marketing existing ones. Perceptual mapping is one method for tracking down perceptions of the brand or product over time. Perceptual maps can also be used as a means of identifying market segments. As a strategic tool perceptual maps can provide a picture, both of target markets formed by clusters of tourist product attributes and of how tourist perceive different tourist products or brands and their attributes. Perceptual maps are also useful in identifying new products market opportunities; new products can be positioned in gaps that appear in those markets. However, a new product will not succeed just because it is unique, gaps in the market are meaningless unless potential consumers are to be found in them.

According to Witt and Moutinho (1995, p 328), the positioning concept offers valuable insights by forcing managers to analyse their travel operators’ existing offerings and to provide specific answers to the following questions:
1. What does our travel agency currently stand in the minds of current and prospective customers?
2. What services that consumers value are the core of the agency’s current business?
3. What customers do we now serve and which ones would we like to target for the future?
4. What are the characteristics of our current service offerings (core product and their accompanying supplementary service elements)?
5. In each instance, how do our service offerings differ from those of the competition?
6. How well do customers in different market segments perceive each of our service offerings as meeting their needs?
7. What changes do we have to make to our offerings in order to strengthen our competitive position within the market segment(s) of interest to our firm?

Witt and Moutinho (1995, p 325) writes about the effective product positioning as a means of help to serve a specific market segment by creating an appropriate concept in the minds of the consumers in that market segment. Witt and Moutinho (1995, p 328) continue by claiming there to be two ways of dividing the positioning into:
- **Perceived positioning:** a product’s positioning is not in the product or even in the advertising. It is the mind of the tourist. Two identical products may be perceived as different. On the other hand, two quite dissimilar products may be perceived as similar. A desired positioning is one that clearly distinguishes a product from its competition on attributes considered important by the relevant market segment.
- **Positioning and the competitive set:** a product’s competition includes a primary set of other products and a secondary set of other products that are not similar but may be used as substitutes. The definition of competitive set is, once again in the mind of the tourist.

When marketers in the tourism business introduce a product, they attempt to position it so that it seems as it posses the characteristics most desired by the relevant target market. This projected image is crucial. Each tourist has a location in the market structure that corresponds to the characteristics of that buyer’s ideal product. Although a given product possesses many characteristics, only a few of them are important in the consumer’s decision-making process. These critical attributes are used to differentiate the competitive offerings. In some cases, companies can exploit regional differences in perceptual maps for several product categories.
Chapter 2 - Pricing

in order to reposition brands through selective advertising changes. Positioning as no value in itself, only in its effect on the target market segment.

2.2.1 Positioning methods

Witt and Moutinho (1995, p 329) continues by claiming there to be seven ways to position a tourist product:
- Based on specific product attributes or features. This is a very common approach.
- Based on the benefits of the product to the customers. This is strongly related to positioning on product features, generally it is more effective than the previous.
- By specific usage. This is related to benefit positioning.
- By user category.
- Against another product. This strategy ranges from implicit to explicit comparison of products and benefits. Explicit comparison can take two major forms; first, a company can use a comparison with a direct competitor aimed at attracting tourists from the compared product, which is usually the product category leader. Alternatively, there is no attempt to attract the consumer of the compared product but rather to use the comparison as a reference point.
- Tourist product class dissociation. This type of positioning is somewhat less common; it is particularly effective when used in an established product category.
- A hybrid positioning strategy combines two or more of these mentioned approaches. The hybrid strategy typically requires multiple branding strategies.

A new product can also be positioned with respect to an attribute that competitors have ignored. Sometimes a product can be positioned in terms of two or more attributes simultaneously. Another positioning is to associate the product with usage. Products can, of course according to Witt and Moutinho (1995, p 329) have multiple positioning strategies, although increasing the number involves difficulties and risks. Often a positioning by usage strategy represents a second or third position designed to expand the market. Another positioning approach is to associate the product with a user or a class or users, for example special interest tours have been positioned by associating them with specific consumer lifestyle profiles. Some other critical positioning decisions involve tourists’ product-class associations. In most positioning strategies, an explicit or implicit frame of reference is the competition. Often the major purpose of this type of positioning is to persuade tourists that a brand is better than the market leader or other well-accepted tourist brands.

Witt and Moutinho (1995, p 329) continues by mentioning that positioning with respect to a competitor is commonly done in advertisement in which a competitor is named and compared, this is though not allowed in several different countries, Sweden being one of them. A company can position a product or service to compete head on with another brand or to avoid competition. Head-to head may be appropriate even if the price is higher and even if the product’s performance characteristics are superior. Conversely, positioning to avoid competition may be best when the product’s performance characteristics are not significantly different from the competing brand. Witt and Moutinho (1995, p 330) mention four basic strategies for change in positioning. First the product may be repositioned to appeal to a new market. This may involve changing the product or perhaps just changing the way it is marketed. Second, the marketer may attempt to add a new target segment while trying to hold on to the old segment. This is normally done by introducing a new product to appeal to the new segment while keeping the old product targeted to the old segment. Sometimes however is possible for one product to appeal to several market segments. The third one that Witt and Moutinho mentions is the size of the existing target segment may be increased. This is a difficult task because tourist must change their minds; people in other segments must adopt belief that will move them to the targeted segment. Fourth, the structure of the market itself
may be changed. If a new product is really new, the universe of potential tourists for the product in the market will change, new attributes will become important, and the relevant characteristics defining target segments will also change. There is actually a fifth strategy according to Witt and Moutinho, which is not change. Often this is the best course of action. After all, a tourist product may be repositioned away from its existing target segment and then never reach its proposed new target segments. Or a new product may simply take over an existing product’s segment, without enlarging the market. Clearly, positioning is crucial to a tourist company’s survival in a market.

2.2.2 New products - in the aspect of positioning and pricing

A key decision, according to Jobber (1998, p 300), that marketing management faces when launching new products is positioning strategy. This in turn will have a major influence on price. Product positioning involves the choice of target market and the creation of a differential advantage. Each of these factors can have an enormous impact on price. When strategy is being set for a new product, marketing management is often faced with an array of potential target markets. In each, the product’s differential advantage and/or value may differ. Concluding, for new products marketing management must decide upon target market and the value that people in that segment place on the product, the extent of this is the differential advantage: only then can a market-based price be set which reflects that value. Second, where multiple segments appear attractive, modified versions of the product should be designed, and priced differently. The pricing is not different according to differences in costs but in line with the respective values that each target market places on the product.

2.2.3 Existing products - strategic objectives of pricing

For existing products the position is more or less clear but as Jobber (1998, p 303) says, the pricing of existing products should also be done within the context of strategy. Specifically, the strategic objective for each product will have a major bearing on the pricing strategy. Four strategic objectives are relevant to pricing according to Jobber (1998, p 303):

- **Build objective**
  For price sensitive markets, a build objective for a product implies a price lower than the competitors. If the competitors raise their prices should the company be slow to match them. For price insensitive markets, the best pricing strategy less “clear cut”, price in these circumstances will be dependent on the overall positioning strategy thought to be appropriate for the product.

- **Hold objective**
  Where the strategic objective is to hold sales and/or market share, the appropriate pricing strategy is to maintain or match price compared to the competitors.

- **Harvest objective**
  This implies the maintaining or rising of profit margins even though sales and/or market share are decreasing. The implication for pricing strategy would be to set premium prices. For products being harvested, there would be a greater reluctance to match price cuts than for products that are being held or built. On the other hand, price increases would be swiftly matched.

- **Reposition objective**
  Changing market circumstances and product fortunes may necessitate the reposition of an existing product. This may involve a price change, the direction and magnitude of that will be dependent on the new positioning strategy for the production.

As the theory shows, there are a number of methods, which can be used by companies in the tourist industry. By looking at the empirical data in the next chapter we’ll get a base to compare these theories with them and later analyse the findings.
3 Methodology

Here we describe what kind of scientific methods we have used in collecting, handling and demonstrating the data.

This chapter will discuss methodological issues connected to the research. The chapter presents our choice of research approach and research method. Then follows a description of our sample selection, data collection and data analysis.

3.1 Research approach

We have chosen a deductive research approach in conducting our research, where theories presented in the previous chapter were compared to empirical evidence. Since our goal was to get a deeper understanding of the problem, we further chose a qualitative approach in conducting our study.

3.2 Research method

We started our research by collecting information from books and scientific articles regarding segmentation, positioning and pricing. In collecting the necessary information we have searched and found interesting material in databases such as Helecon, Elsevier and Emerald, in the university library of Luleå University of Technology.

Our study can be considered as an exploratory research and that is why our research questions are designed as questions of how. Since we wanted to increase our understanding of how pricing is conducted by small travel operators, and how pricing and positioning influencing each other, it was necessary to investigate the environment in detail. As our research shows the problem cover a whole process and differs from company to company firm, a deep investigation was unavoidable. Therefore it felt natural to use the strategy of case studies in relation to the issues of the research questions. We decided to conduct a case study of two companies, who act in the tourist industry, have similar structure and size, but different destinations and products. A case study involves investigation of a few objects for examples companies, regarding a number of aspects.

3.3 Sample selection

In our choice of case study objects, we considered the fact that within the tourist industry and among travel operators there are large differences in size, destinations offered and method of conducting price setting and positioning. We therefore chose to study smaller travel operators, among these there is an increasing tendency to specialise in one or just a few destinations. When choosing the case study objects we also considered that their destinations should be different countries, but the size of the operators should be rather similar. Each of the studied operators should be located in Sweden, and should have minimum of a couple of years of experience. To be able to find the relevant objects of the case study that were required to conduct this investigation we studied a number of different companies that fulfilled the prerequisites of the defined type of company. We though met the problem that a number of the potential companies did not want to participate in an interview for different reasons. After sending out several e-mail requesting interviews we got some positive answers. Both of the companies that we chose could be categorised as small operators with a one or few country specialising. As we could determine from visiting their web sites they also offered different kinds of products to different kinds of segments at different prices.
3.4 Data collection

We have chosen to make telephone interviews with our case study companies. This way we had a good possibility to gain a deep information and knowledge of the companies which are located in Bengtsfors and Helsingborg. Though by telephone interviews we didn’t have the possibility to get further information from the respondent’s gestures and body language, still it was a better way than to raise our questions through a sent questionnaire. We designed an interview guide (appendix) mainly based on the theory that we had dealt with in the second chapter in this thesis. The interview guide also reflected the problem discussion, purpose and research questions. The questions were open, in the sense of not having closed alternative answers for the respondent to choose from. This way we got answers in a more comprehensive way. These kinds of questions also led to the respondents telling us things that we actually did not ask them about, facts that were useful to our research to get a more detailed picture of the firms and their way of handling the investigated issues. The questions were clearly formulated and even providing explanations to the concepts, this to avoid misunderstandings. Before an interview there is a possibility to send the questions to the respondent in advance. Since through telephone it can be more problematic to explain things, we have chosen to send the questions before we actually made the interview. We shortly presented who we are and why we need these questions to be answered and attached the questionnaire.

Before conducting the interviews we tested the questionnaire by letting a person working in the travel business answer our questions. The questions that this person found to be easy to misunderstand were reformulated. We also got acquainted with the companies’ homepages, and after this we started to formulate the questions in order to avoid those, that could be get easily from the Internet. Similarly, we tried to find the most suitable person within the companies. Since our case study companies were rather small with no or very few employees, the respondents become the owner of the companies. This, in the case of Rätt Resa AB was Tomas Torbjörnsson, and in the case of Tjeckien Experten it was Jiri Polacek. As we didn’t found the possibility to get hold of a loudspeaker telephone we used a usual one with a recording function and parallel wrote up the answers on the prepared papers. As we couldn’t both hear the answers during the interview, only one of us asked the questions and tried to note them on papers. If something wasn’t noted because of the fast answers, we had the recorded material to fill up the missing parts and the respondents even sent us the answers that they had written down, this via e-mail afterwards.

3.5 Data analysis

Our case studies followed the theoretical framework of a case study. This framework reflected reviews of the literature, purpose and the research questions. We compared the empirically based patterns with the predicted theoretical patterns. The empirical findings of Rätt Resa and Tjeckien Experten were presented as two separate cases but then analysed in one joint analysis. This enabled us to deeper the understanding of how pricing is conducted and how positioning and pricing are influenced by and related to each other.

3.6 Validity and reliability

To start with we designed our research questions in a way that insured us of knowing what we actually were about to measure. We tried to keep the research questions as narrow as possible. The first research question were mainly dealt with in a descriptive way but also in a exploratory way and were easier to see what interview questions and theory that could be connected to. The second one of our research questions is more of an exploratory and
analysing kind of question, though more difficult to see the obvious connection to specific theories. We also chose not to ask direct questions about how respondents see the relations between their positioning and pricing. Instead we chose to leave this as an area of discussion in the empirical findings and our analysis.

In order to measure what we intended to measure, we took preventive actions in an attempt to improve the validity of this investigation. First of all, we conducted a thorough investigation of the literature and articles that were to be the base for our theory covering the area that we have chose to study. We did this through continuously trying to ask ourselves: is this theory relevant in connection to our research questions. To get the most relevant answers to our questions we made an effort in finding the right persons to interview within the two companies. In our cases these persons were the owner and managing directors of the company. In both cases it was them, who have founded the business, who were active in organising the travels, marketing the products and setting prices. We further formed the interview questions so that they would reflect upon our theoretical framework, thus, leading us towards asking the kind of questions that was relevant to the purpose and research questions of this study.

To improve reliability, which means that a measurement instrument should provide reliable and stable answers, we have made an effort to decrease the probability of interview bias. First, we tried to form the interview questions in a way that the respondents would find easy to understand. We also tried to avoid asking leading questions. One thing that might be seen as a limitation is the fact that we could not conduct personal interviews. We had to conduct our interviews over the phone because of the long distance to our respondents. In order to shorten the time of the interview avoiding losing the interest of the respondents, we sent the interview guide to the respondents via e-mail. In this way we gave our respondents time to think the questions over and read our definitions and explanations of the concepts that we where to talk about. Sending the interview guide in advance can both be positive and negative but in this case we recognised that the advantages of doing this exceeded the drawbacks that could come of it. As we saw, both the respondents did not posses very large knowledge in marketing, this further supported our choice of using the interview guide in the way we did.

Thanks to the fact that the respondents where a bit more prepared our interview became more of a dialogue in connection to the interview guide instead of just asking questions and risking just getting short answers. Through this we decreased the impersonality that can occur in conducting an interview over the phone. One drawback with a telephone interview, which is hard to over ride, is the fact that when making a personal interview you can interpret the respondents’ reaction to the questions, if they misunderstood some questions and similar things. One of the positive things by sending the interview guide in advance was that we got more information than we had expected, in forms of stories of past experiences, future plans and personal thoughts. In order to get the correct result of the answers in the interview, we completed the answers that we had got, directly after conducting each of the two interview, this in order to remember as correctly as possible. The fact that the respondents also sent us the answers that they had written down via e-mail, helped us further in the working with the data. Still, after conducting the interviews, recording the answers and getting the answers even through e-mails, we still think that personal interviews would have made a difference in a way that we could have dissolve the tense, the discussions could have been more relaxed and we could have read out further information from the respondents body language.
Chapter 4 – Empirical study

This chapter summarises the results of the two interviews we have done with our chosen companies. The collected empirical material will be the base for the analysis, where we will compare that with the described theories presented in chapter 2.

4.1 Rätt Resa AB

Rätt Resa AB was founded in 1999, by Tomas Torbjörnsson. The company has one office, which is in the home of the owner and manager in Bengtsfors, Dalsland. The owner is a 44 year-old ski-enthusiast with a large interest for Austria and Ireland. He is also the only employee of the company. He has 17 years of experience of teaching as a high-school teacher. He is educated in geography and social science. During his time as a teacher he have arranged a number of school trips both within Sweden and to countries in Europe. He had also arranged travels for friends several times before starting up his business. These were mostly canoeing- and skiing tours. Besides running Rätt Resa, he is still working 80 percent as a teacher. Because of this, phone-calls from customers during daytime are received by an answering machine. One could think that this would scare customers off, but according to Torbjörnsson, it does not. At most times the customers kindly leave their name and telephone number so that Torbjörnsson can call them back in the evening. The other ways to book the travels of Rätt Resa are through the website or in connections to ads in newspapers through the company that handles the transports by bus.

Torbjörsson decided to start his business during a trip to Schladming, Austria that he organized for his friends. The following year he arranged accommodation for travellers, which filled of five busses for the winter break in 1999. He got a lot of help from the tourist-information agency at the destination in finding the best accommodations. In the work with fulfilling his dream Torbjörnsson decided to take a year off, the school year of 1999-2000. During this year he build up further contacts with sport stores, ski suppliers, skiing teachers etc. in Bengtsfors, this while being supported by new entrepreneur allowance.

In 1999, the first year of operating the firm, the winter sport travels to Austria attracted 250 travellers. In 2000 the destinations also included Ireland with golf- and language-practice travels. For the bus-travels to Austria, Rätt Resa AB mainly cooperates with Färgelandabuss AB. For travels by flight to Ireland they are contracted with Aer Lingus and Norvista (Finnair). The objective for the business by Torbjörnsson is spelled out to be to have a little but “jolly good” travel supply, which is characterized by high quality, personal service and competitive prices. The co-operators of Rätt Resa in Austria and Ireland are carefully chosen. They are small family entrepreneurs who welcome just so many customers as they personally can take good care of. Stimulated by the success of cross-country skiing to Ramsau in 2000, Rätt Resa is going to expand with a number of travels for the season in 2001.

4.1.1 Pricing

Considering the pricing techniques Torbjörnsson tells us that there is a high price competition in the segment of slalom travels this since the customers can choose among many operators. He though says that the reactions to each other’s price changes are often based on past experiences. The price competition in the segment for slalom is the reason why the volume that plays the largest role. He tries to sell these travels to so many travellers as possible and this implies a lower price. Here he is mostly setting the prices after the competition, but he also adds that the base to all prices is of course the costs that he has to cover. The other segments are not so price sensitive. They are willing to pay a higher price, but they also

1The Swedish name Rätt Resa in English can be formulated as Right Travel
demand higher personal service and more individual solutions. Out of these travellers he does not have so many, but because of the higher price he does not even need as large number as for the slalom travels. As these groups have a stronger buying power, they get a higher quality among the hotel variables and other services, which of course cost more. Among other reasons, this is one why Tomas Torbjörnsson has chosen different category in the area of transport, accommodation and other extra services.

In these less price sensitive segments Torbjörnsson is setting prices according to guesses about how much the market would tolerate. Beyond the mentioned factors he also adjusts the prices to the current rates if they fluctuate strongly, he mentions the period in the spring of 2001 as a period of fluctuations. He also adds that because of the weak buying power of the Swedish crown, he will have to raise the prices by approximately 5% in close future. Otherwise, within one season, he always tries to keep a fixed price. To ensure this, he contracts the hotels and the transport companies for the prices. Torbjörnsson also tells us that he does not feel any pressure to grow fast, he rather keep the high level of quality in his services and developing slowly as long as he has the operation under control and getting a fare return on his efforts. He says that he is aware of that the level of the service that the tourist will remember.

As travels are not products that the customers can take home, use and in case of functional disorder have it repaired, the travel operators always have to pay great attention not to make the customers dissatisfied. If that happens, it will stay as a bad experience and even if they get something extra to counterpoint the unpleasantness, it will not be forgotten. He also says that Rätt Resa is very careful about not to exaggerate the information about the destinations, because then the customer will have too high expectations and if the reality does not fulfills the promises it will be experienced as disappointment. Evaluations, which were carried out after the first year, show that Rätt Resa probably deserves its name. Even though almost every traveller was satisfied with most of the things in the current situation, Torbjörnsson still reminds the travellers to give suggestions for improvements, since he want to become even better. An example for this that in winter 2001 he have chosen not to use hotels, which were more than five minutes away from the closest ride to the slopes by bus.

For the question whether Rätt Resa has last minute offers or not Torbjörnsson answered that in case of bus travels they can use this method to fill up the empty places. As the busses are pre-booked for certain Rätt Resa journeys, the decision of filling empty places lies on Torbjörnsson. In case of last minute places the prices are lowered significantly. As far as the air transport is concerned, he says that they cannot handle last minute offerings. Rätt Resa uses regular flight when organising flight travels. So far Rätt Resa travellers cannot fill a whole plane, and Rätt Resa does not have an own charter plane. So anybody is allowed to take the last minute places and that is why it would be difficult to co-organize the advertising the empty places and the fast reacting for the advertising. Tomas Torbjörnsson adds that within everything he is doing he tries to avoid risk, since he is just a small operator on the market and it is not worth to risk the company’s existence.

4.1.2 Positioning and pricing

In connection to the positioning of Rätt Resa and the company’s products, Torbjörnsson says that he has his own conception regarding segmentation and positioning. He had not done any market research before he started his firm instead he trusted his feelings and intuition. Torbjörnsson continues, that he has chosen his destinations to Schladming and Ramsau in Austria for families interested in slalom skiing and cross-country skiers. Torbjörnsson describes the competition in the segment for slalom travels as concluding of three to four larger operators and many smaller operators. The customers that Rätt Resa targets for the
trips to Schladming are families that have grown tired of taking slalom tours to the Swedish “Alps” such as Sälen. Torbjörnson describes this group as more pricesensitive then the cross-country skiers. The target market for the slalom travels are also more, as Torbjörnsson says unloyal, they tend to change destination in the Alps and therefore also changes the operator. Ireland became the other destination for both golf-interested adults and for young people who want to learn and practice English in combination with having fun. Some of the activities are riding horses, playing golf, and fishing. The specific target market for the golf travels are golfers that are searching for the soul of the golf as Torbjörnsson puts it. He also tells us why Ireland became the other destination; in 1999 he visited the tourism exhibition in Gothenburg to find another country that he could offer his customers travels to. The choice, he says, was very easy. The Ireland-representatives welcomed him with open arms, even though he was just a beginner in the business. There were no other representatives that shown the same high level of professionalism and spontaneous generosity in its reception towards him as a beginner.

Concerning cross-country skiing travels, Torbjörnsson says that there are still just a few operators on the market. Those, who want to train for “Vasaloppet” and have a good time at the same, do not have any operator to turn to, except him. Torbjörnsson in Rätt Resa is the only operator on the market who arranges travels for this segment. 50 percent of the customers that had taken the tours the first year took the tour again the next year. According to Torbjörnsson, all categories of ski trainers from beginners to elite-classes can chose to participate this kind of travels. During a week in Ramsau they can both “collect miles” for “Vasaloppet” and improve their skiing technique with the help of Bengt Hassis ski-school.

The market for golf is large with many agencies and operators, Torbjörnsson says. Here, the most important thing is to get a good reputation from the very beginning and build on a growing customer base. The chance that the customers will return the next year is rather large. The market for language learning and training travels is dominated by EF and STS, though they have got a bad reputation because of dissatisfied customers. Because of this, there is a large opportunity for small but serious operators, who can offer a “little extra” to get into the market. Rätt Resa has complete “travel-packages”, but these can be changed according to individual wishes for extra charges. As an example of the positioning, Torbjörnsson referred to an article in Fiskejournalen from April 2001. The article was about his “language training” trips to Ireland with fishing as a theme for the travel. This is also an example of one of the very narrow and specific segments that Rätt Resa approaches. Finally he tells us that for a smaller operator like him, it is important to have targeted segments with specified suited offerings instead of grasping for the large uncertain mass. Otherwise it would be difficult to get a certain amount of customers, which is important to keep the business running.

4.2 Tjeckien Experten AB

Tjeckien Experten is a small travel operator that specializes in arranging travels to the Czech Republic and especially to the capital Prague. The company arranges both individual travels and group travels by flight, train and by own car. Bilingual, nice personnel, with large knowledge about the Czech Rep. contribute with a “little extra” to their travels. Tjeckien Experten wants to be little different from the other travel operators. Those, who work for Tjeckien Experten, have a valuable knowledge about the local circumstances at the destination, and through their contacts with Czech travel operators, can arrange the best hotels for the arrivals. Tjeckien Experten considers personal service as the most important thing and really wants to do everything to make the travels as comfortable and memorable as possible.

---

\(^2\)The Swedish name *Tjeckien Experten* in English can be formulated as *The Expert of the Czech Rep.*
possible. Tjeckien Experten’s office is located in Helsingborg. Jiri Polacek is the owner and the only employee in Sweden. He though has a small number of employees at the destination. Polacek started the business in 1995 as a hobby and today he operates it as a full-time job. He does not have any previous knowledge of the tourism area, before he started Tjeckien Experten he worked as a researcher for Pharmacia. As Polacek is coming from the Czech Rep. and Czech is his mother tongue, he found it interesting to arrange travels there and knows the destination with all its historical events well.

4.2.1 Pricing

As far as Tjeckien Experten’s price setting is concerned, Polacek tells that a starting point in setting a price is the costs that he have to be covered, then it is followed by a number of other factors. In setting the price – says Tomas Polacek - he often guesses and experimenting to feel how much the customers would pay. He also says that he never changes the prices dramatically but rather fixes the prices for half a year or even a year ahead. Dependent on which time of the year it is, for example during high seasons like New Year and Easter, the prices can go up 7 percent. Polacek also points out that he consider the fluctuations of the currency and competitor’s prices to a certain extent, the high level of differentiation in the travels is a strong factor for not just pricing according to the level set by the competitors. Polacek says that the conducting of reactional actions in setting and change of price is, both his own and the competitors’, are many times just based on past experience.

He also tells us that since there is competition for travels to the Czech Rep., a lot of customers are not loyal. Most of the customers see only the lower price in larger travel agencies and choose to travel with them. Still there always are customers who come back to him despite of the higher price because they see the difference in the service quality. Besides the transportation and accommodations, he puts a lot of effort to offer his customers different kind of activities at the destination. These are all extra income to the firm though he says that price charged for many of the travels are according to prime cost. Then at the destination Tjeckien Experten charge for extra services, like local transports, guiding and other activities. When deciding the prices he considers the costs as a base he has in arranging the travels. He then also adds a certain percentage for the services conducted by him. As he does not have packages to the different kind of segments, he does not set a higher or lower price depending on the paying power of the customer. The activities on the other hand have different kind of prices. The customer chooses the design of the package in order to match his or her price sensitivity. Conferences, activities and services that usually companies take part in or uses, have a higher price, while activities for younger people have a lower price. Tjeckien Experten decided not to make evaluations of the travels. They are satisfied with the feedback they get from the tourists at the destination.

When we asked further about pricing methods Polacek tells us that he has different kind of prices to different kind of target groups. The quality of the different parts of the offer also is depending on how much the customer is able to pay. If the customer belongs to a group, which has a stronger buying power, than the hotels and other services are also chosen and adjusted to that. This way almost the same package can be sold much expensive to business travellers than to students. The costs do not change drastically and neither doe the program. The most common difference is usually that the travellers get a better hotel alternative with conference room. These factors still do not push the cost significantly up for the operator, but the prices definitely represent another, higher category. This is based on that the respondent knows that this group has a stronger buying power, and does not reflect for higher prices. Polacek also tells us, that of course this is not the only group that can be charged differently. Each target group is priced on different level. Polacek has personally set these levels, after experimenting how much the market would tolerate. He also tells that sometimes it happens that the costs become lower, but it usually doesn’t mean that he lowers the prices because of
that. In such cases he, like almost everybody would do, rather keeps the profit of the higher margin than lower the price. As far as the company’s image is concerned, Tjeckien Experten is aware of that it gives a base to set higher prices. But he does not worry because like smaller firms in general can give better service and pay more attention to what the guests will than any other larger companies.

Tjeckien Experten, just as Rätt Resa offers a number of possibilities for transport. It can be flight, bus, train or even by own solutions, such as car. For bus transport, Polacek has the possibility to offer last minute travels, where he sets a lower price to fill up the empty places. In the case of train and flight transport he does not use this method, because he usually does not have so large groups that he could fill a whole plane or a train. So as it was in the case of Rätt Resa, it would be difficult to co-organise the advertising of the empty places and the fast reacting for the advertising.

4.1.2 Positioning and pricing

Polacek tells us that he did not conduct any kind of market research before he started the business. He divided the market into different kind of segments after feelings and intuition. He decided to not design package-offers, he preferred to offer different kinds of activities to different kinds of segments and let the customer decide how to put their own travel-package together. His segments are sport-interested people, firms who want to have a conference or a kick-off start abroad, culture-interested groups and adventure seekers. Besides this he welcomes everybody, independently of age, which would like to go to the Czech Rep.

For those who want to travel to conduct sport activities he has a number of offers. In the wintertime he offers activities such as: skiing, snowboarding, cross-country skiing with accommodation in small hotels. In the summer time the offers include; cycling, canoeing, riding, and fishing.

For firms: conferences and kick-off start combined with wine tasting, Spa bathing and everything else they chose to do during their residence.

For culture travellers: music, with concerts of the greatest Czech compositors: Smetanas, Dvoraks, Janaceks, Martinus, theatre, doll-theatre, city history and castle wandering.

For adventure travellers: bungy-jumping, rock-climbing, and orienting.

The booking of the travels is done through in the office of Tjeckien Experten. Customers can choose what kind of transport they want to have. As Tjeckien Experten does not have any charter plane, are booking the flight seats through another operator, on regular flights. At the destination he co-operates with about 50 hotels. To be sure that they fulfil standard requirements claimed Tjeckien Experten regarding cleanness and good service, Polacek personally visit and test each hotel.
Chapter 5 – Analysis

5 Analysis

This chapter presents the analysis we have conducted. The analysis has been completed through comparing the empirical data and the theories presented in chapter 2. This, done with the objective to get to know whether the chosen companies follow the theories in their way of positioning and pricing.

5.1 How do smaller travel operators price their products in the market of tourism?

5.1.1 Pricing decisions

According to Campbell (1999) setting and managing prices are critical elements of the marketing manager’s job. Monroe and Petrosius (1981) concludes that consumers’ perceptions and inferences about prices are significant components of consumers’ evaluations of and responses to the prices that marketers set. Thus, it is critical for marketers to understand how consumers are likely to perceive a given price. As Carson (1993) and Hankinson (1991) point out there is much evidence to suggest that managers of small companies do not manage their businesses in a textbook or functional way. The managers are more likely to make decisions in a haphazard and apparently chaotic way as opposed to any orderly, sequential and structured fashion. Even though small business managers do not do “conventional” marketing decision-making, this does not necessarily mean that their marketing is poorer or less efficient than might otherwise be expected if they did do conventional marketing. Our case studies support this finding, for example according to our questions about the respondents’ way of conducting marketing research before starting and during running the companies. None of them have done any formal marketing research. Tjeckien Experten has even avoided doing any research during the years running his business. For small companies just as for larger businesses it is an evaluation of the cost and benefit of a marketing effort. The funds and the knowledge of marketing is often a greater limitation for the small company.

5.1.2 The characteristics of the tourist product

The characteristics of the tourist products described by Vellas and Bécherel (1999, p 5) and Witt and Moutinho (1995, p 367) are noted in the pricing conducted by the two studied companies. The intangibility, perishability, inelasticity of supply, elasticity of demand, complementarity and the inseparability is clearly seen in the pricing process. Tangible elements of the product, such as accommodation and transport are the start of the process. Though most of a tourist product consists of services, the cost of these tangibles is what set the base for the continuous process of pricing the product as an entity. The perishability, meaning the fact that e.g. a airline seat in a specific flight cannot be stored for future use, forces the operators to change price in order to fill the number of booked seats or beds of a specific arranged travel, this known as last-minute pricing. In this way they also get something for the left over instead of just being empty seats or beds representing cost for the operator. Both of the studied companies use this kind of adaptation to demand and time, though just for bus travels, because of the lack of own charter planes. In this way they get around the problem with inelasticity of supply characteristic for tourist products.

Fluctuations in demand

Short-term fluctuations in demand will have little influence on the original price set as Vellas and Bécherel (1999,p 5) points out. The conducting of short-term price discrimination facilitates a means for operators to get around this. It is the long-term fluctuations that determine the composition and price of the product. One example of this is the change in
composition that Rätt Resa made after having some complaints for slalom travels to Schladming in Austria. The owner decided for the next season only to use hotels located a maximum of five minutes from a bus ride to the slopes, this even though some of them resulted in a higher cost. The fact that the operators are completely depending on the existing facilities of the destinations is one of the most limiting factors. The complementary meaning that the product being composed by a number of sub-products as Vellas and Bécherel (1999, p 6) define it, is always a problem for the manager as one of the sub-products could undermine the final product. Tjeckien Experten is an excellent example of this concept of sub-products. Polacek emphasise the importance of services that they can offer at the destination. When the customer is already at the destination Tjeckien Experten has a lot to offer, which of course represents an extra income for the business.

**Elasticity of demand**
The elasticity of demand, as Vellas and Bécherel (1999, p 5) also points out, on the other hand reacts very quickly to changes in the environment. The vulnerability decreases as none of the studied operators arranges tours to any area that is affected by any terrorism as for example in Israel or in North African countries. Political events may though come up as an issue; for example if EU would take similar sanctional actions, as during earlier periods, against the right-wing party in Austria it might affect the overall conditions for Rätt Resa’s travels to Austria. For the two operators the influencing factors are more of the social and economic character. Rätt Resa points out that during previous years, such as in the eighties, there have been periods when it was fashion to go to the Alps. Different town in the Alps has also been variating trendy to stay in. Torbjörnsson has though not seen such variation in the slalom travel demand in his years of business. The fluctuations in demand is instead more dependent on the economic changes such as recession and exchange rate, this also concurrent with what Polacek, owner of Tjeckien Experten says. For both company the price-level of oil is also an issue as they are arranging travels by buss or car. Middleton (1994, p 94) points out the presence of the extensive official regulation in sectors such as transport often including price controls, also characterises the tourism industry. In our investigation both studied companies claims that they try to ascertain the prices for each season, through establishing contracts, which includes clauses regarding exchange rates and prices.

**Inseparability and labour intensivity**
The inseparability and the characteristic of the tourist product as being labour intensive are also always an issue for the tourist manager. Tourism is, as Vellas and Bécherel puts it a “people industry”, an important part of the travel experience is the quality of the services that the visitors receive and the skills of the staff at the destination. Both the operators concentrates on these characteristics in the sense of trying to provide a high level of service and commitment to the tourist before, during and after the actual tour. The employees of Tjeckien Experten at the destination have a high knowledge of the history of the destination. Torbjörnsson is also to a large extent he himself participating in the different tours. The participation in the holiday, the activities and entertainment they enjoy is often a vital component for success according to Vellas and Bécherel (1999, p 5). The small operators do not, at least not to the same extent, have to deal with the high costs of having a large number of employees as for example the hotels which services the operators are using. The characteristic of overall high fixed is not as much an issue for the smaller operators like Tjeckien Experten and Rätt Resa, this because they do not own the facilities that they are using for their tourists.
Chapter 5 – Analysis

Heterogeneity of the tourist product
The heterogeneity of the product results it being virtually impossible to produce two identical tourism products. This allows the possibility of a certain amount of substitution within the different sub-products. This is one of the reasons for the existence of the large number of small travel operators, as Witt and Moutinho (1995, p 367) points out. The competition together with the overall business conditions is very fluctuating in the tourist industry. One specific tour offered by a number of operators may differ in many aspects.

The slalom travels that Rätt Resa arranges are affected by this phenomenon, Torbjörnsson describes the potential customers as not loyal, they tend to switch between towns and operators. This unloyalty is only one of the characteristics of the customer. Rätt Resa has though achieved customer loyalty in the segment of cross-country skiers. 50 percent of the customers that had taken the tours the first year participated in the tour again the next year. The corresponding percentage for the segment of golf-travels is also high. Tjeckien Experten also says that there are examples for customers who try both his and other operators’ travels even if they were satisfied after a travel with Tjeckien Experten. The reason is probably that the customers are curious and are experimenting by choosing different operators every time.

Long lead times in pricing decisions
The long lead times between price decisions and the actual sale of the product is also a problem pointed out by Middleton (1994, p 94). Middleton suggests that the time from setting the original price and the printing and then the distribution of brochures could be twelve month. Neither Rätt Resa or Tjeckien Experten have their prices printed in some kind of brochures, but both have their prices put out on their website. These prices are valid for one season at the time sometimes even as long as a year. Laws many times requires the operators to display the price, and in the case of these two companies the website may be the only or at least the first contact that the costumer gets with the actual price.

Seasonal pricing
The necessity of seasonal pricing as a means of coping with short-run fixed capacity could be noted in the fact that both Tjeckien Experten and Rätt Resa arrange tours all year around. Neither of them though uses seasonal pricing in the sense of arranging the same tours during the whole year and then varying the prices after the actual seasons of the year. Tjeckien Experten though raises the prices by a smaller percentage during the holidays such as Easter and New years. Negotiation often plays a key role for the small business in establishing prices, and getting business. The negotiating regarding the hotel and transports to the destination is the most important for the studied companies and probably for most small travel operators, because of these tangibles being the basis of pricing. Rätt Resa on the other hand does not use seasonal prices at all; he says that he has not been in the business long enough to test the results of adjusting the price to the demand of the different tours and different seasons. As Middleton (1994,p 94) enhances that in some business included in the tourism industry the price may vary widely as managers try to seek optimise the short-term revenue. For other business, such as visitor attractions, average prices are relatively stable over the time period of a year. It is an issue for a small operator to keep up with the price changes, even just in the sense of providing the passengers the right information about the different activities on the location. Especially companies like Tjeckien Experten that emphasizes the services and activities at the destination.

5.1.3 Influences on pricing decisions
Witt and Moutinho (1995, p 368) claim that there are four basic factors that influences pricing decisions. The first one is the cost structure; in the long run the price of a tourist product must be higher than the full cost incurred by the tourism organisation. This pricing in
order to coverage and exceeding cost is as we have seen one used as a basis for small operators such as Tjeckien Experten and Rätt Resa. With this as we have seen, you can say that they mainly use cost-plus pricing with the help of full-cost pricing in the aspect of covering the total costs. While in theory the small businesses should consider all the factors, which affect pricing in their larger counterparts, in practice small business managers employ some form of cost plus pricing while bearing in mind a number of secondary effects. Lace (1982) suggests that most small businesses will base pricing on a combination of what the market will bear and cost-plus. Skinner (1970) found that cost-plus percentage pricing was very much influenced by competition and demand. While cost-plus pricing appears to be the most commonly used approach in small companies, there is a general agreement that it suffers from a number of weaknesses. Hankinson (1991) points out that it assumes that companies actually know what their costs of production are at given levels of output. Indeed as with the larger businesses pricing is treated as a marketing function, so according to Lace (1982) pricing policies in the small business should be a marketing responsibility where customers come first and everything that is possible is done to meet their needs.

As Redinbaugh and Neu (1980) points out, the apparent absence of a technical approach to pricing in the small company has led some writers on the subject to contend that pricing be treated as more of a managerial art than a science. This continuously seen in the actions conducted by the studied companies. Despite the dangers of only using costs as a basis for price, in all but exceptional circumstances, costs will set the lower limit for price and are therefore an extremely important consideration. It is competition, according to Redinbaugh and Neu (1980), which will set the upper limit. We would though like to add that in segments of the studied companies where competition are low or in other words where the companies offers are clearly differentiated we find the price insensitivity of the customers to be what sets the upper limit. This will also be discussed under the issue of customers’ willingness to pay. Scarborough and Zimmerer (1984) propose that between this price ceiling and price floor there exist, as they see it, an acceptable price range. Redinbaugh and Neu (1980) continues that selecting at which point within that range to set price requires the consideration of several other factors. One such factor is the company’s customer profile and in particular the income level of the intended group. Other authors also agree that one of the most popular strategies in marketing is to meet the competitive price. Many companies use this as a pricing objective, especially those in a price sensitive market or in a market with mainly undifferentiated products. Beyond cost-plus pricing, companies of course have to take a number of market considerations into account.

*Competitors price*

Competitors price is the second factor that Witt and Moutinho (1995, p 369) points out. These should according to them be taken into account in formulating price strategies for a product; this is more of a long-term approach while as Middleton (1994, p 94) chooses to contribute to the discussion as seeing price in a more tactical and short-term way. We do not have a clear picture of the competitors in the different segments of the two companies but as both Torbjörnsson and Polacek say, they mainly look at competitors’ pricing in some of their segments. Tactical price-cuts by the most important competitors in the situation of supply exceeding demand are with high certainty to occur. As the owner of Rätt Resa, Torbjörnsson says in the market of slalom travels he tries to set the price in order to match the competition. In most cases, market conditions are being determined by the competition. Therefore it is competition, which has a major impact on price setting in small businesses but the high level of differentiation lower this impact on the price setting process. Both Rätt Resa and Tjeckien Experten are aware of competitors and their pricing strategies. Torbjörnsson says that the potential travellers for the slalom travels are rather price sensitive and here it is worth making an effort in finding the lowest price in transport and accommodation, this also to fill the contracted number of busses.
In the other segments Torbjörnsson says that he is setting the prices according to what he thinks that the market would tolerate. This can be set in connection to Witt’s and Moutinho’s (1995, p 368) third factor to consider is what price that customers are willing to pay or in other words the customers relative elasticity of demand for a particular tour or holiday. In using this approach the consideration should be focusing on the level of demand that correlated with the breakeven point when fixing the price level. The price margin above the then fixed price level is a kind of bonus. This is an approach that are useful especial for smaller operators, here, as we stated in the beginning of this analysis as for other marketing issues the decisions are mostly based on past experience and gut feeling of the manager. Conventional marketing making procedures are very rarely used in pricing. The work of Redinbaugh and Neu (1980) supports this with saying that in the area of small business pricing is that the manager’s intuition and experienced judgement will be the dominant factor. Watkins and Blackburn (1986) appear to agree by stating that “the founder’s feel for the market may be the only guide to consumer needs”. Scarborough and Zimmerer (1984) refer to the fact to managers as often using “hunches.” A lack of marketing experience and orientation on the part of managers may account for their resorting to intuition when deciding on a price.

As the fourth influencing factor Witt and Moutinho (1995, p 367) bring up that the tourism organisation’s objectives must be set before deciding the pricing objectives and must of course try to identify and quantify the potential demand for the particular tourist establishment. This is another issue that for the studied companies goes under areas dealt with based on intuition. This is also as we have seen this identification and quantification of the potential demand adds another issue of uncertainty in the use of the cost-plus and full-cost pricing as dependent on a intuitional estimation of volume to calculate the pricing. Tjeckien Experten also tells us that there are many other travel agencies who arrange travels the Czech. Rep., and this way many tourists try to travel with them, because it is cheaper.

Pricing objectives
Witt and Moutinho (1995, p 368) list four main pricing objectives: profit maximisation, maximisation of return on investment, survival, and volumes of sales. Jobber (1998, p 303) contributes to the discussion on pricing objectives by claiming there to be four feasible strategic objectives with pricing. These are the build, hold, harvest, and reposition objectives. Lancioni (1988) partially agrees with the previous authors and adds that there are four pricing objectives; these are return on revenue, price stability, market prestige and image, and meeting competition. The first; return on revenue he defines as the others, the second; price stability is desire of all companies in the market because it eliminates the need to review schedules constantly and develop pricing programs for customers. Price stability is though more of a desirable goal in commodity markets where a company has little chance of developing a value orientation for its products, since there are close substitutes immediately available. Both for Rätt Resa and Tjeckien Experten the most important thing is to survive with at least a little profit. The third; market prestige and image, is as pricing objectives generally associated with consumer products that have many intangible benefits associated with them. The higher the value level a business can develop for its products the higher price can be charged. The last example of objectives are one of the most popular strategies in marketing is to meet the competitive price. This is one of the most applicable strategy for the tourism industry. The overall strategic objective of Rätt Resa is not to price their offers in order to maximise profit or return on investment or volumes of sale. Of course the survival aspect of running a business is the base. We got the impression that since Torbjörnsson is working as a schoolteacher, he is running Rätt Resa more out of a fervent interest, though in a very serious way. The focus is not as much on maximising revenue or sales as it is on doing a good job and satisfying the customers in arranging the different travels. As he says, he has no
intentions of making efforts in growing fast, this as long as he has the operation under control and getting a fare return on his efforts. Polacek does not either seem to have any formal objective for his business.

Polacek also tells us that his aim is not to be rich in a short period, but to have a more long-term view on the operation with a fare income that he can live on. This is supported with the fact that he has been arranging these travels for a longer period and does not just see this as a second job, but as a main occupation. The objective described can be set in connection to what Jobber (1998, p 303) call a hold objective which imply to hold sales and/or market share, the appropriate pricing strategy when pursuing this is to maintain or match price compared to the competitors. Then of course there is the issue of having different objectives for different segments. In the segment for the slalom tours it is, like Torbjörnsson says, achieving at least set volumes that counts even though the rest of his travel products are positioned as more differentiated and therefore gives a wider range of prices to charge at a higher level.

5.1.4 Price changes

In a highly competitive world, pricing is dynamic and Jobber (1998, p 310) enhances that managers need to know when and how to raise or lower prices and whether to react or not to competitors’ price moves. According to Jobber there are three key issues associated with price changes; circumstances, tactics, and competitors reaction. This is important because as we have recognized in the problem discussion the pricing is a process over time these factors must continuously be considered. Lancioni (1998) enhances that price setting should be done on two levels. The external level, which includes factors such as customer price sensitivity, competitive price levels and government regulation, and the internal level, which considers factors such as return on investment objectives and sales volume requirements. Setting prices is based on two general factors, the internal cost consideration of the business and how the market forces affect the market. This ends up in the two different approaches of cost-driven pricing and market-driven pricing. As we have seen for the studied companies they use a combination of these two approaches.

Tactics for price changes

Tactics is the second in this overview of managing price in order to match the changes in the economic environment surrounding the company. This involves what can be used and the estimation of competitor reaction, to know to follow or not. The studied companies says that the reaction, both their own and competitors’, are many times just based on past experience of tactics and overall price changes. As flexibility becomes more evidently required when small businesses are concerned with some uncontrollable change in the external environment, for example, by the introduction of a new competitive product. Small companies are forced to adjust their price to remain competitive, this is though not always feasible. For most of the small companies changes in the external environment can have a significant effect on their pricing. For example, factors such as a change in legislation may impact on their pricing, while an increase in the price of flight seats may cause a rise in the company’s overheads and force the company to consider amending its current pricing method. In such situations the company really only has two options; some absorb the price increases themselves, though the preferred method is of course to pass the external price increases on to the customers. This is done by increasing the price of the company’s own products but still try to maintain the same perception of the value for the customer. Both Tjeckien Experten and Rätt Resa claim that they try to protect themselves from these kind of mentioned unforeseeable changes. Neither of them changes the prices radically within a certain period of time, usually half a year. When setting the price at the beginning of the periods they try to take these kinds of changes into account, for this they usually just charge a higher price.
Price changes can be implemented in a number of ways as Jobber (1998, p 311) points out. The most direct is the price jump or fall that increases or decreases the price by the full amount through one price-altering action. Price bundling is another tactic to effectively raise prices. Most of the products actually consist of a set of products to which an overall price is set. Price bundling allows each element in the offering to be separately priced in such way that the total price is raised. A variant of this process is charging for services previously included in the product’s price. This is a tactic evidently effective in the tourism business industry. A comparison of the ways that Rätt Resa and Tjeckien Experten of uses price bundling shows the difference in pricing between designing complete package and letting the customers chose a more inexpensive basic package including transport and accommodation, though instead maybe spending more money on extra services and activities when arriving at the destination. A final tactics, discussed by Jobber is to maintain the list price but lower discounts to customers. For example quantity discounts can be manipulated in order to raise the transaction cost to customers. This is not as evidently applicable for small operators in the tourism business as for commodity markets, since efforts in achieving of large quantity is not a desirable situation or seldom the main issue.

**Competitor reaction**

The estimating of competitor reaction is a key factor in the price change decision. A price rise that no competitor follows may turn customer away while a price cut that is met by the competitors may reduce industry profitability. As we have found price rises are frequent in the tourism business often with not a lot thoughts concerning if competitors follows or not, this of course to the extent of not actually scaring the customers off. Jobber (1998, p 312) points out four factors affect the extent of competitor reaction: their strategic objectives, what is in their self-interest, the competitive situation at the time of the price change, and past experience. In the sense of strategic objectives Jobber (1998, p 312) points out that companies try to gauge their competitors’ strategic objectives for their products. This is crucial information because the success of company’s price actions will partly depend on the competitors’ reactions. They are more likely to follow the first company’s price increase if their strategic objectives are to hold or harvest. If the competitor’s intent is to build market share, they are more likely to ignore the price change done by the first company. Conversely, competitors are more likely to follow a price-reduction if they are building or holding and more likely to ignore if harvesting.

Self-interest is also important, according to Jobber (1998, p 312), while managers initiating price changes should try to put themselves in the position of their competitors. What reaction is in their best interest? This may depend on the circumstances of the price change. For example, if price is raised in response to a general rise in cost inflation, competitors are more likely to follow than if the price is raised because of the implication of a harvest objective. Price may also depend upon the facts of the situation for the competitors. If competition has excess capacity a price cut is more likely to be matched than if this is not the case. Similarly, a price rise is more likely to be followed if competitors face excess demand. Competitors’ reaction can also be judged by looking at their reactions to previous price changes. Past experience is though not always reliable, it may provide insight into the way in which competition view price changes and the likely responses the might conduct. As far as Rätt Resa’s competitive pricing is concerned, Torbjörnsson tells us that in case of slalom skiing travels he mostly follows the competitors’ price changes. He tries to set the price close, but still a little under the competition. Tjeckien Experten also pays attention how the competitors are pricing travels to the Czech Rep., but he also takes into consideration that the higher level of the services that he offers. So he prices his products after considering these two factors.
5.1.5 Quality and high price

Jobber (1998, p 307) says that when adopting a marketing-oriented approach to pricing the relationship between price and perceived quality is one of the most important issues. This mainly because many people use price as an indicator of quality, especially in the case of products as travels where objective quality-measurements are not possible to conduct. A number of other authors point out that the company’s pricing policy is an important indicator of the company’s overall image and of the quality of its product. Some indicator of the price sensitivity of customers, should be known especially if any changes to current pricing are being considered. In light of the presence of competing companies, a general policy may be to price above the competition, below the competition or to meet competitive price levels. Specially, in the tourist business it is quality, which is the key factor to motivate a higher price. There are also other things that characterize a market or a market segment that can bear a high price. These high-price characteristics is listed by Jobber (1988, p 299) as; product provides high value, customers have high ability to pay, consumer and bill payer are different, lack of competition and high pressure to buy.

*High value*

The first characteristic, that the market segment should place high value on the product, meaning that it’s differential advantage is substantial. There can of course be different kinds of high value or several different kinds of value connected to the product such as psychological or functional value. This requirement for charging a higher price is the most obviously applicable for the tourist business; both the managers of the businesses enhanced the high quality of his products and as we understood, they equalled this with the product providing a high value to the customer. You of course cannot assume that customers will automatically place, as high value on the product as the operators would like them to do. To include too much presumed intangibles such as values and experiences, is a danger because of it is easy to price them to high and ending up with the difficulty of explaining the higher price to the customer. To make the customers accept the higher price Jobber (1998, p 308) enhances this explicability as he calls it. The lack of this capability, otherwise constraint price flexibility. In markets where customers demand economic justification of prices, the inability to produce cost and/or revenue arguments may mean that high prices cannot be set. In other circumstances the customer may reject a price that does not seem to reflect the cost of producing the product.

An important consideration to many of the small businesses is being able to offer value for money. Typically, this can take two forms. One is offering a product of good quality at a lower price. The though most favourable method is to provide value for money by charging a high price, but incorporating some aspect of added value to warrant having a higher price and to induce people to buy the product. It is not surprising the most popular way to add value is to improve the quality of the product, and price is also often used to reflect the quality of the item particularly in specialist niches. This reflects the owner-managers’ realisation that buyers equate price with quality, therefore by establishing a higher price the company need to offer better quality, some form of added value, to warrant this price. Examples of this can be hand-made product and different features to existing products then others on marketplace. This also reflects the owner-managers’ growing knowledge of this market over time.
Chapter 5 – Analysis

High ability to pay and separate consumer and bill payer
The second and the third characteristic; high prices are more likely to be viable where customers have a high ability to pay, and when the consumer of the product and the one who is paying for the product are different. These apply to the two companies’ group-travels that are designed for business travels. Cash rich segments in organisational markets often correlate with profitability. This different positioning in the business segment and leisure-travellers segment is a useful way, which allows charging high price. Both Tjeckien Experten and Rätt Resa arrange travels for the two different groups and the price is significantly higher for the business travellers. Companies send those who travel to participate in a conference, which usually have a stronger buying power than an individual traveller. There are of course other segments as well that can be charged differently, depending on how strong buying power they have this also within the two segments of business- or leisure travellers. Such groups can be also for example those who pursue some elite and more expensive sport, like golf or riding.

Lack of competition
Jobber’s fourth characteristic of high price segments is lack of competition among supplying companies. The extreme case is of course a monopoly where customers have only one supplier to buy from. When customers have very little or no choice of supply power to determine price is largely at the hands of the suppliers. Rätt Resa falls into this category regarding the offers for travellers that are determined to participate in “Vasaloppet” and like to practise for this. Since there is no any other company who offers this kind of travels, Rätt Resa can charge a high price for it. However, Torbjörnsson says that he could lower this price if any threat to their business arose, if a competing company entered the segment. This again highlights the flexibility required in pricing for many small businesses, either as a conscious decision or in response to some change in the external environment or internal change in business activities, but it may also be an indicator of lack of control and conviction over pricing policy.

High pressure to buy
The final situation that Jobber (1998, p 300) describes is where customers are likely to be less sensitive to price is where there is high pressure to buy. This is not that applicable to the tourist business, particularly for leisure travels.

To sum up, it is unlikely that all five conditions will apply for the targeted segment for the product but the more of these characteristics that are found in the segment, the higher the chances that a high price can be charged.

Circumstances for raising price
Jobber (1998, p 311) continues that a price increase may be justified as a result of marketing research, which reveals that customers place a higher value on the products than is reflected in its price. Especially for small operators in the tourism industry those are not conducting any formal marketing research, the evaluation between value and price is rather hard to conduct. Excess demand is another factor, a company that cannot supply the demand created by its customers may choose to raise prices. This can be an attractive option as profit margins are automatically widened. Rising cost and therefore also reduced profit margins may be another reason for raising price. The final example of potential circumstances are when a company are starting to implement actions for a harvest objective, here prices are raised to increase margins even though sales may fall. Both Rätt Resa and Tjeckien Experten tell us that the most usual reason to raise prices is when the costs are raising. These kinds of cost changes they try to protect themselves by calculating a higher price at the beginning of a year or half a year when generally price raising take place.
Chapter 5 – Analysis

Charging a low price

The charging of low price is not as favourable applicable on the tourism business, especially for the business of small travel operators, which instead tries to differentiated their products in order to avoid low prices. Jobber (1998, p 300) though describe the first condition as the situation when an analysis, using the checklist of the high-price characteristics, reveals that charging a low price is the only feasible alternative. The example here is the operators offering travels for school classes, here the price sensitivity in connection to the fact that the funds for the travel often are provided by the school with a tight budget or the pupils themselves through raising money in different ways. Both Rätt Resa and Tjeckien Experten offer these kinds of travels and say that the margins on these are very low. The travellers only request the basic facilities and transport alternatives to keep the price down. There are however as Jobber (1998, p 300) points out, more positive reasons for using a low price strategy. First a company may wish to gain market presence or domination by aggressively pricing its products. Low prices may also be charged to increase output and so bring down costs through the experience curve effect. For small travel operators it is the first part of the definition; as a means of gaining market presence that are reasonable.

Low price as a means to compete

The conducting action in trying to achieve domination by aggressively pricing its products could only be done by larger established companies. Fourth, a low price strategy can make sense when the objective is to make money later. Two circumstances can provoke this action. First, profitable after-sales services may follow the sale of the basic product. Second, the price sensitivity of the customers may change over time, initially customers may be price sensitive implying the need for a low price but as circumstances change they may become much less sensitive to price. This requires customer loyalty and these two factors together is what most of the companies hopes to achieve. It is though hard for a company that does not conduct any marketing research to do any kind of following up on the issue of decreased price sensitivity. The fifth reason why marketers charge low prices is that they are implementing the strategy to make money elsewhere. You can interpret this characteristics in different way, Jobber describes a situation that is applicable for the commodity market; retailers often use low price product that are advertised in an attempt to attract customer to their store and to create a low-cost image. When customers are attracted the company can benefit from sales of other higher priced and more profitable products. In the tourism business, this the same theory be seen as the offering of basic travel packages only including transport and accommodation to a low price and then selling a range of products and services on the destination. This can actually end up in the traveller paying more then for an initially more expensive offering including more features. Tjeckien Experten claims that the activities offered on the destination is what he has specialised in and according to himself do very well. Low price can also act as a barrier to entry, a company may weigh the longer-term benefits of deterring competition by accepting low margins to be greater than the short-term advantages of a high price, high margin strategy that may attract rivals into its market. The low price in the business of arranging school trips should be one reason not to enter that segment. Finally, low price may be charged in an attempt to put other companies out of business, called predation strategy. These two last conditions are also more intended for larger operators, this also connected to the issue of survival for small operators.

Circumstances for lowering price

Jobber (1998, p 311) points out that price cuts may be provoked by the discovery that price is high compared to the value that customers place on the product. In the tourism business and especially for small operators that are not conducting any formal marketing research this is just brought to the company’s attention through complaints. The actions taken to design a price that equals the value is though often not to lower the price. Instead the operators are trying to higher the value to equal the higher price. This we saw in the example of Rätt Resa
Chapter 5 – Analysis

adjusting the accommodation instead of just lowering the price for his slalom tours, quality must come first as both the companies enhanced continuously.

Cost reductions
Falling costs and the desire to bring down costs further through the experience curve is another example that are not that as clearly applicable to the tourism industry. The actions to the described conditions would for many of the small operators be to chose not change the price and take the advantage of a higher margin instead, as Tjeckien Experten points out. The decision of lowering the prices is not often taken by managers for small businesses like Rätt Resa and Tjeckien Experten. The risk of ending up in price wars with larger counterparts is not at all favourable. One example of the situation where there is excess supply the lowering of price is a means of correcting the situation that is leading to excess capacity. A further circumstance is a company’s the adoption of a build objective, when customers are thought to be price sensitive, lowering of price may be used to build sales volumes or/and market share as we have seen in the example of the slalom tourists and the school trips. This can be done as long as a price war is unlikely to occur, otherwise it will only have negative consequences, which a small operator could not handle as well as a larger chain for example. For the smaller operators the business is more of assuring a certain amount of customers, then just grasping for the large uncertain mass as Rätt Resa says. This is of course also done in the sense of keeping personal service on a high level. Jobber’s (1998, p 311) final circumstance that may lead to price cuts is the desire to pre-empt competitive entry into a market. These actions of proactive price cuts could again risk the survival of the operator many times too much to be worth it. The small operators are flexible but also trying to avoid risk to a reasonable level as the owner of Rätt Resa points out.

5.2 How do pricing and positioning influence each other in the market of tourism?

5.2.1 Competitive advantage
Companies could seek to gain competitive advantage by comparing their own package to the competitors’ and if they can be better, then an opportunity would exist for higher pricing. When companies deliberately decided to set their prices higher than the competition, it tended to be supplemented by offering some kind of added value. In Rätt Resa and Tjeckien Experten it takes a number of forms, for example, through trying to offer superior and more personal customer service and a better quality product. This requires differentiation and positioning which is often done on the basis of added value, where price is only regarded as an integrated part of the overall offering. A tourist product can be differentiated bringing out its unique benefits to the intended target market, in order to create a desired position in the tourist’s mind. One example is language-learning travels that Rätt Resa arranges. They are unique, Rätt Resa is the only one on the market who offers such a combination, which became a real success.

5.2.2 Two sides to the positioning
Witt and Moutinho (1995, p 325) writes about the effective product positioning as a means of serving specific market segment by creating an appropriate concept in the minds of the consumers in that market segment. Witt and Moutinho (1995, p 328) continue by claiming there to be two ways of dividing the positioning into. Perceived positioning is the first and is about that product’s positioning is not in the product or even in the advertising. It is the mind of the tourist. Two identical products may be perceived as different. On the other hand, two quite dissimilar products may be perceived as similar.
A desired positioning is one that clearly distinguishes a product from its competition on attributes considered important by the relevant market segment. Customers can perceive a company’s product not to be as good as the competitors’ if it is cheaper. The product can be just as good, if not better, but the perception in people’s minds is different since they associate a low price with low quality. The other side of the positioning is the one in connection with the competitive set: a product’s competition includes a primary set of other products and a secondary set of other products that are not similar but may be used as substitutes. The definition of competitive set is, once again in the mind of the tourist. Because the fact that this study is done in a company-oriented way and as we did not ask anything about the customers of the both operators besides what we could read on their web sites, we cannot and will not make any statements about how their customers perceive their positioning. To be able to get a better picture of what that is in the tourists’ mind it is useful to make a perceptual map, which we have described in the theory chapter. Both the studied companies have described actions that are similar to the conducting of making perceptual maps of the market.

5.2.3 Ways of positioning

As Witt and Moutinho (1995, p 367) enhances different tourist destination will appeal differently to various income groups and social classes, who will have different patterns of spending and length of stay, and different activities. The two companies has taken advantage and adapted to this fact in different ways. Rätt Resa offers packages that are addressed to very narrow segments of the market, this packages can be altered to a extra charge. Tjeckien Experten instead in choosing not to offer complete packages, lets the customer put the together a package for himself. In this way his can initially attract a larger number of segments. Witt and Moutinho (1995, p 329) are claiming that there are a number of ways to position a tourist product. As they say, positioning can be based on specific product attributes or features. This is a very common approach in the tourist industry. Witt and Moutinho continue that positioning can also be based on the benefits of the product to the customers. This is strongly related to positioning based on product features, for the tourist product the features are the different sub-products that are included. These statements are supported by our empirical study since both of the investigated companies position their packages in different way to different target markets. Another way to position is by specific usage and by user category. The first one our empirical data could not clearly support. Both the studied companies, on the other hand, often use the second way of positioning. For example Rätt Resa offers a travel-package to different target groups at different prices. Tjeckien Experten also has a lot of possibilities that the customers can choose from when they are forming their own packages. These activities, that for example Tjeckien Experten has, are of course priced differently. Those that are probably will be used of business people, like conference possibilities, are priced at a higher price than others that are probably will be used of young people, like cycle tours.

Positioning against competitors

Another way of positioning is to do it against another product or directly against a competitor. This is not as common in the tourist business and it also illegal in Sweden to name the competitor in any kind of way. Though in the segment of language-learning travels the large competitors as EF and STS has developed a bad reputation because of many dissatisfied customers. The smaller operators can take advantage of in the sense of enhancing the quality and the personal touch they can put on the trip that their larger counterparts cannot.
Positioning based on lifestyle

In the recent years positioning based on lifestyle profiles become more popular to used. For example Tjeckien Experten has theme travels such as sport travels, culture travels, and adventure travels. Rätt Resa arranges several travels that fall into this category, the most evident example is the golf travels but also the language learning travels for people with a strong interest for horseback riding, golf and fishing. Both companies are actually using different hybrid positioning strategies for different destinations and target markets. Witt and Moutinho (1995, p 329) define a hybrid strategy as combining two or more of these mentioned approaches. Products can, of course have multiple positioning strategies, although increasing the number involves difficulties, risks and possibilities to evaluate. As we have seen in a number of segments, the studied companies have positioned their products into the possibility to charge a higher price. The obvious exception is the one of Rätt Resa arranging slalom travels for families; here the price sensitivity limits the range of price that can be set. The conclusion of this is that price sensitivity and therefore price more or less determines the positioning in the segment of slalom travellers, families represent the largest potential group of customer. If a company wishes to operate and survive in this line of travel the product and/or company cannot be positioned solely on the high quality offered. Here the explicability of the connection between price and quality is the most important because of the large number of alternatives dependent on the low level of differentiation.

School trips are also an example that deviates from the other segments that both the operators are active in. This group of travels presents an even more limited possibility reach higher margins, both companies though arrange this kind of travel. For Torbjörnsson the choice of doing so is, as pointed out before, is based on the fact that he arranged trips for pupils before he started up his business. If the company where only operated in order to make a profit the school trips would not have been in the interest of the manager. Why Tjeckien Experten have chosen to arrange this kind of travels are not as evident, especially when the high quality is so largely enhanced in his other tours and as we have seen the higher the quality that is provided, the higher the price. School trips are not so much about the focus of quality, it is mostly about price, of course you could talk about of a certain level of quality here as well but not as a means of accepting a higher price.
6 Conclusions and implications

This chapter presents the result of our investigation. We will even try to answer the raised research questions, give suggestions for further researches and for implications.

Supported by Lace (1982) that suggests that most small businesses will base pricing on a combination of what the market will bear and cost-plus, we have seen that the studied small travel operators are using a combination of pricing methods, which is similar to the methods that in theory is known as cost-plus and full-cost pricing. This we have seen in emphasising of covering costs. Skinner (1970) found that cost-plus percentage pricing was very much influenced by competition and demand. While cost-plus pricing appears to be the most commonly used approach, there is general agreement that it suffers from a number of weaknesses. Hankinson (1991) points out that it assumes that companies actually know what their costs of production are at given levels of output.

One problem that we have seen in the example of a small travel operator just starting up, there can be a lot of work in getting the potential customers to see where the high price is coming from. To convince them of the fact that the product includes many sub-products that are valuable to make the trip as enjoyable as possible. The way in how an operator chooses to implement price bundling is also an important part of the positioning. As customers often ask themselves; do I actually want or need all these sub-products and am I prepared to pay for these and in that case what am I prepared to pay. Group-travels, such as those for older people often include a number of activities and services at the destination while younger people often only wishes to do more on their own and therefore only represent the demand for transportation and accommodation. The concept of “all inclusive” can also divide one segment into several smaller segments.

After costs, which the study found to be the first factor to be taken into account by both companies, there are other issues that emerge as significant in price setting. The companies have to take into consideration the customers’ awareness and perception about the business, competition pricing, what added value the company can provide and very importantly customers’ sensitivity to price. They have to make an attempt to keep flexibility in setting prices. The conducting of price setting in the tourism business must be seen as a continuous process, not just as setting a price and sticking with. The study revealed that both small companies appeared to be concerned about their competitors, but still they put the main emphasis on offering something different, providing something extra in order to widen the range of price that can be set, despite their competitors. In both cases the owner-managers considered factors other than price as being of greater importance and relied more on non-price competition, emphasising some other aspects of their offering, commonly better quality and/or personal service. Middleton’s (1994, p 96) conclusion can be used to summarize our findings on the role of the price; the strategic role of regular prices communicates chosen positioning and image for products among target segments. It also communicates expectations of product quality, status, and value to prospective customers.

From the empirical evidence a number of key issues arose regarding pricing concepts and the price setting of small tourist operators. The evidence suggests that they employ a wide range of factors in relation to pricing. Setting and developing coherent pricing represents one of their largest difficulties. It is also mostly performed in an inexact or haphazard way, and as a consequence it presented a difficulty to them. They do business and set prices according to the established frameworks within an industry. An exception to this norm will be the rare circumstance whereby an operator with a highly differentiated offering and an established reputation can charge a premium price. Thus the owner-manager is in a difficult position;
both the studied companies seem to be satisfied with their current way of doing things, even though it would seem as the limitations of small operators in resources and marketing knowledge, and their small size in relation to the market, inevitably means that they are conducting their pricing in a less effective way. Many small companies emphasise other marketing activities in an attempt to minimise the importance of price; added value and high level of customer services are two examples. Although both investigated small business owner-managers carry out price setting intuitively, they also have improved their pricing skills over time through experience, knowledge and involvement in the particular industry.

To summarize the pricing factors, small companies’ pricing decisions are dominated by the two factors of competition and covering costs. It is fair to argue that, because small companies are “small” and do not have significant resources, of course they will be largely influenced by competitors’ pricing even though the do everything in order to avoid this.

The connection between positioning and pricing is incorporated in the marketing activities of the small travel operators, and this to the extent that is not always that easy to detect in the sense of specific theoretical concepts and ways that thing should be conducted according to formal models. As we have seen in a number of segments, the studied companies have positioned themselves into the possibility to charge a higher price. The conclusion that we feel can come out of the concept of price sensitivity or insensitivity, is that this is what to a large extent decide the positioning and the pricing for small travel operators. To summarise, no pricing seems to be done without some consideration to positioning and no positioning seem to be done with some consideration to pricing.

Implications

The implications that can be interesting and applicable are that small operators’ pricing skills may be additionally improved through increased awareness and more rigorous analysis of the company’s situation, for example of the issue of competitors’ actions in the context of the overall position in the marketplace. Regardless of how a firm is choosing to price its products, it is necessary to monitor the results of the pricing decisions. Only through monitoring they can determine whether the pricing decisions are yielding the anticipated results. It is far better to adjust the current strategy than to stick with a bad decision. Even good business people occasionally make unsuccessful decisions because of faulty information or incorrect analysis. The only way to determine what price to charge is to experiment. This we can say both studies companies has realised, even if it is not through theoretical studies, but through their own experiences. Our suggestions is therefore for both of the studied companies to try to conduct some kind of monitoring of the results of the chosen pricing strategies and implementation. In this way they also enhances the experience and knowledge about pricing in an overall perspective. This can be used as a competitive advantage in the future in the sense of effective pricing.

What we can see as our general contribute on the field of tourism studies is the enhancement of the importance of the price sensitivity as a base both for the setting of price and the positioning issue. The connection that we have found between these two can be a way of narrowing down the number of the aspects that can be seen as the most interesting for further studies.
References

Englewood Cliffs: Prentice-Hall.

Campbell, M. C. (1999). PRICING STRATEGY & PRACTICE “Why did you do that?” The
important role of inferred motive in perceptions of price fairness. The Journal of Product &
Brand Management 8(2).

Marketing Management 9(2), 189-205.


Erickson, G.M. & Johansson, K. (1985). The Role of Price in Multi-Attribute Products-

Stockholm: Sellin & Partner Bok och Idé AB.


Avery:Aldershot.


Oxford: Butterworth-Heinemann Ltd.

7, Feb., 27-35.

Case of North and Central Portugal. Business Source Elite 37(4).

Measurement, eine neue Tecknik zue Gewinnoptimerung, Harvard Manager 3, 36-60.


Pacific International Journal of Business Logistics 1(1).

Marketing 15(1).

References


Runyon, K.E. (1977). *Consumer Behaviour and the Practice of Marketing*. Charles E. Merrill, Columbus, OH.


References


World Travel and Tourism Council (1998).

Internet addresses

www.rattresa.se
www.tjeckienexperten.nu
Interviewed persons

Tomas Torbjörnsson, owner-manager, Rätt Resa AB
Jiri Polacek, owner-manager, Tjeckien Experten
Appendix

Interview guide

We are two students who are attending the third year of economy at Luleå University of Technology. We are writing our bachelor thesis specialized in marketing. Our area of research problem is pricing within the tourist industry. We further examine the connection between pricing and segmenting, choosing of target markets and positioning. We have chosen to study a few smaller travel operators.

We are grateful for your participation.

Yours sincerely,

Edit Lundman Kerekes and Linda Tonvall

Our research questions:

1. How does the owner define the market that the company is active in?
2. Were there any market research done about customer base, potential target markets and price sensitivity before the company was formally started? If so, in what way was that conducted?
3. Has there been any other market research done during the company’s time of business? If so, in what way was it done and what was the purpose of it?
4. Does the customer make his reservation directly at the company or is there any intermediate – like a tourist bureau – involved in the reservation process? Can the reservation be done in another way?
5. How do you arrange the transport of the tourists? Is it done through chartering or through booking of regular tickets?
6. Have you any “last-minute” offers (in order to fill the seats)?
7. Who do you consider to be your target markets?
8. Are the target markets clearly divided (into markets for business travelers, market for group-travels, leisure travelers)?
9. Are the target markets identified when you design your products, information to the customers and other material?
10. On which factors are the dividing of the whole market into target markets based?
11. How much importance is placed on the price as a factor for the diving?
12. Do you offer complete package to the different target markets?
13. Do you give the customers the opportunity of forming/designing their own individual packages? How much does this way of designing offers effect the pricing?
14. Which are the most important factors effecting the pricing?
15. Is the choice of target markets already made by the time of pricing or are these two activities conducted simultaneously?
16. What kinds of factors have importance for the different kinds of target markets?
17. Does the company emphasizes mainly travels just with basic services or does it put much effort in designing tours offering extra services like selling souvenir, meals etc.?
18. What do the different kind of target markets demand and what are they prepared to pay for it?
19. Do you change the price according to the change in demand?
20. Do you have seasonal pricing? If so, how much does the prices vary?
21. How do you protect your business from changes in factors affecting the price, such as interest rates, taxes, flight costs, inflation, unemployment?
22. Do you have your prices printed in your brochures or catalogue?
23. Have you tried to position the company in any special way or to create a specific image such as providing great personal service, high quality, high or low priced travels?

**Positioning:** Marketing efforts to ensure that the company gets a highly valued place in the mind of the customer.

**Thank you for your participation!**