

If you, tourist, behave irrationally, I'll find you!

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ABSTRACT

When departures from rational behavior can potentially be expected, modeling should allow for their identification and their quantification. In this regard, prices in tourism might have effects that may not be as apparent as economic theory predicts. This article incorporates the sticker shock formulation into the mixed logit model without imposing consistency with consumer theory to accommodate any possible positive or negative price effects. By allowing the parameters of “price” and “sticker shock term” to take any value – negative or positive – we detect abnormal behaviors in the tourist demand: not only is the negative relationship between price and demand inverted for some people but also some tourists might be willing to accept higher-than-expected prices. The “non-well-behaved” groups' shares are estimated.

1. Introduction

Irrational behavior is found in the pricing literature in general (Shampanier, Mazar, & Ariely, 2007) as well as in the tourism context (Nicolau & Sellers, 2012; Nicolau, 2012). In an attempt to delve into behavioral anomalies, this paper is based on three fundamental aspects of human behavior: risk aversion, pleasure seeking, and reference dependence. Regarding risk aversion, it is important to emphasize that uncertainty is inherently contained in tourism consumption, as the individuals are taken where the product is located (i.e. the destination) and therefore become much more involved than in other industries. Concerning pleasure seeking, tourists might look for quality, either for tangible (for example, assurance that the service performance is high) or for intangible reasons (such as social esteem). As for reference dependence, it is a property that focuses on the way in which people assess outcomes with reference points. Thus, this study makes a linkage of these three elements in the context of tourism prices by arguing that risk aversion and pleasure seeking modify the expectations of the reference-dependence phenomenon.

Considering the inherent uncertainty that tourism consumption entails, people tend to look for cues that provide indications about a product's or service's quality and therefore use them to form expectations about the future experience (Gould-Williams, 1999). Accordingly, tourism prices play a critical role because of the implicit message that they convey in terms of quality and as an “uncertainty reducer.” This circumstance, however, might lead to situations that are counter-intuitive.

While the neoclassical theory of preferences posits an inverse price–demand relationship, using a correct price measurement and appropriate modeling is not always straightforward (Crouch, 1994; Meissner & Strauss, 2012a, 2012b; Oses, Gerrikagoitia, & Alzua, 2016; Seetaram, Forsyth, & Dwyer, 2016). Certainly, its effects are not always apparent: tourists can invert the relationship between price and demand because of quality–price associations. Furthermore, how can an analyst model a demand situation in which some people behave consistently with neoclassical theory and others do not (i.e. the price does not negatively affect the demand)? Identifying the market share of people in one group or another is a tricky task. As if all this were not enough, people tend to use individual reference points to determine how high or how low a price is (Cai & Cude, 2011; Gilbride, Guiltinan, & Urbany, 2008; Malasevska & Haugom, 2018), meaning that individuals' decisions may be based not only on finding high or low prices but also on coming across amounts that are above or below their expected rate. Fig. 1 shows the way different effects of prices on consumption that might bring about the -expected and unexpected- behaviors analyzed in this article.

In this context, the analyst needs to approach the modeling task from a flexible perspective, in such a way that, rather than imposing constraints that are in accordance with consumer theory, the model should accommodate any possible relationships between variables. Therefore, when it comes to the price variable, the model should be able to capture both negative and positive effects as well as the fraction of the population undergoing each different-sign effect. In this sense, Nunes, Cunha-e-Sa, Ducla-Soares, Rosado, and Day (2001) indicate

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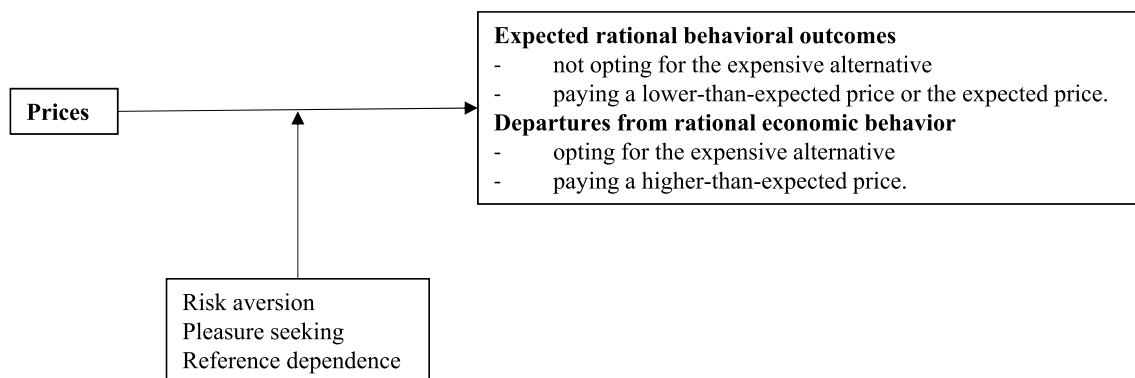


Fig. 1. Expected and unexpected behaviors derived from the effects of prices.

that, in choice models, the price coefficient should not be restricted to negative values. Taking a step further, our article estimates a sticker shock model (Winer, 1986) in which both the price parameter and the sticker shock coefficient can take any value – negative or positive – with the ability to detect those individuals in the sample who are well behaved in terms of consumer demand theory and those who are not. As the purpose of this article is to detect anomalies in tourist behavior (such as paying a higher-than-expected price), the simplicity of the sticker shock model allows us to focus on the intricacies of the variable “price” and analyze the consequences of each of the three aforementioned dimensions of human behavior (risk aversion, pleasure seeking, and reference dependence) simultaneously in the same model.

2. Non-consistent tourist behaviors towards price

Before the service encounter, tourists form expectations about the characteristics of their future experience in a destination using different internal and external cues that reflect the levels of service that they will receive (Gould-Williams, 1999). Inseparability, intangibility, and heterogeneity make the information collected before booking particularly meaningful in tourism. The uncertainty that exists in tourism consumption implies information asymmetries that need to be reduced, and the strategies implemented to this end should help to distinguish high- and low-quality services; these strategies used as quality assurance mechanisms might include warranties, reputation, or quality certifications (Dewally & Ederington, 2006).

However, let us suppose that a tourist is dealing with, say, three different choice alternatives, all of them claiming to have a good reputation, all recommended by distinct travel agents, or, which in turn can be particularly confusing, all showing several quality certificates granted by different third-party entities. In this case, the tourist does not know whom to trust the most. An example that reflects the complicated task of distinguishing the quality of different alternatives would be the situation of a group of tourists who are planning to take a cruise along the Nile, and all the ships are marked as having five stars: which one will they choose? Evidently, price will be a determinant factor in their final decision. Therefore, whether the information is only a little *informative* (e.g. when all the choice alternatives claim to be high quality) or whether there is information overload (e.g. companies might have several quality certificates but customers do not know which one is best), the price appears to be a relevant decision criterion. Consequently, as the literature has well established, prices might be considered to be an indication of quality.

Note that, while Boyle and Lathrop (2009) find that consumers have a modest positive price–quality relationship and Caves and Greene (1996) conclude that “convenience goods” show a lower price–quality correlation, in tourism, a positive relationship between price and quality is observed by Decrop (2006). It is no wonder that this relationship exists in tourism consumption: in line with Jones and Hudson

(1996), consumers use more signals as product prices rise, and it is rational for them, in this context, to include the price in the set of signals used to assess the expected quality. Therefore, as prices might be a signal of quality, a critical element that can form people’s attitudes towards prices is the uncertainty that they feel a purchase decision entails: they might show a greater predisposition to pay a higher price to reduce the risk involved and make sure that they receive the level of service that they expect. In this regard, and according to Assael (1984) and Diaz and Maria (2013), people’s involvement and interest in a product condition their perceived value and determine how they incorporate the information that prices convey. Considering that, in tourism consumption, individuals are actively involved (i.e. they are moved to the place where the product is), this behavior strongly applies. After the information has been collected, people will assign a meaning to each price through an encoding process (Lichtenstein, Bloch, & Black, 1988).

In this context, value for money turns out to be a central measurement of competitiveness (Stevens, 1992), which helps to increase the likelihood of repurchase (He & Song, 2009). Dodds and Monroe (1985) indicate that the predisposition to buy is affected by the dual effect of prices: high prices lead to greater monetary sacrifices and thus diminish the predisposition to accept them; at the same time, however, these high prices lead to higher perceived quality and, in turn, enhance the willingness to purchase. Therefore, this literature suggests that high prices may not reduce the demand on account of price–quality associations, apart from the possibility that the hedonistic element that sometimes appears in tourism consumption might lead some people to opt for the expensive alternative (Morrison, 1996).

Note that Dodds, Monroe, and Grewal (1991) and Grewal, Monroe, and Krishnan (1998) suggest that reference prices determine the value of the purchase, as preferences tend to be reference-dependent. Accordingly, information acquired in the past leads some people to regard the price to visit a destination as expensive and others to consider it to be inexpensive.

Different psychological evaluations of price are derived from this process of fitting it into consumers’ set of beliefs, in which the reference price is a central construct in these psychological evaluations (Kim & Crompton, 2002). The reference price is a benchmark, and, more importantly, people form their willingness to pay based on this expected price (Kalyanaram & Winer, 1995). Accordingly, when they compare their *reference price* with the *observed price* and find a discrepancy, it should have an effect on their choices: positive differences should increase the likelihood of choosing a product (the product has a price that is lower than the individual thought it would be (*gains*)); and negative differences should reduce such a likelihood (the product has a higher-than-expected price (*losses*)).

However, Alegre and Juaneda (2006) indicate that those individuals who base their choices on perceived quality tend to accept higher prices to make sure of the quality of the product. It is important to remember

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