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Research note

The effect of price on word of mouth: First time versus heavy repeat visitors

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ABSTRACT

Many tourist destinations strongly focus and depend on repeat visitors. A central assumption thereby is that repeat visitors are more profitable (e.g. through lower marketing costs) and that their positive word of mouth (WOM) is essential to attract new guests. In this paper, we present a large-scale empirical study to investigate the effect of price for first time and heavy repeat visitors of ski resorts. Applying a hierarchical linear modelling approach, we show that price is negatively related to WOM for first time visitors and that price has no effect on WOM for repeat visitors. Thus, we show that the effect of price on WOM decreases for repeat visitors.

1. Introduction

It is often argued that destinations should try to create loyal customers and focus on repeat visitors (e.g. Oppermann, 1998). Many mass-tourist-type destinations, as for example ski resorts (Tjørve, Lien, & Flognfeldt, 2018), strongly depend on repeat visitors (e.g. Gitelson & Crompton, 1984; Oppermann, 1998), especially when novelty and novelty-seeking is not a major travel motive (Jang & Feng, 2007). Repeat visits are associated with lower marketing costs (Reichheld & Sasser, 1989), lower price sensitivity (Krishnamurthi & Papatla, 2003), and increased word of mouth publicity (Shoemaker & Lewis, 1999). Repeat visitors are also more likely to revisit a destination (Oppermann, 2000). This phenomenon, also called cumulative inertia (McGinnis, 1968), assumes that behaviourally loyal customers tend to repeat their visit decisions in future. These important behaviourally and attitudinal differences led to substantial empirical research to study differences between single and repeat visitors in tourism destinations (e.g. Chang, Chen, & Meyer, 2013; Fakeye & Crompton, 1991; Lau & McKercher, 2004; Li, Cheng, Kim, & Petrick, 2008; Oppermann, 1997). While research has made much progress in the study of the relationships among central constructs in this context (e.g. satisfaction, loyalty, repeat visits, and word of mouth), the role of price is less clear and findings are mixed. In this study, we contribute to this research by studying the role of price for word of mouth (WOM) in Alpine ski resorts. We argue that WOM, a central key performance indicator (Reichheld, 2003) and driver of growth (Reichheld, 2003; Reichheld & Covey, 2006), is a function of individual-level predictors (satisfaction with ski area characteristics), and group-level predictors (i.e. destination-level factors like ticket prices, slope kilometres, and height difference). Understanding the antecedents of WOM is especially important for tourism management as travel and destination choices are commonly based on information passed on by WOM practices (Bieger & Laesser, 2004; Murphy, Mascardo, & Benckendorff, 2007). Concerning price responses, it is important to distinguish between price sensitivity and price elasticity. While price elasticity describes and measures changes in demand due to price changes, price sensitivity describes "the weight attached to price in a consumer valuation of a product's overall attractiveness or utility" (Erdem, Swait, & Louviere, 2002, p. 2) and as a consequence a price-sensitive customer is "one who is more likely to base their purchase decisions on price" (Petrick, 2005, p. 754). With this study, we contribute to literature on the role of price sensitivity in several ways. First, we extend research on the role of price by studying its effects on WOM, a central construct in tourism marketing (Confente, 2015). Second, it has been shown that heavy repeat visitors significantly differ from "light repeat visitors" (Fuchs & Reichel, 2011, p. 271) in a number of ways. Heavy repeat visitors are very important segments in some tourism contexts and by differentiating first time visitors and heavy repeat visitors (more than 10 times), we get a more differentiated understanding of price effects for this important customer group. Third, instead of using price sensitivity scales (Petrick, 2004), this study uses objective ticket prices of the ski resorts and thus avoids limitations of subjective, self-reported scales. Fourth, some previous studies on the role of price were limited to single destinations or service providers and therefore their generalizability was limited (Petrick, 2005). With this

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large-scale study with data from 55 ski resorts, we avoid some shortcomings of previous work.

We consider ski resorts as a particularly interesting research context for several reasons. First, ski tourism is of central importance for winter tourism in many regions, especially in the Alps (Matzler, Füller, Renzl, Herting, & Späth, 2008). Second, for mass-tourist-type destinations like ski resorts (Tjørve et al., 2018) the key variables of this study (price, satisfaction, and WOM) as well as repeat visitors are of central importance (e.g. Gitelson & Crompton, 1984; Oppermann, 1998). Third, for this study we could rely on a large-scale customer satisfaction survey in 55 Alpine ski resorts (n = 25,294) and could correlate it with available, objective secondary data. In the following section, we develop the hypotheses for this study. Then, we present the method and results and conclude with a discussion of the implications and limitations.

2. Theory – key constructs

Destination loyalty and word of mouth (WOM) are of central importance in tourism management (e.g. Alegre & Juaneda, 2006; Confente, 2015). Studies on loyalty and WOM use a simple and straightforward chain of arguments: Satisfaction with destination attributes leads to guest loyalty and positive WOM, loyalty and WOM in turn increase profitability. This chain of effects (satisfaction–loyalty–-profitability) has been subject to many empirical studies that include the role of moderators and mediators in different contexts (e.g. Chen, 2012; Matzler, Füller, & Faullant, 2007; Matzler et al., 2008). Two central variables in tourism management are repeat visits (Oppermann, 1997) and price (Petrick, 2005). This is especially true for ski resorts, as many of them are highly dependent on repeat visitors (Tjørve et al., 2018) and as price plays a major role (Unbehaun, Pröbstl, & Haider, 2008). Skiing is often seen as expensive (Falk & Hagsten, 2016) and an "elitist" sport (Gilbert & Hudson, 2000) and lift ticket prices vary considerably between ski resorts (Falk, 2011). In this study, we integrate these two variables (repeat visits and ticket prices) in a model that links satisfaction with WOM of ski resorts.

WOM is a function of the subjective satisfaction with ski resort attributes (individual-level predictors) that typically are measured with a survey-based approach (e.g. Füller & Matzler, 2008; Konu, Laukkanen, & Komppula, 2011; Matzler et al., 2008). There are however also predictors and moderators on destination-level that can be entered as objective data in a model. Such factors are the ticket prices, slope kilometres, and height differences (e.g. Matzler et al., 2008). Hence, we argue that for the context of a ski resort WOM is a function of the guests' satisfaction with individual-level predictors (size of the ski resort, quality of slopes and transport comfort of the ski lifts) and objective destination-level predictors and moderators. Ticket prices have a negative impact and slope kilometres and height differences have a positive influence on WOM.

Extensive research has shown that previous destination experiences and the number of previous visits have a significant impact on various relevant constructs like decision-making and destination selection (e.g. Woodside & Lysonski, 1989), perception of destination image and future behaviour (e.g. Baloglu & Mangaloglu, 2001), perceived quality and satisfaction (e.g. Li et al., 2008), and intention to revisit and WOM (Petrick, 2004). Among these studies controversy emerged regarding repeat visitors' price sensitivity (e.g. Petrick, 2005), leading to the provoking questions whether loyal visitors indeed are desired visitors (e.g. Petrick, 2004). While many studies found that repeat visitors spend less (e.g. Petrick, 2004), others found that loyalty reduces consumers' sensitivity to price variations (e.g. Confente, 2015; Fuchs & Reichel, 2011; Krishnamurthi & Papatla, 2003; Matzler et al., 2008; Petrick, 2004, 2005).

Alegre and Juaneda (2006, p. 685) identify two opposing effects: "One the one hand repeaters have a greater knowledge of the destination and thus can make a more efficient choice (based on lower prices) for all or some components of the cost of the trip. On the other hand, if quality ranks among their motivations, they will be prepared to pay a surcharge. A reduction in the holiday's non-monetary costs and risk aversion could also be linked with a surcharge." It seems that the majority of literature on loyalty and price sensitivity comes to the conclusion that loyalty reduces price sensitivity (Petrick, 2005). Literature also argues that first-timers in a tourist destination are more driven by external factors (including the price), repeat visitors' decisions are more influenced by internal factors (i.e. quality of an offering), or consequences of a previous stay (like lower non-monetary costs or emotional attachment), resulting in a higher willingness to pay (Alegre & Juaneda, 2006). Tjørve et al. (2018, p. 95) report in their study about Norwegian ski resorts that "the number of visits is clearly negatively related to price level, meaning that no purchasers and first-time visitors are more sensitive to price level as a criterion for choice of destination than repeat visitors." When tourists visit a place several times, they develop emotional links with this place, resulting in a sense of identification with the destination and in place attachment (Alegre & Juaneda, 2006). Therefore, we assume that the effect of price on post purchase behaviour is lower the more often the tourist has visited a ski resort. This lower price sensitivity should also influence WOM behaviour. First time visitors' and destination-naïve visitors' recommendation behaviour will be negatively influenced by ticket prices. Heavy repeat visitors will recommend the ski resorts to others independent of the price.

This argument is also supported by literature on perceived risks. Perceived risk, as a "subjective expectation of a loss" (Sweeney, Soutar, & Johnson, 1999, p. 81), consists of several dimensions (i.e. financial, performance, physical, psychological, social, and time (Jacoby & Kaplan, 1972; Murray & Schlacter, 1990)), of which financial risk is of relevance in this context. Financial risk "represents the perceived likelihood of not getting the best value for money resulting from an overpriced ticket … In general, it is the risk that the service purchased may not be worth the money paid for it" (Boksberger, Bieger, & Laesser, 2007, p. 92). It has been found that in a tourism context, financial risk is negatively related (via image perceptions) to revisit intentions (Chew & Jahari, 2014). First time visitors of a ski resort will perceive higher financial risks as they have less knowledge about the ski resort and are less sure whether they get the value for the money spent. Repeat customers have more information about a vendor and as they have more information, they perceive lower levels of risk (Kim & Gupta, 2009). Hence, heavy repeat visitors know what they get for their money spent. Therefore, they perceive a very low or no financial risk, and price will not negatively influence their WOM.

Hence, we believe that

H1a. For first time visitors, ticket prices will negatively influence WOM.

H1b. For first time visitors, ticket prices will negatively moderate the influence of individual-level predictors on WOM.

H2a. For heavy repeat visitors, ticket prices will have no influence on WOM.

H2b. For heavy repeat visitors, ticket prices will not moderate the influence of individual-level predictors on WOM.

In the next section, we report the results of a large-scale empirical study in 55 Alpine ski resorts to test these proposed hypotheses.

3. Study

3.1. Data, scales and analytical procedure

Data for this study stem from a large scale customer satisfaction survey in 55 Alpine ski resorts from all over Europe. The survey was conducted in 2014. In line with other large scale customer satisfaction surveys (e.g. Hult, Morgeson, Morgan, Mithas, & Fornell, 2017),