

**Tourism and Hospitality Management**  
**Master Thesis No 2004: 55**

**Packaging Phuket: Focusing on Price bundling**

**Traveling trends of the Swedish target market**

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## **Abstract**

This topic has arisen from the interest in pricing strategies in tourism sectors and the study of managing package tourism to satisfy demands of potential clients. The paper will mainly focus on preferences of Swedish tourists towards holiday packages, and will use price bundling technique to create holiday packages that will attract new travellers and encourage previous travellers to come back again to a well-known tourist destination.

The study of pricing in tourism business has started long before, however for the more intimate study on price bundling seems to be very little comparing to other service sectors. As the connection between pricing and profitability is fundamental, the understanding of price bundling is prominent. As for this thesis, the discussions will mostly be in the economics and marketing directions. A case study of a travel agency will later on be introduced in this paper to illustrate how packaging principle and price bundling strategies are applied.

**Keywords:** packaging holidays, price bundling, tour operator, WTP or RP, Customer demand satisfaction, Swedish tourist



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## **Chapter I: Background and Research problem**

The practice of price bundling is widespread in today's marketplace. There are several firms in different areas adopting this strategy to foster business growth. Retailers and manufacturers offer single units of multiple products or multiple units of the same product for a bundle price.

In the tourism industry, package holidays include airfare, accommodation, rental car and relaxation activities. They are bulked together by tour operators and purchased by tourists at an all-inclusive price. A package is distinguished from the combination of fewer elements. Packaging normally refers to price bundling of tourism services and products. This is a central principle to develop and improve the quality of tourism services as well as to capture consumer surplus from an economic point of view. Price bundling is said to be a very significant tool for revenue maximization for a firm. The whole essence of a package holiday is bundling numerous separate services into one package (<http://www.tui.com> cited on 28/9/04)

In an earlier period of time, the economics of price bundling has been analyzed by many authors. Examples of such strategy are the lower prices for season tickets, buffet dinner, packages of stereo equipment, packages of telecommunication services, packages of options on automobiles and package of services in retail banking. However, there are few studies focusing on bundling package holidays in order to satisfy specific customers.

This paper will therefore take the Willingness to pay (WTP) of consumers into account in order to set the price of bundles to satisfy demand. WTP is also called Reservation Price (RP) for some authors. The RP according to Dictionary of Money and Investing means the highest price a person is willing to pay to acquire a good (Campbell R. Harvey, Hyper textual Finance Glossary, Dictionary of Money and Investing 2004). With the above reasons, the major purpose of this study is to explore the condition under which bundling is an optimal strategy that can be utilized to satisfy demand of Swedish tourist for bundled package holidays to Phuket, Thailand.

## **1.1 Background**

### **1.1.1 Why Price bundling is an interesting topic?**

A controversial discussion on price bundling started roughly around late '90s. Since then, there is still no absolute conclusion as to whether or not a company should completely rely on price bundling as a main pricing technique. The only confident comment for now is that price bundling is beneficial to consumers as they can obtain services or products at much lower price.

While other researches showed the efficiency of price bundling, Soman and Gourville, (2001 and 2002), on the other hand, argued that even though the practice is a revenue-maximizing and profit-maximizing strategy and seems to increase purchase likelihood, it in fact affects product consumption in an opposite direction. The study of post-consumption as Soman and Gourville emphasized has indicated that consumers tend to neglect the sunk cost of the services in a bundle. In short the authors claimed that the consumers perceive value of services in a bundle less positive than the value of unbundled services. A cheaper price from bundles can lead to "decoupling" of transaction costs and benefits. Their research study on transaction decoupling shows that purchasing of bundled reduces attention to sunk costs and decreases a consumer's likelihood of consuming. The authors thereby claimed that the consumers will be less likely to repurchase the bundles in the future.

In telecommunication business, price bundling has been practiced for many years but several companies (carriers) seem to be reluctant in offering a cheaper price as the consumers might neglect the value of the services. Andrew Cole, Renaissance Worldwide wireless practice manager mentioned that "one of the big downsides of bundling is that if you look at the research, a lot of the reasoning for wanting bundling is consumers want a cheaper price, which is counter to what the carriers want." Kridel (1998) has given a suggested solution to this problem which "one way to increase value is to tailor packages of enhanced services to individual user needs." That is the starting point of this paper, to tailor packages for specific target groups, which corresponds to price bundling strategy.

Packaging products together is a powerful sales and marketing technique that will add value to your product and trigger people to buy it. The idea behind package deals is to combine products together and offer them at a lower price than you would pay if the products were purchased individually. Discounting this way increases perceived value along with benefits-it saves money in the long run and provides a good balance of value and benefits in the mind of your customers. Travel, where a vacation is "all-inclusive," is one of the industries that frequently use bundling to improve value. In this thesis, price bundling principles will be examined to find out what the optimal price enhancing profitability for firms in real life context.

In real life there are always two sides of the coin. From this view, in order to develop the principles for effective price bundling strategies, the author will present three "coins" that form the foundation studied in this thesis.

1. Price Bundling Vs Individual selling
2. Tour Operator Vs Customers (Swedish tourist and WTP)
3. Theory (Theoretical side) Vs Practice (Empirical finding)

### **1.1.2 Why Phuket?**

Phuket is an island in the southern region of Thailand, which has long been established as one of the most popular international tourist destinations. In the Swedish tourism market today, Phuket has become a very well-known holiday destination for sun, sand, and sea. The demand for package tour to Phuket has increased over the years. However, packages that are available in the present market seem to be only the combination of low-fare transportation and cheap accommodations. The preferences and needs of potential travelers have been neglected.

From the observation and discussion with tourism lecturers in Thailand, the problem of packaging this tourist destination arose many years ago. One of the major concerns about this well-known destination is how to bundle all activities that it has to offer into a nice 2 to 3 week package tour and setting them at the most attractive price for specific target groups. Some believe that Phuket has everything, but people do not know how to manage their resources. Therefore,

it is time to investigate and explore the resources in Phuket and try to package them nicely for international travelers.



## 1.2 Research Problem

### Problem analysis

Phuket is a mature tourist destination which could be considered as lying on the edge of a tourism bubble. Geographically, Phuket has a lot of attractive tourism sites and plenty of activities for visitors. However, the management of those resources is still one of the problems for Phuket when it comes to destination development.

As for the holiday packages offered in the market at this stage for Swedish travelers, bundles are not very variable. A combination of hotel nights and air tickets seems to be all that they have to offer. Moreover, package tours to Phuket nowadays do not employ product and price differentiation. The clients needs and preferences have also been neglected. The quality of packages therefore has been judged as not up to standard and not at a competitive price.

The main research problem of this thesis is “how can a tour operator develop principles of effective price bundling strategies and create attractive holiday packages to Phuket to satisfy Swedish tourists?”

### Research Proposal

The main proposal is that there is a failure in pricing and bundling activity which in turn affects the total perceived quality of package tours. There is a mutual interest for the business sectors, tourism authorities and the local suppliers in Phuket to upgrade the destination and possibility to re-package Phuket for the Swedish target market. From the main proposal, the authors have come up with 4 sub-proposals for this thesis work as following.

1. Is price an important criterion in selecting package tours of Swedish tourists?
2. Attractive holiday activities in Phuket for Swedes could be
  - a. Thai cooking course
  - b. Handicraft training

- c. Spa course
  - d. Diving
  - e. Golf
  - f. Trekking
3. Do Swedish tourists have higher WTP of Bundled products than WTP of unbundled products (Pure Components)?
  4. Mixed bundling could be the most practical strategy used by tour operator in packaging Phuket for Swedish travelers.

### **1.3 Research questions**

We are hoping to find rational answers for the following questions:

#### **Subsidiary questions**

##### **Demand**

- What is the Swedish demand in Tourism?
- How sensitive is the Swedish demand to price?
- What are the Swedish's attitudes, decision making and traveling behaviors towards destination?
- How can a well-developed tourist destination such as Phuket be packaged differently to attract more sophisticated travelers from Sweden?

##### **Current packages**

- What are types of package currently offered in the market?
- Do large travel agencies in Sweden offer all inclusive holiday packages?
- What are the main components of a package tour?
- What types of activities are included in the package?
- How long is a holiday package?

##### **Pricing in general**

- What is the price range of a holiday package to Phuket?
- How does pricing affect the decision to purchase?

##### **Price bundling**

- How can price bundling be defined?

- How can price bundling capture consumer surplus?
- How does price bundling affect perceived value of the services?
- What are the criteria to determine a good mix and match of services?
- How to create tailor made packages to satisfy Swedish demand using price bundling technique?

#### **1.4 Purpose:**

For a tour operator to expand the market segment in Sweden and capture consumer surplus, there is a need to analyze behaviors and preferences of Swedish travelers along with exploring pricing strategy in a service sector. Since price is one of the key components in creating a nice package tour, the authors believe that there is a potential to effectively utilize local resources in order to create an appealing package tour for the needs and preferences of travelers. Moreover, there will also be a recommendation of how price bundling can influence the purchasing decision and the perceived quality and image of a destination. There is also a mutual interest to re-package Phuket according to the demands by using price bundling as a reliable tool.

#### **1.5 Delimitation**

Supplier network and relationship management are also analyzed in the discussion. The authors will leave out the environmental sustainability issue and only discuss economic sustainability resulting from price bundling principle. The paper will not touch on the cost structure of price bundling. It will mainly explore the Willingness To Pay (WTP) of customers toward bundling and unbundling of services. As in the tour operator's point of view, the focus is on revenue maximization and capturing consumer surplus.



## **Chapter II: Methodology**

The purpose of this chapter is to describe the research design and the research methods used in this thesis. The chapter starts from roughly describing the research design and the preliminary study of suppliers networking, demand, and price bundling.

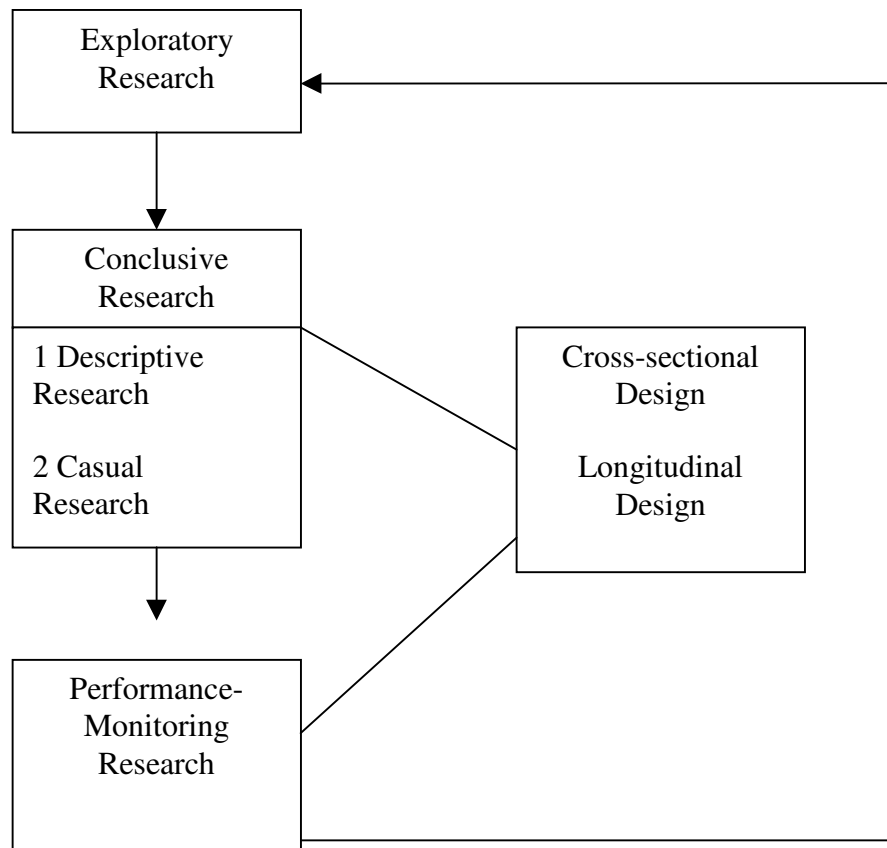
Pricing is said to be an important element influencing the decision making of travelers. Therefore, the authors began to search for literatures on Pricing and Price bundling of services along with conducting interviews and surveys. The research process will be explained in the end of this chapter.

## 2.1 Research Design

All interviews and researches have been divided in to 2 main categories:

1. Suppliers Network
2. Demand of Swedish travelers

The research design of this thesis is based mostly on Marketing Research of Kinnear and Taylor (1996) which is shown below.



**Figure 1: Research Design (Kinnear and Taylor (1996))**

In the early stages of this thesis, the authors implemented exploratory research to investigate the current situation of supplier networking in Phuket. A few conversations with tourism professors in Thailand combined with interviews with travel operators and agencies built up the picture of the current Phuket and problems that occur nowadays. The literature reviews also gave basic

understanding and clearer definitions of supplier networks in tourism, the contingent valuation method of Willingness to Pay (WTP) and packaging of services.

When it reached the need for more details and in-depth information, conclusive research was applied. This was to provide information for the evaluation of alternative courses of action. The more formal research procedures were used. Three surveys with detailed questionnaires were drawn up, along with a formal sampling plan. After gathering all necessary information, observation of a case study was conducted.

### **2.1.2 Research Methods**

Swarbrooke & Horner (1999) stated that if we are to optimize the effectiveness and efficiency of marketing activities, we must try to understand how consumers make their decisions to purchase or use tourism products. With this reason, data in demand perspectives was collected, so that the authors were able to use that data to supply the effective package holidays. The following part will explain how the data, in terms of demand, was gathered.

#### *Demand*

*Secondary data: Literature study, Internet, Organization database*

In the initial step, the authors studied the existing data relevant to demand aspects using textbooks on customer behavior in tourism, tourism demand, decision -making process and traveling pattern in the general way. To get to know more specific information about Swedish demand in outbound tourism, the literature and case studies were explored afterwards. Sources of data such as the Scandinavian Journal of Hospitality and Tourism, Annuals of Tourism research, Tourism Management and Economics of tourism were used in this thesis. However, the literature found involved inbound rather than outbound tourism.

To get a better view of this area, the authors therefore gathered an extensive amount of secondary data from the Internet and organizations involved in the tourism field. The Tourism Authority of Thailand is one of the Thai

government organizations providing statistical data on Swedish tourists traveling in Thailand.

Furthermore, TDB- the Swedish Travel and Tourism Data Base – is an important source of information on travel of the Swedish. TDB gives information on trips made by people living in Sweden and how various background factors are related to the trip distribution. Such background factors are, for example, income, household size, occupational status, region of residence, car ownership, age of children, etc.

The information in TDB can be subdivided into two main categories:

- On the individual level: Information on all trips made during a given month. The trips are subdivided into eight different categories viz., leisure/work trips, trips made overnight or not and national/international trips.
- On the trip level: Information on the last two trips in each category during a given month i.e. purpose of the trip, origin/destination, travel mode, type of accommodation, costs of various kinds, etc.

However, most of the existing research found addressed the overall demand in tourism and traveling patterns of Swedes in a general way, with only a few references to Swedes' attitude towards package tours. It can be said that the literature focusing specifically on Swedish demand for package tours is very limited. In addition, the data, which is specific to Swedes' attitude towards Phuket Thailand, is not enough for investigation. Thus, to get more specific data, interviews and questionnaires are needed. The methods are explained in the next step.

#### *Primary data resources*

By collecting primary data, the authors planned to conduct an in-depth interview with a small tour operating company to get some ideas, enabling us to design questionnaires. Also, interviews with several big tour operators would be conducted subsequent to questionnaire distribution in order to access a wide range of knowledge in this area.



*Interview: Small tour operator*

In order to get more profound information on tourism demand, motivation, attitude, purchase-decision process, traveling patterns and segmentation of Swedish tourists, interviews with several tour operators providing package tours to Phuket were conducted.

The first tour operator which we conducted an interview with is Erawan Travel Sweden located in Stockholm Sweden. This tour company is managed by Thai people who are familiar with Swedish tourists and arrange package tours for Swedes not only to Phuket, but also to other destinations around Thailand. The interview with the company's manager, Khun Charuwan Narongin who has direct experience in closely dealing with Swedish tourist for more than 20 years, made more aware of Swedes' traveling patterns. Also, the authors recognized several useful ideas in relation to how holiday packages are created to attract customers. More importantly, the information from the interview was helpful for conducting questionnaires subsequently.

*Interview: Major tour operator*

Nevertheless, according to the interview with Erawan Travel Sweden, the authors found that the number of the company's customers was limited due to its size. In addition, most of them are loyal customers who keep in touch with the company for a long time. Due to these reasons, it is difficult for the company to access a great deal of customers in terms of quantity and get to know the actual market situation. Therefore, the collected data from the company is probably too narrow in terms of quantity and diversity. To get more insightful information, some big tour operators around Gothenburg, Sweden: TUI, Ticket, Star travel, and Kilroy were contacted. But due to the summer holiday, only a few companies were available for discussion. After getting a more concrete picture of the industry from interviews, questionnaires were created to find out more in depth and specific data for further analysis.

### *Survey I: General traveling habits and recognition of Phuket*

The next step of the primary data collection was to establish a questionnaire to find out about the general traveling behavior of the Swedish. As shown in Appendix 2, the questionnaire was divided into five sections; General Traveling Habits, Perception of Phuket Thailand, Package Tour Preference, General Opinion Section towards Package Holidays and Classification data section. To focus on the target market-high yield tourist- and narrow the sample size, the questionnaire was distributed to the Swedes working in only three companies in Gothenburg, Sweden; Volvo, Maersk and Elfsborgs Fastning. The authors considered those employees as representative of high yield tourist because they are likely to be interested in holiday packages and spend considerable money at the destination. The tour holiday offers convenience for busy working individuals, in terms of time spent to make the booking. (Evan and Stabler, 1995).

Due to financial limitations and time constraints, the questionnaires were sent by electronic form. The purpose was to determine behavior and preference of Swedish travelers towards holiday packages to Phuket, Thailand. Unfortunately, few of those receiving the questionnaire responded to the survey questions, which made it impossible to generalize on the responses. Thus, the distribution method was changed from soft copy to hard copy, since the former was probably inconvenient for the respondents. Besides, the authors decided to emphasize the demand side rather than the supply side of package tours for Swedish tourists. As a result, the detail of the questionnaire would be changed a bit to be fit with the scope of the thesis.

According to the interview with Erawan Travel Sweden, the Swedish high yield tourist is probably pensioners. For this reason, the authors decided to reach the respondents face to face instead of electronic distribution. As Professor Anderssons' advice, the authors went to pensioners club around Gothenburg University to conduct in depth-interviews with a small group of the pensioners as well as distribute the questionnaires to them. Consequently, the number of respondents was increased. This increase also resulted from the amount of questionnaires answered by people walking on the street. In this

case, the screened questionnaire method was employed so that the high yield tourists were more rapidly accessed.

### *Supply*

As for the supply side, literature on relationship marketing and supplier network give the more solid view of how the network should improve the production process and final products to satisfy or even delight the customers. This thesis is aiming to dig further down into the tourism industry and explore the systematic process and structure of networking, so it required the preliminary study of the current networking situation in Phuket. Therefore, the authors have conducted the field observation and interviews with local hotels, tour operators and travel agencies in Phuket. Moreover, the authors also collected general information from tourism authorities and other local tourism organizations, which can be beneficial to this paper.

### *Visiting: TAT Phuket*

To gather more information about Phuket and other general information about local tourism service providers, the authors have visited the office of Tourism Authority of Thailand in Phuket and talked to the manager and front desk staff. The discussion focused on the database of inbound tourists, the hotel association, the restaurant association, and the tourist guides association in Phuket. There was some useful information for this paper, for example, the statistical data showing the number of visitors each year to Phuket classified by countries and the percentage change in each category, the list of hotels and restaurants in Phuket, and many tourists activities that might be very interesting for packaging.

### *Interview: local hotels*

To have more adequate and reliable information on how much the local operators know about tourism network and their own networking, the authors have come up with a method of getting spontaneous responses. For this type of interview, there is no appointment made and the interviewee did not have prior access to the questions. Most of the interviewees are hotel managers and Marketing staff.

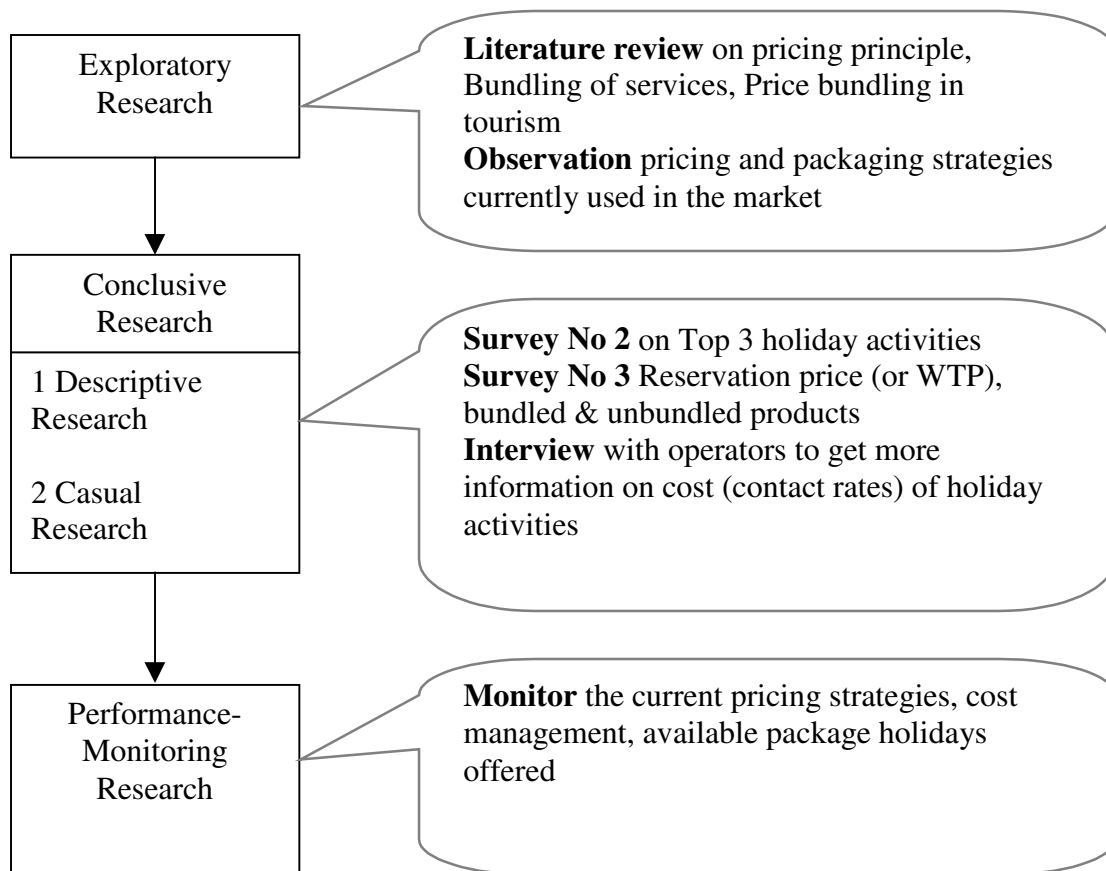
### *Interview: tour operators*

The same interview method is applied to get more reliable information. Some interviews have to be scheduled, however, the interview questions were not shown before hand.

To conclude the preliminary study in Phuket, the authors have found that “Networking” is a new word for the local service providers and operators. There is an opportunity to educate and train them about this area in the near future. However, for this thesis the authors would rather work on developing the package to satisfy or delight the Swedish tourist.

## 2.2.1 Adapting Research design

There are also difficulties in finding the secondary data and literature in price bundling since it is one of the new areas that have rarely been touched by researchers. So, the literature and previous research found are mostly about Price bundling in retail banking, bundling in telecommunication services, and bundling in technology products. Most of the time, when talking about bundling of tourism service it is referred to as packaging. The term packaging is an alternative to Price bundling in the tourism business. The main design is still based on Kinnear and Taylor (1996). The following diagram explains how changes have been made to the research design.



**Figure 2: Adapted Research design**

### **2.2.2 Research area**

To limit the scope of this research, we will be focusing on Swedish travelers. Therefore, the Scandinavian Journal of Hospitality and Tourism and other tourism journals which investigate attitude and behavior of the Swedish towards tourism will be used for reference and linking these aspects to the types of packaging.

Available package tours in the Swedish market (Interviews and surveys)

- Price
- Facilities
- Purpose of the trips
- Duration of stay

Price bundling: Current practice, theoretical concept (Observation, Interviews and literature review)

- Theory
- Technique
- Trends
- Current practice

Demand: Swedish target segment (Secondary data and surveys)

- General group of tourists

#### Information requirements

1. Information on Swedish demand
2. Swedish perception of value of package holidays
3. Swedish perception of Phuket as a tourist destination
4. Characteristics of packaging holidays in current market
5. Price bundling technique

### **2.2.3 Research Strategies**

Divide investigation package holiday into two sides which are Demand and Pricing activity in the market.

### Demand

1. Review literature on Swedish demand in packaging holidays
2. Conduct an in-depth interview with Swedish tour operators to explore decision making and attitude towards packaging holidays of Swedish Travelers
3. Taking account of the results of item 2, conduct a questionnaire survey in a local community (Gothenburg) focusing on high yield travelers

The questionnaire survey is to collect information from Swedish travelers meeting the information requirement by asking questions on;

- ♣ The social economic characteristic of Swedish Travelers to get know about factors such as age, gender, income, family situation and occupation which influence purchasing decisions of packaging holidays.
- ♣ Perceived characteristics of packages and their contribution/attitude to certain packages
- ♣ Perceived characteristic of Swedish traveler not traveling through package holidays provided by tour operators

### Pricing strategies

- ♣ Review literature on packaging tour holidays in current market
- ♣ Specify information on packaging holidays in the region (Phuket) and further explore the existing package tour of the company by conducting in-dept interview with owner and staff.
- ♣ Conduct in–depth interview with the company to investigate what is their pricing and how they bundle services.

#### **2.2.4 Additional Research Methods**

The authors have realized that it is important to find out more about the demand side since Survey I (on general traveling habits and recognition of Phuket) was not accurate enough and did not have many respondents. Therefore, there is a need to conduct other surveys to gain more accurate primary data. However, the method of distribution has to change as well as the structure of survey questions. As in the first survey there were too many

questions and it took a very long time for the respondents. The Survey II less number of questions will be more accurate and able to get a greater response.

### *Survey II: Top 3 holiday activities of Swedes*

Questionnaires II have been formed and distributed to the general age group between 18 to 65 years old. The purpose of this second survey is to find out the three most interesting holiday activities of Swedish travelers when they think about Phuket. This is to gain more information on what kind of activities should be put in the package to Phuket. The authors have previously assumed that Top 3 activities would be: Spa, Thai Cooking class, and Diving. This survey is also to prove the hypothesis and further develop the thesis to the next stage.

The survey is composed of three questions, which take less than 4 minutes to answer. The questions are all in English but very simple and easy to comprehend. This survey was done face to face in the city of Gothenburg and in the amusement park, Liseberg. Respondents could ask questions if they did not understand. The sample size of this survey is 300 samples.

### *Interviews: Phuket Cookery School*

During the process of SurveyII, the authors have contacted a cookery school in Phuket to get more details about cost and the nature of services they offer. Most of the time the interviews and contact were conducted via telephone, fax and emails. It was more efficient to contact them by email. They seemed to reply email within one or two working days. The proposal the authors offered was to find out interesting activities to put into the package tour for Swedish travelers to Phuket.

One of the most professional cookery schools found is PHUKET THAI COOKERY SCHOOL, KO SIRAY. Piyapong Krainara, a co-founder and also an instructor has offered the contract rate for cooking lessons with his company. What PHUKET THAI COOKERY SCHOOL, KO SIRAY is doing now is putting the courses into package tour. A detailed itinerary of each course can be found from their website. There is no hassle to estimate the quality of each program.



*Interview: Assistant Diving instructor and sale representative of White and Blue Diving Club.*

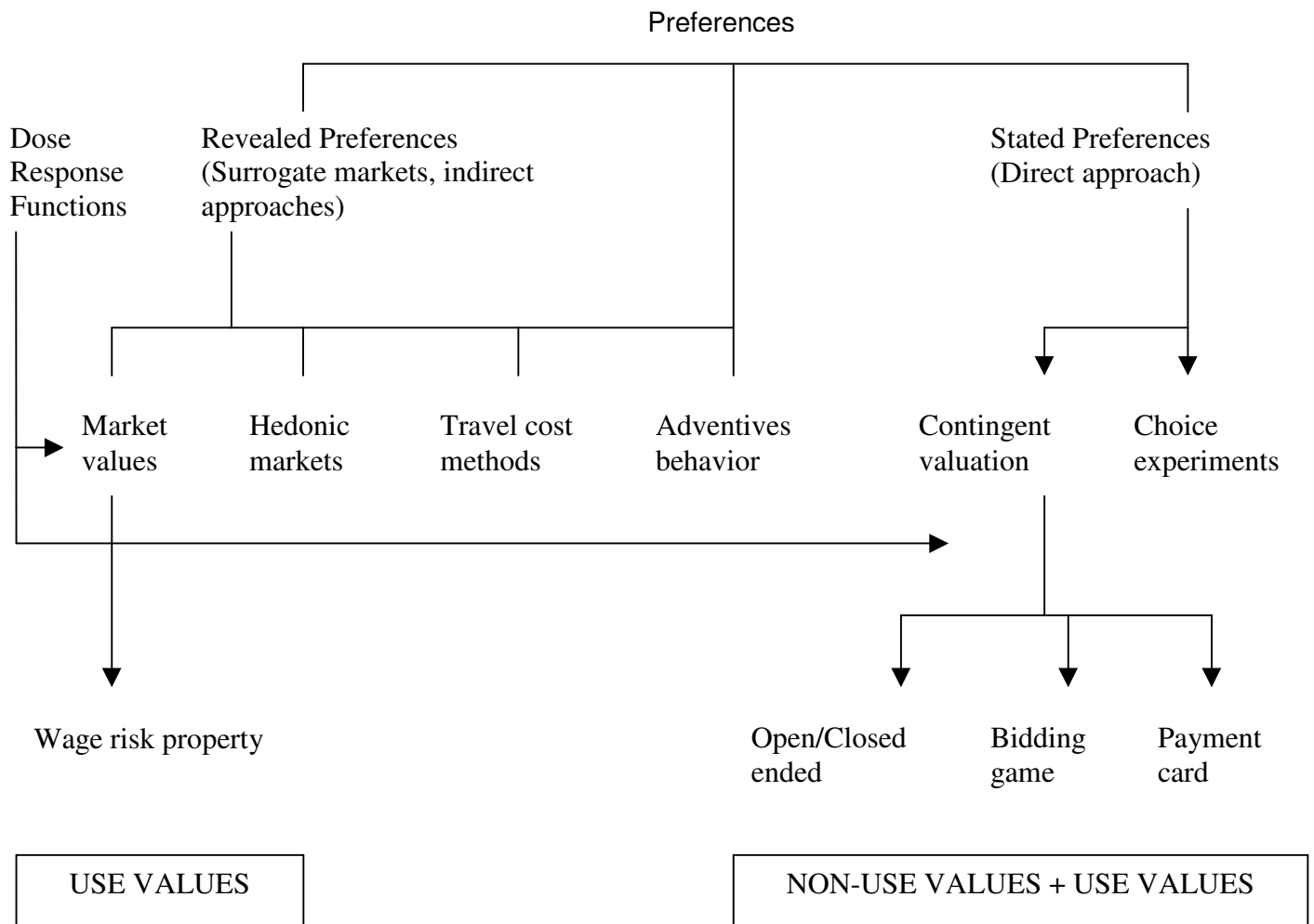
As also from the hypothesis, the authors decided to contact White and Blue Diving Club again and schedule an interview with Preeprem Mongkolprasit, assistant instructor and sale representative. The interview was conducted as a telephone conference at first, a week later a face to face in depth interview was held in Gothenburg.

Questions concern the cost of diving, contract rate that they offer to travel agencies, detailed information on the open water course, and advanced open water course. A comparison rate for group of 10 people and 15 people are emphasized. The age groups of customers, detailed itinerary, and the duration of each course have also been discussed.

### *Survey III: Bundling VS Unbundling*

After the assessment of Survey II on top 3 holiday activities, the authors have come to the conclusion of putting Sightseeing, Spa and Diving into the package. Bundles of activities are created according to the demand. Also there is the need to find out the RP of the pure component of each activity, and bundle of hotel room + air ticket to further analyze the economic benefit of Price bundling.

The Environmental valuation techniques used by Garrod and Willis (1999) was introduced in order to conduct more effective surveys. The following chart illustrates the relationship of environmental valuation methods.



**Figure 3: Contingent Valuation Method**

The direct approach of environmental valuation is adapted and applied to this thesis work. This technique is more applicable for finding out the Willingness To Pay (WTP) or the Reservation Price (RP) of travel products. Therefore, the authors have followed the guideline by using Contingent Valuation Methods (CVM) to measure the value of travel products. As to minimize the bias responds, the surveys are conducted almost like a face to face interview. Very clear instructions and the purpose of the surveys are given to the sample groups.

Garrod and Willis (1999) explained that Contingent valuation (CV) techniques value the goods holistically which means that the questionnaires have to focus on the perceived value of individual elements of the good. The authors

therefore stated in the questionnaires that ‘ we are not interested in the fair market price.’

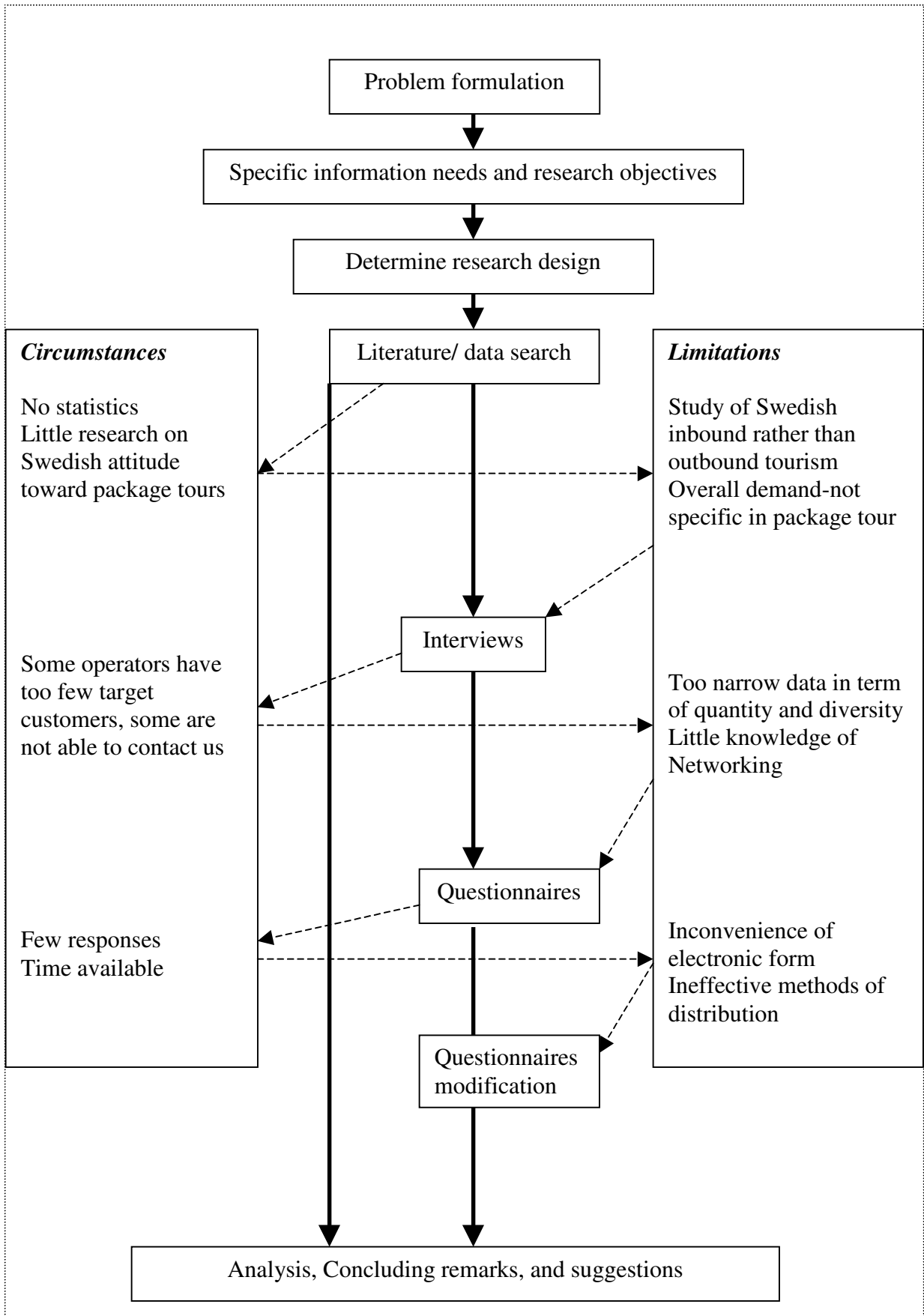
In the 3<sup>rd</sup> survey questionnaires, the main purpose was to figure out the Reservation Price (RP) of a full package, the alternative bundles, and non-bundle. All questions are open-ended questions, which gave various answers about the RP. Questionnaires are distributed to the general age group of 18-65 years old. The authors have set the sample size at 500 sample and expect to receive at least 400 responses, however the actual respondents have reached 450 samples.

There are 6 questions in total. The questions have been translated into the Swedish language for the more convenience of the respondents. The distribution technique is set to be similar to what has been done in the survey II. There are 10 volunteers to distribute the questions in the city of Gothenburg, and the survey is as face to face interview style. This gives more accurate answers and less processing time compared to the Survey I distributed to companies and returned in very small numbers.

Later in the process, the RP is mathematically calculated by using Minitab Program to find the means and the average from all the responses. The comparison of RP of each bundle and non-bundle product will be analyzed and discussed in Chapter 4.

### **2.2.5 The research process**

To conclude this chapter, the authors constructed a model explaining the research process of this thesis. The data collected from literature study, the data search, the interviews, and the survey questionnaire responses were compiled and analyzed in order to draw concluding remarks and provide some suggestions for future research. Figure 4 represents the main steps of the working methodology followed during the research and external circumstances that lead to several limitations in the scope of the research. Later on in Chapter 4, the result of these surveys, interviews, and observations will be discussed.



**Figure 4: Research process (own, 2004)**

### **Chapter III: Theoretical Framework**

We are proposing that pricing is the key concept, which affects the demand and consumption of package tours. Price bundling of customized package tour will be the most beneficial to both customers as they can pay less and get more services and to tour operators as they will be able to capture consumer surplus. To understand the connection between them, we review literatures in three areas: *price bundling, role of tour operator in managing package tourism, and customer demand & forecasting.*

In this section price bundling will firstly be reviewed from theoretical point of view in order to identify why the factors concerning price bundling would be suitable strategy in designing effective package tours, and what current theory suggests about how price bundling can be applied to tourism business. Subsequently, the role and function of tour operators will be explained not only in terms of managing package tourism but also price bundling.

As earlier discussed, it can be said that the central position in this thesis is found in the demand side. Next in this section, the authors will, therefore, examine theoretical aspects of consumer behavior in the tourism market.

Afterward, the conceptual map concludes the linkage between price bundling of services, package customization, and demand satisfaction.

## **3.1 Price bundling**

### **3.1.1 Definition of price bundling**

Undoubtedly, price bundling is not a newcomer in either marketing or economic fields. Over the years, many authors defined and analyzed this technique. For example, Guiltinan (1987) broadly defined price bundling as a practice of marketing two or more products and/ or services in a single “package” for a special price. Mankila (2001) stated that the oldest concept of price bundling is a tie-in sale or pure bundling (Guiltinan 1987). She further considered a durable product in tie-in sale as tying goods to be composed of different complementary products (tied goods) used with it. The example of IBM is presented as a case study. In this case the durable goods, tabulating equipment, was price low to attract more consumers to buy it, whereas premium price is set for tied goods-punch cards. Many film producers have used price bundling as the block-booking of a set of movies by selling more popular film with other films so that the overall sales were increased (Stigler, 1968). Adams and Yellen (1976) referred to the practice of package selling as commodity bundling and also categorized it into three types combined with pure bundling, mix-bundling and component selling (pure unbundling). While they defined pure bundling as tactics that firms adopt to sell goods only in package forms, in mix bundling the firm sells the same goods either separately or in a bundle and pure unbundling is offered but consumers can put together their own bundle by buying both the components. In mixed bundling, the price was set lower than total price of each goods sale separately. Similarly, Guiltinan (1987) explained mixed bundling in term of consumer perspective that it enables the consumer either to purchase one or more of services individually or to purchase the bundle. He further separate mixed bundling to mixed-leader bundling and mixed joint form. In mixed-leader bundling, the price of one of two products is discounted while that of others is set at standard. On the other hand, the price in mixed joint form is set when two products are purchased jointly. Besides, price bundling is also known as commodity bundling that was proclaimed in Lawless (1991) study. He defined commodity bundling as grouping related products together into a unified marketing offering. In his point of view, commodity bundling is considered as a competitive strategy helping firms stand out from the rivals. According to

Mulhern and Leone (1991), the implicit bundling utilized in retail business so that the discounted price of one product implicitly enhance the demand of others. This aspect is explained in the same direction with Loss-Leader pricing of Raiiv and Carmen (1994). In loss- leader pricing, they found that firms advertise a price below marginal cost to attract consumers into the store and profit from other goods sold with higher margins. However, according to Mankila (2001), unless the relation between two or more products is explicitly shown, it is not priced bundling. To focus on number of different service, she also defined price as multi-product:

*“Price bundling is a selling approach on two or more different products that are sold together at a special price, that is, at a price different to the price for these products sold on a stand alone basis”*

### **3.1.2 Why bundle product?**

At this point, the authors will examine the theoretical reasons for price bundling. From a business perspective, the fundamental rationale for price bundling is to increase the profit. Eakin and Faruqui (2000) stated that profit can be increased as a result of increasing customer benefit; greater efficiency in production and marketing; protecting and enhancing customer good will and strategic position. Similarly, Mankila (2001) asserted that the explanations for the existence of price bundling derived from the demand, cost and strategic advantage it offers for the firm over selling the product separately. In her viewpoint, demand is considered as a central position in price bundling theory.

By increasing profit, the firm is therefore able to capture consumer surplus. Consequently, the authors will firstly illustrate the advantage of price bundling in terms of demand factor. Next, cost factors and strategic reasons will be respectively explained

#### *Demand factors*

Referring back to Eakin and Faruqui (2000), customer benefits of bundling arise from complementarities of the product, the convenience and lower search cost of one-stop shopping, the introduction of new services and the perception of added value. If the two products are independent in demand and priced

individually, some customers who would buy only one of products will now buy both products when bundling two products with a single price. In this regard, price bundling controls the demand arising from the sharing of the consumer surplus between the products. In other words, the willingness of the consumer to pay when products are bundled is more likely than when certain products are sold separately. Guiltinan (1987) explained this circumstance in terms of consumer’s added value that the value of these customers place on one product is so much higher than its price that combined value of two products exceeds the bundled price. In this case, the consumer surplus from highly valued product is transferred to the less valued product. He further presented how this situation happened as shown in figure 5.

Economics of Bundling Under Independent Demand					
Customer	Reservation Price \$			Consumer Surplus \$	
	RP <sub>A</sub>	RP <sub>B</sub>	RP <sub>A+B</sub>	RP <sub>A</sub> -P <sub>A</sub>	RP <sub>B</sub> -P <sub>B</sub>
1	8	1	9	1	-
2	3	6	9	-	2
3	8	7	15	1	3
4	5	2	7	-	-
<b>If P<sub>A</sub>=\$7, P<sub>B</sub>=\$4, then:</b>			<b>If P<sub>A+B</sub> is set at \$9:</b>		
1 buys only A			1 buys bundle		
2 buys only B			2 buys bundle		
3 buys both A and B			3 buys bundle		
4 buy neither A nor B			4 does not buy		
<p>Under independent demand, <math>RP_{A+B} = RP_A + RP_B</math>. Thus, customer 2 will buy the bundle even though <math>RP_A</math> exceeds <math>P_A</math> by \$4. The gap <math>RP_A - P_A</math> has been closed: the bundled price (<math>P_{A+B}</math>) provides a discount of \$2 in comparison with the sum of <math>P_A + P_B</math> because customer 2 has a consumer surplus of \$2 from the purchase of B (<math>RP_B - P_B = \\$2</math>). In effect the consumer surplus from B has been transferred to A. (Source: Guiltinan 1987, P.77)</p>					

**Figure 5: Economics of Bundling under Independent Demand (Guiltinan 1987)**



The purpose behind the study mentioned is to investigate the distribution of the customers' reservation price<sup>1</sup> compared to consumer surplus (amount by which the individual's reservation price exceeds the actual price paid). Without bundling, only consumer 3 will buy both product because his/her reservation price of product A and B are higher than actual price of these products;  $RP_A = 8 > P_A = \$7$  and  $RP_B = 7 > P_B = \$4$ . On the other hand, if bundling is adopted and the customer's reservation prices are equal to the sum of the individual reservation prices, then at  $P_{A+B} = \$9$  consumer 1 and 2 will also purchase the bundle and receive a surplus from the amount of the reservation price exceeding actual price they pay. It can be said that these surplus and bundled prices enable a firm to attract consumers to purchase the bundle. The transfer of consumer surplus is considered one of the achievements of price bundling. When products are sold together, they can enhance the value of the other when two products are complementary. Eakin and Faruqui (2000) declared that complementarities in consumption of goods could lead to natural bundling of those goods. Guiltinan (1987) also supported the idea of complementary relationships and explained that increasing reservation price for one product or service may derive from the other's purchase. This can occur either mutually or one-directionally. Yet, in both, the reservation prices of selling products together still exceed the sum of reservation prices of each product (Mankila, 2001). With this point, Schmalensee (1984) cited in Guiltinan (1987) illustrated that:

*“the advantage of pure bundling is its ability to reduce effective buyer heterogeneity, while the advantage of unbundled sales is its ability to collect a high price for each good from buyers who may care very little for it. Mixed bundling can make use of both these advantages by selling the bundle to a group of buyers with accordingly reduced effective heterogeneity, while charging high markups to those on the fringes of the taste distribution who are mainly interested in only one of the two goods”*

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<sup>1</sup> Reservation price: the price below or above which a seller or [purchaser](#) is unwilling to go cited in <http://www.duke.edu/~charvey/Classes/wpg/bfglosr.htm> 27/9/04

**Reservation price:** The highest price a person is willing to pay (if necessary) to acquire a good (p. 132) cited in <http://lms.thomsonlearning.com>.

In the viewpoint of Mankila (2001), the mixed bundling provides a double advantage for seller to increase consumer surplus. Besides, she emphasized that one benefit of price bundling is to apply price discrimination. With price discrimination, sellers can place buyers on different groups according to their purchasing behavior. As shown in Figure 5, there are four segmentation of consumer, namely: consumers who would buy product A only, B only, buy bundle and not buy. According to Sinclair & Stabler (1997), the reason behind price discrimination is that many consumers purchase goods and services in markets where a single price prevails, enjoy with welfare gain known as consumer surplus because they would have been willing to buy at the higher prices (reservation price). It enables benefits for sellers to discriminate between purchasers and charge higher prices to those with higher reservation prices, and vice versa.

From a social perspective, price bundling strategies are important for stabilizing a market. Without price bundling, equilibrium will not exist. Whenever each firm either sets prices for its two products and/or offers to sell them as a bundle at a lower price, consumers can observe the prices and make their consumption selections. Not necessarily substitute or complementary products, pure strategy equilibrium always exists and the equilibrium consumption set is always efficient, as it maximizes the total social surplus (Liao and Tauman, 2002).

### Cost factors

Regarding the advantage of price bundling on the cost side, Economies of scope would be firstly declared. The idea behind this case is that by bundling several products in single unit and selling them together, firms can save costs resulting from separately producing and delivering several products. Eakin and Faruqui (2002) stated that price bundling enables economies of scope in either production or marketing efficiency. They also clarified that efficiency production results from economies of scope in production. This comes from similarities in the production process leading to common technical expertise, by products, and sharing of fixed costs across products. Marketing efficiencies

arise from salesperson expertise across related products and from economies in the identification and targeting of customers. In addition, bundling the sale of products may add administrative and accounting simplicity. Marketing efficiencies provide a rationale for bundling products for sale, regardless of whether there are scope economies. Scope economies by themselves do not provide a rationale for bundling the products but foster the development of cross-product sales expertise. Furthermore, economies of scope resulting from price bundling also involves capacity and dimensioning. Generally, the products in service are not able to be stored and firms have to face with variable demand. To deal with this challenge, price bundling is desired to counterbalance the demand through time in order to fully utilize the existing capacity. (Mankila, 2001)

In addition to economies of scope, the economies of information and transaction derived from price bundling is considered as another cost advantage not only for buyer but also for seller. Price bundling benefits sellers when they are searching for trading partners and when several products are sold by one selling (Mankila, 2001). Simon and Butcher (2001) illustrates that bundling also enables considerable cost reductions because of lower purchasing prices for the components and reduced complexity in logistics and assembly.

Lastly, the authors will explain strategic reasons enabling firm approach to competitive position over their rivals.

### Strategic reason

In this point, Mankila (2001) presented strategic motives of price bundling concerning reduction of competition by

1. Excluding of rivals through leveraging monopoly power between the products
2. Product differentiation

She further illustrated the benefits in an imperfect competitive market, if monopolist firms bundle monopoly products with other products and sell them with effective prices, then they could gain a monopolistic edge over their competitors. When competitive products are tied with monopoly product that can be sold below marginal cost, monopolistic firms can sell these bundling products with attractive prices they can steal consumers from other firms in competitive market. For this reason, the competitors are not able to survive and finally way out the market. The firms therefore have higher market power through price bundling. Returning to Telser (1979), the tie in sale is used by monopolistic to increase their monopoly return. This study explained that a monopolist might sell one or more products at a price below their marginal cost and others above it. The reason behind this circumstance is that a monopoly of one commodity can obtain a higher net return by tying to another commodity.

Moreover, if a firm employs price bundling different from those of rivals on the same market, either where products are sold separately or in other types of bundle, then the firm can gain benefits from certain product differentiation and remain the marketing position. Lawless (1991) explained that there are more opportunities for differentiation with bundled goods and service than with single products. In comparison with unbundled products, bundle enables more difficulty for rivals who try to reach successful market position over bundling firm because of the complexity involved in getting a bundle of goods and services to the market. He further concludes that the more product's in a firm's bundle, the more difficult it is for potential imitators duplicate the bundling firms market position, in term of competence and co-ordination. Furthermore, price bundling is also considered as one of the marketing strategies for new product introduction. When a new product brand is launched and bundled with

a well-known brand, the positive attitude towards the latter may spread out to the former. In this case, consumer's reservation price could be raised for a not so-well liked brand through a clever association with a well-liked tie in. Between brand bundling by joining with another well-like brand could contribute to the development of favorable attitudes towards bundles and, indirectly, toward the new product brand (Simonin and Ruth, 1995). Beyond brand transferring benefits, bundling leads to a reduction of the cost of the new product reduction and a degree of uncertainty regarding perceived quality (Sullivan, 1990).

### **3.1.3 Price bundling steps**

To achieve the benefits previously explained, it is necessary for a firm to get to know how to implement and develop price bundling step by step.

According to Guiltinan's (1987) Normative framework, the decision making process of price bundling is conceptualized using the following series of steps;

1. For a given pair of services under consideration for bundling, define the segment structure and select the strategic objective
2. Given the strategic objective, (a) determine the demand condition required for success (under mixed-leader bundling and under mixed-joint bundling) and (b) determine whether the services under consideration are of the type likely to ensure that the demand conditions will be met
3. Examine the profitability considerations (including cost factors and displaced sales factor)

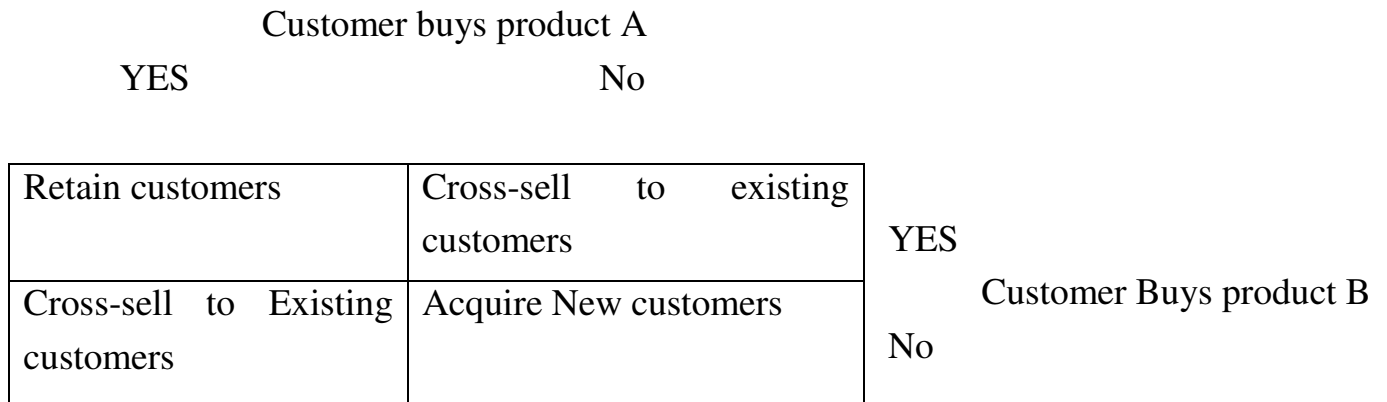
To plan strategies in more detail, a firm should be concerned with alternatives to the strategic objectives, demand condition, service matched to demand and finally profitability.

Prior to explanation of the step in determining demand condition, matching service alternatives and profitability consideration, the segment structure and strategic objectives will be defined.

Selecting the strategic objectives

Referring back to Guiltinan (1987), there are four basic segments, sources of customers for the bundle namely: (1) customer who buys A not B, (2) customer who buys B not A, (3) customer who already buys A and B and (4) the non-customer. Each segment is characterized by a different set of reservation price distributions.

Strategically, the objectives of price bundling can be composed of three categories, namely cross-selling, customer acquisition and customer retention Guiltinan (1987) attempt to place customers to the bundle from all four potential segments. Cross-selling objectives will be set to attract customers who buy only A or B to buy both, while the acquisition will be adopted when the firm seeks new customers for A and B simultaneously. He emphasized that in certain situations bundling also leads to the achievement of the retention objective because as long as firm can induce a customer to purchase both products, targeted customers of the first two segments and fourth segments may also be available. However, he merely defined the retention strategy as one of the objectives of price bundling, and did not examine its demand condition in the long term. Mankila (2001), in turn suggested that it is important the aims that the firm maintain demand for long term period should be adopted. Moreover, she presented the model of strategic objectives for price bundling in order to enhance demand between products A and B as shown in figure 6.



**Figure 6: Bundling Strategy (Mankila 2001)**

To succeed in price bundling, a firm should determine the demand condition, which is appropriate to certain objectives. With this point, assessment of demand condition, choice of service, and choice of price discount will be subsequently explained.

#### *Determining Demand Condition, choice of service and Choice of price discount*

As previously explained, different strategic objectives require different demand conditions, choice of service and choice of price discount. With this reason, the authors will illustrate the demand conditions according to the strategic objectives.

#### *Cross-Selling*

According to Gultinan (1987), from the cross-selling perspective, the degree and types of complementarities among services is considered as the key leading to demand response.

If the services bundled are complements, then any current consumer surplus on one service will be transferred to other services. However, the choice of service to be bundled and the choice of bundling form-mixed-leader or mixed joint require some consideration regarding the type and the degree of complementarities.

There are two types of mixed bundling discount forms combined with mixed-leader bundling and mixed-joint bundling as previous explained by Gultinan (1987). To achieve cross-selling objectives, the demand levels for two products should be considered. Mixed-leader will work properly under the condition of the reduction in price of higher demanded products (leader product). While the mixed joint bundling is a more appropriate discounting form in case demand of two products approximately equal and bundled price is set when two products are purchased jointly. It can be said that mixed-leader bundling leads to one-directional gains because price discounts of leader products enable increases in demand for other products in the same bundle and consumer surplus of leader product would be transferred to others. On the other hand, mixed joint bundling would be offered when bi-directional gains are desired.

### Customer acquisition

If non-customers are desired, customer acquisition is mostly appropriate. Among these customers the condition of leader, conditional reservation price transfers are not significantly established due to purchasing of competitive products/services. With these conditions, to accomplish customer acquisition objectives the firm must pay more attention to price discount elements of bundling than they would to cross-selling.

A firm should examine the price elasticity of demand<sup>2</sup> of the potential customers for bundling. In this case, the economics of search theory is identified, that price sensitivity depends on the number of alternatives about which the customer is knowledgeable; the more expensive it is to acquire information, the fewer alternatives for customers and the more inelasticity of demand curves (Guiltinan, 1987). He explained that demand is more likely to be elastic for services in which the salient attributes are search attributes<sup>3</sup> and search attributes' switching cost from one service provider to another will be lower relatively than those of experience and credence-base attributes<sup>4</sup>. The search oriented is used for determining distinctions among types of services. Furthermore, the distinctions have direct implication for selecting service for bundles when product A and B are bundled together:

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<sup>2</sup> Price elasticity of demand for a good is defined as the proportional rate at which a subject's consumption of the good, also know as demand, changes with the price of the good (Varian 1996, page 266) cited in Kirkden R.D., Edwards J.S.S., and Broom D.M. (2003), A theoretical comparison of consumer surplus and the elasticity of demand as measures of motivational strength, *Animal behavior*, v.65, p. 157-178

<sup>3</sup> Search attributes (characteristics) are those benefits that can be evaluate before purchase (such as savings account interest, air travel time or seat location at a plan ) Wide, Louis (1980), The economics of consumer Information Acquisition, *Journal of Business*, 53 (July), pp.143-158

<sup>4</sup> Experience attributes are those benefits that cannot be evaluated until a service has been received (e.g., a hair cut, the music at an opera) while credence attributes are those benefits that cannot be evaluated confidently immediately after receipt (e.g., legal advice, a physical examination, or education) Wide, Louis (1980), The economics of consumer Information Acquisition, *Journal of Business*, 53 (July), pp.143-158



- a. Customer acquisition/ mixed-leader. Here, the lead service must be demand elastic and therefore should have salient attributes that are search-based.
- b. Customer acquisition/ mixed-joint. Because target consumers own neither product, they must evaluate  $P_{A+B}$  against the total utility of the bundle. Hence, the greater the degree to which the total bundle is composed of search attributes, the greater the impact of a lower price on the success of bundling strategy

(Gultinan, 1987, pp.81)

In the selection of candidates for bundling in the mixed-leader when product A and B are bundled together, if A is the leader then A should be price elastic (composed primarily of search attributes) and B must complement A. The complementarity must result from the degree to which B enhances the search attributes of A, or from search economies between B and A, while the demand condition in the mixed-joint case must be evaluated by customer in the form of total package (A+B). In this case, price discount for bundles should generate a large gain in bundled sales or the products should have strong complementary relationships so that the reservation price for the bundle exceeds the sum of the individual reservation prices. This policy is probably effective for two types of bundles:

- (1) where both products are composed of search attributes, so demand tends to be elastic and search cost economies create complements (e.g., air travel/ car rental packages) and
- (2) where bi-directional complementary relationships are strong but have not been established previously in the customers' minds. By implication, bi-directional complementarity based on enhancing total image will be presented if the two products/services are composed of experience-based or credence-based attributes (e.g., financial counseling and tax preparation services)

To succeed each form of price bundling for the strategic objective of acquiring new customers, the firm can manage the demand condition by combining the complementarity typology as previously discussed with the elasticity considerations. While the former condition enhances the customers' evaluation

of the offer, the latter is likely to stimulate customers to respond to the price discount.

### Customer retention

Guiltinan (1987) found that the use of price bundling enables customer retention because cannibalization is likely to be minimized. However, he did not investigate the customer retention motives of price bundling in-depth. In turn, Mankila (2001) intensely examined price bundling in terms of customer retention. She considered customer loyalty as the appropriate demand condition of price bundling used to achieve the customer retention objective. In this way, the factors influencing the loyalty building are composed of preferences, customer satisfaction, emotions, switching cost, sunk costs and expectations.

The customer relationship is designed to satisfy customer and maintain customer satisfaction. Similarly, the appropriate choice of complementary services should be match with the customers' expectation to satisfy the customer and finally lead to customer loyalty. Switching cost and sunk cost are increased when price bundling is utilized. The additional switching cost in bundles is likely to enhance the perceived benefits of staying.

Lawless (1991) mentioned that price bundling not only provides value for customers but also differentiates a firm from the rivals. The competitive advantages of price bundling offer difficulties for competitors in term of internal capability, administration and co-ordination. Furthermore, he also stated that commodity bundling acts as a barrier to new entrance because it makes switching cost increase and helps to lock in customers and therefore disallow them from going to competitors. Eppen & Hanson (1991) stated that a long-term benefit of price bundling derives from its ability to lock in customers and, hence, to sustain revenue inflows in the long terms. For this reason, the price bundling discount in customer retention building involves the subsequent time periods where the sales are increased through time. The condition is that customers have been buying products for at least one period before they are offered any price discount. Therefore, a continuation and scope of relationship is required. This type of price discount is called mixed- retention bundling (Mankila, 2001)

However, the in-depth aspect of customer retention through the mixed-retention bundling is out of the scope of this thesis. To maintain the focal point of the thesis, the association between price bundling and tourism product will be subsequently discussed.

### **3.1.4 Related price bundling to the tourism product**

In term of tourism, bundling is possibly known as packaging holidays, which are composed of integrated travel series which are bought in bulk by tour operators and purchased by tourists at an all-inclusive price. According to <http://www.hometravelagency.com> cited on 28/9/04, a package is a travel product bundling several distinct elements, such as air travel, a rental car, and a hotel. From a tour operator's perspective, lowering prices in the form of a package leads to increase demand. These numerous demands benefit the firm in terms of lower costs resulting from the economies of scale. Budeanu (1999) stated that increasing demand leads to lower prices with lower costs for transportation and accommodation. This situation creates an influential circle, which leads to a competition within the sector, focus on increasing the number of tourists and lowering prices. In reality, there is no one universally accepted pricing method and the approach can vary considerably from one tourism organization to another. Tourism pricing decisions could be derived from variability of product, the high degree of competition in certain tourism markets and difficulties in accurately forecasting the level of demand especially its own special characteristics. (Witt & Moutinho, 1995)

The special nature of travel and tourism products that influence pricing has been exemplified by Middleton (1994). These will be shown below<sup>5</sup>.

#### *Nature of tourism product leads to difficulty to set the price*

- High price elasticity in the discretionary segments of leisure, recreation and vacation travel market

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<sup>5</sup> Middleton, V.T.C.(1994) *Marketing in Travel and Tourism*, 2<sup>nd</sup> edition, Butterworth –Heinemann, Oxford: Cited in Horner, S. and Swarbrook, J. (1996) *Marketing tourism hospitality and leisure in Europe*, International Thomson Business Press, p.178

- Long lead times between price decisions and product sales. Twelve months or more are not uncommon lead times when price must be printed in brochures to distribute months before customer purchases are made, as is typically the case for tour operators
- No possibility of stockholding for service products, so that retailers do not share with producers the burden and risk of unsold stocks and tactical pricing decisions
- High probability of unpredictable but major short –run fluctuations in cost elements such as oil prices and currency exchange rates.
- Near certainty of tactical price cutting by major competitors if supply exceeds demand
- High possibility of provoking price wars in sectors such as transport, accommodation, tour operation and travel agencies, in which short run profitability may disappear.
- Extensive official regulation in sectors such as transport, which often includes elements of price control
- Necessity for seasonal pricing to cope with short-run fixed capacity.
- High level of customers’ psychological involvement, especially with vacation products, in which price maybe symbol of status as well as value
- The high fixed costs of operation, which encourage and justify massive short-run price cuts in service operations with unsold capacity of perishable products.
- High level of vulnerability to demand changes reflecting unforeseen economics and political events.

Furthermore, Gronroos (2000) summarized the characteristics of services, which are different from physical goods, namely: intangible, inseparability, heterogeneity and perishability. Many authors illustrated that those characteristics affect pricing in different ways. For example, Zeithaml and Bitner (2003) mentioned that since the tourism product is an intangible service, which cannot be readily displayed and easily communicated to customers, quality maybe difficult for customer to access. Therefore, decisions about what to include in advertising and other promotional materials are challenging, as is

pricing. Because service activities are produced and consumed simultaneously (inseparable characteristics), it is difficult to manage quality control and to do marketing in the traditional sense. The heterogeneity of serviced derived from the impact of people, personnel, customers or both, on production and delivery process; a service to one customer is not exactly the same as the same service to next customer. This creates one of the major problems in service management; that is, how to maintain consistently perceived quality of services produced and rendered to customer (Gronroos, 2000). Since tourism is mostly dependent on people in the service producing process, different customers perceive a different level of price and quality for the same product. Mankila (2002) stated that the most important issue is whether individual customers perceived that the price, which they have paid, represents good value for money and matches their quality perception. Finally, service characteristic manipulating pricing is perishability. Cowell (1984) explained the perishability in terms of the fact that the tourism product cannot be stored for future use. This means that an unsold service and product is revenue lost. Hence, prices have to be adapted to meet fluctuating demands. Discount for last minute sales have been used extensively by tour operators due to the highly perishable nature of product. Budeanu (1999) supported that package holidays mean the supply of product in fixed supply (e.g. number of beds in hotel). It can or cannot be covered in demand in a certain season and empty place cannot be stored for next season so they have to be sold at the last minute discount.

By bundling and pricing travel and tourism products, the firm should reflect on its own nature. Although its characteristics cause difficulties in setting prices, the problem can be dealt with by price bundling. Schemalensee (1984) mentioned that price bundling leads to a reduction of overall buyer heterogeneity because an evaluation of the bundle is more likely less than those of the individual products. Furthermore, when the products in bundle are complementary, the customer surplus is not only transferred between the products but it creates higher level of sales (Guiltinan, 1987). For multi-services, price bundling tends to offer several opportunities to increase sales because the services are mostly complementary, therefore appropriate to be bundled together. Furthermore, the selling is facilitated because of the

evaluation benefit of bundle compare with individual selling. Thus, tourism products that are complementary goods are suitable for price bundling

### *Touristic products as complementary goods*

According to Guiltinan (1987), complementary products in an appropriate demand condition for price bundling arise from three sources: (1) product/services can be complementary due to economics of time and effort from purchasing them together, (2) products and services can enhance the level of satisfaction with other products, (3) products/ services can enhance the overall image of a seller which increases the value of product. According to Eakin (2000), a supplier has an incentive to bundle products to protect its reputation against customer dissatisfaction from product failure. Price bundling strategies are relevant when a firm has a set of related products. In this case, the package holiday combining airfare, lodging, rental car and relaxation activities can be considered as the complementary products under condition previously explained. Undoubtedly, all those components complementarily work together and relate with each other. In this regard, Harlam (1995) supported the idea that bundles composed of complements have higher purchase intent than bundles of similar or unrelated products. Similarly, Telser (1979) illustrated that complementarity between products enables bundling to be profitable.

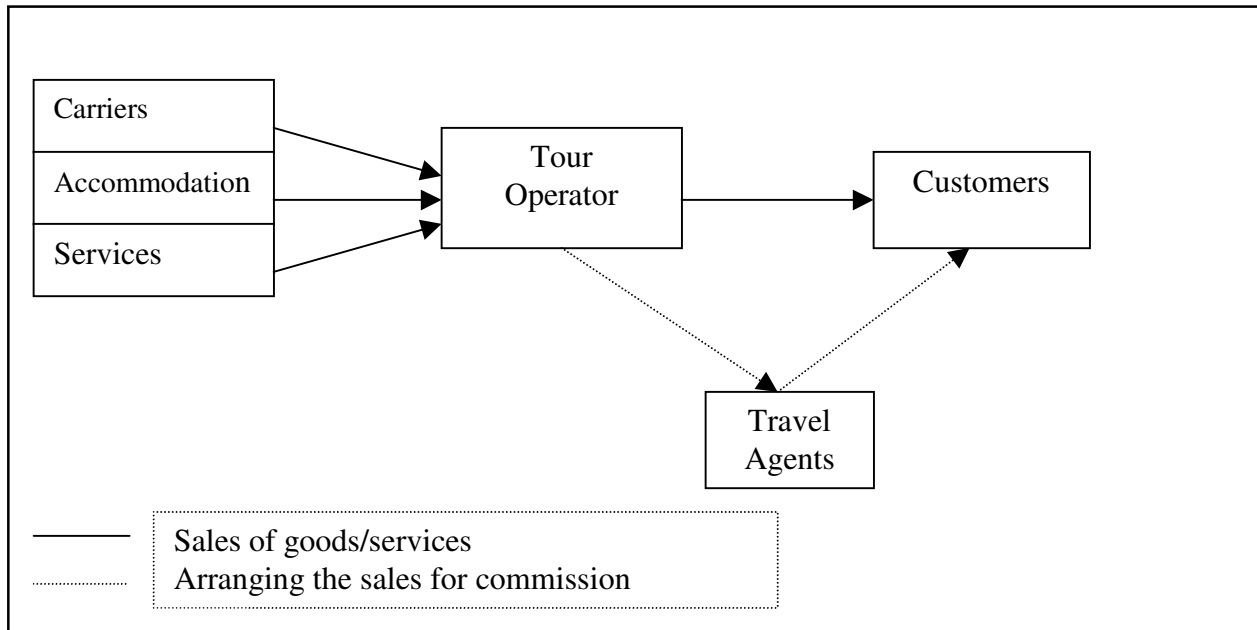
However, to deal with different suppliers possessing each complementary element in package holidays, it is necessary to have one who works as intermediary combining the elements into a single package at a single price. In this case, a tour operator is considered a crucial link in the tourism business, representing the central connection between customers and providers of services.

## **3.2 Roles of the tour operator in packaging tourism**

### ***3.2.1 Managing Package Tourism***

Packaging is often presented in the marketing context as a tool to develop an effective marketing strategy for a company. According to Purdue University (2004) the 8Ps are composed of Product, Price, Place, Promotion, Partnership, Programming, People and Packaging. In business, packaging enables a company to differentiate its product and capture various types of customer demands. As for the tourism industry, it has proved to be able to create a positive image and economic impact for a tourist destination. Theuvsen (2004) mentioned that in European package tour business, the integration from a resource-based point of view is value for organizational capabilities in terms of competitive advantages.

From a tourism perspective, tour operators are in charge of buying individual products such as plane seats, hotel rooms and exclusion in bulk, combining them into newly manufactured products that are called package holidays and offering the package to the customers. According to Budeanu (1999), the tour operator is a central link between producers, distributors and consumers of tourism products and services. Hence, they have the power to influence both sides: the demand (customer) and supply (service providers). The roles of tour operator in tourism distribution chain will be shown in figure 7.



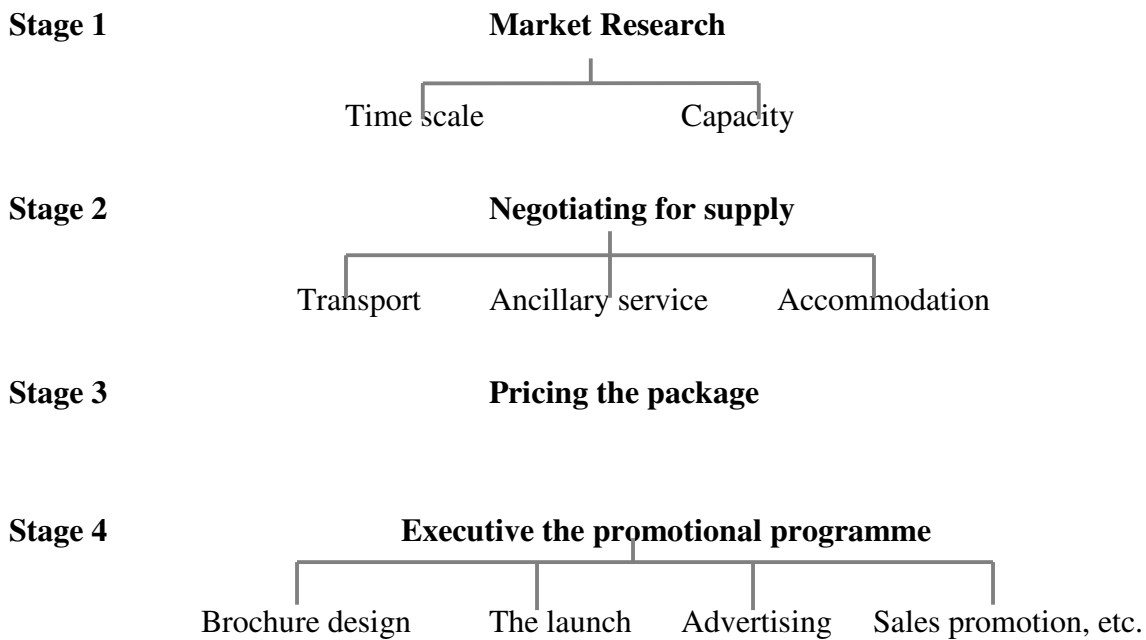
**Figure 7: The role of tour operator in the tourism system (Holloway, 1998)**

It can be said that the role of the tour operator in the tourism business is related to the discrepancy in supply and demand within the industry. The producers such as airlines and hotels manage their capacity regardless of occupancy. For example, a scheduled flight has to take off even if only a few seats are occupied. In this regard, Budeanu (1999) suggested that to keep prices low, the carries have to maintain a high level of sales by contracting with tour operator who can provide higher level of sales rather than doing it by themselves. Hence, the tour operator who buys in bulk takes the burden of selling off the producers and sells products with low prices due to bulk discounts. The customers who are offered package holidays with low price are satisfied.

According to Pender (2001)<sup>6</sup>, the important role of the tour operator is to combine elements chosen to create suitable packages to meet customer demand and both prepare and present this in an appropriate way so as to make sufficient sales. He further presents the steps of holidays packaging as outlined in Figure 8 Holidays packaging

<sup>6</sup> Lesley Pender (2001), *Travel Trade and Transportation: An introduction*, Cromwell Press, Trowbridge, Wilts, British Library, London and New York , p. 34-35





**Figure 8: Holidays packaging (Pender 2001)**

Since the scope of this thesis is in the area of price bundling, the authors will avoid in-depth detail of the other issues associated with holiday packaging. In this case, pricing the package tours in the third stage above will be merely explained.

### 3.2.2 Pricing the package

Horner (1996) states that to be able to offer holidays with certainty the tour operator must contract flights or other means of travel, accommodation and services such as transfers or car hire rates. In negotiating contracts, the tour operator is concerned both with establishing the availability of these elements and obtaining a realistic price allow the holidays to be offered to public at an attractive price and at the same time be profitable for the company.

Furthermore, demand and supply play a role in the pricing of tour operators' product as indicated by issue of seasonality. To design pricing strategies, tour operators have to be concerned with seasons; during high season the package tours are priced more expensively while the price is lower when demand is poor. However, price set should cover all cost elements of the holidays such as research, marketing, brochure production and distribution, CRS,

telecommunication, sales representative, agency commission and other incentives, all transport, accommodation, resort staff, administration, and currency exchange (Pender, 2001). To attract customers and keep them, tour operators attempt to offer discounts and maintain service quality at the same time. Hanefors and Mossberg, 1999) state that the goal for the tour operator is to maintain the quality of the package tours at a constant and high level without price increases, as the market is relatively price sensitive. Although tour operators attract customers by cutting prices as low as possible, they attempt to compete mostly on non-price characteristics such as service, product quality, brand name, especially bundling recognition as earlier explained.

The differences in price between tour operators resulted from the different strategies that tour operators follow to gain a market share; a large tour operator with a great market share like TUI, the German and European tour operator, can fix the high price because its growing strategy through expanding in other market allow TUI to increase their market share without reducing prices. Conversely, Small and Medium tour operators do not have the great negotiation power that large ones have, and so, do not obtain low prices in the negotiation with the supply side, but if they want to become large they have to obtain clients and then fix in the brochures low prices. (Aguilo& Alegre, 2001)

Although tour operator attract customers by cutting price as low as possible, they attempt to compete mostly on non-price characteristics such as service, product quality, brand name especially bundling recognition as earlier explained.

Nevertheless, the achievements of bundling rely on the tour operators' ability to buy individual services/products with low prices and combine them in an effective technique so that both customers and tour operators themselves can gain from the bundling strategy.

To take adequate actions in the area of tourism marketing and create a profitable manner of price bundling, tour operators must understand how the customer perceives the price of tourism products. This will be discussed in the next section.

### **3.3 Customer in focus**

#### 3.3.1 Customer demand & Choice decision

The most common travel motives have generally been determined as the Push & Pull factors by Crompton (1979). According to the model of push-pull, there are two forces that drive a tourist's choice of destination. The first force pushes a tourist away from home, it generates the desire to go and be somewhere else apart from home. Push factor is not associated with specifying where the destination will be. The second force is the pull factor, the characteristics and qualities of the destination that pull a tourist towards it. The pull factor comprises the tangible attributes of a destination and that are considered primarily related to the perceived attractiveness of a destination.

Phuket could be a so-called “Second Mallorca” among Swedish tourists (Charuwan, 2004). For this reason, the Jacobsen’s (2002) study on the subject of holiday style patterns of Northerners in coastal Mallorca was reviewed to be a guideline for investigating travel motivation and behavior of Swedish tourists towards destination Phuket. The findings indicate that coastal Mallorca is a kind of recreational area for various forms of leisure activities and comfortable, collective and independent holiday-making. However, the majority of vacationers still make use of the services offered by tour operators. Among Northern Europeans, sun, warm climate and possibilities for bathing in areas of the Island are primary motivation for decision making. It provides a southern comfort to escape from a chaotic work life and the long winter period of the North. While spending time with family /travel party and eating/drinking well is also essential. Other holiday aspects that are considered as criteria of holiday-makers are aspiration for peace and relaxation, absorbing new impulses/impressions, romantic time with a partner and meeting new people. (As shown in figure 9)

Figure 9: Significance of single holiday interests/ motives in holiday-makers in Mallorca, mean scores (0-3) and percentage finding the interest/ motive very important and fairly important

Category	Mean score	% who find the aspect important	n
Sun, Warm climate and bathing	2.6	96	519
Relaxing from a hectic work life	2.4	88	513
Getting away from everyday life and set routines	2.3	86	515
Eating and drinking well	2.2	84	519
Spending time with family/ travel party	2.2	81	517
Wanted peace and rest	1.6	58	518
Absorbing new impulses and impressions	1.5	57	513
A romantic experience with spouse/ partner	1.5	56	507
Meeting new people	1.6	55	513
Experiencing a foreign culture / way of life	1.4	49	517
Freedom being in a place where one is unknown	1.3	46	511
Going out/ nightlife/ entertainment	1.4	45	514

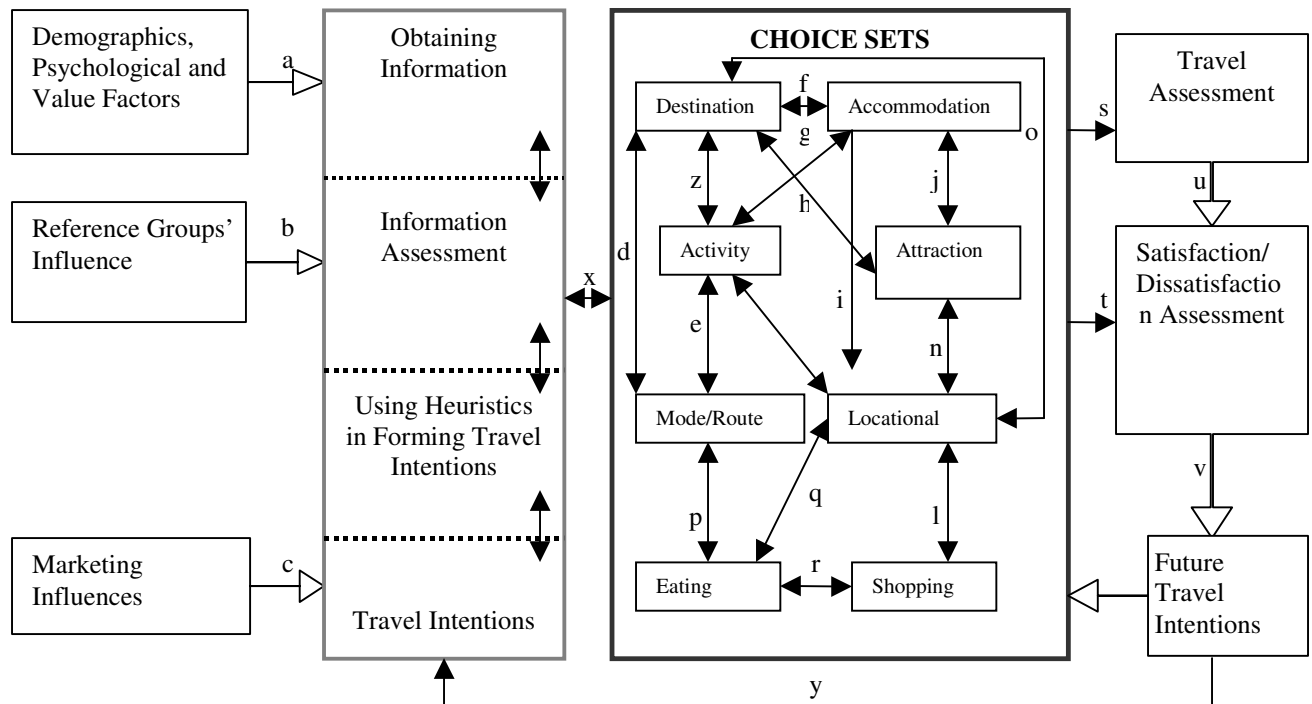
**Figure 9: Significance of single holiday interests/ motives in holiday makers in Mallorca (Jacobsen 2002) <sup>7</sup>**

Bansal and Eiselt (2004) mention that typically advertisements directed towards potential tourists address both push and pull factors: showing sunny beaches with sunbathers generates as much a push force that attempts to pry potential tourists out of their homes, as they promote a specific location.

The published brochure price with potential discounts available enables tour operators to alert prices to match demand. At the same time, the price is considered as one of the important criteria in making a choice among tourists. Woodside and Lysonski (1989) proposed that marketing variables: Product Design, Pricing, Advertising/ Personal selling and Channel Decision, influence vacationer's consideration sets, preferences, intentions to visit and finally traveling choice. Actually, many studies of tourists' decision-making process have developed on the earlier period of time. Nevertheless, due to limited area,

<sup>7</sup> Jacobsen Jens K. Steen (2002), Southern comfort : A study of holiday style patterns of Northerners in Coastal Mallorca, *Scandinavian Journal of Hospitality and Tourism*, Vol. 2, No. 1, pp. 49-78

the authors merely present the models of customer choice decision of tourism service of Woodside and MacDonald (1994)<sup>8</sup> as shown in Figure 10.



**Figure 10: Tourism Making Decision Process**

The model precisely explained how decisions, the interactions between members of a travel party and activities or events offered during trips are related to each other and lead to other activities and events. According to the model, Woodside and MacDonald (1994) identified eight choice subsets which can be activated by four “start nodes” related to the information acquisition and processing subsequence. The idea from the models is that getting to know how the customer makes a choice and interaction of decision and behaviors of the travel party enables tour operators who have to deal with each element, bundle them together and be able to provide attractive package holidays. In particular, three factors combined with demographics, psychological and value factors, reference Group, and marketing mix: Product, Price, Place, Promotion, that tourists concern with influence the start nodes regarding information

<sup>8</sup> Woodside, A.G. and MacDonald, R. (1994), General system framework of customer choice processes of tourism services. In R.V. Gasser and K.Weiermair (Eds.), Split for choice, Decision- making

assessment and travel intention. Therefore, this model is suitable to explain three areas: pricing, holiday packaging and customer making decision, which lie on the scope of this thesis. Because it can explain how pricing strategies are one of the marketing tools that influence tourists' information assessment, how choice sets concluded in package holidays can be aroused by the information acquisition and how the choice subsets affect travel and satisfaction assessment along with future travel intentions.

However, to get to know more specifics in price bundling is the main theoretical framework of the thesis. The authors will subsequently illustrate how customers perceive bundled price.

### 3.3.2 Customer perception of price bundling

In general, the price set for the products and services must reflect the customers' perceptions in the target market. The most important issue is whether the customer perceives that the price, which they have paid, represents good value for money and matches their quality perceptions. Zeithaml and Bitner (2003) illustrated that it is important to investigate how the customer sees the link between the price charged and the product quality. When customers find value in the package of services that are interrelated, price bundling is the appropriate strategy. The perceived value of price for tourists is based on the information search. For this reason, information about price must be effectively communicated in order to get the positive evaluation in customers' view. According to Smith and Nagle (2002), price bundling manages demand by making subtle changes to capture different levels of price from different level of buyers, by creating incentives for some customer to change when or how they buy, by communicating information and framing price offers that cause customer to view the offers more favorably.

As previous explained, the characteristics of the tourism services make the tourism product complex to understand and evaluate. The complexity creates difficulty of information search and evaluation of alternatives for the customers. These problems connect to an important concept; switching costs, which is cost for time and effort spent when the customer changes to another

supplier. Therefore, the firm attempts to increase switching costs through price bundling in order to retain their customers (Lawless, 1991).

According to Johnson, et al (1999), the mental accounting principle is provided to explain how bundled price information should be presented to consumers and these principles enables customers' positive evaluation derived from bundling and de-bundling. They further stated that mental accounting and framing effects on price bundling provide explicit predictions as to how customers evaluate gains and losses and as a result, how price information should be bundled or de-bundled. Mental accounting principles suggest that consumers prefer to integrate losses, in the form of price information, into a single bundled price. These same principles suggest that consumers prefer to segregate gains, in the form of price discount information, into a series of de-bundled discounts. In conclusion, when a company bundles items for sale, price information should be integrated into a package price. In contrast, price discount information should specify separate discounts on each of the items that make up the bundle. This practice systematically increased not only the consumers' satisfaction with the presented offer, but their likelihood of recommending and repurchasing the brand as well.

Since the effectiveness of price bundling depends on the right choice of services from the firm's point of view, the customers' willingness to pay should be explored so that the firm can make the right choice. From the tourist's perspectives, the driving factor in choosing a trip aboard is the relative cost compared to their income (Budeanu, 1999). For this reason, the price of holiday package plays roles as criteria, which is considered by the tourist when they select a package tour. According to Witt and Motinho (1995), the price that consumers are willing to pay is considered one of the factors influencing pricing decision of firms. Similarly, Simon & Butcher (2001) stated that firm can find out solid information on individual's willingness to pay to determine whether unbundling, pure bundling or mix bundling is the most appropriate strategy. They indicated that the general profit increase because of price bundling implementation is in range of 15-25 percent.

However, Smith and Nagle (2002) argued that the firm can increase profit contribution, not only by measuring customers' willingness to pay but by properly understanding value, calculating value through careful estimation and measurement, communicating value through value-based marketing and capturing by setting prices and price structures that reflect the value.

To conclude the theoretical framework, the conceptual model of price bundling will be illustrated.

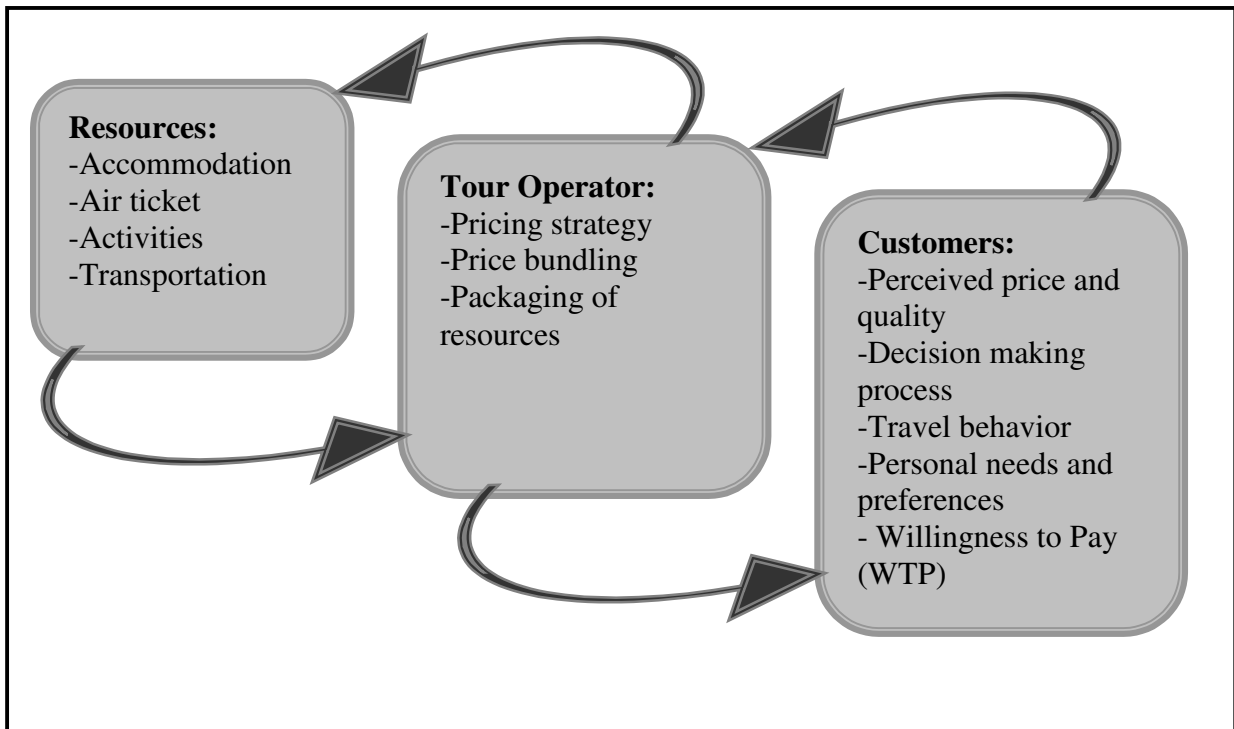
### **3.4 Concluding remarks on the theoretical framework reference**

As shown in figure 11, the conceptual map is presented by combining three sectors in the tourism business. Those three sectors are composed of service providers, tour operator and customer.

As previously explained, tour operators works as intermediaries who buy multiple vacations from different service providers. These providers offer the resources of package holidays: accommodation, air ticket, activities and transportation. Tour operators combine them into a package through price bundling and sell the bundled packages to customers. To design attractive packages and take adequate actions in the area of tourism marketing, tour operators must understand how tourists perceive such things as the price of multiple vacations and how much they willing to pay for the package holidays offered; how they learn to consume and to travel; how they make travel decisions; and how personality affects those decisions. Furthermore, tour operator must also analyze what influences the individual's travel decisions; how attitudes are formed; and how various groups affect travel behavior.

Getting to know tourist's needs, value, motivations of the sophisticated tourist enables tour operators to set profitable prices, design attractive products, and finally reach potential customers. In addition, tour operators can adopt the knowledge and get to know how to utilize the resources and use price bundling as a tool to attract customers. This process normally runs in a cycle.





**Figure 11: Conceptual map (Own, 2004)**

Next, to give a clearer overall picture of the framework, the theoretical concept will be presented in the end of this chapter.

Conceptual framework

<b>Concept</b>	<b>Definition</b>	<b>Operationalization</b>
Customer needs	Demand of Swedish travelers, which should be met.	Felt need – what individuals feel they require, discoverable by asking people questions. Express need – demands which are actively expressed, measured by visits. Normative need – as assessed by a panel who interview tourists
Swedish demand	Total level of tourist visitation in a given area (Phuket) in a given period of time.	Visitor bed-nights per annum in Phuket, Thailand, trends.
Packaging	Arranging of elements, for example, transportation, food and lodging at an inclusive price, it also refers to bundling of products and services.	The packaging methods in the current market. Existing packages of the company and those of competitors. To be explored in the literature. Packages: Spa & Health, Golf, Diving
Tour Operator	a company whose main business is the planning, packaging, selling, marketing and promotion of multiple vacation elements, including air or surface transportation arrangements combined with land accommodations.	Information about targeted customers Information about current package tour offered in Sweden Pricing Strategy and Packaging strategy used by tour operator
Price bundling	a practice of marketing two or more products and/ or services in a single “package” for special price (Guiltinan 1987)	Price bundling strategy Advantages of price bundling How price bundling affects customers and tour operators Comparison between bundling and unbundling Price bundling implementation
Attitude	Personal feelings towards something/ someone.	Response (agree strongly, agree, disagree, etc.) to a number of statements on the topic.
Market of a product (packaging holidays)	Demand for a product in Phuket or community over a time period.	Current (and potential/ future annual purchases of the product in various price ranges and categories, in money and volume terms, by target group (Swedish travelers).

**Table 1: Conceptual Frame work**

Inevitably, the knowledge about the customer preferences is essential in order to create attractive price bundles that would be bought by customers.

Therefore, one central question is whether the current price bundles that tour operators apply are attractive to customers and whether they fulfill the goals that are set on the strategies by the tour operators. However, an analysis about customers' needs can only be done through customer surveys, which will be discussed in the further section of this thesis.



## **Chapter IV: Empirical findings**

This chapter includes the secondary data from the database of Tourism organization such as Tourist Authority of Thailand (TAT), TAT Stockholm, TAT Phuket and the Swedish Tourist Database (TDB). Information regarding characteristics and price of package holidays in current markets will be presented.

Subsequently, primary findings from all of interviews with hotel and tour operators located in Phuket, Thailand along with the information from both small and big tour operators providing package holidays in Sweden will presented. In addition, the authors will demonstrate the findings from the interviews with service providers, for example, the diving operator and the Thai cooking school providing ancillary services for tourists to Phuket destination.

The final part of this chapter will also include the findings derived from the primary data, the potential customer surveys that are gathered through conducting the three questionnaires. Primary data is the main sources of information for this thesis.

## 4.1 Secondary Data:

### 4.1.1 Market Price of Package tour and activities

The prices of package holiday to Phuket were collected mostly from the Internet and from the observations within the current market in both Sweden and Thailand. The findings regarding the market price will further be compared with the Willingness to Pay of potential customers in order to figure out the optimal price for each product that a company should set. The following table shows market prices of each activity per day, package of 3 days and 4 days. At the end of the table 2, all market prices were calculated on Swedish Kronner and organized to packages of 4 days.

Operator	City tour		Diving		Spa 2 hours/day
	One day	Package 3 days	One day	4 days	
Island Tour	1,800	-	2,400	-	-
Tawan Club	1,470	3,900	1,950	3,950	-
Phuket island hopper	1,900	3,900	3,800	-	-
T.C.L Inter tour co. ltd	800	5,000	-	-	-
Forest tour	-	-	-	4,500	-
Royal orchid	1,800	-	-	-	-
Hotel Thailand.com	850	-	2,400	-	-
Phuket Jet tour Co.Ltd.	600	2,650	-	-	-
Sby leisure travel and tours	400	3,700	-	-	-
Thailandday.com	950	-	-	-	-
TsiTour.com	560	-	-	-	-
Kata Spa	-	-	-	-	1,875
Layan Beach Phuket Aprime Resort	-	-	-	-	2,400
Saban-Nga Spa	-	-	-	-	1,100
KonPhuket.com	1,650	-	-	-	-
<b>Average Price among</b>	<b>1,162</b>	<b>3,830</b>	<b>2,638</b>	<b>4,225</b>	<b>1,792</b>

<b>operators in Thailand in Baht</b>					
Convert to SEK	232	766	528	845	358
Fritidsresor Diving 4days in SEK	-	-	-	1,507	-
White&blue Diving club 4days in SEK	-	-	-	1,600	-
<b>Average price for 4 days in SEK</b>	929		1,317		1,433

**Table 2: Market Price Activities**

The final accumulated market prices shown in the last row of the table 2 illustrate that for 4 days of sightseeing activity, the current price in market is at 929 SEK. The average price for 4 days diving is at 1,317 SEK. And lastly the market price for Spa is at 1,433 SEK for 4 days. This data will be further analyzed in Chapter V.

#### 4.1.2 Data from Tourism Authority of Thailand

The data from Tourism Authority of Thailand (TAT) shows that the number of Swedish travelers has increased once again after the effect of SARs in 2002. Statistics are shown in the table below.

#### **INTERNATIONAL TOURIST ARRIVALS BY COUNTRY OF RESIDENCE (JANUARY - DECEMBER)**

<b>Country of Residence</b>	<b>2003</b>	<b>Δ (%)</b>	<b>2002</b>	<b>Δ (%)</b>	<b>2001</b>	<b>Δ (%)</b>	<b>2000</b>	<b>Δ (%)</b>	<b>1999</b>	<b>Δ (%)</b>
Austria	92,196	+ 2.62	89,838	- 1.83	91,509	+ 71.34	53,409	+ 1.22	52,765	- 11.07
Belgium	35,381	+ 11.43	31,753	+ 24.43	25,518	- 4.95	26,848	- 4.45	28,099	- 4.29
Denmark	69,694	- 0.43	69,668	+ 31.54	53,214	+ 23.68	43,024	+ 4.39	41,214	+ 6.96
France	109,218	+ 2.35	106,706	+ 16.48	91,612	+ 29.01	71,011	- 5.78	75,368	+ 1.86
Germany	227,200	- 13.08	261,387	+ 12.11	233,153	+ 14.90	202,922	- 14.47	237,266	- 0.42
Italy	128,177	- 12.94	147,229	+ 6.67	138,023	+ 66.61	82,841	- 15.08	97,549	+ 1.04
Netherlands	84,408	- 26.51	114,851	+ 54.67	74,254	+ 105.99	36,048	+ 5.82	34,065	+ 17.49
<b>Sweden</b>	<b>176,697</b>	<b>+ 18.57</b>	<b>149,021</b>	<b>- 13.19</b>	<b>171,655</b>	<b>+ 5.35</b>	<b>162,933</b>	<b>+ 13.10</b>	<b>144,063</b>	<b>+ 28.68</b>
Switzerland	133,488	- 5.30	140,954	+ 36.66	103,145	+ 33.71	77,140	- 22.99	100,165	- 1.29
United Kingdom	195,392	+ 1.30	192,876	+ 0.56	191,811	- 23.34	250,226	+ 4.10	240,375	+ 29.67

**Table 3: International Tourist Arrivals by Country of Residence**

The findings of percentage change in the number of international tourists to Phuket show that Swedish travelers to Phuket have increased over the years and tend to continue with the positive figures in the year 2004 and the following years. This data supports the earlier statement, which the authors and many more writers have agreed upon; the popularity of Phuket among Swedes tourists.



#### 4.1.3 Data from the Swedish Tourist Database

(Cited in [www.smc.kiruna.se/staff/personal/alu/undervisning/artiklar/Stavanger.doc](http://www.smc.kiruna.se/staff/personal/alu/undervisning/artiklar/Stavanger.doc) 25/08/04)

The Swedish Tourist database contains results from interviews with randomly picked Swedes. Two thousand persons are interviewed every month. Data has been collected since 1989. The database contains socioeconomic data like age, education, income, number of children, place of residence etc and thematic data for the trip as purpose of trip, money spent on the trip, number of nights, destination and some other variables. There are also different trip types like domestic, abroad, staying overnight, day-trip, work or leisure. The variable “trip purpose” which is divided into 35 different purposes is slightly vague since it mixes activities with purpose.

In table 4, the detailed purposes and activities are described regarding frequency and percent. The relatively small numbers for some activities is obvious in order to be a guideline for investigation of Swedes’ tourism behavior.

*Table 4: Purpose of trips performed at leisure time with an overnight stay.  
Data from 1989 to 1999.*

<b>Purpose activity</b>	<b>Frequency</b>	<b>Percent</b>
Meeting friends and relatives	43 380	43,9
Visit second home	13 608	13,8
Piece and quiet/Relaxation (Experience)	7 381	7,5
Pleasure and entertainment (Experience)	5 989	6,1
Skiing (Participate/be active in)	2 762	2,8
Sun&swimming (Participate/be active in)	2 613	2,6
Community with others (Experience)	2 586	2,6
Sports (Participate/be active in)	2 433	2,5
Outdoor life (Participate/be active in)	1 993	2,0
Events (Taken away 00-01)	1 875	1,9
Others	1 523	1,5
Course & meeting as leisure assignment	1 493	1,5
Natural environment (Experience)	1 307	1,3
Other activity (Participate/be active in)	1 097	1,1
Fishing (Participate/be active in)	1 056	1,1

**Table 4: Holiday Activities**

## **4.2 Primary Data:**

### 4.2.1 Interview: local hotels

Responses from the interviews are very applicable since the interviewees have no time to prepare their answers. Therefore, the results from the interviews show that not many respondents recognize their own network. According to the interview with Imperial Hotel 1, which operates as a soul trader, the manager has shown no interest in participating in hotel associations and others. The managers of Tavorn Grand Plaza Hotel and Rattana Mansion also show very little effort in participating in such associations. Most of the prompt responses illustrate that the understanding of networking among these local tourism service providers are at a minimal level.

### 4.2.2 Interview: tour operators in Phuket

The results of these interviews are similar to the interview conducted with local hotels. According to the interview with an operation officer at Phuket Sealand Co.Ltd., one of the largest tour operators in Phuket, the relationship within the network can be maintained by purchasing volume. While mentioning networks, the interviewee refers to hotels, restaurants, attraction offices, bus companies, ticketing agency, and other local providers. Relationships, in short, are based on purchasing power and profit.

The belief is also shown in the interview with Erawan Travel Sweden. Volume is the key word to maintaining a relationship. Proprietary only looks at the individual benefits rather than the benefit to the society. There is no agreement on developing the destination-Phuket using the network or collaborating to improve the image of the destination or to provide the best holiday package.

### 4.2.3 Interview: Small tour operator

By conducting the interview with Erawan Travel Sweden, we found that the information can be divided into three areas: Types of Swedish tourists and Swedish travel behavior, Potential of Phuket and packaging holidays to Phuket.

### 4.2.4 Types of Swedish tourist and Swedish travel behavior

According to the interview, the customers of Erawan Travel Sweden can be classified into three categories, that is (1)the customer who buys full packages

including air ticket, surface transportation, local accommodation and activities at the destination, (2) the customer who buys only air tickets and accommodation and (3) the customer who independently travels but buys only cheap air tickets. (Surin Taosing,2004)

The group of customers who are likely to buy the full package are those who have limited time for finding information and traveling. In this case, the tour holidays can offer convenience for busy working individuals, in terms of time to spend in making bookings, flight and accommodation by themselves. Families with children is one group of customers, who make use of package holidays so that they can be more comfortable and safe during their trips. A first time visit is one of the reasons that influences customers decisions in buying package holidays. Furthermore, pensioners who have already retired from work are likely to be the high yield customer because, not only they are willing to buy inclusive packages, but they are likely to stay longer than other groups of customer.

On the other hand, most of the tourists who are in the age range of teenager tend to travel individually by arranging trip by themselves but purchase cheap air tickets from the tour operator. In some cases, they cannot determine their arriving and departing date because the tour operator has to settle on the time schedule so that they can balance and control the volume of tourists to meet the quota of seats supplied by the airlines.

Some tourists who can afford a higher standard of trip have a chance to select airlines and date of arrived and departure by themselves. However, the decision making choice among Swedish tourist still depends on price. Generally speaking, the Swedes have four weeks for vacation in each year. Some use the entire time off during the summer or winter brake, while others split their holidays into 2 periods. Nevertheless, from the tour operator's experience, most Swedish tourists will spend at least 2 weeks for visiting Phuket in each trip.

#### 4.2.5 Potential of Phuket

In the viewpoint of Erawan Travel Sweden, the Swedish tourist is more adventurous, more flexible, and more sensitive to the environment. They search for greater authenticity of the destination. For this reason, Phuket can be considered as one of potential destination. Although Phuket, the so-called the second Mallorca, is becoming “the destination”, creating on bubble tourism, unlike Mallorca its rich nature is still abundant.

Due to Phuket’s diverse geography combined with beautiful beaches, natural mountains and density of forests, it enables the tourists to obtain many environmentally friendly activities such as trekking, hiking, mountaineering, kayaking and rafting. In addition, Phuket is the central island joining with several islands around it. Therefore, tourists can use Phuket as the junction to access to those of beautiful islands.

Generally, the motivation in traveling of Swedish tourists is to escape from cold weather in the wintertime, to take a holiday in warmer place. Regarding this point, Phuket can fulfill their needs by being the destination with Sun Sand and Sea.

On the other hand, since Phuket is a central point combined with diversity of traditions and cultures from different regions of Thailand, this can satisfy the needs of some Swedes who have limited time but desire to experience something new or different from their home environment.

#### 4.2.6 Packaging holidays to Phuket

Since most Swedes are interested in handmade products, the product-handmade training course might be one of the leisure activities that can be put in the package holidays. This kind of tour is so called by “Silapa Tour”, the package tour including the handmade training course. However, selected products would not be too complicated so that the Swedes can make them by themselves when they return to Sweden. Most of the famous hotels in Phuket arrange the fair so called “Siam Night” to display original Thai products made by hand. There is potential to adjoin this fair into the Silapa Tour.

Furthermore, the home stay with locals might be packaged as a part of holidays to satisfy the Swedish customer who lives in modern society but desires to search for authenticity and experience the real life of the locals. Several Swedish customers of Erawan Travel Sweden choose Phuket as second home which they revisit every year.

However, there is strong competition among tour operators arranging package tours to Phuket. A lot of activities such as spas, golf, diving and sightseeing have been offered by tour operators in Phuket. The effective strategy to attract tourists is to set the price of package holidays lower than those of other competitors.

In the final period of the interview, Khun Charuwan, manager of Erawan Travel Sweden suggested that the important issue that should be realized when packaging holidays for Swedish tourist is to keep promises and deliver certain promise.

#### 4.2.7 Interview: Big tour operator: TUI

To get more insightful information, some big tour operators around Gothenburg, Sweden: TUI, Ticket, Star travel, and Kilroy were contacted. But due to summer holidays, only a few companies were available for discussion.

Nevertheless, with the support of Masnus Paulsson, Manager of Fritidsresor, TUI located in Gothenburg, the authors had a chance to conduct an interview with Jim Hofverberg, Communications Fritidsresegruppen / TUI Nordic, Stockholm by email.

The core business of the TUI is holidays to sun and beach destinations. Hence, there are at least a few packages to Phuket Thailand. Different beautiful beaches in Phuket such as Karon Beach, Kata Beach and Tri-Trung beach are packaged as not only tourism sites but also living places for tourists.

In addition to the plane ticket and accommodation, the tour operator offers all-inclusive package tours, which are so called “Blue inclusive”. However, other

package holidays such as Blue Village, Blue Star and Blue selection are provided so that tourists can have more alternatives.

Diving and spa packages are becoming traveling trends for Swedish people. In the case of diving, it will become the new public sport after golf that has experienced a broad popularity in recent years. While different kinds of SPA activities have been popular for some years now, they will probably also grow stronger. Recently, customers of TUI are likely to buy package tours including flight, accommodation and activities rather than buying each component separately.

4.2.8 Interview with Thai cookery school: KO SIRAY

As shown in table 5, Khun Piyapong Krainara, a co-founder and also an instructor has offered the contract rate for cooking lesson with his company, PHUKET THAI COOKERY SCHOOL, KO SIRAY. However, the further detail itinerary of each course can be found from their website.

Effective from October 01, 2004 to October 01, 2005

Cooking Courses	Selling Rates	Net Rates
1-day course	1,900	1,500
2- day course	3,700	2,900
3- day course	5,500	4,300
4- day course	7,300	5,700
Popular course	2,200	1,800

Remarks: 300 Baht extra charge for bus transfer from Cape Panwa, Rawai, Naiharn, Kamala, Bangtao, Naiyang, or Naithon beach.

**Table 5: Thai Cookery School Contact Rate**

4.2.9 Interview with Assistant Diving instructor and sale representative: White and Blue Diving Club.

Findings from the interview with Khun Preeprem Mongkolprasit, assistant instructor and sale representative are about cost of diving, contract rates that they offer to travel agencies, information on diving courses of each level.

Generally, the diving course is divided into two levels, which are open water diving and advanced open water. The open water diving course is the basic course for beginners. The entire course includes six days. The first two days are provided for theory while the next two days are the pool sessions so that divers have a chance to practice their diving skills, they have learned in theory. The highlight of this package is the last two days spent in open sea. The company makes two dives below 18 meters under the water available for divers each day. The sea session usually includes food and drink offered for customers at lunchtime.

In addition to pleasure diving, the divers will receive a temporary card required for advance open water. The advance open water course (at the maximum 30 meters) can be continued right after the basic course for beginners. The advance course consists of only open sea sessions. The divers will be able to customize their own course by choosing three elective lessons, combined with two compulsory lessons which are deep dive and navigation. The most popular elective lessons are wreck diving, night diving, drift diving, and naturalist diving.



The price we have negotiated with Khun Mongkolprasit is illustrated in the following table.

<b>Basic course for beginners (6 days)</b>		
<b>Number of customer</b>	<b>Price per head quoted in Thai Baht</b>	<b>Price in SEK</b>
For retails	12,000 (original price)	2,400
Minimum of 20 people	9,600 (20% discount from original price)	1,920
40 or more	9,000 (25% discount)	1,800
<b>Advance open water (2 days)</b>		
<b>Number of customer</b>	<b>Price per head quoted in Thai Baht</b>	<b>Price in SEK</b>
For retails	6,000	1,200
Minimum of 20 people	5,400 (10% discount)	1,080
40 or more	5,100 (15% discount)	1,020

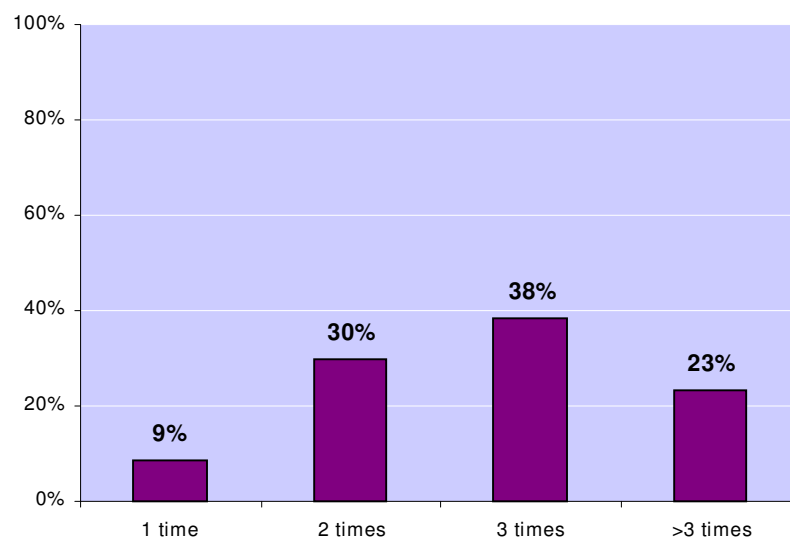
**Table 6: Diving Course**

Next, the findings has arisen from questionnaires I, II, III will be presented in graphics and mathematics.

### 4.3 Findings from questionnaire I

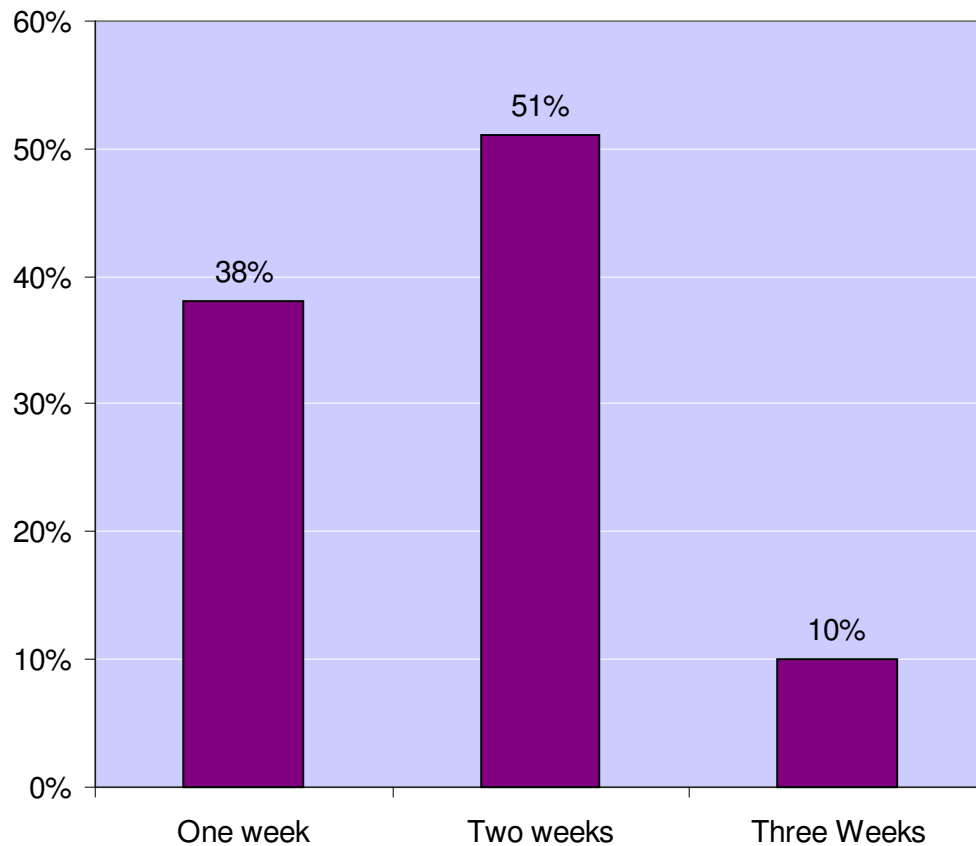
There are 47 respondents in total for the first questionnaire. It is found that the age range of the respondents falls between 26 to 55 years old. There are 57% of female respondents and 43% of male respondents.

Looking closely at the frequency of making trips per year illustrated in the following chart (Figure 12 Frequency of traveling), all respondents make a least one trip per year. 38% of the respondents normally travel 3 times a year, and 30% travel twice a year. 23% of the respondents say they travel more than 3 times per year. 9% say that they make one trip per year. None of the respondents answered that they have done zero trips per year.



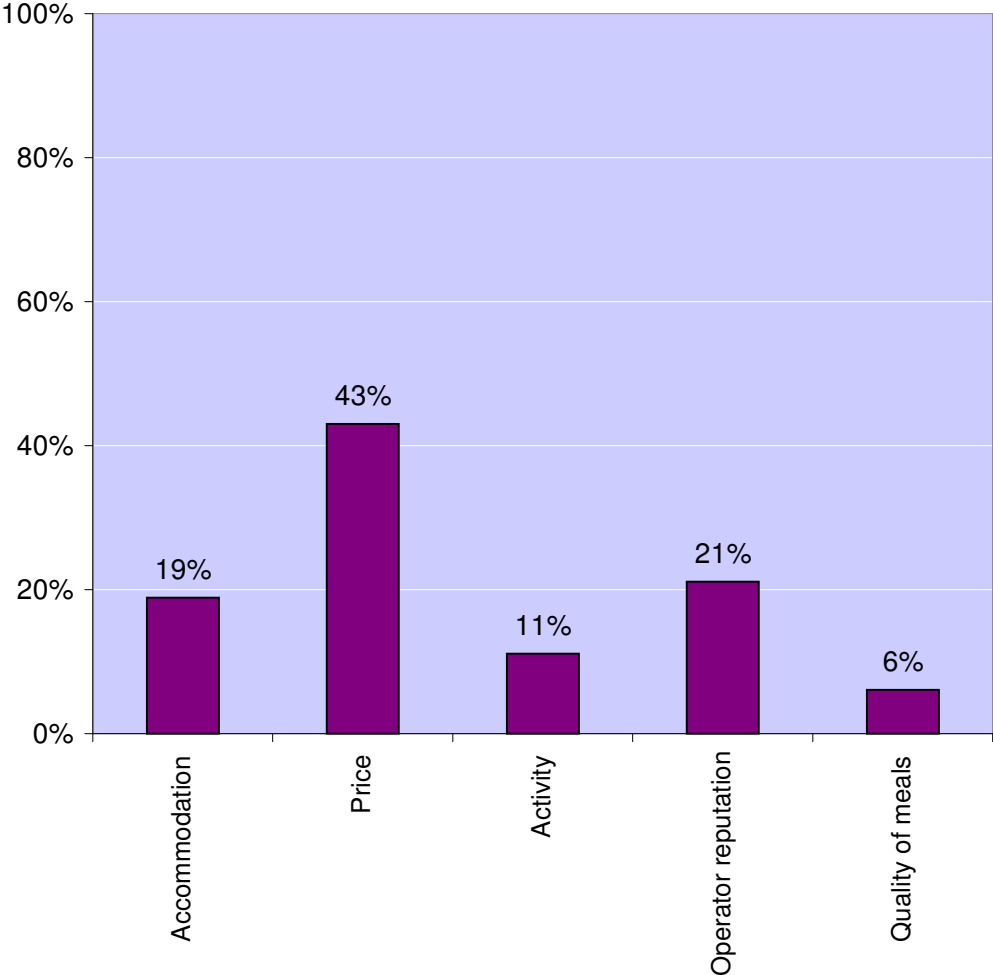
**Figure 4: Frequency of traveling**

According to the survey, it is found that 51% of the respondents spend 2 weeks on their holiday at a destination. 38% said they normally spend only 1 week. 10% said they would spend 3 weeks. The graph below presents percentage differences in each category.



**Figure 5: Duration of traveling**

Result from questionnaire I shows the factors influencing the purchasing decisions regarding a package tour. Figure 14 illustrates the findings in comparison. 43% of all respondents indicate that Price is highly significant to their purchasing decision toward package tour. The tour operator's reputation reported to be highly significant to 21% of the sample groups. 19% believe that accommodation type would influence their purchasing decision more than other factors. Activity and quality of the meals have high significance to 11% and 6% of the respondents respectively.



**Figure 6: Factors influencing purchasing decision of package tour**

## 4.4 Findings from questionnaire II

The following figure 15 shows the count of each category. It also shows that the number of respondent between 26 to 35 years old is higher than the rest.

Number of respondents

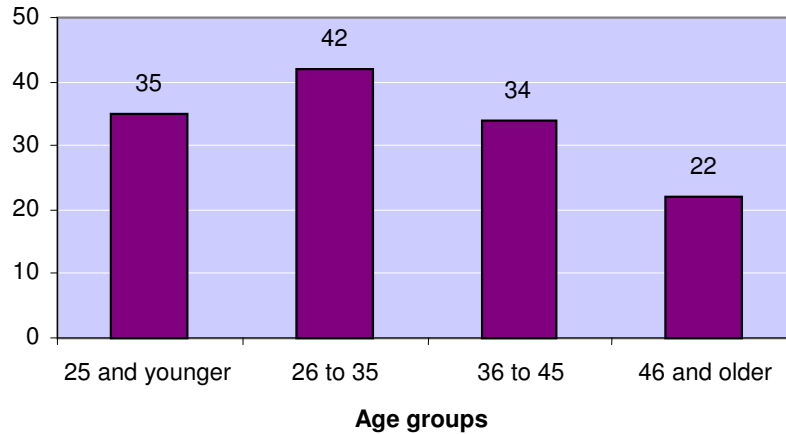


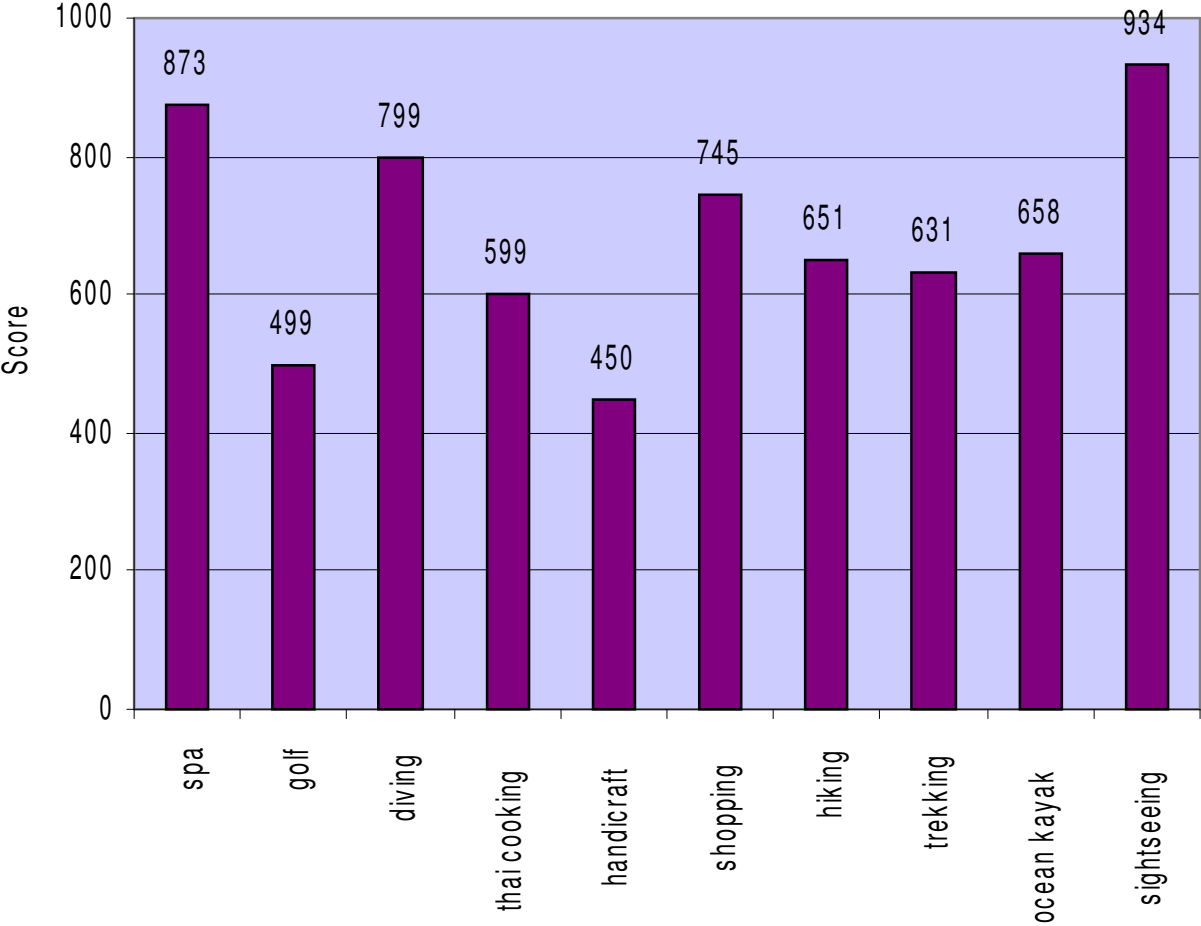
Figure 7: Age Group

Questionnaire II has 133 respondents in total. The age range falls between 17 and 64. We have classified the age of the respondents into 4 groups as shown in the following table.

Age group	Number of respondents	Percentage (%)
25 and younger	35	26
26 to 35	42	31
36 to 45	34	26
46 and older	22	17
Total	133	100

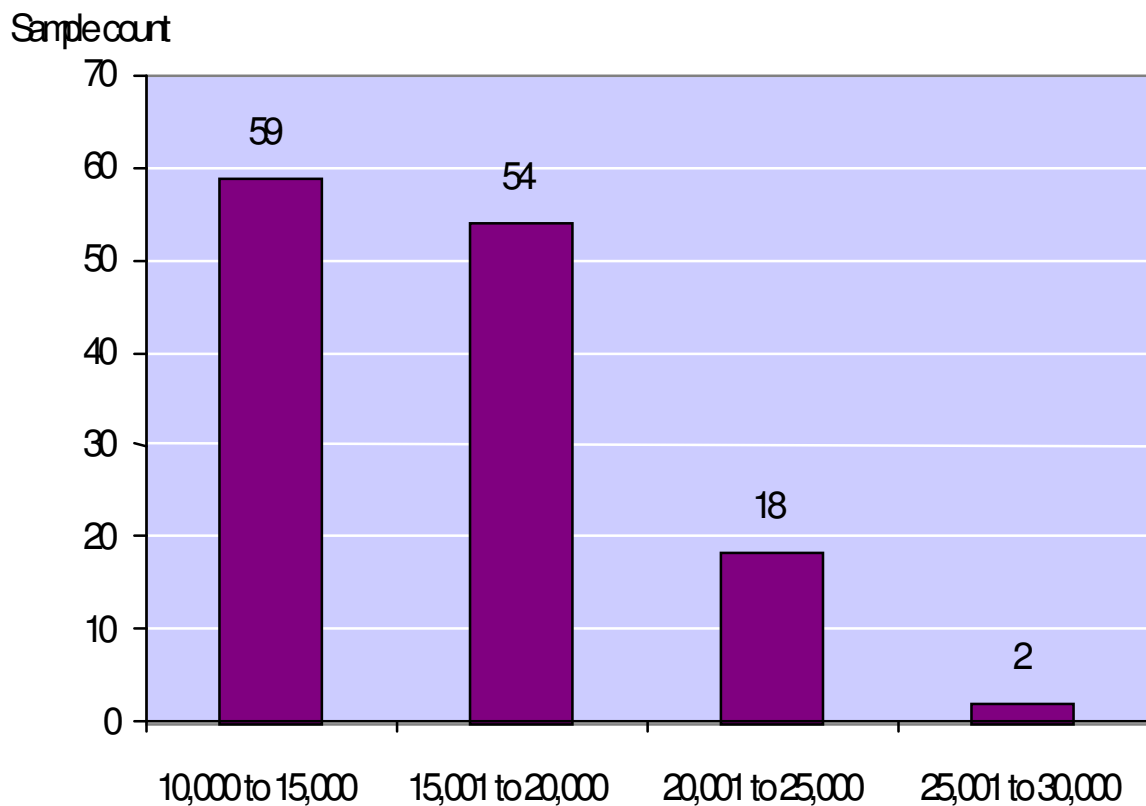
Table 7: Age Range Percentage

Question no. 2 in the survey asks the samples to rank 10 holiday activities by their preferences. Each number represents different score to be used in calculation for figuring out the three most popular holiday activities of the sample group. Figure 16 shows the result of survey where total scores are given to all activities. Focusing on top three activities, it is found that sightseeing, spa, and diving have the highest scores at 934, 873 and 799 respectively.



**Figure 8: Top Holiday Activities**

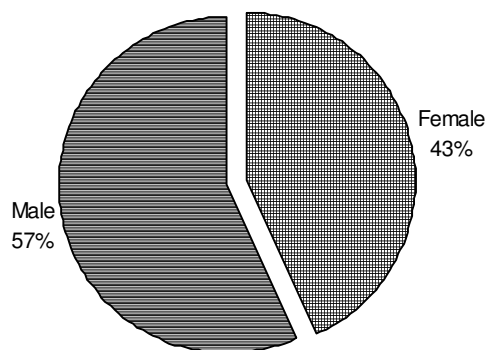
Question no. 3 from the survey asks about the Willingness To Pay (WTP) of samples toward two weeks all-inclusive package tour to Phuket. It is found that 59 respondents answered they would pay between 10,000 and 15,000 SEK for the trip. 54 respondents would pay between 15,001 and 20,000 SEK. 18 respondents would pay between 20,001 and 25,000 SEK and 2 respondents said they would pay 25,001 to 30,000 SEK. The following chart gives a clearer picture of the estimated WTP of the sample group.



**Figure 9: WTP**

### 4.5 Finding from Questionnaire III

The total number of respondents of survey 3 has reached 450 samples. It was found that 195 respondents are females and 255 are males. Shown in the chart below is the comparison in percentage of each gender.



**Figure 10: Gender**

The age range of respondents falls between 15 and 67 years old. For further statistical analysis, ages have been categorized into 4 groups showing in the table below.

<b>Age group</b>	<b>Number of respondents</b>	<b>Percentage (%)</b>
25 and younger	187	42
26 to 35	149	33
36 to 45	73	16
46 and older	41	9
Total	450	100

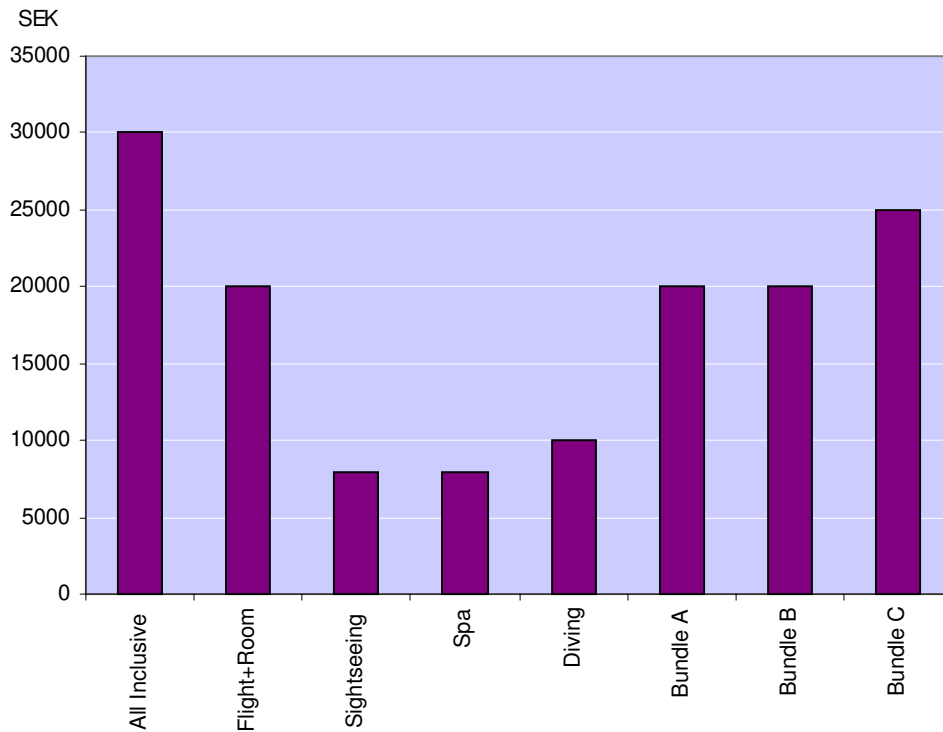
**Table 8: Age Range Percentage**



We have designated 8 following products and conducted the questionnaire to find out the Willingness to Pay of all the products:

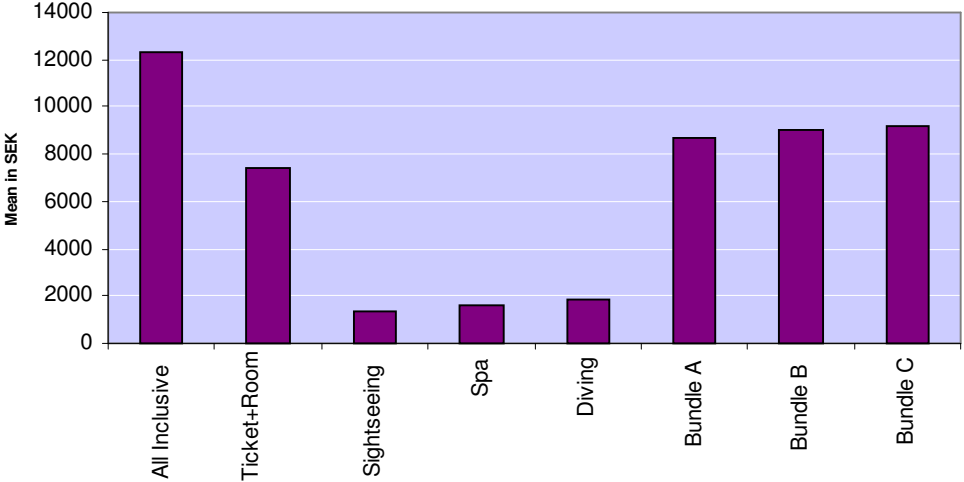
1. All-inclusive
2. Ticket + Room
3. Sightseeing
4. Spa
5. Diving
6. Bundle A: Flight +Room + Sightseeing + Spa
7. BundleB: Flight+Room+Sightseeing+Diving
8. Bundle C: Flight + Room + Spa + Diving

The survey results in Figure 19 show the maximum Willingness to Pay of each type of products. It reports that for the All-inclusive package, the maximum WTP is the highest at 30,000 SEK. There is not much difference between the maximum WTP of bundled products A, B, C and a package of flight and hotel room. The respondents said that the highest price they would pay for bundle A, B, and a package of flight and room is at 20,000 SEK and for bundle C is at 25,000 SEK. The 3 pure activity components, sightseeing, spa, and diving reported to have maximum WTP at 8,000 SEK, 8,000 SEK, and 10,000 SEK respectively.



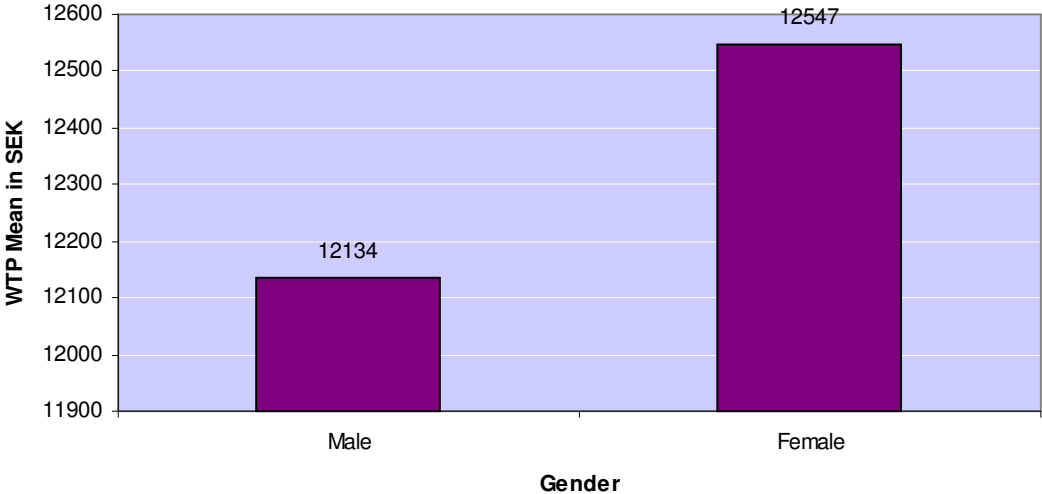
**Figure 11: Maximum WTP**

Comparing the means of the WTP of each activity, the result is rather similar to the comparison of the maximum WTP shown above. The mean WTP of the All-inclusive package is highest at 12,313 SEK (see Figure 20).



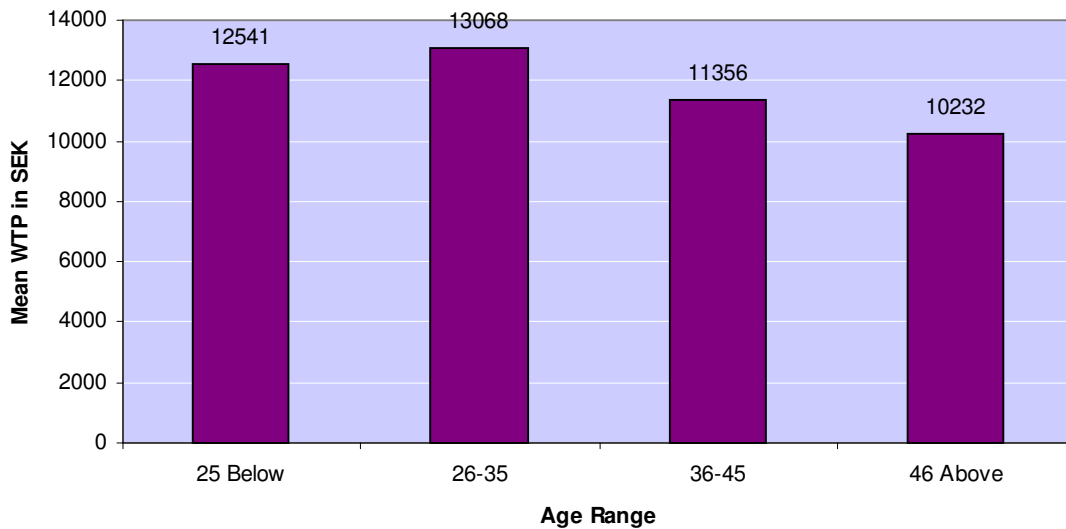
**Figure 12: Mean of Comparison WTP**

Looking at the gender difference, it is found that female respondents will pay more than male respondents will for the All-inclusive package. Figure 21 shows that male respondents will pay for the All-inclusive package at 12,134 SEK, and female respondents will pay at 12,547 SEK.



**Figure 13: Gender and Mean WTP All-inclusive package**

Questionnaire results show that respondents at the age between 26 and 35 have the highest mean of WTP for the All-inclusive package. Figure 22 illustrated below shows that group of respondents at the age of 26-35 will spend around 13,068 SEK. The group of respondents at the age of 25 and below will pay 12,541 SEK. The respondents at the age 36-45 will pay 11,356 SEK. And those who are in the age group of 46 and above will pay 10,232 SEK.



**Figure 14: Comparison of Means WTP All-inclusive Package by age range**

In the next section, the authors will further analyze the outcome of the surveys, interviews and other findings in order to answer the hypothetical questions and find out the optimal price bundling strategy for a newly established tour operator.



## Chapter V: Analysis

From all the findings, we have now come to the critical analysis. The purpose of this chapter is to critique and explore the potential to manage package tours to Phuket for Swedish tourists. The main focus as mentioned previously is on the price bundling strategy which will be applied to the tour operator business. There is a need to once again state the hypothesis we have proposed earlier. The analysis of data is divided according to the topics from our research proposals.

### Research Proposals

1. Is price an important criterion in selecting package tours of Swedish tourists?
2. Attractive holiday activities in Phuket for Swedes could be
  - a. Thai cooking course
  - b. Handicraft training
  - c. Spa course
  - d. Diving
  - e. Golf
  - f. Trekking
3. Do Swedish tourists have higher WTP of Bundled products than WTP of unbundled products (Pure Components)?
4. Mixed bundling could be the most practical strategy used by tour operators in packaging Phuket for Swedish travelers.

Our first proposal is assumed to explain whether or not price is the most significant factor that influences travel purchasing decisions of Swedish tourists toward package holidays by comparing it with other criteria, such as tour operator reputation, accommodation, activity and quality of meals offered by the service provider. The second proposal is to find out whether the assumed holiday activities is likely to be selected by Swedish tourists according to their preference. The third proposal is assumed so that the authors can analyze the willingness to pay among Swedish travelers for bundled package holidays and unbundled tours. The fourth proposal adopted to investigate whether tour

operators can put mix bundling into practice of packaging holidays for Swedish vacationers as the optimal strategy.

### 5.1 Research proposal 1

#### Price and purchasing decision

When it comes to making the purchasing decision regarding a package holiday, one would not neglect the importance of the price. The necessity of comparing prices between packages is still prominent for consumers. Looking closely at the consumers' behavior involving purchasing decision, price is said to be the determining factor in selecting products and services. Even though price does not indicate the quality of a package tour, it is one of the most significant marketing strategies to attract customers. Pricing, one of the four basic Ps in marketing (Product, Price, Place, and Promotion) can always shake the demand situation in the market.

From the questionnaire survey, price is found to be critical factor in purchasing decisions of a package tour to Phuket among Swedish travelers. As the finding on factors influencing the purchasing decision has shown people tend to give priority to the price of the package tour when they search for a trip to Phuket. The result from survey supports the fact that 43% of respondents are more concerned about price than other components of the package tour.

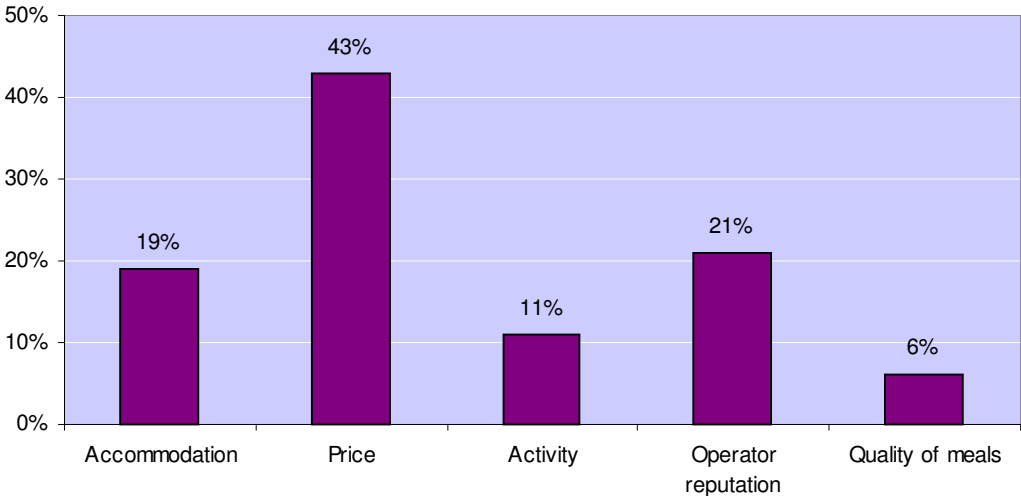
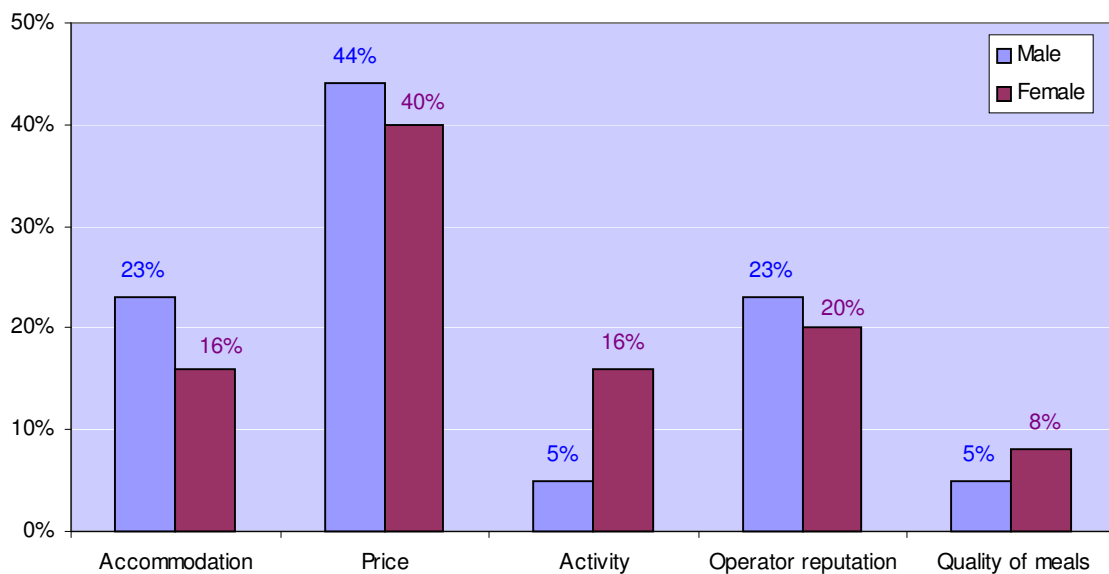


Figure 15: Factors influencing purchasing decision of package tour

It was found that both male and female respondents would mainly look at the price of a package tour when they are to make their purchasing decision. For male respondents 44% answered that price is the number one significant element of choosing a package tour. Type of accommodation and operator reputation fall into the same level of importance, each category gained 23% of the total of male respondents.

As for female respondents, 40% said price is the determining factor in selecting a package tour. The second factor that seems to have a major effect on decision making for females is the reputation of the tour operator.

The percentage of both male and female respondents who believe that price is a major attribute, which makes a package tour appeal, is very close. The survey result illustrated in the following chart shows that gender difference does not alter the finding. Price is still considered the most significant element toward decision making when we look at each gender separately.



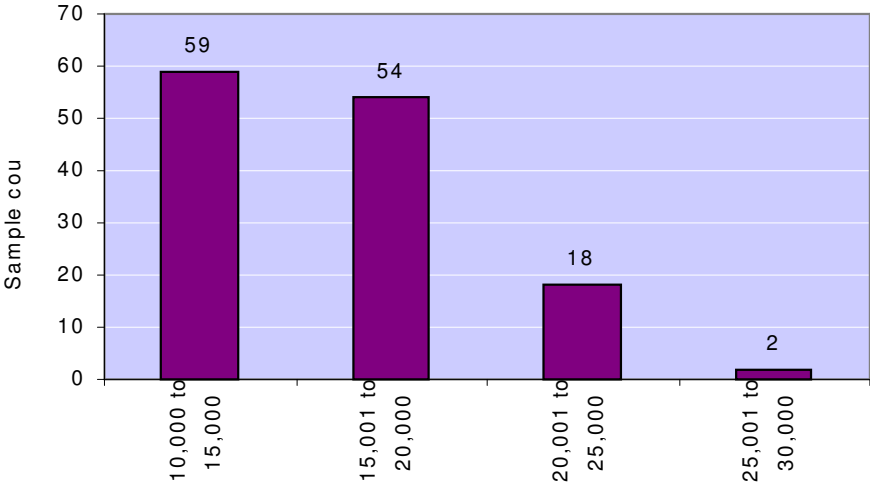
**Figure 16: Significant Factor between Genders**

The assumption can be drawn from the survey that pricing is still a subject to talk about in the tourism business. Today, pricing is the center of attention for marketers. Even though there is an argument that other components, such as

type of accommodation, operator reputation, and activities in package tours, create the attractiveness of the package, in the survey we have completed and the in-depth interviews with tour operators assured us that price is the main player in this game. Potential customers label price as high priority compared to other factors of package tours.

**How important is the WTP in packaging holiday?**

If we again look at the Willingness to Pay of respondents towards a two weeks All-inclusive package tour to Phuket, it was found that more respondents chose the minimum amount they can pay in obtaining the product. The following chart shows the results of survey 2 on WTP of respondents. Respondents showed different level of interest if the package is various.



**Figure 17: WTP**

**Price and the Win-Win situation for travelers and operators**

Nowadays when demand for Phuket is tremendously high and continues to increase, the prices of package tours have been set according to the over flow of demand and the availability of resources. The dramatic increase in price of the plane tickets to Phuket this year shows the movement of price affected by the over flow of demand.

The price of a package tour to Phuket is also determined by the company’s willingness to sell. Since the goal of a seller is to find the set of bundles and



prices that maximizes profit and the buyer's goal is to find bundle and price offering that maximizes value, we have come to the conclusion to take WTP into account and create packaging or price bundling strategy to attract potential customers and satisfy the selected target group of customers.

Since a price war is definitely not desired within the industry, to gain a competitive edge, a new found tour operator must study intensively about bundling and pricing.

### **Price + Bundling**

We have come to this point where price bundling is a way to avoid getting into a price war. Building competitive advantages for a new found small to medium size tour operator requires more complex strategies in pricing than just to cover the cost and maximize the revenue of a company.

Bundling was introduced into the tourism industry several years ago. However we've only seen it in terms of the bundling of products or packages. There is no previous study to determine the price of packages by exploring the Willingness to Pay of the consumers. We have found that most of the time, the study of WTP was applied to telecommunication services and ticket sale strategy for sports events. WTP has lost its significance in the tourism business, especially in Phuket, Thailand.

Pricing is a very complicated issue and found to be a very significant element in marketing. Previous studies on price bundling of services were only focused in retail banking. None has ever studied price bundling in tourism services. There is therefore a need to implement this study to see how a price bundling strategy can be applied to tourism products and services.

## **5.2 Research proposal 2**

### **Attractive holiday activities in Phuket among Swedish travelers**

Phuket as a tourist destination is comparable to Mallorca in terms of activities, climates, and attractions. The word “sun tour” explains almost everything in the contexts of both Phuket and Mallorca. Sun destination represents both seeking and escaping motives. For Swedish travelers, the term “seasonal climate refugees” may also be applied. Swedes tend to travel to southern Europe, Asia and coastal destinations to seek sun during their wintertime. Based on the travel motives of Northern travelers, the Northerners travel to Mallorca because of the 5 following principle factors.

- (1) Experience of place
- (2) Nightlife, new acquaintances and freedom;
- (3) Recreation away from everyday life;
- (4) Romance and pleasures;
- (5) Health, sports, and social visits.

These five principle components contribute to the study of destination development, destination branding, marketing strategy and lastly, to the study of “packaging”. The component analysis for Mallorca can definitely be used with the Phuket case. Both destinations are currently very popular among Swedes and most European travelers. Clearly Phuket has high potential to fulfill all five factors mentioned above as in Mallorca. Moreover, one extra component, which might be a competitive advantage to Phuket over Mallorca, is the cultural diversity. We also believe that the very unique culture of Phuket could be sold. Therefore, in putting together package tours, we considered adding the cultural activities to complete and fulfill the need for new experiences. In order to figure out what kind of activities to put into packages, we have done several interviews and questionnaire surveys. The analysis and implementation will be explained in the following section.

## **Ten most popular holiday activities in Phuket**

From the in-depth interviews with several travel agencies both in Sweden and in Thailand, we have come across 10 activities which have high potential to attract tourists. The ten activities listed below are the results of the interviews (no ranking).

1. Thai cooking course
2. Handicraft training
3. Diving
4. Spa
5. Golf
6. Trekking
7. Ocean Kayaking
8. Hiking
9. Sight seeing
10. Shopping

Our research proposal about the holiday activities is that Swedish travelers would be more interested in golf, spa, diving and Thai cooking courses which could be packaged together as an inclusive package tour. However from an interview with Khun Charuwan, the manager of Erawan travel agency, there was one point she mentioned; a Thai cooking course might not suit the needs of Swedish travelers. She, however, stated that handicraft training seems to have high potential to attract Swedish customers.

Therefore, from the ten holiday activities in Phuket listed above, we have decided to create a new questionnaire to find out the top three favorite activities of Swedish travelers. The purpose of this second survey was to make sure that the right components for the target customers will be put into the packages.

## **Making package tours from Top 3 favorite activities in Phuket among Swedish**

The findings from the survey have proven that our research proposals were partially right. The result of the survey, shown in figure 16 Top Holiday Activities, reveals that Sightseeing, Spa, and Diving are the top 3 favorite activities among Swedish travelers.

From these last findings, sight seeing, spa, and diving were the focus. The bundles of activities were created. We have come to the decision that 8 types of products will be tested further on WTP of the consumers. The eight products are listed below.

1. All-inclusive
2. Ticket+Room
3. Sightseeing
4. Spa
5. Diving
6. Bundle A: Flight+Room+Sightseeing+Spa
7. Bundle B: Flight+Room+Sightseeing+Diving
8. Bundle C: Flight+Room+Spa+Diving

For the All-inclusive package, it includes a round trip economy class air ticket, the standard hotel room (12 nights), local transportation, and 4 days of each activity (sightseeing, spa, and diving). This All-inclusive package offers a customer a more convenient way to arrange a trip to Phuket. Potential customers can save researching time in arranging the trip on their own. This package is to attract travelers around the age 46 and above who are willing to pay a little more for the convenience.

The second product was composed of an economy class air ticket to Phuket and a standard hotel room for 2 weeks. We have decided to call the second product a pure component even though it is a combination of an air ticket and a hotel room. This is because the focus of this thesis is on price bundling of activities and for a tour operator to find the optimal pricing strategy. Moreover, from the observation and interviews with several tour operators, it was found that travel

agencies in Sweden most of the time sell the air ticket and room together. People therefore look at this type of product as a pure component instead of a package.

Product no. 3, 4 and 5, sightseeing, spa, and diving are obviously pure component products which are offered as the ad-hoc programs for travelers. These pure component activities are assumed to attract younger travelers who have high flexibility in their schedule. However the pure component products might also attract potential customers who want to customize their own itinerary, for instance, a personal customized package might include the air ticket, a two-week hotel room, and a four-day sightseeing activity in Phuket. This is to offer an alternative to fulfill the special desires of the travelers.

Bundles A, B, and C are offered to travelers who want to combine two activities as they prefer with standard hotel accommodation and the air ticket into one nice package. As shown in the following table, there are pairs of activities in each bundle that create variation in products.

Bundle A	Economy class air ticket, 2 weeks hotel room, 4 days sightseeing, and 4 days of spa course
Bundle B	Economy class air ticket, 2 weeks hotel room, 4 days sightseeing, and 4 days of diving course
Bundle C	Economy class air ticket, 2 weeks hotel room, 4 days of spa course, and 4 days of diving course

**Table 9: Details of Packages**

These are offered as alternatives from the All-inclusive package in which all activities are packed together in two weeks. This type of package is more flexible in its schedule. Different bundles will capture customers with different lifestyle preferences.

As for the next section, all of these eight products will be tested on the Willingness to Pay among potential Swedish customers. The comparison of

each type of product will be critiqued and explained. Results of the comparison will lead to a further discussion on the optimal price bundling strategy and suggestions.

### **5.3 Research proposals 3**

#### **Swedish tourists tend to have higher WTP of Bundled products than WTP of unbundled products (Pure Components)**

In chapter 3, the authors have mentioned why companies have to bundle products. From this point, the advantage of price bundling was split into two sides, which are supply and demand. While the company represents the one who deals with supply side, the consumer corresponds to demand factors.

On the supply side, commodity bundling enables a company to save costs due to the presence of economies of scale. On the demand side, bundling can be used as an effective tool for extracting consumer surplus.

In the case of bundling, the price is set at a lower level than the sum of prices for each service. Therefore, consumers who decide to purchase the bundle pay less than buying the component services separately. Furthermore, consumers also gain price bundling benefits that stem from lower cost for information researching, convenience of a package service, new product/service introduction and perception of added value. The value for consumers for bundled product is likely to exceed the combined value of its price of two products. It means that the consumers are willing to pay more for bundled products than several products selling separately.

As previously explained in the theoretical section, the economics principle behind price bundling verifies that demand for bundled products can be enhanced because the consumer surplus for one product could be transferred to another product whose reservation price solely would not be greater than the price. In such a case, if products are sold individually, consumers tends to buy only single products whose reservation price exceeds the market price. On the other hand, in the case of price bundling the sum of reservation prices would be

greater than the bundle price. Thus, the consumer is likely to buy both of the products.

Regarding figure 5 in chapter 3, when demand for products in bundle form is independent, then the reservation price for the bundle is the sum of the reservation prices of the products individually.

Under independent demand:  $RP_{A+B} = RP_A + RP_B$ . Even though the reservation price of one product is less than the actual price ( $RP_A < P_A$ ), this gap ( $RP_A - P_A$ ) would be closed due to price bundling. When adopting price bundling, the consumer surplus of another product whose reservation price exceeds its actual price ( $RP_B > P_B$ ) can be transferred to the former product (Product A).

If a product is sold in bundle, one can enhance value of the other in case those two products are complementary. Under the assumption of complementary, the reservation price of one product can be increased in case the other product is also bought. For example, reservation price for A given by B goes beyond reservation price of A only:  $RP_{A/B} > RP_A$ .

Due to  $RP_{A+B} = RP_A + RP_B$ , if two products are complementary leading to  $RP_{A/B} > RP_A$ , then  $RP_{A+B} > RP_A + RP_B$  .....  
(Equation 1)

However, the choice of service to be bundled and the choice of bundling form (mixed-leader or mixed joint) require some consideration of the type and the degree of complementarity. The demand level is considered a criterion to choose the bundling form. In Mixed-leader, demand for the leader product is higher than follower product in the same bundle. In such a case, the price of certain leader products should be reduced to attract customers to buy the bundled product. It can be said that, consumer surplus of the leader product is transferred to the other. While the mixed joint bundling will work properly when the demand levels of the two products are approximately equal. Bundle price in such a case would be set when the two products are bought together.

The package holidays consisting of components such as air ticket, accommodation, rental car and leisure activities are multi-service price bundling which enable the possibility for a firm to increase sales because the services are mostly complementary, thus suitable to be bundled.

The possible source of complementary demand in the selection of services to be bundled and selection of bundle form is that: products/services complement each other due to economies in time and effort from buying them together rather than individually, the product/service can enhance the customers' levels of satisfaction with other products and the products/ service can enhance the overall image of the seller so that products are valued more highly.

If tourists buy tours in a package form, their search cost would be reduced in terms of time and effort. Conversely, they have to spend more time looking for information about air tickets, hotels, rental cars and recreation if they buy those services separately. Due to this reason, tourists may be willing to pay slightly more for package tours enabling one stop-shopping.

In some cases, tourists buy package tours because they can enhance their satisfaction. According to equation 1, if service B enhances customer satisfaction with A in one direction, then  $RP_{A/B} > RP_A$  but  $RP_{B/A} = RP_B$ . It leads to an increase in Willingness to Pay for bundle,  $RP_{A+B} > RP_A + RP_B$  in this case improvement is generated by B. B can be tied to leader A but not vice versa. In this regard, mixed leader bundling can work if A is the leader and  $P_A$  is discounted. For instance, instead of only purchasing air tickets some tourists buy the all-inclusive packages consisting of many leisure activities because in their eyes it enables added values, a hotel offering a room and spa package; the reservation price for the spa ( $RP_B$ ) tends to be the same whether or not the hotel is rented because their value relies on the interest of customers in that particular spa. However, the reservation price of the hotel will be enhanced (so that  $RP_{A/B} > RP_A$ ), at least for the customer who acquires the spa course for relaxation.

In addition, products/services that improve the overall image of a firm due to the basis for complementarity can be considered as bi-directional in their effect,

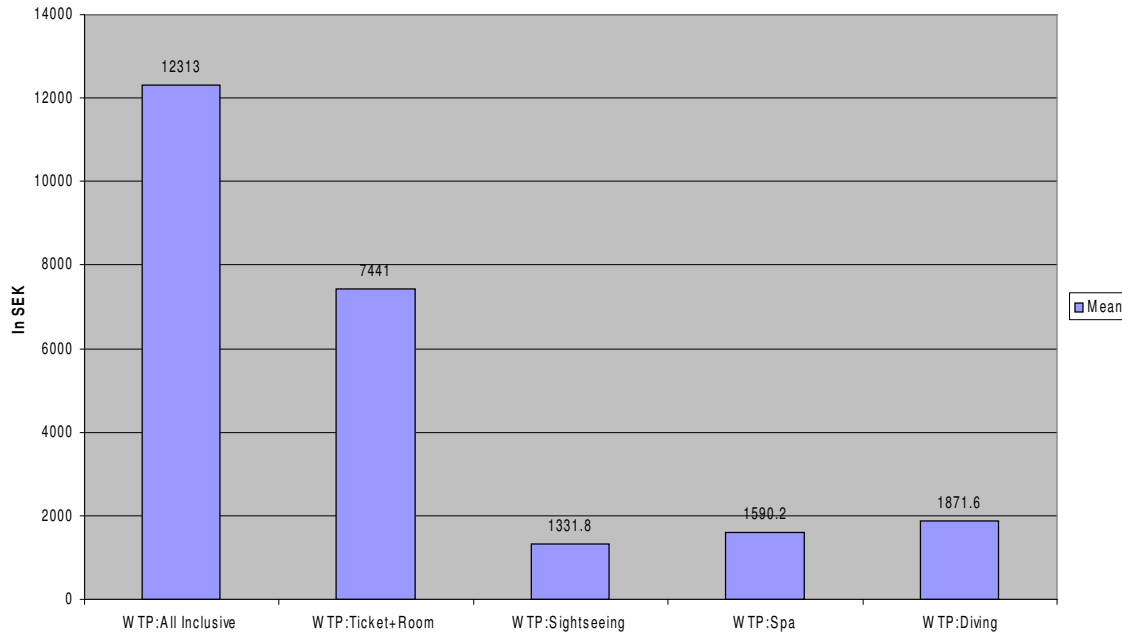


namely;  $RP_{B/A} > RP_B$  and  $RP_{A/B} > RP_A$ . For example, a dive operator offering wreck diving and naturalist diving is likely to find that each service complements each other. With this point, the same correlation as with complementarities assumption will be applied in this thesis.

According to the interview with tour operator dealing with Swedes, many customers buy only their air ticket and accommodation from the tour operator but they prefer to buy leisure activities by themselves at the destination. These customers are likely to buy both when those products are bundled together and the price of air tickets has been discounted. In this regard, the air ticket plays a role as the leader product whose reservation price will be enhanced due to attachment with the leisure activities. The customers prefer buying the bundle rather than buying only the air ticket because in their eyes possibly allows them to gain more of an advantage.

Figure 26 is about the means of WTP of all-inclusive VS Pure component. The horizontal axis gives the categories of products in package holidays while vertical axis indicates means of willingness to pay of Swedish tourists towards each product in SEK. From empirical findings, the means of willingness to pay or the reservation price of Swedish tourists for flight +room, sightseeing, spa and diving in case they are sold individually are 7441 SEK, 1332 SEK, 1590 SEK and 1872 respectively. While, if such components are bundled together in all-inclusive package, the mean reservation price becomes 12,313 SEK.

Means comparison: ALL-Inclusive VS Pure Components



**Figure 186: Mean WTP all inclusive VS Pure component**

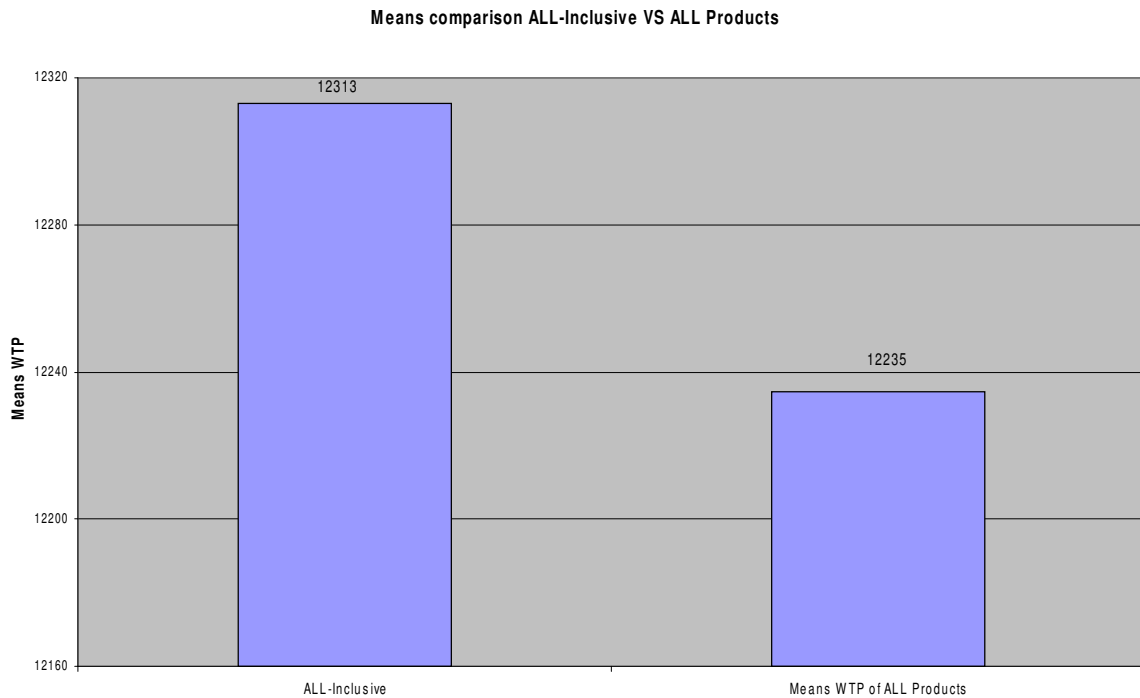
In comparison between the means WTP of all- inclusive package and the sum of the means of the reservation price when each components are sold separately, if the reservation of flight + room can be enhanced by leisure activities namely sightseeing, spa and diving.

If  $(RP_{(flight + room)/ Sightseeing, Spa and diving} > RP_{(flight +room)})$ , then  $RP_{All-inclusive}$  should be greater than  $RP_{unbundled tour}$  OR

$$RP_{(flight + room) + Spa + Sightseeing + diving} > RP_{(flight +room)} + RP_{spa} + RP_{sightseeing} + RP_{diving}$$

According to the findings as shown in figure 27, the means of the reservation price for all-inclusive packages of Swedish tourists is 12,313 SEK. While the sum of those for unbundled tours is only 12,235 SEK. These results can prove that:

$$RP_{\text{All-inclusive}} > RP_{\text{unbundled tour}}$$

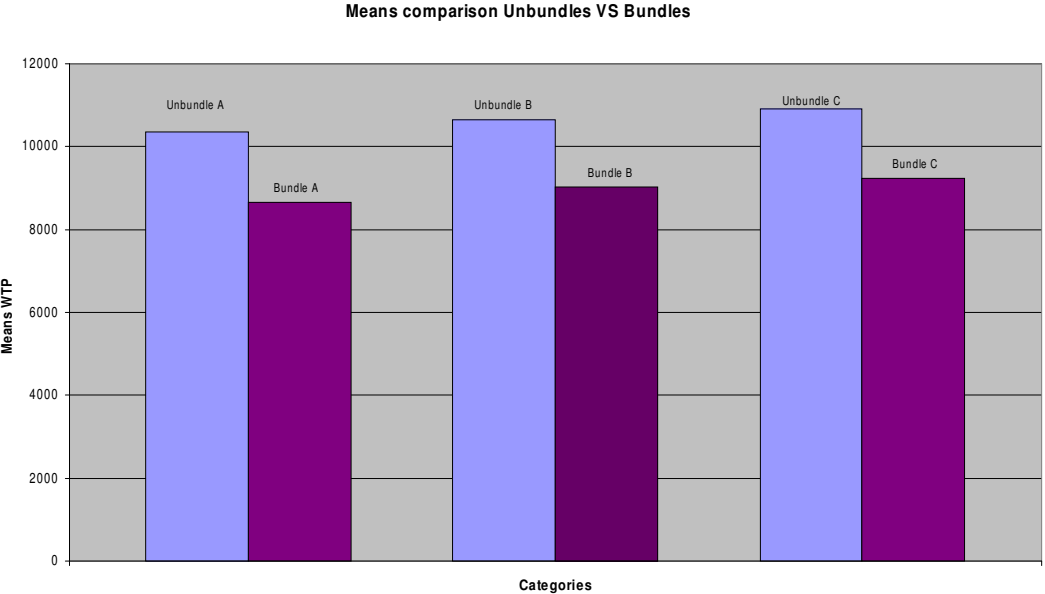


**Figure 19: Mean WTP all inclusive VS All products**

On the basis of this result, it appears that the means reservation prices of Swedish holiday-makers for All-inclusive package collecting all products in bulk tend to exceed the reservation price when the products are sold separately. This circumstance is derived from transformation of consumer surplus between products in the case those products are bundled together.

As said by the research question 3, Swedish tourists tend to have higher WTP of Bundled products than WTP of unbundled products (Pure Components), the author found that this assumption is true.

However, by comparing means of reservation price for each bundled holidays namely A, B and C with those of unbundled A, B and C, the findings indicate that Swedish travelers are willing to pay more for unbundled tours than bundled packages. (See figure 28)



**Figure 20: Mean WTP Unbundling VS Bundling**

The mean reservation price for Bundle A, Flight + Room + Sightseeing + Spa, is equal 8648 SEK. While the sum of the mean reservation price for those components when they are unbundled and sold separately is 10363 SEK. The results show that:

$$RP_{\text{bundled A}} < RP_{\text{unbundled A}}$$

Similarly, the mean reservation price for Bundle B, Flight + Room + Sightseeing + Diving, is equal 9018 SEK. On the other hand, if those components are sold separately then sum of mean of the reservation price becomes 10,644.4 SEK. The results show that:

$$RP_{\text{bundled B}} < RP_{\text{unbundled B}}$$

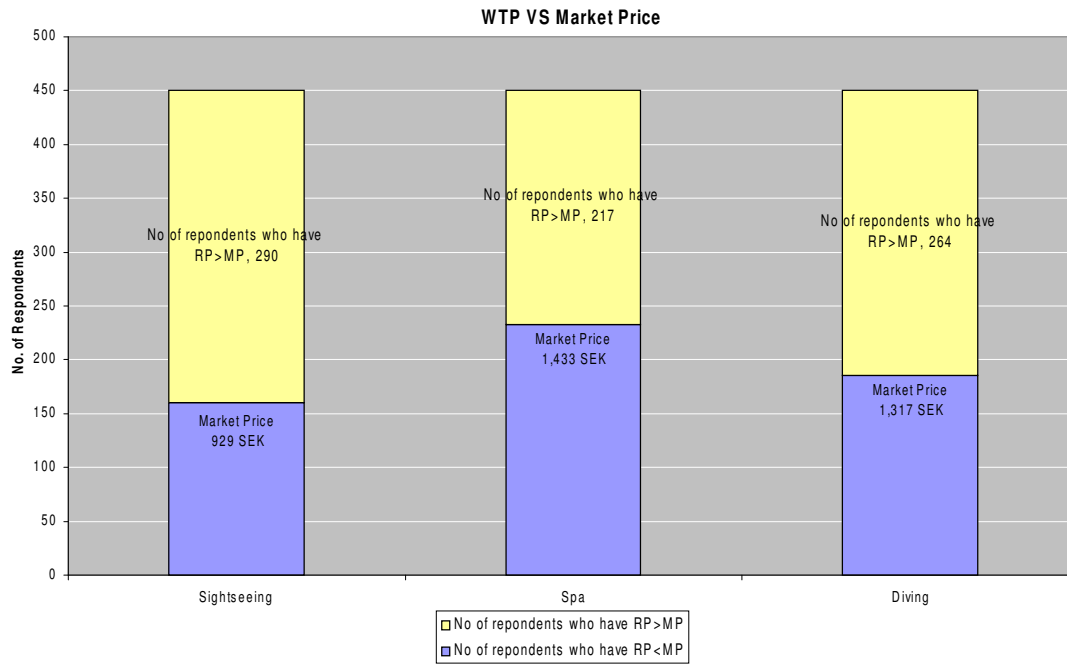
In the case of bundle C consisting of Flight + Room + Sightseeing + Spa, the same analogy are occurred. Whereas the mean reservation price for Bundle C is only 9232 SEK, sum of mean of the reservation price for unbundled C is 10902.8. It means that:

$$RP_{\text{bundled C}} < RP_{\text{unbundled C}}$$

By considering each of the products and comparing means reservation prices of each product with the reference market prices, the means willingness to pay of Swedish tourists for products; sightseeing, spa and diving tend to exceed the market price.

After searching for the price of certain activities offered by different service providers in Phuket, the authors found that the average price for sightseeing, spa and diving sold in Phuket is approximately 930 SEK, 1433 and 1317 SEK respectively. While, from the survey, means Willingness to Pay (WTP) of Swedish tourists for Sightseeing Spa and diving are 1332 SEK, 1590 SEK and 1872 SEK respectively. The average market prices and willingness to pay are based on the calculation for four days so that the most effective comparative analysis can be carried on.

According to the result, it appears that the mean reservation price for each product bought separately is much greater than the reference market price. There is some gap between willingness to pay of some Swedish travelers for each activity in Phuket and the market price offered in the destination. It means that there could be potential for tour operators in charging high marks up to those customers who are willing to pay a high level for only one product.



**Figure 21: WTP VS Market Price**

As shown in figure 29, among 450 respondents, there are 290 respondents whose reservation prices exceeds the market price for Sightseeing. Obviously, 217 of respondents are willing to pay more for spas than its reference market price, 264 of customers whose expected price for diving exceeds its market price.

It can be said that those Swedish tourists whose reservation prices go beyond reference market price are potential customers who can be charged high prices so that tour operator can capture a higher gain for each holiday activity. Therefore, tour operators can set a higher price and sell those leisure activities separately in order to collect a high price for each products from some buyers who are highly interested in only one or two of those products.

From the comparison of the willingness to pay of Swedish travelers towards unbundled and bundled travel products together with the outcome derived from analyzing, in the following part of this thesis the authors will discuss whether or not mix bundling is the most effective strategy used by tour operators in packaging Phuket for Swedish tourists as research proposal 4.

## **5.4 Research proposal 4:**

### **Mixed bundling could be the most practical strategy used by tour operator in packaging Phuket for Swedish travelers.**

In the theoretical part, the seller can decide among three alternatives when considering the pricing policy, that is; pure component, pure bundling and mix bundling. In pure component that can be called unbundled sales, the products are priced and sold separately. Products sale through pure bundling are available only in a package and sold at one price. Mix bundling is mixture of the former alternatives. In mix bundling the products are offered separately while bundled in packages at discount price.

Mix bundling will be the optimal strategy in the case when it can give the seller an income at least equal to those that the seller can obtain in the pure component and pure bundling alternatives. It is too complex to find the optimal set of prices if the mix bundling is adopted because demand for bundled and unbundled products is not independent of each other.

However, mixed bundling can be used as a tool for price discrimination and segmentation. If mixed bundling is implemented, then the same product will be sold to different customers at different prices. By pricing discrimination, a tour operator can categorized the customer into different groups according to their purchasing behavior.

While pure bundling can enhance profitability by reducing customer heterogeneity, the advantage of unbundled sales or pure component is their ability to capture the high price of one product from some customers who are not interested in other alternatives. Mixed bundling provides double benefits for tour operators by combining the advantages of pure bundling and unbundled sales. They enable a reduction of the difference between customers, so that the tour operator is able to find the combination of products for which willingness to pay varies less across customers than those for individual products. At the same time, they are still keeping a high mark up by selling the products to those customers who are willing to pay a high price for only one of two products.

Referring back to the analysis of research proposal 3, the authors have already proved that the willingness to pay of Swedish travelers for bundle products is higher than those of unbundled product. From the findings, the mean reservation price of all-inclusive packages consisting of flight + room, sightseeing, spa and diving is higher than the sum of the reservation price for the individual products.

In this case, it appears that tour operators could use all-inclusive packages to reduce the heterogeneity among customers by selling one bundle product which is probably cheaper than the sum of prices for individual products in their eyes.

However, when bundling only two activities with flight + room in the same package according to bundle A, B and C, the results show that customers are willing to pay less than when those products sold separately in Unbundled A, B and C.

This situation may happen because there are some customers who need only one product at the high price, but care very little for other alternatives. For example, the customers who are concerned with health care and beauty tend to be willing to pay a high price for a spa course. The divers who want to explore striking underwater would buy diving courses regardless of price concerns. Customers interested in history and architecture are likely to spend a lot of money to visit temples, palaces, museums and historical sites at the destination.

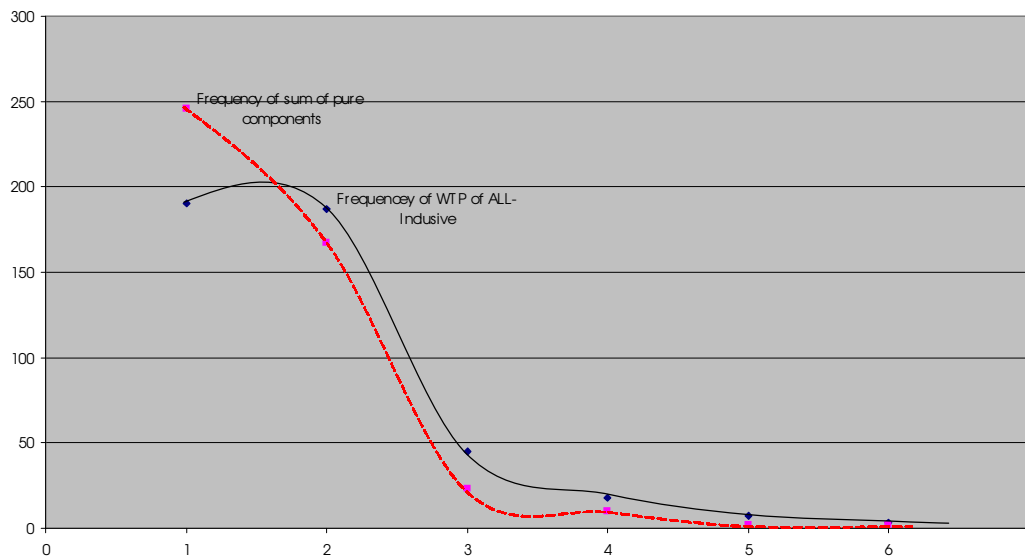
To capture high markups from those customers, tour operators, therefore, sell products separately and in packages at a reduced price. With this regard, the tour operator can charge a high price for product sale individually while bundled products would be offered at a discount.

So far, we can conclude that mixed bundling would be an optimal strategy to adopt to match the demand of Swedish holiday makers. Unlike pure bundling and pure component, mixed bundling allows customer to purchase bundle package at discount prices compared to the sum of prices for individual products. At the same time, the products can be bought separately.



As found from the analysis, the demand of All-inclusive package tours to Phuket is higher than the sum of the demand of pure components. This means that the sale volume of All-inclusive packages tends to be higher than the rest. This responds to the economies of scale when higher volume leads to lower cost. As we have analyzed the costs for tour operators from several interviews with suppliers/ service providers, a tour operator has higher negotiation power when it comes to higher volume. Therefore the cost for a tour operator will finally be decreased, this phenomenon will run in a circle as lower cost leads to lower prices and ultimately to a higher demand.

As shown in the following figure, it can be seen that when there is an economy of scale from bundling (All-inclusive package), the demand curve of bundled package is located higher than the demand curve of pure component products. Moving upward from pure component to mixed bundling strategy, the profit margin and sell volume will definitely be higher.



**Figure 22: Demand all-inclusive VS Sum of Pure components**

Among three strategic objectives of mixed bundling discount form: cross-selling, customer acquisition and customer retention, customer acquisition

would be mostly appropriate for a tour operator who is a new comer in the tourism business because the initial period of business non-customer are desired.

Unlike cross-selling, tour operators must focus on the price discount element rather than the condition of leader and transformation of the reservation price in order to achieve non-customer. The price elasticity of demand would be considered, while the search attribute would be also related to the decision. The package holiday where the products depend on search attributes the demand is likely to be elastic and economies of search creates complements among the components. In comparison among the components in a package tour, it can be said that air ticket is likely to be the dominant due to its price elasticity. Without air ticket, tourists cannot travel from their home country to the destination, while they have more alternatives to make a choice of leisure activities: some tourists purchase leisure activities in form of all-inclusive while others choose to separately buy them at the destination. Price elasticity of demand in the air ticket as necessary goods for travel tends to be less than those of other elements in the same package

In turn, in aspects of the whole market, price elasticity of air ticket would be high. Due to currently high technology enabling possibility for the tourists to access information and large number of alternatives through the search engines, the price sensitivity of demand among tourist would be higher. If the price of a tour operator is decreased, then tourists tend to switch to particular tour operators providing lower prices. Obviously, the price of air tickets, offered to Phuket Thailand, tend to parallel among tour operator in the tourism market.

Furthermore, since the demand of tourism products is relied on seasonality, the price sensitivity of demand is varied according to different seasons. Although the price is set at the high level in peak seasons, tourists are willing to pay for more expensive ticket due to the lack of choice. From the interview with tour operators, we found that the demand in traveling to Phuket among Swedes is fairly high throughout the year. Therefore, seasons might not be an issue for setting the price.

However, there is no a clear cut between the perception of necessary products and unnecessary products because a product is probably needed by one group of people but it might be worthless for others. Yet, the awareness of necessity is depended on many factors such as the living standard, the occupation and other surroundings. To decide whether a product is necessary or not, the behavior of majority of people in certain society would be the main criteria. For example, tourism is usually a needed product among Swedes who desire for relaxation from work life and escape from cold weather in long period of wintertime. Both reasons probably influence tourism demand of Swedes. Whereas the former stimulates Swedes to travel in summer holidays (mostly start from June to August), the latter motivation is the factor pushing Swedes to travel in wintertime.

Referring back to complementary products in package holidays, the complementary product is more likely to have less price elasticity of demand comparing with those of products which the complementarily are not required. In package holidays, the recreation such as sightseeing, spa and diving is depended on air ticket and cannot work exclusively. In other words, as long as the air ticket is not prior to be purchased, the leisure activities at the destination cannot be put into service. In this case, the demand of leisure activities is related to the price of air ticket and their price elasticity of demand tends to be less than those of the air ticket.

Under the condition of customer acquisition/ mixed –leader, the air ticket could be considered as the lead service whose demand is elastic and salient attributes are search-based while leisure activities can complement the air ticket. Especially, the complementarity derived from search economies between the air ticket and leisure activities. In short, both of products consist of search attributes, demand of the air ticket could be assumed to be somewhat elastic and there are search economies from purchasing both products together due to one stop- shopping.

In reality, among non-customer who never bought neither tourism product, they are likely to evaluate the price  $P_{A+B}$  by comparing to the total utility of the bundle. It implies that a higher search attribute, the higher the elasticity of

demand, thus the great demand changes when price is changed. With this regard, to close the gap between actual prices and reservation prices, the price discount for the bundle should be attractive enough to create a large gain in bundle sales. Furthermore, the complementary relationships between those products in the bundle should be strong so that the reservation price for the bundle would go beyond the sum of the individual reservation prices when product sold separately. In case of flight + room combined with leisure activities, the products are composed of search attributes. Thus, the demand is likely to be elastic and economies of search cost leads to complements; customers can reach the information of individual products available at the same location.

However, as previous discussed, one must bear in mind that the results presented in the empirical findings must read as experiments, not as the optimal set of prices which would have maximized the revenue for tour operators. To calculate the set of optimal prices for bundling, not only the reservation price but also knowledge of specific costs, elasticity and cross-elasticity would be desired.

## **Chapter VI: Conclusion and recommendation**

### **Conclusion**

After working hard for hundreds of hours on research papers and literature, the summary of this thesis will provide readers with keys to the given research question "how can a tour operator develop principles of effective price bundling strategies and create attractive holiday packages to Phuket in order to satisfy Swedish tourists".

However, the subsidiary questions related to Swedish demand in tourism, characteristics and market price of current package, price bundling strategies were earlier examined to be guidance for the conclusion of the major question.

The conclusion will be illustrated from the findings of the theoretical study, empirical study and analysis based on four research proposals:

1. Is price an important criterion in selecting package tour for Swedish tourists?
2. Attractive holiday activities in Phuket for Swedes could be ranked
  - a. Thai cooking course
  - b. Handicraft training
  - c. Spa course
  - d. Diving
  - e. Golf
  - f. Trekking
3. Do Swedish tourists have higher WTP of Bundled products than WTP of unbundled products (Pure Components)?
4. Mixed bundling could be the most practical strategy used by tour operators in packaging Phuket for Swedish travelers.

With the analytical study, the above mentioned hypothesizes were prove to be true. The authors found that price is the most important criteria for purchasing

decisions when selecting package tours to Phuket among Swedish tourists. In addition to many studies on tourists' decision-making process, the findings derived from interviews and questionnaire I which confirm that price is the most significant factor which influences purchasing decisions of Swedish travelers regarding package tours to Phuket.

Although price consideration is necessary for packaging tours to Phuket, the attractive holiday activities should be intensively examined so that the best combination of bundle will be provided to satisfy the demands of the customers with profitable prices. If the existing resources are allocated with effective methods, then the tour operator will maximize profit and the customer can reach their maximum utility. From the different sources of data derived from interviews, surveys, literature and observation of Swedish tourists' travel behavior and their favorable activities, sightseeing, spa and diving are proved as preferable elements enabling added value for package tours among other activities assumed.

Getting to know the attractive activities enables tour operators to bundle those components together with the main products such as air tickets and accommodation in a single package with a special price. The next question is what the effective price should be set at for the holiday package. Due to the absence of secondary data, the Willingness to pay or the reservation price of Swedes for different alternative package tours to Phuket was measured under the notion that different bundles can capture customers with different preferences. The results show that the Willingness to pay for bundled products of Swedes is greater than those of unbundled products due to price discounts, economies of search information and transformation of consumer surplus. Mean reservation price (RP) of Swedes for the all-inclusive exceeds the sum of RP for individual products sold separately. Perhaps, they perceive that purchasing all-inclusive consisting of all products in one package is more valuable than paying for individual pure components. In this case, the all-inclusive is probably evaluated in the total package. It implies that the products have strong complementary relationship and the transformation of consumer surplus is bi-directional effect. Yet, to make it clearer in calculation, the only case of one-directional was explained in the analysis part of the thesis.

Conversely, when comparing mean reservation price of bundles A, B and C with those of unbundled products, it appears that the mean reservation price of the bundles is less than those of unbundled products. The reason behind this is that there are many Swedes who prefer buying products separately rather than buying a single package with a discount price. The Willingness to pay of those customers for each product exceeds its reference market prices. This indicates that there is a potential for tour operators to charge a high markup to those of customers who are mainly interested in only one of those products. The analysis of hypothesis 1,2 and 3 leads to the conclusion of hypothesis 4, which is that tour operators can implement mixed bundling as an optimal strategy in packaging holidays for Swedish tourists. This is because it can reduce heterogeneity through selling one bundle product, all-inclusive, with discount prices to capture overall customers while those products are also sold separately with high prices to collect high markup.

According to the theoretical study, empirical findings and the analysis of research questions, this thesis has provided answers to all of subsidiary questions and already proved the assumption of the questions. However, without suggesting how can price bundling be managed in order to provide appealing tailor made package tours to Phuket Thailand for Swedish travelers, the thesis has not actually completed.

To this point, some suggestion will be given in the final section of this thesis.

## **Suggestion**

This thesis could provide some guidance for one who desires to run a business in tour operating through the potential practice of price bundling. The measurement of the willingness to pay is just one of the direct methods that provides useful and generally reliable information on reservation price. However, it is important to bear in mind that a newcomer does not have the same information about reservation prices as existing tour operators who operate in the market.

Therefore, a new tour operator must focus heavily on price discount elements rather than conditions of the leader and transformation of reservation price. The price elasticity of demand must be examined to measure the responsiveness of demand to a change in price. The study of cross-elasticity of demand is useful for measurement sensitiveness of demand due to prices changed in the products of other competitors in case those products are substituted.

In reality, to find out about price discounts and the set of optimal prices, the consideration of cost reflection, competitors' pricing in the market, price elasticity and cross-elasticity of demand could be further developed and put in the next study.

Although the measurement of reservation price can provide reliable information, the range of prices is dependent on consumers' awareness of prices. In some case, consumers' awareness of prices is likely to be lower than actual price due to lack of reference price information if products are new, rarely purchased or unique. Thus, it is complicate to decide reference prices. The reservation prices and the elasticity of demand can be confused easily by individual and situational factors. More importantly, the nature of the service is one of obstacle to determine the prices. Firms should know that all customers could perceive the actual benefits or characteristic of their products or services.

Furthermore, to sustain profitability of businesses and maintain customer loyalty, price bundling should be continually implemented through time as a long –term customer management approach. The strategic objectives of customer acquisition, cross-selling and customer retention should correspondingly succeed in market penetration and sales development for different phases of the product life cycle. The idea behind the mutual benefits is that the profitability and utility improvements would be transferred from one stage to another stage so that tour operators will finally gain the additional reward of customer retention for the length of the relationship.





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Piyapong Krainara, Co-founder/ instructor. Phuket Thai Cokkery School, Ko Siray, Phket, Thailand.

Preeprem Mongkolprasit, Assistant Diving instructor and sale representative. White and Blue Diving Club. Phuket, Thailand. September, 2004.

Ove Krafft, Co-founder/ Ekon. Dr. Sunso AB.



## Visits

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## **Appendix 1: Traveling trends of Swedish target market**

### **Questionnaire 1**

**Questionnaire:** Packaging Phuket for sophisticated travelers: Traveling trends of the Swedish target market, focusing on supplier networks.

Thank you for your participation in this interesting study. Your participation will aid us in determining what Swedish people think about the package holidays offered by tour operators to Phuket, Thailand. The results will provide the researcher with additional insights into how to design package holidays to serve the needs of people in Sweden. Your attitudes, preferences, and opinions are important to this study.

***DIRECTIONS: PLEASE READ EACH QUESTION CAREFULLY. ANSWER THE QUESTION BY FILLING IN APPROPRIATE BOX (ES) THAT REPRESENT YOUR RESPONSE OR RESPONSES.***

#### **I. GENERAL TRAVELING HABITS SECTION**

1. How often did you travel last year?

- 1 time
- 2 times
- 3 times
- more than 3 times

2. What is the season that you travel mostly?

- Summer
- spring
- fall
- winter

3. How long did you stay at the destination for one trip?

- 3-4 Days
- 1 week
- 2 week
- 3 week
- more than 3 week

4. How much do you spend for each trip?

- Below 5000
- 5000-10,000
- 10,001-20,000
- 20,001-30,000
- More than 30,000

5. What are the characteristics of the destination you prefer?

- Mountain
- Beach
- Snow
- Architecture
- History

- other characteristics please specify .....

6. Who do you travel with?

- Alone
- with family
- with a few friends
- with group

7. What is the destination you often visit?

- Scandinavian
- the rest of Europe, Asian, Africa, America and Australia

## **II PERCEPTION PHUKET, THAILAND**

8. Have you ever traveled to Phuket, Thailand?

- Yes (please go to Q.9)
- No (please skip to Q.14)

9. How long did you stay in Phuket during your last visit?

- 1 week
- 2 weeks
- 3 weeks
- more than 3 weeks.....

10. How did you plan your last visit?

- By yourself, please skip to Q.14
- Using a tour operator service, please skip to Q.11

11. What are the services that you used through tour operator or tour agency?

- Booking Accommodation
- Booking Air ticket
- Package tour including accommodation, air ticket, activity

12. How much do you spend for package holidays (SEK)

- Below 5,000
- 5,000-10,000
- 10,001-20,000
- 20,001-30,000
- more than 30,000

13. What are activities added in the package?

- Shopping
- Kayaking
- Hiking
- Golf course
- Trekking
- Bicycling
- Diving
- other activities please specify.....

And then, please go to Q.15

## **III .PACKAGE TOUR PREFERENCE**

14. Have you ever bought package holidays?

- Yes
- No

15. Please specify the reasons that you buy package holidays? (Such as time saving, good service, convenience)

..... convenience

.....  
 .....

16. To what extent was each of the following items an important consideration to you in selecting your package holidays.

	<b>Definitely</b>	<b>Somewhat</b>	<b>Not at all</b>
Reasonable price	•	•	•
Attractive activity	•	•	•
Cheap air ticket	•	•	•
Good accommodation	•	•	•
Ground arrangements (car hire, transfers from air port, service a courier or representative)	•	•	•
Children Discount	•	•	•
Tour operator's reputation	•	•	•
Quality of Food and Drink (Meal) offered	•	•	•

17. If there was some other reasons you deemed important in selecting package holidays mentioned in question Q 16, please write it in the space below.

.....

18. What kind of activities might be added in the package tour?

- Shopping
- sight seeing
- Kayaking
- Rafting
- Diving
- gdf course
- Trekking
- Hiking
- Mountaineering
- Rock climbing
- Bicyding
- Spa

- Thai cooking course
- other, please specify.....

19. What kinds of accommodation do you prefer on package holidays?

- Resort and Spa
- 5 stars Hotel
- Traditional
- Thai house,
- other, please specify .....

20. How much do you expect to pay for a package holidays? (Include transportation, accommodation, ground arrangement, activities, and meal)

- Below 5,000
- 5,000-10,000
- 10,000-20,000
- 20,000-30,000
- more than 30,000

**IV. GENERAL OPINION SECTION TOWARDS PACKAGE HOLIDAYS**

In this section, there is a list of general opinions for which there are no right or wrong answers. As such, the statements may or may not describe you or your feelings.

21. Next to each statement, please fill in the one response box that best expresses the extent to which you agree or disagree with the statement. Remember that there is no right or wrong answers- we just want your opinions.

	Definitely Agree	Generally Agree	Somewhat Agree	Somewhat Disagree	Generally Disagree	Definitely Disagree
I often buy package tours offered by tour operators	•	•	•	•	•	•
I can save searching time if I buy packages tour from tour operators	•	•	•	•	•	•
Price is factor I prior to concern in selecting a package tour	•	•	•	•	•	•
I like luxurious accommodation	•	•	•	•	•	•
I like water sports	•	•	•	•	•	•
I like adventure	•	•	•	•	•	•
I prefer package tours with Spas	•	•	•	•	•	•
I'm interested in Handicraft making program	•	•	•	•	•	•
Golf courses should be added to package holidays	•	•	•	•	•	•
It is good to have activities in package tours for my children	•	•	•	•	•	•
A Thai cooking course is interesting	•	•	•	•	•	•
A healthy course should be added in package holidays	•	•	•	•	•	•
For me, Shopping is still an important activity when traveling	•	•	•	•	•	•
I prefer food and beverage to be included in package tours	•	•	•	•	•	•
I'm willing to pay more for a high quality package tours	•	•	•	•	•	•

## VI: Classification data section

Now just a few more questions so that we can combine your responses with those of the other people taking part in this study.

22. Please indicate your gender • Male • Female

23. Please indicate your current status

• Employed full time • Employed part-time • Not currently employed • Retired

24. Please indicate your current marital status

• Married • Single (Widow, divorced, or separated) » PLEASE SKIP TO Q.26

• Single (never married) » PLEASE SKIP TO Q.26

25. IF MARRIED, please indicate your spouse's current employment status.

• Employed full time • Employed part-time • Not currently employed • Retired

26. IF YOU HAVE CHILDREN, please indicate the number of children less than 18 years of age in your household.

• 0 • 1 • 2 • 3 • 4 • 5 • more than 5, please specify.....

27. Which one of the following categories best corresponds with your last completed year in school?

• Post graduate studies or advanced degree • Completed high school  
• Graduate studies or degree • Completed grammar school  
• Completed College (4 year degree)

28. Into which one of following categories does your current age fall?

• Under 18 • 26 to 35 • 46 to 55 • 66 to 70  
• 18 to 25 • 36 to 45 • 56 to 65 • over 70

29. What is your occupation; that is, in what kind of work do you spend the major portion of your time?

.....mechanical  
engineer.....

30. Which one of the following categories best describes the nature of your work?

- Government
- Legal
- Financial
- Insurance
- Petrochemical
- Manufacturing
- Transportation
- Consulting
- Educational
- Medical
- Retailing
- Wholesaling
- Some other area, please specify.....

31. Into which of the following categories does your total (approximately) family income per month, before taxes, fall? (SEK)

- Under 10,000
- 10,000-15,000
- 15,001-20,000
- 20,001-30,000
- 30,001-50,000
- 50,001-75,000
- 75,001-100,000
- Over 100,000

**THANK YOU VERY MUCH FOR YOUR PARTICIPATION IN THIS  
STUDY!  
YOUR TIME AND OPINIONS ARE GREATLY AND DEEPLY  
APPRECIATED**



## Appendix 2: Top three holiday activities Questionnaire 2

**Questionnaire:** Traveling trends of Swedish target market: focusing on top 3 holiday activities.

This questionnaire is to be used as a primary data in Master thesis writing of Tourism and Hospitality Management at Handel Högskolan, Göteborg University.

***DIRECTIONS: PLEASE READ EACH QUESTION CAREFULLY. ANSWER THE QUESTION BY FILLING IN APPROPRIATE BOX (ES) THAT REPRESENT YOUR RESPONSE OR RESPONSES.***

1. Age \_\_\_\_\_

2. Rank these holiday activities according to your preference.  
From the most preferred (1) to the less preferred (10)

\_\_\_ Spa

\_\_\_ Golf

\_\_\_ Diving (Both Scuba and Snorkeling)

\_\_\_ Thai Cooking Course

\_\_\_ Handicraft Training

\_\_\_ Shopping

\_\_\_ Hiking

\_\_\_ Trekking

\_\_\_ Ocean Kayaking

\_\_\_ Sight seeing

3. How much would you pay for 1 week package tour to Phuket-Thailand?  
(package includes Air ticket, Accommodation, local transportation, and one  
or two holiday activities) (Express in SEK)

10,000 -15,000      15,001 - 20,000      20,001- 25,000      25,001 -  
30,000

Others \_\_\_\_\_

Thank you for your participation in this interesting study. Your attitudes,  
preferences, and opinions are important to this study.

### Appendix 3: Willingness To Pay (WTP) Questionnaire 3

Den här undersökning är en del av magister uppsats av handels högskolan, Göteborg universitet. Avsikten med undersökning är att få reda på det maximum beloppet som ni är villiga att betala för en paket resa. Vi är inte intresserat av den rimliga marknadspriset.

Vara snäll läse noggrant och fylla i lämpliga svara.

<b>Information!</b>	
Idag kan du resa till Thailand för 2 veckans med Always (Resabyrå):	
<b>Prisspecifikation</b>	
Hotellet/flygstolen är prissänkt	
<b>Hotell (Standard)</b>	Islandia Paradise
<b>Rumstyp</b>	Dubbelrum
<b>Antal resande</b>	1 vuxen
<b>Reslängd</b>	2 veckor
*www.always.se	
<b>Grundpris</b>	1 * 9199 = 9199 SEK
<b>Avbeställningsförsäkring</b>	1 * 200 = 200 SEK
<b>Försäkring/Trygghetscheckar</b>	1 * 640 = 640 SEK
<b>Rumstillägg antal boende</b>	1 * 2600 = 2600 SEK
<b>Internetrabatt</b>	1 * -100 = -100 SEK
<b>Transfer på resmålet (t.o.r)</b>	1 * 100 = 100 SEK
<b>Restplatsrabatt, redan avdrag</b>	1 * -1500 = -1500 SEK
<b>Totalpris</b>	<b>12639 SEK</b>

1. Ålder \_\_\_\_\_  
\_\_\_\_\_

2. Kön

3. Hur mycket vill du betala för hela paketresa till Phuket för 2 veckor (inkludera allting)?

Tur-retur ekonomi klass flybijette + standard boende + aktivitet: spa, sightseeing, dyka (4 dagar per en aktivitet) \_\_\_\_\_ SEK

4. Hur mycket vill du betala för följande paketresa (SEK)?

a. Sight seeing(4 dagar)+ Spa(4 dagar)+ Tur-retur ekonomi klass flybijette + standard boende \_\_\_\_\_

- b. Sight seeing(4 dagar)+ Dyka(4 dagar)+ Tur-retur ekonomi klass  
flybjetten + standard boende \_\_\_\_\_
- c. Spa(4 dagar)+ Dyka(4 dagar)+ Tur-retur ekonomi klass flybjetten  
+ standard boende \_\_\_\_\_
5. Hur mycket vill du betala för standard boende + Tur-retur ekonomi klass  
flybjetten för 2 veckor semester till Phuket? \_\_\_\_\_ SEK
6. om du är i Phuket just nu, hur mycket skulle du betala för (4 dagar):
- a. Sight seeing \_\_\_\_\_ SEK
- b. Spa \_\_\_\_\_ SEK
- c. Dyka \_\_\_\_\_ SEK