



Decomposing the price of the cruise product into tourism and transport attributes: Evidence from the Mediterranean market

Spyros Niavis, Dimitrios Tsiotas*

Department of Planning and Regional Development, University of Thessaly, Pedion Areos, Volos, 38 334, Greece



HIGHLIGHTS

- The cruise product price is mostly affected by the tourism attributes.
- The most important tourism attribute is the amount of onboard amenities.
- The most important transport attribute is the closeness of ports of each itinerary.
- Cruise networks of companies are being set towards cost-minimization.
- Differences in the cruise pricing still exist among companies of the same class.

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ABSTRACT

The price composition of the cruise product is described by a high level of complexity, since it incorporates both tourist and transport dimensions. Despite that research on cruise sector is advancing, the international literature still lacks of studies focusing explicitly on the composition of cruise product's price. Within this concept, this paper decomposes the price of cruise packages into tourism- and transport-driven characteristics and it builds on the established method of hedonic price modeling (HPM), which is applied on data drafted from the scheduled trips of two contemporary cruise lines for the Mediterranean, to measure their contribution in the final formation of the offered price. The overall analysis validates that the contribution of tourism attributes outweighs this of transport attributes, whereas a high proportion of price variability is also attributed to the different marketing targets adopted by companies, even for those belonging to the same class.

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1. Introduction

Cruise vacations can be considered as a composite product incorporating characteristics that emanate from both the tourism and transport disciplines. The transportation component of the cruise product regards the transferring of passengers to the ports that are included in each scheduled cruise trip. On the other hand, the tourism component refers to the leisure services that are offered to passengers. Such services are available both onboard (e.g. pools, theatres, restaurants, etc.) and onsite (e.g. dining, shore excursions, sightseeing, etc.) at the ports-of-call (POCs) (Sun, Jiao, & Tian, 2011). In order to be competitive against alternatives offered within the cruise market, the cruise package should satisfy the passengers' needs and fulfill their expectations at the highest

possible level (Qu & Ping, 1999; Teye & Leclerc, 1998). That is, the tourism and transportation dimensions should be combined in a way that boosts cruise product's attractiveness to customers. In this sense, alternative packages composed by different kind of ships, various itineraries, and trips' duration, are used as means of product differentiation so as the different market segments to be covered (Sun et al., 2011). The aforementioned trends have resulted in the development of a plethora of alternative cruise packages at a global scale, which is depicted in the fact that, during the year 2015, 63 different cruise liners deployed 448 ships that carried about 23.2 million passengers through their scheduled itineraries (CLIA, 2016).

Many scholars have focused on the issue of cruise product attractiveness and, in particular, on how different combinations of its tourism and transport characteristics affect the customers' market choices while constituting the base on which the itineraries planning of cruise liners is developed and implemented. As far as the customers are concerned, it is well recognized in academia that

* Corresponding author.

E-mail addresses: spniavis@uth.gr (S. Niavis), tsiotas@uth.gr (D. Tsiotas).

the decision of buying a cruise trip is subjected to motivational and emotional factors, such as relaxation, socialization, and exploration (Hung & Petrick, 2011). In addition to these factors, the quality of product attributes and the satisfaction obtained by the offered services seem to be decisive parameters for the customers' decisions, regarding the selection of a product among the total offered cruise packages (Chua, Lee, Goh, & Han, 2015; Petrick, 2004; Xie, Kerstetter, & Mattila, 2012). As far as the cruise companies are concerned, their strategies about enhancing product attractiveness are based on the two pillars of passengers' satisfaction and cost minimization/profits maximization. Thus, cruise-liners are heavily taking into account the customers' preferences regarding the various attributes of the cruise product, in order to develop competitive products, while adjusting the tourism and transport characteristics of the product in a context that enhances their profitability (Sun et al., 2011). The pursuit of product differentiation, as a prerequisite for the coverage of the different market segments, has resulted in the emergence of four basic classes of cruise liners. The lowest class is the contemporary cruises, in which basic services are offered in a rather low price and could be regarded as the most popular type of cruises. The second class is regarded as premium, in a sense that more sophisticated services are offered to customers. The third class is the so-called luxury cruises, in which personalized services of the highest quality are combined with highly attractive itineraries, aiming to offer a luxurious cruise experience to passengers. Finally, the fourth class is formed by those cruise liners that target at niche markets by offering specialized cruise packages, such as cruises at remote itineraries or thematic cruises (Pallis, 2015).

Regardless the class, the achievement of a balance between customers' satisfaction and profit maximization requires a careful strategy of the cruise liners concerning the schedule of the itineraries, the allocation of ships, and the respective pricing policy (Sun et al., 2011). The oligopolistic nature of cruise tourism, in which major liners operate either directly or through subsidiaries at a global scale, renders this scheduling as an extremely complicated task, since an enormous fleet of cruise ships and potential itineraries should be combined and priced accordingly for every season and for each particular geographical area (Pallis, 2015; Rodrigue & Notteboom, 2013). Having the itineraries and respective ships scheduled for a season and geographical area, cruise liners should develop a pricing policy that will enhance the attractiveness of their offered product and thus cover as many of their available berths. As Sun et al. (2011) state, in order for the different market segments to be covered, the pricing strategy of cruise companies should be adjusted according to the "Willingness to Pay" (WTP) of their potential customers. To this end, it is critical for the cruise companies to understand the value that customers place on the different attributes of the cruise product, so as their pricing policy to be competitive and, at the same time, to be able to reflect the differentiation among the offered products. This is because, both for the cruise product and as for other tourism products, an attribute that is positively evaluated by customers will tend to shift its price up, whereas a negative evaluation for an attribute will shift the price to the opposite direction (Thrane, 2005).

Within this context, the attributes of the cruise product play a key role in the setting of supply and demand balance, implying that the final price of a cruise product is shaped by the number and type of its attributes. Thus, by modeling the relationship among products' price in respect to its demand-driven tourism and cost-driven transport attributes, the contribution of each attribute on the price could be estimated, which is a critical issue for the cruise industry since it affects all of its actors. More precisely, by understanding the significance of attributes on the price of the cruise product, the cruise companies could draw more effective price policies by

adjusting their ship deployments and itineraries schedules in a profitable context. Moreover, by recognizing the elements that push the demand (and thus the margins of their profitability) upwards, the cruise firms are capable to design their ship orders and refurbishments more efficiently. In addition, the customers become aware of the price variations caused by changes in the different product attributes and thus they gain the critical information that could support their decisions towards the selection of the best cruise package, in terms of value for money and personal standards fulfillment. Finally, the port and local authorities are able to evaluate their competitive position, by understanding the effect that the inclusion of their port into a cruise itinerary will have on the customers' WTP together with the costs for the cruise companies.

Although it is a critical issue for the cruise industry, the price decomposition of the cruise product has not been studied in a comprehensive context in the relevant literature, since most of the papers approach the attractiveness of the product in terms of preferential characteristics, such as the passengers' satisfaction (Qu & Ping, 1999; Xie et al., 2012), the willingness to pay (Lee & Yoo, 2015; Chen, Zhang, & Nijkamp, 2016), and the willingness to repeat a cruise (De La Viña & Ford, 2001), whereas the quantitative figures, such as the ships' occupancy or the cruise price, seem to be absent or latent from this consideration. By doing so, the current research appears to emphasize on the "behavioral" determinants of the cruise product (e.g. on the stated preferences of customers, on the aims and strategies of the cruise actors, etc.), leaving rather unexplored how such aspects affect or interact with the real cruise market conditions. Thus, despite that we are equipped to model and interpret the preferences of the customers in the cruise industry, we are still incapable to realize whether and how such preferences determine the product price and in what amount these are taken into account by the cruise companies. In addition, quantitative measures of the cruise attractiveness can be found in the cruise-port literature (Castillo-Manzano, Fageda, & Gonzalez-Laxe, 2014; Niavis & Vaggelas, 2016), where passenger flows per port are used as proxies of the port attractiveness. Nevertheless, although these studies suffice to model how the infrastructures or the tourism assets of a port-of-call (POC) affect its attractiveness, they are deficient to capture the way that the overall attractiveness of a destination is reflected on the attractiveness of the cruise product. Using the price as a proxy for the overall attractiveness of the cruise product helps to overcome this deficiency and to broaden the scale of reference in the study on port attractiveness, from the level of ports to this of the itinerary framework, setting new dynamics in the relevant research.

This debate highlights the need to test and evaluate the current research findings based on such preferential or behavioral approaches under the empirical perspective and to broaden the scale of reference of the quantitative approaches regarding the cruise port attractiveness in order to measure variations of itineraries attractiveness. Towards these challenges, this paper approaches the cruise product's attractiveness from the aspect of its price and attempts to interpret how the various cruise product attributes are translated on real market price variations. In order to acquire a more structural picture of the attributes affecting the cruise price, we distinguish them into a tourism and transport category. The authors believe that this decomposition introduces an approach that will motivate future researches towards a structural consideration of the cruise price modeling, which will facilitate comparisons between research of different time and geographical contexts, even when different variables are used as components of the tourism and transport attributes of the cruise. In order to capture the size and direction of the relationship between the cruise product's price and its tourism and transport attributes, this paper applies a Hedonic Price Modeling (HPM) analysis and it develops

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