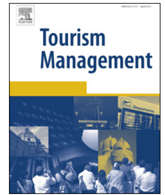
Tourism Management 61 (2017) 55–62

Contents lists available at ScienceDirect

Tourism Management

journal homepage: www.elsevier.com/locate/tourman



Tourists' spending and adherence to shopping plans: The case of the christmas market in Merano, Italy

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HIGHLIGHTS

- This paper is the first to explain the different spending behaviors of tourists based on their spending plans.
- The determinants of expenditure are assessed with the help of a regression model and the ordered-probit selection rule.
- The results show that over-spenders spend, on average, over three times more than under-spenders.
- The expenditure of on-budget spenders falls between the expenditures of over- and under-spenders.
- Underspenders planned for the highest expenditure, while overspenders planned for the lowest expenditure.

ARTICLE INFO

Article history:
Received 18 January 2016
Received in revised form
24 January 2017
Accepted 25 January 2017

JEL classification:
C31
L83
M31

Keywords:
Tourists' expenditure
Mental budget
Shopping plans
Christmas market
Heckman estimator with ordered-Probit selection rule

ABSTRACT

The present paper investigates the determinants of tourists' expenditure by categorizing tourists based on their mental budgets. Individuals can be divided into three categories based on the difference between their mental budget and actual expenditure: underspenders, on-budget spenders, and overspenders. Estimation of the empirical model is performed based on data collected through a survey of visitors to the Christmas Market in Merano, Italy during Advent in 2011. The estimation is performed with the Heckman estimator, ordered probit selection rule, and linear regression. We find that the spending patterns of visitors belonging to the three identified categories differ significantly. Analyzing visitors' expenditure based on the proposed categorization allows us to identify category-specific factors and develop management strategies for each category. The managerial and theoretical implications of the results are discussed.

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1. Introduction

Of the wide range of activities that tourists engage in during their stays at their destinations, shopping is gaining increasing importance (WTO, 2014). Tourists often view shopping opportunities at destinations as a unique opportunity to experience the local culture during the limited time they spend there, and many travelers regard shopping as the main reason for traveling (Choi, Law, & Heo, 2016b; Hsieh & Chang, 2006; Kim, Timothy, & Hwang, 2011; Timothy & Butler, 1995). Accordingly, revenue generated by tourists' shopping makes an important contribution to local economies, accounting for up to one-fourth of total tourism revenues (Heung & Cheng, 2000; WTO, 2014).

Unsurprisingly, tourism shopping has recently attracted scholars' attention (Choi, Heo, & Law, 2016a). In particular, tourists' perceptions of shopping and shopping environments, satisfaction,

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http://dx.doi.org/10.1016/j.tourman.2017.01.016
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quality, loyalty, shopping behavior, and decision-making are among the main topics that have been addressed in the literature (e.g., Choi et al., 2016a; Peter & Anandkumar, 2016; Régi, Rátz, & Michalkó, 2016).

Tourists' approach to shopping on vacation is different than their approach to day-to-day shopping at home (Butler, 1991; Correia & Kozak, 2016; Gallarza & Saura, 2006; Oh, Cheng, Lehto, & O'Leary, 2004). In particular, while on vacation, tourists tend to spend more, buy non-essential items more frequently, and shop at unusual times more often than they do when at home (Butler, 1991). In addition, tourists' shopping behavior is influenced by many situational factors, including the people with whom they are shopping, time pressure, conversations with salespeople, and tour guides (Yu & Littrell, 2005). These features distinguish impulsive shopping, which is defined as the unplanned purchasing of products due to a persistent desire that arises during shopping activities (Meng & Xu, 2012; Wong & Wan, 2013; Sirakaya-Turk, Ekinci, & Martin, 2015; Oviedo-García, Vega-Vázquez, Castellanos-Verdugo, & Reyes-Guizar, 2016).

Empirical evidence produced by consumer research suggests that consumers are aware of the possibility of impulse shopping. In order to limit their spending on these occasions, they set mental budgets for particular categories of products (Bao, Gao, Xu, Sun, & Yang, 2015; Heath & Soll, 1996; Loureiro & Haws, 2015; Reinholtz, Bartels, & Parker, 2015; Thaler, 1999). Spending within a category is allowed only until the limit of the budget is reached, even if all the planned purchases have been made (Thaler, 1999). Mental budget theory has been empirically investigated in the field of grocery shopping. It has been demonstrated that only half of the purchases of items on a shopping trip are planned in advance, and consumers leave the other half of their budgets for unplanned purchases (Collins, Kavanagh, Cronin, & George, 2014; Gilbride, Inman, & Stilley, 2015; Kollat & Willett, 1967; POPAI, 1995; Ng & Lee, 2015).

Brida and Tokarchuk (2015) investigate the formation of mental budgets by the visitors of the Christmas Market (CM) in Merano, Italy. They observe that the majority of respondents considerably underspend with respect to their budgets for the trip. According to mental budget theory, individuals are willing to spend up to the limit of their budgets. Thus, the CM underexploits its potential, and its revenue could be improved by understanding the spending behavior of visitors who underspend. In addition, according to Brida and Tokarchuk (2015), some visitors at the Merano CM spend more than planned. However, research on mental budgets warns that consumers who overspend tend to be less satisfied with the store (Dominici, Matić, Abbate, & Fatta, 2016; Ittersum, Pennings, & Wansink, 2010). Thus, overspending is not beneficial for the CM's image within this group of tourists. If the CM's managers aim to improve the market's revenue without compromising their visitors' satisfaction, they must understand the determinants of their visitors' spending and take into account both their planned and actual spending.

Setting a mental budget and choosing how much to actually spend are deliberate decisions. With this choice, visitors allocate themselves into one of three spending categories: underspending, on-budget spending, and overspending. This categorization leads to self-selection bias in studies investigating the determinants of tourists' expenditures (Asteriou & Hall, 2015; Maddala, 1985). Dividing the sample into different subgroups of tourists based on their behavior and using separate equations to identify the determinants of spending will lead to incorrect estimation results (Heckman, 1979). The Heckman selection model is a standard approach for treating selection bias with regard to tourists' expenditures (Brida & Scuderi, 2013; Lyu & Noh, 2016). However, it cannot treat selection bias in this study because it can only be applied to situations with a binary choice (e.g., spenders and non-spenders), but there are three possible choices in this study.

In the present study, we use an innovative approach to study the determinants of tourist expenditures and address the problem of selection bias. We use a linear regression model with an underlying ordered-probit selection rule (Chiburis & Lokshin, 2007; Puhani, 2000). This model allows us to take into account more than two categories when modeling selection bias. This model has been successfully applied in the field of labor economics (Ermisch & Wright, 1993; Jimenez & Kugler, 1987; Paci, Joshi, Makepeace, & Dolton, 1995). In the present study, we explore the application of the mental budget approach to tourists' spending at the CM in Merano.

The contribution of the present study is twofold. First, we introduce a new approach based on mental budget theory that allows us to identify meaningful categories of tourists in order to study tourists' expenditures while accounting for heterogeneous spending patterns. Second, we propose an estimation model that allows selection bias to be modeled when there are more than two choices.

The paper is organized as follows. The next section defines mental budgets and relates them to tourism studies as well as presents literature related to tourists' expenditures. Section 3 introduces the case study. Section 4 presents the data and descriptive statistics, while Section 5 describes the estimation method introduced in the study. Section 6 presents the results of the estimation. Finally, Section 7 discusses the results and concludes the study.

2. Background

2.1. Mental budget and tourism

Consumers' shopping behavior can be defined as either planned or impulsive. Deliberate, rational decision-making process guides planned shopping. According to rational decision-making theory, an individual enters a store with an intention to buy a particular product. The consumer recognizes the need for this product, considers alternatives, and evaluates them based on certain criteria. The chosen product will be the one with the maximum utility that fits within the given budget, which includes all of the individual's assets (Engel, Blackwell, & Miniard, 1993; Mas-Collel, Whinston, & Green, 1995; Koch & Nafziger, 2016; Solomon, 2014; Wedel & Kamakura, 2012). In real life, consumers are often tempted to acquire unplanned goods following a sudden desire, or impulse, without performing a rational decision-making process (Chan, Cheung, & Lee, 2016; Muruganantham & Bhakat, 2013). Inclusion of all the individual's assets in their budget for impulsive shopping decisions leads to overestimation of available resources and, possibly, to heavy overspending.

Empirical evidence suggests that, in order to limit impulsive spending, consumers tend to consider their wealth not as a whole, but as separate accounts dedicated to different spending goals, such as rent, food, entertainment, and vacations (Koch & Nafziger, 2016; Schumacher, 2016; Sheffrin & Thaler, 1988; Thaler, 1985; Yang, Liu, Zhang, Chen, & Niu, 2015). In this case, impulsive shopping can take place only if funds are available within the budget for impulsive behavior. Individuals will spend within a given budget category until the limit is reached, at which point spending within this category will be postponed until a new budget is assigned. This fund allocation is performed mentally without actually moving money within or among bank accounts.

Consumer research has applied mental accounting theory to grocery shopping. It has been demonstrated that the majority of consumers mentally establish a budget for each grocery store visit (POPAI, 1995). Empirical studies demonstrate that on a shopping

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