UNIT 14 PRICING STRATEGIES

Structure

14.0 OBJECTIVES

After going through-this Unit, you should be able to:

- understand the factors affecting demand for products at different prices,
- understand how pricing can be used as a tool to achieve marketing objectives,
- explain how costs affect price and the significance of marginal costing in travel and tourism marketing,
- recognise that price is only one factor influencing the demand for travel,
- determine key pricing policies, and
- know how to use strategic and tactical pricing as elements in the marketing plan.

14.1 INTRODUCTION

Price is as much a tool of marketing as promotion, and plays a critical role in the marketing mix The price of a product or service should be seen not only as the outcome of market farces. A marketing manager should be aware that price conveys something to the consumer about the nature of the product or service. By managing price in combination with product quality and the promotional messages, sales can be activated in a new market, or market share can be increased at the expense of connpetitors.

In order to understand how to use: price as a tool, we need to haw a clear picture of how customers interpret price of goods and services they buy or avail, tourism included. Pricing for tourism product should take into account the complexity created by seasonality of demand and the inherent perishability of the product. This Unit deals with the different components of pricing, pricing ob'ectives, price setting and factors which influence pricing.

Z42 UNDERSTANDING VALUE

Central to the issue of the price is the concept of value you think you will get out of it. The term 'value' is one that is rather loosely used. Research by Zeithaml found that 'What constitutes values - even in a single product category - appears to be highly personal and idiosyneratic". In one of her exploratory researches, she found four broad expression of value:

Value is low price,

Value is whatever I want in a product,

3) Value is the quality I get 'for the price I pay, and

4) Value is what I get for what I give.

In this Unit, we will base our definition of value on this fourth category and use the term net value, which is defined as 'The sum of all the perceived benefits (gross value) minus the sum of all the perceived costs'!

From this, it follows that the greater the positive difference between perceived benefits and perceived costs, the greater the net value. If the perceived costs of using the tourism services are less than the perceived benefits, then the service will possess negative net value and the customer won't purchase it. When customers evaluate competing services, they are basically comparing net values. However, perceptions are often highly inaccurate, because customers may be making these comparisons based upon very imperfect information. Further, perceptions of benefits and costs may vary widely fiom one customer to another, and even fiom one situation to another.

14.3 UNDERSTANDING COSTS

As the concept of net value assessment by a customer depends upon the costs he or she may have to bear, it is important to understand the costs associated with a service like tourism. There are several important costs that a potential tourist may incur in order to avail the pleasure of tourism. These may be:

i) Monetary Cost: which involves the actual rupee value spent on getting benefit oftourism. This is often referred to as price paid and expressed in Rupee term.

ii) Time: Time is a valuable commodity for most people, one which always has a fixed upper limit for each individual. In addition spending time for tourism involves an opportunity cost i.e. cost of the value lost had the time spent in tourism been spent in alternative gainful activities.

iii) Physical Effort: To quite a lot of people, physical effort entailed in getting out of their established life patterns to travel and be weary, is a suhstantial eost.

iv) Sensory Costs: Travelling in addition to the pleasure associated has discomfotts owing to noise and pollution, excessive climate vagaries, uncomfortable modes of travel, in transit delays, unpleasant tastes, smells and sometime even unappealing environment. Sometimes past experience with some of these sensory costs may actively act as an inhibitor of purchase or significantly lower the net value of the package to the customer.

v) Psychic costs: These are sometimes attached to the use of a service. These! could be unfavourable perceptions, insecurities about certain destinations or simply a fear of taking on the uncertain.

Consumers, in order to determine the net value they are getting out oftourism, trade off the benefits against the costs associated with the package. The above description of costs in addition to the monetary cost (price) undermines the fact that even a reasonable price may be viewed too high if the other cost associated with a given tourism product is high apd renders the "net value" and a negative gain.

Pricing theorists try to explain the concept of cost and value by saying that as all costs need to be recovered, an organisation's cost of rendering the services becomes the floor below which the prices can not be set as it would be non viable. The perceived value of the product in the eyes of the customer sets what can be termed as the ceiling for the prices to be charged. The prices charged by the competitor for similar or a substitute product becomes the key determinant of the level within the ceiling to floor range set by perceived value and cost parameters.

14.4 COST : THE INTERNAL INFLUENCE ON PRICES

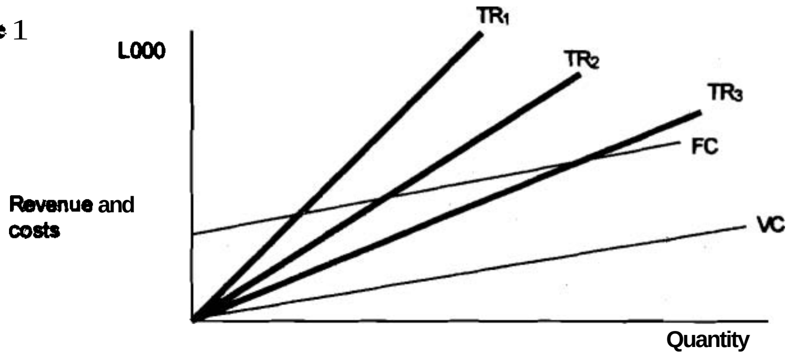
Let us in this Section try to understand how costs affect prices.

Gross profit for a travel agent is the difference between the prices he pays for the travel services plus his administrative costs and the price he charges the custorper i.e. the commissions he receives on the travel services sold by him. The costs in the case of a tour operator would include what he has to pay to the airlines, hotels, surface and local transport and other organisations providing the services that he included in the package. In addition, he has the costs of having his own organisation say rents, water and electricity charges, telephones, salaries to the staff and the marketing costs like the advertising distribution, information collection and dissemination etc. These costs in accounting terminology are called overhead costs as they need to be incurred even if the tour operator is not able to sell anything.

The costs borne by tourism marketeers can be understood better by **classifying** t**em** into variable costs (VC) and fixed costs (FC). Variablescosts are those that vary **directl** **with** the quantity of services produced and sold, while fixed costs do not vary with the level of production of service and will accrue whether the production is taking place or not. The cost of **reservation** made in a hotel by a tour operator and the cost of seats booked by him on an airline is a variable cost as it varies directly with the level of services sold by the operator. On the other hand the rent paid by him for the office building is a cost independent of the level of services he is able to produce or sell at a given point of time and represents a fixed cost. The total cost of a given service to any organisation is a sum of fixed and variable costs attributable to that service.

The concept of breakeven point is a simple way ofunderstanding how costs affect the setting up of prices. Break even point is tbat point in **the** sales of **a** product or service where the **total** revenue **received** from sales exactly equals **the** total costs for tbat given service **i.e.** a **situation** of zero profit or loss. Calculation of break even point enables a marketeer to understand how this breakeven situation is affected by charging different prices, what is the **level** at which he would like to operate and how many services (holidays or tours) need to be sold at a certain price in order to recover costs or make a desired level of profit.

Figure 1



Source : J.C Holloway & R.V.Plant, Marketing for Tourism

Consider the example (figure **1)of** a museum where rare historical artifacts are kept for display and which is under consideration for being developed as a tourist attraction. There are 3 options being considered for the entry fee. These are Rs.25, **Rs.30** and **Rs.40 and variable** costs. The bold lines show the total revenue earned if the prices were kept at **Rs.25 (TR-1), Rs.30** (TR-2) and **Rs.40** (TR-3) respectively.

This figure clearly demonstrates the number of customers that, need to be attracted at each price in order to fully cover the costs of producing the service.

Accountants also use a term called Contribution which is equal to sellingprice minus variable costs. In this figure 'contribution' shows the extent to which **variables** costs are being covered by a given price. In case where it may not be possible to **attract** customers at prices that **will** cover full costs, it is sometimes prudent to price a product **even** below full cost in the short run so that it may make some contribution towards the ongoing **fixed** costs which will be incurred regardless of whether the services is being **produced** or not. A good example **of this** tactics is provided by the off season pricing by tourist resorts. Hill resorts in off season offer prices **which** are well below their regular price and are **actually** below full costs, but these prices attract such people who would otherwise not have bought the service at all, and at the same time make a positive contribution to the **fixed** cost of **running** these resorts during off **season.** At the same time some services may be phased **out** and only the basic package may be offered in the off season **period.**

In this **Section** you have gone through the variety of **costs** a tourist might have to bear, and the waymqrketers **try to** understand the cost **of producing and selling tourism** services. Always **remember** that costs form the lower limit below which **most organisations** would not consider selling **their** products except to **utilise** spare **capacity** or **unutilised** operations. But simply understanding costs and adding up a **mark** up to **arrive** at a pricing figure is too simplistic a view of pricing because it ignores the crucial interplay of demand and prices and what the consumers are willing to pay in a given set of conditions.

Check Your Progress-1

1) What constitutes value?

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2) Mention various types of costs:

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3) What do you understand by break even point?

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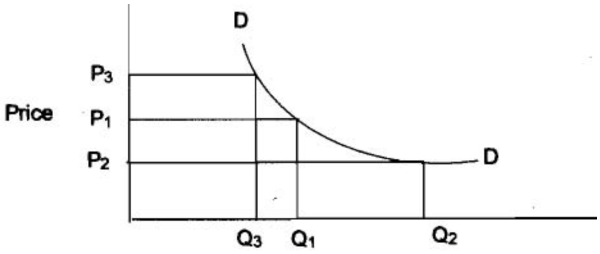
14.5 PRICES AND DEMAND

In addition to the above mentioned concepts of value and cost there are two more basic concepts that you need to understand before you get down to the exercise of price setting. These concepts are related to individual demand and elasticity of demand in relation to tourism.

i) **Individual Demand and the Tourism Product:** When customers make individual decisions about availing tourism services these decisions, as you may have gathered from observation, are partly affected by the price for the services. Price quoted for a given tourism product enables consumers to make judgment about qhality, allows comparison with like or substitute service and generally facilitates decision making, **In order to be able to generate demand for tourism, price must be perceived to be neither too low (so that it denotes questionable quality) nor too high (so that it is viewed as being unaffordable).** It is therefore clear that demand for a given tourism product at least in part is to be governed by the price that the consumer has to pay for it and the way the potential consumer views this price. Also, because different people have different perceptions about a stated price, **pricing may actually become a tool in attracting the** type of customer one **wants** to attract for a given tourism product. You may therefore, partly define the kind of demand you will face by fixing up a certain level of price.

ii) Elasticity of Demand: The aggregate demand for the tourism product results **from** a total of individual customers demand patterns. These are under constant change, depending upon the price, availability of time, resources at the disposal of consumers and levels of competition. The extent to which a change in price alone brings about a change in the lewl of aggregate demand is called price elasticity of demand. You will be able to understand it better if you look at the figure 2 below.

Figure 2



Quantity

In the figure Q.l represents the quantity of a given tourism product (**say** a package tour by a tour operator) sold at the price **P1**. If we **assume** that by getting into favorable agreements with airlines and hotels, the tour operator is able to lower the price of the tour to P2 a larger number of people will now be able to afford the tour so that quantity of tours bought goes up to **Q2**. As the demand here has responded positivelyto a change in price we can say that the demand for the tour is elastic. You must however, remember that this resposiveness of demand to change in price will be beneficial only **if the** revenue lost by reduction in price is more than made up by increase in the total number of units sold so that the incremental effect is an increase in revenue. The figure also demonstrates the elasticity of demand by showing a negative impact on demand; as price is raised to P3 the demand reduces to **Q3**.

It should however be understood that not all tourism products would display an elastic demand. Take business **travel** for example. If the prices of the air tickets for executive class travel were to be reduced the business travellers would not suddenly increase the **frequency** of their travel to a certain destination just because the air ticket prices are lowered. In fact they travel to specific destinations at a specific time for specific business. You must note that in cases like this the price of the product is a relatively an unimportant variable in affecting purchase decisions.

14.6 PRICING OBJECTIVES

When firms set out to determine their prices, they must be very clear in their thinking as to what do they want their pricing to do for them and for their marketing strategy. Pricing is ultimately only a tool to achieve overall marketing objectives. Prices may be set to generate the maximum revenue or the highest profit or gain the largest share of a given tourist market. Once the organisations select their pricingobjectives it is relativelyclear to them to determine the actual figure on which theywould like their productsto sell. Broadlythe pricingobjectives followed by tourism sector can be divided into the following four categories:

i) Revenue Oriented Pricing Objective

ii) Operations Oriented Pricing Objective

iii) **Competltion** Oriented Pricing Objective

iv) Demand or Patronage Oriented Pricing Objective.

14.6.1 Revenue or Cost Oriented Pricing Objectives

The revenue oriented pricing objectives maybe related to making the largest possible **surplus, minimise** costs so as to **maximise** returns or earn a specific target level of profits. Under this objective the tourism firm **would** try to follow pricing strategies that give it the maximum revenue or a certain specific return on the investment made by it. A hotel offering holiday package for example may decide to earn a 20% return on investment that it has made to produce those packages and thereby sets a price which would enable its return. Similarly, a tour operator may like to set a price that lets him maximise the total revenue (units sold x price per unit). At this stage you might like to recall what you read about the elasticity of demand. The tour operator may actually find that by cutting down price per unit, he can maximise revenue as his units sold go up by slashing the prices. This would be the case where the price elasticity of a particular tourism product is high, under a given set of market condition and for the type of demand the service provided faces. There are however some problems with this approach. Maximising revenue in the short run may sometimes harm the chances of long term market development or customer patronage development or even choosing the desirable kind of tourists for your tourism product.

Another area of difficulty, specially when you are seeking to earn a specific target return on your investment is determining the costs that can be allocated to each tourism package for which the prices are to be determined. In the example of the hotel offering package holidays, calculating the percentage of overheads like electricity, water charges, supervisor salary and indeed managerial salary that can be allocated to this package may become a difficult task. The holiday package tourists may use part of the services from the general services offered by the hotel i.e. reception floor services, lobby, telephones etc. Calculation of all those costs and their allocation to specific heads so that the total costs per unit can be worked out on which a target return is to be calculated may be difficult if not unachieveable.

14.6.2 Operations Oriented Pricing Objectives

Tourism as an industry has seasonal or fluctuating demand. Most resorts and consequently the accessory sectors like agents, operators, inland and international travel have their peak and slack seasons. On the other hand tourism, because it is a service, represents a situation of perishability of service on offer. An empty hotel room on a particular day represents an unavailed services which will perish for ever if it is not availed. In order to combat the twin problem of perishability of service and fluctuating demand levels tourism marketeers, often resort to operations oriented pricing objectives. In such a situation, essentially, they vary prices over time so as to ensure that demand matches available supply at any given point of time. This is done to make the most profitable use of available capacity, In addition, sometimes, new entrants in the tourism market, on finding that they have-slack capacities during some part of the operation cycle, may introduce special prices during the off season to maximise patronage rather than profits.

14.6.3 Demand Oriented Pricing Objectives

While discussing value in the context of pricing we had commented upon the concept of the consumers willingness to pay. "Demand Oriented Pricing-tries to discover through marketing research, what the market is not likely to pay for the type of tourism package in question. The service provider would thus like to charge the price which is closest to what the market would bear. You must also understand that in this case prices are being based on the consumer's capacity to pay. As the markets are made up of a variety of consumers, each group with a differential capacity to pay, the tourism marketeer can actually use differential pricing to reach different consumer segments, specially if it is possible to create a differentiated package for each set of consumers. Take for example Ocean liners offering cruises. All the customers are not charged the same rate, simply because all of them, apart from the basic tourism service of the cruise, (travel and sight seeing) do not avail the same services. There may be deluxe and super deluxe, first class and economy class cabins which would be accordingly priced creating differential prices for all the classes, This allows the producer to attract a far wider section of consumers and optimise his returns, by a process ofmatching his prices to the type of demand that may exist for different tourism packages.

Hotels and holiday resorts also use the difference in the intensity of demand during weekends and weekdays or at peak and off seasons, as a basis to create different pricing for these time periods. Low prices are charged for periods which are typically low demand periods for these services to attract the sections which might like to take advantage of the special prices and avail the facility. Differential pricing, thus, is used to enhance the total returns to the organisation than what would have resulted if a simple price policy was followed. It is also used to iron out the fluctuations or seasonality of demand. This is important because, on account of perishability, the tourism product can not be inventorised and in periods of lower demand than capacity, the available service perishes forever.

14.6.4 Competition Oriented Pricing Objectives

In a market **characterised** by tough competition, tourism organisations sometimes base their pricing decision not on their own analysis of costs and value relevant to a given pricing situation but on what competition is charging, especially if they believe that price is a major determinant of consumer choice. This situation is visible in the airline sector, travel agency as well as the tour operators business. Prices charged by the competition become the limits beyond which organisations in a highly competitive market may not like to go in setting their own prices so that the objective of the pricing exercise becomes achieving competitive parity. Prices in such situation are relatively sticky in the sense that most competitors tend to follow the market rate. In the event of one organisation initiating a price reduction everyone retaliates, quickly canceling out any advantage that the change initiating firm may have envisaged. On the other hand in the event of a firm initiating a price rise, most competitors do not follow **suit,** unless this change is a reflection of some major shift in the industry costs hoping to get an advantage of patronage against the competitors initiating the change.

In case of competition oriented pricing, generally some organisations assume the role **of price** leadership, where in the event of change in the cost structure for the industry, one of these organisations **may raise** the prices and the others follow suit. This is also referred to as **'Follow the Leader'** pricing. You must remember that the greater the similarity in the services offered by tourism providers in a given sector (airlines, travel agents, tour operator, transport) the lower is the **freedom** that an individual organisation enjoys in setting up his own prices. As long as the tourism products can be differentiated, pricing can be relatively insulated **from** competitive pressures.

Check Your Progress-2

1) Discuss the relationship between Price and Demand.

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2) Mention the different types of pricing objectives.

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14.7 PRICE SETTING IN PRACTICE

Now that **you** understand the concepts of value, cost, demand and competition in the context of pricing let us discuss how tourism organisations in practice make their pricing decisions. The major consideration of course, as pointed out earlier, remain the **cost, perceived value and competition.** The first two provide lower and upper limits while what the competition is changing decides the level which should be chosen between these two limits.

A variety of pricing practices are' followed by tourism organisations in the pursuance of the their broad pricing objectives discussed earlier. Tourism organisations can attempt to attain leadership in the market by keeping their prices low or by attempting the strategy of niche marketing, by managing to differentiate their products effectively or by selecting a specific segment to tailor their marketing object to the seller.

1) Markup Pricing

This is the most elementary pricing method and involves adding up a standard markup to the cost of the service. The total cost of offering the service is estimated and a standard markup is added to this cost to **arrive** at the sellingprice. To illustrate this assume that a tour operator has the following expectation of demand and cost :

Variable Cost	=	Rs. 3,500 per customer
Fixed Cost	=	Rs. 50,000
Expected Customers	= .	50

This unit costs would be given by

$$\text{Unit cost} = \text{Variable Cost} + \frac{\text{Fixed Cost}}{\text{No. of Customers}}$$

$$3{,}500 + \frac{50{,}000}{50} = 4{,}500$$

Now, assume that the **tour operator** wants to earn 20% markup on his sales. The price to be charged is given b y

$$\text{Mark up price} = \frac{\text{Unit Cost}}{1 - \text{desired return on sales}}$$

$$= \frac{4{,}500}{1 - 0.2} = \text{Rs. } 5{,}625/-$$

The tour operator would charge Rs.5625 per person and would make a profit of Rs.1125 or 20%.

The size of the markups tends to vary in the different segments of the tourism service providers. The higher the degree of **competition,** the greater is the tendency to keep lower markups to attract more consumers.

The whole exercise of markup pricing is based on the assumption that the tour operator in the above case will be able to attract 50 tourists at that price. Standard markups do not really make marketing logic, as depending upon the demand situation or competition prices, it may not be possible to attract 50 tourists at that price. As standard markups do not take into consideration current-demand, perceived value and competition, it may not lead to optimal pricing. **Because of** ease of calculation, however, it remains a prevalent pricing practice.

2) Target Rate of Return Pricing

This is another revenue overhead **pricing** technique, examples of which are found in the accommodation sector. The marketeer tries to set a price which **will yield** a certain target rate of return on the investment made by the **organisation. The** target return price is **determined** by the following formula:

$$\text{Unitcost} + \frac{\text{desired return x invested capital}}{\text{unit sales}} = \text{Price}$$

Again in this case, the marketeer is assuming that the customers will be willing to buy at a price that gives him a percentage of return fixed by him. Thus pricing approach does not take into consideration the elasticity of demand and the impact of competitive prices may not give realistic results in all marketing situation.

3) Perceived Value Pricing

You have gone through the section on understanding value (14.2). In this market oriented technique of pricing marketeers try to understand the value of their product in the eyes of the consumers. In fact, products like safari tours, adventure tours, executive hotel services, etc. are planned with specific consumer segment in mind, after having an analysis of what they value most in these services. Pricing is then done on an assessment of what value does the consumer perceives in the given service offer and what would he be able to pay for the quantity and convenience offered.

4) Value Pricing

As competition in the tourism sector has intensified, so has the tendency to offer value for money to the customer. Companies in the hotel and travel sector have started offering low prices for a reasonably good quality service. Value pricing is different from perceived value pricing as it consists in giving more value for a given price to the consumer while in perceived value pricing, the philosophy is to charge as much as consumers perceptions of the product allows.

5) Going Rate Pricing

This is a pricing technique in pursuance of the competition oriented pricing objectives discussed earlier. The organisation bases its prices on the basis of what the competition is charging rather than its own demand and costs. The tourism marketeer may take a conscious decision to price his product at the same or slightly higher or lower to that of a competitor. The main consideration, however, is to be within the range of the going rate. This situation characterises the private airline sector in India today where prices for same sectors are almost similar. When the number of producers is not very large and the service is not highly differentiate, the tendency towards going rate pricing is very high.

A slight variation of going rate pricing is Follow the Leader Pricing, where one competition (maybe the targets) assumes the role of initiator of price changes, and the rest tend to follow, to quickly reduce any advantage that this initiator may get through reducing his prices.

6) Premium Pricing

In this case the tourism organisation decides to sell its products above the prevailing market prices in order to have the image of high quality or to underline the unique nature of its offer. This may be the case where the product has a unique nature, is still very new to the market, has got status connotations or the company itself has got specific reputation in the market such that its corporate image enables it to charge a high price.

7) Cheap Value Pricing

Usually a characteristic of highly competitive segments of the tourism markets, this pricing practice is adopted to undercut the competition. High turnover at low prices is expected to offset the low unit profits. Such low or penetrative pricing is usually adopted by a new organisation trying to get a foothold in the market or a competitor seeking to rapidly expand his market share.

8) Psychological Pricing

Tourism marketeers sometimes appiy inputs on consumer's psychology in addition to the economic concepts used by them in their price strategy. Most studies in connection with relationship between the pricing and quality perception of luxury cruises have shown that higher priced tours are perceived to possess (often unfounded) images of high quality. Understanding this, top of the line tourism marketers create a high quality product but often price it in a manner where high prices differentiates may not be proportionate to the quality differentiate for the product offered. In all cases where other information about the product is not available, as is often the case where new destination and untried locales are concerned, high pricing becomes indicator of high quality and therefore, is used as status symbol for people who buy at these prices.

We often see tour packages being priced at Rs.4999/= instead of Rs.5000/= because it is believed that the firm prices would be seen as being in the 4000 range rather than Rs.5000/= range.

9) Promotional Pricing

Under certain circumstances tourism organisations temporarily price their products below the usual low price and sometimes even below the cost. The objective is to promote the demand and their offer in the hope that in case the consumer likes at least one purchase of the product he may go in for repeat buying. Promotional pricing may be offered in a variety of ways.

i) Loss Leader Pricing: Restaurants, tour operators, or travel agents may sometimes price one component in their entire product mix much lower than its usual price in order to increase the consumer traffic to their product. This is done in the hope that once the customer gets exposed to the product range attracted by the low price of the loss leader he may like to sample the other offers in the company's range of products.

ii) Special Event Pricing: Holidays, festivals and sometimes political or sports events make tourism suppliers establish special prices to take advantage of higher propensity of people to travel for these activities. The special holiday packages or travel may be discounted lower to attract a far higher number of customers than would have otherwise travelled.

iii) Contract Rebates: While selling corporate packages or long term travel/tourism packages, tourism firms permit free travel on certain circuits after certain volume of business has been availed. In essence it is offering a lower price for a bulk purchase to the company or an individual on certain miles travelled or number of tourism package bought.

14.8 DISCOUNTING TACTICS IN TOURISM PRICING

Owing to the highly competitive nature of the industry, discounting has become a very prevalent though controversial practice in tourism marketing. The concept of a fixed price has got limited relevance in our todays tourism marketing situation where hotel reception staff is given sufficient discretion to adjust prices, where travel agents split their commission with prospective clients to allow and retain customers and tour operators negotiate for seats on flights or late bookings for holidays.

Discounting is essentially a short term tactics in the sense that it may attract a 'deal prone' consumer in a given situation. However, he or she may very easily switch to another offer which seems tp be more profitable. Discounts and some form of them will always prevail but constant competitive discounting would mean that overall the whole industry is operating at lower returns. The following kinds of discounts are most commonly found in the tourism sector.

i) Discount for Cash Payment: In all business transactions which operate on credit, discount is given for early settlement of invoice or different rates may be offered for cash and credit payment, the balance being the cash discount.

ii) Quantity Discounts or Bulk Discounts : One of the most common discounts, these offer marketeers economics of scale and present the possibility of passing off some of these economies to the customer. They are most prevalent in negotiation between the tour operators and then suppliers as well as travel agent in dealing with the business clients or group travellers.

iii) **Trade Discount** : These represent discounts given to people employed in the trade its by airlines to travel agent, by hotels to airline staff, tour operators, etc.

iv) Seasonal Discount : Perishability of the service product is the reason for the widespread practice of seasonal discount in the tourism sector. Holidays, hotels, pleasure travel are by their wry nature enjoy seasonally in their demand. Seasonal discounts are a way to allow consumers in the off-peak season so that atleast variable cost ofrunningthe service in these periods can be offset.

v) Distressed Stock and Similar Discounts : Practices such as advance and late saver discounts are common in the accommodation sector. Early booking are beneficial to the tourism marketeer as they allow him advance information on forward booking situation and if advance money is also paid in full, the possibility of using this cash in business is always there. The practice of early booking is therefore encouraged by practically all hotels, events like conferences and seminars and tour operators by giving substantial discount for such bookings. Late saver discount is a distressed stock discount, where unsold stock needs to be cleared. Examples are unoccupied hotel room, unsold airline seats, seats on a tour and so on. This has assumed importance in the travel and tourism sector as unsold stock cannot be stocked and sold later. The practice oflate saver account has become wry popular among experienced travellers who now tend to book travel on highlycompetitive sectors, wry late each year in the hope of securingthe most profitable bargain.

From your exposure to the Section of price elasticity of demand it must be very clear to you that any discounting scheme can only succeed in pulling customers when there is some price elasticity in a given buyingsituation. In other words, the market is such that lower prices would attract higher number of customers and affect the quick off take of the product. In addition, in order to be ablq to attract customers the quantum ofdiscount offered must be large enough to be seen as a bargain bythe consumer. Some organisations make it a practice to successively in stages reduce price till all stocks get cleared, a practise which tour operators keep experimenting with, while pricing their late savers.

Another pricing tactics, again a popular one among tourism marketeers, is the practice of psychological discount. The marketer in this case has an artificially high list price, on which attractive bargains are on offer, leading the consumer to buy on account of the perceived bargain. The practice is prevalent in hotels sector where promoted fates are provided along with the possibility of various kinds of discounts offered for different service combination since that virtually no consumer ever really pays the list price. Apparent bargains are also offered by hotels where consumers are sold accommodation at the basic price but upgraded to superior accommodation at no extra charge, subject to availability of such spare accommodation. This offers bargain value to the customers at initially no cost to the marketeer. Similarly, subject to availability airlines haw the discretion of upgrading the economy class ticket to business class.

As the capacity of players in a competitive market, to constant adjust the pricing tool in a variety of ways to attract consumers is limitless, there are numberable practices in discounting. Pricing and discounting therefore remain a powerful tool of market manipulation in the tourism sector as well as a way of quickly responding to any changes in the market situation or demand profile.

14.9 OTHER INFLUENCES ON PRICING

In addition to factors of demand, consumers perception on values and the internal influence on costs there are 'some other factors affecting the pricing decisions over which the organisation has relatively little control. The important ones among these are :

1) The economic health of a given region : Travel is strongly affected by the amount of disposable earnings with people at a given point of time which in turn are affected by the economic cycles of inflation, stagnation and depression. These are factors which may affect the demand for tourism in a way that the tourism organisation can do little about. The tourism providers would need to tailor their own market strategy, price strategy .included, to these cycles.

2) The Demand elasticity for travel and tourism programmes.

3) The nature of the target market which is a determinant of the kind of travel product the people will buy, the prices at which they will buy, their natural propensity for travel for non business activities, the kind of holidays or destination they will choose.

4) Level of competition .in the tourism market, and the substitutability of the alternative tourism packages available.

Check Your Progress-3

1) What do you understand by markup in pricing?

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2) Why discounts are given ? Mention some types of discounts.

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14.10 LET US SUM UP

This Unit on pricing the tourism product explains the concept of'value and costs to the .consumer in respect of the tourism product, as being central to the pricing decision. The relationship between demand, elasticity of demand and prices have been explained. The Unit also describes in detail the various pricing objectives followed by tourism suppliers and the pricing setting in practice. A common trend in tourism marketing, discounting tactics were also discussed in the Unit.

14.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress – 1

1. See Sec. 14.2
2. Read Sec. 14.3
3. A no Profit no Loss situation, read Sec. 14.4

Check Your Progress – 2

1. See Sec. 14.5
2. Read the four objectives given in Sec. 14.6

Check Your Progress – 3

1. Read point 1 of Sec. 14.7
2. See Sec. 14.8