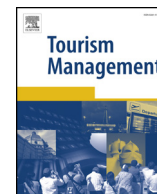




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Algarve hotel price determinants: A hedonic pricing model

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ABSTRACT

This study sought to assess customers' willingness to pay for a wide variety of characteristics and attributes of hotels in Portugal's Algarve region. After collecting nearly all the information available on TripAdvisor for hotels in this region, a hedonic pricing model was developed using a database of 9992 cases. The results suggest that – after standardisation – the most important variable shaping Algarve hotel room rates is the previous day's prices. When associated with a family-friendly hotel, star category and services have a greater value than beaches or golf courses do. Customers also appreciate some types of hotels, such as boutique, quaint or trendy hotels, but view others negatively, such as family-friendly or business hotels. Only the specific location of Falesia Beach adds value, although the Algarve is a desirable destination overall. Both destination and hotel managers can use the proposed method to analyse data for their region on customers' propensity to pay.

1. Introduction

Hedonic pricing models have been widely applied both in the tourism and hospitality industries to measure the influence of certain factors in destinations and hotels on room rates. Ever since Lancaster (1966) and Rosen (1974) provided the theoretical foundation for the hedonic pricing method based on the revealed preference approach, this field of research has produced a large amount of literature. This volume is due to how hedonic pricing models need to concentrate on unique markets (Palmquist, 2005) defined as geographic areas with a distinct image (Buhalis, 2000). In addition, real market data must be used instead of surveys (Fleischer, 2012).

These requirements have meant that hedonic research has been conducted by different researchers in a variety of destinations and with various objectives. However, since hedonic pricing models focus on areas that have some internal spatial homogeneity, results may differ across regions (Soler, Gémár, & Sánchez-Ollero, 2016). Thus, the findings from one region cannot always be extrapolated to others as they could cause destination managers and hotels to make erroneous decisions about which products to offer and how to differentiate their offer from that of their competitors.

Given this context, destination managers, especially hotel managers, need to ask what are the best, most favourable configurations of attributes in terms of customers' propensity to pay. Once managers known

this information, they can compare the potential benefits of adding features with their implementation costs and develop a strategy that maximises the use of companies' limited resources (Albayrak & Caber, 2015). To identify which services are worth developing, hotel managers can analyse each services' impact on overall customer satisfaction, but this would require carrying out surveys. Managers can more easily focus on understanding their customers' willingness to pay for facilities and services, thereby allowing hotels to compare the implicit prices of each of their amenities and attributes with their associated cost (Soler & Gemar, 2018).

Therefore, the present research sought to evaluate the impact on hotel room prices in the Algarve of nearly all the elements relevant to customers' decision-making processes that are available on the TripAdvisor website. To this end, this study used a hedonic pricing model to emulate the decision-making process of potential consumers. All the relevant information was collected from a single source from which customers can gather plentiful information (i.e. TripAdvisor) and thus make their choices at a quite low cost. This approach helped shed light on special features clients are willing to pay for in the destination in question, revealing the key elements that hoteliers must consider when making pricing decisions. These decisions may or may not be aligned with those made in other destinations.

The following paper is organised into seven sections. After this introduction, a brief description of the destination studied is provided in

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order to contextualise the study. Section three then details a review of the literature on hedonic pricing in hotels. In section four, the model's theoretical framework is explained, as well as the method used to create the database and the variables examined. This section also presents the sample's descriptive statistics. The main results are described in section five and discussed in section six. The conclusions appear in the final section.

2. Study area

The Algarve region – located along the southern coast of Portugal – is one of the most popular tourist destinations in Europe (Correia & Kozak, 2012) and the most important in Portugal (Do Valle, Pintassilgo, Matias, & André, 2012). With 5412 square kilometres and approximately 450,000 inhabitants, this region is the country's main tourist attraction, accounting for 43.8% of total overnight stays (Andraz & Rodrigues, 2016). The Algarve received about 2.7 million international visitors in 2015 (Instituto Nacional de Estadística, 2016), having experienced a continuous growth of mass tourism since 1965 after the construction of the Faro airport (Costa, 2005).

The region has historically contained the most concentrated spaces in terms of Portugal's tourism (Guedes & Jiménez, 2015). In addition, the Algarve is positioned as one of the main regions for counterfeit shopping (Correia & Kozak, 2016). However, the main tourist attraction is typical sun and beach offers (Do Valle et al., 2012), which are traditionally the most valued attribute of the Algarve for tourists (Barreira, Cesário, & de Noronha, 2017). Thus, this destination attracts a large amount of domestic tourism, as well as tourists from other European countries, especially because of its beaches and golf courses (Oliveira, Pedro, & Marques, 2013a, 2013b).

According to Barreira et al. (2017), however, first-time tourists from northern European countries are less impressed with the Algarve's attributes, and more educated tourists value the sun and beach offer as a complement to other attributes. This and the need to generate higher profits may explain recent changes in the region's brand positioning. Barros, Butler, and Correia (2010) report that the Algarve has focused exclusively on golf tourism since the 1990s, and its range of golf courses and facilities has expanded extensively. This destination's particularities have thus given the Algarve a competitive advantage due the unique conditions it offers golfers, making this type of tourism one of the best counterbalances to the region's strong seasonality (Pereira, Correia, & Schutz, 2015).

The Algarve's destination managers have focused on attracting

foreign tourists, expediting over the years the development of a large offer of diversified hotel units, from the most basic hostels and guest houses to luxury hotels and resorts (Lopes, Soares, & Silva, 2017). Therefore, this is a destination in transition, moving away from a classic sun and beach tourism model leading to overcrowded venues and a tourist profile of visitors with low purchasing power who seek to round out their holidays with counterfeit shopping. The Algarve is refocusing on attracting tourists with high purchasing power, who give sun and beach offers second priority and visit the region looking for other attributes such as golf courses.

This transition could compromise the Algarve's brand positioning in both market segments, combining to make it an inadequately defined destination. Therefore, an assessment is needed of which attributes Algarve tourists truly value. In addition to offering significant implications for destination managers and hoteliers, this study's findings advance the current understanding of how destination profiles can decide the price of hotel rooms and, by extension, future tourism planning. Fig. 1 shows the location of the Algarve.

3. Hedonic pricing models

The hedonic pricing method facilitates the disaggregation of the prices of heterogeneous goods or services into the sum of what each attribute contributes to these prices (Rosen, 1974). This method allows researchers to assess the relationship between the market value of a composite good and each attribute alone by generating a bundle of implicit prices for all the attributes (Latinopoulos, 2018). In this way, the observed price of a good or service can be separated into the prices of its attributes (Schamel, 2012). The hedonic pricing method has also been widely used as a way to compare different destinations' prices and their structure (Alegre & Sard, 2015).

The literature reveals a general agreement within hedonic research that the most significant factors shaping guests' willingness to pay for hotel rooms are hotel category and location factors (Abrate, Capriello, & Fraquelli, 2011). Several studies have highlighted category as the key factor in the composition of hotel prices (e.g. Israeli, 2002; Schamel, 2012; Soler & Gémar, 2016). However, according to Zhang, Zhang, Lu, Cheng, and Zhang (2011), location is the only generally accepted attribute of the lodging industry with substantial proof that it affects prices, and Fleischer (2012) found that location can affect the price of hotel rooms depending on whether they have sea views. Concurrently, research on other variables has produced no consensus and has even produced contrary results depending on the destination under study.

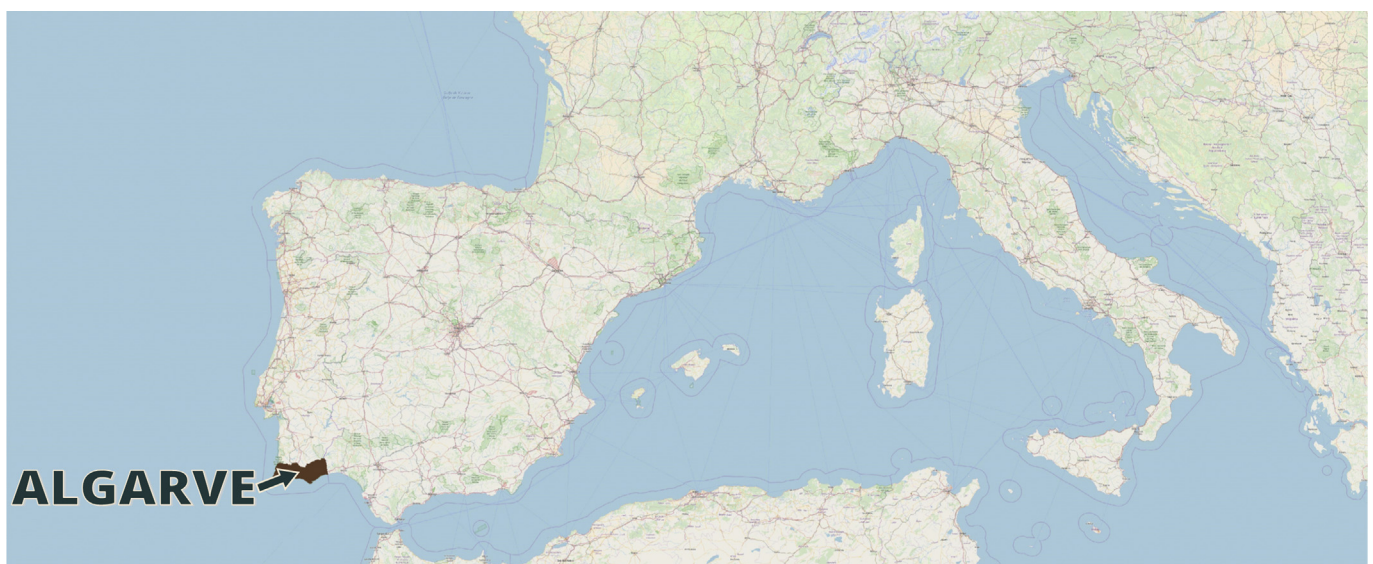


Fig. 1. Location of Algarve generated by the QGIS programme.

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